



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
07-Sep-2021	A	A1	Positive	Maintain	-
03-Sep-2020	A	A1	Stable	Maintain	-
03-Sep-2019	A	A1	Stable	Maintain	-
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 assigned ratings incorporate Gul Ahmed Textile Mills Limited's (Gul Ahmed) sound operating track record with a strong presence in the broader textile value-chain; enabling the Company to manage volatility in the textile business. Assigned ratings also reflect the presence of a seasoned senior management team that possesses considerable experience in the textile sector. Presence in retail with renowned brand "Ideas" in the local market adds up to a stronger business risk profile. 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 an established niche of quality-conscious institutional buyers. Recently, the revenues of all segments witnessed an increase due to enhanced opportunities for Pakistan for textile products locally and around the world. Despite the tough economic conditions due to the Covid-19 pandemic, the Company has significantly improved its profitability with remarkable growth in margins both locally and in export markets. The Company regularly undertakes BMR which has resulted in significantly enhanced capacity utilization and margins over the years. The liquidity profile of the Company is considered adequate with a manageable working capital cycle and sufficient cash flows to meet outstanding obligations while leveraging remains on the higher side. Furthermore, Gul Ahmed is in the process of merging with Worldwide Developers (Pvt.) Limited which will be capitalized this year.

The ratings are dependent on the Company's ability to sustain its business profile while maintaining its margins and strong. 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 Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Composite(Nov-20)
Rating Analysts	Muhammad Fahad Iqbal fahad.iqbal@pacra.com +92-42-35869504

Profile

Legal Structure Gul Ahmed Textile Mills Limited (Gul Ahmed) is operating in Pakistan since 1953 and is listed on the Pakistan Stock Exchange.

Background Gul Ahmed is the flagship company of Gul Ahmed Group, which commenced spinning and weaving operations in 1953 as a private limited company, subsequently converted into public limited company in 1955. The Company is a composite textile unit and is engaged in the manufacture and sale of textile products.

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. Gul Ahmed has an extensive chain of more than 108 retail stores across the country, offering a diverse range of products from home accessories to fashion clothing.

Ownership

Ownership Structure Gul Ahmed is a subsidiary of Gul Ahmed Holdings (Private) Limited (GAHPL), which owns 67.10% shares, while the remaining stake lies with financial institutions and the general public. The Company has three wholly-owned subsidiaries that are engaged in trading of textile-related products.

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. The presence of the holding company bodes well for the 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. 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 the 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 seven-member Board of Directors comprises four sponsoring family representatives, one non-executive, and two independent directors.

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

Board Effectiveness Although the Board is dominated by the sponsoring family, the due challenge is brought in by independent directors, enhancing the Company's governance profile. Furthermore, attendance of Board members remains satisfactory and board meeting minutes are properly documented.

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 the "A" category of the State Bank's panel of auditors. The auditor gave an unqualified opinion on the Company's financial statement for the year ended June 30th, 2020.

Management

Organizational Structure The business profile is segregated into different divisions headed by their respective managers, resulting in effective control and management. Operations are segregated into six segments, i) Spinning ii) Weaving, iii) Processing, iv) Retail & Local Distribution v) Export, and vi) Services. All the department heads report 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. The family members have structured themselves well in terms of roles and responsibilities with defined management roles. With the support of a qualified and experienced team of professionals, the Company is building its operational strength.

Effectiveness The functions of the management are defined clearly to effectively achieve its underlying goals and objectives. Further, weekly one-to-one meetings are held with all departmental heads where the performance of each department is discussed at length.

MIS The Company has deployed Oracle EBS 12.1 and Microsoft Dynamics as ERP solutions, which integrates the company's business functions and helps the management in timely decision making. Meanwhile, Microsoft Dynamics Cloud has also been successfully implemented in the retail segment.

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 The country's textile exports recorded a double-digit increase of ~23% for FY21 to stand at USD 15.4bln compared to USD 12.5bln in FY20 due to an increase in demand for textile products internationally, led by good recovery around the globe post-pandemic. Going forward, the textile sector's outlook is expected to stay stable in the medium term where the demand for textile products is expected to increase. The probability of little attrition in demand remains on the horizon attributable to the outbreak of COVID-19 variants. In the local market, the textile sector has recorded strong performance. The relief measures introduced by the State Bank of Pakistan such as deferment of loan payments for one year, low-interest rates, and salary refinance scheme also provided comfort to the sector.

Relative Position With the improved operational efficiency, Gul Ahmed is among the largest vertically integrated textile units in the country. Overall, it is among the largest exporters of the country, with an approximate share of 1.9% of Pakistan's total textile exports, while "Ideas by Gul Ahmed" is a leading textile retail brand.

Revenues The Company maintains a balanced sales mix, slightly tilted toward exports (9MFY21: 64.3%, 9MFY20: 57.09%). Exports largely comprise home textile and apparel while yarn, fabric, and retail clothing are sold locally. The majority of the Company's exports are to Germany (43% of exports), United States (14%), Netherlands (11%), and France (9%). Geographically, the concentration of revenues is moderately diversified. At the customer level, revenue from the top ten export customers remains moderately high, though has shown a declining trend over recent years, while customer concentration in local sales remains low.

Margins The Company's gross margin improved YoY in 9MFY21 at 19.4% (9MFY20: 18.1%). Similarly, the operating margin improved to (9MFY21: 9.4%; 9MFY20: 4.7%). Dependency on debt finance has forced the Company bears heavy finance costs (9MFY21: PKR 1.5bln; 9MFY20: PKR 1.3bln), however, the Company clocked in net profit of (9MFY21: PKR 3.5bln; 9MFY20: PKR 700mln) due to higher increase in the revenues. Going forward, curtailed key interest rate will provide positive breathing space.

Sustainability The Company regularly undertakes BMR which has resulted in significantly enhanced capacity utilization and margins over the years. The Company incurred significant CAPEX in the spinning segment during 9MFY21, including enhancements for value-addition as well as replacement of machinery.

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 borrowing. A significant portion of the working capital cycle is the inventory turnover period which stood at 129 days as at end-Mar'21 (Mar'20: 156days) owing to the procurement of cotton while finished inventory levels remained high to cater to international orders and local retail demand. The Company's short term trade leverage stood at 26% in 9MFY21 (9MFY20: 20%).

Coverages During 9MFY21, the company's cash flows (FCFO) dropped to PKR 8.1bln (9MFY20: PKR 4.4bln). Consequently, coverages showed YoY improvement, with core coverage improved to 2.4x (FY19: 1.5x) and interest coverage improved to 5.8x (9MFY20: 3.7x); remained strong.

Capitalization Gul Ahmed has a highly leveraged capital structure (9MFY21: 74.8%, 9MFY20: 72.4%). Gul Ahmed's debt consists of 51.1% short-term borrowing to finance its working capital needs and 48.9% long-term borrowing. Long-term borrowing remains a factor of recent expansion and BMR activities and is predominantly LTFF based. Total borrowing has witnessed a significant increase (9MFY21: 51.6bln; 9MFY20: PKR 39.8bln) to fulfill the commitment of expansion and increased working capital needs. Due to the major portion of borrowing at the State Bank's concessionary rates, the Company's interest rate sensitivity in the rising interest rate environment remains low.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Gul Ahmed Textile Mills Limited Textile Composite	Mar-21 9M	Jun-20 12M	Jun-19 12M	Jun-18 12M
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A BALANCE SHEET

1 Non-Current Assets	32,394	26,778	19,472	16,369
2 Investments	70	70	-	-
3 Related Party Exposure	2,353	2,353	58	58
4 Current Assets	47,937	39,520	34,922	26,836
a Inventories	27,178	25,830	21,370	16,144
b Trade Receivables	11,039	5,702	7,071	5,399
5 Total Assets	82,755	68,721	54,452	43,263
6 Current Liabilities	12,379	11,648	9,962	7,202
a Trade Payables	4,998	4,669	3,330	2,458
7 Borrowings	51,602	42,002	28,999	23,354
8 Related Party Exposure	963	900	-	-
9 Non-Current Liabilities	389	207	158	87
10 Net Assets	17,421	13,963	15,333	12,621
11 Shareholders' Equity	17,421	13,963	15,333	12,621

B INCOME STATEMENT

1 Sales	63,567	53,941	57,288	45,626
a Cost of Good Sold	(51,267)	(44,872)	(45,306)	(36,050)
2 Gross Profit	12,300	9,069	11,982	9,576
a Operating Expenses	(6,332)	(7,241)	(7,326)	(6,251)
3 Operating Profit	5,968	1,828	4,657	3,325
a Non Operating Income or (Expense)	50	(67)	825	(9)
4 Profit or (Loss) before Interest and Tax	6,018	1,762	5,482	3,315
a Total Finance Cost	(1,547)	(1,838)	(1,473)	(987)
b Taxation	(1,014)	(403)	(399)	(253)
6 Net Income Or (Loss)	3,458	(479)	3,609	2,075

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	8,161	4,409	6,583	4,774
b Net Cash from Operating Activities before Working Capital Changes	6,830	2,876	5,234	3,823
c Changes in Working Capital	(6,123)	(2,896)	(5,074)	(4,907)
1 Net Cash provided by Operating Activities	707	(20)	160	(1,084)
2 Net Cash (Used in) or Available From Investing Activities	(7,250)	(8,806)	(4,899)	(1,956)
3 Net Cash (Used in) or Available From Financing Activities	6,810	8,823	4,761	3,240
4 Net Cash generated or (Used) during the period	268	(3)	22	200

D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	57.1%	-5.8%	25.6%	13.9%
b Gross Profit Margin	19.4%	16.8%	20.9%	21.0%
c Net Profit Margin	5.4%	-0.9%	6.3%	4.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	3.2%	2.8%	2.6%	-0.3%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/S	28.9%	-3.8%	26.2%	17.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	150	203	159	149
b Net Working Capital (Average Days)	129	176	141	132
c Current Ratio (Current Assets / Current Liabilities)	3.9	3.4	3.5	3.7
3 Coverages				
a EBITDA / Finance Cost	6.2	3.1	6.4	6.3
b FCFO / Finance Cost+CMLTB+Excess STB	2.4	1.7	2.8	2.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.8	6.0	1.9	2.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	74.8%	75.1%	65.4%	64.9%
b Interest or Markup Payable (Days)	68.2	89.3	92.7	76.5
c Entity Average Borrowing Rate	4.1%	4.7%	4.3%	3.8%

Credit Rating

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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Rating Team Statements

(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

Restrictions

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (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.
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (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)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (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)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (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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