

RATING REPORT

LUCKY TEXTILE MILLS LIMITED

REPORT DATE:

December 19, 2022

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	AA-	A-1	AA-	A-1
Rating Action	Stable		Stable	
Rating Outlook	Reaffirmed		Reaffirmed	
Rating Date	19 th December, 2022		28 th December, 2021	

COMPANY INFORMATION

Incorporated in 2011	External Auditors: Yousuf Adil & Co., Chartered Accountants
Public Unlisted Company	Chairman: Mr. Muhammad Yunus Tabba
Key Shareholders (More than 5%): <i>Y.B. Holdings (Pvt) Ltd – 99.99%</i>	Chief Executive Officer: Mr. Jawed Yunus Tabba

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: 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 2011 as 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.

Incorporated in 2011 as a public unlisted company; Lucky Textile Mills Limited ('LTML' or 'the Company') 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. The Company's spinning unit is also planned to be operational with effect from January 2023. 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), Lucky Renewables 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).

Sector Update

Table 1: Pakistan Export Statistics

	FY20	FY21	FY22	1Q'FY22	1Q'FY23
PAKISTAN EXPORTS (IN USD' MILLIONS)	22,536	25,639	32,450	7,201	7,594
TEXTILE (IN USD' MILLIONS)	12,851	14,492	18,525	4,241	4,777
PKR/USD RATE (AVERAGE)	158.0	160.0	177.5	164.4	229.1

SOURCE: SBP

- Pakistan's export growth came in at 14% and 27% in FY21 and FY22 respectively. Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally grew beyond USD 32.4b.
- In FY22, textile exports were up 28%. Growth in textile exports played a significant role in this uptick, contributing 59% of the overall growth in export base. Share of textile exports in total exports has oscillated in the range of 54-59%, during the past 3-years (FY20-22).
- As illustrated in the table below, the composition of textile exports has depicted improvement in the last 3-year period, with contribution from higher value added segment increasing from 77.2% in FY20 to 80.8% in FY22 of aggregate textile exports

Table 2: Segment-wise textile Exports (All Figures in USD' Millions, except for percentages)

	FY20	FY21	FY22	1Q'FY22	1Q'FY23	FY20	FY21	FY22	1Q'FY22	1Q'FY23
High Value-Added Segment	9,669	12,427	15,605	3,561	3,749	77.2%	80.7%	80.7%	80.6%	81.8%
- Knitwear	2,794	3,815	5,121	1,145	1,321	22.3%	24.8%	26.5%	25.9%	28.8%
- Readymade Garments	2,552	3,033	3,905	861	912	20.4%	19.7%	20.2%	19.5%	19.9%
- Bed wear	2,151	2,772	3,293	803	780	17.2%	18.0%	17.0%	18.2%	17.0%
- Towels	711	938	1,111	241	237	5.7%	6.1%	5.8%	5.5%	5.2%
- Made-up Articles (Excl. towels & bed wear)	591	756	849	197	180	4.7%	4.9%	4.4%	4.5%	3.9%
- Art, Silk & Synthetic Textile	315	370	460	108	108	2.5%	2.4%	2.4%	2.4%	2.4%

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, Lucky Motor Corporations Limited, Lucky Landmark Private Limited, etc. He is also extensively engaged in community welfare projects which include Aziz Tabba Foundation, etc.

- Others	555	743	866	206	211	4.4%	4.8%	4.5%	4.7%	4.6%
Low to Medium Value-added Segment	2,858	2,972	3,717	860	835	22.8%	19.3%	19.2%	19.4%	18.2%
- Cotton Cloth	1,830	1,921	2,438	557	581	14.6%	12.5%	12.6%	12.6%	12.7%
- Cotton Yarn	984	1,017	1,207	289	236	7.9%	6.6%	6.2%	6.5%	5.2%
- Others	43	34	72	14	18	0.3%	0.2%	0.4%	0.3%	0.4%
Total	12,527	15,399	19,332	4,421	4,584					

Source: PBS

- Cotton production in Pakistan, was at its lowest level in decades for FY21, albeit the same posted 18% uptick in FY22. Actual production at 8.33m bales still missed the targeted production of 10.5m bales. Cotton prices rose to a new 12-year high of ~Rs. 21,600/maund as of March'22, as a result of the shortage and higher input costs of fertilizer and energy. Cotton imports were also up 19.8%, in USD terms, for FY22 vis-à-vis preceding year.
- According to United States Department of Agriculture (USDA), the 2022/23 harvested area has declined notably following devastation caused by recent flood in Sindh and Southern Punjab. Hence, the projected production has been brought down to 5m bales. To counter the shortage, import of 5.8m bales is expected during FY23, which is 29% higher than preceding year.

Table 3: Cotton Prices

	FY19	FY20	FY21	FY22
Per Maund (Rs.)	8,770	8,860	13,000	17,380
% Change	26%	1%	32%	34%

- After posting windfall margins in FY21 and H1'FY22, margins of textile operators came under pressure in H2'FY22, mainly on account of higher input costs and recessionary trend in export markets.

Future Outlook – Textile Industry

- After posting windfall margins in FY21 and H1'FY22, margins of textile operators, particularly spinners, weavers and dying units, have come under pressure during the period Jan-Sep'2022, mainly on account of higher input costs and recessionary trend in export markets.
- The recessionary trend in Pakistan's major export textile export markets, mainly North America and EU, has started to materialize in Pakistan's MoM export proceeds, with receipts for October 2022 (at USD 1.36b) being lower by 11% and 15% vis-à-vis preceding month and corresponding period last year respectively, as also illustrated in the table below.

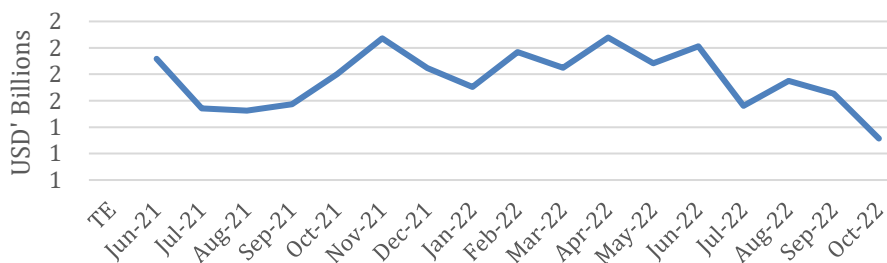


Figure 1: MoM Textile Exports (TE) (In USD' Billions)

- Given expected industrial gas load shedding during the period Dec-Feb'22, and prevailing recession in major export markets and peak inventory levels, export proceeds are expected to fall by ~10% in FY23. Furthermore, profitability margins of textile operators, particularly spinners, weavers and dying companies, are expected to remain under pressure given higher input and financial costs.

Business Update – LTML**Sales & Operations***Table 4: P&L (Extract)*

	FY21	FY22
NET SALES (PKR MILLION)	27,009	37,018
NET MARGIN (%)	19.3%	15.2%

- Topline of the Company posted an uptick of 37.1% in FY22 and 39.1% in Q1'FY23 vis-à-vis SPLY. The management foresees topline figure above Rs. 50b for FY23. Overall topline quantum leaves room for improvement when compared to peers. Nevertheless, ongoing recessionary trends in major export markets may prove challenging in terms of achieving strong top line growth and maintenance of margins.
- The Company's major export markets are Europe and USA, which comprised 68% and 30% respectively of the Company's exports in FY22 (FY21: 61% and 35%). LTML's topline does feature client concentration, with top-10 clientele comprising 59.7% of the sales during FY22 (FY21: 58.7%). Nevertheless, client concentration risk is mitigated by the long-standing relationship with major clientele.
- LTML's gross margins remained strong during the period under review (FY22 and Q1'FY23) and are viewed to be aligned with peers. We have noted a sizable uptick in gross margins in Q1'FY23.
- The cash conversion cycle roughly remains on the same level and is viewed to be aligned with peers.

Table 5: Cash Conversion Cycle

	JUN'20	JUN'21	JUN'22
-DIO	85.2	106.4	99.6
-DSO	79.7	87.9	89.2
-DPO	86.3	3.78	89.1
CASH CONVERSION CYCLE	78.6	97.7	99.8

- The Company has a sizable portion of revenues arising from its portfolio of non-financial and financial assets. In the outgoing year, the Company's other income declined, mainly as income from financial assets and duty drawback contracted.
- LTML's yield on its associate portfolio stood at 29.7% for FY22 (FY21: 29.7%) and 21.0% (annualized) for Q1'FY23. All of the holdings in the associate portfolio are profitable entities.
- Going forward, given uncertainty of demand in textile and automatic sector, the Company's profitability may be impacted to some extent, albeit overall profitability is likely to be supported by returns from power/energy sector investments and yield on financial assets portfolio.

Cash Flow Coverages

- Strong growth in revenues and stability in margins translate in very strong cash flow coverage indicators and hence a strong debt servicing capacity, which compares favorably to peer median. For Q1'FY23, the annualized FFO to Total Debt implies full debt repayment with a little more than 1 year's FFO.
- Liquidity profile of the Company remains strong, given adequately high coverage of short-term borrowings by inventory of stock and trade debts. Current ratio has remained consistently above 1.7x, supporting the short-term rating assessment of the Company. Furthermore, as of Sep'22, the Company was holding liquid assets to the tune of Rs. 9.6b representing 15% of the Company's asset base.

Capitalization

- Equity base of the Company has improved on account of internal capital generation growing at a CAGR of 15.7% during last 5 years (FY18-FY22). This is mainly associated with stable net margins, growing offtake and adequate profit retention.
- The Company's debt is entirely composed of financing under concessionary debt financing schemes of SBP exporters.
- Given an increase in debt level, we have noted an increase in LTML's gearing, as illustrated in the table above. However, financial risk profile continues to compare favorably to peer median.

Lucky Textile Mills Limited <i>(Rs. in million)</i>			Annexure I
BALANCE SHEET	June'20	June'21	June'22
Short Term Borrowings	4,700	5,025	7,519
Long Term Borrowings	3,591	3,959	7,035
Core Equity/Total Equity	22,099	26,482	31,811
INCOME STATEMENT	FY20	FY21	FY22
Net Sales	24,624	27,009	37,018
Profit Before Tax	4,282	5,528	6,342
Profit After Tax	4,037	5,225	5,636
FFO	4,438	4,928	6,150
RATIO ANALYSIS	FY20	FY21	FY22
Current Ratio (x)	1.78	1.91	1.73
FFO to Total Debt (x)	0.54	0.55	0.42
FFO to Long Term Debt (x)	1.24	1.24	0.87
Debt Service Coverage Ratio (x)	12.8	11.4	15.9
Gearing (x)	0.38	0.34	0.46
Debt Leverage (x)	0.65	0.63	0.80
<i>*Annualized</i>			

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	Textile				
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				
	19/12/2022	AA-	A-1	Stable	Reaffirmed
	28/12/2021	AA-	A-1	Stable	Reaffirmed
	10/11/2020	AA-	A-1	Stable	Reaffirmed
	18/11/2019	AA-	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					
		Name	Designation	Date	
	1	Mr. Adnan Arif	Head of Finance and Accounts	25-November-2022	