

RATING REPORT

INTERNATIONAL TEXTILE LIMITED

REPORT DATE:

March 11, 2019

RATING ANALYST:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A	A-2
<i>Rating Date</i>	<i>March 4, 2019</i>	
Rating Outlook	Stable	

COMPANY INFORMATION

Incorporated in 1985

External auditors: Grant Thornton Anjum Rehman
Chartered Accountants

Unlisted Public Limited Company

Chief Executive Officer: Mr. Adnan Azad Khan

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria *Industrial Corporates (May 2016)*

<https://www.vis.com.pk/kc-meth.aspx>

International Textile Limited

OVERVIEW OF THE INSTITUTION RATING RATIONALE

International Textile Limited was incorporated in Pakistan in 1985 as a private limited company. The company was converted into unlisted public company in November 1989. The registered office of the company is located in Karachi.

International Textile Limited (ITL) is a vertically integrated company engaged in spinning, sizing, processing of yarn, manufacturing of fabric, terry and their made ups, terry dyeing and bleaching, trading and export of knitted and woven fabrics, towels and other textile products. The following table depicts the product portfolio of the company:

Product Category	Products
Morata Jet Spinning Yarn	-
Terry Towels and Made-ups	Home Towels, Bath Towels, Bath Robes, Shop Towels, Beach Towels, Hand Towels, Huck Towels, Dyed and Super Plush White Towels, Wash Cloth, Bath Sheet, Bar Mops and other variety of towels.
Garments	Patient Gowns, PJ Pants, Scrub suits, surgical cloths, Blankets, Chef Suits, Butcher Suits
Hotel and Restaurant linen	Napkins, Table tops, Aprons and Kitchen Sets

The company is a family owned concern with majority shareholding vested among members of a single family. ITL has two factories located in Korangi area, Karachi, which are completely self-reliant through internal power generation.

Sales Mix

Net sales of the company have grown at a Compound Annual Growth Rate (CAGR) of 1% in the period from end-FY16 to end-FY18. ITL is an export oriented company with 96.3% (FY17: 97.4%; FY16: 96.7%) of the total gross sales catering to foreign markets; as per management, only wastage is sold locally.

Terry products, especially different types of towels, remain the primary products of the company as the same constitute more than half of the company's sales. Majority of the terry products are sold to institutional clients at present; however, management intends to explore the retail market going forward.

Profitability

Sales of the company have grown at a modest CAGR of 1.3% during the last two years. Management attributes modest growth to saturated institutional export markets. With enhanced capacity in future, management is targeting sizeable growth in sales by primarily tapping retail clients through specialized value added products. Moderate growth in topline has culminated into moderate growth in bottom-line of the company during the last two years. In HY19, sales have depicted sizeable growth due to addition of new clients. Going forward, projected growth in topline of the company is expected to bode well for the profitability of the company.

Capitalization and Funding

Equity base of the company has grown on timeline basis due to profit retention. Management acquired loan under Long Term Finance Facility (LTFF) in FY18 to fund capacity expansion, which has been subsequently converted to short borrowings under export refinance scheme. With increase in total debt levels of the company, leverage indicators have trended upwards but continue to remain at manageable levels. Rating will remain dependent upon materialization and smooth implementation of expansion plan within targeted performance and leverage indicators.

Liquidity

Cash flows of the company have varied in line with the profitability of the company. Overall liquidity profile of the company is considered adequate in view of sufficient cash flows in relation to outstanding obligations, satisfactory debt servicing ability and aging of trade debts which remain within manageable levels. Current ratio of the company remains more than 1.0x, while trade debts and stock in trade are more than sufficient to cover short term borrowings.

Internal Controls framework

Management has defined Standard Operating Procedures (SOPs) for almost every operational task; employees are required to adhere to these procedures. An internal audit department is also present which conducts both operational and departmental audits. Information Technology (IT) framework is also considered adequate as a comprehensive database management exists. Data backup is taken on real time basis, while a Disaster Recovery (DR) site is also present.

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix I

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 II			
Name of Rated Entity	International Textile 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				
	04/03/2019	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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