RATING REPORT

Zaman Textile Mills (Pvt.) Limited

REPORT DATE:
January 25, 2021

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		Rating Watch-Developing	
Rating Date	January 25, 2021		April 24, 2020	

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 over the past three years. Utilization levels witnessed decline during FY20 owing to plant closure amidst COVID-19. However, significant initiatives have been taken to enhance operational efficiency, increase automation and focus on value addition.

	FY18	FY19	FY20
Spinning			
Total number of spindles installed	24,288	24,288	79,008
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.)	15,527,359.0	15,695,493.0	15,014,540
Actual production after conversion into 20/s counts (lbs.)	15,467,258.0	15,550,556.0	13,687,698
Capacity utilization	**99.6%**	**99.1%**	**91.2%**
Weaving			
Total number of air jet looms installed	373	404	357
Total number of air jet looms worked [excludes 3 looms held as Backup)	370	372	354
Installed capacity after conversion into 60/s picks (m)	60,830,752.0	65,723,953.0	77,928,337
Actual production after conversion into 60/s picks (m)	54,313,793.0	58,717,674.0	63,892,062
Capacity utilization	**89.30%**	**89.3%**	**81.9%**

Spinning:
Around 30%-35% 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.

Weaving:
Under the weaving segment, capacity utilization declined during FY20. Looms replacement in the outgoing year increased installed capacity of the weaving division. However, the increase in actual production was subdued because of temporary plant closure amidst COVID-19. Currently 90% of the weaving operations are in-house with limited outsourcing.

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.

Favourable government policies for enhancing exports and improving country's perception and law & order situation bode well for the textile sector. Key risk factor include rising cost of doing business (increasing electricity and gas tariff and rising local cotton prices). Even though implications of Covid-19's second wave remain elevated, we expect the order book for the industry to remain strong in the on-going year, easing our business risk concerns.

Textile exports depicted growth of 9.3% during FY20 driven largely by sizeable currency devaluation in the outgoing year. Overall growth emanated from the value added segment. Favourable government policies for enhancing exports and improving country's perception and law & order situation bode well for the textile sector. Conversely, increasing cost of doing business and reduction in rebate rates may impact margins for select players. Even though implications of Covid-19's second wave remain elevated, we expect the order book for the industry to remain strong in the on-going year, easing our business risk concerns.

Topline depicted healthy growth in FY20 provided by higher fabric and toll manufacturing sales. Proportion of exports sales increased during the outgoing year; around two-third of the product mix comprises fabric sales. Going forward, proportion of export sales and value added fabric in sales mix is expected to increase.

Net Sales of the company were reported at Rs. 13.5b (FY19: Rs. 11.8b) in FY20 depicting an increase of 15%. Due to the impact of COVID-19, volumetric sales were lower in the last quarter vis-à-vis the first three quarters; however, increase in average selling prices compensated for the decrease in volumes. Sales revenue during 1QFY21 was reported at Rs. 3.2b. Majority of ZTML's sales constitute local sales and indirect exports. During FY20, around 12% of the total sales comprised export 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 FY20. Moreover, sales from toll manufacturing depicted a sizeable increase in the outgoing year.

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

Gross margins of the company improved to 12% (FY20: 11.2%; FY19: 9.8%) during 1QFY21. Improvement in margins is attributable to BMR and efficient procurement undertaken by the Company. Overhead expenses increased by 35% (distribution, administrative and other operating cost) during FY20, mainly due to fixed factory overheads that were incurred due to temporary closure of production facilities amidst COVID-19 lockdown. Finance cost has increased significantly due to increased borrowings taken to fund BMR & expansion and significant jump in interest rates in the outgoing year. Resultantly, net margins declined to 3.0% (FY20: 3.0%; FY19: 5.0%) in the quarter-end FY21. Going forward, VIS expects the increase in gross margin to be the key profitability growth driver given increased focus on automation, enhanced efficiencies and higher value addition.

Cash flow coverages have weakened because of subdued net profitability. Improvement in coverages over the rating horizon is considered important from ratings perspective.

Funds From Operations (FFO) depicted growth during FY20 owing to higher operating profit. FFO of the company amounted to Rs. 1.2b (FY19: 1.0b; FY18: 0.7b) in FY20. Debt service coverage ratio (DSCR) declined to 1.62x (FY20: 1.92x; FY19: 3.02x) at quarter end-September 2020, due to thinning of net profitability. FFO in relation to total debt and long-term debt stood at 8% (FY20: 9%, FY19: 12%) and 17% (FY20: 21%; FY19: 26%) at end-1QFY21. Debt drawdown increased significantly to fund BMR and expansion; hence, cash flow coverages have depicted a significant decline in FY20 and 1QFY21. Trade debts of the company increased at end-FY20 on account of extension in credit terms to major two buyers. However, stock in trade & trade debts as a proportion of short-term borrowing provides adequate coverage in relation to short-term debt (1QFY21: 1.29x; FY20: 1.4x; FY19: 1.6x). The current ratio was reported at 1.22x (FY20: 1.22x; 1FY19: 1.4x) at quarter-end FY21.

Leverage indicators continue to increase on a timeline basis, mainly due to extended working capital cycle and expansion plans. Given future plans of debt drawdown to finance expansion across the value chain, and gradual impact of the same on profitability, VIS expects gearing and leverage indicators to increase in the medium term. Improvement in the same over the rating horizon is a key rating driver.

Equity base has grown to Rs. 6.6b (FY20: Rs. 6.5b; FY19: Rs. 5.3b) at end-1QFY21, owing to profit retention and interest-free loan from sponsors. Total debt of the company stood at Rs. 14.9b (FY20: Rs. 13.7b; FY19: Rs. 8.5b) at end-1QFY21. Short-term borrowing stood at Rs. 8.1b (FY20: Rs. 7.7b; FY19: Rs. 4.5b) at end-1QFY21 to meet ZTML's extended working capital requirements. Long-term debt (including current maturity) stood higher at Rs. 6.8b (FY20: Rs. 6.1b, FY19: Rs. 4.5b) at end-1QFY21. Gearing and leverage indicators increased to 2.3x (FY20: 2.1x; FY19: 1.6x) and 2.7x (FY20: 2.5x; FY19: 1.9x), respectively at end-1QFY21.

Financial Summary (amounts in PKR millions)				Appendix I
	FY18	**FY19**	**FY20**	**3MFY21(UA)**
BALANCE SHEET				
Total Equity (without surplus revaluation)	3,517.2	5,298.3	6,483.3	6,578.2
Paid-up Capital	980.0	980.0	980.0	980.0
INCOME STATEMENT				
Net Sales	8,077.8	11,777.9	13,506.5	3,155.8
Profit Before Tax	389.6	584.0	440.4	97.6
Profit After Tax	243.5	551.2	409.0	97.6
RATIO ANALYSIS				
FFO	660.9	1,031.7	1,244.7	282.2
Current Ratio (x)	1.4	1.4	1.2	1.2
Gearing (x)	1.3	1.6	2.1	2.3

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.

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				
25-Jan-2021	A-	A-2	Stable	Maintained
24-Apr-2020	A-	A-2	Rating Watch-Developing	Maintained
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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Due Diligence Meetings	

Name	Designation	Date
Shakeel Dhanani	CFO	29-Dec-2020