RATING REPORT

Metco Textile (Pvt) Ltd

REPORT DATE:
May 07, 2021

RATING ANALYST:
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Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	*May 07, 2021*		*April 16, 2020*	
Rating Outlook	Stable		Rating Watch-Developing	

COMPANY INFORMATION	
Incorporated in 2008	**External auditors:** M/s M. Saleem Associates
Private Limited Company	**Chairman:**
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Asad R. Premjee
Asad R. Premjee - 33.3%	
Miqdad Muhammad - 33.3%	
Bashir Parekh - 33.3%	

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

Metco Textile (Pvt) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Metco Textile (Private) Limited is a private limited company with equity distributed equally between three directors named (i) Asad R. Premjee (ii) Miqdad Muhammad (iii) Bashir Parekh.

Profile of CEO: *Asad Premjee is associated with the company from 1994 and possesses 16 years of textile management business*

Corporate Profile: Incorporated in 2012 with 13,000 spindles, Metco Textile (Pvt.) Limited is principally engaged in yarn production for local players. Product line includes slub, lycra, and ring yarn along with spandex catering to the weaving and knitting industry. The company has two yarn manufacturing units for cloth and hosiery segment, and one for towel manufacturers. Total spindle count at end-H1'FY21 stands at 37,000 along with 800 rotors.

There are three small-sized entities under the domain of MTL; engaged in ship breaking, commodity trading, and steel. It operates as a family owned business with shareholding equally vested among three members. Similar to other private limited companies, there is significant room for improvement with respect to corporate governance and policy framework.

Rating Drivers:

Favorable Industry Risk Factors provide support

While cotton production dropped to 5.6 million bales during the period under review, depicting a 47.5% decline on a YOY basis (Source: Pakistan Cotton Ginners Association), affecting margins of the industry players, strong post –COVID recovery provides comfort. The textile sector has exhibited growth mainly on the back of higher export orders resulting from a shift from countries more severely affected by the lockdown. Further, US-China trade war has also aided low cost suppliers including Pakistan in capturing the untapped share. This is further supported by government efforts to boost industry by provision of concessionary financing and subsidies for power cost which is expected to provide positive momentum to revenues and profitability to the textile sector, going forward.

Capital expenditure to contribute towards product portfolio diversification and operational efficiencies

Metco Textile is planning to diversify its product portfolio by setting up a Cheap Value Cotton (CVC) plant, producing a blended product comprising of Polyester and Cotton. The construction is expected to commence in August 2021 with installation of 18,000 spindles, and will be completed by early 2022. The estimated cost of the project is Rs. 2.5bn financed partly (60%) through Long Term Financing Facility (LTFF), while remaining amount to be funded through internal resources.

The company is also planning to add a cogeneration plant in FY22 at an estimated project cost of Rs. 100m, funded through equity.

Sales and profitability indicators depicted decline amid pandemic, however recovery witnessed during H1'FY21

During FY20, topline recorded a decline of 14% mainly on the back of volume decline amid pandemic. However, volumes recovered during H1'FY21 and the company was able to record a turnover amounting to Rs. 3.2bn (end-FY20: 4.6bn). Volumes are expected to grow over the rating horizon on the back of international recovery and shortage of yarn faced by the industry.

Gross margins were sustained at 10.0% during FY20 (FY19: 9.8%), however rising yarn prices is expected to improve margins for FY2021. Operating and net margins for the company remained under stress due to higher director's remuneration and rent expense for the new office location coupled with increase in financial charges. Finance costs rose due to higher short term borrowings to support inventory buildup resulting from COVID related order delays. Improvement in margins will be monitored going forward.

Client concentration remained on the lower side during FY20 with top ten clients contributing 34% of the total sales (H1'FY21: 39%).

Capitalization indicators to continue remain under pressure

Adjusting for revaluation, the equity base of the company declined during FY20 on account of dividend payout in excess of current year profits. Short-term borrowings rose by 112% during FY20 for managing working capital requirements as inventory accumulated amid pandemic and cash collections remained under pressure. Given increase in short-term borrowings and lower equity, gearing and leverage indicators rose to 0.78x (FY19: 0.36x) and 1.02x (FY19: 0.57x) respectively.

Going forward, the company has lowered short term debt utilization during H1'FY21 on account of better working capital management, thus easing gearing and leverage indicators. However, expected issuance of long term debt for funding capex will constrain capitalization indicators going forward, and VIS will monitor changes to take actions accordingly.

Liquidity remains within manageable levels; however cash flow indicators remain under pressure

On account of lower profitability and increase in debt utilization during FY20, Funds from Operations (FFO) fell to Rs. 119m from Rs. 289m in FY19, registering a decline of 59%. As result, cash flow coverage indicators depicted decline, with FFO/Total Debt reaching 0.06x in FY20 (FY19: 0.29x). Going forward, the same are expected to remain constrained upon issuance of long term debt despite improvement in profitability.

Working capital deteriorated in FY2020 on account of inventory buildup at year end due to the pandemic. However, inventory levels have streamlined during H1'FY21 upon recovering volumetric sales and higher recoveries. During FY20, the company was able to sustain liquidity within manageable levels despite decline; evident through the current ratio which stands at 1.72x on end-FY20 (end-FY19: 2.29x).

FINANCIAL SUMMARY (all amounts in PKR millions			
BALANCE SHEET	**30-Jun-18**	**30-Jun-19**	**3-Jun-20**
Paid Up Capital	3.0	3.0	3.0
Total Equity	2,599.5	2,781.2	2,737.2
INCOME STATEMENT	**30-Jun-18**	**30-Jun-19**	**30-Jun-20**
Sales Revenue	4,828.6	5,311.9	4,556.3
(Loss)/Profit Before Tax	406.5	235.4	92.5
(Loss)/Profit After Tax	351.9	181.7	46.0
RATIO ANALYSIS	**30-Jun-18**	**30-Jun-19**	**30-Jun-20**
FFO	456.9	289.4	119.5
Gearing (x)	0.04	0.36	0.78
Current Ratio (x)	4.3	2.3	1.7

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	Metco Textile (Pvt) 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				
	07/05/2021	A-	A-2	Stable	Maintained
	16/04/2020	A-	A-2	Rating Watch-Developing	Maintained
	02/08/2019	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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Due Diligence Meetings Conducted	**Name**	**Designation**	**Date**		
	Mr. Rizwan Chhapra	Chief Operating Officer (COO)	March 05, 2021		