



The Pakistan Credit Rating Agency Limited

Rating Report

M.Y. Bari Mills (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jun-2018	BB+	A3	Stable	Maintain	-
29-Dec-2017	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings of M.Y. Bari Mills (Pvt.) Limited (Bari Mills) reflect small yet growing business profile. Bari Mills is a family owned small scale private company owned by a seasoned business family of Karachi. The company is primarily an export oriented, towel manufacturing concern. Bari Mills is in the process of expanding its manufacturing facilities which is proving key driver in increase in revenues. Textile industry overall is witnessing suppressed margins due to international lower commodity price and higher cost of doing business in Pakistan. However, towel and denim industry continues to surge forward on the back of Pakistan's cotton which is more suitable for coarse counts yarn. Towel industry continues to give good margins which is reflected in Bari Mills profitability. On standalone basis, the company's concentration levels – both customer and geographical – are significantly high with majority of company revenues (~73%) emanates from a single customer. However, the ratings draw comfort from the Bari group's overall customer base. Financial risk of the company needs better management which is reflected highly leveraged capital structure though, coverages remain strong. Going forward, in absence of any further debt-driven expansion in the medium-term, financial profile is expected to become strong. The ratings further incorporate the young management team and the family's long association with textile sector.

The ratings are dependent on sustaining business margins while maintaining financial risk at low level. Meanwhile, strengthening of governance framework for better oversight of strategic affairs is considered essential.

Disclosure

Name of Rated Entity	M.Y. Bari Mills (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating Methodology(Jul-17),Methodology Correlation between long-term and short-term rating scale(Jun-17),Methodology Criteria Modifiers(Jun-17)
Related Research	Sector Study Textile(Oct-17)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

M.Y. BARI MILLS (PVT.) LIMITED PROFILE	
Incorporated	2012
Major business lines	<ul style="list-style-type: none"> ▪ Terry Towels, Jacquard Towel, Bath robes
Legal status	Private Company
CEO	Nabeel Haroon Bari
Plant Location	Karachi
Head Office	Karachi

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> ▪ During FY17, total textile exports stood at USD ~ 12,453mln. ▪ Cotton yarn contributes (10%), cotton cloth (17%), home textile (29%), while garments contributes (38%). ▪ Pakistan's Towel sector continues to give good margins on the back of high quality course count yarns and demand from large store chains from Europe and USA. ▪ Overall towel exports have remained largely stagnant in last three years.

OWNERSHIP

- M.Y. Bari Mills (Pvt.) Limited (Bari Mills) was incorporated in 2012 as a private limited company.
- Bari Mills is owned by Bari family. Mr. Haroon Bari owns 20% of the stake with his sons having 16% each stake.
- Bari Family has a long history of over 6 decades of textile business.
- Bari Family also have a partnership concern. M. Yahya M. Yousaf Bari, which is also involved in exporting of towels.

GOVERNANCE

- The board is dominated by the Bari family. The board comprises of total 5 members including the CEO Nabeel Haroon Bari.
- Board members have significant industry experience as all board members belong to Bari Family and all board members are actively involved in day to day operational matters.
- The board has not formed any board committee. There is no independent director on the board.
- External auditors, Parkar Randall, Chartered Accountants, gave an unqualified opinion on Jun'17 financials.

MANAGEMENT

- Chairman – Mr. Haroon Bari along with his four sons are actively involved in the day to day operations of the company.
- Two brothers, Waqas Bari and Mustafa Bari leads the marketing function in Europe and USA.
- The company employs ~400 people both at the site and head office.
- Mr. Nabeel Haroon Bari, Graduated from UK, leads the management team. He is supported by an able and professional team.

SYSTEM & CONTROLS

- Bari Mills is currently using dotNET based ERP system However, it is in the process of installing a better version of dotNET based ERP - ASP as its main ERP software.
- Company's ERP generates MIS reports including quarterly accounts which are used to monitor the overall business performance.
- Bari Mills is accredited with International certifications for compliance. It has valid certificates for its products and facilities and is periodically audited by internationally recognized certification bodies including Oeko Tex 100 Class-I and Class-II, BSCI, C-TPAT, Sedex, GOTS, BRC.

BUSINESS RISK

- Bari Mills has been associated with the textile business for years. It has long term relations with customers outside Pakistan. It exports 100% of its final product.
- It exports its products to international store chains based in USA and Europe. It has high concentration in its customers, however Bari group has multiple customers at its disposal to meet its needs.
- During FY17, along with volume Bari Mills also witnessed improvement in its margin (FY17:19.9%, FY16: 17.7%) due to increase in house weaving services. In 6MFY18, revenue declined YoY (6MFY18: 876mln, 6MFY17: 1,045mln) however it is expected to normalize by year end.
- In line with decrease in revenue, company's profitability decreased (6MFY18: 78mln, 6MFY17: 92mln).

FINANCIAL RISK

- Bari Mills mainly uses mix of internal cash flow and short term borrowings to manage its working capital needs however, with increased capacity and increased cotton purchasing during season, Bari Mills needed to borrow more to meet its working capital needs (6MFY18: 608mln, FY17: 411mln, FY16: 185mln).
- The company has a longer cash cycle in line with textile industry (6MFY18: 120days, FY17: 106days, FY16: 78days). Cash cycle increased on the back of increase in trade receivable days.
- Due to increase in its business volume and expansion it procured more debt in FY17 which caused the coverages to deteriorate. Short term borrowing further increased in 6MFY18 on the back of increased trade receivables. Though Interest coverages improved (6MFY18: 6.8x, FY17: 5.2x, FY16: 4.1x), Debt coverage declined (6MFY18: 2.4x, FY17: 3x, FY16: 4.1x) due to increase in current maturity of long term debt.
- Bari Mills have a leveraged capital structure (6MFY18: 67.5%, FY17: 63.7%, FY6: 44.6%) because of being in an expansion mode. The company does not project to borrow more long term debts in future.



Textile

The Pakistan Credit Rating Agency Limited

Financials (Summary)

PKR mln

M.Y BARI MILLS (PVT.) LTD

BALANCE SHEET

	31-Dec-17	30-Jun-17	30-Jun-16	30-Jun-15
	6M	FY	FY	FY
Non-Current Assets	658	569	187	74
Investments (Incl. Associates)	-	3	1	-
Equity	-	-	-	-
Loans to Associates/Debt Securities	-	3	1	-
Investment Property	-	-	-	-
Current Assets	1,179	818	523	638
Inventory	465	561	308	533
Trade Receivables	477	134	124	55
Others	236	124	90	50
Total Assets	1,837	1,389	711	712
Debt/Borrowings	959	678	201	135
Short-term	608	411	185	135
Long-term (Incl. Current Maturity of Long-Term Debt)	352	267	16	0
Other short-term liabilities	412	323	259	407
Other long-term liabilities	3	3	2	-
Shareholders' Equity	462	386	249	169
Total Liabilities & Equity	1,837	1,389	711	712

INCOME STATEMENT

Turnover	876	1,425	990	1,067
Gross Profit	134	283	175	143
Net Other Income	-	0	(0)	9
Financial Charges	(21)	(50)	(33)	(25)
Net Income	79	136	80	76

Cashflow Statement

Free Cash Flow from Operations (FCFO)	141	262	137	110
Net Cash changes in Working Capital	(142)	(249)	(24)	(121)
Net Cash from Operating Activities	(22)	(37)	80	(36)
Net Cash from Investing Activities	(87)	(457)	(136)	(39)
Net Cash from Financing Activities	118	476	66	85

Ratio Analysis

Performance

Turnover Growth (vs. SPLY)	-16%	44%	-7%	18%
Gross Margin	15%	20%	18%	13%
Net Margin	9%	10%	8%	7%

Coverages

Interest Coverage (FCFO/Gross Interest)	6.8	5.2	4.1	4.4
Core: (FCFO) / (Gross Interest+CMLTD+Uncovered Total STB)	2.4	3.0	4.1	4.4
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	2.4	3.0	4.1	4.4
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest)	2.9	1.3	0.2	0.0

Liquidity

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	119.6	106.3	77.9	67.4
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Capital Structure (Total Debt/Total Debt+Equity)

	67%	64%	45%	44%
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M.Y. Bari Mills (Pvt.) Limited

June 2018



ENTITY CREDIT RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.			
LONG TERM RATINGS		SHORT TERM RATINGS	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	A1+: The highest capacity for timely repayment. A1: A strong capacity for timely repayment. A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions. A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions. B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. C: An inadequate capacity to ensure timely repayment.	
AA+	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.		
AA			
AA-			
A+	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.		
A			
A-			
BBB+	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances or economic conditions are more likely to impair this capacity.		
BBB			
BBB-			
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.		
BB			
BB-			
B+	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business, and economic environment.		
B			
B-			
CCC	Very high credit risk. "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.		
CC			
C			
D	Obligations are currently in default.		
Rating Watch	Outlook (Stable, Positive, Negative, Developing)	Suspension	Withdrawn
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.	Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business or financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.	It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, a suspended rating should be considered withdrawn.	A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.
Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.			

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

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- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA’s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA’s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA’s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA’s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)

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