

RATING REPORT

Masco Spinning Mills (Private) Limited

REPORT DATE:

December 07, 2022

RATING ANALYSTS:

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Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BBB+	A-2
Rating Outlook	Stable	
Rating Action	Initial	
Rating Date	December' 07' 2022	

COMPANY INFORMATION

Incorporated in 2013
External Auditors: Grant Thornton Anjum Rahman Chartered Accountants

Private Limited Company
Chief Executive Officer: Mr. Muhammad Anis

Key Shareholders (with stake 5% or more):

- Mr. Muhammad Anis – 25.0%
- Mrs. Sameea Anis – 25.0%
- Mr. Umair Idrees – 25.0%
- Mr. Hamza Idrees – 25.0%

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates (August 2021)
<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

Masco Spinning Mills (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Masco Spinning Mills (Private) Limited is a private company limited by shares incorporated in Pakistan on January 08, 2013. Registered Office of the Company is situated at 17-Km Multan Road, Lahore and Manufacturing unit is located at 46 Km, Multan Road, Dina Nath, District Kasur, Punjab.</p>	<p>Masco Spinning Mills (Private) Limited ('MSMPL' or 'the Company') was incorporated on January 08, 2013 with the purpose of manufacturing and marketing of yarn and other related products. The registered Office of the Company is situated at 17-Km Multan Road, Lahore and Manufacturing unit is located at 46 Km, Multan Road, Dina Nath, District Kasur, Punjab.</p> <p><u>Rating Drivers</u></p> <p>Ratings incorporate MSMPL's size, margins and business risk of the spinning segment</p> <p>MSMPL operates in the cotton yarn spinning business, wherein performance is sensitive to cyclicity in cotton prices, which is further determined by crop yield. Historically, margins and financial performance of textile players have depicted volatility. Moreover, competitive intensity is high due to the commoditized nature of the product. Even though MSMPL's reliance on cotton availability is lower than peers, the Company does depict a similar business risk profile, as can be ascertained from the volatility in gross margins. MSMPL is a small-sized spinning segment player. The assigned ratings incorporate the quantum and customer concentration inherent in MSMPL's revenue base.</p> <p>Ratings incorporate MSMPL's low financial risk exposure and cash flow coverage indicators</p> <p>MSMPL's financial risk profile is viewed to be on the lower side, as gearing has remained below 0.6x through the last 4-year period (FY19-22), as can be ascertained from the year-end Jun'22 numbers provided. As the Company has not paid any dividends since inception, internal capital generation has been adequate to support growth in business. The cash flow coverage indicators are adequate and compliant with the assigned rating. The Company's FFO coverage of debt for FY22 infers that the Company's entire debt can be paid off over the next 5 years. Going forward, there are plans for additional mobilization of debt of Rs. 50m during the rating horizon to finance planned capital expenditure. Incorporating the same into our projections, the Company's gearing is projected to remain below 1x through the rating horizon.</p>

Masco Spinning Mills (Private) Limited
Appendix I

FINANCIAL SUMMARY		(Rs. in m)			
<u>BALANCE SHEET</u>		June'19	June'20	June'21	Jun'22*
Fixed Assets		909	903	943	985
Stock-in-Trade		410	682	356	719
Trade Debts		37	28	191	292
Advances, Deposit and Prepayment		7	8	28	21
Cash & Bank Balances		25	15	47	7
Current Asset		598	837	684	1,158
Total Assets		1,507	1,739	1,628	2,143
Trade and Other Payables		51	102	88	208
Long Term Debt (incl. current maturity)		-	-	21	46
Short Term Debt		297	543	319	640
Total Debt		297	543	339	686
Total Liabilities		370	675	441	918
Paid Up Capital		1200	1200	1200	1200
Total Equity		1,137	1,064	1,186	1,225
<u>INCOME STATEMENT</u>					
Sales		1,990	1,624	2,179	2,734
Gross Profit		125	51	252	194
Profit Before Tax		46	(52)	155	75
Profit After Tax		39	(76)	122	39
<u>RATIO ANALYSIS</u>					
Gross Margin (%)		6.3%	3.1%	11.6%	7.1%
Net Margin (%)		1.9%	(4.7%)	5.6%	1.4%
Net Working Capital		242	175	264	282
FFO		108	22	188	131**
FFO to Total Debt (x)		0.36	0.04	0.56	0.19**
FFO to Long Term Debt (x)		-	-	9.14	2.84**
Debt Servicing Coverage Ratio (x)		2.77	1.37	4.37	2.68**
Gearing (x)		0.26	0.51	0.29	0.56
Leverage (x)		0.33	0.63	0.37	0.75
Current Ratio (x)		1.68	1.27	1.63	1.32
STD Coverage		1.50	1.31	1.72	1.58
ROAA (%)		2.5%	(4.7%)	7.3%	2.1%
ROAE (%)		3.5%	(6.9%)	10.9%	3.3%
* Unaudited					
**Estimates					

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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	Masco Spinning Mills (Private) 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-Dec-22	BBB+	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. Gohar Farooq	Chief Financial Officer	14 th September 2022			