Press Release

VIS Credit Rating Company Reaffirms Entity Ratings of Faisal Spinning Mills Limited

Karachi, February 21, 2019: VIS Credit Rating Company Limited (VIS) has reaffirmed the entity ratings of Faisal Spinning Mills Limited (FSML) at 'A/A-1' (Single A/A-One). Long Term Rating of A- reflects good credit quality, adequate protection factors. Risk factors may vary with possible changes in the economy. Short Term Rating of A-1 indicates high certainty of timely payment, excellent liquidity factors supported by good fundamental protection factors and risk factors are minor. Outlook on the assigned ratings is 'Stable'. The previous rating action was announced on March 30, 2018.

The ratings reaffirmation takes into account FSML's conservative financial policy as reflected by low leverage indicators and strong liquidity profile & debt servicing ability. Sponsor's (Umer Group) extensive experience of more than four decades in textile industry, sound track record and established business reputation are also incorporated positively in the assigned ratings. Ratings also factor in the company's healthy growth in topline on a timeline basis. Ratings are constrained by high cyclical & competitive intensity for spinning industry and volatility in cotton prices which translate into high business risk profile.

Umer Group is recognized as a prominent player in spinning and weaving segment with annual turnover of around Rs. 30b. Around one-half of total group sales comprise exports with presence in China, Italy, Japan, Turkey and Belgium & other European countries. Segment wise, three-fifth of revenue is generated through spinning segment while the remaining comprises sales of geige fabric. Going forward, given the favorable incentives for enhancing exports along with significant rupee depreciation, management expects proportion of export sales in sales mix to increase to around two-third of total sales. Umer Group has a total of 186,960 spindles and 565 looms.

Profitability of the company was reported higher in 1QFY19 and FY18 vis-à-vis the corresponding periods. Operating margins (gross and net) were also reported higher on account of increase in topline, efficient raw material procurement and increasing demand of fabric in local market. Going forward, future margins are expected improve further given that average inventory carried on balance sheet is significantly lower than current cotton prices. Liquidity profile is considered sound on the back of healthy cash flows in relation of outstanding debt obligations. Inventory and trade debts provide sound coverage for short-term debt obligations. Equity base has increased over time on the back of increased retained earnings.

For further information on this rating announcement, please contact the undersigned (Ext: 201) at 021-35311861-70 or fax to 021-35311872.

Jamal Abbas Zaidi
Advisor

Applicable Criteria: Industrial Corporates (May 2016)

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