JCR-VIS assigns Initial Ratings of Bhanero Textile Mills Limited

JCR-VIS Credit Rating Company Limited (JCR-VIS) assigns initial entity ratings to Bhanero Textile Mills Limited (BHAT) at 'A+/A1' (Single A Plus/A One). Outlook on the assigned ratings is 'Stable'.

BHAT is part of Umer Group of Companies, which has been operating in the textile sector for about thirty five years. The company is primarily engaged in manufacturing and sales of yarn and fabric, for both local and international markets through two spinning units and one weaving unit. In view of planned integration with BHAT's weaving unit, management envisages addition of spindles to the company's spinning unit.

Assigned ratings incorporate sound financial risk profile of BHAT as manifested in the historically low leverage indicators, adequate liquidity and improving profitability profile. Extensive experience and track record of sponsors through business cycles in the textile sector is also a key rating driver.

BHAT witnessed decline in net sales from historically high levels, on account of oversupply of cotton produce post termination of China's stockpiling policy. Topline of the company has sustained year on year owing to yarn sales gaining significant foothold in the domestic market as well as weaving segment's resilience in the export market. Gross margins have exhibited an increase on a timeline basis from recovery in cotton prices. Resultantly, earnings and cash flows have witnessed growth in FY17. Overall liquidity profile is supported by healthy cash flows related to debt obligations and adequate current ratio.

Equity base of the company has increased on a timeline basis on account of profit retention. Modest pay out in the last three years has increased equity on the back of retained profits. Leverage indicators have historically remained low given management's conservative stance towards borrowings. However, the company undertakes seasonal short term borrowing which is in line with the industry's procurement cycle; gearing levels are expected to normalize, going forward. The company plans to fund its future expansion through debt, although capitalization indicators will recede, they are expected to remain within manageable levels given the company's cash flows and low long-term debt profile.