RATING REPORT

Lucky Textile Mills Limited

REPORT DATE:
December 2, 2024

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AA-	A1+	AA-	A1
Outlook/Rating Watch	Stable		Stable	
Rating Action	Upgrade		*Reaffirmed*	
Rating Date	*2 December, 2024*		*20 November, 2023*	

COMPANY INFORMATION	
Converted from AOP to Company in 2011	**External Auditors:** Yousuf Adil & Co., Chartered Accountant
Public Unlisted Company	**Board Chairman:** Mr. Imran Yunus Tabba
Key Shareholders (with stake 10% or more):	**Chief Executive Officer:** Mr. Jawed Yunus Tabba
Y.B. Holdings (Pvt) Ltd – 100%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporate *https://docs.vis.com.pk/docs/CorporateMethodology.pdf*

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: *https://docs.vis.com.pk/docs/VISRatingScales.pdf*

Lucky Textile Mills Limited

OVERVIEW OF THE INSTITUTION

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. The Company is vertically integrated, encompassing all stages of production from spinning, weaving, processing and stitching. It exports fabric, home textiles and apparel products.

Profile of Chairman:

Mr. Imran Yunus Tabba has vast experience in the Textile Sector and he is the Executive Director and key decision-maker of the LTML. He manages the operational and administrative functions of the company's units located in various parts of Karachi. Mr. Imran Tabba has contributed significantly to the performance of the companies where he serves as a Director on the Board. Mr. Imran Yunus Tabba is also

RATING RATIONALE

Corporate Profile

Lucky Textile Mills Limited ('LTML' or 'the Company') converted from an Association of Persons (AOP) to a public unlisted company in 2011. It is a subsidiary of YB Holdings (Private) Limited, which holds 100% of the Company's shares. The registered office is located at, F.B. Industrial Area, Karachi, Sindh. LTML operates as a composite textile mill, engaged in spinning, weaving, processing and stitching of various products, which are classified into the following categories:

1. Home Textiles
2. Garments
3. Fabric/Processed Fabric

The Company has investments in the following:

Table 1: Investment Portfolio

Investment in Subsidiaries	Ownership
Lucky Wind Power Limited (LWPL)	100%
Lucky Entertainment (Private) Limited (LEPL)	100%
Lucky Renewables (Private) Limited (LRPL)	51%
Investment in Associates	
Yunus Energy Limited (YEL)	20%
Lucky Motor Corporation Limited (LMCL)	7.6%
Lucky Core Industries Limited (LCIL)	6.2%
Lucky Holdings Limited (LHL)	1%
Investment in Listed Companies	
Feroze 1888 Mills Limited (FML)	1.6%
Interloop Limited (IL)	0.017%

LTML to convert investment in Lucky One project into share capital

LTML is a key investor in the Lucky One Project, partnering with Lucky Landmark Private Limited (LLPL) for its development, which includes a shopping mall and residential towers. The shopping mall was completed and commenced operations in 2017.

LTML's contribution towards the mall is classified under Investment Properties and Project under development on the balance sheet. Upon the completion of the residential towers, this investment will be converted into share capital.

Operational Performance

Spinning: LTML achieved vertical integration, enabling a significant proportion of its yarn production to be conducted in-house through the installation of Autocoro and MVS machines. The addition of new spindles during the year increased production capacity. Despite the increase in capacity, utilization levels of the segment have registered an improvement. Looking ahead, management also plans to increase capacity in FY25.

Weaving: The Company operates a combination of Sulzer and Airjet looms, achieving an installed capacity that is marginally lower than the capacity in FY23. Nevertheless, actual *involved in the Aziz Tabba Foundation, which is the Yunus Brothers Group's foundation for philanthropy.*

Profile of the CEO:

Mr. Jawed Yunus Tabba has rich experience in the Textile industry and is currently the Chief Executive of the Company and also the Director of various group companies. He has been instrumental in managing various companies of the Yunus Brothers Group and has transformed LTML into one of the premiere Textile Companies in Pakistan.

production increased, resulting in improved capacity utilization, driven by more efficient management practices. In FY25, the Company intends to install additional Airjet looms, further expanding its capacity.

Processing: A shift in the product mix resulted in a decrease in installed capacity; however, actual production increased, thereby, enhancing capacity utilization.

Sector Update

The business risk profile of the textile sector in Pakistan is characterized by a high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors.

In FY23, the textile sector faced challenges due to various economic and environmental factors. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and import restrictions due to diminishing foreign exchange reserves.
During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, as a result of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Reduction in cotton supply, coupled with global economic slowdown and contractionary economic policies, led to a decrease in demand for textile products and, consequently, cotton yarn.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs and inflationary pressures. Additionally, the sector's vulnerability to global market dynamics and the domestic economic landscape further contribute to its high business risk profile. The worrying trend has continued during the first quarter of FY25 as the cotton production has declined by 48% during the first 15 days of FY25. Several factors have contributed to this downturn. Climate change has altered weather patterns, resulting in irregular rainfall and increased temperatures that have negatively affected crop yields. Additionally, pest infestations, especially by the pink bollworm, have devastated cotton fields. Rising costs of inputs such as fertilizers, pesticides, electricity, and quality seeds have made cotton cultivation less profitable.

Addressing the decline in cotton production requires a multifaceted approach. Improved pest management practices, such as integrated pest management (IPM), can help control infestations more effectively. Education and training for farmers on IPM techniques are crucial. They need access to the latest research and pest-resistant cotton varieties. Investment in agricultural research and development is also essential. Developing drought-resistant and high-yield cotton varieties can mitigate the impacts of climate change.

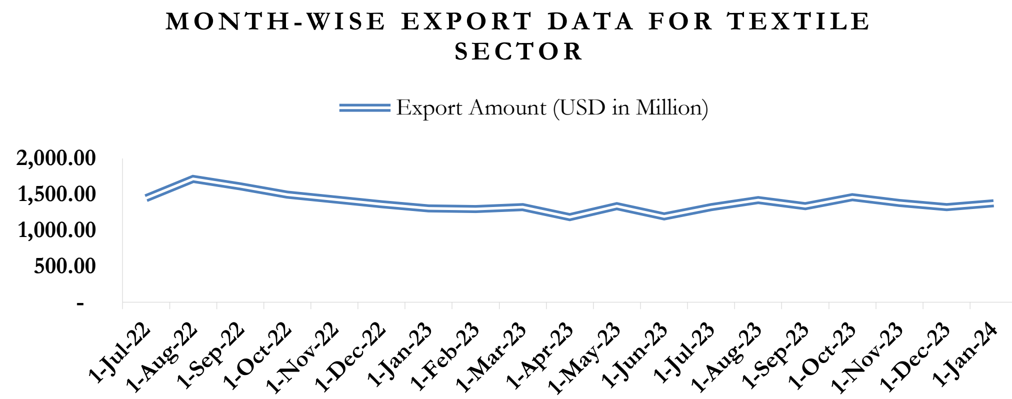

Figure 1: MoM Textile Exports (In USD' millions)
Source: SBP

Rating Drivers

Increase in sales due to rupee devaluation and increased prices

In FY24, despite a slight decline in USD sales, the Company's topline grew by 11% Y/Y, primarily driven by rupee devaluation and rising prices. The majority of sales were derived from exports, with local sales consisting of wastage sales. In terms of the product sales mix, 65% of total sales derived from the made-ups category. The second largest segment was the apparel category, accounting for 21% of total sales. Looking ahead, sales for FY25 are predicted to increase by approximately 9% while the ratio between the made-ups and apparel categories is expected to remain consistent.

Margins remain healthy despite cost pressures

The company's gross margin decreased slightly in FY24, primarily due to rising energy prices. It's worth noting that the gross margins in FY23 were unusually high because of a sharp devaluation of the rupee, which has since normalized. In comparison, the FY24 gross margin reflects an improvement over FY22.

Operating margins also fell, influenced by higher administration, distribution and marketing expenses associated with higher export sales and higher inflation relative to FY23. Net margin also declined, primarily due to higher finance costs, which increased in FY24 relative to FY23. Notably, bills discounting charges saw a significant increase compared to FY23. However, despite the rise in expenses, the overall impact on profitability was mitigated by an increase in other income, primarily driven by higher dividend income from investments.

Healthy liquidity and strong cash flow coverage

In FY24, the liquidity profile enhanced due to increased investments in mutual funds and a reduction in short-term debt. This resulted in an improved current ratio and stronger coverage of short-term debt through trade debts and inventory. Additionally, the net operating cycle demonstrated improvement, driven by reduced receivables and inventory days. In FY25, the Company's liquidity profile is expected to remain sound, driven by improvements in receivables and inventory days, as well as extended payable days.

Funds from operations (FFO), adjusted for dividends received, experienced a slight increase compared to FY23. A decrease in total debt and an increase in FFO led to an improvement in cash flow coverage ratios.

However, despite the overall improvement in cash flow coverage, the debt service coverage ratio (DSCR) decreased due to a higher current portion of long-term debt. Nevertheless, the

Company continues to maintain a strong DSCR position. Looking ahead, the Company is well-positioned to manage its debt obligations effectively.

Strong equity growth along with conservative capitalization profile

Excluding the revaluation surplus, the equity base increased in FY24, primarily due to higher profit retention. Additionally, the Company's financial risk decreased as total debt decreased in FY24, resulting in improved gearing ratios in FY24. Furthermore, the company only utilized subsidized loans (LTFF, TERF and Renewable Energy), both long-term and short-term, adhering to a policy of not mobilizing conventional KIBOR-based loans.

In FY25, the Company plans to enhance its weaving capacity through the installation of additional Airjet looms and spinning machines. The funding for this initiative will be secured internally. Moving forward, capitalization indicators are anticipated to remain stable.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Lucky Textile Mills Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
02-12-2024	AA-	A1+	Stable	Upgrade
20-11-2023	AA-	A1	Stable	Reaffirmed
19-12-2022	AA-	A1	Stable	Reaffirmed
28-12-2021	AA-	A1	Stable	Reaffirmed
10-11-2020	AA-	A1	Stable	Reaffirmed
18-11-2019	AA-	A1	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 Meeting Conducted

Name	Designation	Date
Mr. Adnan Arif	CFO	October 23, 2024
Mr. Yasir Rauf	Finance Manager	