

## RATING REPORT

### Blessed Textiles Limited (BTL)

**REPORT DATE:**

April 4, 2018

**RATING ANALYST:**

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RATING DETAILS		
Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-1
Rating Outlook	Stable	
Rating Date	March 30, 2018	

**COMPANY INFORMATION**

<b>Incorporated in 1987</b>	<b>External auditors:</b> M/s Rahman Sarfaraz Rahim Iqbal Rafiq
<b>Public Limited Company</b>	<b>Chairman:</b> Mr. Mohammad Salim
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Mohammad Amin
Faisal Spinning Mills Limited - 18.5%	
Mrs. Samia Bilal – 8.3%	
Mr. Faisal Shakeel – 8.0%	
Mr. Adil Shakeel – 6.9%	
Mrs. Fatima Amin – 5.1%	

**APPLICABLE METHODOLOGY(IES)**

JCR-VIS Entity Rating Criteria *Industrial Corporates (May 2016)*

<http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

## Blessed Textiles Limited

### OVERVIEW OF THE INSTITUTION

Blessed Textiles Limited (BTL) is a part of Umer Group of Companies. The group owns business interests in Textile (Weaving and Spinning), Power Generation, Footwear manufacturing/Retail, Leather manufacturing, Leather Garments, Dairy milk and construction activities. Reported turnover of the group is more than USD 300 million. BTL was incorporated as a public limited company in 1987, under the Companies Ordinance, 1984. BTL is listed on Pakistan Stock Exchange (PSX) and registered office of the company is based in Karachi.

### RATING RATIONALE

Blessed Textiles Limited (BTL) was established in 1987 as part of the Umer group of companies. The company is primarily engaged in production of yarn and fabric through its two spinning units and one weaving unit. In addition, BTL also has its own ancillary power unit. Shareholding pattern indicates that BTL is a closely held organization with majority ownership vested with institutional investors.

Both spinning units and weaving unit of BTL are located in Ferozewatan, Shiekhupura. Blessed Textiles Unit I (spinning) is engaged in production of coarse to medium yarn with count varying from 10 to 40 single. Blessed Textiles Unit II (weaving) is utilized to produce greige cloth. Blessed Textiles Unit III also produces coarse to fine yarn with count range varying from 8 to 60 singles.

#### Key Rating Drivers:

**Business Risks:** Inherent volatility in cotton prices owing to factors affecting cotton crop prices and demand continues to remain a key risk factor affecting the margins of textile companies operational in medium to low non-value added segment. Demand from China is considered a major determinant of yarn prices. Resultantly, weaker demand from China resulted in depressed yarn prices in FY16. Settlement of receivables owed by Government of Pakistan (GoP) to textile companies under various schemes is also considered important from a liquidity perspective.

**Profitability:** Profitability of BTL depicted improvement in FY17 and Q1'18 primarily on the back of growth in gross margins. Gross margins have increased mainly on account of recovery in yarn prices. Furthermore, improvement in gross margins was also a function of growth in volumes in Q1'18 due to addition of spindles in late FY17. Sales of the company have also grown on timeline basis and are tilted towards local market as export market is primarily catered through group companies with production facilities in Sindh.

**Liquidity:** Liquidity profile has depicted similar trend to profitability during the past three years, witnessing a slight dip in FY16 and subsequent improvement in FY17 and Q1'18. Growth in profitability has translated into higher cash flows. Cash flows continue to remain a function of volatility in gross margins. Overall liquidity profile is considered adequate as indicated by satisfactory cash flows in relation to debt obligations and adequate current ratio. Cash conversion cycle has increased due to higher inventory as management expects cotton prices to increase.

**Capitalization:** Equity base of the company has grown during the last years at a CAGR of 4.3% on account of profit retention. Gearing and debt leverage have increased in the period FY15-FY17 owing to acquisition of long term debt to facilitate capacity expansion. The same improved in Q1'18 as result of repayment of short term debt. Short term borrowings are acquired as per seasonal procurement requirements and resultantly vary throughout the year.

**Outlook:** Management envisages further improvement in yarn manufacturing process and possible addition of looms in the weaving unit to enhance capacity. The same will be facilitated by acquisition of additional debt. Management believes that capacity expansion have a positive impact on sales and margins. Moreover, textile package introduced by GoP and renewal of GSP plus status for Pakistan by European Union also bodes well for exports of BTL. Given the recent rupee depreciation, profitability of BTL is expected to improve in future. In view of management's expansion plan, risk profile of the company is expected to remain commensurate with the outstanding rating.

## JCR-VIS Credit Rating Company Limited

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

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			Appendix I
<b>BALANCE SHEET</b>	<b>FY17</b>	<b>FY16</b>	<b>FY15</b>
Fixed Assets	3,897.9	3,512.7	3,052.2
Investments	-	-	-
Stock-in-Trade	1,821.5	1,592.6	1,186.7
Trade Debts	523.2	302.5	234.6
Cash & Bank Balances	35.4	65.2	57.2
Total Assets	7,081.7	6,120.4	4,960.9
Trade and Other Payables	420.6	330.3	347.1
Long Term Debt <i>(*incl. current maturity)</i>	2,039.3	1,630.3	1,344.2
Short Term Debt	1,242.8	1,153.7	380.5
Total Equity	2,973.3	2,759.1	2,678.8
<b>INCOME STATEMENT</b>			
Net Sales	8,064.2	6,846.7	7,623.3
Gross Profit	795.6	521.1	650.2
Operating Profit	567.9	296.3	379.3
Profit After Tax	245.8	94.9	82.0
<b>RATIO ANALYSIS</b>			
Gross Margin (%)	9.9%	7.6%	8.5%
Net Working Capital	1,253.7	828.4	839.2
FFO to Total Debt (x)	0.19	0.13	0.24
FFO to Long Term Debt (x)	0.31	0.22	0.31
Gearing	1.1	1.0	0.6
Leverage	1.4	1.2	0.9
Debt Servicing Coverage Ratio (x)	1.9	1.2	1.3
ROAA (%)	3.7%	1.7%	1.6%
ROAE (%)	8.6%	3.5%	3.1%

## ISSUE/ISSUER RATING SCALE & DEFINITIONS

## Appendix II

### 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 III
<b>Name of Rated Entity</b>	Blessed Textiles 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><u>RATING TYPE: ENTITY</u></b>				
	30/3/2018	A-	A-1	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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