



The Pakistan Credit Rating Agency Limited

ENTITY RATINGS REPORT

BASFA TEXTILE (PVT) LTD

ENTITY	RATING	OUTLOOK	ACTION	DATE
Basfa Textile (Pvt) Ltd	Long Term: BBB- Short Term: A3	Stable	Initial	29 th December, 2017

RATING RATIONALE

The ratings reflect adequate business profile of Basfa Textile (Pvt) Ltd. The company is engaged in the manufacturing and sale of Viscos Yarn – a premium quality yarn and different varieties of cotton yarn. Sponsor’s primary business interest is in car paint and chemical raisins. However, their most recent investment was in textile sector i.e. Basfa Textile. Textile industry in general and spinning industry in particular continues to suffer from low international commodity prices and high cost of doing business in Pakistan. Meanwhile, despite the announcement of export incentives by the state, materialization of the same is low. Consequently, performance volatility, featured by cotton price fluctuations, is considered high on standalone basis. Company has successfully created it niche market in viscose yarn, which provided stability to the margins, boded well with the overall profitability. Company has minimal long-term debt which keeps the financial risk profile at low level. Efficient working capital management and sustained cashflows, in turn healthy coverages keep the financial risk profile sound. However, governance framework and financial transparency needs improvement.

The ratings are dependent on sustaining business margins in viscose yarn while maintaining financial risk at low level. Uplifting of financial risk profile via improved core coverages would be ratings positive. At the same time, prudent management of short-term liquidity is considered important.

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BASFA TEXTILE (PVT) LTD - PROFILE	
Incorporated	2006
Major business lines	Manufacturing and sale of Yarn
Legal status	Non-Listed
Head office	20-Km Ferozpur Road, Lahore
Plant Location	40-Km Ferozpur Road, Lahore
Number of Plants	1 Manufacturing Unit

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 spinning sector continues to suffer and continues to witness suppressed margins • High cotton prices and ban on import of cotton from India have hampered growth and margins of the spinning sector.

OWNERSHIP
GOOD

- Basfa Textile (Pvt.) Ltd, incorporated in 2006, however, the commercial operations were started in 2008. The company is engaged in the manufacturing and sale of Viscos Yarn – a premium quality yarn and different varieties of cotton yarn.
- The CEO/Chairman, along with other family members collectively own (100%) shares of the company. The corporate office of the company is located at 20-KM Ferozpur Road, Lahore, whereas, vicinity of the plant is at 36-KM Ferozpur Road, Lahore.
- Mr. Jahangir Saleem, is the chairman and founder of the company. 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.

GOVERNANCE
NEEDS IMPROVEMENT

- The board is mostly dominated by sponsored family. The overall control of the company vests in two members including the CEO – Mr. Jahangir Saleem and MD – Mr. Babar Jahangir.
- Mr. Jahangir Saleem is the chairman of the board who has diverse experience in the field of textile sector, bringing specialized and comprehensive experience and knowledge on the board.
- A.Aziz Chaudhury is external auditors of the company. They expressed an unqualified opinion on the company's annual financial statements for the year ended June 30, 2017.

MANAGEMENT
ADEQUATE

- Management of the group comprises qualified and experienced professionals with a wide range of skills related and diversified experience. .
- The company's managing director - Mr. Babar Jahangir – is one of the sons of Mr. Jahangir Saleem. He has completed his graduation from United Kingdom. The company has a well-defined organizational structure with the MD reporting to CEO, while department heads are reportable to MD.
- The organizational structure of the company is divided into various functional departments: (i) Marketing, (ii) Finance, (iii) Accounts, (iv) Procurement, (v) Technical operations. The management hierarchy including various levels, enables the company to carry out smooth operations.
- Mr. Abdul Basit is the CFO of the company – a fellow public accountant and Fellow Cost and Management Accountant with overall experience of ~22 years in his portfolio.

SYSTEM & CONTROLS
NEEDS IMPROVEMENT

- Basfa Textile maintains adequate IT infrastructure and related controls. The company deploys Quick Books – Accounting edition - since 2016 with the license of ~10 corporate user. Comprehensive MIS reports are generated on daily and monthly basis.
- Intra-networking is being used within the company so that all the 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 to make the functions smooth and sound. .
- The company generates regular MIS reports on daily and monthly basis for senior management. The reports primarily include cotton procurement details, production, inventory status report, receivables and payables position, sales, and monthly financial statements.

BUSINESS RISK
ADEQUATE

- Over the years the company's revenue growth pattern has improved significantly. During FY17, the company's topline has grown up by ~62% YoY.
- During FY17, company's cost of sales increased (~64%) – more than proportionate increase - which is majorly contributed with cost of raw material – pitched in 81% to the total cost of goods sold. Resultantly, gross margins of the company have squeezed YoY basis (FY17: 6.7%, FY16: 7.6%).
- During the period, finance cost of the company largely maintained at the same level (FY17: PKR 25.8mln, FY16: 25.1mln). During FY17, due to increase in operating expenses, net profit margins have squeezed slightly (FY17: 2.3%, FY16: 2.6%).
- Basfa Textile achieved capacity utilization of 93% during FY17 (FY16: 82%, FY15: 86%) and no further expansion is envisaged in near future.
- Going forward, the management is focused on widening the market share in the local market owing to increasing demand while reducing its concentration in export sales segment.

FINANCIAL RISK
GOOD

- Over the years, company's working capital management has improved which is evident from continuous reduction in net working capital days (end-Jun17: 72 days, end-Jun16: 81 days). However, use of excess short term borrowings (STBs) in comparison to previous periods have been observed (FY17: PKR 416mln; FY16: PKR 264mln).
- The Company's cash flows remain a function of its profitability. During FY17, the company's cash flows (FCFO) increased on a YoY basis (FY17: 185mln, FY16: 125mln) owing to improved profitability, culminating sound coverages.
- Basfa has moderately leveraged capital structure (end-Jun17: ~35%, end Jun16: ~29%). Out of the total debt 8% of the debt comprises of long-term borrowings, whereas 92% of the debt encompasses short-term borrowings.
- Going forward, in absence of any major capacity expansion, and with the gradual payments of long-term loans, the leveraging is expected to reduce over time.



Basfa Textile (Pvt) Ltd

BALANCE SHEET	30-Jun-17	30-Jun-16	PKR mln 30-Jun-15
	FY17	FY16	FY15
Non-Current Assets	617	589	584
Investments (incl. Associates)	-	-	-
Equity	-	-	-
Debt Securities (incl. income funds)	-	-	-
Current Assets	778	562	397
Trade Receivables	51	47	17
Others	165	126	107
Total Assets	1,395	1,150	981
Debt/Borrowings	451	315	152
Short-Term	417	264	83
Long-Term (incl. Current Maturity of Long-Term Debt)	34	51	69
Other Short-Term Liabilities	76	45	79
Other Long-Term Liabilities	18	-	-
Shareholder's Equity	850	790	750
Total Liabilities & Equity	1,395	1,150	981

Cash Flow Statement

Free Cash Flows from Operations (FCFO)	185	125	134
Net Cash changes in Working Capital	(178)	(200)	65
Net Cash from Operating Activities	(18)	(100)	171
Net Cash from Investing Activities	(121)	(69)	8
Net Cash from Financing Activities	136	163	(165)
Net Cash generated during the period	(4)	(5)	14

Ratio Analysis

Performance

Turnover Growth (v.s same period last year)	62.3%	13.1%	-3.5%
Gross Margin	6.7%	7.6%	7.5%
Net Margin	2.3%	2.6%	2.9%
ROE	7.3%	5.3%	5.4%

Coverages

Debt Service Coverage (times) (FCFO/Gross Interest+CMLTD+Uncovered STB)	4.5	2.2	2.3
Interest Coverage (times) (FCFO/Gross Interest)	7.2	5.0	4.6
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO - Gross Interest)	0.2	0.5	0.7

Liquidity

Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	72	81	71
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Leveraging (Total Debt/Total Debt+Equity)*	34.7%	28.5%	16.8%
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*Total Debt = Long-Term Debt + Short-Term Debt

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		SHORT TERM RATINGS
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
AA+	Very high credit quality. Very low expectation of credit risk.	
AA	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
AA-		
A+	High credit quality. Low expectation of credit risk.	
A	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+	Good credit quality. Currently a low expectation of credit risk.	
BBB	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.	
BB	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-		
B+	High credit risk.	
B	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	Very high credit risk. Substantial credit risk	
CC	“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.	

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 surveil the opinion due to lack of requisite information

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Name of Issuer
Sector
Type of Relationship

Basfa Textile (Pvt) Ltd
 Textile
 Solicited

Purpose of the Rating

Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
29-Dec-17	BBB-	A3	Stable	Initial

Related Criteria and Research

Rating Methodology
 Sector Research

Corporate Rating Methodology
 Textile Sector Overview - 2017

Rating Analysts

Hamza Ghalib hamza.ghalib@pacra.com (92-42-35869504)	Rai Umar rai.umar@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.

[Disclaimer](#)

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PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

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[Probability of Default \(PD\)](#)

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