The Pakistan Credit Rating Agency Limited

Rating Report

Yunus Textile Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2022	AA-	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Yunus Textile Mills Limited (YTML) is a prominent textile venture of Yunus Brother's Group. The group companies operate under the umbrella of YB holdings - flagship Hold Co of the group. Yunus Brother's Group has robust financial profile with diversified presence in sectors including power generation, building materials, real estate, textile, chemicals, pharmaceuticals, food and automotive sectors. Sponsors exercise oversight of the businesses and professional management, well-equipped and well-experienced, spearhead the individual companies. Strategic direction is meticulously worked out and rigorously followed once decided and finalized. YTML is amongst the leading home textile exporters in the country. The company has 78,800 spindles and 2,976 rotors installed yielding yarn capacity of 33m kgs. per year, which caters to around ~ 65% of YTML's yarn requirement. Yunus Textile has a weaving capacity of 98.6m meters per annum and the utilization level for FY21 was reported at 90%. YTML has an installed made-ups (finished home textile products) capacity of 168m meters per year. Utilization level of the home division was reported at 86% in FY21.The Company enjoys established customer base with several export destinations in European Countries and United States of America. The company enjoys strong franchise and is recognized as a quality product manufacturer with product line ranging from bed sheets, comforters, duvets, quilts, and pillow cases to curtains and table linens. The rating reflects a steady revenue base in recent years. The topline primarily consists of exports. Margins remained largely sustained where growth recorded in revenue. YTML continues to maintain Favorable capital structure and strong coverages signifying robust financial profile. During 9MFY22 (Jul21- Mar22), Pakistan textile exports surged to $14.2bln (recording growth of 25%) as compared to $11.3bln 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 raw cotton, cotton (carded or combed) and cotton cloth recorded notable growth. Going forward, the textile sector's outlook is expected to stay good in the medium term where demand for textile products is expected to sustain.

The ratings are dependent on the Company's ability to sustain its core margins and profitability. Preserving a low-leveraged capital structure and sound coverages remains imperative.

Disclosure

Name of Rated Entity	Yunus Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Composite and Garments(Dec-21)
Rating Analysts	Iram Shahzadi | iram.shahzadi@pacra.com | +92-42-35869504

Profile

Legal Structure Yunus Textile Mills Limited (YTML) was incorporated in April 2007 as a public unlisted company. The registered office of the Company is situated at Landhi Industrial Area Rd, Tauheedabad Colony Landhi Town, Karachi.

Background Yunus Textile Mills Limited (YTML) is a part of the Yunus Brother Group (YBG). The Yunus Brothers Group (YBG) is one of the biggest conglomerates in Pakistan with diversified interests in textiles, building materials, real estate, power generation, chemicals, pharmaceuticals, FMCG, philanthropy, and automotive. The group was established in 1962 as a trading house and then grew rapidly over the years. Currently, YBG is one of the largest export houses in Pakistan.

Operations YTML is involved in the manufacturing and export of knitted, weaved, and stitched fabrics and other textile articles with board product lines ranging from bed sheets, comforters, duvets, quilts, and pillows cases to curtains and table linens. YTML is a vertically integrated company with operations being carried through seven locations (four spinning, two weaving, one processing, and four stitching units).

Ownership

Ownership Structure Yunus Textile Mills Limited is a wholly-owned subsidiary of YB Holding (Private) Limited. The holding company exercises its control over the company's board by virtue of its stake in the Company.

Stability Yunus Brothers Group is a reputable conglomerate with a strong financial profile, and has a presence in diversified sectors including power generation, building materials, real estate, textile, chemicals, pharmaceuticals, food, and automotive sectors. Established in 1962, it is one of Pakistan's largest export houses, and largest manufacturer of cement and as a result of its 2012 acquisition of ICI Pakistan Ltd, it is also the country's biggest soda ash manufacturer and second-biggest producer of polyester staple fiber.

Business Acumen YBG Group is one of the oldest business conglomerates in Pakistan with considerable interests in textiles, building materials, real estate, power generation, chemicals, pharmaceuticals, FMCG, philanthropy, and automotive. Apart from Yunus Textile, YBG Group has three more textile companies, namely Lucky Knits (Private) Limited, Lucky Textile Mills Limited, Fazal Textile Mills Limited & Gadoon Textile Mills Limited.

Financial Strength Yunus Brothers Group is one of the largest export houses in Pakistan. The group's annual turnover including Yunus Textile and its subsidiaries is approximately USD 2.7bln including an annual export turnover of around USD 769.2mln. This indicates sponsors' ability and willingness to support the flagship company of the group in case of need.

Governance

Board Structure The Company has a nine-member board with the presence of sponsors and their families. The position of CEO is vested with Mr. M. Ali Tabba.

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

Board Effectiveness The board meetings are held regularly in which discussion on various aspects is also formally documented in minutes.

Financial Transparency EY Ford Rhodes Chartered Accountants, who are in category 'A' of SBP and have a QCR rating by ICAP, are the external auditors of the company. They have expressed an unqualified opinion on the financial statements of the company for the year ended June 30th, 2021.

Management

Organizational Structure The organizational structure of the company is divided into several functional departments, namely: (i) Finance & Accounts, (ii) Marketing, (iii) Technical, (iv) Production, (v) Information Technology, (vi) Human Resourses and (vii) Procurement Deparment. All departments report to their concerns COO and HOD's.

Management Team Mr. Muhammad Ali Tabba is the CEO of the Company. He carries more than 3 decades of professional experience. He also serves as the Chief Executive Officer of Lucky Cement. Simultaneously spearheading both these organizations, he also plays a pivotal role in providing a strategic vision to ICI Pakistan Limited as its Vice-Chairman. Mr. Altaf Hussain Makna, CFO of the Company, has been associated since the year 2011. He is a Chartered Accountant.

Effectiveness The management meetings are held on a periodic basis with follow-up points to resolve or pro-actively address operational issues, if any, eventually ensuring smooth flow of operations. These meetings are headed by the CEO.

MIS The Company's daily and monthly MIS comprises comprehensive performance reports which are reviewed frequently by senior management. The reports are shared and discussed with the CEO regularly for effective decision-making and smooth flow of operations.

Control Environment Yunus Textiles Mills Limited utilize management systems as their mechanism for ensuring control. There is clear evidence of these systems being audited and certified externally. The Company has attained Oekotex certification, a thorough environmental assessment system. Oekotex environmental assessment system that focuses on environmental performance, H&S, Social, QMS, EMS and Chemical Management. The Company has also attained ISO 14001and 9001 certifications, Eco Label, GRS, RCS, OCS, Fairtrade Cotton certificate, Cradle to Cradle – Silver certification, GO-Green Office certification, Higg Index (FEM & FSLM), CDP and GOTS.

Business Risk

Industry Dynamics : During 9MFY22 (Jul21-Mar22), Pakistan textile exports surged to $14.2bln (recording a growth of 25%) as compared to $11.3bln in the same period last year. This is attributable to an increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of raw cotton, cotton (carded or combed) and cotton cloth recorded notable growth. However, month on month basis, textile exports have declined by 3.5%. Going forward, the textile sector's outlook is expected to stay good in the medium term where demand for textile products is expected to sustain.

Relative Position YTML is amongst the leading home textile exporters in the country with a market share of around 10% in total textile made-up exports. The company enjoys a strong franchise and is recognized as a quality product manufacturer.

Revenues The majority of the sales revenue for the Company comes from export sales, which account for 95% of total sales revenue. During FY21, the Company's top line has improved to PKR 49.9bln growth of 38.6% (FY20: PKR 35.9bln). The Company's cost of goods sold surged by 32% and recorded at PKR 38bln (FY20; PKR 29bln). Despite the increase cost of goods sold, the gross profits enhanced to PKR 11.9bln (FY20: PKR 7.2bln). Hence, the net profitability clocked in at PKR 8.5bln (FY20: PKR 5.05bln), up by 69% YoY. During 9MFY22, the Company recorded net revenue at PKR 45.8bln. While, the net profit of the Company stood at PKR 5.9bln as at end Mar22.

Margins During FY21, gross profit margin stood at 23.8% (FY20: 19.9%) attributable to rationalisation of cost structure and improved pricing. The management closely monitors operating expenses, translating into improved operating profit margin of 17.4% (FY20: 12.3%). Hence, net profit margin clocked at 17.1% (FY20: 14.0%). During 9MFY22, the Company's margins reported at gross margin 20.0%, operating margin 13.5% & net margin 13.7%.

Sustainability Going forward, the Company is planning to acquire debt to finance CAPEX. Material improvement in cash flows in line with upcoming debt obligations remains imperative.

Financial Risk

Working Capital During FY21, the Company's net working capital cycle recorded decrease to 111days (FY20: 155days) attributable to slight attrition in inventory days (FY21: 91days; FY20: 97days) and movement in receivable days (FY21: 32days, FY20: 68days). The Company's net trade assets increased by 32% to clock in at PKR 20.8bln (FY20: PKR 15.8bln) which reflects good cushion in trade assets. In 9MFY22, Company's working capital cycle stood at 116days due to the increase in inventory days (9MFY22: 105days).

Coverages Free Cash Flows from Operations (FCFO) increased in FY21 and clocked in at PKR 9,113mln on the back of higher EBITDA YoY (FY21: PKR 9.9bln; FY20: PKR 6.3bln). Hence, coverage is very strong higher cashflows. During 9MFY22, EBITDA of the Company stood at PKR 6.3bln.

Capitalization The capital structure is low leveraged, with leveraging at 24.3% as of end-Jun21. Equity base of the Company recorded good growth to PKR 49.4bln (FY20: PKR 41.5bln). Short term borrowings comprise 34% (FY20: 40%) of the total borrowings.

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Financial Summary
PKR mln

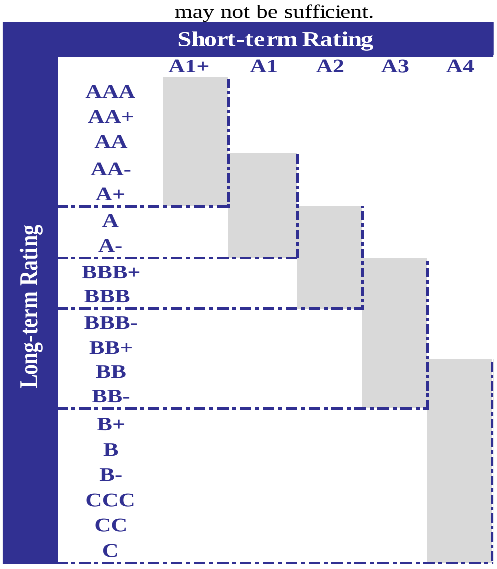
Yunus Textile Mills Limited	Mar-22	Jun-21	Jun-20	Jun-19
Composite & Garments	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	37,926	25,745	19,398	15,401
2 Investments	75	77	82	86
3 Related Party Exposure	14,575	14,251	13,977	12,633
4 Current Assets	45,959	39,188	29,340	23,532
a Inventories	*20,352*	*14,829*	*10,067*	*9,089*
b Trade Receivables	*4,157*	*4,293*	*4,378*	*9,131*
5 Total Assets	98,534	79,262	62,796	51,652
6 Current Liabilities	11,707	10,721	6,872	6,389
a Trade Payables	*2,459*	*2,258*	*932*	*1,115*
7 Borrowings	29,348	16,380	11,934	7,153
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	1,309	1,251	986	798
10 Net Assets	56,170	50,909	43,004	37,312
11 Shareholders' Equity	56,170	50,909	43,004	37,312
B INCOME STATEMENT				
1 Sales	45,829	49,878	35,998	31,761
a Cost of Good Sold	*(36,655)*	*(38,012)*	*(28,848)*	*(25,263)*
2 Gross Profit	9,174	11,866	7,150	6,498
a Operating Expenses	(2,990)	(3,200)	(2,734)	(2,219)
3 Operating Profit	6,184	8,666	4,416	4,279
a Non Operating Income or (Expense)	*731*	*1,224*	*1,475*	*1,062*
4 Profit or (Loss) before Interest and Tax	6,915	9,890	5,891	5,341
a Total Finance Cost	*(623)*	*(713)*	*(565)*	*(333)*
b Taxation	*(431)*	*(659)*	*(281)*	*(402)*
6 Net Income Or (Loss)	5,860	8,518	5,045	4,606
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*6,292*	*9,113*	*6,292*	*5,191*
b Net Cash from Operating Activities before Working Capital Changes	*6,292*	*8,366*	*5,771*	*4,872*
c Changes in Working Capital	-	*(2,318)*	*3,796*	*(2,378)*
1 Net Cash provided by Operating Activities	6,292	6,048	9,567	2,494
2 Net Cash (Used in) or Available From Investing Activities	-	(6,063)	(4,881)	(3,832)
3 Net Cash (Used in) or Available From Financing Activities	-	3,139	2,492	1,360
4 Net Cash generated or (Used) during the period	6,292	3,124	7,178	22
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	22.5%	38.6%	13.3%	--
b Gross Profit Margin	20.0%	23.8%	19.9%	20.5%
c Net Profit Margin	12.8%	17.1%	14.0%	14.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	13.7%	13.6%	28.0%	8.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	14.6%	18.1%	12.6%	12.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	130	123	166	193
b Net Working Capital (Average Days)	116	111	155	180
c Current Ratio (Current Assets / Current Liabilities)	3.9	3.7	4.3	3.7
3 Coverages				
a EBITDA / Finance Cost	21.7	29.8	27.5	50.0
b FCFO / Finance Cost+CMLTB+Excess STB	10.8	5.1	7.2	11.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.3	1.2	1.2	0.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	34.3%	24.3%	21.7%	16.1%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	1.7%	2.3%	2.6%	1.6%

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.

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)
Proprietary Information