The Pakistan Credit Rating Agency Limited

Rating Report

Din Textile Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
08-Sep-2023	A-	A2	Stable	Maintain	-
08-Sep-2022	A-	A2	Stable	Maintain	-
08-Sep-2021	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Din Textile, a publicly listed company is a group concern of Din Group – one of the leading business groups established in 1954 having a presence across various sectors including textile, dairy, poultry, and real estate. Over the years, since its commencement, the spinning unit of the company comprises 124,608 spindles while the weaving unit has 144 looms. The spindles and looms are of advanced technology and, hence are operationally efficient. The ratings incorporate the Company's business profile where the revenue emanates from two segments - spinning and weaving. The Company's spinning product portfolio comprises combed compact yarn, core spun lycra yarn, slub lycra yarn, dyed yarn, melange yarn, ply yarn, gassed yarn, and bleached cotton web for surgical and cosmetic use while the weaving product portfolio comprises greige fabric. The management is planning to further diversify the revenue stream by tapping into the value-added segment of the textile industry. The company has reflected promising performance since its inception. During 9MFY23, the company's revenue inched up by 2.4% to stand at PKR 23,033mln (9MFY22: PKR 22,483mln) due to the contraction of demand at the local level. The company majorly draws its revenue from local sales with exports fluctuating at around 22.5% of the total revenue. In recent quarters, higher costs of raw materials consumed along with a sizable increase in finance costs have affected the net profitability significantly. Margins reflected attrition YoY. Moreover, the financial matrix reveals moderate leveraging, weakened coverages, and a stretched working capital cycle. During FY23, textile exports were valued at $16.5 billion compared to $19.33 billion, reflecting a dip of 15% YoY – the declining trend has been witnessed by the start of FY23. The exports tumbled attributable to high energy costs, shortage of cotton, and uncertainty in the foreign exchange rate. The suppressed demand pattern exhibited by export avenues was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments witnessed a decline of 13% YoY. The basic textiles including raw cotton, cotton yarn, and cotton cloth posted a drop of 21% YoY. During the month of June 2023, cotton yarn exports increased by 7% MoM. The value-added exports reported a volumetric increase of 16% on a MoM basis.

The ratings are dependent on intact business operations under the current economic conditions and draw comfort from the sponsor profile. Improving margins, healthy coverages, and capital structure while growing the business profile remains critical for the company. Any deterioration in the financial profile will have a negative impact on ratings.

Disclosure

Name of Rated Entity	Din Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Composite and Garments(Dec-22)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Legal Structure Din Textile Mills Limited is a public limited company, incorporated in 1988.

Background Din Textile Mills Ltd is engaged in the manufacturing and sale of yarn. Its product portfolio comprises of combed compact yarn, core spun lycra yarn, slub lycra yarn, dyed yarn, melange yarn, ply yarn, gassed yarn, and bleached cotton web for surgical and cosmetic use while the weaving product portfolio comprises greige fabric. Geographically, it derives a majority of revenue from Pakistan. The manufacturing units I and II are located at Pattoki, while unit III and IV are located at Raiwind in the province of Punjab.

Operations The Company has four state-of-the-art spinning units and 1 dyeing unit located at Multan Road Pattoki & Raiwind, having consolidated annual production capacity of 41 million Kgs yarn. Din Textile Mills Unit 1 is dedicated to Melange (Blended) Yarns. At Textile Mills Unit 2, Spandex Core Spun Yarn (both carded and combed) and Slub Yarn is produced. Unit 3 manufactures export quality compact yarn and Spandex core spun with compact yarn and Unit 4 is engaged in weaving operations. Din Power Plant generates power for all the Spinning and Dyeing units so that the production activities can run smoothly and high yarn quality can be assured.

Ownership

Ownership Structure Mr. Shaikh Muhammad Pervez, Din Corporation (Pvt.) Limited and Din Industries Management (Pvt.) Limited own 14.06%, 12.33% and 10.83% respectively. Rest of the shareholders own less than 10% each of the shareholding.

Stability Din Group was established in 1954 it is one of the leading exporters and most well-established business groups of Pakistan with interests in Leather and Textile.

Business Acumen Shaikh Muhammad Naveed is the CEO of Din Textile Mills Limited and has been associated with the Board of Directors for over two decades.

Financial Strength Din Group has its business across various sectors including textile, dairy, poultry and real estate. The versatile business profile of The Group depicts strong financial strength of the sponsors.

Governance

Board Structure The overall control of the Company vests in a nine members' board with Shaikh Muhammad Jawed as Chairman. Three are non-executive directors, three are executive directors while three members are independent directors.

Members' Profile Shaikh Muhammad Jawed – the Chairman – carries with him over 45 years of experience and has been associated with the board since its incorporation. He has been appointed as the chairman of the board of directors with effect from December 16, 2022, after the sad demise of Mr. Shaikh Muhammad Muneer.

Board Effectiveness Din Textile Mills has two board committees: Audit Committee and HR & Remuneration Committee (HR&R).

Financial Transparency The External Auditors of the Company are Naveed Zafar Ashfaq Jaffery & Co. Chartered Accountants. They have expressed an unqualified opinion on the company's annual financial statements for FY22.

Management

Organizational Structure CFO, Company secretary, Technical director, Manager sales and marketing, General manager admin from Head Office all report to the COO.

Management Team Shaikh Muhammad Naveed is CEO of the Company. Whereas, Mr. Shaukat Hussain manages day to day operations as COO of the Company. He is supported by a team of experienced professionals. Most of the senior management has been associated with the Company for a reasonably long time.

Effectiveness Din Textile works closely with end-users in studying their day-to-day activities and finding opportunities to automate and streamline various tasks. The Company is committed to the process of upgrading and enhancing their IT infrastructure and moving towards greater process automation.

MIS SAP was implemented from 1st July 2020 for best utilization of Company resources and timely decisions. DTML is currently using SAP version SAP ECC 6.0 A1, implemented with professional help of Siemens Pakistan Pvt. Ltd.

Control Environment A strong control environment and established internal control framework exists in the company comprising clear structures, segregation of duties, authorization limits for the Company officials for operating bank accounts and approving expenditures, well-define policies and procedures, budgeting and review processes to reduce the risk of undetected error / fraud and limit opportunities for misappropriation of assets or concealment of intentional misstatements.

Business Risk

Industry Dynamics During FY23, textile exports were valued at $16.5 billion compared to $19.33 billion, reflecting a dip of 15% YoY – the declining trend has been witnessed by the start of FY23. The exports tumbled attributable to high energy costs, shortage of cotton, and uncertainty in the foreign exchange rate. The suppressed demand pattern exhibited by export avenues was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments witnessed a decline of 13% YoY. The basic textiles including raw cotton, cotton yarn, and cotton cloth posted a drop of 21% YoY. During the month of June 2023, cotton yarn exports increased by 7% MoM. The value-added exports reported a volumetric increase of 16% on a MoM basis.

Relative Position The Company possesses 124,608 spindles with 44,263mln kgs yarn production and the company has also installed 144 looms with 87,411mln 50 picks square meter production in FY22. Hence, on a standalone basis, the Company can be categorized as mid-tier in the local market.

Revenues During FY22, the company's overall revenue increased by 78% to stand at PKR 31,353mln (FY21: PKR 17,641mln) owing to increased production capacity in both weaving and spinning segments of the company along with better yarn prices in the market. The sales mix of the company is tilted toward local sales. The share of the export sales to total sales further declined to 23% (FY21: 32%). During 9MFY23, the company's revenue inched up by 2% to stand at PKR 23,033mln (9MFY22: PKR 22,483mln).

Margins During FY22, Din Textile's gross margin increased to 19.0% (FY21: 17.6%). The finance cost of the company increased to PKR 1,389mln (FY21: PKR 701mln). However, the net profit margin inclined to 11% (FY21: 8.9%). During 9MFY23, the gross margin decreased to 12.6% (9MFY22: 22.6%). Consequently, the operating margin declined to 9.9% (9MFY22: 20.6%). The finance cost increased to PKR 2,094mln (9MFY22: PKR 889mln) owing to the hike in the policy rate. Consequently, the net profit margin weakened to 0.1% (9MFY22: 14.6%) on account of decreased net income clocking in at PKR 31mln (9MFY22: PKR 3,291mln).

Sustainability The management of the company is focusing on an efficient sales mix and product differentiation strategy along with consistent monitoring of areas where measures can be taken to reduce cost and enhance the value of the company through profit and market growth. Going forward, the company has no major investment plans yet. There are no major capex plans in the company. At present, there are numerous challenges for the industry like increasing finance costs, cost structures, and declining demand trends. The company intends to stay in a sustainable position in these tough times.

Financial Risk

Working Capital At end-Mar23, the net working capital cycle days increased to 196 days (end-Jun22: 124 days) on account of increased inventory days clocking in at 117 days (end-Jun22: 83 days). The trade assets of the company increased by 35% to stand at PKR 22,781mln (end-Jun22: PKR 16,912mln). While the short-term trade leverage adequacy remained intact at 72% (end-Jun22: 76%). Moving forward, harnessing the working capital cycle is necessary.

Coverages During FY22, the FCFOs of the Company increased by 33% to stand at PKR 4,275mln (FY21: PKR 3,212mln). The total finance cost paid was increased to PKR 1,033mln (FY21: PKR 593mln) resulting in a decrease in interest coverage to 3.3x (FY21: 5.1x). During 9MFY23, the free cash flows of the company decreased to PKR 1,658mln (9MFY22: PKR 4,073mln) on account of declined profitability. The finance cost paid was increased to PKR 1,033mln (9MFY22: PKR 621mln). Subsequently, interest coverage declined to 0.9x (9MFY22: 5.0x) and debt coverage of the company decreased to 0.6x (9MFY22: 2.3x).

Capitalization Din Textile has a moderately-leveraged capital structure. At end-Mar23, the leveraging of the company increased to 61.1% (end-Jun22: 56.2%) as the total borrowings increased to PKR 12,776mln (end-Jun22: PKR 10,431mln). ST borrowings constitute 41.3% of total borrowings. Whereas, the equity base largely remained intact at PKR 8,144mln (end-Jun22: PKR 8,113mln).

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Financial Summary
PKR mln

Din Textile Mills Limited Textile | Composite	Mar-23 9M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	11,356	9,999	9,201	5,827
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	24,291	18,111	8,407	6,631
a Inventories	*13,498*	*10,186*	*4,127*	*3,129*
b Trade Receivables	*6,210*	*4,843*	*3,289*	*2,236*
5 Total Assets	35,647	28,110	17,608	12,458
6 Current Liabilities	14,430	9,334	5,017	3,634
a Trade Payables	*1,012*	*665*	*438*	*1,592*
7 Borrowings	12,776	10,431	7,602	5,538
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	297	232	312	176
10 Net Assets	8,144	8,113	4,676	3,110
11 Shareholders' Equity	8,144	8,113	4,676	3,110
B INCOME STATEMENT				
1 Sales	23,033	31,353	17,641	12,483
a Cost of Good Sold	*(20,134)*	*(25,382)*	*(14,528)*	*(11,190)*
2 Gross Profit	2,898	5,970	3,113	1,293
a Operating Expenses	(615)	(671)	(401)	(258)
3 Operating Profit	2,283	5,299	2,712	1,035
a Non Operating Income or (Expense)	*52*	*(177)*	*(74)*	*(43)*
4 Profit or (Loss) before Interest and Tax	2,335	5,122	2,638	992
a Total Finance Cost	*(2,094)*	*(1,389)*	*(701)*	*(815)*
b Taxation	*(210)*	*(290)*	*(374)*	*(141)*
6 Net Income Or (Loss)	31	3,443	1,563	37
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,658*	*4,275*	*3,212*	*1,510*
b Net Cash from Operating Activities before Working Capital Changes	*103*	*3,242*	*2,618*	*633*
c Changes in Working Capital	*(324)*	*(4,272)*	*(826)*	*405*
1 Net Cash provided by Operating Activities	(222)	(1,030)	1,792	1,038
2 Net Cash (Used in) or Available From Investing Activities	(2,068)	(1,728)	(4,041)	(2,320)
3 Net Cash (Used in) or Available From Financing Activities	454	(56)	3,541	1,821
4 Net Cash generated or (Used) during the period	(1,836)	(2,814)	1,291	539
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-2.0%	77.7%	41.3%	8.0%
b Gross Profit Margin	12.6%	19.0%	17.6%	10.4%
c Net Profit Margin	0.1%	11.0%	8.9%	0.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	5.8%	0.0%	13.5%	15.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	0.5%	53.8%	40.1%	1.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	206	131	132	152
b Net Working Capital (Average Days)	196	124	111	124
c Current Ratio (Current Assets / Current Liabilities)	1.7	1.9	1.7	1.8
3 Coverages				
a EBITDA / Finance Cost	1.6	4.9	5.3	2.1
b FCFO / Finance Cost+CMLTB+Excess STB	0.6	1.6	1.8	1.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-20.7	2.4	2.8	4.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	61.1%	56.2%	61.9%	64.0%
b Interest or Markup Payable (Days)	118.2	112.7	88.2	61.2
c Entity Average Borrowing Rate	23.0%	13.6%	9.3%	15.2%

Credit Rating

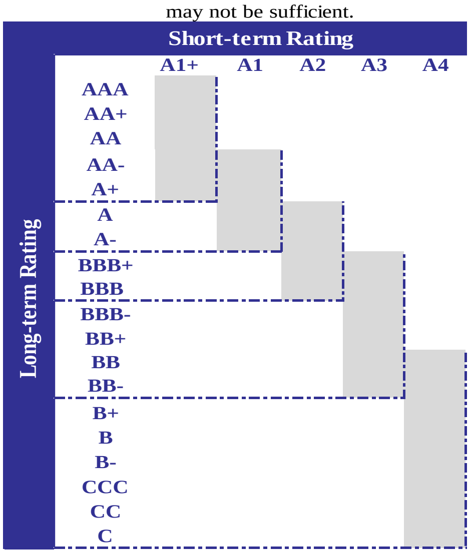
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):
a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

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

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(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).
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(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)
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(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)
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