

**RATING REPORT**

**Premium Textile Mills Limited (PRET)**

**REPORT DATE:**

April 27, 2020

**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-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	April 27 2020		September 24th, 2019	
Rating Action	Rating Watch Negative		Upgrade	

**COMPANY INFORMATION**

**Incorporated in 1987**

**External auditors:** Rehman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants

**Public Listed Company**

**Chairman:** Mr. Mohammad Aslam

**Key Shareholders (with stake 5% or more):**

**Chief Executive Officer:** Mr. Abdul Kadir Haji Adam

Trustees of Abdul Kadir Adam Beneficiary – 45.5%

CDC – Trustee National Investment (UNIT) – 11.9%

Local – Individual – 11.6%

Rahmat Investment Company (Pvt.) Ltd – 6.5%

**APPLICABLE METHODOLOGY(IES)**

VIS Entity Rating Criteria Methodology – Industrial Corporates (May 2019)

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

**Premium Textile Mills Limited (PRET)**

**OVERVIEW OF THE INSTITUTION**

**RATING RATIONALE**

Premium Textile Mills Limited (PRET) was incorporated as a Public Limited Company in 1989. The shares of the Company are quoted on Pakistan Stock Exchange Limited. Financial Statements of the company for FY18 were audited by Rehman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants.

Premium Textile Mills Limited (PRET) is part of the Premium Group of Companies which is involved in trading (Premium Resources), auto parts (Techno Fabrik) and textile (PRET and Premium Knits) sectors. PRET is engaged in the manufacturing and sale of yarn to both local and export market. The manufacturing facility of the company is located in Nooriabad. The power requirement of the production unit is met through internal generation while sanctioned load from K-Electric (KE) is available as a backup.

**Group Snapshot**

Premium Textile Mills Limited (Spinning – Melange Yarn)
Premium Knits (Home Textile – Bedding)
Premium Resources (Trading)
Techno Fabrik (Auto parts)

PRET has a number of value-added products in its portfolio, including injected slub (patterned yarn) as well as a customized polyester mix tailored to consumer specification. During FY19, blended cotton and cotton mélange comprised the major portion of Company’s production. PRET’s yarn production count ranges from 8s to 36s. Based on assets installed, average count produced is around 22s.

**Product Portfolio**

Carded / Cotton / Slub & Siro / Weaving
Blended / CVC / PC / CP
Carded / Cotton Mélange (Dyed)
Heather Grey

**Capacity Utilization**

	FY17	FY18	FY19
No. of spindles installed	77,628	73,308	75,540
No. of spindles worked	68,215	69,291	68,614
Installed capacity of yarn (Kgs in millions)	26.5	25.7	26.6
Actual production of yarn (Kgs in millions)	20.4	24.8	24.1
Capacity Utilization (%)	76.9%	96.5%	90.7%

As part of the company’s Balancing, Modernization and Rebalancing (BMR) initiative, the management has completed installation of new gas generators while installation of spindles is in process. As of July 2019, the number of operational spindles stood at 83,000.

**Export sales dominate sales mix**

Net Sales of the company was reported at Rs. 8.5b (FY18: Rs. 6.4). Around four fifth of the sales are geared towards export market (direct export and indirect export sales). In contrast to other large players operating in the spinning sector where exports are concentrated to China, PRET’s exports have primarily been generated from USA and Turkey. Client concentration has depicted an increase as part of a deliberate strategy to focus on higher value added clients.

**Coronavirus to result in uncertainty in textile sector dynamics**

The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand and challenging economic environment. It is expected that the entire value chain of textile industry will be affected by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating Watch' status. Given the compression in demand, elevated leverage indicators and sharp decline in cotton prices since the onset of the ongoing calendar year, ratings are being placed on 'Negative' outlook. Ratings remain dependent on maintaining cash flow coverages and prudent leverage indicators. VIS will closely monitor and will accordingly take action to resolve the outlook status.

<b>Financial Summary (amounts in PKR millions)</b>				<b>Appendix I</b>	
	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	
<b><u>BALANCE SHEET</u></b>					
Fixed Assets	2,142.8	2,113.7	2,791.2	3,312.9	
Long term Investment and Deposits	1.5	1.5	2.0	2.0	
Stock-in-Trade	888.1	1,372.1	1,453.0	2,500.8	
Trade Debts	674.3	1,154.8	1,139.7	1,656.7	
Cash & Bank Balances	14.5	9.0	36.0	12.8	
Total Assets	3,910.6	4,865.0	5,669.7	7,865.7	
Trade and Other Payables	349.8	506.3	706.4	870.4	
Long Term Debt (including current maturity)	927.6	856.7	1,447.3	1,660.7	
Short Term Debt	1,121.7	1,877.9	1,637.6	3,056.5	
Total Debt	2,049.4	2,734.7	3,084.9	4,717.2	
Total Liabilities	2,455.0	3,309.4	3,847.9	5,736.8	
Paid Up Capital	61.6	61.6	61.6	61.6	
Total Equity (without surplus revaluation)	1,445.7	1,546.7	1,817.7	2,125.3	
<b><u>INCOME STATEMENT</u></b>					
Net Sales	4,814.0	5,413.2	6,431.4	8,492.2	
Gross Profit	419.5	548.3	717.2	1,203.9	
Profit Before Tax	122.1	206.9	327.6	531.3	
Profit After Tax	138.3	175.6	345.4	461.7	
<b><u>RATIO ANALYSIS</u></b>					
Gross Margin (%)	8.7%	10.1%	11.2%	14.2%	
Net Profit Margin	2.9%	3.2%	5.4%	5.4%	
Net Working Capital	202.7	277.1	440.5	441.1	
Current Ratio (x)	1.1	1.1	1.2	1.1	
FFO	316.6	434.5	527.9	787.4	
FFO to Total Debt (%)	15.4%	15.9%	17.1%	16.7%	
FFO to Long Term Debt (%)	34.1%	50.7%	36.5%	47.4%	
Debt Servicing Coverage Ratio (x)	3.1	2.6	3.0	3.0	
ROAA (%)	3.7%	4.0%	6.6%	6.8%	
ROAE (%)	9.9%	11.7%	20.5%	23.4%	
Gearing (x)	1.4	1.8	1.7	2.2	
Leverage (x)	1.7	2.1	2.1	2.7	

**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

**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>	Premium Textile Mills Limited				
<b>Sector</b>	Textiles				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
	<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>				
<b>Rating History</b>	27-Apr-20	A-	A-2	Rating Watch Negative	Maintained
	24-Sep-19	A-	A-2	Stable	Upgrade
	19-Jul-18	BBB+	A-2	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 Meeting</b>	N/A				