RATING REPORT

Noor Fatima Fabrics (Pvt.) Limited

REPORT DATE:
January 04, 2022

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	BBB+	A-2
Rating Outlook	Stable	
Rating Action	Initial	
Rating Date	*Dec 31, 2021*	

COMPANY INFORMATION	
Incorporated in 1994	**External auditors:** Kreston Hyder Bhimji & Co. Chartered Accountants
Private Limited Company	**Chairman/CEO:** Mr. Muhammad Saleem
Key Shareholders (with stake 5% or more):	
Mr. Muhammad Saleem & Family – 100%	

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

Noor Fatima Fabrics (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Noor Fatima Fabrics (Pvt.) Limited was incorporated in September 1994 as a private limited company. The company is involved in fabric processing with focus on bleaching, dyeing, printing, and stitching. Head office of the company is in Faisalabad whereas manufacturing facilities are located at Ramzanabad, Jhumra Road and 4.5km Jaranwala Road, Khurrianwala, Faisalabad.

Profile of Chairman/CEO

Mr. Muhammad Saleem is the founder and largest shareholder of the company. He also serves as the Chairman of the board of directors and CEO. He has over 52 years of textile industry experience with focus on strategic planning, production planning and controlling and marketing.

RATING RATIONALE

Noor Fatima Fabrics (Pvt.) Limited (NFFL) is an exported-oriented textile unit incorporated in September 1994 as a private limited company under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). The company commenced commercial trade operations in 1997, with initial years focused on export of bleached, dyed, and printed fabric. Fabric processing services were initially availed from sister concern, namely Noor Fatima Textile Processing Industries (Pvt.) Limited which was incorporated in December 1991 and is involved in dyeing, bleaching, and printing of woven cloth for export-oriented textile units.

In order to venture into value-added textile market, NFFL completed the establishment of stitching unit comprising 200 machines in 2002 and quilting & wadding unit capable of producing 2,500 bed-in-a-bag sets per day in 2003. In a bid to reduce dependance on sister concern and increase scale of operations, the company started establishment of processing unit, comprising continuous bleaching, thermosole dyeing, and printing facilities. The processing unit was imported from Italy and Germany and started commercial operations in July 2005. The company also set up a weaving unit encompassing 192 auto looms and another 308 looms were added along with the wrapping and sizing unit and coal steam boiler and furnace oil generators in 2013. Fabric processing unit was enhanced with the addition of digital printing machine in 2016 and coating machine in 2017 in order to meeting requirements of existing customers and attract new customers. During 2019, the company replaced bleaching plant by importing beninger bleaching range under the balancing, modernization, and replacement (BMR) scheme from Italy, which led by 25% increase in bleaching capacity.

Shareholding of the company is distributed amongst six family members. Mr. Muhammad Saleem is the founder and largest shareholder with 43% stake in the company. He has over 52 years of textile industry experience and serves as the Chairman of the board and CEO of the company. The board of directors comprises six members, all being the sponsor directors.

Key Rating Drivers

Production capacities

The company is mainly involved in fabric processing and made ups. The business activities include pre-treatment & bleaching, dyeing, printing, cutting & stitching, wadding & quilting, and finishing lines. Product range in the made ups segment mainly comprises bed linen, curtains, quilts, and kitchen accessories. The company had overall fabric processing capacity of 43.99m meters per annum during FY21. Capacity utilization remained largely stable at 80% fabric during FY21. The in-house weaving unit of 500 auto looms, which fulfilled 20% of the company's fabric requirements, was disposed-off during the previous year due to cost-benefit trade-off. Grey fabric is the key raw material, which is procured from the local market, and in accordance with the customer requirements, company also procures specific quality yarn from market which is than weaved from third-party weaving units for further processing. Going forward, the management plans to establish a hosiery processing unit having 2 tons per day capacity during FY22.

Sales and Profitability

Net sales of the company increased steadily to Rs. 4.8b (FY20: Rs. 4.4b; FY19: Rs. 4.0b) during FY21, mainly on account of uptick in both export and local sales. Slight increase in exports was mainly led by favorable selling price, partially offset by lower volumes. Made-ups exports increased owing to higher average selling price as volumetric sales remained stable during FY21. Fabric exports were recorded higher as the impact of decline in volumetric sales was more than offset by higher average selling price during the year. Exports continued to be the largest sales driver, though its share in overall mix has gradually decreased to 73% (FY20: 77%; FY19: 85%) on account of increase in local sales. Local sales mainly comprising fabric processing services to exporters increased, as the impact of stable volumes was offset by increase in average selling price.

Cost of sales increased at a slightly higher pace to Rs. 4.1b (FY20: Rs. 3.6b; FY19: Rs. 3.3b) during FY21, owing to higher raw materials cost as a result of increase average procurement price of yarn, fabric and dyes & chemicals, and higher conversion and processing charges due to increased weaving and hosiery services from external sources. Gross profit remained largely stagnant as the impact of increase in sales was offset by contraction of gross margins to 14.9% (FY20: 16.4%; FY19: 17.6%) on a timeline basis as the company is struggling to pass the full impact of inputs inflation onto customers. Distribution cost was recorded higher mainly on account of increase in freight charges as the impact of decrease in exports volumes was more than offset by sizeable increase in international freight charges due to capacity shortage. Meanwhile, the company curtailed administrative expenses mainly by reducing traveling expenses during FY21.

Other expenses mainly represented workers' welfare and profit participation funds, while other income was recorded higher due to gain on disposal of weaving unit. Despite some increase in debt levels, finance cost decreased due to lower interest rates. Going forward, the burden of finance cost is expected to increase due to recent interest rate hikes. Resultantly, the company reported slightly lower net profit due to further contraction of net margins to 1.1% (FY20: 1.5%; FY19: 2.9%) during FY21.

Liquidity

The company's liquidity position is considered adequate and is supported by internal cash flows generation. In line with the lower profits, the company generated funds from operations (FFO) of Rs. 241m (FY20: Rs. 307m; FY19: Rs. 279m) during FY21. The company's capacity to meet its financial obligations is considered adequate as reflected in the debt service coverage ratio (DSCR) of 2.15x (FY20: 2.45x; FY19: 2.61x) which remained at satisfactory levels though declining trend needs to be arrested. FFO-to-long-term debt ratio, while declining on a timeline basis to 1.84x (FY20: 3.74x; FY19: 4.46x) is adequate; however, FFO-to-total debt ratio stood on the lower side at 0.10x (FY20: 0.13x; FY19: 0.12x) due to sizeable short-term borrowings for working capital requirements. Inventory-plus-receivables to short-term borrowings ratio has remained largely stable over the review period and stood at 1.45x (FY20: 1.48x; FY19: 1.46x) at end-FY21 as the company also utilizes supplier credit to manage its working capital cycle. Current ratio also remained stable at adequate levels of 1.25x (FY20: 1.27x; FY19: 1.21x). Net working capital cycle of the company has gradually improved to 187 days (FY20: 206 days; FY19: 220), however, the same continues to remain extended due to stretched inventory days.

Capitalization

Paid up capital of the company remained unchanged at Rs. 150m at end-FY21. Tier-I equity augmented with the retention of profits during the year. In line with the uptick in working capital needs, the company's increased utilization of short-term borrowings by end-FY21. Total long-term debt also increased due to mobilization of the SBP's salary loan facility, partially offset by some decline in lease finance by end-FY21. With internal capital generation offsetting the impact of higher debt utilization, gearing and debt leverage ratios remained unchanged at 1.15x (FY20: 1.15x; FY19: 1.24x) and 1.74x (FY20: 1.74x; FY19: 1.83x), respectively, at end-FY21. Given no loan mobilization in the pipeline, gearing and leverage ratios are projected to improve to 1.08x and 1.56x, respectively, by end-FY22 on account of profits retention.

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure I

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	Annexure II
Name of Rated Entity	Noor Fatima Fabrics (Pvt.) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity & Instrument Ratings
Rating History	see table below
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	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
31.12.2021	BBB+	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Muhammad Hafeez	CFO	December 17, 2021