RATING REPORT

Nadeem Textile Mills Limited (NTML)

REPORT DATE:
November 18, 2021

RATING ANALYST:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	BBB+	A-2
Rating Outlook	Stable		Stable	
Rating Date	November 18, 2021		November 13, 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. Zahid Mazhar (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)
VIS Entity Rating Criteria *Corporate Rating Methodology (August 2021)*
https://docs.vis.com.pk/docs/CorporateMethodology202108.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' 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. NTML operates in the cotton spinning business, wherein the performance is sensitive to cyclicality in cotton prices. Historically, margins and financial performance of players have depicted seasonality. Moreover, competitive intensity is high due to commoditized nature of the product.

Sector Update

Table 1: Pakistan Export Statistics

	FY19	FY20	FY21	Q1'FY21	Q1'FY22
PAKISTAN EXPORTS (IN USD' MILLIONS)	24,257	22,536	25,632	5,354	7,241
TEXTILE (IN USD' MILLIONS)	13,659	12,867	14,488	3,086	4,240
PKR/USD RATE (AVERAGE)	136.3	158.2	160.3	167.0	164.6
SOURCE: SBP					

- Subsequent to posting export contraction in FY20 - owing to the pandemic-induced slowdown experienced in H2'FY20 – Pakistan's export base grew by 14% in FY21, which is partly attributable to a low base effect. Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21). So the uptick is largely aligned with historical numbers and is not considered material.
- Share of textile exports in total exports has oscillated in the range of 54-59%, coming in at 57% during the past 2-years (FY20-21). In FY21, owing to the similar low-base effect, as discussed above, textile exports were up 13%.
- In USD' terms textile exports have grown at a CAGR of 4.4% during the past 3-year period (FY19-FY21), despite depreciation in average USD/PKR parity of 24%, 16%, and 1% in FY19, FY20 and FY21 respectively.
- As illustrated in the table above, textile exports in Q1'FY22 were 37% higher than SPLY. Inclusive of textile exports for Oct'2021, the number for 4M'FY22 textile exports came in at USD 6b. With additional capacities coming online in January 2022, textile exports for FY22 are likely to exceed the annualized figure of USD 18b.
- As illustrated in the table below, the composition of textile exports has depicted improvement in the last 4-yar period, with contribution from higher value added segment increasing from 72.9% in FY18 to 80.7% in FY21 of aggregate textile exports.

Table 2: Segment-wise textile Exports (All Figures in USD' Millions, except for percentages)

	FY18	FY19	FY20	FY21	FY18	FY19	FY20	FY21
HIGH VALUE-ADDED SEGMENT	**9,854**	**10,046**	**9,669**	**12,428**	**72.9%**	**75.4%**	**77.2%**	**80.7%**
- KNITWEAR	2,711	2,900	2,794	3,816	20.1%	21.8%	22.3%	24.8%
- READYMADE GARMENTS	2,577	2,653	2,552	3,033	19.1%	19.9%	20.4%	19.7%
- BED WEAR	2,261	2,262	2,151	2,772	16.7%	17.0%	17.2%	18.0%
- TOWELS	797	786	711	938	5.9%	5.9%	5.7%	6.1%
- MADE-UP ARTICLES (EXCL. TOWELS & BED WEAR)	685	680	591	756	5.1%	5.1%	4.7%	4.9%
- ART, SILK & SYNTHETIC TEXTILE	310	297	315	370	2.3%	2.2%	2.5%	2.4%
- OTHERS	513	468	555	743	3.8%	3.5%	4.4%	4.8%
LOW TO MEDIUM VALUE-ADDED SEGMENT	**3,667**	**3,282**	**2,858**	**2,972**	**27.1%**	**24.6%**	**22.8%**	**19.3%**
- COTTON CLOTH	2,204	2,102	1,830	1,921	16.3%	15.8%	14.6%	12.5%
- COTTON YARN	1,372	1,125	984	1,017	10.1%	8.4%	7.9%	6.6%
- OTHERS	92	54	43	34	0.7%	0.4%	0.3%	0.2%
TOTAL	**13,521**	**13,328**	**12,527**	**15,400**		-		
SOURCE: PBS								

- Cotton production in Pakistan, on the other hand, was at its lowest level in decades for FY21.

Cotton prices rose to a new 11-year high of ~Rs. 13,000/maund as a result of the production shortage, and cotton imports have climbed by 59.8% in quantity and 68.1% in USD terms, for FY21 vis-à-vis preceding year.

Table 3: Cotton Prices

	FY18	*FY19*	*FY20*	*FY21*
Per Maund (Rs.)	**6,953**	**8,770**	**8,860**	**13,000**
% Change	***6%***	***26%***	***1%***	***32%***

– Given favorable weather conditions, cotton production in Pakistan posted strong growth in FY22, with cotton crop for Jul-Nov'22 (Rabi) season being 81% higher than SPLY. Nevertheless, the upward momentum in cotton pricing continued in FY22, with prices as of November 2022 hovering at ~Rs. 16,000 per mound.
– 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 movement. Nevertheless, higher raw material pricing has increased the working capital requirements for textile operators, which is likely to weigh on the liquidity of textile players.

Operating Performance

Table 4: Capacity Utilization

	FY20	FY21
Spindles Installed	70,428	77,592
Production Capacity ('000 kgs)	22,638	26,491
Capacity Utilization	91.1%	96.5%

- NTML operates with 77,592 spindles through 2 units located in Nooriabad and Kotri respectively. Capacity expansion was undertaken in FY21, whereby available capacity increased by 17%, as illustrated in table 3.
- Capacity utilization was affected in FY20, albeit it has rebounded strongly in FY21 (FY21: 96.5%; FY20: 91.1%). As per management, FY21 capacity utilization can be broadly construed as full utilization as the difference is mainly attributable to planned maintenance & shutdown. NTML's actual production also notably increased from 20.6mn KGs in FY20 to 25.6.mn KGs in FY21 (Up 24% YoY).

Business Risk

- 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.

Topline revenue has depicted strong growth along with improvement in margins

Table 5: Sales (Figures in PKR' Millions)

	FY20	FY21	FY20	FY21
Local Sales	3,178	4,770	47%	51%
Exports – Indirect	1,999	3,499	29%	37%
Exports- Direct	1,527	1,040	22%	11%
Wastage Sales	88	111	1%	1%
	6,793	9,421		

Table 6: Profitability Margins

	FY20	FY21
Gross Margin	**9.0%**	**13.3%**
Operating Margin	**6.0%**	**10.8%**
Net Margin	**0.3%**	**6.8%**

- NTML's topline grew by ~40% in FY21 following a 5% contraction in the preceding year. The growth in topline was in line with the strong growth in textile exports and partly attributable to the low base effect, given contraction in preceding year.
- The uptick in topline was achieved on the back of 20% increase in offtake, in terms of quatity, and a 15% uptick in average prices.
- NTML's cost of production (per kg) was up 7% YoY, relatively lower than expectation and mainly attributable to inventory gains.
- Despite the higher production cost, NTML was able to achieve strong improvement in gross margin. Given the volumetric growth in topline in combination with higher gross margin, the gross profit doubled to Rs. 1.3b vis-à-vis Rs. 0.6b in the preceding year.
- The Company's revenue stream is indicative of diversification. Although direct exports of the Company are made against only China (73%) & Bangladesh (27%), these direct exports comprise only 11% of the Company's revenue base.

- Counterparty concentration is indicative of diversification, with largest 10 clients comprising 31% of the NTML's topline.
- Business overheads (administrative & distribution cost) of NTML were up 18% YoY, while net of other income these costs were up 14% YoY.
- On the back of a managed uptick in business overheads, and stronger gross margin, the net margin has depicted notable improvement and compares favorably to peers.
- In Q1'FY22, NTML posted topline of Rs. 3b, up 62% vis-à-vis SPLY, while reported gross margin was much higher at 17.3%, mainly being attributable to inventory gains. As per management, top line for FY22 is projected at Rs. 13b with gross margin of ~14%.

	FY20	FY21
Overheads	**221**	**261**
- Distribution Cost	66	73
-Administrative Expenses	105	120
-Others	51	67
Other Income	**15**	**26**
	206	**234**

Table 8: Overheads & Other Income (Figures in PKR' Millions)

Improved profitability has reinforced capitalization buffers, which now compare favorably to peers

- Owing to reduced profitability in FY20, the shareholders opted to retain all profits in the Company. In FY21, despite the strong growth in profitability, payout was maintained on the lower side at 10%.
- For the purposes of gearing and leverage calculation, we have included the loan from associate and director. All the loans from associate, including the one from director, are repayable, but their consideration as equity is warranted by their stickiness, with these loans having only increased on a timeline.

	Jun'20	Jun'21
Equity (excl. revaluation surplus)	**901**	**1,674**
-Paid-up Capital	192	215
-Reserves	709	1,459
Interest free loans from directors	**470**	**511**
-Long from Associate (Long term)	333	378
- Loan from Director (Current)	37	61
-Loan from Associate (Current)	73	73
Adjusted Equity	**1,370**	**2,185**
Gearing	**1.68x**	**0.77x**
Leverage	**2.28x**	**1.00x**

Table 9: Capitalization (Figures in PKR' Millions)

Table 10: Interest-free Loans from Directors (Long-term Trend) (In PKR' Millions)

	Jun'14	Jun'15	Jun'16	Jun'17	Jun'18	Jun'19	Jun'20	Jun'21
Loans from Directors	326.1	436.7	375.3	423.5	406.8	423.0	469.6	511.4

- The gearing and leverage of the Company compare favorably to peers. Given higher business volumes, utilization of short term borrowings are projected to increase in the short to medium term, albeit gearing is expected to remain within the benchmark for the assigned rating. As per management, dividend policy is expected to remain aligned with long-term trend.

Cash flow coverages have improved

Table 11: Liquidity (Figures in PKR' Millions)

	Jun'20	Jun'21
Cash Conversion Cycle (Days)	**45.2**	**40.2**
Inventory Days (Days)	39.5	31.6
Receivable Days (Days)	32.1	30.2
Payable Days (Days)	45.2	40.2
Debt	**2,756**	**2,083**
-Long Term	85	53
-Short Term	1,671	2,030
FFO	**186.0**	**823.2**
FFO to Debt	**8.1%**	**48.8%**
-FFO to Long Term Debt	**59.5%**	**205.1%**
DSCR	**1.31x**	**3.40x**

- The Company operates cash conversion cycle, which used to average ~60 days, has depicted notable improvement owing to lower inventory and receivable days.
- The Company operates with a capital structure of 44:56 (debt: equity) vis-à-vis 63:37 previously.
- The short term borrowings remain adequately covered with inventory and trade debts, covering 2.1x of the short term borrowings as of Jun'21.
- With the uptick in business volume, the debt has not risen in tandem and accordingly debt service coverage has improved on a timeline.

Financial Summary (amounts in PKR millions)				Appendix I
	FY18	FY19	FY20	FY21
BALANCE SHEET				
Fixed Assets	1,700	1,640	1,776	2,956
Stock-in-Trade	1,232	886	1,785	1,041
Trade Debts	641	950	1,442	1,679
Cash & Bank Balances	99	144	126	142
Total Assets	4,109	4,216	5,383	6,182
Trade and Other Payables	686	673	1,116	817
Long Term Debt	245	158	312	401
Short Term Debt	1,616	1,599	1,996	1,284
Total Debt	1,861	1,757	2,308	1,685
Total Liabilities (excl. sponsor loan)	2,244	2,150	3,123	2,180
Paid-up Capital	192	192	192	215
Total Equity (incl. sponsor loan)	1,134	1,331	1,370	2,185
INCOME STATEMENT	FY18	FY19	FY20	FY21
Net Sales	6,441	7,186	6,793	9,421
Gross Profit	564	755	613	1,254
Operating Profit	346	569	408	1,019
Profit Before Tax	168	323	106	758
Profit After Tax	150	200	18	639
RATIO ANALYSIS	FY18	FY19	FY20	FY21
Gross Margin (%)	8.8%	10.5%	9.0%	13.3%
Net Profit Margin	2.3%	2.8%	0.3%	6.8%
Current Ratio (x)	0.95	1.04	1.09	1.36
FFO to Total Debt (%)	15.0%	23.8%	8.1%	48.8%
FFO to Long Term Debt (%)	114.2%	265.3%	59.5%	205.1%
Debt Servicing Coverage Ratio (x)	1.71	1.97	1.31	3.40
ROAA (%)	4.0%	4.8%	0.4%	11.0%
ROAE (%)	24.8%	24.5%	1.9%	49.6%
Gearing (x)	1.64	1.32	1.68	0.77
Leverage (x)	1.98	1.62	2.28	1.00
*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
	RATING TYPE: ENTITY				
	18/11/21	A-	A-2	Stable	Upgrade
	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	Name	Designation	Date		
	Mr. Omar Bin Zahid	Executive Director	October 21, 2021		