



## 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
27-Jun-2023	A	A1	Stable	Maintain	-
30-Jun-2022	A	A1	Stable	Upgrade	-
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, Tencil blend carded, slub yarn, spun yarns plied carded & combed yarn, and some others). On July 1, 2021, Salfi Textile Mills Limited, Island Textile Mills Limited, and Tata Energy Limited have been merged into Tata Textile Mills Limited (the Company). The merger has further solidified the Company's position as one of the largest spinning mills in Pakistan with plant capacity increasing from 44,400 spindles to 127,092 spindles. This will result in a much larger and stronger combined Balance Sheet position.

During 9MFY23, Company's topline witnessed a decline and stood at PKR 23.6bln (FY22: PKR 35.1bln); Sales are done both locally and in export. In 9MFY23 company's profitability stood at PKR 302mln. The company's coverage was also diluted, attributable to the significant increase in the short-term borrowings that stood at 14bln during 9MFY23 (FY22: 6.5bln). The net working capital cycle increased to 196 days (FY22: 143 days). The long association of experienced and professional management team adds comfort. Going forward, the restoration of margins and profitability remains essential. The strengthening of coverage and efficient management of working capital is vital. The company has presented that there is recovery and future profitability is expected to improve.

Textile exports in 9MFY23 were valued at \$10.08bln, an 8% YoY decline. Lower demand, high cotton prices, and weak yarn demand contributed to the export decrease. Bedwear saw the largest decline of 19%, while knitwear dropped by 10%. Cotton yarn experienced a significant decline of 35%. Demand is expected to improve post-Jun-23 despite inflationary pressures.

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

<b>Name of Rated Entity</b>	Tata Textile Mills Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Spinning(Sep-22)
<b>Rating Analysts</b>	Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504

## Profile

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

**Background** In the 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 Company's primary business is the 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), and other family members collectively own the majority (75.95%) shares of the Company. The remaining shareholding of the Company is held by mutual funds (9.03%), the general public, and others (15.02%).

**Stability** Tata Group is one of the oldest and most renowned groups in Pakistan. The third generation of the Tata family has entered into the business. Although there is no formal succession plan but roles of Adeel Shahid Tata and Bilal Shahid Tata are clearly defined. Segregation of functions 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 Shahid Tata is the CEO of Tata Best Food Ltd. and is also engaged on the Board of the Company.

**Financial Strength** Apart from Textiles, Tata Group has a vested interest in the food sector. The 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 board's Chairman. Two executives, three non-executives, and four independent directors are on the board.

**Members' Profile** Board members have diversified experience and a relatively long association with the Company. The Chairman - Mr. Mazhar Valjee - has over 3 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. Yousof Adil, Chartered Accountants. They expressed an unqualified opinion on the Company's financial statements for the year ended June 30, 2022. The auditors fall in 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** The management team comprises long-associated and experienced individuals. Mr. Shahid Anwar Tata, the CEO of the Company, is a graduate with over 40 years of experience.

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

**MIS** Tata Textile deploys Cloud-based Oracle Fusion system. 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 a need basis in the meetings.

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

## Business Risk

**Industry Dynamics** During 9MFY23, the textile exports were valued at \$10.08bn compared to \$10.93bn, reflecting an 8% decline YoY – the declining trend has been recorded in the last few months. The decline in exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand for yarn in international markets is also a challenge. The analysis of 5MFY23 reveals that among value-added items, bedwear has witnessed the largest decline of 19% (on an MoM basis), down to \$217 million. Knitwear remained on the downward path in October 2022 and declined by 10% to \$392 million. Among non-value-added items, cotton yarn has shown the largest decline of 35%. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve post-Jun-23

**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** During 9MFY23, Company's topline witnessed a decline and stood at PKR 23.6bn (FY22: PKR 35.1bn); Sales are done both locally and in export. In 9MFY23 company's profitability stood at PKR 302mln.

**Margins** During 9MFY23, the Company's gross margins clocked in at 12.6%, though the absolute margins were PKR 2,967mln. The net profit margin declined significantly to 1.3% for 9MFY23.

**Sustainability** In the future, the Company aims to enhance its position following the merger. It is anticipated that the company's profitability will increase as a result of reduced borrowing costs, thanks to the company's shift towards procuring cotton locally. Moreover, the company has undertaken various projects to enhance energy efficiency and enhance treasury management.

## Financial Risk

**Working Capital** The working capital requirements of the Company stem from majorly holding of raw materials, to hedge against price volatility and built against supply shocks. Trade receivables are the second major avenue for working capital financing. Inventory holding largely follows a cyclical pattern, where raw cotton is purchased. The short-term borrowing increased to PKR 14bn during 9MFY23. The gross cash cycle comes to about 187 days, and the net cash cycle 164 days. This is primarily due to the Company's position on the raw material.

**Coverages** The Company's cash flows remain a function of its profitability. During 9MFY23, the company's EBITDA significantly decreased to PKR 3,101mln(FY22: PKR 7,44mln). The impact of a decrease in EBITDA is contributing to the deterioration in coverage. The interest coverage ratio has witnessed a decrease to 1.7x (FY22: 6.2x) and the debt coverage ratio to 1.3x (FY22: 3.1x). Going forward, the sustainability of coverage remains essential.

**Capitalization** The Company has a moderately leveraged capital structure (9MFY23: 44.1%, FY22: 33.2%). Out of the total debt, 14% of the debt comprises long-term borrowings.



The Pakistan Credit Rating Agency Limited

Financial Summary  
PKR mln

Tata Textile Mills Limited Textile   Spinning	Mar-23 9M	Dec-22 6M	Jun-22 12M	Jun-21 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	20,693	20,635	20,242	15,510
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	24,023	23,448	17,841	11,613
a Inventories	12,194	13,793	10,128	6,039
b Trade Receivables	5,646	3,496	4,240	2,859
5 Total Assets	44,716	44,084	38,084	27,123
6 Current Liabilities	4,776	3,985	4,433	3,442
a Trade Payables	3,675	2,870	256	199
7 Borrowings	17,070	17,302	10,696	8,750
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	1,199	1,197	1,389	973
10 Net Assets	21,672	21,599	21,567	13,957
11 Shareholders' Equity	21,672	21,599	21,567	13,957
<b>B INCOME STATEMENT</b>				
1 Sales	23,592	14,004	35,114	27,126
a Cost of Good Sold	(20,625)	(12,239)	(27,060)	(22,860)
2 Gross Profit	2,967	1,765	8,053	4,266
a Operating Expenses	(939)	(769)	(1,011)	(876)
3 Operating Profit	2,028	996	7,043	3,390
a Non Operating Income or (Expense)	333	295	(835)	(76)
4 Profit or (Loss) before Interest and Tax	2,361	1,291	6,208	3,314
a Total Finance Cost	(1,779)	(1,003)	(1,179)	(816)
b Taxation	(279)	(171)	(586)	(412)
6 Net Income Or (Loss)	302	117	4,443	2,086
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	2,798	1,846	6,840	4,021
b Net Cash from Operating Activities before Working Capital Changes	1,307	1,024	5,748	3,065
c Changes in Working Capital	(6,006)	(6,823)	(4,916)	(2)
1 Net Cash provided by Operating Activities	(4,699)	(5,798)	832	3,062
2 Net Cash (Used in) or Available From Investing Activities	(1,111)	(771)	(3,401)	(431)
3 Net Cash (Used in) or Available From Financing Activities	(1,195)	(1,238)	(399)	(603)
4 Net Cash generated or (Used) during the period	(7,005)	(7,807)	(2,968)	2,029
<b>D RATIO ANALYSIS</b>				
<b>1 Performance</b>				
a Sales Growth (for the period)	-10.4%	-20.2%	29.4%	303.1%
b Gross Profit Margin	12.6%	12.6%	22.9%	15.7%
c Net Profit Margin	1.3%	0.8%	12.7%	7.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-13.6%	-35.5%	5.5%	14.8%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]	1.9%	1.1%	25.0%	23.0%
<b>2 Working Capital Management</b>				
a Gross Working Capital (Average Days)	187	206	121	81
b Net Working Capital (Average Days)	164	186	119	79
c Current Ratio (Current Assets / Current Liabilities)	5.0	5.9	4.0	3.4
<b>3 Coverages</b>				
a EBITDA / Finance Cost	1.9	2.0	6.7	5.7
b FCFO / Finance Cost+CMLTB+Excess STB	1.3	1.4	2.6	3.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.0	1.8	0.7	0.9
<b>4 Capital Structure</b>				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	44.1%	44.5%	33.2%	38.5%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	72.2
c Entity Average Borrowing Rate	16.1%	14.5%	10.5%	14.5%

### 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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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+	
BB	<b>Moderate risk.</b> 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-	
B+	
B	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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):

- 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

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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**

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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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