



## 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-2024	A	A1	Stable	Maintain	Yes
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

Pakistan's spinning sector is highly fragmented and has an estimated size of ~PKR 775bln. The sector comprises ~368 dedicated spinning units with an installed capacity of ~13.4mln spindles during FY23, as per the economic survey of Pakistan. The production estimates of cotton were revised to be ~11.5mln bales; while currently, the production has reached up to ~8.26mln bales, surpassing FY23's total production of ~4.91mln bales. During FY24, better local raw cotton yield is expected to supplement import substitution. Pakistan's requirement for imported cotton has increased from ~3.5mln bales to ~4mln bales for the ongoing year. The recent hike in energy tariffs further elevated the challenges for the industry. Overall, the industry's cash flow and in turn liquidity remains stretched. This, along with high working capital requirement and related finance cost challenges led the industry's outlook to be placed on Watch.

Tata Textile Mills Limited ('Tata Textile' or 'the Company'), ratings reflect the Company's strong footing in the textile industry along with its position as one of the largest spinning mills in Pakistan. After the merger of Salfi Textile Mills Limited, Island Textile Mills Limited, and Tata Energy Limited, the Company operates with an installed capacity of 127,092 spindles. The Company has consolidated a strong balance sheet footing post-merger. The Company operates in both local and international markets, with ~71% of its business concentrated in the local market. During FY23, the Company reported a slight sales decline of ~0.5% due to a decrease in market demand. Tata Textile has demonstrated resilience, achieving growth of ~50% during 9MFY24 surpassing the sales quantum of FY23. During FY23, the Company faced inventory losses due to a decline in cotton prices, impacting operational margins. To mitigate this, the Company has revised its inventory management strategy. Profitability has also been affected by a challenging operating environment, characterized by high energy costs and interest rates, leading to increased operating expenses and finance costs, resulting in net losses. The Company has to revamp its strategy for sustainable profits, going forward. This remains crucial for the ratings. The Company is gradually expanding its captive energy capacity through the installation of solar energy systems. Tata Textile's working capital cycle managed through short-term borrowing, has elongated. Moreover, coverages are stretched. However, ratings gather support from a robust equity base. The long-standing association of an experienced management team and the Sponsor's acumen bodes well for the ratings. Going forward, restoring business margins and profits remains essential. The strengthening of coverage and efficient management of working capital is vital to hold the ratings.

The ratings are dependent on improving business margins and achieving profitability while maintaining financial risk considerably low. Prudent management of short-term liquidity and sustained coverages remain 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(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-24)
<b>Related Research</b>	Sector Study   Spinning(Sep-23)
<b>Rating Analysts</b>	Faiqa Qamar   faiqa.qamar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Tata Textile Mills Limited ('Tata Textile' or 'the Company') was incorporated in 1987 as a public limited concern under the Companies Act, 2017. The Company is listed on the Pakistan Stock Exchange (PSX).

**Background** During 80s, Tata Pakistan took over the management of Island Textile Mills Limited and Salfi Textile Mills Limited and quickly got recognized in cotton yarn spinning segment. Later, in 1987, Tata Textile Mills Ltd was established, and during 2020-21, Salfi Textile Mills, Island Textile Mills, and Tata Energy merged to form Tata Textile.

**Operations** The Company is engaged in the manufacturing and selling of different varieties of yarn from cotton. The total number of 127,092 spindles are installed at three manufacturing units. The Company's registered office and facility are located in Karachi. While, the manufacturing units are located in Karachi, Jamshoro & Muzaffargarh.

## Ownership

**Ownership Structure** The CEO (Mr. Shahid Anwar Tata) and other family members collectively own ~81.65% shares of the Company. The remaining shareholding is held by institutions, mutual funds, and general public.

**Stability** Tata is one of the oldest and most renowned business groups in Pakistan. The third generation of the Tata family has also entered in the business. Although there is no formal succession plan but roles of the family are clearly defined. Segregation of functions provides long-term stability.

**Business Acumen** Mr. 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 Company's Board consists seven members, including the CEO as an Executive Director. The Board comprises two Executive Directors, two Non-Executive Directors, and three Independent Directors.

**Members' Profile** Mr. Mazhar Valjee serves as the Chairman of the Board, bringing over three decades of experience. The Board members possess diversified expertise and have a long-standing association with the Company.

**Board Effectiveness** For effective results, the Board has formed two committees (Audit and HR) to assist the board on relevant matters. During FY23, five Board, four audit committee and 2 HR committee 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 have expressed an unqualified opinion on the Company's financial statements for the year ended 30-Jun-23. The auditors fall in Category "A" of the SBP's Panel of Auditors.

## Management

**Organizational Structure** The organizational structure is hierarchical, led by the Board of Directors, which oversees the Audit and HRRC Committees. The CEO, reporting to the Board, manages key areas including Admin & Security, Legal, Finance, HR, and IT, with the CFO supervising finance and tax related roles. The COO, reporting to the CEO, oversees Sales & Marketing, Mill Operations, Technical Operations, Cotton Sourcing, and Supply Chain. The Head of Internal Audit reports to the Audit Committee, ensuring the integrity of financial and operational audits.

**Management Team** The CEO, Mr. Shahid Anwar Tata, has over 4 decades of experience. He is supported by a team of experienced professionals.

**Effectiveness** All deliberations are held at meetings conducted by department heads as per requirement. Though no formal meeting schedule exists at Tata Textile, daily and weekly meetings are done to manage affairs.

**MIS** Tata Textile deploys Cloud-based Oracle Fusion ERP which is an integrated solution for all MIS needs of the Company. The Company has formal reporting mechanism to address management's needs comprising of daily weekly monthly reports through data analytics & dashboard.

**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 a Cotton USA License. The Company has an in-house Internal Audit function.

## Business Risk

**Industry Dynamics** Pakistan's spinning industry comprises approximately ~368 dedicated spinning units, with an estimated size of ~PKR 775bln and ~13.4mln spindles installed as of FY23, as per an economic survey. The projected cotton production estimate has been revised to ~11.5mln bales, with current production reaching ~8.26mln bales, surpassing FY23's total of ~4.91mln bales. In FY24, better local raw cotton yield is expected to support import substitution. Pakistan's demand for imported cotton has risen from ~3.5mln bales to ~4 million bales this year. Challenges include recent energy tariff hikes and availability of locally procured raw cotton, impacting the industry's outlook.

**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** The Company generates revenue from both local (~29%) and export (~71%) sales. During FY23, the Company reported a slight decline in revenue to PKR 34,910mln (FY22: PKR 35,113mln) due to reduced demand. However, during 9MFY24, the Company reported a ~50% growth in revenue, reflecting revived demand and the impact of the rupee-dollar parity (9MFY24: PKR 35,380mln, 9MFY23: PKR 23,592mln).

**Margins** During FY23, overall margins showed a significant decline. Gross margins dropped to ~12.2% from ~22.9% during FY22, primarily due to high raw material costs after floods. The Company's net profit margin during FY23 was ~0.7% (FY22: ~12.7%). During 9MFY24, the gross margin was ~7.9% (9MFY23: ~12.6%), while the net margin was -2.2% (9MFY23: ~1.3%).

**Sustainability** Going forward, the Company plans to address high raw material costs by sourcing cotton locally, which will reduce borrowing costs and improve profitability, thereby resolving the losses that are impacting liquidity. Additionally, the Company has initiated projects to enhance energy efficiency and improve treasury management.

## Financial Risk

**Working Capital** The Company's working capital requirements primarily arise from holding raw materials to hedge against price volatility, cyclicity and supply shocks, along with funding trade receivables. The Company uses short-term borrowings to meet its working capital needs. During FY23, short-term borrowing increased to PKR 9,737mln (FY22: PKR 3,425mln). In 9MFY24, short-term borrowings stood at PKR 12,012mln. The Company's gross working capital was 154 days (FY23: 178 days, FY22: 137 days). The Company reported a short-term trade leverage of ~44.2% during 9MFY24 (FY23: 53.8%).

**Coverages** The coverages of the Company have been declining due to the downtrend in profitability. In FY23, EBITDA dropped to PKR 4,409mln from PKR 7,446mln in FY22. With increased borrowing and decreased EBITDA, the EBITDA/Finance Cost coverage fell to 1.7x in FY23 (FY22: 6.7x). In 9MFY24, the Company reported an EBITDA of PKR 2,738mln (9MFY23: PKR 3,054mln). The EBITDA/Finance Cost coverage in 9MFY24 was 0.8x (9MFY23: 1.8x). Going forward, maintaining coverage sustainability remains essential.

**Capitalization** The equity base of the Company is on a declining trend due to ongoing losses. As at 9MFY24, the equity base stood at PKR 20,576mln (FY23: PKR 21,379mln). While the Company maintains a strong equity base, continued losses could negatively impact it. The Company has a moderately leveraged capital structure (9MFY24: ~49%, FY23: ~44%).



Tata Textile Mills Limited Textile   Spinning	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
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**A BALANCE SHEET**

1 Non-Current Assets	21,458	21,386	20,242	15,510
2 Investments	3,178	2,119	1,912	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	22,999	22,698	15,930	11,613
a Inventories	13,035	13,593	10,128	6,039
b Trade Receivables	7,070	6,635	4,240	2,859
5 Total Assets	47,635	46,202	38,084	27,123
6 Current Liabilities	5,875	6,622	4,433	3,442
a Trade Payables	271	349	256	199
7 Borrowings	19,922	16,840	10,696	8,750
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	1,263	1,361	1,389	973
10 Net Assets	20,576	21,379	21,567	13,957
11 Shareholders' Equity	20,576	21,379	21,567	13,957

**B INCOME STATEMENT**

1 Sales	35,380	34,911	35,114	27,126
a Cost of Good Sold	(32,588)	(30,666)	(27,060)	(22,860)
2 Gross Profit	2,792	4,245	8,053	4,266
a Operating Expenses	(851)	(1,045)	(1,011)	(876)
3 Operating Profit	1,940	3,200	7,043	3,390
a Non Operating Income or (Expense)	1,484	213	(835)	(76)
4 Profit or (Loss) before Interest and Tax	3,424	3,413	6,208	3,314
a Total Finance Cost	(3,581)	(2,705)	(1,179)	(816)
b Taxation	(606)	(448)	(586)	(412)
6 Net Income Or (Loss)	(763)	261	4,443	2,086

**C CASH FLOW STATEMENT**

a Free Cash Flows from Operations (FCFO)	2,206	3,827	6,840	4,021
b Net Cash from Operating Activities before Working Capital Changes	(1,080)	1,460	5,748	3,065
c Changes in Working Capital	(1,553)	(4,973)	(4,916)	(2)
1 Net Cash provided by Operating Activities	(2,633)	(3,513)	832	3,062
2 Net Cash (Used in) or Available From Investing Activities	(343)	(2,268)	(3,401)	(431)
3 Net Cash (Used in) or Available From Financing Activities	642	(552)	(399)	(603)
4 Net Cash generated or (Used) during the period	(2,334)	(6,333)	(2,968)	2,029

**D RATIO ANALYSIS**

1 Performance				
a Sales Growth (for the period)	35.1%	-0.6%	29.4%	0.0%
b Gross Profit Margin	7.9%	12.2%	22.9%	15.7%
c Net Profit Margin	-2.2%	0.7%	12.7%	7.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	1.8%	-3.3%	5.5%	14.8%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]	-4.8%	1.2%	25.0%	14.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	156	181	140	N/A
b Net Working Capital (Average Days)	154	178	137	36
c Current Ratio (Current Assets / Current Liabilities)	3.9	3.4	3.6	3.4
3 Coverages				
a EBITDA / Finance Cost	0.8	1.7	6.7	5.7
b FCFO / Finance Cost+CMLTB+Excess STB	0.3	0.5	2.6	3.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-5.0	5.6	0.7	0.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	49.2%	44.1%	33.2%	38.5%
b Interest or Markup Payable (Days)	70.0	81.5	0.0	72.2
c Entity Average Borrowing Rate	24.4%	17.0%	10.5%	14.4%

### Credit Rating

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

Scale	Long-term Rating Definition
AAA	<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)

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- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
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- (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)

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