

RATING REPORT

Al Nasr Textiles 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 30, 2019	
Rating Outlook	Rating Watch-Developing		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>

Al Nasr Textiles Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

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-FY19: Rs. 1.69b; end-FY18: Rs. 1.55b; end-FY17: Rs. 1.38b

Assets: end-FY19: Rs. 3.63b; end-FY18: Rs. 3.1b; end-FY17: Rs. 2.4b

Profit After Tax: FY19: Rs. 146m; FY18: Rs. 165m; FY17: Rs. 126m

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.

Company Profile: ANTL is a medium-sized textile spinning unit located in District Kasur. ANTL is a subsidiary of Pak Kuwait Textiles Limited (PKTL), which holds an equity stake of 96.8% in the company. Originally, at the time of takeover in 2001, spinning Unit-I had 17,280 spindles installed by Allama Textile Mills (former company). Subsequently, all the machinery was updated and the installed capacity was enhanced to 19,200 spindles, inclusive of the replacement of 4,800 spindles. Further upgradation of Blow rooms and Auto-Cone machinery was also carried out based on European and Japanese technologies. In spinning Unit-II, 12,096 spindles were installed and in the second phase additional 10,080 spindles were added in 2002, as a part of comprehensive capacity enhancement plan. Presently, the project has an installed capacity of 45,984 spindles.

Increase in topline mainly on back of higher yarn prices: ANTL manufactures high quality cotton yarn, entirely sold in local markets, while exports had remained marginal in the past few years. ANTL manufactures cotton yarn for knitting and weaving industry in both combed and carded qualities. Unit-I and Unit II both are dedicated to 100% cotton yarn manufacturing. The company recorded net sales of Rs. 4.5b (FY18: Rs. 3.9b) during FY19.

Coronavirus to result in uncertainty in textile sector dynamics: The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand, sharp fall in cotton prices and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating Watch-Developing' status. Given the low leveraged capital structure, it is expected that ratings will remain stable post recovery of the ongoing situation; nevertheless, as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status.

Financial Summary <i>(amount in PKR millions)</i>			
<u>BALANCE SHEET</u>	June 30, 2017	June 30, 2018	June 30, 2019
Non-Current Assets	1,276	1,700	1,755
Stock-in-Trade	710	784	1,110
Trade Debts	82	110	230
Cash & Bank Balances	22	47	105
Advances, Deposits, and Prepayments	241	438	377
Other Assets	50	48	49
Total Assets	2,381	3,127	3,627
Trade and Other Payables	156	248	245
Short-Term Borrowings	381	516	897
Long-Term Borrowings <i>(Inc. current maturity)</i>	243	566	498
Other Liabilities	219	249	292
Total/Tier-1 Equity	1,383	1,549	1,695
Paid-Up Capital	342	342	342
<u>INCOME STATEMENT</u>			
	June 30, 2017	June 30, 2018	June 30, 2019
Net Sales	2,996	3,901	4,492
Gross Profit	330	368	464
Operating Profit	273	304	396
Profit Before Tax	203	184	222
Profit After Tax	126	165	146
FFO	292	321	358
<u>RATIO ANALYSIS</u>			
	June 30, 2017	June 30, 2018	June 30, 2019
Gross Margin (%)	11	9.4	10.3
Net Margin (%)	4.2	4.2	3.3
Net Working Capital	450	535	592
Current Ratio (x)	1.69	1.6	1.5
FFO to Long-Term Debt (x)	1.20	0.57	0.72
FFO to Total Debt (x)	0.47	0.30	0.26
Debt Servicing Coverage Ratio (x)	1.98	2.06	2.00
ROAA (%)	5.2	6.0	4.3
ROAE (%)	9.5	11.2	9.0
Gearing (x)	0.45	0.70	0.82
Debt Leverage (x)	0.72	1.02	1.14
(Stock in Trade+Trade Debt) to ST Borrowings (%)	2.08	1.73	1.49

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	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	April 28, 2020	A-	A-2	Rating Watch-Developing	Maintained
	April 30, 2019	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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