



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
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

The ratings of M.Y. Bari Mills (Pvt.) Limited (Bari Mills) reflect its improving business profile emanating from growth in revenues and profitability. 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. Bari Mills is in the process of expanding its manufacturing facilities which is proving key driver in increase in revenues. Further, currency devaluation has boded well for the Company. Whereas, towel and denim industry continues to surge forward on the back of Pakistan's cotton which is more suitable for coarse counts yarn. The Company enjoys strong margins in line with its peers. On standalone basis, the Company's concentration levels – both customer and geographical – are high with majority of company revenues (~62%) emanates from a single customer. However, the ratings comfort from the Bari group's overall customer base and recent diversification in customers. The Company has a 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 further improve.

The ratings are dependent on sustaining growth in revenues and profitability. 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	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Criteria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Towel(Jul-19)
Rating Analysts	Ateeb Riaz ateeb.riaz@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 textile products, especially 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 towels.

Operations Bari Mills is a home textiles company that has an established name in towel exports. 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 has an integrated and modern setup delivering complete vertical solutions, including weaving and finishing solutions, all under one roof.

Ownership

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

Stability Although there is no formal succession plan, the ownership of shares and business roles are equally divided among 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 Mr. Haroon Bari is the Chairman of the Company and has over 45 years of experience. He has been association with the family business since inception.

Financial Strength Overall, the group has revenue of ~PKR 4.2bln and is categorized as one of the biggest towel exporters of the country. It is expected that Sponsors would provide timely support to the entity, if needed.

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. The Board comprises five members with Mr. Haroon Bari as the 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 the board. The board takes his valuable advice in time of need. Mr. Nabeel, Mr. Adeel, Mr. Osama, Mr. Mustafa and Mr. Waqas are sons of Mr. Haroon Bari serve as directors on the board. They all have Bachelor's degree in the field of commerce.

Board Effectiveness The board has formed three committees, namely 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 as it is dominated by the sponsoring family. Board meetings are being held on scheduled basis on the routine matters (like review of quarterly accounts). Additionally meetings are convened on "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 The 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) heads the management team. Marketing Directors (Mr. Mustafa and Mr. Waqas), Director Finance (Mr. Osama) and Director Admin and Compliance (Mr. Adeel) all report to Mr. Nabeel directly.

Management Team Mr. Nabeel Haroon Bari is a graduate from UK in the field of commerce and has an overall working experience of ~17 years with this Company. Mr. Osama Haroon Bari looks after the finance side of the business and holds the position of Director Finance in the Company. Whereas, Mr. Mustafa Haroon Bari and Mr. 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 cash related reports.

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 Towel segment, in terms of quantity exported, grew by ~4% in FY18. During this period, ~205,000 MT of towels were exported (FY17: ~197,000 MT), whereas, the value of towel exports in FY18 clocked in at ~USD 780mln (FY17: ~USD 801mln), with a negative change of ~0.3%. In 1HFY19, towel segment exports further declined in terms of quantity and value. The quantity exported in 1HFY19 was ~93,000 MT (1HFY18: ~103,000) portraying a decline of ~10%. Whereas, the value of towel exports declined by ~2%, during 1HFY19 and clocked in at ~USD 378mln (FY17: ~USD 386mln).

Relative Position Bari Mills belongs to the leading pack of towel exporters of Pakistan with the total market share of ~2%. On the group level the market share rises to ~5%.

Revenues Bari Mills' top line is mainly export driven. The Company's top line has continued its growth trend during the 9MFY19. The Company's top line clocked in at ~PKR 1,718mln during 9MFY19 (9MFY18: PKR 1,024mln), showing a YoY growth of ~68%. However, the major growth driver of top line in depreciation of rupee. Major export destinations of the Company's products are USA, Poland, Norway, UK and Sweden.

Margins During FY18, the gross margins stood at ~20% but during 9MFY19 the gross margins decreased to ~16% due to increased cost of sales, as the Company had to bear higher cost on the purchases of raw material (primarily yarn). Net profit margin also dropped to ~13% in 9MFY19 (FY18: ~15.5%), mainly on the back of declining gross margins and higher finance cost. The finance cost of the Company during 9HFY19 increased to ~PKR 75mln (FY18: PKR 55mln). However, the bottom-line of the Company is supported by significant exchange gain realized during the period on trade debtors (9MFY19: ~PKR 100mln, FY18: PKR 60mln), which helped the Company to close its bottom line at ~PKR 227mln.

Sustainability The Company regularly incur capital expenditure to expand its production facilities and diversify its product offerings. The Company has recently erected a weaving production unit and installed state of the art looms. In addition, Bari Mills is further projecting to increase revenues in the coming years by adding more looms to the weaving production facility and by tapping unconventional markets to avail government incentives.

Financial Risk

Working Capital During 9MFY19, net working capital days decreased significantly to 109days (FY18: 134days) on the back of decreased trade debtors, as the management realized its position on trade debtors after depreciation of rupee, and reduction in inventory days (9MFY19: 71days, FY18: 103days).

Coverages During 9MFY19, the FCFO of the Company stood at ~PKR 397mln (FY18: PKR 383mln) due to higher profitability of the Company. However the interest coverage ratio declined to 5.3x (FY18: 10x) due to higher finance cost (9MFY19: PKR 75mln, FY18: PKR 55mln). The debt coverage ratio also deteriorated and stood at 2.7x during 9MFY19 (FY18: 3.3x) on the back of increased CMLTD (9MFY19: PKR 92mln, FY18: PKR 77mln).

Capitalization The Company's capital structure is moderately leveraged (9MFY19: ~51%, FY18: ~65%). The leveraging of the Company decreased because of significant repayment of short-term borrowings during the period, which were previously utilized to finance the elevated trade debtors. The Company's debt mix mainly comprise of short-term debt (~61%).



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

M.Y. Bari Mills (Private) Limited Towel	Mar-19 9M	Jun-18 12M	Jun-17 12M	Jun-16 12M
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A BALANCE SHEET

1 Non-Current Assets	700	680	569	187
2 Investments	-	-	-	-
3 Related Party Exposure	241	8	3	1
4 Current Assets	1,251	1,511	818	523
<i>a Inventories</i>	510	385	561	308
<i>b Trade Receivables</i>	399	746	134	124
5 Total Assets	2,191	2,198	1,389	711
6 Current Liabilities	392	381	287	223
<i>a Trade Payables</i>	350	319	279	221
7 Borrowings	924	1,164	678	201
8 Related Party Exposure	-	12	36	36
9 Non-Current Liabilities	3	3	3	2
10 Net Assets	872	638	386	249
11 Shareholders' Equity	872	638	386	249

B INCOME STATEMENT

1 Sales	1,718	1,670	1,425	990
<i>a Cost of Good Sold</i>	(1,437)	(1,332)	(1,141)	(815)
2 Gross Profit	282	337	283	175
<i>a Operating Expenses</i>	(60)	(64)	(83)	(53)
3 Operating Profit	222	273	201	122
<i>a Non Operating Income</i>	104	50	(2)	(0)
4 Profit or (Loss) before Interest and Tax	326	324	199	122
<i>a Total Finance Cost</i>	(75)	(55)	(48)	(33)
<i>b Taxation</i>	(23)	(11)	(14)	(9)
6 Net Income Or (Loss)	227	258	137	80

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	397	383	262	137
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	322	329	213	104
<i>c Changes in Working Capital</i>	80	(458)	(249)	(24)
1 Net Cash provided by Operating Activities	401	(129)	(37)	80
2 Net Cash (Used in) or Available From Investing Activities	(176)	(160)	(457)	(136)
3 Net Cash (Used in) or Available From Financing Activities	(239)	420	476	66
4 Net Cash generated or (Used) during the period	(14)	131	(18)	9

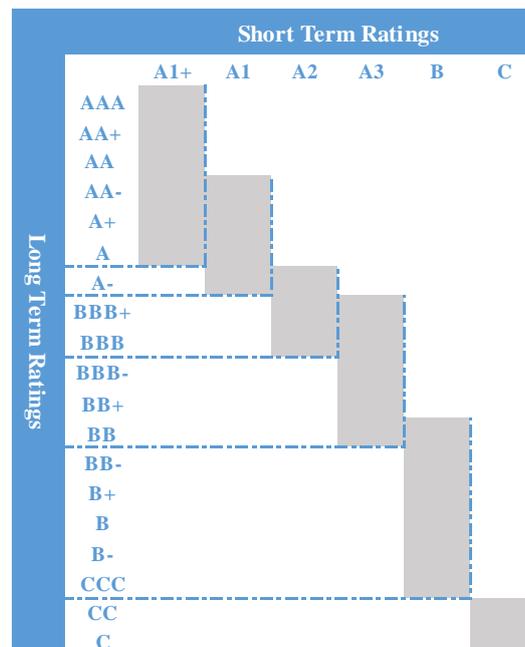
D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	37.2%	17.2%	43.9%	-7.2%
<i>b Gross Profit Margin</i>	16.4%	20.2%	19.9%	17.7%
<i>c Net Profit Margin</i>	13.2%	15.4%	9.6%	8.1%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	24.4%	22.2%	19.4%	14.7%
<i>e Return on Equity (ROE)</i>	40.2%	50.4%	43.1%	38.1%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	162	199	144	211
<i>b Net Working Capital (Average Days)</i>	109	134	80	98
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	3.2	4.0	2.8	2.3
3 Coverages				
<i>a EBITDA / Finance Cost</i>	5.6	9.7	13.1	4.4
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.7	3.3	4.5	4.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.8	1.0	1.3	0.5
4 Capital Structure (Total Debt/Total Debt+Equity)				
<i>a Total Borrowings / Total Borrowings+Equity</i>	51.5%	64.8%	64.9%	48.7%
<i>b Short-Term Borrowings / Total Borrowings</i>	61%	71%	58%	78%
<i>c Average Borrowing Rate</i>	9.6%	4.0%	4.5%	17.1%

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

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)

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