

RATING REPORT

Gadoon Textile Mills Limited

REPORT DATE:

December 09, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Medium to Long-term	Short-term	Medium to Long-term	Short-term
Entity	A+	A1	A+	A1
Rating Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	Dec 09, 2024		Oct 31, 2023	

COMPANY INFORMATION

Incorporated in 1988	External Auditors: M/s Yousuf Adil, Chartered Accountants
Public Listed Company	Chairman of the board: Mr. Muhammad Ali Tabba
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Muhammad Sohail Tabba
YB Holdings (Private) Limited ~69.57%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.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 products, dyeing services and production and sale of milk.

Profile of the Chairman:

Mr. Muhammad Ali Tabba is the Chief Executive Officer of Lucky Cement Limited, having taken over from his late father in 2005. He is a well-established entrepreneur not only in Pakistan, but also across the Middle East, Central Africa, Europe, and North America. With variegated interests spanning Building Materials, Chemicals, Pharmaceuticals, Energy, Textiles, Automotive, and Real Estate Development, Mr. Mubammad Ali Tabba has significantly contributed to YBG's growth and diversification, solidifying its position as a global player in multiple industries.

RATING RATIONALE

Corporate Profile

Gadoon Textile Mills Limited (“GADT” or ‘the Company’) was established in 1988 and its core activities encompass the manufacturing and sale of yarn, knitted bedding products and dyeing services. Since FY20, the Company has diversified into production and sales of milk from a herd of more than 1,300 animals. The Company is headquartered in Karachi with manufacturing facilities in Karachi and Swabi. YB Holdings (Private) Limited, the primary shareholder, holds a substantial 69.57% stake in the company. Koyal and Peach are the two leading brands of the Company in the market.

Ratings take into consideration its association with the Yunus Brothers Group

Ratings derive comfort from the association of the Company with Yunus Brothers Group (YBG), a reputable conglomerate with a strong financial foundation and a diverse portfolio spanning chemicals, food, energy, real estate, entertainment, coal, healthcare, automobiles, cement, textiles, and other industries.

Founded in 1962 as a trading house, YBG has experienced significant growth over the decades. YBG is a prominent exporter of Pakistan and its subsidiaries maintain leading positions within their respective sectors. GADT engages in the procurement of raw materials and power, as well as the sale of textile products to related parties within the YBG umbrella.

Environment, Social & Governance (ESG) Initiatives

The Company duly complies with environmental laws and is continuously working to improve the environmental management system and to voluntarily comply with new global reporting initiatives. The management of the Company encourages and is keen to explore environment-friendly practices against the goal set for which they are responsible. Additionally, a state-of-the-art Waste Heat Recovery Steam Gas (WHRSG) plant, low-voltage LED lights, and a unique manufacturing area infrastructure have collectively saved 15.3m units of electricity in 2024.

Utilizing its Effluent Treatment Plant (ETP), the Company during FY24, treated 88.15m gallons of toxic waste water from its dyeing plants before safely discharging it. The Company has planned to plant 40,000 trees by the year 2030. To reduce carbon footprint Company has so far installed Solar system of 14MW and further 10MW is in installation phase.

Investment Portfolio

The Company holds investments of less than 20% in associates - Lucky Core Industries Limited, Lucky Holdings Limited and Yunus Energy Limited. Nevertheless, these investments are categorized as associates due to the Company's substantial influence over their financial and operational strategies, facilitated by its representation on the respective Boards of Directors of these entities.

The following table shows the Company’s investments in associates and subsequent income generated during FY24:

Profile of the CEO:

Mr. Muhammad Sobail Tabba, one of Pakistan's leading business leaders and a philanthropist, leads a conglomerate of businesses and export houses under the YBG brand name. His proficient leadership in diverse sectors – textiles, cement, energy, entertainment, real estate and philanthropy spanning over three decades, has earned laurels and accolades for his group and the Country. As the Chief Executive Officer of Gadoon Textile Mills Limited, Lucky Knits (Private) Limited and Director of Yunus Textile Mills Limited, Lucky Textile Mills Limited, he has made YBG renowned both locally and globally. He has become the Chairman of Lucky Core Industries Limited (formerly ICI Pakistan Limited) in 2014 and was appointed as the Chairman on the board of Lucky Cement Limited in 2023. Previously, he has also served as the Chairman on the board of Nutrico Morinaga (Private) Limited.

Entities	Ownership	Investment (Rs. in millions)	Share of profit (Rs. in millions)
Lucky Core Industries Limited (LCI)	7.21%	4,084.0	795.1
Lucky Holdings Limited (LHL)	1.00%	0.875	0.1
Yunus Energy Limited (YEL)	19.99%	2,272.8	634.1

Sector Update

The textile sector is the most important sector of Pakistan, boasting a complete value business chain from cotton, ginning, spinning, fabric, dyeing and finishing, to made-ups and garments.

Transitioning to the sector's risk profile, the business risk associated with Pakistan's textile sector is considered medium by VIS, marked by significant exposure to economic cyclicality and fierce competition. Specifically, the sector's performance is heavily influenced by the broader economic conditions of the country, making it particularly susceptible to demand fluctuations.

Moreover, during the global economic slowdown in FY23 and FY24, the demand for textile products has weakened, resulting in stagnant overall exports. This decline can be primarily attributed to several challenges, including reduced global demand, high taxation policies, rising energy costs, and elevated interest rates, all of which undermine its competitiveness in the regional market. Furthermore, the import of textile machinery fell by 54.52% in FY24, indicating a lack of investment in expansion or modernization efforts. This trend highlights that companies are reluctant to invest in new technologies amidst economic uncertainty and increasing operational costs.



Source: SBP exports of goods and services

On the supply side, Cotton production increased by 2.09x in FY24 to 10.22mn bales compared to 4.90mn bales in FY23 (due to flash floods during the year). However, the local yarn market continues to experience significant pressures, characterized by sluggish business activity and pressure in yarn prices. In addition, the influx of imported yarn has contributed to a decline in demand for domestically produced yarn. As of September 30, 2024, cotton arrivals in Pakistan have decreased by 59%, falling to 2.04 million bales compared to 5.025 million bales during the

His relentless energy, vision, and an uncanny ability to think outside the box, resulted in the creation of LuckyOne Mall, which attracts people from all walks of life. His vision was also to provide a world-class entertainment facility for children which materialized as Onederland at LuckyOne Mall. Besides being the Chairman of Yunus Energy Limited and CEO of Lucky Energy (Private) Limited, Lucky One (Private) Limited; he is the Director of Lucky Motor Corporation Limited, and several other companies.

same period last year. Pakistan ranks among the top ten cotton-producing countries globally, with cotton and textile products being significant exports. However, production levels remain below expectations.

As per SBP, Pakistan’s textile sector recorded modest decline of 2.07% during FY24, with total global exports reaching USD 16.37 billion, a decrease from USD 16.71 billion the previous year. Within the sector, specific categories displayed varied outcomes. For instance, exports of cotton declined by 1.34%, while knitwear exports saw a slight decline of 0.53%.

Data from the SBP indicates that the textile sector’s exports reached USD 5.83 billion in 4MFY25, reflecting a modest 2.6% growth from USD 5.68 billion the previous year. This rebound in global demand indicates a positive trend, supported by lowering interest rates providing space to sustain margins for companies.

Looking ahead, the demand for textiles will continue to depend on several factors, including inflation levels, the Chinese economy, tariffs on Chinese goods, and ongoing conflicts in Eastern Europe and the Middle East. However, it is crucial to recognize that two significant factors may impact textile exports in the future. First, recent changes in export taxation included in the Federal Budget for 2024-25 mean that exports will now face much higher normal income tax rates instead of the previous 1% on export value. Additionally, the ongoing increase in utility tariffs will further undermine the competitiveness of these exports.

Operational update

GADT’s primary revenue driver is the spinning segment wherein the Company has increased the number of spindles over the years. Further, the improvement has been witnessed in the sale of knitted bedding products over the years. Utilization levels improved in FY24, while efficiency levels remained at desirable levels. Overall production levels have increased during the period under review, attributable to demand stabilization. Further, the dyeing services segment becomes operational in FY24.

Operating metrics are as tabulated below:

	FY22	FY23	FY24
Spindles Installed	351,032	367,704	382,212
Shifts worked per day (Number)	3	3	3
Days worked (Number)	365	365	366
Shifts worked (Number)	1,095	1,095	1,098
Spindles worked (Number)	375,491,420	380,324,501	396,772,176
Installed capacity after conversion into 20's (Kgs)	146,151,941	164,519,384	171,479,125
Actual production after conversion into 20's (Kgs)	142,767,792	155,400,312	162,123,440
*Knitting machines installed (Number)	12	12	12
*Installed capacity (Kgs)	1,485,000	1,485,000	1,485,000

**The knitting capacity has not been used during the year because the Company outsourced its knitting production in order to achieve lower cost of production.*

Key Rating Drivers

The Company achieved highest ever sales in FY24, however bottom line declined due to increase in production costs and financial charges

GADT achieved record-high sales of Rs. 72.7b (FY23: Rs. 58.0b) in FY24 mainly due to higher volumetric sales and also higher prices. Largest export customers belong to Europe and the

US, contributing around 11.4% to net turnover. The Company has increased its marketing activities in export market over the years. Spinning, the largest revenue contributor, registered an increase in sales to Rs. 62.4b (FY23: Rs. 51.6b) in FY24 due to higher sales volumes and favorable pricing revisions. The contribution of knitted bedding products to total sales has increased over the years owing to growing customer base.

Below is the disaggregation of sales in terms of operating segments:

Operating segments	FY21	FY22	FY23	FY24	1QFY25
Spinning	93.3%	89.4%	89.0%	85.8%	78.8%
Knitted bedding products	5.9%	9.8%	10.1%	11.4%	15.9%
Unallocated (dyeing and milk)	0.8%	0.8%	0.9%	2.7%	5.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Gross margin declined to 6.9% (FY23: 10.6%) in FY24 owing to increased fuel and energy costs. Other income decreased to Rs. 450.0m (FY23: Rs. 686.5m) in FY24, mainly on account of lower gains from livestock valuation. Share of profit from associates, providing support to profitability, also decreased to Rs. 1.4b (FY23: Rs. 1.7b) in FY24.

Financial charges increased to Rs. 4.0b (FY23: Rs. 2.1b) in FY24 due to elevated policy rate and higher average borrowings. Net profit experienced a significant decline to Rs. 794.5m in FY24, compared to Rs. 3.3b in the previous year. Similarly, net margin contracted to 1.1% (FY23: 5.7%), owing to a weakened gross margin and elevated financial charges.

In 1QFY25, the Company's gross margin and net margin improved marginally from SPLY. GADT is projecting higher net sales and a net profit in FY25 on account of rebound in demand and reduction in financial charges. Ratings hinge on the Company meeting its sales targets and improving profit margins in the ongoing year.

Debt coverages and liquidity profile weakened during the period under review

FFO (funds from operations) decreased to Rs. 1.6b (FY23: Rs. 4.2b) in FY24 mainly on account of higher finance cost paid; subsequently, FFO to total debt also declined. Furthermore, debt servicing coverage ratio (DSCR) reduced to 1.26x (FY23: 1.95x) in FY24. Short-term debt coverage also decreased to 1.25x (end-FY23: 1.71x) mainly due to lower stock-in-trade at end-FY24. Short-term debt increased mainly as the Company settled the Term Loan through short-term running finance. While FFO remained relatively unchanged, DSCR increased to 2.58x (1QFY24: 2.11x) in 1QFY25.

Moreover, liquidity profile was impacted by decline in current ratio to 0.94x (FY23: 1.19x) in FY24, primarily due to an increase in short-term debt. Short-term debt increased mainly as the Company settled the Term Loan through short-term running finance. However, cash conversion cycle improved to 71 (FY23: 101) days in FY24 due to decrease in inventory days. The debt coverages are projected to improve in FY25 while as the Company has sufficient working capital lines to meet liquidity challenges. Maintenance of ratings is contingent upon improvement in current ratio, cash flows and debt coverages.

Capitalization indicators witnessed improvements

The Company equity increased to Rs. 21.5b (end-FY23: Rs. 20.7b) on account of sustained profit retention and absence of dividend payout in FY24.

GADT mobilized short-term borrowings that increased to Rs. 19.5b (end-FY23: Rs. 15.5b) for the settlement a Term Loan, subsequently, long-term borrowings decreased to Rs. 5.9b (end-FY23: Rs. 9.4b) at end-FY24. Over the years, GADT has made capital expenditure for BMR, additional solar power, and the expansion of value-added segment (Dyeing).

Gearing (end-FY24: 1.21x, end-FY23: 1.24x) and debt leverage (end-FY24: 1.88x, end-FY23: 1.86x) declined further to 0.82x and 1.42x respectively on account of growing equity and lower debt levels at end-1QFY25. As per management, leverage indicators will continue to decrease in the absence of any significant capex planned during the ongoing year.

Sound corporate governance framework anchored by a well-structured organizational layout and experienced management team

GADT maintains a well-structured organizational framework, characterized by discrete departments responsible for core functions, each overseen by its own dedicated management team. The Company benefits from sponsors possessing substantial expertise within the textile sector, bolstering the overall strength of its governance framework. The composition of the 8-member board includes two independent directors and a non-executive director who is female, indicative of a commitment to diversity and independence within the board's composition.

Furthermore, to ensure the highest standards of transparency and governance, GADT has established specialized committees for Audit and HR and remuneration, which extend their purview across the organization, encompassing both operational and departmental aspects. This diligent approach to committee oversight underscores the company's commitment to robust governance practices.

Gadoon Textile Mills Limited
Appendix I

FINANCIAL SUMMARY						
	<i>(Rs. in Millions)</i>					
BALANCE SHEET	FY20	FY21	FY22	FY23	FY24	1QFY25
Property, plant and equipment	10,165.0	10,253.6	11,016.8	21,242.8	24,563.6	24,408.7
Stock in trade	12,914.4	10,877.3	18,381.4	23,408.1	19,283.2	13,027.9
Trade debts	2,333.0	4,038.4	3,751.4	2,972.1	5,062.8	5,311.3
Cash and bank balances	86.1	143.2	159.8	265.2	1,401.0	279.0
Total Assets	30,833.4	31,226.2	40,823.1	59,239.2	61,831.8	53,496.4
Trade and other payables	4,181.7	7,101.9	9,798.2	9,278.2	10,826.5	10,067.6
Long-term debt	3,594.8	4,641.4	4,771.6	10,098.6	6,567.3	4,576.7
Short-term debt	12,362.1	5,038.8	6,118.0	15,462.4	19,522.3	13,591.2
Total Debt	15,956.9	9,680.2	10,889.6	25,561.0	26,089.6	18,167.9
Total Liabilities	21,748.8	18,616.1	22,820.0	38,548.0	40,333.5	31,414.2
Issued, subscribed and paid-up capital	280.3	280.3	280.3	280.3	280.3	280.3
Equity (excl. Revaluation Surplus)	9,084.4	12,610.1	18,003.1	20,691.2	21,498.3	22,082.2
INCOME STATEMENT	FY20	FY21	FY22	FY23	FY24	1QFY25
Net Sales	28,986.8	41,009.8	54,828.1	57,997.2	72,724.0	18,188.7
Gross Profit	2,241.3	4,975.6	8,341.2	6,167.8	5,017.4	1,566.8
Finance Cost	909.1	631.1	546.2	2,148.6	3,974.2	717.8
Profit Before Tax	337.7	4,026.1	6,918.1	4,782.3	1,388.9	850.3
Profit After Tax	45.5	3,534.1	5,713.6	3,291.9	794.5	583.9
RATIO ANALYSIS	FY20	FY21	FY22	FY23	FY24	1QFY25
Gross Margin	7.7%	12.1%	15.2%	10.6%	6.9%	8.6%
Net Margin	0.2%	8.6%	10.4%	5.7%	1.1%	3.2%
Funds from Operation (FFO)	703.0	4,122.9	6,954.1	4,237.2	1,584.5	675.2
FFO to Total Debt (x)*	0.04	0.43	0.64	0.42	0.06	0.15
FFO to Long Term Debt (x)*	0.20	0.89	1.46	0.17	0.24	0.59
Debt Servicing Coverage Ratio (x)*	1.57	6.57	5.79	1.95	1.26	2.58
Short-Term Debt Coverage (x)	1.23	2.96	3.62	1.71	1.25	1.35
Current Ratio (x)	1.03	1.31	1.47	1.19	0.94	0.87
Cash Conversion Cycle (days)*	129	92	74	101	71	43
Gearing (x)	1.76	0.77	0.60	1.24	1.21	0.82
Leverage (x)	2.39	1.48	1.27	1.86	1.88	1.42
ROAA*	0.2%	11.4%	15.9%	6.6%	1.3%	4.1%
ROAE*	0.5%	32.6%	37.3%	17.0%	3.8%	10.7%

*Annualized

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Gadoon Textile Mills Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action
	Rating Type: Entity				
	09/12/2024	A+	A1	Stable	Reaffirmed
	31/10/2023	A+	A1	Stable	Reaffirmed
	02/11/2022	A+	A1	Stable	Reaffirmed
	30/11/2021	A+	A1	Stable	Reaffirmed
	13/11/2020	A+	A1	Stable	Maintained
	24/4/2020	A+	A1	Rating Watch - Developing	Maintained
	13/12/2019	A+	A1	Stable	Reaffirmed
	29/10/2018	A+	A1	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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Due Diligence Meeting Conducted	Name	Designation			Date
	M. Imran Moten	CFO			
	M. Umair	Company Secretary and Financial Controller			
	Abdul Jabbar Raja	GM Finance			
	M. Usman Rauf	DM Accounts and Finance			
					12-Nov-2024