RATING REPORT

Gohar Textile Mills (Pvt.) Limited

REPORT DATE:
May 26, 2021

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-1	A	A-1
Rating Date	*May 26, 2021*		*April 18, 2020*	
Rating Outlook	Stable		Rating Watch-Negative	

COMPANY INFORMATION	
Incorporated in 1980	External Auditors: Azhar Zafar & Company
Private Limited Company	Chairman of the Board/CEO: Mr. Liaqat Ali
Key Shareholders (More than 5%):	
Mr. Liaqat Ali – 32.2%	
Mr. Gohar Mustafa – 35.8%	
Mr. Muhammad Aftab Gauhar – 15.8%	
Mr. Altaf Gohar – 13.7%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2019) https://www.vis.com.pk/kc-meth.aspx

Gohar Textile Mills (Pvt.) Limited

RATING RATIONALE

Corporate Profile: Incorporated in 1995, the company is principally engaged in the manufacturing and selling of value-added fabrics and textile made ups, with exports contributing to 99% of the total sales in FY20. The product portfolio primarily includes duvet cover sets, fitted sheets, pillowcases, grey and finished fabrics. Major markets are concentrated in Australia and Europe; however the company plans to diversify in the U.S.A. over the rating horizon, thus limiting client concentration.

Gohar Textile is a vertically integrated entity incorporating spinning, weaving, processing, and a stitching unit; driven by in-house Independent Power Producer (IPP) based on furnace oil, Liquefied Petroleum Gas (L.P.G.), natural gas, and coal. Alongside, the company has access to power supply from WAPDA and has recently received final approval from the authority for having access to 13MW electricity; project is expected to come online by end-FY21. Therefore, the company enjoys a competitive advantage with respect to the availability of various resources for meeting power requirements which stands at 10-11MW.

Rating Drivers

Recovery in the industry post COVID-19 lockdown lends support to the business risk of the company

Pakistan was able to attract orders diverted from the closure in other regions, and posted recovery 2Q'FY21. The Government has also been supportive of the textile industry with various measures. Exports remained stagnant in USD terms during Q1'FY21, however recovery started to materialize during Q2'FY21 as export proceeds were 4% higher than SPLY. The sector posted a cumulative growth of 9.1% during 3Q'FY21 vis-à-vis SPLY, primarily driven by export growth in value-added segment especially bed wear, knitwear, and home textile. Going forward, reduction in textile exports from China and emergence of a new wave of COVID-19 in India are expected to give another boost to the country's sector; however reopening of regional players from lockdown and their vaccination drives will be a limiting factor.

Capital expenditure to enhance production capacities

Earlier, Gohar Textile undertook the project of installing 68 looms to increase in-house production. Continuing with the strategic goal, it plans to install another 68 air-jet looms in FY22 to completely eliminate the need to outsource fabric. Construction of a new spinning unit is also in the pipeline; therefore total estimated capex of FY22 amounts to Rs. 1b planned to be funded through a combination of internal cash generation and debt. Apart from this, the company has completed the purchase of land in Faisalabad City during the period under review for development purposes; and will consequently enter the tax-free zone.

Capex during FY20 amounts to approximately Rs. 1.2b; majorly used to purchase land, building, plant and machinery, and conduct electric installations in existing facilities; funded through fresh equity (Rs. 287m) and debt (Rs. 350m). Rest was funded through internal fund generation. Going forward, the company plans to incur a capex amounting to approximately Rs. 600m in FY21 followed by a considerable outlay in FY22.

OVERVIEW OF THE INSTITUTION

Gohar Textile Mills Limited (GTML) was established in 1980 in UK and an integrated operation was opened in Pakistan in 1995. The company is involved in the spinning, weaving and finished fabric.

Profile of the Chairman/CEO

Mr. Liaqat Ali serves as the Chairman of the Board and Chief Executive Officer. He has over 35 years of experience in the textile industry.

Financial Snapshot

Total Equity: end-HY21: Rs. 8.6b; end-FY20: Rs. 8.0b; end-FY19: Rs. 6.8b; end-FY18: Rs.5.7b

Assets: end-HY21: Rs. 17.0b; end-FY20: Rs. 14.4b; end-FY19: Rs. 11.4b; end-FY18: Rs. 9.5b

Profit After Tax: HY21: Rs. 607m; FY20: Rs. 847m; FY19: Rs. 979m; FY18: Rs. 654m

Revenues maintained positive momentum; however margins remain under pressure

The company recorded revenue growth of 13% during FY20 driven by volumetric sales surge of 74% despite the pandemic. However, the same was achieved on account of 33% reduction in average selling prices, which is reflective of the competitive pressures in the industry due to the pandemic. As a result, gross margins dipped to 14.1% during FY20; partly impacted by increase in raw material prices. Operating and net margins also remained under pressure mainly due to an increase in freight charges affected by the pandemic. Finance costs also increased on account of higher debt utilization; thus constraining the bottom-line. Client concentration continued to remain on the higher side despite reduction on a timeline basis, with top ten clients constituting 55% of the total sales.

During H1'FY21, topline continued to record strong growth however it didn't translate into improved profitability due to pressure on prices and higher expenses. Going forward, company is targeting a turnover of Rs. 18b at end-FY21, and a gross margin of 14-15% on the back of operational efficiencies through timely procurement and cost control initiatives. VIS will continue to monitor profitability indicators going forward.

Sound liquidity profile and adequate cash flow coverage to continue support ratings

Funds from Operations (FFO) fell to Rs. 1.3b during FY20 (FY19: 1.4b) on account of lower profitability, and increase in total debt. As a result, cash flow coverage indicators including FFO to Total Debt and FFO to Long-term Debt depicted decline, albeit remain within manageable levels. Improvement in the same on account of projected profitability will remain crucial determinant for ratings going forward.

Cash conversion cycle rose to 106 days during FY20 (FY19: 96 days) on account of increase in inventory days outstanding and receivable days outstanding owing to pandemic delays. Raw material stocks reflect an uptick as company increased their safety stock on account of cotton shortage and rising prices in the market; thus resulting in increased working capital requirements. However, rise in payable days outstanding supported working capital management which rose to 62 days (FY19: 50 days). Going forward, outstanding trade debts were partially recovered during H1'FY21, thus providing comfort to liquidity indicators. The liquidity profile continues to remain sound; evident through the current ratio which stands at 1.52x (end-FY19: 1.56x). However improvement in liquidity indicators on account of streamlining of inventory levels to historical basis will weigh upon ratings going forward. Cash and cash balances, inventory, and trade debts continue to provide sufficient coverage to support short term obligations.

Capitalization indicators remain within manageable levels despite increase in debt utilization

Adjusting for revaluation surplus; the equity base of the company rose by 20% during FY20 on the back of new share issuance and retention of profits providing comfort to the capitalization indicators. However, debt utilization increased during FY20 resulting in elevated leverage and gearing indicators, albeit remaining within manageable levels. Short term borrowings rose to manage working capital requirements amid pandemic, while long term debt increased to fund capex, purchase vehicles on lease, and avail the salary refinance program introduced by the SBP. Going forward, capitalization indicators are expected to elevate during FY22 on the back of loom purchase and construction of spinning unit; however will remain within adequate levels.

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	FY18	FY19	FY20	H1'FY20	H1'FY21
Non-Current Assets	4,894	4,958	5,584	5,214	5,675
Stock-in-Trade	2,641	3,427	4,541	3,952	5,813
Trade Debts	956	1,765	1,776	2,249	2,909
Other Receivables	581	680	1,247	1,005	1,460
Cash & Bank Balances	43	37	457	40	319
Other Assets	390	528	579		656
Total Assets	**9,485**	**11,396**	**14,354**	**13,174**	**17,013**
Trade and Other Payables	664	1,034	1,535	1,174	1,673
Short Term Borrowings	2,465	2,829	3,721	3,732	5,217
Long-Term Borrowings *(Inc. current maturity)*	622	630	1,044	632	1,371
Paid up Capital	69	231	519		519
Other Liabilities	34	60	78		167
Tier-1 Equity	**4,705**	**5,923**	**7,127**	**6,675**	**7,767**
Total Equity	5,701	6,843	7,977	7,560	8,585

INCOME STATEMENT	FY18	FY19	FY20	H1'FY20	H1'FY21
Net Sales	7,842	12,297	13,923	7,513	9,475
Gross Profit	1,178	1,872	1,967	1,155	1,365
Operating Profit	728	1,315	1,230	806	813
Profit Before Tax	580	1,063	987	669	691
Profit After Tax	654	979	847	600	607
FFO	914	1,375	1303	825	889

RATIO ANALYSIS	FY18	FY19	FY20	H1'FY20	H1'FY21
Gross Margin (%)	15.0	15.2	14.1	15.4	14.4
Net Working Capital	1,282	2,311	2,939	2,760	3,748
FFO to Long-Term Debt	1.47	2.18	1.25	2.61*	1.30*
FFO to Total Debt	0.30	0.40	0.27	0.38*	0.27*
Debt Servicing Coverage Ratio (x)	4.2	4.3	3.5	4.9	2.3
ROAA (%)	7.6	9.4	6.6	9.8*	7.7*
ROAE (%)	12.2	15.6	11.4	16.7*	14.7*
Gearing (x)	0.66	0.58	0.67	0.65	0.85
Debt Leverage (x)	0.78	0.77	0.89	0.84	1.09
Current Ratio	1.38	1.56	1.52	1.53	1.51
(Stock in Trade + Trade Debts)/Short Term Borrowing (x)	1.46	1.84	1.70	1.66	1.67

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

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	Gohar Textile Mills (Pvt.) Limited				
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**
			RATING TYPE: ENTITY		
	05-26-2021	A	A-1	Stable	Maintained
	04-18-2020	A	A-1	Rating Watch-Negative	Maintained
	03-26-2019	A	A-1	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.				
Probability of Default	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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Due Diligence Meetings Conducted		**Name**	**Designation**	**Date**	
	1	Mr. Asif Sheikh	CFO	22-April-2021	