

## RATING REPORT

## Nadeem Textile Mills Limited

**REPORT DATE:**

January 30, 2024

**RATING ANALYST:**

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## RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	A-	A-2	A-	A-2
<b>Rating Outlook</b>	Stable		Stable	
<b>Rating Action</b>	Reaffirmed		Reaffirmed	
<b>Rating Date</b>	January 30, 2024		December 21, 2022	

## 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. Hasan Bin Zabid (21.95%)

Mr. Omer Bin Zabid (21.94%)

Mr. Zabid Mazhar (19.49%)

Mrs. Naila Zabid (11.84%)

Mr. Sara Zabid (10.84%)

## 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>

**Nadeem Textile Mills Limited**

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
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**Nadeem Textile Mills Limited** was incorporated in Pakistan on July 15, 1984, as a public limited company and its shares are listed on Pakistan Stock Exchange (PSX). Principal activity of the Company is manufacture and sale of yarn.

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

**Mr. Zahid Mazhar** has been associated with textile business and the group since 1979. He holds bachelor's 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).

**Company Profile**

Nadeem Textile Mills Limited ('NATM' or 'the Company') was incorporated in Pakistan on July 15, 1984, as a public limited company and its shares are listed on Pakistan Stock Exchange (PSX). Principal activity of the Company is manufacture and sale of yarn. NATM has a registered office in the Lakson Square Building No.3 on Sarward Shaheed Road, Karachi. It has two units of manufacturing facilities, one in S.I.T.E, Nooriabad, Karachi and the other in S.I.T.E, Kotri, district Jamshoro.

**Nadeem Power Generation (Private) Limited Merger**

With effect from July 01, 2022, Nadeem Power Generation (Private) Limited ('NPGL'), a related party, has been merged into the Company (including all its assets, liabilities and other rights and obligations which are now vested into the Company). The merged entity continues to be controlled by the same parties as those ultimately controlling NGPL and NATM before the merger, the amalgamation has been identified as a 'Common Control Transaction' in light of the guidance provided in the financial reporting standard 'Accounting for Common Control Transactions' as developed by the Institute of Chartered Accountants of Pakistan and notified by the Securities and Exchange Commission of Pakistan (SECP) vide its S.R.O. 53(I)/2022 dated January 12, 2022. In accordance with the said standard, the Company has applied the 'Predecessor Method' of accounting and measured all the assets acquired and the liabilities assumed at their carrying amounts as reflected in the statement of financial position of NPGL as of June 30, 2022 (as included in its audited financial statements for the year then ended).

**Key Rating Drivers**

**Business risk profile constrained by cyclical, and high competition in the sector.**

The business risk profile of the spinning sector in Pakistan is characterized by high level of exposure to economic cyclical and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors.

In FY23, the spinning sector faced challenges due to various economic and environmental circumstances. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and diminishing foreign exchange reserves.

The spinning sector in Pakistan comprises ~407 spinning mills, which include both composite units and spinning units. This industry exhibits a competitive market structure with a large number of players producing a relatively homogenous product.

During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, as a result of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Global economic slowdown and contractionary economic policies led to a decrease in

demand for textile products and, consequently, cotton yarn.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs, and increased inflationary pressures. These factors are likely to result in continued sluggish performance for the spinning sector in FY24.

**Topline and margin compression on account of volatility in economic environment.**

In FY23, topline of the Company came under pressure, demonstrating a decline of ~23% to PKR 10.7 bln (FY22: PKR 13.8 bln). This decline is primarily attributed to the recessionary trend observed in the export and local markets which resulted in dampened volumetric performance of the entire textile sector. The decline in sales volumes along with increased raw material costs and high inflationary pressure resulted in a reduction in gross and operating margins in FY23. Moreover, the Company's merger with NPGL also contributed to the contraction in its margins. Gross and operating margins were reported at 4.8% (FY22: 16.8%) and 1.4% (FY22: 14.1%), respectively. However, the Company managed to recover its margins in 1QFY24 with reported gross and operating margins of 9.1% and 6.2%.

**Capitalization profile reported deterioration on account of equity erosion with higher short-term debt utilization and financing for BMR and other CAPEX.**

In FY23, the net loss led to equity erosion, reducing it to PKR 2.6 bln (FY22: PKR 2.8 bln). The net loss impact of PKR 589 mln on equity was mitigated by converting a loan from the associated company (Nadeem International (Pvt) Limited) into a "Capital Contribution" in equity, totaling PKR 340 mln, effective December 2022. NATM and Nadeem International (Pvt) Limited mutually agreed that the interest-free loan could be repaid at the Company's discretion. At the same time the Company experienced a marginal uptick in the utilization of short-term and long-term facilities due to heightened working capital needs and funding requirements for ongoing BMR and other projects. Consequently, the gearing deteriorated to 1.2x (FY22: 0.8x), however, the leverage ratio remained mostly unchanged at 1.7x (FY22: 1.6x) on account of overall current liabilities remaining stable at PKR 3.7 bln (FY22: PKR 3.6 bln).

**Liquidity profile remains adequate. The Debt Service Coverage profile saw significant stress in FY23, however, managed to recover in 1QFY24.**

The Company has continued to maintain an adequate liquidity profile throughout the years. The current ratio saw slight deterioration in FY23 to 1.2x (FY22: 1.4x) but remained stable in 1QFY24. The debt service coverage (DSCR) reported severe stress, dropping to 0.7x (FY22: 3.2x) in FY23 as funds from operations came under pressure from lower quantum of operating profits amid higher finance costs. However, the Company managed to recover its DSCR in 1QFY24 to 1.4x on account of improvement in quarterly operational performance.

**Key Considerations for Future Ratings**

Going forward, ratings will remain sensitive to the improvement in the profitability profile as well as maintenance of the capitalization, liquidity and coverage metrics commensurate with assigned ratings.

**Nadeem Textile Mills Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>				
<i>(PKR Millions)</i>				
<b>Balance Sheet</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>3MFY24</b>
Property, plant and equipment	2,942.1	3,437.6	3,646.5	3,590.5
Stock in trade	1,041.1	1,875.0	2,131.1	1,393.1
Trade debts	1,678.8	2,641.9	1,661.9	2,557.2
Cash and bank balances	141.9	174.0	150.1	45.3
<b>Total Assets</b>	<b>6,182.2</b>	<b>8,611.3</b>	<b>8,278.1</b>	<b>8,427.6</b>
Trade and Other Payables	817.0	1,443.4	1,261.5	1,285.1
Long-term Debt (incl. current portion and lease liability)	474.3	544.1	1,060.0	1,031.7
Short-Term Borrowings	1,284.0	1,866.4	2,085.6	2,258.2
<b>Total Debt</b>	<b>1,758.3</b>	<b>2,410.5</b>	<b>3,145.5</b>	<b>3,289.9</b>
<b>Total Liabilities</b>	<b>3,202.5</b>	<b>4,483.9</b>	<b>4,410.0</b>	<b>4,554.2</b>
Paid-up Capital	215.1	215.1	212.7	212.7
Equity (incl. Revaluation Surplus)	2,979.7	4,127.4	3,868.1	3,873.5
Equity (excl. Revaluation Surplus)	1,674.1	2,849.1	2,608.0	2,617.3
<b>Income Statement</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>3MFY24</b>
Net Sales	9,420.6	13,775.9	10,666.7	3,485.7
Gross Profit	1,253.7	2,318.6	510.0	317.7
Operating Profit	1,060.1	1,946.9	153.5	216.4
Finance Costs	261.3	446.2	663.5	177.0
Profit Before Tax	758.2	1,384.9	-584.1	47.1
Profit After Tax	638.9	1,214.0	-589.0	5.3
<b>Ratio Analysis</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>3MFY24</b>
Gross Margin (%)	13.3%	16.8%	4.8%	9.1%
Net Margin (%)	6.8%	8.8%	-5.5%	0.2%
Funds from Operation (FFO)	823.2	1,517.8	-153.2	119.2
FFO to Total Debt* (%)	46.8%	63.0%	-4.9%	14.5%
FFO to Long Term Debt* (%)	173.6%	279.0%	-14.5%	46.2%
Gearing (x)	1.1	0.8	1.2	1.3
Leverage (x)	1.9	1.6	1.7	1.7
Debt Servicing Coverage Ratio* (x)	2.3	3.2	0.7	1.4
Current Ratio	1.4	1.4	1.2	1.2
(Stock in trade + trade debts) / STD (x)	2.1	2.4	1.8	1.7
Return on Average Assets* (%)	11.0%	16.4%	-7.0%	0.3%
Return on Average Equity* (%)	47.4%	53.7%	-21.6%	0.8%

\*Annualized, if required

REGULATORY DISCLOSURES				Appendix II		
<b>Name of Rated Entity</b>	Nadeem Textile Mills Limited					
<b>Sector</b>	Textiles					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Entity Rating					
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>	
	<b><u>RATING TYPE: ENTITY</u></b>					
	30/01/24	A-	A-2	Stable	Reaffirmed	
	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	
<b>Instrument Structure</b>	N/A					
<b>Statement by the Rating Team</b>	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.					
<b>Probability of Default</b>	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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<b>Due Diligence Meetings</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>		
	Mr. Omer bin Zahid	Director		January 22, 2024		
	Mr. Abdul Amin	Company Secretary				