The Pakistan Credit Rating Agency Limited

NISHAT MILLS LIMITED

	NEW [SEP-16]	PREVIOUS [OCT-15]
Entity		
Long Term	AA	AA
Short Term	A1+	A1+
Outlook	Stable	Stable

REPORT CONTENTS

SEPTEMBER 2016

Profile & Ownership

- NML, established in 1951, is the largest textile composite unit and a leading exporter of textile products in the country
- The company is majority (~53%) owned by Mansha family members and group companies; flagship company of Nishat Group (NG)
- NG – a leading conglomerate – maintains substantial presence in the country's financial sector, and strong foothold in textile, cement, and power sectors

Governance & Management

- NML has a seven member board of directors. Two directors, including the CEO, represent sponsoring family, four directors are working for NG companies including one NML's executive, and one is independent member
- CEO, Mr. Umer Mansha associated with NML since 1994, carries extensive experience in textile industry. He is supported by an experienced team

Operational Risk

- Sound operational infrastructure; mainly European technology
- Oracle based ERP solution; comprehensive MIS reporting
- Captive power generation (~114MW) to meet energy requirements

Business Risk

- Sizeable revenue base; predominantly export oriented
- Sales mix dominated by Processing & Home textile (P&HT) segment (~44%), followed by weaving and spinning (~24% each), and garment (~8%) segments
- Moderately low geographic and top ten customer revenue concentration
- During 9MFY16, the company's topline declined by ~7% on YoY basis. Fall in topline is mainly on account of i) decline in selling price in weaving and P&HT segments and ii) lower revenues in garment and spinning segments on the back of dip in both sales volume and selling price. Dip in prices is an industry wide phenomenon witnessed in export market almost across all segments
- Lower YoY operating expenses augmented business margins (gross: 9MFY16: ~14%, 9MFY15: ~12%; operating margins: 9MFY16: ~7%, 9MFY15: ~5%)
- Dividend income, comprising ~70% of the company's bottomline, increased notably (9MFY16: ~PKR 2.5bln, 9MFY15: PKR 1.8bln)
- Interest expense declined significantly owing to decline in interest rate and lower average outstanding debt during the period. Thereby, profit before tax increased by ~49% to report at PKR 4,139mln during 9MFY16
- NML maintains a hefty investment portfolio – ~75% of equity at end-Mar16 – mainly comprising strategic holdings. With presence in diversified sectors, the company has prudently managed its overall risk profile
- A new garment plant (capacity: 7.2mln pieces p.a.) became operational in Apr16; utilization of additional capacity is considered important. NML plans to add 28,000 new spindles in 4QFY17
- Going forward, margins are expected to improve on account of better expected industry fundamentals i.e crop size, stable raw material prices and stable gas supply

Financial Risk

- Working capital requirements, a function of its receivables and inventory, are met through a mix of internal generation and short term borrowings
- Inventory days declined – a factor of low prices. Resultantly, net working capital days decreased
- NML borrows short-term loans to provide working capital finance to subsidiary companies thereby creating short term liquidity pressure
- Strong coverages; regular dividend inflows continued to augment financial risk profile
- Low leveraged capital structure (end-Mar16; ~19%); expected to remain range bound

RATING RATIONALE

The ratings reflect the diversity of Nishat Mills' (NML) underlying businesses, along with a conservative capital structure. This emanates from its implicit holdco structure within Nishat Group (NG). This helps in managing the impact of adversities in any industry, particularly textile business, on the overall profile of NML. NML's significant as well as diverse strategic investment portfolio is generating a regular and growing dividend stream in addition to potential of capital appreciation.

NML has an established business profile in textile industry. The company continues to maintain its position as a sizeable, export-oriented composite unit in the country's textile sector. NML has adequate diversification levels, in terms of both geography and customer base. After having a suppressed year, operational performance has shown some recovery in FY16 and onwards. This is likely to continue on the back of gradual improvement in textile sector dynamics, depicted from (i) relatively high domestic cotton production level for FY17, (ii) availability of low cost power fuel (RLNG), and iii) stability in financial indicators. Going forward, the management intends to further augment its size, capitalizing on capacities enhancements. The improvement in business performance has uplifted the financial risk profile of the entity.

KEY RATING DRIVERS

The ratings continue to depend on the management's ability to maintain its business profile while sustaining its market position. Maintaining positive trend in business margins remains important. Moreover, a formal holding company structure to monitor a large investment portfolio would bring structural efficiencies with focused decision making.

PKR mln

Nishat Mills Limited

BALANCE SHEET	31-Mar-16	30-Jun-15	30-Jun-14	30-Jun-13
	9MFY16	Annual	Annual	Annual
Non-Current Assets	**24,445**	**24,510**	**23,115**	**15,924**
Investments (Incl. associates)	**58,661**	**58,400**	**50,943**	**42,925**
Equity	54,162	54,150	47,999	41,741
Debt	4,025	3,771	2,557	789
Investment property	474	479	387	395
Current Assets	**19,618**	**18,230**	**22,991**	**21,785**
Inventory	11,998	10,350	12,752	10,945
Trade Receivables	2,003	3,014	2,929	6,244
Others	5,617	4,865	7,309	4,597
Total Assets	**102,723**	**101,140**	**97,049**	**80,635**
Debt	**18,242**	**18,890**	**22,495**	**16,400**
Short-term	11,656	11,524	14,468	11,939
Long-term (Inlc. Current Maturity of long-term debt)	6,586	7,365	8,027	4,461
Other shortterm liabilities	6,423	5,860	5,489	4,819
Other Longterm Liabilities	250	247	475	499
Shareholder's Equity	**77,809**	**76,143**	**68,589**	**58,917**
Total Liabilities & Equity	**102,723**	**101,140**	**97,049**	**80,635**
INCOME STATEMENT				
Turnover	**36,196**	**51,178**	**54,444**	**52,426**
Gross Profit	4,927	6,024	7,864	9,044
Net Other Income	2,490	3,639	3,309	2,330
Financial Charges	(813)	(1,745)	(1,610)	(1,618)
Net Income	**3,567**	**3,912**	**5,513**	**5,847**
Cashflow Statement				
Free Cashflow from Operations (FCFO)	3,307	4,373	4,942	6,209
Net Cash changes in Working Capital	(696)	2,744	1,561	(4,131)
Net Cash from Operating Activities	4,284	8,470	8,003	2,801
Net Cash from InvestingActivities	(2,051)	(6,215)	(11,024)	(5,004)
Net Cash from Financing Activities	(2,221)	(5,006)	4,695	974
Ratio Analysis				
Performance				
Turnover Growth	-7.4%	-6.0%	3.8%	16.7%
Gross Margin	13.6%	11.8%	14.4%	17.3%
Net Margin	9.9%	7.6%	10.1%	11.2%
ROE	6.2%	5.2%	8.8%	11.7%
Coverages				
Interest Coverage (FCFO/Gross Interest)	4.1	2.5	3.1	3.8
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	1.5	1.2	1.5	2.1
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	2.6	2.1	2.5	2.9
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	2.0	2.8	2.4	1.0
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	76.2	88.9	97.4	95.6
Capital Structure (Total Debt/Total Debt+Equity)	19.0%	19.9%	24.7%	21.8%

PACRA

The Pakistan Credit Rating Agency Limited

STANDARD RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

Rating	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Speculative.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**Highly speculative.** Significant credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**High default risk**. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short Term Ratings

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Regulatory and Supplementary Disclosure

Name of Issuer Nishat Mills Limited
Sector Textile
Type of Relationship Solicited

Purpose of the Rating Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
27-Sep-16	AA	A1+	Stable	Maintain
27-Oct-15	AA	A1+	Stable	Maintain
10-Jan-15	AA	A1+	Stable	Upgrade
10-Jan-14	AA-	A1+	Stable	Stable
11-Feb-13	AA-	A1+	Stable	Stable

Related Criteria and Research

Rating Methodology: Corporate Rating Methodology
Sector Research: Textile Sector Overview - 2016

Rating Analysts

Rida Zahoor
rida.zahoor@pacra.com
(92-42-35869504)

Saira Rizwan
saira.rizwan@pacra.com
(92-42-35869504)

Rating Team Statement

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