RATING REPORT

Mustaqim Dyeing & Printing Industries (Pvt.) Ltd.

REPORT DATE:
December 13th, 2018

RATING ANALYST:
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RATING DETAILS		
	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	December 13th, 2018	

COMPANY INFORMATION	
Incorporated in 1991	**External auditors:** M/S Kreston Hyder Bhimji & Co. Chartered Accountants
Private Limited Company	**Chairman:** Mr. Saqib Bilwani
	Chief Executive Officer: Mr. Saqib Bilwani

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

Mustaqim Dyeing & Printing Industries (Pvt.) Ltd.

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
Mustaqim Dyeing & Printing Industries (Pvt. Ltd.) was incorporated in 1991 as a private limited company. The company is primarily involved in production, processing and export of yarn, fabric, home textiles, towels and socks	Mustaqim Dyeing & Printing Industries (Pvt.) Ltd. (MDPIPL) is a part of G&T Group. The company is engaged in manufacturing, processing and export of yarn, fabric, home textiles, towels and socks. At the time of its incorporation in 1991, the company operated only a dyeing and printing unit. Gradually, the company has diversified its operations by engaging in production and export of home textiles, towels and socks. In 2016, M/s Lucky Cotton Mills (Pvt.) Ltd merged with MDPIPL, which was engaged in manufacturing and sales of yarn and in 2017, new Socks unit was setup. Presently, MDPIPL has two production units; spinning unit is based in Nooriabad, while dyeing, printing, and stitching and socks unit is based in SITE, Karachi. The company outsources the weaving process.

Rating Drivers

Sound Sponsor Profile

The assigned ratings incorporate sound sponsor profile as MDPIPL is a part of G&T Group which has been in existence for over six decades with presence in various sectors including textile, plastic resin and power generation. JCR-VIS expects technical and financial support from the group in case a need arises.

Topline of the company primarily comprises sales of home textiles to export markets; client-wise concentration is witnessed in sales, however, it is partly mitigated due to long term relationships with clients

MDPIPL is primarily an export-oriented company. Exports of home textiles, constituted more than three fourth of the company's sales in the last three years. Although export sales remain forte of the company, net sales have increased during the last three years primarily on the back of increase in sale of yarn in local markets. Client-wise sales depict sizeable concentration as one client accounted for half of company's sales in FY18. However, concentration risk is partly mitigated by long term association with clients. Going forward, further diversification is expected in sales as the management has already started to increase its quantum of sales to United States of America.

Despite decline in margins, profit before tax witnessed growth on account of higher revenues in FY18. Going forward, maintaining margins is considered important for sustaining financial profile from a rating perspective

After achieving a peak in FY16, gross margins of the company have depicted a decreasing trend to date. The aforementioned decrease was due to higher growth in costs vis-à-vis revenues. Gross profit of the company has varied in line with top-line of the company. With increase in production capacity and expansion in US market, management is projecting sizeable growth in revenues; however, maintaining margins is essential to generate adequate cash flows to service debt obligations.

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

With improving profit before tax and sizeable depreciation expense, liquidity profile of the company is considered sound given healthy cash flows in relation to outstanding obligations, lower long term debts and manageable trade debts aging profile. Furthermore, trade debts and stock in trade provide adequate cushion over short-term borrowings. Accounting for projected capital expenditure, cash flows are expected to remain sufficient to service debt obligations over the rating horizon given margins consolidation.

Adequate capital base but leverage indicators remain on the higher side

The equity base of the company has grown moderately over the last 4 years. However, gearing and leverage ratios have depicted and increasing trend on timeline basis due to increase in quantum of borrowings. Assigned ratings are dependent on maintenance of the leverage indicators within manageable levels.

Sound internal control framework but board composition depicts room for improvement

Overall control framework is adequate with implementation of an integrated SAP platform currently in progress. Backup and network security arrangements are also considered satisfactory. Management also defined Standard Operating Procedures (SOPs) for almost every operational task; employees are required to adhere to these procedures. As the company is a private limited entity, the Board of Directors (BoD) comprises four executive members which can further be improved in the future by including Independent Directors.

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	Mustaqim Dyeing & Printing Industries (Pvt.) Ltd.
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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.
Probability of Default	JCR-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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
13/12/2018	A-	A-2	Stable	Initial