

Press Release

VIS Reaffirms Entity Ratings of Bhanero Textile Mills Limited

Karachi, Aug 15, 2022: 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). Outlook on the assigned ratings is 'Stable'. Previous rating action was announced on May 27, 2021.

Assigned ratings are underpinned by extensive sponsor experience and a four-decade operating history in the composite textile sector. Ratings also reflect the qualified management team, well-equipped IT infrastructure in relation to scale of operations, and long-standing client relationships, which aids in securing repeat orders. Financial risk profile has improved as a result of strong growth trend in revenues, profit margins, cash flow generation with comfortable debt servicing coverage, improved capital structure supported by profit retention, and timeline reduction in leverage ratios. However, the country's ongoing energy crisis, rising production costs due to inflation, and expected slowdown in demand due to looming global recession and monetary tightening in major world economies are key business risk factors, posing a challenge to industrywide margins sustainability and future growth.

Ratings also take note of capacity expansion initiative, which includes the construction of a new spinning unit with 19,584 spindles. Total revised project cost (including cost overruns due to recent currency depreciation) is Rs. 3.7b; of which Rs. 2.2b is for machinery, which is being financed through TERF/LTFF debt facility, while the remaining is funded through internal cash generation for construction of building and other local cost incurred for installation of machinery. The production is scheduled to begin in Dec'22. In addition, management has replaced 140 existing looms at a total capex of Rs. 1.78b for machinery, which is being financed through ILTFF debt financing for upgradation in the weaving division.

Volumetric growth, primarily in domestic sales, combined with rising prices and rupee depreciation resulted in a strong increase in topline during the review period. Akin to industry, sizeable inventory gains and efficient cotton procurement management significantly increased profitability margins. Segment wise, around two-third of sales revenue is generated from the spinning segment while weaving division accounts for the remainder. Yarn sales grew by ~54% in FY21, far outpacing the 13% increase in fabric segment. On a 3-year average basis, sales mix of local and export sales has been around 30:70, while in terms of growth, local sales increased by ~50%, vis-à-vis 9% growth in exports, during FY21; similar trend is noted in the outgoing fiscal year. Italy, Japan, Turkey, Portugal, Korea, and Bangladesh are among the major export destinations. Client-wise sale concentration risk (particularly in yarn and fabric exports) has remained elevated over time.

For further information on this rating announcement, please contact Mr. Muhammad Tabish (Ext: 203) or the undersigned (Ext: 306) at (021) 35311861-70 or email at info@vis.com.pk

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Applicable Rating Criteria: Corporates (August 2021)
<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>