RATING REPORT

Zaman Textile Mills (Pvt.) Limited

REPORT DATE:
November 23, 2018

RATING ANALYST:
Jazib Ahmed - CFA
jazib.ahmed@jcrvis.com.pk

Narendar Shankar Lal
narendar.shankar@jcrvis.com.pk

RATING DETAILS		
	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	*November 22, 2018*	

COMPANY INFORMATION	
Incorporated on 1969	**External auditors:** M/s. Deloitte Yousuf Adil
Private Limited Company	**Chairperson:** Mr. Ebrahim Qassim
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Muhammad Jamil Qassim
Mr. Ebrahim Qassim – 18.2%	
Mrs. Kulsoom Banoo – 11.6%	
Mr. Muhammed Jamil Qassim – 18.6%	
Mr. Muhammed Haroon Qassim – 18.5%	
Mr. Muhammed Salman Qassim – 18.4%	
Mrs. Zohra Banoo – 5.0%	
Mrs. Saba Jamil Qassim – 5.0%	
Mrs. Wazira Parveen – 5.0%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria *Industrial Corporates (May 2016)*
http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

Zaman Textile Mills (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Zaman Textile Mills Limited (ZTML) was incorporated as a public limited company. The company changed its status to a private company in May 2016. Principal activity of the company includes manufacturing, processing and sales of yarn and fabric.

RATING RATIONALE

Zaman Textile Mills (Pvt.) Limited is engaged in manufacturing, processing, sale and trading of yarn and fabric. The company's yarn manufacturing facility is located at Kotri Industrial Estate, near Hyderabad; whereas the fabric production facility is based in Landhi Industrial Area, Karachi. The company sells coarse yarn (20-30s) and greige and dyed fabric in local markets, while export product portfolio includes coarse yarn (20d), hospital gowns, home textiles, and greige and bleached fabric. At end-FY18, the company operated with 24,288 spindles and 369 looms.

Rating Drivers

Sponsors have extensive experience in the textile industry along with shareholding in entities operating in diverse industries.

Shareholding of ZTML is vested with Mr. Ebrahim Qassim and his family. Sponsors have been operating ZTML since its acquisition from Alkaram group in 2003, while the family had been engaged in trading of yarn and fabric for 11 years prior to acquiring ZTML. Furthermore, the sponsors have shareholding in companies belonging to diverse sectors such as pharmaceuticals, confectionary and logistics and distribution (for over 40 years).

Corporate Governance framework depicts room for improvement

Given that ZTML is a private limited company, Board of Directors (BoD) at ZTML comprises four sponsor members. Establishment of board level committees and an in-house internal audit department may also be considered by the management in order to ensure effective oversight of operations.

Growth in topline contributing to improvement in overall profitability on timeline basis; gross margins witnessed a dip in FY18 due to higher input costs.

Net sales of the company have grown at a CAGR of 13.7% during the last three years and amounted to Rs. 8.2b (FY17: Rs. 6.9b; FY16: Rs. 3.7b) in FY18. Increase in average selling prices and volumetric growth have both contributed to higher sales of the company. Growth in sales has translated to higher gross profits; however, gross margins witnessed a decrease to 8.3% (FY17: 8.7%; FY17: 7.5%) in FY18 on account of lower margins of the weaving segment. Increase in the prices of yarn, a key raw material, coupled with inability to transfer the increase in cost to end-customer resulted in lower gross margins of the weaving segment. Higher topline has contributed to growth in bottom-line of the company on timeline basis. As per management, projected capacity expansion is expected favorably impact the quantum of sales and overall profitability indicators going forward.

Equity base has grown due to profit retention; however, leverage indictors have trended upwards due to acquisition of additional borrowings for expansion

Owing to profit retention, equity base increased to Rs. 2.8b (FY17: Rs. 2.5b; FY16: Rs. 2.2b) at end-FY18. Sponsor support is exhibited in the form of a sizeable interest free loan extended to ZTML. Despite growth in equity base, the leverage indicators have trended upwards due to additional borrowings to fund expansion. Gearing and leverage stood at 0.8x (FY17: 0.56x; FY16: 0.37x) and 1.70x (FY17: 1.27x; FY16: 1.08x), respectively at end-FY18. Given the further expansion plans, leverage indicators are expected to further increase in future; however, the same are expected to remain at manageable levels.

Adequate liquidity profile due to sufficient cash flows in relation of outstanding debt obligations

Funds from Operations (FFO) have increased on the back of increase in profitability; however, given the increase in quantum of borrowings, the same have trended downwards in relation to total borrowings. Stock in trade and trade debts are more than sufficient to cover short-term borrowings (FY18: 2.9x; FY17: 2.4x; FY16: 2.3x). Current ratio is also maintained at adequate level (FY18: 1.2x; FY17: 1.2x: FY16: 1.13x). Going forward, FFOs are expected to remain at sufficient level to service outstanding debt obligations over the rating horizon.

ISSUE/ISSUER RATING SCALE &DEFINITIONS — Appendix I

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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 II
Name of Rated Entity	Zaman Textile Mills (Pvt.) Limited				
Sector	Textiles				
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				
	22-Nov-2018	A-	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	JCR-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.				
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