RATING REPORT

International Textile Limited

REPORT DATE:
April 18, 2023

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-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Action	Upgrade		Downgrade	
Rating Date	*Apr 18, 2023*		*Feb 09, 2022*	

COMPANY INFORMATION	
Incorporated in 1985	**External Auditors:** A.F. Ferguson & Co.
Public Limited Company – Unquoted	**CEO:** Mr. Adnan Azad Khan
Key Shareholders (with stake 5% or more):	**COO:** Mr. Hasan Mumtaz
Adnan Azad Khan ~66.9%	
Maliha Azad Khan ~17.6%	
Nishat Azad Khan ~15.4%	

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

International Textile Limited

OVERVIEW OF THE INSTITUTION

International Textile Limited was incorporated in Pakistan in 1985 as a private limited company and subsequently was converted into unlisted public company in November 1989. Registered office is located in Karachi.

RATING RATIONALE

Corporate Profile

International Textile Limited (ITL) is a family-owned textile enterprise with nearly four decades of operational history, specializing in the production of morata jet spinning yarn, terry towels and made-ups, garments, and hotel & restaurant linen. The vertically integrated operations include spinning, warping & sizing, weaving, processing, and stitching segments. The company has been awarded various global standard certifications and has a workforce of nearly 1,000 employees.

At present, average energy demand of 5MW is mainly fulfilled by gas-powered generators, with additional support from 1.2MW solar power plant. Moreover, old gas generators are being replaced with newer, more efficient ones to increase yield. Diesel generators serve as backup, and 2.5 MW grid line is set to be installed by Apr'23. The wastewater treatment facility is currently operational and capable of recycling 20-30% of water, while management plans to gradually increase it to 60-70% in the future.

Operational Performance

Headquartered in Karachi, the company has three production units located in Korangi - Unit I & III are dedicated to garment and morata jet spinning yarn segments, while Unit II is used for terry segment. Since last review, there has been no capacity addition in any segment while production levels noted an increase in FY22, resulting in higher utilization levels. However, the current fiscal year has been impacted by global slowdown in demand and challenging macro-economic environment.

Table: Division-wise Capacity & Production Data (Figures in millions)

	FY21	FY22	6M'FY23
Spinning (Lbs)			
Capacity	8.7	8.7	6.0
Production	4.3	8.3	2.5
Capacity Utilization	***49.2%***	***95.9%***	***41.4%***
Sizing Fabric (Lbs)			
Capacity	9.1	9.1	4.5
Production	5.7	6.7	1.4
Capacity Utilization	***62.0%***	***73.3%***	***30.7%***
Sizing Terry (Lbs)			
Capacity	10.3	10.3	3.1
Production	7.5	7.8	0.5
Capacity Utilization	***72.7%***	***75.6%***	***16.4%***
Weaving Fabric (Lbs)			
Capacity	11.6	11.6	18.9
Production	4.9	4.7	7.5
Capacity Utilization	***42.1%***	***40.8%***	***39.5%***
Weaving Terry (Meters)			
Capacity	19.2	19.2	6.7
Production	13.2	14.5	3.0
Capacity Utilization	***68.8%***	***75.5%***	***44.4%***
Processing Terry (Meters)			
Capacity	19.7	19.7	9.2
Production	11.3	15.9	5.8
Capacity Utilization	***57.1%***	***80.8%***	***63.1%***

Processing MJS (Lbs)			
Capacity	15.7	15.7	5.1
Production	6.7	10.5	3.3
Capacity Utilization	***42.8%***	***66.8%***	***64.3%***
CMT Terry (Lbs)			
Capacity	23.7	23.7	8.1
Production	12.3	15.1	5.5
Capacity Utilization	***51.7%***	***63.5%***	***67.5%***
CMT MJS (Pcs)			
Capacity	29.0	29.0	10.1
Production	7.4	28.3	5.1
Capacity Utilization	***25.6%***	***97.7%***	***50.1%***
CMT Garments (Pcs)			
Capacity	6.2	6.2	3.1
Production	5.1	5.6	1.5
Capacity Utilization	***81.6%***	***90.7%***	***49.4%***

Key Rating Drivers

Business risk profile is constrained by current weak macroeconomic environment both globally and locally, demand slowdown, high interest rate situation, inflationary pressures and recent floods adversely affecting cotton crop while ongoing energy crisis in the country pose a challenge to margins sustainability and future growth.

Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally broke the threshold, coming in at USD 32.4b. Textile sector contributes nearly one-fourth to industrial value-added segment and 8.5% to the country's GDP, with an estimated market size of around Rs. 4.0tr. Barring seasonal and cyclical fluctuations, textiles sector has maintained an average share of about 60% in national exports.

Table: Pakistan Export Statistics (in USD millions)

	FY20	FY21	FY22		7M'FY22	7M'FY23
Pakistan Total Exports	22,536	25,639	32,450		17,285	16,882
Textile Exports	12,851	14,492	18,525		10,369	10,377
PKR/USD Average rate	158.0	160.0	177.5		170.0	224.7

Source: SBP

Export revenues from textile sector have noted sizeable growth over the years (FY22: $19.3b FY21: $15.4b; FY20: $12.5b; FY19: $13.6b). Knitwear, Readymade and Bed wear segments continue to contribute higher than other segments, with a cumulative contribution of more than 60% in textile exports. While the growth was primarily driven by volume (excluding knitwear and cotton yarn), higher prices also boosted exports.

Table: Textile Export Details (in USD millions)

	FY20	FY21	FY22		7M'FY22	7M'FY23
High Value-Added Segment	**9,669**	**12,427**	**15,605**		**8,853**	**8,326**
- Knitwear	2,794	3,815	5,121		2,888	2,803
- Readymade Garments	2,552	3,033	3,905		2,163	2,126
- Bed wear	2,151	2,772	3,293		1,924	1,639
- Towels	711	938	1,111		615	583
- Made-up Articles	591	756	849		491	435
- Art, Silk & Synthetic Textile	315	370	460		263	239

- Others	555	743	866		509	500
Low to medium Value-Added Segment	**2,858**	**2,972**	**3,717**		**2,080**	**1,714**
- Cotton Cloth	1,830	1,921	2,438		1,352	1,225
- Cotton Yarn	984	1,017	1,207		688	449
- Others	43	34	72		41	39
Total	**12,527**	**15,399**	**19,332**		**10,933**	**10,040**

Source: PBS

Cotton prices rose to a new 12-year high of ~Rs. 21,600/maund as of March'22, as a result of the shortage and higher input costs of fertilizer and energy. Cotton imports were also up 19.8%, in USD terms, for FY22 vis-à-vis preceding year.

Table: Cotton Prices Trend (In Rs.)

	FY19	FY20	FY21	FY22
Per Maund	8,770	8,860	13,000	17,380
YoY % Change	26%	1%	32%	34%

Floods in Sindh and Southern Punjab during recent monsoon season have caused significant damage to the cotton crop. According to industry estimates, ~45% of the crop has been washed, worth more than $2.5b, resulting in significant price increases. The government has announced facilitation for raw materials imports to compensate for domestic shortages. Nonetheless, in addition to affecting profit margins, higher raw material pricing is expected to increase the working capital requirements, which is likely to have a negative impact on the liquidity profile of textile operators, particularly spinners, weavers and dying companies.

Global and domestic challenges, such as slowdown in export demand (primarily from North America and the EU, which has begun to materialize in Pakistan's monthly export proceeds) due to recessionary trend, industrial gas load shedding expected in the country, and rising production costs due to inflation, will weigh on the business risk profile going forward. These factors may result in competitive market pricing for exporters.

Higher prices, volumetric uptick and rupee devaluation drive revenue growth during the year; client concentration risk remains elevated.

After a challenging year due to pandemic, sales revenue registered a strong YoY growth of ~59% in FY22, surpassing the Rs. 13b mark. This growth can be attributed to both an increase in sales volume and higher prices, as well as rupee depreciation. Almost entire revenue comes from exports, with only wastages being sold locally. The product mix consists of about 60% terry products and 40% yarn and garments, with bulk of sales emanating from specific items such as bath towels, bath sheets, aprons, hand towels, napkins, patient gowns, and table tops.

Geographic sales mix depict concentration as nearly two-third of exports are directed towards US and the rest is shared by European markets including France, Germany, Panama, Norway, Greece and others. Client concentration also remains high, with top ten clients consistently generating more than three-fourth of total sales on a timeline, led by Standard Textile and American Dawn Inc. However, comfort is drawn from long-standing relationship with these reputed companies.

Sales growth has remained sluggish in the ongoing fiscal year, with net sales amounting to Rs. 8.2b in 8M'FY23. This can be attributed to the recent slowdown in demand due to economic downturn in major world economies as well as overstocking in the US caused by aggressive procurement until July'22.

Significant surge in profitability margins in FY22 and the current fiscal year, following the pandemic slump.
Gross margins after a pandemic-slump improved considerably in FY22 and in the ongoing fiscal year. Management maintains a 1.5-month average inventory supply-line to ensure adequate coverage of pre-orders for the next three months, while one-year master contract with major international clients also provide cushion. The ratio of domestic to imported cotton procurement has remained around 80:20.

Operating overheads increased in tandem with business growth, while financing charges remained on the lower side given reduced utilization of short-term debt during the year. Profitability profile was supported by sizeable exchange gains realized and bottom-line noted a positive turnaround driven by strong topline growth and recovery of gross margins.

Debt coverage metrics have improved in line with recovery in margins, while working capital cycle is elevated due to sizeable inventory holding day.
During FY22, fund flow from operations (FFO) saw a significant uptick, reaching Rs. 1.9b, in line with higher profits and inventory-related provisioning. However, in the current fiscal year, FFO returned to historical levels. Cash flow coverages have noted improvement over time as reflected by strong debt service coverage ratio of 11.37x.

Liquidity position appears satisfactory with a current ratio of above 1.5x and sound coverage of short-term borrowings in relation to trade debts and inventory. Working capital cycle has stretched to over 120 days due to increase in inventory holdings days during the review period. Aging profile of trade debts remains sound as none of the receivables are outstanding beyond 180 days.

Leverage indicators depicted improvement given growing equity base and lower utilization of short-term debt during the year.
Equity base has surpassed Rs. 6b at end-6M'FY23, attributed to healthy bottom-line and all-out retention. The dividend payout is determined by sponsors, as there is no documented dividend policy in place; no payout has been made in recent years. Debt portfolio predominantly comprises short-term debt, with total interest-bearing liabilities declining to Rs. 2.8b (FY22: Rs. 3.9b) at end-6M'FY23 as the management opted to utilize internally generated capital to fulfil working capital needs while total Rs. 1b remained unutilized for both export refinance and export facilitation schemes. Gearing and leverage ratios have depicted improvement during the review period.

Experienced senior management team. Enhanced focus towards digitization.
Senior management team comprises seasoned professionals while the board comprises three members; all shareholders. Internal audit function is present, which conducts both operational and departmental audits. IT infrastructure is adequate, with strong focus towards digitization for enhanced monitoring and further integration of SAP (deployed since 2015) with key functions of the organization. Data backup is taken on a real time and disaster recovery site is also present.

International Textile Limited — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**6M'FY23**
Fixed Assets	3,396.2	3,169.3	3,108.2	3,089.1
Other non-current asset	49.7	37.6	58.3	112.8
Stock-in-trade	3,405.8	3,741.3	4,553.0	4,358.8
Trade Debt	1,507.7	1,445.9	2,410.6	1,574.8
Cash & Bank Balances	348.3	271.8	263.9	2,324.4
Total Assets	**10,057.5**	**10,327.9**	**12,964.6**	**12,869.8**
Trade Payables	1,633.4	1,857.5	2,717.4	2,423.3
Long Term Debt *(incl. current maturity)*	95.9	88.6	108.6	120.1
Short-term Debt	2,376.0	2,700.0	3,752.2	2,700.0
Total Debt	2,471.9	2,788.6	3,860.8	2,820.1
Total Liabilities	**4,475.6**	**4,973.4**	**7,114.2**	**6,616.2**
Issued, subscribed and Paid up Capital	**328.7**	**328.7**	**328.7**	**328.7**
Tier-1 Equity	**5,581.9**	**5,354.5**	**5,850.3**	**6,253.6**
INCOME STATEMENT				
Net Sales	8,619.2	8,321.0	13,254.2	6,209.5
Gross Profit	666.4	440.3	1,343.3	682.8
Profit/(Loss) Before Tax	**151.2**	**(154.0)**	**761.3**	**487.1**
Profit/(Loss) After Tax	**65.2**	**(249.6)**	**535.1**	**395.8**
RATIO ANALYSIS				
Gross Margin (%)	7.7%	5.3%	10.1%	11.0%
Net Margin (%)	0.8%	(3.0)%	4.0%	6.4%
FFO	563.2	-98.4	1,884.8	580.8
FFO to Total Debt (x)	22.8%	(3.5)%	48.8%	41.2%*
FFO to Long-term Debt (x)	587.6%	(111.1)%	1,734.9%	967.3%*
Debt Leverage (x)	0.80	0.93	1.22	1.06
Gearing (x)	0.44	0.52	0.66	0.45
DSCR (x)	8.12	(0.14)	16.44	11.37*
Current Ratio (x)	1.90	1.64	1.55	1.50
Inventory plus Receivables/Short term Borrowings (x)	206.8%	192.1%	185.6%	219.8%
ROAA (%)	0.7%	(2.4)%	4.6%	6.1%*
ROAE (%)	1.2%	(4.6)%	9.6%	13.1%*

**Annualized*

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	International Textile 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 Action**
	Rating Type: Entity				
	18-04-2023	A	A-2	Stable	Upgrade
	09-02-2022	A-	A-2	Stable	Downgrade
	11-05-2020	A	A-2	Rating Watch - Developing	Maintained
	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.				
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. Hasan Mumtaz	COO	March 03, 2023		
	Mr. Ali Khanani	Senior Manager Finance			
	Mr. Muhammad Kamran	Deputy Manager Finance			