RATING REPORT

International Textile Limited

REPORT DATE:
May 02, 2024

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	Reaffirmed		Upgrade	
Rating Date	*May 02, 2024*		*Apr 18, 2023*	

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

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporate: **https://docs.vis.com.pk/docs/CorporateMethodology.pdf**
VIS Issue/ Issuer Rating Scale: **https://docs.vis.com.pk/docs/VISRatingScales.pdf**

International Textile Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

International Textile Limited was incorporated as a Private Limited Company in 1985, which was converted into an unlisted Public Company in November of 1989.

ITL has its registered office located in Karachi.

Corporate Profile

International Textile Limited ("ITL") is a vertically integrated textile composite engaged in various processes such as spinning, sizing, and yarn processing, as well as the manufacturing of fabric and terry products. Additionally, the Company is involved in terry dyeing and bleaching, and trades and exports knitted and woven fabrics, towels, and other textile items.

Currently, the Company has an average energy demand of 5 MW, which is primarily met by gas-powered generators. Additionally, there is support from a 350 KW solar power plant. Plans are in place to increase solar power plants by installing a 1 MW solar panel at an estimated cost of Rs. 110 Million (mln) by the end of this fiscal year.

Operational Performance

The Company operates three production units in Korangi, Karachi with two units focusing on garment and spinning segment, while the third is dedicated to the terry segment. There has been no capacity expansion in any segment since the last review while production levels have decreased significantly in FY23, leading to lower utilization levels. The current fiscal year remained affected by a slump in demand.

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

	FY21	FY22	FY23	1H'FY24
Spinning (Lbs)				
Capacity	8.7	8.7	8.7	4.3
Production	4.3	8.3	4.7	3.1
Capacity Utilization	***49.2%***	***95.9%***	***53.8%***	***70.6%***
Sizing Fabric (Lbs)				
Capacity	9.1	9.1	9.1	4.6
Production	5.7	6.7	2.4	1.3
Capacity Utilization	***62.0%***	***73.3%***	***26.6%***	***29.6%***
Sizing Terry (Lbs)				
Capacity	10.3	10.3	10.3	5.2
Production	7.5	7.8	6.2	3.5
Capacity Utilization	***72.7%***	***75.6%***	***59.8%***	***66.8%***
Weaving Fabric (Lbs)				
Capacity	11.6	11.6	11.6	5.8
Production	4.9	4.7	0.8	0.3
Capacity Utilization	***42.1%***	***40.8%***	***7.1%***	***4.92%***
Weaving Terry (Meters)				
Capacity	19.2	19.2	19.2	9.6
Production	13.2	14.5	10.2	5.4
Capacity Utilization	***68.8%***	***75.5%***	***53.4%***	***61.2%***
Processing Terry (Meters)				
Capacity	19.7	19.7	19.7	9.9
Production	11.3	15.9	9.5	5.4
Capacity Utilization	***57.1%***	***80.8%***	***48.6%***	***54.8%***
Processing MJS (Lbs)				
Capacity	15.7	15.7	15.7	7.7
Production	6.7	10.5	5.6	3.4
Capacity Utilization	***42.8%***	***66.8%***	***35.4%***	***43.4%***
CMT Terry (Lbs)				

Capacity	23.7	23.7	23.7	11.8
Production	12.3	15.1	9.5	5.2
Capacity Utilization	***51.7%***	***63.5%***	***39.9%***	***43.6%***
CMT MJS (Pcs)				
Capacity	29.0	29.0	29.0	14.5
Production	7.4	28.3	12.7	10.3
Capacity Utilization	***25.6%***	***97.7%***	***44.0%***	***71.4%***
CMT Garments (Pcs)				
Capacity	6.2	6.2	6.2	3.1
Production	5.1	5.6	2.5	1.6
Capacity Utilization	***81.6%***	***90.7%***	***52.3%***	***41.2%***

Utilization levels for the first 1H'FY24 show a noticeable improvement, indicating a rebound in economic activity and demand. This is a positive sign for the overall health of the Company.

Sector Update

The business risk profile of the textile sector in Pakistan is characterized by a high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors.

In FY23, the textile sector faced challenges due to various economic and environmental factors. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and import restrictions due to diminishing foreign exchange reserves.

During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, as a result of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Reduction in cotton supply, coupled with global economic slowdown and contractionary economic policies, led to a decrease in demand for textile products and, consequently, cotton yarn.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs and inflationary pressures. Additionally, the sector's vulnerability to global market dynamics and the domestic economic landscape further contribute to its high business risk profile. However, there is optimism as an anticipated bigger cotton crop in FY24 is expected to alleviate some pressure on input costs and margins.

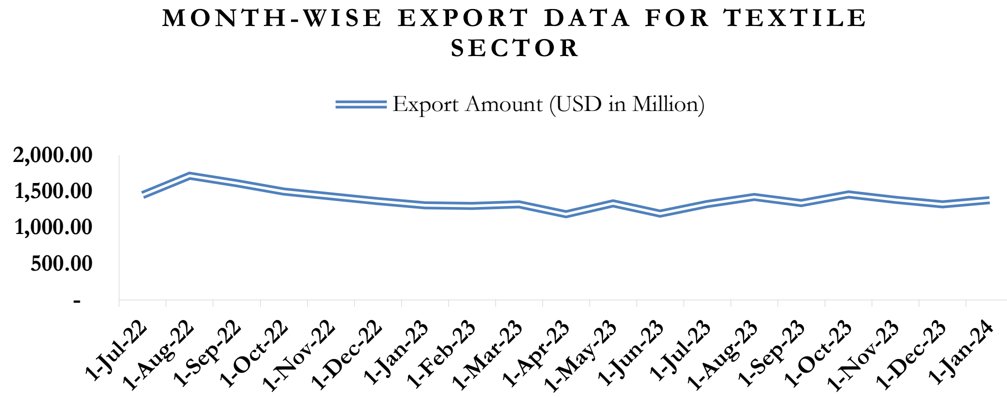

Figure 1: MoM Textile Exports (In USD' Millions)
Source: SBP

Key Rating Drivers

Company Successfully Navigates Challenges to Increase Profit Margins
A substantial decrease in sales volume of 30% resulted in a topline to decrease to Rs. 11.5 billion (bln) in FY23, down by 13% YoY. Moreover, almost entire revenue comes from exports, with only wastage sold locally. In terms of cost of sales, the Company faced challenges with high costs of utilities. Despite the challenge, the Company's gross profit margin improved to 15% in FY23 compared to 10% in the previous year attributed to rupee depreciation. Administrative expenses and Selling expenses increased in line with the overall inflationary trend in the economy. However, the Finance cost component demonstrated a significant rise of 2.1x, primarily due to the high borrowing rates in Pakistan, leading to higher interest expenses for the Company. Other Income demonstrated a significant YoY growth of 72% amounting in FY23. Other Income component primarily includes Profits from Savings Account and Income from Mutual Funds. Overall, the Company managed to increase its Net Profit Margin from 4% in FY22 to around 8% in FY23.

Geographic sales mix shows that a significant portion of exports, over 50%, are generated from the US market, with the remaining sales generated across European markets. Client concentration considered high, with the top ten clients consistently accounting for around three-fourth of total sales during the review period. Comfort is drawn from client's long-standing relationships with the Company. Going forward, the Company's expansion into the Australian market is expected to drive long-term growth in sales.

For the 1H'FY24, the Company recorded a slight 10% growth in sales amounting to Rs. 6.8 bln (1H'FY23: Rs 6.2 bln). The Gross Profit Margin of the Company also increased from 11% to 12% in 1H'FY24 attributed to rupee depreciation. On the contrary, Net Profit Margin of the Company has declined significantly from 7% in 1H'FY23 to 3% in 1H'FY24 due to increased finance cost.

Company's Liquidity and Cash flow coverage indicators remain favorable
In FY23, despite a significant decline in Funds from Operations (FFO) by 60% to Rs. 751 mln (FY22:1.8 bln), the Company maintained healthy cash flow coverages with a Debt Service Coverage Ratio (DSCR) of 2.80x (FY22: 16.30x). Additionally, the liquidity position of the Company also remained healthy with a current ratio of 1.70x (FY22:1.50x). For 1H'FY24, the FFO weakened slightly to Rs. 474 mln resulting in a DSCR of 2.2x, which is considered adequate from a ratings perspective. The current ratio of the Company continued to remain

favorable and above 1.5x. Overall, despite the decline in FFO, the Company has maintained strong cash flow coverages and healthy liquidity position, indicating a stable financial position.

Company's Strong Profit Retention Strategy Drives Gearing Improvement
In June 2023, ITL's total equity increased by 15% to reach Rs.6.7 billion, up from Rs.5.8 billion in June 2022. This growth can be attributed to the Company retaining profits. The total debt of the Company was Rs.3.1 bln, representing a decrease of Rs.700 mln compared to the previous year. This reduction in debt can be attributed to the Company's decreased short-term borrowings during the period. The rise in equity and reduction in total debt have led to a stronger gearing position of 0.47x, an improvement from 0.66x in FY22.

The Equity base of the Company has increased to Rs. 6.8 bln in the first half of FY24 due to retention of the profits. Total debt amounted to Rs. 3 bln in 1H'FY24, with 97% of the debt consisting of short-term borrowings. The Company's gearing improved to 0.44x in 1H'FY24, compared to 0.47x in FY'23 and 0.66x in FY22 while leverage of the Company remained within manageable levels at 1.15x.

Enhanced IT Infrastructure for Improved Efficiency and Data Security
The IT infrastructure of the Company remains adequate, with an emphasis on digitalization for enhanced monitoring. Software was recently updated 4 years ago and SAP integration has been successfully implemented for key functions.

REGULATORY DISCLOSURES — Appendix I

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				
05-02-2024	A	A-2	Stable	Reaffirmed
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.
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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Adnan	CFO	April 01, 2024
Mr. Atif	Head of Engineering	
Mr. Asghar Ali	COO	
Mr. Muhammad Kamran	Deputy Manager Finance	