RATING REPORT

Ebrahim Textile Mills (Private) Limited

REPORT DATE:
December 23, 2021

RATING ANALYST:

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RATING DETAILS		
Rating	**Initial Rating**	
Category	**Long-term**	**Short-term**
Entity	BBB	A-2
Rating Outlook	Stable	
Rating Date	December 23, 2021	
Rating Action	Initial	

COMPANY INFORMATION	
Incorporated in 2010	**External auditors:** Kreston Hyder Bhimji & Co.
Private Company	CEO: Mr. Rafiq Ebrahim
Key Shareholders (with stake 5% or more):	
Directors – 49.6%	
Other family members – 51.4%	

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

Ebrahim Textile Mills (Private) Limited

OVERVIEW OF THE INSTITUTION

Ebrahim Textile Mills (Private) Limited was incorporated as a private Company in 2010. The shares of the Company are owned by the directors and their family members. Financial Statements of the company for FY21 were audited by Kreston Hyder Bhimji & Co.

Profile of the CEO

Mr. Rafiq Ebrahim has been recently appointed as CEO in Orient Textile and Ebrahim Textile after the sad demise of his elder brother Late Iqbal Ebrahim. Mr. Rafiq has vast experience of over 44 years in dealings with overall operations of the textile process, and marketing of textile products both in local markets and international markets. Due to his extra ordinary understanding of composite textile business operations he earned his name in the world of textile internationally also. Previously, he was working as Senior Director Operations & Marketing for domestic but now supervising the entire operations of Group's Textile businesses.

RATING RATIONALE

Ebrahim Textile Mills Limited (ETML) is one of the two textile companies owned by Ebrahim Group of Companies, which was incorporated in 2010 and is headquartered in Karachi. The group owns business interest in Textile (Orient Textile Mills), Dairy Products (IGLOO) and Beverage Industry (Imran Crow Corks).

Group Snapshot
Orient Textile Mills (Weaving)
Ebrahim Textile Mills (Textile processing)
Imran Crown Corks (Crown & Plastic Closures)
Pakistan Dairy Products (Dairy Products)

The company mainly focuses on processing and printing of greige cloth used in home textile products, such as sofa cloths, curtains, bedsheets, and comforters. Major processing is performed for the related concern, Orient Textile Mills. The power requirement of the company is met via internal generation (gas based generators), given very limited sanctioned load from KE is available.

Product Portfolio
Textile processing
Printed fabric

The entity has two distinct business units. One focuses on providing all sorts of processing services to big local clients including Gul Ahmed, Khaadi, Cambridge Garments Junaid Jamshed, Sana Safinaz, Eden Apparel, etc. The other unit is concerned with the sale of printed fabric which encompasses sale of lawn under the brand name "Orient" via retail channels (website and stores) and distributors. Around 56% of the revenue base emanated from the processing division while the remaining is contributed by the printed fabric division during FY21. The company has opened outlets in the Northern region of the country increasing nationwide outreach from 14 outlets year to 21 outlets at-end-FY21.

Capacity Utilization

	FY19	FY20	FY21
Installed capacity for fabric processing (meters in millions)	2.7	2.7	2.7
Actual utilization (meters in millions)	1.6	1.7	2.2
Capacity Utilization (%)	**59.25%%**	**62.96%**	**81.48%**

At end-FY21, the average installed processing capacity of the entity was 2.7m meters per month, with a utilization level of around 81.5% increasing from 63% in the preceding year.

In view of increasing demand from local players, the company is pursuing a BMR project to replace some old machines and install additional ones which is expected to increase capacity from 2.7m meters/month to 4m meters/month. Total cost of the project has been estimated at around Rs. 550m which is planned to be financed through TERF facility. At end-FY21, around Rs. 200m has been availed. Remaining is expected to be availed in the ongoing year. Management expects that all machines will become operational by Jan'2022.

Key Rating Drivers

Recovery in industry wide exports post ease in COVID-19 lockdown measures support business risk profile of the company.

- Subsequent to posting export contraction in FY20 - owing to the pandemic-induced slowdown experienced in H2'FY20 – Pakistan's export base grew by 14% in FY21, which is partly attributable to a low base effect. Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21). So the uptick is largely aligned with historical numbers and is not considered material.
- Share of textile exports in total exports has oscillated in the range of 54-59%, coming in at 57% during the past 2-years (FY20-21). In FY21, owing to the similar low-base effect, as discussed above, textile exports were up 13%.
- In USD' terms textile exports have grown at a CAGR of 4.4% during the past 3-year period (FY19-FY21), despite depreciation in average USD/PKR parity of 24%, 16%, and 1% in FY19, FY20 and FY21 respectively.
- As illustrated in the table above, textile exports in Q1'FY22 were 37% higher than SPLY. Inclusive of textile exports for Oct'2021, the number for 4M'FY22 textile exports came in at USD 6b. With additional capacities coming online in January 2022, textile exports for FY22 are likely to exceed the annualized figure of USD 18b.
- As illustrated in the table below, the composition of textile exports has depicted improvement in the last 4-yar period, with contribution from higher value added segment increasing from 72.9% in FY18 to 80.7% in FY21 of aggregate textile exports.
- Cotton production in Pakistan, on the other hand, was at its lowest level in decades for FY21. Cotton prices rose to a new 11-year high of ~Rs. 13,000/maund as a result of the production shortage, and cotton imports have climbed by 59.8% in quantity and 68.1% in USD terms, for FY21 vis-à-vis preceding year.
- Given favorable weather conditions, cotton production in Pakistan posted strong growth in FY22, with cotton crop for Jul-Nov'22 (Rabi) season being 81% higher than SPLY. Nevertheless, the upward momentum in cotton pricing continued in FY22, with prices as of November 2022 hovering at ~Rs. 16,000 per mound.
- The margins of textile operators have broadly depicted improvement despite the uptick in raw material costs, given that the same was offset by exchange rate movement. Nevertheless, higher raw material pricing has increased the working capital requirements for textile

operators, which is likely to weigh on the liquidity of textile players. VIS expects the order book for the industry to remain adequate in the ongoing year along with transfer orders of neighboring countries, easing our business risk concerns

Topline of the company has grown at a CAGR of 6.5% over the past three years with a double digit growth in FY21 due to gradual recovery in macroeconomic situation of the economy. Going forward, sales are expected to escalate, as the BMR project is finalized and the company expands its retail network across the country.

Sales revenue of the company rose by 14% in FY21 and was reported at Rs. 2.7b (FY20: Rs. 2.4b, FY19: Rs.2.3b). Growth in topline was ensured by a recovery in retail sales and an increase in orders from businesses involved in export of textile products. In the recent past, the company's retail brand had presence in Sindh region only. Now the plan is to expand in Punjab and upper region, as it is the most populous regions of the country and offers a huge potential for lawn sales. In this regard, few stores have already been opened, with more outlets in the pipeline. Going forward, sales are expected to escalate, as the BMR project is finalized and the company expands its retail network across the country.

Overall profitability profile of the company in FY21 improved on account of an increase in gross margins. However, the company reported a net loss after tax because of higher financial charges.

Gross margin (GMs) of the company has depicted improvement and was reported at 16.1% during FY21 (FY20: 12.1%, FY19: 14.6%), as compared to a decline in FY20. The improvement in margins in FY21 was mainly attributable to better average selling prices and not incurring GIDC expenses post order of the Supreme Court. The same has helped to offset a substantial increase in raw material prices.

Finance charges for the period depicted an increase owing to expansion-led elevated debt levels at around Rs. 1.48b (FY20: Rs. 0.9b, FY19: Rs. 0.7b). Overall profitability profile was supported by one-off reversal of provision for expected credit losses, re-measurement of GIDC provision, and deferred Government grant recognized. Profit before tax was reported at Rs. 22m (FY20: Loss of Rs. 120m) during FY21. With higher tax expense due to deferred taxation, the company reported net loss of Rs. 26m (FY20: Loss of Rs. 155m) in FY21. Going forward, profitability profile is expected to improve in view of the capacity expansion in process. In addition to that, the company plans to eliminate distributors for sales of printed fabric, which will help to improve its margins. However, elevated debt levels will continue to be a drag on the profitability in the medium term.

Accounting for adjustment of depreciation and GIDC expenses, cash flow coverage of outstanding obligations improved in FY21, despite debt drawdown in the outgoing year. Maintenance of liquidity coverages is considered important from ratings perspective.

In absolute terms, Funds from Operations (FFO) increased to Rs. 328m (FY20: Rs. 109m) after adjusting for depreciation expense and reversal of deferred GIDC payment. As a result, Debt Service

Coverage Ratio (DSCR), FFO/Long-Term Debt, and FFO/ Total Debt were all reported higher at 3.46x (FY20: 1.53x, FY19: 2.84x), 25% (FY20: 16%, FY19: 57%), and 22% (FY20: 12%, FY19: 26%) at end-June'21, respectively. Furthermore, inventory and trade debts provide sufficient coverage for short-term debt obligations, and the current ratio has remained above 1.0x over the last four years. Additional debt to the tune of Rs. 350m is projected to be raised in the ongoing year to finance BMR expansion. Ratings are underpinned on maintenance and improvement of cash flow coverages against outstanding obligations going forward.

Elevated capitalization indicators to finance working capital requirements, BMR expansion and expansion in retail network. Given additional funds planned to be drawn for the expansion in the ongoing year, leverage indicators are expected to increase, however the assigned ratings incorporate the same to remain within manageable levels for the assigned ratings.

Equity base of the company has been decreasing on a timeline basis to Rs. 1.23b (FY20: Rs. 1.27b FY19: Rs. 1.4b) at end-FY21 on account of loss incurred during the last two years, despite increment noted in loan from related party. Quantum of total debt increased to Rs. 1.75b (FY20: Rs. 0.94b; FY19: Rs. 0.7b) at end-FY21 to finance working capital requirements, BMR expansion and expansion in retail network. Resultantly, gearing and leverage ratios were reported at 1.2x (FY20: 0.75x; FY19: 0.5x) and 2.23x (FY20: 1.59x; FY19: 1.11x), respectively at end-Jun'21. Given additional funds planned to be drawn for the expansion in the ongoing year, leverage indicators are expected to increase, however the assigned ratings incorporate the same to remain within manageable levels for the assigned ratings.

Corporate Governance Structure depicts room for improvement

Given status of a private company, room for improvement exists in the corporate governance structure. The Board is represented by four directors comprising family members. Each one of them is responsible for a specific function or business unit in the entity. As such, risk of succession is fairly mitigated.

The company plans to implement Oracle EBS entity wide, starting in Jan 2022 under agreement with A.F. Ferguson and Co.

Financial Summary (Rs. in m)				
Balance Sheet	**FY18**	**FY19**	**FY20**	**FY21**
PPE	1,430	1,589	1,591	1,794
Long Term Investments	-	-	-	-
Stock-in-Trade	327	561	609	894
Trade Debts	701	632	664	650
Cash and Bank Balances	17	15	32	19
Total Assets	2,667	2,974	3,283	3,978
Trade and other Payables	614	614	614	614
Long Term Debt	150	283	667	1,071
Short Term Debt	371	381	220	409
Total Debt	521	664	887	1,480
Paid Up Capital	405	405	405	405
Total Equity	1,359	1,410	1,265	1,233
Income Statement				
Revenue	2,236	2,323	2,374	2,703
Gross Profit	279	338	287	432
Profit Before Tax	99	66	(120)	22
Profit After Tax	54	45	(155)	(26)
Ratio Analysis				
Gross Margin	12.5%	14.6%	12.1%	16.0%
Net Margin	2.4%	1.9%	-6.5%	-1.0%
Net Working Capital	154	187	157	92
FFO	197	183	109	328
FFO To Total Debt (%)	38%	27%	12%	22%
FFO to Long Term Debt (%)	109%	57%	16%	25%
Debt Servicing Coverage Ratio (%)	5.39	2.84	1.53	3.46
Gearing (x)	0.38	0.47	0.70	1.20
Leverage (x)	0.93	1.11	1.59	2.23
Current Ratio (x)	1.15	1.16	1.12	1.06
STD Coverage (%)	277%	313%	579%	378%
ROAA (%)	2%	1%	-4%	-1%
ROAE (%)	4%	4%	-12%	-2%

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix II

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 cluding internal operating factors and /or acces sources of funds, is outstanding and safety is ju free Government of Pakistan's short-term oblig

A-1
High certainty of timely payment; Liquidity fact lent and supported by good fundamental prote Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity fac pany fundamentals are sound. Access to capital good. Risk factors are small.

A-3
Satisfactory liquidity and other protection facto ties / issues as to investment grade. Risk factors subject to more variation. Nevertheless, timely expected.

B
Speculative investment characteristics; Liquidity sufficient to ensure timely payment of obligatio

C
Capacity for timely payment of obligations is do

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 o banking facility obtained by the borrower from a f institution. The suffix (blr), abbreviated for 'bank l denotes that the rating is based on the credit qual and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, whe management has not requested a rating, howeve provide informational support. A 'p' rating is show subscript and is publicly disclosed. It is not modifi or a minus (-) sign which indicates relative standin category. Outlook is not assigned to these ratings. 'Policy for Private Ratings' for details. www.vis.co policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS be ratee has selectively defaulted on a specific issue it will continue to meet its payment obligations o obligations in a timely manner.

REGULATORY DISCLOSURES — Appendix III

Name of Rated Entity	Ebrahim Textile Mills Limited
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
Dec 23, 2021	BBB	A-2	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.
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. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.

Due Diligence Meetings Conducted

Name	Designation	Date
Saleem Aziz	CFO	2-Nov-21
Muhammad Jahangir	Senior Manager Finance & Taxation	2-Nov-21
Ali Shayan	AM Accounts & Finance	2-Nov-21
Zohaib Hassan	DM Accounts & Purchase	2-Nov-21