



The Pakistan Credit Rating Agency Limited

Rating Report

Basfa Textile (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	-
29-Dec-2017	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect the adequate business profile of Basfa Textile (Pvt) Ltd. The Company is engaged in the manufacturing and sale of Viscose Yarn and different varieties of cotton yarn. The Company has over the years successfully created its niche market in viscose yarn. The Company being an importer of viscose remains exposed to exchange rate risk. However, the Company was able to pass on the impact of the exchange rate to its customers to an extent. Over the years the Company's revenue growth pattern has improved but it clocked slightly lesser in FY20 at PKR 2.5bln. Margins of the Company remained stagnant and the net profit of the Company was also in line with the previous year to clock in at PKR 55mln in FY20. The Company has a strong financial profile characterized by low leveraging and good coverages. The Company has a largely cash-based sales model, which requires less working capital financing. As a result, the Company has a positive room to borrow at net trade assets level depicting adequate ability to borrow, if the need arises.

The outlook of the Company is now 'stable' as the company resumed operations and continued its business fundamentals amidst Covid-19. The Rating Watch signifies the prevailing uncertainty due to the ongoing challenges of COVID-19 pandemic. While the business continues to function, there is need to remain vigilant.

The ratings depend on sustaining operations, profitability, and ensuing cash flows. The governance framework and financial transparency need improvement. At the same time, prudent management of short-term liquidity is considered important. Sustaining business margins while maintaining a strong financial profile remains critical.

Disclosure

Name of Rated Entity	Basfa Textile (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Spinning(Sep-20)
Rating Analysts	Muhammad Fahad Iqbal fahad.iqbal@pacra.com +92-42-35869504

Profile

Legal Structure Basfa Textile (Pvt.) Ltd (Basfa) was incorporated in 2006. However, commercial operations started in 2008. The corporate office of the Company is located in 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 'Crown Chemicals & Motor Co' prior to the 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. Basfa Textile started its commercial operations with the initial cost of the investment of PKR ~637mln which was financed with 100% equity.

Operations The Company is engaged in the manufacturing and sale of Viscos Yarn (Capacity: 38,664 spindles). Viscose yarn is sold under the brand name of "SuperDiamond" and Cotton yarn – under the brand name of "Super-Gold", whereas, vicinity of the plant is at 36-KM Ferozepur Road, Lahore.

Ownership

Ownership Structure The controlling stake of the Company is held by Jahangir Saleem Family. Mr. Jahangir Saleem (Chairman/CEO) holds 56% shares in the Company, while Mr. Babar Saleem, son of Mr. Jahangir, holds 44.44% shares.

Stability Although there is no formal succession plan, but the ownership of shares and business roles are equally divided between all the four brothers. Documented succession plan would do well for the sustainability of the Company.

Business Acumen Mr. Jahangir Saleem has an overall working experience of ~40 years. His diverse experience in the field of the textile sector and chemical raisins brings specialized and comprehensive knowledge to the board.

Financial Strength Other than the textile business, sponsors are also involved in the business of car paints and chemical raisins that are used in fibre glass industry and steel putty (a product of the auto industry).

Governance

Board Structure Board comprises two members including CEO/Chairman and the Managing Director. The CEO and Chairman of the Company are Mr. Jahangir Saleem. Whereas, Mr. Babar Jahangir holds the position of Managing Director of the Company.

Members' Profile Mr. Jahangir Saleem is the Chairman and founder of the Company. He did his graduation in commerce and started the business with his father in Karachi at a young age. Mr. Babar Jahangir holds a graduation degree from the United Kingdom. He has got an overall experience of ~16 years in his portfolio out of which ~10 years of experience are in Basfa Textile (Pvt.) Ltd.

Board Effectiveness The board currently has two committees (i) Audit Committee – who is primarily responsible for the supervision of all matters related to audit and finalization of financial accounts. (ii) Corporate Performance and Evaluation Committee – which is primarily responsible for recommending HR policies, succession planning of key management roles and monitoring key performance metrics.

Financial Transparency A. Aziz Chaudhury is the external auditors of the Company. They are not listed on any panel of auditors maintained by the State Bank of Pakistan but have satisfactory QCR ratings. The auditors expressed an unqualified opinion on the Company's annual financial statements for the year ended June 30, 2020.

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 enable the Company to carry out smooth operations.

Management Team The Company's Managing Director - Mr. Babar Jahangir – is one of the sons of Mr. Jahangir Saleem. Mr. Abdul Basit is the CFO of the Company – a Fellow Public Accountant and Fellow Cost and Management Accountant with an overall experience of ~22 years. The marketing team is led by the General Manager Marketing, who is also a textile engineer with more than 20 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 a 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. This report is used in the monthly meeting of the management.

Control Environment Intra-networking is being used within the Company to connect all departments are connected through 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 Textile Sector has depicted a decline of approximately 6.7% (USD value terms) in the exports from Feb 2021 to Jan 2021. Similarly, a YoY (Feb21 – Feb20) decline of 3% is observed in exports. Knitwear, readymade garments, bed wear, and towel segment combined have shown an almost 11.3% decline in Feb-21 from Jan-21. COVID-19 pandemic and related lockdown imposed by the governments around the globe in FY20 had its ramifications however Pakistani textile exports have been seen rebounding in 1HFY20. Excluding knitwear and yarn, all other segments recorded an incline in prices (USD terms) which is positive. However, the export outlook is likely to be affected due to the third wave of COVID-19 pandemic.

Relative Position Basfa Textile has a Brand-Based clientele. The final product is sold through an intermediary with no direct sales mechanism – following the industry norms. Traders are given a commission between 0.5% and 1% of the sales amount. Ninety percent (90%) of the customer base of Basfa Textile is in Faisalabad, Punjab.

Revenues Over the years the Company's revenue growth pattern has improved but it clocked slightly lesser in FY20 PKR 2.5bln (FY19: PKR 3bln) down by 16.5% YoY. The decrease in total revenue is primarily due to the impact of COVID-19 on the overall textile industry. The Company's major product is Viscose yarn and it has a yield of 98% in comparison to cotton yarn whose yield is 85%. The Company's primary source of revenue is from local sales and they contribute 99% of total sales. Revenue in 1HFY21 is PKR 1.3bln.

Margins Gross margins of the Company remained the same at 6.7% (FY19: 6.9%). Similarly, operating margins also stood the same at 5.6% in FY20 (FY19: 5.5%). The finance cost of the Company decreased to PKR 46mln (FY19: 62mln) due to lower short-term borrowings and net margins of the Company got improved to 2.2% in FY20 (FY19: 1.8%). Net profit of the Company also remained in the same line as previous years PKR 55mln in FY20 (FY19: PKR 56mln). Net profit in 1HFY21 is PKR 34mln and net margin is 2.5%.

Sustainability The Company has shifted its focus on viscose yarn completely and discontinued the production of other types of yarn. With the financial support schemes implemented by the Government, coupled with reduced policy rates by SBP. The Company availed the salary loan facility for two months and also purchased a new facility in Nankana sahib for spinning mill unit -2, PKR 1.4bln investment which consists of 40% from own source and 60% loan from a bank.

Financial Risk

Working Capital During FY20, the Company's working capital management has declined which is evident from increases in net working capital days (end-Jun20: 97 days end-Jun19: 77 days primarily due to increase in inventory days. The Company has arranged working capital lines of PKR 705mln out of which 47% has been utilized at the end – FY20. Additionally, STBs remained well covered when compared with total net current assets.

Coverages During FY20, the Company's cash flows (FCFO) declined on a YoY basis (FY20: 185mln, FY19: 208mln) due to a decrease in profitability but on the other hand, finance cost decreased to PKR 46mln in FY20 (FY19 PKR 62mln) due to which interest coverage ratio has improved (FY20: 4.2x; FY19: 3.5x) and debt coverage ratio has also improved (FY20: 4.2x, FY19: 3.5x), respectively.

Capitalization Basfa has a low leveraged capital structure, which is declined during the year (end-Jun20: 25%, end Jun19: 33%) due to a decrease in short-term borrowings to stand at PKR 336mln in FY20 (FY19: PKR 467mln). The total debt comprises of 100% of Short-term borrowings. Leveraging in 1HFY21 is 32.5%.



Basfa Textile (Private) Limited Textile	Dec-20 6M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	807	707	671	665
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	831	785	866	745
<i>a Inventories</i>	592	604	620	549
<i>b Trade Receivables</i>	17	-	75	55
5 Total Assets	1,638	1,492	1,537	1,410
6 Current Liabilities	66	111	97	61
<i>a Trade Payables</i>	9	23	6	10
7 Borrowings	506	336	467	446
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	14	27	22	7
10 Net Assets	1,052	1,018	951	896
11 Shareholders' Equity	1,052	1,018	951	896
B INCOME STATEMENT				
1 Sales	1,370	2,542	3,046	2,722
<i>a Cost of Good Sold</i>	(1,270)	(2,372)	(2,834)	(2,552)
2 Gross Profit	99	170	211	170
<i>a Operating Expenses</i>	(20)	(28)	(44)	(53)
3 Operating Profit	80	141	167	117
<i>a Non Operating Income or (Expense)</i>	(3)	(5)	(6)	(3)
4 Profit or (Loss) before Interest and Tax	77	136	162	114
<i>a Total Finance Cost</i>	(19)	(46)	(62)	(41)
<i>b Taxation</i>	(24)	(35)	(43)	(27)
6 Net Income Or (Loss)	34	55	56	46
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	93	185	208	208
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	66	139	154	169
<i>c Changes in Working Capital</i>	(68)	76	(81)	(1)
1 Net Cash provided by Operating Activities	(2)	216	73	169
2 Net Cash (Used in) or Available From Investing Activities	(125)	(35)	(98)	(144)
3 Net Cash (Used in) or Available From Financing Activities	170	(128)	22	(4)
4 Net Cash generated or (Used) during the period	43	52	(3)	21
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	7.8%	-16.6%	11.9%	6.5%
<i>b Gross Profit Margin</i>	7.3%	6.7%	6.9%	6.2%
<i>c Net Profit Margin</i>	2.5%	2.2%	1.8%	1.7%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	1.8%	10.3%	4.2%	7.6%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	6.8%	5.3%	6.2%	5.1%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	82	99	78	82
<i>b Net Working Capital (Average Days)</i>	80	97	77	79
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	12.7	7.1	8.9	12.3
3 Coverages				
<i>a EBITDA / Finance Cost</i>	6.9	5.3	4.3	5.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	5.4	4.2	3.5	2.7
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.0	0.0	0.0	0.2
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	32.5%	24.8%	32.9%	33.3%
<i>b Interest or Markup Payable (Days)</i>	0.0	95.0	222.7	174.3
<i>c Entity Average Borrowing Rate</i>	8.2%	11.0%	12.0%	9.5%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
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+	
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-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(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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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.
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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)
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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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