RATING REPORT

Nadeem Textile Mills Limited (NTML)

REPORT DATE:
21st December 2018

RATING ANALYST:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	BBB	A-2	BBB-	A-3
Rating Outlook	Stable		Stable	
Rating Date	18th December 2018			

COMPANY INFORMATION	
Incorporated on July 15, 1984	**External auditors:** M/s. Rahman Safaraz Rahim Iqbal Rafiq Chartered Accountants
Public Limited Company	**Chairperson:** Mrs. Naila Zahid
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Zahid Mazhar
Mr. Zahid Mazha (25.00%)	
Nadeem Power Generation (Pvt.) Ltd. (18.76%)	
Mr. Omer Bin Zahid (16.57%)	
Mr. Hassan Bin Zahid (16.58%)	
Mrs. Rafia Sultana (5.74%)	
Mrs. Naila Zahid (5.08%)	

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

Nadeem Textile Mills Limited

OVERVIEW OF THE INSTITUTION

Nadeem Textile Mills Limited (NTML) was incorporated as a public limited company in Pakistan in 1984. Financial Statements of the company for FY18 were audited by Rahman Sarfaraz Rahim Iqbal Rafiq Chartered Accountants

Profile of Chairman

Mrs. Naila Zahid has been associated with the group since 1993. She is responsible for strategic planning and managing business activities of the company.

Profile of CEO

Mr. Zahid Mazhar has been associated with textile business and the group since 1979. He holds bachelor degree in Commerce. He also serves as a Senior Vice Chairman of All Pakistan Textile Mills Association (APTMA) and the Director of Karachi Cotton Association (KCA).

RATING RATIONALE

Nadeem Textile Mills Limited (NTML) is a part of Nadeem Group. The group consists of three companies including NTML. The company is primarily engaged in the manufacturing and sale of yarn to local and international market.

Satisfactory existing governance framework

Existing governance framework of the company is considered satisfactory as indicated by the presence of two independent directors on BoD. In order to ensure effective oversight, two committees, namely Board Audit Committee (BAC) and Board Human Resource and Remuneration Committee (BHRRC) are present a Board level. In line with best practices, the independent directors chair board level committees and women representation is present on the Board.

Increase in installed capacity and actual production due to addition of new spindles

The company has two factories based in Nooriabad and Kotri classified as Unit 1 and Unit II and operates with 72,732 (FY17: 72,192) spindles. Both installed and actual capacities increased in FY18 on account of addition of new spindles and Balancing, Modernization and Replacement (BMR). Going forward, the management intends to increase production through BMR.

Improvement in topline of the company due to product diversification, currency devaluation and volumetric growth

Net Sales of the company increased by 23.2% to Rs. 6.4b (FY17: Rs. 5.2b) in FY18. More than 50% of the sales are geared towards the local markets. Local sales including indirect exports increased by 17.4% to Rs. 3.5b (FY17: Rs. 3.0b). Export Sales of the company increased by 29.2% to Rs. 2.7b (FY17: Rs. 2.2b). Product diversification, currency devaluation and volumetric growth aided growth in sales in FY18 and Q1'19 vis-à-vis the corresponding periods in the preceding year. The client concentration of top five clients stood at 21.1% (FY17: 22.2%), witnessing a slight decline. Country wise concentration is considered to be on the higher side, with sales to China constituting 39.4% (FY17: 34.1%) of total gross sales.

Margins have depicted a rising trend owing to higher sales proportion of value added products, currency devaluation and inventory gains

Through product diversification the company has expanded its product portfolio, thereby selling greater proportion of higher count yarn to its customers. Resultantly, the company has been able to charge premium prices to its customers. Product innovation coupled with currency devaluation resulted in improved gross margins in 2018 (FY18: 8.8%; FY17: 5.9%). Besides the aforementioned factors, utilization of lower priced cotton inventory aided gross margins in Q1'19 to 15.1%. Improvement in gross margins translated into higher net margins. Sustainability in margins in the given rating horizon would be an important rating determinant.

Liquidity profile supported by increasing cash flows on timeline basis and adequate debt servicing ability

Fund From Operations (FFO) has observed an upward trend owing to increase in profit before tax in Q1'19 and FY18. Resultantly, FFO in relation to long debt and FFO in relation to total debt improved to 114.2% (FY17: 60.0%) and 15.0% (FY17: 8.3%), respectively. FFO of the company is considered adequate to service the debt obligations. Current ratio has improved from the preceding year, on the back of increase in trade debts and stock in trade. Inventory and trade debt provide adequate coverage for short term borrowings. Going forward, maintenance of liquidity indicators is considered important from rating perspective.

Equity base of the company has grown on timeline basis but further improvement in leverage indicators is warranted going forward

Equity base of NTML has depicted a growing trend on timeline basis due to retention of profits. Equity base of the company amounted to Rs. 1.2b (FY18: Rs. 1.1b; FY17: Rs. 995m) at end-Q1'19. Gearing and Leverage ratios increased to 1.6x (FY17: 1.4x) and 2.3x (FY17: 2.0x) respectively at end-FY18. The same was attributed to increase in short-term borrowing to meet the working capital requirement needs. In Q1'19, gearing and leverage ratios declined due to decrease in short term borrowings. Further improvement in leverage indictors is desired going forward.

Financial Summary (amounts in PKR millions)			Appendix I
	Q1'19	**FY18**	**FY17**
BALANCE SHEET			
Fixed Assets	1,673	1,700	1,641
Long term Deposits	14	14	14
Stock-in-Trade	786	1,232	826
Trade Debts	796	641	510
Cash & Bank Balances	99	99	30
Total Assets	3,807	4,109	3,340
Trade and Other Payables	623	686	499
Long Term Debt	212	245	195
Short Term Debt	1,298	1,616	1,209
Total Debt	1,510	1,861	1,404
Total Liabilities	2,209	2,651	2,007
Total Equity	1,277	1,134	995
INCOME STATEMENT			
Net Sales	1,615	6,441	5,230
Gross Profit	244	564	307
Operating Profit	197	346	144
Profit After Tax	140	150	7
RATIO ANALYSIS			
Gross Margin (%)	15.1%	8.8%	5.9%
Net Profit Margin	8.7%	2.3%	0.1%
Net Working Capital	13	(120)	(257)
FFO to Total Debt (%)	39.3%	15.0%	8.3%
FFO to Long Term Debt (%)	280%	114%	60%
Debt Servicing Coverage Ratio (x)	2.64	1.71	1.01
ROAA (%)	14.2%	4.0%	0.2%
ROAE (%)	46.6%	14.1%	0.8%
Gearing (x)	1.2	1.6	1.4
Leverage (x)	1.7	2.3	2.0

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: 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 III
Name of Rated Entity	Nadeem Textile Mills 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				
18/12/18	BBB	A-2	Stable	Upgrade
12/03/18	BBB-	A-3	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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