RATING REPORT

Mustaqim Dyeing & Printing Industries (Private) Limited

REPORT DATE:
March 01, 2023

RATING ANALYSTS:
Muhammad Tabish
muhammad.tabish@vis.com.pk

Syed Ilyas Afridi
ilyas.afridi@vis.com.pk

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		Reaffirmed	
Rating Date	*March 01, 2023*		*February 25, 2022*	

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

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: 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, knitted fabric and socks.

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

Corporate Profile

Mustaqim Dyeing & Printing Industries (Private) Limited (MDPIPL), part of Gani & Tayub (G&T) group, is involved in the production and distribution of yarn, home textiles, knitted fabric and socks in local and international markets for over three decades. It is a vertically integrated mill & has its own knitting, processing, designing & stitching facilities. Around three-fourth shareholding of the company is distributed among eight members. G&T group has a long-standing presence in various industries, such as textiles, plastic resin, and power generation spanning over six decades. In 2021, the company was awarded the 'Affordable Sustainability' recognition by IKEA for utilizing recycled polyester in their textile products. The company holds multiple ISO certifications and has a workforce of nearly 3,000 employees.

Presently, average energy demand of 5MW is primarily met through 06 MW gas-powered generators, with supplementary energy provided by a 1.5 MW solar power plant and wood boilers. In addition, backup connection of 2MW with KE is also available to ensure uninterrupted energy supply.

Long-term Investment

The company has a wholly owned subsidiary, PWR Power (Private) Limited, which was established as an investment in wind energy. However, the subsidiary is currently non-operational and no investments have been made in it.

Business segments and recent capacity & efficiency enhancement initiatives.

The company's operations and organizational structure can be classified into four distinct divisions:

- **Home Textile** – Maintained its capacity and improved quality and efficiency through machinery replacement and upgrades.
- **Spinning Segment** – Recently made a shift towards more efficient auto core spindles, replacing the machinery that previously relied on ring spindles. As of now, over 13K spindles are currently operational within this segment.
- **Socks Division** – A new facility in Nooriabad has added 300 knitting machines in Jan'23, bringing the total number of machines in the division to 552. The building has capacity for an additional 300 machines, but further investment will depend on market demand. The project cost, including building construction and plant & machinery is financed through an equal mix of debt and equity.
- **Dyeing of Knitted Fabric** – This division is a recent addition to the company's business mix, and currently its products are being sold to local exporters. However, management aim to expand presence and start exporting directly within next 6-12 months. The company started knitting processing from July'22 onwards.

The company also attends exhibitions in Europe and US to expand its customer base and explore new markets in these regions.

Operational Performance
MDPIPL operates via two production units – a spinning unit is based in Nooriabad, whereas home textiles and socks units are located in SITE, Karachi. Both units have their own power generation systems. The company has outsourced its weaving requirements and also operates two rented stitching units in SITE.

Figure: Capacity & Production Data

	FY19	FY20	FY21	FY22	6M'FY23
Bedding					
Capacity installed (million meters)	46.8	46.8	46.8	46.8	23.4
Actual Production (million meters)	35.0	35.2	34.6	35.2	16.6
Capacity Utilization	***74.8%***	***75.2%***	***73.9%***	***75.1%***	***70.9%***
Yarn					
Capacity installed (million kg)	12.3	12.3	12.3	12.3	6.1
Actual Production (millionkg)	10.4	7.9	10.3	11.8	4.8
Capacity Utilization	***84.0%***	***64.4%***	***83.5%***	***95.7%***	***78.7%***
Socks					
Capacity installed (million dozen)	1.4	1.4	1.8	1.8	2.1
Actual Production (million dozen)	1.0	1.0	1.7	1.6	0.6
Capacity Utilization	***73.3%***	***71.2%***	***97.0%***	***93.8%***	***28.6%****
Knitting					
Capacity installed (million Kg)	-	-	-	-	0.9
Actual Production (million Kg)	-	-	-	-	0.6
Capacity Utilization	-	-	-	-	***66.7%***

**production started from Jan'22 onwards thus not reflected in utilization level*

The company outsources yarn to cover the shortfall as its consumption exceeds production. The decision to use in-house yarn for internal purposes or sell it in the local market is based on cost-benefit analysis by the management. Currently, majority of theyarn is utilized for in-house production owing to lower credit risk. However, at times, outsourcing yarn is cheaper due to bulk buying.

Key Rating Drivers

Business risk profile is supported by industry wide growth in exports over the last year; however, with recent floods adversely affecting cotton crop and ongoing energy crisis in the country pose a challenge to margins sustainability and future growth.
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. Textile sector contributes nearly one-fourth to industrial value-added segment and 8.5% to the country's GDP, with an estimated market size of around Rs. 4.0tr. Barring seasonal and cyclical fluctuations, textiles sector has maintained an average share of about 60% in national exports.

Figure: Pakistan Export Statistics (in USD millions)

	FY20	FY21	FY22		5M'FY22	5M'FY23
Pakistan Total Exports	22,536	25,639	32,450		15,056	14,965
Textile Exports	12,851	14,492	18,525		7,239	7,706
PKR/USD Average rate	158.0	160.0	177.5		167.3	222.7

Source: SBP

Export revenues from textile sector have noted sizeable growth over the years (FY22: $19.3b FY21: $15.4b; FY20: $12.5b; FY19: $13.6b). Knitwear, Readymade and Bed wear segments continue to contribute higher than other segments, with a cumulative contribution of more than 60% in textile exports. While the growth was primarily driven by volume (excluding knitwear and cotton yarn), higher prices also boosted exports.

Figure: Textile Export Details (in USD millions)

	FY20	FY21	FY22		H1'FY22	H1'FY23
High Value-Added Segment	**9,669**	**12,427**	**15,605**		**8,027**	**7,614**
- Knitwear	2,794	3,815	5,121		2,500	2,466
- Readymade Garments	2,552	3,033	3,905		1,832	1,833
- Bed wear	2,151	2,772	3,293		1,660	1,428
- Towels	711	938	1,111		524	492
- Made-up Articles	591	756	849		422	379
- Art, Silk & Synthetic Textile	315	370	460		225	209
- Others	555	743	866		864	807
Low to medium Value-Added Segment	**2,858**	**2,972**	**3,717**		**1,777**	**1,483**
- Cotton Cloth	1,830	1,921	2,438		1,135	1,066
- Cotton Yarn	984	1,017	1,207		610	382
- Others	43	34	72		32	35
Total	**12,527**	**15,399**	**19,332**		**9,803**	**9,097**

Source: PBS

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.

Figure: Cotton Prices Trend (In Rs.)

	FY19	FY20	FY21	FY22
Per Maund	8,770	8,860	13,000	17,380
YoY % Change	26%	1%	32%	34%

Floods in Sindh and Southern Punjab during recent monsoon season have caused significant damage to the cotton crop. According to industry estimates, ~45% of the crop has been washed, worth more than $2.5b, resulting in significant price increases. The government has announced facilitation for raw materials imports to compensate for domestic shortages. Nonetheless, in addition to affecting profit margins, higher raw material pricing is expected to increase the working capital requirements, which is likely to have a negative impact on the liquidity profile of textile operators, particularly spinners, weavers and dying companies.

Global and domestic challenges, such as slowdown in export demand (primarily from North America and the EU, which has begun to materialize in Pakistan's monthly export proceeds) due to recessionary trend, industrial gas load shedding expected in the country, and rising production costs due to inflation, will weigh on the business risk profile going forward. These factors may result in competitive market pricing for exporters.

5-Year (2020-25) textile policy continues to support the industry.

With an aim to double textile exports in five years, GoP through a five-year textile policy (2020-25) has provided incentives in form of preferential energy rates, low interest rates financing schemes (such as EFS, LTFF and TERF) and timely payments of DLTL, Income tax & Sales tax refund which support liquidity constraints of local players. Initiatives have also been undertaken to increase production and yield of cotton to support the industry. However, imposition of 10% super tax would have a negative effect on profitability profile of textile players. In addition, contractionary monetary policy and political uncertainties in the country are the present major business risk factors. In the long run, improvement in value addition, investment in technology and optimization of energy cost would define the future of textile exports.

Robust revenue growth was fueled by higher prices and rupee devaluation impact. IKEA being the major client provides competitive edge.
In FY22, net sales marked itshighest revenue growth in the past eight fiscal years. The significant YoY increase of ~37% was driven by increased prices and the impact of rupee depreciation. This upward revenue trend continued in 6M'FY23. In terms of product segments, home textiles make up the majority of export sales, while yarn dominates the local sales market. Both segments experienced growth of ~47% and ~6%, respectively, in value terms during the outgoing fiscal year.

Proportionate share of exports to local sales has noted an increasing trend over the last two years, which currently stands at 90:10. Roughly, ~85% of exports are directed towards Europe while the remaining portion is shared by US. However, US export market, specifically in home textile and garment sector, has been struggling due to overstocking caused by aggressive procurement till July'22. Similarly, the European market has been experiencing an economic downturn, making it challenging to achieve overall export sales in the current environment. Nonetheless, the management expects that sales will begin to improve by mid-March.

Client concentration risk remains high, as top ten clients account for ~72% of export sales, with IKEA, a Sweden-based retailer, being the largest procurer and a client for over 17 years. Additionally, IKEA offers support and technical collaboration and conducts social compliance audits for clients. It is worth noting that IKEA has not added any new supplier from Pakistan in the last 10 years and retains its suppliers based on their reasonable performance.

Profitability margins noted a significant improvement in the ongoing year.
Although gross margins have sustained at above 10% over the years, there was a slight decline in FY22 as raw material costs surged significantly. However, bottom-line improved by 2.2x in absolute terms given sizeable growth in sales revenue. On the cost front, administrative and selling overheads increased considerably owing to higher freight expenses over the review period while financing charges remained on the lower side as entire debt is mobilized on concessionary rates. Profitability margins (both on gross and net basis) significantly improvement during 1Q'FY23, which is mainly attributed to rupee devaluation during the period and preceding stock carry-over.

Cash flows noted healthy growth while working capital remains elevated.
Improved profitability has led to significant improvement in funds flow from operations (FFO) in FY22. As a result, FFO to total debt improved to 0.12x (FY21: 0.09x). However, FFO to long-term debt ratio declined slightly to 0.32x (FY21: 0.35x) given the increase in long-term debt, which pertained to installation of plant & machinery for socks division during the year. Debt servicing coverage ratio has also strengthened and stands at 3.62x (FY21: 2.80x).

Liquidity profile is satisfactory with current ratio consistently reported above 1.3x and sufficient coverage of short-term borrowing in relation to trade debts and inventory. However, working capital cycle remains elevated due to sizeable inventory holdings days. Over half of local client receivables and around one-third of international client receivables fall into 60+ days, indicating room for improvement in trade debts.

Retained profits supported capitalization; leverage ratios have trended upwards.
Net equity has nearly doubled over the period of last four fiscal years, driven by adequate profitability, all-out retention, and interest-free loans from sponsors, enabling the company to build strong capital buffers. Debt profile is a mix of short-term and long-term debt; ~64% constituted short-term debt. In tandem with increase in debt level, leverage and gearing ratio has trended upwards.

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ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix I

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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 II
Name of Rated Entity	Mustaqim Dyeing & Printing Industries (Pvt) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
Rating Type: Entity				
01-03-2023	A-	A-2	Stable	Reaffirmed
25-02-2022	A-	A-2	Stable	Reaffirmed
18-01-2021	A-	A-2	Stable	Maintained
24-04-2020	A-	A-2	Rating Watch Developing	Maintained
13-12-2018	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.

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Faheem Bilwani	Director	February 14, 2023
Mr. Abdul Qadir Moosa	CFO	
Mr. Imran Iqbal	Senior Manager Finance	
Mr. Atif Nazir	Manager Finance	