

RATING REPORT

Union Fabrics (Pvt) Limited

REPORT DATE:

November 22, 2017

RATING ANALYST:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	21 st November 2017	

COMPANY INFORMATION

Incorporated in June 1992	External auditors: Horwath Hussain Chaudhury & Co.
Private Limited Company	Chairman: Mr. M Asif Siddiq
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. M Asif Siddiq
Mr. M. Asif Siddiq (30.56%)	
Mr. Faisal Amin (13.09%)	
Mr. Khurram Arif (10.90%)	
Mr. Ahmed Amin (10.30%)	
Ms. Sana Ali Shah (8.89%)	
Ms. Sania Khalid (5.45%)	
Mr. M. Amin Siddiq (5.41%)	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (May 2016)*<http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

Union Fabrics (Pvt) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Union Fabrics (Pvt) Limited was started in 1992 as a small scale weaving unit and currently operates in the home textiles, processing and value added business lines in addition to weaving.</p> <p>The company has 5 plants situated in S.I.T.E area. The company's greige fabric product and various home textile products form a significant part of its export sales.</p>	<p>Union Fabrics (Pvt) Limited (UFPL) started commercial operation in 1992 as a small scale weaving unit and has since grown into a full-fledged industrial corporate with business lines in both weaving and textile finishing. Majority of UFPL's sales are geared towards the export market in both greige fabric and home textile segment. UFPL also holds GOTS (Global Organic Textile Standard) and OEKO-TEX certifications for use of environment friendly chemical processes hence attractive to reputed importers.</p> <p>Rating Drivers:</p> <p>Corporate Governance: Overall board composition and oversight has room for improvement through inclusion of independent directors. Furthermore, in line with best practices, positions of the CEO and chairman may be segregated.</p> <p>Sales: UFPL has a strong presence in the export market for home textiles and greige fabrics. Large European brands and distributors of home textile products based in Italy, UK and Germany are some of the major clients of UFPL who prefer suppliers that produce cloth and value added products in-house. UFPL is diversifying into newer markets through home textiles, thus aiming to reduce concentration in exports.</p> <p>Expansion and Financing: The company increased the fixed asset base to Rs. 2.90b (FY16: Rs. 2.35b). UFPL added modern high speed air-jets in the weaving segment and set-up a new plant that caters to the finishing and processing of greige cloth and various value added processes related to home textiles. The expansion in the fixed asset base was financed mostly through debt.</p> <p>Profitability: UFPL's profitability came under pressure in FY17 due to higher finance expense following an increase in the fixed asset base of the company and limited production from the processing unit that was recently set-up. Resultantly, the gross margin for FY17 was 11.9% (FY16: 15.0%). Full year impact of the finishing plant is expected from FY18 given that the same commenced operations in March 2017. It is expected that the margins will improve with higher production.</p> <p>Liquidity and Coverage: The funds from operations (FFO) of the company also witnessed a slight decline. The current FFO for FY17 amounted to Rs. 407.7b (FY16: Rs. 421.b). Decline in FFO along with higher long-term debt resulted in decline in FFO to long-term debt to 30.1% (FY16: 38.3%). This decline in FFO also resulted in a decrease in the debt service coverage ratio which for FY17 amounted to 1.8x (FY16: 4.6x). Going forward, cash flow from operations is expected to increase on account of improvement in profitability.</p> <p>Capitalization and Leverage: The equity base of UFPL also increased on the back of increased retained earnings since the last dividend paid by the company was in 2011. In addition to this, a sponsor loan was obtained and later in September 2017 rights of Rs. 120 million were issued. Gearing increased to 1.7x for FY17 (FY16: 1.6x) due to the increase in the long term financing of air-jet expansion and processing unit setup. Leverage remained stagnant at 2.0x for FY17 (FY16: 2.0x). Gearing is expected to decrease further since UFPL does not plan to take on additional debt.</p> <p>Outlook</p> <p>Going forward, the finishing segment is expected to achieve full production capacity. UFPL's margins are expected to improve in line with its expansion in value-added products. The improvement in margins and hence the projected FFO is expected to be sufficient to service the debt repayments of UFPL. In light of the increased production and output of home textile products, UFPL's market presence is likely to improve further as it has established good relationships with its overseas clients.</p>

JCR-VIS Credit Rating Company Limited

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FINANCIAL SUMMARY <i>(amounts in Rs. millions)</i>				Appendix I
BALANCE SHEET	FY17	FY16	FY15	FY14
Fixed Assets	2,911.1	2,369.1	918.7	801.7
Stock-in-Trade	1,395.2	1,102.5	896.3	893.4
Trade Debts	436.1	436.1	271.7	329.9
Cash & Bank Balances	22.7	26.8	23.2	16.3
Total Assets	5,176.5	4,207.0	2,303.9	2,232.7
Trade and Other Payables	522.3	486.2	393.6	444.8
Long Term Debt <i>(*incl. current maturity)</i>	1,353.9	1,100.3	52.5	227.5
Short Term Debt	1,539.0	1,167.5	685.1	626.4
Total Equity	1,699.2	1,411.5	1,107.5	879.2
INCOME STATEMENT				
Net Sales	4,447.3	3,844.7	3,797.8	4,051.7
Gross Profit	527.8	577.1	491.9	571.2
Operating Profit	309.1	373.7	289.3	381.6
Profit After Tax	174.4	266.0	194.6	272.9
RATIO ANALYSIS				
Gross Margin (%)	11.9%	15.0%	13.0%	14.1%
FFO to Total Debt (x)	14.1%	18.6%	53.0%	45.8%
FFO to LT Debt (x)	30.1%	38.3%	744.5%	172.0%
Gearing	1.7	1.6	0.7	1.0
Leverage	2.0	2.0	1.1	1.5
DSCR (x)	1.8	4.6	2.2	5.3
Interest Coverage	2.7	4.5	3.4	4.2
ROAA (%)	3.7%	8.2%	6.9%	11.8%
ROAE (%)	11.2%	21.2%	15.7%	29.9%

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

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REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Union Fabrics (Pvt) Ltd				
Sector	Textiles				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	21/11/2017	A-	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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