RATING REPORT

Mustaqim Dyeing & Printing Industries (Private) Limited

REPORT DATE:
May 15, 2024

RATING ANALYSTS:
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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		Reaffirmed	
Rating Date	*May 15, 2024*		*March 01, 2023*	

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

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates:
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

VIS Issue/ Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Mustaqim Dyeing & Printing Industries (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Mustaqim Dyeing & Printing Industries (Pvt. Ltd.) operates as a private limited company and is involved the manufacturing and sale of yarn, home textiles, knitted fabric and socks.

RATING RATIONALE

Corporate Profile

Mustaqim Dyeing & Printing Industries Private Limited ("MDPIPL" or "the Company") was established in Pakistan on May 15, 1991 as a Private Limited Company and is a member of the Gani & Tayub (G&T) group. MDPIPL's primary focus is on the production of yarn, home textiles, socks, and knitted fabric for both domestic and international markets. The Company operates as a fully integrated mill with capabilities in knitting, processing, designing, and stitching. The registered office of the Company is located at D-14/A S.I.T.E, Karachi.

Currently, the Company has an energy requirement of 8 MW primarily met by 11 MW gas generators, supplemented by a 1.8 MW solar power facility. Additionally, a backup connection with KE is in place to ensure uninterrupted energy supply.

Operational Update

The operations of the Company can be categorized into four divisions: the Spinning Segment, Home Textiles, Socks Division, and the Dyeing of Knitted Fabric Division. The Spinning Unit of MDPIPL is situated in Nooriabad, while the Home Textiles and Socks Division are located in the SITE area of Karachi and in Nooriabad. The Company outsources its weaving requirements.

- **Home Textile** – The facility has maintained its capacity but there has been a slight decline in utilization levels to 63% as a result of decrease in demand in FY2023. The utilization rates for 1H'FY24 show a rebound in demand as the utilization levels reach above 85%.
- **Spinning Segment** – The Company possesses a total of 13,020 spindles and 5,278 rotors in spinning unit at Nooriabad.
- **Socks Division** – The Socks Division was established to meet the requirements of the Company's clientele base, particularly large retail chains that prefer all products to be offered under one umbrella. The capacity utilization of Socks Division is on a declining trend due to reduced demand in the industry. Although it is currently a small facility, some expansion has taken place, and there are plans for further growth in the future.
- **Knit Fabric** – This division is a recent addition to the Company's business mix, with its products being sold to local exporters. While it is still in the early stages, its impact on the overall production mix is minimal.

To cover the shortfall in production, the Company outsources yarn as its consumption exceeds production. The decision to use in-house yarn for internal purposes or to sell it in the local market is based on a cost-benefit analysis by management. Currently, 50% of the yarn is utilized for in-house purposes.

Sector Update

The business risk profile of the textile sector in Pakistan is characterized by a high level of exposure to economic cyclicality 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 textile sector faced challenges due to various economic and environmental factors. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and import restrictions due to diminishing foreign exchange reserves.

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. Reduction in cotton supply, coupled with 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 inflationary pressures. Additionally, the sector's vulnerability to global market dynamics and the domestic economic landscape further contribute to its high business risk profile. However, there is optimism as an anticipated bigger cotton crop in FY24 is expected to alleviate some pressure on input costs and margins.

MONTH-WISE EXPORT DATA FOR TEXTILE SECTOR

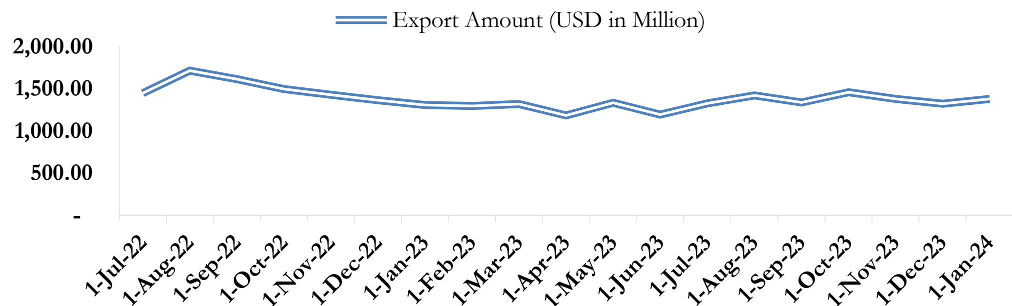

Figure 1: MoM Textile Exports (In USD' Millions)
Source: SBP

<u>Key Rating Drivers</u>

Exchange Rate Gains Drive Margins Up in FY23; Stability Expected in FY24

Despite a decrease in sales volume, net sales experienced a moderate YoY growth of 12% in FY23 attributed to the depreciation of the rupee. MDPIPL expanded its export share during FY23, accounting for 93.3% of total sales compared to 79.6% in the previous year, with the remaining sales generated domestically. Higher export share in overall sales and rupee depreciation scenario during the period supported the gross margins of the Company to grow to 11.9% in FY23 compared to 9.1% a year earlier. Selling and Administrative expenses grew in line with the inflationary trend in the economy. Significant surge was observed in Finance Cost proportioning to 4% of the sales in FY23 compared to 1% in prior year. This is a result

of increased borrowings during the period and high borrowing rate in Pakistan. As a result, a decline in net profit margin was observed from 3.3% in FY22 to 2.5% in FY23.

The Company's export sales are primarily concentrated in European markets, accounting for over 80% of total sales. However, client concentration risk remains significant, with over 80% of sales attributed to the top-10 clients.

In 1H'FY24, the gross profit margin of the Company inched up to 12.9% from 11.9% in FY23 due to rupee depreciation. On the contrary, net profit margins of the Company inched down to 1.4% in 1H'FY24 compared to 2.5% in FY23 due to higher finance cost of the Company.

A modest growth of 6% in sales is projected for the Company in FY24, whereas profit margins are expected to streamline during the same period. Looking ahead, the Company is looking to expand its market presence in the US for exports, which is anticipated to drive sales growth in the medium-term.

Liquidity Profile and Coverage Indicators Remain Adequate from Ratings Perspective
Despite a decline in profitability, Funds from operations (FFO) showed a growth of 8.8% in FY23 driven by higher non-cash expenses. This led to slight improvements in both the FFO to total debt and FFO to long-term debt ratio, which stood at 0.14x and 0.37x, respectively, compared to the previous fiscal year (FY22: 0.12x and 0.32x).

However, the Debt Service Coverage Ratio (DSCR) decreased from 3.12x to 1.73x in the same period due to the increased burden of the current portion of long-term debt. As of Dec'23, the Company's DSCR is estimated to be 1.44x, which is considered satisfactory from the given ratings perspective.

The Company maintained a satisfactory liquidity profile with a current ratio of 1.37x as of June 2023. The Working Capital Cycle has been improved to 14 days amid better management of supplier payments.

Capitalization Indicators remain within manageable levels
As of Jun'23, the Company experienced an increase in equity, primarily driven by interest-free long-term loans from sponsors and profit retention. As of June 2023, the Company's debt profile consisted of 60% short-term borrowings and 40% long-term debt. The weighted average cost of debt for long-term loans and short-term loans is approximately 3% and 19% respectively as of Dec'23. The Company's gearing position improved to 0.95x in June 2023, compared to 1.25x in the previous year, attributed to the increase in equity and loan repayments. The Company's leverage ratio also decreased from 1.92x in FY22 to 1.71x in FY23.

In 1HFY24, the Company increased its short-term borrowings. Consequently, the gearing ratio inched up to 1.02x. Going forward, the Company does not anticipate an increase in debt levels and maintain a stable gearing profile for the Company. Stable gearing ratio will be essential to maintain the credit rating for the Company.

REGULATORY DISCLOSURES					Appendix I
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				
	15-05-2024	A-	A-2	Stable	Reaffirmed
	01-03-2023	A-	A-2	Stable	Reaffirmed
	25-02-2022	A-	A-2	Stable	Reaffirmed
	18-01-2021	A-	A-2	Stable	Maintained
	27-04-2020	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.				
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Due Diligence Meeting Conducted	**Name**	**Designation**	**Date**		
	Mr. Abdul Qadir Moosa	CFO	April 16, 2024		
	Mr. Imran Iqbal	Senior Manager Finance			