

RATING REPORT

Din Textile Mills Limited (DTML)

REPORT DATE:

April 27, 2020

RATING ANALYST:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
Rating Date	April 27, 2020		Dec 31, 2018	
Rating Outlook	Rating Watch-Negative		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)

VIS Entity Rating Criteria: Corporates (May 2019)

<https://www.vis.com.pk/kc-meth.aspx>

Din Textile Mills Limited

OVERVIEW OF THE INSTITUTION RATING RATIONALE

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.

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.

Rating Drivers

Profile of Chairman

Mr. Shaikh Mobammad 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.

Capacity utilization: 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.

Inherent cyclicity 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.

Financial Snapshot

Net Equity:
 3MFY19 – Rs. 1.9bn,
 FY18 – Rs. 1.8bn.

Net Profit:
 3MFY19 – Rs. 102mn,
 FY18 – Rs. 144.8m.

Revenue Mix: 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.

Coronavirus to result in uncertainty in textile sector dynamics: The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand, sharp fall in cotton prices and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action. Aforementioned operating dynamics coupled with leveraged capital structure of the company warrant a ‘Rating Watch-Negative’ status. The ratings are dependent upon maintenance of overall sales, profit margins, debt service coverage, and gearing ratios at an adequate level, with outlook subject to be reviewed once the situation stabilizes.

Din Textile Mills Limited
Appendix I

Financial Summary			
BALANCE SHEET	30-Jun-16	30-Jun-17	30-Jun-18
PPE	2,585.44	2,895.91	3,542.91
Stock in Trade	1,130.45	2,311.69	3,124.50
Trade Debts	799.37	708.66	1,230.75
Loans, advances and deposits	57.60	41.12	57.00
Cash and Bank Balances	72.84	51.37	36.83
Total Assets	5,629.41	7,322.13	8,951.54
Trade and other payable	1,613.49	2,379.79	3,509.43
Long Term Debt (*incl. current maturity)	1,684.06	2,662.72	3,025.32
Short Term Debt	942.85	1,807.13	1,078.89
Paid Up Capital	224.2	224.2	224.2
Total Equity	1,747.69	1,657.97	1,800.81
INCOME STATEMENT			
30-Jun-16	30-Jun-17	30-Jun-18	
Sales Revenue	7,602.60	7,421.79	9,479.19
Gross Profit	659.66	477.14	807.29
Selling Expenses	(51.77)	(53.95)	(52.54)
Administrative Expenses	(130.77)	(138.73)	(147.94)
Financing Cost	(259.50)	(282.01)	(352.70)
(Loss)/Profit Before Tax	201.1	1.48	231.3
(Loss)/Profit After Tax	60.52	(63.30)	144.89
RATIO ANALYSIS			
30-Jun-16	30-Jun-17	30-Jun-18	
Gross Margin (%)	8.7%	6.4%	8.5%
Net Margin (%)	0.8%	-0.9%	1.5%
FFO	380.90	137.56	592.16
FFO/Total Debt (%)	18%	4%	18%
Current Ratio (x)	0.99	0.94	1.07
Gearing (x)	1.22	1.86	1.87
Debt Leverage (x)	2.22	3.42	3.97
Debt Servicing Coverage (x)	1.10	0.56	1.23
ROAA (%)	1.1%	-1.0%	1.8%
ROAE (%)	3.5%	-3.7%	8.4%

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	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	27/04/2020	BBB+	A-2	Rating Watch Negative	Maintained
	31/12/2018	BBB+	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	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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