

RATING REPORT

Blessed Textiles Limited (BTL)

REPORT DATE:

March 14, 2019

RATING ANALYST:Talha Iqbal
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-1	A-	A-1
Rating Date	February 21, 2019		March 30, 2018	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Initial	

COMPANY INFORMATION

Incorporated in 1987	External auditors: M/s Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Limited Company	Chairman: Mr. Mohammad Salim
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Mohammad Amin
<i>Faisal Spinning Mills Limited (18.5%)</i>	
<i>Mrs. Samia Bilal (8.3%)</i>	
<i>Mr. Faisal Shakeel (8.0%)</i>	
<i>Mr. Adil Shakeel (6.9%)</i>	
<i>Mrs. Fatima Amin (5.1%)</i>	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria *Industrial Corporates (May 2016)*
<http://www.vis.com.pk/docs/Corporate-Methodology-201605.pdf>

Blessed Textiles Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Blessed Textiles Limited (BTL) is a part of Umer Group of Companies. BTL was incorporated as a public limited company in 1987, under the Companies Ordinance, 1984. BTL is listed on Pakistan Stock Exchange (PSX) and registered office of the company is based in Karachi.

Financial Statements of the company for FY18 were audited by Rahman Sarfaraz Rabim Iqbal Rafiq Chartered Accountants. Auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).

Profile of Chairman

Mr. Mobammad Salim serves as a chairman of the board. He was awarded by the certification from the Institute of Chartered Accountants of Pakistan on completion of his Director Training program in April, 2016. Besides, commercial endeavors he actively participates in several social and welfare activities.

Profile of CEO

Mr. Mobammad Amin is serving in the capacity

Incorporated in 1987, Blessed Textiles Limited (BTL) falls under the umbrella of 'Umer Group (UG) of Companies'. The company is primarily engaged in the manufacture and sale of yarn and woven fabric. In addition, BTL also has its own ancillary power unit.

Within textile sector, the group has over three decades of experience and is primarily engaged in the business of manufacturing and trading of grey and dyed yarn and greige fabric. The group is recognized as a prominent player in spinning and weaving segment with annual turnover of around Rs. 30b. Umer Group has a strong presence in the export market with more than 50% of total sales comprising exports with presence in China, Italy, Japan, Turkey and Belgium & other European countries. Around 60% of the total sales revenue of the Group has been generated through the spinning segment while the remaining comprises sales of greige fabric. Going forward, given the favorable incentives for enhancing exports along with significant rupee devaluation, management expects proportion of export sales in sales mix to increase to around two-third of total sales. Break up of segment-wise group sales and volume is tabulated below:

Segments	FY17				FY18			
	Sales (Rs. in million)	%	Volume (unit)	Selling price/unit (Rs.)	Sales (Rs. in million)	%	Volume (unit)	Selling price/unit (Rs.)
Spinning - Yarn	14,497.1	57.8%	47,032,361 (Kg)	308.2	18,213.9	61.6%	55,038,842 (Kg)	330.9
Weaving - Fabric	10,597.0	42.2%	68,720,448 (Mtr.)	154.2	11,343.2	38.4%	74,557,452 (Mtr.)	152.1
Total	25,094.1	100.0%			29,557.1	100.0%		

Umer Group has a total installed capacity of 186,960 spindles and 565 looms. The group carries its operations through five spinning and three weaving units each producing a unique specialized product. Moreover, in order to ensure an uninterrupted power supply, the group has established its own captive power generation plants for each unit with a total capacity of 37 megawatt (MW).

Company Profile

BTL carry out operations through its two spinning units and one weaving unit. All the manufacturing facilities are located in Ferozewatan, Shiekhupura. At end-FY18, the company operated with total 68,640 spindles (Unit-I & Unit-III) and 140 looms (Unit-II). Both the spinning units are adequately equipped to produce coarse to medium and fine yarn with count range varying from 8 to 60 single. Weaving unit is utilized to produce greige cloth. Capacity utilization for the spinning and weaving segment was reported at over 100% during FY18. The power unit for two spinning and one weaving unit has a total capacity of 12MW.

Key Rating Drivers:

High cyclicality & competitive intensity for spinning industry, volatility in cotton prices translate into high business risk profile. Diversification in the weaving segment, favourable cost of inventory carried on balance sheet, along with government's favourable policy towards the textile sector supports assessment of business risk profile

The assigned ratings take into account favourable textile industry dynamics with government of Pakistan

of chief executive officer (CEO) of BTL since 2011. Besides BTL, he is also serving the board of Babhero Textile Ltd, Faisal Textile Ltd and Bhanero Energy Ltd. Mr. Amin is certified in IT informatics. He completed the Director Education Program from Pakistan Institute of Corporate Governance in June, 2012.

Financial Snapshot

Net Equity: Sept 2018: Rs. 3.3b, June 2018: Rs. 3.2b

Net Revenue: 1QFY19: Rs. 2.7b, FY18: Rs. 10.2b

(GoP) focused on facilitating textile sector in order to enhance country's exports. Measures undertaken include reduction in energy prices (gas at USD 6.5/mmBTU and electricity at 7.5 US cents/kWh) and reduction in regulatory duty to zero on imported cotton. Going forward, recent rupee depreciation and increased focus of GoP on enhancing exports (through reducing cost of doing business and commitment for timely release of refunds and rebates) bodes well for competitiveness of textile business. Nonetheless, business risk profile remains dependent on inherent cyclicity of prices, crop levels, and demand supply fluctuations. Given the high degree of fragmentation specifically in the weaving segment; pricing power of companies operating in the segment remains limited. Moreover, reduction in rebate rates and increase in cotton prices may impact margins; timing and quantum of which will depend on average prices and quantity carried by different players. Given the cost of inventory carried on balance sheet, BTL is well positioned in this regard.

Revenue base has depicted a healthy growing trend on a timeline basis. Going forward, management's strong focus to increase proportion of export sales in both spinning and weaving segment would translate in to higher sales volumes.

Sales revenue of the company has grown at a Compound Annual Growth Rate (CAGR) of 12.2% over past five fiscal years (FY13-18). Currency devaluation, higher volumes sold, increase in average selling prices and rebate on export sales aided growth in revenue base in FY18 and 1QFY19 vis-à-vis the corresponding periods in the preceding year. In FY18, local sales accounted for 62% of total sales (FY17: 61.5%) while exports accounted for remaining sales. Around three-fourth of the total sales were generated through the spinning segment. Going forward, the management is strongly focused on increasing proportion of exports sales in both spinning and weaving segment.

Overall profitability supported by increasing margins

BTL's gross margins have improved to 10.9% (FY18: 10.4%; FY17: 9.9%) in 1QFY19 through efficient procurement. Given that management has already completed purchase of its cotton requirements for FY19 and some part of FY20 at competitive rates, overall margins are expected to continue to improve. Higher distribution cost and increased commission charges have led to increased operating expenses as compared to previous year. Finance cost has also been reported higher due to increase in borrowings to fund inventory levels. However, improvement in gross margins translated into higher net margins. Going forward, growth momentum in sales and margins are projected to enhance profitability while significant increase in benchmark rates is expected to have a limited impact on profitability given sizeable borrowings mobilized at concessionary rates.

Adequate liquidity profile

Fund From Operations (FFO) has observed an upward trend owing to increase in profit before tax in 1QFY19 and FY18. Resultantly, FFO in relation to long debt and FFO in relation to total debt improved to 44.4% (FY18: 44.3%; FY17: 30.8%) and 19.3% (FY18: 16.4%; FY17: 19.2%), respectively during 1QFY19. Debt Service Coverage Ratio (DSCR) was reported at 1.83x (FY18: 2.58x; FY17: 1.94x) in 1QFY19 and draws comfort from growing cash flows and extended repayment period for long-term debt. Stock in trade and trade debts represented more than 1.8x (FY18: 1.5x) times of outstanding short-term borrowings at end-1QFY19. Overall liquidity profile is considered adequate as indicated by satisfactory cash flows in relation to debt obligations and adequate current ratio.

Improving leverage indicators

Equity base of BTL as at 1QFY19 increased to Rs. 3.3b (FY18: Rs 3.2b, FY17: Rs. 3.0b) on account of increase in the unappropriated profits. The company's total debt increased to Rs. 4.1b at end-1QFY19

(FY18: Rs. 5.0b, FY17: Rs. 3.3b) owing to an increase in short-term borrowing in order to finance cotton procurement. Short term borrowings are acquired as per seasonal procurement requirements and resultantly vary throughout the year. Gearing and leverage ratios remain comfortable at 1.2x (FY18: 1.5x) and 1.6x (FY17: 1.8x) respectively at end-1QFY19.

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				Appendix I
BALANCE SHEET				
	FY15	FY16	FY17	FY18
Fixed Assets	3,052.2	3,512.7	3,897.9	3,595.6
Stock-in-Trade	1,186.7	1,592.6	1,821.5	3,893.1
Trade Debts	234.6	302.5	523.2	926.2
Cash & Bank Balances	57.2	65.2	35.4	139.8
Total Assets	4,960.9	6,120.4	7,081.7	9,305.3
Trade and Other Payables	347.1	330.3	350.8	491.8
Long Term Debt <i>(*incl. current maturity)</i>	1,344.2	1,630.3	2,039.3	1,846.5
Short Term Debt	380.5	1,153.7	1,242.8	3,146.5
Total Equity	2,678.8	2,759.1	2,973.3	3,251.8
INCOME STATEMENT				
Net Sales	7,623.3	6,846.7	8,064.2	10,257.4
Gross Profit	650.2	521.1	795.6	1,071.5
Operating Profit	379.3	296.3	567.9	726.2
Profit After Tax	82.0	94.9	245.8	368.5
RATIO ANALYSIS				
Gross Margin (%)	8.5%	7.6%	9.9%	10.4%
Net Working Capital	839.2	828.4	1,323.4	1,715.1
FFO to Total Debt (x)	0.24	0.13	0.19	0.16
FFO to Long Term Debt (x)	0.31	0.22	0.31	0.44
Gearing	0.6	1.0	1.1	1.5
Leverage	0.9	1.2	1.4	1.9
Debt Servicing Coverage Ratio (x)	1.3	1.2	1.9	2.6
ROAA (%)	1.6%	1.7%	3.7%	4.5%
ROAE (%)	3.1%	3.5%	8.6%	11.8%

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Blessed Textiles Limited				
Sector	Textiles				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	02/21/2019	A-	A-1	Stable	Reaffirmed
	30/3/2018	A-	A-1	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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