

RATING REPORT

Metco Textile (Pvt) Ltd

REPORT DATE:

February 18, 2019

RATING ANALYST:

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Rating Category	Latest Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Date	Feb 8, 2019	
Rating Outlook	Stable	

COMPANY INFORMATION

Incorporated in 2008	External auditors: M/s M. Saleem Associates
Private Limited Company	Chairman: <i>Vacant</i>
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)

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

Metco Textile (Pvt) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p><i>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.</i></p> <p>Profile of CEO: <i>Asad Premjee is associated with the company from 1994 and possesses 16 years of textile management business</i></p>	<p>Assigned ratings of Metco Textile (Private) Limited (MTL) take into account the company’s market position. Principal activity of MTL includes production of yarn to primarily cater to the requirements of the local market. Currently, there are three small-sized entities under the ambit of MTL; they belong to the ship breaking, commodity trading and steel sectors. MTL functions as a family owned business with the shareholding vested among three individuals. Similar to other private limited companies, governance and policy framework of the company depict significant room for improvement.</p> <p>The company started with 13,000 spindles and expanded in 2012 reaching at a total of 37,440 spindles and 800 Rotors. Product line of the company includes yarn for both weaving and knitting segments namely slub, lycra and ring yarn along with spandex. The company operates three units; two units manufacture yarn for cloth and hosiery while the third produces yarn for towel manufacturers.</p>
	<p>Rating Drivers</p>
	<p>Cotton Procurement & Sales Procedure</p>
	<p>Given the lean structure of MTL, all business related decisions including pricing and choice of cotton variety are supervised by the CEO. Various samples from ginner are collected and sent to quality assurance lab. Once approved, ginner are selected based on domestic and international prices. Simultaneously, the CEO also approves the final selling rate of yarn along with payment terms offered to clients keeping in view prevailing market rates of varying counts and types of yarn.</p>
	<p>Sector Overview</p>
	<p>Spinning sector of Pakistan has followed a downward trend in international demand for yarn, especially from China given that they shifted their spinning mills to Vietnam. This shift of mills has reduced imports for China. Given that Pakistan used to export large volumes of yarn to China, this reduction resulted in surplus yarn in Pakistan’s local market. Subsequently, surplus yarn will exert pressure on local prices of yarn. Moreover, demand side of the yarn has felt a downward pressure with changing aforementioned international dynamics, facing rising prices of cotton. This translated into lower margins for the yarn spinning companies.</p>
	<p>Volumes of yarn export reduced significantly and remained in range of 43,000 – 69,000 Metric Tonnes (MT) during the period 2013-14. Export volumes reached as high as 69,000 MT in January 2015, after which it began reducing in view of changing dynamics of China’s textile industry.</p>

Business Risk

Inherent cyclical nature of cotton price and crop levels drives performance of players operating in the spinning sector. Historically, margins and financial performance of players have depicted seasonality. Moreover, competitive intensity is high due to commoditized nature of the product. Ability of the spinning companies to maintain their customer profiles along with product quality will be a key growth driver.

Sales & Profitability

Top line of the company has grown by a CAGR rate of 4.45% over the 3 year period (FY15-FY18) on the back of volumetric growth. However, increase in business has largely been a function of prices during the year ended June 2018. As a result, gross margin of the company has increased to 12% (FY17: 7%) on the back of inventory gain spurring from lower cost of cotton inventory combined with increasing yarn prices in FY18. However, as per management, this impact has now subsided and margins are expected to reduce, going forward. Volumetric growth in yarn is expected to remain sluggish on account of pressure on the demand side of the sector. Top 10 customers as a percentage of total sales were reported at 35% (FY17: 37%) for FY18. Client concentration, in comparison to peers, is relatively lower given the competitive nature of the local industry. Ability to retain these clients over time will need to be monitored.

Capitalization & Funding

Paid up capital of the company remained unchanged at end-June 2018. Adjusting for reserves, equity base increased at end-FY18 on account of higher profit by MTL. With only short term borrowings on the books, leverage indicators compare favorably to peers. The company finances its working capital requirement through internal cash generation and short term borrowing. Management anticipates no requirement for further borrowings given that there are no capex plans in the near horizon.

Liquidity & Cash Flows

Higher profitability has resulted in healthier cash flow generation. With lower utilization of borrowings, debt servicing coverage and Funds from Operations (FFO) in relation to long-term debt multiples of MTL remain at comparable levels with peers. With no long term obligations on its books, MTL maintains a healthy cushion to repay any future obligations if they arise.

MTL operates on a cash conversion cycle of 59 days given that 30% of its sales are in the form of credit and engages primarily in short term financing for cotton procurement during the procurement season.

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.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

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				
	02/08/2019	A-	A-2	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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