The Pakistan Credit Rating Agency Limited

Rating Report

Zahidjee Textile Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-Oct-2024	A	A1	Stable	Maintain	-
31-Oct-2023	A	A1	Stable	Maintain	-
02-Nov-2022	A	A1	Stable	Upgrade	-
25-Oct-2021	A	A2	Stable	Upgrade	-
29-Oct-2020	A-	A2	Positive	Maintain	-
30-Oct-2019	A-	A2	Positive	Maintain	-
30-Apr-2019	A-	A2	Stable	Maintain	-
28-Dec-2018	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect the adequate positioning of ("Zahidjee Textile Mills Limited" or "ZTML") in the competitive textile landscape. It functions as a vertically integrated unit equipped with cutting-edge production mechanisms that ensure premium quality products across its spinning, weaving and stitching facilities. It specializes in various categories of yarn (with multiple counts ranging from 8s to 52s), fabric and made-ups. To maintain its product competitiveness and meet future demand, the Company executed a capital expenditure of ~PKR 3bln for the installation of ~16,800 new high-end spindles for manufacturing of finer yarn counts thereby enhancing its customer base; which has been commercialized; financed through a debt-to-equity mix of 70:30. A substantial portion of the Company's topline is invested in the local market, contributing PKR 34.8bln, with a dominant share of PKR 32.2bln from Yarn sales, while made-ups and cloth generated PKR 3.2bln in the export segment. During FY24, the Company experienced an upward trajectory in revenue growth, reaching PKR 37.7bln (FY23: PKR 32.3bln), mainly attributable to the production of finer yarn counts, which augmented ZTML's final product pricing matrix for its local customer base, consisting of stable entities. In terms of volume, yarn is the Company's top-selling product constituting ~85.4% of the total revenue followed by a minute share of waste and leftover, conversion receipts and cloth. In the international market, the Company offers a broad range of products, including sheets, draw sheets, pillowcases, knitted sheets, patient gowns and tablecloths. During FY24, the dilution in gross margins was caused by the procurement of imported raw cotton to elevate product quality and rationalize the supply chain matrix, coupled with escalating energy costs driven by higher electricity and gas tariffs and a surge in salaries and wages in line with the country's inflationary trends. The funding matrix of the Company revolves around the strategic allocation of funds to short-term investments in term deposit receipts, which supplement the liquidity profile and augment net profitability through the inflow of interest income, taxed at favorable rates. However, the magnified financial cost led to a decline in the bottom line due to a surge in long-term conventional borrowings. The Company funds its working capital requirements through internally generated cash flows and short-term debt along with a PKR 260mln loan from sponsors. The Company's financial risk profile is considered moderate with an adeptly managed working capital cycle and moderately leveraged capital structure. The cash flow and coverages of the Company are considered adequate. During the preceding years, the investment in expansion and continuous BMR activities through the subsidized TERF facility has equipped the Company with ample production capacity and the management intends to pursue no further expansion.

The ratings are dependent on the intact business operations under the current economic conditions. The improvement in the profitability from core operations and coverages remains essential. The sustainability of the financial risk profile remains critical for assigned ratings.

Disclosure	
Name of Rated Entity	Zahidjee Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology | Corporate Rating(Jul-24)
Related Research	Sector Study | Composite and Garments(Dec-23)
Rating Analysts	Tasveeb Idrees | Tasveeb.Idrees@pacra.com | +92-42-35869504

Profile

Legal Structure Zahidjee Textile Mills Limited ("ZTML" or "the Company") is a public limited Company, incorporated on July 17, 1990.

Background Mr. Muhammad Sharif, the former chairman of ZTML, purchased a listed spinning Company, Ihsan Yousuf Textile Limited, from Allied Bank Limited and renamed it Zahidjee Textile Mills Limited. He gradually expanded the Company by adding more spindles and establishing a weaving unit.

Operations The company specializes in the manufacturing and sale of yarn, while also exporting a wide range of value-added products and textile made-ups, with a total energy requirement of 17 megawatts (MW). The company operates three production facilities: a weaving unit, two spinning units, and a stitching unit, all located in Faisalabad.

Ownership

Ownership Structure The majority stake in the Company (96.28%) is held by the sponsors, Mr. Ahmad Zahid (75.0%) and Mr. Muhammad Zahid (21.28%). The remaining 3.72% stake is held by the general public (2.52%) and joint-stock companies (1.20%).

Stability Although there is no formal succession plan in place, it has been decided that Mr. Ahmad Zahid will be the successor. Moving forward, his ownership stake is expected to increase further.

Business Acumen The sponsoring family possesses over four decades of extensive experience in textile manufacturing and trading. Their deep-rooted expertise has enabled them to maintain growth through various economic cycles. In addition to their textile venture (ZTML), the family also has an ownership interest in Invest Capital Investment Bank Limited.

Financial Strength Apart from ZTML, the sponsors have invested in Zahidjee Towers (Private) Limited and own several real estate properties (non-operating land) in Raja Bolay, Tehsil Cantt, and Deve Khurd Kalan, Tehsil Model Town, District Lahore. They have expressed their willingness to support the Company if needed.

Governance

Board Structure The seven-member board comprises six male directors and one female director. Of these, three are independent directors, two are executive directors, and two are non-executive directors, reflecting a sound governance framework.

Members' Profile The Chairman, Mr. Ahmad Zahid, graduated from Babson College, USA. He has been associated with ZTML for the last two years. Mrs. Mehreen Fahad attended the Lahore School of Economics and serves as a director on the board of Invest Capital Investment Bank Limited. Mr. Muhammad Ali has over 24 years of experience, previously serving as the CEO of Engro Vopak Terminal. Mr. Shahbaz Haider Agha, an executive MBA graduate from NCB&E, Lahore, has 24 years of experience in the insurance industry and is serving as the CEO of Hellenic Sun Insurance Brokers (Pvt.) Limited. Mr. Sajjad Hussain Shah, a qualified CA, brings with him over 28 years of experience in the textile sector. Mr. Faisal Masood, a fellow member of ICAP, brings more than 20 years of diverse experience.

Board Effectiveness To ensure high standards of governance and transparency, the Company has two board committees, namely: i) Audit Committee and ii) HR and Remuneration Committee, both chaired by independent directors. During FY24, four BOD meetings were held, and all members ensured their availability. The meeting minutes are formally documented. The agenda of the BOD meeting held on October 26, 2024, included the approval of the last meeting minutes, audited accounts for FY24, specific approval for the addition and disposal of assets, provisions, payments, and balances written off, and the appointment of external auditors for FY25.

Financial Transparency RSM Avais Hyder Liaquat Nauman & Co., Chartered Accountants, are the external auditors of the Company, placed in category "A" by the SBP's panel of auditors. The auditors expressed an unqualified opinion on the Company's financial statements for the year ended June 30, 2024.

Management

Organizational Structure The Company's lean organizational structure accelerates the decision-making process and reduces execution time. The CFO, along with the heads of production and marketing, reports directly to the CEO. The HR and IT departments report to the CFO.

Management Team The CEO, Mr. Muhammad Zahid, holds a graduate degree and has 35 years of experience in the textile sector. He is actively involved in the company's day-to-day operations. The CFO, Mr. Shaukat Hussain Ch., a qualified chartered accountant, was recently appointed CFO of the Company. He has over two decades of experience in the textile industry, and before joining ZTML, he served as COO at Din Textile Mills Limited.

Effectiveness There are no formal management committees in place, and all unit heads report to the CEO daily to discuss day-to-day business developments and operational issues. This reflects an adequate delegation of authority matrix.

MIS The Company deployed an Oracle-based ERP solution, Oracle EBS, in 2012, which provides an integrated and automated approach to managing business processes. This allows the Company to streamline and consolidate the flow of information from dispersed operations, enabling proactive management, the avoidance of disruptions, and timely decision-making.

Control Environment Through MIS, the Company is also able to monitor working capital management and exposure to related parties with automated limits and periodic reviews. ZTML has an in-house internal audit department consisting of two members who report directly to the CEO, with monthly and quarterly reporting. The Company holds Oeko-Tex certification, which certifies that its end products and all their components are non-hazardous.

Business Risk

Industry Dynamics Textile exports of the country reached USD 16.7bln in FY24, a slight increase from USD 16.5bln in the previous year, reflecting a growth of 0.93% YoY. The highest contribution came from the composite and garments segment at USD 9.1bln, followed by the weaving segment at USD 6.5bln, and the spinning segment at USD 1.0bln. In FY25, the transition from the final tax regime to the normal tax regime is set to impact the profitability of export-oriented units, with a 29% tax on profits and an additional super tax of up to 10%.

Relative Position With a total production capacity of 150,144 spindles, 280 rotors and 280 stitching machines, the Company falls in the mid-tier of the local textile industry in terms of business volume.

Revenues During FY24, the Company's revenue stream was predominantly driven by local sales. The Company's topline reached PKR 37.7bln (FY23: PKR 32.3bln), indicating a surge of 16.7% YoY. This growth was attributed to better product pricing in the local market, driven by the production of finer yarn counts, with minimal volumetric growth. A product-wise analysis shows that yarn accounted for approximately 84.7% of the top line, followed by made-ups at 8.52%, and other products at 6.78%. The company's export destinations include North America, South America, Europe, and Africa.

Margins The GP margin experienced a decline to 4.9% (FY23: 8.1%), mainly due to the procurement of imported cotton and elevated energy costs. Interest income of PKR 920mln from TDRs benefited net profitability. However, capital expenditure of PKR 3.0bln led to a significant increase in finance costs (FY24: PKR 1.4bln; FY23: PKR 816mln), which diluted the PAT to PKR 635mln (FY23: PKR 1.2mln), with the NP margin reported at 1.7% (FY23: 3.8%).

Sustainability The management strategically planned to install ~50,400 new spindles in two phases. Out of this, 16,800 spindles have already been commercialized. However, the installation of the remaining spindles is on hold due to the expensive cost of funding. Furthermore, the management is cognizant of energy cost risk and the installation of a ~7MW solar project is in process.

Financial Risk

Working Capital The Company's working capital requirements are a function of its inventory days and trade receivable days for which it relies on internally generated cash and short-term borrowings. As of FY24, the Company rationalized its net working capital cycle at 67 days (FY23: 86 days) by reducing its inventory cycle to 40 days (FY23: 48 days). The Company has a moderate borrowing capacity as evidenced by the short-term trade leverage of 45.7% (FY23: 57.0%).

Coverages The Company's FCFO illustrated a downward trend (FY24: PKR 1.9bln; FY23: PKR 2.8bln) attributed to a decline in PBT and a surge in tax burden. This has adversely impacted the Company's interest coverage and core operating coverage reported at 1.4x (FY23: 3.8x) and 0.8x (FY23: 2.0x).

Capitalization The Company's equity base increased slightly (FY24: PKR 16.0bln; FY23: PKR 15.7bln) driven by a PKR 9.9bln unappropriated profit during FY24. The Company's debt profile is a mix of conventional and SBP-subsidized borrowings (TERF). During FY24, the Company's total leverage increased to 34.5% (FY23: PKR 30.4%) driven by an increase in conventional long-term borrowings to gradually finance CAPEX for 16,800 spindles installation.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Zahidjee Textile Mills Limited	Jun-24	Jun-23	Jun-22
Textile	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	15,650	13,629	14,390
2 Investments	160	101	125
3 Related Party Exposure	1	6	6
4 Current Assets	13,530	13,088	12,250
a Inventories	*3,986*	*4,388*	*4,094*
b Trade Receivables	*3,798*	*3,765*	*4,313*
5 Total Assets	29,341	26,823	26,772
6 Current Liabilities	3,748	2,852	2,109
a Trade Payables	*1,356*	*776*	*595*
7 Borrowings	8,189	6,885	8,580
8 Related Party Exposure	260	-	6
9 Non-Current Liabilities	1,131	1,324	1,386
10 Net Assets	16,012	15,762	14,691
11 Shareholders' Equity	16,012	15,762	14,691
B INCOME STATEMENT			
1 Sales	37,742	32,317	27,936
a Cost of Good Sold	*(35,909)*	*(29,706)*	*(22,304)*
2 Gross Profit	1,833	2,611	5,632
a Operating Expenses	*(619)*	*(749)*	*(601)*
3 Operating Profit	1,214	1,862	5,031
a Non Operating Income or (Expense)	*1,101*	*551*	*(123)*
4 Profit or (Loss) before Interest and Tax	2,315	2,413	4,908
a Total Finance Cost	*(1,485)*	*(816)*	*(636)*
b Taxation	*(195)*	*(384)*	*(295)*
6 Net Income Or (Loss)	635	1,213	3,978
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*1,935*	*2,853*	*5,342*
b Net Cash from Operating Activities before Working Capital Changes	*604*	*2,012*	*4,751*
c Changes in Working Capital	*758*	*639*	*(3,111)*
1 Net Cash provided by Operating Activities	1,362	2,652	1,640
2 Net Cash (Used in) or Available From Investing Activities	(2,068)	102	(2,718)
3 Net Cash (Used in) or Available From Financing Activities	1,162	(1,844)	3,466
4 Net Cash generated or (Used) during the period	457	909	2,388
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	16.8%	15.7%	68.1%
b Gross Profit Margin	4.9%	8.1%	20.2%
c Net Profit Margin	1.7%	3.8%	14.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	7.1%	10.8%	8.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	4.0%	8.0%	35.3%
2 Working Capital Management			
a Gross Working Capital (Average Days)	77	94	87
b Net Working Capital (Average Days)	67	86	80
c Current Ratio (Current Assets / Current Liabilities)	3.6	4.6	5.8
3 Coverages			
a EBITDA / Finance Cost	1.6	4.2	9.2
b FCFO / Finance Cost+CMLTB+Excess STB	0.8	2.0	5.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	11.2	1.9	1.0
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	34.5%	30.4%	36.9%
b Interest or Markup Payable (Days)	63.2	45.1	69.9
c Entity Average Borrowing Rate	16.4%	9.4%	8.3%

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
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.

Scale	Short-Term Rating
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.

Rating Modifiers | Rating Actions

Outlook (Stable, Positive, Negative, Developing)	Rating Watch	Suspension	Withdrawn	Harmonization
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'.	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.	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.	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.	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. Rating actions may include "maintain", "upgrade", or "downgrade".

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 Company

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)

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 | 17-(a)

(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)

Probability of Default

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

Proprietary Information