

RATING REPORT

Master Textile Mills Limited

REPORT DATE:

April 04, 2024

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-1	A	A-1
Rating Outlook	Stable		Stable	
Rating Action	Upgrade		Reaffirmed	
Rating Date	April 04, 2024		November 04, 2022	

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*
<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

APPLICABLE RATING SCALE(S)

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

Master Textile Mills Ltd

OVERVIEW OF THE INSTITUTION RATING RATIONALE

Master Textile Mills Ltd was incorporated in Pakistan in 1992. It operates as a vertically integrated composite unit encompassing spinning, weaving, denim processing, and apparel production.

Company Profile

Established in 1992, Master Textile Mills Ltd. (‘MTML’ or ‘the Company’) is a vertically integrated textile composite engaged in the manufacturing and selling of yarn, grieger cloth, dyed fabric, denim fabric and stitched garments. The head office and factory are situated at Manga Mandi, Lahore, Pakistan. MTML operates under the umbrella of Master Group of Industries, which has diversified presence across various business segments including foam and spring mattresses, engineering, automobiles, chemicals and energy sectors.

Operating Performance

Table 1: Installed Capacity and Actual Production

Division	Product	UOM	Installed Capacity		Actual Production		FY22	FY23
			FY22	FY23	FY22	FY23	(%)	(%)
Spinning	Yarn (20S)	Bags	262,401	315,070	250,008	303,506	95.3%	96.3%
Weaving	Fabric	Mtr	48,000,000	48,000,000	29,624,611	35,951,025	61.7%	74.9%
Dyeing	Fabric	Mtr	45,600,000	45,600,000	38,802,298	36,985,560	85.1%	81.1%
Garments	Garments	Pcs	11,400,000	11,400,000	9,621,306	9,652,675	84.4%	84.7%

Spinning: In FY23, the total annual installed capacity of spinning segment reflected an increase of ~20.1% in relation to the prior year. Capacity utilization slightly improved to 96.3% (FY22: 95.3%).

Weaving: The total annual installed capacity of weaving segment stood the same during FY22 and FY23, at 48m meters. However, capacity utilization increased to 74.9% (FY22: 61.7%) owing to higher actual production during the period under review.

Dyeing – The total annual installed capacity of dyeing segment stood the same during FY22 and FY23, at 45.6m meters. However, capacity utilization decreased to 81.1% (FY22: 85.1%) owing to reduced actual production during the period under review.

Garments – The stitching plant’s production capacity stood the same during FY22 and FY23 at 11.4m pieces/annum. Capacity utilization reported minor improvement at 84.7% (FY22: 84.4%).

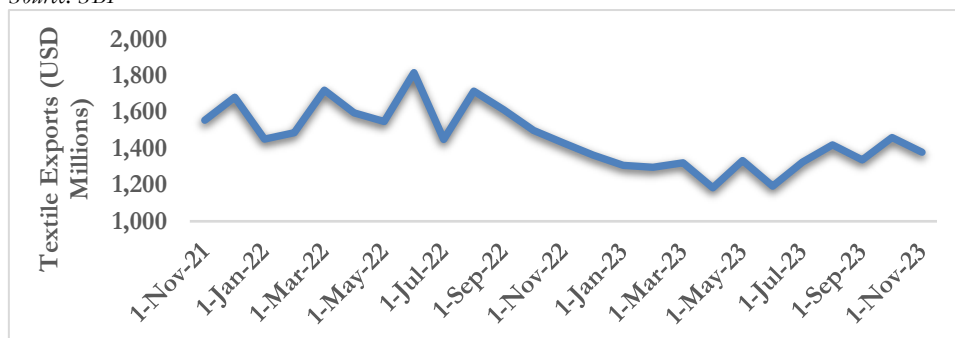
Sector Update

In FY23, the performance of Pakistan's textile sector faced constraints due to the government's withdrawal of significant incentives previously enjoyed by the sector, such as RCET (Regionally Competitive Energy Tariff) and subsidized financing. The cost of production for the textile sector increased notably, with gas prices surging from Rs. 819 per MMBtu to Rs. 2,200 per MMBtu during FY23. This escalation was primarily attributed to depleting gas reserves in the country and a heightened dependence on RLNG.

The textile sector, being highly leveraged, encountered additional challenges with reduced support from the State Bank of Pakistan (SBP) and the government. The textile companies have had to borrow at a higher cost, amidst an elevated policy rate in the country. Consequently, due to recessionary trends in both local and international economies, the demand for textile products remained low throughout FY23.

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

Source: SBP



Looking ahead, the demand outlook for the textile sector is anticipated to be constrained by prevailing economic uncertainties. Nevertheless, the depreciation of the rupee has rendered our exports slightly more competitive in international markets. Additionally, there is optimism as an anticipated good cotton crop in FY24 is expected to alleviate some pressure on input costs and margins.

Key Rating Drivers

Continuous growth in topline paralleled with consistent improvement in margins owing to better cost management on multiple fronts in FY23

Sales of the Company comprise of dyed fabric, greige fabric, garments, and yarn. The Company’s profitability profile is supported by export sales, which account for ~86.0% of total sales revenue. In the period under review, garments and dyed fabric comprised ~50.0% and ~40.0% of total sales respectively, serving as primary revenue streams for MTML. The top-10 client concentration decreased to 30.8% (FY22: 36.6%).

In FY23, the sale revenue increased by ~32.7% to Rs. 34.2 bn (FY22: Rs. 25.8 bn), owing to a rise in unit prices, through there was a contraction of ~3.4%, 31.9%, and 4.7% in sales volumes of dyed fabric, griegie fabric, and garments respectively. The Company’s approach to cost management across multiple fronts has resulted in improved gross margin for the period under review. The gross profit registered a growth of ~49.8%, increasing to Rs. 8.5 bn (FY22: Rs. 5.7 bn), while the gross margin rose to 24.8% (FY22: 22.0%). Despite the surge in finance costs of ~74.0% in finance costs, the profit after tax (PAT), rose to Rs.4.5 bn (FY22: Rs. 2.7 bn), owing to substantial foreign currency gains and returns on mutual funds.

During 1QFY24, the Company reported sales revenue of Rs. 8.7 bn, while profitability metrics improved further as both gross and net margin increased to 28.0% and 19.3% respectively. Going forward, the management indicated that the topline is projected to reach Rs. 38-40 bn, while the net margin is anticipated to be ~15.0%, resulting in a net profit of ~Rs. 5.70 bn by the end of FY24.

The Company sustains a sound liquidity profile in light of healthy cash flows and improved debt coverage ratios in FY23

The Funds from Operations (FFO) registered growth of ~75.8%, amounting Rs. 5.6 bn (FY22: Rs. 3.2 bn), owing to higher profitability. Consequently, the Debt-Service-Coverage-Ratio (DSCR) has increased to 4.74x (FY22: 4.13x). The FFO/Total Debt ratio improved slightly to 0.43x (FY22: 0.26x), while the

FFO/Long-term Debt ratio has risen significantly to 1.51x (FY22: 0.78x), amid repayment of long-term debt of Rs. 0.4 bn. The cash conversion cycle has remained stable at 111 days since the past two years, while the current ratio has consistently remained above 1x on a timeline basis, standing at 1.60x in FY23 (FY22: 1.35x), indicating sufficient cushion to cover short-term obligations.

During 1QFY24, FFO was reported to be Rs. 1.7 bn, and FFO/Total Debt along with FFO/Long-term Debt ratios improved further to 0.52x and 1.87x (FY22: 0.43x and 1.51x) respectively, backed by continuous surge in the Company's profitability. Going forward, liquidity indicators are expected to strengthen more backed by higher projected revenue and further escalation in profitability.

Capitalization metrics improve backed by higher internal cash generation in FY23

As at Jun'23, the total equity of MTML was reported to be Rs. 14.8 bn (Jun'22: Rs. 10.3 bn). Total debt of the Company inched up to Rs. 13.0 bn as at Jun'23 (Jun'22: Rs. 12.3 bn). The Company repaid long-term debt as per the payment schedule; therefore, it amounted to Rs. 3.7 bn as at Jun'23 (Jun'22: Rs. 4.1 bn). MTML's short-term debt increased to Rs. 9.3 bn (Jun'22: Rs. 8.2 bn) to finance higher short-term investments. According to the management, MTML's return on short-term investments was greater than the cost of short-term debt borrowed, resulting in an arbitrage profit, reflected by a rise in other income. Consequently, the Company's profitability improved, leading to an increase in total equity. Amid higher internal cash generation, the expansion in equity base relative to debt level drove down the gearing ratio to 0.88x (FY22: 1.19x). Similarly, the leverage ratio also improved to 1.14x (FY22: 1.53x).

During 1QFY24, the capitalization profile of the Company improved further as both gearing and leverage ratios stood at 0.80x and 1.06x (FY23: 0.88x and 1.14x) respectively. Going forward, maintenance of the existing capital structure will remain important from the ratings perspective.

Master Textile Mills Ltd
Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>					
<u>BALANCE SHEET</u>	Jun'20	Jun'21	Jun'22	Jun'23	Sep'23
Fixed Assets	4,338.9	4,579.1	8,506.4	8,766.0	8,621.4
Investment in Subsidiary	250.0	250.0	250.0	250.0	250.0
Investment in Associates	1,003.4	956.1	999.3	999.3	1,499.3
Stock-in-Trade	4,868.4	5,482.5	7,656.4	7,701.9	9,418.4
Trade Debts	2,346.1	2,533.0	3,260.3	6,584.9	6,023.8
Cash & Bank Balances	225.0	72.9	558.3	602.6	773.4
Total Assets	15,740.8	17,543.3	26,086.8	31,741.6	34,124.9
Trade and Other Payables	2,041.8	2,084.7	3,384.5	3,664.7	4,328.5
Long Term Debt (including current maturity)	1,458.2	2,109.4	4,082.3	3,697.6	3,631.6
Short Term Debt	5,674.7	5,550.5	8,201.3	9,304.5	9,519.6
Total Debt	7,132.9	7,659.8	12,283.5	13,002.0	13,151.3
Paid up Capital	316.0	316.0	316.0	10,312.0	10,312.0
Total Liabilities	9,247.6	9,785.3	15,774.8	16,901.9	17,598.2
Total Equity (Without surplus revaluation)	6,493.2	7,758.1	10,312.0	14,839.8	17,598.2
<u>INCOME STATEMENT</u>	FY20	FY21	FY22	FY23	1QFY24
Net Sales	14,386.0	17,379.9	25,788.9	34,220.1	8,731.6
Gross Profit	2,646.7	3,202.3	5,671.5	8,497.6	2,447.2
Profit Before Tax	909.7	1,439.6	3,019.6	5,069.0	1,775.8
Profit After Tax	765.0	1,264.9	2,656.9	4,527.7	1,686.9
<u>RATIO ANALYSIS</u>	FY20	FY21	FY22	FY23	1QFY24
Gross Margin (%)	18.4%	18.4%	22.0%	24.8%	28.0%
Net Margin	5.3%	7.3%	10.3%	13.2%	19.3%
FFO	1,131	1,688	3,178	5,588	1,701
FFO to Total Debt (%)*	15.9%	22.0%	25.9%	43.0%	51.7%
FFO to Long Term Debt (%)*	77.6%	80.0%	77.9%	151.1%	187.3%
Current Ratio (x)	1.28	1.46	1.35	1.60	1.67
(Stock+ Trade Debts)/ Short-term Debt	127%	144%	133%	154%	162%
Debt Servicing Coverage Ratio (x)*	2.44	4.18	4.13	4.74	4.49
Gearing (x)	1.10	0.99	1.19	0.88	0.80
Leverage (x)	1.42	1.26	1.53	1.14	1.06
ROAA (%)*	5.1%	7.6%	12.2%	15.7%	20.5%
ROAE (%)*	12.5%	17.8%	29.4%	36.0%	43.0%

* Annualized Numbers

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Master Textile Mills 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
	RATING TYPE: ENTITY				
	04-Apr-2024	A+	A-1	Stable	Upgrade
	04-Nov-2022	A	A-1	Stable	Reaffirmed
	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	
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.				
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Due Diligence Meetings Conducted	Name	Designation	Date		
	Mr. Masood Rehman	CFO	13 th February 2024		