The Pakistan Credit Rating Agency Limited

ENTITY RATINGS REPORT

M.Y. BARI MILLS (PVT.) LIMITED

ENTITY	RATING	OUTLOOK	ACTION	DATE
M.Y. Bari Mills (Pvt.) Limited	Long Term: BB+ Short Term: A3	Stable	Initial	29th December 2017

RATING RATIONALE

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 (44% increase in FY17). 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.

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M.Y. BARI MILLS (PVT.) LIMITED PROFILE	
Incorporated	2012
Major business lines	▪ Terry Towels, Jacquard Towel, Bath robes
Legal status	Private Company

INDUSTRY SNAPSHOT

- 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 — ADEQUATE

- 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 — ADEQUATE

- 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 — ADEQUATE

- 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 — ADEQUATE

- 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 — ADEQUATE

- 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.
- Despite increase in finance cost (FY17: 50mln, FY16: 33mln) operating margins also increased from 12.3% in FY16 to 14.1% in FY17. Bari Mills' net profit improved by 70% as compared to last year (FY17: 80mln, FY16: 136mln).

FINANCIAL RISK — ADEQUATE

- 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 business volume Bari Mills needed to borrow more to meet its working capital needs (FY17: 411mln, FY16: 185mln).
- As at end FY17, working capital requirements of the company increased due to advance to associated company. Net cash cycle decreased significantly due to better payment behavior of its customers despite increase in sales (FY17: 32days, FY16: 61days).
- Due to increase in its business volume and expansion it procured more debt in FY17 which caused the coverages to deteriorate. Though Interest coverages improved (FY17: 5.2x, FY16: 4.1x), Debt coverage declined (FY17: 3x, FY16: 4.1x) due to increase in current maturity of long term debt to be paid in FY18.
- Bari Mills have a leveraged capital structure (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	30-Jun-17	30-Jun-16	30-Jun-15
	FY	FY	FY
Non-Current Assets	**569**	**187**	**74**
Investments (Incl. Associates)	**3**	**1**	**-**
Equity	-	-	-
Loans to Associates/Debt Securities	3	1	-
Investment Property	-	-	-
Current Assets	**818**	**523**	**638**
Inventory	561	308	533
Trade Receivables	134	124	55
Others	124	90	50
Total Assets	**1,389**	**711**	**712**
Debt/Borrowings	**678**	**201**	**135**
Short-term	411	185	135
Long-term (Incl. Current Maturity of Long-Term Debt)	267	16	0
Other short-term liabilities	323	259	407
Other long-term liabilities	3	2	-
Shareholders' Equity	**386**	**249**	**169**
Total Liabilities & Equity	**1,389**	**711**	**712**

INCOME STATEMENT			
Turnover	**1,425**	**990**	**1,067**
Gross Profit	283	175	143
Net Other Income	0	(0)	9
Financial Charges	(50)	(33)	(25)
Net Income	**136**	**80**	**76**

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

Ratio Analysis			
Performance			
Turnover Growth (vs. SPLY)	44%	-7%	18%
Gross Margin	20%	18%	13%
Net Margin	10%	8%	7%
Coverages			
Interest Coverage (FCFO/Gross Interest)	5.2	4.1	4.4
Core: (FCFO) / (Gross Interest+CMLTD+Uncovered Total STB)	3.0	4.1	4.4
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	3.0	4.1	4.4
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest)	1.3	0.2	0.0
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	106.3	77.9	67.4
Capital Structure (Total Debt/Total Debt+Equity)	64%	45%	44%

CREDIT RATING
SCALE & DEFINITIONS

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 RATINGS

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 RATINGS

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.

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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information

Regulatory and Supplementary Disclosure

Name of Rated Entity	M.Y Bari Mills (Pvt.) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment

Related Criteria and Research

Rating Methodology	Corporate Rating Methodology
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com (92-42-35869504)
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Rating Team Statement

Rating Procedure
Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

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