RATING REPORT

Master Textile Mills Limited

REPORT DATE:
Sep 02, 2021

RATING ANALYST:
Sara Ahmed
sara.ahmed@vis.com.pk

Nisha Ahuja
nisha.ahuja@vis.com.pk

RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-1	A	A-1
Rating Outlook	Stable		Rating Watch – Developing	
Rating Date	*September 01, 2021*		*April 28, 2020*	

COMPANY INFORMATION	
Incorporated in 1992	**External auditors:** M/s Grant Thornton Anjum Rahman
Public Unlisted Company	**CEO:** Mr. Najeeb Malik
Key Shareholders:	
N.M Enterprises – 27.6%	
Master Polymer Industries (Pvt) Ltd – 22.1%	
N.M Holding (Pvt) Ltd – 11.2%	
Najeeb Holding (Pvt) Ltd - 11.2%	
Mr. Nadeem Malik – 11.2%	
Mr. Shahzad Malik – 6.7%	

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

Master Textile Mills Ltd

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
Master Textile Mills Ltd was incorporated in Pakistan in 1992. It is a vertically integrated composite unit comprising spinning, weaving, denim processing and apparel.	Master Textile Mills Ltd. (MTML) is a vertically integrated textile setup engaged in the manufacturing and sale of yarn, griege cloth, dyed fabric, denim fabric and stitched garments (including work wear). The head office and factory is situated at Manga Mandi, Lahore, Pakistan. MTML is a part of 'Master Group of Industries' which has diversified presence across various business sectors including foam and spring mattresses, engineering, automobiles, chemicals and energy sectors.

Production Capacity and Capacity Utilization

Spinning and Weaving – Total annual installed capacity of the spinning and weaving segments is 33,840 spindles and 133 looms. Capacity utilization for both yarn and weaving increased to 96% (FY20: 90%) and 83% (FY20: 81%) during FY21.

Dyeing – The annual installed capacity of dyeing unit is 36m meters. Capacity utilization stood higher at 95% (FY20: 89%) during FY21 to cater to increased demand.

Garments – The stitching plant's production capacity increased to 8.7m pcs/annum from 8.1m pcs/annum. Capacity utilization was reported higher at 94% (FY20: 90%) during FY21.

The increase in capacity utilization witnessed across all the segments was in response to growing textile demand.

Key Rating Drivers

Favorable Textile sector dynamics lend support to the business risk profile of the company

Business risk profile is supported by improving textile exports outlook and strong emphasis of Government of Pakistan on enhancing exports. Diversion of orders from regional competitors (as they witnessed comparatively severe COVID-19 induced disruption) has helped local textile manufacturers in securing additional export orders. Also, Government of Pakistan through its textile policy (2020-2025) has provided incentives in the form of preferential energy rates, low interest rates financing schemes (such as EFS, LTFF and TERF). Pakistan's exports of Textile and clothing registered an impressive double-digit growth of 22.9% at USD 15.4b in the outgoing year of FY21 vis-à-vis FY20. The breakdown shows exports of readymade garments, knitwear and bed wear constituting a major potion in the textile exports. Markets in US and Europe have started to open up post vaccination; hence, VIS expects textile sector demand to remain stable over the rating horizon. Nevertheless, some downside risk remains in the short term on account of ongoing fourth wave of COVID-19. Also, lower projected local cotton production is likely to have an impact to a certain extent for the industry's growth and lead to elevated import expense.

Capital expenditure to enhance production capacities

Capex during FY21 amounted to ~ Rs. 506m; majorly to purchase plant and machinery for spinning, garments and dyeing units. The company availed TERF facility amounting to Rs. 265.3m to increase production capacity within garments unit from 8.1m pcs/annum to 8.7m pcs/annum. Going forward, the company will expand capacities in Spinning, Weaving, Dyeing and Garments by 45%, 55%, 16% and 24%, respectively. The purpose of expansion within spinning and weaving is to eliminate the need to outsource fabric and steer towards complete in-house production of the key inputs. The total cost of the expansion has been estimated at Rs. 4.5b, out of which Rs. 1b is financed through Long Term Financing Facility (LTFF scheme), Rs. 1.8b through TERF and remaining projected to be funded from internal cash generation. The planned capex is expected to complete before closing of FY23.

Revenues maintained positive momentum

Net Sales revenue of the company posted double digit growth of 21% in FY21 (FY21: Rs. 17.4b; FY20: Rs. 14.4b) with growth being a function of volumetric growth in sales volumes and higher average selling prices. MTML has diversified product range comprising yarn, denim fabric, griege cloth and stitched garments. Garments constitute around 44% of sales followed by dyed fabric at 39%. Sales mix indicates that export sales have constituted ~83% of the total topline of the company. While fashion garment industry had been more affected more severely due to COVID lockdowns, the company shifted their focus on work wear garments during that time thereby maintaining the growth in sales. Client wise concentration risk is considered moderate as the top ten overseas clients represented 37% (FY20: 35%) of the gross sales during FY21. Region wise sales remained primarily concentrated in Europe with 48% share. Going forward, company expects the growth momentum to continue with a targeted turnover of Rs. 18.5b by end FY22.

Profitability metrics have exhibited impressive performance

Gross Margins of the company have increased on a timeline basis and were sustained at 18.4% (FY20: 18.4%; FY19: 16%; FY18: 15.4%) during FY21. Gross margins witnessed an upward trend on the back of efficient procurement, production efficiencies and enhanced focus on value-added (high margin) products. Higher net profit of Rs. 1.2b (FY20: 0.7b) was achieved during FY21 on account of growth in sales, reduced finance cost coupled with limited growth in operating overheads. Going forward, margins are expected to sustain while growth in profitability will be a function of volumetric increase in sales.

Long Term Investments to contribute to bottom line

MTML has long term investments worth Rs. 1.2b, representing 7% of the total asset base, in subsidiary and associate companies. Master Power Ltd (MPL) is a wholly-owned subsidiary with total power generation capacity of 20MW, out of which 10-12MW is consumed by MTML. Whereas associate companies are Master Wind Energy and Master Green Energy having equity ownership of 15% and 11.38%, respectively. MTML also has common directorship with both the associate companies. Master Wind Energy is a 50MW wind power project that commenced operations in Oct'2016 and Master Green Energy is another Wind Power project expected to achieve financial close in next year. MTML has recorded dividend income from its equity investments of Rs. 60.5m (FY20: Rs. 37.5m) in FY21. Going forward, growth in dividend income is expected with the initiation of wind power project.

Liquidity profile of the company is considered strong in light of healthy cash flows and sound debt coverage ratios.

Liquidity profile of the company is considered sound with sufficient cash flows in relation to outstanding debt obligations. In absolute terms, Funds From Operation-FFO amounted to Rs. 1.69b (FY20: Rs. 1.13b). Higher FFO has translated to improvement in liquidity indicators with Debt Servicing Coverage (DSCR) being reported at 4.18x (FY20: 2.44x) during FY21. Inventory and Trade Debts provide strong coverage for short-term debt obligations while current ratio has remained above 1x on a timeline basis. And Trade debts ageing remains manageable.

Healthy capitalization indicators; sound internal cash generation has led to high equity base

Equity base of the company has increased on a timeline basis. At end-FY21, the equity base augmented to Rs. 7.75b (FY20: Rs. 6.49b; FY19: Rs. 5.73b) on account of retained earnings. Total debt of the company was reported at Rs. 7.6b (FY20: Rs. 7.1b; FY19: Rs. 6.1b) at end-FY21. Increase in total debt was primarily a function of higher long term borrowings acquired to fund expansion in capacity and availed salary refinance scheme introduced by SBP. Long term debt amounted to Rs. 2.1b (FY20: Rs. 1.5b; FY19: Rs. 1.1b) at end-FY21. Short term borrowings are used for working capital requirements and stood at Rs. 5.5b (FY20: Rs. 5.6b) during FY21. Meanwhile, Gearing and Leverage ratios stood lower at 0.99x (FY20: 1.10x) and 1.26x (FY20: 1.42x), respectively at end-FY21. Going forward, despite debt drawdown planned for expansion across all the segments, leverage indicators are expected to remain at comfortable levels.

Master Textile Mills Ltd — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**
Fixed Assets & Investments	5,163.1	4,967.1	5,592.3	5,785.2
Current Assets	8,100.4	9,021.9	10,129.1	11,696.3
Total Assets	13,282.9	14,019.4	15,740.8	17,543.3
Total Debt	6,938.5	6,175.2	7,132.9	7,659.8
Other Liabilities	1,546.7	2,116.0	2,114.7	2,125.4
Total Liabilities	8,485.2	8,291.2	9,247.6	9,785.3
Paid Up Capital	316.0	316.0	316.0	316.0
Total Equity (without surplus revaluation)	4,797.7	5,728.2	6,493.2	7,758.1
INCOME STATEMENT				
Net Sales	12,610.4	13,830.2	14,386.0	17,379.9
Gross Profit	1,943.4	2,213.2	2,646.7	3,202.3
Profit Before Tax	864.6	1,059.3	909.7	1,439.6
Profit After Tax	756.9	930.4	765.0	1,264.9
RATIO ANALYSIS				
Gross Margin	15.4%	16.0%	18.4%	18.4%
Net Margin	6.0%	6.7%	5.3%	7.3%
Current Ratio (x)	1.09	1.22	1.28	1.46
Debt Servicing Coverage Ratio (x)	3.26	2.94	2.44	4.18
Gearing (x)	1.45	1.08	1.10	0.99
Leverage (x)	1.77	1.45	1.42	1.26

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix II

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 III

Name of Rated Entity	Master Textile Mills Limited
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Instrument Structure	N/A

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
01-Sep-2021	A	A-1	Stable	Maintained
28-Apr-2020	A	A-1	Rating Watch – Developing	Maintained
18-Apr-2019	A	A-1	Stable	Initial

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 Meetings Conducted

Name	Designation	Date
Mr. Masood Ur Rehman	Chief Financial Officer (CFO)	26th-Jul-2021