The Pakistan Credit Rating Agency Limited

Rating Report

Latif Textile Mills (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jan-2024	BBB-	A2	Stable	Maintain	-
27-Jan-2023	BBB-	A2	Stable	Maintain	-
28-Jan-2022	BBB-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned ratings of Latif Textile reflect the adequate positioning of the Company in the relative universe. The Company is a manufacturer and exporter of Yarn and Towels, having both Open-end and Ring Spinning technologies for yarn and end-to-end weaving to stitching facilities for towels. The installed capacity is 20,160 spindles and 3,960 rotors along with 104 terry looms for towel weaving. The board comprises two members and both are from sponsoring families. The Company's management involves experienced professionals looking after the operations of the Company. During FY23, the Company's revenues stood at PKR 3,239mln (FY22: PKR 4,093mln). The sales composition, predominantly export-oriented, witnessed a shift away from local sales. Net profit margin declined during the period under review primarily stemming from the spinning segment's underutilization, which faced intermittent closures due to issues related to the availability of gas. The financial risk matrix depicts that the company's leveraging decreased due to an increase in the equity base by PKR 330mln (FY23: PKR 1,790mln, FY22: 1,460mln). Total borrowings, however, registered an increase of PKR 120mln (FY23: PKR 1,181mln, FY22: PKR 1,061mln) to support ongoing expansions in the spinning sector. Effective management of receivables and working capital days emerges as imperative for the company's sustained operational efficiency. Efficient cost management, particularly in the domain of energy and financial expenditures, remains crucial. During FY23 the country's textile exports decreased to $16.5bln, reflecting a 15% YoY decline. This decline was attributed to factors such as high energy costs, cotton shortages, and foreign exchange rate uncertainties. Value-added products like knitwear, bedwear, towels, and readymade garments witnessed a 13% YoY decline, while basic textiles, including raw cotton, cotton yarn, and cotton cloth, experienced a 21% YoY decrease. Notably, in June 2023, there was a 7% MoM increase in cotton yarn exports, and value-added exports depicted a volumetric increase of 16% on an MoM basis. Knitwear and readymade garments witnessed an 18% and 19% increase, respectively.

The ratings are dependent upon the management's ability to capitalize on growth opportunities in a competitive landscape, operate at optimal levels, and improve margins, going forward.

Disclosure

Name of Rated Entity	Latif Textile Mills (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Composite and Garments(Dec-23)
Rating Analysts	Uswa Sikandar | uswa.sikandar@pacra.com | +92-42-35869504

Profile

Legal Structure Latif Textile Mills (Pvt.) Limited ('Latif Textile' or 'The Company') is a private limited concern.

Background Latif Textile was incorporated in 1985 as a private limited company as part of the Latif Group. The Company is a manufacturer and exporter of Yarn and Towels, having both open-end and Ring Spinning technologies for yarn and end-to-end weaving to stitching facilities for towels. Over the years, the Company has expanded its operations and developed expertise across the various processes in the manufacturing chain.

Operations Latif Textile is primarily engaged in spinning with 20,160 spindles and 3,960 rotors, generating a total capacity of 13.9mln-Kgs per annum. The company has also installed a facility for towel weaving with 104 terry looms, generating a capacity of 1.2mln-Kgs and 84 stitching machines. The total energy requirement of the company clocks in at 5.1 MW which can be met completely through captive generation.

Ownership

Ownership Structure Currently, the Company is owned by the families of three brothers, namely Mr. Younus Haji Latif, Mr. Junaid Haji Latif, and Mr. Amanullah Haji Latif (Late).

Stability Presently, the Group has formed no holding company and there is no formal succession plan. However, the operations are governed by second generation of the family

Business Acumen The directors and management of the Company possess adequate textile industry knowledge and good experience as they have been running the Company for 38 years. The Company relies on the philosophy of sustainable, localized growth.

Financial Strength The sponsors of the Company do not have any major businesses apart from Latif Textile. However, the sponsors hold an 11% shareholding in Gul Ahmed Energy (Rated A- by PACRA) and Mr. Ubaid Amanullah s/o. Mr. Amanullah Haji Latif is the COO of Gul Ahmed Energy. The sponsors of the Company are committed to supporting Latif Textile in times of intricacy.

Governance

Board Structure Latif Textile, being a private limited company, has only two directors on the board - Mr. Owais Amanullah and Mr. Jawad Junaid, who also serves as CEO. The presence of sponsors on the board and lack of independent oversight reflect room for improvement in the governance framework. Directors have been associated with the board for 11 years each. Considering a two-member board of directors, the Board does not possess a chairman, independent director, or any Committees.

Members' Profile Mr. Owais Amanullah (Executive Director) is a Commerce Graduate and has been engaged with the industry for about 21 years. Mr. Jawad Junaid (CEO) is BSc. Honors in Management & Marketing of Textiles from the University of Manchester. He graduated in 2004 and since then, he has been actively involved in all areas of business.

Board Effectiveness The directors are closely engaged with the management of the company. The directors regularly view the MIS Reports including inventory movement reports, purchase details, sales reports, etc. However, the Company does not have a system to formally record the BOD Minutes.

Financial Transparency Kreston Hyder Bhimji & Co. Chartered Accountants are the external auditors of the company. The auditor is listed in Category "A" of the State Bank's panel of auditors. They have expressed an unqualified opinion on the financial statements of the company for the year ending June 30th, 2023. However, the Company has not established an Internal Audit Function.

Management

Organizational Structure The core management of the Company consists of five departments, namely Sales, Purchase, Accounts and Finance, IT, and Mills Management. All the department heads are reportable to CEO. Latif Textile does not possess any formal management committees.

Management Team Senior management of the Company is qualified, holds vast textile industry experience, and has been associated with the group for a considerable amount of time.

Effectiveness Latif Textiles does not possess formal management committees. Various reports regarding the company's sales and inventory movement, purchases and procurement are prepared and submitted to higher management.

MIS The Company has implemented Visual Basic 6.0 with various operational modules including Accounts, Production, Sales, Purchase, Payroll, Store, Sales Tax and Income Tax.

Control Environment Latif Textile is accredited with international certifications for compliance, namely; BCI, CT-PAT, WRAP, BSCI, Sedex, and Global Recycle Standard. On an operational level, samples of cotton, yarn, and fabric are tested for quality under the laboratories of each unit, both before the material is used for production as well as after the order/consignment has gone through production.

Business Risk

Industry Dynamics During FY23, textile exports were valued at $16.5 billion compared to $19.33 billion, reflecting a dip of 15% YoY – the declining trend has been witnessed by the start of FY23. The exports tumbled attributable to high energy costs, shortage of cotton, and uncertainty in the foreign exchange rate. The suppressed demand pattern exhibited by export avenues was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments witnessed a decline of 13% YoY. The basic textiles including raw cotton, cotton yarn, and cotton cloth posted a drop of 21% YoY. During the month of June 2023, cotton yarn exports increased by 7% MoM. The value-added exports reported a volumetric increase of 16% on a MoM basis. Knitwear and readymade garments witnessed an incline at 18% and 19% respectively. During the month of July 2023, textile exports were valued at $2 billion compared to $2.3 billion, reflecting a slump of 12.6% on a MoM basis. Further analysis reveals an overall decline of 8.6% YoY.

Relative Position With 20,160 spindles, 3960 rotors, 104 terry looms and 84 stitching machines, Latif Textile is categorized in the middle tier of the textile industry.

Revenues During FY23, Latif Textile's topline amounted to PKR 3,239mln (FY22: PKR 4,093mln) declining by 20.8%. The Company's topline predominately comprises exports being 53.5% of revenue from exports to the United States of America, of America, United Kingdom, and Italy. The total revenue in 3MFY24 was registered at PKR 971mln.

Margins The gross profit margin in FY23 remained the same at 15.9% (FY22: 15.9%) and the operating profit margin decreased to 6.1% (FY22: 10.1%). This is attributable to a decrease in revenue due to underutilization of the spinning segment, which remained closed for some time due to gas availability issues. The Company's finance cost increased sizably to PKR 214mln (FY22: PKR 118mln) due to an increase in the borrowings and key policy rate. Consequently, the net profit margin of Latif Textile in FY23 decreased to 4.4% (FY22: 5.4%). The net profit margin for 1QFY24 was recorded at 1.6%.

Sustainability Latif Textile Mills emphasizes sustainability in manufacturing and raw material sourcing, implementing a recycling system for spinning and weaving waste. To boost production, the company plans to integrate 1,440 rotors, 24 terry looms, and 29 stitching machines. In a move towards self-sufficiency, Latif Textile Mills aims to reduce reliance on gas and WAPDA by installing a 500KVA solar system, with expansion plans to reach 2500KVA by the close of CY24.

Financial Risk

Working Capital Latif Textile's net working capital cycle increased during FY23 to 123 days (FY22: 82 days) driven by an increase in inventory days (FY23: 88 days; FY22: 38 days). Short-term borrowings were increased by 29.2% to PKR 929mln (FY22: PKR 719mln). Short-term trade leverage declined to 20.7% (FY22: 23.2%).

Coverages During FY23, the interest coverage ratio inched down to 2.1x (FY22: 3.6x) whereas the debt coverage ratio decreased to 1.6x (FY22: 2x). The free cash flows (FCFO) improved to PKR 451mln (FY22: PKR 413mln). Despite the enhanced cashflows, coverages recorded attrition due to high finance costs.

Capitalization During FY23, the Company's capital structure remained leveraged at 39.8% (FY22: 42.1%). The total borrowings of the company increased to PKR 1,181mln in FY23 (FY22: 1,061mln), majorly comprising the short-term borrowings. The Company recorded a total equity of PKR 1,790mln (FY22: 1,460mln). The total equity slightly decreased to PKR 1,787mln in 1QFY24.

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Financial Summary
PKR mln

LATIF TEXTILE MILLS	Sep-23	Jun-23	Jun-22	Jun-21
Textile	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	2,010	2,052	1,982	1,767
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,959	1,869	1,277	1,014
a Inventories	*980*	*1,156*	*410*	*431*
b Trade Receivables	*815*	*505*	*788*	*522*
5 Total Assets	3,969	3,921	3,259	2,781
6 Current Liabilities	861	753	524	305
a Trade Payables	*861*	*470*	*211*	*89*
7 Borrowings	1,121	1,181	1,061	900
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	200	197	214	198
10 Net Assets	1,787	1,790	1,460	1,379
11 Shareholders' Equity	1,787	1,790	1,460	1,379
B INCOME STATEMENT				
1 Sales	971	3,239	4,093	2,609
a Cost of Good Sold	*(777)*	*(2,725)*	*(3,444)*	*(2,166)*
2 Gross Profit	194	514	649	443
a Operating Expenses	(93)	(316)	(234)	(147)
3 Operating Profit	101	198	415	296
a Non Operating Income or (Expense)	*(4)*	*171*	*(34)*	*(4)*
4 Profit or (Loss) before Interest and Tax	97	369	380	293
a Total Finance Cost	*(71)*	*(214)*	*(118)*	*(88)*
b Taxation	*(11)*	*(13)*	*(42)*	*(36)*
6 Net Income Or (Loss)	15	142	220	168
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*26*	*451*	*413*	*337*
b Net Cash from Operating Activities before Working Capital Changes	*26*	*263*	*313*	*238*
c Changes in Working Capital	-	*(364)*	*(57)*	*82*
1 Net Cash provided by Operating Activities	26	(100)	256	321
2 Net Cash (Used in) or Available From Investing Activities	-	(184)	(287)	(86)
3 Net Cash (Used in) or Available From Financing Activities	-	204	(67)	(16)
4 Net Cash generated or (Used) during the period	26	(81)	(97)	219
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	19.9%	-20.9%	56.9%	4.3%
b Gross Profit Margin	20.0%	15.9%	15.9%	17.0%
c Net Profit Margin	1.6%	4.4%	5.4%	6.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	2.7%	2.7%	8.7%	16.1%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	3.4%	8.7%	15.5%	15.7%
2 Working Capital Management				
a Gross Working Capital (Average Days)	162	161	96	140
b Net Working Capital (Average Days)	100	123	82	124
c Current Ratio (Current Assets / Current Liabilities)	2.3	2.5	2.4	3.3
3 Coverages				
a EBITDA / Finance Cost	0.4	2.5	4.4	4.5
b FCFO / Finance Cost+CMLTB+Excess STB	0.4	1.6	2.0	1.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-1.2	1.0	1.2	1.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	38.5%	39.8%	42.1%	39.5%
b Interest or Markup Payable (Days)	0.0	81.2	100.6	77.3
c Entity Average Borrowing Rate	24.9%	19.0%	11.8%	8.6%

Credit Rating

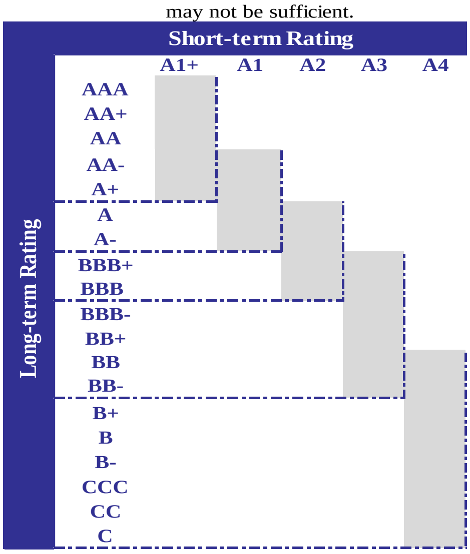
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating

Scale	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
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 surveill 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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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 | Clause 11-(A)(p).
(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)

Independence & Conflict of interest
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information