

RATING REPORT

Blessed Textiles Limited

REPORT DATE:

February 6, 2025

RATING ANALYSTS:

Amin Hamdani

amin.hamdani@vis.com.pk

Faisal Naseem

faisal.naseem@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A1	A	A1
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	Feb 6, 2025		Sept 26, 2023	

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%

Mr. Muhammad Qasim ~6.3%

State Life Insurance of Pakistan ~6.1%

Mrs. Fatima Amin ~5.1%

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates

<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

RATING RATIONALE

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

Group profile

Founded in 1980, Umer Group of Companies stands as a prominent textile conglomerate in Pakistan, with an annual turnover of over USD 390m. Apart from its stronghold in textiles, the group has diversified into power generation, footwear, leather, dairy, and construction.

With over 45 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 35MW, 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	FY24
Total no. of Spindles	186,956	186,956	186,956	186,956	224,400	224,400
Total no. of Looms	567	567	567	567	577	577
Sales Revenue	41,036	41,921	50,493	71,358	80,373	109,907
- Exports	49%	52%	50%	62%	67.23%	75.41%
- Locals	51%	48%	50%	38%	32.77%	24.60%
Yarn Sales	21,970	21,894	28,555	29,085	47,676	70,194
Fabric Sales	13,752	14,283	15,083	40,571	28,768	33,684

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

The collective average energy demand of all three group textile companies exceeds 35 MW, met through mix of wind, solar and gas-based generators. While, the remaining is drawn from National grid.

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.

Corporate Profile

Blessed Textile Limited (“BTL” or “the Company”), 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 1,700+ employees.

Operating Performance

Headquartered in Karachi, the company manages 3 spinning and 1 weaving units in Ferozewatan, Shiekhpura. Despite global demand slowdown, production levels have maintained a steady rise during the review period.

Figure: Capacity & Production Data (Units in millions)

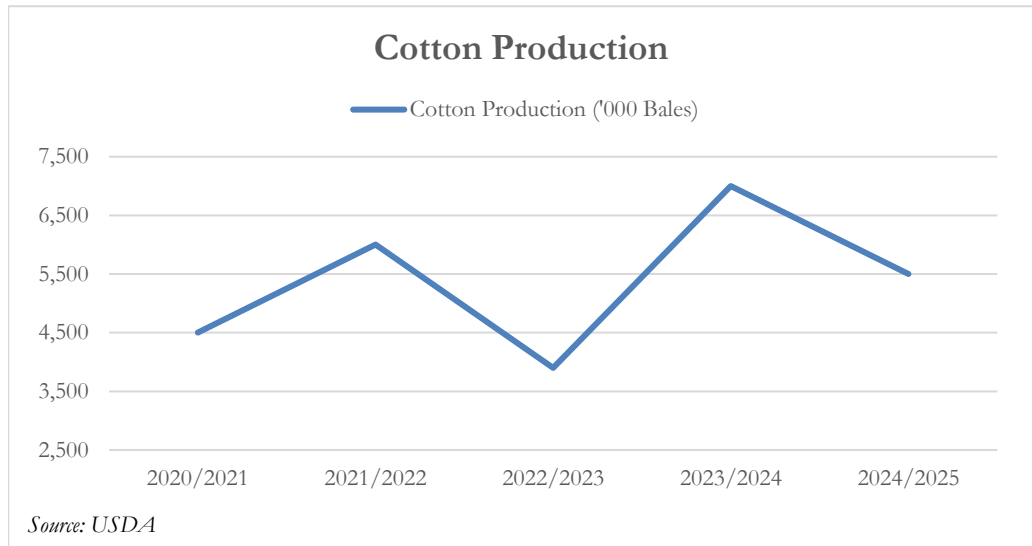
	FY21	FY22	FY23	FY24
Spinning				
No. of Spindles	72,240	73,440	86,496	86,496
Installed Capacity – Kgs	27.6	29.6	35.15	35.15
Actual Production – Kgs	26.6	28.6	26.4	29.94
Capacity Utilization	97%	97%	75%	85%
Weaving				
No. of looms	150	150	150	150
Installed Capacity – Meters	29.4	29.4	27.8	27.8
Actual Production – Meters	23.8	23.8	25.1	27.93
Capacity Utilization	81%	81%	90%	100.5%

Sector Update

The business risk profile of Pakistan's textile sector is highly influenced by economic cyclicality and intense competition. The sector's performance is closely tied to broader economic conditions, making it particularly vulnerable to demand fluctuations driven by these factors.

In FY23, the textile sector faced several challenges stemming from both economic and environmental factors. These included damage to the cotton crop due to flooding in the 1HFY23, escalating inflation, and import restrictions resulting from dwindling foreign exchange reserves. As a result, Pakistan's yarn production saw a substantial decline, primarily driven by the reduced availability of cotton caused by crop damage and import restrictions. The sector's profitability was further constrained by rising production costs, including higher raw material and energy expenses, which impacted profit margins.

In FY24, cotton production increased by 79% compared to FY23, but this surge was largely due to the low base of cotton production in FY23. When compared to FY22, cotton production in FY24 saw only a 17% increase. While global cotton production is expected to rebound in FY25 due to higher yields, Pakistan's cotton production was down 59.4% as at October'24 compared to the same period in 2023, with only 2.04 million bales produced. The USDA forecasts that Pakistan will produce 5.55 million bales of cotton in 2024/25. Further, the USDA Foreign Agricultural Service estimates that the cotton area in 2024/25 will be reduced to 2 million hectares, down from previous years. The country faces rising energy costs, the absence of subsidies for agricultural inputs, and a lack of an organized market system, which further complicates production. Additionally, climate change has severely impacted cotton crops, with extreme heat, heatwaves, torrential rains, and pest infestations, including whitefly, pink bollworm, and cotton leaf curl virus, contributing to decreased yields. Furthermore, the area under cultivation has been steadily shrinking, exacerbating these challenges.



Despite the decline in local cotton production, Pakistan’s textile exports have experienced growth in the 1QFY25 compared to the same period last year. This growth can be attributed to the reliance on imported cotton which is cheaper now a days compared to local cotton along with the increasing focus on value-added segment. While the global demand of textile is on a recovery phase, the global and local cotton market dynamics and local inflation including fuel and power prices along with FX risk in imported cotton pricing will play a crucial role in terms of profitability of the textile exporters.



Key Rating Drivers

Revenue Growth Driven by Volumetric Uptick; Profitability Impacted by Higher Raw Material Costs & Inflationary Pressures.

Net sales increased to Rs. 31.82 billion in FY24 (FY23: Rs. 24.2 billion), marking the fourth consecutive year of revenue growth. This was mainly driven by higher sales volumes. Spinning accounted for over 80% of these sales, with weaving contributing 20% to total revenue.

However, the gross margin declined to 3.84% (FY23: 10.65%) mainly due to higher raw material prices, decreased yarn prices in international market coupled with sharp hike in fuel & energy cost and stable PKR/USD rate.

This resulted in a 53% YoY decline in gross profit, which dropped to Rs. 1.22 billion (FY23: Rs. 2.57 billion). While operating costs remained largely stable due to effective cost management, finance costs surged by 100% to Rs. 1.98 b (FY-23: 997 m) due to elevated interest rates, contributing to a net loss of PKR 1.38 billion (FY23: net profit of Rs. 1.49 billion).

During 1QFY25 Revenue increased by meagre 4% to Rs. 8,238 Mn (1QFY24: Rs. 7,916 Mn). However Gross Margin declined to 5.4% from 7.9% in 1QFY24 due to higher cost of production as a result Goss Profit declined by 29% to Rs. 445.2 Mn (1QFY25: 626.5 Mn). Operating expenses surged 17.7% to Rs. 211.76 Mn (1QFY25: 179.83Mn) as a result of inflationary pressures. Whereas, Finance cost declined by 49% to Rs. 339.80 Mn (1QFY25: 655 Mn) due to reduction in policy rate and lower utilization of Short term financing limits. Consequently, Net loss improved to Rs. 193.03 Mn (1QFY25: 281.36 Mn).

As per the management, the main cause of a depressed profitability was procurement of raw material at higher cost which has declined sharply afterwards, leading to a notable drop in the Company's profitability during the review period. With the clearance of higher priced inventory, management expects a rebound in profitability indicators mainly during the 2HFY25.

Liquidity profile remains satisfactory. However, Coverage profile has come under stress due to lower FFO generation.

The Company's liquidity metrics remains at satisfactory level wherein current ratio slightly declined to 1.38x (FY23: 1.49x). Cash conversion cycle improved to 131 days (FY23: 254 days), as the company reduced its inventory levels, which in turn was used to reduce long-term and short-term financing. Furthermore, coverage of short-term debts with inventory and receivables remains healthy at 1.70x (FY23: 1.75x). By end of 1QFY25, the current ratio slightly improved to 1.39x (FY24: 1.38x) driven by better cash generation through inventory drawdown.

The Company's debt coverage weakened in FY24 due to negative funds from operations (FFO), mainly attributed to higher interest expenses as interest rates remained elevated. The debt service coverage ratio (DSCR) declined to 0.34x (FY23: 1.27x) putting pressure on the Company's repayment capacity, however, the comfort has drawn from available cash balances and sponsor commitment. At end-1QFY25, annualized DSCR has witnessed some improvement while FFO remained negative amid net loss during the period.

Capitalization profile largely remained intact at manageable levels.

During the year, the Company's equity decreased to Rs. 8.1b (end-FY23: Rs. 9.9b) at end-FY24 amid net loss. However, the company reduced its inventory levels to retire a portion of its debt, resulting in a minor improvement in the gearing ratio to 1.40x (FY23: 1.42x).. The leverage ratio slightly increased to 1.85x (FY23: 1.79x) as a result of the reduction in equity and surge in trade payables as a result of higher working capital requirements. Notably, 85% of the company's long-term debt based on subsidized rate. At end-1QFY25, both the gearing ratio and leverage ratio registered slight improvements to 1.22x (FY24: 1.40x) and 1.77x (FY24: 1.85x), respectively, as company retired its debt driven by better cash generation through inventory drawdown.

Blessed Textiles Limited
Appendix I

Financial Summary		<i>(Amount in Million)</i>			
<u>BALANCE SHEET</u>	FY22	FY23	FY24	1QFY25	
Property, Plant & Equipment	6,104	8,314	7,905	7,760	
Long-term Loan	48	50	61	66	
Trade Debts	1,759	2,344	2,951	3,326	
Cash & Bank Balances	2,578	482	945	1,699	
Other Assets	7,234	16,449	11,171	9,016	
Total Assets	17,723	27,639	23,033	21,867	
Trade and Other Payables	1,934	2,721	2,567	3,326	
Short Term Borrowings	2,559	9,243	6,968	5,429	
Long-Term Borrowings <i>(Inc. current matur)</i>	3,427	4,822	4,325	4,194	
Deferred Liabilities	206	66	49	313	
Other Liabilities	478	873	1,041	716	
Total Liabilities	8,604	17,725	14,950	13,978	
Issued, Subs, and Paid Up Capital	64	64	64	64	
Equity	9,118	9,914	8,083	7,889	
<u>INCOME STATEMENT</u>	FY22	FY23	FY24	1QFY25	
Net Sales	22,031	24,157	31,822	8,238	
Gross Profit	5,055	2,573	1,222	445	
Operating Profit	4,011	2,083	582	246	
Profit Before Tax	3,790	1,086	(1,407)	(94)	
Profit After Tax	3,207	921	(1,706)	(193)	
FFO	3,952	1,189	(938)	(53)	
<u>RATIO ANALYSIS</u>	FY22	FY23	FY24	1QFY25	
Gross Margin (%)	22.9%	10.7%	3.8%	5.4%	
Net Margin (%)	14.6%	3.8%	-5.4%	-2.3%	
FFO to Long-Term Debt*	1.15	0.25	(0.22)	(0.05)	
FFO to Total Debt*	0.66	0.08	(0.08)	(0.02)	
Debt Servicing Coverage Ratio (x)*	6.94	1.27	0.34	0.68	
ROAA (%)*	23%	4%	-7%	-3%	
ROAE (%)*	42%	10%	-19%	-10%	
Gearing (x)	0.66	1.42	1.40	1.22	
Leverage (x)	0.94	1.79	1.85	1.77	
Current Ratio	2.25	1.49	1.38	1.39	
Inventory + Receivables/Short-term Borrowings	N/A	1.75	1.70	1.76	
Cash Conversion Cycle (Days)	138	254	131	101	

*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				
	06/02/2025	A	A1	Stable	Reaffirmed
	26/09/2023	A	A1	Stable	Reaffirmed
	11/08/2022	A	A1	Stable	Upgrade
	27/05/2021	A-	A1	Stable	Maintained
	22/04/2020	A-	A1	Rating Watch-Developing	Maintained
	21/02/2019	A-	A1	Stable	Reaffirmed
30/03/2018	A-	A1	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		
	M. Salim	Chairman of the Board	9 Dec, 2024		