

## RATING REPORT

## METCO TEXTILE (PRIVATE) LIMITED

**REPORT DATE:**

November 06, 2024

**RATING ANALYSTS:**

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## RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A2	A-	A2
Outlook/Rating Watch	Stable		Negative	
Rating Action	Maintained		Maintained	
Rating Date	November 06, 2024		October 06, 2023	

## COMPANY INFORMATION

**Incorporated in 2008****External auditors:** M/s M. Saleem Associates

Private Limited Company

**Chairman and CEO:** Asad R. Premjee**Key Shareholders (with stake 5% or more):**

Asad R. Premjee - 33.3%

Miqdad Muhammad - 33.3%

Others - 33.3%

## APPLICABLE METHODOLOGY(IES)

**Applicable Rating Criteria: 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>

**OVERVIEW  
OF THE  
INSTITUTION**

**RATING RATIONALE**

**Metco Textile  
(Private)**

*Limited is a private limited company with equity distributed amongst family members. The company is incorporated in Pakistan as a private limited company under the companies ordinance, 1984 (now Companies act, 2017) on June 25, 2008. It took over the assets and liabilities of Metco Textile, a partnership concern as on June 30, 2008. The principal activity of company is spinning of yarn.*

**Profile of CEO:**

*Mr. Asad Premjee is associated with the company from 1994 and possesses 16 years of textile management business.*

**Company Profile.**

Metco Textile (Pvt.) Limited (‘MTPL’ or ‘the Company’), incorporated in 2008, is a private limited company primarily engaged in the spinning of yarn for the local market & export. The product line includes various types of yarn such as cotton carded ring spun yarn, CVC yarn, PC yarn and open-end yarn for the weaving and knitting industry. The Company has four yarn manufacturing units two units for cotton carded ring spun yarn, one unit for CVC & PC yarn and one unit for open-end yarn with total spindle count of about 59,840 at end-of FY24. The Company’s head office is located in Karachi while the manufacturing unit is situated in Nooriabad, near Karachi.

**Operational Performance:**

Production Capacity and Utilization	FY22A	FY23A	FY24A
Installed capacity – Thousand MT	17.44	23.68	25.31
Actual production – Thousand MT	16.57	13.35	22.28
<b>Utilization (%)</b>	<b>95.00%</b>	<b>56.37%</b>	<b>88.03%</b>

In FY23, capacity utilization decreased to 56.37% (FY22: 95%) owing to combined effect of reduction in yarn demand and addition of 21,600 spindles for the production of CVC and PC yarn. In FY24, installed capacity for yarn increased by 7% to 25.31 metric tons (FY23: 23.68 metric tons), while actual production grew by 67% to 22.28 metric tons (FY23: 13.35 metric tons). Capacity utilization normalized to 88.03% (FY23: 56.37%) as the demand for yarn picked up in FY24.

**Key Rating Divers:**

**Business Risk Profile: High to Medium Sector Risk.**

Assigned ratings incorporate the high to medium business risk profile of the textile sector in Pakistan, marked by high exposure to economic cyclicality and intense competition. The sector's performance is influenced by broader economic conditions, rendering it susceptible to demand fluctuations driven by economic factors. Furthermore, as a substantial contributor to total exports, the textile industry faces exposure to global economic cyclicality, geopolitical challenges, and liquidity constraints due to government delays in sales tax refunds.

Moreover, the industry is also sensitive to supply-side risks, including local cotton crop production which impacts margins, and reliance on imported raw materials, exposing the sector to significant exchange rate risk and government import restrictions.

Despite these challenges, textile companies have demonstrated resilience by maintaining operational efficiency, consistent product quality, strategic raw material procurement, and better supply chain control, achieving economies of scale and managing risks associated with the volatile business environment.

**Profitability profile.**

The topline of the Company experienced a growth of 59.4% in FY24 primarily due to an increase in sales volume. Increased demand of yarn from the weaving mills and CVC customers segments contributed to this growth, with respective shares of revenue rising to

26% and 28%. However, the client concentration rose in FY24, with 47% of sales generated from the top 10 clients, compared to 27% in FY23.

Gross margins in FY24 were constrained by elevated input costs, largely due to higher fuel and power prices, resulting in slight reduction in gross margin to 9.40% (FY23: 9.94%) despite a 51% increase in gross profits in absolute terms. During the winter season, reduced gas availability necessitated a partial shift to WAPDA power, which contributed to higher energy costs. Similarly, operating profit increased by 54% in absolute terms; however, operating margins remained constrained at 6.05% (FY23: 6.26%). Going forward, cost reductions in power consumption are anticipated due to the Company's transition to solar energy and likely reduction in electricity tariff.

Net margins declined further to -1.91% (FY23: -0.47%), primarily as a result of increased finance costs. The reduction in interest rates during the first quarter of FY25, along with anticipated future rate cuts, is expected to positively impact net margins through a reduction in finance cost going forward.

#### **Capitalization profile**

In FY24, the Company's capitalization profile displayed a reduction in gearing to 1.29x (FY23: 1.35x), primarily driven by a decrease in total debt due to lower short-term debt utilization. Conversely, the leverage increased to 1.80x (FY23: 1.72x), as the Company adjusted its working capital requirements, by managing their cash conversion cycle. The cash conversion cycle stood lower at 139 days (FY23: 178 days) during the period.

#### **Adequate Coverage and Sound Liquidity Profile**

The Company's coverage profile in FY24 showed an increase in the Debt Service Coverage Ratio (DSCR) to 1.15x. (FY23: 1.10x), attributed to higher funds from operations (FFO) due higher operating income. Similarly, the FFO to total debt ratio improved to 7.98% (FY23: 2.33%) as a result of an increase in FFO and a reduction in total debt, while the FFO to long-term debt ratio increased to 18.83% (FY23: 6.42%) driven by the higher FFO level. The short-term coverage ratio also improved to 1.99x (FY23: 1.72x) due to decrease in short-term borrowing.

The Company's liquidity profile, as measured by the current ratio, has historically remained stable, with a four-year average of 2.46x. In FY24, the current ratio decreased to 1.28x (FY23: 1.37x), primarily driven by a 217% rise in the current portion of long-term debt. This increase reflects the elevated long-term borrowing undertaken in recent years to support capital expenditure requirements. While the current ratio has declined, it remains aligned with industry standards and indicates sufficient liquidity.

**Metco Textile (Private) Limited**
**Appendix I**

<b>Financial Summary</b>				
<b>Balance Sheet (PKR Millions)</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24A</b>
Property, plant and equipment	2,592.84	5,697.81	6,317.56	6,492.76
Right-of-use Assets	0.00	0.00	0.00	0.00
Intangible Assets	0.00	0.00	0.00	0.00
Long-term Investments	0.00	0.00	0.00	0.00
Stock-in-trade	1,349.59	2,311.40	3,191.03	2,969.51
Trade debts	1,599.03	1,574.33	3,351.01	3,242.19
Short-term Investments	313.57	79.40	63.66	107.82
Cash & Bank Balances	22.78	11.01	9.11	34.09
Other Assets	394.34	257.30	891.56	663.88
<b>Total Assets</b>	<b>6,272.15</b>	<b>9,931.25</b>	<b>13,823.93</b>	<b>13,510.25</b>
Creditors	56.95	737.69	178.07	651.83
Long-term Debt (incl. current portion)	91.52	1,844.30	2,191.23	2,324.51
Short-Term Borrowings	126.00	1,083.13	3,854.12	3,160.82
<b>Total Debt</b>	<b>217.52</b>	<b>2,927.43</b>	<b>6,045.35</b>	<b>5,485.33</b>
Other Liabilities	672.59	98.12	1,496.82	1,542.66
<b>Total Liabilities</b>	<b>947.06</b>	<b>3,763.24</b>	<b>7,720.24</b>	<b>7,679.82</b>
Paid up Capital	3.00	3.00	3,000.00	3,000.00
Revenue Reserve	3,605.54	4,543.84	1,558.05	1,293.23
Other Equity (excl. Revaluation Surplus)	-39.49	-66.66	-82.40	-38.24
Sponsor Loan	0.00	0.00	0.00	0.00
<b>Equity (excl. Revaluation Surplus)</b>	<b>3,569.05</b>	<b>4,480.18</b>	<b>4,475.65</b>	<b>4,254.99</b>

<b>Income Statement (PKR Millions)</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24A</b>
Net Sales	7,284.28	8,703.43	10,438.30	16,642.21
Gross Profit	1,354.98	1,738.23	1,037.15	1,565.15
Operating Profit	1,055.04	1,170.78	653.90	1,006.41
Finance Costs	108.01	92.42	598.07	1,104.87
Profit Before Tax	947.03	1,078.36	55.83	-98.46
Profit After Tax	871.35	960.08	-48.61	-317.41

<b>Ratio Analysis</b>	<b>FY21A</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24A</b>
Gross Margin (%)	18.60%	19.97%	9.94%	9.40%
Operating Margin (%)	14.48%	13.45%	6.26%	6.05%
Net Margin (%)	11.96%	11.03%	-0.47%	-1.91%
Funds from Operation (FFO) (PKR Millions)	974.24	1,055.87	140.72	437.81
FFO to Total Debt* (%)	447.89%	36.07%	2.33%	7.98%
FFO to Long Term Debt* (%)	1064.51%	57.25%	6.42%	18.83%
Gearing (x)	0.06	0.65	1.35	1.29
Leverage (x)	0.27	0.84	1.72	1.80
Debt Servicing Coverage Ratio* (x)	6.67	8.72	1.10	1.15
Current Ratio (x)	4.49	2.27	1.37	1.28
(Stock in trade + trade debts) / STD (x)	23.71	3.64	1.72	1.99
Return on Average Assets* (%)	14.86%	11.85%	-0.41%	-2.32%
Return on Average Equity* (%)	27.91%	23.86%	-1.09%	-7.27%
Cash Conversion Cycle (days)	183.82	141.64	175.15	136.83

\*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES				Appendix II	
<b>Name of Rated Entity</b>	Metco Textile (Private) Limited				
<b>Sector</b>	Textile				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	11/06/2024	A-	A2	Stable	Maintained
	10/06/2023	A-	A2	Negative	Maintained
	07/04/2022	A-	A2	Stable	Reaffirmed
	05/07/2021	A-	A2	Stable	Maintained
	04/16/2020	A-	A2	Rating Watch-Developing	Maintained
	02/08/2019	A-	A2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>	
	Mr. Syed Shams	Head of Finance and Risk		21 <sup>st</sup> Oct 2024	
	Mr. Ali Raza	Manager Finance			