RATING REPORT

Al Nasr Textiles Limited

REPORT DATE:
July 10, 2019

RATING ANALYSTS:
Maham Qasim
maham.qasim@vis.com.pk

Tayyaba Ijaz
tayyaba.ijaz@vis.com.pk

RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity	A-	A-2
Rating Date	*April 30, 2019*	
Rating Outlook	Stable	

COMPANY INFORMATION	
Incorporated in 1981	External Auditors: KPMG Taseer Hadi & Co.
Unquoted Public Limited Company	Chairman/CEO: Mr. Tariq Mehmood
Key Shareholders (with stake 10% or more):	
M/S Pak Kuwait Textiles Limited—96.8%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2019) **https://www.vis.com.pk/kc-meth.aspx**

OVERVIEW OF THE INSTITUTION

ANTL was incorporated in 2001 as a public limited company (unquoted) under Companies Act, 1984 (now Companies Act, 2017). The company is a subsidiary of PKTL, which holds 96.8% of equity. The principal activities include production and trading of high quality 100% cotton yarn. Due to consistency in quality the company has achieved ISO 9001 Certification in year 2000. ANTL is a member of Lahore Chamber of Commerce and Industry.

Profile of the Chairman/ CEO

The company is headed by Mr. Tariq Mehmood who has around 40 years of experience of managing textile mills and is a fellow member of the Institute of Chartered Accountant (England & Wales).

Financial Snapshot

Core Equity: *end-HY19: Rs. 1.65b; end-FY18: Rs. 1.55b; end-FY17: Rs. 1.38b*

Assets: *end-HYFY19: Rs. 4.01b; end-FY18: Rs. 3.1b; end-FY17: Rs. 2.4b*

Sales: FY18: *HYFY19: Rs. 2.5b; Rs. 3.9b; FY17: Rs. 2.99b*

Profit After Tax: *HYFY19: Rs. 102m FY18: Rs. 165m; FY17: Rs. 126m*

RATING RATIONALE

The ratings assigned to Al Nasr Textiles Limited (ANTL) take into account its association with its parent company, volume of operations of total group companies and sizable combined production capacity of both plants. The ratings take into account positive momentum in revenues driven by better operational efficiencies, improved profitability indicators and considerable relevant experience of the sponsors. Meanwhile, vulnerability of spinning sector to raw material prices remains a key challenge faced by the company. Going forward, the management plans to increase production in line with capitalization of demand driven market dynamics through increased market penetration. The same is supported by capital enhancement carried out to improve the operational performance of spindles. The ratings derive strength from sound financial risk profile emanating from strong liquidity position, adequate debt coverages and low leverage indicators; maintenance of which are important rating parameters.

Profitability underpinned by improvement in margins: Albeit the spinning sector has plummeted for the last few years, the company has managed to grow its sales and margins on timeline basis. Over the last three business cycles, the company's sales have grown at CAGR of 5.9%. Unit-II of ANTL manufactures premium quality cotton to cater to a niche market yielding higher average sales price; therefore, it continues to contribute the highest to the company's profits. The higher sales revenues recorded during FY18 were primarily on account of increase in volumetric sales. Furthermore, the average selling price per bag was also recorded higher during FY18. Nevertheless, the impact of higher output prices did not reflect positively on the company's margins owing to increase in cost of major raw materials including local and Tajik raw cotton. Moreover, the increased proportion of raw material sales in the revenue mix to the parent company entailing no value addition has also resulted in the decline of margins during FY18. Going forward, the management plans to enhance the exposure in export sales, keeping in view the favorable exchange rate movements and initiatives taken by government to promote the export of textile products. The fuel and power expense was recorded higher in line with increased production and higher per unit cost. The administrative expenses increased slightly owing to inflationary pressure contributing to annual salary adjustments during FY18.

Liquidity profile reinforced by healthy cash flows in relation to outstanding obligations: Overall liquidity profile of the company has remained robust on account of augmentation of profits and higher funds from operations (FFO). FFO has exhibited a positive trend for the last three years driven by higher quantum sales. However, the improvement in FFO was offset by upsurge in short term borrowing and procurement of long-term debt to fund capital investment; therefore, FFO to total debt declined at end-1H19. On the other hand, debt service coverage has remained strong in line with improvement in FFO. Going forward, given short term borrowing is projected to remain at existing level with no new procurement of long-term debt planned, the debt levels are expected to largely remain at current level in the next three years. As per management, cash flows are expected to remain robust on account of increase in sales and operational efficiencies emanating from continuous improvement in plant and machinery coupled with prospective economic changes having a positive impact on textile sector.

Leveraged capital structure; with debt matrix constituting both long term and short term borrowings: The equity base of the company has steadily strengthened on the back of profit retention. ANTL has made fixed capital expenditure, including CWIP which was funded by long-term borrowing procured during FY18. The long term finances include diminishing musharika and LTFF from commercial banks with markup ranging between 3M KIBOR+0.85% to 6M KIBOR+1%. The increase in short term borrowing during the ongoing year is in line with sizeable quantum of raw material purchased for meeting the production orders received. As per management, the equity base is projected to strengthen further on account of increase in revenues and improvement in margins.

As ANTL has recently implemented major capital expenditure in FY18, going forward the company plans to meet its regular requirements of BMR through internally generated capital. Albeit gearing and leverage indicators have increased, the augmentation of equity through accumulated profits has kept these indicators at comfortable levels. Given the management does not plan on obtaining any new long-term debt in the foreseeable future, the leverage indicators are likely to improve further on back of strengthened equity going forward. Moreover, the management plans to remain competitive in spinning sector by ensuring the quality of its yarn through specialization.

Financial Summary *(amount in PKR millions)*

BALANCE SHEET	June 30, 2016	June 30, 2017	June 30, 2018	Dec 31, 2018
Non-Current Assets	1,360	1,276	1,700	1,694
Stock-in-Trade	639	710	784	1,540
Trade Debts	63	82	110	82
Cash & Bank Balances	74	22	47	128
Stores and Spares	47	45	46	51
Advances, Deposits, and Prepayments	153	186	330	507
Other Assets	6	5	2	8
Total Assets	**2,443**	**2,381**	**3,127**	**4,010**
Trade and Other Payables	145	156	248	309
Short-Term Borrowings	472	381	516	1,251
Long-Term Borrowings *(Inc. current maturity)*	358	243	566	540
Other Liabilities	211	219	249	262
Tier-1 Equity	**1,257**	**1,383**	**1,549**	**1,650**
Total Equity	1,257	1,383	1,549	1,650

INCOME STATEMENT	June 30, 2016	June 30, 2017	June 30, 2018	Dec 31, 2018
Net Sales	2,819	2,996	3,901	2,502
Gross Profit	176	330	368	225
Operating Profit	111	273	304	191
Profit After Tax	8	126	165	102
FFO	100	292	321	201

RATIO ANALYSIS	June 30, 2016	June 30, 2017	June 30, 2018	Dec 31, 2018
Gross Margin (%)	6.3	11	9.4	11
Net Margin (%)	0.3	4.2	4.2	5.0
Net Working Capital	335	450	535	626
Current Ratio (x)	1.45	1.69	1.6	1.37
FFO to Long-Term Debt (x)	0.28	1.20	0.57	0.74*
FFO to Total Debt (x)	0.12	0.47	0.30	0.22*
Debt Servicing Coverage Ratio (x)	0.99	1.98	2.06	3.46
ROAA (%)	0.3	5.2	6.0	5.7*
ROAE (%)	0.6	9.5	11.2	12.7*
Gearing (x)	0.66	0.45	0.70	1.09
Debt Leverage (x)	0.94	0.72	1.02	1.43
(Stock in Trade+Trade Debt) to ST Borrowings (%)	149	208	173	130

**Annualized*

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	Al Nasr Textiles Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2019 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
April 30, 2019	A-	A-2	Stable	Initial