RATING REPORT

Blessed Textiles Limited

REPORT DATE:
September 26, 2023

RATING ANALYSTS:
Muhammad Tabish
muhammad.tabish@vis.com.pk

Syed Ilyas Afridi
ilyas.afridi@vis.com.pk

RATING DETAILS				
	Latest Rating		**Previous Rating**	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-1	A	A-1
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Upgrade	
Rating Date	*Sept 26, 2023*		*Aug 11, 2022*	

COMPANY INFORMATION	
Incorporated in 1987	**External Auditors:** M/s Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Public Listed 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 ~6.1%	
Mrs. Fatima Amin ~5.1%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (May 2023) *https://docs.vis.com.pk/docs/CorporateMethodology.pdf*

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: *https://docs.vis.com.pk/docs/VISRatingScales.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

Founded in 1982, Umer Group of Companies stands as a prominent textile conglomerate in Pakistan, with an annual turnover of over USD 350m. Apart from its stronghold in textiles, the group has diversified into power generation, footwear, leather, dairy, and construction.

With over 40 years in the textile industry, Umer Group operates 3 textile entities, collectively running 7 spinning mills, 3 weaving mills, and 1 finishing unit. Every unit has its own dedicated power generation, totaling over 40MW, and ensuring consistent power supply. The group over the years has gained a significant market share on both domestic and export fronts. Major export destinations include China, Italy, Japan, Turkey, Belgium, and other European nations.

Table: Key Indicators – Umer Group (In PKR millions)

	FY19	FY20	FY21	FY22	FY23*
Total no. of Spindles	186,956	186,956	186,956	186,956	219,596
Total no. of Looms	567	567	567	567	567
Sales Revenue	41,036	41,921	50,493	71,358	74,274
- Exports	*49%*	*52%*	*50%*	*62%*	*55%*
- Locals	*51%*	*48%*	*50%*	*38%*	*45%*
Yarn Sales	21,970	21,894	28,555	29,085	41,199
Fabric Sales	13,752	14,283	15,083	40,571	33,075

** Tentative Figures*

The collective average energy demand of all three group textile companies exceeds 35 MW, met through an equal mix of 11 MW gas-based generators and a dedicated 30 MW national gridline. In addition, solar power has also been recently deployed.

Corporate Profile

Blessed Textile Limited (BTL), with over three decades in the industry, produces and trades diverse yarn types (from coarse to medium/fine counts) and greige cloth for international and local markets. Integrated operations and an in-house power plant ensure continuity, while numerous export standards and trade certifications highlight quality commitment. While sponsors oversee daily operations, seasoned senior management provides expertise. Production infrastructure is based in Punjab, backed by a workforce of 1,400+ employees.

Establishment of a new spinning unit

As part of capacity enhancement initiatives, the company introduced a new spinning facility, unit-IV, in Sheikhupura, Punjab. Active since March '23, it has 13.1K spindles, producing 450 bags daily of coarse count yarn, mainly for local markets. This raised the total capacity by ~28% in FY23. The Rs. 2.7b project was financed by a 55:45 debt-to-equity ratio, with machinery from LTFF loans and the building construction from internal cash. Management expects a ~25% rise in annual sales and cost efficiencies from automation and current staff managing the new project.

Operating Performance

Headquartered in Karachi, the company manages 3 spinning and 1 weaving units in Ferozewatan, Shiekhupura. In the recent 21 months, capital expenditure reached almost Rs.

5b, primarily for machinery, leveraging subsidized debt financing. Despite global demand slowdown, production levels have maintained a steady rise during the review period.

Figure: Capacity & Production Data (Units in millions)

	FY21	FY22	FY23
Spinning			
No. of Spindles	72,240	73,440	86,496
Installed Capacity – Kgs	27.6	29.6	37.9
Actual Production – Kgs	26.6	28.6	28.2
Capacity Utilization	***97%***	***97%***	***89%****
Weaving			
No. of looms	150	150	150
Installed Capacity – Meters	29.4	29.4	29.7
Actual Production – Meters	23.8	23.8	25.1
Capacity Utilization	***81%***	***81%***	***84%***

**Based on new spinning unit added capacity from May'23 onwards*

The weaving division sources 30% of its yarn needs from in-house production, with the bulk of the remainder procured locally and a small fraction imported.

<u>Key Rating Drivers</u>

Business risk profile is constrained by current weak macroeconomic environment both globally and locally, high-interest rates, inflationary pressures, rising raw material costs, ongoing energy crisis in the country, and a global slump in demand. All these factors pose a challenge to the sector over the medium term in terms of margins sustainability and future growth.

Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports broke the threshold, clocking in at USD 32.4b. Textile sector contributes nearly one-fourth to industrial value-added segment and provides employment to about 40% of the industrial labor force. Contributing around 8.5% to the country's GDP, with an estimated market size of around Rs. 4.0tr, textile sector has maintained an average share of about 60% in national exports over the years.

Table: Pakistan Export Statistics (in USD millions)

	FY20	FY21	FY22	FY23
Pakistan Total Exports	22,536	25,639	32,450	27,911
Textile Exports	12,851	14,492	18,525	16,710
PKR/USD Average rate	158.0	160.0	177.5	248.0

Source: SBP

The lingering effects of Covid-19 pandemic continue to shape the Pakistan's textile industry. Initially, as lockdowns lifted, the industry capitalized on opportunities, securing production contracts with Western countries. This redirection of substantial volumes to Pakistan, complemented by government import tax reductions and subsidized covid-related financing programs such TERF, spurred robust export growth during FY20-22. However, a subsequent phase presented new challenges. Global interest rate hikes aimed at curbing post-pandemic inflation, coupled with geopolitical unrest such as the Ukraine conflict, led to supply chain disruptions and energy crisis. These factors led to a global demand slowdown in major textile economies, reflected in a ~15% year-on-year decline in Pakistan's textile exports in FY23, totaling USD 16.5b (FY22: USD 19.3b). Knitwear, Readymade, and Bed wear segments remain key contributors, making up over 60% of the textile exports.

Table: Textile Export Details (in USD millions)

	FY20	FY21	FY22	FY23	YoY FY23
High Value-Added Segment	**9,669**	**12,427**	**15,611**	**13,576**	**-13%**
- Knitwear	2,794	3,815	5,121	4,437	-13%
- Readymade Garments	2,552	3,033	3,905	3,492	-11%
- Bed wear	2,151	2,772	3,293	2,692	-18%
- Towels	711	938	1,111	1,000	-10%
- Made-up Articles	591	756	849	693	-18%
- Art, Silk & Synthetic Textile	315	370	460	412	-10%
- Others	555	743	872	851	-2%
Low to medium Value-Added Segment	**2,858**	**2,972**	**3,719**	**2,926**	**-21%**
- Cotton Cloth	1,830	1,921	2,438	2,022	-17%
- Cotton Yarn	984	1,017	1,207	844	-30%
- Others	43	34	74	60	-20%
Total	**12,527**	**15,399**	**19,330**	**16,502**	**-15%**

Source: PBS

Flash floods in Sindh and Southern Punjab from last year's monsoon wreaked havoc on the cotton crop, washing away roughly 45% worth over USD 2.5b. This catastrophe led to a historic low yield of 4 million bales in 2022, compared to a 12 million bales annual demand. Local cotton prices subsequently reached a 12-year high of over Rs. 22,000 per 40kg during the year, and imports rose by ~20% in USD terms for FY22, vis-à-vis preceding year. This situation heightened working capital needs, adversely affecting profit margins and liquidity profile for textile entities, particularly spinners, weavers, and dyeing companies. On a positive note, the production target for the current season is set at 12.7 million bales, supported by favorable weather and timely government intervention.

Table: Cotton Prices Trend (In Rs.)

	June'19	June'20	June'21	June'22	June'23
Per Maund	8,770	8,860	13,000	17,380	17,735
YoY % Change	*26%*	*1%*	*32%*	*34%*	*2%*

The industry faces medium-term risks due to the current weak macroeconomic environment both globally and locally, high-interest rates, inflationary pressures, rising raw material costs, ongoing energy crisis in the country, and a global slump in demand, primarily from North America and Europe. Additionally, the potential expiration of Pakistan's GSP plus status in December 2023 could be impactful. This status, allowing duty-free access to the EU for over 6,300 tariff lines, fosters beneficial trade. Its loss could lead to reduced trade revenues and create market uncertainties.

Previously, the sector also enjoyed incentives provided by the government through a five-year textile policy (2020-25), including preferential energy rates, low-interest financing schemes, and timely payments of various refunds, easing liquidity constraints for local players. However, the prevailing economic instability led to the reduction or withdrawal of many of these supports. This along with contractionary monetary policy and political uncertainties in the country are the key present business risk factors. In the long run, improvement in value addition, investment in technology and optimization of energy cost would define the future prospects of textile exports.

Despite falling export volumes, revenue growth continues, supported by consistent rupee depreciation and higher local sales contribution. Geographic and client wise sales mix feature adequate concentration risk.

Net sales soared to Rs. 22.0b (FY21: Rs. 15.4b) in FY22, marking a consecutive year of robust growth, driven by higher fabric sales volume, an uptick in dollar-based prices, and rupee devaluation impact. Yarn made up over 70% of these sales, while fabric covered the rest. Despite a 42% and 45% growth in spinning and weaving revenues respectively, yarn off-take saw a dip, while fabric volumes surged. The sales mix settled at an average 46:54 export-to-local ratio. While yarn balanced both, fabric favored the domestic market this fiscal year. Overall, domestic sales rose by 33%, and exports jumped by 55%.

Export-wise, the company has a diverse footprint: Portugal dominates in fabric sales, while China tops in yarn. Other significant markets include Russia, Bangladesh, Italy, Belgium, Japan, Spain, and Turkey. Adequate client diversification is also evident, with the leading ten clients contributing to two-fifths of total sales. To minimize risks, management ensures that, except for group entity Faisal Spinning Mills, no single client accounts for more than 5% of sales. Key export partners include Zorluteks Tekstil, Vipe Trade, and Lamerinho, among others.

Despite a dip in export volumes due to global challenges in FY23, revenue growth persisted, reaching Rs. 24.2b, buoyed by ongoing rupee depreciation. With expectations of global demand rebound, increased yarn capacity, and updated sales contracts reflecting higher overheads, management aims for an FY24 topline of Rs. 30b and a net margin of 5%.

After peaking in last two fiscal years, profitability margins notably declined in FY23 due to heightened reliance on imported cotton and escalating operational costs.
In the last two years, profit margins hit their highest akin to industry due to strong demand, favorable cotton price differential, efficient operations, and gains from the rupee depreciation. However, FY23 saw margins revert to historic levels due to shrinking yarn profits, global economic challenges, and rising raw material prices. Management anticipates similar margins for FY24.

While most of yarn is sourced locally, the share of imported cotton increased from 50% to over 70% following a local crop deficit last season. However, management plans to reverse this trend in the current year. Adequate inventory is kept on hand to meet confirmed orders, with cotton procurement extending until Dec'23. The rise in administrative and distribution overheads is linked to inflation, higher commissions, freight charge hikes from global supply chain disruptions, and sales growth trend. Financial charges also edged up, reflecting expansion-driven debt and increased benchmark rates.

Divergent cash flow pattern and surge in debt levels led to a notable dip in debt coverage metrics. Liquidity remains sound despite elevated cash conversion cycle.
Strong profitability during the last two fiscal years spurred a growth in funds flow from operations (FFO). Yet, in 9M'FY23, a shift in cash flows and a significant rise in debt levels impacted coverage metrics, with the debt service coverage ratio (DSCR) slipping below 3.0x, aligning with industry peers. While the current ratio of over 1.5x mirrors industry standards, a stretched cash conversion cycle of more than 145 days, due to a higher inventory holding period, amplifies reliance on short-term finance. This is projected to grow further as yarn production rises given increased capacity, leading to more cotton needs. Notably, only 5% of trade debts were overdue by 180 days, and no bad debts were reported, reflecting a healthy aging profile.

Low-leveraged capital structure continues to compare favorably among peers.
Since FY20, the equity base expanded roughly by 2.5x, reaching Rs. 9.6b at end-9M'FY23, supported by consistent earnings and high retention. The dividends paid in FY22 totaled Rs. 212m, a ~7% payout (FY21: 10%), below historical averages. This dividend amount persisted

in FY23. Furthermore, Rs. 1.5b was transferred to the general reserve to address any potential future contingencies.

Debt profile is a mix of short-term and long-term debt, with total interest-bearing liabilities increasing to Rs. 12.3b (FY22: Rs. 6.0b; FY21: Rs. 2.3b) at end-9M'FY23, ~63% constituted short-term debt. Aggregated running finance lines sum up to Rs. 9.2b, with all facilities based on KIBOR rates. Management highlighted that the average cost of long-term debt is 530 bps. Despite rising, leverage ratios remain favorable compared to industry medians.

Sound corporate governance framework
The 10-member board includes three independent, two executive, and four non-executive directors including one female representative. Dedicated committees for Audit and HR and remuneration, headed by independent members, along with internal audit function, ensure effective oversight. The 2022 audit report highlighted key audit matters concerning revenue recognition, inventory valuation, and tax contingencies.

Blessed Textiles Limited **Appendix I**

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**9M'FY23**
Fixed Asset	3,811.3	3,878.3	6,104.3	8,124
Stock-in-Trade	5,021.7	4,005.0	5,537.5	9,867.6
Trade Debts	816.7	1,135.4	1,758.7	2,197.4
Cash and Bank Balance	202.9	493.1	2,578.0	926.1
Total Assets	**10,762.0**	**10,020.7**	**17,325.5**	**24,618.6**
Trade and Other Payables	642.1	841.8	1,230.7	1,451.9
Long-Term Borrowings *(Incl. current maturity)*	2,019.0	2,354.7	3,426.4	4,520.1
Short-Term Borrowings	3,480.3	-	2,559.1	7,742.7
Total Borrowing	**5,499.3**	**2,354.7**	**5,985.5**	**12,262.8**
Total Liabilities	**6,872.5**	**3,996.0**	**8,309.0**	**15,007.2**
Paid-up Capital	64.3	64.3	64.3	64.3
Total Equity *(Incl. loan from directors)*	**3,889.5**	**6,024.7**	**9,016.6**	**9,611.4**
INCOME STATEMENT				
Net Sales	12,359.6	15,430.6	22,030.8	16,759.6
Gross Profit	1,247.8	3,310.0	5,054.6	1,735.0
Operating Profit	859.7	2,827.2	4,342.9	1,241.7
Profit Before Tax	**549.4**	**2,441.7**	**3,789.5**	**951.5**
Profit After Tax	**425.3**	**2,145.3**	**3,206.7**	**704.5**
RATIO ANALYSIS				
Gross Margin (%)	10.1%	21.5%	22.9%	10.4%
Net Margin (%)	3.4%	13.9%	14.6%	4.2%
Net Working Capital	2,664.9	4,790.3	6,837.0	6,624.0
Current Ratio (x)	1.62	4.61	2.58	1.67
FFO	774.2	2,723.8	3,952.5	951.9
FFO to Long-Term Debt (%)	38.3%	115.7%	115.4%	28.1%*
FFO to Total Debt (%)	14.1%	115.7%	66.0%	10.3%*
DSCR (x)	1.64	9.69	7.08	2.83*
Gearing (x)	1.41	0.39	0.66	1.28
Debt Leverage (x)	1.77	0.66	0.92	1.56
Inventory + Receivable/Short-term Borrowings (x)	1.68	-	2.85	1.56
ROAA (%)	4.3%	20.6%	23.5%	4.5%*
ROAE (%)	11.1%	43.3%	42.6%	10.1%*

**Annualized*

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Blessed Textiles Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	Rating Type: Entity				
	26/09/2023	A	A-1	Stable	Reaffirmed
	11/08/2022	A	A-1	Stable	Upgrade
	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
	30/03/2018	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.				
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Due Diligence Meeting Conducted	**Name**	**Designation**	**Date**		
	Mr. Mohammad Salim	Group Chairman	August 02, 2023		