



The Pakistan Credit Rating Agency Limited

Rating Report

M.Y. Bari Mills (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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

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. Currency devaluation has boded well with export oriented textile companies. Whereas, 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 (~62%) 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 by 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, reducing customer concentration and maintaining financial risk at low level. 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-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Textile(Oct-18)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

Profile

Legal Structure M.Y. Bari Mills (Pvt.) Limited (Bari Mills) was incorporated in 2012 as a private limited company. Primary business of the company is to manufacture and export all sort of textile products specially towels.

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

Operations Bari Mills is a, home textiles company that has as a renowned name in Pakistan and on international level. It exports bath products to leading retailers, hospitality and healthcare industries across the world, primarily to the USA, Poland, Norway, U.K and Sweden. Bari Mills is a highly integrated and modern setup delivering complete vertical solutions, including weaving and finishing solutions, all under one roof.

Ownership

Ownership Structure MY bari is owned by Bari family. Mr. Haroon Bari owns 20% of the stake with his sons having 16% each stake. Bari Family also owns a partnership concern engaged in towel business.

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

Business Acumen Mr. Haroon Bari is the chairman of the Company and has over 45 years of experience. He as an association with this family business since inception.

Financial Strength Overall the group has revenue of ~4bln being 4th biggest towel exporter of the country. So the sponsors can provide timely support to the entity in rough periods.

Governance

Board Structure Bari Mills is a private limited company and partially comply with code of corporate governance. The board is dominated by Bari Family members. There are total 5 board members with Mr. Haroon Bari as chairman. There is no independent director on the board.

Members' Profile Mr. Haroon Bari is the chairman of the Company and brings 45 years of experience on board. The board takes his valuable advice in time of need which helps the company to stay on the right track. Nabeel, Adeel, Osama and Waqas are sons of Mr. Haroon Bari as directors on board and they all have Bachelor's degree in the field of commerce.

Board Effectiveness The board has formed three committees (i) Board 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 due to several reasons like the size of the board is too small and is dominated by the sponsoring family. Secondly, board meetings are being held on scheduled basis on the routine matters like review of quarterly accounts, in addition to "as and when basis". There is no set pattern or record of minutes of meetings held or agenda based meetings.

Financial Transparency Parker Randall-A.J.S. Chartered Accountants are the external auditors of the company. They fall in category-B in SBP's panel of auditors. They expressed an unqualified opinion on the company's annual financial statements for the year ended June 30, 2018.

Management

Organizational Structure Chairman – Mr. Haroon Bari along with his five sons are actively involved in the day to day operations of the company. However, Mr. Nabeel Haroon Bari – CEO leads the management team. Waqas Bari and Mustafa Bari leads the marketing function in Europe and USA. Whereas, Mr. Adeel Haroon Bari looks after administration and compliance.

Management Team Mr. Nabeel Haroon Bari is the CEO of MY Bari and is a graduate from UK in the field of commerce, he has an overall working experience of 17 years with this company. Osama Haroon Bari looks after the finance side of the business and holds the position of Director Finance in the Company. Whereas, Mustafa Haroon Bari and Waqas Haroon Bari are Marketing Directors.

Effectiveness 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.

MIS The Company's MIS can be classified into three categories on the basis of periodicity – Daily, Weekly and Monthly. The daily and weekly reports generated for top management mainly scrutinizes liquidity position and many cash related reports.

Control Environment 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

Industry Dynamics Textile exports of the country grew by ~9% in FY18 backed by devaluation of the rupee, bailout package from the government and GSP Plus Scheme of the EU. This growth was led mainly by the value added segment, including knitwear, towels, home textile and ready-made garments. Recent re-imposition of custom duty and sales tax on cotton imports in FY19 budget may put pressure on industry margins.

Relative Position Total textile exports of Pakistan FY18 were recorded at ~PKR 1,488bln out of which towels contributed ~PKR 87.6bln, taking ~6% share in total textile exports of Pakistan by selling 205,593MT of towels. On standalone basis MY Bari in FY18 was able to export towels of worth 1.7bln, only capturing 2% market share. Whereas, on group level the market share rises to ~5%.

Revenues Over the years Company's revenue growth pattern has improved significantly. During FY18, the Company's topline clocked-in at ~PKR 1,670mln (FY17: PKR 1,425mln) up by ~17% on YoY basis. Revenues of the company majorly come from export sales to USA region and then followed by Poland, Norway, UK and Sweden.

Margins During FY18 Company's cost of sales increased by almost 16.5%. Whereas, weaving and dyeing charges decreased by ~25% to PKR ~78.70mln (FY17: 105mln). Secondly, fuel and power cost also increased by ~40%. The gross margin of the company remained unchanged at 20%. Whereas, there was a significant decrease in operating expenses by ~16% mainly on account of reduction in selling and marketing expenses. Net margin of the Company jumped to ~15.5% (FY17: 9.6%) mainly on account of exchange gains of PKR ~60mln. Finance cost of the company stood at PKR 55mln (FY17: PKR 48mln) an increase of 14%.

Sustainability Since it has expanded its expansion facilities by erecting a weaving production factory, its revenues has increased by ~17% in FY18 to PKR 1,670 (FY17: 1,425mln, FY16: 990mln). It projects to further increase its revenues to PKR 1,800 by FY19. M.Y. Bari further plans to achieve the revenue mark of PKR 2000mln in the near future.

Financial Risk

Working Capital Working capital days of the Company increased massively to 171 (FY17: 106, FY16: 78). Trade receivables skyrocketed to PKR ~746mln (FY17: PKR 133.5mln) as trade debts were kept open to get the full impact of rupee depreciation.

Coverages In FY18, Bari Mill's operating cashflows (FCFO) improved by ~39% (FY18: 383mln, FY17: 276mln, FY16:146mln) on the back of increased revenues and better margins post expansion. Due to increase in its business volume and expansion, more debt in FY18 was loaded which caused the debt coverages to deteriorate. Though Interest coverages improved (FY18: 6.8x, FY17: 5.8x), Debt coverage declined (FY18: 2.5x, FY17: 3.1x) due to increase in current maturity of long term debt to be paid in FY19.

Capitalization Historically, Bari Mills rely on long term debt and internal cashflow for expansion. For its expansion purpose it has procured long term debt of PKR ~240mln. However, majority of its debt is short term which constitutes 71% of its total debt. Bari Mills have a leveraged capital structure (FY18: 65.2%, FY17: 63.7%) because of being in an expansion mode.



M.Y BARI MILLS (PVT.) LTD

BALANCE SHEET	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
	FY	FY	FY	FY
Non-Current Assets	680	683	569	187
Investments (Incl. Associates)	158	123	3	1
Equity	8	8	-	-
Loans to Associates/Debt Securities	150	115	3	1
Investment Property	-	-	-	-
Current Assets	1,452	1,393	818	523
Inventory	291	385	561	308
Trade Receivables	929	746	134	124
Others	232	262	124	90
Total Assets	2,290	2,199	1,389	711
Debt/Borrowings	1,305	1,261	678	201
Short-term	986	927	411	185
Long-term (Incl. Current Maturity of Long-Term Debt)	318	334	267	16
Other short-term liabilities	218	291	323	259
Other long-term liabilities	3	3	3	2
Shareholders' Equity	765	644	386	249
Total Liabilities & Equity	2,290	2,199	1,389	711

INCOME STATEMENT

Turnover	774	1,670	1,425	990
Gross Profit	143	337	283	175
Net Other Income	46	50	(2)	(0)
Financial Charges	(22)	(55)	(48)	(33)
Net Income	127	258	137	80

Cashflow Statement

Free Cash Flow from Operations (FCFO)	171	369	262	137
Net Cash changes in Working Capital	(271)	(426)	(249)	(24)
Net Cash from Operating Activities	(129)	(121)	(37)	80
Net Cash from Investing Activities	(15)	(167)	(457)	(136)
Net Cash from Financing Activities	43	420	476	66

Ratio Analysis

Performance				
Turnover Growth (vs. SPLY)	18%	17%	44%	-7%
Gross Margin	18%	20%	20%	18%
Net Margin	16%	15%	10%	8%
Coverages				
Interest Coverage (FCFO/Gross Interest)	7.3	7.0	5.5	4.1
Core: (FCFO) / (Gross Interest+CMLTD+Uncovered Total STB)	3.8	2.9	3.1	4.1
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	3.8	2.9	3.1	4.1
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest)	2.2	1.0	1.2	0.2
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	142.9	177.5	106.3	77.9
Capital Structure (Total Debt/Total Debt+Equity)				
	63%	65%	64%	45%

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	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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.

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

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

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- (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.
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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)
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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)
- (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)

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- (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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