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-2024	BBB-	A2	Stable	Maintain	-
13-Nov-2023	BBB-	A2	Stable	Maintain	-
16-Nov-2022	BBB-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Pakistan's yarn production declined by ~8.1% to ~2.5mln MT, while, export volumes showcased growth of ~25.6%, valuing ~USD 956mln (PKR 272bln), due to PKR depreciation during FY24. Economic recession and floods affected the cotton crop, depleting raw material availability and leading to higher yarn prices. However, during FY25, it's estimated that better quality and increased quantum of local cotton may supplement import substitution. However, the uplift of subsidized rates on energy tariffs, surge in tax burden, and PKR fluctuation remain a serious concern for the industry. Thus, placing the industry's outlook on a watch.
Glamour Textile Mills Limited's ('Glamour' or 'the Company') ratings reflect sponsors' acumen in the leather garments and spinning segments. The Company mainly operates in the local market and holds an adequate market by housing 42,384 spindles compared to the industry's installed capacity of ~13.4mln spindles. The revenue stems from trading imported fibre, and manufacturing and selling carded yarn of cotton and viscose blend from coarse to super fine counts (coarse | 1s –20s, medium | 21s –34s, fine | 36s –47s & super fine | 48s–80s). Despite sluggish demand for yarn during the economic slowdown, trading income led the overall revenue to post a growth of ~55%. However, procuring raw materials at a higher cost, tied to inflated interest rates and heightened tax burden impacted the Company's overall performance. The margins remain squeezed. On the financial risk front, capital structure is adequately backed by retained earnings. Borrowings – from JS Bank and Soneri Bank - remain in line with the working capital requirements. For Banks' margin cover, the sponsors pouch in their cash, as per management's representation. Glamour's cash flows are stressed creating pressure on the coverages. The Company requires a strategy revamp and concrete efforts to curtail energy-related costs. Incorporating best practices through an improved governance framework and stringent internal control mechanisms may benefit the Company.

The ratings are dependent on the Company's ability to sustain operations and capacity utilization in the prevailing conditions. Strict adherence to debt matrix along with maintaining cashflows and coverages at an adequate level remains imperative. Also, the impact of elevated energy tariffs on the Company's margins and in turn profitability 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 | Rating Modifiers(Apr-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology | Corporate Rating(Jul-24)
Related Research	Sector Study | Spinning(Oct-24)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Glamour Textile Mills Limited ('Glamour' or 'the Company') is a public limited company incorporated under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017) on 14-Sept-91.

Background In 1956, Elahi family entered in the business arena by setting up Pakistan Tannery, in Wazirabad, to manufacture and export leather jackets and other goods. Later, in 2004, Glamour - a listed concern and a spinning unit - was acquired. In 2005, Elahi family setup Glamour Graments, a demin manufacturing and export unit. In May-18, Glamour was delisted in accordance with the regulation no. 5.13 of PSX. Today, the Company manufacures coarse to super fine count of yarn, with an average count of 40s.

Operations The Company is primarily engaged in the manufacturing and sale of cotton yarn, along with fibre trading. Currently, the Company operates a single spinning unit with 48,348 spindles and a utilization level of ~74 %. The production facility and head office is located in Manga Raiwind Road, Kasur.

Ownership

Ownership Structure Ownership vests among Elahi family. Mr. Asad Elahi and Mr. Azhar Elahi, directly and through their families, holds an equal stake of ~29% in the Company. While, Mr. Ather Javed Elahi and family holds ~28% stake. The remaining stake resides with Mr. Mansoor Elahi and his family.

Stability The ownership is considered to remain stable as major shareholding resides with Elahi family, with gradual induction of second generation in the business. However, no formal succession plan has been documented and/or agreed among the members of Elahi family.

Business Acumen The sponsors holds stakes in textile segment through Glamour Textile and Glamour Graments, a demin manufacturing and exporting unit, along with interests in Pakistan Tanneries. Elahi family has been associated with textile value chain from a considerable span of time and have experienced numerous business cycles. They are well equiped with the relevant industry knowledge.

Financial Strength Elahi family holds substantial financial footings to support the Company, if needs be, going forward.

Governance

Board Structure Overall control of the Company vests with an eight member Board (BoD) that remains dominated by Elahi family. To enhance the decision making process, the BoD requires independence.

Members' Profile Mr. Asad Elahi chairs the BoD with an overall experience of over two decades. Other BoD members also carry signifcant experience in textile and allied chain.

Board Effectiveness The BoD meets on regular basis to discuss pertinent matters; while minutes of these meetings are recorded as per requirement. The BoD requires assisstance from formal BoD level committees for efficacy.

Financial Transparency The Company has appointed PKF FRANTS & Co. as the external auditors. The firm is QCR rated and on SBP panel in category 'B'. The auditor has issued an unqualified opinon on the financial statements for FY23. However, for FY24, the audit is still in process.

Management

Organizational Structure The Company operates through five departments - Procurement, Administration and IT, Marketing and Technical. All departmental reports directly to the CEO, who in consent with the BoD makes pertinent decisions.

Management Team Mr. Azhar Elahi, the CEO, has been associated with the textile business since 2004 and holds an overall experience of more than two decades. Other members of the management are familir with the Company's startegy and are also equipped with the relevant industry knowledge.

Effectiveness The Sponsor's remain closely involvement in day to day affairs of the Company to ensure effectiveness. However, there are no formal management level committees.

MIS The Company has built an in-house information system to cater to its needs. The senior management monitors the overall performance through certain key MIS reports, generated as per requirement.

Control Environment Production is completely order driven with pre-defined quality checks ensured by the Quality Control department. However, formal internal audit mechanism requires attention.

Business Risk

Industry Dynamics Pakistan's yarn production declined by ~8.1% to ~2.5mln MT; while, export volumes showcased growth of ~25.6%, valuing ~USD 956mln (PKR 272bln), due to PKR depreciation during FY24. In addition, the economic recession and last season's catastrophic flooding have had a detrimental impact on the cotton crop, potentially posing a barrier to raw material availability. As a result, the cost of production has risen, leading to increased yarn prices. However, during FY25, as per the estimates, better quality and increased quantum of local raw cotton yield may supplement import substitution. The uplift of subsidized rates on energy tariffs, surge in tax burden, and uncertainty with respect to the PKR movement remains a serious concern for the industry, at large. Thus, placing the industry's outlook on a watch.

Relative Position The Company is a relatively small player with a market share of less than ~1% in terms of the installed capacity of 48,348 spindles.

Revenues Glamour Textile generates revenue from the sale of yarn and fibre trading in the local market only. During FY24, the Company reported a topline of ~PKR 6bln (FY23: ~PKR 4bln), posting an uptick of ~50%, attributed to an increase in demand coupled with price change. Despite high finance costs and the implementation of increased taxation, the Company remain operational backed by strategically managing its market reach. The management requires a startegy revamp for revenue growth.

Margins During FY24, the gross margin of the Company witnessed a decline (FY24:~4.4%, FY23: ~4.7%) due to high procurement costs. This had a trickled down effect on the operating margins of the Compay (FY24: ~3.6%, FY23: ~3.7%). On net level, increased sales closed the bottom line positively (FY24: PKR 33mln, FY23: PKR 18mln), with an net profit margin of ~0.5% (FY23: loss ~0.5%). Going forward, the recent reduction in the policy rate is expected to positively impact the Company's overall margins.

Sustainability The Company's intention to improve financial performance through reduced energy costs - increase reliance on renewable energy source - remains imperative to ratings.

Financial Risk

Working Capital As of FY24, the Company's net working capital days improved to 44 days (FY23: 75days). The reduction in net working capital days is attributable to improved inventory held days (FY24: ~29, FY23: ~52 days) due to maintaining optimum inventory turnover. Increased reliance on cash sales led to lower receivable days of ~17 days as of FY24 (FY23: ~28 days). On the payable side, the Company manages to procure raw materials on cash leading to minimal trade paybale days of ~3 days as of FY24 (FY23: ~4 days). The Company maintains a sufficient buffer to support the borrowing.

Coverages Interest cover is a function of free cash flows and finance cost. As of FY24, the Company reported an FCFO of ~PKR 237mln (FY23: ~187ln) attributed to profits. Finance costs increased due to higher interest rates; however, the interest cover improved and stood at 1.9x as of FY24 (FY23: 1.7x), reflecting the Company's adequate capacity to fulfill its short-term obligations. Going forward, the management requires to further boost its cash flows to manage the overall operations.

Capitalization As of FY24, the Company's debt-to-equity ratio stood at ~44% (FY23: ~39%). Total borrowings increased to ~PKR 1.3bln for FY24 (FY23: ~PKR 1bln) due to higher short-term borrowings (STBs) of ~PKR 652mln (FY23: ~PKR 390mln). Total equity improved to ~PKR 1.7bln (FY23: ~PKR 1.6mln), attributable to higher profit retention (FY24: ~PKR 658mln, FY23: ~PKR 603mln). The Company must sustain is capital structure, going forward.

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Financial Summary
PKR mln

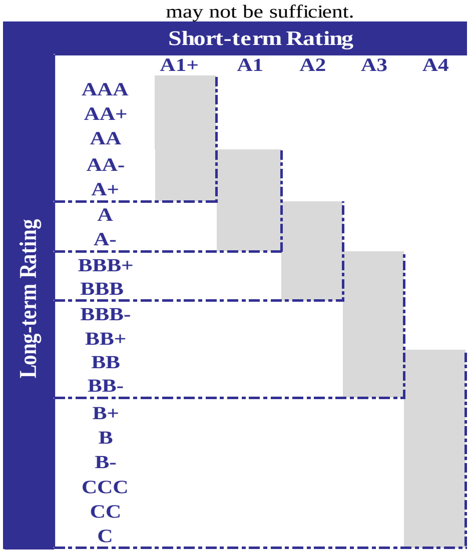
Glamour Textile Mills Limited Textile & Allied | Spinning		Jun-24 12M	Jun-23 12M	Jun-22 12M
A	**BALANCE SHEET**			
1	Non-Current Assets	1,866	1,949	1,924
2	Investments	-	-	-
3	Related Party Exposure	-	-	-
4	Current Assets	1,461	1,108	1,416
a	*Inventories*	*610*	*357*	*753*
b	*Trade Receivables*	*271*	*304*	*291*
5	**Total Assets**	3,327	3,058	3,339
6	Current Liabilities	287	283	251
a	*Trade Payables*	*54*	*37*	*53*
7	Borrowings	707	474	775
8	Related Party Exposure	598	578	553
9	Non-Current Liabilities	72	94	105
10	**Net Assets**	1,662	1,629	1,654
11	**Shareholders' Equity**	1,662	1,629	1,654
B	**INCOME STATEMENT**			
1	**Sales**	6,067	3,914	5,020
a	*Cost of Good Sold*	*(5,802)*	*(3,729)*	*(4,548)*
2	**Gross Profit**	265	186	472
a	*Operating Expenses*	(47)	(41)	(55)
3	**Operating Profit**	218	145	417
a	*Non Operating Income or (Expense)*	*(2)*	*(5)*	*(38)*
4	**Profit or (Loss) before Interest and Tax**	216	140	379
a	*Total Finance Cost*	*(129)*	*(119)*	*(91)*
b	*Taxation*	*(54)*	*(39)*	*(96)*
6	**Net Income Or (Loss)**	33	(18)	192
C	**CASH FLOW STATEMENT**			
a	*Free Cash Flows from Operations (FCFO)*	*237*	*187*	*451*
b	*Net Cash from Operating Activities before Working Capital Changes*	*107*	*78*	*365*
c	*Changes in Working Capital*	*(313)*	*352*	*(470)*
1	**Net Cash provided by Operating Activities**	(206)	430	(105)
2	**Net Cash (Used in) or Available From Investing Activities**	(31)	(163)	(273)
3	**Net Cash (Used in) or Available From Financing Activities**	254	(277)	355
4	**Net Cash generated or (Used) during the period**	17	(9)	(23)
D	**RATIO ANALYSIS**			
1	**Performance**			
a	*Sales Growth (for the period)*	55.0%	-22.0%	50.2%
b	*Gross Profit Margin*	4.4%	4.7%	9.4%
c	*Net Profit Margin*	0.5%	-0.5%	3.8%
d	*Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)*	-1.2%	13.8%	-0.4%
e	*Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	2.0%	-1.1%	13.9%
2	**Working Capital Management**			
a	*Gross Working Capital (Average Days)*	46	79	64
b	*Net Working Capital (Average Days)*	44	75	60
c	*Current Ratio (Current Assets / Current Liabilities)*	5.1	3.9	5.6
3	**Coverages**			
a	*EBITDA / Finance Cost*	2.7	2.4	6.2
b	*FCFO / Finance Cost+CMLTB+Excess STB*	1.5	1.3	4.1
c	*Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)*	5.8	8.7	1.8
4	**Capital Structure**			
a	*Total Borrowings / (Total Borrowings+Shareholders' Equity)*	44.0%	39.2%	44.5%
b	*Interest or Markup Payable (Days)*	55.5	66.6	59.0
c	*Entity Average Borrowing Rate*	8.5%	8.9%	7.2%

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