The Pakistan Credit Rating Agency Limited

Rating Report

Nishat Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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	-
25-Apr-2018	AA	A1+	Stable	Maintain	-
30-Jun-2017	AA	A1+	Stable	Maintain	-
27-Sep-2016	AA	A1+	Stable	Maintain	-

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 textile sector due to wide array of its products, extensive outreach and stable customer base. Meanwhile, the Company’s revenues are consistently on a growing trajectory on account of both favorable rate and volume variance. Moreover, a factor of continuous BMR has assisted the Company in maintaining its leading position. The diverse and sizable investment portfolio, emanating from the Company's implicit Holdco status within the Group, generates regular dividend stream, supporting core income recorded at PKR 1.9bln as at end-Dec-21. Although Nishat remained moderately leveraged, its leveraged increased from 28.7% to 39.4% as at end-Dec’21 mainly due to increase in short-term borrowing. The Company's association with Nishat Group as its flagship entity, remains a key rating factor. Textile industry dynamics are proving to be vigorous mainly due to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. Export’s front witnessed a strong increase and is expected to stay positive in the medium term where the demand for textile products is expected to sustain. Meanwhile, the Company continues to receive sizable dividend income from its diversified investment portfolio that provides comfort to the ratings. The Company is expected to maintain its very strong financial profile.

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
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Composite and Garments(Dec-21)
Rating Analysts	Sehar Fatima | sehar.fatima@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 is the flagship company of Nishat Group. Nishat Group is one of the renowned business conglomerates in Pakistan.

Operations Nishat Mills' current operational capacity comprises 263,832 Spindles, 790 Looms, 4 Rotary Printing Machines, 10 Digital Printing Machine, 5 Thermosole Dyeing and 3,347 Stitching Machines. Overall, Nishat Mills has 32 manufacturing units each specializing in a specific product range. The total energy requirement of the Company is ~50 MW, which is met through in-house generation. Meanwhile, the Company has LESCO & FESCO connections as alternative sources.

Ownership

Ownership Structure Nishat Mills is the flagship company of Nishat Group. 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.

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

Business Acumen Nishat Mills is among the pioneers of progressive textile manufacturers of 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. 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

Board Structure The board comprises eight members with two directors representing the sponsoring family, including the Chairman and the CEO. The remaining directors include two independent members, two executive directors, while all other members are non-executive directors working with other Nishat Group entities.

Members' Profile Board members have diversified experience and 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 presence of independent oversight bodes well for effective governance. The governance framework can be strengthened through the induction of more independent directors in line with the requirements of SECP. 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, listed on panel of SBP, are the external auditor of the Company. The auditors have expressed an unqualified opinion on the financial statements for the period ending June, 2021.

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 is 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 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 and monthly pricing analysis, comparison of actual vs. budgeted performance, export vs. imports, and plant efficiency reports.

MIS Nishat Mills deploys 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 During the period July-December FY21- 22, textile exports surged 26 percent YoY, fielding $9.39 billion in total export remittances, as compared to $7.44 billion in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of value-added textile items increased in both quantity and value in December 2021. Going forward, the textile sector's outlook is expected to stay positive in the medium term where the demand for textile products is expected to sustain. In the local market, the textile sector has recorded strong performance. The relief measures introduced by the State Bank of Pakistan such as deferment of loan payments for one year, low-interest rates, and salary refinance scheme also provided comfort to the sector. Many players have also availed the TERF scheme announced by the Central Bank. This will lead to overall leverage of the sector to increase; however, on relaxed financing rates. The sustainability of demand pattern for the current higher orders from Europe and USA remains essential for the feasible utilization of added capacity by textile players.

Relative Position Nishat Mills is the largest composite textile unit in Pakistan with considerable representation, throughout the textile value chain. The Company is a leading exporter with ~2.5% (FY21) share in the country's total textile exports.

Revenues During 1HFY22, the Company's top-line clocked in at PKR 52.8bln (1HFY20: PKR 33.1bln), posting notable growth of 59.62%. The growth is driven by both favorable rate and volume variance. The sales mix of Nishat Mills continued to be dominated by exports 65.9% in 1HFY22.

Margins During the current half year, the Company's gross margin increased by 4.41% from 11.39% to 15.80%. Despite an increase in raw material and energy cost, gross margin increased mainly on the back of better marketing strategies. Another reason for the increase was the depreciation of Pak Rupee against US dollar by 13.26% during the half year. Profit after tax of the company also sizably enhanced to PKR 5.6bln in 1HFY22 (1HFY21: PKR 1.7bln). Along with robust increase in earnings from core operations, dividend income also supplemented the profitability (1HFY22: PKR 1.5bln, 1HFY21: PKR 768mln).

Sustainability The Company is continuously in the process of up-gradation and expansion. Expansion in the spinning and towel segment is expected to have further positive impact on volumes of the Company. Recently, the increase in cotton prices has resulted in inventory gains for many players. The company, however, planned to cover annual raw cotton requirements with mix of local and imported cotton by closely watching market dynamics.

Financial Risk

Working Capital The Company meets its working capital requirements through a mix of internal generation and short-term borrowings (STBs). With the decrease in average inventory days, slight decrease in net working capital days was recorded in the first half of current year (1HFY22: 95days, 1HFY21: 100days).

Coverages During 1HFY22, Nishat Mills' cashflows (FCFO) has improved to PKR 5.7bln as compared to PKR 2.7bln in the same period last year. Consequently, interest coverage improved (1HFY22: 9.1x, 1HFY21: 5.4x) and remained strong. Debt coverages also improved (1HFY22: 2.0x, IHFY21: 1.2x).

Capitalization The leveraging of the company has increased as at end-Dec21 to 39.4% (end-Jun21: 28.7%). Out of total Debt, short term borrowing constitutes 67.9% and recorded at PKR 34.6bln. Further 83.48% of total borrowing is borrowed from SBP at concessionary rates.

The Pakistan Credit Rating Agency Limited

ncial Summary
PKR mln

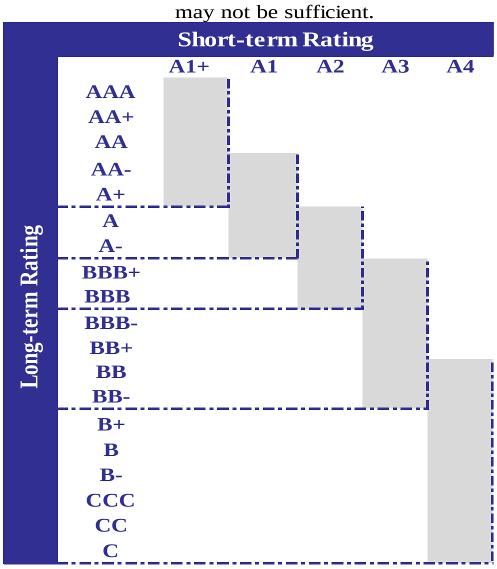
Nishat Mills Limited Textile | Composite	Dec-21 6M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	39,896	36,552	31,703	29,358
2 Investments	477	480	456	1,020
3 Related Party Exposure	52,775	55,923	46,620	41,641
4 Current Assets	56,459	38,158	31,883	28,527
a Inventories	*33,596*	*17,973*	*20,754*	*17,008*
b Trade Receivables	*10,048*	*6,549*	*4,327*	*4,711*
5 Total Assets	149,607	131,112	110,661	100,545
6 Current Liabilities	11,084	9,806	9,675	8,688
a Trade Payables	*7,002*	*6,251*	*6,689*	*6,239*
7 Borrowings	54,334	34,502	29,256	25,027
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	794	1,056	303	215
10 Net Assets	83,395	85,748	71,428	66,615
11 Shareholders' Equity	83,395	85,748	71,428	66,615
B INCOME STATEMENT				
1 Sales	52,892	71,431	60,904	63,499
a Cost of Good Sold	*(44,536)*	*(62,113)*	*(53,628)*	*(55,842)*
2 Gross Profit	8,356	9,318	7,276	7,657
a Operating Expenses	(3,379)	(4,437)	(4,114)	(3,889)
3 Operating Profit	4,977	4,881	3,162	3,768
a Non Operating Income or (Expense)	*2,213*	*3,418*	*2,819*	*4,797*
4 Profit or (Loss) before Interest and Tax	7,190	8,300	5,982	8,565
a Total Finance Cost	*(777)*	*(1,229)*	*(1,502)*	*(1,668)*
b Taxation	*(808)*	*(1,148)*	*(973)*	*(1,038)*
6 Net Income Or (Loss)	5,605	5,922	3,506	5,859
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*5,772*	*6,332*	*5,200*	*5,413*
b Net Cash from Operating Activities before Working Capital Changes	*7,252*	*8,202*	*6,121*	*7,245*
c Changes in Working Capital	*(20,648)*	*576*	*(2,128)*	*(2,966)*
1 Net Cash provided by Operating Activities	(13,396)	8,778	3,992	4,279
2 Net Cash (Used in) or Available From Investing Activities	(8,489)	(6,434)	(7,261)	(7,332)
3 Net Cash (Used in) or Available From Financing Activities	18,317	2,800	2,820	3,524
4 Net Cash generated or (Used) during the period	(3,569)	5,144	(448)	472
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	48.1%	17.3%	-4.1%	18.2%
b Gross Profit Margin	15.8%	13.0%	11.9%	12.1%
c Net Profit Margin	10.6%	8.3%	5.8%	9.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-28.1%	9.7%	5.0%	3.9%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	13.3%	7.5%	5.1%	8.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	118	127	140	109
b Net Working Capital (Average Days)	95	94	101	78
c Current Ratio (Current Assets / Current Liabilities)	5.1	3.9	3.3	3.3
3 Coverages				
a EBITDA / Finance Cost	10.3	8.8	5.0	4.6
b FCFO / Finance Cost+CMLTB+Excess STB	2.0	1.2	2.7	1.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.7	2.9	2.5	1.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	39.5%	28.7%	29.1%	27.3%
b Interest or Markup Payable (Days)	93.8	80.0	67.5	61.8
c Entity Average Borrowing Rate	3.1%	2.9%	4.4%	5.2%

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):

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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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.
(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)

Monitoring and review
(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)
Proprietary Information