RATING REPORT

Mustaqim Dyeing & Printing Industries (Pvt.)

REPORT DATE:
February 25, 2021

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 Date	February 25, 2022		January 18, 2021	

COMPANY INFORMATION	
Incorporated in 1991	**External auditors:** Kreston Hyder Bhimji & Co.
Private Limited Company	**CEO:** Mr. Saqib Bilwani
	Chairman: Mr. Saqib Bilwani

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Industrial Corporates (August 2021)   **https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf**

Mustaqim Dyeing & Printing Industries (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Mustaqim Dyeing & Printing Industries (Pvt. Ltd.) was incorporated in 1991 as a private limited company. The company is primarily involved in the manufacturing and sale of yarn, home textiles, and socks. Financial Statements of the company for FY21 were audited by Kreston Hyder Bhimji & Co.

Profile of the CEO:

Mr Saqib Bilwani joined the Board of Mustaqim Dyeing & Printing Industries (Pvt.) Ltd. in the year 1995. He has completed his MBA from Institute of Business Administration, Karachi. He has also served in the Managing Committee of Pakistan Hosiery Manufacturers Association (PHMA).

RATING RATIONALE

Mustaqim Dyeing & Printing Industries (Pvt.) Ltd. (MDPIPL) is engaged in the manufacturing and sale of yarn, home textiles, and socks in the local as well as foreign markets. The company is part of Gani & Tayub (G&T) group that has over six decades of presence in various industries including textile, plastic resin and power generation.

The company initially started its operation as a dyeing and printing unit to facilitate commercial exporters. Over the years, MDPIPL has expanded its operations to production and export of home textiles, towels and socks. In 2016, the management decided to enter into the spinning segment by acquiring M/s Lucky Cotton Mills (Pvt.) Ltd. MDPIPL operates via two production units; spinning unit is based in Nooriabad, whereas home textiles and socks unit is based in SITE, Karachi. Both units have their own ancillary power generation systems. The company has outsourced its weaving requirements.

Recently, the management of the company has decided to move towards sustainable means of energy. For that purpose, solar power panels have been installed at spinning and home textile units, with capacities of 1.3 MW and 288 KVA, respectively. The twofold objective is to reduce operational costs by opting for a more efficient source of power, and to become socially more responsible by lowering the carbon footprint associated with the entity.

Capacity Utilization

Capacity utilization in FY21 for home textile products was affected due to disrupted operations in foreign markets. At present, the company is going through a BMR project which is expected to increase capacity across all operational segments of the company. For socks, the capacity is expected to double, whereas for the spinning unit a 30-40% enhancement is expected, as the company continues to replace spindles with rotors. Printing capacity for the home textile product is also expected to rise somewhat. Once complete, the project is expected to cost Rs. 4b, around 90% of which will be financed by debt. Around Rs. 1.75b has been recorded in the books at end-Dec'21.

	2020		2021	
Capacity Installed				
Bedding (Metres)	46,800,000		46,800,000	
Yarn (Kgs)	12,300,000		12,300,000	
Socks (Dozens)	1,350,000		1,750,000	
Capacity Utilized				
Bedding (Metres)	35,178,795	75%	34,574,290	74%
Yarn (Kgs)	7,919,710	64%	10,265,000	83%
Socks (Dozens)	961,192	71%	1,697,604	97%

Business risk profile is supported by industry wide growth in exports over the last year

Surge in textile exports has continued in FY22 as COVID-19 related restriction are lifted across the globe. In the period July-October 2021, businesses in Pakistan earned $6.02b from the export of textile and apparel products, an increase of 26.6% year-on-year. With an investment plan of $3.5b in place for the sector, exports are projected to reach a figure of $21b for FY22, which will be a 40% increase over the last year. 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. VIS expects the order book for the industry to remain adequate in the ongoing year along with transfer orders of neighboring countries, easing our business risk concerns

However, the issues of freight cost and raw material prices continue to pose challenge for the sector. Due to relatively high demand in comparison to the supply, cotton prices in Pakistan have depicted a rise of more than 50% over the last six months. To mitigate the associated risk to some extent, the company is planning to import cotton from Turkey as an alternative.

A change in business model across countries yielded shelter to the company from the effect of COVID-19 on retail stores

In lieu of the changing and challenging environment across the world due to COVID restrictions, MDPIPL has taken multi-dimensional measures in order to extend its reach to the consumers in different conventional and non-conventional markets. Some of the measures include:

i. **Establishing overseas offices.**
Mustaqim has established it's company in USA (ML Home Inc.) and have engaged professionals there in order to offer goods to US customers as LDP (Landed duty paid) and out of warehouse.

ii. **Establishing E-Commerce Network.**
Mustaqim has been registered with Top 3 E-Commerce Portals in USA, (Amazon, Wayfair & Walmart) from where the company offers its products directly to the consumers. Additionally, Mustaqim US has also started selling goods to retailers as well.

iii. **Extending products range to Retailers E-Commerce Portals.**
In addition to supplying goods to its regular retail customers, MDPIPL partnered with some selective retailers, on the basis of "one partner from one market" to supply goods for the retailers' E.Com portal, which has brought additional business to Mustaqim.

iv. **Extending customers base.**

Mustaqim has been extending its customers bases continuously and has brought well-known brands and Retailer Stores on board in this regard. Supplies to stores in Europe commenced in the outgoing year.

v. **Strengthening the business with HealthCare Companies.**
Mustaqim has strengthened its relations with two of the Major HealthCare Companies of USA & Australia, for provision of items such as sheeting, gowns, pajamas, scrub suits etc. This segment is a growing market for the company.

Modest growth in revenue in FY21, on account of an increase in both sales volume and average prices

Revenue for FY21 went up by 10%, being a function of both volumes and prices. Growth in local market segment was of a much higher proportion, primarily because of a substantial rise in yarn sales in the local market. Proportion of domestic sales in the total sales mix increased to 14% in FY21 with the remaining (86%)contributed by exports. The company also added face-masks and bed sheets sales to its local sales portfolio during the outgoing year. In the foreign markets, subdued growth was on account of COVID-19 related restrictions on retail businesses. Home textile products remain the largest contributor with a share of about 90% in export sales. Product wise mix depicts around 90% of exports sales contributed by home-textiles. Top 5 client concentration in exports and local sales is considered on the higher side at 64.5% and 41%, respectively in 1HFY22, however the risk is mitigated by long-term relationships with clients and geographic diversification in US and Europe. With restriction easing up worldwide and the corporation's successful utilization of the e-commerce avenue, topline showed a noticeable improvement in 1HFY22. Management targets current sales growth momentum to continue, going forward.

Gross margins remained range bound with deterioration noted in net margins on account of exchange loss and higher finance costs incurred in FY21. Some recovery in profitability was observed in 1HFY22 with improving global dynamics. Improving profitability indicators for the assigned ratings is important from a ratings perspective.

Gross margin for FY21 remained at a similar level to last year and was reported at 10.4% (FY20: 10.1%, FY19: 10.9%). With the supply of higher margin home textile products being relatively high and a persistent increase in raw material prices, it is expected to remain range bound. Net profit margin went down and was reported at 1.4% for FY21 (FY20: 2.6%, FY19: 5.6%) owing to incurrence of exchange loss to the tune of Rs. 120m as opposed to an exchange gain in the last year and higher finance costs due to elevated debt levels. In 1HFY22 a slight improvement in profit margin was observed due to a reduction in exchange loss. Given projected increase in debt levels to finance expansion, finance cost is expected to be a drag on the overall profitability profile of the company. Improving profitability indicators for the assigned ratings is important from a ratings perspective.

Liquidity profile of the entity depicts room for improvement

Cash flow coverages at end-FY21 declined, with FFO to Total Debt and FFO to Long-term Debt being reported at 4% (FY20: 13%, FY19: 22%) and 16% (FY20: 50%, FY19: 119%), respectively. An increase in the quantum of debt along with a fall in profit resulted in this change. Debt servicing coverage ratio (DSCR) was also reported lower at 1.69x (FY20: 4.13, FY19: 7.59). Current ratio has also remained stable (FY21: 1.4x, FY 20: 1.3x), with trade receivables and inventory also providing adequate coverage for short-term debt (FY21: 172%, FY20: 147%). Going forward, improvement in cash flow indicators will be important to maintain assigned ratings.

Capitalization indicators increased in the outgoing year

During FY21, sponsors of the company injected additional funds into the company in the form of a Rs. 400m interest free loan, which helped to sustain the growth in equity base despite a decline in profit. However, the quantum of debt went up by about Rs. 1.1b in the same period, as the entity continued to raise funds to finance its ongoing BMR project. Consequently, leverage and gearing ratios exhibited a rise at end-FY21, reporting at 1.74x (FY20: 1.6x, 1.25x) and 1.21x (FY20: 1.1x, FY19: 0.9x), respectively. Given additional debt drawdown to finance BMR expansion going forward, capitalization indicators are projected to increase. However, as per management the growth in the same will be off-set by higher profit retention. Therefore, a consistent improvement in profit will be important to maintain the leverage indicators at similar levels.

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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 (Private) 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
February 25, 2022	A-	A-2	Stable	Reaffirmed
January 18, 2021	A-	A-2	Stable	Maintained
April 27, 2020	A-	A-2	Rating Watch Developing	Maintained
December 13, 2018	A-	A-2	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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.

Due Diligence Meetings Conducted

Name	Designation	Date
Yousuf Raza	Export & Marketing Head	03-Feb-22
Abdul Qadir Moosa	CFO	03-Feb-22
Imran Iqbal	Manager Finance	03-Feb-22