



The Pakistan Credit Rating Agency Limited

Rating Report

Latif Textile Mills (Pvt.) Limited

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Rating History

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

Rating Rationale and Key Rating Drivers

The assigned ratings of Latif Textile reflect adequate positioning of the Company in the relative universe. The Company is 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 towel. The installed capacity is 20,160 spindles and 2,880 rotors along with 48 terry looms for towel weaving. Board comprises of two members where both are from sponsoring family. The Company's management involves experienced professionals looking after operations of the Company. During FY21, the Company's revenues stood at PKR 2.6bln (FY20: PKR 2.5bln). Sales mix, dominated by local sales, display stagnancy over the years. The Company enjoys established customer base in local market which drives the major revenue. Operating profits and net profitability recorded sizable improvement in the recent year whilst margins remained good. Management of receivables is essential for the Company. The financial risk matrix displays moderate leveraging and improvement in coverage compared to last year. The company is expected to adhere to conservative financial discipline, which would be crucial to ratings. During the period July-December FY21-22, textile exports of Pakistan 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.

The ratings are dependent upon the management's ability to capitalize on growth opportunities in a competitive landscape, operate at optimal level and sustain margins, going forward. The future prospects of the Company will require significant enhancement in exports and parallel revenue streams to provide comfort to the fundamental source.

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(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	Rameel Amir rameel.amir@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. The Company is 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 towel. Over the years, the Company has expanded its operations and developed expertise across the various processes in the manufacturing chain. The company has also recently stepped into the international market.

Operations Latif Textile is primarily engaged in spinning with 20,160 spindles and 2,880 rotors, generating total capacity of ~13.5mln-Kgs per annum. The company has also installed the facility for towel weaving with 48 terry looms generating capacity of ~1mln-Kgs. The total energy requirement of the company clocks in at ~5.1MW 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 possess robust experience. The Company's relies on the philosophy of sustainable, localized growth. Latif Textile is determined to seek continual improvement and upgrade their processes & systems to stay at par with international technology.

Financial Strength The sponsors of the Company do not have any major businesses apart from Latif Textile. However, the sponsors hold 11% shareholding in Gul Ahmed Energy (Rated A- by PACRA) and Mr. Ubaid Amanullah s/o. Mr. Amanullah Haji Latif is COO of Gul Ahmed Energy. The sponsors of the Company are committed to support Latif Textile in the 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. Presence of sponsors on board and lack of independent oversight reflects room for improvement in governance framework. Directors have been associated with the board for 10 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 20 years. Mr. Jawad Junaid (CEO) is BSc. Honors in Management & Marketing of Textiles from 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 ended June 30th, 2021. 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 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 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. 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. The relief measures introduced by the State Bank of Pakistan such as deferment of loan payments for one year, low-interest rates, and salary refinance scheme also provided comfort to the sector. Many players have also availed the TERF scheme announced by the Central Bank.

Relative Position With 20,160 spindles, 2,880 rotors and 48 terry looms, Latif Textile is able to land in the middle tier of textile industry.

Revenues During FY21, Latif Textile's topline amounted to PKR 2,609mln (FY20: PKR 2,502mln) growing by 4.3%. The Company's topline predominately comprises yarn sales being 98% (FY20: 99%). The company earned remaining revenue from weaving segment. During FY21, the Company has also entered into the export market and earned PKR 12.3mln revenue.

Margins Gross profit margin augmented to 17% (FY20: 8.7%) and operating profit margin was increased to 11.4% (FY20: 3.9%). This increase is driven by decrease in raw material cost. The Company's finance cost decreased to PKR 88mln (FY20: PKR 112mln). Consequently, net profit margin of Latif Textile increased to 6.5% (FY20: 1.6%).

Sustainability Latif Textile Mills recognizes the importance of sustainable practices both while manufacturing and procuring. Balancing, Modernization, and Replacement (BMR) is a regular feature as the Company believes in state-of-the-art machinery and processes. Moreover, the Company has established a system where all the waste from the spinning and weaving process is recycled.

Financial Risk

Working Capital Latif Textile's net working capital cycle increased during FY21 to 124days (FY20: 107 days) driven by 61% increase in receivable days (FY21: 53 days; FY20: 33 days). Short-term borrowings were reduced by 35% to PKR 622mln (FY20: PKR 841mln).

Coverages During FY21, interest coverage ratio increased to 3.9x (FY20: 1.0x) whereas debt coverage ratio increased to 1.9x (FY20: 0.5x). This improvement in coverages is driven by augmentation in free cash flows (FCFO) which clocked in at PKR 337mln (FY20: PKR 108mln). Going forward, momentum in performance is expected to continue over the years.

Capitalization During FY21, the Company's capital structure remained leveraged at 39.5% (FY20: 59.2%). The Company's leveraging improved due to increase in revaluation surplus to PKR 767mln (FY20: PKR 306mln) and unappropriated profit being PKR 271mln (FY20: 105mln). The Company recorded total equity of PKR 1,379mln (FY20: 769mln). Going forward, strengthening of equity base by retention of profits remains vital as this enhances risk absorption capacity.



Latif Textile Mills (Pvt.) Ltd. Textile - Composite	Jun-21 12M	Jun-20 12M	Jun-19 12M
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A BALANCE SHEET

1 Non-Current Assets	1,767	1,251	1,072
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	1,014	1,117	723
<i>a Inventories</i>	431	810	441
<i>b Trade Receivables</i>	522	241	207
5 Total Assets	2,781	2,368	1,795
6 Current Liabilities	305	336	381
<i>a Trade Payables</i>	89	138	89
7 Borrowings	900	1,117	493
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	198	147	153
10 Net Assets	1,379	769	768
11 Shareholders' Equity	1,379	769	768

B INCOME STATEMENT

1 Sales	2,609	2,502	3,022
<i>a Cost of Good Sold</i>	(2,166)	(2,285)	(2,849)
2 Gross Profit	443	217	173
<i>a Operating Expenses</i>	(147)	(120)	(136)
3 Operating Profit	296	97	37
<i>a Non Operating Income or (Expense)</i>	(4)	100	118
4 Profit or (Loss) before Interest and Tax	293	197	155
<i>a Total Finance Cost</i>	(88)	(112)	(68)
<i>b Taxation</i>	(36)	(45)	(30)
6 Net Income Or (Loss)	168	39	57

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	337	108	96
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	238	11	37
<i>c Changes in Working Capital</i>	82	(321)	(60)
1 Net Cash provided by Operating Activities	321	(310)	(22)
2 Net Cash (Used in) or Available From Investing Activities	(86)	(275)	(68)
3 Net Cash (Used in) or Available From Financing Activities	(16)	177	56
4 Net Cash generated or (Used) during the period	219	(407)	(35)

D RATIO ANALYSIS

1 Performance			
<i>a Sales Growth (for the period)</i>	4.3%	-17.2%	--
<i>b Gross Profit Margin</i>	17.0%	8.7%	5.7%
<i>c Net Profit Margin</i>	6.5%	1.6%	1.9%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	16.1%	-8.5%	1.2%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/SI)</i>	15.7%	5.1%	7.4%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	140	124	59
<i>b Net Working Capital (Average Days)</i>	124	107	48
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	3.3	3.3	1.9
3 Coverages			
<i>a EBITDA / Finance Cost</i>	4.5	1.6	1.8
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.9	0.5	0.6
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.1	-101.5	5.2
4 Capital Structure			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	39.5%	59.2%	39.1%
<i>b Interest or Markup Payable (Days)</i>	77.3	112.1	101.2
<i>c Entity Average Borrowing Rate</i>	8.6%	13.8%	13.6%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

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



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

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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

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

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

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- (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.
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (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)
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- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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