



The Pakistan Credit Rating Agency Limited

Rating Report

Yunus Textile Mills Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jun-2024	AA-	A1+	Stable	Maintain	-
26-Jun-2023	AA-	A1+	Stable	Maintain	-
30-Jun-2022	AA-	A1+	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect the strong presence of (“YTML” or “the Company”) in the competitive textile landscape. This stems from its remarkable history as a leading exporter with strategic diversification in all aspects of the textile value chain from Spinning to Home Textile products. In segment-wise business contribution, Home Textile is the foremost segment. The Company offers top-quality products like Comforter sets, Duvet sets, Quilts, Sheet sets, Shower curtains, Window curtains, and Decorative pillows. The Company’s top clients and suppliers are stable entities, strengthening the sustainability profile. The Company has already installed ~23.95 megawatts of solar power plant and is in the process of setting up wind turbines for ~24 megawatts to manage escalated energy cost risk. YTML has executed the majority of its CAPEX over the last three years and now possesses sufficient capacity to clinch future demand. The Company’s topline is predominantly vested with export sales and has consistently grown over the preceding years amidst industry-specific challenges. The Company has gone through several economic cycles but the growth remained intact. During 9MFY24, the Company’s topline surged by 17.7% YoY basis and stood at PKR 55.9bln (9MFY23: PKR 47.4bln). YTML has devised a business strategy specific to the timing of raw cotton procurement, which has augmented the gross margin over the years. The Company rationalizes its debt policy by entirely unloading short-term borrowings to mitigate prevailing inflated finance costs, thereby enhancing net margins and the profitability matrix. The other income generated from the strategic and capital market investments has supplemented the bottom line. The Company secured a bottom line of PKR 10.6bln (9MFY23: PKR 10.0bln). The Company’s financial risk profile is considered strong. The working capital requirements are primarily met through internally generated cash flows with comfortable coverages. The Company has maintained a low-leveraged capital structure with a strong equity base. The ratings take comfort from the Company’s association with a well-established business group operating in the Textile, Energy, and Real Estate sectors.

The ratings are dependent on the Company’s ability to sustain its product diversity and volumetric growth while maintaining margins and profitability matrix at an optimal level. The maintenance of the debt matrix and sustainability of coverages coupled with continuity in generating cashflows from core operations has supplemented the assigned ratings.

Disclosure

Name of Rated Entity	Yunus Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-24),Methodology Corporate Rating(Jul-23)
Related Research	Sector Study Composite and Garments(Dec-23)
Rating Analysts	Muhammad Harris Ghaffar harris.ghaffar@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 is one of the biggest conglomerates in Pakistan with diversified interests in textile, 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.

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 pillow cases to curtains and table linens. YTML is a vertically integrated company with operations being carried through nine 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 the 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 and Gadoon Textile Mills Limited.

Financial Strength Yunus Brothers Group is one of the largest export houses in Pakistan. The sponsoring group has the ability to support the flagship company if needed.

Governance

Board Structure The overall control of the board is vested with eight members including the Chairman and CEO. The board is dominated by the sponsors. The board is chaired by Mr. Muhammad Ali Tabba.

Members' Profile After the death of Mr. Yunus Tabba, the position of Chairman is vested with Mr. Muhammad Ali Tabba. He carries more than 3 decades of professional experience. He also serves as the CEO of Lucky Cement & also plays a pivotal role in providing a strategic vision to ICI Pakistan Limited as its Vice Chairman.

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

Financial Transparency EY Ford Rhodes Chartered Accountants are the external auditors of the Company rated in Category A by the panel of SBP. They have expressed an unqualified opinion on the financial statements of the Company for the period ended June 30th, 2023.

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 Resources and (vii) Procurement Department. All departments report to their concerns COO and HOD's.

Management Team The CEO, Mr. Muhammad Hassan Tabba has extensive engagement in many Community Welfare Projects. The CFO, Mr. Altaf Hussain Makna has been associated with the Company since 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 a 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 utilizes 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 14001 and 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 The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn ~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector has a contribution of ~ PKR 1.6Trn mainly dominated by knitwear, readymade garments, bedwear, and towels followed by PKR 775bln from spinning and PKR 637bln from weaving.

Relative Position YTML is amongst the leading home textile exporters of the country with a healthy market share in the export of textile made-ups. The Company enjoys a strong franchise and is recognized as a quality product manufacturer.

Revenues The Company generates a major chunk of its revenue from export sales which accounts for ~94% of the total sales. During 9MFY24, the Company's topline indicated a growth of 17.1% YoY recorded at PKR 55.9bln (9MFY23: PKR 47.7bln). The international market exhibited a fall in demand and consumption trends due to the global economic slowdown. Despite this decline, the export sales displayed a sizeable improvement at PKR 54.9bln (9MFY23: PKR 46.1bln). The export destinations of the Company are United States, Belgium, Germany, Hong Kong, France, Sweden, United Kingdom, Russia, and Netherlands etc. The local sales of the Company clocked at PKR 3.5bln (9MFY23: PKR 3.6bln).

Margins During 9MFY24, the Company's gross margin dipped minutely to stand at 27.7% (9MFY23: 30.5%). The operating margin reflected the same trend (9MFY24: 19.8%; 9MFY23: 22.4%) depicting the industry norm. The Company's finance cost exhibited a significant decrease at PKR 1bln (9MFY23: PKR 1.4bln). The Company maintained its bottom line at PKR 10.6bln (9MFY23: PKR 10bln). Hence, the Company's net profit margin inched down to 19% (9MFY23: 21%).

Sustainability The Company has already installed ~23.95 megawatts of solar power plant and is in the process of setting up wind turbines for ~24 megawatts to manage escalated energy cost risk.

Financial Risk

Working Capital The Company's working capital requirements are fueled by internally generated cash flows. As of end-Mar24, the Company's net working capital cycle stood at 127 days (end-Jun23: 130 days).

Coverages As of end-Mar24 the Company's free cash flows from operations clocked at PKR 11.7bln (end-Jun23: PKR 15.7bln). The strategic decision for offloading of STBs positively impacted the interest coverage (end-Mar24: 25x; end-Jun23: 12.2x). The debt payback period remained largely the same at 1.1x (end-Jun23: 1.2x).

Capitalization The Company has a low-leveraged capital structure (end-Mar24: 16.7%; end-Jun23: 22.4%). The borrowing book exhibited a downward trend (end-Mar24: PKR 16.2bln; end-Jun23: PKR 20.6bln) comprising the long-term borrowings. The Company's risk absorption capacity improved as the total equity was enhanced to PKR 81.2bln (end-Jun23: PKR 71.6bln).



Yunus Textile Mills Limited Composite & Garments	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	47,471	44,481	39,623	25,745
2 Investments	16,194	11,810	16,798	13,484
3 Related Party Exposure	14,384	14,575	14,575	14,251
4 Current Assets	37,117	37,137	31,380	25,781
<i>a Inventories</i>	23,160	22,266	19,856	14,829
<i>b Trade Receivables</i>	6,341	6,647	4,491	4,293
5 Total Assets	115,167	108,003	102,377	79,262
6 Current Liabilities	15,860	13,728	10,848	10,721
<i>a Trade Payables</i>	3,256	3,133	2,452	2,258
7 Borrowings	16,278	20,666	31,677	16,380
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	1,757	1,970	1,725	1,251
10 Net Assets	81,272	71,639	58,128	50,909
11 Shareholders' Equity	81,272	71,639	58,128	50,909
B INCOME STATEMENT				
1 Sales	55,902	66,971	62,644	49,878
<i>a Cost of Good Sold</i>	(40,420)	(46,353)	(49,698)	(38,012)
2 Gross Profit	15,482	20,618	12,946	11,866
<i>a Operating Expenses</i>	(4,438)	(5,046)	(4,244)	(3,200)
3 Operating Profit	11,044	15,571	8,702	8,666
<i>a Non Operating Income or (Expense)</i>	2,245	2,041	1,060	1,224
4 Profit or (Loss) before Interest and Tax	13,289	17,612	9,763	9,890
<i>a Total Finance Cost</i>	(1,022)	(1,776)	(942)	(713)
<i>b Taxation</i>	(1,635)	(1,801)	(1,110)	(659)
6 Net Income Or (Loss)	10,632	14,034	7,711	8,518
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	11,716	15,716	9,171	9,113
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	10,561	13,985	8,363	8,366
<i>c Changes in Working Capital</i>	1,415	(2,134)	(6,200)	(2,318)
1 Net Cash provided by Operating Activities	11,976	11,851	2,163	6,048
2 Net Cash (Used in) or Available From Investing Activities	(6,434)	845	(13,921)	(6,063)
3 Net Cash (Used in) or Available From Financing Activities	(5,880)	(11,685)	11,463	52
4 Net Cash generated or (Used) during the period	(337)	1,011	(295)	37
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	11.3%	6.9%	25.6%	0.0%
<i>b Gross Profit Margin</i>	27.7%	30.8%	20.7%	23.8%
<i>c Net Profit Margin</i>	19.0%	21.0%	12.3%	17.1%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	23.5%	20.3%	4.7%	13.6%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/STB)]</i>	18.5%	21.6%	14.1%	16.7%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	143	145	127	140
<i>b Net Working Capital (Average Days)</i>	127	130	113	123
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.3	2.7	2.9	2.4
3 Coverages				
<i>a EBITDA / Finance Cost</i>	27.9	13.4	18.8	29.8
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	5.1	4.7	3.5	5.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.1	1.2	2.1	1.2
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	16.7%	22.4%	35.3%	24.3%
<i>b Interest or Markup Payable (Days)</i>	75.8	74.2	147.8	91.3
<i>c Entity Average Borrowing Rate</i>	3.1%	4.8%	2.1%	2.0%

Credit Rating

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

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

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



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

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

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

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

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

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

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

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

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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Conduct of Business

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- (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).
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (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)

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