RATING REPORT

Lucky Textile Mills Limited

REPORT DATE:

November 11, 2020

RATING ANALYST:

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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AA-	A-1	AA-	A-1
Rating Outlook	Stable		Stable	
Rating Date	*November 11, 2020*		*November 18, 2019*	

COMPANY INFORMATION	
Incorporated in December 2011	**Internal auditors:** EY Ford Rhodes, Chartered Accountants **External auditors:** Deloitte Yousuf Adil & Co., Chartered Accountants
Public Unlisted Company	**Chairman:** Mr. Muhammad Yunus Tabba
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Jawed Yunus Tabba
Y.B. Holdings (Pvt) Ltd – 99.99%	

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

Lucky Textile Mills Limited

OVERVIEW OF THE INSTITUTION

Lucky Textile Mills Limited (LTML) was incorporated in December 2011as a Public Unlisted Company. The Company had taken over the assets and liabilities of Lucky Textile Mills which operated as a partnership firm registered in the year 1983 under the Partnership Act, 1932. Principal activity of the company includes manufacturing and export of fabric, home textile and apparel products.

Profile of CEO

Mr. Jawed Yunus Tabba has a rich experience in the Textile industry. He is also managing the Real Estate Project LuckyOne, which is the largest mall in Karachi. He is also extensively engaged in community welfare projects which include Aziz Tabba Foundation.

RATING RATIONALE

Lucky Textile Mills Limited (LTML) is a part of the Yunus Brother Group (YBG) being a wholly owned subsidiary of YB Holdings (Pvt.) Limited. LTML is a composite textile mill engaged in weaving, processing, and stitching of various kinds of textile products. Sales of the company can be classified into three categories: home textiles, garments and fabric. The company carries out its activities through its weaving, stitching and processing units.

Sector Update

Pakistan Textile Exports	FY19	FY20	
(Mn Tons, USD Mn)	**Value**	**Value**	**YoY**
Cotton yarn	1,125	985	-12%
Cotton Cloth	2,102	1,830	-13%
Knit wear	2,900	2,794	-4%
Bed wear	2,262	2,151	-5%
Ready-made garments	2,653	2,552	-4%
Others	2,286	2,214	-3%
Total	**13,328**	**12,527**	**-6%**

- FY20 exports declined by 6% year on year due to COVID-19 induced lockdowns both domestically and globally.
- In Jul-Sep period, textile exports inched up by 2.9% to \$3.46bn, from \$3.37bn during SPLY.
- Looking ahead, sector dynamics after weakening in FY20 are expected to gradually recover from COVID-19 related slowdown both in domestic and exports market.
- The GoP is timely paying Draw back of Local Taxes and Levy (DLTL) to textile exporters in order to support liquidity constraints of the manufacturers.
- In the long run, the sector's fate depends on recovery of developed economies post COVID-19 situation, improvement in value addition, investment in technology and optimization of energy cost. VIS expects Long term textile policy, continuation of preferential energy rates and strong government support to improve sector's dynamics.

Key Rating Drivers:

Strong Sponsor Profile

LTML is a group company of YBG, which is a reputable conglomerate with strong financial profile and has presence in diversified sectors including power generation, building materials, real estate, textile, chemicals, pharmaceuticals, food, philanthropic, entertainment and automotive sectors.

Capacities enhancement is projected to continue while utilization is forecasted to stay elevated over the rating horizon

Capacity & Production		
(In Meters)	**FY19**	**FY20**
Weaving		
Capacity	63,000,000	72,000,000
Production	62,863,219	55,912,136
Utilization	*99.78%*	*77.65%*
Processing		
Capacity	65,000,000	70,000,000
Production	55,419,975	67,300,198
Utilization	*85.26%*	*96.14%*

LTML has continued its capacity expansion in the year FY20 by increasing weaving capacity to 72mn meters and processing to 70mn meters annually. The company has planned further CAPEX to increase its existing capacities. Weaving production depicted a decline to 56mn meters in FY20 due to higher outsourced cloth processing while production from the processing segment witnessed a notable growth of 21.4% to 67mn meters in the year under review due to higher demand orders.

Sales displayed a notable growth despite COVID-19 with stable gross margins provide healthier business outlook. Focus will remain on the business growth amid higher expected demand; re-emergence of Covid-19 in key export markets remains a risk

LTML has an export oriented topline wherein 99% of the revenue is earned through exports. The company primarily exports to EU countries and USA. Client concentration is considered to be on the higher side as around two-third of the sales is concentrated in top 10 customers. However, concentration risk is partly mitigated due to lengthy association with most large clients.

Overall topline of the company grew to Rs. 24.6bn (↑32%) in FY20 from 18.7bn a year earlier, wherein, overall volumetric growth stands at 26% year on year. The average rupee devaluation of around 16% Y/Y in FY20 also played its part to augment the topline of the company. Overall sales displayed a 5-Yr CAGR of 14% from FY16-FY20. Volumetric growth is projected to continue to support the sales progression due to rebound in export demand going forward; although impact of risk of another lockdown on revenues in European countries remains. Gross margins of the company remained intact at 24% (FY19: 25%) in FY20. Going forward, gross margin are expected to witness some pressure due to rising raw material prices and recent appreciation of rupee against the dollar. Overall margins will remain dependent on trend in volumetric sales, raw material prices and rupee dollar parity.

Sales		
(Rs. In Mn)	**FY19**	**FY20**
Export	18,531	24,510
Local	266	339

Robust profitability profile with diversified long term investments to support net earnings

LTML has total investments of around Rs. 8.78bn as at FY20 (FY19: Rs. 8.26bn), wherein, Rs 5.6 bn is placed as long term investments in various companies. The diversified long term investment portfolio include ICI Pakistan Limited, Lucky Holdings Limited, Yunus Energy Limited, KIA Lucky Motors Pakistan Limited, Lucky Wind Power (Pvt.) Limited, Lucky Entertainment (Private) Limited, Lucky Textile Holdings (Pvt.) Limited, Tricom Wind Power (Private) Limited and others. The total investment of the company is around 40% of the total adjusted equity base as at FY20 (FY19: 45%, FY18: 50%).

Income Statement (Extract)		
(Rs. In Mn)	**FY19**	**FY20**
Other Income	878.8	816.6
Share Profit from Associate	406.9	514.1

In FY20, operating margins came down to 16% from 19% in FY19 as higher inflation had increased the operating expenses. Resultantly, net margin dropped to 16% in FY20 from 19% in FY19, wherein, impact of increased finance cost offset by increase in share profit from associates.

Dividend income from investments and share of profit from associates has regularly supported overall profitability of LTML over the years. The management expects this avenue to continue to support profitability over the rating horizon. The company is subject to final tax regime whereby LTML is charges 1% turnover tax on export revenues. Resultantly, overall effective tax rate has remained around 6% during the last 2 years.

Liquidity profile is considered strong in light of healthy cash flows and sound debt coverage ratios. Despite debt draw down to fund expansion, cash flow coverages are

projected to remain strong over the rating horizon.

Liquidity profile stayed buoyant in line with growth in profitability on timeline basis. Cash flow coverage metrics of the company are considered sound. Due to extended repayment period on existing and planned Long Term Finance Facility (LTFF) utilized by the company, financial flexibility is considered to be on the higher side. Short term borrowings have been mobilized for working capital requirements and stood at Rs. 4.7b (FY19: Rs. 3.8b; FY18: Rs. 4.2b) at end-FY20. Stock in trade and trade debts are well in excess of short term borrowings while current ratio has remained consistently above 1(x) historically. Ageing profile of trade debts has remained manageable. Despite debt drawdown to fund expansion, cash flow coverage ratios are projected to remain strong over the rating horizon.

Low leverage indicators and conservative financial policy depict strong capitalization indicators

Equity base (excluding unrealized gain on investments) of the company has grown at a CAGR of 13% during the last three years on account of healthy internal capital generation. Quantum of dividend paid during three years has remained consistent; however, dividend payout ratio has witnessed a declining trend due to increase in bottom-line of the company. Long term debt mobilized amounted to Rs. 3.5b (FY19: Rs. 2.2b; FY18: Rs. 1.5b) at end-FY20 and comprises SBP's Long Term Finance Facility (LTFF) to fund expansion. The repayment period of this debt is 10 years. The company also utilizes short term borrowings for working capital requirements. Total short term borrowings amounted to Rs. 4.7b (FY19: Rs. 3.8b; FY18: Rs. 4.2b) and primarily comprises Export Refinance Facility (EFF). Given the extensive utilization of concessionary fixed rate financing including LTFF and EFF, the effective interest cost of the company has been maintained on the lower side while LTML is also hedged against sharp increase in interest rates in the economy. Gearing and leverage ratios of the company stood at 0.38x (FY19: 0.32x; FY18: 0.37x) and 0.65x (FY19: 0.57x; FY18: 0.61x) at end-FY20. Despite further debt drawdown, gearing and leverage ratios are projected to remain intact over the rating horizon due to growth in equity base.

Sound IT infrastructure

LTML has deployed Oracle E-Business Suite, which is an integrated set of business applications for automating customer relationship management (CRM), enterprise resource planning (ERP) and supply chain management (SCM) processes within organizations. With the help of this IT infrastructure, the management can track live data of production from the head office. IT infrastructure is considered sound with respect to the business requirements.

Internal controls are also considered sound but corporate governance framework depicts room for improvement; strong Health, Safety and Environment (HSE) practices are considered satisfactory

LTML has established an internal audit department at the head office and each production unit. Furthermore, the company has also appointed EY Ford Rhodes, Chartered Accountants as an internal auditor to get an independent opinion on internal controls environment. LTML places a lot of emphasis on HSE practices by ensuring implementation of sound and consistent protocols across each production facility. Various accreditations by international institutions are a testament to company's quality control at each stage of production. Both of these factors may help in attracting more export clientele in future.

Lucky Textile Mills Limited **Appendix I**

FINANCIAL SUMMARY *(Amount in PKR millions)*				
BALANCE SHEET	**FY17**	**FY18**	**FY19**	**FY20**
Long Term Debt	1,966.6	1,509.9	2,226.2	3,590.5
Short Term Debt	3,050.3	4,215.6	3,750.0	4,700.0
Total Equity (excluding unrealized gain on investments)	13,136.8	15,354.4	18,579.4	22,098.5
Total Equity (including unrealized gain on investments)	14,000.9	15,784.0	19,129.1	22,531.6
INCOME STATEMENT	**FY17**	**FY18**	**FY19**	**FY20**
Net Sales	13,496.1	15,689.8	18,706.1	24,623.9
Profit Before Tax	2,014.6	2,857.9	3,825.6	4,282.5
Profit After Tax	1,968.7	2,610.6	3,597.9	4,037.2
RATIO ANALYSIS	**FY17**	**FY18**	**FY19**	**FY20**
Adjusted FFO	2,194.8	3,467.5	4,174.7	4,851.7
Adjusted FFO to Total Debt (%)	43.7%	60.6%	69.9%	58.5%
Adjusted FFO to Long Term Debt (%)	111.6%	229.7%	187.5%	135.1%
Debt Servicing Coverage Ratio (x)	19.2	14.8	19.2	13.9
Gearing (x)	0.38	0.37	0.32	0.38
Leverage (x)	0.60	0.61	0.57	0.65
Current Ratio (x)	1.36	1.45	1.70	1.78
(Trade Debts + Stock in Trade)/ Short Term Borrowings	166.3%	173.4%	240.1%	223.7%

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	Lucky Textile Mills Limited
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings.
Due Diligence Meetings Conducted	

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
Nov 11, 2020	AA-	A-1	Stable	Reaffirm
Nov 18, 2019	AA-	A-1	Stable	Initial

Due Diligence Meetings Conducted:

Name	Designation	Date
Mr. Danish Zahoor	CFO & Company Secretary	23rd October, 2020
Mr. Adnan Arif	Deputy Genera l Manager	23rd October, 2020