

RATING REPORT

Gadoon Textile Mills Limited (GTML)

REPORT DATE:

November 13, 2020

RATING ANALYSTS:

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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	November'13, 2020		April'24,2020	
Rating Outlook	Stable		Rating Watch - Developing	

COMPANY INFORMATION

Incorporated in 1988	External auditors: Deloitte Yousuf Adil & Co. Chartered Accountants
Listed Public Limited Company	Chairman of the Board: Mr. Muhammad Yunus Tabba
Key Shareholders (with stake 5% or more): - Yunus Brothers Group	Chief Executive Officer: Mr. Muhammad Sohail Tabba

APPLICABLE METHODOLOGY(IES)

 Applicable Rating Criteria: Industrial Corporates (May, 2016) <http://www.vis.com.pk/kc-meth.aspx>

Gadoon Textile Mills Limited

OVERVIEW OF
THE
INSTITUTION

Gadoon Textile Mills Limited (GTML) was incorporated in 1988 as part of Yunus Brothers Group (YBG). The sponsor has diversified interests in textiles, building materials, real estate, power generation, chemicals, pharmaceuticals, food and automotive sectors.

Profile of Chairman

Mr. Muhammad Yunus Tabbata started his over 58 years long career with YBG as one of its founding members. He was awarded “Businessman of the Year” award by the Chambers of Commerce several times during his entrepreneurial career.

Profile of CEO

Mr. Muhammad Sohail Tabbata is a seasoned businessman with extensive experience in manufacturing, energy, real estate and cement sectors. Mr. Sohail is a chairman of ICI Pakistan Limited and NutriCo Morinaga (Private) Limited. Furthermore, he serves as a CEO of Lucky Energy (Private) Limited and LuckyOne (Private) Limited.

RATING RATIONALE

Gadoon Textile Mills Limited (GTML) operates as a yarn (both coarse & fine counts) manufacturer through two units located at Swabi District in Khyber Pakhtunkhwa (Unit A) and at Karachi in Sindh (Unit B) and a knitwear manufacturer through Unit B. GTML is part of the Yunus Brothers Group (YBG), a reputable conglomerate with strong financial profile and presence in diversified sectors including textiles, building materials, real estate, power generation, chemicals, pharmaceuticals, food and automotive sectors. The company has a total of 348,096 spindles at the facility. Expansion of the knitting facility is ongoing and is expected to come online in 1HFY21. Further, the Knitting segment of the Company has also been extended and it has come online in the 1HFY20.

Citing improvement in operating performance in Q1'FY21, the outlook assigned to GTML's ratings has been revised to 'Stable'

The impact of Covid-19-induced slowdown was noted in FY20, as reflected by the thinning in gross margins (FY20: 7.7%; FY19: 9.3%), contraction in topline (-7.2%) and net margins contracting close to break-even (FY20: 0.2%; FY19: 3.8%). However, operating performance in Q1'FY21 has depicted improvement, with topline being 18.3% higher than SPLY, albeit margins remain under pressure. Given the reduction in benchmark rates, financing cost for the company has also reduced, reflecting positively on the bottomline. Even though concerns of a 2nd wave of Covid-19 remain elevated, we expect the order book for the industry to remain strong in the ongoing year, easing our business risk concerns.

Gadoon Textile Mills Limited
Appendix I

FINANCIAL SUMMARY					
<i>(amounts in PKR millions, unless stated otherwise)</i>					
BALANCE SHEET					
	Jun'18	Jun'19	Jun'20	Sep'20	
Fixed Assets	7,791.9	9,870.4	10,165.0	9,972.4	
Long Term Investments	2,686.9	2,890.6	3,150.6	3,302.9	
Stock-in-Trade	7,469.6	8,407.4	12,914.4	10,435.9	
Trade Debts	2,464.2	3,517.7	2,333.0	3,563.7	
Cash & Bank Balances	188.9	112.5	86.1	96.7	
Total Assets	23,142.5	27,305.5	30,833.4	29,454.1	
Trade and Other Payables	3,088.5	3,700.8	4,181.7	5,136.5	
Long Term Debt	594.3	2,675.1	3,594.8	4,242.2	
Short Term Debt	9,864.9	9,926.7	12,362.1	9,194.3	
Paid Up Capital	280.3	280.3	280.3	280.3	
Total Equity	8,213.5	9,209.4	9,084.4	9,276.6	
INCOME STATEMENT					
	FY18	FY19	FY20	Q1'FY20	Q1'FY21
Net Sales	27,554.7	31,217.5	28,986.8	7,492.1	8,864.2
Gross Profit	1,944.9	2,892.7	2,241.3	766.3	455.7
Total Expenses	823.0	776.3	1,660.7	225.8	217.1
Other Income	449.2	170.8	173.6	42.1	75.5
Finance Cost	574.7	1,100.1	909.1	293.2	187.0
Share from associates	477.2	482.6	492.5	182.5	154.0
Profit Before Tax	1,473.6	1,668.5	337.7	472.0	281.2
Profit After Tax	1,185.3	1,186.1	45.5	365.4	192.2
RATIO ANALYSIS					
	FY18	FY19	FY20	Q1'FY21	
Gross Margin (%)	7.06	9.27	7.73	5.14	
Net Margin (%)	4.30	3.80	0.16	2.17	
Current Ratio (x)	0.96	1.02	1.03	1.07	
(Inventory + Receivables)/ST Borrowings (x)	1.01	1.20	1.23	1.52	
FFO to Total Debt (x)	0.15	0.19	0.04	0.03	
FFO to Long Term Debt (x)	2.70	0.88	0.20	0.08	
Gearing (x)	1.27	1.37	1.76	1.45	
Leverage (x)	1.82	1.96	2.39	2.18	
Debt Servicing Coverage Ratio (x)	4.01	3.59	1.57	2.77*	
ROAA (%)	5.49	4.70	0.16	2.55*	
ROAE (%)	15.22	13.62	0.50	8.38*	
*Annualized					

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

RATING SCALE & DEFINITIONS: ISSUES / ISSUERSMedium 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	Gadoon Textile Mills Limited (GTML)				
Sector	Textile				
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>				
	Nov-13-20	A+	A-1	Stable	Maintained
	Apr-24-20	A+	A-1	Rating Watch - Developing	Maintained
	Dec-13-19	A+	A-1	Stable	Reaffirmed
Oct-29-18	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	NA				