RATING REPORT

Premium Textile Mills Limited

REPORT DATE:
June 05, 2024

RATING ANALYSTS:
Saeb Muhammad Jafri
saeb.jafri@vis.com.pk
Shaheryar Khan
shaheryar@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 / Rating Watch	Stable		Stable	
Rating Date	June 05, 2024		August 18, 2023	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION	
Incorporated in 1987	**External auditors:** Rehman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants
Private Limited 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
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Premium Textile Mills Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Premium Textile Mills Limited ('PRET' or 'the Company') 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.

Company Profile

Premium Textile Mills Limited ('PRET' or 'the Company') was incorporated in Pakistan on March 03, 1987, as a public listed company under the Companies Ordinance, 1984 (now repealed with the enactment of Companies Act, 2017 on May 30,2017) and is listed on Pakistan Stock Exchange Limited. The principal activity of the Company is the manufacturing and sale of cotton and polyester yarn. During the year, the Company has established a Sock division which manufactures and sells Socks of different varieties under the management diversification plan.

Production Capacity and Utilization

During FY23, Capacity utilization of the Company saw a contraction on account of demand slowdown in, especially in foreign markets. About 75-80% of the Company's sales are to export-oriented clients, with around 15-20% of PRET's own sales being direct exports. In addition, the Company has also setup a state-of-the-art unit to produce socks and has started exporting socks.

Production Capacity and Utilization	FY21	FY22	FY23
Number of Spindles	85,538.00	91,782.00	91,455.00
Installed Capacity of Yarn (Thousand Tonnes)	33.35	42.26	34.59
Actual Production of Yarn (Thousand Tonnes)	31.43	39.97	30.54
Utilization	94.24%	94.58%	88.29%
Number of Knitting Machines installed			208.00
Installed capacity of socks in Dozen (in Thousands)			2,160.00
Actual production of socks in Dozen (in Thousands)			719.22
Utilization			33.30%

Key Rating Drivers

Business risk profile constrained by cyclicality, and high competition in the sector.

The business risk profile of the spinning sector in Pakistan is characterized by high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors.

In FY23, the spinning sector faced challenges due to various economic and environmental circumstances. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and diminishing foreign exchange reserves.

The spinning sector in Pakistan comprises ~407 spinning mills, which include both composite units and spinning units. This industry exhibits a competitive market structure with many players producing relatively homogenous products.

During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, because of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Global economic slowdown and contractionary economic policies led to a decrease in demand for textile products and, consequently, cotton yarn.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs, and persistent inflationary pressures. These factors are likely to result in continued sluggish performance for the spinning sector in FY24.

Topline growth is primarily driven by higher average selling prices despite lower volumetric amid weak macroeconomic environment, profitability margins depicted weakening.

During FY23, the Company experienced a topline growth of ~14%, albeit marginally, due to higher average selling prices while volumetric sales dropped during the same period. The sales mix of the Company is dominated by yarn, comprising ~98% of the total revenue mix while ~2% stems from sale of socks. ~78% of the total sales emanate from export-oriented markets, exporting mainly in North America, Asia, and Europe. On the other hand, direct exports contribute ~19% to the total sales mix, with ~11% of the direct exports representing sale of socks. During 9MFY24, the revenue was recorded at Rs.19.9b (9MFY23: Rs.16.4b), up by ~20% vis-à-vis SPLY.

The Company's gross margins, and operating margins experienced a decline in FY23 to 17.3% (FY22: 27.9%) and 13.6% (FY22: 28.8%) respectively, attributed to elevated input costs along with higher inflationary environment. This pressure persisted, with gross and operating margins further contracting to 14.2% and 10.4% in 9MFY24, mainly due to continued inflationary pressure and a significant increase in gas tariffs during the period.

The net margins of the company plunged to 4.6% due to an escalation in finance costs resulting from a surge in the policy rate, as well as higher debt utilization during the period. Subsequently, the policy rate remained elevated during 9MFY24. Similarly, the debt utilization also witnessed an increase during the period, which continued to keep the finance cost of the Company at a higher level, consequently eroding the net margins to a negative of 2.1%.

Elevated capitalization profile on account of major capital expenditure plans by the Company as well as meeting working capital requirements.

The Company maintained an elevated capitalization profile between FY18-FY22, with average gearing and leverage ratios at 2.14x and 2.64x. Although there was improvement in FY21 and FY22 to 1.42x and 1.79, respectively, the gearing and leverage increased again to 1.90x and 2.40x in FY23. This rise was due to increased total debt from short-term borrowings for working capital needs. Subsequently, further increases in gearing and leverage indicators were recorded during 9MFY24, primarily due to an uptick in long-term borrowings for capital expenditure and equity base erosion from Company losses. Gearing and leverage ratios stood at 2.04x and 2.53x in 9MFY24.

Losses reported as well as higher debt levels have eroded the coverage profile of the Company.

During FY23, subdued profitability coupled with higher financial charges paid by the Company caused a drag on the Funds from Operations (FFO). Resultantly, the debt service coverage ratio (DSCR) contracted to 1.26x (FY22: 4.15x) in FY23. The DSCR of the Company remained constrained in 9MFY24 owing to losses during the period as well as heightened finance charges paid, reporting weakening to below 1.00x, standing at 0.96x.

Liquidity profile is considered adequate.

The Company's liquidity profile is deemed adequate, with an average current ratio of 1.30x between FY18-FY22. In FY23, the current ratio slightly exceeded the average at 1.36x but subsequently dipped to 1.26x in 9MFY24.

Meanwhile, the Company's inventory increased due to economic slowdown and reduced offtakes, lengthening the inventory cycle to ~124 days (FY22: ~89 days). This, coupled with a slightly longer collection cycle of ~73 days (FY22: ~61 days), expanded the cash conversion cycle ('CCC') to ~182 days in FY23 (FY22: ~145 days). However, the collection period improved in 9MFY24, leading to a reduced CCC of ~162 days.

Considerations for Future Reviews

Going forward, ratings will remain sensitive to the Company's ability to recover its eroded profitability, coverage, and improve its equity base to be commensurate with assigned ratings. Moreover, maintenance of the liquidity profile will also be a key consideration moving ahead.

Premium Textile Mills Limited — Appendix I

Financial Summary				
Balance Sheet (PKR Millions)	**FY21A**	**FY22A**	**FY23A**	**9MFY24M**
Property, plant and equipment	6,788.40	10,011.20	12,170.21	14,860.11
Stock-in-trade	3,665.53	5,689.60	8,973.80	7,179.35
Trade debts	2,199.21	4,466.96	4,606.62	4,111.79
Cash & Bank Balances	93.95	286.17	712.20	93.38
Other Assets	509.22	488.52	1,556.41	1,092.77
Total Assets	13,256.31	20,942.45	28,019.24	27,337.40
Creditors	199.53	215.54	1,240.03	881.82
Long-term Debt (incl. current portion)	4,760.00	5,314.93	6,789.61	8,358.90
Short-Term Borrowings	3,097.91	4,745.08	8,136.88	6,772.92
Total Debt	7,857.91	10,060.01	14,926.49	15,131.82
Other Liabilities	1,826.30	2,358.85	2,700.04	2,724.36
Total Liabilities	9,883.74	12,634.40	18,866.56	18,738.00
Paid up Capital	61.63	61.63	61.63	61.63
Equity (excl. Revaluation Surplus)	3,369.62	7,061.92	7,857.01	7,414.75
Income Statement (PKR Millions)	**FY21A**	**FY22A**	**FY23A**	**9MFY24M**
Net Sales	11,484.67	19,976.81	22,828.70	19,855.23
Gross Profit	2,454.49	5,582.08	3,939.42	2,812.47
Operating Profit	2,101.47	5,485.30	3,632.54	2,099.02
Finance Costs	597.11	875.80	2,238.21	2,258.00
Profit Before Tax	1,504.36	4,609.50	1,394.33	-158.98
Profit After Tax	1,386.69	4,310.37	1,042.64	-399.18
Ratio Analysis	**FY21A**	**FY22A**	**FY23A**	**9MFY24M**
Gross Margin (%)	21.37%	27.94%	17.26%	14.16%
Operating Margin (%)	18.30%	27.46%	15.91%	10.57%
Net Margin (%)	12.07%	21.58%	4.57%	-2.01%
Funds from Operation (FFO) (PKR Millions)	1,915.81	5,320.38	2,314.09	783.54
FFO to Total Debt* (%)	24.38%	52.89%	15.50%	6.90%
FFO to Long Term Debt* (%)	40.25%	100.10%	34.08%	12.50%
Gearing (x)	2.33	1.42	1.90	2.04
Leverage (x)	2.93	1.79	2.40	2.53
Debt Servicing Coverage Ratio* (x)	2.35	4.15	1.26	0.96
Current Ratio (x)	1.41	1.63	1.36	1.26
(Stock in trade + trade debts) / STD (x)	1.70	1.95	1.57	1.55
Return on Average Assets* (%)	12.16%	25.21%	4.26%	-1.92%
Return on Average Equity* (%)	51.20%	82.64%	13.98%	-6.97%
Cash Conversion Cycle (days)	173.02	144.61	181.92	162.28

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

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 Watch**	**Rating Action**
	RATING TYPE: ENTITY				
	05-Jun-24	A-	A-2	Stable	Reaffirmed
	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	RW - 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	May 30, 2024
Mr. Iqbal Chappra	Head of Finance	
Ms. Shenila Parekh	CFO	