

## RATING REPORT

### INTERNATIONAL TEXTILE LIMITED

**REPORT DATE:**

May 11, 2020

**RATING ANALYST:**

Narendar Shankar Lal  
[narendar.shankar@vis.com.pk](mailto:narendar.shankar@vis.com.pk)

| Rating Category       | RATING DETAILS            |            |                 |            |
|-----------------------|---------------------------|------------|-----------------|------------|
|                       | Latest Rating             |            | Previous Rating |            |
|                       | Long-term                 | Short-term | Long-term       | Short-term |
| <b>Entity</b>         | A                         | A-2        | A               | A-2        |
| <b>Rating Date</b>    | May 11, 2020              |            | March 4, 2019   |            |
| <b>Rating Outlook</b> | Rating Watch - Developing |            | Stable          |            |
| <b>Rating Action</b>  | Maintained                |            | Initial         |            |

#### 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 (April 2019)*

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

## International Textile Limited

### OVERVIEW OF THE INSTITUTION

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.

### RATING RATIONALE

International Textile Limited (ITL) is a vertically integrated textile composite 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  |
|-----------------------------------|---|
| <b>Morata Jet Spinning Yarn</b>   | -   |
| <b>Terry Towels and Made-ups</b>  | 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. |
| <b>Garments</b>                   | Patient Gowns, PJ Pants, Scrub suits, surgical cloths, Blankets, Chef Suits, Butcher Suits  |
| <b>Hotel and Restaurant linen</b> | Napkins, Table tops, Aprons and Kitchen Sets  |

The company is a family owned entity 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.

**Business risk is also considered to be on the higher side in the short to medium term as economic slowdown due to COVID-19 continues to impact exports of many textile players; however, comfort is drawn from increased demand from healthcare segment and regulatory relaxations provided by State Bank of Pakistan (SBP) and relief package announced by Government of Pakistan (GoP)**

Business risk is considered to be on the higher side in the short to medium term as economic slowdown due to COVID-19 continues to affect exports of many textile players. Due to global suppression in demand and disruption in supply chains, risks of withheld shipment and future orders, delays or extension of payment timelines, and even cancellation of orders remain.

However, comfort is drawn from sizeable increase in demand from the healthcare segment to which the ITL caters through its patient gowns, hospital bed sheets, towels and scrub suits. Regulatory relaxations provided by State Bank of Pakistan (SBP) in debt repayments and relief package announced by Government of Pakistan (GoP) provide support to the overall risk profile. Key measures announced by SBP include reduction in policy rates and allowance for deferral of principal payment for a period of one year. Both these measures will reduce financial burden on textile companies. Moreover, under the relief package announced by GoP, Rs 30 billion have been announced for textile exporters as payment of duty drawbacks. This measure will

provide liquidity support to textile exporters.

**Healthy growth witnessed in sales on account of exchange gain and volumetric growth during FY19 and HY20; future sales growth outlook remains positive on account of additional demand from healthcare segment**

Net sales of the company depicted a growth of 24.8% during FY19. Majority sales of the company cater to the export markets with export sales constituting approximately 95.8% (FY18: 96.1%) of total gross sales; as per management, only wastage is sold locally. Sales to foreign markets are primarily conducted through third party agents in order to minimize counterparty risk. Client wise sales feature sizeable concentration with two major export clients accounting for approximately two-fifth of total sales. Terry products, which include different types of towels, accounted for approximately 63.5% (FY18: 54.9%) of total export sales of the company in FY19.

Growth in sales was also observed during HY20 vis-à-vis the corresponding period in the previous year. Volumetric increase in sales was the primary driver for growth in sales during this period. Given the actual sales during the ongoing year and current orders in hand, sales are expected to depict reasonable growth in FY20. Growth in demand from healthcare segment will support topline going forward.

**Increase in topline and exchange gains resulted in improvement in bottom line during FY19; bottom line remained at approximately similar level vis-à-vis corresponding period last year in HY20**

Growth in topline during FY19 was accompanied by a sizeable increase in raw material costs and salaries in wages expenses, which resulted in decrease in gross margins. Considerable increase was also observed in other operating expenses as the management booked provisions to the tune of Rs. 71.3m (FY18: nil) for slow moving stocks. However, sizeable increase in income from other sources, especially exchange gain, contributed to higher net profit and net margin, respectively.

Gross profit and gross margins improved in HY20 vis-à-vis corresponding in the preceding year. Improvement in gross margins was a function of healthier sales mix vis-à-vis the corresponding period in previous year. However, net profitability was maintained at similar level due to exchange loss.

**Capitalization and Funding**

Equity base of the company has grown on timeline basis due to profit retention. Additional export refinance borrowings were undertaken resulting in an increase in short term borrowings at end-HY20. However, corresponding asset base has also increased in line. With increase in total debt levels of the company, leverage indicators have trended upwards but continue to remain at manageable levels. Going forward, leverage indicators are expected to remain at similar levels. Maintenance of leverage indicators at existing levels is considered important from ratings perspective.

**Liquidity profile is adequate**

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 is considered sound**

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. Data backup is taken on real time basis, while a Disaster Recovery (DR) site is also present.

| <b>FINANCIAL SUMMARY (amounts in PKR millions)</b> |             |             |             | <b>Appendix I</b> |
|--|-------------|-------------|-------------|-------------------|
|  | <b>FY17</b> | <b>FY18</b> | <b>FY19</b> | <b>HY20</b>       |
| <b><u>BALANCE SHEET</u></b>                        |             |             |             |                   |
| Issued, Subscribed and Paid up Capital             | 329         | 329         | 329         | 329               |
| Total Equity                                       | 4,741       | 5,072       | 5,502       | 5,706             |
| <b><u>INCOME STATEMENT</u></b>                     |             |             |             |                   |
| Net Sales  | 6,074       | 6,392       | 7,976       | 4,788             |
| Profit Before Tax                                  | 291         | 337         | 491         | 263               |
| Profit After Tax                                   | 250         | 337         | 436         | 216               |
| <b><u>RATIO ANALYSIS</u></b>                       |             |             |             |                   |
| Current Ratio (x)                                  | 4.5         | 1.9         | 1.9         | 1.4               |
| FFO  | 416         | 596         | 821         | N/A               |
| Gearing (x)  | 0.003       | 0.20        | 0.18        | 0.60              |

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix II**

**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](http://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](http://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](http://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               |                               |                           |                      |
|---|---|----------------------------|-------------------------------|---------------------------|----------------------|
| <b>Name of Rated Entity</b>             | International Textile 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>RATING TYPE: ENTITY</b>  |                            |                               |                           |                      |
|   | 11/05/2020  | A                          | A-2                           | Rating Watch - Developing | Maintained           |
|   | 04/03/2019  | A                          | A-2                           | 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.   |                            |                               |                           |                      |
| <b>Disclaimer</b>                       | <p>Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.</p> <p>Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.</p> |                            |                               |                           |                      |
| <b>Due Diligence Meetings Conducted</b> | <b>S. No</b>  | <b>Names</b>               | <b>Designation</b>            | <b>Date</b>               |                      |
|   | 1   | Adamjee Yakoob             | CFO                           | April 22, 2020            |                      |
|   | 2   | Ali Khanani                | Manager Finance & Controlling | April 22, 2020            |                      |