



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
04-Aug-2021	BBB	A2	Stable	Maintain	-
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 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 inclined during FY21. During 1HFY21 towel exports stood at PKR~72bln (USD~446mln) as compared to PKR~59bln (USD~379mln) in 1HFY20. This exhibited a growth of ~23% in PKR terms. Meanwhile, there was ~9% growth in quantitative terms. Growth in towel export sector was witnessed as Pakistan was able to attract export orders when regional players were struggling due to the pandemic and unable to meet demand. During 1HFY21, towel sector's contribution to overall textile exports was ~6%. Meanwhile, contribution to total country exports was ~3%. Towel industry enjoys relatively better margins that are reflected in MY Bari's profitability on the back of local cotton, which is more suitable for manufacturing towels. During 9MFY21 revenue of the Company significantly improved due to high towel demand from international markets i.e. Europe & USA. The revenues are expected to follow upward trajectory. However, this could be disrupted or slowdown by fourth wave of COVID-19. 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. Bari Mills continues to maintain leveraged capital structure. Due to prudent working capital management, working capital cycle of the Company showed improvements. Cash flows also posted a healthy growth resulted in better 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 expected tough situation due to emerging fourth wave of Covid-19. 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 Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Towel(Jan-21)
Rating Analysts	Kanwal Ejaz kanwal.ejaz@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 only 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 178 looms, including high speed air-jet 60 looms, semi auto 70 looms, jacquard and dobby 48 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 ~11bln 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, 2020. 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 Haroon 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 IHFY21, towel exports increased in both quantitative and values terms and stood at PKR~72bln (USD~446mln) as compared to PKR~59bln (USD~379mln) in FY19. This exhibited a growth of ~23% in PKR terms. Meanwhile, there was ~9% growth in quantitative terms. The growth reflected Pakistan's recovery from COVID-19 pandemic, as it was able to attract export orders when regional players were still struggling due to the pandemic and unable to meet demand. During FY20, the towel sector's contribution to overall textile exports was ~6%. Meanwhile, contribution to total country exports was ~3%.

Relative Position The Company has an adequate position among towel exporters as it has ~5% 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 regions. USA is the main region for exports, followed by Europe. During 9MFY21, the Company's topline clocked in at ~PKR 3,884mln (FY20: ~PKR 1,727), depicting an increase of 200%.

Margins During 9MFY21, gross margin clocked at ~15.4% (FY20: ~15%). However, operating margins reached to ~10% (FY20: ~8%). The net profit margin stood at ~4.5% (FY20: 6%).

Sustainability After Covid-19 outbreak there was an overall industry resumption which led to increase in export orders as well. The Company being an export-oriented entity have found an increasing trend from export destinations (USA and Europe). Going forward demand and sales of the company's product is expected to grow.

Financial Risk

Working Capital During 9MFY21, gross working capital days of the Company reached to 127 days (FY20: 213 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 ~28.3% (FY20: ~25%), showing ample room against working capital.

Coverages During 9MFY21, the Company's free cashflows reached to ~PKR 401mln (FY20: ~PKR 116mln), owing to increase in sales. Meanwhile, finance cost increased to ~PKR 91mln (FY20: ~PKR 61mln), as the Company has shifted all borrowings to subsidized financing from SBP. In 9MFY21, the interest coverage ratio remained strong at 5.8x (FY20: 3.8x).

Capitalization Bari Mills maintains a moderately leveraged capital structure. During 9MFY21, the leveraging stood at ~57% (FY20: ~52%). Short term borrowings made up ~47% (FY20: ~57%) 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.



The Pakistan Credit Rating Agency Limited

M.Y. Bari Mills (Pvt) Limited
Towel

Mar-21

Jun-20

Jun-19

9M

12M

12M

A BALANCE SHEET

1 Non-Current Assets	1,326	1,028	881
2 Investments	71	69	70
3 Related Party Exposure	-	-	80
4 Current Assets	3,245	1,760	1,222
<i>a Inventories</i>	1,046	985	555
<i>b Trade Receivables</i>	1,285	293	180
5 Total Assets	4,642	2,857	2,253
6 Current Liabilities	1,460	622	383
<i>a Trade Payables</i>	1,264	524	297
7 Borrowings	1,553	1,097	945
8 Related Party Exposure	435	120	12
9 Non-Current Liabilities	6	7	5
10 Net Assets	1,188	1,011	907
11 Shareholders' Equity	1,188	1,011	907

B INCOME STATEMENT

1 Sales	3,884	1,727	1,857
<i>a Cost of Good Sold</i>	(3,284)	(1,471)	(1,525)
2 Gross Profit	599	256	332
<i>a Operating Expenses</i>	(200)	(118)	(107)
3 Operating Profit	400	138	224
<i>a Non Operating Income or (Expense)</i>	(103)	45	158
4 Profit or (Loss) before Interest and Tax	296	183	382
<i>a Total Finance Cost</i>	(91)	(61)	(93)
<i>b Taxation</i>	(29)	(18)	(26)
6 Net Income Or (Loss)	176	104	263

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	401	116	318
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	310	57	228
<i>c Changes in Working Capital</i>	(76)	(70)	655
1 Net Cash provided by Operating Activities	234	(13)	883
2 Net Cash (Used in) or Available From Investing Activities	(432)	(275)	(378)
3 Net Cash (Used in) or Available From Financing Activities	456	152	(316)
4 Net Cash generated or (Used) during the period	258	(136)	188

D RATIO ANALYSIS

1 Performance			
<i>a Sales Growth (for the period)</i>	199.9%	/	-7.0%
<i>b Gross Profit Margin</i>	15.4%	/	14.8%
<i>c Net Profit Margin</i>	4.5%	/	6.0%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	8.4%	/	2.7%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	24.5%	/	11.6%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	127	/	213
<i>b Net Working Capital (Average Days)</i>	64	/	126
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.2	/	2.8
3 Coverages			
<i>a EBITDA / Finance Cost</i>	6.2	/	9.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.9	/	3.8
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.9	/	5.6
4 Capital Structure			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	56.7%	/	52.2%
<i>b Interest or Markup Payable (Days)</i>	52.4	/	121.4
<i>c Entity Average Borrowing Rate</i>	7.5%	/	2.9%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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- 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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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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- (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)
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- (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)
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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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