

RATING REPORT

Union Fabrics (Private) Limited

REPORT DATE:

December 26, 2019

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	December 17, 2018		December 26, 2018	
Rating Outlook	Stable		Stable	
Outlook Date	December 17, 2018		December 26, 2018	

COMPANY INFORMATION

Incorporated in 1992	External auditors: Horwath Hussain Chaudhury & Co.
Private Limited Company	Chairman of the Board: Mr. M Asif Siddiq
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. M Asif Siddiq
Mr. M. Asif Siddiq (30.56%)	
Mr. Faisal Amin (13.09%)	
Mr. Khurram Arif (10.90%)	
Mr. Ahmed Amin (10.30%)	
Ms. Sana Ali Shah (8.89%)	
Ms. Sania Khalid (5.45%)	
Mr. M. Amin Siddiq (5.41%)	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (May, 2016) <http://www.vis.com.pk/kc-meth.aspx>

Union Fabrics (Pvt) Limited

OVERVIEW OF THE INSTITUTION

Union Fabrics (Pvt) Limited (UFPL) commenced operations in 1992 as a small scale weaving unit and currently operates in the home textiles, processing and value added business lines in addition to weaving of greige fabric.

The company has 4 plants situated in S.I.T.E area. The company's greige fabric product and various home textile products form a significant part of its export sales.

The management team of the company is spearheaded by the sponsor- Mr. Asif Siddiq himself. Mr. Asif holds a Bachelor's degree in Electrical & Electronics Engineering from University of Florida and an MBA degree in Finance and MIS from University of South Florida.

Certifications held by UFPL include GOTS (Global Organic Textile Standard), OEKO-TEX (Class I and II) which is an international testing and certification system for textiles for limiting use of hazardous chemicals and substances in the textile product, and ISO 9001:2008 and ISO 14001:2004 relating to Quality Management Systems for customer satisfaction and Environment Management System for environmental performance, respectively.

RATING RATIONALE

UFPL currently operates in the home textiles, processing and value added business lines in addition to weaving. In the ongoing year, UFPL converted its wholly-owned subsidiary, Union Apparel (Private) Limited (UAPL) to a manufacturing concern. As part of the transaction, UFPL sold off land & building, along with a portion of its machinery, from one of its manufacturing units, to UAPL. Capacity utilization levels of sizing, weaving, stitching and processing segments continued to rise and stood above 90% during the outgoing fiscal year. UFPL is in process of revamping its information technology infrastructure with implementation of SAP enterprise resource planning software which is likely to support scaling up of operations. Nevertheless, overall corporate governance framework depicts room for improvement in line with best practices.

Net sales increased by 14% in FY19 with growth emanating from higher export as well as local sales. On a timeline basis, sales of home textiles in sales mix has increased with the same expected to grow further, going forward. Given the orders in hand, sales projected to depict growth in FY20. Going forward, greater sales from value-added segment are projected to off-set the impact of finance costs, consequently improving profitability.

Equity base has increased on account of profit retention and issuance of right shares for funding expansion. As at end-1QFY20, equity base has been supported by sponsor loan which will be converted to share capital. Further equity injection planned by sponsors during ongoing fiscal year will support capitalization levels of the company. Assigned ratings remained constrained by high leverage indicators, although the same have improved on a timeline basis. Despite planned equity injection, leverage indicators are projected to remain high on account of debt drawdown to fund capex in the ongoing fiscal year. Cash flow coverage of outstanding long term debt and debt servicing coverage remain adequate. Going forward, ratings will remain dependent on maintaining high utilization levels while improving leverage indicators and coverages in line with benchmarks for the assigned ratings.

Union Fabrics (Private) Limited

Appendix I

FINANCIAL SUMMARY (Amounts in PKR millions)			
BALANCE SHEET	FY17	FY18	FY19
Paid up capital	267.1	287.1	295.7
INCOME STATEMENT			
Net Sales	4,447.3	5,380.8	6,158.7
Profit Before Tax	174.4	193.3	360.2
Profit After Tax	174.4	193.3	360.2
RATIO ANALYSIS			
FFO	407.7	571.4	624.6
Current Ratio (x)	0.99	1.04	1.07
Gearing (x)	1.70	1.62	1.57

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

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

(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

'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.

REGULATORY DISCLOSURES				Appendix III	
Name of Rated Entity	Union Fabrics (Pvt) Ltd				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	17/12/2019	A-	A-2	Stable	Reaffirmed
	26/12/2018	A-	A-2	Stable	Reaffirmed
	21/11/2017	A-	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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