RATING REPORT

Masood Textile Mills Limited

REPORT DATE:
February 27, 2024

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	*February 27, 2024*		*December 14, 2022*	

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 (May 2023) **https://docs.vis.com.pk/docs/CorporateMethodology.pdf**

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: *https://docs.vis.com.pk/docs/VISRatingScales.pdf*

Masood Textile Mills Limited (MTML)

OVERVIEW OF THE INSTITUTION

Masood Textile Mills Limited (MTML) is a listed 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

Started as a spinning unit in 1984, Masood Textile Mills Limited ("MTML' or "the Company') is a public limited company incorporated under the Companies Act, 1913 (now Companies Ac, 2017) and is listed on the Pakistan Stock Exchange ("PSX"). MTML is a vertically integrated textile unit, having in house Spinning, Knitting, Fiber and Yarn dyeing, Fabric Dyeing & Processing, Laundry, Printing, Embroidery and Apparel Manufacturing facilities. MTML diverse product range encompasses yarn, fabric, loungewear, active wear, sleepwear, athletic and sportswear products. Major exports destination of the Company includes USA, Canada and Europe. The Company operates through eight manufacturing units, predominantly situated in Faisalabad, and maintains a workforce with staff strength exceeding 20,000 employees.

Operating Performance

Table 1: Plant Capacity & Actual Production

	# of shifts	FY19	FY20	FY21	FY22	FY23
Spinning						
Installed capacity (Kgs. In '000')	3	5,541	5,757	5,742	5,742	5,787
Actual production (Kgs. In '000')	3	5,121	5,019	5,133	5,163	5,204
Capacity Utilization		92.40%	87.20%	89.40%	89.90%	89.93%
Knitting						
Installed capacity (Kgs. In '000')	3	47,555	43,167	42,880	48,545	50,927
Actual production (Kgs. In '000')	3	27,668	17,563	22,774	28,928	25,903
Capacity Utilization		58.20%	40.70%	53.10%	59.60%	50.86%
Dyeing/Finishing						
Installed capacity (Kgs. In '000')	3	45,525	49,775	50,041	46,834	45,166
Actual production (Kgs. In '000')	3	26,234	19,549	26,439	30,429	24,548
Capacity Utilization		57.60%	39.30%	52.80%	65.00%	54.35%
Garments						
Installed capacity (Dzn. In '000')	1	5,239	5,229	5,174	4,689	3,960
Actual production (Dzn. In '000')	1	3,154	3,012	2,987	2,662	1,904
Capacity Utilization		60.20%	57.60%	57.70%	56.80%	48.08%

The Company possesses an installed spinning capacity of 46,908 spindles, including 19,200 spindles on lease basis. At present, the knitting division operates with 777 active and 143 seasonal knitting machines, while the Dyeing department has a production capacity of approximately 110-120 tons per day. Notably, the Garments division has witnessed a consistent decline in both installed capacity and actual production levels. In FY23, the installed capacity was recorded at 3.96 million dozen, whereas the actual production decreased to 1.904 million dozen, contrasting with the figures from FY22.

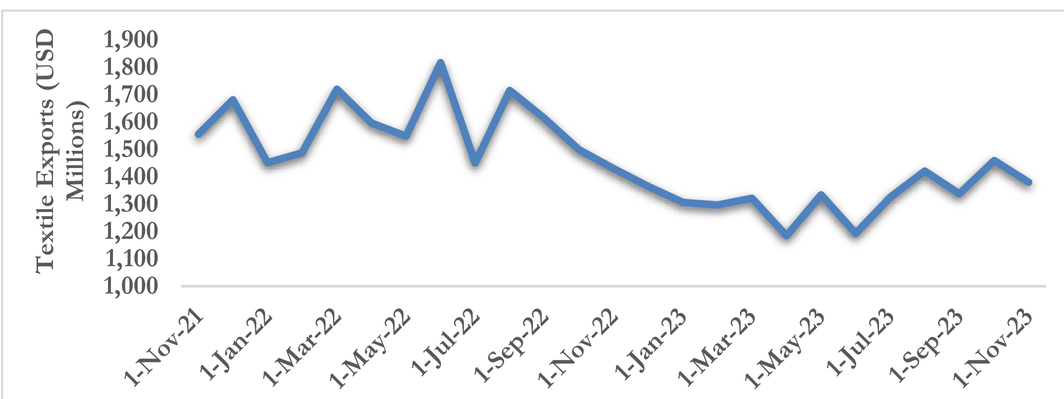
The Knitting and Dyeing/Finishing capacities faced significant underutilization in FY23, standing at 50.86% and 54.35%, respectively. The management attributes this underutilization to routine maintenance activities. The available machines cater to different fabric types, and orders are placed on a seasonal basis. However, the garment capacities fluctuate due to the diverse nature of multi-products, each involving distinct and intricate stitching processes. In 2020, the Company had also developed a product development center at Humen (China) wherein they hired experts from Bangladesh, Turkey and China. The center now operates as a group company.

Sector Update

Over the past decade (FY11-FY21), Pakistan's export proceeds have fluctuated within the range of USD 22 - 25 billion. The country's financial landscape, including forex reserves, inflation, debt to GDP ratio, fiscal and current account deficit, has faced challenges in the last two years. Textile exports, a significant component of the total exports, play a crucial role in the country's economic structure. The textile industry has faced multiple issues, including the adverse effects of the COVID-19 pandemic, disruptions in the global supply chain, devastating floods in 2022 impacting cotton crops, and an ongoing energy crisis posing a severe challenge to industry margins' sustainability and future growth.

Ad hoc measures like import freezes to stabilize foreign reserves, implemented by the government, have affected the industry's ability to cover shortfalls by importing raw materials. Beyond impacting profit margins, the higher pricing of raw materials is anticipated to increase working capital requirements, negatively affecting the liquidity profile of textile operators, especially spinners, weavers, and dyeing companies. The industry faces challenges such as the high cost of raising capital due to the policy rate hovering at 22%.

Figure 1: MoM Textile Exports (In USD Mn.)



Source: SBP

In FY22, export revenues from the textile sector reached USD 19.3 bn, increasing from USD 15.4 bn in FY21, primarily attributed to subsidized COVID-19 pandemic-related financing programs like the Temporary Economic Refinance Facility (TERF). However, the figure declined by 15 percent to USD 16.5 bn in FY23. Textile exports accounted for 59.5% of the country's total goods exports in FY23, showing a minor decline from 60.9% in FY22. Specific sectors within textiles, such as cotton yarn exports, witnessed a 30% decline to USD 844.2 mn, while cotton fabric exports fell by 17% to reach USD 2,022 mn in FY23.

Global and domestic challenges, including a slowdown in export demand, particularly from North America and the European Union, have begun to manifest in Pakistan's monthly export proceeds. The recessionary trend, anticipated industrial gas load shedding in the country, and rising production costs due to inflation are expected to weigh on the business risk profile moving forward. These factors may lead to increased market pricing competition for exporters.

In spite of these challenges, textile composites (vertically integrated players) have demonstrated resilience by sustaining operational efficiency and consistent product quality through strategic procurement of raw materials at competitive prices and establishing better control over the supply chain, thus achieving economies of scale and managing some of the risks associated in the volatile business environment.

Structure of Sukuk Issue

In FY20, the company raised Rs. 2.5 billion through a privately placed sukuk issue (inclusive of green shoe option of Rs. 1.0 bn) to repay existing conventional debts and fund working capital requirements. There are total 14 equal quarterly principal repayments, 10 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

Growth in revenue driven by higher prices and rupee devaluation in FY23. Strategic shift to high value added products with addition of leading brands as customers will support future profitability, wherein 1QFY24 registered a notable uptick in gross margins despite increased cost pressures.

In FY23, net sales surpassed the Rs. 60.1 bn mark, reflecting a growth of approximately 11% compared to Rs. 54.1 bn in FY22. This growth was primarily driven by an increase in average prices, coupled with rupee devaluation. Export sales have constituted a significant portion of total sales, with the ratio of exports to total sales increasing from 86% in FY22 to 88% in FY23, while local sales include wastage and toll manufacturing revenue to an extent of 6-7% of the total sales. The 1QFY24 sales number clocked in at Rs. 15.2 bn which was equivalent to sales of the same period last year, thereby indicating no growth.

On the margins front, management has strategically shifted to high end value added branded products with the addition of a new customer, in FY23, which resulted in gross margin reaching an all-time high of 20.5% in 1QFY24 compared to 13.5% and 12.1% in FY23 and FY22.

Going forward, the management anticipates gross margins to stay above 20%. However, net margins of the Company remained intact at FY22 (4.2%) levels, with 4.4% in FY23 and 3.8% in 1QFY24, amid increased inflationary pressures and higher finance charges. The same is forecasted to gradually improve mainly with the expectation of decrease in interest rates. The sales to top five clients totaled Rs. 24.1 bn with concentration being 46% in FY23, compared to Rs. 27.8 bn and a concentration of 52% in FY22. The client concentration of the Company remains in line with the peers.

Table 2: Export vs Local Sales

% wise	FY22	FY23
Export	86%	88%
Local	14%	12%

Liquidity and cashflow coverages registered marginal improvement, with the expectation of same trend to continue going forward

The Funds from Operations (FFO) has shown improvement shown improvement, rising to Rs. 4.7 bn in FY23 (FY22: Rs. 3.8 bn), driven by an increase in net profitability. Consequently, the cash flow coverages have improved, as reflected by FFO to Total Debt ratio of 0.19x in FY23 (FY22: 0.16x) and FFO to Long-term Debt ratio of 1.10x in FY23 (FY22: 0.63x). With the increase in FFO, the Debt Service Coverage Ratio has improved to 1.57x in FY23 (FY22: 0.98x). Current ratio of the Company stayed intact at 1.17x (Jun'22: 1.16x) as at Jun'23. Going forward, cashflow coverage ratios are expected to improve further on the back of higher profitability forecast.

Improved capitalization indicators backed by long-term debt repayments and increase in equity base

The equity base (excluding revaluation surplus) witnessed a growth of approximately 23.5%, rising to Rs. 13.6 bn as at Jun'23 (Jun'22: Rs. 11 bn). This growth was primarily attributed to the retention of profits, thereby increasing revenue reserves to Rs. 9.2 bn (Jun'22: 6.6 bn). The debt profile consists of a combination of short-term and long-term debt, with short-term borrowings increasing to Rs. 20.6 bn as at Jun'23 (Jun'22: Rs. 17.8 bn), and long-term borrowings decreasing to Rs. 4.3 bn (Jun'22: Rs. 6.1 bn). Consequently both the gearing and debt leverage ratios have improved, moving to 1.82x (Jun'22: 2.17x) and 2.79x (Jun'22: 3.16x) in Jun'23 respectively. On the back of internal cash generation in 1QFY24, higher net profits, and reduced borrowings, capitalization indicators registered further improvement with gearing and leverage indicators standing at 1.68x and 2.63x as at Sep'23. Going forward, gearing and leverage indicators are forecasted to improve mainly on the back of higher equity base.

Sound corporate governance framework anchored by a well-structured organizational layout

Mr. Shahid Nazir, holds the position of CEO at Masood Textile Mills, while the board is presided by an independent chairperson, Mr. Naseer Ahmed Shah. The Board consists of seven members, including two independent directors and three nominee directors from the sponsoring groups. To ensure effective oversight, four board-level committees—Audit Committee, HR & Remuneration Committee, Nomination Committee, and Risk Management Committee—are in place. Adhering to best governance practices, there is female representation on the board, and independent members chair the HR and Audit committees. There have been no changes in the shareholding structure or board composition since the last review.

Furthermore, the Company's auditor, Riaz Ahmad & Company, is on the State Bank of Pakistan's approved panel, holding 'A' category, signifying professional competence and credibility. The Company has a well-designed organizational structure with assigned heads, directors, and a sales team for conducting operations across all business segments. The senior management team comprises seasoned professionals with relevant industry experience. The Chinese presence on Company's Board of Directors provides synergistic benefits in terms of technological competence. The IT infrastructure is considered sound, with an existing centralized database system in place. Currently, an in-house developed ERP system is in use, and there are plans to implement Radio Frequency Identification (RFID) technology in production facilities for enhanced overall productivity and quality improvement, according to management statements.

Sustainability and Corporate Social Responsibility (CSR) Initiatives

The Company has been committed to nurturing a sustainable future that would benefit the business, environment, and the communities served. In purist of reducing its environmental footprint and upholding corporate social responsibility, MTML has carried out their sustainability journey marked by significant achievements as discussed below:

- MTML has made substantial progress in reducing the greenhouse gas emissions by 11.09%, compared to previous year, through energy-efficient practices.
- The Company has actively strived to eliminate coal usage in its operations to promote the use of cleaner energy sources, such as biomass. In current year, MTML reduced its coal usage by 67.32% and increased biomass utilization by 54.51%.
- The Company launched its flood relief activities through which two flood relief camps were set up, one in Kalam and the other in Bahrain, Swat.

Masood Textile Mills Limited — Appendix I

BALANCE SHEET	Jun'21	Jun'22	Jun'23	Sep'23
Total Non-Current Assets	13,899	14,246	15,495	16,550
Stores and Spare Parts	2,245	2,870	3,937	4,512
Stock-in-Trade	11,284	13,252	12,703	13,977
Trade Debts	7,435	12,425	16,727	13,896
Loans and Advances	634	783	745	864
Short-term Deposits & Prepayments	226	254	298	488
Short-term Investment	107	8	9	9
Other Receivables	3,163	2,903	3,252	3,138
Cash & Bank Balances	531	709	1,014	319
Total Assets	**40,407**	**48,453**	**55,241**	**55,007**
Trade Payables	4,958	8,660	9,666	9,684
LT Debt *(including Sukuk, preference shares & current maturity)*	7,836	6,112	4,282	3,978
Short-term Debt	15,011	17,821	20,607	19,803
Other Liabilities	160	223	788	726
Provision for Taxation	390	733	951	1,201
Total Liabilities	**29,502**	**34,956**	**38,026**	**37,282**
Tier-1 Equity	8,458	11,049	13,641	14,151
Total Equity	**10,905**	**13,497**	**17,215**	**17,725**
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**1Q'FY24**
Net Sales	37,089	54,147	60,106	15,170
Gross Profit	5,307	6,542	8,088	3,109
Profit/(Loss) Before Tax	**1038**	**3011**	**3,491**	**806**
Profit/(Loss) After Tax	**641**	**2,276**	**2,651**	**580**
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**1Q'FY24**
Gross Margin (%)	14.3%	12.1%	13.5%	20.5%
Net Margin (%)	1.7%	4.2%	4.4%	3.8%
FFO	1,533	3,837	4,725	907
FFO to Total Debt (x)	0.07	0.16	0.19	0.15
FFO to Long-term Debt (x)	0.20	0.63	1.11	0.94
Debt Leverage (x)	3.49	3.16	2.79	2.63
Gearing (x)	2.69	2.16	1.82	1.67
DSCR (x)	1.56	1.23	1.40	1.32
Current Ratio (x)	1.14	1.16	1.17	1.16
Inventory + Receivables/Short term Borrowings (x)	1.25	1.44	1.43	1.41

REGULATORY DISCLOSURES						Appendix II
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					
	02/27/2024	A	A-2	Stable	Upgrade	
	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					
	02/27/2024	A		Stable	Reaffirmed	
	12/13/2022	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, 10 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. Muhammad Shahid Naveed	CFO	Jan 24, 2024			