# RATING REPORT

# Zaman Textile Mills (Pvt.) Limited

**REPORT DATE:**
December 2, 2019

**RATING ANALYST:**
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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 | Stable | | Stable | |
| Rating Date | November 29th, 2019 | | November 22nd, 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) |
|---|
| **VIS Entity Rating Criteria** *Industrial Corporates (April 2019)* |
| ***https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf*** |

# Zaman Textile Mills (Pvt.) Limited

## OVERVIEW OF THE INSTITUTION

Zaman Textile Mills (Private) Limited (ZTML) was incorporated in 1969 as a public company limited by shares. 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 (ZTML) is a family-owned business, which is principally engaged in manufacturing, processing, sale and trading of yarn and fabric. The product portfolio of the company includes coarse yarn (20-30s), greige & dyed fabric that is sold in the local market, whereas coarse yarn (20d), hospital gowns, home textiles, greige & bleached fabric are sold in the export market.

The company operates through two factories located at Kotri Industrial Estate near Hyderabad that is engaged in yarn manufacturing and yarn doubling; whereas the fabric weaving, dyeing and printing facilities are based in Landhi Industrial Area, Karachi. The power requirements of both production units are met through in-house gas based generators and turbine.

**Rating Drivers**

**Capacity utilization for both segments has remained on the higher side. Significant initiatives have been taken to enhance operational efficiency, increase automation and focus on value addition.**

| | FY17 | FY18 | FY19 |
|---|---|---|---|
| **Spinning** | | | |
| Total number of spindles installed | 24,288 | 24,288 | 24,288 |
| Total number of working spindles | 24,288 | 24,288 | 24,288 |
| Number of shifts per day | 3 | 3 | 3 |
| Installed capacity after conversion into 20/s counts (lbs.) | 15,150,394.0 | 15,527,359.0 | 15,695,493.0 |
| Actual production after conversion into 20/s counts (lbs.) | 15,077,655.0 | 15,467,258.0 | 15,550,556.0 |
| **Capacity utilization** | **99.5%** | **99.6%** | **99.1%** |
| **Weaving** | | | |
| Total number of air jet looms installed | 346 | 373 | 404 |
| Total number of air jet looms worked [excludes 3 looms held as Backup) | 343 | 370 | 372 |
| Installed capacity after conversion into 60/s picks (m) | 50,992,871.0 | 60,830,752.0 | 65,723,953.0 |
| Actual production after conversion into 60/s picks (m) | 45,315,072.0 | 54,313,793.0 | 58,717,674.0 |
| **Capacity utilization** | **88.90%** | **89.30%** | **89.3%** |

*Spinning:*
A sizeable proportion of yarn produced from the spinning segment is sold in the open market, whereas the remaining yarn caters to the requirement of the weaving segment. Management also imports and procures yarn locally in order to fulfill specific requirements of the weaving segment. To maintain the yarn quality, ZTML provides raw material to companies where yarn procurement is outsourced and regularly monitors product quality as per given specifications.

Going forward, ZTML plans to install 55,000 spindles, which are expected to be online in March 2020 onwards. Subsequently, the entire yarn requirements will be catered through in-house spinning division.

*Weaving:*
Under the company's Balancing, Modernization and Rebalancing Program (BMR), ZTML replaced 80 looms in FY19 with more efficient looms. Resultantly, installed capacity and actual production increased. Currently 90% of the weaving operations are in-house with limited outsourcing. By end-FY20, ZTML will have 396 operational looms and expects to move weaving in-house completely.

*Dyeing and Printing:*
ZTML had previously outsourced the dyeing process. With the completion of the dyeing unit in the ongoing year, ZTML will not only be able to cater to internal dyeing requirements but will also be cater to requirements of external customers and generate additional revenues from the Company.

**Topline depicted healthy growth in FY19 while proportion of fabric segment in total sales increased. Proportion of export sales and value added fabric in sales mix is expected to increase, going forward.**
Topline of the company grew by 45.8% in FY19 (FY19: Rs.11.7b; FY18: Rs.8.1b). The increase in net sales is a combination of growth in volumes and an increase in average selling price. During FY19, around one-tenth of the total sales comprised export sales. Given the enhanced focus towards exports, management expects export sales to represent around one-third of total sales. In terms of segment wise sales, revenues from the fabric segment have been increasing on a timeline basis and represented around two-third of total sales during FY19. Currently, a major proportion of sales include revenues from greige fabric with dyeing being outsourced. However, with the completion of the dyeing unit in the ongoing year and continuous focus on value addition, significant increase in the sales of dyed fabric is expected.

**Gross margins are projected to continue to improve on the back of enhance operational efficiencies and increase in proportion of revenues from value added sales.**

Gross margin of the company improved to 9.8% (FY18: 8.4%) during FY19. Improvement in margins is attributable to BMR and efficient procurement undertaken by the Company. Overheads grew by 40% (distribution, administrative and other operating cost) during FY19 with increase in expenses being lower the growth in topline. Finance cost has increased significantly due to elevated borrowings to fund BMR & expansion and significant jump in interest rates. However, growth in topline & gross margin and sizeable tax credits has translated into higher profitability during FY19. Going forward, increase in gross margin is expected to be the key profitability growth driver given enhanced efficiencies, increased automation and higher value addition.

**Despite healthy growth in cash flows, liquidity indicators have weakened due to sizeable debt drawdown to fund expansion. VIS expects liquidity indicators to normalize over the rating horizon as benefits of expansion materialize.**

Funds From Operations (FFO) depicted healthy growth in comparison to the previous year owing to an increase in the company's profitability. FFO of the company amounted to Rs. 957.0m (FY18: 660.9m) in FY19. Debt service coverage ratio (DSCR) declined but remained satisfactory at 2.6x (FY18: 4.1x) during FY19. Given the sizeable increase in debt drawdown to fund BMR and expansion, cash flow coverages have depicted a significant decline in outgoing year. FFO in relation to long-term debt stood at 25% (FY18: 61%). Stock in trade & trade debts as a proportion of short-term borrowing provides adequate coverage in relation to short-term debt (FY19: 1.5x; FY18: 1.4x). The current ratio has remained unchanged vis-à-vis preceding year and was reported at 1.3x (FY18: 1.3x) at end-FY19.

**Leverage indicators continue to trend upwards. Management's strategy of profit retention along with lower projected capex from FY21 will result in gradual reduction in leverage indicators.**

Equity base has grown to Rs. 5.3b (FY18: Rs. 3.5b) at end-FY19, owing to profit retention and an interest-free loan from sponsors. Total debt of the company stood at Rs. 8.4b (FY18: Rs. 4.6b) and comprises a mix of short and long-term debt accounts. Short-term borrowing stood at Rs. 4.5b (FY18: Rs. 3.5b) at end-FY19 to meet ZTML's extensive working capital requirements. Long-term debt (including current maturity) stood at Rs. 3.9b (FY18: Rs. 1.1b) at end-FY19. Long-term concessionary rate borrowings represented around one-third of ZTML's total borrowing. Gearing and leverage stood at 1.6x (FY18: 1.3x) and 1.8x (FY18: 1.6x), respectively at end-FY19.

| Financial Summary (amounts in PKR millions) | | Appendix I |
|---|---|---|
| | **FY17** | **FY18** |
| **BALANCE SHEET** | | |
| **Paid Up Capital** | 980.0 | 980.0 |
| **Total Equity (without surplus revaluation)** | 3,064.5 | 3,517.2 |
| | | |
| **INCOME STATEMENT** | | |
| **Net Sales** | 6,888.7 | 8,077.8 |
| **Profit Before Tax** | 347.0 | 389.6 |
| **Profit After Tax** | 336.2 | 243.5 |
| | | |
| **RATIO ANALYSIS** | | |
| **FFO** | 646.8 | 660.9 |
| **Current Ratio (x)** | 1.36 | 1.37 |
| **Gearing (x)** | 0.8 | 1.3 |

## ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix II

**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.

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**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** | 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** | | | | |
| | **29-Nov-2019** | A- | A-2 | Stable | Reaffirmed |
| | **22-Nov-2018** | 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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