RATING REPORT

Premium Textile Mills Limited (PRET)

REPORT DATE:

August 18, 2023

RATING ANALYST:

Asfia Amanullah
asfia.aziz@vis.com.pk

Sundus Qureshi
sundus.qureshi@vis.com.pk

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	August 18, 2023		July 18, 2022	
Rating Action	Reaffirmed		Reaffirmed	

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)
Applicable Rating Criteria: 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

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 were audited by Rehman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants.

RATING RATIONALE

Premium Textile Mills Limited (PRET) is a part of the Premium Group of Companies that 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 along with manufacturing and export of socks. 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

	FY21	FY22	9MFY23
Number of spindles installed	85,538	91,782	91,060
Number of spindles worked	81,348	87,742	87,515
Number of working days	364	364	274
Number of shifts per day	3	3	3
Installed capacity of yarn (Kgs.)	33.35	42.26	39.03
Actual production of yarn (Kgs.)	31.43	39.97	37.51
Capacity Utilization	95%	95%	96%

Last year in FY22, the Company established some LCs for ring frames in the spinning division, around 70% of which are under shipment and expected to reach the plant in 1HFY24. The quantum of additional long term debt on the books in FY24 is estimated at Rs. 2b. *For this purpose,* management plans *to utilize its export based dollar proceeds that have been withheld. However, the decision on this matter is under-discussion with the Board.*

During FY22 and 9MFY23, the Company incurred capital expenditure (capex) of around Rs. 4.7b, out of which Rs. 2.0b was spent on the Socks unit during 9MFY23. Remaining proportion of the same was consumed by the spinning division. The socks unit has a monthly production capacity of 165k dozens of socks that has achieved utilization levels of more than 90% in the last quarter of FY23.

Overall capex includes purchase of new machinery and BMR initiatives for capacity enhancement and higher efficiency. The capex was financed through debt (Rs. 2.1b) and remaining by internal cash resources. Going forward, the Company will continue to incur routine capital expenditure using internal cash generation.

Key Rating Drivers

Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally broke the threshold, coming in at USD 32.4b. Textile sector contributes nearly one-fourth to industrial value-added segment and 8.5% to the country's GDP, with an estimated market size of around Rs. 4.0tr. Barring seasonal and cyclical fluctuations, textiles sector has maintained an average share of about 60% in national exports.

Table: Pakistan Export Statistics (in USD millions)

	FY20	FY21	FY22		9M'FY22	9M'FY23
Pakistan Total Exports	22,536	25,639	32,450		23,706	21,088
Textile Exports	12,851	14,492	18,525		13,577	12,992
PKR/USD Average rate	158.0	160.0	177.5		171.5	235.5

Source: SBP

Export revenues from textile sector have noted sizeable growth over the years (FY22: $19.3b FY21: $15.4b; FY20: $12.5b; FY19: $13.6b). Knitwear, Readymade and Bed wear segments continue to contribute higher than other segments, with a cumulative contribution of more than 60% in textile exports. While the growth was primarily driven by volume (excluding knitwear and cotton yarn), higher prices also boosted exports. As evident from the table above, overall export contraction is witnessed in 9MFY23 due to challenging global and local macroeconomic environment.

Table: Textile Export Details (in USD millions)

	FY20	FY21	FY22		9M'FY22	9M'FY23
High Value-Added Segment	**9,669**	**12,427**	**15,605**		**11,482**	**10,318**
- Knitwear	2,794	3,815	5,121		3,730	3,390
- Readymade Garments	2,552	3,033	3,905		2,864	2,657
- Bed wear	2,151	2,772	3,293		2,449	2,032
- Towels	711	938	1,111		820	745
- Made-up Articles	591	756	849		627	535
- Art, Silk & Synthetic Textile	315	370	460		344	309
- Others	555	743	866		650	650
Low to medium Value-Added Segment	**2,858**	**2,972**	**3,717**		**2,760**	**2,158**
- Cotton Cloth	1,830	1,921	2,438		1,795	1,538
- Cotton Yarn	984	1,017	1,207		908	573
- Others	43	34	72		56	47
Total	**12,527**	**15,399**	**19,332**		**14,243**	**12,476**

Source: PBS

Cotton prices rose to a new 12-year high of ~Rs. 22,935/maund as of Sept'22, driven by the scarcity of cotton resulting from the recent floods that impacted the local cotton production. Cotton imports were also up 19.8%, in USD terms, for FY22 vis-à-vis preceding year.

Table: Cotton Prices Trend (In Rs.)

	FY19	FY20	FY21	FY22	9M'FY23
Per Maund	8,770	8,860	13,000	17,380	18,935
YoY % Change	26%	1%	32%	34%	*n/a*

Floods in Sindh and Southern Punjab during recent monsoon season have caused significant damage to the cotton crop. According to industry estimates, ~45% of the crop has been washed, worth more than $2.5b, resulting in significant price increases. The government has announced facilitation for raw materials imports to compensate for domestic shortages. Nonetheless, in addition to affecting profit margins, higher raw material pricing is expected to increase the working capital requirements, which is likely to have a negative impact on the liquidity profile of textile operators, particularly spinners, weavers and dying companies.

Global and domestic challenges, such as slowdown in export demand (primarily from North America and the EU, which has begun to materialize in Pakistan's monthly export proceeds) due to recessionary trend, industrial gas load shedding expected in the country, and rising production costs due to inflation, will weigh on the business risk profile going forward. These factors may result in competitive market pricing for exporters.

High cyclicality and competitiveness in the spinning sector translate into high business risk profile.

Movement in cotton prices and cotton crop levels drives performance of spinning players in Pakistan. Given sizeable deficit in local cotton production compared to demand in recent years, cotton prices remained high due to local currency devaluation and increased reliance on imported cotton. This along with challenging market dynamics resulted in weakening of profitability profile for spinning players.

Double-digit revenue growth in the review period driven largely by higher prices

(In Millions)	FY21		FY22		9MFY23	
	RUPEES	%	RUPEES	%	RUPEES	%
EXPORT SALES	1,906	16%	3,866	19%	3,039	18%
INDIRECT EXPORT SALES	9,281	80%	15,230	75%	13,182	79%
LOCAL SALES	370	3%	1,098	5%	471	3%
TOTAL SALES	**11,557**	100%	**20,194**	100%	**16,692**	100%

- Net sales of the Company witnessed a jump of 74% (FY22: Rs. 19.9b; FY21: Rs. 11.5b) in FY22 driven by higher average selling prices of yarn.
- Sales mix predominantly comprised yarn, which accounted for 80% of net sales during the review period. Remaining proportion of 20% represents sale of socks. As per management, sales mix will slightly shift towards the sock segment, going forward thereby increasing the portion of exports concentration in the sales mix.
- PRET is an export-oriented company with on average 80% of the revenue base directed towards local value-added manufacturers who export mainly in North America, Asia and Europe. Direct exports contribute around 20% to the total sales mix. USA (77%) contributes the highest proportion of export sales during the ongoing year followed by Bangladesh (17%).

- Customer concentration is on a medium to high scale with top 10 customers accounting for 49% of total net sales during 9MFY23 (FY22: 58%; FY21: 68%). In addition, client concentration risk is partially eliminated due to recurrent approach by the existing clientele.
- Management projects stable revenue growth over the rating horizon supported by gradual improvement in international demand dynamics and enhanced exports emanating from the socks division. Further, gradual ease in LC constraints will also contribute positively to the expected upward trend in the top line going forward.

Margins reduced in the outgoing year on account of currency devaluation and inflationary pressures

- In absolute terms, gross profit of the Company increased to Rs.5.6b (FY21: Rs. 2.5b; FY20: Rs. 1.2b) in FY22. Subsequently, gross margins grew to 27.9% (FY21: 21.4%; FY20: 14.0%) in the same period on account of efficient procurement of stock resulting in inventory gains.
- Gross margins were reported lower at 17.7% in 9MFY23 due to greater reliance on high cost imported cotton (unavailability of local cotton) impacted by local currency weakening.
- Proportion of imported cotton comprised around 50-60% of the total raw material procurement.
- Finance charges were reported considerably higher at Rs. 1.5b (FY22: Rs. 876m; FY21: Rs. 597m) in 9MFY23 mainly due to higher benchmark rates on elevated borrowing levels in FY22 and 9MFY23.
- Healthy net margins for FY22 were attributable to one-off other income on dealing in commodity market.
- In 9MFY23, net margins plunged to 5.9% (FY22: 21.6%, FY21: 12.1%) on account of higher distribution expense, greater tax costs and increased financial charges.
- Going forward, management expects margins to remain on similar levels due to pressure of rising inflation and interest rates, going forward.
- Amidst a challenging macroeconomic environment, maintaining margins at current levels will be critical from a ratings perspective.

Weakening in liquidity profile during 9MFY23 due to subdued profitability; however coverages remain within benchmarks for the assigned ratings.

- Despite an uptick in liquidity profile of the Company during FY22 on account of higher margins, strong topline growth and one-off other income; inflationary pressures, currency devaluation, expensive financing continued to drag down profitability in 9MFY23, resulting in a weaker liquidity profile.
- Funds from Operation (FFO) of the Company decreased (FY22: Rs.5.3b; FY21: Rs. 1.9b) in FY22 being a function of decrease in quantum of profits in absolute terms. In line with the low profitability profile and elevated quantum of debt, cash flow coverages against outstanding obligations have also witnessed weakening in the outgoing year. However, they remain at sufficient levels for the assigned ratings.
- FFO to Total Debt and FFO to Long-Term Debt declined to 17% (FY22: 53%; FY21: 24%) and 39% (FY22: 100%; FY21: 40%) respectively during 9MFY23.
- Similarly, Debt Servicing ratio (DSCR) also reduced to 2.1x (FY22: 5.3x; FY21: 3.3x) during 9MFY23.
- Current ratio as of end-Mar'23 stood at 1.44x, which is conveniently above the minimum threshold level. Short-term borrowing coverage is deemed adequate at 165% at end-Mar'23.
- Aging profile of trade debts is considered good with 96% of outstanding trade receivables due within two months.
- Ratings remain dependent on maintenance of liquidity indicators at levels that commensurate with the benchmarks for the assigned ratings.

Strong equity growth in FY22 significantly improved capitalization profile.

- Tier-I Equity base of the company accumulated to Rs. 7.8b (FY22: 7.1b; FY21: Rs. 3.4b) by end-Mar’23 through profit retention.
- The debt profile comprises a mix of long-term (45%) and short-term borrowings (55%) at end-Mar’23.
- Growth in long-term debt during FY22 and 9MFY23 was to fund expansion plan in the spinning and sock division. Further increase of Rs. 2b debt is anticipated in the first half of the ongoing year.
- Short-term borrowings increased to Rs. 7.9b (FY22: Rs. 4.7b; FY21: Rs. 3.1b) at end-9MFY23 to meet higher working capital requirements in lieu of growth rising raw materials costs.
- With sizeable profit generation and retention in FY22, leverage and gearing levels improved.
- However, with increase quantum of debt (9MFY23: Rs. 14.3b; FY22: Rs 10.1b; FY21: Rs.7.9b) being greater than profit retention in the outgoing year, gearing and debt leverage ratios have increased in 9MFY23.
- Gearing and leverage indicators were reported at 1.82x (FY22: 1.42x; FY21: 2.33x) and 2.25x (FY22: 1.79x; FY21: 2.93x) respectively, at end-FY23.
- Despite no plans for further expansion, incremental debt for ongoing expansion in spinning unit is expected to impact capitalization profile.
- However, projected profit generation is expected to keep gearing and leverage levels at manageable levels over the rating horizon. Ratings remain underpinned on the projected financial risk indicators provided by the management.

FINANCIAL SUMMARY *(amounts in PKR millions)*					
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Fixed Assets	3,313	4,208	6,792	10,011	11,302
Stock-in-Trade	2,501	3,193	3,666	5,690	8,493
Trade Debts	1,657	1,792	2,199	4,467	4,520
Cash & Bank Balances	13	36	94	286	1,461
Total Assets	7,866	9,555	13,256	20,942	26,605
Trade and Other Payables	649	867	945	1,217	1,518
Long Term Debt	1,661	2,557	4,760	5,315	6,357
Short Term Debt	3,057	3,652	3,098	4,745	7,908
Total Debt	4,717	6,210	7,858	10,060	14,265
Total Equity(without revaluation surplus)	2,125	2,047	3,370	7,062	7,830
Total Liabilities	5,737	7,505	9,884	12,634	17,625
Paid Up Capital	62	62	62	62	62
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Net Sales	8,492	8,771	11,484	19,977	16,484
Gross Profit	1,204	1,224	2,454	5,582	2,910
Operating Profit	893	923	2,070	4,956	2,381
Profit Before Tax	531	270	1,504	4,610	1,213
Profit After Tax	462	181	1,386	4,310	980
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Gross Margin (%)	14.2%	14.0%	21.4%	27.9%	17.7%
Net Margin (%)	5.4%	2.1%	12.1%	21.6%	5.9%
Net Working Capital	662.2	518.0	1,849.4	4,219.6	4,648.2
Trade debts/Sales	19.5%	20.4%	19.1%	22.4%	20.6%
FFO	787.4	545.9	1,915.8	5,320.3	1,865.9
FFO to Total Debt (%)	16.7%	8.8%	24.4%	52.9%	17.4%
FFO to Long Term Debt (%)	47.4%	21.3%	40.2%	100.1%	39.0%
Debt Servicing Coverage Ratio (x)	3.00	1.76	3.33	5.31	2.13
Current Ratio (x)	1.2	1.1	1.4	1.6	1.44
Stock+Trade Debts/STD	136.0%	136.5%	189.3%	214.0%	164.6%
Gearing (x)	2.22	3.03	2.33	1.42	1.82
Leverage (x)	2.70	3.67	2.93	1.79	2.25
ROAA (%)	6.8%	2.1%	12.2%	25.2%	5.5%
ROAE (%)	23.4%	8.7%	51.2%	82.6%	17.5%

REGULATORY DISCLOSURES — Appendix II

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-Aug-23	A-	A-2	Stable	Reaffirmed
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	14-July-2023
Mr. Iqbal Chappra	Head of Finance	14-July-2023
Ms. Shenila Parekh	CFO	14-July-2023