The Pakistan Credit Rating Agency Limited

Rating Report

Nishat Mills Limited | PPSTS | PKR 15bln | TBI

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Sep-2023	AA	A1+	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The ratings reflect the established position of Nishat Mills as a premier export-oriented composite unit, with a sizable strategic portfolio and conservative capital structure. The Company enjoys prominence in the textile sector due to the wide array of its products, extensive outreach, and stable customer base. During FY22, the Company’s top line was recorded as historically high attributable to a high demand pattern for textile products. Moreover, a factor of continuous BMR has assisted the Company in maintaining a leading position in the textile universe. The diverse and sizable investment portfolio, emanating from the Company's implicit Holdco status within the Group, generates a regular dividend stream, supporting core income recorded at PKR 3.3bln (FY21: PKR 2.7bln). The company has a moderately leveraged capital structure. The leveraging increased to 34.7% (FY21: 28%) attributable to an incline in short-term borrowings. The Company's association with Nishat Group as its flagship entity remains a key rating factor. During 9MFY23, the Company’s topline demonstrated a positive growth YoY. The short-term borrowings reflected an unprecedented increase due to the onslaught of macroeconomic challenges and unfavorable prices. The repercussions were reflected in the form of a hike in finance cost. Meanwhile, the Company continues to receive sizable dividend income from its diversified investment portfolio that provides comfort to the ratings. The company’s bottom line clocked at PKR 11.1bln which translated into improved margins. However, the management of coverage and working capital cycle remains essential. The Company is expected to maintain its strong financial profile, going forward.

The ratings are dependent on the Company's ability to sustain its core margins and profitability. Preserving low-leveraged capital structure and sound coverages remains imperative.

Disclosure

Name of Rated Entity	Nishat Mills Limited | PPSTS | PKR 15bln | TBI
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Rating Modifiers(Apr-23),Methodology | Debt Instrument Rating(Aug-23)
Related Research	Sector Study | Composite and Garments(Dec-22)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Issuer Profile

Profile Nishat Mills Limited ("Nishat Mills" or "the Company") is a listed concern, which commenced operations in 1951. Nishat Mills is the flagship company of Nishat Group. Nishat Group is one of the renowned business conglomerates in Pakistan. The Company's current operational capacity comprises 303,048 Spindles, 959 Looms, 4 Rotary Printing Machines, 11 Digital Printing machines, 5 Thermosole Dyeing, and 4713 Stitching Machines. Overall, Nishat Mills has 32 manufacturing units each specializing in a specific product range.

Ownership 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, companies, and the general public. Mansha Family holds prominent positions in Nishat Mills. Significant roles are functionally divided among three brothers. The Group maintains a substantial presence in the country's financial sector and has a strong foothold in the textile, cement, power, dairy, automobile assembly industry and hospitality sectors.

Governance The board comprises seven members with two directors representing the sponsoring family, including the Chairman and the CEO. The remaining directors include two independent directors, while the other members are non-executive directors working with other Nishat Group entities. The Chairman of the board, Mr. Hassan Mansha carries with him over two decades of experience in the textile value chain. The Company’s board has two board committees, the Audit, and Human Resource & Remuneration Committee, to assist the board on relevant matters. 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, 2022.

Management Management control vests with Nishat Group, with a well-defined reporting line to ensure smooth operations and efficiency. Mr. Umer Mansha, the CEO, primarily manages the Company’s affairs and is supported by a team of seasoned professionals. 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. Nishat Mills has deployed an Oracle-based Enterprise Resource Planning (ERP) system. The Company is accredited with international certifications for compliance.

Business Risk The Company generates a major portion of its revenue from exports with a wide product range. The Company’s export destinations are Europe, America, Africa, Asia, and Australia. During FY22, the Company’s revenue base displayed a sizeable increase on a YoY basis to stand at PKR 115.7bln (FY21: PKR 71.4bln). Further segregation reveals that the Company’s total sales comprise the sale of yarn (26%), grey cloth (24%), processed cloth (19%), made-ups (16%), garments (12%), towels, and bath robes (3%). The company’s local sales sizably improved to PKR 33.2bln (FY21: PKR 18bln). During 9MFY23, the Company's topline was recorded at PKR 104.6bln. The Company enhanced its local sales to PKR 35.3bln due to low demand exhibited by the international market. The Company's export sales clocked at PKR 69.3bln. The Company’s gross margin witnessed improvement (FY22: 15%, FY21: 13%). The same trend was recorded in operating margins (FY22: 8.6%, FY21: 6.8%) due to controlled expenses. During 9MFY23, the operating margin inched up to 9.1%. Despite a sizeable increase in finance cost, the Company's net profit margin inclined to 10.6%. The Company is continuously in the process of up-gradation and expansion. Expansion in the spinning and towel segment is expected to have a further positive impact on the volumes of the Company.

Financial Risk At end-Jun22, the Company’s working capital days decreased to 82 days (end-Jun21: 94 days) due to a decrease in the inventory days recorded at 79 days (end-Jun21: 99 days). The Company’s short-term trade leverage displayed a sizeable increase to stand at 29.7% (end-Jun21: 10.5%). At end-Mar23, the Company's net working capital days inclined to 99 days. The short-term trade leverage tumbled to 1.7%. At end-Jun22, the Company’s free cash flows from operations recorded a sizeable increase on a YoY basis to stand at PKR 11.8bln (end-Jun21: PKR 6.3bln). Despite this increase, the Company’s interest coverage inched down to 6.7x (end-Jun21: 7.1x). The Company’s debt payback improved to 1.6 years (end-Jun21: 2.9 years). At end-Mar23, the Company's FCFO were recorded at PKR 11.1bln. The Company has a moderately leveraged capital structure. The leveraging increased (end-Jun22: 34.7%; end-Jun21: 28%) YoY. The Company’s equity base declined to PKR 79.2bln on a YoY basis (end-Jun21: PKR 85.7bln). The total borrowings recorded a sizeable increase at PKR 43.3bln (end-Jun21: PKR 34.5bln). Out of which, the short-term borrowings constitute 75.7% recorded at PKR 26.7bln (end-Jun21: PKR 18.7bln). At end-Mar23, the Company's leveraging posted a sharp increase at 43.2% due to a rise in total borrowings. The Company's total equity enhanced to PKR 87.6bln. The Company's short-term borrowings displayed a hike standing at PKR 50.2bln.

Instrument Rating Considerations

About The Instrument Nishat Mills Limited is in the process of issuing a privately placed, unsecured, non-convertible, and Shariah Compliant short-term Sukuk (PPSTS) of PKR 25bln with the consent of its legal advisor, MCB Bank Limited. The drawdown will be in two tranches; Sukuk-1 for PKR 15bln and Sukuk-2 for PKR 10bln. The proceeds of the facility will be utilized by the Company for funding its short-term working capital requirements including the procurement of cotton. The tenor of the instrument will be 6 months. The instrument carries a profit reset option and the profit will be paid as per the Pricing Frequency. The principal will be redeemable at the maturity date through a bullet payment. The maturity date will be 6 months after the issuance of the instrument.

Relative Seniority/Subordination Of Instrument The instrument is unsecured.

Credit Enhancement Facility Covenants to be mutually agreed between the Issuer and the MLAA in the Facility Documents, standard terms and conditions would be incorporated in the legal documentation.

The Pakistan Credit Rating Agency Limited

Nishat Mills Limited Textile	Mar-23 9M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	44,393	40,336	36,552	31,703
2 Investments	472	475	480	456
3 Related Party Exposure	37,304	40,084	55,923	46,620
4 Current Assets	90,184	56,639	38,158	31,883
a Inventories	*39,317*	*31,827*	*17,973*	*20,754*
b Trade Receivables	*12,736*	*10,366*	*6,549*	*4,327*
5 Total Assets	172,354	137,535	131,112	110,661
6 Current Liabilities	15,850	14,092	11,014	9,675
a Trade Payables	*9,835*	*8,564*	*6,251*	*6,689*
7 Borrowings	66,674	42,051	33,295	29,256
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	2,170	2,191	1,056	303
10 Net Assets	87,659	79,201	85,748	71,428
11 Shareholders' Equity	87,659	79,201	85,748	71,428
B INCOME STATEMENT				
1 Sales	104,609	115,768	71,431	60,904
a Cost of Good Sold	*(88,346)*	*(98,432)*	*(62,113)*	*(53,628)*
2 Gross Profit	16,263	17,336	9,318	7,276
a Operating Expenses	(6,712)	(7,337)	(4,437)	(4,114)
3 Operating Profit	9,551	9,998	4,881	3,162
a Non Operating Income or (Expense)	*8,184*	*5,069*	*3,418*	*2,819*
4 Profit or (Loss) before Interest and Tax	17,735	15,068	8,300	5,982
a Total Finance Cost	*(4,495)*	*(2,160)*	*(1,229)*	*(1,502)*
b Taxation	*(2,104)*	*(2,596)*	*(1,148)*	*(973)*
6 Net Income Or (Loss)	11,136	10,312	5,922	3,506
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*11,140*	*11,886*	*6,332*	*5,200*
b Net Cash from Operating Activities before Working Capital Changes	*7,518*	*13,635*	*8,202*	*6,121*
c Changes in Working Capital	*(10,228)*	*(20,612)*	*576*	*(2,128)*
1 Net Cash provided by Operating Activities	(2,709)	(6,977)	8,778	3,992
2 Net Cash (Used in) or Available From Investing Activities	(17,521)	(5,481)	(6,434)	(7,261)
3 Net Cash (Used in) or Available From Financing Activities	21,946	7,277	2,800	2,820
4 Net Cash generated or (Used) during the period	1,716	(5,181)	5,144	(448)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	20.5%	62.1%	17.3%	-4.1%
b Gross Profit Margin	15.5%	15.0%	13.0%	11.9%
c Net Profit Margin	10.6%	8.9%	8.3%	5.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	0.9%	-7.5%	9.7%	5.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	17.8%	12.5%	7.5%	N/A
2 Working Capital Management				
a Gross Working Capital (Average Days)	123	105	127	182
b Net Working Capital (Average Days)	99	82	94	143
c Current Ratio (Current Assets / Current Liabilities)	5.7	4.0	3.5	3.3
3 Coverages				
a EBITDA / Finance Cost	3.4	7.6	8.8	5.0
b FCFO / Finance Cost+CMLTB+Excess STB	1.7	2.5	1.6	2.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.7	1.5	2.7	2.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	43.2%	34.7%	28.0%	29.1%
b Interest or Markup Payable (Days)	92.4	77.3	80.0	67.5
c Entity Average Borrowing Rate	8.4%	--	2.9%	4.4%

Credit Rating

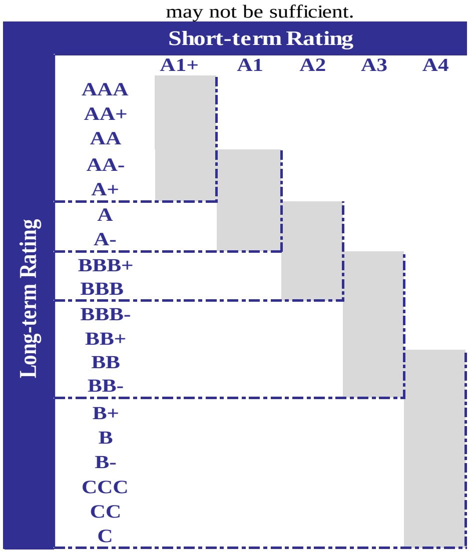
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(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)

Conduct of Business
(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).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(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)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(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)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

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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 | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)
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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (PKR mln)
Rated, Privately placed, Short-term Sukuk (PPSTS)	15,000mln	6 months	Unsecured	N/A	N/A	MCB Bank Limited	N/A

Name of Issuer	Nishat Mills Limited
Issue Date	1-Oct-23
Maturity	6 months after the issuance
Call Option	Call option available after 3 months of issuance of the instrument

Due Date Principal*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit rate	3M Kibor Plus 45-65 bps	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln					PKR in mln		
Issuance								15,000
1-Oct-23	15,000			3M KIBOR + 0.55%	23.33%*		-	15,000
31-Mar-24	15,000	15,000	31-Mar-24	3M KIBOR + 0.55%	23.33%*	875	15,875	-
		15,000				**875**	**15,875**	

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