

## RATING REPORT

## Blessed Textiles Limited (BTL)

**REPORT DATE:**

May 27, 2021

**RATING ANALYST:**

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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	May 27, 2021		April 22, 2020	
Rating Outlook	Stable		Rating Watch-Developing	
Rating Action	Maintained		Maintained	

## COMPANY INFORMATION

Incorporated in 1987	External auditors: M/s Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Limited Company	Chairman: Mr. Mohammad Salim
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Mohammad Amin
Faisal Spinning Mills Limited (18.5%)	
Mrs. Samia Bilal (8.3%)	
State Life Insurance of Pakistan (6.12%)	
Mrs. Fatima Amin (5.1%)	

## APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (April 2019)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

**Blessed Textiles Limited (BTL)**
**OVERVIEW  
OF THE  
INSTITUTION**
**RATING RATIONALE**

*Blessed Textiles Limited (BTL) is a part of Umer Group of Companies. 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.*

*Financial Statements of the company for FY20 were audited by Rahman Sarfaraz, Rahim Iqbal Rafiq Chartered Accountants. Auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).*

**Profile of  
Chairman**

*Mr. Mohammad Salim serves as a chairman of the board. He was awarded by the certification from the Institute of Chartered Accountants of Pakistan on completion of his Director Training program in April, 2016. Besides, commercial endeavors he actively participates in several social and welfare activities.*

**Profile of**
**Group Profile**

Blessed Textile Mills Limited (BTL) is a part of the Umer group of industries having diversified presence in footwear, retail, leather, dairy, power generation and construction; however, its core strength lies in textile business. Umer group operates through 3 companies in the textile sector.

Within textile sector, the group has over three decades of experience and is primarily engaged in the business of manufacturing and trading of grey and dyed yarn and greige fabric. The group is recognized as a prominent player in spinning and weaving segment with annual turnover of around Rs. 41.9b and Rs. 23.5b during FY20 and 1HFY21, respectively. Umer Group has a strong presence in the export market with more than 50% of total sales comprising exports to China, Italy, Japan, Turkey and Belgium & other European countries. Around 56% of the total sales revenue of the Group has been generated through the spinning segment while the remaining comprises sales of greige fabric.

Umer Group of Companies (Rs. in m)			
	FY19	FY20	1HFY21
Sales	41,036	41,921	23,524
Exports	20,148	22,216	10,792
Local	20,889	20,747	12,732
Yarn Sales	21,970	21,894	13,262
Fabric Sales	13,752	14,283	7,342
Spindles installed	186,956	186,956	186,956
Looms installed	568	568	568

Umer Group has a total installed capacity of 186,956 spindles and 568 looms at end-Dec'20. The group carries its operations through five spinning, three weaving units and one recently started finishing unit each producing a unique specialized product. Moreover, in order to ensure an uninterrupted power supply, the group has established Industrial power generation for each unit with a total capacity of 37 megawatt (MW).

**Company and Operating Profile**

BTL carry out operations through its two spinning units and one weaving unit. All the manufacturing facilities are located in Ferozewatan, Shiekhpura. The company operated with total 68,640 spindles (Unit-I & Unit-III) and 140 looms (Unit-II). Both the spinning units are adequately equipped to produce coarse to medium and fine yarn with count range varying from 8 to 60 single. Weaving unit is utilized to produce greige cloth. At end-FY20, capacity utilization of the fabric segment was reported on the lower side at 81% (FY19: 88%) and capacity levels of yarn segment were reported at similar levels at 108% as compared to the prior year. Decline in weaving utilization was on account of COVID-19. The power unit for two spinning and one weaving unit has a total capacity of 12MW. Going forward, management envisages capacity utilization to report at pre-COVID levels.

**Expansion Plans**

In view of long term growth strategy the company has planned to incur capital expenditure in the spinning segment. The plan involves adding another spinning unit encompassing around 13,056 spindles. The project is expected to come online by July'22. The total cost of the project has been estimated at Rs. 2.5b, out of which Rs. 1.7b will be financed through Temporary Economic Refinance Facility (TERF) debt with the remaining projected to be funded from internal cash generation.

**CEO**

*Mr. Mobammad Amin is serving in the capacity of chief executive officer (CEO) of BTL since 2011. Besides BTL, he is also serving the board of Babnaro Textile Ltd, Faisal Textile Ltd and Bhanero Energy Ltd. Mr. Amin is certified in IT informatics. He completed the Director Education Program from Pakistan Institute of Corporate Governance in June, 2012.*

**Key Rating Drivers:**

**Recovery in industry wide exports post ease in COVID-19 lockdown measures support business risk profile of the company.**

With the objective of enhancing exports to support the economy, the Government of Pakistan (GoP), has provided incentives in the form of subsidized utility tariffs, low interest rates (Export Finance Scheme (EFS), Long Term Financing Facility (LTFF) and TERF) and sales tax refund to the textile industry. The textile policy 2020-25 has laid emphasis on fixed electricity and gas tariff for the next 5 years till 2025 at US cents 7.5 per KWh and USD 6.5 per MMBTU, respectively. Moreover, the limits of subsidized (LTFF) financing have been enhanced under this policy to facilitate exporters. Initiatives are also being undertaken in order to increase production and yield of cotton. However, the imposed sales tax has negatively impacted the textile industry. Even though impact of Covid-19's third wave remains elevated, we expect the order book for the industry to remain strong in the ongoing year, easing our business risk concerns.

**Topline of the company was largely maintained at prior year level during FY20 majorly supported by higher average selling prices led by currency devaluation. Going forward, sales are expected to escalate on account of adequate orders in pipeline along with expansion in the spinning segment.**

Gross sales revenue was reported higher at Rs. 13.3b (FY19: Rs. 12.3b) during FY20 on account of higher average selling prices in the outgoing year. However, net sales revenue was maintained at Rs. 12.4b (FY19: Rs. 12.3b) during FY20, due to imposition of 17% GST on local sales. Around one-half of total sales are geared towards international market with the remaining comprising local sales. Segment wise, total yarn sales grew by 4% while fabrics sales fell by 4% during FY20 with contribution of spinning segment increasing to 73% (FY19: 69.5%) and weaving segment declining to 23.5% (FY19: 26%) of the gross sales revenue. Moreover, yarn sales have gained foothold in the domestic market whereas weaving segment largely comprises exports. During FY20, top 5 client concentration for the yarn and fabric buyers was reported at 41% (FY19: 34%) and 39% (FY19: 25%), respectively. During 9MFY21, the company reported sales revenue to the tune of Rs. 11.3b depicting an uptick in volumetric sales and average selling prices. Going forward, sales are expected to escalate on account of adequate orders in pipeline along with expansion in the spinning segment.

**Overall profitability profile of the company was impacted by higher cotton prices and currency devaluation on imported cotton during FY20. During 9MFY21, gross margins of the company improved on account of inventory gains and are projected to normalize to historic levels once the low price inventory is used up by Jan'22.**

Gross margins of the company declined to 10.1% (FY19: 13.1%) during FY20 largely on the back of higher cotton prices and currency devaluation on imported cotton. Overall operating expenses decreased primarily due to lower other operating costs (WPPF and lower quantum of impairment allowance for expected credit losses) incurred. Finance charges were reported lower at Rs. 306.6m (FY19: Rs. 372m) in FY20. Despite decrease in finance costs, net margins declined to 3.4% (FY19: 5.1%) during the same period. During 9MFY21, gross and net margins of the company improved to 16.3% and 9.8%, respectively on the back of higher sales and inventory gains; the same are projected to normalize to historic levels once the low price inventory is used up by Jan'22.

**Liquidity indicators weakened in FY20 due to subdued profitability; however the same improved in 9MFY21 and are expected to remain in line with projected increase in overall profitability, going**

forward.

In absolute terms, Funds from Operations (FFO) amounted to Rs. 774m (FY19: Rs. 1,112m) depicting a sizeable decrease on account of lower overall profitability during FY20. However, in line with improvement in profitability during 9MFY21, Debt Service Coverage Ratio (DSCR), FFO/Long-Term Debt, and FFO/Total Debt were reported higher at 5.99x (FY20: 1.64x, FY19: 2.32x), 83% (FY20: 38%, FY19: 56%), and 64.9% (FY20: 14.1%, FY19: 26.7%) at end-Mar'21, respectively. Inventory and trade debts provide strong coverage for short-term debt obligations while current ratio was reported at 7.37x at end-Mar'21. Maintaining working capital cycle and receivable days will also be important from a liquidity perspective.

**Capitalization indicators supported by low leveraged capital structure and conservative financial policy.**

On account of higher profit retention in the ongoing year and limitation on dividend payout under SBP's deferment terms, net equity of the company was reported higher at Rs. 4.99b (FY20: Rs. 3.9b; FY19: Rs. 3.7b) at end-Mar'21. Total debt carried on balance sheet amounted to Rs. 3.0b at end-Mar'21; around 78% of the total debt is long-term in nature with a major portion of the same being LTFF, acquired at considerably lower rate with extended repayment period. Short term borrowings are acquired as per seasonal procurement requirements and resultantly vary throughout the year. Gearing and debt leverage indicators were reported at 0.61x (FY20: 1.41x; FY19: 1.11x) and 0.90x (FY20: 1.77x; FY19: 1.43x) at end-Mar'21, respectively on account of reduced short term borrowings. Given financing of capex plans through long term borrowings, capitalization indicators of the company are expected to increase going forward, however the same are projected to remain within manageable levels.

**Blessed Textiles Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>					
<b><u>BALANCE SHEET</u></b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>9MFY21</b>
Fixed Assets	3,898	3,596	3,781	3,811	3,772
Stock-in-Trade	1,822	3,893	3,245	5,022	3,685
Trade Debts	523	926	971	817	1,199
Cash & Bank Balances	35	140	302	203	185
Total Assets	7,082	9,305	9,129	10,762	9,490
Trade and Other Payables	421	488	544	642	797
Long Term Debt	2,039	1,846	1,970	2,019	2,366
Short Term Debt	1,243	3,146	2,191	3,480	662
Total Debt	3,282	4,993	4,161	5,499	3,029
Paid Up Capital	64	64	64	64	64
Total Equity	2,973	3,252	3,755	3,890	4,998
<b><u>INCOME STATEMENT</u></b>					
Net Sales	8,064	10,257	12,346	12,360	11,333
Gross Profit	795	1,072	1,613	1,248	1,851
Profit Before Tax	377	504	788	549	1,224
Profit After Tax	246	368	635	425	1,108
<b><u>RATIO ANALYSIS</u></b>					
Gross Margin (%)	9.9%	10.4%	13.1%	10.1%	16.3%
Net Margin	3.0%	3.6%	5.1%	3.4%	9.8%
Net Working Capital	1,254	1,715	2,148	2,665	3,738
Trade debts/Sales	6.5%	9.0%	7.9%	6.6%	7.9%
FFO	629	819	1,112	774	1,473
FFO to Total Debt (%)	19.2%	16.4%	26.7%	14.1%	64.9%
FFO to Long Term Debt (%)	30.8%	44.3%	56.4%	38.3%	83.0%
Current Ratio (x)	1.65	1.43	1.67	1.62	2.91
Debt Servicing Coverage Ratio (x)	1.94	2.58	2.32	1.64	5.99
Gearing (x)	1.10	1.54	1.11	1.41	0.61
Leverage (x)	1.38	1.86	1.43	1.77	0.90
Long Term Debt to TD (%)	62%	37%	47%	37%	78%
Short Term Debt to TD (%)	38%	63%	53%	63%	22%
(Stock+Trade Debts)/STD	189%	153%	192%	168%	737%
ROAA (%)	4%	4%	7%	4%	15%
ROAE (%)	9%	12%	18%	11%	36%

\* Annualized numbers

**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](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>	Blessed Textiles Limited				
<b>Sector</b>	Textile Industry				
<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>				
	27/05/2021	A-	A-1	Stable	Maintained
	22/04/2020	A-	A-1	Rating Watch-Developing	Maintained
	21/02/2019	A-	A-1	Stable	Reaffirmed
	30/3/2018	A-	A-1	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>	
	1	Mr. Muhammad Salim	Chairman	26-April-2021	
	2	Mr. Abdul Basit Janjua, FCA	CFO	26-April-2021	