RATING REPORT

Premium Textile Mills Limited (PRET)

REPORT DATE:
June 18, 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-2	A-	A-2
Rating Outlook	Stable		Rating Watch Negative	
Rating Date	June 18, 2021		April 27 2020	
Rating Action	Maintained		Maintained	

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/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Premium Textile Mills Limited (PRET)

OVERVIEW OF THE INSTITUTION

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 FY20 were audited by Rehman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants.

RATING RATIONALE

Premium Textile Mills Limited (PRET) is part of the Premium Group of Companies which is involved in trading (Prudential Enterprises), 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)
Prudential Enterprises (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. 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

	FY19	FY20	9MFY21
No. of spindles installed	75,540	81,660	80,585
No. of spindles worked	68,614	68,778	75,781
Installed capacity of yarn (Kgs in millions)	29.0	33.6	33.2
Actual production of yarn (Kgs in millions)	25.5	28.7	20.2
Capacity Utilization (%)	**87.9%**	**85.4%**	**81.9%**

During FY20, the company installed 6,120 spindles which enhanced installed capacity of yarn from 29m kg to 33.6m kg. Capacity utilization of the plant decreased to 85.4% in FY20 on account of higher pace of increase in installed capacity in relation to production. Going forward, given stable demand from USA, the management foresees capacity utilization to remain on the higher side with projected uptick in production, post expansion.

Expansion Plans

In view of long term growth strategy the company has been incurring capital expenditure since FY19 in the spinning segment encompassing BMR activities. Management envisages a total of 87,000 installed spindles by June'21. During 9MFY21, installation of new gas generators have been completed by the company. Additional long term debt to the tune of Rs. 400m is expected by June'21 for spindles. Moreover, management also plans to add ring frames for which another debt amounting Rs. 600m is expected by Sept'21 to finance ring frames. The aforementioned debt is projected to be financed through concessionary rates borrowings.

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 Temporary Economic Refinance Facility (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 adequate in the ongoing year along with transfer orders of neighboring countries, easing our business risk concerns.

Topline of the company reported a meager increase of 4% during FY20 led by subdued economic activity amidst COVID-19. However, sales revenue of the company reported robust growth during 9MFY21 in line with revival in macroeconomic performance and installation of additional spindles. Going forward, over the medium term, sales are expected to escalate on account of adequate orders in pipeline along with expansion in the spinning segment.

Sales revenue of the company increased by 4% in FY20 and was reported at Rs. 8.8b (FY19: Rs. 8.5b). Growth in topline was largely a function of higher volumetric sales in the international market. Geographic concentration risk in exports sales is considered on the higher side with more than 80% of exports sales directed to the United States. Client wise concentration risk is partly mitigated through long term associations with clients and through ongoing client diversification. Management projects exports sales to continue being the major contributor to topline, going forward. Moreover, net sales in 9MFY21 amounted Rs. 8.3b and management expects growth momentum in sales to continue going forward through projected increase in demand along with expansion in the spinning segment.

Overall profitability profile of the company was impacted by higher raw material prices led by disrupted production cycle due to COVID-19, inventory losses, higher exchange loss on import loan, and elevated financial charges during FY20. During 9MFY21, gross and net margins of the company reflected improvement on account of inventory gains and operational efficiencies.

Gross margins (GMs) of the company have depicted a significant improvement and were reported at 17.2% during 9MFY21 (FY20: 14.0%, FY19: 14.2%) as compared to a decline in FY20. The decline in margins in FY20 was attributable to higher cotton prices and currency devaluation on imported cotton. Overall operating expenses decreased primarily due to lower distribution cost incurred and the same was reported at Rs. 301.1m (FY19: Rs. 310.9m) in FY20. Finance charges were reported significantly higher at Rs. 568.1m (FY19: Rs. 397.4m) in FY20 due to expansion-led elevated debt levels. Overall profitability was also negatively impacted by higher exchange loss on import loan during FY20 to the tune of Rs. 51.4m. Subsequently, net margins declined to 2.1% (FY19: 5.4%) during FY20. However, during 9MFY21, gross and net margins of the company reflected improvement on account of inventory gains and operational efficiencies backed by latest machinery and reduced cost of labor. Going forward, profitability profile is expected to remain healthy in view of expansion plan rendering higher revenues and projected decline in cost of production due to installation of new gas based generators.

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) decreased to Rs. 545.9m (FY19: Rs. 787.4m) 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 3.1x (FY20: 1.8x, FY19: 3.0x), 32% (FY20: 21%, FY19: 47%), and 18% (FY20: 9%, FY19: 17%) at end-Mar'21, respectively. Inventory and trade debts provide strong coverage for short-term debt obligations while current ratio was reported at 1.2x at end-Mar'21. Improvement in extended working capital cycle and receivable days going forward is considered important. Ratings are underpinned on maintenance of projected cash flow coverages going forward.

Capitalization indicators have depicted an increase on a timeline basis to finance working capital needs, BMR expansion, and payment of salaries and wages. Going forward, leverage indicators are expected to increase to fund expansion plans and install ring frames. Ratings are underpinned with projected improvement in leverage indictors going forward.

Equity base of the company increased to Rs. 2.7b (FY20: Rs. 2.0b FY19: Rs. 2.1b) on account of profit retention at end-9MFY21. Quantum of total debt increased to Rs. 8.6b (FY20: Rs. 6.2b; FY19: Rs. 4.7b) at end-9MFY21 to finance working capital requirements, BMR expansion and payment of salaries and wages. Resultantly, gearing and leverage ratios were reported at 3.2x (FY20: 3.0x; FY19: 2.2x) and 3.7x (FY20: 3.7x; FY19: 2.7x), respectively at end-Mar'21. Management plans to drawdown additional long term debt (concessionary rated) to fund expansion plans encompassing additional spindles and ring frames to the tune of Rs. 1b. Hence, leverage indicators are expected to increase, going forward. Ratings are underpinned with projected improvement in leverage indictors going forward.

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**9MFY21**
Fixed Assets	2,791.2	3,312.9	4,207.8	6,315.8
Stock-in-Trade	1,453.0	2,500.8	3,193.3	3,784.0
Trade Debts	1,139.7	1,656.7	1,792.0	1,999.4
Cash & Bank Balances	36.0	12.8	35.7	143.1
Total Assets	5,669.7	7,865.7	9,555.2	12,648.2
Trade and Other Payables	706.4	649.3	866.7	886.7
Long Term Debt	1,447.3	1,660.7	2,557.2	4,653.5
Short Term Debt	1,637.6	3,056.5	3,652.5	3,891.7
Total Debt	3,084.9	4,717.2	6,209.7	8,545.3
Total Equity(without revaluation surplus)	1,817.7	2,125.3	2,047.0	2,705.2
Total Liabilities	3,847.9	5,736.8	7,504.9	9,939.9
Paid Up Capital	61.6	61.6	61.6	61.6
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**9MFY21**
Net Sales	6,431.4	8,492.2	8,771.4	8,253.4
Gross Profit	717.2	1,203.9	1,224.4	1,418.7
Operating Profit	517.6	893.0	923.3	1,147.6
Profit Before Tax	327.6	531.3	270.2	797.2
Profit After Tax	345.4	461.7	181.5	707.2
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**9MFY21**
Gross Margin (%)	11.2%	14.2%	14.0%	17.2%
Net Margin (%)	5.4%	5.4%	2.1%	8.6%
Net Working Capital	440.5	662.2	518.0	1,127.0
Trade debts/Sales	17.7%	19.5%	20.4%	18.2%
FFO	527.9	787.4	545.9	1,118.9
FFO to Total Debt (%)	17.1%	16.7%	8.8%	17.5%
FFO to Long Term Debt (%)	36.5%	47.4%	21.3%	32.1%
Debt Servicing Coverage Ratio (x)	2.99	3.00	1.76	3.07
Current Ratio (x)	1.2	1.2	1.1	1.2
Stock+Trade Debts/STD	158.3%	136.0%	136.5%	148.6%
Gearing (x)	1.70	2.22	3.03	3.16
Leverage (x)	2.12	2.70	3.67	3.67
ROAA (%)	6.6%	6.8%	2.1%	7.6%
ROAE (%)	20.5%	23.4%	8.7%	37.8%

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

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	Premium Textile Mills Limited
Sector	Textiles
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				
18-June-21	A-	A-2	Stable	Maintained
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

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 Meetings Conducted

Name	Designation	Date
Mr. Yasin Siddik	Director	28-May-2021
Mr. Iqbal Chappra	Company Secretary	28-May-2021
Ms. Shenila Parekh	CFO	28- May-2021