VIS
Credit Rating Company Limited

RATING REPORT

Analysts:
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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)

Rating Scale:
(https://docs.vis.com.pk/doc

Rs. Million	FY23A	FY24A	1HFY25M
Net Sales	11,092.16	13,077.19	6,295.24
Profit Before Tax	516.44	463.63	211.51
Profit After Tax	303.14	298.80	132.82
Paid up Capital	535.50	535.50	535.50
Equity (excl. Revaluation Surplus)	2,421.83	2,722.48	2,855.30
Total Debt	1,287.32	2,470.52	108.54
Leverage (x)	1.22	1.61	1.30
Gearing (x)	0.53	0.91	0.04
Funds From Operations (FFO)	472.19	444.98	230.55
FFO/Total Debt (x)	0.37	0.18	4.25
Net Margin (%)	3%	2%	2%

**Annualized, if required*
A - Actual Accounts
M - Management Accounts

BEST FIBRES (PVT.) LIMITED

Chief Executive: Sheikh Zulfiqar Ali

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/ WATCH	Positive		Positive	
RATING ACTION	Reaffirmed		Maintained	
RATING DATE	May 06, 2025		May 14, 2024	

RATING RATIONALE

The ratings have been reaffirmed at ‘A-/A2’ with a Positive outlook. The assigned ratings factor in the elevated business risk profile of Pakistan’s textile spinning sector, which remains exposed to structural and cyclical challenges, including policy uncertainty, rising energy costs, limited product diversification, and competition from imports. These sectoral constraints have restricted upward rating movement, despite the Company’s relatively strong financial profile.

The Positive outlook reflects the Company’s sustained performance against major financial risk indicators. Profitability has remained stable, supported by disciplined capital expenditure and a gradual reduction in debt levels, which has contributed to improved coverage and liquidity metrics. The current financial position reflects cautious leverage management and effective working capital controls, demonstrating operational resilience under challenging operating environment.

Going forward, the ratings will remain sensitive to developments in the regulatory environment, shifts in global demand, and the Company’s ability to sustain its profitability and liquidity metrics under prevailing sector dynamics. Continued maintenance of a conservative capital structure, effective working capital management, and cost controls will be essential to preserve the current rating level.

COMPANY PROFILE

Best Fibres (Private) Limited ('BFPL' or 'the Company') was incorporated as a private limited company in Pakistan in 2017. The principal activity of the Company is production and sale of yarn made from viscose staple fiber and cotton. The registered office and spinning unit of the Company are situated in District Faisalabad, Punjab.

GOVERNANCE

BFPL, a private textile company in Pakistan, is led by Sheikh Zulfiqar Ali, who serves as both Chairman and CEO. The Company is predominantly owned by Ms. Mediha Asif (94.77%) and Sheikh Zulfiqar Ali (4.67%).

INDUSTRY PROFILE & BUSINESS RISK

Assigned ratings incorporate the business risk profile of Pakistan's textile spinning sector is currently assessed as high to medium. This evaluation considers factors such as demand cyclicality, competitive pressures, regulatory challenges, and energy sensitivity.

The textile industry contributes approximately 8.5% to the national GDP and employs about 45% of the total labor force. Within this, the spinning sector serves as a key upstream segment, converting raw cotton into yarn for subsequent value-added processes. Performance remains closely linked to economic conditions, exposing the sector to demand fluctuations.

The 2024 cotton season was marked by production challenges, with cultivation reaching 80% of the national target, despite improvement from the previous year. FY23 was severely impacted by floods during the early half of the year, however, FY24 saw pest infestation which impacted cotton production during the period. The planted area stands at 2.367 million hectares (FY23: 1.97 million hectares), slightly up from the previous year. Production stood around 8.3 million bales (FY23: 4.9 million bales), remaining well below the domestic industry's requirement of ~12 million bales in 2024. Farmers continue to shift toward higher-margin crops, limiting any improvement in the shortfall.

In FY24, textile exports grew marginally by 0.93% to $16.7 billion (FY23: $16.6 billion). However, political instability and shifts in global procurement patterns resulted in the loss of approximately 40% of export orders, with buyers redirecting sourcing to competitors such as Vietnam.

Following the withdrawal of the Export Facilitation Scheme (EFS), indirect exporters now prefer duty-free and sales-tax-free imported yarn over domestically produced alternatives, which remain subject to an 18% sales tax. This trend has further pressured foreign exchange reserves and led to increased substitution of local yarn with imports, challenging the viability of the spinning sector amid rising costs. The transition from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR) has further strained financial performance.

Pakistan's spinning sector remains exposed to significant competitive pressures from India, China, and Bangladesh, where technological advancements and diversified product offerings provide an advantage. Limited product diversification has constrained Pakistan's ability to capture export orders redirected due to shifts in global supply chains.

Regulatory changes have added to operational and financial challenges. The withdrawal of regionally competitive energy tariffs and amendments in tax policies have increased cost pressures. The Federal Board of Revenue (FBR) doubled the advance tax rate for textile millers from 1% to 2%, alongside additional reporting requirements. Some industry participants have begun exploring relocation to jurisdictions with more favorable regulatory frameworks.

Energy sensitivity remains a key concern, with high energy costs increasing conversion expenses. In FY24, high power tariffs continued to adversely affect the sector's profitability. The energy costs in the country are around double those of regional export market competitors. Rising power costs and an increase in the minimum wage have also led to margin compression. Industrial power tariffs in Pakistan were approximately 17 cents per kilowatt-hour (kWh), significantly higher than those in competing economies such as India (6 cents/kWh), Bangladesh (8.6 cents/kWh), and Vietnam (7.2 cents/kWh) in 2024.

Going forward, sector performance will depend on global demand trends, domestic policy measures, and structural improvements. While recent monetary easing, including a reduction in the policy rate to 12% by February 2025, may ease financing costs, long-term competitiveness will require investments in technology, product diversification, and a stable regulatory environment.

Product Profile & Capacity

In FY24, the Company's operational performance remained stable despite challenges arising from the broader economic and industry-specific environment. Production activity was maintained, with capacity utilization recorded at approximately 87% (FY23: ~85%), reflecting marginal improvement. Management has indicated that demand conditions are expected to remain subdued in FY25, on account of the prevailing market and economic constraints.

Production Capacity and Utilization	FY23	FY24
Number of Spindles Installed	108,816	108,816
Number of Spindles Worked	108,816	108,816
Installed Capacity after conversion 20/s count (Tons)	40,535.39	40,535.39
Actual Production after conversion 20/s count (Tons)	34,512.42	35,125.14
Utilization (%)	**85.14%**	**86.65%**

FINANCIAL RISK

Assigned ratings also take into account the financial risk profile of the Company. Profitability remained constrained during the review period due to elevated utility and raw material costs and limited pricing flexibility amid rising competition. Gross margins declined, although net margins remained stable, supported by a conservative capital structure that limited exposure to finance costs. The capitalization profile reflects reliance on short-term borrowings to bridge working capital needs, with higher gearing and leverage observed in FY24. Deleveraging measures in 1HFY25 led to a significant decline in gearing and leverage ratios. Liquidity remained around adequate levels, with the current ratio showing partial recovery during the period under review. Coverage metrics remained stable, supported by manageable debt obligations and improvement in 1HFY25 due to lower financial obligations resulting from steep debt reduction.

Profitability

In FY24, revenue remained largely stable, underpinned by consistent sales volumes and minor price adjustments. However, the gross margin declined to 5.39% (FY23: 7.57%), primarily due to higher utility costs that could not be fully transferred to customers amid competitive industry conditions. Margin pressures persisted in FY25, driven by a further increase in energy and raw material costs. Limited pricing flexibility, resulting from heightened competition from imported yarn, contributed to a decline in gross margin to 4.51% in 1HFY25.

Despite a contraction in gross margins, net margins remained positive and stable during the review period, supported by a conservative capital structure that limited the impact of elevated interest rates and contained finance costs.

Capitalization

The Company's capitalization profile is characterized by short-term debt and non-debt current liabilities to manage its working capital requirements. In FY24, an increase in short-term borrowing was observed, primarily due to a widening working capital gap caused by inventory build-up amid subdued demand. This resulted in higher gearing and leverage ratios of 0.91x (FY23: 0.53x) and 1.61x (FY23: 1.22x), respectively.

In 1HFY25, management initiated deleveraging measures aimed at reducing the financial burden. These measures included tighter inventory management, prioritization of internal cash generation to meet operational funding needs, and reliance on non-debt liabilities where required. Capital expenditure during this period was restricted to essential BMR activities. As a result, gearing and leverage ratios declined to 0.04x and 1.30x, respectively.

Debt Coverage & Liquidity

Coverage metrics remained relatively stable in FY24, supported by a manageable debt profile, with the debt service coverage ratio (DSCR) recorded at 2.64x (FY23: 2.71x), despite margin pressures and elevated interest rates. In 1HFY25, the DSCR surged to 22.71x, primarily attributable to deleveraging of the balance sheet.

Liquidity remained around adequate levels during the review period. The current ratio declined to 0.99x in FY24 (FY23: 1.07x) but recovered to 1.07x in 1HFY25. Historically, the Company has maintained a relatively constrained liquidity position, with an average current ratio of 0.89x between FY18 and FY24.

Financial Summary *Appendix I*

Balance Sheet (PKR Millions)	FY23A	FY24A	1HFY25M
Property, plant and equipment	2,467.86	2,860.12	2,703.54
Stock-in-trade	2,311.86	3,237.41	2,943.58
Trade debts	55.90	67.45	35.12
Cash & Bank Balances	114.44	252.98	400.73
Other Assets	435.75	693.96	484.70
Total Assets	5,385.81	7,111.92	6,567.67
Creditors	66.27	303.02	363.81
Long-term Debt (incl. current portion)	150.00	90.00	0.00
Short-Term Borrowings	1,137.32	2,380.52	108.54
Total Debt	1,287.32	2,470.52	108.54
Other Liabilities	1,610.40	1,615.90	3,240.01
Total Liabilities	2,963.99	4,389.44	3,712.36
Paid up Capital	535.50	535.50	535.50
Revenue Reserve	1,886.33	2,186.98	2,319.80
Equity (excl. Revaluation Surplus)	2,421.83	2,722.48	2,855.30

Income Statement (PKR Millions)	FY23A	FY24A	1HFY25M
Net Sales	11,092.16	13,077.19	6,295.24
Gross Profit	839.59	704.75	284.11
Operating Profit	710.61	576.50	223.62
Finance Costs	194.17	112.87	12.11
Profit Before Tax	516.44	463.63	211.51
Profit After Tax	303.14	298.80	132.82

Ratio Analysis	FY23A	FY24A	1HFY25M
Gross Margin (%)	7.57%	5.39%	4.51%
Operating Margin (%)	6.41%	4.41%	3.55%
Net Margin (%)	2.73%	2.28%	2.11%
Funds from Operation (FFO) (PKR Millions)	472.19	444.98	230.55
FFO to Total Debt* (%)	36.68%	18.01%	424.82%
FFO to Long Term Debt* (%)	314.79%	494.42%	
Gearing (x)	0.53	0.91	0.04
Leverage (x)	1.22	1.61	1.30
Debt Servicing Coverage Ratio* (x)	2.71	2.64	22.71
Current Ratio (x)	1.07	0.99	1.07
(Stock in trade + trade debts) / STD (x)	2.13	1.41	27.80
Return on Average Assets* (%)	5.89%	4.78%	3.88%
Return on Average Equity* (%)	13.39%	11.62%	9.52%
Cash Conversion Cycle (days)	58.17	78.13	85.19

**Annualized, if required*

A - Actual Accounts
P - Projected 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
06-05-2025	A-	A2	Positive	Reaffirmed
14-05-2024	A-	A2	Positive	Maintained
27-04-2023	A-	A2	Stable	Reaffirmed
13-05-2022	A-	A2	Stable	Reaffirmed
05-04-2021	A-	A2	Stable	Maintained
27-04-2020	A-	A2	Rating Watch-Developing	Maintained
31-12-2019	A-	A2	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	29 April, 2025