RATING REPORT

Nishat Chunian Limited

REPORT DATE:
March 26, 2021

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A	A-2
Rating Date	*26th March'2021*	
Rating Outlook	Stable	

COMPANY INFORMATION	
Incorporated in 1990	External Auditors: Riaz Ahmad & Co.
Public Limited Company	Chairperson of the Board: Mrs. Farhat Saleem
Key Shareholders (More than 5%):	Chief Executive Officer: Mr. Shahzad Saleem
Mr. Shahzad Saleem – 22.9%	
Nishat Mills Limited – 13.6%	
General Public – 32.8%	
Banks, DFIs and NBFC– 10.8%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)
https://www.vis.com.pk/kc-meth.aspx

Nishat Chunian Limited

OVERVIEW OF THE INSTITUTION

Nishat Chunian Limited (NCL) was established in 1990 as a spinning unit. The company is involved in spinning, weaving, processing and finishing fabric along with sale of textile madeups'.

Profile of the Chairperson

Mrs. Farhat Saleem serves as the Chairperson on NCL and NCPL She has been associated with the Group in different capacities since 1990 and is currently chairing the Board with her visionary leadership and vast experience.

Profile of the CEO

Mr. Shahzad Saleem is the CEO of NCL. He has over 25 years of professional work experience in the relevant industry. He holds an MBA degree from Lahore University of Management Sciences (LUMS).

Financial Snapshot

Total Equity: end-1QFY21: Rs. 14.1b; end-FY20: Rs. 13.6b; end-FY19: Rs. 15.3b; end-FY18: Rs.13.7b

Assets: end-1QFY21: Rs. 43.4b; end-FY20: Rs. 47.8b; end-FY19: Rs. 43.5b; end-FY18: Rs.39.4b

Profit After Tax:1QFY21: Rs. 480m; FY20: Rs. 265.4m; FY19: Rs. 3.2b; FY18: Rs. 2.4b

RATING RATIONALE

Rating Rationale

The ratings assigned to Nishat Chunian Limited (NCL) take into account the company's association with Nishat Chunian Group; one of the leading groups in Pakistan with sizable financial strength. The ratings incorporate diversification of revenue stream into spinning, weaving and made up segments; however, the reliance on spinning still remains significant. Therefore, ratings factor in high cyclicality and competitive intensity for spinning segment along with volatility in cotton prices which translate into moderate to high business risk profile. On the other hand, holistically business risk profile of the textile industry is supported by stable and growing demand as US-China Trade disruption enhance sales given major buyers continue to diversify procurement.

Assessment of financial risk profile incorporates the impact of Covid led boom in local textile sector translating into positive momentum in revenues, healthy profitability indicators and comfortable debt coverages for NCL. The ratings remain sensitive to dampened margins, sizable volatility in liquidity profile, relatively high leverage indicators and sustainability of dividend income. Even though concerns of successive waves of Covid-19 remain elevated, VIS expects the order book for the industry to remain strong in the ongoing year, subsiding business risk concerns. The ratings are dependent on improvement of margins, realization of projected targets, incremental cash flow generation and cost savings from recent capital expenditure, maintenance of leverage indicators coupled with evolution of sector dynamics post ongoing pandemic.

Local Textile Sector performance during COVID-19: The coronavirus pandemic led to 3% drop in global trade volumes in the 1CFY20 according to United Nations conference on Trade and Development forecasts. Industries whose operations were more globalized (particularly those who relied on Chinese inputs for production) were highly exposed to initial supply side disruptions. However, given most of the textile companies in Pakistan are heavily reliant on local cotton produce; the supply side risk was largely curtailed. In addition, the lockdown in China at the initial stage turned advantageous as the orders got shifted to Pakistan. Prior to onslaught of the pandemic, the European buyers were attracted by repetitive rupee weakening since 4QFY18, as unit prices fell only for Pakistan in 9MFY20 vis-à-vis its competitors. The price effect was further enforced by duty-free/quota free access under the GSP Plus agreement. Bangladesh and Pakistan have been able to increase their exports to the bloc as they enjoy preferential trade treatment within EU. Moreover, US-China trade war with USA applying additional tariffs on Chinese apparel imports since Sep'19 has aided low cost suppliers including Pakistan in capturing the untapped share. So, after global onslaught of corona virus European and American retailers, the two main destination markets for this sector, cancelled their orders causing serious concerns in many sourcing countries. With only a few buyers honoring their import commitments with local manufactures, exports declined during April'20. Exports of readymade garments dipped by 69% in April'20 compared to same month ln the preceding year.

The country's textile industry has scaled up production to pre-COVID level of full-capacity as a significant improvement in containment of the pandemic in the country led the world buyers to partially divert their orders to domestic manufacturers. The growth in production is backed by a big jump in the import of basic raw materials – cotton and man-made yarn – after the recent heavy rainfall and pest attack damaged notable portion of cotton crops in the fields to a multi-year low. Secondly, the industry recovered on a fast pace with the government's support in the shape of rationalizing energy price to a regional competitive level,

the same included continued supply of raw material and subsidized financing for the expansion of production and setting up new units. Further, the textile exports have also largely recovered from the COVID-19 pandemic shocks and are still growing both in terms of their quantity and dollar value. The textile shipments have surged by 3.8% to $4.8 billion between July and October from $4.6bn in the corresponding period last year. The rise in the textile and clothing group has been slightly faster than the 0.6% growth in the overall export. The export recovery is most prominent in the knitwear, home textiles and denim segments.

Integrated Manufacturing Facility: NCL was incorporated in FY90 as a public limited company. The first spinning unit started commercial production with 22,000 spindles in FY91.Set up of second spinning mill with 32,000 spindles was done in FY00. Later in FY05, NCL acquired operating assets of Umer Fabrics Limited and set up third spinning mill with 50,000 spindles. The company diversified into weaving and home textile business in FY98 and FY06 respectively. Today, the company operates as a vertically integrated company with over 220,000 spindles. Spinning is the largest revenue generation segment of the company accounting for more than 50 percent of the turnover, while the rest of the pie is divided amongst home textile and weaving segment.

The Spinning segment sales declined by 11% to Rs. 20.9b (FY19: Rs. 23.6b) during FY20 as a result of economic downturn due to the ongoing pandemic; major impact was translated in 4QFY20 with revenue declining to almost half of where it stood in corresponding quarter of FY19. Moreover, the plant was also shut down during the countrywide lockdown imposed by government, which is otherwise operational throughout the year. While local cotton prices continued to hike due to extended rainy season and were reported high at Rs. 9,600/mound by end-3QFY20, exports were not very lucrative despite devaluation of rupee. With China holding its spot as lead target export market, demand for cotton remained pretty sluggish following the Chinese spring festival before which yarn stocks had already been replenished, while the effect of ongoing trade war between China and US seemed to have even intensified by the impact of COVID-19 as markets and factories were forced to shut down. Although prices for local yarn improved globally in 1HCY20, due to increased uncertainty prevalent in the 2HCY20, domestic prices registered an overall declining trend. However, as a result, despite decline in topline the gross margin of the spinning segment increased slightly to 12.1% (FY19: 11.9%) as the contribution of export sales to product mix was reported higher at 36% during FY20 vis-a-vis 31% in the preceding year.

Weaving division took a serious toll due to onset of COVID pandemic as both its top line and bottom line contracted to Rs. 4.2b ((FY19: Rs.5.4b) and Rs. 128.0m (FY19: Rs.590.0m) respectively. Orders from both local and international value-added sector started to dry up as early as CY20 started. Further, the gross margins also declined sizably to 3.6% during FY20 compared to 8.0% in the preceding year owing to renegotiation of orders in terms of pricing that had to be made by end-Mar'20. However, despite such stringent economic condition, the management was able to close the year with a profit. Going forward, the management foresees a positive outlook and is of the view that as the value-added sector opens up gradually, the margins and volumes will be rescued.

On the other hand, despite severe economic slump caused by COVID-19, the sales of Home Textile division increased slightly by 2.1% and were reported at Rs. 10.5b (FY19: Rs. 10.3b) during FY20. Given there was lockdown of International and National markets due to coronavirus in 2HFY20, the division suffered a decline in sales, however, with resumption of economy, there was a considerable improvement in business activity as upward trend was exhibited in sales both in terms of volume and value. In line with positive prospects of demand coupled with increase in output prices, the margin of the segment also improved

slightly to 12.9% (FY19: 12.5%) during FY20. This reflects the market potential of made-ups business in future.

Synergies arising from being part Nishat Chunian Group: NCL is part of the Nishat Chunian Group; a conglomerate with presence in textile and power generation sectors. NCL stands at an advantage arising from the synergy of the group and technical expertise, which are transferable across companies. Nishat Chunian Power Limited (NCPL) is a public limited company incorporated in FY07 under the Power Policy 2002 as an independent power producer (IPP). It is a subsidiary of NCL with a 51% shareholding and is listed on Pakistan Stock Exchange Limited (PSX). The principal activity of NCPL is to build, own, operate and maintain a fuel fired power station having gross capacity of 200 MW under a 25 year 'take or pay' agreement with National Transmission & Dispatch Company Limited (NTDCL).The IPP has a chronic problem with its trade debt balances which fluctuate routinely due to delay in payments from the NTDCL. The same creates liquidity stress for NCPL due to which it needs funds to meet its working capital requirements. In that regard, NCL has invested its funds by extending loan of Rs. 1.0b to NCPL at the markup rate of 3M- KIBOR plus 200 bps for a period of one year from the date of disbursement. Payment of markup is to be made on quarterly basis. The purpose of the investment is to support the operations of subsidiary which provides stable stream of income for the company.

Nishat Chunian USA Inc. (NCUI) is a foreign subsidiary incorporated under the Business Corporation Laws of the State of New York. It is a wholly owned subsidiary incorporated with a principle objective of liaising with holding company's marketing department providing access, information and other services relating to USA Market and to import home textile products and distribute them to local retailers in USA.

Prior to FY20, NC Electric Company Limited (NCECL) had operated as a wholly owned subsidiary of NCL. However, with effect from 30th June'20, the entire undertaking and business of NCECL with all the property, assets, rights, liabilities and obligations of every description were merged into NCL against set-off of the equity investment made by the company in its subsidiary. Likewise, the accumulated loss on amalgamation of net assets of NCECL at end-FY20 is included in the unappropriated profit. Hence, the company now has a coal-fired captive power plant with a total generation capacity of 46MW under its own banner. NCL's total power requirement operating at full capacity is around 32MW which is all internally provided.

Production Capacities & Capacity Enhancements

Spinning: The number of spindles installed remained unchanged during FY20; however, the number of spindles worked were lower during FY20 owing to dampened demand. Moreover, as per the management the underutilization of the available capacity was also due to normal maintenance and time lost in shifting of coarse counts to finer counts and vice versa. The Capex made in spinning division during the outgoing year amounted to Rs. 318.6m and was directed towards efficiency improvements. The production statistics along with Capex is presented in table below:

Spinning Division	FY19	FY20
Number of spindles installed	222,708	222,708
Number of spindles worked	213,659	196,222
Capacity after conversion into 20/1 counts (Kgs)	79,402,488	73,548,828
Actual production of yarn after conversion into 20/1 counts (Kgs)	78,236,935	72,461,901
Capacity Utilization on conversion (%)	98.5	98.6

CAPEX: Machinery Added	Amount (Rs.in m)
4 Automatic Corner Winders	139.3
5 Contamination Sorter Vision Shield	77.3
2 Contamination Sorter TS-Scan	31.5
1 simplex Roving Frame	27.2
Others	43.3
Total	**318.6**

Weaving: During FY20, NCL invested sizably in the weaving segment amounting to Rs. 612.5m; the major Capex entailed looms and sizing machines, which will add further depth to the weaving business and is expected to attract more potential customers. The actual production was lower during FY20, the same is attributed to peculiar sector dynamics, change in articles required, higher count & cover actor and normal maintenance. The capacity utilization and capacity enhancements are tabulated below:

Weaving Division	FY19	FY20
Number of looms installed	363	379
Number of looms worked	363	373
Capacity after conversion into 50 picks- square yards	296,981,425	244,492,844
Actual production after conversion into 50 picks- square yards	251,830,349	211,262,1941
Capacity Utilization on conversion (%)	84.8	86.4
CAPEX: Machinery Added		**Amount (Rs.in m)**
48 Looms		441.7
1 Sizing Machine		113.4
1 Inspection Line		15.7
1 Warper Machine		14.7
1 Humidity Plant		12.7
Others		14.3
Total		**612.5**

Home Textile: The dyeing capacity remained unchanged during the rating review period. However, the capacity of printing department was expanded with installation of 3 Digital Printing Machines. Besides this, 300 latest technology stitching machines with auto-lock/overlock specifications have also been put into use. As per the management, the capex has assisted in enhancing the stitching production efficiency. The production statistics along with Capex for the division is presented in table below:

Home Textile Division	FY19	FY20
Dyeing		
Number of thermosol dyeing machines	1	1
Number of stenters machines	4	4
Capacity in meters	36,500,000	36,500,000
Actual processing of fabric- meters	30,038,558	30,339,338
Capacity Utilization on conversion (%)	82.3	83.1
Printing		
Number of printing machines	1	1
Capacity in meters	7,825,000	9,125,000
Actual processing of fabric- meters	6,679,011	6,534,206
Capacity Utilization on conversion (%)	85.4	71.6
Digital Printing		

Number of printing machines	2	5
Capacity in meters	3,650,000	9,125,000
Actual processing of fabric- meters	1,451,740	3,221,600
Capacity Utilization on conversion (%)	39.8	35.3
CAPEX: Machinery Added		**Amount (Rs.in m)**
3 Digital Printing Machines		332.6
250 Juke Lock Stitch Auto Machines		29.8
2 Curing Machines		14.8
2 Singeing Burners		11.6
Others		33.3
Total		**412.1**

Further, in view of product line extensions and increased local market penetration, The Linen Company (TLC) has opened three new shops in major cities, taking the total retail outlets tally to seven. In addition, in Feb' 20, TLC established a separate online base named as "E-Shop" for customers throughout the country, this increased the online sales by four times as compared to last year.

Topline remained stressed during FY20; the same along with profitability indicators picked pace during the ongoing year: The onslaught of corona virus made the business environment for textile sector extremely challenging, therefore NCL's topline was reported short off last year at 35.7b (FY19: Rs. 39.3b) during FY20. The same was primarily an impact of complete halt of order placement, reception of shipments and delay in payments from the export originating countries. However, the company largely continued its operations by implementing work from home protocols; meanwhile the plant remained operational by following SOPs issued by the government. Moreover, the gross margins also declined to 11.8% (FY19: 12.4%) owing to increase in procured local cotton prices to Rs. 8,852/maund (FY19: Rs. 8,667/maund) during FY20. The local cotton prices exhibited a higher price differential in FY20 than imported cotton owing to continuous rainfall and pest attacks. The decline in margins was also attributable to sharp decline in margins of weaving segment which was in turn is a result of price renegotiation of prepared orders. Further, with considerable decline in revenues, the absorption of fixed overheads including salary expense was hampered therefore the same also contributed in dip of margins.

The distribution expense was recorded lower at Rs. 869.1m (FY19: Rs. 944.0m) during FY20 primarily owing to decline in freight cost; the same is correlated with scale of operations as the value of exports declined during FY20. On the other hand, administrative expenses increased on a timeline basis owing to inflationary pressure, leading to annual salary adjustments. The other expenses stood lower at Rs. 95.0m (FY19: Rs. 273.9m) in line with sizable slash in contribution to worker's participation fund along with donations made during the outgoing year. Further, other income took a severe hit and stood at Rs. 454.0m (FY19: Rs. 2.5b) on account of a number of factors including no exchange gain, no dividend from NCPL and no gain on sale of shares subsidiary during FY20. During FY19, the company booked an exchange gain of Rs. 1.4b, dividend income of Rs. 656.6m and gain on sale of shares of Rs. 222.0m with all three in aggregate having a positive impact on the bottom line by almost Rs. 2.3b. In the backdrop of increasing average benchmark interest rates coupled with higher borrowings carried on the balance sheet, finance cost of the company increased to 2.7b (FY19: Rs.2.2b) during FY20. Resultantly, as a combined impact of decline in scale of operations, drop in margins, high finance cost and sizable dip in other income, NCL reported a bottom line of Rs. 265.4m during FY20 as compared to Rs. 3.2b in the preceding year.

The declining trend in quantum sales was rescued during the ongoing year with the company's operations back at full capacity. NCL's topline was recorded higher at Rs. 4.3b during 1QFY21 owing to increase in quantum of exports. The increased demand of domestic products is underpinned by capitalizing of marketing gap as production units in competing countries are not operating at full potential owing to COVID-19 related lockdowns. In addition, the power subsidy announced by the government in Feb'20 for the sector made the prices even more competitive globally, therefore positively resulted in the offtake of local products. However, the increase in power tariff from 7.5 US cent to 9 US cent with effect from 1st Sep'20 poses an eminent threat towards cost efficiency. Further, despite positive offtake of local products globally the margins of the company still declined to 10.7% during 1QFY21 on account of sizable decline in production of cotton, plunging down the projected output to 21 years' lowest for Pakistan. The quality of cotton is also compromised due to excessive rain, substandard seeds and pesticides.

The operating expenses were recorded higher at Rs. 350.9m during 1QFY21 with increase largely manifested in distribution cost; however, the same if annualized is largely in sync with increase in scale of operations. On the other hand, the finance cost was rationalized owing to sharp dip in benchmark interest rates along with less utilization of short-term borrowings during the period under review. As a result of positive trajectory of revenues, rationalization of operating expenses, curtailment of interest expense and healthy other income booked, NCL reported higher profit of Rs. 480.3m during 1QFY21 as compared to Rs. 173.3m in the corresponding quarter last year. Going forward, the management projects to close FY21 with a topline of Rs.44.8b. The company in on track of meeting the projected target with orders of USD $100m in the pipeline. Moreover, the margins are also projected to improve by round 400bps as cotton is becoming expensive globally, so the price increase is expected to be transferred to customers post COVID.

Liquidity position depicts volatility; the same is a factor of profitability metrics: Prior to onslaught of ongoing pandemic, the liquidity profile of the company was adequate in view of sizable cash flows in relation to long-term outstanding obligations and fair debt service capacity. However, with decline in revenues, margins and offsetting of one of the other incomes, the Funds from Operations (FFO) took a sharp dent and as a combined impact of increase in borrowings FFO to total debt and FFO to long-term debt declined considerably by end-FY20. Moreover, the debt service coverage was also reported lower than one; the same is a serious concern for VIS depicting the company is falling short in liquidity to meet its contractual obligations due in one year. However, with the ongoing year exhibiting a completely different scenario with significant offtake of company's products, reporting of other income and reduction of commercial borrowings, the declining trend in liquidity profile has been rescued by end-1QFY21; the same even presents a positive impetus comparative to pre-COVID numbers. The extent can be assessed from the fact that the FFO for 1QFY21 is higher than the FFO of the entire preceding year. Going forward, according to the management, cash flows are expected to improve on account of increase in sales supported by improvement in sector dynamics, capacity enhancement in weaving segment and cost saving from improving operational efficiencies from investment in spinning, printing and dyeing units. The top five customers comprise almost 20% of total revenues demonstrating high client concentration.

The stock in trade increased at end-FY20; the increase was manifested in both raw materials to Rs. 14.6b (FY19: 12.1b) and finished goods to Rs. 4.1b (FY19: Rs. 2.5b); the same was an outcome reduced production to cater to dampened demand along with delay in shipments. However, the stock in trade was recorded at normal levels by end-1QFY21 owing to company's operations back to optimal capacity. Further, trade debts declined during FY20 owing to decline in revenues; around 23% of the receivables pertained to related parties. The

aging of receivables is considered satisfactory as less than 0.1% was overdue for more than six months. On the other hand, trade payables also increased by end-FY20 owing to increase in inventory levels. Further, the aging of payables is fair as nothing is overdue for more than six months. The current ratio is maintained at 1.0x over the last three years. NCL's asset base augmented significantly during the outgoing year with increase largely manifested in PPE; the same was underpinned by transfer of assets amounting to Rs. 4.7b with amalgamation of NCECL. On the contrary, given conversion of Rs. 1.2b equity investment of the company in NCECL the long-term investments declined post amalgamation. In addition, the company paid final cash dividend of Rs. 2.5/share for the year end-FY19 amounting to Rs. 601.9m during FY20.

Moderately leveraged capital structure with gearing levels expected to increase further: The equity base of the company diluted slightly on a timeline basis on account of accumulated loss brought in by merger of NCECL. On the other hand, long-term borrowings increased during the rating review period as NCL procured debt under both SBP LTFF facility and other commercial funding to fund the capex of Rs. 1.4b incurred during FY20. However, for all the other existing long-term facilities banks have deferred the loan installments for the period of one year under SBP directive as a relief to the company during COVID-19 pandemic. Further, in line with increased working capital requirements the utilization of short-term borrowings also peaked at end-FY20; the same has subsided during the ongoing year owing to normalcy in company's operations with carryover inventory being reduced. Given higher borrowings carried on the balance sheet along with dip in equity level, gearing and leverage indicators have witnessed an increasing trend on a timeline basis. Moreover, for operational efficiency enhancement of spinning units 1,2 and 6 amounting Rs. 5.4b in aggregate, the company plans to procure additional debt with equity contribution capped at 20%. As per the estimate, the incremental debt to be procured in FY21 and FY22 will amount to Rs.4.3b. Further, the management has also planned capacity expansion of spinning unit 4 by 17, 000 spindles with total capex estimated at Rs. 1.5b. The timeline of the project is post efficiency improvements so the procurement of funds for the aforementioned project is expected in FY23. Given the expansion plans in perspective, the leverage indicators are projected to increase on timeline basis.

Adequate Corporate Governance Practices: The Board of Directors (BODs) comprise eight members comprising four non-executive directors, two executive directors and two independent directors. As per the revised code of corporate governance 2017, the BODs should have at least two or one-third independent directors whichever is higher; NCL meets the best practices. Mr. Muhammad Ali Zeb resigned as director of the company in June'20 and was replaced by Mr. Faisal Farid, appointed in Sep'20. The performance of board, which is reviewed and assessed against a sophisticated criterion, was found to be adequate based on the latest evaluation. The existing board is due to be re-elected as it will complete its tenure in Apr'21. For effective oversight, the Board has formed two committees including Board Audit Committee (BAC) and HR and Remuneration Committee (HRRC). BAC is chaired by an independent director and each committee comprises three members.

Nishat Chunian Limited *(Rs. in million)* Annexure I

BALANCE SHEET	June 30, 2018	June 30, 2019	June 30, 2020	Sep 30,2020
Property, Plant & Equipment	11,360	11,112	16,569	16,249
Long-term Investments	3,187	3,309	1,887	1,887
Stock-in-Trade	10,447	15,721	19,988	14,120
Trade Debts	8,125	6,426	4,687	6,032
Loans & Advances	1,865	2,361	1,107	1,584
Other Receivables	3,523	3,582	2,306	2,024
Cash & Bank Balances	76	18	47	183
Total Assets	**39,394**	**43,508**	**47,751**	**43,400**
Trade and Other Payables	2,238.60	2,842.61	4,455.68	3,848.70
Short Term Borrowings	17,022.0	20,092.0	22,554.4	18,158.3
Long Term Borrowings	6,173.3	4,751.2	6,589.3	6,932.0
Total Liabilities	25,683	28,170	34,113	29,282
Paid Up Capital	2,402	2,402	2,401	2,401
Core Equity/Total Equity	13,710	15,338	13,637	14,118
INCOME STATEMENT	**June 30, 2018**	**June 30, 2019**	**June 30, 2020**	**Sep 30,2020**
Net Sales	35,560	39,338	35,667	11,940
Gross Profit	4,271	4,888	4,204	1,276
Operating Profit	3,141	3,665	3,011	925
Profit Before Tax	2,760	3,668	709	630
Profit After Tax	2,363	3,168	265	480
FFO	3,274	2,084	1,014	1,388
RATIO ANALYSIS	**June 30, 2018**	**June 30, 2019**	**June 30, 2020**	**Sep 30,2020**
Gross Margin (%)	12.0%	12.4%	11.8%	10.7%
Net Margin (%)	6.6%	8.1%	0.7%	4.0%
Current Ratio (x)	1.19	1.18	1.04	1.08
FFO to Total Debt (x)	0.14	0.08	0.03	0.22
FFO to Long Term Debt (x)	0.53	0.44	0.16	0.81
Debt Service Coverage Ratio (x)	1.59	1.20	0.99	2.91
ROAA (%)	6.4	7.6	0.6	4.2
ROAE (%)	18.4	21.8	1.8	13.8
Gearing (x)	1.69	1.62	2.14	1.78
Debt Leverage (x)	1.87	1.84	2.50	2.07
Stock+ Trade debts/ Short-term Borrowings (x)	1.09	1.10	1.09	1.11

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	Nishat Chunian Limited					
Sector	Textile					
Type of Relationship	Solicited					
Purpose of Rating	Entity Rating					
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**	
	RATING TYPE: ENTITY					
	26-03-2021	A	A-2	Stable	Initial	
Instrument Structure	N/A					
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 Meetings Conducted		**Name**	**Designation**	**Date**		
	1	Mr.Abdul Raffe Kayani	Deputy Manager	12-Feb-2021		
	2	Mr. Mustaqeem Talish	General Manager Finance	12-Feb-2021		