The Pakistan Credit Rating Agency Limited

# Rating Report

## Be Be Jan Pakistan Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 23-Nov-2023 | BBB | A2 | Stable | Maintain | - |
| 09-Dec-2022 | BBB | A2 | Stable | Initial | - |

**Rating Rationale and Key Rating Drivers**

Be Be Jan Pakistan Limited (the company) is enjoying the position as one of Pakistan's icons of the textile industry with huge capacity in vertically integrated manufacturing facilities. The Company covers all textile operations necessary to produce high-quality hospitality, healthcare, and home textile products. The Company is also a manufacturer and exporter of high-quality workwear for companies, organizations, and institutions, with a diverse product line. The Company has sound internal control and IT framework; Room for improvement exists in the governance structure given the absence of independent oversight on the board. The family management control is good. However, the recent global demand slowdown has impacted company's export volumes and sales which were recorded at PKR 5.75 billion in FY23 (Management Numbers). Rising administrative overheads and high financial charges led to thinner net margins. Improvement in the same is considered important from the ratings perspective. The liquidity profile is underpinned by adequate cash flow coverages in relation to outstanding obligations. With a recent equity injection, the Company continues to maintain a moderately leveraged capital structure. The demand pattern is expected to improve in the upcoming years, thus prompting the Company to start BMR in FY25, which will add 35 looms to the existing capacity and is expected to bring in efficiency gains, lower cost per loom, and improved margins.
During FY23, textile exports were valued at $16.5 billion as against $19.33 billion, reflecting a 15% year-on-year decline. Value-added products such as knitwear, bedwear, towels, and ready-made garments saw an annual decline of 13 percent while basic textiles, including raw cotton, cotton yarn, and cotton fabrics, declined by 21 percent year-on-year in FY23. Volumes declined due to higher energy prices and interest rates, cotton shortages, uncertainty in foreign exchange rates, and a global slump in demand. Taming the demand represented by export routes was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments saw an annual decline of 13 percent. During the month of June 2023, cotton yarn exports increased by 7% MoM. Value-added exports reported volume growth of 16 percent on a month-on-month basis.

The ratings are dependent on the management's ability to improve the entity's performance trend from core textile operations amidst strong competition and exposure to overall economic slowdown and inflation. Meanwhile, maintaining strong margins and coverages to fulfill financial obligations will remain critical. Improving governance and control environment is also very important.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Be Be Jan Pakistan Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Corporate Rating(Jul-23),Methodology \| Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology \| Rating Modifiers(Apr-23) |
| **Related Research** | Sector Study \| Composite and Garments(Dec-22) |
| **Rating Analysts** | Iram Shahzadi \| iram.shahzadi@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Be Be Jan Pakistan Limited (‘Be Be Jan’ or ‘The Company’) is a Public (unlisted) Limited Company. It was incorporated in Punjab, Pakistan on November 19, 1978. The Company has two production facilities located in Faisalabad.

**Background** Be Be Jan Pakistan Limited (‘Be Be Jan’ or ‘The Company’) was incorporated in Punjab, Pakistan as a Private Limited Company on November 19, 1978, under the Companies Ordinance, 1984 (Now the Companies Act, 2017) and was converted into a Public (unlisted) Limited Company with effect from November 08, 2001.

**Operations** The principal business of the Company is the manufacturing and export of fabric and made-ups. The company has two units. One unit is for Fabric; a weaving unit with 140 looms. The Company has also two wrapping machines and one sizing machine. The other unit is for the home textile and apparel division with 405 stitching machines.

## Ownership

**Ownership Structure** The Company's ownership rests with Mr. Usman's family, including his mother, brother, and sisters. The major shareholding of the Company is owned by Mr. Usman Ehsan Elahi (58%), Mrs. Aisha Saqib (23%), Mr. Faisal Ehsan Elahi (09%), Ms. Marriam Saqib (2%), Mrs. Sonia Umer (2%) & Mrs. Fareeha Faisal (2%). While the rest is with Be Be Jan Protein Farms (Pvt.) Ltd.

**Stability** The Company was set up to engage and transfer over the technical and business skills of the first generation to the second generation of the Elahi family. The Company encompasses the advice and expertise of first-generation the and leadership of the new generation. Although, no official succession plan has been announced to date.

**Business Acumen** The sponsors have vast experience and knowledge of various aspects of the textile value chain.

**Financial Strength** The sponsoring family has been involved in multiple businesses for more than 20 years. The sponsoring family has another textile company; Be Be Jan Textile Mills Limited. The sponsoring family has also two farming companies. This indicates sponsors’ ability to provide support if the need arises.

## Governance

**Board Structure** The Company has a three-member board with the presence of sponsors and their families. The position of CEO is vested with Mrs. Aisha Saqib.

**Members’ Profile** The members of the Board have relevant stature and extensive experience of around two decades in the textile industry. Currently, there are no independent directors on the board.

**Board Effectiveness** BoD meetings are held regularly in which discussion on various aspect is recorded in minutes and decision or action is referred to the CEO, Mrs. Aisha Saqib.

**Financial Transparency** M/s. Yousaf Adil, Chartered Accountants, is the external auditor of the Company. The auditor has expressed an unqualified opinion on the financial reports for the year ending 30th June 2023. The auditors fall under category' A' of SBP’s panel of auditors.

## Management

**Organizational Structure** The organizational structure of the Company is divided into three main departments namely, i) Procurement, ii) Administration and IT, iii) Marketing and iv) Technical. All department reports to the executive director.

**Management Team** Mrs. Aisha Saqib – CEO – holds a bachelor’s degree and has been in the Textile business for the last four decades. She is the Director of the Company since its incorporation in 1978. While Mr. Usman – the executive director – holds a Master’s Degree from the U.K. He has been in the Textile Business for the last decade. He looks after all types of Financial, Marketing, and Purchase matters of the Company.

**Effectiveness** The Company has no management committees. The Sponsor's close involvement in day to day affairs of the business bodes well for the effectiveness of the Company.

**MIS** The Company has built an in-house ERP to cater to its business needs. The senior management monitors the business performance through certain Key MIS reports.

**Control Environment** Production is completely order driven, there is a rigorous quality check done on the end product by the QC department. The Company has obtained ISO 9001, ISO 14001, SAI, GOTS, GRS, Sedex, OEKO-TEX, BCI, IRQAO & Higg Index certification.

## Business Risk

**Industry Dynamics** During FY23, textile exports were valued at $16.5 billion as against $19.33 billion, reflecting a 15% year-on-year decline – a downward trend seen since the beginning of FY23. Exports declined due to higher energy prices, cotton shortages, and uncertainty in foreign exchange rates. Taming the demand represented by export routes was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments saw an annual decline of 13 percent. Basic textiles, including raw cotton, cotton yarn, and cotton fabrics, declined by 21 percent year-on-year. During the month of June 2023, cotton yarn exports increased by 7% MoM. Value-added exports reported volume growth of 16 percent on a month-on-month basis.

**Relative Position** With 140 operational looms, Be Be Jan Pakistan Limited’s standalone position in Pakistan’s looms capacity is considered small.

**Revenues** During FY23, the Company's revenue declined by 6.6% to stand at PKR 5.7bln; (FY22: PKR 6.1bln) primarily driven by due to demand slowdown in conjunction with inflationary pressure. While most revenue is generated from exports; the local sales ratio has seen an upturn in FY23. The breakup of sales is given in the adjacent table. The gross profit clocked at P KR 645mln (FY22: PKR 790mln), down by 18%. Finance costs also increased driven by the incline in the key policy rate. After the incorporation of finance costs, the net profit for FY23 stood at PKR 25mln (FY22: 211mln).

**Margins** During FY23, the Company’s gross profit margin reflected a decline to 11.2% (FY22: 13.1%). While the operating profit margin is largely intact to 6.7% (FY22: 6.8%). Hence, the net margin decreased to 0.4% (FY22: 3.5%).

**Sustainability** In line with improving the business environment, the Company is planning to start a BMR, which will add 35 looms to the existing capacity. The total cost of CAPEX is estimated to be PKR 650mln. BMR is expected to bring in efficiency gains, lowering cost per loom, and will consequently improve margins.

## Financial Risk

**Working Capital** During FY23, the Company’s net working capital days increased to 88 days (FY22: 77 days) due to an increase in inventory days (FY23: 77 days, FY22: 63 days). On the other hand, the Company’s short-term trade leverage decreased and stood at 24.9% in FY23 (FY22: 28.7%). In FY22, the current ratio of the Company is 3.7x (FY22: 4.7x).

**Coverages** FCFO of the Company during FY23 remained stagnant to PKR 386mln (FY22: PKR 386mln) due to higher EBITDA. Higher finance costs declined the interest coverage ratio to 1.8x in FY23 (FY22: 4.3x).

**Capitalization** During FY23, the Company’s leveraging recorded an uptick to 40.9% (FY22: 36.5%). The overall borrowings of the Company reflected an upward trend and closed at PKR 2,205mln at the end of FY23 (FY22: PKR 1,821mln). Hence, the short-term borrowings make up 60% of the total borrowings, which stood at PKR 1,313mln in FY23 (FY22: 1,333mln).

The Pakistan Credit Rating Agency Limited

*Financial Summary*
*PKR mln*

| Be Be Jan Pakistan Limited | Jun-23 | Jun-22 | Jun-21 |
|---|---|---|---|
| Composite & Garments | 12M | 12M | 12M |
| **A BALANCE SHEET** | | | |
| 1 Non-Current Assets | 3,388 | 2,890 | 2,561 |
| 2 Investments | - | - | - |
| 3 Related Party Exposure | 5 | 5 | 5 |
| 4 Current Assets | 2,739 | 2,695 | 2,203 |
| *a Inventories* | *1,313* | *1,121* | *975* |
| *b Trade Receivables* | *482* | *692* | *361* |
| **5 Total Assets** | 6,132 | 5,591 | 4,769 |
| 6 Current Liabilities | 742 | 579 | 433 |
| *a Trade Payables* | *505* | *323* | *267* |
| 7 Borrowings | 2,205 | 1,821 | 1,321 |
| 8 Related Party Exposure | - | - | - |
| 9 Non-Current Liabilities | 3 | 23 | 37 |
| **10 Net Assets** | 3,182 | 3,168 | 2,979 |
| **11 Shareholders' Equity** | 3,182 | 3,168 | 2,979 |
| **B INCOME STATEMENT** | | | |
| **1 Sales** | 5,751 | 6,053 | 4,073 |
| *a Cost of Good Sold* | *(5,106)* | *(5,263)* | *(3,531)* |
| **2 Gross Profit** | 645 | 790 | 541 |
| *a Operating Expenses* | (257) | (377) | (255) |
| **3 Operating Profit** | 388 | 413 | 286 |
| *a Non Operating Income or (Expense)* | *(54)* | *(28)* | *(2)* |
| **4 Profit or (Loss) before Interest and Tax** | 334 | 385 | 284 |
| *a Total Finance Cost* | *(243)* | *(111)* | *(59)* |
| *b Taxation* | *(65)* | *(63)* | *(44)* |
| **6 Net Income Or (Loss)** | 25 | 211 | 181 |
| **C CASH FLOW STATEMENT** | | | |
| *a Free Cash Flows from Operations (FCFO)* | *386* | *386* | *314* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *194* | *275* | *258* |
| *c Changes in Working Capital* | *107* | *(318)* | *(264)* |
| **1 Net Cash provided by Operating Activities** | 301 | (43) | (5) |
| **2 Net Cash (Used in) or Available From Investing Activities** | (665) | (409) | (314) |
| **3 Net Cash (Used in) or Available From Financing Activities** | 370 | 473 | 279 |
| **4 Net Cash generated or (Used) during the period** | 6 | 21 | (41) |
| **D RATIO ANALYSIS** | | | |
| **1 Performance** | | | |
| *a Sales Growth (for the period)* | -5.0% | 48.6% | 17.0% |
| *b Gross Profit Margin* | 11.2% | 13.1% | 13.3% |
| *c Net Profit Margin* | 0.4% | 3.5% | 4.5% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)* | 8.6% | 1.1% | 1.2% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity )]* | 0.8% | 6.9% | 6.3% |
| **2 Working Capital Management** | | | |
| *a Gross Working Capital (Average Days)* | 114 | 95 | 107 |
| *b Net Working Capital (Average Days)* | 88 | 77 | 87 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 3.7 | 4.7 | 5.1 |
| **3 Coverages** | | | |
| *a EBITDA / Finance Cost* | 2.3 | 5.3 | 7.9 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 1.4 | 2.8 | 3.8 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | 5.4 | 1.6 | 0.7 |
| **4 Capital Structure** | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 40.9% | 36.5% | 30.7% |
| *b Interest or Markup Payable (Days)* | 95.7 | 28.3 | 56.2 |
| *c Entity Average Borrowing Rate* | 10.9% | 5.7% | 4.0% |

## Credit Rating

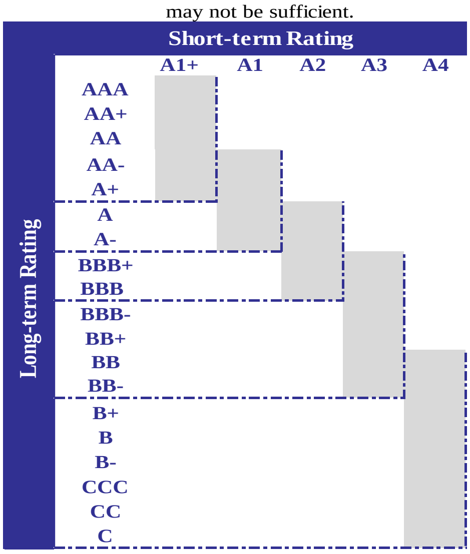
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

### Long-term Rating

| Scale | Definition |
|---|---|
| AAA | **Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>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 Rating

| Scale | 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 |
| 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 surveill 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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

## Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

**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 | Clause 11-(A)(p).
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
**Proprietary Information**