RATING REPORT

Din Textile Mills Limited (DTML)

REPORT DATE:
January 9, 2019

RATING ANALYST:
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Rating Category	Latest Rating	
	Long-term	**Short-term**
Entity	BBB+	A-2
Rating Date	*Dec 31, 2018*	
Rating Outlook	*Stable*	

COMPANY INFORMATION	
Incorporated in 1988	**External auditors:** M/s Naveed Zafar Ashfaq Jaffery & Co
Public Listed Company	**Chairman:** Shaikh Mohammad Muneer
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Shaikh Mohammad Tanveer
S.M. Tanveer - 16.9%	
Ghazala Pervez - 11.3%	
Shaikh Mohammad Pervez - 9.5%	
Masood Spinning Mills Limited - 5.6%	
S.M.Imran - 5.6%	
Irfan Munir - 5.6%	
Shaikh Mohammad Naveed - 5.5%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria ***Industrial Corporates (May 2016)***
http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

Din Textile Mills Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

OVERVIEW OF THE INSTITUTION

Din Textile Mills Ltd was incorporated as a public limited company in Pakistan in 1988. DTML operates under the umbrella of Din Group. The core business activity of the company is to manufacture and sell yarn.

Profile of Chairman

Mr. Shaikh Mohammad Muneer has also the chairman of All-Pakistan Tanneries Association for seven terms and has also been chairman of Korangi Association of Trade & Industry for two terms.

Financial Snapshot

Net Equity:

3MFY19 – Rs. 1.9bn, FY18 – Rs. 1.8bn.

Net Profit:

3MFY19 – Rs. 102mn, FY18 – Rs. 144.8m.

RATING RATIONALE

Assigned ratings take into account sponsor profile of Din Textile Mills Limited (DTML); the company belongs to Din group which has been operating in the textile sector for over three decades. Principal activity of DTML includes production of yarn to primarily cater to the requirements of the local market. Other entities in the group are involved in production of leather and farm products. DTML's production units comprise 5 manufacturing facilities including 4 spinning units & 1 dyeing unit located in Punjab.

At end-FY18, DTML operated with 103,488 (FY17: 93,936) spindles and capacity utilization was reported at 95.2% % (FY17: 92.6%). Going forward, DTML plans capex expanding its spindle capacity; planned capex is expected to diversify revenues, enhance operational efficiency and reduce cost of production. The project is to be primarily funded through debt financing.

Rating Drivers

Business Risk

Inherent cyclicality of cotton price and crop levels drives performance of players operating in the spinning sector. Historically, margins and financial performance of players have depicted seasonality. Moreover, competitive intensity is high due to commoditized nature of the product. Ability of the spinning companies to maintain their customer profiles along with product quality will be a key growth driver.

Sales

Net sales of the company stood at Rs 9.4 b in the year ending June 30, 2018, majority of which comprises local sales (79.3%). Share of local sales increased on a timeline basis on account of widening of its product portfolio. Moreover, exports were reported lower given cost competitiveness in the international market. Globally, Vietnam has taken an edge because of its lower labor and energy costs which has led to Chinese spinning units re-locating their factories there, thus reducing imports from Pakistan & India. The company largely exported to Portugal, Bangladesh and Hong Kong.

Profitability

Similar to other spinning units, gross margin of the company improved to 8.5% in FY18 pertaining to efficient inventory management. Local cotton procured during the year reduced its inventory cost per maund lower than average cotton prices prevailing in that period. Average cotton price stood at Rs. 6,953 per maund in FY18 whereas the procurement cost for the company stood at Rs. 6,574 per maund. Moreover, margins also improved on the back of expansion and reduced cost per spindle. Net margin of the company has remained volatile over the previous 4 year period standing at 1.5% in FY18. This pertains to high borrowings mobilized translating into higher finance costs.

Liquidity

Higher profitability has resulted in healthier cash flow generation; nonetheless, higher utilization of borrowings reduced debt servicing coverage and Funds from Operations (FFO) in relation to long-term debt multiples of DTML. Cash cycle of the company has improved over time coming down to 17 days in FY18 from 20 days in FY17, pertaining to increase in inventory on account of increasing cotton prices; DTML plans its inventory according to the trend in prices. Furthermore, it has increased its days in payables giving its cash position more cushion before allocating them to pay creditors.

Capitalization and Funding

Paid up capital of the company remained unchanged at Rs. 771m at end-June 2018. Adjusting for reserves, total equity stood at Rs. 1.8b (FY17: Rs. 1.7b) in FY17; equity base increased at end-FY18 on account of higher profit by DTML. While total debt levels of the company increased to fund its operations, leverage indicators remained range bound. With a higher quantum of long term financing availed during the years; gearing increased on a timeline basis. The company finances its working capital requirement through internal cash generation and short term borrowing which currently stands at Rs 1.0 b. Rating will remain dependent upon materialization and smooth implementation of its new spindles within targeted performance and financial indicators.

Din Textile Mills Limited — Appendix I

Financial Summary

BALANCE SHEET	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15
PPE	3,542.91	2,895.91	2,585.44	2,551.52
Stock in Trade	3,124.50	2,311.69	1,130.45	1,181.06
Trade Debts	1,230.75	708.66	799.37	866.16
Loans, advances and deposits	57.00	41.12	57.60	34.65
Cash and Bank Balances	36.83	51.37	72.84	36.72
Total Assets	8,951.54	7,322.13	5,629.41	5,525.67
Trade and other payable	3,509.43	2,379.79	1,613.49	1,554.29
Long Term Debt (*incl. current maturity)	3,025.32	2,662.72	1,684.06	1,829.55
Short Term Debt	1,078.89	1,807.13	942.85	963.95
Total Equity	1,800.81	1,657.97	1,747.69	1,675.52
INCOME STATEMENT	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15
Sales Revenue	9,479.19	7,421.79	7,602.60	8,552.54
Gross Profit	807.29	477.14	659.66	426.39
Selling Expenses	(52.54)	(53.95)	(51.77)	(83.90)
Administrative Expenses	(147.94)	(138.73)	(130.77)	(137.00)
Financing Cost	(352.70)	(282.01)	(259.50)	(372.51)
(Loss)/Profit After Tax	144.89	(63.30)	60.52	(200.32)
RATIO ANALYSIS	30-Jun-18	30-Jun-17	30-Jun-16	30-Jun-15
Gross Margin (%)	8.5%	6.4%	8.7%	5.0%
Net Margin (%)	1.5%	-0.9%	0.8%	-2.3%
FFO	592.16	137.56	380.90	(152.96)
FFO/Total Debt (%)	18%	4%	18%	-7%
Gearing (x)	1.87	1.86	1.22	1.28
Debt Leverage (x)	3.97	3.42	2.22	2.30
Debt Servicing Coverage (x)	1.23	0.56	1.10	0.33
ROAA (%)	1.8%	-1.0%	1.1%	-3.5%
ROAE (%)	8.4%	-3.7%	3.5%	-11.3%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	Din Textile Mills Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
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Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
31/12/2018	BBB+	A-2	Stable	Initial