RATING REPORT

Premium Textile Mills Limited (PRET)

REPORT DATE:

July 18, 2022

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	July 18, 2022		June 18, 2021	
Rating Action	Reaffirmed		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 - Industrial Corporates (Aug 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.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.

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

Production Capacity and CAPEX

	FY20	FY21	(9MFY22)
Number of spindles installed	81,660	85,538	89,016
Number of spindles worked	68,778	81,348	84,899
Number of working days		364	270
Number of shifts per day		3	3
Installed capacity of yarn (Kgs.)	33.6	33.34	24.99
Actual production of yarn (Kgs.)	28.7	31.43	25.812
Capacity Utilization	84%	95%	95%

During FY21 and 9MFY22, the Company incurred capital expenditure of around Rs. 2.8b, which includes purchase of new machinery as well as BMR initiatives resulting in an enhanced production capacity and higher efficiency. The capex was financed entirely through LTFF, resulting in an increased total debt. As per the management additional drawdowns related to capex activity of around Rs. 1b are expected in 4QFY22. Total spindles have increased to 84,899 at the end of March 2022. .

During FY23, the Company expects to incur an additional capex of Rs. 1.5b for a sock manufacturing unit, which will come online by end-July'22.

Key Rating Drivers

Industry dynamics have been favorable for the spinning sector; however, price movements during FY23 will remain important

Cotton and yarn prices witnessed fluctuation on account of inflated demand after ease in COVID led slowdown as well as the supply chain crises across the globe. Yarn prices recorded an upward movement of 60% during FY21, while continuing the momentum in the current year. The rising prices trend was capitalized by the spinning sector as inventories were accumulated at lower costs, translating to higher margins. In the ongoing year, cotton prices, however, have started to incline and therefore sustainability of margins going forward remains uncertain.

Revenues witnessed significant growth in FY21 and 9MFY22.

	FY20		FY21		9MFY21		9M'FY22	
	RUPEES (m)	**Volume**	**RUPEES (m)**	**Volume**	**RUPEES (m)**	**Volume**	**RUPEES (m)**	**Volume**
EXPORT SALES	1,745.70	110,706	1,906.02	122,622	1,347.70	88,437	3,036.43	150,477
INDIRECT EXPORT SALES	6,796.23	395,359	9,280.47	462,310	6,797.13	355,807	11,111.62	395,722
LOCAL SALES	283.42	16,519	370.35	21,099	138.72	7,262	292.6	12,610
TOTAL SALES	8,825.35	**522,584**	11,556.84	**606,031**	8,283.55	**451,506**	14,440.65	**558,812**
YoY Change			31%	16%			74%	24%

The Company remains focused on export markets as the demand prospects remained favorable. Year over year, the Company recorded increase in revenues, driven primarily by higher yarn prices.. Going forward, on account of higher production capacity, sales volume is expected to increase. Price movement is also projected upwards on the back of higher projected commodity prices. While revenues are expected to remain upbeat on account of higher production capacities and higher prices, the risk of any global recession slowing down the export demand continues to persist.

Margins strengthened on account of inventory gains; however, increasing cotton prices may exert pressure on the same going forward

Following the global supply chain disruption, the company accumulated local cotton to hedge any delays in arrival of the imported raw material. Accumulation of low cost inventory in an inflationary environment provided uplift to the gross margins, which increased to 30.9% in 9MFY22 (FY21: 21.4%, FY20: 14%). Inventory gains are expected to continue into the first quarter of next fiscal year; however, sustainability of the same beyond that remains uncertain, given expected pressure on commodity prices. Nonetheless, it is noted that margins have remained relatively higher than peers.

While operating and net margins have remained strong in FY21 and ongoing year as a trickledown effect of higher gross margins, we expect some pressure going forward due to rising inflation and interest rates. Given higher gearing levels, net margins are expected to remain under pressure.

Liquidity indicators strengthened

The increasing trend of the Funds from Operations (FFO) gained further momentum, amounting to Rs. 5,362m in 9MFY22 (FY21: Rs. 1915m, FY20: 545m) on the back of strong profitability. FFO-to-total debt coverage consequently improved, despite high reliance on debt-based financing for the capex. Debt service coverage improved to 2.87x for FY21 (FY20: 1.76x). Current ratio also depicts improvement to 1.8x for 9MFY22 (FY21: 1.4x). Working capital cycle was extended due to inventory accumulation on fear of supply disruption. Aging of receivables remain satisfactory. Any credit push from the market is partially mitigated through shifting of sales against Inland LCs, which are subsequently discounted for cash flow generation. Overall, liquidity indicators remain strong; however, consistency in the same with remain important for the ratings going forward.

Capitalization indicators depict improvement. Further deleveraging expected.

The Company's debt profile remains high because of the ongoing capex. Total debt registered an increase of Rs. 3.2b in FY21 and 9M'22, which is further projected to increase by the year-end FY22 as a result of capex funding. However, the uptick in profitability has resulted in deleveraging of balance sheet, which is expected to continue going forward. Gearing and leverage ratios at end-9MFY22 stood at 1.48x (FY21: 2.33x, FY20: 3.03x) and 1.86x (FY21: 2.93x, FY20: 3.67x) respectively, exhibiting YoY improvement, but lagging behind the peer group. Improvement in capitalization indicators as per projected plans remains important for assigned level of ratings.

FINANCIAL SUMMARY *(rupees in million)*					APPENDIX I
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**9MFY22**
Fixed Assets	2,791	3,313	4,208	6,788	7,074
Stock-in-Trade	1,453	2,501	3,193	3,666	5,914
Trade Debts	1,140	1,657	1,792	2,199	4,203
Cash & Bank Balances	36	13	36	94	227
Total Assets	5,670	7,866	9,555	13,256	18,289
Trade and Other Payables	706	649	867	945	1,309
Long Term Debt	1,447	1,661	2,557	4,760	5,060
Total Debt	3,085	4,717	6,210	7,858	9,454
Total Equity (Tier 1)	1,818	2,125	2,047	3,370	6,387
Total Liabilities	3,848	5,737	7,505	9,884	11,899
Paid Up Capital	62	62	62	62	62
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**	**9MFY22**
Net Sales	6,431	8,492	8,771	11,484	14,912
Gross Profit	717	1,204	1,224	2,454	4,615
Operating Profit	518	893	923	2,070	4,158
Profit Before Tax	328	531	270	1,504	3,786
Profit After Tax	345	462	181	1,386	3,633
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**	**9MFY22**
Gross Margin (%)	11.2%	14.2%	14.0%	21.4%	30.9%
Net Margin (%)	5.4%	5.4%	2.1%	12.1%	24.4%
Net Working Capital	440.5	662.2	518.0	1,868.2	4,815.2
Trade debts/Sales	17.7%	19.5%	20.4%	19.1%	28.2%
FFO (Annualized)	527.9	787.4	545.9	1,915.8	*N/A*
FFO to Total Debt (%)	17.1%	16.7%	8.8%	24.4%	*N/A*
FFO to Long Term Debt (%)	36.5%	47.4%	21.3%	40.2%	*N/A*
Debt Servicing Coverage Ratio (x)	2.99	3.00	1.76	2.87	*N/A*
Current Ratio (x)	1.2	1.2	1.1	1.4	1.8
Stock + Trade Debts/STD	158.3%	136.0%	136.5%	189.3%	230.3%
Gearing (x)	1.70	2.22	3.03	2.33	1.48
Leverage (x)	2.12	2.70	3.67	2.93	1.86
ROAA (%)	6.6%	6.8%	2.1%	10.9%	23.0%
ROAE (%)	20.5%	23.4%	8.7%	49.1%	74.5%

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-July-22	A-	A-2	Stable	Reaffirmed
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	17-Jun-2022
Mr. Iqbal Chappra	Company Secretary	17-Jun-2022
Ms. Shenila Parekh	CFO	17-Jun-2022