

RATING REPORT

Premium Textile Mills Limited (PRET)

REPORT DATE:

July 23, 2018

RATING ANALYST:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BBB+	A-2
Rating Outlook	Stable	
Rating Date	July 19 th , 2018	

COMPANY INFORMATION

Incorporated in 1987	External auditors: Rehman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Listed Company	Chairman: Mr. Mohammad Aslam
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Abdul Kadir Haji Adam
Trustees of Abdul Kadir Khan Adam Beneficiary – 45.5%	
CDC – Trustee National Investment (UNIT) – 11.9%	
Local – Individuals - 11.6%	
Rahmat Investment Company (Pvt) Ltd – 6.5%	

APPLICABLE METHODOLOGY(IES)

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

Premium Textile Mills Limited (PRET)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>The Premium Group of Companies was incorporated in Pakistan in 1987. Premium Textile Mills Limited (PRET) started operations in 1989 and serves as the spinning business of the group.</p> <p>The Premium Group of companies is also involved in home appliance trading (Premium Resources), auto parts (Techno Fabrik) and manufacture of knitwear (Premium Knits).</p> <p>A* - Annualized Figures</p>	<p>PRET is involved in the production of dyed yarn and heather greige products. The company started spinning operations with 12,230 spindles, over the years the spindle count has increased to 77,728 spindles producing around 20 million KGs of yarn annually (20/1 count). About 10-15% of PRET's yarn is sold to Premium Knits for the purpose of manufacturing knitwear like socks, gloves, hats and jerseys. Most of the yarn is sold to Turkish, Portuguese and Brazilian markets through indirect exports.</p> <p>Current financial profile remains adequate to sound, however, with the implementation of limited expansion and BMR largely aimed towards improvement in efficiency, the leverage and cash flow to debt indicators show a weakening trend in the initial projected period of three years.</p> <p>Rating Drivers</p> <p>Industry Risk: Inherent volatility of yarn and cotton prices drives the performance of textile companies which are primarily engaged in the spinning sector. Adverse changes in cotton prices may impact financial performance of such companies. Furthermore, absence of a high value-added manufacturing renders the margins volatile.</p> <p>Profitability: Due to favorable price adjustment in sales price relative to cost, gross profit increased for 9MFY18 on an annualized basis. Although finance cost increased for the year owing to higher utilization of borrowing, due to higher gross margins, PRET reported a higher net profit of Rs. 227.3m for 9MFY18A (FY17: Rs. 175.6m). Profitability and margins are expected to improve due to capacity expansion and BMR activity. However, the same is contingent on yarn prices which dictate margins in the spinning industry.</p> <p>Liquidity: Improved profitability in 9MFY18A resulted in a healthier cash flow generation for the same period which resultantly had a favorable effect on the debt servicing coverage and Funds From Operations (FFO) in relation to long-term debt multiples of PRET. The Debt Service Coverage Ratios (DSCR) at end 9MFY18A increased to 3.07x (FY17: 2.64x) owing to lower principal payments outstanding. The DSCR decreased to 2.64x for FY17 (FY16: 3.14x) due to the absence of a principal payment in FY16. At end 9MFY18A, FFO amounted to Rs. 517.5m on the back of improvement in profitability. Cash flow in relation to total debt multiple fell slightly despite healthier cash flows due to the take up of debt for the same period.</p> <p>Capitalization: The equity base of PRET as at 9MFY18 increased on account of increasing trend of unappropriated profit witnessed during the course of the last three years. Total equity amounted to Rs. 1.6b at end 9MFY18 (FY17: Rs. 1.5b).</p> <p>Leverage: PRET's total debt increased to Rs. 3.5b (FY17: Rs. 2.7b) at end 9MFY18 on the back of an increase in short-term borrowing, which is in line with the increase in the company's inventory, and the take up of long-term debt for BMR activities. Given the equity profile of PRET at end 9MFY18, gearing and leverage ratios increased to 2.11x (FY17: 1.77x) and 2.54x (FY17: 2.14x) respectively and remain on the higher side. Leverage indicators are expected to increase owing to acquisition of long term loans by PRET, going forward.</p>

Profile of Board of Directors	Appendix I
Mr. Mohammad Aslam Parekh	Mr. Mohammad Aslam Parekh is the chairman of PRET and has been associated with the company since 1990. He is mainly involved in the short-term and long-term planning for the company, procurement, business dealings and project management.
Mr. Abdul Kadir Haji Adam	Mr. Abdul Kadir Haji Adam serves as the CEO of PRET. He has been associated with the company for over 45 years.
Mr. Mohammed Yasin Siddik	Mr. Mohammed Yasin Siddik is an executive director of PRET and holds an MBA degree from IBA Karachi. He started Premium Textile Mills and has since been associated with the company. He has also served as the chairman of APTMA (Sindh Baluchistan) for 3 years.
Mr. Mohammad Ali Jaliawala	Mr. Mohammad Ali Jaliawala is a director at PRET and has been associated with the company since 1990. During his directorship, he has taken various roles ranging from raw material procurement, expansion and export sales.
Mr. Mohammed Tufail Sattar	Mr. Mohammed Tufail Sattar joined the company as a director in 1998. He is also a member of the Board Audit Committee (BAC). Mr. Tufail holds a Bachelor's degree in Business Administration from Whittier College, California. He is also a partner in prudential enterprises; a trading company dealing in dairy ingredients and home textile.
Mr. Ghulam Mohammed Surti	Mr. Ghulam Mohammed Surti has been associated with PRET since 1990. During his directorship, he has undertaken various roles at the company ranging from administrative duties to sales planning.
Mr. Farukh V. Junaidy (NIT Nominee)	Mr. Farukh V. Junaidy (NIT Nominee) serves as the director of PRET in various roles comprising financial & business management, tax planning and compliance, audit and reporting. He is a fellow member and council member of the Institute of Chartered Accountants of Pakistan (ICAP). Mr. Junaidy has served on the BoD of the Karachi Stock Exchange (KSE) as a nominee of the Securities and Exchange Commission of Pakistan (SECP) and has over 15 years' experience in KPMG including 6 years' experience as a partner.

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FINANCIAL SUMMARY <i>(amounts in Rs. millions)</i>				Appendix II
BALANCE SHEET	9MFY18(A)	FY17	FY16	FY15
Fixed Assets	2,806.1	2,115.2	2,144.3	1,812.2
Stock-in-Trade	1,636.0	1,372.1	888.1	946.7
Trade Debts	1,170.2	1,154.8	674.3	596.3
Cash & Bank Balances	2.2	9.0	14.5	9.5
Total Assets	5,824.2	4,865.0	3,910.6	3,535.7
Trade and Other Payables	633.5	510.4	349.8	233.8
Long Term Debt <i>(*incl. current maturity)</i>	1,524.2	856.8	927.6	700.0
Short Term Debt	1,941.4	1,877.9	1,121.7	1,127.5
Total Equity (excluding surplus)	1,641.6	1,546.7	1,445.7	1,358.6
INCOME STATEMENT				
Net Sales	6,514.0	5,413.2	4,814.0	6,030.8
Gross Profit	686.7	548.3	419.5	524.4
Operating Profit	487.6	385.5	274.7	359.4
Profit After Tax	227.3	175.6	138.3	162.7
RATIO ANALYSIS				
Gross Margin (%)	10.5%	10.1%	8.7%	8.7%
FFO to Total Debt (%)	14.9%	15.9%	14.8%	16.7%
FFO to LT Debt (%)	34.0%	50.7%	32.8%	43.7%
Gearing (x)	2.11	1.77	1.42	1.35
Leverage (x)	2.54	2.14	1.70	1.59
DSCR (x)	3.07	2.64	3.14	2.23
ROAA (%)	4.3%	4.0%	3.7%	4.0%
ROAE (%)	14.3%	11.7%	9.9%	12.7%

A-Annualized

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix III

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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.

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REGULATORY DISCLOSURES						Appendix IV
Name of Rated Entity	Premium Textile Mills 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>					
	19-Jul-18	BBB+	A-2	Stable	Initial	
Instrument Structure	N/A					
Statement by the Rating Team	JCR-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.					
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