



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
04-Mar-2022	A+	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

US Apparel & Textiles (Private) Limited (US Apparel) is a prominent textile venture of US Group. The group companies operate under the umbrella of AJ holdings – flagship HoldCo of the group. The groups leveraging is nil, which is much of a conscious group decision. Sponsors exercise oversight of the businesses and professional management, well-equipped and well-experienced, spearhead the individual companies. Strategic direction is meticulously worked out and rigorously followed once decided and finalized. The Company is principally engaged in the manufacturing and export of ready-made garments. The Company’s management has experienced professionals, aided by comprehensive reporting, where operations of the Company are supervised with complete autonomy. Its established business profile emanating from strong presence in the broader value-chain; enabling the company to manage volatility in the textile industry. The rating reflects a steady revenue base in recent years. The topline primarily consists of exports. The company’s top line clocked in at PKR 30.7bln in FY21 (FY20: PKR 29.7bln) Up by 3.5%. Margins remained largely sustained where growth recorded in revenue. US Apparel continues to maintain Favorable capital structure and strong coverages signifying robust financial profile. Going forward, the Company is planning capacity enhancement projects of 20,000 Pcs per day. The Company also planning addition of 3MW in existing solar capacity of 4 M W. This will cater to expansion in revenue base and strengthening business profile of the company.

Textile exports of the country recorded a double-digit increase of ~23% for FY21 to stand at USD 15.4bln as compared to USD 12.5bln in FY20. The same trend continued and exports recorded 27% growth to stand at USD 4.4bln in first-quarter ending September 2021. The growth is attributable 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 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(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	Iram Shahzadi iram.shahzadi@pacra.com +92-42-35869504

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 subsidiary 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 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 business profile and operations of almost all group companies, reflects 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. Mr. Asif Malik is CEO - designate.

Members' Profile The members of the Board have relevant stature and extensive experience of over three decades of 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 formally documented in minutes.

Financial Transparency EY Ford Rhodes Chartered Accountants, who are in 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 ended June 30th, 2021.

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 capacity to produce 25 mln units annually. The Manufacturing Unit 2 & Unit 5 fall under sBU USA and Unit 1-R, Unit 3 & Unit 4 fall in 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 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 to deliver the bottom line and agreed goals & targets of sBU's. MD's, CFO, Director Projects, Director HR, Director IR report to CEO designate.

Management Team Mr. Asif Malik is the CEO designate of the Company. Mr. Asif is a mechanical engineer and carries twenty-five years of professional experience. He has been working with this group since 2017. Mr. Afnan Mansoor, CFO of the Company, has been associated since year 2009. He is a Chartered Accountant.

Effectiveness The management meetings are held on periodic basis with follow-up points to resolve or pro-actively address operational issues, if any, eventually ensuring 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 Textile exports of the country recorded an increase of 28.6% to stand at USD 2.9bln as compared to USD 2.3bln from July 21 to Aug 21 due to an increase in demand for textile products internationally, led by a 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. 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 refinancing scheme also provided comfort to the sector in the last year. Many players have also availed the TERF scheme announced by the Central Bank. This will lead to overall leveraging of the sector to increase; however, on relaxed financing rates. The sustainability of demand pattern for the current higher orders from Europe and USA etc) textile sector remains essential for the feasible utilization of added capacity by textile players.

Relative Position The Apparel division is further divided into sub-business units. The sBU-USA and sBU-UK/EU have five garment manufacturing units with capacity to produce 30 mln units annually. The Manufacturing Unit 2 & Unit 5 fall under sBU USA and Unit 3, Unit 4 & Unit 1R fall in sBU UK/EU. The Manufacturing Unit US Denim Mills, third sBU is fabric mill that produces 40 mln meters of fabric annually.

Revenues The analysis of last three years reveals that the Company's revenue base has remained around PKR 30Bln. During FY21, the Company's top line has improved to PKR 30.7bln (FY20: PKR 29.7bln). The contribution of exports towards the revenue is more than 98%. During FY21, net margins clocked in at PKR 2.5bln (FY20: PKR 2.2bln), up by 13.6% YoY. During 1QFY22, the Company recorded net revenue at PKR 9.8bln.

Margins During FY21, gross profit margin stood at 22.7% (FY20: 21.5%) attributable to rationalization of cost structure and improved pricing. The management closely monitors operating expenses, resulting in the improved operating profit margin of 10.3% (FY20: 9.1%). Hence, net profit margin clocked at 8.4% (FY20: 7.4%). During 1QFY22, the Company reported a net margin of 13.5%.

Sustainability The Company is planning capacity enhancement projects of 20,000 Pcs per day. The Company also planning addition of 3MW in existing solar capacity of 4 M W. This will cater to expansion in revenue base and strengthening business profile of the company.

Financial Risk

Working Capital During FY21, the Company's net working capital cycle recorded marginal decrease to 30days (FY20: 32days) attributable to slight attrition in receivable days (FY21: 28days, FY20: 29days) and movement in payable days (FY21: 38days; FY20: 35days). The Company's net trade assets increased by 11.5% to clock in at PKR 8,457mln (FY20: PKR 7,585mln) which reflects good cushion in trade assets. In the 1QFY22, Company's working capital cycle stood at 22days due to the decrease in inventory days (1QFY22: 29days; FY21: 40days).

Coverages Free Cash Flows from Operations (FCFO) increased in FY21 and clocked in at PKR 4,141mln on the back of higher EBITDA YoY. The Company has a lease liability of PKR 93mln in FY21. Hence, coverage of the Company is very strong because the Company has no borrowing. During 1QFY22, the EBITDA of the Company stood at PKR 1.7bln (FY21: PKR 4.1bln).

Capitalization The capital structure of the Company is strong. Equity of the Company is at PKR 12.4bln (FY20: PKR 11.5bln). The Company has no on balance sheet borrowing. The leveraging stems from the funded & non-funded facilities kept by the Company from different institutions.



The Pakistan Credit Rating Agency Limited

US Apparel & Textiles (Pvt.) Limited Garments	Sep-21 3M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
5 Total Assets	17,669	17,542	16,499	16,040
10 Net Assets	12,772	12,382	11,515	12,140
11 Shareholders' Equity	12,772	12,382	11,515	12,140
B INCOME STATEMENT				
1 Sales	9,837	30,686	29,655	30,257
4 Profit or (Loss) before Interest and Tax	1,493	3,149	2,710	5,230
6 Net Income Or (Loss)	1,332	2,589	2,204	4,778
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	1,724	4,141	4,074	5,627
b Net Cash from Operating Activities before Working Capital Changes	1,443	3,050	3,188	4,866
c Changes in Working Capital	(125)	(1,089)	581	1,317
1 Net Cash provided by Operating Activities	1,318	1,961	3,769	6,184
2 Net Cash (Used in) or Available From Investing Activities	(306)	(326)	(1,450)	1,208
3 Net Cash (Used in) or Available From Financing Activities	(861)	(1,813)	(2,795)	(7,318)
4 Net Cash generated or (Used) during the period	151	(178)	(475)	74
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	28.2%	3.5%	-2.0%	--
b Gross Profit Margin	23.0%	22.7%	21.5%	21.9%
c Net Profit Margin	13.5%	8.4%	7.4%	15.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	16.3%	9.9%	15.7%	23.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	55	68	66	54
b Net Working Capital (Average Days)	22	30	32	19

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