RATING REPORT

Masood Textile Mills Limited

REPORT DATE:
December 14, 2022

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook *(Entity)*	Stable		Stable	
Sukuk	A		A	
Rating Outlook *(Sukuk)*	Stable		Stable	
Rating Date	*Dec 14, 2022*		*Sept 08, 2021*	

COMPANY INFORMATION

Incorporated in 1984	**External Auditors:** Riaz Ahmad & Company Chartered Accountants
Public Limited Company	**Board Chairman:** Mr. Naseer Ahmad Shah
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Shahid Nazir Ahmad
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%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Masood Textile Mills Limited (MTM)

OVERVIEW OF THE INSTITUTION

Masood Textile Mills Limited (MTML) 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 over 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.

RATING RATIONALE

Corporate Profile

Masood Textile Mills Limited (MTML) with nearly four-decade operating track record is primarily involved in manufacturing and export of knitted apparels through vertically integrated operations (in-house spinning, knitting, fiber and yarn dyeing, fabric dyeing & processing, laundry, printing, embroidery, denim, and apparel manufacturing facilities). Product range includes cotton, synthetic fiber yarn, dyed fabrics, denim and knitted apparels (loungewear, active wear, sleepwear, athletic and sportswear) while operations are carried out through eight manufacturing units, mostly located in Faisalabad. Total staff strength stands at 20K+ employees.

Operational Performance

During the period under review, total capex has stood at Rs. 1.5b, mainly pertained to addition of new machinery in the knitting segment, resulting in ~13% capacity increase during the year while total project cost was financed through a mix of LTFF, sponsor contribution, and internal capital generation. There are total 37,440 spindles installed, with ~49% owned and the rest leased (with complete control and solely dedicated to the company). At present, knitting division comprises 778 active and 143 seasonal machines while garment segment includes 5,697 machines, of which 756 are dedicated for denim production.

Capacity utilization in the spinning division has largely remained consistent with previous year levels, while utilization levels in the knitting and dyeing segments noted an uptick. As per management, decline in dyeing & finishing capacity is due to sale of idle/obsolete machinery. Despite a global slowdown in demand, management expects overall utilization to remain stable in FY23 due to the addition of new customers and a healthy order pipeline.

Figure: Capacity & Production Data

	# of shifts	FY19	FY20	FY21	FY22
Spinning					
Installed capacity (Kgs. In '000')	3	5,541	5,757	5,742	5,742
Actual production (Kgs. In '000')	3	5,121	5,019	5,133	5,163
Capacity Utilization		**92.40%**	**87.20%**	**89.40%**	**89.90%**
Knitting					
Installed capacity (Kgs. In '000')	3	47,555	43,167	42,880	48,545
Actual production (Kgs. In '000')	3	27,668	17,563	22,774	28,928
Capacity Utilization		**58.20%**	**40.70%**	**53.10%**	**59.60%**
Dyeing/Finishing					
Installed capacity (Kgs. In '000')	3	45,525	49,775	50,041	46,834
Actual production (Kgs. In '000')	3	26,234	19,549	26,439	30,429
Capacity Utilization		**57.60%**	**39.30%**	**52.80%**	**65.00%**
Garments					
Installed capacity (Dzn. In '000')	1	5,239	5,229	5,174	4,689
Actual production (Dzn. In '000')	1	3,154	3,012	2,987	2,662
Capacity Utilization		**60.20%**	**57.60%**	**57.70%**	**56.80%**

Structure of Sukuk Issue

In FY20, the company raised Rs. 2.5b through a privately placed sukuk issue (inclusive of green shoe option of Rs. 1.0b) to repay existing conventional debts and fund working capital requirements. There are total 14 equal quarterly principal repayments, 5 of which have already been made with the final instalment due in Dec'24. Rental rate is set at 3-Month KIBOR plus 200 bps per annum. Security structure entails first pari-passu charge over-all present and future fixed assets with a 25% margin and debt payment mechanism. In addition, one-third of upcoming quarterly instalment (redemption plus rental) is transferred in a separate account by 25th of each month, as maintained under Trustee/Investment agent lien in favour of investors.

Key Rating Drivers

Business risk profile is supported by industry wide growth in exports over the last year; however, with recent floods adversely affecting cotton crop and ongoing energy crisis in the country pose a challenge to margins sustainability and future growth.

Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally broke the threshold, coming in at USD 32.4b. Textile sector contributes nearly one-fourth to industrial value-added segment and 8.5% to the country's GDP, with an estimated market size of around Rs. 4.0tr. Barring seasonal and cyclical fluctuations, textiles sector has maintained an average share of about 60% in national exports.

Figure: Pakistan Export Statistics (in USD millions)

	FY20	FY21	FY22		1Q'FY22	1Q'FY23
Pakistan Total Exports	22,536	25,639	32,450		7,201	7,594
Textile Exports	12,851	14,492	18,525		4,241	4,777
PKR/USD Average rate	158.0	160.0	177.5		164.4	229.1

Source: SBP

Export revenues from textile sector have noted sizeable growth over the years (FY22: $19.3b FY21: $15.4b; FY20: $12.5b; FY19: $13.6b). Knitwear, Readymade and Bed wear segments continue to contribute higher than other segments, with a cumulative contribution of more than 60% in textile exports. While the growth was primarily driven by volume (excluding knitwear and cotton yarn), higher prices also boosted exports.

Figure: Textile Export Details (in USD millions)

	FY20	FY21	FY22		1Q'FY22	1Q'FY23
High Value-Added Segment	**9,669**	**12,427**	**15,605**		**3,561**	**3,749**
- Knitwear	2,794	3,815	5,121		1,145	1,321
- Readymade Garments	2,552	3,033	3,905		861	912
- Bed wear	2,151	2,772	3,293		803	780
- Towels	711	938	1,111		241	237
- Made-up Articles	591	756	849		197	180
- Art, Silk & Synthetic Textile	315	370	460		108	108
- Others	555	743	866		206	211
Low to medium Value-Added Segment	**2,858**	**2,972**	**3,717**		**860**	**835**
- Cotton Cloth	1,830	1,921	2,438		557	581
- Cotton Yarn	984	1,017	1,207		289	236
- Others	43	34	72		14	18
Total	**12,527**	**15,399**	**19,332**		**4,421**	**4,584**

Source: SBP

Cotton prices rose to a new 12-year high of ~Rs. 21,600/maund as of March'22, as a result of the shortage and higher input costs of fertilizer and energy. Cotton imports were also up 19.8%, in USD terms, for FY22 vis-à-vis preceding year.

Figure: Cotton Prices Trend (In Rs.)

	FY19	FY20	FY21	FY22
Per Maund	8,770	8,860	13,000	17,380
YoY % Change	26%	1%	32%	34%

Floods in Sindh and Southern Punjab during recent monsoon season have caused significant damage to the cotton crop. According to industry estimates, ~45% of the crop has been washed, worth more than $2.5b, resulting in significant price increases. The government has announced facilitation for raw materials imports to compensate for domestic shortages. Nonetheless, in addition to affecting profit margins, higher raw material pricing is expected to increase the working capital requirements, which is likely to have a negative impact on the liquidity profile of textile operators, particularly spinners, weavers and dying companies.

Global and domestic challenges, such as slowdown in export demand (primarily from North America and the EU, which has begun to materialize in Pakistan's monthly export proceeds) due to recessionary trend, industrial gas load shedding expected in the country, and rising production costs due to inflation, will weigh on the business risk profile going forward. These factors may result in competitive market pricing for exporters.

5-Year (2020-25) textile policy continues to support the industry.

With an aim to double textile exports in five years, GoP through a five-year textile policy (2020-25) has provided incentives in form of preferential energy rates, low interest rates financing schemes (such as EFS, LTFF and TERF) and timely payments of DLTL, Income tax & Sales tax refund which support liquidity constraints of local players. Initiatives have also been undertaken to increase production and yield of cotton to support the industry. However, imposition of 10% super tax would have a negative effect on profitability profile of textile players. In addition, contractionary monetary policy and political uncertainties in the country are the present major business risk factors. In the long run, improvement in value addition, investment in technology and optimization of energy cost would define the future of textile exports.

Robust growth in sales revenue during the year was mainly driven by increase in prices combined with rupee devaluation impact.

While crossing the Rs. 54b mark in FY22, net sales registered a sizeable growth of ~46% primarily driven by increase in average prices coupled with rupee devaluation, while volumetric growth in knitted apparels/garments stood ~6%. The growth trend in sales revenue has continued during 3M'FY23, amounting to Rs. 15b, increasing by ~25% vis-à-vis SPLY. As per management, confirmed orders in hand for the next six months amounts to Rs. ~25b, with full-year sales for FY23 projected at Rs. 62.5b.

On a two-year average basis, direct exports generated 87% of revenue while in terms of segments, proportion of knitted apparel and finished garments to fabric and yarn sales was around 90:10. Nearly three-quarters of total exports are concentrated in America and Canada, with the remainder split among Europe, Asia, Africa, and Australia. Client concentration also remains high, with the top five clients accounting for more than half of total sales; however, comfort is drawn from long-standing relationships with major clients. Going forward, management intends to diversify its client base across regions by bringing on board highfashion brands and retailers, with maximum business of 50% placed in one geographical region and 20% with a single client.

Gross margins noted a declining trend; however, akin to industry trend sizeable exchange gain over the review period supported the earning profile.
Following a decline in FY22, gross margin fell further in the ongoing year due to increasing trend in cotton and yarn prices and significant uptick in power costs in recent months given energy shortages in the country. During the year, the average rate of cotton and yarn procured increased by ~65% and ~39%, respectively. Cotton stock levels are held for 45 to 60 days, while yarn is procured against confirmed orders for the next six months.

On the cost front, administrative overheads remained largely unchanged from the previous year, while distribution expenses increased significantly, owing primarily to higher outbound freight costs and commission charges. Furthermore, financing charges increased during the year due to increased utilization of running finance facility and higher benchmark rates. After turning positive in FY21, bottom line experienced a strong uptick due to sizable exchange gain (FY22: Rs. 2.2b and 3M'FY23: Rs. 1.4b) over the review period, resulting in improved net margins.

Cash flow coverages have improved over the last two years; however, the same may need further improvement to align with peers.
Fund flow from operations (FFO) has depicted improvement over the last two years on the back of increasing net profitability, reaching to Rs. 3.8b (FY21:Rs. 1.5b). Thus, resulting in improved cash flow coverages over time as reflected by FFO to total debt of 0.20x (FY22: 0.16x; FY21: 0.07x) and FFO to long-term debt of 0.82x (FY22: 0.63x; FY21: 0.20x) at end-3M'FY23. Debt servicing coverage ratio also improved to 1.65x (FY22: 0.98x; FY21: 1.07x) yet the same remains on the lower side in comparison to peers.

Current ratio has remained stable at more than 1.0x over the years, while the coverage of short-term borrowings in relation to trade debts and stock in trade has improved over time. Trade debts have grown in tandem with business growth whereas ageing profile indicates room for improvement, with ~24% of total receivables outstanding for more than 90 days. Cash conversion cycle, on the other hand, has improved over the last three years, falling from 181 days in FY20 to 102 days in 3M'FY23.

Leverage indicators have trended downwards on account of healthy growth in capitalization supported by sponsor contribution and higher profit retention.
Over the last 15 months, equity base (excluding revaluation surplus) grew by ~39%, reaching Rs. 11.7b at end-Sept'22. The growth was primarily due to Rs. 2.0b sponsorship contribution and increased profit retention. Debt profile comprises a mix of short-term and long-term debt, with total interest bearing liabilities amounting to Rs. 23.4b at end-Sept'22; short-term debt accounted for nearly three-fourth of total debt. Given the gradual improvement in equity base relative to comparable debt levels, leverage indicators have trended downward.

Adequate corporate governance framework.
Board comprises seven members, including two independent directors and three nominee directors from sponsors. For effective oversight, four board level committees, namely Audit Committee, HR & Remuneration Committee, Nomination Committee and Risk Management Committee are in place. As per best governance practices, there is a female representation on the board while HR and Audit committees are chaired by independent members. Since last review, there has been no change in shareholding structure or board composition.

The company has a well-designed organizational structure under assigned heads, directors, and sales team for carrying out operations across all business segments. Senior management team comprises seasoned professionals with relevant industry experience. In addition, the Chinese ownership provides synergistic benefits in terms of technological competence. With adequate centralized data base system in place, IT infrastructure is deemed sound. At present, an in-house developed ERP system is being used. As per management, there are plans to implement RFID technology into its production facilities which would result in improved overall productivity and quality.

Masood Textile Mills Limited — Appendix I

FINANCIAL SUMMARY						*(amounts in PKR millions)*
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**3M'FY23**
Fixed Assets	10,077	11,715	14,039	13,899	14,246	14,196
Stores and Spare Parts	1,579	1,780	2,280	2,245	2,870	3,325
Stock-in-Trade	5,811	7,746	8,125	11,284	13,252	13,189
Trade Debts	9,276	10,708	7,764	7,435	12,425	13,342
Loans and Advances	381	362	538	634	783	1,141
Short-term Deposits & Prepayments	940	1,171	1,073	226	254	235
Short-term Investment	-	100	203	107	8	8
Other Receivables	3,537	3,171	1,834	3,163	2,903	3162
Cash & Bank Balances	620	380	1,173	531	709	619
Total Assets	**32,221**	**37,134**	**36,997**	**40,407**	**48,453**	**50,471**
Trade Payables	2,677	3,889	2,462	4,958	8,660	10,049
Long Term Debt *(including Sukuk, preference shares & current maturity)*	6,439	6,302	8,408	7,836	6,112	5,585
Short-term Debt	11,963	14,280	15,836	15,011	17,821	17,869
Other Liabilities	203	291	460	160	223	315
Provision for Taxation	192	416	369	390	733	961
Total Liabilities	**22,197**	**25,949**	**28,499**	**29,502**	**34,956**	**36,299**
Tier-1 Equity	9,124	10,286	6,051	8,458	11,049	11,725
Total Equity	**10,024**	**11,186**	**8,498**	**10,905**	**13,497**	**14,172**
INCOME STATEMENT						
Net Sales	30,842	34,211	28,669	37,089	54,147	15,235
Gross Profit	3,851	3,794	1,366	5,307	6,542	1,586
Profit/(Loss) Before Tax	**1,306**	**1.748**	**(3,752)**	**1038**	**3011**	**901.3**
Profit/(Loss) After Tax	**1,113**	**1,332**	**(4,120)**	**641**	**2,276**	**675**
RATIO ANALYSIS						
Gross Margin (%)	12.5%	11.1%	4.8%	14.3%	12.1%	10.4%
Net Margin (%)	3.6%	3.9%	-14.4%	1.7%	4.2%	4.4%
FFO	1,907	2,280	(1,894)	1,533	3,821	1,149
FFO to Total Debt (x)	0.10	0.11	(0.08)	0.07	0.16	0.20
FFO to Long-term Debt (x)	0.30	0.36	(0.23)	0.20	0.63	0.82
Debt Leverage (x)	2.43	2.52	4.71	3.49	3.16	3.10
Gearing (x)	2.02	2.00	4.01	2.70	2.17	2.00
DSCR (x)	1.74	1.45	(0.12)	1.07	0.98	1.65
Current Ratio (x)	1.34	1.24	1.16	1.14	1.16	1.16
Inventory plus Receivables/Short term Borrowings (x)	1.26	1.29	1.0	1.25	1.44	1.48

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 & Sukuk Ratings				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	Rating Type: Entity				
	12/14/2022	A-	A-2	Stable	Reaffirmed
	9/8/2021	A-	A-2	Stable	Maintained
	4/27/2020	A-	A-2	Rating Watch-Negative	Maintained
	6/21/2019	A-	A-2	Stable	Reaffirmed
	6/29/2018	A-	A-2	Stable	Initial
	Rating Type: Sukuk				
	12/14/2022	A		Stable	Reaffirmed
	9/8/2021	A		Stable	Maintained
	4/27/2020	A		Rating Watch-Negative	Maintained
	6/21/2019	A		Stable	Preliminary
Instrument Structure	Sukuk issue amounted to Rs. 2.5b (inclusive of green shoe option of Rs. 1.0b) with tenor of 5 years including 18 months grace period. There are total 14 equal quarterly principal repayments, 6 of which have already been made, with the final instalment due in Dec'24. Rental rate is set at 3-Month KIBOR plus 200 bps per annum. Security structure entails first pari-passu charge over-all present and future fixed assets with a 25% margin and debt payment mechanism. In addition, one-third of upcoming quarterly instalment (redemption plus rental) is transferred in a separate account by 25th of each month, as maintained under Trustee/Investment agent lien in favour 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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Due Diligence Meeting Conducted	**Name**		**Designation**		**Date**
	Mr. Qasim Mehmood		DGM Finance		Nov 07, 2022