



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-Mar-2019	A	A1	Stable	Maintain	-
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. Recent rupee devaluation has boded well for the company's export-oriented topline while recent BMR has improved efficiency, depicted in improved gross margins. Meanwhile, net margins remain under pressure on the back of hefty branding activities and cut throat competition in the local market. Gul Ahmed's financial risk profile is relatively strained amidst rising interest rates, characterized by high short-term debt to finance rising inventory needs. However, it is supported by improving cash flows and, in turn, strong debt-servicing ability.

The ratings are dependent on the company's ability to sustain its business profile while maintaining strong margins and coverages. At the same time, prudent management of working capital needs and meeting financial obligations remain critical.

Disclosure

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

Profile

Legal Structure Gul Ahmed Textile Mills Limited (Gul Ahmed) is a listed, public limited concern incorporated in 1953.

Background Gul Ahmed is the flagship company of Gul Ahmed Group, which commenced spinning and weaving operations in 1953 as a private limited company and became listed in 1955. The company is now a fully integrated composite textile unit with its own retail brand “Ideas by Gul Ahmed” which now comprises an extensive chain of over 100 retail stores across the country.

Operations Gul Ahmed's operations are broadly divided into four main segments: Spinning, Weaving, Processing & Home Textile and Retail with all segments operating as separate profit centers. The company also has captive power generation with a capacity exceeding its in-house requirements.

Ownership

Ownership Structure The majority stake (~67%) in Gul Ahmed is held by the Gul Ahmed Group through two corporates: Gul Ahmed Holdings (Pvt.) Limited (~67%) and Swisstex Chemicals (Pvt.) Limited (~3%) while the remaining stake lies with financial institutions and the general public.

Stability Gul Ahmed Holdings, the Group's holding company, is formed solely for the purpose of investment in subsidiaries of Gul Ahmed and is owned by the Bashir Family. Presence of the holding company depicts strong stability of Gul Ahmed.

Business Acumen The Bashir Family has over five decades of experience in the textile industry. In addition to textile, the family has interests in chemicals and IT through other group companies also managed by the Family. The sponsors of the company carry significant industrial experience and are actively involved in their respective roles.

Financial Strength The Bashir family has demonstrated commitment and support for Gul Ahmed, in the years of expansion, injecting cash in the form of right issue. The family also holds a sizable investment portfolio of properties and has demonstrated willingness and ability to support the company in case the need arises.

Governance

Board Structure The overall control of the company vests in a seven-member Board of Directors including the Chairman – Mr. Mohamed Bashir and Vice Chairman – Mr. Zain Bashir. The remaining members comprise three directors from sponsoring family while two are independent.

Members' Profile Mr. Mohamed Bashir – Chairman of the Group – is a business veteran and has been entrusted with various honorary consular positions by Government of Pakistan. He also serves on the Board of various other companies. The other Board members also possess diversified experience and have reasonably long association with the company.

Board Effectiveness Although the board is dominated by the sponsoring family, due challenge is brought in by independent directors, enhancing the governance profile of the company. Furthermore, attendance of Board members remain satisfactory and board meeting minutes are properly documented while two subcommittees exist to assist on relevant matters.

Financial Transparency The company has outsourced its internal audit function to M/s Grant Thornton Anjum Rahman Chartered Accountants while M/s. Kreston Hyder Bhimji & Co. Chartered Accountants is the external auditor of the company. Both auditors are listed in “A” category of the State Bank's panel of auditors. The auditor gave an unqualified opinion on the company's financial statements for the year ended June 30th, 2018 and the period ended December 31st, 2018.

Management

Organizational Structure Gul Ahmed has a lean organizational structure with a large number of individuals reporting directly to the CEO.

Management Team Mr. Mohamed Bashir is entrusted with overall oversight of the company while his youngest son, Mr. Zaki Bashir, is CEO. Mr. Zaki Bashir has been on the Board of Gul Ahmed since 2008 and also serves on the Board of various other Group companies. The family members have structured themselves well in terms of roles and responsibilities with defined management roles.

Effectiveness While no formal management committees are in place, informal management committees are formed from time to time on need basis. Further, weekly one to one meetings are held with all departmental heads where performance of each department is discussed at length.

MIS The company has installed ERP of Oracle EBS 12.1 and Microsoft Dynamics in the company which integrates the business functions of the company and helps the management in timely decision making. Recently, Gul Ahmed acquired Microsoft Dynamics Cloud version which has been implemented successfully in the retail segment and is planned to be extended to other business segments, going forward.

Control Environment The company's monthly MIS comprises comprehensive segment and unit wise performance reports review frequently by the senior management. Gul Ahmed is also accredited with International certifications for compliance including ISO 9001.

Business Risk

Industry Dynamics Textile exports of the country grew by ~9% for FY18. During 1HFY19, however, textile exports stagnated despite ~15% rupee devaluation during the period. Knitwear showed a relatively stronger performance ensuring that textile exports' growth stayed in positive territory. Falling cotton production, rising cotton prices and issue of outstanding refunds continue to be major hindrances for the textile sector. The devalued currency, recently announced relief in gas and electricity tariffs for zero-rated sectors and removal of duties on imported cotton are expected to boost exports, going forward.

Relative Position Gul Ahmed is among the largest vertically integrated textile units in the country. Overall, Gul Ahmed is one of the largest exporters of the country and contributed ~10% to the country's bedwear exports during FY18.

Revenues Gul Ahmed maintains a balanced sales mix, slightly tilted toward exports (FY18: 55%) comprising apparel and home textile while yarn, fabric and retail clothing is sold locally. During FY18, revenues witnessed ~14% YoY growth driven mainly by increase in local yarn sales as well as home textile exports. Revenues continued to show healthy growth in 1HFY19, with ~27% increase YoY driven mainly by currency devaluation during the period as well as increased demand in the local market for yarn and retail segment. Meanwhile, the company's customer concentration remains high, with over 25% of total revenue being generated from a single customer.

Margins The company's gross margin has shown improvement YoY (FY18: ~21%, FY17: ~18%) due to better prices of yarn in the local market as well as timely procurement of raw material and cost rationalization measures including BMR. Operating margin also showed significant improvement (FY18: ~7%, FY17: ~3%) as the company implemented its strategy of consolidating revenues from its existing retail stores. Despite increase in finance cost, net margin showed healthy improvement to stand at ~4.5% (FY17: ~2%). Performance sustained during 1HFY19 with gross margin amounting to ~24% while net margin stood at ~8%, the growth being led primarily by recent BMR and increased efficiency. The company has reported a profit of ~PKR 2bln in 1HFY19.

Sustainability The company recently undertook significant BMR in its spinning, weaving and processing segments resulting in significantly enhanced capacity utilization and margins. Going forward, further investment in energy efficient machinery is planned. With respect to retail, the company is planning to consolidate its position in the retail market by expanding revenues through e-commerce.

Financial Risk

Working Capital Gul Ahmed's working capital requirements are a function of its inventory and receivables, for which the company relies on a mix of internal generation and short term borrowings. The company maintains a significant borrowing cushion on account of strong cash flows, while net cash cycle remains quite high (FY18: 132 days, FY17: 126 days), owing to high level of finished inventory to cater to international orders and local retail demand.

Coverages During FY18, a twofold increase in free cashflows led to improvement in debt-service coverage and core debt coverages. Coverages continued to show improvement in 1HFY19, on account of strong profitability, leading debt-service and core coverages to stand at 5.7x and 2.7x respectively, considered strong.

Capitalization Gul Ahmed has a highly leveraged capital structure (FY18: ~65%, FY17: ~64%). However, borrowing is predominantly at the State Bank's concessionary rates. As a result, the company's interest rate sensitivity in the rising interest rate environment, remains low. High working capital needs in 1HFY19 led to further spike in short-term borrowings, leading leveraging to clock in at ~68% at end-Dec18.



Gul Ahmed Textile Mills Limited

Listed Public Limited

BALANCE SHEET

	Dec-18	Jun-18	Jun-17	Jun-16
	6M	12M	12M	12M
a Non-Current Assets	16,781	16,369	16,280	12,241
b Investments (Incl. Associates)	58	58	58	58
Equity	58	58	58	58
Fixed Income	-	-	-	-
c Current Assets	35,695	26,836	20,381	19,870
Inventory	23,232	16,144	12,470	13,854
Trade Receivables	5,283	5,399	3,345	2,364
Others	7,179	5,294	4,566	3,651
d Total Assets	52,534	43,263	36,719	32,169
e Debt/Borrowings	29,423	23,354	19,760	17,984
Short-Term	20,909	15,076	11,935	12,866
Long-Term (Incl. Current Maturity of Long-Term Debt)	8,513	8,278	7,825	5,118
Other Short-Term Liabilities	9,266	7,226	6,021	5,431
Other Long-Term Liabilities	63	63	24	36
f Shareholder's Equity	13,782	12,621	10,914	8,718
g Total Liabilities & Equity	52,534	43,263	36,719	32,169

INCOME STATEMENT

a Turnover	26,750	45,449	39,904	32,275
b Gross Profit	6,308	9,399	7,046	7,306
c Net Other Income	(133)	168	429	15
d Financial Charges	(592)	(987)	(877)	(910)
e Net Income	2,052	2,075	819	1,141

CASH FLOW STATEMENT

a Free Cash Flow from Operations (FCFO)	3,374	4,774	2,274	3,009
b Total Cashflows (TCF)	3,374	4,774	2,274	3,009
c Net Cash changes in Working Capital	(6,203)	(4,907)	694	(4,092)
d Net Cash from Operating Activities	(3,382)	(1,084)	2,116	(2,085)
e Net Cash from Investing Activities	(1,322)	(1,956)	(5,320)	(4,159)
f Net Cash from Financing Activities	5,187	3,240	3,166	6,435
g Net Cash generated during the period	483	200	(38)	190

RATIO ANALYSIS

a Performance				
Turnover Growth (vs SPLY)	27%	14%	24%	-3%
Gross Margin	24%	21%	18%	23%
Net Margin	8%	5%	2%	4%
ROE	31%	18%	8%	14%
b Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+Uncovered STB)	2.7	2.0	1.5	2.2
Interest Coverage (X) (FCFO/Gross Interest)	5.7	4.8	2.6	3.3
Debt Payback (Years) (Total Debt (excluding Covered Short Term Borrowings) / FCFO)	5.3	6.2	14.1	8.6
c Capital Structure (Total Debt/Total Debt+Equity)				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	152	132	126	131
d Capital Structure (Total Debt/Total Debt+Equity)	68%	65%	64%	67%

Gul Ahmed Textile Mills Limited

Mar-19

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	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. 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.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. 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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	Very high credit risk. 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.		
D	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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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- 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)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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Conduct of Business

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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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- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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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)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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