RATING REPORT

Masood Textile Mills Limited (MTM)

REPORT DATE:
April 27, 2020

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	*Rating Watch Negative*		*Stable*	
Rating Date	*27 April '20*		*21 June '19*	
Sukuk (preliminary)	A		A	
Rating Outlook	*Rating Watch Negative*		Stable	
Rating Date	*xx April '20*		*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)

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 the outgoing year 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. Major export markets of the company include North America, Europe, Asia and Ocean Pacific region; over the last three years the company has been able to rationalize geographical concentration; the same is evident given decline in revenue concentration on a timeline basis, though still remain high. Moreover, customer concentration is evident as top 5 customers accounted for half of total sales during the outgoing year.

Instrument Issue: 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.

Coronavirus to result in uncertainty in textile sector dynamics: With the advent of global corona virus pandemic, the demand outlook for textile products in general and especially value added export oriented units looks weak. 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, warranting a 'Rating-Watch' status. With the demand compression emerging from ongoing global crisis and continued lockdown situation coupled with leveraged capital structure of the company, ratings are

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

Net profit: 9MFY19: Rs. 874m; FY18: Rs. 1.1b; FY17: Rs. 887m being placed on 'Negative' outlook. The ratings are dependent upon maintenance of overall sales, market share in exports, profit margin, debt service coverage, and gearing ratios at an adequate level, with outlook subject to be reviewed once the situation stabilizes.

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**
Paid Up Capital	**1,375**	**1,375**	**1,375**
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 Before Tax	993	1,131	1,568
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.

<table>
<tr><th>REGULATORY DISCLOSURES</th><th colspan="5">Appendix III</th></tr>
<tr><td>Name of Rated Entity</td><td colspan="5">Masood Textile Mills Limited</td></tr>
<tr><td>Sector</td><td colspan="5">Textile</td></tr>
<tr><td>Type of Relationship</td><td colspan="5">Solicited</td></tr>
<tr><td>Purpose of Rating</td><td colspan="5">Entity Ratings</td></tr>
<tr><td rowspan="8">Rating History</td><td>Rating Date</td><td>Medium to Long Term</td><td>Short Term</td><td>Rating Outlook</td><td>Rating Action</td></tr>
<tr><td colspan="5"><u>RATING TYPE: ENTITY</u></td></tr>
<tr><td>April 27, ‘20</td><td>A-</td><td>A-2</td><td>Rating Watch Negative</td><td>Maintained</td></tr>
<tr><td>June 21, ‘19</td><td>A-</td><td>A-2</td><td>Stable</td><td>Reaffirmed</td></tr>
<tr><td>June 29, ‘18</td><td>A-</td><td>A-2</td><td>Stable</td><td>Initial</td></tr>
<tr><td colspan="5"><u>RATING TYPE: SUKUK</u></td></tr>
<tr><td>April 27, ‘20</td><td>A</td><td></td><td>Rating Watch Negative</td><td>Maintained</td></tr>
<tr><td>June 21, ‘19</td><td>A</td><td></td><td>Stable</td><td>Preliminary</td></tr>
<tr><td>Instrument Structure</td><td colspan="5">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.</td></tr>
<tr><td>Statement by the Rating Team</td><td colspan="5">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.</td></tr>
<tr><td>Probability of Default</td><td colspan="5">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.</td></tr>
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