

Press Release

VIS Reaffirms Entity Ratings of Blessed Textiles Limited


Karachi, September 26, 2023: VIS Credit Rating Company Limited (VIS) has reaffirmed entity ratings of Blessed Textiles Limited (BTL) at 'A/A-1' (Single A/A-One). Medium to long-term rating of 'A' reflects good credit quality and adequate protection factors. Risk factors may vary with possible changes in the economy. Short-term rating of 'A-1' signifies high certainty of timely payment; liquidity factors are excellent and supported by good fundamental factors. Risk factors are minor. Outlook on the assigned ratings remains 'Stable'. Previous rating action was announced on August 11, 2022.

Ratings continue to reflect the company's extensive 36-year track record in yarn and fabric production and trade in both global and local markets, robust sponsor group strength, steadfast client ties, notable governance practices, and recent capacity expansion efforts. The reaffirmed ratings also underscore strong revenue growth, amidst falling export volumes, attributed to consistent rupee depreciation while the low-leveraged capital structure remains competitive among its peers. After a two-year high, margins reverted to past averages due to increased reliance on imported cotton, dwindling yarn profits, and wider economic and operational challenges. A divergent cash flow pattern and surge in debt levels led to reduced debt coverage metrics and a stretched cash conversion cycle due to a higher inventory holding period, intensifying short-term financing needs. Business risk profile factors in the high-interest rate environment, inflationary pressures, rising raw material costs, the ongoing energy crisis in the country, and a global slump in demand. The same is reflected in a ~15% year-on-year decline in Pakistan's textile exports in FY23, totaling USD 16.5b (FY22: USD 19.3b). Moreover, all these factors pose a challenge to the sector over the medium term in terms of margin sustainability and future growth. Ratings are constrained by the current weak macroeconomic environment both globally and locally.

As part of capacity enhancement initiatives, BTL introduced a new spinning facility, unit-IV, in Sheikhpura, Punjab. Active since March '23, it has 13.1K spindles, producing 450 bags daily of coarse count yarn, mainly for local markets. This raised the total capacity by ~28% in FY23. The Rs. 2.7b project was financed by a 55:45 debt-to-equity ratio, with machinery from LTFF loans and the building construction from internal cash. Management expects a ~25% rise in annual sales and cost efficiencies from automation and current staff managing the new project.

Yarn constitutes over 70% of total sales, while fabric shares the rest. The sales mix settled at an average 46:54 export-to-local ratio. While yarn balanced both channels, fabric favored the domestic market, particularly this fiscal year. Export-wise, the company has a diverse footprint: Portugal dominates in fabric sales, while China tops in yarn. Other significant markets include Russia, Bangladesh, Italy, Belgium, Japan, Spain, and Turkey. Adequate client diversification is also evident, with the leading ten clients contributing to two-fifths of total sales. To minimize risk, management ensures that, except for group entity Faisal Spinning Mills, no single client accounts for more than 5% of sales. Going forward, the ratings will hinge on improving margins, cash flows, and debt coverage ratios.

For further information on this rating announcement, please contact Mr. Muhammad Tabish (Ext: 216) or the undersigned (Ext: 201) at (021) 35311861-4 or email at info@vis.com.pk


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Applicable Rating Criteria: Industrial Corporates (May 2023)

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

VIS Rating scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

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