

RATING REPORT

Lucky Knits (Private) Limited

REPORT DATE:

April 29, 2020

RATING ANALYST:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-1	A-	A-1
Rating Date	April 29, 2020		March 18, 2019	
Rating Outlook	Rating Watch-Developing		Stable	

COMPANY INFORMATION

Incorporated in November, 2004	External auditors: M/s Deloitte Yousuf Adil, Chartered Accountants
Private Limited Company	Chairman & CEO: Mr. Sohail Tabba
Key Shareholders (with stake 5% or more):	
<i>Muhammad Yousuf – 49.98%</i>	
<i>Y.B.Holdings (Pvt) Ltd – 49.98%</i>	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: *Industrial Corporates (April 2019)*<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

Lucky Knits (Private) Limited

OVERVIEW OF
THE
INSTITUTION

RATING RATIONALE

Lucky Knits was incorporated in Nov, 2004 as a Private Limited Company Under Companies Ordinance, 1984. The principal activities of the company involve knitting, dyeing, cutting, printing, stitching and packing.

Profile of Chairman & CEO

Mr. Muhammad Sobail Tabba is a seasoned businessman with extensive experience in manufacturing, energy, real estate and cement sectors. Mr. Sobail is a chairman of ICI Pakistan Limited and NutriCo Morinaga (Private) Limited. Furthermore, he serves as a CEO of Lucky Energy (Private) Limited, Yunus Energy Limited and LuckyOne (Private) Limited. He is the Chairman of Lucky Paragon Readymix Concrete and a Director on the Board of Lucky Cement Limited and Kia Lucky Motors Pakistan Limited.

Lucky Knits (Private) Limited (LKPL) is part of Yunus Brother Group (YBG). The group has presence in diversified sectors including textiles, building materials, real estate, power generation, chemicals, pharmaceuticals, food and automotive sectors. Shareholding of the company is equally vested between Muhammad Yousuf and Y.B.Holdings (Pvt) Ltd. Mr. Yousuf is a seasoned businessman with over two decades of experience in the manufacturing and real estate sectors. He also owns Grupo Karim in Honduras; a US based firm operating in real estate and textile industry.

Business Profile

LKPL is primarily involved in the manufacturing and exports of knitted apparel with product line ranging from T- shirts, polo shirts, hoodies, trousers and undergarments. International clients in UK and US are managed by a Manchester based firm, Fundamental Textile while other European markets are catered largely through direct agents.

Operations

Operations of the company are carried out through four production units (two cut to pack, one knitting and one dyeing unit) located in Karachi, Sindh. Power requirements of the organisation are met by Lucky Energy (YB Group company) which is a gas based power plant and provides competitive edge to the company.

With supportive government policies for exports and devaluation of rupee dollar parity, sales revenue has depicted an increase over the years; growth in sales has remained a function of higher average selling prices and volumetric growth. Shift in sales mix has been noted over the past two years with share of value added exports being reported on the higher side.

LKPL is primarily an export-oriented company. Sales revenue of the company increased by 40% in FY19 and was reported at Rs. 3.8b (FY18: Rs. 2.7b). Growth in topline was a function of both higher average selling prices due to currency devaluation and increase in volumetric sales in the international market. Moreover, sales level improved on account of increase in value added exports; T Shirts/Polo segment contribute the highest in export sales followed by 'Hoodies'. Moreover, increased focus of Government of Pakistan (GoP) on enhancing exports (through reducing cost of doing business and commitment for timely release of refunds and rebates) and sizeable currency devaluation bodes well for textile exports. Overall client and geographical concentration in sales continues to remain on the higher side. During 9M20, the company recorded sales revenue of Rs. 3.1b.

Coronavirus to result in uncertainty in textile sector dynamics

The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand, sharp fall in cotton prices and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating Watch-Developing' status. Given the low leveraged capital structure, it is expected that ratings will remain stable post recovery of the ongoing situation; nevertheless as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status.

Lucky Knits (Private) Limited
Appendix I

FINANCIAL SUMMARY			
<i>(amounts in PKR millions)</i>			
BALANCE SHEET	FY17	FY18	FY19
Fixed Assets	861.3	796.4	1,003.9
Stock-in-Trade	370.7	353.2	444.7
Trade Debts	211.9	467.6	1,033.4
Cash & Bank Balances	5.5	22.5	143.4
Total Assets	1,929.4	2,155.3	3,196.4
Trade and Other Payables	205.2	260.8	628.1
Long Term Debt	-	50.7	220.0
Short Term Debt	490.4	269.3	460.0
Paid up Capital	60.0	60.0	60.0
Total Equity <i>(*Including loan from Directors & Associates)</i>	1,481.4	1,750.3	1,710.4
INCOME STATEMENT			
Net Sales	2,273.1	2,713.7	3,784.9
Gross Profit	94.7	332.8	294.6
Operating Profit/Loss	(81.2)	134.1	57.0
Profit Before Tax	16.7	358.7	302.1
Profit After Tax	19.5	329.3	269.6
RATIO ANALYSIS			
Gross Margin (%)	4.2%	13.6%	7.8%
Current Ratio (x)	1.5	2.5	1.9
Net Working Capital	370.7	810.4	1,050.5
FFO to Total Debt (x)	0.2	1.3	0.6
FFO to Long Term Debt (x)	-	8.4	2.0
Debt Servicing Coverage Ratio (x)	7.4	17.2	14.5
ROAA (%)	1.1%	16.1%	10.1%
ROAE (%)	1.3%	20.4%	15.6%
Gearing	0.3	0.2	0.4
Leverage	0.6	0.5	0.9

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	Lucky Knits (Private) Limited				
Sector	Textiles				
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				
	4/29/2020	A-	A-1	Rating Watch-Developing	Maintained
	3/18/2019	A-	A-1	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 Meetings Conducted	None				