RATING REPORT

Blessed Textiles Limited (BTL)

REPORT DATE:
April 22, 2020

RATING ANALYST:

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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-1	A-	A-1
Rating Date	*April 22, 2020*		*February 21, 2019*	
Rating Outlook	Rating Watch-Developing		Stable	
Rating Action	Maintained		Reaffirmed	

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
Faisal Spinning Mills Limited (18.5%)	
Mrs. Samia Bilal (8.3%)	
State Life Insurance of Pakistan (6.12%)	
Mrs. Fatima Amin (5.1%)	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (April 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Blessed Textiles Limited (BTL)

OVERVIEW OF THE INSTITUTION

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 FY19 were audited by Rahman Sarfaraz Rahim 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. Mohammad 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

RATING RATIONALE

Group Profile

Blessed Textiles Limited (BTL) is a part of the Umer group of industries having diversified presence in footwear, retail, leather, dairy, power generation and construction; however, its core strength lies in textile business. Umer group operates through 3 companies in the textile sector.

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. 35.7b during FY19. Umer Group has a strong presence in the export market with more than 50% of total sales comprising exports to 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.

Umer Group of Companies (Rs. in m)				
	FY18	**%**	**FY19**	**%**
Sales	30,174		35,723	
Exports	15,075	50%	18,280	51%
Local	15,100	50%	17,445	49%
Yarn Sales	17,996	61%	21,035	61%
Fabric Sales	11,330	39%	13,576	39%
Spindles	186,960		186,960	
Looms	565		567	

Umer Group has a total installed capacity of 186,960 spindles and 567 looms at end-June'19. 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 and Operating Profile

BTL carry out operations through its two spinning units and one weaving unit. All the manufacturing facilities are located in Ferozewatan, Shiekhupura. 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. At end-FY19 and Dec'19, capacity utilization of both segments was reported on the higher side. The power unit for two spinning and one weaving unit has a total capacity of 12MW. Utilization levels for 9MFY20 remained on the higher side till mid-March'20 and declined for the remaining half of the month owing to partial closure of the facilities. The manufacturing units have resumed operations since then. Going forward, management envisages capacity utilization to decline amidst economic slowdown led by COVID-19; however the same is expected to remain at reasonable level given export orders in hand till June'20. Besides routine maintenance, no BMR or expansion capital expenditure is planned over the rating horizon.

Key Rating Drivers:

Coronavirus outbreak is expected to result in uncertainty in textile sector dynamics due to prolonged lockdown, overall contraction in demand and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted these developments.

CEO

Mr. Mohammad Amin is serving in the capacity of chief executive officer (CEO) of BTL since 2011. Besides BTL, he is also serving the board of Bahnero 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.

However, comfort is drawn from export orders in hand, regulatory relaxations and relief measures provided by SBP including a moratorium on debt repayments.

Movement in cotton prices and cotton crop levels drives performance of spinning sector players. Historically, margins and financial performance of players have depicted variation. Moreover, competitive intensity is high due to commoditized nature of the product. As with other local producers in the spinning sector, reliance on China as the major export market translates into some country concentration risk. High country concentration risk and price volatility remains in the weaving sector as well with Bangladesh comprising the major fabric export market. Given the high degree of fragmentation specifically in the weaving segment; pricing power of companies operating in the segment remains limited. Business risk profile remains dependent on inherent cyclicality of prices, crop levels, and demand supply fluctuations. Over the years, management's strategy of cautiously building cotton inventory has resulted in margins oscillating in a narrow band of 9.9%-13.1%. However, sharp decline in cotton prices since the onset of the ongoing calendar year will result in inventory losses and pressure on margins. Timing and quantum of which will depend on average prices and quantity carried by different players.

Coronavirus outbreak is expected to result in uncertainty in textile sector dynamics due to prolonged lockdown, overall contraction in demand and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted these developments. However, players in the garment segment are expected to be impacted more while gradual opening up of Chinese market has allowed yarn exports. In general, exports are being impacted due to a number of countries being under partial or complete lockdown. Given the closure of large retail stores, risk of withheld shipment and future orders, delays or extension of payment timelines, and even cancelled orders remains. On the local market front, textile sales are being affected due to continued shut down which will impact revenues and may extend to Ramadan which constitutes a major sales period. A sizeable chunk of sales undertaken for prior months are on credit and delays in collections is expected to adversely impact cash flows. However, comfort is drawn from export orders in hand (up till June 2020) and regulatory relaxations and relief measures provided by SBP. Key measures announced by SBP include reduction in policy rates and allowance for deferral of principal payment for a period of one year. Both these measures will reduce financial burden on textile companies. Moreover, under the relief package announced by GoP, Rs. 30b have been allocated for textile exporters as payment of duty drawbacks providing liquidity support to textile exporters.

Topline of the company grew by 20% during FY19 largely provided by currency devaluation. Around three-fifth of the sales mix comprised local sales.

Sales have increased on a timeline basis to Rs. 12.3b (FY18: Rs. 10.3b) during FY19 largely provided by currency devaluation in the outgoing year. Double-digit growth was witnessed in both, exports and local sales. Around two-fifth of total sales are geared towards international market with the remaining comprising local sales. Segment wise, total yarn sales grew by 16% while fabrics sales grew by 24% during FY19. Sharp decline in cotton prices since Jan'20 may also put pressure on average selling prices of yarn and fabric. Going forward, management expects sales revenue to witness pressure due to economic slowdown; however post crisis, management envisages improvement in sales with the company's focus towards increasing proportion of exports sales in both spinning and weaving segment.

Higher average selling prices along with efficient raw material procurement translated in to improved gross and operating margins during FY19. Margins are expected to remain under pressure in the ongoing year due to sharp reduction in cotton prices which is expected to result in inventory losses.

Gross margins of the company improved to 13.1% (FY18: 10.4%; FY17: 9.9%) during FY19 largely on the back of higher average selling prices led by sizeable currency devaluation along with efficient raw material procurement. Overall operating expenses increased primarily due to higher distribution cost incurred. Finance cost was reported on the higher side during FY19 on account of elevated borrowings to finance working capital requirements. Given improving margins in FY19, net profit increased to Rs. 635m (FY18: Rs. 368m) during FY19. Consequently, net margins also improved considerably to 5.1% (FY18: 3.6%) during the same period. During 1HFY20, gross margins of the company declined to 11.8% and are expected to further witness pressure due to sharp reduction in cotton prices causing sizeable inventory losses.

Adequate liquidity profile and financial flexibility

In absolute terms, Funds from Operations (FFO) increased to Rs. 1,112m (FY18: Rs. 819m) on account of higher overall profitability during FY19. Given weakening in earnings profile during 1HFY20, FFO levels witnessed a slight decrease. Debt Service Coverage Ratio (DSCR) and FFO/Long-Term Debt remain healthy at 1.91x (FY19: 2.32x, FY18: 2.58x) and 50.8% (FY19: 56.4%, FY18: 44.3%) during 1HFY20, respectively. Inventory and trade debts provide strong coverage for short-term debt obligations while current ratio was reported at 2.38x at end-Dec'19. While cash flows for FY21 may be impacted, liquidity profile draws support from the company's plans to avail SBP's allowance for deferral of principal payment for a period of one year and no capital expenditure expected till cash flows improve. Maintaining working capital cycle and receivable days will also be important from a liquidity perspective.

Sound Capitalization indicators

On account of higher profit retention, net equity of the company was reported at Rs. 3.9b (FY19: Rs. 3.7b; FY18: Rs. 3.2b; FY17: Rs. 2.9b) at end-Dec'19. Dividend payout ratio was reported at 47% (FY19: 20%; FY18: 40%) during 1HFY20. Total debt carried on balance sheet amounted to Rs. 2.6b at end-Dec'19; around three-fourth of the total debt is long-term in nature with a major portion of the same being LTFF, acquired at considerably lower rate with extended repayment period. Short term borrowings are acquired as per seasonal procurement requirements and resultantly vary throughout the year. Given improving equity base, leverage indicators are considered sound with gearing and debt leverage reported at 0.66x (FY19: 1.11x) and 0.99x (FY19: 1.43x) at end-1HFY20, respectively.

Blessed Textiles Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY17**	**FY18**	**FY19**	**1HFY20***
Fixed Assets	3,898	3,596	3,781	3,857
Stock-in-Trade	1,822	3,893	3,245	2,316
Trade Debts	523	926	971	757
Cash & Bank Balances	35	140	302	140
Total Assets	7,082	9,305	9,129	7,846
Trade and Other Payables	421	488	544	632
Long Term Debt	2,039	1,846	1,970	1,985
Short Term Debt	1,243	3,146	2,191	628
Total Debt	3,282	4,993	4,161	2,613
Paid Up Capital	64	64	64	64
Total Equity	2,973	3,252	3,755	3,949
INCOME STATEMENT				
Net Sales	8,064	10,257	12,346	6,417
Gross Profit	795	1,072	1,613	759
Profit Before Tax	377	504	788	402
Profit After Tax	246	368	635	322
RATIO ANALYSIS				
Gross Margin (%)	9.9%	10.4%	13.1%	11.8%
Net Margin	3.0%	3.6%	5.1%	5.0%
Net Working Capital	1,254	1,715	2,148	2,301
Trade debts/Sales	6.5%	9.0%	7.9%	5.9%
FFO	629	819	1,112	504
FFO to Total Debt (%)	19.2%	16.4%	26.7%	38.6%
FFO to Long Term Debt (%)	30.8%	44.3%	56.4%	50.8%
Current Ratio (x)	1.65	1.43	1.67	2.38
Debt Servicing Coverage Ratio (x)	1.94	2.58	2.32	1.91
Gearing (x)	1.10	1.54	1.11	0.66
Leverage (x)	1.38	1.86	1.43	0.99
Long Term Debt to TD (%)	62%	37%	47%	76%
Short Term Debt to TD (%)	38%	63%	53%	24%
(Stock+ Trade Debts)/STD	189%	153%	192%	489%
Dividend Payout	40%	40%	20%	47%
ROAA (%)	4%	4%	7%	8%
ROAE (%)	9%	12%	18%	17%

** Annualized numbers*

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix II

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	Textile Industry
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
22/04/2020	A-	A-1	Rating Watch-Developing	Maintained
21/02/2019	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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Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Muhammad Salim	Chairman	07-April-2020
2	Mr. Abdul Basit Janjua, FCA	CFO	07-April-2020