



The Pakistan Credit Rating Agency Limited

## Rating Report

### Gul Ahmed Textile Mills Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Sep-2018	A	A1	Stable	Maintain	-
05-Mar-2018	A	A1	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect Gul Ahmed Textile Mills Limited's (Gul Ahmed) established business profile with strong presence in the broader textile value-chain; enabling the company to manage volatility in textile business. Presence in retail with renowned brand "Ideas" in local market adds up to stronger business risk. The entity has achieved a sizable revenue base, while focus on value added products brings higher gross margins. This emanates from export market orientation, targeting established niche of quality-conscious institutional buyers. Nevertheless, this has led to customer concentration, longevity of relationship with big-name clients in addition to sustained quality would help manage the risk. Government's export textile package and recent devaluation of rupee has boosted exports, improving the overall performance of the textile sector. The devaluation is expected to benefit revenues in the future as well. However, net margins are currently squeezed on the back of hefty branding activities and cut throat competition in local market. Gul Ahmed's financial risk profile is relatively strained amidst rising interest rates; characterized by higher long-term debt. However, it is supported by improving cash flows, and, in turn, adequate debt-servicing ability. Working capital cycle is stretched on the back of higher inventory needs. Company revamped its production operations recently, replacing spinning and weaving facilities with latest technology. Moreover, retail strategy in local market has been invariably updated to cater changing demands amidst rising competition. These initiatives are expected to result in easing net margins, and, hence, improved cash flows.

The ratings are dependent on the company's ability to sustain its business profile. At the same time, prudent management of its working capital needs and meeting financial obligations will remain important. Improving revenue stream while its margins will provide breather to coverages.

#### Disclosure

<b>Name of Rated Entity</b>	Gul Ahmed Textile Mills Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-18),Methodology   Criteria   Rating Modifier(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
<b>Related Research</b>	Sector Study   Textile(Oct-17)
<b>Rating Analysts</b>	Muhammad Hassan   muhammad.hassan@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Gul Ahmed Textile Mills Limited (GATML) was incorporated as a Public Limited Company in 1955 and is listed on the Pakistan Stock Exchange.

**Background** Established in 1953 as a Private Limited Company, the company subsequently converted to Public status. The company also has its own captive power generation. Its retail brand "Ideas by Gul Ahmed" was launched in 2003.

**Operations** GATML is a composite textile mill and is engaged in the manufacture and sale of textile products with its production facilities spread at various locations in Karachi.

## Ownership

**Ownership Structure** The majority (~70%) of GATML is indirectly held by Gul Ahmed Group through two corporates: Gul Ahmed Holdings (67%) and Swisstex Chemicals (3%) while the remaining stake is held by individuals and institutions.

**Stability** Gul Ahmed Holdings was formed by Gul Ahmed Group for the purposes of succession planning and investment in its subsidiaries, the single largest of which is GATML.

**Business Acumen** In addition to textile, the Bashir family has interests in chemicals and IT. The sponsors of the company carry significant industrial experience and are actively involved in their respective roles.

**Financial Strength** Gul Ahmed Group has a strong financial presence with diversified interests as well as a sizeable investment portfolio of real estate spanning over 52 acres of land at a prominent location in Karachi. The sponsors have also demonstrated willingness and ability to support GATML in the past by injecting cash in the form of rights issue in the years of expansion: 2016 and 2017.

## Governance

**Board Structure** The BoD of the company consists of seven members comprising four directors from the sponsoring family while the remaining three are independent non-executive directors.

**Members' Profile** The Board members have extensive industrial and professional experience and have been associated with the company for a reasonably long period of time.

**Board Effectiveness** Two committees: Audit and Human Resource & Remuneration, are in place to assist the board in relevant matters and ensure proper oversight. Attendance of board members in meetings remains strong and meeting minutes are properly documented.

**Financial Transparency** External auditor of the company, M/S Kreston Hyder Bhimji & Co. gave an unqualified opinion on the company's financial statements for the periods ended June 2017 and December 2017.

## Management

**Organizational Structure** GATML has a lean organizational structure with eleven departments headed by Chief Operating Officers and Directors.

**Management Team** The management team is headed by the CEO Mr. Zaki Bashir who holds a graduate degree from Regent's Business School, UK, in International Business. The team has significant experience and has been associated with the company for a long time.

**Effectiveness** While there is no formal management committee, weekly management meetings are held with departmental heads, whereas all management teams meet on weekly basis where performance of every department is discussed at length. Informal management committees are formed time to time for management of overall affairs as well as any new expansion related projects.

**MIS** An advanced technology platform with Oracle EBS 12.1 and Microsoft Dynamics has been installed for comprehensive MIS reporting.

**Control Environment** GATML has outsourced its internal audit function to M/s Grant Thornton Anjum Rahman Chartered Accountants. The company is accredited with International certifications for compliance. GATML has valid certificates for its products and facilities and is periodically audited by internationally recognized certification bodies.

## Business Risk

**Industry Dynamics** Devaluation of the rupee, bailout package from the government and GSP plus scheme of the EU led to YoY growth in the country's textile exports of ~9% during FY18 when total textile exports were recorded at ~\$13.5 bln. This growth was mainly led by value added segment including knitwear, home textile and readymade garments.

**Relative Position** While Gul Ahmed faces competition from other retail brands such as Khaadi, Sapphire and Nishat Linen, it is a leading player in the textile sector of the country and one of the leading home textile exporters of Pakistan.

**Revenues** GATML has experienced consistent growth in revenues over the years. In 9MFY18, the top line increased 13% YoY on the back of improved sales from spinning segment. During 9MFY18, the company's sales mix was maintained, with major contribution by Processing & Home textile (P&HT) segment, followed by weaving, and spinning segments. The share of exports in total revenue declined to 56% (9MFY17: 68%) with the top three exporting companies being Germany (~15%), United States (9%) and Italy (5%).

**Margins** The company's gross margins improved (9MFY18: 20.5%, 9MY17: 18.3%) due to effects of cost rationalization measures and BMR activities. Finance cost increased by 8.5% YoY though as percentage of revenue remained constant; consequently, the company posted higher net profit of PKR 1.26bln as compared to PKR 295mln YoY.

**Sustainability** Capex was undertaken in recent years while capex for weaving segment and regular BMR is planned, going forward. The company also plans to consolidate its position in the market by increasing its retail sales.

## Financial Risk

**Working Capital** GATML mainly uses mix of internal cash flow and short term borrowings to manage its working capital needs. GATML's short term borrowings showed slight decrease of ~3% YoY (9MFY18: PKR14.4bln, 9MFY17: PKR14.86bln). The company's net cash cycle increased YoY (9MFY18: 182 days, 9MFY17: 162 days) on the back of higher inventory needs; a strategy to keep finished stock for retail segment's requirement amidst rising competition.

**Coverages** On the back of improved profitability, FCFO hiked by ~95% (9MFY18: ~PKR3.2 bln, 9MFY17: ~PKR1.67 bln); thus GATML's coverages improved significantly YoY (9MFY18: 2.0x, 9MFY17: 1.3x).

**Capitalization** Expansion and BMR related long term borrowing in FY17 and FY16 means that GATML has a leveraged capital structure. The company's debt to total assets ratio stands at ~65% at 9MFY18 (FY17: ~65%, FY6: ~67%).

**Gul Ahmed Textile Mills Limited**

PKR mln

BALANCE SHEET	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	9MFY18	FY17	FY16	FY15
<b>Non-Current Assets</b>	<b>15,598</b>	<b>16,280</b>	<b>12,241</b>	<b>9,157</b>
<b>Investments (incl. Associates)</b>	<b>58</b>	<b>58</b>	<b>58</b>	<b>58</b>
Equity	58	58	58	58
Debt Securities (incl. income funds)	-	-	-	-
<b>Current Assets</b>	<b>26,856</b>	<b>20,381</b>	<b>19,870</b>	<b>15,728</b>
Trade Receivables	4,614	3,345	2,364	1,914
Others	5,833	4,566	3,651	2,531
<b>Total Assets</b>	<b>42,512</b>	<b>36,719</b>	<b>32,169</b>	<b>24,943</b>
<b>Debt/Borrowings</b>	<b>22,093</b>	<b>19,760</b>	<b>17,984</b>	<b>11,960</b>
Short-Term	14,403	11,935	12,866	8,838
Long-Term (incl. Current Maturity of Long-Term Debt)	7,691	7,825	5,118	3,122
Other Short-Term Liabilities	8,285	5,722	5,121	5,420
Other Long-Term Liabilities	322	322	345	394
<b>Shareholder's Equity</b>	<b>11,812</b>	<b>10,914</b>	<b>8,718</b>	<b>7,169</b>
<b>Total Liabilities &amp; Equity</b>	<b>42,512</b>	<b>36,719</b>	<b>32,169</b>	<b>24,943</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>32,459</b>	<b>39,904</b>	<b>32,275</b>	<b>33,355</b>
Gross Profit	6,661	7,046	7,306	6,094
Operating Expenses	(4,668)	(5,789)	(5,076)	(4,134)
Operating Profit	1,993	1,257	2,230	1,960
Other Expenses/Income	129	429	15	158
Financial Charges	(689)	(877)	(910)	(1,334)
<b>Net Income</b>	<b>1,255</b>	<b>818</b>	<b>1,141</b>	<b>605</b>

**Cash Flow Statement**

Free Cash Flows from Operations (FCFO)	3,208	2,274	3,009	2,597
Net Cash changes in Working Capital	(3,562)	694	(4,092)	(622)
Net Cash from Operating Activities	(1,068)	2,116	(2,085)	670
Net Cash from Investing Activities	(684)	(5,320)	(4,159)	(1,783)
Net Cash from Financing Activities	1,980	3,166	6,435	1,116
Net Cash generated during the period	228	(38)	190	2

**Ratio Analysis**

<b>Performance</b>				
Turnover Growth (v.s same period last year)	13.0%	23.6%	-3.2%	1.0%
Gross Margin	20.5%	17.7%	22.6%	18.3%
Net Margin	3.9%	2.1%	3.5%	1.8%
ROE	14.7%	8.3%	14.4%	8.4%
<b>Coverages</b>				
Debt Service Coverage (times) (FCFO/Gross Interest+CMLTD+Uncovered STB)	2.0	1.5	2.2	1.3
Interest Coverage (times) (FCFO/Gross Interest)	4.7	2.6	3.3	1.9
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO - Gross Interest)	2.3	5.6	2.4	2.5
<b>Liquidity</b>				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	182	147	193	123
<b>Leveraging</b> (Total Debt/Total Debt+Equity)	65.2%	64.4%	67.4%	62.5%

## Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	<b>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.		
<b>D</b>	Obligations are currently in default.		



**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

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- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
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