The Pakistan Credit Rating Agency Limited

Rating Report

Beacon Impex (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Jun-2024	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned rating of Beacon Impex Pvt. Limited ("the Company" or "BIPL") emanates from the prominent profile of the Company in the textile industry of Pakistan and cementing its reputation as a trailblazer under the category of dedicated bodywear segment. BIPL is a full vertically integrated textile Knitwear Company and possesses in-house facilities for the textile product value chain which includes spinning, Knitting, Elastic, Dyeing/processing, Cutting & Garments. The Company has the latest state-of-the-art machinery and manufacturing facility meeting high-end international standards with 100% textile value chain process automation and a congenial labour working environment. The Company has built an automated and centrally-integrated KPIs-based assessment dashboard system to analyze real-time facility performance and address process inefficiencies. The execution of RFID and barcode-based backtrack systems has enabled the Company to access final product traceability via a single scan which escalates the control environment of the Company. The product slate of the Company primarily vested in bodywear garments followed by the sale of fabric, denim and yarn. The top line of the Company has shown a compound annual growth of 28% during three years and stood at PKR 29.4bln as of FY23 (6MFY24: PKR 17.8bln) mainly dominated by exports of garments. The import substitution of elastic via in-house manufacturing is considered a game-changer for BIPL as it creates a cushion in the cost of production and supplements in terms of price competitiveness. However, price inflation on local raw cotton, soaring energy costs/ operating expenses and elevated finance costs have slightly impacted the margins and profitability matrix of the Company over the years. The clientele of BIPL is embraced by established entities located across various export destinations worldwide, predominately in the European market which has augmented the business sustainability as management of the Company is mindful to keep align their financial performance with financial projections. The execution of CAPEX for solar installation is under consideration to manage energy cost risk. The Company has a sponsor-dominated board with adequate size and board members possess considerable industry-specific exposure and act more in an execution role supported by a team of seasoned and professional management. The Financial risk profile of the Company is considered good with optimal working capital management. The cash flows of the Company are viewed as sufficient as the working capital requirements are met through an optimal mix of internally generated cash flows and short-term borrowings. The coverages of the Company are considered comfortable with a leveraged capital structure.

The ratings are dependent on the Company's ability to sustain its business profile while maintaining its profitability matrix at an optimal level. The sustainability of margins and improvement in coverages while expanding business volumes remain critical. The compliance with corporate governance will be further strengthened by the inclusion of an independent oversight function. Adherence to the debt matrix at a moderate level is a prerequisite for assigned ratings

Disclosure	
Name of Rated Entity	Beacon Impex (Pvt.) 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-24)
Related Research	Sector Study | Composite and Garments(Dec-23)
Rating Analysts	Muhammad Harris Ghaffar | harris.ghaffar@pacra.com | +92-42-35869504

Profile

Legal Structure Beacon Impex (Pvt.) limited ("The Company") was incorporated in Pakistan as a private limited company on December 2nd, 2005 under the Companies Ordinance 1984 (Repealed with the enactment of the Companies Act, 2017). The principal business activity of the Company is the manufacturing and sales of garments, yarn, and denim products. The registered office of the Company is situated at P-102 Jail Road, Faisalabad.

Background Beacon Impex (Pvt.) Limited was incorporated in 2005 as an IT service-providing corporation. and has developed itself into a growing vertically integrated unit by setting up conversion and doubling units in 2012 and eventually entered in the garment export business in 2018.

Operations The company's operations are divided into five divisions; Yarn, Elastic, Fabric, Denim, and Apparel. The Company has established a strong presence in the dedicated bodywear industry over approximately one decade, producing around 6 million garments each month.

Ownership

Ownership Structure The company's shareholding vests with the Company's CEO, Mr. Muhammad Shakeel Faridi, the director Mr. Mudassar Zafar, and other sponsors.

Stability The sponsors have a long-term association with the Company and the textile business. The next generation is also engaged in business (Mr. Muhammad Nazir Ahmed) and formal documented succession planning will provide comfort to the stability in ownership.

Business Acumen Mr. Muhammad Nazir Ahmed is considered a man of the last mile. The vision and strategy matrix of the Company lies in his execution role.

Financial Strength The financial strength of the Company primarily divests in a single line of business, a dedicated bodywear segment.

Governance

Board Structure Beacon Impex's BoD consists of two members, both occupy executive roles – including the CEO, Mr. Muhammad Shakeel Faridi while Mr. Mudassar Zafar is designated as director. Both directors have more than 20 years of relevant experience and have been associated with the company for the last 10 years.

Members' Profile Mr. Shakeel Faridi- The CEO holds a master's degree in computer sciences. The board members carry vast knowledge and extensive experiences in the textile industry,

Board Effectiveness Five committees, operational planning and coordination committee, Business development committee, corporate social responsibility committee, financial planning and compliance committee, and human resource committee are in place to assist the board in relevant matters and ensure proper oversight.

Financial Transparency Kreston Hyder Bhimji & Co. who are listed as category "A" on the SBP's panel of auditors are external auditors of the Company. They have expressed an unqualified opinion on the financial statements of the Company for the year ended June 30, 2023.

Management

Organizational Structure The Company has a well-defined reporting line to ensure smooth operations and excellence. The Company's organizational structure is broadly divided into six functional departments: (i) Marketing, (ii) Finance, (iii) Information Technology, (iv) Human Resource & Administration, (v) Production, and (vi) Internal Audit.

Management Team The management team is headed by the CEO. He is supported by a team of seasoned professionals, who supplement his expertise. Mr. Mudassar is the Executive Director. He has been associated with the Company since 2013, he is well-versed in the textile business and has strong business acumen

Effectiveness The management meetings are held periodically with the follow-up points to resolve or proactively address operational and administrative issues, if any, eventually ensuring a smooth flow of operations.

MIS The Company has developed an in-house state-of-the-art integrated ERP system which is designed in Oracle 6i enabling it to efficiently monitor and control production, inventory, and quality levels.

Control Environment The Company has built an automated and centrally-integrated KPIs-based assessment dashboard system to analyze real-time facility performance and address process inefficiencies. The execution of RFID and barcode-based backtrack systems has enabled the Company to access final product traceability via a single scan which escalates the control environment of the Company. The Company has an in-house internal audit department with quarterly reporting frequency and it is directly reportable to the audit committee.

Business Risk

Industry Dynamics The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn (LSM) ~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector has a contribution of ~ PKR 1.6Trn mainly dominated by knitwear, readymade garments, bedwear, and towels followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs & finance costs, PKR devaluation, and ensuring the availability of optimum quality raw materials are prime challenges specific to the industry

Relative Position The Company has established its footprints in the dedicated bodywear industry over a time of ~01 decade. The Company has produced ~6 million garments per month.

Revenues During FY23, the company's revenue base witnessed sizeable growth and stood at PKR 29.4bln (FY22: PKR 20.2bln) & PKR 17.8bln in 6MFY24. The company's revenue base is dominated by the direct export sales of bodywear garments. The company has a wide range of customers including Puma, Levis, Amazon, and Hugo Boss. Region-wise, the sales are mainly dominated by Europe, followed by North America, Asia and others.

Margins During FY23, the gross profit margin of the Company remained stagnant and stood at 23.8% (FY22: 23.8%) & 21.8% in 6MFY24, dipping slightly mainly on the back of the elevation in local raw cotton prices after June-23 and the surge in energy tariffs. While the operating margin witnessed a slight uptick to stand at 18.1% (FY22: 17.2%). The finance cost of the company surged to PKR 923mln (FY22: PKR 245mln). Consequently, the company's net margin stood at 12.4% in FY23 (FY22: 13.4%) & 10.1% in 6MFY24, impacted by finance costs over time.

Sustainability The management of the Company is mindful to keep aligning their performance with the financial projections. The Company has consistently undergone CAPEX from 2019 to 2024 in all textile product value chains. The majority of the CAPEX is executed in the processing segment, followed by garments, spinning, PET polyester, Knitting, & elastic.

Financial Risk

Working Capital The inventory days stood at 47 days as of 6MFY24 (FY23: 42 days) owing to the procurement of cotton while finished inventory levels remained high to cater to international orders and local retail demand. As of 6MFY24, the net working capital days stood at 61 days. (FY23: 62 days). The Company has efficiently managed its working capital cycle. The Company's short-term trade leverage stood at 28.9% as of FY23. The working capital requirements were met through short-term borrowings and internally generated cashflows.

Coverages During FY23, free cash flow from operations (FCFO) displayed a rise to PKR 5.5bln (FY22: PKR 3.6bln). During FY23, the interest coverage clocked to 6.7x (FY22: 20.4x) and debt coverage stood to 3.6x (FY22: 5.2x). The company's FCFO clocked at PKR 3,170mln during 6MFY24, keeping the interest coverage and debt coverage ratio at 4.2x and 2.6x respectively.

Capitalization The company has a leveraged capital structure (FY23: 42.1%, FY22: 38.4%). Out of the total debt, 50% (FY22: 59%) of the debt comprises short-term borrowings. The short-term borrowings of the Company stood at PKR 5.1bln and long-term borrowings PKR 4.1bln during 6MFY24. Long-term borrowings are predominantly LTFF-based. The equity base of the Company recorded good growth to PKR 12.1bln as of FY23 (FY22: PKR 8.4bln) & PKR 13.9bln in 6MFY24. Over the years, the company's leverage increased slightly and stood at 42.2% during 6MFY24.

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Financial Summary
PKR mln

Beacon Impex (Pvt.) Limited Composite and Garments	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	16,199	13,035	8,901	6,313
2 Investments	149	148	300	154
3 Related Party Exposure	140	118	82	290
4 Current Assets	13,678	14,392	9,291	6,562
a Inventories	*4,710*	*4,412*	*2,388*	*1,570*
b Trade Receivables	*4,701*	*5,719*	*4,130*	*2,952*
5 Total Assets	30,165	27,693	18,575	13,319
6 Current Liabilities	5,380	6,136	4,367	3,898
a Trade Payables	*3,499*	*4,050*	*2,671*	*2,086*
7 Borrowings	10,161	8,813	5,290	3,951
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	684	612	443	208
10 Net Assets	13,940	12,133	8,476	5,262
11 Shareholders' Equity	13,940	12,133	8,476	5,261
B INCOME STATEMENT				
1 Sales	17,864	29,413	20,200	11,902
a Cost of Good Sold	*(13,966)*	*(22,422)*	*(15,402)*	*(8,255)*
2 Gross Profit	3,898	6,991	4,798	3,647
a Operating Expenses	(1,037)	(1,669)	(1,316)	(1,553)
3 Operating Profit	2,862	5,321	3,482	2,093
a Non Operating Income or (Expense)	*67*	*(309)*	*(225)*	*(62)*
4 Profit or (Loss) before Interest and Tax	2,928	5,013	3,258	2,031
a Total Finance Cost	*(851)*	*(923)*	*(245)*	*(159)*
b Taxation	*(270)*	*(449)*	*(300)*	*(146)*
6 Net Income Or (Loss)	1,807	3,641	2,712	1,726
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*3,170*	*5,517*	*3,605*	*2,087*
b Net Cash from Operating Activities before Working Capital	*2,437*	*4,857*	*3,411*	*1,950*
c Changes in Working Capital	*(45)*	*(3,452)*	*(2,291)*	*(474)*
1 Net Cash provided by Operating Activities	2,392	1,405	1,120	1,476
2 Net Cash (Used in) or Available From Investing Activities	(3,528)	(4,472)	(2,979)	(3,237)
3 Net Cash (Used in) or Available From Financing Activities	1,218	3,154	1,879	1,715
4 Net Cash generated or (Used) during the period	82	88	20	(46)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	21.5%	45.6%	69.7%	--
b Gross Profit Margin	21.8%	23.8%	23.8%	30.6%
c Net Profit Margin	10.1%	12.4%	13.4%	14.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Ca	17.5%	7.0%	6.5%	13.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (To*	27.7%	35.3%	39.5%	32.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	100	103	113	N/A
b Net Working Capital (Average Days)	61	62	70	27
c Current Ratio (Current Assets / Current Liabilities)	2.5	2.3	2.1	1.7
3 Coverages				
a EBITDA / Finance Cost	4.5	7.4	22.2	17.5
b FCFO / Finance Cost+CMLTB+Excess STB	2.6	3.6	5.2	3.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin	1.0	0.9	0.6	0.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity	42.2%	42.1%	38.4%	42.9%
b Interest or Markup Payable (Days)	76.6	109.1	103.6	63.7
c Entity Average Borrowing Rate	16.1%	11.7%	3.8%	3.3%

Credit Rating

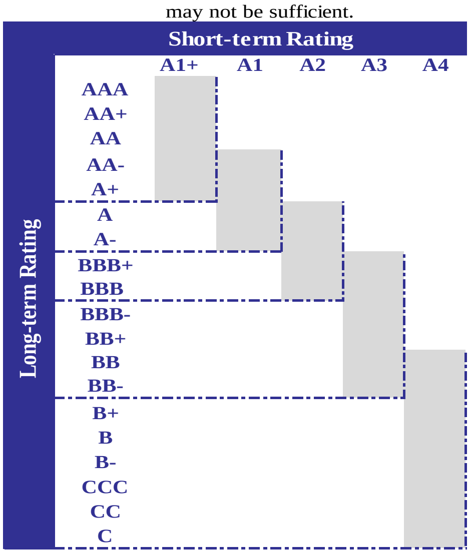
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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+ 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.
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.
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.
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+ 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.
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.

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

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