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
13-Nov-2023	BBB-	A2	Stable	Maintain	-
16-Nov-2022	BBB-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Glamour Textile Mills Limited ("The Company" or "GLMT") rating reflects an adequate market share in the textile spinning industry of Pakistan as the Company has 42,384 spindles in comparison to an industry's installed capacity of ~13.4mln spindles. As of FY23, the spinning industry has a capacity utilization of ~69.3%. The company has a presence in the local market and deals in manufacturing carded yarn of two blends Cotton, and viscose (Coarse (1s –20s), Medium (21s –34s), Fine (36s –47s) & S. Fine (48s–80s). The Companies dedicated to spinning only have an inherent risk of 100% single product concentration and dependency on a sole raw material, primarily raw cotton. This situation can lead to potential vulnerabilities in the supply chain if the supply side disrupts. According to the Pakistan Bureau of Statistics (PBS), as of FY23, Pakistan's yarn production stood at 281,000MT (PKR 212bln export value) and showed a volumetric dip of ~22.0% with respect to the same corresponding period last year. The projected cotton production estimate of FY24 is revised and projected to be 11.5mln bales and currently, production reached up to ~6.0mln bales surpassing FY23's total production of 4.91mln bales. In addition, the economic recession and last season's catastrophic flooding in a substantial portion of Pakistan have had a detrimental impact on cotton crops, potentially posing a barrier to raw material availability. As a result, the cost of production is likely to rise, and as a result, finished goods costs, such as yarn, are predicted to increase as well. However, in FY24 better local raw cotton yield is expected to supplement the Companies for import substitution. Pakistan's requirement for imported cotton stands at 3.5 million bales to 4 million bales this year. The uplift of subsidized rates on energy tariffs, the surge in tax burden, and uncertainty with respect to the PKR movement are other challenges specific to the industry. The top line of the Company declined by 22% mainly on the back of sluggish yar demand coupled with the economic recession. During the period under review, expensive raw material procurement coupled with higher interest and tax burden has triggered loss after tax and squeezed the margins of the Company. The company's financial risk profile is adequate, given the inventory management at an optimal level and the dip in short-term trade leverage. The company's cash flows are under stress creating pressure on the coverages. The Company's low-leveraged capital structure has mainly supplemented the financial risk profile.

The ratings are dependent on the Company's ability to sustain its operations and capacity utilization in prevailing conditions. The adherence to the debt matrix at an optimal level along with maintaining cashflows and coverages at an adequate level remains critical for the ratings. The impact of elevated energy tariffs on the Company's profitability and margins needs to be observed

Disclosure

Name of Rated Entity	Glamour Textile Mills 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 | Spinning(Sep-23)
Rating Analysts	Muhammad Harris Ghaffar | harris.ghaffar@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 The company encompasses the advice and expertise of first-generation and the 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 the 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 The company's external auditors "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 2022 while the audit of financial year 23 is underway.

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. The sponsor's close involvement in day to day affairs of the business bodes well for 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 According to the latest data published by the Pakistan Bureau of Statistics (PBS) Pakistan textile exports witnessed a decline of 9.95% during the first quarter (July-September) of the current fiscal year and it stood at USD4.3bln compared to USD 4.6bln during the same period of 2022-23. The projected cotton production estimate is revised and projected to be 11.5mln bales and currently, production reached up to ~6.0mln bales surpassing FY23 total production of 4.91mln bales. In addition, economic recession and last season's catastrophic flooding in a substantial portion of Pakistan have had a detrimental impact on cotton crops, potentially posing a barrier to raw material availability. As a result, the cost of production is likely to rise, and as a result, finished goods costs, such as yarn, are predicted to increase as well. However, in FY24 better local raw cotton yield is expected and supplement the Companies for import substitution. Pakistan's requirement for imported cotton stands at 3.5 million bales to 4 million bales this year. Stiff competition from textile-based countries internationally and locally as well. Internationally India is the main competitor as their government gives a rebate of 7% to their exporters of yarn which gives a big hit to the Pakistan exporters of yarn

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

Revenues During FY23, the Company's revenue declined to stand at PKR 3,914mln; (FY22: PKR 5,020mln) on the back of demand shortage of yarn in local and international markets. The cost of sales has declined too due to decreased procurement of raw materials. The same with the case for the Company's operating expenses, as they also decreased and stood at PKR 41mln (FY22: PKR 55mln). This scenario ultimately translated into an operating profit of PKR 146mln (FY22: PKR 417mln). Finance costs also increased driven by the increase in the key policy rate (FY23: PKR 119mln, FY22: PKR 91mln). After the incorporation of finance costs, the net loss for FY23 stood at PKR 25mln (FY22: (profit) 198mln).

Margins During FY23, the Company's cost of goods sold decreased by 18% to PKR 3,728mln (FY22: PKR 4,548mln). Consequently, the gross profit margin declined to 4.8% (FY22: 8.7%) and the operating profit margin to 3.7% (FY22: 8.3%). While the net margin of the Company stood at 3.3% (FY22: 7.6%).

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 FY23, the Company's net working capital days extended to 75 days (FY22: 60 days) due to an increase in trade receivable days (FY23: 28 days, FY22: 19 days). On the other hand, the Company's short-term trade leverage decreased and stood at 0.1% in FY23 (FY22: 8.5%). In FY23, the current ratio of the Company is 3.9x (FY22: 5.6x).

Coverages FCFO of the Company during FY23 decreased to PKR 153mln (FY22: PKR 451mln) due to reported net losses. Higher finance costs weakened the interest coverage ratio to 1.4x in FY23 (FY22: 5.1x).

Capitalization During FY23, the Company's leverage increased to 30.7% (FY22: 36.8%). Short-term borrowings makeup 90% of the total borrowings, decreased to PKR 738mln in FY23 (FY22: 989mln) and the overall borrowings of the Company also reflected a downward trend and closed at PKR 822mln at the end of FY23 (FY22: 1,099mln).

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Financial Summary
PKR mln

Glamour Textile Mills Limited Textile & Allied | Spinning	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET			
1 Non-Current Assets	1,949	1,924	1,372
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	1,109	1,416	1,009
a Inventories	*356*	*753*	*503*
b Trade Receivables	*304*	*291*	*221*
5 Total Assets	3,058	3,339	2,381
6 Current Liabilities	283	251	274
a Trade Payables	*37*	*53*	*63*
7 Borrowings	822	1,099	743
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	94	105	28
10 Net Assets	1,859	1,884	1,335
11 Shareholders' Equity	1,859	1,884	1,335
B INCOME STATEMENT			
1 Sales	3,914	5,020	3,342
a Cost of Good Sold	*(3,728)*	*(4,548)*	*(2,855)*
2 Gross Profit	186	472	488
a Operating Expenses	(41)	(55)	(29)
3 Operating Profit	146	417	459
a Non Operating Income or (Expense)	*(15)*	*(38)*	*(26)*
4 Profit or (Loss) before Interest and Tax	130	379	433
a Total Finance Cost	*(119)*	*(91)*	*(36)*
b Taxation	*(36)*	*(96)*	*(103)*
6 Net Income Or (Loss)	(25)	192	294
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*153*	*451*	*473*
b Net Cash from Operating Activities before Working Capital Changes	*44*	*365*	*433*
c Changes in Working Capital	*370*	*(470)*	*(172)*
1 Net Cash provided by Operating Activities	414	(105)	261
2 Net Cash (Used in) or Available From Investing Activities	(147)	(273)	(311)
3 Net Cash (Used in) or Available From Financing Activities	(277)	355	89
4 Net Cash generated or (Used) during the period	(9)	(23)	39
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	-22.0%	50.2%	43.8%
b Gross Profit Margin	4.8%	9.4%	14.6%
c Net Profit Margin	-0.6%	3.8%	8.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	13.4%	-0.4%	9.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	-1.3%	11.9%	24.7%
2 Working Capital Management			
a Gross Working Capital (Average Days)	79	64	75
b Net Working Capital (Average Days)	75	60	60
c Current Ratio (Current Assets / Current Liabilities)	3.9	5.6	3.7
3 Coverages			
a EBITDA / Finance Cost	2.5	6.2	16.6
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	4.1	14.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.9	0.3	0.2
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	30.7%	36.8%	35.8%
b Interest or Markup Payable (Days)	68.6	59.0	0.0
c Entity Average Borrowing Rate	11.9%	9.0%	4.7%

Credit Rating

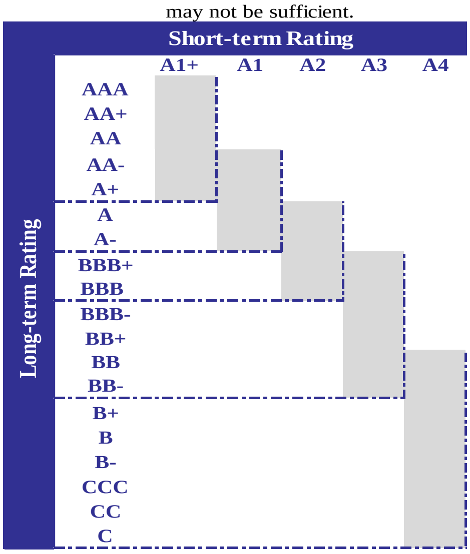
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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