RATING REPORT

Metco Textile (Pvt) Ltd

REPORT DATE:

July 04, 2022

RATING ANALYST:

Muzammil Noor Sultan
muzammil.noor@vis.com.pk

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	*July 04, 2022*		*May 07, 2021*	
Rating Outlook	Stable		Stable	

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 (Aug 2021) ***https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf***

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 three yarn manufacturing units for cloth and hosiery segment, and one for towel manufacturers. Total spindle count at end-9M'FY22 stands around 58,000.

There are three small-sized entities under the domain of Metco Group; engaged in ship breaking, commodity trading, and steel. It operates as a family- owned business with shareholding equally vested among three members. MTPL has recently established a separate internal audit department for strengthening internal controls. Moreover, it is also of implementing an ERP platform.

Rating Drivers:

Vulnerability to volatile commodity prices

Cotton and yarn prices witnessed fluctuation on account of inflated demand after ease in COVID led slowdown as well as the supply chain crises across the globe. Yarn prices recorded an upward movement of 60% during FY21, while continuing the momentum in the current year. The rising prices trend was capitalized by the spinning sector as inventories were accumulated at lower costs, translating to higher margins. In the ongoing year, cotton prices have exhibited volatility, increasing initially and subsequently reducing over time.

Ongoing capital expenditure to contribute towards higher production capacity, improved efficiency, and enhanced product mix

During the period under consideration (FY21 and 9MFY22), the company has incurred significant capital expenditure in order to optimize the production capacity as well as operational efficiency. As per the management, the operational efficiency is up by 0.5% (Approx. 915 bags per day to 938) from last year as a result of BMR as well as improvement in operations.

Moreover, the addition of a third production unit has been completed, which will come online in July 2022, and add 450 bags per day to the existing capacity of 950 bags. Furthermore, a Cheap Value Cotton (CVC) plant has also been set up, consisting of more than 21,000 spindles. The CVC plant will diversify the product portfolio, as CVC has witnessed an increasing demand in the local market. Overall cost of these projects is around Rs. 3.4b, financed through a mix of LTFF (63%) and Equity (37%).

Going forward, the company plans to incur capex of around Rs. 550m for BMR and steam turbine as renewable energy. These projects will be financed through 30% debt and 70% equity.

Notable improvement in topline.

During FY21, the topline surged to Rs. 7.2b (FY20: Rs. 4.5b) registering an uptick of 60%. This increase was driven equally by volume and value; however, during 1HFY22, higher prices provided significant support to the topline despite falling sales volumes compared to same period last year

Margins depict increasing trend over time with significant improvement in FY21 and ongoing year

Margins have remained volatile, both at gross and net levels, on a timeline basis, albeit increasing. However, in FY21 gross margins witnessed a significant increase (9MFY22: 24%, FY21: 18.6%, FY20: FY: 10%), supported by inventory gains. Gross margins are expected to gain further strength by the end of FY22 primarily on account of favorable cotton buying by the Company. Net margins also depict variability over time; however, as a result of higher gross margins and lower financial charges, net margins improved significantly in FY21. Sustainability of margins going forward will remain important for ratings.

Low debt levels support capitalization indicators; however, the same may witness some pressure in FY22

By end-FY21, short term bank borrowings reduced from more than Rs. 2b at end-June'20 to zero at end-June'21, while a related party loan of Rs. 125m was obtained during the year to support the working capital needs. Long term loans increased to Rs. 91m, after the company availed SBP's refinance scheme for payment of salaries and wages. As a result of the above changes the gearing and leverage ratios strengthened to 0.06x (FY20: 0.78x) and 0.26x (FY20: 1.02x) respectively. Debt servicing capacity of the company remains sound. Equity base of the company increased to Rs. 3.6b (FY20: Rs. 2.7b) on the back of retained profits.

For FY22, drawdowns of credit for financing the ongoing capex are expected to put pressure on gearing and leverage. However, overall capitalization indicators are expected to remain in line with the assigned ratings.

Liquidity indicators strengthened on the back of higher margins and enhanced working capital

FFO surged to Rs. 974m (FY20: 119.5m) on account of higher profitability and reduced debt utilization. As a result, FFO coverages strengthened, with FFO to total debt standing at 4.48x (FY20: 0.06x) at end-FY21. However, the same may witness some pressure as a result of increased debt levels projected in FY22.

Liquidity metrics remain strong reflecting further strengthening in FY21. Current ratio improved to 4.49x (FY20: 1.72x) on account of higher internal cash generation which reduced the working capital pressure. Cash conversion cycle also improved to 138 days (FY20: 261 days) resulting from improvement in inventory and receivable turnovers.

FINANCIAL SUMMARY (all amounts in PKR millions)			
BALANCE SHEET	**FY19**	**FY20**	**FY21**
PPE	862	803	2,525
Stock in Trade	1,652	3,035	1,350
Trade Debts	1,304	1,124	1,599
Loans, advances and deposits	327	343	355
Cash and Bank Balances	5	4	23
Total Assets	4,319	5,459	6,272
Trade and other payable	503	572	633
Long Term Debt (*incl. current maturity)	-	-	92
Short Term Debt	1,007	2,138	126
Total Equity	2,781	2,737	3,609
INCOME STATEMENT	**FY19**	**FY20**	**FY21**
Sales Revenue	5,312	4,556	7,284
Gross Profit	518	456	1,355
Selling Expenses	(84)	(69)	(117)
Administrative Expenses	(51)	(98)	(140)
Financing Cost	(138)	(193)	(108)
(Loss)/Profit After Tax	182	46	871
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**
Gross Margin (%)	9.8%	10.0%	18.6%
Net Margin (%)	3.4%	1.0%	12.0%
FFO	289.43	119.49	974.22
FFO/Total Debt (%)	28.8%	5.6%	448.5%
Current Ratio	2.29	1.72	4.49
Cash Conversion Cycle (Days)	147	261	138
Gearing (x)	0.36	0.78	0.06
Leverage (x)	0.57	1.02	0.26
Debt Servicing Coverage (x)	3.10	1.62	6.06
(Stock in trade + Trade Debts) / Short Term Borrowings (%)	294.1%	194.6%	0.0%
ROAA (%)	4.8%	0.9%	14.9%
ROAE (%)	6.8%	1.7%	27.5%

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	(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.
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Due Diligence Meetings Conducted	(see table below)

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
04/07/2022	A-	A-2	Stable	Reaffirmed
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

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Syed Shams	Manager Finance and Head of Risk	May 10, 2022
Mr. Naveed Aleem	CFO	May 10, 2022
Mr. Ali Raza	Operations	May 10, 2022