

## RATING REPORT

### Gohar Textile Mills (Pvt.) Limited

#### REPORT DATE:

March 11, 2024

#### RATING ANALYSTS:

Amin Hamdani

[amin.hamdani@vis.com.pk](mailto:amin.hamdani@vis.com.pk)

#### 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	March 11, 2024		June 06, 2022	
Rating Action	Upgrade		Reaffirmed	
Rating Outlook	Stable		Stable	

#### COMPANY INFORMATION

Incorporated in 1995	<b>External Auditors:</b> Baker Tilly Mehmood Idrees Qamar Chartered Accountants
Private Limited Company	<b>Chairman of the Board/CEO:</b> Mr. Liaqat Ali
<b>Key Shareholders (More than 5%):</b>	
Mr. Gauhar Mustafa – 33.7%	
Mr. Aftab Gauhar – 31.1%	
Mr. Liaqat Ali – 18.7%	
Mr. Shahzad Gauhar – 14.5%	

#### APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: 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>

## Gohar Textile Mills (Pvt.) Limited

OVERVIEW OF  
THE  
INSTITUTION RATING RATIONALE

**Gohar Textile Mills Limited (GTML)** was established in 1995 under the jurisdiction of the Securities and Exchange Commission of Pakistan (SECP). The Company is involved in the manufacture and export of home textiles.

**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.

**Company Profile**

Gohar Textile Mills (Pvt.) Limited (GTML) was established in 1995 under the jurisdiction of the Securities and Exchange Commission of Pakistan (SECP). Specializing in the production and export of home textiles, GTML has a comprehensive manufacturing infrastructure encompassing spinning, weaving, fabric processing, and textile made-ups. Since its inception, the Company has been dedicated to the manufacturing and export of a wide range of value-added fabrics and textile home products. GTML's registered office is situated in Zia Town, Faisalabad, while its operational units including spinning, processing, stitching, and quilting are located in Tehsil Jhumra, District Faisalabad, and the weaving unit operates in Tehsil Gojra, District Toba Tek Singh.

**Sector Update**

The business risk profile of the textile sector in Pakistan is characterized by a high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors.

In FY23, the textile sector faced challenges due to various economic and environmental factors. These included damage to the cotton crop resulting from flooding in 1H FY23, escalating inflation, and import restrictions due to diminishing foreign exchange reserves.

During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, as a result of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Reduction in cotton supply, coupled with global economic slowdown and contractionary economic policies, led to a decrease in demand for textile products and, consequently, cotton yarn.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs and inflationary pressures. Additionally, the sector's vulnerability to global market dynamics and the domestic economic landscape further contribute to its high business risk profile. However, there is optimism as an anticipated bigger cotton crop in FY24 is expected to alleviate some pressure on input costs and margins.

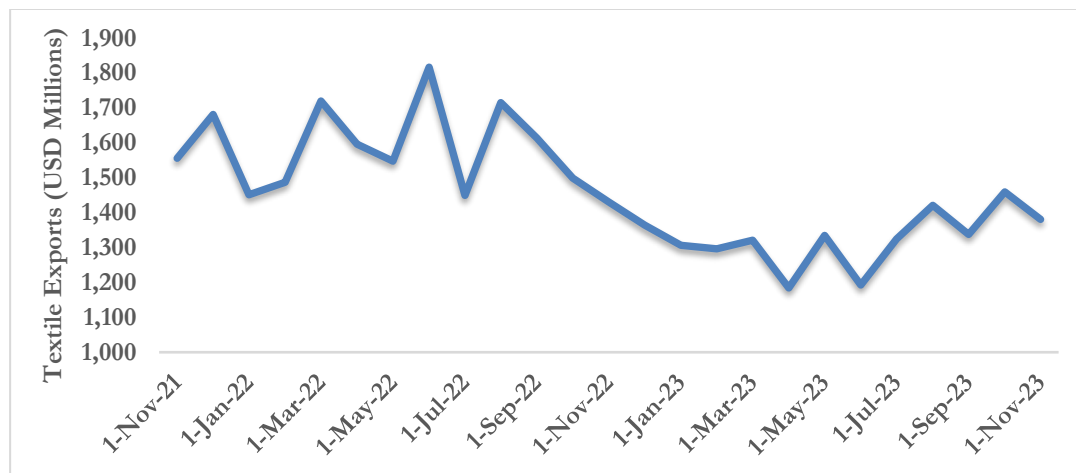


Figure 1: MoM Textile Exports (In USD' Millions)

Source: SBP

### Key Rating Drivers

**Healthy profitability profile, with strong gross margins, reported further strengthening supported by inventory gains, and net benefit from currency depreciation in FY23. Gross margins normalized in 1HFY24, albeit remaining higher than FY22.**

GTML reported improvement in the topline of ~25% in FY23. Topline growth was supported by a surge in local currency rates as ~99% of the Company's revenue is comprised of export sales. Simultaneously, ~80% of GTML's raw material costs remained localized, limiting the pressure on costs from the significant loss in value of the PKR during the period. The same also resulted in higher gross margins, further enhanced by inventory gains. Gross margins improved to ~31% (FY22: ~17%) in FY23. However, because of a relatively stable PKR/USD parity in 1HFY24, gross margins normalized to ~21%, albeit still higher compared to FY22. GTML's client portfolio is marked by high concentration risk with top 5 customers contributing around 57% of the Company's revenue, however, the same is mitigated through long-standing relationship with these customers.

**Healthy liquidity profile continues to strengthen. Improved profitability with low debt further strengthens the coverage profile.**

The Company's liquidity profile has also remained healthy with a 4-Year average current ratio of 1.7x. The current ratio further improved to 2.6x (FY23: 2.4, FY22: 1.6x) in 1HFY24. This improvement is attributed to a consistent build-up in the Company's stock in trade, leading to an increase in current assets. Simultaneously, a decrease in current liabilities, supported by lower short-term debt utilization and improved FFO generation, further supports the enhanced current ratio.

GTML has historically maintained a healthy coverage profile with a 4-Year average debt service coverage ratio (DSCR) and short-term debt coverage of 3.5x and 2.2x, respectively. With improvement in funds from operation, the Company's coverage profile reported a significant enhancement with a DSCR of 6.8x (FY22: 3.5x) and short-term debt coverage of 3.7x (FY22: 1.7x) in FY23. However, in 1HFY24, the DSCR deteriorated to 4.5x on account of normalization of margins and FFO generation. Meanwhile short-term debt coverage strengthened to 4.6x during the same period on account of continued build-up in stock in trade.

**Conservative capitalization profile reports further improvement, supported by healthier funds generation from operations and equity expansion with higher profitability.**

As a result of sufficient cash generation from operations, the Company was able to reduce its short-term debt drawdown by ~37% during FY23 with further marginal reduction in 1HFY24. Simultaneously, GTML also reported significant equity expansion, supported by higher profitability in FY23 and 1HFY24. Consequently, the gearing and leverage ratios improved to 0.2x

(FY23: 0.3x, FY22: 0.7x) and 0.5x (FY23: 0.5x, F22: 0.9x), respectively in 1HFY24. Going forward, capitalization profile is forecasted to improve further amid no plans of mobilizing any long term debt during the rating horizon.

## Gohar Textile Mills (Pvt.) Limited

## Annexure-I

<b>FINANCIAL SUMMARY</b>							<i>(PKR Millions)</i>
<b>Balance Sheet</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>6MFY24A</b>	<b>FY24P</b>	<b>FY25P</b>	
Property, plant and equipment	8,825.0	9,752.0	14,504.3	14,337.1	14,964.7	15,235.7	
Stock-in-trade	6,744.3	6,421.4	9,383.3	11,746.7	10,715.7	12,239.4	
Trade debts	3,231.6	4,069.4	4,969.7	3,926.4	5,462.2	6,003.8	
Cash & Bank Balances	385.5	954.4	416.2	1,060.3	499.3	648.7	
<b>Total Assets</b>	<b>21,940.9</b>	<b>23,301.1</b>	<b>32,492.6</b>	<b>34,313.4</b>	<b>34,927.2</b>	<b>37,664.9</b>	
Trade and Other Payables	2,374.2	1,824.4	2,881.1	3,376.2	2,432.3	2,282.3	
Long-term Debt	1,228.1	1,392.4	1,028.1	1,042.4	834.9	635.0	
Short-Term Borrowings	6,128.8	6,180.4	3,877.1	3,427.0	3,689.8	3,370.8	
<b>Total Debt</b>	<b>7,357.0</b>	<b>7,572.7</b>	<b>4,905.2</b>	<b>4,469.4</b>	<b>4,524.7</b>	<b>4,005.8</b>	
<b>Total Liabilities</b>	<b>9,919.0</b>	<b>9,657.8</b>	<b>8,121.3</b>	<b>8,274.1</b>	<b>7,228.3</b>	<b>6,535.5</b>	
Paid up Capital	518.8	518.8	518.8	518.8	518.8	518.8	
<b>Equity (excl. Revaluation Surplus)</b>	<b>8,374.3</b>	<b>10,265.7</b>	<b>16,267.8</b>	<b>18,057.3</b>	<b>19,830.4</b>	<b>23,489.1</b>	
<b>Income Statement</b>							
<b>Net Sales</b>	<b>19,527.6</b>	<b>23,797.9</b>	<b>29,759.7</b>	<b>16,250.1</b>	<b>32,723.7</b>	<b>35,983.5</b>	
<b>Gross Profit</b>	<b>2,691.5</b>	<b>3,984.9</b>	<b>9,091.5</b>	<b>3,417.5</b>	<b>6,589.2</b>	<b>6,875.5</b>	
<b>Operating Profit</b>	<b>1,717.8</b>	<b>2,538.4</b>	<b>7,317.6</b>	<b>2,424.9</b>	<b>4,619.8</b>	<b>4,717.3</b>	
<b>Finance Costs</b>	<b>271.6</b>	<b>443.4</b>	<b>789.2</b>	<b>421.9</b>	<b>757.4</b>	<b>709.4</b>	
<b>Profit Before Tax</b>	<b>1,362.1</b>	<b>1,931.4</b>	<b>6,155.7</b>	<b>1,902.4</b>	<b>3,763.9</b>	<b>3,910.4</b>	
<b>Profit After Tax</b>	<b>1,180.7</b>	<b>1,621.3</b>	<b>5,759.1</b>	<b>1,668.0</b>	<b>3,327.7</b>	<b>3,430.5</b>	
<b>Ratio Analysis</b>							
<b>Gross Margin (%)</b>	<b>13.8%</b>	<b>16.7%</b>	<b>30.5%</b>	<b>21.0%</b>	<b>20.1%</b>	<b>19.1%</b>	
<b>Net Margin (%)</b>	<b>6.0%</b>	<b>6.8%</b>	<b>19.4%</b>	<b>10.3%</b>	<b>10.2%</b>	<b>9.5%</b>	
<b>Funds from Operation (FFO)</b>	<b>1,755.2</b>	<b>2,709.6</b>	<b>6,941.7</b>	<b>2,378.2</b>	<b>4,463.6</b>	<b>4,663.8</b>	
<b>FFO to Total Debt* (%)</b>	<b>23.9%</b>	<b>35.8%</b>	<b>141.5%</b>	<b>106.4%</b>	<b>98.6%</b>	<b>116.4%</b>	
<b>FFO to Long Term Debt* (%)</b>	<b>142.9%</b>	<b>194.6%</b>	<b>675.2%</b>	<b>456.3%</b>	<b>534.6%</b>	<b>734.4%</b>	
<b>Gearing (x)</b>	<b>0.9</b>	<b>0.7</b>	<b>0.3</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	
<b>Leverage (x)</b>	<b>1.2</b>	<b>0.9</b>	<b>0.5</b>	<b>0.5</b>	<b>0.4</b>	<b>0.3</b>	
<b>Debt Servicing Coverage Ratio* (x)</b>	<b>2.9</b>	<b>3.5</b>	<b>6.8</b>	<b>4.5</b>	<b>4.5</b>	<b>5.3</b>	
<b>Current Ratio</b>	<b>1.4</b>	<b>1.6</b>	<b>2.4</b>	<b>2.6</b>	<b>2.9</b>	<b>3.6</b>	
<b>(Stock in trade + trade debts) / STD (x)</b>	<b>1.6</b>	<b>1.7</b>	<b>3.7</b>	<b>4.6</b>	<b>4.4</b>	<b>5.4</b>	
<b>Return on Average Assets* (%)</b>	<b>6.5%</b>	<b>7.2%</b>	<b>20.6%</b>	<b>10.0%</b>	<b>9.8%</b>	<b>9.5%</b>	
<b>Return on Average Equity* (%)</b>	<b>15.2%</b>	<b>17.4%</b>	<b>43.4%</b>	<b>19.4%</b>	<b>18.4%</b>	<b>15.8%</b>	

\*Annualized, if required

A = "Actual", P = "Projected"

REGULATORY DISCLOSURES					Appendix II
<b>Name of Rated Entity</b>	Gohar Textile Mills (Pvt.) Limited				
<b>Sector</b>	Textile				
<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><u>RATING TYPE: ENTITY</u></b>				
	03-11-2024	A+	A-1	Stable	Upgrade
	06-06-2022	A	A-1	Stable	Reaffirmed
	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
<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	Muhammad Asif	GM Finance	1 <sup>st</sup> March 2024	