The Pakistan Credit Rating Agency Limited

Rating Report

Glamour Textile Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Nov-2022	BBB-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned ratings of Glamour Textile Mills Limited reflect the adequate positioning of the company in the textile spinning industry. The company deals in manufacturing of carded yarn of three blends: Cotton, Polyester cotton & Viscose (Coarse (1s –20s), Medium (21s –34s), Fine (36s –47s) & S. Fine (48s–80s). The Company imports 70% of its cotton from the United States, Brazil, and Africa, with the remaining 30% coming from Punjab and Sindh. The efficiency parameters reflect room for improvement. The ratings incorporate the Company’s moderate yet improving business profile where revenue emanates from a single segment. Further improvement in the control environment remains vital. Management meetings are held regularly with follow-up points to resolve or proactively address operational issues, eventually ensuring a smooth flow of operations. The liquidity profile is underpinned by adequate cash flow coverages in relation to outstanding obligations. The ratings also incorporate a low-leveraged capital structure. The Company’s capital needs emanate from financing inventories and trade receivables for which the Company relies on short term borrowings (STBs). The Company is a family-owned enterprise. It has an eight-member board dominated by the presence of sponsors and their families.
During FY22, Pakistan's textile exports surged to $19.3bln (recording a growth of 26%). Exports grew owing to increased volumetric growth of (16% YoY) in the value-added segment, a steep rise in global demand, and record-high cotton prices. Under the value-added category, the knitwear segment remained the top performer by posting 34% YoY growth in exports to $5.1 billion in FY22 due to a sharp rise in global demand, especially in the US and European countries. Other value-added segments such as ready-made garments, bed wear, and towel posted YoY growth of 29%, 19%, and 19% to $3.9 billion, $3.3 billion, and $1.1 billion respectively. However, a slowdown is expected in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries.

The ratings are dependent on the Company’s ability to sustain its operations in prevailing conditions. Excessive borrowing, leading to higher leverage and/or deterioration in coverages, can impact the ratings.

Disclosure	
Name of Rated Entity	Glamour Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Spinning(Sep-22)
Rating Analysts	Iram Shahzadi | iram.shahzadi@pacra.com | +92-42-35869504

Profile

Legal Structure Glamour Textile Mills Limited ('Glamour' or 'The Company') was established in 1991. The Company's production facility is located in Manga - Raiwind Road, Raiwind, Kasur.

Background 'Glamour Textile Mills Limited (the Company) was incorporated under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017) on September 14, 1991 and was quoted on Pakistan Stock Exchange Limited (PSX). On May 21, 2018 it was delisted in accordance with the regulation no. 5.13 of PSX. Now it is a public company under the Companies Act, 2017.

Operations The principal business of the Company is the manufacturing and sale of yarn. The Company operates a single spinning unit with 48,720 spindles. The Company's head office and production facility are located in Manga Raiwind Road, District Lahore.

Ownership

Ownership Structure Shareholding of the company is distributed among eight family members of "Elahi Family". Mr. Asad Elahi directly owns 27% and indirectly through his wife and his two sons owns 2%, Mr. Azhar Elahi directly 27% and indirectly through his wife and his son own 2%, Mr. Ather Javed Elahi directly 26% and indirectly through his wife and his son owns 2% and the remaining is with Mr. Mansoor Elahi and joint stock companies.

Stability The Company was set up to engage and transfer over the technical and business skills of the first generation to the second generation of the Elahi family. The Company encompasses the advice and expertise of first-generation the and leadership of the new generation. Although, no official succession plan has been announced to date.

Business Acumen The sponsors have vast experience and knowledge of various aspects of textile value-chain.

Financial Strength The sponsoring family has been involved in multiple businesses for more than 20 years. The family is involved in tanneries and garment manufacturing. This indicates sponsors' ability to provide support if the need arises.

Governance

Board Structure The Company has eight-members board with the presence of sponsors and their families. The position of CEO is vested with Mr. M. Azhar Elahi. Hence, the Chairman of the Company is Mr. Asad Elahi.

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

Board Effectiveness BoD meetings are held regularly in which discussion on various aspect are recorded in minutes and decision or action is referred to CEO, Mr. Azhar Elahi.

Financial Transparency External auditors of the company "PKF F.R.A.N.T.S & Co" are listed under category "B" by SBP. The auditors issued an unqualified opinion on the Company's financial statements for the year ended 30th June, 2021 and June 2022 is under process.

Management

Organizational Structure The organizational structure of the Company is divided into three main departments namely, i) Procurement, ii) Administration and IT, iii) Marketing and iv) Technical. All department reports directly to the CEO.

Management Team Mr. Azhar Elahi, CEO of the Company has completed his B.Sc Engineering and has been associated with the textile business since 2004, earning him the excessive experience to run to handle the affairs of the Company. Other members of the management are also experienced and equipped with knowledge of the Company and industry at large.

Effectiveness The Company has no management committees. Sponsor's close involvement in day to day affairs of the business bodes well with the effectiveness of the Company.

MIS The Company has built an in-house ERP to cater to its business needs. The senior management monitors the business performance through certain Key MIS reports.

Control Environment Production is completely order driven, there is a rigorous quality check done on the end product by the QC department. The Company has obtained ISO 9001 certification.

Business Risk

Industry Dynamics During FY22, Pakistan's textile exports surged to $19.3bln (recording a growth of 26%). Exports grew owing to increased volumetric growth of (16% YoY) in the value-added segment, a steep rise in global demand, and record high cotton prices. Under the value-added category, the knitwear segment remained the top performer by posting 34% YoY growth in exports to $5.1 billion in FY22 due to a sharp rise in global demand, especially in the US and European countries. Other value-added segments such as ready-made garments, bed wear, and towel posted YoY growth of 29%, 19%, and 19% to $3.9 billion, $3.3 billion, and $1.1 billion respectively. However, a slowdown is expected in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries.

Relative Position With 48,720 operational Spindles, Glamour Textile Mills Limited standalone position in Pakistan's Spindle capacity is considered small.

Revenues During FY22, the Company's revenue grew by 50% to stand at PKR 5,020mln; (FY21: PKR 3,342mln) on the back of improved prices of yarn in local and international markets. The cost of sales of the company is inclined due to the increase in the prices of fuel and energy. Same with the case for the Company's operating expenses, as they also inclined by 89% and stood at PKR 55mln (FY21: PKR 29mln). This scenario ultimately translated into an operating profit of PKR 383mln (FY21: PKR 459mln). Finance costs also increased driven by the increase in the key policy rate. After the incorporation of finance costs, the net profit for FY22 stood at PKR 198mln (FY21: 291mln).

Margins During FY22, the Company's cost of goods sold increased by 60% to PKR 4,582mln (FY21: PKR 2,855mln). Consequently, the gross profit margin declined to 8.7% (FY21: 14.6%) and the operating profit margin to 7.6% (FY21: 13.7%).

Sustainability Going forward, with better efficiency and a specialized product profile, the management expects Glamour Textile's margins to improve further.

Financial Risk

Working Capital During FY22, the Company's net working capital days slightly decreased to 59 days (FY21: 60 days) due to decrease in inventory (FY22: PKR 44mln, FY21: PKR 61mln). On the other hand, the Company's short term trade leverage increased and stood at 9.5% in FY22 (FY21: 6.7%). In FY22, current ratio of the Company is 5.9x (FY21: 3.7x).

Coverages FCFO of the Company during FY22 decreased to PKR 424mln (FY21: PKR 471mln) due to a decrease in profitability. Higher finance costs weakened the interest coverage ratio to 5.1x in FY22 (FY21: 14.3x).

Capitalization During FY22, the Company's leveraging deteriorates to 36.7% (FY21: 35.8%). Short-term borrowings makeup up 90% of the total borrowings, increased to PKR 989mln in FY22 (FY21: 645mln) and the overall borrowings of the Company also showed an upward trend and closed at PKR 1,099mln at the end of FY22 (FY21: 743mln).

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Glamour Textile Mills Limited Textile & Allied | Spinning	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET			
1 Non-Current Assets	1,920	1,372	1,130
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	1,398	1,009	900
a Inventories	*712*	*503*	*619*
b Trade Receivables	*291*	*221*	*32*
5 Total Assets	3,318	2,381	2,030
6 Current Liabilities	236	274	327
a Trade Payables	*53*	*63*	*205*
7 Borrowings	1,099	743	655
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	86	28	4
10 Net Assets	1,897	1,335	1,044
11 Shareholders' Equity	1,897	1,335	1,044
B INCOME STATEMENT			
1 Sales	5,020	3,342	2,325
a Cost of Good Sold	*(4,582)*	*(2,855)*	*(2,252)*
2 Gross Profit	438	488	72
a Operating Expenses	(55)	(29)	(30)
3 Operating Profit	383	459	43
a Non Operating Income or (Expense)	*(31)*	*(29)*	*(14)*
4 Profit or (Loss) before Interest and Tax	353	430	29
a Total Finance Cost	*(92)*	*(36)*	*(59)*
b Taxation	*(63)*	*(103)*	*34*
6 Net Income Or (Loss)	198	291	4
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*424*	*471*	*82*
b Net Cash from Operating Activities before Working Capital Changes	*338*	*430*	*24*
c Changes in Working Capital	*(470)*	*(172)*	*(77)*
1 Net Cash provided by Operating Activities	(132)	259	(53)
2 Net Cash (Used in) or Available From Investing Activities	(243)	(311)	(15)
3 Net Cash (Used in) or Available From Financing Activities	355	89	68
4 Net Cash generated or (Used) during the period	(20)	36	(1)
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	50.2%	43.8%	--
b Gross Profit Margin	8.7%	14.6%	3.1%
c Net Profit Margin	3.9%	8.7%	0.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-0.9%	8.9%	0.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	12.3%	24.5%	0.4%
2 Working Capital Management			
a Gross Working Capital (Average Days)	63	75	102
b Net Working Capital (Average Days)	59	60	70
c Current Ratio (Current Assets / Current Liabilities)	5.9	3.7	2.7
3 Coverages			
a EBITDA / Finance Cost	5.8	16.5	2.3
b FCFO / Finance Cost+CMLTB+Excess STB	5.1	14.3	0.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.3	0.2	3.1
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	36.7%	35.8%	38.5%
b Interest or Markup Payable (Days)	0.0	0.0	0.0
c Entity Average Borrowing Rate	9.0%	4.7%	8.4%

Credit Rating

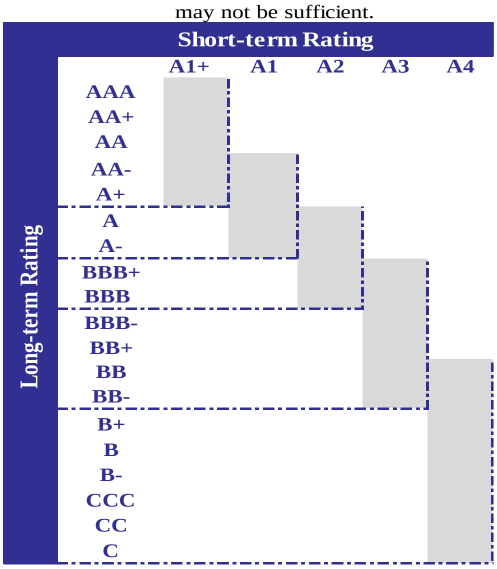
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

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

Short-term Rating

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



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

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

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

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

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

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

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

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

Entities
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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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 | 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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