

Nishat (Chunian) Limited

Chairman & Chief Executive: Mr. Shahzad Saleem

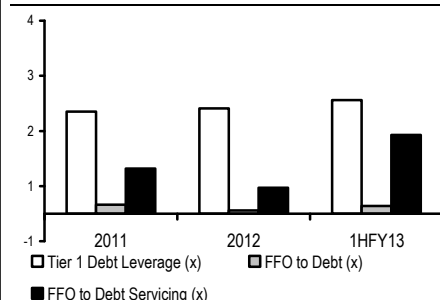
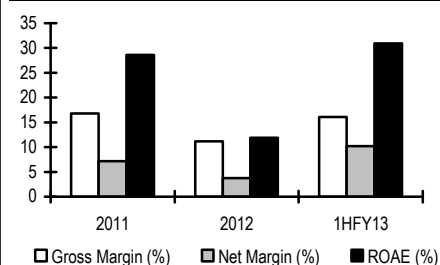
May 30, 2013

Analysts: Maimoon Rasheed
Waqas Munir, FRM

Rating Rationale

Category	Latest	Previous
Entity	A- /A-2	A-/A-2
TFC	A	A
Outlook	<i>Stable</i> May 30, 13	<i>Stable</i> Jan 27, '12

Key Financial Trends



(Rs. million)	FY11	FY12	1H13
Net Sales	20,322	18,617	9,672
Net Profit	1,459	699	990
Equity	5,704	6,075	6,734
Total Debt	9,442	10,358	12,410
Gearing (x)	1.66	1.71	1.84
Debt Leverage (x)	1.85	1.91	2.06
FFO	1,534	607	870
FFO/Total Debt (x)*	0.16	0.06	0.14
ROAE*	28.6%	11.9%	30.9%
ROAA*	9.6%	4.1%	10.3%

*Annualized for 1HFY13

Nishat (Chunian) Limited (NCL) is a vertically integrated textile unit. Over the years, NCL has established itself as a prominent player in the local textile sector. In the backdrop of increasing competition, NCL has undertaken various expansion projects. With a capital expenditure of around Rs. 2.5b, NCL is in the process of enhancing its spinning capacity by setting up a spinning unit of 22,000 spindles which is expected to commence operations by end CY13. In addition to this, acquisition of Taj Textile Mills Limited with a capacity of 40,000 spindles is also planned. Given enhanced available capacity along with higher yarn related demand, revenues of the company is projected to show healthy growth, going forward.

Lower procurement price of cotton for the on-going season bodes well for NCL as cotton prices have shown an upward trajectory recently. This is expected to translate into inventory gains and better margins. Meanwhile, capacity utilization of the various units has remained high despite facing acute energy shortfall. Cost saving is expected, following the commencement of operations by end CY13 of a 14MW grid station.

Internationally, sales of the company are widespread geographically while NCL also caters to the domestic market. Hence, risk of slowdown in demand from a particular market is diversified to some extent. Moreover, export sales of the company have remained robust over the years, reflecting stable global demand for NCL's products. Following an 8.4% decline during FY12 on account of depressed cotton prices, sales of the company have improved in the ongoing year on account of strong demand from China. In addition to this, improvement in selling price of yarn has positively impacted gross margins of the spinning unit which stood at 18.5% during 1HFY13 (FY12: 14.4%). Overall gross margins of the company also improved to 16.1% during 1HFY13 (FY12: 11.2%). Dividend income from Nishat Chunian Power Limited (NCPL) stood at Rs. 375.2m during 1HFY13 (FY12: Rs. 469.0m) and continues to augment the profitability of the company.

Following stressed cash flows during FY12, cash flows of the company have improved during the ongoing year on account of better margins. Resultantly, debt service coverage ratio of the company has also strengthened. Meanwhile equity base of the company augmented to Rs. 6.1b at end-FY12 and further to Rs. 6.7b at end Dec, 12 on account of profit retention. Debt leverage increased to 2.06x (FY12: 1.91x) at end Dec, 12 primarily on account of cyclical rise in short term borrowings for cotton procurement. Going forward, NCL plans to raise Rs. 1.5b long term debt for the planned spinning capacity expansion. Any unfavorable trend in margins combined with high debt leverage may place stress on the company's debt servicing capacity.

NCL holds 51.1% (FY11: 52.9%) stake in NCPL, an independent power producer with a gross capacity of 200MW established under the Power Policy, 2002. The board intends to setup a separate holding company which will have investment in both textile and power business.

Overview of the Institution

NCL was established in 1990 as a public limited company and is listed on Karachi and Lahore stock exchanges. NCL is primarily engaged in the business of spinning, weaving, dyeing, printing and stitching. NCL also produces electricity to meet its own energy requirements. Its head office is based in Lahore while the manufacturing units are located in District Kasur ^{JCR-VIS}

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
<u>RATING TYPE: Entity</u>				
30-May-13	A-	Stable	A-2	Reaffirmed
27-Jan-12	A-	Stable	A-2	Initial
25-Aug-11	A	Stable	A-2	Withdrawn
03-May-10	A	Stable	A-2	Initial
<u>RATING TYPE: TFC – 1</u>				
30-May-13	A	Stable		Reaffirmed
27-Jan-12	A	Stable		Downgrade
11-Oct-10	A+	Stable		Final
03-May-10	A+	Stable		Preliminary