



## Gatron (Industries) Limited (GIL)

### Ratings (May 2002)

#### Gatron (Industries) Limited

	New	Previous
Secured TFC Rs. 274 mln.	A+	A+

### Financial Data

PKR (mln)	30/6/2001	30/6/2000
Total Assets	3,534.7	3,759.8
Revenues	4,924.9	3,735.1
Net Income	349.9	94.0
EBITDA	833.1	593.2
ROE %	21.1	6.1
Net Debt/ Equity %	53.1	62.8
EBITDA/ Interest (x)	5.0	2.6

### Analysts

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### Rating Rationale

#### Assessment

- GIL has been able to sustain its market leadership through established reputation for quality, diversified product range and the stewardship of a professional management team. Strong cash flows, conservative capital structure and strong sponsor support are GIL's added strengths. The potential risk factors are the cyclical nature of its products – with inputs and outputs exposed to international price fluctuations – and future government policy regarding level of tariff protection for the industry. These strengths and concerns are reflected in our rating.
- GIL's income stream and profitability continue to be a function of the changes in the demand supply scenario of its products, and the volatility in prices of its main raw materials. The decline in gross margin during FY1999 and FY2000 has largely been reversed in FY2001, attributable not only to improved demand and selling prices, but also due to relative stability in prices of its raw materials. Maintaining a firm grip on operating expenses and reduction in financial charges owing to renegotiation of short term loans and repayment of long term obligations lent further stability to the bottomline and consequently, the RoE rose substantially.
- During the current year, the performance of PFY segment has been satisfactory so far. However, pressure on margins could emerge due to the downturn of the polyester filament market. Going forward, PFY industry is expected to remain under pressure because of tremendous increase in capacity in the region, resulting in possible weakening of GIL's margins. Signs of such a trend are visible in terms of reduced profitability for GIL in the PET Resin segment in FY2002. Going forward, even if such a trend continues – which is unlikely – GIL's cashflows would remain insulated from any significant adverse impact.
- GIL's investment in group companies is emerging as a stable source of revenue and this source is likely to be sustained.
- GIL has historically maintained a conservative capital structure, and no material increase in gearing is expected from the current modest level, as no major capital expenditure is planned. The coverages remain strong while the liquidity position of the company has generally remained satisfactory.
- GIL issued Rs 274.3 mln worth of 5-year TFCs in June 1998 at 18%, for partial financing of the PET Resin project and incremental upgradation in PFY manufacturing facilities. It has continued to meet interest payment obligations on a timely basis, and has also paid the first of the four principal instalments on due date, in December 2001. The issue is secured by a charge on the company's immovable assets, which as at FYE00, stood at 4.9x the relevant outstanding debt. The capacity to meet redemption obligations – including the one due in June 2002 – is considered strong, given the company's sizable internal cash generation supported by significant back up liquidity in the form of unutilised credit lines.

#### Support

- Sponsor support is perceived as strong, and was amply demonstrated in the recent past, when they extended substantial, concessionary financial support to a Group company.

#### Background

- Gatron (Industries) Limited (GIL) is the largest domestic producer of polyester filament yarn (PFY), as well as the only manufacturer of PETResins. Production commenced at its facility in the Hub Industrial Area in 1984. Following a program of continuous reinvestment, its original rated capacity of 2,100 tons per annum (tpa) has gradually expanded to 23,225 tpa. In 1988, a poly condensation plant for the manufacture of textile-grade polyester chips was installed making GIL the only composite PFY producer in the country. A decade later, this plant was converted – at a relatively low cost – to produce PET Resins. The PET Resin venture has rapidly substituted imports in the local market, and its surplus capacity is being fully utilized in generating export sales.
- GIL's sponsors have been active in the textile sector for several decades, and Group concerns produce woven and knitted cloth and fashion garments. The sponsors continue to control the majority shareholding in GIL, with the balance held by financial institutions and individuals.
- While effectively family-managed, the company is run in an efficient, professional manner. Efforts to keep the company abreast with the changing dynamics of the industry have kept the company competitive and allowed it to firmly establish a 30% PFY market share.