RATING REPORT

Masood Textile Mills Limited (MTM)

REPORT DATE:
July 04, 2018

RATING ANALYSTS:
Maimoon Rasheed
maimoon@jcrvis.com.pk

M. Daniyal
daniyal.kamran@jcrvis.com.pk

RATING DETAILS		
	Latest Rating	
Rating Category	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	*Stable*	
Rating Date	*June 29' 2018*	

COMPANY INFORMATION	
Incorporated in 1984	**External auditors:** M/s Riaz Ahmad & Company Chartered Accountants
	Chairman of the Board: Mr. Naseer Ahmad Shah
Public Limited Company	**Chief Executive Officer:** Mr. Shahid Nazir Ahmad
Key Shareholders (with stake 5% or more):	
Mrs. Nazia Nazir-30.17%	
Shanghai Challenge Textile Co. Ltd- 25.77%	
Zhejiang Xinao Industry Co. Ltd- 11.31%	
National Bank of Pakistan (NBP)- 6.72%	
Kohistan Corporation Pvt. Limited-6.50%	
Beacon Impex Pvt. Limited- 5.00%	

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

Masood Textile Mills Limited (MTM)

OVERVIEW OF THE INSTITUTION

Masood Textile Mills Limited (MTM) is a listed public limited company established in 1984 under the Companies Act, 1913 (now Companies Act, 2017). The company is a vertically integrated textile composite that is primarily involved in manufacturing and export of knitted apparels. Registered office of the company is situated at New Civil Lines, Bilal Road, Faisalabad.

Profile of Chairman

Mr. Naseer Ahmad Shah holds MSc. degree and carries more than 30 years of professional experience in the textile sector. Mr. Naseer is a certified director having completed the Director's Training Program from Institute of Chartered Accountants of Pakistan (ICAP) in 2013.

Profile of CEO

Mr. Shahid Nazir Ahmad is the founder of MTM. Mr. Shahid is an MBA from London and carries over 20 years of experience in the textile sector.

Financial Snapshot:

Net Profit: 9MFY18: Rs. 721.8m; FY17: Rs. 887.0m; FY16: Rs. 729.2m

RATING RATIONALE

The assigned ratings of Masood Textile Mills Limited (MTM) incorporate its sound business profile with the company being one of the largest knitwear exporters in Pakistan. The ratings also take into account presence of Chinese sponsorship in the company; MTM is presently the only textile company in Pakistan having Chinese stake. The company gains synergistic benefits from the association mainly related to expertise in the value added segment. While debt service coverage is expected to remain comfortable, leverage indicators are considered to be relatively high.

Asset Mix: By end-9MFY18, asset base of the company augmented to Rs. 32.5b (FY17: Rs. 26.9b; FY16: Rs. 22.7b) mainly on account of increase in property, plant & equipment, stock-in-trade and trade debts. Fixed assets increased on account of BMR project primarily undertaken in order to produce high quality value added apparel, going forward. By end-9MFY18, trade debts and stock-in-trade, each comprised around one-fourth of asset base, whereas other assets & receivables mainly include amount recoverable from the Government of Pakistan (GoP) in the form of sales tax, duty drawback claims and income tax.

Product Profile and Sales Concentration: Product portfolio of the company mainly include T-shirt, polo shirt, jogging suit, Henley shirt, Raglan shirt, tank top, bikini, shorts, pants and sleepwear. Exports have been primarily concentrated in North America; the same accounted for about three fourth of gross sales during FY15. Over the last few years, the company has been able to tap other export avenues including Europe, Asia and Ocean Pacific region in order to rationalize geographical concentration; the same is evident given decline in revenue concentration on a timeline basis, though still remain high. Customer concentration is evident as top 5 customers account for more than two-third of gross sales.

Profitability: Over the last three years, CAGR in terms of gross sales amounted to -1.4%. Net sales have remained largely stagnant over last three years except for the FY15, where revenue stood higher mainly on the back of enhanced focus on local sales. Gross sales mainly comprised export sales as its share was 93.0% (FY16: 94.1%; FY15: 84%) of total sales in FY17. During 9MFY18, the proportion of export sales was reported somewhat lower, however, these are expected to normalize by end-FY18 with dispatch of piled-up finished goods inventory.

During FY17, net sales of the company was reported at Rs. 23.4b (FY16: Rs. 23.2b) while gross margin improved to 14.5% (FY16: 13.9%) as cost of sales remained largely at prior year's level mainly due to procurement of major raw material at a favorable price.Net income stood higher (FY17: Rs. 887m; FY16: 729m) mainly on the back of higher gross margin and decline in financial charges. During 9MFY18, net sales amounted to Rs. 19.9b as compared to Rs. 17.5b during the same period last year. As per the management, increase in net sales is mainly attributed to sale of value added apparel, which fetches higher price per unit. Gross margin stood lower at 13.5% due to reclassification of exchange gain in other income; previously it was included in net sales. Net profit was reported at Rs. 722m during 9MFY18. The company is projecting a net profit of around Rs. 1b in FY18.

Liquidity & Cash Flows: With considerable increase in short-term borrowings, current ratio of the company declined to 1.33x (FY17: 1.57x; FY16: 1.20x). Cash cycle increased on a timeline basis mainly owing to higher days' inventory outstanding. Given extended cash cycle, working capital requirements are being primarily managed through procurement of short-term borrowings. By end-9MFY18, trade debts as a percentage of net sales (annualized) stood higher at 30% (FY17: 24.0%; FY16: 26.2%) as the company enhanced credit terms of few customers. Around 13.4%

Net Equity: 9MFY18: Rs. 9.9b; FY17: Rs. 9.7b; FY16: Rs. 7.7b

(FY17: 15.9%; FY16: 16.5%) of trade debts were past due but not impaired at end-9MFY18. As per management, these relate to a number of independent customers from whom there is no recent history of default. Due to the company's long-standing business relationships with counterparties and after giving due consideration to their strong financial standing, management does not expect non-performance by these counterparties on their obligations. Accordingly, credit risk is considered minimal by the company.

On account of higher profitability, funds from Operations (FFO) increased to Rs. 1.3b (FY17: Rs. 1.26b; FY16: Rs. 1.1b) during 9MFY18. The company's repayment ability is considered adequate as debt service coverage ratio (DSCR) stood at 1.66x (FY17: 1.26x; FY16: 0.96x) in 9MFY18. With increase in long-term borrowings, FFO-to-long term debt decreased to 0.20x (FY16: 0.47x) at end-FY17, though stood higher at 0.28x at end-9MFY18 on account of higher annualized FFO. FFO-to-Total debt remained at 0.09x (FY17: 0.08x; FY16: 0.09x) at end-9MFY18. With increase in FFO and gradual decline in long-term borrowings, FFO to long-term debt is projected to improve notably while FFO to total debt, though would improve marginally, is projected to remain low given increase in short-term debt for higher working capital requirements, going forward.

Funding & Capitalization: Total liabilities stood higher, primarily comprised both short-term and long-term debt and trade and other payables. Long-term debt availed by the company increased to about Rs. 6b (FY17: Rs. 5.8b; FY16: Rs. 1.9b) by end-9MFY18. Increase in long-term debt has been a result of funding required for the BMR project. By end-9MFY18, short-term borrowings increased to Rs.12.8b (FY17: Rs. 8.9b; FY16: Rs. 10.1b) in order to finance higher working capital of the company. Other liabilities amounted to Rs. 1.1b (FY17: Rs. 944.8; FY16: Rs. 846.3m) at end-9MFY18 and mainly comprised deferred liability for gratuity.

Outstanding cumulative preference shares amounted to Rs. 311.7m (FY17: Rs. 311.6m; FY16: Rs. 348.3m) at end-9MFY18. The preference shares are non-voting, convertible and callable in nature. As per terms of conversion, shareholders have the option to serve notice to the company to convert a maximum of one-third of the preference shares in any year along with accumulated dividend into ordinary shares at a discount of 15% to immediately preceding 30 days' average market value. Upon receiving the conversion notice, the company shall have the option to repay preference shares along with accumulated dividend or issue ordinary shares to preference shareholders. In addition, the company has call option to redeem preference shares at a price of Rs. 10 per share plus accumulated preference share dividend. In order to make payments against any call option, the company has maintained a sinking fund reserve out of profits of the company, equal to one-third of the total amount of outstanding preference shares. Dividend is payable at the average rate of 6 month KIBOR + 2% p.a on a cumulative basis.

By end-9MFY18, total equity augmented to Rs. 9.6b (FY17: Rs. 9.0b; FY16: Rs. 7.4b). Equity of the company comprise ordinary shares, reserves and surplus on revaluation of fixed assets. By end-FY17, Tier-1 equity increased to Rs. 8.1b (FY16: Rs. 6.5b) on account of right share issuance of Rs. 1.05b and profit retention; the same amounted to Rs. 8.7b by end-9MFY18. At end-9MFY18, surplus on revaluation of freehold land amounted to Rs. 900.2m.

Gearing and debt leverage increased by end-1QFY18 on account of procurement of additional debt for BMR and higher short-term borrowings. Gearing and debt leverage amounted to 2.20x (FY17: 1.85x; FY16: 1.91x) and 2.62x (FY17: 2.20x; FY16: 2.37x), respectively, by end-9MFY18, on account of procurement of additional debt for BMR and higher short-term borrowings. Gearing level is projected to decrease gradually, though it is expected to remain high.

Masood Textile Mills Limited **Appendix IV**

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY15**	**FY16**	**FY17**	**9MFY18**
Fixed Assets	6,582.7	6,713.4	8,377.3	9,689.7
Stock-in-Trade	5,275.6	5,277.6	6,916.5	8,269.1
Trade Debts	6,912.0	6,068.0	5,618.7	7,970.4
Other Receivables	1,106.2	1,562.0	2,672.1	2,637.7
Other Assets	916.8	926.0	1,098.9	1,448.1
Stores, Spares & Tools	1,010.1	956.6	1,312.3	1,583.2
Cash & Bank Balances	1,167.6	1,226.7	902.8	853.4
Total Assets	**22,971.0**	**22,730.3**	**26,898.6**	**32,451.6**
Trade and Other Payables	2,205.2	2,156.7	1,972.0	2,592.0
Long Term Debt *(including current maturity)*	1,665.7	1,853.5	5,776.3	5,983.1
Short-term Debt	11,044.4	10,056.5	8,907.9	12,846.0
Liabilities against Assets subject to finance lease	138.3	93.2	52.0	27.9
Other Liabilities	855.5	846.3	842.8	1,076.8
Preference Shares *(Redeemable)*	348.3	348.3	311.7	311.7
Total Liabilities	**16,257.4**	**15,354.5**	**17,862.7**	**22,837.5**
Tier-1 Equity	**6,107.3**	**6,475.6**	**8,135.7**	**8,713.9**
Surplus on revaluation of freehold land	606.2	900.2	900.2	900.2
Total Equity	**6,713.5**	**7,375.8**	**9,035.9**	**9,614.1**
INCOME STATEMENT	**FY15**	**FY16**	**FY17**	**9MFY18**
Net Sales	26,702.7	23,183.5	23,393.9	19,919.4
Gross Profit	3,714.4	3,212.2	3,385.3	2,699.0
Profit before Tax	1,032.2	917.9	993.2	883.2
Profit After Tax	754.1	729.2	887.0	721.8
RATIO ANALYSIS	**FY15**	**FY16**	**FY17**	**9MFY18**
Gross Margin (%)	13.9	13.9	14.5	13.5
Net Margin (%)	2.8	3.1	3.8	3.6
FFO	1,115.3	1,070.3	1,258.6	1,309.7
FFO to Total Debt	0.08	0.09	0.08	0.09
FFO to Long-term Debt	0.52	0.47	0.20	0.28
Debt Leverage	2.66	2.37	2.20	2.62
Gearing	2.16	1.91	1.85	2.20

DSCR	1.16	0.96	1.26	1.66
ROAE (%)	12.3	11.0	11.6	17.1
Dividend Payout (%)	34.6	36.2	13.3	-

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix V

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 VI**
Name of Rated Entity	Masood Textile Mills Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	Jun 29, '18	A-	A-2	Stable	Initial
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.				
Probability of Default	JCR-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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2018 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				