

Press Release

VIS Reaffirms Entity Ratings of Faisal Spinning Mills Limited

Karachi, September 26, 2023: VIS Credit Rating Company Limited (VIS) has reaffirmed entity ratings of Faisal Spinning Mills Limited (FSML) 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 underscore the company's 38-year legacy in yarn production, mainly for the export market geared towards denim manufacturing, as well as offerings in both greige & dyed fabrics and made-up articles. This standing is further supported by robust sponsor group strength, sustained client relations, notable governance practices, the recent integration of the finishing division, and a slight increase in weaving capacity. The reaffirmed ratings also reflect strong revenue growth, mainly fueled by the introduction of home textiles and dyed fabric sales, despite falling export volumes. However, profit margins returned to former levels due to a decline in yarn margins, higher cotton imports, and operating cost hikes across the board. The same affected cash flows and debt coverage metrics yet matched the sector median. Leverage ratios stayed competitive with peers amidst rising debt levels. The liquidity profile remains sound, with a slightly elevated cash conversion cycle. 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.

Exports continue to make up over three-quarters of total revenue, with the rest coming from domestic sales. Currently, sales are distributed as 41% greige fabric, 35% yarn, 24% home textile made-ups (like bedsheets, quilts, and table covers), and the rest are shared by dyed fabric. Product-wise, average export-to-local sales ratios are 98:2 for yarn, 55:45 for greige fabric, 57:43 for dyed fabric, and home textiles are all exported. The geographic mix features diversification, with close to two-fifths of exports directed towards the European region, followed by Asia, the Middle East, and the US. Other significant markets include Africa and Australia. The concentration among the top 10 clients is reasonably balanced, accounting for over 30% of total 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



Javed Callea
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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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