RATING REPORT

Union Apparel (Private) Limited

REPORT DATE:
March 20, 2025

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A2	A-	A2
Rating Date	*March 20, 2025*		*March 04, 2024*	
Rating Watch/ Outlook	Rating Watch - Developing		Stable	
Rating Action	Maintained		Reaffirmed	

COMPANY INFORMATION

Incorporated in 2016	**External auditors:** Crowe Hussain Chaudhury & Co.
Private Limited Company	**Chairman of the Board:** Mr. M Asif Siddiq
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Khurram Arif
Union Fabrics (Private) Limited – 100%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria *Industrial Corporates*
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

Union Apparel (Private) Limited

OVERVIEW OF THE INSTITUTION

Incorporated in 2016, Union Apparel (Private) Limited (UAPL) is a wholly-owned subsidiary of Union Fabrics (Private) Limited (UFPL). UAPL is engaged in manufacture and sale of fabric to the domestic market.

Chairman of the Company- Mr. Asif Siddiq holds a Bachelor's degree in Electrical & Electronics Engineering from University of Florida and an MBA degree in Finance and MIS from University of South Florida.

The management team of the company is spearheaded by one of the directors of the parent company- Mr. Khurram Arif. He has been associated with Union fabrics since the past 18 years. Mr. Khurram holds a degree in Mechanical Engineering from England.

RATING RATIONALE

Company Profile

Union Apparel Private Limited (UAPL or 'the Company') is a wholly owned subsidiary of Union Fabrics Private Limited, established in 2016 for the manufacturing and sale of fabric and finished goods, including printed and embroidered ready-to-stitch fabric in local market. The Company operates as a one-window solution, overseeing the entire production process and delivering finished goods to leading brands in the local textile market under a 'make-to-order' model.

Merger Plan

The company plans to consolidate Union Apparel (Pvt) Limited with and into its parent entity, Union Fabrics (Pvt) Limited. This consolidation is driven by the recent changes in the tax regime for export-oriented companies, which will allow the combined entity to benefit from various incentives. These include a larger asset base, enhanced synergies, increased risk absorption capacity, reduced administrative costs, streamlined corporate and tax reporting, better leverage of assets, improved tax efficiencies, and optimized legal structure. Additionally, the consolidation is expected to result in significant cost savings and operational rationalization.

Consequently, the management has decided to merge Union Apparel with and into Union Fabrics, with Union Fabrics being the surviving entity. The consolidation is expected to take effect from the FY25 results, as all NOCs have been obtained from the Company's existing lenders to proceed with the Amalgamation and a petition has been filed with the High Court of Sindh.

As per the Transaction support letter issued by the Company's Auditors, the swap consideration is as follows:

'In consideration of the shared common control in the share capital between both companies i.e., resulting from UAPL being a wholly owned subsidiary of UFPL, the corresponding share capital and investments will be offset accordingly. In light of the same, in respect of the proposed Amalgamation, no shares of any kind are required to be issued by UFPL, as there will be no change in the relationship between the shareholders of UFPL. The investment in UAPL which is appearing in the books of UFPL will be canceled, along with the shares held by its nominees, and the difference between the Assets and Liabilities of UAPL will be credited to the books of the merged entity (i.e., UFPL) as a 'Capital Reserve' or 'Merger Reserve'. As a consequence of the Amalgamation, there will be no changed in the existing and future pattern of shareholding of UFPL – i.e., in the post-approval scenario of the Scheme.'

Sector Update

Pakistan's fashion retail market, as of 2025, is valued at approximately USD 10Bn and is undergoing rapid growth and transformation, primarily driven by the rise of e-commerce. The market is distinctly divided into two segments: a regulated market valued at USD 2.45Bn and an informal market estimated at USD 7.6Bn.

Within the formal retail sector, the ready-to-wear (Pret) category currently accounts for approximately 30% of local fashion sales, while the remaining 70% is derived from unstitched fabric. However, a gradual shift in consumer preferences has been increasing the demand for ready-to-wear apparel. More consumers are transitioning towards ready-made clothing as a more practical and cost-effective alternative to traditional custom-tailored garments, particularly due to the growing participation of women in the workforce. The rise of Pret in the branded retail segment is also attributed to the competitive advantage it offers over the significantly larger unbranded retail sector.

Despite these positive developments, supported by the increasing adoption of e-commerce and a growing preference for fast fashion due to urbanization, convenience, and affordability, the heightened inflation in recent years has weakened consumers' purchasing power, limiting growth. This trend has also led to a shift from the formal and branded retail segment towards the informal retail sector, which remains heavily price-driven and appeals to the masses due to its affordability. According to Statista, the projected annual growth rate for the formal retail sector during 2025-2029 stands at -2.29%.

Financial Risk

Capital Structure

The Company's reliance on borrowings remained elevated largely due to a 73% YoY surge in short-term borrowings to meet enhanced working capital requirements primarily due to increased sales and working capital cycle. Although total equity increased by 22% during the year, driven by profit retention, gearing and leverage levels remained high at 1.55x and 2.89x, respectively (FY23: 1.50x and 2.94x), continuing to pose a constraint on the Company's financial profile. As of 1QFY25, the capitalization profile weakened slightly, with total debt further rising by 7% from FY24, bringing leverage up to 3.04x, while the gearing ratio remained stable at around 1.54x.

The debt service coverage ratio (DSCR) remained adequate, standing at 1.51x in FY24, however, in 1QFY25, DSCR fell significantly to 0.93x due to lower annualized FFO.

Profitability

In FY24, the Company reported a 50% increase in revenue, primarily attributed to higher prices along with a significant deepening of the company's customer base. The gross margin strengthened to 17.6% in FY24, compared to 16.2% in FY23 due to lower international yarn prices during the period. Despite the impact of elevated finance costs due to increased debt levels, the net margin remained stable at 4.6%, reflecting a slight improvement from 4.2% in FY23.

Over the past year, the Company has significantly expanded its customer base, demonstrating its commitment to reducing client concentration risk. However, this risk remains high, highlighting the need for ongoing diversification to enhance revenue stability. Management acknowledges the challenges of this effort, given the saturation of the local retail market. Additionally, a notable 18% price gap between the organized and unorganized sectors—driven by the impact of sales tax—has fueled higher growth in the unbranded segment.

Aligned with its largely export-driven strategy, the Company is actively enhancing its denim sales, with a primary focus on Bangladesh and Vietnam. To further strengthen its presence in the denim export market, it has also established a dedicated team to drive growth and expand opportunities.

Liquidity and Debt Coverage

The liquidity position of the Company improved during FY24, driven by a notable increase of 47% YoY in Funds from Operations (FFO). This improvement was primarily supported by the significant increase in sales and improved margins. As a result, the FFO-to-long-term debt ratio improved to 0.45x (FY23: 0.28x), while the FFO-to-total debt ratio remained steady at 0.19x. The current ratio slightly improved to 1.01x, up from 0.97x in FY23. However, despite these improvements in liquidity indicators, the cash conversion cycle deteriorated, increasing to 105 days from 72 days in FY23, primarily due to a reduction in payable days.

The cash conversion cycle of Union Apparel remains slow and is significantly impacted by the seasonality of apparel sales. The manufacturing process typically spans across 4 to 5 months, from yarn procurement to the delivery of finished goods. Production is structured around four seasonal cycles—spring, summer, autumn, and winter—with summer being the customers' most active buying period. The months of July to September are typically the slowest, as summer sales conclude and production for the winter season begins, leading to higher inventory levels during this period. A significant portion of payables are owed to the Company's parent entity, Union Fabrics, which provides printing and processing services. The typical aging of payables related to Union Fabrics extends up to 180 days. Conversely, credit terms with clients exceed 120 days due to slow recovery cycles in the retail market. Only clients operating on LCs, ensure timely payments.

As of end-1QFY25, the current ratio recorded a further increase to 1.04x, while annualized FFO declined by 67% leading to a decrease in FFO-to-long-term and total debt ratios to 0.15x and 0.06x, respectively. Net working capital improved substantially due to higher inventory, conversely weakening the cash conversion cycle to 115 days, with rise in inventory outstanding days, which increased to 231 days in 1QFY25 from 186 days in FY24.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Union Apparel (Private) 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				
20/03/2025	A-	A2	Rating Watch - Developing	Maintained
04/03/2024	A-	A2	Stable	Reaffirmed
18/01/2023	A-	A2	Stable	Reaffirmed
7/12/2021	A-	A2	Stable	Reaffirmed
6/1/2021	A-	A2	Stable	Upgrade
24/4/2020	BBB	A2	Rating Watch-Negative	Maintained
17/12/2019	BBB	A2	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.
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Due Diligence Meetings

Name	Designation	Date
Mr. Tufail Kasbati	Director - Finance	19-Feb-2025
Mr. Saim Sher	Manager Treasury	
Mr. Muhammad Fahim	Deputy Manager – Treasury	