JCR-VIS Credit Rating Company Limited

Founder Shareholder - Islamic International Rating Agency (IIRA), Bahrain
Joint Venture Partner - Credit Rating & Information Services Ltd. (CRISL), Bangladesh
Member - Association of Credit Rating Agencies in Asia (ACRAA)

Ref: BTL/0002
Date: March 30, 2018

Confidential

Mr. Mohammad Amin
Chief Executive Officer
Blessed Textiles Limited
Umer House, 23/1, Sector 23,
S.M. Farooq Road,
Korangi Industrial Area
Karachi, Pakistan

Entity Ratings of Blessed Textiles Limited

Dear Mr. Amin,

JCR-VIS Credit Rating Company Limited (JCR-VIS) has assigned initial entity ratings of 'A-/A-1' (Single A Minus/A-One) to Blessed Textiles Limited (BTL). Outlook on the assigned ratings is 'Stable'.

Ratings assigned to BTL reflect adequate financial profile of the company as indicated by satisfactory capitalization and liquidity indicators and improving profitability profile. We have also incorporated extensive experience and track record of sponsors in the assigned rating.

We have noted that the net sales of BTL increased in FY17 and Q1'18 primarily on account of recovery in yarn prices and higher quantity of fabric sold. However, we opine that company remains exposed to country concentration risk as top 5 countries accounted for 85.6% (FY16: 88.5%) of total export sales in FY17. Slowdown in demand from China, which is the largest export market for company, may have sizeable impact on export sales of company. Improvement in gross margins, on account of increase in yarn prices, has translated into higher bottom-line of the company.

In our view, overall liquidity profile is considered adequate as cash flows improved in FY17 and Q1'18 and remain adequate to service debt obligations. However, management may exercise caution as cash flows are contingent on volatility in margins as the same have varied in line with gross margins during the last three years. Hence, any negative trend in margins may impact debt repayment capacity of the company.

Although the management has increased dividend payout ratio over the course of last three years, equity base has still depicted moderate growth on account of profit retention. We have been given to understand that management plans to undertake back process BMR in the spinning unit and possible addition of six looms in the weaving unit through acquisition of additional debt. Any significant increase in gearing beyond current levels on a persistent basis may be viewed negatively from ratings perspective.

Please note that ratings continue to be under surveillance during the period of the contract. Moreover, please note that in terms of the regulatory requirements, ratings would require a mid-term review. In view of this, mid-term review of the assigned rating would fall due in September 2018. Accordingly we would seek your cooperation for updating information available on the system. Furthermore, please notify JCR-VIS of any material development that may impact the risk profile of the institution

We would like to express our appreciation for the courtesy and cooperation extended to us during the course of the rating assignment.

Regards,

Javed A Callea

Javed Callea
Advisor