

# RATING REPORT

## Bismillah Textiles Limited

### REPORT DATE:

August 22, 2023

### RATING ANALYSTS:

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### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Initial	
Rating Date	August 22, 2023		September 08, 2022	

### COMPANY INFORMATION

Incorporated in 1989

**External Auditors:** RSM Avais Haider Liaqat Nauman & Co. Chartered Accountants

Public Limited Company (Unquoted)

**Chairman/CEO:** Mr. Muhammad Abual Adham Sheikh

**Key Shareholders (with more than 5% stake):**

Muhammad Ibrahim Sheikh ~29.5%

Mr. Muhammad Abdul Hameed Sheikh ~26.3%

Mr. Muhammad Abual Adham Sheikh ~22.1%

Ms. Fatima Hamim Sheikh ~11.1%

Ms. Aamina Hamim Sheikh ~11.1%

### APPLICABLE METHODOLOGY(IES)

**VIS Entity Rating Criteria:** Industrial Corporates (May 2023)

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

### APPLICABLE RATING SCALE(S)

**VIS Issue/Issuer Rating Scale:** <https://docs.vis.com.pk/docs/VISRatingScales.pdf>

**Bismillah Textiles Limited**

**OVERVIEW OF THE INSTITUTION**

**RATING RATIONALE**

*Bismillah Textiles Limited (BTL) first initiated its operations in 1989 as a commercial exporter. Principal business activity involves export of value added fabrics and textile made-ups. Registered office is located in Jaranwala Road, Faisalabad.*

**Corporate Profile**

BTL (Bismillah Textiles Limited) is a family-owned company with 30+ years of expertise in exporting value added fabrics and home textiles products. It comprises yarn dyeing, weaving, processing, and stitching operations and has a workforce of over 1,700 employees. Product suite includes a range of fabric and made-ups, such as jacquards, embroidery, bed linen, kitchen accessories, bedcovers/bedspreads, curtains, quilt cover sets, table covers, napkins, chair pads, and more.

Entire ownership is held between two family members, while four members serving as executive directors are actively involved in business affairs. The company holds ISO and other global standard certifications and has an in-house quality control function. Average energy demand of 5MW is met through multiple sources; national grid, coil boilers, a turbine and two gas-based generators.

**Efficiency enhancement initiatives undertaken in the recent past**

In the recent past, the company introduced efficiency enhancement initiatives by importing 72 Piccanol Airjet looms (70 replacements & 2 additions) and 8 Jacquard Dornier looms for the weaving division. Thus, increasing total looms to 142 (126 Airjet & 16 Jacquard). Additionally, a Reggiani digital printing machine was also acquired to expand processing capacity. These machinery upgrades led to a strong increase in capacities, with weaving unit growing by ~27% and the processing unit by ~25% over the period of last two fiscal years. These initiatives costed around Rs. 800m, while routine capex amounted to Rs. 200.5m in FY22. Going forward, management plans to install an air compressor in the weaving unit to further improve production efficiency.

**Operational Performance**

BTL's headquarters and production facility (both units I & II) is located at 01 KM Jaranwala Road, Khurrianwala, District Faisalabad. Unit-I involves yarn dyeing and weaving, while Unit-II handles processing and stitching operations. The storage and warehouse facilities are also maintained within the same premises. In addition, the company has installed Texpa (Automatic Duvet Machines) and Smart MRT (computerized material handling system that helps manage, automate and track real-time data between different production processes) in its operational facilities. Production levels have noted a decline during the review period due to global demand slowdown, leading to lower utilization ratios.

**Figure: Capacity & Production Data (Units in millions)**

	FY20	FY21	FY22	9M'FY23
<b>Weaving Unit</b>				
<b>Installed Capacity – Sq Meter</b>	37.8	45.5	47.9	40.6
<b>Actual Production – Sq Meter</b>	24.8	24.2	27.2	18.9
<b>Capacity Utilization</b>	<b>66%</b>	<b>53%</b>	<b>57%</b>	<b>46%</b>
<b>Processing Unit</b>				
<b>Installed Capacity – Meters</b>	32.8	41.1	41.1	30.8
<b>Actual Production – Meters</b>	23.2	37.2	32.8	20.9
<b>Capacity Utilization</b>	<b>71%</b>	<b>90%</b>	<b>80%</b>	<b>68%</b>

Stitching unit comprises 760 machines, with half being operational and the rest serving as backup for demand fluctuations. Management stated that accurately defining the capacity and production of stitching segment is challenging due to factors like complexity of articles produced.

**Key Rating Drivers**

**Business risk profile is constrained by current weak macroeconomic environment both globally and locally, high-interest rates, inflationary pressures, rising raw material costs, ongoing energy crisis in the country, and a global slump in demand. All these factors pose a challenge to the sector over the medium term in terms of margins sustainability and future growth.**

Pakistan’s export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports broke the threshold, clocking in at USD 32.4b. Textile sector contributes nearly one-fourth to industrial value-added segment and provides employment to about 40% of the industrial labor force. Contributing around 8.5% to the country’s GDP, with an estimated market size of around Rs. 4.0tr, textile sector has maintained an average share of about 60% in national exports over the years.

**Table: Pakistan Export Statistics (in USD millions)**

	FY20	FY21	FY22	FY23
<b>Pakistan Total Exports</b>	22,536	25,639	32,450	27,911
<b>Textile Exports</b>	12,851	14,492	18,525	16,710
<b>PKR/USD Average rate</b>	158.0	160.0	177.5	248.0

Source: SBP

The lingering effects of Covid-19 pandemic continue to shape the Pakistan’s textile industry. Initially, as lockdowns lifted, the industry capitalized on opportunities, securing production contracts with Western countries. This redirection of substantial volumes to Pakistan, complemented by government import tax reductions and subsidized covid-related financing programs such TERF, spurred robust export growth during FY20-22. However, a subsequent phase presented new challenges. Global interest rate hikes aimed at curbing post-pandemic inflation, coupled with geopolitical unrest such as the Ukraine conflict, led to supply chain disruptions and energy crisis. These factors led to a global demand slowdown in major textile economies, reflected in a ~15% year-on-year decline in Pakistan's textile exports in FY23, totaling USD 16.5b (FY22: USD 19.3b). Knitwear, Readymade, and Bed wear segments remain key contributors, making up over 60% of the textile exports.

**Table: Textile Export Details (in USD millions)**

	FY20	FY21	FY22	FY23	YoY FY23
<b>High Value-Added Segment</b>	<b>9,669</b>	<b>12,427</b>	<b>15,611</b>	<b>13,576</b>	<b>-13%</b>
- Knitwear	2,794	3,815	5,121	4,437	-13%
- Readymade Garments	2,552	3,033	3,905	3,492	-11%
- Bed wear	2,151	2,772	3,293	2,692	-18%
- Towels	711	938	1,111	1,000	-10%
- Made-up Articles	591	756	849	693	-18%
- Art, Silk & Synthetic Textile	315	370	460	412	-10%
- Others	555	743	872	851	-2%
<b>Low to medium Value-Added Segment</b>	<b>2,858</b>	<b>2,972</b>	<b>3,719</b>	<b>2,926</b>	<b>-21%</b>
- Cotton Cloth	1,830	1,921	2,438	2,022	-17%
- Cotton Yarn	984	1,017	1,207	844	-30%
- Others	43	34	74	60	-20%
<b>Total</b>	<b>12,527</b>	<b>15,399</b>	<b>19,330</b>	<b>16,502</b>	<b>-15%</b>

Source: PBS

Flash floods in Sindh and Southern Punjab from last year's monsoon wreaked havoc on the cotton crop, washing away roughly 45% worth over USD 2.5b. This catastrophe led to a historic low yield of 4 million bales in 2022, compared to a 12 million bales annual demand. Local cotton prices subsequently reached a 12-year high of over Rs. 22,000 per 40kg during the year, and imports rose by ~20% in USD terms for FY22, vis-à-vis preceding year. This situation heightened working capital needs, adversely affecting profit margins and liquidity profile for textile entities, particularly spinners, weavers, and dyeing companies. On a positive note, the production target for the current season is set at 12.7 million bales, supported by favorable weather and timely government intervention.

**Table: Cotton Prices Trend (In Rs.)**

	June'19	June'20	June'21	June'22	June'23
Per Maund	8,770	8,860	13,000	17,380	17,735
YoY % Change	26%	1%	32%	34%	2%

The industry faces medium-term risks due to the current weak macroeconomic environment both globally and locally, high-interest rates, inflationary pressures, rising raw material costs, ongoing energy crisis in the country, and a global slump in demand, primarily from North America and Europe. Additionally, the potential expiration of Pakistan's GSP plus status in December 2023 could be impactful. This status, allowing duty-free access to the EU for over 6,300 tariff lines, fosters beneficial trade. Its loss could lead to reduced trade revenues and create market uncertainties.

Previously, the sector also enjoyed incentives provided by the government through a five-year textile policy (2020-25), including preferential energy rates, low-interest financing schemes, and timely payments of various refunds, easing liquidity constraints for local players. However, the prevailing economic instability led to the reduction or withdrawal of many of these supports. This along with contractionary monetary policy and political uncertainties in the country are the key present business risk factors. In the long run, improvement in value addition, investment in technology and optimization of energy cost would define the future prospects of textile exports.

#### **Recent slowdown in global demand impacted export volumes and sales revenues during FY23.**

Following two years of double-digit annual growth, sales revenue declined by ~11% in FY23, amounting to Rs. 9.7b. This dip is primarily attributed to the economic downturn in major world economies, leading to reduced demand and lower export volumes. Most revenue comes from exports, while local sales involve third-party processing services and the sale of wastages. Product-wise, home textile made-ups constitute roughly ~75-80% of total exports, with fabric sales comprising the remainder. Geographic sales are well-diversified, with no single country, except Poland, accounting for more than 20% of total exports. Major destinations include Germany, Argentina, US, Australia, Spain, Greece, the Netherlands, and others. Top ten clients, comprising a mix of global retailers and wholesalers, consistently generate nearly three-fourths of total sales, reflecting sales concentration risk.

#### **Gross margins remained stable; however, rising administrative overheads and high financial charges have led to thinner net margins**

Gross margins sustained above 9% during the review period but continue to lag behind industry peers. Inventory levels are adequately managed, with a sufficient stock of yarn for the next 2-3 months. Procurement comprises 75% local sources, with about two-third being local yarn and one-third outright fabric to cater to shorter lead time orders. The remaining

25% is imported yarn. Distribution overheads were curtailed by reducing clearing and forwarding charges, while administrative costs slightly increased. High financial charges, driven by elevated benchmark rates have resulted in thinner net margins over the last three years.

**Reflecting the profitability performance, cash flows have declined. However, lower utilization of running finance led to positive trend in cash-flow coverage metrics.**

After a robust growth in the previous year, funds flow from operations (FFO) declined to Rs. 405.6m (FY22: Rs. 493.1m; FY21: Rs. 304.1m) in FY23. However, lower utilization of running finance led to positive trend in cash-flow coverage indicators, with FFO to total debt and FFO to long-term debt ratios reaching 0.27x (FY22: 0.21x; FY21: 0.14x) and 0.92x (FY22: 0.79x; FY21: 0.39x), respectively. On the flip side, debt service coverage ratio (DSCR) has shown a downward trend due to timeline increase in current portion of long-term debt.

Current ratio is consistently reported above 1.2x and coverage of short-term borrowings in relation to trade debts and inventory remains sufficient, indicating a satisfactory liquidity profile. Cash conversion cycle, while still healthy, increased to 71 days in FY23, up from 61 days in FY20. Management aims to reduce the same by extending payable credit terms. Aging profile of trade debts is adequate, as all are settled within 6 months.

**Improved leverage ratios compare favorably vis-à-vis peers.**

Equity base (excluding revaluation surplus) grew by ~15% over the period of last 24 months, reaching to Rs. 3.9b at end-FY23 driven by all-out profit retention. Debt profile comprises a blend of short-term and long-term borrowings, with total interest-bearing liabilities reaching Rs. 1.5b (FY22: Rs. 2.4b; FY21: Rs. 2.2b) at end-FY23; ~71% constituted short-term debt. Aggregated running finance lines stands at nearly Rs.2b, with nearly half allocated to ERF scheme. Long-term debt was acquired in FY21 to finance the replacement of looms. Gearing and leverage ratios have depicted improvement during the review period and compare favorably vis-à-vis peers.

**Bismillah Textiles Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>				
	<i>(amounts in PKR millions)</i>			
<b>BALANCE SHEET</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23*</b>
Non-Current Assets	4,321.4	4,845.7	4,890.3	4,665.1
Stock-in-Trade	1,428.1	2,183.1	2,566.8	2,350.9
Stores & Spares	277.5	278.6	300.5	243.5
Trade Debts	1,290.3	1,275.7	1,966.3	1,860.6
Cash & Bank Balances	281.5	149.6	332.2	392.6
<b>Total Assets</b>	<b>8,543.0</b>	<b>9,721.7</b>	<b>11,150.0</b>	<b>10,194.4</b>
Trade and Other Payables	1,240.7	1,881.1	2,792.2	2,542.6
Short-Term Borrowings	1,649.1	1,444.9	1,731.1	1,077.1
Long-Term Borrowings <i>(Incl. Current Maturity)</i>	113.7	779.3	626.5	441.1
<b>Total Debt</b>	<b>1,762.8</b>	<b>2,224.2</b>	<b>2,357.6</b>	<b>1,518.2</b>
<b>Total Liabilities</b>	<b>3,406.3</b>	<b>4,374.7</b>	<b>5,442.1</b>	<b>4,348.3</b>
Paid Up Capital	800.0	800.0	800.0	800.0
<b>Total Equity <i>(Excl. Revaluation Surplus)</i></b>	<b>3,168.7</b>	<b>3,469.0</b>	<b>3,758.7</b>	<b>3,975.1</b>
<b>INCOME STATEMENT</b>				
Net Sales	7,198.1	9,862.0	10,881.2	9,718.7
Gross Profit	702.3	736.2	927.5	922.7
Profit Before Tax	<b>237.9</b>	<b>281.4</b>	<b>350.9</b>	<b>274.1</b>
Profit After Tax	<b>169.6</b>	<b>187.2</b>	<b>198.1</b>	<b>137.9</b>
<b>RATIO ANALYSIS</b>				
Gross Margin (%)	9.8	7.5	8.5	9.5
Net Margin (%)	2.36	1.9	1.8	1.4
Current Ratio (x)	1.39	1.31	1.28	1.43
FFO to Total Debt (x)	0.25	0.14	0.21	0.27
FFO to Long Term Debt (x)	3.85	0.39	0.79	0.92
Debt Service Coverage Ratio (x)	2.47	1.80	1.51	1.48
ROAA (%)	2.0	2.0	1.9	2.6
ROAE (%)	5.5	5.6	5.5	7.1
Gearing (x)	0.56	0.64	0.63	0.38
Debt Leverage (x)	1.07	1.26	1.45	1.09
Stock+ Trade debts/ Short-term Borrowings (x)	1.65	2.39	2.62	3.91
Cash Conversion Cycle (days)	76.0	61.1	60.8	70.7

*\*Un-audited financial statements*

REGULATORY DISCLOSURES		Appendix II			
<b>Name of Rated Entity</b>	Bismillah Textiles Limited				
<b>Sector</b>	Textile				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	22-08-2023	BBB+	A-2	Stable	Reaffirmed
	08-09-2022	BBB+	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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<b>Due Diligence Meeting Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	Mr. Atiq-ur-Rehman	Deputy Manager Finance	May 22, 2023		