RATING REPORT

Zaman Textile Mills (Private) Limited

REPORT DATE:
March 14, 2024

RATING ANALYSTS:
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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 Action	Reaffirmed		Reaffirmed	
Rating Date	*March 14, 2024*		*March 07, 2023*	

COMPANY INFORMATION	
Incorporated in 1969	**External auditors:** Yousuf Adil Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Ebrahim Qassim
	Chief Executive Officer: Mr. Muhammad Jamil Qassim

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Corporates: ***https://docs.vis.com.pk/docs/CorporateMethodology.pdf***

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: ***https://docs.vis.com.pk/docs/VISRatingScales.pdf***

Zaman Textile Mills (Private) 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

Corporate Profile

Zaman Textile Mills (Private) Limited ('ZTML' or 'the Company') was incorporated in Pakistan in 1969 as a public company limited by shares. The Company changed its status to a Private Company in 2016. Principal activity of ZTML is manufacturing, processing, dyeing, sale and trading of yarn and dyed fabrics. The registered office of the Company is situated in Korangi Industrial Area, Karachi.

Operational Performance

ZTML is a vertically integrated mill & has its own spinning, weaving, and processing facilities. The manufacturing facility of yarn is located at Kotri Industrial Area whereas fabric and dyeing facilities are located at Landhi Industrial Area, Karachi. During FY23, ZTML started work on a new spinning unit with 36,000 spindles installed by the year end. Reported total spindles to be installed are 50,000. However, operations did not start during the period under review. Actual production commenced in 1QFY24.

Table 1 Capacity and Production

	FY21	FY22	FY23
Spinning			
Spindles Installed	79,008	97,248	115,008
Spindles Worked	79,008	79,008	79,008
Installed Capacity (mln lbs.)	23.0	28.3	32.8
Installed Production (mln lbs.)	22.7	25.4	22.0
Capacity Utilization	***98.7%***	***89.6%***	***67.1%***
Weaving			
Looms installed	385	545	545
Looms worked (excluding 3 looms as backup)	382	542	542
Installed Capacity (mln meter)	74.0	92.1	103.6
Installed Production (mln meter)	66.1	87.0	92.8
Capacity Utilization	***89.4%***	***94.4%***	***89.6%***

Key Rating Drivers

Business risk remains elevated amid weak macroeconomic environment, high-interest rates, inflationary pressures, rising raw material costs, ongoing energy crisis in the country, and a global slump in demand. All these factors pose a challenge to the sector in terms of margins sustainability and future growth.

Pakistan's export proceeds have oscillated in the range of USD 22-25 bln during the past decade (FY11-FY21), however, in FY22 exports broke the threshold, clocking in at USD 32.4 bln. The textile sector contributes nearly one-fourth to the industrial value-added segment and provides employment to about 40% of the industrial labor force. Contributing around 8.5% to the country's gross domestic product (GDP), with an estimated market size of around Rs. 4.0tr, textile sector has maintained an average share of about 60% in national exports over the years.

In FY23, Global interest rate hikes aimed at curbing post-pandemic inflation, coupled with geopolitical unrest such as the Ukraine conflict, led to supply chain disruptions and energy crisis. These factors led to a global demand slowdown in major textile economies, reflected in a 10% year-on-year decline in Pakistan's textile exports in FY23, totaling USD 16.7 bln (FY22: USD 18.5 bln). As per the data from Pakistan Bureau of Statistics (PBS), High Value-Added Segments made up over 82.2% (FY22: 80.7%) of the total textile exports in FY23.

Flash floods in Sindh and Southern Punjab monsoon wreaked havoc on the cotton crop last year. This catastrophe led to a historic low production level of 4 mln bales of cotton in 2022, compared to a 12 mln bales annual demand. Consequently, local cotton prices reached a 12-year high of over Rs. 22,000 per 40kg during the year as well as import of raw cotton rose by ~20% in USD terms during FY22, as compared to the preceding year. This situation led to higher working capital requirements, adversely affecting profit margins and liquidity profile of textile entities, particularly spinners, weavers, and dyeing companies. Supported by favorable weather and timely government intervention, cotton production in the country is estimated to increase to 12.7 mln bales during the current season

(FY24). 4.0 mln bales have already been produced during 1QFY24, marking an impressive 80.0% increase compared to the same period last year.

The industry is facing business risk due to weak macroeconomic environment both globally and locally, high-interest rates, inflationary pressures, rising raw material costs, ongoing energy crisis in the country, and a global slump in demand, primarily from North America and Europe.

Previously, the sector also enjoyed incentives provided by the government through a five-year textile policy (2020-25), including preferential energy rates, low-interest financing schemes, and timely payments of various refunds, easing liquidity constraints for local players. However, the prevailing economic instability along with advisory from the IMF led to the reduction or withdrawal of many of these fiscal supports. This along with contractionary monetary policy and political uncertainties in the country are the key business risk factors faced by the industry. In the long run, improvement in value addition, investment in technology and optimization of energy cost would define the prospects of textile exports.

Topline and operational margins demonstrate improvement in FY23, despite a challenging economic environment.

In FY23, the Company demonstrated an improved topline performance driven by increased revenue from the weaving segment. Gross fabric sales grew in both local and export markets on account of increased prices and slightly higher volumes. During the same period, ZTML's margin improved to 20.5% (FY22: 16.5%) on account of inventory gains on carry-over stocks from the previous year. Gross margins remained stable at 20.6% in 1HFY24. However, this improvement in gross margin has not translated into higher net margins, as an 825-bps hike in local policy rate with increased debt drawdown has significantly escalated the Company's finance costs during the same period. Net margins decreased slightly to 5.2% (FY22: 6.0%) in FY23, before recovering to 6.1% in 1HFY24.

Capitalization profile elevated; however, supported by continued sponsor support and higher profitability.

Despite higher debt drawdown during the year for capital expenditure (CAPEX) and working capital requirements, the capitalization profile albeit elevated remained stable in FY23 and 1QFY24. This is attributable to the increase in the equity base, on account of improved profitability and reclassification of a portion of loan from directors and shareholders to equity. The Company issued bonus shares, resulting in movement from unappropriated profits to issued, subscribed and paid-up capital. Gearing and leverage during the period were reported at 2.5x (FY22: 2.5x) and 3.1x (FY23: 3.3x), respectively. Due to sustained healthy profitability, the gearing and leverage ratios improved to 2.3x and 2.5x, respectively in 1HFY24.

Healthy coverage profile; despite deterioration on account of increased finance burden, with escalating interest rates and higher debt drawdown.

The 825-basis point surge in local policy rates and increased debt drawdown led to a modest constraint on the coverage profile of the Company. The debt service coverage ratio (DSCR) stood at 1.6x in FY23 (FY22: 2.2x), albeit remaining at healthy levels. In 1HFY24, there was a slight recovery in DSCR to 1.9x. Meanwhile, short-term debt coverage witnessed marginal erosion between FY22 and 1HFY24, settling at 1.3x (FY23: 1.4x, FY22: 1.5x).

Historically stable and adequate liquidity profile.

ZTML has historically maintained a stable and adequate liquidity profile with a 5-Year average current ratio of 1.2x and a quick ratio of 0.7x. In 1QFY24, the current ratio was reported at 1.1x (FY23: 1.0x, FY22: 1.1x). However, the quick ratio has reduced to 0.5x (FY23: 0.5x, FY22: 0.6x) over the years in 1QFY24.

Consideration for future ratings.

Going forward, ratings will remain sensitive to the Company's ability to maintain its profitability, capitalization, coverage, and liquidity profiles commensurate with assigned ratings.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Zaman Textile Mills (Pvt) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
Rating Type: Entity				
14-03-2024	A-	A-2	Stable	Reaffirmed
07-03-2023	A-	A-2	Stable	Reaffirmed
08-03-2022	A-	A-2	Stable	Reaffirmed
25-01-2021	A-	A-2	Stable	Maintained
24-04-2020	A-	A-2	Rating Watch-Developing	Maintained
29-11-2019	A-	A-2	Stable	Reaffirmed
22-11-2018	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 Meeting Conducted

Name	Designation	Date
Mr. Muhammad Fayyaz	Commercial Director	February 21, 2024
Mr. Shakeel Dhanani	Chief Financial Officer	