RATING REPORT

Blessed Textiles Limited

REPORT DATE:
August 11, 2022

RATING ANALYST:
Muhammad Tabish
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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 Outlook	Stable		Stable	
Rating Date	*Aug 11, 2022*		*May 27, 2021*	
Rating Action	Upgrade		Maintained	

COMPANY INFORMATION	
Incorporated in 1987	**External Auditors:** M/s Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Listed Company	**Chairman:** Mr. Mohammad Salim
Key Shareholding (more than 5%)	**Chief Executive Officer:** Mr. Mohammad Amin
Faisal Spinning Mills Limited ~18.5%	
Mrs. Samia Bilal ~8.3%	
State Life Insurance of Pakistan ~6.1%	
Mrs. Fatima Amin ~5.1%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (August 2021) *https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf*

Blessed Textiles Limited

OVERVIEW OF THE INSTITUTION

Blessed Textiles Limited (BTL), part of Umer Group of Companies, 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.

Profile of Chairman:

Mr. Mohammad Salim, serving as Board Chairman, was awarded certification from the Institute of Chartered Accountants of Pakistan on completion of Director Training program in April'16. Besides, commercial endeavors he actively participates in several social and welfare activities.

Profile of CEO:

Mr. Mohammad Amin is serving as CEO since 2011. He is also serving on the Board of Bahnero Textile Ltd, Faisal Textile Ltd and Bhanero Energy Ltd. Mr. Amin is certified in IT informatics.

RATING RATIONALE

Group profile

Umer Group of Companies, founded in 1982, is one of the Pakistan's leading textile groups, with an annual turnover of more than USD 350m. The group has a diverse business profile and investments in various other sectors as well such as power generation, footwear manufacturing/retail, leather, dairy and construction.

The group has an extensive experience of over 34 years in the textile sector and comprises 3 textile companies, which are cumulatively operating 5 spinning mills, 3 weaving mills and 1 recently established finishing unit. In addition, industrial power generation for each unit is present, with a total capacity of 44.5MW, ensuring uninterrupted power supply. Over the years, the group has managed to achieve a sizable market share in both domestic and export sales. Major export destinations include China, Italy, Japan, Turkey, Belgium, and other European countries.

Figure: Key Financial Figures – Umer Group (Rs. in m)

	FY19	FY20	FY21	6M'FY22
Sales	41,036	41,921	50,493	33,586
Exports	20,148	22,216	25,418	15,380
Local	20,889	20,747	25,738	18,206
Yarn Sales	21,970	21,894	28,555	18,700
Fabric Sales	13,752	14,283	15,083	11,933
Spindles installed	186,956	186,956	186,956	186,956
Looms installed	567	567	567	567

Corporate profile

Blessed Textile Limited (BTL), headquartered in Karachi, operates 2 spinning and 1 weaving units in Ferozewatan, Shiekhupura. BTL has been manufacturing and selling various types of yarn (ranging from coarse to medium and fine counts) and greige cloth for more than three decades, serving both domestic and international markets. The sponsoring family is actively involved in business affairs, and there is a qualified senior management team in place with extensive experience. Total staff strength, including labor, decreased to 1,373 (2020: 1,702) employees.

Production capabilities

The installed capacity remains unchanged at 68,640 spindles (Unit I & III) and 140 looms (Unit II), with capacity utilization remaining consistent with the previous year. Power requirement of 16.9MW is met through a mix of 3 sources; gas-based generators, national grid and furnace oil captive power plant. In addition, a solar power has also been recently deployed.

Figure: Capacity & Production Data

	FY19	FY20	FY21	6M'FY22
Spinning				
Installed capacity (kgs)	23.4m	23.4m	23.4m	11.8m
Actual Production (kgs)	25.2m	25.3m	26.6m	13.4m
Utilization	*108%*	*108%*	*114%*	*114%*
Weaving				

Installed capacity (mtrs)	29.4m	29.4m	29.4m	14.8m
Actual Production (mtrs)	26.9m	23.7m	23.8m	12.0m
*Utilization**	*92%*	*81%*	*81%*	*81%*

**utilization is reported on the lower side due to conversion of picks*

Establishment of a new spinning unit is currently underway

In terms of capacity expansion initiatives, a new spinning unit with 13,056 spindles is currently under construction. Total revised project cost (including cost overruns due to recent currency depreciation) is Rs. 2.7b; of which Rs. 1.5b pertains to machinery, which is being financed through TERF debt facility (~75% is disbursed) and the remaining from internal cash generation. At present, construction of building is complete while production is scheduled to begin in Dec'22. As per management, this project is expected to result in ~25% increase in annual sales.

Key Rating Drivers

Textile and clothing exports registered a sizeable growth given the surge in demand on account of rerouting of orders to Pakistan. The ongoing energy crisis in the country poses a challenge to future growth of the sector.

Textile sector contributes nearly one-fourth to industrial value-added segment and 8.5% to the country's GDP, with an estimated market size of Rs. 3.8tr (FY20: Rs. 3.3tr) in FY21. Barring seasonal and cyclical fluctuations, textiles products have maintained an average share of about 60% in national exports. Export revenues from textile sector have increased significantly over the years (FY22: $19.3b FY21: $15.4b; FY20: $12.5b; FY19: $13.6b). Knitwear, Readymade and Bed wear segments continue to contribute higher than other segments, with a cumulative contribution of more than 60% in textile exports. While the growth was primarily driven by volume (excluding knitwear and cotton yarn), higher prices also boosted exports.

Figure: Textile Exports (as per PBS)

Segments	Value (US$ millions)		
	FY20	FY21	FY22
Knitwear products	2,785	3,816	5,121
Readymade Garments	2,549	3,033	3,905
Bed wear	2,149	2,772	3,293
Cotton Cloth	1,830	1,921	2,438
Cotton Yarn	987	1,017	1,207
Towels	711	938	1,111
Made-up Articles	591	756	849
Art, silk and synthetic textile	314	370	461
Tents, canvas and tarpaulin	98	110	110
Others	487	667	835

Given the looming global recession, commodities super-cycle, rising inflation, and monetary tightening in major world economies, textile export orders growth in Pakistan is expected to slow down in the medium-term. This, combined with the country's ongoing energy crisis and rising production costs, poses a challenge to the sector's margin sustainability and future growth.

5-Year (2020-25) textile policy continues to support the industry.

With an aim to double textile exports in five years, GoP through a five-year textile policy (2020-25) has provided incentives in form of preferential energy rates, low interest rates financing schemes (such as EFS, LTFF and TERF) and timely payments of DLTL, Income tax & Sales tax refund which support liquidity constraints of local players. Initiatives have also been undertaken to increase production and yield of cotton to support the industry. However, imposition of 10% super tax would have a negative effect on profitability profile of textile players. In addition, contractionary monetary policy and political uncertainties in the country are the present major business risk factors. In the long run, improvement in value addition, investment in technology and optimization of energy cost would define the future of textile exports.

High cyclicality and competitiveness in the spinning sector translate into high business risk profile.
Movement in cotton prices and cotton crop levels drives performance of spinning players in Pakistan. Given sizeable deficit in local cotton production vis-à-vis demand in the recent years, cotton prices have remained elevated due to which inventory loss risk is considered limited. Business risk is supported by favorable government policies and healthy demand outlook.

Volumetric growth, primarily in local sales, combined with increasing prices and rupee devaluation resulted in a strong growth in topline during the period under review.
Topline of the company has registered a 6-Year CAGR of ~18% for the period (FY16-21), and amounted to Rs. 15.4b (FY20: Rs. 12.4b) in FY21. The year-on-year uptick of ~25% was attributable to strong volumetric growth (primarily in local sales) and increasing trend in prices coupled with rupee devaluation. With similar growth momentum, revenues amounted to Rs. 16.4b during 9M'FY22, increasing by ~44% vis-à-vis SPLY. As per management, sales revenues is targeted to cross the Rs. 23b mark for the year FY23.

Segment wise, on 3-year average basis ~70% of sales revenue is generated from spinning segment while weaving division accounts for the remainder. Both yarn and fabric sales registered a strong growth of ~27% and ~19%, respectively, in FY21. Overall sales comprise a mix of local and international sales, with share of domestic sales increasing from 46% to 55% in the last 18 months. In terms of growth, local sales increased by ~43%, vis-à-vis 8% growth in exports, during FY21; similar trend is noted in the outgoing fiscal year. Major export destinations include China, Bangladesh, Turkey, Italy, Spain and Belgium. On a timeline basis, client-wise sale concentration risk (in both yarn and fabric sales) has remained elevated. Nonetheless, long-standing business relationships with major clients provide comfort and ensure repeat business.

Profitability margins increased significantly as a result of inventory gains and efficient procurement management.
Gross margins exhibited a sizeable growth over the review period (9M'FY22: 21.1%; FY21: 21.5%; FY20: 10.1%; FY19: 13.1%) owing to better absorption of per unit fixed cost, efficient cotton procurement and favorable cotton price differential, which is consistent with the industry trend. In addition, more than three-fifth of cotton is procured from international market. On the cost front, financial charges remains limited given that entire debt is mobilized on concessionary rates while distribution and administrative overheads increased largely in line with inflation. Given sizeable growth in revenues and margins, bottom-line noted a four-fold increase in FY21 and increased further during 9M'FY22. Given that inventory procurement is covered till Dec'23, management anticipates that margins will remain stable in the current fiscal year FY23.

Liquidity profile is strong, with healthy cash flows consistent with rising profitability.
In line with improving profitability, Funds from Operations (FFO) increased significantly to Rs. 2.8b (FY21: Rs. 2.7b; FY20: Rs. 0.8b) at end-9M'FY22. As a result, FFO to total debt and FFO to long-term debt also increased considerably to 0.93x (FY21: 1.16x; FY20: 0.14x) and 1.21x (FY21: 1.16x; FY20: 0.38x), respectively. Healthy cash flow generation has positively

impacted the debt coverage metrics as reflected by strong growth in DSCR to 6.14x (FY21: 9.69x; FY20: 1.64x). Current ratio is reported at above 3.0x, and the coverage of short-term borrowings in relation to stock in trade and trade debts is sizeable. Aging profile of trade debts remains within manageable levels.

Capitalization levels are supported by strong growth in earnings, low-leveraged capital structure and overall group's conservative financial policy.

Over the last 18 months, the equity base has more than doubled, reaching Rs. 8.3b (FY21: Rs. 6.0b) at end-9M'FY22. The dividend payout stood at 10% (FY20: 35%) in FY21. Debt profile comprises a mix of short-term and long-term debt with total interest bearing liabilities amounting to Rs. 4.1b at end-9M'FY22; short-term debt (ERF) constituted ~23% of total debt as mobilized to fund inventory levels. Given strong growth in equity base, leverage ratios have improved considerably during the review period. The same are expected to remain within comfortable levels on account of projected profitability.

Blessed Textiles Limited **Appendix I**

FINANCIAL SUMMARY					*(amounts in PKR millions)*
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**9M'FY22**
Non-Current Assets	3,610	3,795	3,826	3,903	5,539
Stores, Spares. And Loose Tools	72	94	88	107	169
Stock-in-Trade	3,893	3,245	5,022	4,005	5,110
Trade Debts	926	971	817	1,135	1,712
Advances, Deposits and Other Receivables	665	721	807	377	900
Cash and Bank Balance	140	302	203	493	1,096
Total Assets	**9,305**	**9,129**	**10,762**	**10,021**	**14,527**
Trade and Other Payables	488	544	642	842	1,273
Long-Term Borrowings *(Inc. current maturity)*	1,846	1,970	2,019	2,355	3,122
Short-Term Borrowings	3,146	2,191	3,480	-	931
Total Liabilities	**6,054**	**5,373**	**6,872**	**3,996**	**6,180**
Paid-up Capital	64	64	64	64	64
Total Equity	**3,252**	**3,755**	**3,890**	**6,025**	**8,347**
INCOME STATEMENT					
Net Sales	10,257	12,346	12,360	15,431	16,364
Gross Profit	1,072	1,613	1,248	3,310	3,616
Profit Before Tax	504	788	549	2,442	2,755
Profit After Tax	368	635	425	2,145	2,534
RATIO ANALYSIS					
Gross Margin (%)	10.4%	13.1%	10.1%	21.5%	22.1%
Net Margin (%)	3.6%	5.1%	3.4%	13.9%	15.5%
Net Working Capital	1,715	2,148	2,665	4,790	6,348
Current Ratio	1.43	1.67	1.62	4.61	3.40
FFO to Long-Term Debt	0.44	0.56	0.38	1.16	1.21
FFO to Total Debt	0.16	0.27	0.14	1.16	0.93
DSCR (x)	2.58	2.32	1.64	9.69	6.14
Gearing (x)	1.54	1.11	1.41	0.39	0.49
Debt Leverage (x)	1.86	1.43	1.77	0.66	0.74
Inventory + Receivable/Short-term Borrowings (x)	1.53	1.92	1.68	*n/a*	7.33

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	Blessed Textiles Limited					
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**	
	RATING TYPE: ENTITY					
	11/Aug/2022	A	A-1	Stable	Upgrade	
	27/May/2021	A-	A-1	Stable	Maintained	
	22/Apr/2020	A-	A-1	Rating Watch-Developing	Maintained	
	21/Feb/2019	A-	A-1	Stable	Reaffirmed	
	30/Mar/2018	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 Meeting Conducted	**Name**	**Designation**	**Date**			
	Mr. Mohammad Salim	Chairman	July 21, 2022			
	Mr. Mohammad Amin	CEO				