Nishat (Chunian) Limited

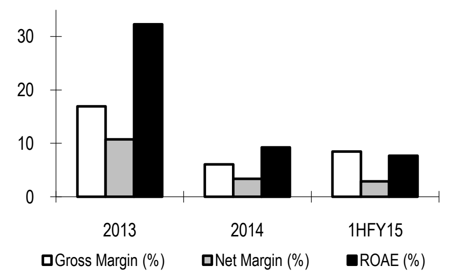
Chairman & Chief Executive: Mr. Shahzad Saleem

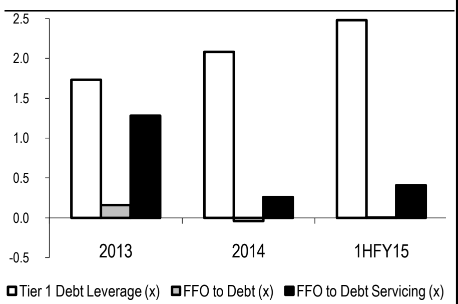
April 30, 2015

Analysts: Maimoon Rasheed
Birjees Rahat

Category	Latest	Previous
Entity	A-/A-2	A-/A-2
TFC	A	A
Outlook	*Stable* April 30, 15	*Stable* May 30, 13

Key Financial Trends





(Rs. million)	FY13	FY14	1HFY15
Net Sales	21,213	22,800	11,301
Net Profit	2,276	761	325
Equity	8,020	8,418	8,543
Total Debt	12,315	15,827	18,525
Gearing (x)	1.5	1.9	2.2
Debt Leverage (x)	1.73	2.08	2.48
FFO	2006	-638	5
FFO/Total Debt (x)*	0.16	-0.04	0.0005
ROAE*	32.3%	9.3%	7.7%
ROAA*	11.5%	3.2%	2.3%

**Annualized for 1HFY15*

Rating Rationale

As one of the leading and most modern vertically integrated textile companies in the industry, Nishat (Chunian) Limited (NCL) is a well-established entity in the textile sector of Pakistan. During the FY13 boom in the textile industry, NCL initiated a capacity expansion plan, resulting in a net increase of around 60,000 spindles in FY14, of which 38,000 spindles were added on account of acquisition of two spinning units of Taj Textile Mills Limited. Post FY13, the pace of growth in the textile industry plummeted, resulting in a general industry wide stagnation.

Financial profile of NCL remained under pressure in the wake of falling prices and on account of tapering of international demand. Pace of growth in sales slowed down with net sales of Rs. 22.8b (FY13: Rs. 21.2b). While both export and local sales increased in absolute terms, the share of local sales as a proportion of total sales increased to 30.76% (FY13: 26.54%). During FY14, gross margins declined to 6.06% (FY13: 16.95%) on account of increasing costs, exchange rates fluctuations and writing down of inventory to net realizable value of procured cotton. Net profit and cash flows in FY14 were primarily driven by dividend income (FY14: Rs. 1.59b; FY13: Rs. 750.3m) received from Nishat Chunian Power Limited (NCPL).

The company continues to hold 51.07% stake in NCPL, which is an independent power producer, with a fuel fired power station having gross capacity of 200 MW. Moreover, NCL has recently established a wholly owned subsidiary, NC Electric Company Limited (NCECL), with the purpose of producing, transmitting and distributing electricity in Pakistan. The company was incorporated in April, 2014, with the intention to set up a 46MW coal based power plant. Of the total, 30MW is required for internal consumption while 10-12 MW will be sold to neighboring mills. Commercial operations are expected to commence by March 2016.

In 1HFY15, gross margins improved to 8.5% mainly on account of higher margins for the spinning segment. With increase in working capital requirements, debt leverage stood considerably higher at end-1HFY15. Given lower FFO, debt service coverage ratio of the company declined to 0.26x (FY13: 1.28x), while FFO to total debt was also lower at -4% (FY13: 0.16x). Debt service coverage somewhat improved to 0.41x during 1HFY15. For FY15, principal repayment (including PPTFC) is around Rs. 1.92b. Given the current debt levels, the company has proposed a rights issue recently which is expected to enhance the equity base by Rs. 1b. This will assist the company in improving leverage indicators. Further improvement in cash flows is required to meet debt repayments through internal cash generation.

With almost all cotton procurement undertaken during the first half of FY15 along with some increase in product prices witnessed lately, may alleviate some pressure on margins. Moreover, fuel and power cost reduction is expected subsequent to commencement of NCECL's operations.

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