RATING REPORT

Nadeem Textile Mills Limited (NTML)

REPORT DATE:
12 March, 2018

RATING ANALYST:
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RATING DETAILS		
	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	BBB-	A-3
Rating Outlook	Stable	
Rating Date	*12 March 2018*	

COMPANY INFORMATION	
Incorporated on July 15, 1984	**External auditors:** M/s. Rahman Safaraz Rahim Iqbal Rafiq Chartered Accountants
Public Limited Company	**Chairperson:** Mrs. Naila Zahid
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Zahid Mazhar
Mr. Zahid Mazhar (41.78%)	
Nadeem Power Generation (Pvt.) Ltd. (18.76%)	
Mr. Omer Bin Zahid (8.18%)	
Mr. Hassan Bin Zahid (8.19%)	
Mrs. Rafia Sultana (5.74%)	
Mrs. Naila Zahid (5.08%)	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria *Industrial Corporates (May 2016)*   **http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf**

Nadeem Textile Mills Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

OVERVIEW OF THE INSTITUTION

Nadeem Textile Mills Limited (NTML) was incorporated as a public limited company in Pakistan in 1984. The core business activity of the company is the manufacturing and sale of yarn.

Profile of Chairman
Mrs. Naila Zahid has been associated with the group since 1993. She is responsible for strategic planning and managing business activities of the company.

Profile of CEO
Mr. Zahid Mazhar has been associated with textile business and the group since 1979. He holds bachelor degree in Commerce. He also serves as a Senior Vice Chairman of All Pakistan Textile Mills Association (APTMA) and the Director of Karachi Cotton Association (KCA).

Financial Snapshot
Net Equity (inclusive of loan from associates): 1QFY18 - Rs. 955.0m, FY17 – Rs.995.2m,

Net Profit: 1QFY18 – Rs. 7.6m, FY17 – Rs. 7.1 m

RATING RATIONALE

Nadeem Textile Mills Limited (NTML) was incorporated in 1984 and started commercial operations in 1989. The company's production facilities comprise two units (Unit I & Unit II) with the current installed capacity of 69,000 spindles. Major ownership of the company is split between directors and Nadeem Power Generation Pvt. Limited (Associate Company) whereas the remaining interest is vested with individuals. While the company is listed on stock exchange, shareholding is largely held by family members.

Rating Drivers:

Business Risk: Volatility inherent in yarn and cotton prices is a key risk factor in the performance of the spinning industry. Industry performance has depicted a declining trend post China's abandonment of its aggressive stock piling policy. The oversupply situation had contained cotton yarn prices on the lower side internationally and locally. However, uptick in prices has been witnessed in recent years.

Corporate Governance: The board composition is considered adequate in terms of regulatory compliance. Furthermore, in line with best practices, independent director chairs the Board Audit Committee.

Balancing, Modernization Replacement (BMR): The company has planned Rs. 500 million (m) for capital expenditure over a period of five years. The same is to be financed largely through long term borrowing. BMR includes replacement of old machinery as well as installation of new energy efficient generators.

Profitability: NTML's sales over the last three years have witnessed a slight shift from international to local market owing to unfavorable yarn prices in export market. During FY16 the comparatively old nature of machinery installed in Unit II led to limitation in quality of yarn whereas negative trend of industry further aggravated loss in FY16. However, due to favorable price adjustments, profitability has witnessed recovery with minimal profits in FY17.

Liquidity: Owing to improved profitability Fund From Operations (FFO) and its related multiples have exhibited an increase as FFO to long term debt improved to 60.0% (FY16: -17.0%) in FY17 whereas FFO to total debt multiple for FY17 was 8.3% (FY16: -3.1%).

Capitalization and Leverage: Sponsor support is exhibited by sizeable interest free loan extended to NTML by associates and a director of the company. This has led to leverage indicators being manageable. Gearing (accounting for interest free loan from associates) has improved to 1.4x (FY16: 1.6x) in FY17 on the back of advance against share capital. The same also led to decrease in leverage to 2.0x (FY16: 2.2x) in FY17.

Outlook

Going forward, the maintenance of loan from associates is considered important in order to maintain the risk profile of the company. Furthermore, recent depreciation in rupee will have a positive impact on exports sales. Owing to the same and the favorable local market demand of yarn, profitability of the company is expected to improve.

FINANCIAL SUMMARY *(amounts in PKR millions)*				Appendix I
BALANCE SHEET	*Sep'17*	**FY17**	**FY16**	**FY15**
Fixed Assets	*1,624.0*	1,641.0	1,588.1	1,194.6
Long term Deposits	*13.2*	13.6	13.1	5.1
Stock-in-Trade	*1,059.1*	825.6	682.2	658.2
Trade Debts	*546.3*	509.7	525.5	413.0
Cash & Bank Balances	*46.4*	30.5	16.2	18.1
Total Assets	*3,719.5*	3,340.4	3,007.6	2,476.2
Trade and Other Payables	*591.4*	500.2	368.6	416.7
Long Term Debt	*154.9*	194.6	243.1	305.3
Short Term Debt	*1,593.6*	1,209.3	1,099.0	738.4
Total Debt	*1,748.5*	1,403.9	1,342.1	1,043.8
Total Liabilities	*2,430.0*	2,007.4	1,818.3	1,534.9
Total Equity	*955.0*	995.2	838.0	941.4
INCOME STATEMENT				
Net Sales	*1,456.7*	5,207.7	4,800.9	5,224.5
Gross Profit	*84.5*	284.6	105.0	203.0
Operating Profit	*41.2*	144.1	(43.1)	47.8
Profit After Tax	*7.6*	7.1	(178.2)	(88.0)
RATIO ANALYSIS				
Gross Margin (%)	*5.8%*	5.5%	2.2%	3.9%
Net Working Capital	*(290.4)*	(256.6)	(267.4)	(195.7)
FFO to Total Debt (%)	*1.8%*	8.3%	-3.1%	3.8%
FFO to Long Term Debt (%)	*20.7%*	60.0%	-17.3%	12.9%
Debt Servicing Coverage Ratio (x)	*0.26*	1.01	0.29	0.78
ROAA (%)	*0.2%*	0.2%	-6.5%	-3.6%
ROAE (%)	*1.6%*	1.5%	-36.8%	-16.0%
Gearing (x)	*1.8*	1.4	1.6	1.1
Leverage (x)	*2.5*	2.0	2.2	1.6

ISSUE/ISSUER RATING SCALE &DEFINITIONS   Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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	Nadeem Textile Mills Limited				
Sector	Textiles				
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				
	03/12/2018	BBB-	A-3	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	JCR-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.				
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