

Press Release

VIS Reaffirms Entity Ratings of Bhanero Textile Mills Limited

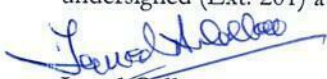
Karachi, September 26, 2023: VIS Credit Rating Company Limited (VIS) has reaffirmed entity ratings of Bhanero Textile Mills Limited (BHAT) at 'A+/A-1' (Single A Plus/A-One). Medium to long-term rating of 'A+' signifies good credit quality and adequate protection factors. Risk factors may vary with possible changes in the economy. Short-term rating of 'A-1' indicates high certainty of timely payment; liquidity factors are excellent and supported by good fundamental factors. Risk factors are minor. Outlook on the assigned ratings remains 'Stable'. Previous rating action was announced on August 15, 2022.

Ratings continue to reflect the robust sponsor group strength, 40+ years of expertise in yarn and fabric production and trade for both international and domestic markets, sustained client partnerships, notable governance practices, and recent capacity expansion efforts. The reaffirmed ratings also highlight strong revenue growth, amidst falling export volumes, attributed to continued rupee depreciation while high-profit retention kept leverage ratios in line with the peer median. Margins, after a two-year peak, settled back to historical levels from increased reliance on imported cotton, shrinking yarn profits, and broader economic and operational challenges. While these shifts affected cash flows and debt servicing metrics, yet stayed consistent with industry peers. Even with an extended working capital cycle necessitating higher short-term financing needs, the liquidity profile remains sound. Business risk profile factors in the high interest rate environment, inflationary pressures, rising raw material costs, the ongoing energy crisis in the country, and a global slump in demand. The same is reflected in a ~15% year-on-year decline in Pakistan's textile exports in FY23, totaling USD 16.5b (FY22: USD 19.3b). Moreover, all these factors pose a challenge to the sector over the medium term in terms of margin sustainability and future growth. Ratings are constrained by the current weak macroeconomic environment both globally and locally.

The company, in its bid to enhance capacity, inaugurated a new spinning facility, unit-IV, in Sheikhpura, Punjab. Operational since May'23, this facility boasts 19.6K spindles and can produce 1,000 bags daily. As a result, installed capacity has augmented by ~47% in FY23. The project, with an investment of Rs. 3.7b, was funded by a balanced 60:40 debt-to-equity mix. Machinery was funded via TERF and LTFE loans, while internal cash covered building construction.

Yarn represents roughly 60% of all sales, while fabric covers the rest. The sales mix is characterized by an average 39:61 split between exports and local sales. While yarn transactions are fairly balanced between export and local channels, the fabric segment has been primarily geared towards the domestic market, particularly this fiscal year. Though exports spearheaded growth during the review period, yarn off-take dipped slightly, offset by a surge in fabric sales volume. In the export landscape, Portugal dominates, contributing over a quarter, trailed by countries such as Japan, Italy, Bangladesh, Belgium, and Korea, among others. Client concentration is well-managed, with the top 10 buyers accounting for only a fifth of total sales. The management cap ensures no client goes beyond a 5% sales share, reducing risk. Going forward, the ratings will hinge on improving margins, cash flows, and debt coverage ratios.

For further information on this rating announcement, please contact Mr. Muhammad Tabish (Ext: 216) or the undersigned (Ext: 201) at (021) 35311861-4 or email at info@vis.com.pk


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Applicable Rating Criteria: Industrial Corporates (May 2023)

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

VIS Rating scale

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

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