The Pakistan Credit Rating Agency Limited

Rating Report

M.Y. Bari Mills (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
06-Aug-2020	BBB	A2	Stable	Maintain	-
09-Aug-2019	BBB	A2	Stable	Maintain	-
14-Feb-2019	BBB	A2	Stable	Upgrade	-
31-Dec-2018	BBB-	A3	Stable	Upgrade	-
27-Jun-2018	BB+	A3	Stable	Maintain	-
29-Dec-2017	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Bari Mills is a family owned small scale private company operated by a seasoned business family of Karachi. The Company is primarily an export oriented, towel manufacturing concern. Overall export volumes of towel industry declined by ~10% in FY20 on YoY basis owing to COVID-19 outbreak in early 2020 and subsequent lockdowns in major export destinations (Europe & USA). Domestic players had to shut down production or remained partially operational during lockdown in 4QFY20 as per Government directives. Resultantly, the industry is facing challenges including low demand, build-up of inventory and receivables and lower capacity utilization. Towel industry enjoys relatively better margins that are reflected in the MY Bari's profitability on the back of Pakistan's cotton, which is more suitable for manufacturing towels. However, margins have come under pressure recently owing to increasing input costs. The revenues are expected to remain low due to COVID outbreak and its impact on demand in 4QFY20. The situation has improved to an extent as orders are now being delivered and gradual improvement is seen in international markets after opening of Europe & USA. However, this could be disrupted by second wave of COVID or prolonged slowdown. On standalone basis, the Company’s concentration levels – both customer and geographical – are high with majority of company revenues (~46%) emanates from a single customer. The recent reduction in interest rates and higher portion of SBP's refinance schemes’ borrowings in overall financing mix will lower financial charges, going forward. Bari Mills continues to maintain a moderately leveraged capital structure. Although the working capital cycle of the Company has lengthened recently due to delay of orders, its working capital management remains strong with cushion at trade level available with strong coverages. Going forward, in absence of any further debt-driven expansion in the medium-term, financial profile is expected to further improve.

The ratings are dependent on maintaining optimal operations and top-line amidst prevailing tough conditions. Sustaining margins and reducing customer concentration, while maintaining financial risk at low level is critical. 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 Ratings(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Towel(Jan-20)
Rating Analysts	Ateeb Riaz | ateeb.riaz@pacra.com | +92-42-35869504

Profile

Legal Structure M.Y. Bari Mills (Pvt.) Limited (Bari Mills or 'the Company') was incorporated in 2012 as a private limited company.

Background Bari family is in textile industry for more than 6 decades. Previously, the family was ony involved in trading of yarn. However, with passage of time the family increased its business and started production of towel.

Operations Primary business of the Company is to manufacture and export towels. It exports its products to leading retailers, hospitality and healthcare industries across the world, primarily to USA, Germany, Norway and Sweden. Bari Mills has an integrated and modern setup including, weaving, and finishing, all under one roof. The Company has safely found its niche in the textile world with the addition of extensive new machinery in its wing, including Jacquard and Airjet looms, processing range and automatic stitching. Bari Mills has a capacity of 132 looms, including high speed air-jet 48 looms, semi auto 54 looms, jacquard and dobby 30 looms.

Ownership

Ownership Structure Bari Mills is owned by Bari family. Mr. Haroon Bari owns 20% stake in the Company, while rest of the shareholding (16%) is equally split between his five sons.

Stability Although there is no formal succession plan, the ownership of shares and business roles are equally divided between all the five brothers. Formation of a group holding company or documented succession plan would do well to secure the future of the company.

Business Acumen Bari family is involved in textile business for decades. The growth of the Company over the years reflect strong business acumen of the sponsors.

Financial Strength Overall, the group has revenue of ~6.1bln and is categorized as one of the major towel exporters of the country. The sponsors have the financial muscle and shown willingness to support the Company, if needed.

Governance

Board Structure The board comprises six members, all represent Bari family. The board is chaired by Mr. Haroon Bari. There is room for improvement at board level, through induction of more board members, including independent directors.

Members' Profile Mr. Haroon Bari is the Chairman of the Company and brings ~46 years of experience on the board. The board takes his valuable advice in time of need. Mr. Nabeel, Mr. Adeel, Mr. Osama, Mr. Mustafa and Mr. Waqas, sons of Mr. Haroon Bari, serve as directors on the board. They all have been associated with the Company for fairly long time period.

Board Effectiveness The board has formed three committees, namely i) Audit Committee (BAC), ii) Human Resources and Remuneration Committee (HR&RC), and iii) Board Management Committee (BMC). However, the effectiveness of the board is being compromised as it is dominated by the sponsoring family. Meetings are held on scheduled basis on the routine matters. Additionally meetings are convened on "as and when required basis". There is no formal policy of recording board minutes.

Financial Transparency Parker Randall-A.J.S., Chartered Accountants, 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, 2019. The firm is QCR rated by ICAP and is classified in category 'B' in the panel of auditors maintained by SBP.

Management

Organizational Structure The Chairman along with his five sons are actively involved in the day to day operations. The Company's management structure is divided into functional departments with clear lines of responsibility. Management team is headed by Mr. Nabeel Haroon Bari (CEO) and all directors are directly reportable to him.

Management Team Mr. Nabeel Haroon Bari is a graduate from UK in the field of commerce and has an overall working experience of ~20 years with this Company. Mr. Osama Haroon Bari looks after the finance side of the business and holds the position of Director Finance. Mr. Mustafa Haroon Bari and Mr. Waqas Harron Bari are Marketing Directors. Whereas, Mr. Adeel Haroon Bari holds the position of Director Admin and Compliance.

Effectiveness The Company has an informal structure of management committees to coordinate the Company's activities. Meetings among management are called when deemed fit and are participated in by relevant department heads. However, the management effectiveness can be improved by formalizing the management committee.

MIS Bari Mills is currently using dotNET based ERP system and is in the process of installing a better version of dotNET based ERP – ASP. The Company's MIS can be classified into three categories on the basis of periodicity – Daily, Weekly and Monthly. Regular MIS reports are submitted to top management relating to liquidity and profitability profile of the Company.

Control Environment Bari Mills is accredited with various International certifications. The Company holds certifications 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

Industry Dynamics During FY20, towels export declined by ~10% YoY and clocked in at ~USD 711mln (FY19: ~USD 786mln), owing to COVID-19 outbreak in early 2020 which has impacted the entire textile industry's exports. Export orders had been postponed or cancelled as the USA and Europe (major towel export destinations) were in lock-down to contain the virus. Several domestic players were either closed or partially operational during countrywide lock-down in 4QFY20 due to supply chain disruption and labor issues despite exemption from restrictions. Resultantly, the industry faced challenges including build-up of inventory, higher receivables and lower capacity utilization. However, post June, demand for towels is rebounding slowly as buyers/stores replenish their inventories. The recent partial reopening of export markets is a positive sign but it will take time for demand to gain traction.

Relative Position The Company has an adequate position among towel exporters as it has ~2% market share in the Pakistan's total towel exports. Feroze 1888 is considered as the market leader in the towel industry with ~27% share.

Revenues The Company derives its revenue mainly by manufacturing towels. The revenue of the Company is export oriented as major revenue comes from exports, accounting for ~99% of total revenue in 9MFY20 (9MFY19: 100%). USA is the main region for exports, followed by Europe. During 9MFY20, the Company's topline clocked in at ~PKR 1,502mln (9MFY19: ~PKR 1,718), depicting a decline of 13%. The decrease in revenue emanated from lower volumetric sales by ~23%.

Margins During 9MFY20, gross margin remained stable at ~16% (9MFY19: ~16%), owing to better control over input cost. However, operating margins deteriorated to ~ 11% (9MFY19: ~13%) due to higher operating costs. Although the finance cost declined to ~PKR 37mln (9MFY19 ~PKR 53mln), the net profit margin suffered and stood at ~8% (9MFY19: 13%) due to lower exchange gain in current year (9MFY20: ~PKR 16mln, 9MFY19: ~PKR 114mln).

Sustainability Due to COVID-19 outbreak and subsequent lockdown, the Company's operations remained shut for few days but resumed partial operations afterwards. The Company being an export-oriented entity was impacted as its demand from export destinations (USA and Europe) have gone down. However, the sales have recovered since late June/early July after gradual opening up of USA (Company's major export destination). Further, State Bank of Pakistan's scheme of deferral of principal repayment for one year will ease pressure on cashflows.

Financial Risk

Working Capital During 9MFY20, gross working capital days of the Company increased to 174 days (9MFY19: 163 days) due to higher inventory days. However, working capital days of the Company are in-line with the industry average. Moreover, the Company had a short-term trade leverage of ~34% (9MFY19: ~22%), showing ample room against working capital.

Coverages During 9MFY20, the Company's free cashflows deteriorated to ~PKR 268mln (9MFY19: ~PKR 371mln), owing to lower profitability. Meanwhile, finance cost declined to ~PKR 37mln (9MFY19: ~PKR 53mln), as the Company has shifted all borrowings to subsidized financing from SBP. In 9MFY20, the interest coverage ratio remained strong at 7.2x (9MFY19: 7.0x) while debt coverage ratio declined to 1.9x (9MFY19: 3.0x) due to increase in current maturity of long-term borrowings (9MFY20: ~PKR 142mln, 9MFY19: ~PKR 92mln). However, the coverages of the Company are still considered strong.

Capitalization Bari Mills maintains a moderately leveraged capital structure. During 9MFY20, the leveraging stood at ~51% (9MFY19: ~52%). Short term borrowings made up ~49% (9MFY19: ~61%) of the total borrowings. 100% of Company's borrowings have been availed at the SBP's concessionary rates. Going forward, with no major expansion plans in sight, leveraging is expected to remain at the same level.

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Financial Summary
PKR mln

M.Y. Bari Mills (Pvt) Limited Towel	Mar-20 9M	Jun-19 12M	Jun-18 12M	Jun-17 12M
A BALANCE SHEET				
1 Non-Current Assets	1,044	881	681	569
2 Investments	70	70	8	3
3 Related Party Exposure	-	80	115	-
4 Current Assets	1,622	1,222	1,396	818
a Inventories	*752*	*555*	*385*	*561*
b Trade Receivables	*420*	*180*	*746*	*134*
5 Total Assets	2,735	2,253	2,199	1,389
6 Current Liabilities	540	383	376	287
a Trade Payables	*457*	*297*	*319*	*274*
7 Borrowings	1,046	945	1,164	678
8 Related Party Exposure	117	12	12	36
9 Non-Current Liabilities	7	5	3	3
10 Net Assets	1,024	907	644	386
11 Shareholders' Equity	1,024	907	644	386
B INCOME STATEMENT				
1 Sales	1,502	1,857	1,670	1,425
a Cost of Good Sold	*(1,256)*	*(1,525)*	*(1,332)*	*(1,142)*
2 Gross Profit	246	332	338	283
a Operating Expenses	(83)	(107)	(64)	(83)
3 Operating Profit	163	224	274	200
a Non Operating Income	*19*	*158*	*50*	*(2)*
4 Profit or (Loss) before Interest and Tax	182	382	324	198
a Total Finance Cost	*(53)*	*(93)*	*(54)*	*(48)*
b Taxation	*(13)*	*(26)*	*(11)*	*(14)*
6 Net Income Or (Loss)	117	263	258	136
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*268*	*318*	*383*	*262*
b Net Cash from Operating Activities before Working Capital Changes	*214*	*228*	*329*	*212*
c Changes in Working Capital	*(246)*	*655*	*(458)*	*(249)*
1 Net Cash provided by Operating Activities	(31)	883	(129)	(37)
2 Net Cash (Used in) or Available From Investing Activities	(259)	(378)	(158)	(457)
3 Net Cash (Used in) or Available From Financing Activities	100	(316)	419	477
4 Net Cash generated or (Used) during the period	(190)	188	132	(17)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	7.9%	11.2%	17.2%	43.9%
b Gross Profit Margin	16.4%	17.9%	20.2%	19.9%
c Net Profit Margin	7.8%	14.2%	15.5%	9.6%
d Cash Conversion Efficiency (EBITDA/Sales)	18.7%	18.6%	22.3%	19.4%
e Return on Equity (ROE)	16.1%	34.0%	50.2%	43.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	174	183	199	144
b Net Working Capital (Average Days)	105	123	135	81
c Current Ratio (Total Current Assets/Total Current Liabilities)	3.0	3.2	3.7	2.8
3 Coverages				
a EBITDA / Finance Cost	7.6	5.3	9.8	13.0
b FCFO / Finance Cost+CMLTB+Excess STB	1.9	1.9	3.3	4.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.7	1.8	1.0	1.3
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	50.7%	51.3%	64.6%	64.9%
b Short-Term Borrowings / Total Borrowings	0.5	0.5	0.7	0.6
c Average Borrowing Rate	4.9%	6.1%	4.0%	4.5%

Credit Rating

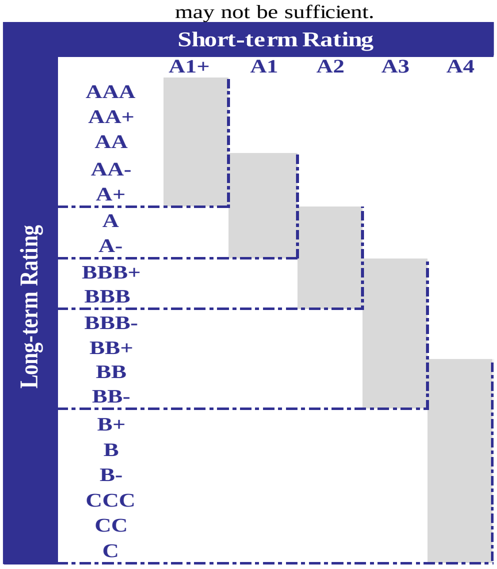
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities

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

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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.

(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 | 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)

Proprietary Information