



Rating Action

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Applicable Criteria and Related Research

- Textile Sector - Viewpoint | Sep-15
- Corporate Rating Methodology

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PACRA Assigns Entity Ratings to Liberty Mills

PACRA has assigned a long term rating of "A+" (Single A Plus) and short-term rating of "A1" (A One) to Liberty Mills Limited. The ratings denote a low expectation of credit risk emanating from strong capacity for timely payment of financial commitment.

Liberty, a family owned textile company, operates in value added segment - processing of fabric and made ups. While this insulates it against volatility in cotton prices, the company's resilient business profile emanates from core operations featured by strong business margins. Liberty, with an export market orientation, focuses on its established niche of quality-conscious institutional buyers; garnering healthy margins. Although this has led to customer concentrations, longevity of relationship in addition to sustained quality helps manage the risk. This has helped the company to sustain its performance despite deterioration in local textile sector fundamentals. The company's performance is augmented by recurring dividend stream from investment in an IPP - Liberty Power Tech. Liberty's borrowings are primarily a function of its working capital need, whereas it has limited long-term debt. This has yielded a strong financial risk profile also supported by healthy cashflows, in turn, debt service coverages. While the company's CAPEX plan reflects its conservative growth strategy, the leveraging is expected to remain moderate. Working capital cycle is relatively stretched, though in line with peers. Any improvement will bring efficiency gains. Long associated and experienced management team adds comfort; however, governance framework needs improvement. Going forward, the sponsors - Liberty Group - intend to expand in power sector while setting up holding company structure in the medium term.

The ratings are dependent on the management's ability to sustain its overall profile. Meanwhile, utilization of lately beefed up capacities is considered important. Going forward, continuation of dividend/other income stream vis-a-vis strengthening of governance framework will have positive implication on ratings.

About the Company

Liberty, established in 1964, is in the business of manufacturing and processing of textile fabrics (capacity: 78mln meters) and made ups (stitching machines: 716 machines). The company is majority (~100%) owned by Mukaty family mainly through individuals. Liberty Group holds ~90% stake in Liberty Power Tech Limited (a 200MW thermal IPP) including ~29% through Liberty.

Liberty has an eight member board. The CEO, Mr. Muhammad Salim Mukaty, also holds the office of the Chairman. The board comprises four directors from sponsoring family, three executive members, and a non-executive director (NED). Executive Director Mr. Muhammad Ashraf - son of Mr. Mukaty - oversees the daily operations. Mr. Ashraf is supported by an experienced management team.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.