

# RATING REPORT

## Towellers Limited

**REPORT DATE:**

December 30, 2022

**RATING ANALYST:**

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**RATING DETAILS**

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	A	A-1	A	A-1
<b>Rating Date</b>	December 30, 2022		January 07, 2022	
<b>Rating Action</b>	Reaffirmed		Initial	
<b>Rating Outlook</b>	Stable		Stable	

**COMPANY INFORMATION**

<b>Incorporated in 1973 as a Private Limited Company with subsequent conversion to Public Limited Company in 1994</b>	<b>External auditors:</b> Mushtaq & Company, Chartered Accountants
<b>Public Listed Company</b>	<b>Chief Executive Officer (CEO):</b> Ms. Mehreen Obaid Agha
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chairperson:</b> Ms. Mahjabeen Obaid
<i>Ms. Mahjabeen Obaid – 14.51%</i>	
<i>Ms. Mehreen Obaid Agha – 14.47%</i>	
<i>Ms. Sana Bilal – 14.47%</i>	
<i>Ms. Hadeel Obaid – 14.47%</i>	
<i>Mr. Sheikh Obaid Humza – 23.43%</i>	
<i>Public – 15.86%</i>	

**APPLICABLE METHODOLOGY(IES)**

**VIS Entity Rating Criteria** *Industrial Corporates (August 2021)*  
<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

# Towellers Limited

## OVERVIEW OF THE INSTITUTION

## RATING RATIONALE

Towellers Limited was incorporated in 1973 as a Private Limited Company, and subsequently converted into Public Limited Company in 1994, under the Companies Act, 1913 (Companies Act, 2017), and is quoted on Pakistan Stock Exchange (PSX). The head office and manufacturing facilities of all business units are located in Karachi, Pakistan.

### Profile of Chairperson:

Ms. Mahjabeen Obaid graduated from Chatham College USA, and has pursued further studies in textile designing from Fashion Institute of Technology. She holds a Director position in Towellers Limited since 2008, and is a certified director from PICG since 2016.

### Profile of C.E.O.:

Ms. Mehreen Obaid Agha graduated from Mount Holyoke College, and has experience in manufacturing and industrial management. She is renowned humanitarian, and served as a Director of Towellers Limited since 2004 until she was appointed as the Chief Executive Officer of the Company in 2011 after the demise of her father, Sheikh Muhammad Obaid.

**Corporate Profile:** Incorporated in 1973 as a private limited company with subsequent conversion into a Public Limited Company in 1994; Towellers Limited is principally engaged in exports of knitted garments and home textiles. Main export markets include the United States, Spain, Italy, and Germany. The Company operates weaving, dyeing, bleaching, knitting, and stitching divisions. Head office is situated in F.B. Area, Karachi, while manufacturing facilities are located in North Karachi Industrial Area and Federal B. Area, Karachi.

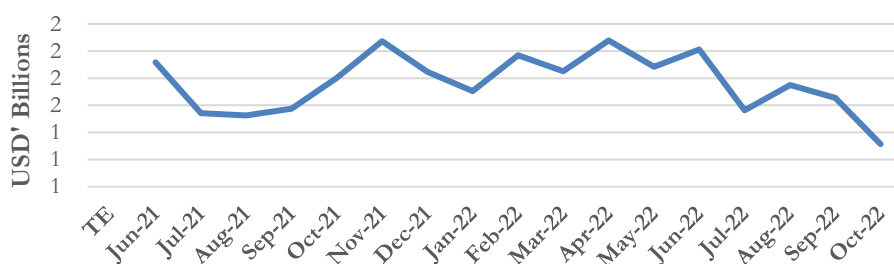
Shareholding pattern reflects 81.35% of the shares vested among five siblings while the remaining majorly being held by public. Towellers Limited is actively managed by four sisters namely Mahjabeen Obaid, Mehreen Obaid Agha, Sana Bilal, and Hadeel Obaid. Board of Directors consist of eight members with two independent representation.

### Industry Outlook

#### Slowdown in textile sector may impact future growth rate

- After posting windfall margins in FY21 and H1'FY22, margins of textile operators, particularly spinners, weavers and dyeing units, have come under pressure during the period Jan-Sep'2022, mainly on account of higher input costs and recessionary trend in export markets.
- The recessionary trend in Pakistan's major export textile export markets, mainly North America and EU, has started to materialize in Pakistan's MoM export proceeds, with receipts for October 2022 (at USD 1.36b) being lower by 11% and 15% vis-à-vis preceding month and corresponding period last year respectively, as also illustrated in the table below.

Figure 1: MoM Textile Exports (TE) (In USD' Billions)



- Given expected industrial gas load shedding during the period Dec-Feb'22, and prevailing recession in major export markets and peak inventory levels, textile export proceeds are expected to fall by ~10% in FY23. Furthermore, profitability margins of textile operators, particularly spinners, weavers and dyeing companies, are expected to remain under pressure given higher input and financial costs.

**Rating drivers****Notable uptick in revenues recorded**

Revenues recorded a significant increase in FY22 with sales increasing by more than 100% contributed by both price and volume growth. Volume growth was recorded at 50% in FY22. Topline has continued to grow in Q1'23, albeit at a slower pace. However, sales growth has largely remained concentrated with one customer. Customer concentration remains on the higher side with top 3 customers accounting for 70% of sales. Product mix is considered favourable with knitted garments and terry towels each contributing almost 50% to sales.

**Margin sustenance supported by operational efficiency and currency gains.**

With sales volumes increasing, fixed costs absorption improved for the Company. Consequently, while gross margins declined in FY22 for most players, Towellers Limited was able to sustain margins, recording only a slight decline to 20.4% (FY21: 21.3%). Operating margins also remained stable at 11.4%. However, margins in Q1'23 recorded an increase to 24.8% on the back of currency gains. We expect margins to streamline by the year end.

**Low gearing structure favorable for the Company amidst slowdown in international demand**

Historically, the Company has operated on zero gearing and low leverage structure. In FY22, however, borrowings increased to Rs. 802m out of which 11m is allocated for ongoing installation of a solar power project generating 110KW energy for the head office branch. Short term borrowings amount to Rs. 791m which is a mix of Islamic Export Refinance Facility (IERF) and Export Finance Scheme (EFS). Total gearing was recorded at 0.15x at end FY22 and 0.11x at end 1Q' 23. Leverage increased to 0.76x during FY22 on account of higher trade payables and short term debt, leverage indicator declined to 0.56x end 1QFY23. Maintaining a low gearing structure remains important amidst slowdown in international demand and weakening in macroeconomic indicators. With no major CAPEX planned in near future, we expect capitalization indicators to remain comfortable in line with the assigned ratings.

**Sound liquidity profile**

Funds from Operations (FFO) witnessed an increase of Rs. 1.03b (FY21 Rs. 677m, FY20: Rs. 215m) in FY22 on account of higher profitability. End-1QFY23, the Company earned FFO of Rs. 781.8m on account of higher profitability. Liquidity continues to remain strong with current ratio at 2.4x and short term borrowing coverage at 3.75x. Cash conversion cycle of the Company also remains within comfortable range of 42 days (FY21: 40 days).

## VIS Credit Rating Company Limited

### RATING SCALE & DEFINITIONS: [ISSUES / ISSUERS](#)

#### 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](http://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](http://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](http://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.

<b>FINANCIAL SUMMARY</b>					
<i>(amounts in PKR millions)</i>					
<b><u>BALANCE SHEET</u></b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>1QFY23</b>
Property, Plant, & Equipment	1,231	1,664	1,811	3,143	3,164
Stock-in-Trade	487	568	1,102	1,491	1,198
Trade Debts	403	510	453	1,547	1,261
Cash & Bank Balances	287	350	300	664	1,207
Total Assets	2,740	3,550	4,297	7,830	8,499
Trade and Other Payables	588	672	845	1,454	1,507
Long Term Debt	-	-	-	11	11
Short Term Debt	-	-	-	791	655
Total Debt	-	-	-	802	666
Total Liabilities	686	835	1,019	2,439	2,357
Paid Up Capital	170	170	170	170	170
Tier 1 Equity	1,204	1,487	2,099	3,201	3,966
Total Equity	2,054	2,714	3,278	5,391	6,142
<b><u>INCOME STATEMENT</u></b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>
Net Sales	3,848	3,772	5,221	10,238	3,079
Gross Profit	863	701	1,112	2,087	954
Operating Profit	449	287	594	1,166	763
Profit Before Tax	451	315	614	1,185	801
Profit After Tax	403	276	556	1,063	751
<b><u>RATIO ANALYSIS</u></b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>1QFY23</b>
Gross Margin (%)	22.4%	18.6%	21.3%	20.4%	31.0%
Operating Margin (%)	11.7%	7.6%	11.4%	11.4%	24.8%
Net Margin (%)	10.5%	7.3%	10.7%	10.4%	24.4%
Net Working Capital	888	1,180	1,593	2,380	3,109
Trade debts/Sales	10%	14%	9%	15%	41%
FFO	484	215	677	1,030	782
FFO to Total Debt (%)*	-	-	-	128%	469%
FFO to Long Term Debt (%)*	-	-	-	9281%	28172%
Debt Servicing Coverage Ratio (x)*	76	35	125	45	81
Current Ratio (x)	2.5	2.8	2.9	2.1	2.4
Stock+Trade Debts/STD	-	-	-	384%	375%
Gearing (x)	-	-	-	0.15	0.11
Leverage (x)	0.57	0.56	0.49	0.76	0.59
ROAA (%)*	22%	9%	14%	18%	37%
ROAE (%)*	39%	21%	31%	40%	84%

REGULATORY DISCLOSURES		Appendix III			
<b>Name of Rated Entity</b>	Towellers Limited				
<b>Sector</b>	Textiles				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>Rating History</b>				
	12/30/2022	A	A-1	Stable	Reaffirmed
	01/07/2022	A	A-1	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>		<b>Designation</b>	<b>Date</b>	
	1	Mr. Adnan Moosaji	CFO	19 <sup>th</sup> December, 2022	