



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
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	-

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. Meanwhile, the Company's revenues are consistently on a growing trajectory, a factor of continuous BMR activities, which has helped 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 a regular dividend stream, supporting core income. Margins remained largely intact where growth witnessed in revenue. Segment analysis reveals enhanced reliance on home textile and dyeing – stronger margins. Nishat Mills continues to maintain a low leveraged capital structure and strong coverages signifying its very strong financial profile. The Company's association with Nishat Group as its flagship entity remains a key rating factor. Textile industry dynamics are prone to challenges posed by the third wave of the COVID-19 pandemic. The country's textile group exports, however, have witnessed 9.06% growth during the first nine months (July-March) 2020-21 and remained at \$11.35bln compared to \$10.4bln during the same period last year. The trend of export orders will determine stability in the sector's outlook in the medium term. However, the Government and SBP's several initiatives help support export-oriented entities, providing some relief. 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 despite prevailing tough conditions.

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

Disclosure

Name of Rated Entity	Nishat Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Composite(Nov-20)
Rating Analysts	Muhammad Fahad Iqbal fahad.iqbal@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 262,035 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 trends 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, and hospitality sectors. Recently, the Group has entered Pakistan's automobile assembly industry through joint collaboration with Hyundai Motors.

Governance

Board Structure The board comprises seven members with two directors representing the sponsoring family, including the Chairman and the CEO. The remaining directors include two independent members 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 the 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 FY20.

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 The country's textile group exports have witnessed 9.06% growth during the first nine months (July-March) 2020-21 and remained at \$11.35bln compared to \$10.4bln during the same period last year. Textile group exports have witnessed an increase of 9.85% in Mar-21 as it stood at \$1.35bln compared to \$1.2bln during Feb-21. Textile group exports have registered a growth of 30.38% on a year-on-year basis as it reached \$1.3bln in Mar-21 compared to \$1.03bln in Mar-20. COVID-19 pandemic and related lockdown imposed by the governments around the globe in FY20 had its ramifications however Pakistani textile exports have been seen rebounding in 1HFY21. Most of the segments recorded incline in prices (USD terms) which is positive. The export outlook is likely to remain stable in the medium term as textile units have been operating at optimized capacity levels.

Relative Position Nishat Mills is the largest composite textile unit in Pakistan with considerable representation, throughout textile value chain. The Company is leading exporter with ~2.5% (FY20) share in the country's total textile exports. Nishat Mills' major competitors are Gul Ahmed, Kohinoor Textile and Sapphire.

Revenues During 1HFY21, the Company's top-line clocked in at PKR 33.1bln (1HFY20: PKR 32.9bln), posting a growth of 0.8%. The growth is driven by i) better pricing, ii) higher export proceeds of value-added products and iii) continuous BMR activities leading to higher volumetric growth. The sales mix of Nishat Mills continued to be dominated by exports 74.4% in 1HFY21 (1HFY20: 25.6%). In 1HFY21, the sales mix of Nishat Mills is dominated by garments as the key revenue contributor (16.6%), followed by home textile (14.24%), dyeing (13.09%), weaving (11.66%), and spinning (3.31%).

Margins The Company's gross margin dropped slightly (1HFY21: 11.4%, 1HFY20: 12.3%) due to higher input costs. Similarly, due to higher distribution cost attributable to export-oriented nature, operating margin declined (1HFY21: 5.1%, 1HFY20: 5.8%). The Company received a dividend income of PKR 768mln in 1HFY21 which declined due to lower dividend from D. G. Khan Cement. Despite a slight reduction in finance cost (1HFY21: PKR 609mln, 1HFY20: PKR 648mln), net margin (1HFY21: 5.4%, 1HFY20: 5.8%) remained stagnant and the Company posted a net profit of PKR 1.7bln in 1HFY21 (1HFY20: PKR 1.9bln).

Sustainability The Company is continuously in the process of up-gradation and expansion. Expansion in the spinning and towel segment is expected to have a positive impact on volumes of the Company. Economic uncertainty inflicted by the COVID-19 pandemic has greatly affected the future planning and current performance of the Company. So far, Nishat's years-old strategy to diversify their product range paid off because the Company was able to sell to the health care sector as soon as pandemic emerged. Apart from the coronavirus pandemic, another major challenge faced was the expected rise in cotton prices due to the shortage of cotton crops as a result of floods and heavy rains in cotton-growing areas. Management of the Company is aware of the ensuing problems and has prepared its strategic plans accordingly. Nishat has also included work wear abrasive and technical fabric in the product range because pandemic has severely affected retail industry which mainly sells fashion products.

Financial Risk

Working Capital The Company meets its working capital requirements through a mix of internal generation and short-term borrowings (STBs). Though payables were stretched to an extent, an increase in inventory days led to a slight increase in net working capital days (1HFY21: 100days, 1HFY20: 86days).

Coverages Nishat Mills' cashflows (FCFO) drops slightly (1HFY21: PKR 2.7bln, 1HFY20: PKR 2.8bln). Consequently, Interest coverage maintained (1HFY21: 5.4x, 1HFY20: 5.4x) but remained strong. Debt coverages declined (1HFY21: 1.2x, 1HFY20: 1.6x) because of lower CMLTD as the Company has opted to avail one-year deferral option of long-term loan repayments by SBP due to COVID-19. The Company's TCF debt coverage also slightly improved (1HFY21: 1.6x; 1HFY20: 2.1x).

Capitalization Nishat Mills has a low leveraged capital structure 29.8% in 1HFY21 (1HFY20: 28.6%). Out of total debt of PKR 33.5bln in 1HFY21, short term borrowings debt comprises 60.5%. Further 90% of total borrowing is borrowed from SBP at concessionary rates.



Nishat Mills Limited Composite	Dec-20 6M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	31,580	31,703	29,358	28,471
2 Investments	462	456	1,020	3,035
3 Related Party Exposure	57,824	46,620	41,641	48,669
4 Current Assets	31,111	31,883	28,527	22,560
<i>a Inventories</i>	17,403	20,754	17,008	12,244
<i>b Trade Receivables</i>	6,304	4,327	4,711	4,030
5 Total Assets	120,977	110,661	100,545	102,736
6 Current Liabilities	8,256	9,675	8,688	6,608
<i>a Trade Payables</i>	5,684	6,689	6,239	4,768
7 Borrowings	33,545	29,256	25,027	19,843
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	303	215	572
10 Net Assets	79,176	71,428	66,615	75,713
11 Shareholders' Equity	79,176	71,428	66,615	75,713
B INCOME STATEMENT				
1 Sales	33,136	60,904	63,499	53,729
<i>a Cost of Good Sold</i>	(29,361)	(53,628)	(55,842)	(48,179)
2 Gross Profit	3,775	7,276	7,657	5,550
<i>a Operating Expenses</i>	(2,069)	(4,114)	(3,889)	(3,512)
3 Operating Profit	1,706	3,162	3,768	2,038
<i>a Non Operating Income or (Expense)</i>	1,095	2,819	4,797	3,913
4 Profit or (Loss) before Interest and Tax	2,802	5,982	8,565	5,951
<i>a Total Finance Cost</i>	(609)	(1,502)	(1,668)	(994)
<i>b Taxation</i>	(419)	(973)	(1,038)	(860)
6 Net Income Or (Loss)	1,774	3,506	5,859	4,097
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	2,702	5,200	5,413	3,745
<i>b Net Cash from Operating Activities before Working Capital</i>	3,012	6,121	7,245	6,320
<i>c Changes in Working Capital</i>	907	(2,128)	(2,966)	(596)
1 Net Cash provided by Operating Activities	3,919	3,992	4,279	5,725
2 Net Cash (Used in) or Available From Investing Activities	(5,225)	(7,261)	(7,332)	(1,719)
3 Net Cash (Used in) or Available From Financing Activities	1,343	2,820	3,524	(3,944)
4 Net Cash generated or (Used) during the period	36	(448)	472	61
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	8.8%	-4.1%	18.2%	9.1%
<i>b Gross Profit Margin</i>	11.4%	11.9%	12.1%	10.3%
<i>c Net Profit Margin</i>	5.4%	5.8%	9.2%	7.6%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital / Operating Profit)</i>	10.9%	5.0%	3.9%	5.9%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets / Equity)]</i>	4.7%	5.1%	8.7%	5.0%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	134	140	109	106
<i>b Net Working Capital (Average Days)</i>	100	101	78	76
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	3.8	3.3	3.3	3.4
3 Coverages				
<i>a EBITDA / Finance Cost</i>	6.5	5.0	4.6	6.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.2	2.7	1.7	1.3
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin Cost)</i>	3.0	2.5	1.8	2.4
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	29.8%	29.1%	27.3%	20.8%
<i>b Interest or Markup Payable (Days)</i>	76.3	67.5	61.8	54.2
<i>c Entity Average Borrowing Rate</i>	3.3%	4.4%	5.2%	3.4%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk 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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- (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.
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- (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)
- (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)
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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)

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