RATING REPORT

Zaman Textile Mills (Pvt.) Limited

REPORT DATE:
March 08, 2022

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	March 08, 2022		January 25, 2021	

COMPANY INFORMATION	
Incorporated on 1969	**External auditors:** M/s. 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 (August 2021)*
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

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 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, while fabric weaving, dyeing and printing facilities is based in Landhi Industrial Area, Karachi. Recently, additional area was acquired adjacent to current facility in Kotri to be utilized as godown for inventory storage.

Rating Drivers

Positive industry outlook provides support to the business risk profile of the Company

Business risk profile is supported by growing textile demand and strong emphasis of the Government of Pakistan on enhancing exports. Textile export grew significantly by 26% year on year to USD 9.4b in the first half of FY22. Overall growth emanated from the value added segment. Favourable government policies for enhancing exports bode well for the textile sector. The margins of textile operators have broadly depicted improvement despite the uptick in raw material costs, given that the same was offset by exchange rate movements. Nevertheless, higher raw material pricing has increased the working capital requirements for textile operators, which is likely to weigh on the liquidity of the textile players. VIS expects the order book for the industry to remain strong in the on-going year along with transfer of orders from neighbouring countries, even though implications of Covid-19's Omicron variant persist. Lately, the industry has seen shift in orders from China to Pakistan on account of comparatively cheaper textile products available coupled with economics of scale and mass production. On the other hand, key risk factor include rising cost of doing business (increasing electricity and gas tariff and rising local cotton prices).

Higher capacity utilization levels and continued capacity expansion is expected to further enhance operational efficiencies

Historically, the Company has been operating at high capacity utilization levels and the trend continues barring FY20 due to covid-19 induced slowdown. Higher utilization levels has resulted in improvement in operational efficiency reflective in improvement in margins over time.

	FY19	FY20	FY21
Spinning			
Total number of spindles installed	24,288	79,008	79,008
Installed capacity after conversion into 20/s counts (lbs.)	15,695,493.0	15,014,540	23,021,269
Actual production after conversion into 20/s counts (lbs.)	15,550,556.0	13,687,698	22,711,387
Capacity utilization	**99.1%**	**91.2%**	**98.6%**
Weaving			
Total number of air jet looms installed	404	357	385

Installed capacity after conversion into 60/s picks (m)	65,723,953.0	77,928,337	73,961,323
Actual production after conversion into 60/s picks (m)	58,717,674.0	63,892,062	66,131,307
Capacity utilization	**89.3%**	**81.9%**	**89.4%**

Project of installing 50,000 spindles and 28 looms became operational in FY21 (Since 65 old looms were simultaneously disposed off hence installed capacity turned out lower in FY21). Continuing with its strategic goals, it plans to add another 50, 000 spindles by Dec'22 and increase looms to 580 by Jul'22. In addition to that, with completion of the dying unit in FY21, ZTML is underway to further increase dying and printing capacity by Jun'22 (doubling capacity to 144m meter/annum). Total Capex cost is estimated in the range of Rs. 6 to 8b, out of which around three-fourth will be debt financed and remaining through internal cash generation.

Going forward, with the planned expansion and strong growth prospects, Company is likely to benefit from economies of scale.

Ratings incorporate ZTML's market positioning as a vertically integrated textile composite. Profitability continue to remain underpinned by higher sales and increasing margins.

Net Sales of the Company increased significantly by 46% during FY21 to Rs. 19.7b and the trend continued in HFY22 as well with net sales registering growth of 52% (Rs. 11.9b) over the same in the preceding year. Growth in revenue has been combination of both; increase in average selling price and higher volumetric sales, with the latter being larger contributor in revenue growth.

Majority of ZTML's sales constitute local sales, with exports accounting for only 8.6% of total sales in FY21. In terms of segment wise sales, revenues from the fabric/dyed fabric segment have been increasing on a timeline basis and represented around two-third of total sales during FY21. ZTML's local clientele comprise of leading apparel brands and the Company has maintained sound relationships amongst its client. Client concentration is considered moderate with top ten clients constituting around two-fourth of the total revenue base. ZTML majorly exports in Europe region (with focus within home textile product range) and lately has expanded its footprint in US, North America and Canada. In addition, the Company will gear towards capitalizing on opportunities present in Australia and New Zealand. Going forward, Company plans to expand its export sale footprint and be able to establish itself as an export based Company.

Gross margins of the Company improved significantly to 16.7% in FY21 and further enhancing to 18.3% (FY21: 16.7%; FY19: 11.2%) during HFY22. Improvement in margins is attributable to mass production, production efficiencies and efficient procurement undertaken by the Company. Overhead expenses increased by 25.5% during FY21, mainly due to one-off provision of impairment allowance against trade debts. This has been the result of extended credit terms (of 180 days) with certain key customers. Accordingly, on account of prudence, auditors have made relevant provisions. Finance cost also increased due to increased borrowings taken to fund expansion and working capital. However, despite increase in overheads and financial charges, substantial increase in volumetric growth in sales and operational efficiencies led to higher profit for FY21 and HFY22 (FY20: Rs. 409m; FY21: Rs. 19.7b; HFY22: Rs. 11.9b). Going forward, strong demand prospects along with improvement in operational efficiencies is likely to keep the momentum of profitability growth.

Liquidity profile considered satisfactory albeit stretched working capital cycle likely to exert some pressure.

Funds From Operations (FFO) depicted notable growth during FY21 owing to higher operating profit. FFO of the company amounted to Rs. 3.2b (FY19: 1.0b; FY20: 1.2b) in FY21. Consequently, Debt service coverage ratio (DSCR) improved to 3.17x (FY20: 1.92x; FY19: 3.02x) in FY21. FFO in relation to total debt stood at 19.4% (FY20: 9.1%). Inventory and receivables provide ample coverage for short-term borrowings. Current ratio has remained over 1x, albeit took a slight dip in FY21 at 1.17x (FY20: 1.22x) but recovered during HFY22 to 1.21x. Cash conversion cycle of the Company has remained at an average of 200 days over the past years. The Company's working capital management is a function of high inventory and high receivables. High receivables are due to lengthened credit terms given to buyers while higher inventory level is being maintained to hedge against price volatility and shield against supply shocks. The extended working capital cycle exerts pressure on liquidity profile of the Company.

Leverage indicators continue to remain elevated mainly due to extended working capital cycle and expansion plans.

At end Dec'21, total debt was reported higher at Rs.18.5b (FY21: Rs. 16.7b) on account of increase in short term and long term loans. Additional loan was acquired to fund expansion while further long-term loan of Rs. 3.5b and short-term borrowing in the range of Rs. 1 to 2 b will be mobilized by end Jun'22 to finance expansion across the value chain and meet the working capital requirement. Around two-third of the long term comprises concessionary rate financings offered by SBP. Equity base has increased on a timeline basis due to profit retention and the same was reported at Rs. 9b (FY21: Rs. 7.7b) at end Dec'21. However, as the increase in debt was greater than the increase in equity base, both leverage and gearing indicators stood elevated at 2.5x (FY20: 2.5x; FY21: 2.6x) and 2.06x (FY20: 2.12; FY21: 2.17x) at end Dec'21. Given further plans of debt draw down VIS expects gearing and leverage indicators to increase in the medium term. Improvement in the same over the rating horizon will remain important for ratings.

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					
	08-Mar-2022	A-	A-2	Stable	Reaffirmed	
	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	07-Feb-2022			