

RATING REPORT

Din Textile Mills Limited (DTML)

REPORT DATE:

May 04, 2021

RATING ANALYST:

Asfia Aziz

afia.aziz@vis.com.pk

Sundus Qureshi

sundus.qureshi@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook	Positive		Rating Watch - Negative	
Rating Date	May 04, 2021		April 27, 2020	

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
Din Corporation (Pvt.) Ltd - 12.33%	
Din Industries Management (Pvt.) Ltd. - 10.83%	
Shaikh Mohammad Naveed - 9.40%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (April 2019)<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

Din Textile Mills Limited

OVERVIEW OF
THE RATING RATIONALE
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.

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.

External auditors of the firm are Naveed Zafar Asfaq Jaffery & Co Chartered Accountants which possesses a satisfactory QCR rating. It also lies in Category A in the list of panel of auditors maintained by State Bank of Pakistan (SBP).

Established in 1988, Din Textile Mills Limited (DTML) belongs to the 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. DTML's production units comprise 5 manufacturing facilities including 4 spinning units & 1 dyeing unit located in Punjab.

Operations & Expansion

At end-FY20, the company completed its expansion in the spinning segment and operated with 120,096 (FY19: 104,460) spindles with capacity utilization was reported lower at 87% (FY19: 99%). Actual production was lower than the installed capacity due to the lock down amidst COVID-19 announced by the Government of Punjab. Productivity also reduced due to manufacturing of specialized Mélange yarn and periodic repair and maintenance during the period.

In order to diversify revenues, enhance operational efficiency and reduce cost of production, the company has forward integrated itself in the weaving segment through installation of 120 air-jet looms. Installed production capacity is expected at 13m meters of fabric yielding annual sales revenue to the tune of Rs. 3.6b. Around 30-40% of the in-house yarn production is expected to be utilized to manufacture fabric of fine quality catering to the value-added home textile segment. The cost of the project was Rs. 3.0b which was entirely financed through debt during 1HFY21 majorly comprising Islamic TERF facility which carries an average interest cost of 3%. The weaving plant is expected to commence operations from April 1, 2021. Going forward, the company plans to incur capex of around Rs. 350m for installation of additional looms and undertake BMR of the spinning division by replacing old spindles with newer ones.

Strong sponsor profile

DTML is a part of the Din Group which has diversified presence in textiles, leather, farm products and real estate development. Din Group employees more than 5,000 employees across Pakistan and also has representation on Board of other leading local companies. Assigned ratings draw comfort from strong sponsor profile.

Rating Drivers

Recovery in industry wide exports post ease in COVID-19 lockdown measures support business risk profile of the company.

With the objective of enhancing exports to support the economy, the Government of Pakistan (GoP), has provided incentives in the form of subsidized utility tariffs, low interest rates (EFS, LTFF and TERF) and sales tax refund to the textile industry. The textile policy 2020-25 has laid emphasis on fixed electricity and gas tariff for the next 5 years till 2025 at US cents 7.5 per KWh and USD 6.5 per MMBTU, respectively. Moreover, the limits of subsidized (LTFF) financing have been enhanced under this policy to facilitate exporters. Initiatives are also being undertaken in order to increase production and yield of cotton. However, the imposed sales tax

has negatively impacted the textile industry. Even though impact of Covid-19's third wave remains elevated, we expect the order book for the industry to remain strong in the ongoing year, easing our business risk concerns.

Topline of the company grew by 8.0% during FY20, despite lockdown imposed due to Covid-19. Going forward, in the medium term, sales are expected to escalate on account of adequate orders in the pipeline along with sales emanating from the weaving segment.

Sales have increased on a timeline basis to Rs. 12.5b (FY19: Rs. 11.6b; FY18: Rs. 11.8b) during FY20 largely provided by higher average selling prices led by currency devaluation in the outgoing year. Volumetric growth rate was reported at 3% (FY19: -0.1%) during FY20. Higher sales tax amounting to Rs. 1.8b (FY19: Rs. 0.3b) also impacted the reported revenue in FY20. Around 30% of total sales are geared towards the export market with the remaining comprising local sales. The company exports largely to China, Bangladesh and Middle Eastern countries. During 1HFY21, the company reported sales revenue to the tune of Rs. 7.99b depicting an uptick in order pipeline. Going forward, in the medium term, sales are expected to escalate on account of adequate orders in pipeline along with sales emanating from the weaving segment. As per management, the company plans to fully integrate its spinning and weaving units. Targeted exports: local sales mix of the weaving and spinning segment is at 20:80 and 40:60, respectively. Management expects fabric contribution in the sales revenue to report at around 20% with the remaining being provided by yarn sales, going forward.

Overall profitability profile of the company was impacted by higher cotton prices, currency devaluation, inconsistent utility costs and higher finance costs during FY20. During 1HFY21, gross margins of the company improved and are projected to witness slight improvement going forward on the back of forward integration in the value added segment.

Gross margins of the company declined to 10.4% (FY19: 11.4%; FY18: 8.5%) during FY20 largely on the back of higher cotton prices, currency devaluation and inconsistent utility costs. Overall operating expenses increased primarily due to higher administrative cost incurred. Finance charges significantly increased to Rs. 814.8m (FY19: Rs. 630.8m; FY18: Rs. 352.7m) in FY20 due to higher rates until the last quarter of the outgoing year and elevated debt levels to finance expansion. Furthermore, higher tax charge of Rs. 141.1m (FY19: Rs. 56.1m) also reduced the overall profitability of the company. Consequently, net margins also declined considerably to 0.3% (FY19: 3.1% FY18: 1.5%) during the same period. During 9MFY21, gross and net margins of the company improved to 14.5% and 6.0%, respectively on the back of higher sales and inventory gains; the same are projected to witness slight improvement going forward on the back of forward integration in the value added segment.

Liquidity profile of the company is considered adequate with satisfactory cash flow coverage of outstanding obligations. Liquidity indicators are expected to improve in line with projected increase in overall profitability, post expansion.

In absolute terms, Funds from Operations (FFO) decreased to Rs. 705.3m (FY19: Rs. 778.5m) on account of lower overall profitability during FY20. Given improvement in earnings, Debt Service Coverage Ratio (DSCR) was reported higher at 2.7x (FY20: 1.2x, FY19: 1.5x) during 1HFY21. However, FFO to total debt and FFO to long term debt were reported lower at

12.7% (FY20: 12.7%; FY19: 15.7%) and 16.3% (FY20: 19.8%; FY19: 28.6%) during 1HFY21, respectively on account of elevated debt levels. Inventory and trade debts provide healthy coverage for short-term debt obligations while current ratio was reported above 1(x). Going forward, liquidity profile of the company is expected to improve with increase in overall profitability, post expansion.

Leverage indicators have trended upwards on account of debt drawdown to finance expansion in the weaving segment. Given plans to further drawdown debt to finance BMR in the spinning segment, capitalization indicators are expected to increase, however, post FY22 the same shall improve in line with higher projected profit retention and debt repayment.

On account of equity injection to support working capital requirements, net equity of the company was reported higher at Rs. 3.1b (FY19: Rs. 2.2b) at end-June'20. Total debt carried on balance sheet amounted to Rs. 7.95b at end-Dec'20; around 78% of the total debt is long-term in nature with a major portion (around 80%) of the same being at concessionary rates. With a larger debt base, leverage indicators have remained on higher side with gearing and debt leverage reported at 2.4x (FY20: 1.8x, FY19: 2.3x) and 4.0x (FY20: 3.0x, FY19: 3.9x) at end-1HFY21, respectively. Leverage indicators have trended upwards on account of debt drawdown to finance expansion in the weaving segment along with higher trade payables due to cotton procurement season. Given plans to further drawdown debt to finance BMR in the spinning segment, capitalization indicators are expected to trend upwards, however, post FY22 the same shall improve in line with higher projected profit retention and debt repayment.

Corporate Governance depicts room for improvement.

The Board of Directors of DTML comprises nine members; three independent directors, three non-executive directors and three executive directors. The senior management team of the company comprises resources from the various sectors having relevant experience. The company is in the process of implementing SAP based ERP system. DTML has a separate audit and HR & Remuneration Committee, while "Naveed Zafar Asfaq Jaffery & Co." are external auditors of the company.

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	FY18	FY19	FY20	9M21
Fixed Assets	3,542.9	3,987.3	5,809.2	8,522.3
Stock-in-Trade	3,124.5	3,466.2	3,129.3	4,589.6
Trade Debts	1,230.8	1,532.2	2,236.0	2,020.6
Cash & Bank Balances	36.8	24.3	309.4	376.8
Total Assets	8,951.5	10,537.0	12,457.7	16,636.5
Trade and Other Payables	3,509.4	3,081.5	3,501.0	4,594.5
Long Term Debt	2,282.5	2,721.6	3,563.0	6,820.4
Short Term Debt	1,078.9	2,228.3	1,974.5	964.6
Total Debt	3,361.3	4,949.8	5,537.5	7,785.0
Total Equity	1,800.8	2,163.1	3,109.9	3,859.3
Total Liabilities	7,150.7	8,373.9	9,347.9	12,777.2
Paid Up Capital	224.2	291.5	524.7	524.7
<u>INCOME STATEMENT</u>	FY18	FY19	FY20	9M21
Net Sales	9,479.2	11,560.5	12,482.8	12,395.4
Gross Profit	807.3	1,317.2	1,293.2	1,799.8
Operating Profit	584.0	1,049.3	992.5	1,446.0
Profit Before Tax	231.3	418.5	177.7	977.2
Profit After Tax	144.9	362.4	36.6	749.4
<u>RATIO ANALYSIS</u>	FY18	FY19	FY20	9M21
Gross Margin (%)	8.5%	11.4%	10.4%	14.5%
Net Margin (%)	1.5%	3.1%	0.3%	6.0%
Net Working Capital	370.2	551.7	954.6	1,425.6
Trade debts/Sales	13%	13%	18%	12%
FFO	592.2	778.5	705.3	1,431.1
FFO to Total Debt (%)	17.6%	15.7%	12.7%	24.5%
FFO to Long Term Debt (%)	25.9%	28.6%	19.8%	28.0%
Debt Servicing Coverage Ratio (x)	1.2	1.5	1.2	2.0
Current Ratio (x)	1.1	1.1	1.2	1.2
Stock+Trade Debts/STD	403.7%	224.3%	271.7%	685.3%
Gearing (x)	1.9	2.3	1.8	2.0
Leverage (x)	4.0	3.9	3.0	3.3
ROAA (%)	1.8%	3.7%	0.3%	6.9%
ROAE (%)	8.4%	18.3%	1.4%	28.7%

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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		Medium to Long Term	Short Term	Rating Outlook	Rating Action
		<u>RATING TYPE: ENTITY</u>			
	Rating Date				
	04-May-2021	BBB+	A-2	Positive	Maintained
	27-Apr-2020	BBB+	A-2	Rating Watch-Negative	Maintained
31-Dec-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.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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Due Diligence Meetings Conducted	Name	Designation		Date	
	Mr. Farhad Shaikh	Director Finance		11-Mar-2021	
	Mr. Naveed Yar Khan	Manager Finance		11-Mar-2021	