



The Pakistan Credit Rating Agency Limited

Rating Report

Tata Textile Mills Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Jun-2022	A	A1	Stable	Maintain	-
18-Jan-2022	A	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Tata Textile Mills Limited – a public listed company - primarily engaged in the manufacturing and sale of different varieties of yarn (siro yarns, Modal blend yarn, Tencel blend carded, slub yarn, spun yarns, plied carded & combed yarn and some other). During FY21, Company’s revenue improved to PKR 27.1bln (FY20: PKR 20.6bln); Sales have been done both in local and export market. The primary reasons are enhanced sales volume, favorable yarn prices as well as inventory gains in FY21. In FY21, Company’s profitability stood at PKR 2.08bln. The upgrade incorporates robust improvement in topline and margins in 9MFY22. The ratings of Tata Textile reflect the financial risk profile of the Company, which is characterized by moderate leveraging, good coverages and adequate working capital management. Long association of experienced and professional management team adds comfort. During 9MFY22 (Jul21-Mar22), Pakistan textile exports surged to \$14.2bln (recording growth of 25%) as compared to \$11.3bln 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 raw cotton, cotton (carded or combed) and cotton cloth recorded notable growth. However, month on month basis, textile exports have declined by 3.5%. Going forward, the textile sector’s outlook is expected to stay good in the medium term where demand for textile products is expected to sustain.

The ratings are dependent on improving business margins while maintaining financial risk at a low level. Prudent management of short-term liquidity and sustained coverages are important.

Disclosure

Name of Rated Entity	Tata Textile 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 Spinning(Sep-21)
Rating Analysts	Iram Shahzadi iram.shahzadi@pacra.com +92-42-35869504

Profile

Legal Structure Tata Textile Mills limited ('The Company' or 'Tata Textile') was incorporated in 1987 and is a public listed company listed on the Pakistan Stock Exchange (PSX). The Company is engaged in the manufacturing and sale of different varieties of yarn.

Background In 1980s, Tata Pakistan took over the management of the spinning unit of the already established Island Textile Mills Limited, along with Salfi Textile Mills Limited and swiftly developed a recognized name in the spinning of cotton yarns. It later established Tata Textile Mills Limited, in the early 90s, as part of its expanding business base. On July 1st, 2021, Salfi Textile Mills, Island Textile Mills, and Tata Energy stand merged into Tata Textile Mills.

Operations The primary business of the Company is manufacturing and sale of different varieties of yarn. The total number of spindles installed is 127,092 spindles in three manufacturing units.

Ownership

Ownership Structure The CEO (Shahid Anwar Tata), along with other family members and associated companies collectively own majority (81%) shares of the Company. The remaining shareholding of the Company is held by mutual funds (9%), general public and others (10%).

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

Business Acumen Mr. Anwar's son, Shahid Anwar Tata, is primarily involved in the family business along with his two sons – Mr. Adeel Shahid Tata and Mr. Bilal Shahid Tata. Mr. Bilal Tata is CEO of Tata Best Food Ltd. and is also engaged on the Board of the Company.

Financial Strength Apart from Textile, Tata group also has vested interests in food sector. Overall financial strength of the sponsors is considered good.

Governance

Board Structure The control of the Company vests in nine members; including Mr. Mazhar Valjee as the Chairman of the board. There are two executives, three nonexecutive, and four independent directors in the Board.

Members' Profile Board members have diversified experience and relatively long association with the Company. The Chairman - Mr. Mazhar Valjee - has over three decades of experience.

Board Effectiveness For effective results the board has formed two committees (Audit and HR) to assist the board on relevant matters. During FY21, seven board meetings were held with majority attendance to discuss pertinent matters.

Financial Transparency The External Auditors of the Company are M/s. Yousuf Adil, Chartered Accountants. They expressed an unqualified opinion on the Company's financial statements for the year ended June 30, 2021. The auditors fall in the Category - "A" of the SBP's Panel of Auditors.

Management

Organizational Structure Tata Textile Mills Ltd. manages all the textile units at various locations from its corporate head office in Karachi. Shahid Anwar Tata – CEO – primarily manages the Company's affairs, supported by a team of esteemed professionals.

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

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

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

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

Business Risk

Industry Dynamics During 9MFY22 (Jul21-Mar22), Pakistan textile exports surged to \$14.2bln (recording growth of 25%) as compared to \$11.3bln 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 raw cotton, cotton (carded or combed) and cotton cloth recorded notable growth. However, month on month basis, textile exports have declined by 3.5%. Going forward, the textile sector's outlook is expected to stay good in the medium term where demand for textile products is expected to sustain.

Relative Position The company's position has strengthened in terms of the spindles installed post merger. The installed capacity stands at 127,092 spindles.

Revenues It is noteworthy to mention that the numbers of both periods are consolidated after the aforementioned merger. There is a significant jump not only in the turnover of the company but also in gross profit. The gross profit has risen from PKR 1,773mln to PKR 4,278mln. However, the quantum of profitability would provide a cushion. As a result, from the loss of PKR 1bln in FY20, the company has booked a net profit slightly more than PKR 2bln in FY21. The growth and profitably trend are very strong in the third quarter of FY22. The topline of the Company stood at PKR 26.7bln in 9MFY22. This provides comfort that the company would be closing FY22 on an improved note as well.

Margins During FY21, the Company's gross margins clocked in at 15%, though the absolute margin was PKR 4,278mln. The gross margins in the comparative period were 9% with the amount standing at 1,773mln. The net profit margin is 7% for FY21. In the 9MFY22, Tata Textile's margins also recorded significant improvement. The gross margin stood at 24.8% and the operating margin stood at 22.0%.

Sustainability Going forward, the Company is planning to further augment its position post-merger. The profitability of the company is expected to improve due to the expected reduction in borrowing costs as the company shifts its focus toward the local procurement of cotton. Additionally, the company has initiated several projects to improve energy efficiencies and treasury management.

Financial Risk

Working Capital The working capital requirements of the Company stem from majorly holding raw materials, to hedge against price volatility and built against supply shocks. Trade receivables are the second major avenue for working capital financing. The short-term borrowing, on a consolidated level, has come down to the PKR 5.7bln at end-Jun21 when compared to last year's number of end-Jun20. The gross cash cycle comes about 120days, and the net cash cycle 118days. This is primarily due to the Company's position on the raw material. Furthermore, in 9MFY22 the net working capital of the Company was reported at 107days.

Coverages The Company's cash flows remain a function of its profitability. During FY21, the company's EBITDA significantly increased to PKR 4,069mln(FY20: PKR 1,214mln). The impact of an increase in EBITDA is contributing to an improvement in coverage. Interest coverage ratio has witnessed increase to 5.40x (FY20: 0.9x) and debt coverage ratio to 3.1x (FY20: 0.8x). Going forward, the sustainability of coverage remains essential. During 9MFY22, the interest coverage ratio has witnessed an increase to 7.4x and the debt coverage ratio to 4.4x.

Capitalization The Company has a moderately leveraged capital structure (FY21: 38.5%, FY20: 44.6%). Out of the total debt, 28% the debt comprises long-term borrowings. Going forward, in absence of any major capacity expansion, and with the gradual payments of long-term loans, the leveraging is expected to reduce overtime. During 9MFY22, the Company's leverage stood at 37.4%.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Tata Textile Mills Limited Textile Spinning	Mar-22 9M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	15,578	15,510	4,736	4,686
2 Investments	-	-	-	27
3 Related Party Exposure	-	-	-	-
4 Current Assets	17,170	11,613	3,908	3,376
<i>a Inventories</i>	7,334	6,039	2,103	2,039
<i>b Trade Receivables</i>	4,846	2,859	1,010	615
5 Total Assets	32,748	27,123	8,644	8,089
6 Current Liabilities	3,535	3,442	659	434
<i>a Trade Payables</i>	189	199	117	65
7 Borrowings	10,563	8,750	3,356	2,691
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	992	973	466	493
10 Net Assets	17,658	13,957	4,162	4,470
11 Shareholders' Equity	17,658	13,957	4,162	4,470
B INCOME STATEMENT				
1 Sales	26,674	27,126	6,730	6,727
<i>a Cost of Good Sold</i>	(20,072)	(22,860)	(6,232)	(6,102)
2 Gross Profit	6,602	4,266	498	625
<i>a Operating Expenses</i>	(743)	(876)	(220)	(217)
3 Operating Profit	5,860	3,390	278	408
<i>a Non Operating Income or (Expense)</i>	(384)	(76)	(163)	(20)
4 Profit or (Loss) before Interest and Tax	5,476	3,314	115	389
<i>a Total Finance Cost</i>	(839)	(816)	(396)	(281)
<i>b Taxation</i>	(518)	(412)	(49)	(75)
6 Net Income Or (Loss)	4,119	2,086	(329)	33
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	5,632	4,021	340	508
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	4,876	3,065	(25)	260
<i>c Changes in Working Capital</i>	(4,886)	(2)	(159)	(795)
1 Net Cash provided by Operating Activities	(9)	3,062	(184)	(534)
2 Net Cash (Used in) or Available From Investing Activities	(2,166)	(431)	(256)	(154)
3 Net Cash (Used in) or Available From Financing Activities	(1,704)	579	1,746	728
4 Net Cash generated or (Used) during the period	(3,879)	3,210	1,305	39
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	31.1%	303.1%	0.0%	11.4%
<i>b Gross Profit Margin</i>	24.8%	15.7%	7.4%	9.3%
<i>c Net Profit Margin</i>	15.4%	7.7%	-4.9%	0.5%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	2.8%	14.8%	2.7%	-4.3%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	34.7%	23.0%	-7.6%	0.8%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	108	81	156	123
<i>b Net Working Capital (Average Days)</i>	106	79	151	120
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	4.9	3.4	5.9	7.8
3 Coverages				
<i>a EBITDA / Finance Cost</i>	7.9	5.7	1.0	2.4
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	4.4	3.1	0.8	1.4
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.5	0.9	-16.2	2.2
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	37.4%	38.5%	44.6%	37.6%
<i>b Interest or Markup Payable (Days)</i>	0.0	72.2	87.7	84.4
<i>c Entity Average Borrowing Rate</i>	9.7%	14.5%	13.3%	9.7%

#	Notes
	*FY20 financials are management consolidated accounts of the merged entity

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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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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(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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