The Pakistan Credit Rating Agency Limited

Rating Report

Basfa Textile (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Mar-2024	BBB	A2	Stable	Maintain	-
02-Mar-2023	BBB	A2	Stable	Maintain	-
02-Mar-2022	BBB	A2	Stable	Upgrade	-
29-Mar-2021	BBB-	A3	Stable	Maintain	Yes
30-Apr-2020	BBB-	A3	Negative	Maintain	Yes
30-Oct-2019	BBB-	A3	Stable	Maintain	-
30-Apr-2019	BBB-	A3	Stable	Maintain	-
28-Dec-2018	BBB-	A3	Stable	Maintain	-
30-Jun-2018	BBB-	A3	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The Basfa Textile (Pvt.) Limited (“the Company” or “BTPL”) rating emanates from the adequate profile of the Company in the spinning industry of Pakistan. The BTPL is engaged in the manufacturing and sale of Viscose Yarn and different varieties of cotton yarn with an average yarn count of 20s and an operating capacity of ~60,156 spindles. The Company has inherent exchange risk and supply chain as the majority portion of its raw material is imported (Viscose). The board of the Company is dominated by sponsors and in more of an execution role. The management of the BTPL has an adequate delegation of authority matrix that needs improvement. The implementation of ERP system remains critical for the sustainability of the control environment. The BTPL is the sponsor's single line of business that reflects business concentration risk and adequate financial strength. The Top line of the Company has shown a growth of 18.7% and stood at PKR 5.5bln as of FY23. The under-stress macroeconomic indicators resulted in a slight dip in margins and the profitability matrix reflects current industry trends. The Company plans to execute a CAPEX for the installation of new spindles to augment capacity and the installation of the solar power plant to manage the risk of elevated energy costs. The Financial risk profile of the Company is considered adequate with an aptly managed working capital cycle, moderately leveraged capital structure and working capital requirements met through an optimal mix of short-term borrowings and internally generated cashflows. The cashflows and coverages of the Company are maintained at an adequate level. The spinning industry is highly fragmented and consists of ~368 dedicated spinning units with an estimated size of PKR 775bln and 13.4mln number of spindles installed as of FY23 according to an economic survey of Pakistan. The projected cotton production estimate is revised and projected to be 11.5mln bales and currently, production reached up to ~8.26mln bales surpassing FY23 total production of 4.91mln bales. During FY24 better local raw cotton yield is expected to supplement the Companies for import substitution. Pakistan's requirement for imported cotton stands at 3.5 million bales to 4 million bales this year. The recent elevation of energy tariffs and the availability of locally procured raw cotton are the prime challenges specific to the industry

The ratings are dependent upon the management's ability to sustain their capacity utilization, generate sufficient cashflows and maintain coverages at an optimal level. The corporate governance framework needs improvement. Adherence to the debt matrix at an adequate level is a prerequisite for the assigned rating.

Disclosure

Name of Rated Entity	Basfa Textile (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Spinning(Sep-23)
Rating Analysts	Muhammad Harris Ghaffar | harris.ghaffar@pacra.com | +92-42-35869504

Profile

Legal Structure Basfa Textile (Pvt.) Ltd, established in 2006, commenced commercial operations in 2008. The corporate office is situated at 20-KM Ferozepur Road, Lahore.

Background The Company was established by Mr Jahangir Saleem. He was involved in the business of car paints and chemical raisins under the name of ‘Basfa Industries Pvt. Ltd’ and ‘Auto Coatings Pvt. Limited’ prior to textile business. The name “BASFA” is titled as per the name of his four sons. Mr. Babar Jahangir, Mr. Sajid Jahangir, Mr. Fahad Jahangir and Mr. Ahmad Jahangir.

Operations The Company is primarily engaged in the manufacturing and sale of viscos and cotton yarn (Capacity: 60,156 spindles). The manufacturing facility is at 36-KM Ferozepur Road, Lahore and second plant is located at Feroz Watwan Road, Chandi Kot Stop, Sheikhupura.

Ownership

Ownership Structure The controlling stake of the Company is held by Jahangir Saleem Family. Mr. Babar Jahangir (Chairman/CEO) holds 44.40% shares in the Company, while Mr. Ahmed Jahangir and Mr. Fahad Jahangir, son of Mr. Jahangir Saleem, holds 30.0% and 25.60% shares respectively.

Stability The documented succession plan is in place as Mr. Jahangir Saleem has divided the ownership of the Company between his sons. This division portrays a clear picture of succession.

Business Acumen Prior to textile business, sponsor’s primary business was of car paints and chemical raisins that are used in fiber glass industry and steel putty (a product of auto industry). Mr. Babar Jahangir has an overall working experience of 17 years. His innovative technological skills in the field of textile sector brings specialized and comprehensive knowledge to the board.

Financial Strength Basfa Textile is the single line of business so the financial strength of the Company is considered adequate, the financial support and commitment from sponsor in hour of need.

Governance

Board Structure The Board of Directors, under the leadership of CEO/Chairman Mr. Babar Jahangir, consists of three members, including Directors, Mr. Ahmed Jahangir and Mr. Fahad Jahangir. The addition of an independent director would improve the Company's governance framework.

Members’ Profile Mr. Babar Jahangir, the Chairman and CEO of the Company, holds a UK graduation degree and has been associated with BASFA Textile for the past seventeen years. Additionally, Mr. Ahmad and Mr. Fahad Jahangir, both graduates from universities in the USA and the UK respectively, have been members of the board for the past three years.

Board Effectiveness The board is currently heading two committees (i) Audit Committee – who is primarily responsible for supervision of all matters related to audit and finalization of financial accounts. Internal audit department is predominantly engaged in the operations of this committee (ii) Corporate performance and evaluation committee – who is primarily responsible for recommending HR policies, succession planning of key management roles, monitoring key performance metrics

Financial Transparency HASNAIN ALI Chartered Accountants (QCR rated) are the external auditors of the Company. They expressed an unqualified opinion on the Company’s annual financial statements for the year ended June 30, 2023.

Management

Organizational Structure The organizational structure of the Company is divided into various functional departments: (i) Marketing, (ii) Finance, (iii) Accounts, (iv) Procurement, (v) Technical operations. Various levels of management hierarchy helps the Company to carry out smooth operations.

Management Team The Company’s CEO - Mr. Babar Jahangir – is one of the sons of Mr. Jahangir Saleem. Mr. Abdul Basit, CFO of the Company – a Fellow Public Accountant and Fellow Cost and Management Accountant with an overall experience of ~31 years. The marketing team is led by the General Manager Marketing, who is a textile engineer with more than 29 years of experience in yarn sales.

Effectiveness Basfa Textile maintains adequate IT infrastructure and related controls. The Company deploys Quick Books – Accounting edition - since 2016 with license of ~10 corporate users. The operational modules including (i) Payable, (ii) Receivable, (iii) Inventory, (iv) Procurement, (v) Order Management, (vi) General Ledger, (vii) Fixed Assets, and (viii) Cash Management.

MIS Various MIS reports are prepared for the management to keep track of all operating activities. Daily reports are generated for the senior management, which helps them in day-to-day decision-making. Apart from daily reporting, the management also receives a more detailed MIS on a monthly basis.

Control Environment Intra-networking is being used within the Company to connect all departments though a common network. User-based controls are in place. Servers are installed where data management and back-up policies are in place.

Business Risk

Industry Dynamics The spinning industry is highly fragmented and consists of ~368 dedicated spinning units with an estimated size of PKR 775bln and 13.4mln number of spindles installed as of FY23, according to an economic survey of Pakistan. The projected cotton production estimate is revised and projected to be 11.5mln bales and currently, production reached up to ~8.0mln bales surpassing FY23 total production of 4.91mln bales. Pakistan's requirement for imported cotton stands at 3.5 million bales to 4 million bales this year. The recent elevation of energy tariffs and the availability of locally procured raw cotton are the prime challenges specific to the industry.

Relative Position The size of the Company is considered adequate, operating with an capacity of 60,156 spindles.

Revenues The topline of the company has shown a growth of ~19% YoY basis and stood at PKR 5,524mln as of FY23 and during 6MFY24: PKR 3bln. The surge in yarn prices and minute volumetric growth are the factors. The sale portfolio of the Company is ~100.0% dominated by local sales. The prime products of the Company includes Viscose yarn- sold under the brand name of “Super Diamond” and Cotton yarn – under the brand name of “Super-Gold”.

Margins In FY23, the company achieved a gross profit of PKR 430mln (6MFY24: PKR 231mln, FY22: PKR 368mln), and a gross profit margin of 7.8% (6MFY24: 7.7%, FY22: 7.9%). The gross profit margins remained consistent over the years. However, the net profit margin dipped to 1.5% in FY23, mainly on the back of escalated finance cost and increase in tax burden.

Sustainability The Company executed a CAPEX to enhance their production capacity by the installation of spindles. To manage escalating energy cost risk, the Company is in process of installing solar power plant in phases. The management of the Company is mindful to keep align their financial performance in terms of revenue with projected sales.

Financial Risk

Working Capital As at end FY23, the Company's net working capital days maintained at 72 days (FY22: 71 days). The Company aptly manage their working capital requirements primarily met through short term borrowings (STB) of PKR 792mln as of 6MFY24 (FY23: PKR 516mln). The short term trade leverage stood at 33.0% reflects room to borrow.

Coverages In FY23, the company's FCFO stood at PKR 547mln (FY22: PKR 391mln). The EBITDA to Finance cost ratio is 3.0x as of FY23 (FY22: 4.1x). The FCFO to Finance cost ratio is 2.8x as of FY23 (FY22: 3.5x). The dip in the ratios has been observed mainly on the back of inflated finance cost.

Capitalization The total borrowings of the Company stood at PKR 1,194mln as of 6MFY24 (FY23: PKR 996mln). The leveraging ratio noted at 42.4% in FY23 and 46.0% in 6MFY24. The current maturity of long term debt is PKR 77mln as of 6MFY24 (FY23: PKR 155mln). The equity base of the Company stood at PKR 1,399mln as of 6MFY24 mainly supplemented through unappropriated profits of PKR 854mln. The paid up capital of the Company is PKR 497mln as of 6MFY24 remains same.

PKR mln

Basfa Textile (Pvt.) Limited
Textile | Spinning

	Dec-23	Jun-23	Jun-22	Jun-21
	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	1,606	1,661	1,790	1,702
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,448	1,340	1,592	867
a Inventories	*1,196*	*1,009*	*1,342*	*629*
b Trade Receivables	-	-	*1*	*1*
5 Total Assets	3,054	3,001	3,382	2,568
6 Current Liabilities	443	611	523	530
a Trade Payables	*70*	*73*	*94*	*73*
7 Borrowings	1,194	996	1,569	892
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	18	42	22	23
10 Net Assets	1,399	1,352	1,268	1,123
11 Shareholders' Equity	1,399	1,352	1,268	1,123
B INCOME STATEMENT				
1 Sales	3,017	5,524	4,652	3,019
a Cost of Good Sold	*(2,786)*	*(5,094)*	*(4,284)*	*(2,759)*
2 Gross Profit	231	430	368	261
a Operating Expenses	(22)	(48)	(41)	(31)
3 Operating Profit	209	382	327	230
a Non Operating Income or (Expense)	*(5)*	*(10)*	*(10)*	*(6)*
4 Profit or (Loss) before Interest and Tax	204	372	317	224
a Total Finance Cost	*(120)*	*(202)*	*(117)*	*(61)*
b Taxation	*(38)*	*(85)*	*(55)*	*(58)*
6 Net Income Or (Loss)	47	84	146	105
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*221*	*547*	*391*	*285*
b Net Cash from Operating Activities before Working Capital Changes	*101*	*347*	*284*	*228*
c Changes in Working Capital	*(244)*	*277*	*(703)*	*269*
1 Net Cash provided by Operating Activities	(143)	624	(419)	497
2 Net Cash (Used in) or Available From Investing Activities	(55)	(76)	(210)	(1,121)
3 Net Cash (Used in) or Available From Financing Activities	198	(573)	678	557
4 Net Cash generated or (Used) during the period	1	(25)	48	(67)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	9.2%	18.7%	54.1%	18.8%
b Gross Profit Margin	7.7%	7.8%	7.9%	8.6%
c Net Profit Margin	1.5%	1.5%	3.1%	3.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-0.8%	14.9%	-6.7%	18.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	6.8%	6.4%	12.2%	9.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	67	78	77	75
b Net Working Capital (Average Days)	62	72	71	69
c Current Ratio (Current Assets / Current Liabilities)	3.3	2.2	3.0	1.6
3 Coverages				
a EBITDA / Finance Cost	2.4	3.0	4.1	6.4
b FCFO / Finance Cost+CMLTB+Excess STB	1.4	1.6	1.5	2.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.0	1.4	2.3	2.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	46.0%	42.4%	55.3%	44.3%
b Interest or Markup Payable (Days)	84.3	46.8	87.3	102.7
c Entity Average Borrowing Rate	18.9%	14.8%	8.5%	8.1%

Credit Rating

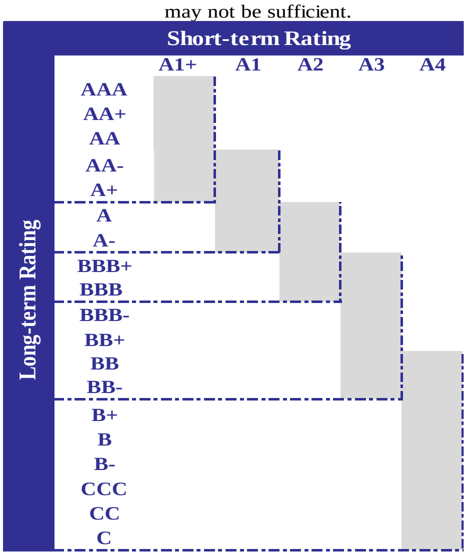
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA 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.
A+ A 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.
BBB+ BBB 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 and in economic conditions are more likely to impair this capacity.
BB+ BB 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.
B+ B 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.
CCC CC C	**Very high credit risk.** Substantial 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.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/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'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension 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, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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)

Conduct of Business
(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 | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(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)

Independence & Conflict of interest
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
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