RATING REPORT

Bismillah Textiles Limited

REPORT DATE:

October 28, 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	BBB+	A-2
Rating Outlook/ Rating Watch	Stable		Stable	
Rating Action	Upgrade		Reaffirmed	
Rating Date	*October 28, 2024*		*August 22, 2023*	

COMPANY INFORMATION

Incorporated in 1989	**External Auditors:** RSM Avais Haider Liaqat Nauman & Co. Chartered Accountants
Public Limited Company (Unquoted)	**Chairman/CEO:** Mr. Abdul Adham Sheikh
Key Shareholders (with more than 5% stake):	
Muhammad Ibrahim Sheikh ~29.5%	
Mr. Muhammad Abdul Hameed Sheikh ~26.3%	
Mr. Abdul 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

Bismillah Textiles Limited (BTL) began its operations as a commercial exporter in 1989. The company's primary business focuses on exporting value-added fabrics and textile products. Its registered office is situated on Jaranwala Road, Faisalabad..

RATING RATIONALE

Corporate Profile

Bismillah Textiles Limited ("BTL" or "the Company") is a family-run business with over 30 years of experience in exporting value-added fabrics and home textiles. The Company operates across various segments, including yarn dyeing, weaving, processing, and stitching, employing more than 1,600 workers. Its product range includes a variety of fabrics and made-up items such as jacquards, embroidered pieces, bed linen, kitchen accessories, bedcovers, curtains, quilt covers, table covers, napkins, chair pads, and more.

Ownership of the Company is entirely held among the family members, while four family members, serving as executive directors, are also actively engaged in managing the business. BTL holds ISO and other international standard certifications and maintains an in-house quality control department for continuous improvement in products quality. The Company's average energy requirement of 5MW is fulfilled through diverse sources, including the national grid, coal and gas-powered generators.

Operational Performance

BTL's headquarters and production facilities (Units I & II) are located at the Jaranwala Road, Khurrianwala, District Faisalabad. Unit I focuses on yarn dyeing and weaving, while Unit II is dedicated to processing and stitching operations. Storage and warehouse facilities are also housed within the same premises. Additionally, the Company has installed Texpa (Automatic Duvet Machines) and Smart MRT, a computerized material handling system that helps manage, automate, and track real-time data across different production processes for improvement in operational efficiencies.

Weaving unit has shown a positive trend with an increase in production levels from 22.4 million sq meter in FY23 to 23.6 million sq meter in FY24. This increase in production is primarily attributed to the successful upgradation and replacement of 70 Piccanol Airjet looms with addition of two more such looms. Further, 8 Jacquard Dornier looms were also added during FY24, which increased the total number of looms to 142. These upgrades contributed to enhancing operational efficiency, resulting in the weaving unit's capacity increasing by 5.2%. As a result, capacity utilization improved slightly, rising from 47% to 49%.

Processing unit has experienced some decline in performance during the review period. Production levels dropped from 26.0 million meters in FY23 to 25.2 million meters in FY24, resulting in a decrease in capacity utilization from 63% to 61%. However, this slight decline was part of a planned adjustment aimed at accommodating shift in the product mix for better alignment with the evolving market demand. By adopting a flexible approach and investing in advanced technology, the unit is well-positioned to offer more tailored solutions to clients, with expectations of optimizing the product mix for improved outcome in the near future.

The stitching unit, which consists of 760 machines, operates with only half of the machines actively used, while the remainder serve as backups to accommodate fluctuations in demand. Management has indicated that it is difficult to precisely determine the capacity and production for the stitching segment due to the varying complexity of the articles produced.

Table 1: Capacity & Production Data (Units in millions)

	FY20	FY21	FY22	FY23	FY24
Weaving Unit					
Installed Capacity – Sq Meter	37.8	45.5	47.9	47.9	47.9
Actual Production – Sq Meter	24.8	24.2	27.2	22.4	23.6
Capacity Utilization	66%	53%	57%	47%	49%
Processing Unit					
Installed Capacity – Meters	32.8	41.1	41.1	41.1	41.1
Actual Production – Meters	23.2	37.2	32.8	26.0	25.2
Capacity Utilization	71%	90%	80%	63%	61%

Sector Update

The business risk profile of Pakistan's textile sector is characterized by significant exposure to economic cycles and intense competition. The sector's performance is closely linked to the overall economic conditions of the country, making it highly susceptible to demand fluctuations influenced by economic factors. As a result, this cyclical nature can lead to considerable volatility, affecting both profitability and operational stability.

In FY23, Pakistan's textile sector encountered major challenges stemming from a mix of economic and environmental factors. The first half of the fiscal year saw severe flooding that damaged the cotton crop, significantly reducing the availability of this essential raw material. This issue was further intensified by import restrictions due to shrinking foreign exchange reserves, which further limited the cotton supply. Consequently, yarn production in Pakistan witnessed a sharp decline.

The sector's profitability faced pressure from multiple factors. Rising production costs, driven by increased raw material expenses and escalating energy prices, significantly squeezed profit margins. The industry's performance was closely tied to the overall outlook of the cotton and textile industries, both of which experienced setbacks during FY23. The reduced cotton supply, combined with a global economic slowdown and contractionary economic policies, resulted in diminished demand for textile products, including cotton yarn.

The global outlook for cotton production is expected to improve, though local challenges remain significant. High interest rates, rising energy costs, and inflationary pressures continue to present major obstacles for the sector. Its vulnerability to global market trends and domestic economic conditions further heightens the business risk profile. Despite this, there is cautious optimism, as the anticipated larger cotton crop in FY24 is expected to alleviate some of the strain on input costs and profit margins, potentially stabilizing the sector's performance.

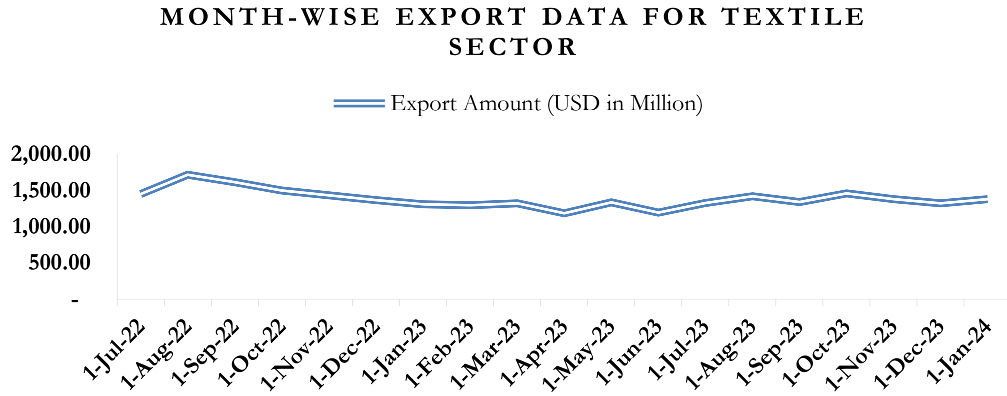

Figure 1: MoM Textile Exports (In USD' millions)
Source: SBP

Key Rating Drivers

The slowdown in global demand adversely impacted export volumes during FY23 and FY24, while local sales continued to experience growth. Current financial year has witnessed healthy growth with strong order book in hand

Sales declined by 9.4% in FY23 to PKR 9.85 billion compared to PKR 10.88 billion in 2022. More notably, the Company's sales in USD terms declined by 38.42% from USD 50.58 million to USD 31.15 million. This drop in sales, particularly of home textiles (75-80% contribution), is primarily attributed to weakened global economic conditions leading to reduced demand and decrease in export volumes, which is the main contributor to the Company's overall revenue. Overall Export sales decreased by 8.7% from PKR 9.59 billion in 2022 to PKR 8.76 billion in 2023. In contrast, local sales showed a significant increase of 24.9%, rising from PKR 827.97 million in 2022 to PKR 1.03 billion in 2023. Despite diversified geographical exposure, sales concentration risk persists due to the reliance on the top ten clients, who contribute nearly three-fourths of total sales.

In 2024, sales continued to decline, albeit at a slower pace, reaching PKR 9.65 billion from PKR 9.85 billion in 2023. Export sales experienced a slight reduction of 4.2%, moving from PKR 8.77 billion in 2023 to PKR 8.40 billion in 2024. This decline in export sales is not solely indicative of market challenges but also reflects management decision to prioritize higher-margin orders and focus on building long-term partnerships. Unlike exports, the local sales continued to grow, increasing by 18.5% to PKR 1.23 billion (FY23: Rs 1.03 billion). Although local sales are not the primary driver of the business, they have played an important role in maintaining capacity utilization. Growth in local sales, also contributed by the third-party processing and waste management, provides a valuable buffer as the Company works to expand its export markets. However, the impact of local sales growth is limited, given the overall revenue composition.

As of Q1 FY25, the company reported net sales of PKR 2.8 billion, with full-year sales in FY25 expected to reach PKR 11 billion (up by 14% Y/Y).

Margins remained at satisfactory levels

In FY23, the Company's gross margin improved significantly, reaching an all-time high at 12.9%, primarily driven by the depreciation of the rupee during the year. During FY24, in the absence of such currency depreciation, gross margins experienced a moderate decline to 10.2%, albeit remaining higher from historical level (FY20-FY22). Enhanced operational efficiency resulting from BMR initiatives during FY23 and FY24 essentially enabled the Company to improve the margins. Management expects these efficiency gains to continue supporting the company's gross margins in the future as well.

The improvement in gross margins during FY23 also led to an increase in net margins, which rose to 4.7%. However, this increase was not proportional to the gross margin expansion, due to higher operating and financial expenses. In FY24, net margins experienced a slight decline, broadly in line with the decrease in gross margins. Looking ahead, the Company expects further improvements in operational efficiency, with gross margins and net margins projected to reach 10.9% and 2.8%, respectively, in FY25.

Table 2: Sales & Margins

	FY21	FY22	FY23	FY24	FY25P
Sales (In PKR' Millions)	9,862	10,881	9,855	9,653	11,053
Export Sales	92%	88%	89%	87%	87%
Local Sales	6%	8%	10%	13%	13%
Gross Margin	7.5%	8.5%	12.9%	10.2%	10.9%
Operating Margin	3.0%	4.8%	9.0%	6.0%	6.6%
Net Margin	1.9%	1.8%	4.7%	2.2%	2.8%

Given positive trend in profitability, cash flows have improved with positive reflection on cashflow coverage metrics.

FFO increased to PKR 700 million in FY23, compared to PKR 493.1 million in FY22. This increase was supported by higher profitability in FY23. Resultantly, FFO to total debt ratio improved to 0.44x in FY23, up from 0.21x in FY22 and 0.14x in FY21. Also, FFO to long-term debt ratio saw a notable increase to 1.59x from 0.79x in FY22 and 0.39x in FY21. Improvement in cashflows also helped to recover the DSCR to 1.99 times in FY23 from 1.39 times in FY22. The current ratio consistently remained above 1.2x during FY20-FY24, reflecting a stable liquidity profile. Additionally, the Company's cash conversion cycle improved to 51 days in FY23 from 74 days in FY22, with management aiming to reduce this further by extending the credit period. The aging profile of trade debts remains adequate, with all receivables settled within six months.

Following drop in profitability the FFO decreased to PKR 437 million in FY24. Consequently, the FFO to total debt ratio decreased to 0.29x, while the FFO to long-term debt ratio also fell to 1.31x from 1.59x in the previous year. Reduction in cashflows in FY24 also forced the DSCR to decline to 1.78x in FY24 from 1.99x in FY23. Despite these declines, the current ratio improved to 1.58x with buildup in inventories and reduction in trade payables. The cash conversion cycle lengthened to 85 days in FY24, up from 51 days in FY23. This increase was primarily on account of management deciding to build up inventory in anticipation of higher sales targets for the coming years, though the receivable days reduced to 47 days from 60 days in FY23, indicating improved collections.

FFO for the full year FY25P is expected to increase to PKR 747, improving the FFO/Total Debt ratio to 0.47 times and the FFO/Long-Term Debt ratio to 3.09 times. Additionally, the DSCR is projected to rise to 2.05 times. The current ratio is also projected to slightly improved to 1.59 times. However, the cash conversion cycle is likely to lengthened due to further increase in inventory days, even as receivable days improved to 41 days, the lowest in the five-year review period.

Table 3: Liquidity & Cashflow Indicators

	FY21	FY22	FY23	FY24	FY25P
Cash Conversion Cycle (Days)	72	74	51	85	106
- **Receivable Days (Days)**	47	66	60	47	41
- **Inventory Days (Days)**	87	94	115	154	160
- **Payable Days (Days)**	62	86	123	116	96
Current ratio (x)	1.31	1.28	1.42	1.58	1.59
FFO (PKR in m.)	304	493	700	437	577
FFO/ Total Debt (x)	0.14	0.21	0.44	0.29	0.47
FFO/Long Term Debt (x)	0.39	0.79	1.59	1.31	3.09
DSCR (x)	2.25	1.39	1.99	1.78	2.05

Equity base strengthened while reduced debt levels improved gearing and leverage.

Equity base continued to grow over the review period, increasing by 15% to PKR 6.11 billion at the end of FY23, driven primarily by profit retention. Also, the total debt decreased significantly to PKR 1.59 billion in FY23, down from PKR 2.36 billion in FY22, with a debt mix of 71% in short-term borrowings (PKR 1.15 billion) and the remainder in long-term debt (PKR 441 million). The reduction in debt levels led to improved gearing and leverage ratios, which stood at 0.37x and 1.15x respectively in FY23, reflecting a more conservative capital structure compared to the previous year. The decline in debt came with timely repayment of long term loans and reduction in short term borrowings..

In FY24, net equity further increased to PKR 6.33 billion from PKR 6.11 billion in FY23, indicating continued profit retention and strengthening of Reserves, which rose to PKR 897 million from PKR 595 million. Total debt further declined slightly to PKR 1.50 billion from PKR 1.59 billion in FY23, with long-term debt reducing to PKR 334 million from PKR 441 million due to continued debt repayments related to the machinery loan. Short-term borrowings increased marginally to PKR 1.17 billion. Gearing improved to 0.33x (FY23:0.37x)in FY24, and leverage reduced to 0.94x from 1.15x, reflecting further strengthening of the capitalization profile of the Company.

As of FY25 equity is projected to increase further, driven by rise in profitability. A moderate increase in short-term debt commensurate with business growth is expected, while long-term debt is expected to decrease further, which together will lead to a slight improvement in the gearing ratio to 0.32 times and leverage to 0.92 times.

Table 4: Capitalization

PKR in M	June'21	June'22	June'23	June'24	PJune'25
Net Equity	5,337	5,707	6,110	6,326	6,639
- **Paid-up Capital**	800	800	3,600	3,600	3600
- **Reserves**	2,546	2,836	595	897	1,290
Debt	2,224	2,357	1,585	1,501	1600
- **Long Term**	779	627	441	334	242
- **Short Term**	1,445	2,357	1,145	1,168	1359
Total Liabilities	2,224	2,358	1,585	1,501	4,546
Gearing (x)	0.64	0.63	0.37	0.33	0.32
Leverage (x)	1.26	1.45	1.15	0.94	0.92

Bismillah Textiles Limited

FINANCIAL SUMMARY (PKR in millions)					Appendix I	
BALANCE SHEET	FY20	FY21	FY22	FY23	MFY24	FY25P
Property, plant and equipment	3,174.4	3,698.7	3,799.7	3,606.1	3,316.5	3,289.0
Long term Investments	618.1	618.1	618.1	618.1	618.1	618.1
Stock-in-Trade	832.6	733.5	1,290.3	1,275.7	1,966.3	1,628.1
Trade Debts	360.3	278.6	286.1	183.2	190.6	230.0
Cash & Bank Balances	281.5	149.6	332.2	437.5	491.2	320.0
Total Assets	8,543.0	9,721.7	11,150.0	10,983.1	10,615.2	11,182.6
Trade and Other Payables	1,240.7	1,881.1	2,792.2	3,010.8	2,512.6	2,661.0
Long Term Debt	113.7	779.3	626.5	440.9	333.6	241.9
Short Term Debt	1,649.1	1,444.9	1,731.1	1,144.6	1,167.9	1,359.0
Total Debt	1,762.8	2,224.2	2,357.6	1,585.5	1,501.5	1,600.9
Total Liabilities	3,406.3	4,387.9	5,442.1	4,872.8	4,288.5	4,546.7
Paid Up Capital	800.0	800.0	800.0	3,600.0	3,600.0	3,600.0
Total Equity	5,136.7	5,337.1	5,707.9	6,110.3	6,326.8	6,639.1

INCOME STATEMENT	FY20	FY21	FY22	FY23	FY24	FY25P
Net Sales	7,198.7	9,862.0	10,881.2	9,855.7	9,653.8	11,053.0
Gross Profit	702.9	736.2	927.5	1,273.6	980.3	1,203.2
Operating Profit	376.9	292.4	519.6	882.6	579.3	727.9
Profit Before Tax	237.9	281.4	350.4	551.1	312.2	422.5
Finance Cost	135.3	159.2	198.2	325.2	287.5	329.0
Profit After Tax	169.6	187.2	197.6	468.0	216.3	313.0

RATIO ANALYSIS	FY20	FY21	FY22	FY23	FY24	FY25P
Gross Margin (%)	9.8%	7.5%	8.5%	12.9%	10.2%	10.9%
Net Margin (%)	2.4%	1.9%	1.8%	4.7%	2.2%	2.8%
Net Working Capital	1,194.6	1,156.0	1,384.2	1,856.9	2,271.9	2,516.9
Trade debts/Sales	5.0%	2.8%	2.6%	1.9%	2.0%	2.1%
FFO	437.8	304.1	493.1	700.0	437.4	747.4
FFO to Total Debt (x)	0.25	0.14	0.21	0.44	0.29	0.47
FFO to Long Term Debt (x)	3.85	0.39	0.79	1.59	1.31	3.09
Current Ratio (x)	1.39	1.31	1.28	1.42	1.58	1.59
Debt Servicing Coverage Ratio (x)	3.57	2.25	1.39	1.99	1.78	2.05
Gearing (x)	0.56	0.64	0.63	0.37	0.33	0.32
Leverage (x)	1.07	1.26	1.45	1.15	0.94	0.92
(Stock in Trade+Trade Debts)/STD	72%	70%	91%	127%	185%	137%
ROAA (%)	2.8%	2.0%	1.9%	4.2%	4.0%	5.7%
ROAE (%)	6.5%	5.6%	5.5%	11.7%	9.8%	13.2%

*M: Management Accounts *P: Projected Accounts

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Bismillah Textiles Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see below
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 Conducted	see below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
28-10-2024	A-	A-2	Stable	Upgrade
22-08-2023	BBB+	A-2	Stable	Reaffirmed
08-09-2022	BBB+	A-2	Stable	Initial

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Atiq-ur-Rehman	Deputy Manager Finance	August 30, 2024