

# RATING REPORT

## Towellers Limited

**REPORT DATE:**

February 7, 2024

**RATING ANALYSTS:**

M. Amin Hamdani

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Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A	A-1
Rating Date	February 7, 2024		December 30, 2022	
Rating Action	Maintained		Reaffirmed	
Rating Outlook	Positive		Stable	

**COMPANY INFORMATION**

<b>Incorporated in 1973</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 – 18.65%</i>	

**APPLICABLE METHODOLOGY(IES)****VIS Entity Rating Criteria** *Industrial Corporates*<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>

**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**

Established in 1973 as a private limited company and subsequently converted into a Public Limited Company in 1994, TOWL is primarily focused on the export of knitted garments and home textiles. The Company's key export markets include the United States, Spain, and Italy. The organization operates across weaving, dyeing, bleaching, knitting, and stitching divisions. Its Head office is located in F.B. Area, Karachi, while its manufacturing facilities are situated in North Karachi Industrial Area and Federal B. Area, Karachi. The shareholding pattern of TOWL indicates that 81.35% of the shares are held among five siblings, with the remaining shares predominantly held by the public.

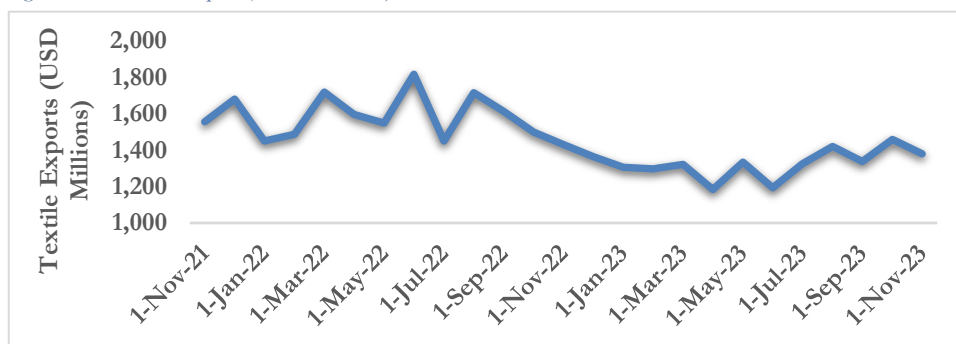
**Industry Outlook**

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

In FY23, the performance of Pakistan's textile sector faced constraints due to the government's withdrawal of significant incentives previously enjoyed by the sector, such as RCET (Regionally Competitive Energy Tariff) and subsidized financing. The cost of production for the textile sector increased notably, with gas prices surging from Rs. 819 per MMBtu to Rs. 2,200 per MMBtu during FY23. This escalation was primarily attributed to depleting gas reserves in the country and a heightened dependence on RLNG.

The textile sector, being highly leveraged, encountered additional challenges with reduced support from the State Bank of Pakistan (SBP) and the government. The textile companies have had to borrow at a higher cost, amidst an elevated policy rate in the country. Consequently, due to recessionary trends in both local and international economies, the demand for textile products remained low throughout FY23.

Figure 1: MoM Textile Exports (In USD' Millions)



Source: SBP

Looking ahead, the demand outlook for the textile sector is anticipated to be constrained by prevailing economic uncertainties. Nevertheless, the depreciation of the rupee has rendered our exports slightly more competitive in international markets. Additionally, there is optimism as an anticipated good cotton crop in FY24 is expected to alleviate some pressure on input costs and margins. The price of cotton per maund has already witnessed a decline from Rs. 22,000 to Rs. 18,000, contributing to a more favorable cost structure for the industry.

**Rating drivers****Revenue growth continues; client wise sales mix feature high concentration**

The sales revenue increased by approximately 8.0% to Rs. 11.1 billion in FY23 (FY22: Rs. 10.3 billion), primarily driven by substantial rupee devaluation, though there was a marginal decrease in sales volume. The Company maintains a concentrated client base, with the top 10 customers contributing approximately 84.6% in FY23 (compared to ~87.5% in FY22) of total sales, reflecting a modest improvement over the previous year. While this concentration signals a strong relationship with key clients, diversification of the customer base remains a consideration for the management. The Company's profitability profile is primarily supported by export sales, contributing approximately 99% towards sales revenue, as well as providing cushion to the cost of sales against exchange rate fluctuations.

**Profitability increases backed by effective management of liquid funds and substantial returns on short-term investments**

In FY23, the gross profit increased to Rs. 3.1 billion (FY22: Rs. 2.1 billion), registering a growth of ~51%. The cost of sales decreased to Rs. 7.9 billion in FY23 (FY22: Rs. 8.2 billion), commensurate to lower sales volume. Hence, the gross margin demonstrated a significant increase, reaching 28.35% in FY23 (FY22: 20.38%). The Company effectively managed cost overheads, including distribution and administrative expenses, contributing to an improvement in operating profit to Rs. 2.6 billion (FY22: Rs. 1.2 billion) and operating margin to 24% (FY22: 12%) in FY23. Despite a surge of approximately 132% in finance costs during FY23, the profit after tax (PAT) more than doubled YoY, rising to Rs. 2.4 billion (FY22: Rs. 1.1 billion) in FY23, owing to substantial returns on short-term investments. However, the net margin, in 1QFY24, reduced to 12.92% due to rising input costs.

**Funds from Operations (FFO) and liquidity ratios remain in line with the assigned ratings**

Funds from Operations (FFO) saw a substantial increase, reaching Rs. 2.4 billion in FY23 compared to Rs. 1.0 billion in FY22, driven by enhanced profitability. The current ratio also increased, standing at 3.0x in FY23 (compared to 2.1x in FY22), signaling improvement in liquidity. The Company currently has no short-term borrowings; the quick ratio improved to 2.26x in FY23 (FY22: 1.39x), indicating adequate cushion to cover any future short-term borrowings with the most liquid assets. The Company typically maintains a cash conversion cycle of 40-50 days and reported an improvement to 24 days in 1QFY24.

**Low gearing structure favorable for the Company amidst weakening macroeconomic conditions**

The Company has historically maintained a conservative capitalization profile characterized by zero gearing, albeit marginally rising to 0.15x in FY22, and a low leverage ratio. In FY22, short-term borrowings, a combination of Islamic Export Refinance Facility (IERF) and Export Finance Scheme (EFS), amounted to Rs. 791 million which were fully settled during FY23, leading to improvement in the leverage ratio to 0.45x (FY22: 0.76x) and the gearing ratio reverted back to its historical level (FY22: 0.15x). Additionally, due to regular payments, the long-term loan decreased to Rs. 9.1 million (FY22: Rs. 10.2 million) compared to the previous year. Going forward, maintaining the existing capital structure is important for the ratings assigned.

**Sound corporate governance framework anchored by a well-structured organizational layout**

The position of CEO at TOWL, held by Ms. Mehreen Obaid, is distinct from the role of the board chair, which is independently chaired by Ms. Mahjabeen Obaid. The board comprises eight members, including two independent directors, ensuring diverse representation. To enhance oversight, two board committees—Audit and HR & Remuneration—have been established. In alignment with best governance practices, the board includes four female representatives, with independent members chairing the HR and Audit committees. Furthermore, the Company's auditor, Mushtaq & Co., is on the State Bank of Pakistan's approved panel, holding a 'B' category, signifying professional competence and credibility.

**Towellers Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>					
<i>(amounts in Rs. millions)</i>					
<b><u>BALANCE SHEET</u></b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>1QFY24</b>
Property, Plant, & Equipment	1,664	1,811	3,143	3,251	3,306
Stock-in-Trade	568	1,102	1,491	1,625	1,186
Trade Debts	510	453	1,547	2,246	1,701
Cash & Bank Balances	350	300	664	430	1,955
Total Assets	3,550	4,297	7,830	9,982	10,410
Trade and Other Payables	672	845	1,454	2,233	2,131
Long Term Debt	-	-	11	10	39
Short Term Debt	-	-	791	-	-
Total Debt	-	-	802	10	39
Total Liabilities	835	1,019	2,439	2,421	2,345
Paid Up Capital	170	170	170	170	170
Tier 1 Equity	1,487	2,099	3,201	5,426	5,943
Total Equity	2,714	3,278	5,391	7,561	8,065
<b><u>INCOME STATEMENT</u></b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>1QFY24</b>
Net Sales	3,772	5,221	10,238	11,087	3,900
Gross Profit	701	1,112	2,087	3,143	700
Operating Profit	287	594	1,166	2,295	486
Profit Before Tax	315	614	1,185	2,580	580
Profit After Tax	276	556	1,063	2,388	504
<b><u>RATIO ANALYSIS</u></b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>1QFY24</b>
Gross Margin (%)	18.6%	21.3%	20.4%	28.3%	18.0%
Operating Margin (%)	7.6%	11.4%	11.4%	20.7%	12%
Net Margin (%)	7.3%	10.7%	10.4%	21.5%	13%
Net Working Capital	1,180	1,593	2,380	4,431	4,906
Trade debts/Sales	14%	9%	15%	20%	44%
FFO	215	677	1,030	2,405	547
FFO to Total Debt (%)*	-	-	128%	23474%	5611%
FFO to Long Term Debt (%)*	-	-	9281%	23474%	5611%
Debt Servicing Coverage Ratio (x)*	35	125	45	40	95
Current Ratio (x)	2.8	2.9	2.1	3.0	3.3
Stock+Trade Debts/STD	-	-	384%	-	-
Gearing (x)	-	-	0.15	0.00	0.00
Leverage (x)	0.56	0.49	0.76	0.45	0.39
ROAA (%)*	9%	14%	18%	27%	20%
ROAE (%)*	21%	31%	40%	55%	35%

REGULATORY DISCLOSURES					
Appendix II					
<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>				
	02/07/2024	A	A-1	Positive	Maintained
	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> January, 2024	