



The Pakistan Credit Rating Agency Limited

Rating Report

Gul Ahmed Textile Mills Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
07-Mar-2022	A+	A1	Stable	Upgrade	-
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; assists the Company in steadfast management of any volatility that may arise in textile business. The presence of seasoned senior management team that possesses considerable experience in the textile sector is also a comfort. Presence in retail segment - through wholly owned subsidiary - "Ideas" in local market adds up to a stronger business risk profile. Presence in domestic retail space will be further augmented on standalone basis. The entity has achieved a sizable revenue base, while focus on value-added products bring higher gross margins. The Company maintains a balanced sales mix, tilted toward exports (2QFY22: 68%, 2QFY21: 66%). This emanates from export market orientation, targeting an established niche of quality-conscious institutional buyers. Exponential growth is being eyed in revenue from export base which will secure significant size in rupee terms. Recently, the revenues of all segments witnessed an increase due to enhanced opportunities for Pakistan for textile products locally and around the world. During FY21, the revenue base reflected robust rise to PKR 86bln (FY20: PKR 54bln). Net profitability reflected same momentum (FY21: PKR 5.1bln). Trend continued in 1HFY22 where topline clocked at PKR 46.9bln and net profitability stood at PKR 3.3bln. The Company has significantly improved its profitability with remarkable growth in margins both locally and in export markets. The Company's regular BMR, since many years, has resulted in turnaround in profitability and revenues. The liquidity profile is considered good with manageable working capital cycle and sufficient cash flows to meet outstanding obligations while leveraging remains on the higher side. Improved trade leverage and increased coverage is also positive. The management has expressed intention to redeploy the bulk of profitability generated through the business for future expansion. During the period July-December FY21-22, textile exports surged 26 percent YoY, fielding \$9.39 billion in total export remittances, as compared to \$7.44 billion in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of value-added textile items increased in both quantity and value in December 2021.

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. Sponsor's commitment to provide support gives comfort to the ratings.

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 and Garments(Dec-21)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504



Composite and Garments

The Pakistan Credit Rating Agency Limited

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 manufacturing and sale of broad variety of textile products.

Operations The Company's operations are broadly divided into five 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. The Company has presence in retail segment - through wholly owned subsidiary - "Ideas" in local market adds up to a stronger business risk profile.

Ownership

Ownership Structure Gul Ahmed is a subsidiary of Gul Ahmed Holdings (Private) Limited (GAHPL), which owns 67.10% shares, while the remaining stake vests 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 fairly well for stability.

Business Acumen 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 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 directors from the sponsoring family. Further, two directors are independent and two are non-executive 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, 2021.

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 During the period July-December FY21-22, textile exports surged 26 percent YoY, fielding \$9.39 billion in total export remittances, as compared to \$7.44 billion in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of value-added textile items increased in both quantity and value in December 2021. Going forward, the textile sector's outlook is expected to stay positive in the medium term where the demand for textile products is expected to sustain. In the local market, the textile sector has recorded strong performance. Many players have availed TERF scheme announced by the Central Bank. This will lead to overall leverage of the sector to increase; however, on relaxed financing rates. The sustainability of demand pattern for the current higher orders from Europe and USA remains essential for the feasible utilization of added capacity by textile players.

Relative Position Gul Ahmed is one of the largest vertically integrated textile unit in the country. Overall, it is among the largest exporters of the country, with an approximate share of 1.7% in Pakistan's total textile exports, while "Ideas by Gul Ahmed" is a leading textile retail brand.

Revenues The revenue base has shown a robust increase of 60.3% from PKR 53.0bln in FY20 to PKR 86.4bln in FY21. The momentum continued and topline stood at PKR ~47bln during 1HFY22. Sales mix remained tilted towards exports and is increasing. Exports largely comprise home textile and apparel while yarn, fabric and retail clothing are sold locally. Majority of the Company's exports are to Germany (24% of exports), United States (22.7%), Netherlands (12.8%) and France (8.4%). Geographically, concentration of revenues is moderately diversified.

Margins The Company's gross margins are on growing trajectory and clocked at 16.5% and 19.5% as at end-Dec21 and end-Jun21 respectively. Similarly, operating margin enhanced to 12.4% as at end-Dec21.

Sustainability The Company's regular BMR, since many years, has resulted in turnaround in profitability and revenues both locally and in export markets. The Company incurred sizable capex in the spinning segment during FY21, including enhancements for value-addition as well as replacement of machinery. Exponential growth is being eyed in revenue from export base which will secure significant size in rupee terms. The management has expressed intention to redeploy the bulk of profitability generated through the business for future expansion.

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. Significant portion of the working capital cycle is inventory turnover period which stood at 133 days as at end-Dec'21 (end-Jun'21: 134days) owing to 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 16.8% as at end-Dec21 (end-Jun21: 29%).

Coverages During 1HFY22, free cash flow from operations (FCFO) displayed robust rise to PKR 6.8bln (1HFY22: PKR 5.2bln). Consequently, coverages showed YoY improvement, with core coverage improved to 2.7x (FY21: 2.2x) and interest coverage reflected healthy improvement to 6.6x (FY21: 5.7x).

Capitalization Gul Ahmed has a highly leveraged capital structure (1HFY22: 62.3%, FY21: 74.3%); ~56% short-term borrowing. Equity base of the company has shown an enormous increase from PKR 30.6bln as at end-Dec21 (end-Jun21: PKR 18.6bln). Going forward, risk absorption capacity of the Company will be augmenting further as special focus is on improvement of equity base.



Gul Ahmed Textile Mills Limited Composite	Dec-21 6M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	41,682	34,845	26,778	19,472
2 Investments	70	70	70	-
3 Related Party Exposure	3,521	2,353	2,353	58
4 Current Assets	53,014	52,284	39,520	34,922
<i>a Inventories</i>	26,182	30,921	25,830	21,370
<i>b Trade Receivables</i>	20,124	11,750	5,702	7,071
5 Total Assets	98,287	89,552	68,721	54,452
6 Current Liabilities	15,314	15,113	11,648	9,962
<i>a Trade Payables</i>	14,381	6,147	4,669	3,330
7 Borrowings	50,585	54,130	37,333	28,999
8 Related Party Exposure	-	-	900	-
9 Non-Current Liabilities	1,768	1,623	207	158
10 Net Assets	30,619	18,686	18,633	15,333
11 Shareholders' Equity	30,619	18,686	13,963	15,333
B INCOME STATEMENT				
1 Sales	46,926	86,424	53,941	57,288
<i>a Cost of Good Sold</i>	(39,073)	(69,542)	(44,872)	(45,306)
2 Gross Profit	7,853	16,883	9,069	11,982
<i>a Operating Expenses</i>	(2,034)	(9,308)	(7,241)	(7,326)
3 Operating Profit	5,819	7,575	1,828	4,657
<i>a Non Operating Income or (Expense)</i>	(471)	884	(67)	825
4 Profit or (Loss) before Interest and Tax	5,348	8,458	1,762	5,482
<i>a Total Finance Cost</i>	(1,169)	(2,341)	(1,838)	(1,473)
<i>b Taxation</i>	(823)	(984)	(403)	(399)
6 Net Income Or (Loss)	3,356	5,133	(479)	3,609
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	6,334	11,054	4,409	6,583
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	5,358	9,107	2,876	5,234
<i>c Changes in Working Capital</i>	(601)	(9,065)	(2,896)	(5,074)
1 Net Cash provided by Operating Activities	4,757	43	(20)	160
2 Net Cash (Used in) or Available From Investing Activities	(4,592)	(9,904)	(8,806)	(4,899)
3 Net Cash (Used in) or Available From Financing Activities	1,107	10,046	8,823	4,761
4 Net Cash generated or (Used) during the period	1,272	185	(3)	22
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	8.6%	60.2%	-5.8%	25.6%
<i>b Gross Profit Margin</i>	16.7%	19.5%	16.8%	20.9%
<i>c Net Profit Margin</i>	7.2%	5.9%	-0.9%	6.3%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	12.2%	2.3%	2.8%	2.6%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl</i>	27.2%	31.4%	-3.3%	25.8%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	173	157	203	159
<i>b Net Working Capital (Average Days)</i>	133	134	176	141
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	3.5	3.5	3.4	3.5
3 Coverages				
<i>a EBITDA / Finance Cost</i>	7.1	6.2	3.1	6.4
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.7	2.2	1.7	2.8
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	2.1	2.7	6.0	1.9
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	62.3%	74.3%	72.8%	65.4%
<i>b Interest or Markup Payable (Days)</i>	78.3	64.6	89.3	92.7
<i>c Entity Average Borrowing Rate</i>	3.7%	4.1%	5.4%	4.3%

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
--	---

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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)

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 | 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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent