

RATING REPORT

Master Textile Mills Limited

REPORT DATE:

April 28, 2020

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A	A-2
Rating Date	April 28, 2020		April 18, 2019	
Rating Outlook	Rating Watch- Developing		Stable	

COMPANY INFORMATION

Incorporated in 1992

External Auditors: Grant Thornton Anjum Rahman,
Chartered Accountants

Public Limited Company (Unquoted)

Chief Executive Officer: Mr. Najeeb Malik

Key Shareholders (More than 10%):

NM Enterprises (Pvt.) Limited– 27.6%

Master Polymer Industries Limited – 22.1%

Mr. Nadeem Malik – 11.2%

N M Holdings (Pvt.) Limited – 11.2%

Najeeb Holdings (Pvt.) Limited– 11.2%

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)

<https://www.vis.com.pk/kc-meth.aspx>

Master Textile Mills Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Master Textile Mills Limited was incorporated as a private limited company in 1992. It is a vertically integrated composite unit comprising spinning, weaving, denim, processing and apparel.

Profile of Chief Executive Officer (CEO)

Mr. Najeeb Malik specializes in textile industry and has been successfully running the business for the last 3 decades.

Financial Snapshot

Total Equity: end-1HFY20: Rs. 6.2b; end-FY19: Rs. 5.7b; end-FY18: Rs. 4.8b; end-FY17: Rs. 4.8b

Assets: end-1HFY20: Rs. 15.2b; end-FY19: 14.0b; end-FY18: Rs. 13.3b; end-FY17: Rs. 11.9b

Profit After Tax: 1HFY20: Rs. 520m; FY19: Rs. 930m; FY18: Rs. 757m; FY17: Rs. 421m

Master Textile Mills Limited (MTML) operates as a family owned business with the shareholding vested among individuals of the sponsoring family and its associated concerns. The assigned ratings take into account MTML’s association with the Master Group, having interest in mattress business, textiles, automobile, engineering, chemical and energy sectors. The ratings draw comfort from positive momentum in sales, margins and profitability indicators on a timeline basis and notable experience of senior management in the industry. Moreover, the company is comfortably placed in terms of coverages and liquidity indicators. However, the ratings remain constrained by inherent volatility in the textile sector.

Company profile: MTML is a part of Master group, one of the diverse business groups in Pakistan. The group started its operations in the mattress industry in 1963 with a license from Bayer A.G. (Germany). In 1996, Master Group ventured into production of large range of spring mattresses under the name ‘Celeste’. Further, the group has expanded into textile, automobile, engineering, chemical and energy sectors.

Integrated manufacturing facility: MTML is a vertically integrated composite unit comprising Spinning, Weaving, Denim, Processing, Apparel and Power Utilities divisions. MTML has received multiple quality certifications from different organizations including ISO-9001, ISO-14001, SA-8000 and OEKO-TEX 100, as well as it is accredited as WRAP and Sadexcertifies for garments business. MTML’s spinning unit comprises 33,645 operational spindles (FY18: 32,633 spindles) along with 856 operational routers (FY18: 835 routers); the product mix includes 100% cotton and blended yarn including both carded and combed varieties. The capacity utilization of spinning unit remained at 97% (FY18: 97%) during FY19. Weaving unit comprises 129 operational airjet looms (FY18: 129 looms) producing 36 million meters greige and denim fabric annually. The production line includes 48 machines of 220cm, 64 machines of 190cm and 12 dobby machines. The aggregate weaving capacity utilization was recorded at 84% (FY18: 89%) during FY19. Basic canvas, twill, structured and dobby fabrics are produced in cotton, cotton/spandex and poly cotton to cater to high fashion market; meanwhile technical fabrics are produced for specialized industries. 95% production is done for in-house finishing unit whereas 5% greige fabric is exported. Further, the weaving unit is equipped with complete yarn and greige fabric testing. Denim unit was added in December, 2016. It has an installed capacity of 24 million meters/annum through 36 rope dyeing machines.

Processing unit at MTML comprises fabric dyeing, finishing and printing. Dyeing and finishing unit started operations in 1999 with production capacity of 8.4 million meters/annum. Currently, the production capacity has been enhanced to 36 million meters/annum. Moreover, processing unit has in-house color kitchen and complete physical testing lab, having modern testing equipment to meet high quality standards. MTML produces a wide range of functional fabrics including, cotton, poly cotton, nylon, cordura, mechanical stretch fabrics, flame retardant, florescent, water repellent, Teflon, anti-static, easy care, anti-mosquito, camouflage print, infrared, PU coating etc. MTML’s Garments facility was established in 2006, equipped with 1,450 stitching. Garments facility has the capacity to produce casual, fashion, semi-fashion & high fashion bottom wear. Stitching unit has an aggregate capacity of producing 29,000 units per day. Monthly garments capacity is approximately 750,000 units.

Garment laundry is capable of both garment dyeing & denim, including tenello, barrel dryers, laser ozone, e-flow etc. MTML has dedicated lab for garments testing with the

upgraded equipment to ensure quality at each step of the production process. Moreover, it has R&D department to support innovation in quality and production processes. In order to maintain the quality of processed fabric, the company has a testing laboratory (*comprising abrasion tester, crease recovery tester, spray tester and multi-light meter*) to ensure all dyed fabric is properly checked for factors including shrinkage, color and thread quality.

Investment in subsidiary and associate: MTML holds 100% shares in the Master Power (Pvt.) Limited (MPL) (*A subsidiary company*), incorporated on February 4, 2015 under Companies Ordinance, 1984. Principal activity of the company is production and supply of power. MTML has investment amounting to Rs. 250m in its subsidiary. MPL has a total power generation capacity of 20MW, out of which 10-12 MW is required for MTML. Furthermore, MTML has common directorship with its associate, Master Wind Energy Limited (MWEL), and holds 15% equity stake in the same.

Substantial revenue contributed by exports: The product portfolio broadly includes yarn, grey and dyed cloth, denim and garments. The company recorded higher net revenue of Rs. 13.8b (FY18: Rs. 12.6b) during FY19. Exports contributed around 83% (FY18: 84%) to the topline during FY19. Net sales recorded during 1HFY20 amounted to Rs. 8.1b; export sales remained at 83% of the total revenue.

MTML garment's division is associated with some of the well renowned brands which includes Aeropostal, Arcadia Group, Kiabi, Zara, Guess, Spring Field, Corte field, Road Runner and Tom Tailor. Although the company sale is diversified across different regions, sales in Asia and Europe accounted for 73% (FY18: 81%) of total sales revenue during FY19.

Financial Summary (amounts in PKR millions)				
BALANCE SHEET	Jun 30, 2017	Jun 30, 2018	Jun 30, 2019	Dec 31, 2019
Non-Current Assets	5,445	5,183	4,997	5,179
Stock-in-Trade	3,735	3,270	4,078	4,441
Stores, Spares and Loose Tools	92	110	133	144
Trade Debts	706	2,564	2,385	2,441
Loans and Advances	376	431	522	869
Tax Refunds Due from Govt.	1,482	1,617	1,751	1,839
Cash & Bank Balances	36	64	110	192
Other Assets	43	43	43	47
Total Assets	11,915	13,282	14,019	15,152
Trade and Other Payables	1,517	1,473	2,034	1,892
Short Term Borrowings	4,338	5,716	5,099	5,758
Long-Term Borrowings (Inc. current maturity)	1,229	1,223	1,076	1,179
Other Liabilities	63	73	82	75
Total/Tier-1 Equity	4,768	4,798	5,728	6,248
Paid-Up Capital	316	316	316	316
INCOME STATEMENT				
	Jun 30, 2017	Jun 30, 2018	Jun 30, 2019	Dec 31, 2019
Net Sales	10,203	12,563	13,830	8,081
Gross Profit	1,364	1,911	2,213	1,414
Operating Profit	666	1,033	1,119	801
Profit Before Tax	421	865	1,059	601
Profit After Tax	421	757	930	520
FFO	680	1,193	1,334	715
RATIO ANALYSIS				
	Jun 30, 2017	Jun 30, 2018	Jun 30, 2019	Dec 31, 2019
Gross Margin (%)	13.4	15.2	16.0	17.5
Net Margin (%)	4.13	6.0	6.7	6.4
Net Working Capital	413	692	1,616	2,069
Current Ratio (x)	1.07	1.09	1.22	1.26
FFO to Long-Term Debt	0.55	0.98	1.24	1.21*
FFO to Total Debt	0.12	0.17	0.22	0.21*
Debt Servicing Coverage Ratio (x)	2.80	4.19	2.74	-
ROAA (%)	3.82	6.01	6.82	7.12*
ROAE (%)	9.44	15.83	17.67	17.35*
Gearing (x)	1.17	1.45	1.08	1.11
Debt Leverage (x)	1.50	1.77	1.45	1.43
(Stock in trade+ Trade receivable) to Short-term borrowing ratio	1.02	1.02	1.27	1.20

*Annualized

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		Annexure III			
Name of Rated Entity	Master Textile Mills Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	April 28, 2020	A	A-1	Rating Watch-Developing	Maintained
	April 18, 2019	A	A-1	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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