



The Pakistan Credit Rating Agency Limited

Rating Report

US Apparel & Textiles (Pvt.) 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
23-Feb-2024	A+	A1	Stable	Maintain	-
04-Mar-2023	A+	A1	Stable	Maintain	-
04-Mar-2022	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

US Apparel & Textiles (Private) Limited, a significant textile venture within the US Group, operates under the overarching AJ Holdings, the group's flagship holding company. The group consciously avoids leveraging, a strategic decision overseen by sponsors who provide guidance and professional management to group companies. The company is primarily engaged in manufacturing high-quality garments that are exported to the USA, UK, and Europe. With experienced professionals in its management, the company operates autonomously with comprehensive reporting. The business has a robust presence in the broader value chain, allowing it to navigate the textile industry's volatility successfully. The company's steady revenue base in recent years is evident, with FY23 reflecting a 16% YoY growth in revenue, reaching PKR 51.9bln (FY22: PKR 44.7bln). The margins of the company also witnessed substantial growth, whereby the net profit margin reached 17.4% in FY23 compared to 11.7% in FY22. US Apparel maintains a favorable capital structure and strong coverages, indicating a resilient financial profile. 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 on the Company's ability to maintain a strong business profile amidst current circumstances. Preserving low-leveraged capital structure and sound coverages remain imperative.

Disclosure

Name of Rated Entity	US Apparel & Textiles (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	Faiqa Qamar faiqa.qamar@pacra.com +92-42-35869504



Composite and Garments

The Pakistan Credit Rating Agency Limited

Profile

Legal Structure US Apparel & Textiles (Private) Limited (US Apparel) was incorporated on February 18, 1987, as a private limited company.

Background US Apparel & Textiles (Private) Limited is the flagship business venture of the US Group.

Operations US Apparel & Textiles (Private) Limited is principally engaged in the manufacturing and export of ready-made denim garments. The Company has five production units.

Ownership

Ownership Structure US Apparel is a wholly-owned subsidiary of AJ Holdings (Private) Limited. The holding company exercises its control over the company's board by virtue of its 100% stake in the Company.

Stability The Group ownership is divided between the two families Javed Arshad Bhatti & family & Mian Muhammad Ahsan & family. The Group's holding Company, AJ Holdings Limited primarily manages investments in subsidiaries and associated companies and this bodes fairly well for the stability of the overall structure.

Business Acumen US Group is one of the oldest business conglomerates in Pakistan with considerable interest in textiles. The group has developed quite good expertise in the textile garments sector, over the years, and enjoys long-term association with several customers abroad. The group's presence has been limited to the textile sector but sustained volatility effectively over the years. Apart from the garment business, US Group also has a Denim weaving Mill namely, US Denim Mills Limited, involved in weaving. This has assisted the Company in expanding its operations despite challenging market dynamics.

Financial Strength The presence of the holding company and details of a business profile and operations of almost all group companies reflect the strong financial strength of sponsors. This indicates sponsors' ability and willingness to support the flagship company of the group in case of need.

Governance

Board Structure The Company has a ten-member board with the presence of sponsors and their families. The position of CEO designate is vested with Mr. M. Salman Hafeez Malik.

Members' Profile The members of the Board have relevant stature and extensive experience of over three decades in the textile industry. Currently, there are no independent directors on the board.

Board Effectiveness The board meetings are held regularly in which discussion on various aspects is also formally documented in minutes.

Financial Transparency EY Ford Rhodes Chartered Accountants, who are in the category 'A' of SBP and have a QCR rating by ICAP, are the external auditors of the company. They have expressed an unqualified opinion on the financial statements of the company for the year ending June 30th, 2023.

Management

Organizational Structure US Apparel is further divided into sub-business units. The sBU-USA and sBU-UK/EU have five garment manufacturing units with the capacity to produce 25 mln units annually. The Manufacturing Unit 2 & Unit 5 fall under sBU USA and Units 1-R, Unit 3 & Unit 4 fall under sBU UK/EU. The Manufacturing Unit US Denim Mills, third sBU is a fabric mill that produces 40 mln meters of fabric annually. Each sBU is divided into functional departments, namely: (i) Finance & IT (F&I), (ii) Marketing, (iii) Production, (iv) Supply Chain and Corporate Sourcing (v) Admin & HR. All departments report to respective MD(s) who are responsible for delivering the bottom line and agreed goals & targets of SBU's. MDs, CFO, Director Projects, Director HR, and Director IR report to the CEO designate.

Management Team Mr. Muhammad Salman Hafeez Malik is the CEO designate of the Company. He carries twenty-five years of professional experience and is a Chartered Accountant. He has been working with this group since 2019. Mr. Afnan Mansoor, CFO of the Company, has been associated since the year 2009. He is a Chartered Accountant.

Effectiveness The management meetings are held on a periodic basis with follow-up points to resolve or proactively address operational issues, if any, eventually ensuring a smooth flow of operations. These meetings are headed by the CEO.

MIS The Company's daily and monthly MIS comprises comprehensive performance reports which are reviewed frequently by senior management. Recognizing the need for quality information systems to control and maintain the efficiency of operations, the company has implemented an Oracle-based ERP solution - Oracle E-business suite, Harmony version 4.

Control Environment US Apparel & Textiles utilize management systems as their mechanism for ensuring control. There is clear evidence of these systems being audited and certified externally. The Company has attained ISO 14001, 45001, 9001 SA8000, WRAP, Sedex, ISO 9001, OekoTex, GRS, RCS, OCS, SLCP light, STEP, CR 360, Higg FEM 3.0, and GOTS certification.

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 US Apparel & Textiles (Private) Limited is principally engaged in the manufacturing and export of ready-made garments. In Pakistan's denim sector, US Apparel is one of the top exporters.

Revenues In FY23, the company witnessed an improvement in its top line, reaching PKR 51.9bln compared to PKR 44.6bln in FY22, marking a significant 16% YoY increase. The contribution of exports accounted for 98.7%, while the local market contributed 1.2% to the revenue base. Gross profits during FY23 increased to PKR 13.9bln from PKR 10.3bln in FY22. Consequently, the net profitability experienced substantial growth, reaching PKR 9bln compared to PKR 5.2bln in FY22, reflecting an impressive growth rate of 98%.

Margins During FY23, the gross profit margin stood at 26.8% (FY22: 23.2%) attributable to the rationalization of cost structure and improved pricing. The management closely monitors operating expenses, translating into an improved operating profit margin of 20.1% (FY22: 16.2%). Hence, the net profit margin clocked in at 17.4% (FY22: 11.7%).

Sustainability During the year Company enhanced its capacity by 15,000 Pcs per day. This will cater to expansion in the revenue base and strengthen the business profile of the company.

Financial Risk

Working Capital In FY23, the Company's net working capital cycle increased to 38 days, compared to 30 days in FY22, primarily due to an uptick in inventory days (FY23: 44 days, FY22: 36 days), while receivable days remained consistent (33 days in both FY23 and FY22). The Company's net trade assets recorded a 6% increase, reaching PKR 13.7bln (FY22: PKR 12.9bln), indicating a healthy cushion in trade assets.

Coverages In FY23, Free Cash Flows from Operations (FCFO) surged, reaching PKR 9.9bln, compared to PKR 6.0bln in FY22, driven by a substantial YoY increase in EBITDA. The Company's lease liability amounted to PKR 60.6mln in FY23, down from PKR 91mln in FY22. The robust coverage of the Company is noteworthy, given its absence of borrowing.

Capitalization The Company fortifies its financial structure through a stalwart equity position of PKR 18.3bln, demonstrating a commendable surge from the previous fiscal year's standing at PKR 14.8bln. Remarkably, the absence of on-balance sheet borrowing underscores the company's judicious financial management, with leveraging strategically orchestrated through diverse funded and non-funded facilities sourced from different institutions.



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

US Apparel and Textiles (Pvt.) Ltd Textile Composite	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	8,164	7,432	5,564	4,918
2 Investments	1,911	1,184	1,186	1,092
3 Related Party Exposure	-	-	202	914
4 Current Assets	17,719	14,990	10,589	9,575
<i>a Inventories</i>	7,372	5,258	3,446	3,277
<i>b Trade Receivables</i>	3,676	5,580	2,488	2,199
5 Total Assets	27,795	23,606	17,542	16,499
6 Current Liabilities	6,643	7,485	4,688	4,597
<i>a Trade Payables</i>	5,329	5,781	3,538	2,783
7 Borrowings	89	125	226	133
8 Related Party Exposure	2,654	1,173	162	171
9 Non-Current Liabilities	67	48	83	83
10 Net Assets	18,342	14,776	12,382	11,515
11 Shareholders' Equity	18,342	14,776	12,382	11,515
B INCOME STATEMENT				
1 Sales	51,916	44,660	30,686	29,655
<i>a Cost of Good Sold</i>	(37,983)	(34,314)	(23,717)	(23,276)
2 Gross Profit	13,932	10,346	6,968	6,379
<i>a Operating Expenses</i>	(3,478)	(3,107)	(2,194)	(2,257)
3 Operating Profit	10,454	7,238	4,774	4,122
<i>a Non Operating Income or (Expense)</i>	(127)	(1,070)	(1,625)	(1,412)
4 Profit or (Loss) before Interest and Tax	10,327	6,168	3,149	2,710
<i>a Total Finance Cost</i>	(615)	(367)	(249)	(216)
<i>b Taxation</i>	(679)	(589)	(311)	(290)
6 Net Income Or (Loss)	9,033	5,212	2,589	2,204
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	9,939	7,173	4,141	4,074
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	9,334	5,735	3,050	3,188
<i>c Changes in Working Capital</i>	(1,643)	(1,666)	(1,089)	581
1 Net Cash provided by Operating Activities	7,691	4,070	1,961	3,769
2 Net Cash (Used in) or Available From Investing Activities	(2,185)	(2,246)	(326)	(1,450)
3 Net Cash (Used in) or Available From Financing Activities	(3,602)	(3,298)	(1,813)	(2,795)
4 Net Cash generated or (Used) during the period	1,904	(1,475)	(178)	(475)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	16.2%	45.5%	3.5%	0.0%
<i>b Gross Profit Margin</i>	26.8%	23.2%	22.7%	21.5%
<i>c Net Profit Margin</i>	17.4%	11.7%	8.4%	7.4%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	16.0%	12.3%	9.9%	15.7%
<i>e Return on Equity Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	54.6%	38.4%	21.7%	19.1%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	77	69	94	N/A
<i>b Net Working Capital (Average Days)</i>	38	30	56	-7
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.7	2.0	2.3	2.1
3 Coverages				
<i>a EBITDA / Finance Cost</i>	1035.1	700.4	728.5	N/A
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	249.4	160.8	237.1	N/A
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.3	0.2	0.1	0.1
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	13.0%	7.9%	2.8%	2.2%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0	N/A
<i>c Entity Average Borrowing Rate</i>	0.6%	1.6%	2.8%	0.0%

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+	
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-	
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):

- 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

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 | 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

(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