RATING REPORT

Tauseef Enterprises (Pvt) Ltd.

REPORT DATE:

September 18, 2024

RATING ANALYSTS:

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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity	A-	A-2
Rating Outlook / Watch	Stable	
Rating Action	Initial	
Rating Date	*September 18, 2024*	

COMPANY INFORMATION	
Incorporated in 1986	**External auditors:** Yaqub & Co., Chartered Accountants
Private Limited Company	**Chairman:** Mr. Salamat Ali
Key Shareholders:	**CEO/Director Finance:** Mr. Tauseef Anjum
Ms. Arooj Fatima – 15% *Mr. Tauseef Anjum – 20%* *Mr. Raheel Anjum – 20%* *Mr. Muhammad Raza Anjum – 20%* *Ms. Kausar Tasneem – 15%* *Mr. Salamat Ali – 10%*	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: 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

Tauseef Enterprises (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Tauseef Enterprises (Pvt. Ltd. (TEPL) was established in Pakistan in 2006. The principal business of the Company is manufacturing and exports of textile products and supply and maintenance of clean drinking water plants. The registered office of the Company is situated at 18 – Bilal Road, Civil Lines, Faisalabad.

Profile of Chairman

Mr. Salamat Ali has served as Chairman of Pakistan Hosiery & Manufacturing Association of Faisalabad in 2021, apart from serving as Executive Member of all leading business associations of Pakistan. He has contributed significantly in Real Estate Development in Faisalabad by completing prominent commercial and residential projects through private equity.

RATING RATIONALE

Group Introduction: The company is part of the Tauseef Group of Companies based in Faisalabad. Tauseef Enterprises, founded in 2006 by Mr. Salamat Ali, has established itself as a manufacturer and exporter of stitched garments and knitted socks for markets including the UK, USA, Canada, Europe, and the Middle East. The product portfolio includes jogging trousers and suits, roll neck shirts, ladies' undergarments, tops, vests, sweatshirts, polo shirts, T-shirts, hooded shirts, lycra leggings, capri shorts, and pajama suits.

The Group has diversified its business operations over the years, encompassing textile manufacturing and exports through Tauseef Enterprises (Pvt.) Ltd., trading, import and export activities, real estate development under Tauseef Enterprises (Sole Proprietor), and hotel and tourism operations through Grand Regent Hotel & Suits (Pvt) Ltd.

Board Structure

The Company functions as a traditional family-owned enterprise, with its governance structure centered around the family members. The Board consists of four members: Mr. Salamat Ali, who serves as the Chairman, and his three sons, who hold key positions as directors overseeing the Finance, Production, and Marketing operations. The Board has no independent representation

Production Capacity and Utilization

TEPL's fully integrated manufacturing facility comprises four key divisions: knitting, stitching, dyeing, and socks. The knitting division utilizes circular and flat knitting machines with annual installed capacity of 5,840 MT, operating at 78% capacity during the last two years. In FY23, the stitching division, equipped with stitching, overlock, flat lock, and needle machines, achieved 94% capacity utilization yielding production of 12m pieces (FY22: 11.9m pieces). The dyeing division, equipped with machines such as compactors, boilers, hydro-dyeing machines, dryers, and specialized machinery including LET, stenter, slitting, sequiser, heat set, automatic fusing, and raising machines, have installed capacity of 1,500 MT per year operated at 60% capacity during FY22 and FY23. The socks division, featuring Lonati and Singcom Como machines, produced 5.1m dozen pairs at 89% capacity utilization in FY23 (FY22: 90%). While socks production is conducted in-house, outsourced knitting is also utilized to meet excess demand.

Process	*Production*		*Installed Capacity*	
	FY22	*FY23*	*FY22*	*FY23*
Knitting (kg per annum)	4,562,500	4,562,500	5,840,000	5,840,000
Utilization (%)	78%	78%		
Dyeing (kg per annum)	900500	900000	1,500,000	1,500,000
Utilization (%)	60%	60%		
Stitching (pcs per annum)	11,862,500	12,045,000	12,775,000	12,775,000
Utilization (%)	93%	94%		
Socks Division (dozen per annum)	4,573,450	4,562,500	5,110,000	5,110,000
Utilization (%)	90%	89%		

As the Company is approaching optimal capacity utilization, management is evaluating medium to long-term plans to expand capacities using internal resources. However, the management does not expect major capital expenditures across the rating horizon.

TEPL's energy requirements consist of total electricity power requirement of 4.05 MW and 85 MMBTU of natural gas per month. The garments division requires 1.05 MW, sourced from WAPDA (0.7 MW) and an in-house solar power plant (0.35 MW). Natural gas consumption for the garments division stands at 25 MMBTU per month, supplied by SNGPL. The socks division utilizes 1.7 MW of electricity from WAPDA, while the dyeing division consumes 1.3 MW of electricity from WAPDA and 60 MMBTU of natural gas per month from SNGPL, along with approximately 1,300 MT of coal per month.

Key Rating Drivers

Business risk profile constrained by cyclicality, and high competition in the sector

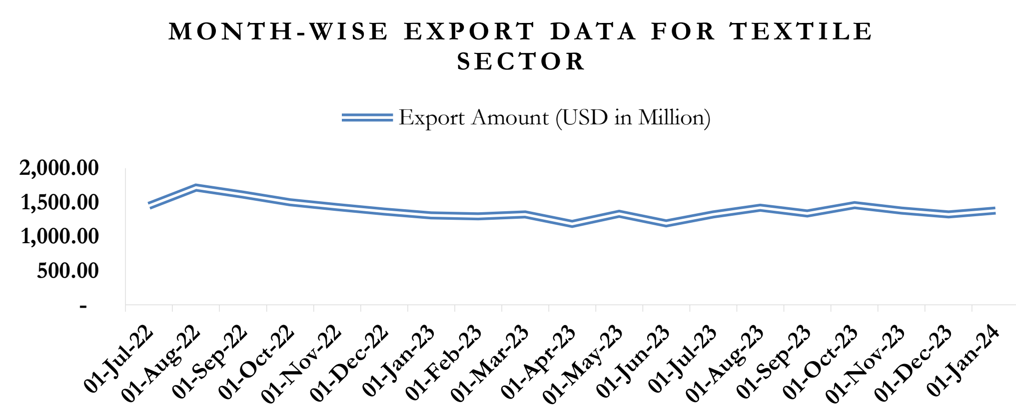
The business risk profile of the textile sector in Pakistan is characterized by a high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations 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. However, there is optimism as an anticipated bigger cotton crop in FY24 is expected to alleviate some pressure on input costs and margins.

Figure 1: MoM Textile Exports (In USD' Millions)



Source: SBP

Topline of the Company has depicted sound growth over the last three financial years, though margins declined as utility costs increased

Net revenue increased by an average of 32.5% by end-FY23, primarily due to higher local currency rates, with 99% of revenue generated from export sales. Despite a slight rise in volumetric sales, topline contracted marginally by 1.6% in 9MFY24, influenced by lower exchange rates gains compared to the previous year. Gross margins in 9MFY24 were affected by high cost of imported raw materials, which account for 35% of the production cost, resulting in shrinkage of gross margins to 17.9% (FY23: 18.4%, FY22: 19.9%) in FY23.

Operating performance in 9MFY24 was further impacted by reduction in income from financial assets, due to realized foreign exchange loss, leading to decrease in operating and net margins to 6.4% (FY23: 8.9%; FY22: 11.8%) and 3.0% (FY23: 5.6%; FY22: 9.4%), respectively.

High client concentration risk, mitigated by long-standing relationship.

Revenue concentration remains high, with only the top one customer accounting for 50% of sales, while 16 clients constitute 100% of the exports. The same is mitigated by the long-standing relationship with this client, Uneek Clothing Co. Ltd. from the UK, since 1988. Other client relationships were developed between 2012 and 2018, with geographical concentration mainly in the UK (53%), USA (18%) and Canada (9%), with smaller concentrations in the Netherlands, Norway, Denmark and Portugal.

Conservative capitalization profile.

The Company has historically maintained a conservative capitalization profile with average gearing and leverage ratios of 0.66x and 0.96x, respectively between FY20-23. In 9MFY24, the capitalization remained conservative with gearing and leverage ratios of 0.44x (FY23: 0.51x, FY22: 0.64x) and 1.01x (FY23: 1.00x, FY22: 1.13x), respectively. This reflects accretion of the equity base with profit retention and timely debt retirement. The management maintains an overall conservative stance on debt financing, preferring to finance working capital and capex requirement through internal cash generation.

Sound liquidity profile with healthy coverages

The Company's liquidity profile remained stable, with an average current ratio of 1.36x during FY20-23. The current ratio stood at 1.36x in 9MFY24 (FY23: 1.37x, FY22: 1.24x). In line with sector norms, a significant portion of liquidity is held in stock-in-trade. The cash conversion cycle averaged around 55 days during FY20-23, slightly increasing to 69 days in 9MFY24 (FY23: 52 days, FY22: 51 days) due to higher inventory levels, which extended inventory days.

During 9MFY24, funds from operations (FFO) amounted to 0.47b (FY23: 0.93b; FY22: 1.35b), resulting in an annualized FFO to total debt ratio of 0.32x (FY23: 0.44x; FY22: 0.61x). The debt service coverage ratio declined to 2.09x (FY23: 2.66x; FY22: 5.20x) due to lower FFO, albeit remaining at healthy levels. Short-term debt coverage also remained healthy at 2.47x (FY23: 1.93x, FY22: 1.37x) in 9MFY24.

Ample room for improvement in corporate governance and internal controls framework

The Company's overall governance and internal control framework presents room for improvement. The Board is predominantly composed of shareholders from the same family, lacking independent representation. The dual role of CEO and Director of Finance, currently held by the same individual, centralizes key management responsibilities. The Company's use of ERP as a cloud-based internal business management framework supports various functions, including accounting, financial management, procurement, manufacturing, and HRM. While the external auditor, Yaqub & Co., Chartered Accountants, is listed on the QCR list, they are not on the SBP-approved list of auditors, impacting the external reporting framework.

Tauseef Enterprises (Pvt.) Limited Annexure I

Financial Summary					
Balance Sheet (PKR Millions)	**FY21A**	**FY22A**	**FY23A**	**9MFY24M**	**FY24***
Property, plant and equipment	3,111	3,849	3,852	3,811	3,811
Stock-in-trade	696	1,889	2,931	3,889	3,889
Trade debts	544	501	525	473	473
Cash & Bank Balances	683	229	224	24	24
Other Assets	739	1,692	1,500	1,441	1,441
Total Assets	5,772	8,160	9,032	9,638	9,638
Creditors	246	802	1,442	1,597	1,597
Long-term Debt (incl. current portion)	598	575	498	348	348
Short-Term Borrowings	1,338	1,637	1,643	1,634	1,634
Total Debt	1,936	2,212	2,141	1,982	1,982
Other Liabilities	193	917	591	952	952
Total Liabilities	2,375	3,931	4,174	4,531	4,531
Paid up Capital	200	200	200	200	200
Equity (excl. Revaluation Surplus)	2,567	3,482	4,185	4,505	4,505
Income Statement (PKR Millions)	**FY21A**	**FY22A**	**FY23A**	**9MFY24M**	**FY24***
Net Sales	6,472	8,817	11,356	8,384	11,179
Gross Profit	1,504	1,754	2,093	1,504	2,005
Operating Profit	771	1,038	1,012	541	721
Finance Costs	74	105	236	194	259
Profit Before Tax	697	932	776	346	462
Profit After Tax	631	827	631	252	336
Ratio Analysis	**FY21A**	**FY22A**	**FY23A**	**9MFY24M**	**FY24***
Gross Margin (%)	23.2	19.9	18.4	17.9	17.9
Operating Margin (%)	11.9	11.8	8.9	6.4	6.4
Net Margin (%)	9.7	9.4	5.6	3.0	3.0
Funds from Operation (FFO) (PKR Millions)	787	1,353	931	468	624
FFO to Total Debt* (%)	40.6	61.2	43.5	31.5	31.5
FFO to Long Term Debt* (%)	131.5	235.5	186.9	179.3	179.3
Gearing (x)	0.75	0.64	0.51	0.44	0.44
Leverage (x)	0.93	1.13	1.00	1.01	1.01
Debt Servicing Coverage Ratio* (x)	4.32	5.20	2.66	2.09	2.09
Current Ratio (x)	1.42	1.24	1.37	1.36	1.36
(Stock in trade + trade debts) / STD (x)	0.88	1.37	1.93	2.47	2.47
Return on Average Assets* (%)	13.6	11.9	7.3	3.6	7.0
Return on Average Equity* (%)	28.0	27.3	16.5	7.7	14.9
Cash Conversion Cycle (days)	49	51	52	69	40
**Annualized, if required*					
A - Actual Accounts					
P - Projected Accounts					
M - Management Accounts					

REGULATORY DISCLOSURES — Annexure II

Name of Rated Entity	Tauseef Enterprises (Pvt.) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
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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Rating History

Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
18-Sep-24	**A-**	**A-2**	**Stable**	**Initial**

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Haider Zulfiqar	Head of Banking	August 20, 2024
Mr. Khalid Javed	CFO	