

## RATING REPORT

## Umar Spinning Mills (Pvt.) Limited (USMPL)

**REPORT DATE:**

April 29, 2020

**RATING ANALYST:**Narendar Shankar Lal  
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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook	Rating Watch - Negative		Stable	
Rating Date	April 29, 2020		March 16, 2020	
Rating Action	<i>Maintained</i>		<i>Reaffirmed</i>	

## COMPANY INFORMATION

Incorporated on March 10, 1991	External auditors: Reanda Haroon Zakaria & Company
Private Limited Company	Chief Executive Officer: Mr. Pervaiz Umar
<b>Key Shareholders (with stake 5% or more):</b>	
Pervaiz Umar	60%
Mohammad Faisal Pervaiz	25%
Shaheena Pervaiz	15%

## APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria *Industrial Corporates (April 2019)*<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

**Umar Spinning Mills (Pvt.) Limited**

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Umar Spinning Mills Private Limited (USMPL) was incorporated in 1991 and became operational in 2003. Financial Statements of the company for FY19 were audited by Reanda Haroon Zakaria &amp; Company.</p> <p><b>Profile of CEO</b> Mr. Pervaiz Umar has been associated with the company since 1991. He is also associated with one of the largest clearing, forwarding and customs advisory house since 1968.</p>	<p>Umar Spinning Mills Private Limited (USMPL) is a part of Pervaiz Group of Companies which has presence in textile and clearing &amp; forwarding business. USMPL is primarily engaged in the manufacturing and sale of various types of yarn ranging from coarse to fine counts to both local and international markets. Head office of the company is based in Karachi, while a representation office is based in Lahore.</p> <p><b>Production</b> Production factory of USMPL is based in Raiwand, Lahore. At end-FY19, the company operated with 43,776 (FY18: 43,776).. Going forward, overall installed capacity is expected to remain at similar level; however, actual production may witness an increase due to BMR activities that the management plans to undertake.</p> <p><b>Coronavirus to result in uncertainty in textile sector dynamics</b> The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand, sharp fall in cotton prices and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action. Aforementioned operating dynamics coupled with leveraged capital structure of the company warrant a 'Rating Watch-Negative' status. The ratings are dependent upon maintenance of overall sales, profit margins, debt service coverage, and gearing ratios at an adequate level, with outlook subject to be reviewed once the situation stabilizes.</p>

Financial Summary (amounts in PKR millions)		Appendix I		
<b><u>BALANCE SHEET</u></b>		<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
Fixed Assets		1,603.4	1,582.7	1,540.4
Stock-in-Trade		954.9	1,018.6	1,372.7
Trade Debts		193.0	362.8	361.1
Cash & Bank Balances		26.3	35.6	55.2
Refunds Due from Government		189.7	167.9	165.8
<b>Total Assets</b>		<b>3,210.0</b>	<b>3,875.5</b>	<b>3,904.3</b>
Trade and Other Payables		229.0	321.2	379.3
Long Term Debt (including current maturity)		594.4	614.8	652.7
Short Term Debt		680.9	1,102.6	897.0
<b>Total Debt</b>		<b>1,275.4</b>	<b>1,717.4</b>	<b>1,549.7</b>
<b>Total Liabilities</b>		<b>1,557.3</b>	<b>2,097.3</b>	<b>2,017.9</b>
Paid Up Capital		290.0	290.0	290.0
<b>Total Equity (without surplus revaluation)</b>		<b>1,652.7</b>	<b>1,778.3</b>	<b>1,886.4</b>
<b><u>INCOME STATEMENT</u></b>		<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
Net Sales		2,575.7	3,548.3	4,035.1
Gross Profit		166.0	267.3	348.7
Profit Before Tax		42.8	76.3	118.1
Profit After Tax		39.9	80.2	70.2
<b><u>RATIO ANALYSIS</u></b>		<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
Gross Margin (%)		6.4%	7.5%	8.6%
Net Profit Margin		1.5%	2.3%	1.7%
FFO		180.8	265.7	321.0
FFO to Total Debt (%)		14.2%	15.5%	20.7%
FFO to Long Term Debt (%)		30.4%	43.2%	49.2%
Debt Servicing Coverage Ratio (x)		3.4	3.2	3.0
ROAA (%)		1.5%	2.3%	1.8%
ROAE (%)		2.4%	4.7%	3.8%
Gearing (x)		0.77	0.97	0.82
Leverage (x)		0.94	1.18	1.07
Current Ratio (x)		1.7	1.5	1.7
(Stock in trade + Trade Debts) / Short Term Borrowings (%)		168.6%	125.3%	193.3%

**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 moderate 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](http://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](http://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](http://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
<b>Name of Rated Entity</b>	Umar Spinning Mills (Pvt.) Limited					
<b>Sector</b>	Textiles					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Entity Rating					
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>	
	<b>RATING TYPE: ENTITY</b>					
	29/4/2020	BBB+	A-2	Rating Watch-Negative	Maintained	
	16/3/2020	BBB+	A-2	Stable	Reaffirmed	
	13/2/2019	BBB+	A-2	Stable	Initial	
<b>Instrument Structure</b>	N/A					
<b>Statement by the Rating Team</b>	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.					
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>		<b>Designation</b>		<b>Date</b>	