



The Pakistan Credit Rating Agency Limited

Rating Report

TATA Textile Mills Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Sep-2019	A-	A2	Stable	Maintain	-
30-Mar-2019	A-	A2	Stable	Maintain	-
03-Dec-2018	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Tata Textile Mills Limited – a public listed company - primarily engaged in the manufacturing and sale of different varieties of yarn is majorly owned by Mr. Anwar Tata's group. Tata group currently owns three textile mills i.e. Island, Salfi and Tata Textile Mills Limited. The group is also diversified into power and food sectors. Spinning industry has recently suffered as lower demand for cotton yarn from China owing to trade war with USA has led to lower exports volume. Tata Textile's margins and, in turn, profitability have deteriorated, when compared to peers, as the Company had to divert its sales to local market. The ratings of Tata Textile reflect the financial risk profile of the Company, which is characterized by moderate leveraging, strong coverages - despite high interest rates and adequate working capital management. Long association of experienced and professional management team adds comfort. Going forward, management is planning to merge all three textile entities in order to benefit from the economies of scale.

The ratings are dependent on improving business margins while maintaining financial risk at low level. Prudent management of short-term liquidity and sustained coverages are important. Going forward, materialization of successful merger of all three textile entities would be rating essential.

Disclosure

Name of Rated Entity	TATA Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Criteria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Spinning(Sep-19)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

Profile

Legal Structure Tata Textile Mills limited ('The Company' or 'Tata textile') was incorporated in 1991 is a public listed company. The Company is engaged in the manufacturing and sale of different varieties of yarn. Tata Textile is listed on the Pakistan Stock Exchange (PSX).

Background In 1980s, TATA Pakistan took over the management of the spinning unit of the already established Island Textile Mills Limited, along with Salfi Textile Mills Limited and swiftly developed a recognized name in the spinning of cotton yarns. It later established Tata Textile Mills Limited, in the early 90s, as part of its expanding business base.

Operations The primary business of the Company is manufacturing and sale of different varieties of yarn. Functioning with two manufacturing units, the total number of spindles installed is 44,400 spindles which operate in 3 shifts per day.

Ownership

Ownership Structure The CEO (Shahid Anwar Tata), along with other family members and associated companies collectively own majority (67%) shares of the Company. The remaining shareholding of the Company is held by mutual funds (11%) and general public (22%).

Stability Tata group is one of the oldest and renowned groups of Pakistan. Third generation of Tata family has entered into the business. Although there is no formal succession plan but roles among Adeel Shahid Tata and Bilal Shahid Tata are clearly defined. Proper definition of roles give Tata group long-term stability.

Business Acumen Mr. Anwar Tata - Chairman of the Company has more than ~50 years of work experience, possessing strong business acumen of the Industry. Tata Family has decades of textile related business experience, which remains key in day to day operations of the group.

Financial Strength Apart from Textile companies, Tata group also has interests in power and food sector. Overall financial strength of the sponsors is considered strong.

Governance

Board Structure The control of the Company vests in seven members including Mr. Anwar Ahmad Tata as the Chairman of the board. There are two executive, four non-executive and one independent member in the board.

Members' Profile Board members have diversified experience, and relatively long association with the Company. Chairman - Mr. Anwar Ahmad Tata - has over 5 decades of experience.

Board Effectiveness For effective results the board has formed two committees (Audit and HR) to assist the board on relevant matters. During FY19, four board meetings were held with majority attendance to discuss pertinent matters.

Financial Transparency The External Auditors of the Company are M/s. Deloitte Yousuf Adil, Chartered Accountants. They expressed an unqualified opinion on the Company's financial statements for the half year ended December 31, 2018. The auditors fall in the Category - "A" of the SBP's Panel of Auditors. Audit for the Company's financial statements for the year ended June 30, 2019.

Management

Organizational Structure Tata Pakistan has joint management at corporate head office, which wheels all the companies involved in the group. Shahid Anwar Tata – CEO – primarily manages the Company's affairs, supported by a team of professionals.

Management Team Management team comprises long associated and experienced individuals. Mr. Shahid Anwar Tata, the CEO of the Company, is a graduate with an overall experience of 42 years.

Effectiveness All deliberations are held at meetings conducted by department heads on "as and when needed" basis. Though there is no formal process for meetings at Tata Textile but daily and weekly meetings are done to manage affairs.

MIS Tata Textile deploys Oracle based Enterprise Resource Planning (ERP) system with the license of 400 corporate users. The Company's MIS can be classified into two categories on the basis of periodicity – daily and monthly. The daily and weekly reports generated for top management mainly scrutinize production and liquidity position, whereas, the Company's P&L is discussed on need basis in the meetings.

Control Environment Tata Textile's plant is connected with head office through VPN, thereby reporting on real time basis. Moreover, All associated companies of Tata Pakistan group are ISO-9001 compliant, whereas Tata Textile is also awarded with OEKO Tex Standard 100 Certifications and Cotton USA License.

Business Risk

Industry Dynamics During FY19, exports stagnated despite major segments including cotton cloth, knitwear, garments and bedwear displayed strong quantitative growth, industry players needed to share the benefit of the currency depreciation with their buyers which resulted in a unit price dip across all major categories, curbing overall growth. This, coupled with cotton yarn displaying double-digit quantitative decline on account of the US-China trade war as well as strong domestic demand for yarn, resulted in overall increase in exports of only 0.1% YoY. Going forward, withdrawal of textile's zero rated status will impact industry's overall liquidity and margins.

Relative Position With 44,400 spindles Tata textile's position in Pakistan spindle capacity is considered small. However at group level Tata group has a better position among industry players with 127,092 spindles.

Revenues During 9MFY19, the Company's topline clocked-in at PKR 4,882m (9MFY18: PKR 4,352m) up by 12% YoY. Increase in topline is on account of increased value of exports and better yarn prices in the local market.

Margins During 9MFY19, company's cost of sales increase by PKR 484m. (9MFY19: PKR 4,446m, 9MFY18: PKR 3,962m) – Majorly due to increased cost of raw material. As a result, Gross margin of the Company slightly decreased to 8.9% (9MFY18: 9%), whereas operating profit margin improved to 5.7% (9MFY18: 9%). Finance cost has increased by 91%, to PKR 208m (9MFY18: PKR 109m). Net profit of the Company decreased substantially to PKR 33m (9MFY18: PKR 118m) due to higher finance cost and taxation during the period.

Sustainability During FY19, Tata Textile Mills limited achieved full capacity utilization and no further expansion is envisaged in near future. Going forward, the management is working to increase the turnover and productivity of the Company, while reducing the cost of production.

Financial Risk

Working Capital During 9MFY19, Tata Textile's net working capital cycle marginally increased to 121 days (9MFY18: 117days) mainly due to increase in trade receivable days to 44days in 9MFY19 (9MFY18: 25days). Short term borrowings (STBs) increased by 20% (9MFY19: PKR 2,372m, 9MFY18: PKR 1,981m). Whereas, inventory decreased by 5.6% and trade debts increased by 94%. The Company's room to borrow during the period clocked in at 22%, showing a healthy position.

Coverages During 9MFY19, the company's cash flows (FCFO) increased to PKR 394m (9MFY18: PKR 358m). Impact of increase in FCFO was nullified by increase in finance cost, which consequently resulted in decline in interest coverage ratio to 2.1x (9MFY18: 3.6) and debt coverage ratio to 1.5x (9MFY18: 2.5x). With rise in interest rates, coverages are expected to further deteriorate.

Capitalization The Company has a moderately leveraged capital structure (9MFY19: 43.9%, 9MFY18: 46.8%). Out of the total debt 19% of the debt comprises of long-term borrowings. Going forward, in absence of any major capacity expansion, and with the gradual payments of long-term loans, the leveraging is expected to reduce over time.



Tata Textile Mills Limited Textile	Mar-19 9M	Jun-18 12M	Mar-18 9M	Jun-17 12M	Jun-16 12M
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A BALANCE SHEET

1 Non-Current Assets	3,912	3,939	3,207	2,948	2,895
2 Investments	-	20	-	269	15
3 Related Party Exposure	-	-	-	-	-
4 Current Assets	3,614	2,545	2,949	1,970	1,565
a Inventories	1,742	1,090	1,851	1,115	858
b Trade Receivables	776	778	400	409	313
5 Total Assets	7,526	6,503	6,156	5,187	4,475
6 Current Liabilities	444	455	397	281	413
a Trade Payables	31	38	31	41	88
7 Borrowings	2,943	1,944	2,578	1,861	1,078
8 Related Party Exposure	-	-	-	-	-
9 Non-Current Liabilities	385	366	253	235	165
10 Net Assets	3,754	3,737	2,928	2,810	2,818
11 Shareholders' Equity	3,754	3,737	2,928	2,810	2,818

B INCOME STATEMENT

1 Sales	4,883	6,042	4,352	5,014	4,907
a Cost of Good Sold	(4,446)	(5,407)	(3,962)	(4,674)	(4,678)
2 Gross Profit	436	635	390	340	228
a Operating Expenses	(159)	(270)	(171)	(220)	(286)
3 Operating Profit	277	364	219	120	(58)
a Non Operating Income	1	68	38	65	6
4 Profit or (Loss) before Interest and Tax	278	432	257	185	(52)
a Total Finance Cost	(208)	(142)	(109)	(101)	(108)
b Taxation	(36)	(75)	(30)	(41)	(34)
6 Net Income Or (Loss)	33	215	118	42	(194)

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	394	600	358	308	24
b Net Cash from Operating Activities before Working Capital Changes	238	460	269	210	(86)
c Changes in Working Capital	(1,178)	(115)	(662)	(755)	583
1 Net Cash provided by Operating Activities	(940)	345	(392)	(545)	497
2 Net Cash (Used in) or Available From Investing Activities	(111)	(404)	(392)	(209)	(89)
3 Net Cash (Used in) or Available From Financing Activities	350	84	86	782	(409)
4 Net Cash generated or (Used) during the period	(701)	25	(698)	28	(1)

D RATIO ANALYSIS

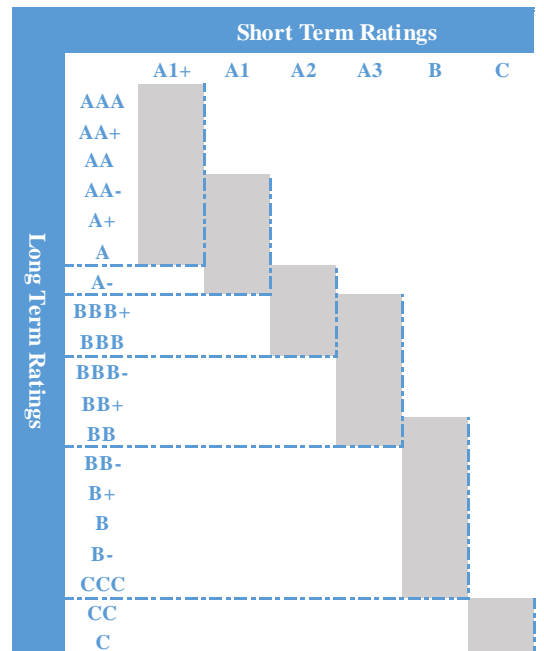
1 Performance					
a Sales Growth (for the period)	7.8%	20.5%	15.7%	2.2%	--
b Gross Profit Margin	8.9%	10.5%	9.0%	6.8%	4.7%
c Net Profit Margin	0.7%	3.6%	2.7%	0.8%	-4.0%
d Cash Conversion Efficiency (EBITDA/Sales)	9.2%	11.4%	9.7%	7.5%	2.2%
e Return on Equity (ROE)	1.2%	6.6%	5.5%	1.5%	-7.4%
2 Working Capital Management					
a Gross Working Capital (Average Days)	123	102	119	98	135
b Net Working Capital (Average Days)	121	100	117	93	130
c Current Ratio (Total Current Assets/Total Current Liabilities)	8.1	5.6	7.4	7.0	3.8
3 Coverages					
a EBITDA / Finance Cost	2.4	5.0	4.2	3.7	1.0
b FCFO / Finance Cost+CMLTB+Excess STB	1.5	2.3	2.5	1.9	0.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.1	1.3	1.7	1.4	-2.7
4 Capital Structure (Total Debt/Total Debt+Equity)					
a Total Borrowings / Total Borrowings+Equity	43.9%	34.2%	46.8%	39.8%	27.7%
b Short-Term Borrowings / Total Borrowings	0.8	0.7	0.8	0.8	0.8
c Average Borrowing Rate	10.3%	7.2%	6.0%	6.9%	8.5%

#	Notes
D5	The line includes Advances from Customers, amounting to PKR 2.5bln [FY17: PKR 2.2bln]
-	-
-	-
-	-
-	-

Credit 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		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

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

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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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- (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.
- (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)

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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)
- (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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