The Pakistan Credit Rating Agency Limited

Rating Report

Nishat Mills Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-May-2024	AA	A1+	Stable	Maintain	-
02-May-2023	AA	A1+	Stable	Maintain	-
02-May-2022	AA	A1+	Stable	Maintain	-
08-May-2021	AA	A1+	Stable	Maintain	-
16-May-2020	AA	A1+	Stable	Maintain	-
15-Nov-2019	AA	A1+	Stable	Maintain	-
17-May-2019	AA	A1+	Stable	Maintain	-
15-Nov-2018	AA	A1+	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The Nishat Mills Limited ("the Company" or "NML") ratings reflect a sponsor's strong financial strength and business profile. The NML is considered the leading group in Pakistan's textile industry with its strategic diversity vested in all respects of the textile product value chain. This stems from its remarkable history as the largest export-based, fully integrated unit along with a sizable strategic portfolio on a standalone basis. In segment-wise business contribution, the Spinning sector is the foremost segment, followed by Weaving, Dyeing, Home Textile and Terry, Garments, and Power Generation. The product slate of the Company primarily divests into Yarn, Grey Cloth, Processed Cloth, Made Ups, and Garments. During 6MFY24, a shift in international consumption & demand patterns has been observed mainly due to the global recession and slightly impacted the NML volumetric sales in the Grey Cloth, Processed Cloth, and Garments products segment. During 6MFY24, the top line of the Company stood at PKR 76.97bln (FY23: PKR 141.75bln) mainly dominated by export sales and indirect export sales have created a buffer in the local sales segment. The top clients and suppliers of the Company are well-established and stable entities that provide comfort to the business sustainability. The prime export destinations of the NML are spread across the countries of Europe, Asia, Africa, Australia, and the USA. The margins of the Company dipped minutely mainly on the back of expensive material procurement and a hike in energy costs inflated the cost of production coupled with magnifying finance costs. The Company's strong business fundamentals and optimal diversification have enabled them to cope with these challenges. The Company has already commissioned solar projects of 14.2 MW and 2.562 MW solar plants in the installation phase to manage energy cost risk. The Company is in the process of executing CAPEX in the Denim and Technical fabrics segment to further bolster and diversify its revenue streams by exploring multiple international markets and export avenues. The Company has maintained hefty long-term investments in group companies which provide comfort to the liquidity position and dividend income has created a cushion in the profitability matrix of the Company. The financial risk profile of the Company is considered moderate. The working capital cycle of the Company is slightly stretched depicts the industry norm. The working capital requirements of the Company are primarily met through internally generated cashflows and short-term borrowings. The magnifying finance cost impacted the coverages and net cash flows of the Company. The Company has maintained a moderately leveraged capital structure.

The ratings are dependent on the Company's ability to sustain business growth while generating sufficient cashflows and maintaining the profitability matrix at an optimal level. The sustainability of margins and improvement in coverages while expanding business volumes remain critical. The adherence to the debt matrix at an optimal level is a prerequisite for the assigned rating.

Disclosure

Name of Rated Entity	Nishat Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Composite and Garments(Dec-23)
Rating Analysts	Muhammad Harris Ghaffar | harris.ghaffar@pacra.com | +92-42-35869504

Profile

Legal Structure Nishat Mills Limited ("Nishat Mills" or "the Company") is a listed concern, which commenced operations in 1951.

Background Nishat Mills Limited is the flagship company of Nishat Group. Nishat Group is one of the renowned business conglomerates in Pakistan.

Operations The Company has a diverse product range. The Company is engaged in the business of textile manufacturing and of spinning, combing, weaving, bleaching, dyeing, printing, stitching, apparel, buying, selling and otherwise dealing in yarn, linen, cloth, and other goods and fabrics made from raw cotton, synthetic fibre, cloth and to generate, accumulate, distribute, supply and sell electricity. The Company's current operational capacity comprises 251,808 Spindles, 1007 Looms, 7320 Roters, 4 Rotary Printing Machines, 11 Digital Printing machines, 6 Thermosole Dyeing machines, 10 Finishing machines, 2 Slitting and 10 long Hemming automatic machines, and 5919 Stitching Machines. Overall, Nishat Mills has 29 manufacturing units each specializing in a specific product range.

Ownership

Ownership Structure Mian Mansha's family collectively owns the majority (~51%) shares of the Company directly through Individuals (~42%) and Group Companies (~8%). The remaining (~49%) stake is spread among Financial Institutions, General Public and Others.

Stability Mansha Family holds prominent positions in the Company. Moreover, the next generation is already in business, serving in various capacities in the Nishat Group. Roles are functionally divided among three brothers.

Business Acumen Nishat Mills is among the pioneers of progressive textile manufacturers in Pakistan, with approximately seven decades of presence in the textile value chain. The sponsors have seen several economic cycles and kept the growth trend intact to become the leading textile concern in the country.

Financial Strength Nishat Group is one of the most distinguished business groups in Pakistan with a large asset base of ~PKR 2.9trln. The Group has a strong foothold in the financial sector with a remarkable presence in the diverse sectors of the country's economy.

Governance

Board Structure The board comprises seven members with two directors representing the Sponsoring family, including the Chairman and the CEO. The directors include two independent directors, four non-executive directors, and one executive director working with other Nishat Group entities.

Members' Profile Board members have diversified experience and a relatively long association with the Company. The Chairman of the board, Mr. Hassan Mansha carries with him over two decades of experience in the textile value chain.

Board Effectiveness Appropriate board size and the presence of independent oversight bodes well for effective governance. Meanwhile, the Company's board has two board committees, the Audit, and Human Resource & Remuneration Committee to assist the board on relevant matters.

Financial Transparency M/s. Riaz Ahmad & Company, Chartered Accountants are the external auditors of the Company. The auditors have expressed an unqualified opinion on the financial statements for the period ended June 30th, 2023.

Management

Organizational Structure Management control vests with Nishat Group, with a well-defined reporting line to ensure smooth operations and efficiency.

Management Team Mr. Umer Mansha, the CEO, primarily manages the Company's affairs and is supported by a team of seasoned professionals. Mr. Umer Mansha has been associated with the Company since 1994.

Effectiveness The Company's management meetings are held on a periodic basis to ensure efficiency and formulate strategic plans. The top management tier ensures effective delegation of functional responsibility across various departments, facilitating the smooth flow of operations. The Company's monthly MIS comprises comprehensive segment and unit-wise performance reports including daily raw material consumption, production, inventory status, monthly pricing analysis, comparison of actual vs. budgeted performance, export vs. imports, and plant efficiency reports.

MIS The Company has deployed an Oracle-based Enterprise Resource Planning (ERP) system that provides comprehensive MIS reporting.

Control Environment The Company is accredited with international certifications for compliance. Nishat Mills has valid certificates for its products and facilities and is periodically audited to ensure compliance.

Business Risk

Industry Dynamics The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn, ~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector has a contribution of ~PKR l .6Trn mainly dominated by knitwear, readymade garments, bedwear, and towels followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs & finance costs, PKR devaluation, and ensuring the availability of optimum quality raw materials are the prime challenges specific to the industry to assess the international market and stay price-wise competitive.

Relative Position Nishat Mills is the largest composite textile unit in Pakistan with considerable representation, throughout the textile value chain. The company's major competitors are Gul Ahmed and Kohinoor Textile.

Revenues A major portion of the revenue base is derived from Export sales while the remaining portion is generated from Local sales. During 1HFY24, the Company's topline witnessed a sizeable improvement clocking at PKR 76.9bln (1HFY23: PKR 67.9bln) reflecting a growth of 22.4% on a YoY basis. The export sales constituted 60.1% of the total revenue recorded at PKR 46.2bln (1HFY23: PKR 45.2bln). The Company's export sales are spread across the countries of Europe (42%) followed by Africa, Asia, and Australia (37%), and America (21%). The Company's local sales displayed largely the same trend (1HFY24: PKR 30.7bln; 1HFY23: PKR 22.2bln) up by 22% YoY. During 1HFY24, the Company's top-performing segments were Spinning and Home Textile & Terry with a healthy contribution of 26.5% and 22.8%.

Margins The Company's gross profit displayed a decline (1HFY24: PKR 9.3bln; 1HFY23: PKR l l .4bln) citing a slump of 18.4% due to a higher COGS. The gross profit margin went down to 12.1% (1HFY23: 16.9%) which is in line with the industry trend. The Company's operating profit margin diluted to 6.5% (1HFY23: 10.7%). The Company's finance cost was reported as historically high (1HFY24: PKR 5bln; 1HFY23: PKR 2.3bln) attributable to the higher interest rate. Consequently, the Company's net profitability recorded a dip standing at PKR 5.6bln (1HFY23: PKR 7.8bln). Hence, the Company's net profit margin clocked at 7.3% (1HFY23: 11.6%).

Sustainability The Company is continuously in the process of Up-gradation and Expansion. On the strategic side, the company has planned to penetrate the respective industry with the addition of two new segments; Denim and Specialized Fabric attributable to a shift in the international consumption and demand pattern. The management has been concerting efforts to curtail the risk associated with elevated energy cost with the installation of a Solar plant.

Financial Risk

Working Capital The Company's working capital requirements are a function of its inventory and trade receivables for which the Company relies on a mix of internal generation and short-term borrowings (STBs). At end-Dec23, the Company's net working capital days inclined to 110 days (end-Jun23: 93 days). The Company's room to borrow improved on the back of a surge in the short-term trade leverage (end-Dec23: 9.5%; end-Jun23: 3.7%).

Coverages At end-Dec23, the Company's free cash flows from operations were reported at PKR 5.9bln (end-Jun23: PKR 14.lbln). The Company's interest coverage and core operating coverage remained in a moderate range as evidenced by the decline in FCFO. The Company's debt payback period exhibited a massive increase clocking at 8.5 years (end-Jun23: 1.9 years).

Capitalization The Company has a moderately leveraged capital structure. The Company's total leveraging has marginally increased (end-Dec23: 43.4%; end-Jun23: 40.3%) primarily attributable to an increase in total borrowings. As of end-Dec23, the Company's borrowing book illustrated an upward trend to stand at PKR 79.lbln (end-Jun23: PKR 60.5bln) to finance the higher working capital requirements. Out of this, the short-term borrowings constitute 71.4% clocking at PKR 56.5bln (end-Jun23: PKR 45.7bln). The Company's risk absorption capacity improved on the back of the enhanced equity base (end-Dec23: PKR 103.3bln; end-Jun23: PKR 89.7bln).

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Nishat Mills Limited	Dec-23	Jun-23	Jun-22	Jun-21
Textile	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	52,011	45,704	40,336	36,552
2 Investments	469	471	475	480
3 Related Party Exposure	67,445	55,590	40,084	55,923
4 Current Assets	85,693	68,520	56,639	38,158
a Inventories	*46,723*	*34,802*	*31,827*	*17,973*
b Trade Receivables	*17,769*	*13,209*	*10,366*	*6,549*
5 Total Assets	205,618	170,286	137,535	131,112
6 Current Liabilities	20,027	18,177	14,092	11,014
a Trade Payables	*9,926*	*9,727*	*8,564*	*6,251*
7 Borrowings	79,180	60,538	42,051	33,295
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	3,037	1,806	2,191	1,056
10 Net Assets	103,375	89,764	79,201	85,748
11 Shareholders' Equity	103,375	89,764	79,201	85,748
B INCOME STATEMENT				
1 Sales	76,971	141,756	115,768	71,431
a Cost of Good Sold	*(67,666)*	*(120,678)*	*(98,432)*	*(62,113)*
2 Gross Profit	9,305	21,079	17,336	9,318
a Operating Expenses	(4,272)	(8,389)	(7,337)	(4,437)
3 Operating Profit	5,033	12,690	9,998	4,881
a Non Operating Income or (Expense)	*8,089*	*9,644*	*5,069*	*3,418*
4 Profit or (Loss) before Interest and Tax	13,122	22,334	15,068	8,300
a Total Finance Cost	*(5,085)*	*(6,928)*	*(2,160)*	*(1,229)*
b Taxation	*(2,404)*	*(3,240)*	*(2,596)*	*(1,148)*
6 Net Income Or (Loss)	5,633	12,166	10,312	5,922
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*5,990*	*14,125*	*11,886*	*6,332*
b Net Cash from Operating Activities before Working Capi	*1,561*	*16,006*	*13,635*	*8,202*
c Changes in Working Capital	*(15,793)*	*(7,214)*	*(20,612)*	*576*
1 Net Cash provided by Operating Activities	(14,232)	8,792	(6,977)	8,778
2 Net Cash (Used in) or Available From Investing Activitie	(2,722)	(23,495)	(5,481)	(6,434)
3 Net Cash (Used in) or Available From Financing Activiti	16,855	16,963	7,277	2,800
4 Net Cash generated or (Used) during the period	(99)	2,260	(5,181)	5,144
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	8.6%	22.4%	62.1%	17.3%
b Gross Profit Margin	12.1%	14.9%	15.0%	13.0%
c Net Profit Margin	7.3%	8.6%	8.9%	8.3%
d Cash Conversion Efficiency (FCFO adjusted for Working	-12.7%	4.9%	-7.5%	9.7%
*e Return on Equity [Net Profit Margin * Asset Turnover **	11.7%	14.4%	12.5%	7.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	133	116	105	127
b Net Working Capital (Average Days)	110	93	82	94
c Current Ratio (Current Assets / Current Liabilities)	4.3	3.8	4.0	3.5
3 Coverages				
a EBITDA / Finance Cost	1.6	2.6	7.6	8.8
b FCFO / Finance Cost+CMLTB+Excess STB	1.0	1.5	2.5	1.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-	8.5	1.9	1.5	2.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Eq	43.4%	40.3%	34.7%	28.0%
b Interest or Markup Payable (Days)	97.3	105.1	77.3	80.0
c Entity Average Borrowing Rate	14.0%	11.1%	4.0%	2.9%

Credit Rating

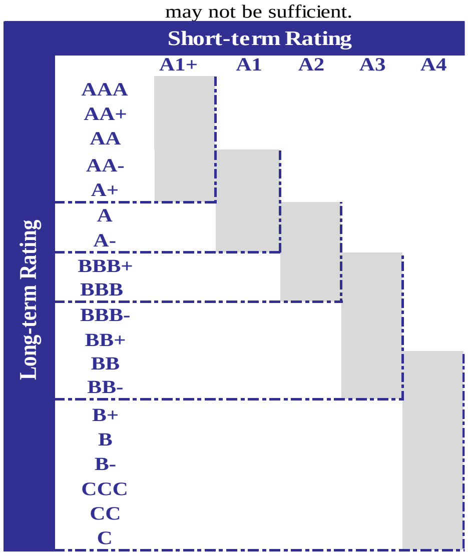
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High 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	**Very high credit 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 Rating

Scale	Definition
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

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(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

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(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
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(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
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(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)
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