# RATING REPORT

# Yunus Textile Mills Limited

**REPORT DATE:**
December 2, 2020

**RATING ANALYST:**
Arsal Ayub, CFA
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| RATING DETAILS | | | | |
|---|---|---|---|---|
| Rating Category | Initial Rating | | Initial Rating | |
| | Long-Term | Short-Term | Long-Term | Short-Term |
| Entity | AA- | A-1+ | AA- | A-1+ |
| Rating Outlook | Stable | | Stable | |
| *Rating Date* | *2nd Dec 2020* | | *28th 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

*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*

## 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. The company's topline is export-dominated, comprising 95% of the gross sales. The topline is driven largely by sales generated through YTML's international presence, by way of its 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:

***Spinning:*** The company has 78,896 spindles and 2,880 rotors installed yielding yarn capacity of 32.3m kgs. per year, which caters to around ~ 65% 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 96% during FY20. There are capacity enhancement plans in place; as a result of which the number of spindles installed is projected to grow to 91,200 w.e.f. Nov'21.

***Weaving:*** YTML has a weaving capacity of 67.8m meters per annum and the utilization level for FY20 was reported at 85%. The management has continued with capacity enhancement of the weaving division, with latest capacity enhancement expected to come into effect as of Jul'21.

***Processing and Finishing:*** YTML has an installed made-ups (finished home textile products) capacity of 10m meters per year. Utilization level of the home division was reported at 80% in FY20, trending around the same level as of the preceding year.

**Table 1: Long Term Investment (Figures in PKR' Millions)**

| | Jun'19 | Jun'20 |
|---|---|---|
| Lucy Investments B.V (100%)-- Netherlands | 273 | 273 |
| Lucky Foods Private Limited (90%) | 635 | 635 |
| Yunus Energy Limited (20%) | 611 | 611 |
| Lucky Holding Limited (18%) | 5 | 8 |
| KIA Lucky Motors Pakistan Limited (16.47%) | 1,479 | 1,779 |
| Lucky Cement Shares- AFS (6.6%) | 8,160 | 9,899 |
| ICI Pakistan Limited (13.1%) | - | 8,421 |
| Yunus Textile Holdings (Pvt) Limited | 1,341 | - |
| Lucky Auto Industries (Pvt) Limited (48.3%) | 75 | 75 |
| | **12,581** | **21,701** |

**Long Term Investment:** The size of the long-term investment portfolio has notably grown in the outgoing year, mainly as a result of Sindh High Court ruling, undertaking of Lucky Holding Limited (LHL), principally comprising of assets, liabilities and obligations of LHL relating to its underlying investment in ICI Pakistan Limited, the outstanding long term loan along with other liabilities, representing payable in respect of income taxes (LHL Demerged Undertakings), were carved out of LHL and proportionately amalgamated into respective wholly owned subsidiaries of LHL shareholders. As a result, the YTML's indirect holdings in ICI, have been directly recognized on YTML's balance sheet.

*Council (PBC). Moreover, he is also serving as the Chairman 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.*

Major part (84%) of the long term investment is invested in equity securities of 2 listed companies; off this 54% represents investment in Lucky Cement and 46% is investment in ICI Pakistan Limited.

**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. Established in 1962, it is one of Pakistan's largest export house, largest manufacturer of cement and as a result of its 2012 acquisition of ICI Pakistan Ltd, it is also the country's biggest soda ash manufacturer and second-biggest producer of polyester staple fibre.

**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.

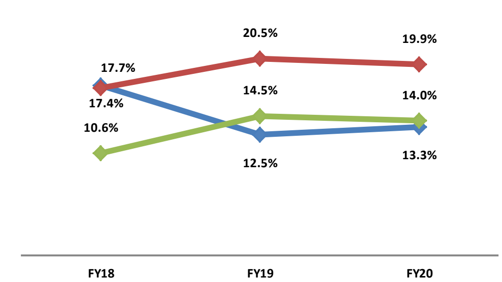
**The pandemic has weighed down on Pakistan's textile exports**

Textile and textile-related exports constitute bulk of Pakistan's export revenues. In FY20, export revenues from the segment dropped by 6% to USD 12.5b vis-à-vis USD 13.3b in FY19. Negative trend was noted in all segments, including raw cotton (-16.6%), cotton yarn (-12.5%) and cotton cloth (-12.9%), knitwear (-3.6%), bedwear (-4.9%), towels (-9.5%) and ready-made garments (-3.8%).

In Jul'2020, country's textile & clothing exports posted an increase of 14.4%. This was expected and in line with the easing of lockdowns in major export destinations i.e. EU and North America. Going forward, as lockdowns end in more countries, and on the back of increasing US-China tensions, Pakistan's textile manufacturers stand to gain market share in the global textile market. Nevertheless, downside risks remain, particularly the threat of a second wave of Covid-19, which could dampen the export market again.

**Consistent growth in topline with sustained profitability margins**

Figure 1: Sales Growth & Profitability




- YTML's gross sales revenue grew by 14% in FY20 (FY19: 13%). The growth in sales revenue continues to be driven by export sales, which grew by 15% (FY19: 14%).
- The growth in export sales is mainly attributable to the depreciation of local currency, which stood at -16% during FY20 (FY19: -24%).
- Topline concentration remains a risk, albeit comfort is derived from long association with major clients.
- As illustrated in figure 1, the company has been able to maintain its margin during the period.
- As an export-oriented entity, YTML's debt mainly comprises, lending at incentivized rate. Based on a two-point average, the company's cost of debt increased from 5.6% to 5.9%.
- In FY20, the company's other income grew notably from Rs. 1.8b to Rs. 2.2b. This was mainly driven by higher exchange gain of Rs. 1.5b (FY19: Rs. 1.3b) and higher dividend income of Rs. 598m (FY19: Rs. 355m).

### Cash flow coverage indicators remain intact

- YTML's cash conversion cycle has depicted improvement on a YoY basis.
- The company's current ratio remained at almost similar level of 2.4x, while coverage of short term borrowings by stock of inventory and trade debts stood at 3x, as of Jun'20.
- Given the uptick in debt, cash flow coverage ratios like FFO-Long Term Debt and DSCR have been impacted, albeit these remain within the threshold for the assigned rating band.

| | FY19 | FY20 |
|---|---|---|
| **Cash Conversion Cycle (Days)** | 126 | 108 |
| **Days Inventory Outstanding(Days)** | 115 | 121 |
| **Days Sales Outstanding (Days)** | 95 | 68 |
| **Days Payable Outstanding (Days)** | 84 | 82 |
| **FFO*** | 5,935 | 6,487 |
| **FFO to Long Term Debt** | 142.1% | 90.5% |
| **FFO to Debt** | 83.0% | 54.4% |
| **DSCR (x)** | 12.6x | 8.2x |
| *Includes Dividend Received | | |

**Table 3: Liquidity Indicators (Figures in PKR' Millions; unless started otherwise)**

### Low leverage indicators have been maintained

- Given robust profitability and conservative dividend payout strategy, YTML's low leverage indicators have been maintained.
- In FY20, the company's equity base increased by 35%.
- The uptick on YTML's debt was relatively nominal, as illustrated in table 3.
- At present the leverage indicators remain within the threshold for the assigned rating.
- In the ongoing year, the management is projecting capital expenditure of Rs. 4.4b. Incorporating the same, leverage indicators are expected to remain within the threshold for the assigned rating.

| | FY19 | FY20 |
|---|---|---|
| **Net Equity** | **37,312** | **50,726** |
| - Paid-up Capital | 1,500 | 1,500 |
| - Reserves | 35,812 | 49,226 |
| **Debt** | **7,153** | **11,934** |
| - Long Term | 4,178 | 7,170 |
| - Short Term | 2,975 | 4,764 |
| **Gearing (x)** | **0.19** | **0.24** |
| **Leverage(x)** | **0.38** | **0.39** |
| **Dividend Payout** | **11%** | **NA** |

**Table 2: Capitalization (Figures in PKR Millions, unless stated otherwise)**

## Yunus Textile Mills Limited — Appendix I

| FINANCIAL SUMMARY | | | | *(amounts in PKR millions)* |
|---|---|---|---|---|
| **BALANCE SHEET** | **Jun'17** | **Jun'18** | **Jun'19** | **Jun'20** |
| Fixed Assets | 13,285.2 | 13,399.3 | 15,357.8 | 19,354.9 |
| Stock-in-Trade | 7,029.5 | 6,820.5 | 9,089.2 | 10,067.4 |
| Trade Debts | 1,819.0 | 7,431.3 | 9,131.4 | 4,378.5 |
| Cash & Bank Balances | 963.8 | 132.0 | 544.0 | 596.7 |
| Total Assets | 46,809.2 | 46,773.1 | 51,652.4 | 70,513.6 |
| Trade and Other Payables | 3,721.2 | 5,361.0 | 6,234.1 | 6,749.0 |
| Long Term Debt | 2,089.1 | 2,317.7 | 4,177.9 | 7,170.2 |
| Short Term Debt | - | 2,450.0 | 2,975.0 | 4,764.0 |
| Paid-up Capital | 1,500.0 | 1,500.0 | 1,500.0 | 1,500.0 |
| Total Equity | 40,437.5 | 35,928.1 | 37,312.0 | 50,725.9 |
| | | | | |
| **INCOME STATEMENT** | **FY17** | **FY18** | **FY19** | **FY20** |
| Net Sales | 23,984.0 | 28,225.9 | 31,761.1 | 35,998.3 |
| Gross Profit | 3,899.9 | 4,913.6 | 6,498.0 | 7,149.9 |
| Operating Profit/Loss | 2,529.5 | 3,661.8 | 5,340.7 | 5,887.0 |
| Profit Before Tax | 2,363.4 | 3,406.6 | 5,007.8 | 5,322.2 |
| Profit After Tax | 2,313.4 | 3,002.8 | 4,606.0 | 5,042.5 |
| | | | | |
| **RATIO ANALYSIS** | | | | |
| Gross Margin (%) | 16.3% | 17.4% | 20.5% | 19.9% |
| Net Working Capital | 8,819.9 | 10,926.9 | 13,837.1 | 17,070.2 |
| Current Ratio | 3.3x | 2.3x | 2.4x | 2.4x |
| FFO | 3,169.9 | 3,659.6 | 5,579.8 | 5,888.7 |
| Adjusted FFO* | 3,384.4 | 4,161.8 | 5,934.8 | 6,487.1 |
| Adjusted FFO to Total Debt (%) | 162.0% | 87.3% | 83.0% | 54.4% |
| Adjusted FFO to Long Term Debt (%) | 162.0% | 179.6% | 142.1% | 90.5% |
| Debt Servicing Coverage Ratio (x) | 19.7 | 17.5 | 12.6 | 8.2 |
| ROAA (%) | 5.38% | 6.42% | 9.36% | 8.26% |
| ROAE (%) | 6.16% | 7.86% | 12.58% | 11.46% |
| Gearing | 0.05 | 0.13 | 0.19 | 0.24 |
| Leverage | 0.16 | 0.30 | 0.38 | 0.39 |

** 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.

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**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** | |
| **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** | |

Rating History:

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| **RATING TYPE: ENTITY** | | | | |
| **02/12/2020** | AA- | A-1+ | Stable | Reaffirmed |
| **28/06/2019** | AA- | A-1+ | Stable | Initial |

Due Diligence Meetings Conducted:

| Name | Designation | Date |
|---|---|---|
| **Mr. Altaf Makna** | CFO | October 2, 2020 |