

RATING REPORT

Nadeem Textile Mills Limited (NTML)

REPORT DATE:

November 13, 2020

RATING ANALYST:Arsal Ayub, CFA
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook	Stable		Rating Watch - Negative	
Rating Date	November 13, 2020		April 24, 2020	

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. Zabid Mazhar (25.00%)	
Nadeem Power Generation (Pvt.) Ltd. (18.76%)	
Mr. Omer Bin Zabid (16.57%)	
Mr. Hassan Bin Zabid (16.58%)	
Mrs. Rafia Sultana (5.74%)	
Mrs. Naila Zabid (5.08%)	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria *Industrial Corporates (April, 2019)*<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

Nadeem Textile Mills Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>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</p> <p>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.</p> <p>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).</p>	<p>Nadeem Textile Mills Limited (‘NTML’ or ‘The Company’) is primarily engaged in the manufacturing and sale of yarn to local and international market through 2 units based in Nooriabad and Kotri respectively.</p> <p>The company operates with 70,452 spindles through 2 units located in Nooriabad and Kotri respectively. Plant utilization reduced to 91.07% for FY20 (FY19: 96.49%). This was in line with the drop in NTML’s actual production, which dropped by 10% (FY20:20.6m; KGs; FY19:22.7m KGs).</p> <p>NTML operates in the cotton yarn spinning business, wherein the performance is sensitive to cyclicality in cotton prices, which further determined by crop yield. Historically, margins and financial performance of players have depicted seasonality. Moreover, competitive intensity is high due to commoditized nature of the product.</p> <p>The liquidity & capitalization metrics, as of Sep’20, have been reviewed and are gauged to be commensurate with the rating assigned.</p> <p>Citing improved performance in Q1’FY21, the outlook assigned to NTML’s ratings has been revised to ‘Stable’</p> <p>The impact of Covid-19-induced slowdown was noted in Q4’FY20, which was reflected in the annual performance of the company; this included thinning in gross margins (FY20: 9.0%; FY19: 10.5%), contraction in topline (-5%) and net margins contracting close to break-even (FY20: 0.3%; FY19: 2.8%).</p> <p>However, operating performance in Q1’FY21 has depicted improvement, with topline being 7% higher than SPLY, albeit pressure on gross margins persists. Given Covid-19 relief measures, the financing cost for the company has also reduced, reflecting positively on the bottom line. Even though concerns of a 2nd wave of Covid-19 remain elevated, we expect the order book for the industry to remain strong in the ongoing year, easing our business risk concerns.</p>

Financial Summary (amounts in PKR millions)				Appendix I	
	FY18	FY19	FY20	Q1'FY21	
<u>BALANCE SHEET</u>					
Fixed Assets	1,700	1,640	1,776	1,758	
Stock-in-Trade	1,232	886	1,785	1,734	
Trade Debts	641	950	1,442	1,660	
Cash & Bank Balances	99	144	126	119	
Total Assets	4,109	4,216	5,383	5,831	
Trade and Other Payables	686	673	1,116	1,137	
Long Term Debt	245	158	312	352	
Short Term Debt	1,616	1,599	1,996	2,343	
Total Debt	1,861	1,757	2,308	2,695	
Total Liabilities (excl. sponsor loan)	2,244	2,150	3,123	3,533	
Paid-up Capital	192	192	192	192	
Total Equity (incl. sponsor loan)	1,134	1,331	1,371	1,340	
<u>INCOME STATEMENT</u>					
	FY18	FY19	FY20	Q1'FY20	Q1'FY21
Net Sales	6,441	7,186	6,793	1,758	1,886
Gross Profit	564	755	613	153	152
Operating Profit	346	569	408	109	116
Profit Before Tax	168	323	106	40	51
Profit After Tax	150	200	18	38	17
<u>RATIO ANALYSIS</u>					
	FY18	FY19	FY20	Q1'FY21	
Gross Margin (%)	8.8%	10.5%	9.0%	8.0%	
Net Profit Margin	2.3%	2.8%	0.3%	0.9%	
Net Working Capital	(30)	180	398	448	
Current Ratio	0.99	1.08	1.12	1.12	
FFO to Total Debt (%)	15.0%	23.8%	8.1%	12.7%*	
FFO to Long Term Debt (%)	114.2%	265.3%	59.5%	97.5%*	
Debt Servicing Coverage Ratio (x)	1.68	1.88	1.20	1.99*	
ROAA (%)	4.0%	4.8%	0.4%	1.2%*	
ROAE (%)	24.8%	24.5%	1.9%	7.5%*	
Gearing (x)	1.64	1.32	1.68	2.01	
Leverage (x)	1.98	1.62	2.28	2.64	
*Annualized					

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
	<u>RATING TYPE: ENTITY</u>				
	13/11/20	BBB+	A-2	Stable	Maintained
	24/04/20	BBB+	A-2	Rating Watch - Negative	Maintained
	09/03/20	BBB+	A-2	Stable	Upgrade
	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	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	NA				