RATING REPORT

Nadeem Textile Mills Limited (NTML)

REPORT DATE:
December 21, 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 Action	Reaffirmed		Upgrade	
Rating Date	December 21, 2022		November 18, 2021	

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. Hassan Bin Zahid (18.11%)	
Mr. Omer Bin Zahid (18.10%)	
Nadeem Power Generation (Pvt.) Ltd. (16.76%)	
Mr. Zahid Mazhar (15.42%)	
Ms. Sarah Zahid (10.72%)	
Mrs. Naila Zahid (8.11%)	
Mrs. Rafia Sultana (5.13%)	

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.

Sector Update

Table 1: Pakistan Export Statistics

	FY20	FY21	FY22	1Q'FY22	1Q'FY23
PAKISTAN EXPORTS (IN USD' MILLIONS)	22,536	25,639	32,450	7,201	7,594
TEXTILE (IN USD' MILLIONS)	12,851	14,492	18,525	4,241	4,777
PKR/USD RATE (AVERAGE)	158.0	160.0	177.5	164.4	229.1
SOURCE: SBP					

- Pakistan's export growth came in at 14% and 27% in FY21 and FY22 respectively. Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally broke the threshold, coming in at USD 32.4b.
- In FY22, textile exports were up 28%. Growth in textile exports played a significant role in this uptick in Pakistan's overall export base, contributing 59% of the growth in export base. Share of textile exports in total exports has oscillated in the range of 54-59%, coming in at 57% during the past 3-years (FY20-22).
- As illustrated in the table below, the composition of textile exports has depicted improvement in the, with contribution from higher value added segment increasing from 77.2% in FY20 to 80.8% in FY22 of aggregate textile exports

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

	FY20	FY21	FY22	1Q'FY22	1Q'FY23	FY20	FY21	FY22	1Q'FY22	1Q'FY23
High Value-Added Segment	**9,669**	**12,427**	**15,605**	**3,561**	**3,749**	**77.2%**	**80.7%**	**80.7%**	**80.6%**	**81.8%**
- Knitwear	2,794	3,815	5,121	1,145	1,321	22.3%	24.8%	26.5%	25.9%	28.8%
- Readymade Garments	2,552	3,033	3,905	861	912	20.4%	19.7%	20.2%	19.5%	19.9%
- Bed wear	2,151	2,772	3,293	803	780	17.2%	18.0%	17.0%	18.2%	17.0%
- Towels	711	938	1,111	241	237	5.7%	6.1%	5.8%	5.5%	5.2%
- Made-up Articles (Excl. towels & bed wear)	591	756	849	197	180	4.7%	4.9%	4.4%	4.5%	3.9%
- Art, Silk & Synthetic Textile	315	370	460	108	108	2.5%	2.4%	2.4%	2.4%	2.4%
- Others	555	743	866	206	211	4.4%	4.8%	4.5%	4.7%	4.6%
Low to Medium Value-added Segment	**2,858**	**2,972**	**3,717**	**860**	**835**	**22.8%**	**19.3%**	**19.2%**	**19.4%**	**18.2%**
- Cotton Cloth	1,830	1,921	2,438	557	581	14.6%	12.5%	12.6%	12.6%	12.7%
- Cotton Yarn	984	1,017	1,207	289	236	7.9%	6.6%	6.2%	6.5%	5.2%
- Others	43	34	72	14	18	0.3%	0.2%	0.4%	0.3%	0.4%
Total	**12,527**	**15,399**	**19,332**	**4,421**	**4,584**					
Source: PBS										

- Cotton production in Pakistan, was at its lowest level in decades for FY21, albeit the same posted 18% uptick in FY22. Actual production at 8.33m bales still missed the targeted production of 10.5m bales. Cotton prices rose to a new 12-year high of ~Rs. 21,600/maund as of March'22, as a result of the shortage and higher input costs of fertilizer and energy. Cotton imports were also up 19.8%, in USD terms, for FY22 vis-à-vis preceding year.
- According to United States Department of Agriculture (USDA), the 2022/23 harvested area has declined notably following devastation caused by recent flood in Sindh and Southern Punjab. Hence, the projected production has been brought down to 5m bales. To counter the shortage, import of 5.8m bales is expected during FY23, which is 29% higher than preceding year.

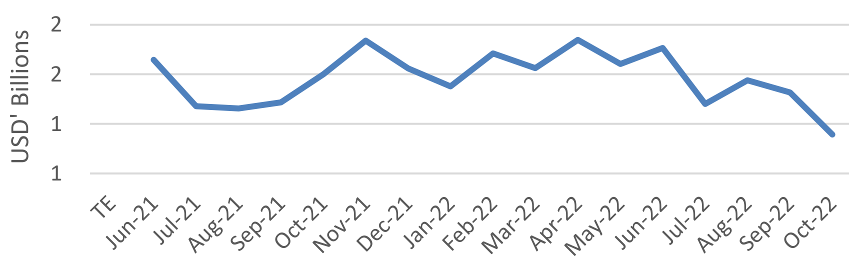
Table 3: Cotton Prices

	FY19	FY20	FY21	FY22
Per Maund (Rs.)	8,770	8,860	13,000	17,380
% Change	*26%*	*1%*	*32%*	*34%*

Future Outlook – Textile Industry

- After posting windfall margins in FY21 and H1'FY22, margins of textile operators, particularly spinners, weavers and dying units, have came under pressure during the period Jan-Sep'2022, mainly on account of higher input costs and recessionary trend in export markets.
- The recessionary trend in Pakistan's major export textile export markets, mainly North America and EU, has started to materialize in Pakistan's MoM export proceeds, with receipts for October 2022 (at USD 1.36b) being lower by 11% and 15% vis-à-vis preceding month and corresponding period last year respectively, as also illustrated in the table below.

Figure 1: MoM Textile Exports (TE) (In USD' Billions)



- Given expected industrial gas load shedding during the period Dec-Feb'22, and prevailing recession in major export markets and peak inventory levels, export proceeds are expected to fall by ~10% in FY23. Furthermore, profitability margins of textile operators, particularly spinners, weavers and dying companies, are expected to remain under pressure given higher input and financial costs.

Operating Performance

Table 4: Capacity utilization

	FY21	FY22
Spindles Installed	77,592	77,592
Production Capacity ('000 kgs)	26,491	28,304
Capacity Utilization	96.5%	96.7%

- Installed spindles remained unchanged for FY22, after an expansion in FY21, because of which production capacity increased by 6.8% in FY22.
- Capacity utilization remained on the higher side during FY22. NTML's actual production increased from 25.6mn KGs in FY21 to 27.4mn KGs in FY22 (Up 7% YoY).

Business Risk

- NTML operates in the cotton yarn spinning business, wherein the performance is sensitive to cyclicality in cotton prices, which are 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.

Table 5: Sales (Figures in PKR' Millions

	FY21	FY22	FY21	FY22
Local Sales	4,770	3,422	51%	25%
Exports – Indirect	3,499	8,372	37%	61%
Exports- Direct	1,040	1,786	11%	13%
Wastage Sales	111	196	1%	1%
	9,421	13,776		

After peaking in H1'FY22, sales offtake and margin has started to normalize

- NTML's revenue grew by ~46% in FY22 (2021: 40%). The growth in topline was in line with the strong growth in textile exports.

Table 6: Profitability

	FY21	FY22	1QFY23
Gross Margin	13.3%	16.8%	14.2%
Operating Margin	10.8%	13.3%	9.1%
Net Margin	6.8%	8.8%	2.9%

- The Company's gross margins after peaking in H1'FY22, have dampened in subsequent quarters.

Figure 2: Gross Margin (QoQ)

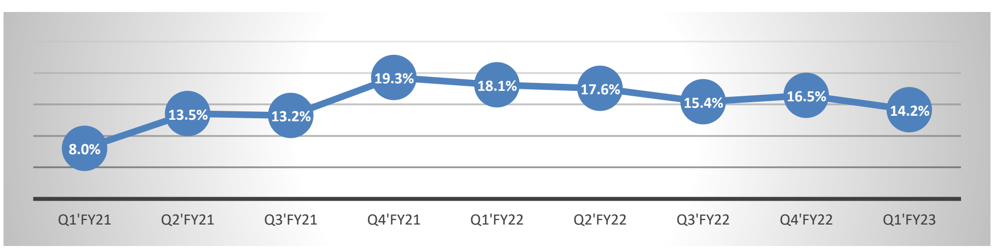


Table 7: Overheads & Other Income (Figures in PKR' Millions)

	FY21	FY22	1Q'FY22	1Q'FY23
Overheads	**261**	**497**	**86**	**162**
- Distribution Cost	73	228	23	53
-Administrative Expenses	120	143	34	45
-Others	67	125	29	64
Other Income	**26**	**17**	**6**	**5**
	234	**480**	**79**	**157**

- Pressure on Company's profitability is attributable to recessionary trend in export markets, which have also affected regional counterparts. Accordingly, margins are expected to normalize to lower levels while topline growth is also likely to be lower.
- Administrative overheads of NTML were up 19% YoY, which can be attributed to inflationary pressures. On the other hand, notable uptick was observed in distribution costs, which is mainly attributable to higher export sales and freight costs during the period.
- Given controlled uptick in overheads and better margins in FY22, net margin depicted improvement. However, given contraction in margin in Q1'FY23, along with higher financial costs, the net margin has notably contracted.

Overall financial risk profile of the entity remains aligned with assigned rating

Table 8: Capitalization (Figures in PKR' Millions)

	Jun'21	Jun'22	Sep'22
Equity (excl. revaluation surplus)	**1,674**	**2,849**	**2,944**
-Paid-up Capital	215	215	215
-Reserves	1,459	2,634	2,729
Gearing	**1.31x**	**0.99x**	**1.26x**
Leverage	**1.91x**	**1.57x**	**1.73x**

- Owing to increase in profitability in FY22, the payout ratio has increased from 30% in FY21 to 60% in FY22.
- NTML's gearing has depicted an increase in Q1'FY23, as a result of increase in short term borrowings. Nevertheless, gearing remains aligned with the threshold for the assigned rating.

Cash flow coverages have come under stress in Q1'FY23

Table 9: Liquidity (Figures in PKR' Millions)

	Jun'21	Jun'22	Sep'22
Cash Conversion Cycle (Days)	**80.4**	**67.7**	**88.9**
Inventory Days (Days)	63.2	46.5	56.8
Receivable Days (Days)	60.4	57.2	74.1
Payable Days (Days)	43.2	36.0	41.9
Debt	**2,197**	**2,825**	**3,712**
-Long Term	913	958	1,172
-Short Term	1,284	1,866	2,541
FFO	**823**	**1,518**	**224**
FFO to Debt	**37.5%**	**53.7%**	**24.1%***
-FFO to Long Term Debt	**90.2%**	**158.4%**	**76.4%***
DSCR	**2.55x**	**3.56x**	**2.24x***

** Annualized*

- The Company operates cash conversion cycle, which used to average ~90 days in FY20, has depicted improvement owing to lower inventory days.
- The aging profile of trade debts depicted an increase as of Jun'22, given that receivables within the 1-60 days bucket and 61-360 days bucket were up 10x and 9x respectively. This is viewed as a concern, and VIS will continue to monitor the developments in this regard.
- Overall cash flow coverage indicators posted improvement in FY22, as a result of heightened inventory gain driven profitability margins. Nevertheless, these have come under pressure in Q1'FY23 as illustrated in table 9.

Financial Summary (amounts in PKR millions)			Appendix I
BALANCE SHEET	**June'21**	**June'22**	**Sept'22**
Fixed Assets	2,956	3,459	3,681
Stock-in-Trade	1,041	1,875	1,466
Trade Debts	1,679	2,642	3,148
Cash & Bank Balances	142	174	100
Total Assets	6,182	8,611	9,315
Trade and Other Payables	817	1,443	1,096
Long Term Debt	913	958	1,172
Short Term Debt	1,284	1,866	2,541
Total Debt	2,197	2,825	3,712
Total Liabilities	3,203	4,484	5,097
Paid-up Capital	215	215	215
Total Equity	1,674	2,849	2,944

INCOME STATEMENT	**FY21**	**FY22**	**1Q'FY22**	**1Q'FY23**
Net Sales	9,421	13,776	3,061	3,077
Gross Profit	1,254	2,319	530	436
Operating Profit	1,019	1,838	451	279
Profit Before Tax	758	1,385	382	134
Profit After Tax	639	1,214	409	90

RATIO ANALYSIS	**FY21**	**FY22**	**1Q'FY23**
Gross Margin (%)	13.3%	16.8%	14.2%
Net Profit Margin	6.8%	8.8%	2.9%
Current Ratio (x)	1.36	1.45	1.43
FFO to Total Debt (%)	37.5%	53.7%	24.1%*
FFO to Long Term Debt (%)	90.2%	158.4%	76.4%*
Debt Servicing Coverage Ratio (x)	2.55	3.56	2.24*
ROAA (%)	11.0%	16.4%	4.2%*
ROAE (%)	47.4%	53.7%	14.3%*
Gearing (x)	1.31	0.99	1.26
Leverage (x)	1.91	1.57	1.73
***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				
21/12/22	A-	A-2	Stable	Reaffirmed
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.
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Due Diligence Meetings	

Name	Designation	Date
Mr. Abdul Amin	Company Secretary	November 1, 2022