RATING REPORT

Gadoon Textile Mills Limited

REPORT DATE:
November 02, 2022

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	*November 02, 2022*		*November 30,2021*	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION	
Incorporated in 1988	**External auditors:** M/s Yousuf Adil, Chartered Accountants
Public Listed Company	**Chairman:** Mr. M. Yunus Tabba
Key Shareholders:	**CEO:** Mr. M. Sohail Tabba
Y.B. Holdings (Private) Limited -69.57%	

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

Gadoon Textile Mills Limited

OVERVIEW OF THE INSTITUTION

Gadoon Textile Mills Limited was incorporated in 1988 as part of Yunus Brothers Group (YBG). The principal business activity of the Company is to manufacture and sell yarn, knitted bedding prodcuctss, and production and sale of milk.

Profile of Chairman

Mr. Mohammad Yunus Tabba started his career over 60 years ago with YBG as one of its founding members and seen it progress and expand.

Profile of CEO

Mr. Muhammad Sohail Tabba is a seasoned businessman with extensive experience in manufacturing, energy, real estate and cement sectors. Mr. Sohail is a chairman of ICI Pakistan Limited, Yunus Energy Limited and NutriCo Morinaga (Private) Limited. Furthermore, he serves as a CEO of Lucky Energy (Private) Limited, Lucky Knits (Private) Limited and

RATING RATIONALE

Company Profile

Gadoon Textile Mills Limited (GTML) is engaged in the production and sale of yarn, knitted bedding products and production and sale of milk with manufacturing facilities in two regions-North and South of Pakistan. GTML's rating draw comfort from the same being a part of Yunus Brothers Group, a reputable conglomerate with strong financial presence in diversified sectors including textile, building materials, real estate, power generation, chemicals, pharmaceuticals, food and automotive.

GTML Operations

GTML operates through two manufacturing facilities one located in Karachi (near super highway) and another one in District Swabi Province of KPK with over 350,000 spindles. Company's ability to be easily flexible in producing varying types and counts of yarn serves as a competitive advantage. During FY22, the company incurred capital expenditure to the tune of Rs. 1.85b. Utilization levels have remained on the higher side (above 95%) over the last two years. For FY23, the company plans to replace significant older inefficient machines with state-of-the-art upgraded machines, which will be mainly financed through Long-term Financing Facility (LTFF).

Furthermore, in order to achieve diversification, company plans to further expand its valued-added segment, which will also support the Company's bottom-line. The project is estimated to achieve COD by Q4FY23.

GTML Investments

Long-term investments stood higher at Rs. 4.23b (FY21: Rs. 3.57b) at end-FY22 and represent 10.37% of the total asset base.

Long Term Investments (Rs. in millions)	FY21	FY22
ICI Pakistan Limited	2,194.82	2,564.38
Yunus Energy Limited	1,374.26	1,668.59
Lucky Holdings Limited	1.54	0.58
Total	**3,570.63**	**4233.56**

During FY22, the company has further invested Rs. 0.36m as subordinated loan in Tricom Solar Power (Private) Limited. In March 2019, the term for these loans was extended for four years or till the projects achieve commercial operations, whichever is later. Going forward, Company plans to invest further in the project within the limit as approved by the Company's shareholders.

LuckyOne (Private) Limited.

Key Rating Drivers

Business risk profile is supported by industry wide growth in exports over the last year; however, with the recent floods across the country adversely affecting cotton crop may affect margins of textile operators.

Surge in textile exports has continued in FY22 as COVID-19 related restriction were lifted across the globe. Over the year, businesses in Pakistan earned $19.3b from the export of textile and apparel products, an increase of 25.53% year-on-year. Category wise, knitwear was the commodity that contributed the most, followed by ready-made garments and bed wear. The margins of textile companies have broadly depicted improvement despite the uptick in raw material costs, given that the same was offset by exchange rate movement.

However, floods in Sindh and Southern Punjab regions during the recent monsoon season have resulted in serious damage to the cotton crop. According to an estimate, around 45% of the crop has been washed bearing a total value of more than $2.5b. The Government has communicated its decision to facilitate textile players in importing raw material to overcome the domestic shortfall. Nevertheless, in addition to having an impact on profit margins, inflation and rising exchange rates are expected to increase the working capital requirements for the companies in the sector, which is likely to weigh negatively on the liquidity profile of textile operators.

Healthy topline growth largely provided by a rising yarn prices

in Rs. Mn	FY21	% contribution in revenue	FY22	% contribution in revenue
Spinning	38,276	93.33%	49,019	89.41%
Knitting	2,411	5.88%	5,397	9.84%
Dairy	323	0.79%	412	0.75%
Total Sales	**41,010**	**100.00%**	**54,828**	**100.00%**

GTML recorded revenue growth of 33.69% during FY22 with the same reported at Rs. 54.83b (FY21: Rs. 41.0b) attributed largely to a sharp increase in yarn prices during the period further bolstered by volumetric growth. Exports (direct and indirect) continue to account for around 65% of the sales mix. Spinning segment continues to be the main revenue contributor, followed by knitted bedding products and dairy. A significant uptick was observed in the sale of knitted products during the year in line with higher demand, which pushed up their proportion in the segment wise mix. Geographic concentration in exports is considered to be the higher side; however, comfort is drawn from low customer concentration. In relation to product mix, over time, the management is increasing its proportion of man-made yarn.
Going forward, management foresees slowdown in export markets in the short-term owing to the global recession. Hence, in the best interest of the Company, and to ensure better margins, focus will be retained on the local market for the time being. This, together with the further increase in the sale of value-added products) and expected improvement in demand post-Christmas season is expected to ease the business risk concern in the medium to long term.

Improving profitability profile in line with upward trend in yarn prices, higher sales of value added products and support of dividend income from investments.

Gross margins of the Company went up to 15.21% (FY21: 12.13%) in FY22 being a function of accelerating yarn prices and growing customer base for knitting value-added segment in export markets. As for procurement, the entity uses a mix of local and imported cotton due to the differences in staple length and quality. With rising raw material prices in the outgoing year due to PKR devaluation, supply-chain constraints and rising local/global demand, the Company decreased its dependency on cotton by increasing the usage of man-made fiber. Further, the company also managed to maintain e its power costs by using cheaper source of inputs- natural gas over furnace oil and via maximum utilization of efficient generators.

As for operating expenses, distribution increased cost increased more than doubled during the year FY22 owing to a substantial rise in logistic and related charges because of supply-chain constraints and high oil prices, with administrative expenses increasing slightly owing to inflationary pressures. However, finance costs were reduced through efficient working capital management and the lower discounting rates. Overall profitability profile was also supported by share of profit from associates to the tune of Rs. 1.10b (FY21: Rs. 0.68b). Consequently, profit margin was reported higher at 10.42% in FY22 (FY21: 8.70%). Although current elevated margins are not sustainable, maintaining profitability indicators in line with the benchmarks for the assigned ratings is considered important.

Strong Liquidity Profile

On the back of higher profit generation, adjusted Funds from Operations (FFO) [adjusted for dividend income received] increased to Rs. 6.96b (FY21: Rs. 4.12b) in FY22. As a result, a noticeable improvement was observed in cash flow coverages. At end-FY22, Debt Servicing Coverage Ratio, FFO to Total Debt, and FFO to Long Term Debt were reported at 5.93x (FY21: 6.57x), 62.5% (FY21: 41.7%), and 138.7% (FY21: 85.2%), respectively. Inventory and trade debts provided sufficient coverage against short-term borrowings, while current ratio stood at a comfortable level as well (1.47x at end-June'22). Going forward, liquidity profile is expected to remain sound on the back of a sustained level of projected profitability.

Sound capitalization indicators

Equity base of the entity expanded significantly to Rs. 18.0b at end-FY22 (FY21: Rs. 12.6b) on account of profit retention. Dividend payout will be in line with historic levels i.e. as per profit generation, going forward. Quantum of long-term debt remained at a similar level, while short-term borrowings went up by 21% in line with higher working capital requirements. Gearing and leverage ratios were reported lower at 0.62x (FY21: 0.78x) and 1.27x (FY21: 1.48x) indicating sound capitalization profile of the company. Going forward, with drawdown of long-term debt to finance the expansion of the value-added segment, coupled with the projected increase in the equity base on the back of projected profit retention is expected to keep leverage and gearing levels within manageable levels.

Gadoon Textile Mills Limited Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*					
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Fixed Assets	7,792	9,870	10,165	10,254	11,017
LT Investments	2,687	2,891	3,151	3,571	4,234
Stock-in-Trade	7,470	8,407	12,914	10,877	18,381
Trade Debts	2,464	3,518	2,333	4,038	3,751
Cash & Bank Balances	189	113	86	143	160
Total Assets	23,143	27,305	30,833	31,226	40,823
Trade and Other Payables	3,088	3,701	4,182	7,102	9,798
Long Term Debt (including current maturity)	594	2,675	3,595	4,840	5,014
Short Term Debt	9,865	9,927	12,362	5,039	6,118
Total Debt	10,459	12,602	15,957	9,878	11,132
Paid up Capital	280	280	280	280	280
Total Equity (Without surplus revaluation)	8,214	9,209	9,084	12,610	18,003
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Net Sales	27,555	31,218	28,987	41,010	54,828
Gross Profit	1,945	2,893	2,241	4,976	8,341
Profit Before Tax	1,474	1,668	338	4,026	6,918
Profit After Tax	1,185	1,186	45	3,534	5,714
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Gross Margin (%)	7.1%	9.3%	7.7%	12.1%	15.2%
Net Margin	4.3%	3.8%	0.2%	8.6%	10.4%
FFO	1,602.9	2,360.3	703.0	4,122.9	6,954.1
FFO to Total Debt (%)	15.3%	18.7%	4.4%	41.7%	62.5%
FFO to Long Term Debt (%)	269.7%	88.2%	19.6%	85.2%	138.7%
Current Ratio (x)	0.96	1.02	1.03	1.31	1.47
(Stock+ Trade Debts)/ Short-term Debt	1.01	1.20	1.23	2.96	3.62
Debt Servicing Coverage Ratio (x)	4.01	3.59	1.57	6.57	5.93
Gearing (x)	1.27	1.37	1.76	0.78	0.62
Leverage (x)	1.82	1.96	2.39	1.48	1.27
ROAA (%)	5.5%	4.7%	0.2%	11.4%	15.9%
ROAE (%)	15.2%	13.6%	0.5%	32.6%	37.3%

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix 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	Gadoon Textile Mills Limited
Sector	Textiles
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				
Nov-03-22	A+	A-1	Stable	Reaffirmed
Nov-30-21	A+	A-1	Stable	Maintained
Nov-13-20	A+	A-1	Stable	Maintained
Apr-24-20	A+	A-1	Rating Watch - Developing	Maintained
Dec-13-19	A+	A-1	Stable	Reaffirmed
Oct-29-18	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 Meeting Conducted

Name	Designation	Date
Mr. Imran Moten	CFO	Sep 15, 2022
Mr. Muhammad Umair	Financial Controller	
Mr. Abdul Jabbar Raja	GM Finance	
Mr. Saad Ali	Senior Manager Finance	