

RATING REPORT

Best Fibres (Pvt.) Limited

REPORT DATE:

May 14, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Positive		Stable	
Rating Action	Maintained		Reaffirmed	
Rating Date	May 14, 2024		April 27, 2023	

COMPANY INFORMATION

Incorporated in 2017**External auditors:** Avais Chartered Accountants.**Private Limited Company****Chairman/CEO:** Sheikh Zulfiqar Ali**Key Shareholders (with stake 5% or more):**

Ms. Mediha Asif – 94.77%

Sheikh Zulfiqar Ali – 4.67%

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Best Fibres (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Best Fibres (Private) Limited ('BFPL' or 'the Company') is limited by shares, incorporated as a private limited company in Pakistan. The principal activity of the Company is manufacture and sale of yarn made from viscose staple fiber and cotton.

Profile of the Chairman/CEO Sheikh Zulfiqar Ali has more than 50 years of experience in the textile sector. He started his career in the yarn market of Faisalabad and laid the foundation of Best Group of Companies in 1996.

Company Profile

Best Fibres (Private) Limited ('BFPL' or 'the Company') is limited by shares, incorporated as a private limited company in Pakistan. The principal activity of the Company is manufacture and sale of yarn made from viscose staple fiber and cotton. The registered office and spinning unit of the Company is situated at 22-KM Sheikhpura road, Khurrianwala, Tehsil Jaranwala, District Faisalabad, Punjab.

Operational Profile

The Company has 108,816 spindles installed and has experienced growing capacity utilization in recent years. In FY23, BFPL managed to achieve capacity utilization of 66.14% (FY22: 65.84%), despite economic challenges, raw material shortages, and demand slump in the textile sector during the period while in 1HFY24, capacity utilization levels remained mostly unchanged at 66.80%. Installed capacity and production levels are tabulated below:

Capacity and Utilization	FY21	FY22	FY23	1HFY24
Number of Spindles	108,816.00	108,816.00	108,816.00	108,816.00
Installed Capacity (Thousand Tonnes)	47.98	47.98	47.98	23.99
Actual Production (Thousand Tonnes)	30.53	31.59	31.73	16.03
Utilization (%)	63.63%	65.84%	66.14%	66.80%

Key Rating Driver

Business risk profile constrained by cyclicality, and high competition in the sector.

The business risk profile of the spinning sector in Pakistan is characterized by high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors.

In FY23, the spinning sector faced challenges due to various economic and environmental circumstances. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and diminishing foreign exchange reserves.

The spinning sector in Pakistan comprises of over 400 spinning mills, which include both composite units and spinning units. This industry exhibits a competitive market structure with many players producing relatively homogenous products.

During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, because of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Global economic slowdown and contractionary economic policies led to a decrease in demand for textile products and, consequently, cotton yarn.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs, and persistent inflationary pressures. These factors are likely to result in continued sluggish performance for the spinning sector in FY24.

Adequate profitability profile with sustained topline growth, and stable albeit constrained margins on account of persistent economic challenges.

In FY23, the Company's topline grew by approximately 14%, albeit at a slower pace compared to the approximately 34% growth reported in FY22, on account of demand constraints during the period. This growth is attributed to increased selling prices. Meanwhile, despite remaining suppressed compared to FY21, the Company's gross margins exhibited stability as increased cost pressures during FY23 were mostly passed on to the customer, preventing significant margin contraction. Gross margins were reported at 7.6% (FY22: 7.8%, FY21: 12.3%). Gross margin stability persisted into 1HFY24 as it remained unchanged at 7.6%.

Conservative capitalization profile

With no major CAPEX incurring in recent periods and continued equity expansion, the Company's capitalization profile has depicted sustained improvement between FY19-FY23. Gearing and leverage ratios have improved to 0.5x (FY22: 0.7x) and 1.2x (FY22: 1.3x) from 1.2x and 1.3x in FY19, respectively. In 1HFY24, gearing and leverage further improved to 0.2x and 0.9x, respectively, as the BFPL generated sufficient cash flow from operations to meet its working capital requirements and thus reduced its short-term debt drawdowns.

Healthy coverage profile

Despite recent profitability constraints, the Company maintains healthy cash flows to meet debt repayment obligations. This is supported by its conservative capitalization profile, featuring low debt levels. However, the debt service coverage ratio (DSCR) experienced deterioration in FY23 due to profitability constraints and increased local interest rates, leading to higher finance costs albeit slightly lower overall debt vis-à-vis FY22. The DSCR was reported at 2.5x (FY22: 3.6x) in FY23. However, it did manage to rebound and improve to a historic high of 5.4x in 1HFY24, with a significant decline in overall debt easing the financial burden for the Company.

Meanwhile, BFPL also maintains a strong short-term debt coverage of 3.6x (FY23: 2.0x, FY22: 1.4x) in 1HFY24.

Improving liquidity profile, at adequate levels

While the Company's liquidity profile depicted constraint in FY21 with a current ratio of 0.9x. However, over time, the Company reduced its reliance on short-term debt for working capital needs and met them with sufficient internal cash generation. Consequently, the current ratio has gradually improved to 1.2x (FY23: 1.1x, FY22: 1.0x) to adequate levels in 1HFY24.

Considerations for Future Reviews

Going forward, ratings will be sensitive to the Company's ability to ease its client-concentration risk, while also improving its profitability and liquidity profiles to be in line with assigned ratings. Moreover, maintenance of its other key financial metrics to be commensurate with ratings will also be an important consideration for future reviews.

Best Fibres (Pvt.) Limited
Annexure I

Financial Summary				
Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	1HFY24M
Property, plant, and equipment	2,315.7	2,569.3	2,467.9	2,464.4
Stock-in-trade	1,074.5	1,797.3	2,311.9	1,878.2
Trade debts	19.4	55.8	55.9	35.6
Cash & Bank Balances	8.4	69.0	114.4	313.2
Total Assets	3,571.4	4,913.3	5,385.8	5,188.3
Trade and Other Payables	285.6	878.5	1,224.7	1,538.4
Long-term Debt (incl. current portion)	240.0	210.0	150.0	120.0
Short-Term Borrowings	943.6	1,272.2	1,137.3	481.9
Total Debt	1,183.6	1,482.2	1,287.3	601.9
Total Liabilities	1,758.0	2,808.4	2,964.0	2,471.4
Paid up Capital	535.5	535.5	535.5	535.5
Equity (excl. Revaluation Surplus)	1,813.3	2,104.9	2,421.8	2,716.9
Income Statement (PKR Millions)				
Net Sales	7,248.2	9,729.9	11,092.2	6,430.9
Gross Profit	891.4	761.4	839.6	488.0
Operating Profit	775.1	637.7	710.6	413.9
Finance Costs	56.4	110.5	194.2	38.5
Profit Before Tax	718.7	527.2	516.4	375.4
Profit After Tax	511.3	284.7	303.1	295.1
Ratio Analysis				
Gross Margin (%)	12.3%	7.8%	7.6%	7.6%
Operating Margin (%)	10.7%	6.6%	6.4%	6.4%
Net Margin (%)	7.1%	2.9%	2.7%	4.6%
Funds from Operation (FFO) (PKR Millions)	762.0	528.6	472.2	353.7
FFO to Total Debt* (%)	64.4%	35.7%	36.7%	117.5%
FFO to Long Term Debt* (%)	317.5%	251.7%	314.8%	589.5%
Gearing (x)	0.7	0.7	0.5	0.2
Leverage (x)	1.0	1.3	1.2	0.9
Debt Servicing Coverage Ratio* (x)	8.3	3.6	2.5	5.4
Current Ratio (x)	0.9	1.0	1.1	1.2
(Stock in trade + trade debts) / STD (x)	1.1	1.4	2.0	3.6
Return on Average Assets* (%)	16.3%	6.7%	5.9%	11.2%
Return on Average Equity* (%)	34.0%	14.5%	13.4%	23.0%
Cash Conversion Cycle (days)	30.8	32.7	33.5	19.9

*Annualized, if required

A - Actual Accounts

M - Management Accounts

REGULATORY DISCLOSURES		Annexure II			
Name of Rated Entity	Best Fibres (Pvt.) Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	14-05-2024	A-	A-2	Positive	Maintained
	27-04-2023	A-	A-2	Stable	Reaffirmed
	13-05-2022	A-	A-2	Stable	Reaffirmed
	05-04-2021	A-	A-2	Stable	Maintained
	27-04-2020	A-	A-2	Rating Watch-Developing	Maintained
	31-12-2019	A-	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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Due Diligence Meeting	Name	Designation	Date		
	Mr. Mansoor Zafar	CFO	May 07, 2024		