RATING REPORT

Masood Textile Mills Limited (MTM)

REPORT DATE:
June 25, 2019

RATING ANALYSTS:
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RATING DETAILS

	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Outlook	*Stable*		*Stable*	
Rating Date	*21 June '19*		*29 June '18*	
Sukuk (preliminary)	A		-	
Rating Outlook	Stable		-	
Rating Date	*21 June '19*		-	

COMPANY INFORMATION

Incorporated in 1984	**External auditors:** M/s Riaz Ahmad & Company Chartered Accountants
	Chairman of the Board: Mr. Naseer Ahmad Shah **Chief Executive Officer:** Mr. Shahid Nazir Ahmad
Public Limited Company	
Key Shareholders (with stake 5% or more):	
Mrs. Nazia Nazir – 30.2%	
Shanghai Challenge Textile Co. Ltd – 25.8%	
Zhejiang Xinao Industry Co. Ltd – 11.3%	
National Bank of Pakistan (NBP) – 6.7%	
Kohistan Corporation (Pvt.) Limited – 6.5%	
Beacon Impex (Pvt.) Limited – 5.0%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: ***Corporates (May 2019)***
https://www.vis.com.pk/kc-meth.aspx

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

Total equity: 9MFY19: Rs. 10.8b; FY18: Rs. 10.0b; FY17: Rs. 9.0b

RATING RATIONALE

The assigned ratings take into account sound business profile of the company, with MTM being one of the largest knitwear exporters in Pakistan. The ratings also take into account presence of Chinese sponsorship in the company. MTM obtains synergy benefits from the said association in terms of technical expertise in the value added textile segment. The ratings draw comfort from healthy growth in net sales and largely stable profit margins, maintained liquidity position, and adequate capacity to meet financial obligations. However, the leverage indicators are considered to be relatively high.

MTM made further investment in Balancing, Modernization & Rebalancing (BMR) of plant & machinery during 9MFY19 in order to enhance its production capabilities and produce high quality value added apparel. Going forward, the company is projecting gradual improvement in profit margins owing to cost efficiencies and uptrend in sales of value added apparel which fetches higher price per unit. Recent rupee devaluation is expected to bode well for the company. FFO to total debt ratio remained unchanged as the impact of higher cash flows was offset by increased utilization of short-term borrowings.

Rating Rationale

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 accounted for half of total sales during 9MFY19.

Sales and Profitability: The company reported net sales of Rs. 25.5b during 9MFY19 (FY18: Rs. 30.8b; FY17: Rs. 23.4b), drive largely by notable volumetric gains and slightly favorable pricing. Gross profit amounted to Rs. 3.3b (FY18: Rs. 3.9b; Rs. 3.4b) on account of year-over-year growth in sales and slight improvement in gross margin to 12.8% during 9MFY19 (FY18: 12.5%; FY17: 14.5%). In line with the accelerated business activity, the company recorded Rs. 1.9b in distribution cost (FY18: Rs. 2.1b; FY17: Rs. 1.5b) and administrative expenses of Rs. 521m (FY18: Rs. 549m; FY17: Rs. 481m). Other income amounted to Rs. 1.2b (FY18: Rs. 1.1b; FY17: Rs. 218m), largely emanating from foreign exchange gain. Finance cost was recorded at Rs. 882m (FY18: Rs. 896m; FY17: Rs. 641m) owing to higher utilization of borrowings. Accounting for taxation, MTM posted a net profit of Rs. 874m (FY18: Rs. 1.1b; FY17: Rs. 887m) with a net margin of 3.4% (FY18: 3.6%; FY17: 3.8%).

Liquidity & Cash Flows: With a considerable increase in short-term borrowings, current ratio of the company declined to 1.27x by end-9MFY19 (FY18: 1.34x; FY17: 1.57x) with a net working capital of Rs. 5.5b (F18: Rs. 5.6b). Inventory plus receivables to short-term borrowings ratio remained largely stable at 1.27x (FY18: 1.26x; FY17: 1.41x) which indicates that the company is also utilizing internally generated capital to meet its working capital requirements. Trade receivables to net sales ratio remained unchanged at 30% (FY18: 30%; FY17: 24%) as the company enhanced credit terms of few customers.

In line with profits, MTM generated Rs. 1.5b in funds from operations (FFO) during 9MFY19 (FY18: Rs. 1.9b; FY17: Rs. 1.3b). FFO to long-term borrowings ratio marginally increased to 0.32x (FY18: 0.30x; FY17: 0.20x) while FFO to total borrowings ratio remained unchanged at 0.10x (FY18: 0.10x; FY17: 0.08x). However, due to higher scheduled repayment of long-term borrowings, the debt service coverage ratio decreased to 1.06x (FY18: 1.74x; FY17: 1.26x).

Net profit: 9MFY19: Rs. 874m; FY18: Rs. 1.1b; FY17: Rs. 887m

Funding & Capitalization: Total equity of MTM augmented to Rs. 10.8b by end-9MFY19 (FY18: Rs. 10.0b; FY17: Rs. 9.0b), including revaluation surplus of Rs. 900m. Outstanding cumulative preference shares amounted to Rs. 312m (FY18: Rs. 312m; FY17: Rs. 312m) at end-9MFY19. The preference shares are non-voting, convertible and callable in nature. The debt profile of MTM comprises a mix of short-term and long-term borrowings. Long-term borrowings decreased slightly to Rs. 6.3b (FY18: Rs. 6.4; FY17: Rs. 5.8b), however, short-term borrowings increased to Rs. 13.9b by end-9MFY19 (FY18: Rs. 12.0b; FY17: Rs. 8.9b) due to elevated working capital requirement Consequently, gearing and debt leverage ratios were recorded at 2.04x (FY18: 2.02x; FY17: 1.85x) and 2.60x (FY18: 2.43x; FY17: 2.20x) respectively.

MTM is planning to issue a Sukuk amounting Rs. 3.0b, inclusive of a green shoe option of Rs. 1.0b. The instrument will be redeemed in 14 equal quarterly payments, post expiry of grace period, on a quarterly basis. The rental rate of Sukuk is priced at 3-month KIBOR plus 2.0% p.a. The instrument is secured by first pari-passu hypothecation charge over-all present and future fixed assets with a margin of 25% and debt payment mechanism. The company will transfer receivables in a separate account latest by 25th of every month amounting to 1/3rd of the installment due (redemption + rental) in every quarter. The company will maintain separate account under lien of Trustee/Investment agent in favor of investors. As the proceeds will be utilized to partially repay the existing conventional debt and meet working capital requirements, the impact of Sukuk issuance on the leverage indicators will remain muted.

Masood Textile Mills Limited **Appendix I**

FINANCIAL SUMMARY *(amounts in PKR millions)*			
BALANCE SHEET	**FY18**	**9MFY19**	**FY19-P**
Fixed Assets	10,077	10,721	10,791
Stores and Spare Parts	1,579	1,680	1,698
Stock-in-Trade	5,811	7,572	7,891
Trade Debts	9,276	10,049	9,392
Advances, Deposits, Prepayments, Other Assets	4,858	5,682	5,342
Cash & Bank Balance	620	712	788
Total Assets	**32,221**	**36,415**	**35,902**
Trade Payables and Other Liabilities	2,879	4,523	3,845
Long Term Debt *(including Sukuk & current maturity)*	6,127	5,941	6,166
Short-term Debt	11,963	13,911	13,463
Other Liabilities	724	707	779
Provision for Taxation	192	257	333
Preference Shares *(Redeemable)*	312	312	312
Total Liabilities	**22,197**	**25,651**	**24,898**
Tier-1 Equity	**9,124**	**9,864**	**10,103**
Surplus on revaluation of freehold land	900	900	900
Total Equity	**10,024**	**10,765**	**11,004**
INCOME STATEMENT	**FY18**	**9MFY19**	**FY19-P**
Net Sales	30,842	25,527	33,282
Gross Profit	3,851	3,263	4,482
Profit After Tax	1,113	874	1,263
FFO	1,907	1,479	2,238
RATIO ANALYSIS	**FY18**	**9MFY19**	**FY19-P**
Gross Margin (%)	12.5	12.8	13.5
Net Margin (%)	3.6	3.4	3.8
FFO to Total Debt (x)	0.10	0.10*	0.11
FFO to Long-term Debt (x)	0.30	0.32*	0.35
Debt Leverage (x)	2.43	2.60	2.46
Gearing (x)	2.02	2.04	1.97
DSCR (x)	1.74	1.06	1.30
ROAE (%)	11.1	10.8*	11.5
Current Ratio (x)	1.34	1.27	1.31
Inventory plus Receivables/Short-term Borrowings (x)	1.26	1.27	1.28

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

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	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		
June 21, '19	A-	A-2	Stable	Reaffirmed
June 29, '18	A-	A-2	Stable	Initial
		RATING TYPE: SUKUK		
June 21, '19	A		Stable	Preliminary

Instrument Structure	Proposed Sukuk is of amount Rs. 3.0b (inclusive of Rs. 1.0 green shoe option). Tenor of the Sukuk will be 5 years including 18 months grace period. Sukuk will be redeemed in 14 equal quarterly installments. The first such redemption shall fall due at the end of the quarter period falling immediately after the expiry of grace period. The facility shall be secured by; I) first pari passu hypothecation charge over all present and future fixed assets with a margin of 25%, II) debt payment mechanism. The company will create a Sukuk payment mechanism to service the payment due every quarter. The company will transfer receivables in a separate account latest by 25th of every month amounting to 1/3rd of the installment due (redemption + rental) in that quarter. The company will maintain separate account under lien of Trustee/Investment Agent in favor of investors.
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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