

## RATING REPORT

### Orient Textile Mills Limited (OTML)

**REPORT DATE:**
**RATING ANALYST:**

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**RATING DETAILS**

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BBB	A-3
Rating Outlook	Stable	
Rating Date	28 <sup>th</sup> September 2018	

**COMPANY INFORMATION**

<b>Incorporated in 1986</b>	<b>External auditors:</b> M/S Kreston Hyder Bhimji & Co. Chartered Accountants
<b>Public Limited Company</b>	<b>Chairman:</b> Mr. Haji Ebrahim Haji Karim
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Iqbal Ebrahim
Mr. Iqbal – 11.0%	
Miss. Afsheen – 11.0%	
Mr. Rafiq – 9.2%	
Mr. Ismail – 7.4%	
Mr. A.Karim – 7.4%	
Mr. Ahmed – 5.8%	
Mr. Mudasir – 5.5%	
Mr. Mohsin – 5.5%	
Mr. Amjad – 5.5%	
Miss. Anum – 5.4%	

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

**Orient Textile Mills Limited (OTML)****OVERVIEW OF THE INSTITUTION**

Orient Textile Mills Limited (OTML) incorporated in 1986 is engaged in the business of weaving.

Ebrahim Group of companies includes Ebrahim Textile Mills Pvt. Ltd, Orient Textile Mills Ltd., Pakistan Dairy Products Pvt. Ltd. and Imran Crown Cork Pvt. Ltd.

**RATING RATIONALE**

OTML is a part of the Ebrahim Group of Companies, a family held group specializing in the textile sector with also other interests in dairy and bottling sectors. OTML is engaged only in the process of weaving (262 looms); remaining operations including processing, designing, printing and stitching are undertaken at Ebrahim Textile Mills (sister concern) and the finished product is returned to OTML for sale to external clients. Over the years, OTML has expanded its production capacity by replacing old looms with new and efficient looms.

**Top-line on a growing trajectory; however client wise and geographic concentration is witnessed in sales**

Sales have increased on a timeline basis to Rs. 3.3b (FY17: Rs. 2.6b) in FY18. Sales mix has also shifted from greige cloth including weaving services to higher value added products. Geographic concentration is witnessed in sales as around 47.7% of sales comprise direct exports to clients in France. Similarly, client wise concentration in sales is also significant as top ten clients comprised 64.2% (FY17: 56.3%) of gross sales in FY18. However, long term association with clients partly mitigates concentration risk. Furthermore, OTML's management is undertaking efforts to diversify its export sales.

**Focus on higher value added products bringing improvement in gross margins; positive bottom-line in FY18 after a period of three years**

OTML had posted net losses in the period from FY15 to FY17, as gross profit was insufficient to cover operating expenses. However, trend in profitability has been positive as the quantum of loss decreased on a timeline basis and the company posted profit for the first time in FY18. OTML gross profit has seen a rising trend for the past three years. In FY18, the GP margin was 9.4% (FY17: 7.9%); this increase was witnessed due to shift in sales mix towards higher value added products. Management expects growth trend in profitability to continue in future; however, increase in input prices, especially gas prices, may adversely impact gross margins going forward.

**Adequate liquidity profile due to sufficient cash flows in relation of outstanding debt obligations**

Liquidity profile of the company is considered adequate in view of satisfactory debt servicing ability and manageable levels of ageing of trade debts. Current ratio of the company has exhibited slight improvement in the past four years. Although short term borrowings are sizeable, stock in trade and trade debts are sufficient to cover short term liabilities. Due to the profit posted for the first time in four years, FFO was comparatively higher in FY18 (FY18: Rs. 204.4m; FY17: Rs. 141.5m) vis-à-vis the preceding year. Similarly, FFO to long term debt improved in FY18 to 38.1% (FY17: 31.3%).

**Low capital base and high leverage indicators vis-à-vis peers**

Equity base of the company is supported by long term loan from associated undertaking. However, overall equity base continues to remain on the lower side vis-à-vis peers. In FY18, total equity amounted to Rs. 490.4m (FY17: Rs. 446.2m). On the other hand, gearing and leverage ratio of the company were 3.3x and 4.7x (FY17: 3.0x and 4.8x) respectively at end FY18, which are considered high in relation to peers.

**Room for improvement in Corporate Governance Framework**

Board of Directors at OTML comprises seven members and is chaired by Mr. Haji Ebrahim Haji Karim. There is room for improvement in the corporate governance of the company as no independent director is present on the board, and absence of board sub-committees and formal internal audit function. The company has separate quality assurance department at its manufacturing facilities in order to maintain internal control over production process.

**ISSUE/ISSUER RATING SCALE &DEFINITIONS**

**Appendix I**

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

**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](http://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](http://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

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.

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](http://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.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES		Appendix II			
<b>Name of Rated Entity</b>	Orient Textile Mills Limited (OTML)				
<b>Sector</b>	Textiles				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Medium to</b>				
	<b>Rating Date</b>	<b>Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	28/09/2018	BBB	A-3	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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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