RATING REPORT

Lucky Textile Mills Limited

REPORT DATE:

December 28, 2021

RATING ANALYST:

Sara Ahmed
sara.ahmed@vis.com.pk

Syeda Aaminah Asim
aaminah.asim@vis.com.pk

RATING DETAILS

Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AA-	A-1	AA-	A-1
Rating Outlook	Stable		Stable	
Rating Date	*December 28, 2021*		*November 11, 2020*	

COMPANY INFORMATION	
Incorporated in December 2011	**External auditors:** Yousuf Adil & Co., Chartered Accountants
Public Unlisted Company	**Chairman:** Mr. Muhammad Yunus Tabba
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Jawed Yunus Tabba
Y.B. Holdings (Pvt) Ltd – 99.99%	

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

Lucky Textile Mills Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Lucky Textile Mills Limited (LTML) was incorporated in December 2011as a Public Unlisted Company. The Company had taken over the assets and liabilities of Lucky Textile Mills which operated as a partnership firm registered in the year 1983 under the Partnership Act, 1932. Principal activity of the company includes manufacturing and export of fabric, home textile and apparel products.

Profile of CEO

Mr. Jawed Yunus Tabba has a rich experience in the Textile industry. He is also on the Board and related sub-committees of Lucky Cement Limited, ICI Pakistan Limited, Gadoon Textile Mills Limited and Lucky Motor Corporations Limited He is also managing the Real Estate Project "Lucky One", which is the largest mall in Karachi. He is also extensively engaged in community welfare projects which include Aziz Tabba Foundation, etc..

Corporate Profile: Incorporated in 2011 as a public unlisted company; Lucky Textile Mills Limited (LTML) is a part of the Yunus Brother Group (YBG) being a wholly owned subsidiary of YB Holdings (Pvt.) Limited. LTML is a composite textile mill engaged in weaving, processing, and stitching of various kinds of textile products. Sales of the company can be classified into three categories: home textiles, garments and fabric. The company carries out its activities through its weaving, stitching and processing units.

The company holds a diversified investment portfolio which supports its net profitability. LTML has enhanced its portfolio with major long term investments in ICI Pakistan Limited (6.2% holding), Lucky Motors Corporation Limited (7.6% holding), Tricom Wind Power Private Limited (51% holding), Yunus Energy Limited (20% holding), Feroze 1888 Mills Limited (1.62% holding), Lucky Entertainment Private Limited (100% holding). Further the company also holds shares in few other renewable energy projects which are at initial stages and are not expected to contribute to profitability in the medium term.

Moreover, Lucky Textile Mills Limited is also one of the investor under a tripartite agreement between Lucky Landmark Private Limited and Lucky One Private Limited for the construction of Lucky One Project (Mall and Residential towers).

Rating Drivers

Strong sponsor profile

Y.B. Holdings (Private) Limited is a leading conglomerate in Pakistan having strong financial profile, and diversified presence in sectors including power generation, real estate, building materials, automotive, textile, chemicals, pharmaceuticals, food, entertainment, and philanthropic sectors.

Positive momentum in exports of value-added segment of the textile industry

Outlook of the textile industry remains positive on account of recovery in international markets and export-oriented policies of the government. 4M'FY22 posted 27% upsurge in textile exports vis-à-vis SPLY primarily on account of strong growth in home textiles, towels, knitwear, and ready-made textile products. On the other hand, cotton and cotton cloth represented a lower portion in the overall textile exports thus indicating growth in the value added segment. Going forward, prospects remain strong on account of gradual establishment of international customer base alongside favorable incentives offered by the government. However, federal government's consideration to revise gas tariff for textile export units to $9 per mmbtu from $6.5 from November 15 2021 to March 31, 2022 remains a key risk which would detrimentally impact cost of sales. Nonetheless, undergoing rupee devaluation is likely to offset possible increase in gas tariff.

Capital expenditure towards vertical integration and capacity additions

During FY21, the company increased capacity in processing department as part of the its undergoing capacity addition initiatives by 8 million meters to 78 million meters per annum partially financed through long term debt. Furthermore, Lucky Textile Mills Limited is planning for vertical integration through establishing a spinning unit which would fulfill a substantial portion of its yarn requirements. The company projects to gain considerable cost advantages through this initiative. The project is divided into two phases, and total investment amount is estimated to be Rs. 8b which will be funded through a combination of debt and equity financing. According to management, both phases of the said project will be completed prior to FY23.

Diversified investment portfolio provided support to bottom line

Net Sales revenue increased to Rs. 27.0b (FY20: Rs. 24.6b) in FY21, depicting 9.8% growth vis-à-vis SPLY on the back of volume driven export growth. Overall volumetric sales registered 22% increase on a YOY basis. Sales mix of the company principally remained the same in FY21 with home textile, apparels, and finished fabric contributing 65% (FY20: 66%), 20% (FY20:22%), and 14% (FY20: 11%) to the total sales respectively. Main geographical markets also remained focused in United States, Germany, United Kingdom, France, and Netherlands. Client concentration, however, declined in the outgoing year with top ten clients constituting 55% (FY20: 64%) of the total sales; albeit remaining on the higher side.

In FY21, gross margins reduced to 22.2% (FY20: 23.8%) primarily on account of higher yarn prices. As a result, operating margins reduced to 14.6% (FY20: 15.6%) in FY21, while administrative and selling expenses moved in tandem with sales revenue. Finance costs increased by 19% in FY21 owing to increase in total debt, however net margins increased to 19.3% (FY20: 16.4%) in FY21 primarily due to 192.6% increase in share of profit from associates largely from Lucky Motors Corporation Limited. Post-FY21, the company has surpassed the average monthly sales vis-à-vis SPLY and projects volumetric growth for FY22 in line with growth prospects in the industry. Also, rupee devaluation in FY22 is expected to offset higher yarn prices to maintain margins going forward.

Strong cash flow coverage indicators

Funds from Operations, adjusted for dividends received, increased to Rs. 4.9b (FY20: Rs. 4.4b) in FY21 on account of higher profitability share and dividends from associates. However, cash flow coverage indicators remained at similar levels with Adjusted FFO to Total Debt and Adjusted FFO to Long-term debt standing at 54.8% (FY20: 53.5%) and 124.5% (FY20: 123.6%) in FY21 due to 8% increase in total debt. Nonetheless, debt servicing continued to remain strong at 11.4x (FY20: 12.8x) in FY21.

Liquidity profile of the company continues to remain sound with current ratio standing at 1.91x (FY20: 1.78x) in FY21. Ageing of trade debts also remained manageable in FY21. However, cash conversion cycle has increased in FY21 primarily due to increase in inventory days outstanding. Shortfall in cash was met through increase in short term borrowings to manage working capital requirements.

Capitalization indicators continue to remain on the lower side

Equity base of the company increased to Rs. 26.5b (FY20: 22.1b) in FY21 on account of profitability. Debt profile of FY21 encapsulates 10% addition in long term financing to fund capex and 7% increase in short term borrowings to finance working capital requirements.

However, capitalization indicators continued to remain on the lower side in FY21 with leverage and gearing levels standing at 0.63x (FY20: 0.65x) and 0.34x (FY20: 0.38x) due to increase in equity base. Gearing and leverage levels are expected to depict increase for financing capex going forward, albeit remaining within comfortable levels on account of projected profitability. Maintenance of gearing and leverage ratios at current levels will be important for assigned level of ratings, going forward.

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	Lucky Textile Mills Limited
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table 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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.
Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
Dec 28, 2021	AA-	A-1	Stable	Reaffirm
Nov 11, 2020	AA-	A-1	Stable	Reaffirm
Nov 18, 2019	AA-	A-1	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Adnan Arif	Head of Finance & Accounts	Nov 22, 2021