Press Release

VIS Credit Rating Company Reaffirms Entity Ratings of Bhanero Textile Mills Limited

Karachi, February 21, 2019: VIS Credit Rating Company Limited (VIS) has reaffirmed the entity ratings of Bhanero Textile Mills Limited (BHAT) at ‘A+/A-1’ (Single A Plus/A-One). Long Term Rating of A+ reflects good credit quality, 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, excellent liquidity factors supported by good fundamental protection factors and risk factors are minor. Outlook on the assigned ratings is ‘Stable’. The previous rating action was announced on September 28, 2017.

Ratings assigned to the company favorably factor in the sound financial risk profile as reflected by healthy liquidity profile, low leverage indicators and improving earnings. Ratings also factor the healthy sales growth posted in FY18 and in the ongoing year. Going forward, growth momentum in sales is projected to continue on the back of significant rupee depreciation during FY18 and in ongoing year, increase in international yarn prices and addition of new spindles (10,800) during 2018. The ratings also take into account the extensive experience of sponsor (Umer Group) in the textile industry spanning over four decades with well-diversified customer base spread across international markets. Ratings are constrained by high cyclical & competitive intensity for spinning industry and volatility in cotton prices which translate into moderate to high business risk profile.

Umer Group is recognized as a prominent player in spinning and weaving segment with annual turnover of around Rs. 30b. Around one-half of total group sales comprise exports with major markets in China, Italy, Japan, Turkey and Belgium & other European countries. Segment wise, three-fifth of revenue is generated through spinning segment while the remaining comprises sales of grey fabric. Going forward, given the favorable incentives for enhancing exports along with significant rupee depreciation, management expects proportion of export sales in sales mix to increase to around two-third of total sales. Umer Group has a total of 186,960 spindles and 565 looms.

Historically, around two-third of BHAT’s topline has comprised local sales. Segment wise yarn continues to be the major contributor with 65% share in total revenue. Moreover, yarn sales have gained foothold in the domestic market whereas weaving segment largely comprises exports. Efficient raw material procurement, higher sales volume in the spinning segment and increased average sales prices of yarn and fabric have resulted in improved gross margins. Going forward, future margins are expected improve further given that average inventory carried on balance sheet is significantly lower than current cotton prices. Liquidity profile also draws support from management’s conservative approach of maintaining long term debt repayments lower than depreciation charge during any given period, thus providing the financial flexibility to undertake expansion projects.

For further information on this rating announcement, please contact the undersigned (Ext: 201) at 021-35311861-70 or fax to 021-35311992.

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Applicable Criteria: Industrial Corporates (May 2016)