RATING REPORT

Yunus Textile Mills Limited

REPORT DATE:
June 28, 2019

RATING ANALYST:
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RATING DETAILS		
	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	AA-	A-1+
Rating Outlook	Stable	
Rating Date	*28 June 2019*	

COMPANY INFORMATION	
Incorporated in April, 2007	**External auditors:** EY Ford Rhodes, Chartered Accountants
Public Unlisted Company	**Chairman:** Mr. Yunus Tabba
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Muhammad Ali Tabba
Y.B. Holdings (Pvt) Ltd – 99.99%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria *Industrial Corporates (May 2016)*
http://www.vis.com.pk/docs/Corporate-Methodology-201605.pdf

Yunus Textile Mills Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

OVERVIEW OF THE INSTITUTION

Yunus Textile Mills Limited was incorporated in April, 2007 as a Public Unlisted Company under the Companies Ordinance, 1984. Principal activities of the company include manufacturing and export of knitted, weaved and stitched fabrics and other textile articles largely comprising home textile products.

Financial Statements of the company for FY18 were audited by EY Ford Rhodes, Chartered Accountants. Auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan (SBP).

Profile of CEO

Mr. Muhammad Ali Tabba is a seasoned businessman with extensive experience in manufacturing, energy, real estate and cement sectors. Mr. Ali is the director of Lucky Knits (Private) Limited and also plays a pivotal role in strategic management of ICI Pakistan Limited being its Vice Chairman. He is also a Trustee of the Fellowship Fund for Pakistan (FFFP) and a board member of Pakistan Business Council (PBC). Moreover, he is also serving as the Chairman

RATING RATIONALE

Yunus Textile Mills Limited (YTML) is a part of the Yunus Brother Group (YBG) being a wholly owned subsidiary of YB Holdings (Pvt) Limited. YTML is involved in the manufacturing and export of knitted, weaved and stitched fabrics and other textile articles with product line ranging from bed sheets, comforters, duvets, quilts, and pillow cases to curtains and table linens. Sales of YTML largely comprise exports. The Company also has an international presence through subsidiaries-Royale Linens Inc. and Future Home. YTML also has in-house design studios in Pakistan and New York.

YTML is a vertically integrated company with operations being carried through seven locations (four spinning, two weaving, two processing, and four stitching units). The company meets electrical power requirements through its own natural gas based captive power generation plant. YTML's operations encompasses the following three divisions:

<u>Spinning:</u> The company has 77,888 spindles and 2,880 rotors installed yielding yarn capacity of 27.6m kgs. per year at end-FY18 which caters to around three fifth of YTML's yarn requirement. The remaining yarn is procured at market prices from various third parties and group companies. Utilization levels of the spinning division have historically remained on the higher side and were reported at 93% during 1HFY19. Going forward, further increase in spinning capacity is planned.

<u>Weaving:</u> The company has been consistently increasing its weaving capacity to cater to rising demand with the same being reported at 59.6m meters of fabric per year at end-FY18. Utilization level of this segment has been increasing on a timeline basis and was reported on the higher side at ~95% in FY18 and 1HFY19. Moreover, the management plans to further enhance YTML's weaving capacity through addition of new efficient air-jet looms.

<u>Processing and Finishing:</u> YTML has an installed made-ups (finished home textile products) capacity of 46.3m pieces per year. Utilization level of the home division was reported at 83% in 1HFY19 (FY18: 81%, FY17: 74%). The same is reported on the lower side as compared to the former two divisions given the more automated nature of operations of the spinning and weaving units.

<u>Capacity Enhancement Plans:</u> Given high utilization levels in all divisions and expected increase in demand, the management plans capex of around Rs. 8.5b over the next 2 years (FY20 & FY21) for capacity and efficiency enhancement across the value chain. A sizeable portion of the capex is expected in enhancing end-product capacities. Planned capex pertains to both, installation of new machinery as well as replacement and upgradation of existing machinery. The company plans to finance a sizeable chunk of the expansion through concessionary rate long-term finance facility.

<u>Long Term Investment:</u> Around 30% of the total asset base comprises long term investments in various group concerns at end-FY18. YTML has investments in Lucy Investments Netherlands, Lucky Foods Private Limited, Yunus Energy Limited, Lucky Holding Limited, KIA Lucky Motors Pakistan, and Lucky Cement Limited (Lucky Cement). Lucky Cement is the largest investment on balance sheet and has supported overall profitability of YTML through a regular stream of dividend income. The management also plans to invest in a wind power project, which will be entirely funded through internal cash flows.

of All Pakistan Cement Manufacturing Association (APCMA) and has also been appointed by the Government of Pakistan to serve on the Board of Directors of Oil and Gas Development Company (OGDC). He also serves on the Board of Trade Development Authority of Pakistan.

Long Term Investment (Rs. in m)	FY15	FY16	FY17	FY18
Lucy Investments B.V (100%)-- Netherlands	632	476	273	273
Lucky Foods Private Limited (90%)	-	600	635	635
Yunus Energy Limited (20%)	204	611	611	611
Lucky Holding Limited (18%)	1,349	1,349	1,349	1,349
KIA Lucky Motors Pakistan Limited (16.47%)	-	-	0	450
Lucky Cement Shares- AFS (6.6%)	11,144	13,908	17,935	10,893
	13,329	**16,944**	**20,802**	**14,211**

Key Rating Drivers:

Strong Sponsor Profile

YBG, a reputable conglomerate with strong financial profile, has presence in diversified sectors including power generation, building materials, real estate, textile, chemicals, pharmaceuticals, food and automotive sectors. The group has an annual turnover of nearly Rs. 160b while annual profitability of the group was in excess of Rs. 26b in 2017.

Leading market position

YTML is amongst the leading home textile exporters in the country with a market share of around 9% in total textile made-up exports. The company enjoys strong franchise and is recognized as a quality product manufacturer. Accounting for export of other group companies, YBG is amongst the top exporters in the country.

Business risk profile supported by favourable industry dynamics and increased opportunities for growth

Total textile exports from Pakistan depicted strong growth of 14% during FY18 with increase being driven by the value added segment. While pace of growth in textile exports has slowed down in the ongoing year, VIS expects double digit growth in textile exports over the medium term as impact of planned and ongoing capacity expansion along with supportive government policies kicks in. Supportive government policies for the textile sector are evident from availability of electricity at competitive rates, sizeable rupee depreciation over the last 18 months, availability of funding lines at concessionary rates and commitment for timely release of outstanding refunds. Moreover, improving perception (opening of visa regimes) and law and order situation is facilitating buyers to visit the Country and place orders. Major buyers are also looking to diversify their procurement from China (ongoing trade war between USA and China and increasing cost of doing business in China) and Bangladesh (protest against low wages in Bangladesh) which is expected to result in a gradual shift in orders to Pakistan. Nonetheless, key business risk factors include country's macro-economic challenges, slow-down in major markets, inability to pass on increase in input cost, increase in competition from other regional countries and exit of a major customer.

Topline depicted healthy growth in FY18 with growth momentum projected to continue over the rating horizon. While concentration risk is on the higher side, comfort is drawn from lengthy association with major clients

Sales mix of the Company primarily comprises export sales (Average of around 95% over the last 4 years). Sales revenue witnessed a healthy growth of 18% in FY18. During FY18, the company reported sales revenue of Rs. 28.2b (FY17: Rs. 23.9b) largely being a function of higher average selling prices. In terms of product-wise break-up of sales mix, over four fifth of the sales revenue emanates from made-ups category comprising bed sheets, comforters, quilts and curtains. Major export markets include USA, UK, France, and Sweden. Clients include a mix of fashion brands and top-tier retailers who account for bulk of purchases from textile exporting countries. While concentration risk is on the higher side, comfort is drawn from lengthy association with major clients. Given the ongoing expansion plans, management plans to tap new clients in addition to increasing sales from existing clients which will help the company in further diversifying its customer base. Furthermore, expanding product line is also ongoing with focus on 100% polyester, knitted, and garments wash product is also in the pipeline.

Profitability profile has strengthened during the ongoing year due to improved margins, exchange gain and higher dividend income from investments. Volumetric growth in sales to facilitate in sustaining profitability profile.
After witnessing a decline in FY17, gross margins of the company have improved on a timeline basis in FY18 and 1HFY19. Management expects margins to remain at similar levels given focus on operating efficiencies and broadening of product portfolio, going forward. Overall expense base has historically remained within manageable levels with some increase in administrative expenses in the ongoing year in line with higher inflation. Profitability was also supported by duty drawback and export rebate received from GoP during FY18 and higher dividend income on investments. Going forward, increase in profitability will be a function of volumetric growth in sales and sustained margins.

Liquidity profile is strong as evident from healthy cash flows and strong coverages. Despite debt draw down to fund expansion, cash flow coverages are projected to remain strong over the rating horizon.
With growth in profitability, liquidity position of the company has further improved. Adjusted funds flow from operations (FFO) increased to Rs. 4.16b (FY17: Rs. 3.38b) in FY18. Resultantly, Debt Service Coverage Ratio (DSCR) and FFO/Long-Term Debt remain strong at 17.5(x) (FY17: 19.7(x)) and 180% (FY17: 162%) at end-FY18, respectively. With extended debt repayment period on existing and planned long-term debt, financial flexibility is on the higher side given the limited quantum of annual debt repayments over the rating horizon. Short term borrowings have been mobilized for working capital requirements and stood at Rs. 350m at end-Dec'2018. Stock in trade and trade debts are well in excess of short term borrowings while current ratio has historically remained consistently at over 1(x). Ageing profile of trade debts has remained with in manageable levels. Despite debt draw down to fund expansion, cash flow coverages are projected to remain strong over the rating horizon.

Low leverage indicators and conservative financial policy depicts strong capitalization profile.
Equity base of the Company has grown over the years on account of profit retention. Dividend payout ratio of the Company has ranged between 30%-40% in the years that dividend has been declared. Accounting for revaluation surplus on investments, equity base has depicted some volatility on account of mark to market gains/losses on available for sale portfolio. Long term debt mobilized amounted to Rs. 2.5b at end-Dec'2018 and primarily comprises SBP's Long Term Finance Facility (LTFF) to fund expansion. Going forward, further draw down of LTFF facility is planned to fund expansion. At end-Dec'2018, gearing and leverage ratios stood at 0.08x (FY18: 0.13x) and 0.26x (FY18: 0.30x), respectively. Given expansion plans, leverage indictors are projected to increase slightly but will continue to remain sound.

Adequate IT infrastructure and internal audit function
YTML uses customized Oracle Application including financials, purchasing, inventories, warehouse management, supply chain, export and logistics, manufacturing, order management, capacity planning, costing and pre-costing, centralized gate-pass mechanism on Oracle 11g and using Oracle form builder. For senior management reporting and dashboards, Business Intelligence (B.I) tool *Tableau* has been integrated into the system. YTML has a separate internal audit function encompassing a team of 13 personnel which is responsible to conduct pre and post audits, stock counts, market verifications, and other ad-hoc based assignments. Audit is conducted on process basis which was previously conducted on manufacturing unit basis. Administrative reporting line is to the CFO whereas the Functional reporting line is to the

management committee comprising COOs of all divisions and CFO. The department undertakes functional audit every two years with the report based on risk intensity.

Yunus Textile Mills Limited Appendix I

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
BALANCE SHEET	**FY16**	**FY17**	**FY18**	**HY19**
Fixed Assets	11,040.0	13,285.2	13,399.3	13,551.3
Stock-in-Trade	5,184.1	7,029.5	6,820.5	10,090.9
Trade Debts	1,308.0	1,819.0	7,431.3	2,730.2
Cash & Bank Balances	2,288.9	963.8	132.0	1,010.6
Total Assets	39,257.0	46,809.2	46,773.1	46,351.9
Trade and Other Payables	2,986.4	3,721.2	5,361.0	5,958.1
Long Term Debt	1,126.3	2,089.1	2,317.7	2,484.0
Short Term Debt	-	-	2,450.0	350.0
Total Equity	34,655.9	40,437.5	35,928.1	36,757.1
INCOME STATEMENT				
Net Sales	22,366.0	23,984.0	28,225.9	14,714.4
Gross Profit	5,027.8	3,899.9	4,913.6	3,028.9
Operating Profit/Loss	2,527.2	2,529.5	3,661.8	2,724.8
Profit After Tax	2,452.0	2,313.4	3,002.8	2,400.2
RATIO ANALYSIS				
Gross Margin (%)	22.5%	16.3%	17.4%	20.6%
Net Working Capital	8,140.9	8,819.9	10,926.9	12,852.2
Adjusted FFO*	3,844.7	3,384.4	4,161.8	2,878.7
Adjusted FFO to Total Debt (%)	341.4%	162.0%	87.3%	203.2%
Adjusted FFO to Long Term Debt (%)	341.4%	162.0%	179.6%	231.8%
Debt Servicing Coverage Ratio (x)	17.0	19.7	17.5	32.6
ROAA (%)	6.77%	5.38%	6.42%	10.31%
ROAE (%)	7.56%	6.16%	7.86%	13.21%
Gearing	0.03	0.05	0.13	0.08
Leverage	0.13	0.16	0.30	0.26

** Including Dividend Income from investments*

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	Yunus Textile Mills Limited
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see below
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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Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
28/06/2019	AA-	A-1+	Stable	Initial