RATING REPORT

Feroze1888 Mills Limited

REPORT DATE:
16th November, 2018

RATING ANALYST:
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RATING DETAILS		
	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	AA-	A-1
Rating Outlook	Stable	
Rating Date	Nov 12, 2018	

COMPANY INFORMATION	
Incorporated in 1972	**External auditors:** M/S EY Ford Rhodes Chartered Accountants
Public Limited Company	**Chairman:** Mr. Jonathan R. Simon
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Rehan Rahman
Mr. Shabbir Ahmed – 21.1%	
M/s Grangeford Ltd (Foreign Company) – 13.6%	
Mr. Omair Rehman – 5.8%	
Mr. Perwez Ahmed – 5.5%	
M/s 1888 Mills LLC (Foreign Company) – 5.4%	
Mr. Sheikh Zafar Ahmed – 5.3%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria *Industrial Corporates (May 2016)*
http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

Feroze1888 Mills Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Feroze Textile Industries (Pvt.) Ltd was incorporated in 1970 as a proprietorship concern. In 2009 Feroze Textile Industries (Pvt.) Ltd acquired a listed entity Naksbandi Industries Limited. Post-acquisition, the combined entity was renamed Feroze1888 Mills Limited (FML).

Feroze1888 Mills Limited (FML) is one of the largest terry textile exporters of Pakistan. It is a vertically integrated company engaged in end to end process from spinning to product packaging. FML operates through various units at different locations, including Hub, SITE and Landhi, which comprise spinning, weaving, dyeing and stitching units. The company has a presence in the USA through a strategic alliance with 1888 Mills.

Corporate governance framework of the company is considered adequate, while room for improvement in IT infrastructure exists

Board of Directors (BoD) at FML comprises eight members and is chaired by a representative of 1888 Mills. Existing governance framework of the company is considered satisfactory as indicated by presence of an independent director on the Board. In line with best practices, the independent director chairs the Board Audit Committee (BAC). Furthermore, Board and Board committees meetings are adequately minutized. Management may also consider appointment of at least one additional independent director on the BoD to comply with best practices.

Competitive advantages provide an edge over the local industry

The company enjoys a number of competitive advantages over the local industry. One of the advantages is the company's vertical integration which allows the company to independently complete the product and maintain control over product quality over the entire process from spinning to packaging.

Presence of FML via 1888 Mills in the USA has enabled FML to cater to the requirements of US-based clientele using a more hands-on approach. This has allowed the company to have long term relationship with a reputable client base and has benefited the company by resulting in repeat sales and healthy margins.

Nearly fifty years' experience in the textile industry and strong reputation of FML has enabled the company to provide a value added supply chain management services to some of its clients by managing their inventory level and minimizing their cost.

Growth in profitability is expected to persist on account of reduction in costs and depreciation in the rupee

Sales of the company over the last five years have increased on a timeline basis owing to volumetric increase. CAGR growth in revenues of the company has been around 7.5% over the past four years. In FY18, net sales amounted to Rs. 21.8b (FY17: Rs. 20.9b). However, concentration risk exists as US based clients accounted for approximately 80% of company's sales in FY18. GP margin has mostly hovered around 22% which is more than sufficient to cover operating expenses. Profits in the upcoming years are expected to increase, as the capacity expansion has made it possible for the company to insource part of the company's manufacturing which was previously being outsourced. Furthermore, depreciation of the rupee is also expected to bode well for company's profitability, going forward.

Sound liquidity and capitalization indicators reflecting adequate short term liabilities and debt servicing coverage

On a timeline basis, the equity base of FML has increased owing to consistent profits and retention of the same. At end-FY18, adjusted equity amounted to Rs. 14.7b (FY17, Rs. 13.0b). Gearing and leverage ratios of the company were maintained at manageable level of 0.24x and 0.49x (FY17: 0.08x and 0.33x) respectively at end-FY18.

Current ratio (FY18: 1.9x; FY17: 2.8x) and acid test ratio (FY18: 1.3x; FY17: 1.8x) have exhibited a declining trend on timeline basis; however the same have remained consistently above one in the last four years, thereby indicating adequate liquidity coverage. In FY18, the management increased the company's short-term borrowings. However, short term borrowings are sufficiently covered by inventory and trade debts. Due to growth in profit, FFO was comparatively higher in FY18 (FY18: Rs. 3.4b; FY17: Rs. 2.9b) vis-à-vis the preceding year. However, FFO to total debt declined in FY18 to 98% (FY17: 272%) owing to an increase in borrowings. FFO of the company is considered sufficient to service debt obligations.

Financial Summary (amounts in PKR millions)				Appendix I
	FY18	**FY17**	**FY16**	**FY15**
Balance Sheet				
Property, Plant and Equipment	10,847.0	8,262.2	6,749.9	5,775.6
Other Non-Current Assets	10.2	10.7	6.4	10.9
Stock in Trade	3,892.3	3,637.7	3,047.0	2,382.6
Trade Debts	5,191.5	4,354.2	2,782.6	2,823.0
Cash and Bank Balances	203.4	92.9	990.9	287.9
Total Assets	23,352.0	18,738.5	15,509.0	12,704.8
Trade and Other payables	3,701.9	3,177.3	2,293.5	2,197.6
Long Term Debt (*including current maturity)	912.8	547.2	440.0	479.3
Short Term Debt	2,550.0	500.0	0.0	0.0
Total Equity (*excluding surplus revaluation)	14,668.2	13,008.8	11,687.2	8,932.6
Income Statement				
Net Sales	21,775.4	20,937.3	19,664.9	17,533.2
Gross Profit	4,825.0	4,874.3	5,563.6	3,910.5
Operating Profit	2,889.9	2,504.7	4,113.7	2,559.9
Profit After Tax	2,752.1	2,489.7	3,810.1	2,325.6
Ratio Analysis				
Gross Margin (%)	22.2%	23.3%	28.3%	22.3%
Net Margin	12.6%	11.9%	19.4%	13.3%
Net Working Capital	6,060.4	6,672.1	6,445.8	4,610.1
FFO	3,392.4	2,850.6	4,368.6	2,814.3
FFO to Total Debt (%)	98.0%	272.2%	992.9%	587.2%
FFO to Long Term Debt (%)	371.6%	521.0%	992.9%	587.2%
Gearing (x)	0.24	0.08	0.04	0.05
Leverage (x)	0.49	0.33	0.23	0.30
Debt Servicing Coverage Ratio (x)	19.0	50.5	23.4	15.5
ROAA (%)	13.1%	14.5%	27.0%	18.4%
ROAE (%)	19.9%	20.2%	37.0%	29.1%

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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	Feroze1888 Mills Limited
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
Instrument Structure	N/A
Statement by the Rating Team	JCR-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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Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
12-Nov-2018	AA-	A-1	Stable	Initial