The Pakistan Credit Rating Agency Limited

Rating Report

Nisar Spinning Mills (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Jul-2024	A-	A2	Stable	Maintain	-
14-Jul-2023	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The Nisar Spinning Mills (Pvt.) Limited ("the Company" or "NSMPL") rating emanates from the adequate profile of the Company in the spinning industry of Pakistan. ATS Synthetic (Pvt.) Limited is the flagship company of the ATS group, which has a forte in diverse segments like Chemicals, Plastics, Metals, Spinning, and Synthetic Leather. Three companies primarily operate under the umbrella of the ATS Group: ATS Synthetic (Pvt.) Ltd, Nimir Chemical Pakistan, and NSMPL. The Company produces a variety of yarns, with Siro yarn being their prime selling product, followed by PVC yarn and CVC yarn. The Company's revenue is primarily driven by local sales, with exports accounting for ~23% of the total revenue base. In 9MFY24, the revenue base demonstrated impressive growth amounting to PKR ~11.6bln (FY23: PKR 9.8bln, 9MFY23: PKR 5.7bln) attributed to volumetric growth and inflationary impact on product pricing coupled with strategic gain on cotton trading. The surge in local raw cotton prices and the hike in energy tariffs resulted in the dilution of the Company's margins and profitability matrix. To mitigate energy cost risks, the Company has installed a 3.5MW solar power project in the first phase, and in the second phase, another 4.2MW solar power plant will be installed. The Company's mid-term strategy focuses on expanding footprints in the weaving and Autocoro expansion (producing yarn from waste) segment to augment business sustainability. The management of the Company is mindful to keep aligning their performance with financial projections. The financial risk profile of the Company is considered adequate with a stretched working capital cycle that depicts the industry norm. The Company truncates short-term borrowings by availing advance payment facility from the group company to fuel its working capital requirements and reduce gearing over time. The Company maintains a leveraged capital structure with adequate coverages and cash flows. The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn, ~3.0% of the total GDP as of FY23. The composite and garment segment in the textile sector has a contribution of ~PKR 1.6Trn, mainly dominated by knitwear, readymade garments, bedwear, and towels, followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs and finance costs, PKR devaluation, and ensuring the availability of optimum quality raw materials are prime challenges.

The ratings are dependent on management's ability to sustain its growth in revenues, margins and profitability. Prudent management of the working capital, and maintaining sufficient cash flows and coverages are imperative. The alignment of the Company's performance with its financial projections remains vital for the ratings.

Disclosure

Name of Rated Entity	Nisar Spinning Mills (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-24),Methodology | Corporate Rating(Jul-23)
Related Research	Sector Study | Spinning(Sep-23)
Rating Analysts	Muhammad Harris Ghaffar | harris.ghaffar@pacra.com | +92-42-35869504

Profile

Legal Structure Nisar Spinning Mills (Private) Limited (the Company or "NSMPL") was incorporated on June 14, 2005 under the Companies Ordinance, 1984 (now the Companies Act, 2017) as a private company limited by shares.

Background ATS Group, founded in 1968 by Late Mian Nisar Elahi, has a proven industrial track record spreading over five decades. During the said span of time, the group made its presence felt and acknowledged in the local as well as international markets.

Operations Nisar Spinning Mills (Private) Limited (NSMPL) has been a well-known name in the field of textiles since 2006. The state-of-the-art textile spinning unit is located at 3-KM, Raiwind Sundar Road, Lahore. The company operates two spinning units with an installed capacity of 52,800 spindles, successfully meeting the local and global demand of its valued customers. NSMPL is globally recognized for producing a vast range of high-quality, contamination-free yarn. The company also engages in the production of non-woven fabric, with two plants having an installed capacity of 15 MT/day.

Ownership

Ownership Structure Nisar Spinning Mills (Pvt.) Limited is exclusively owned by the sponsoring family (~100%) where, the ownership of the Company resides with Mr. Anjum Nisar (~81.89%) and Mr. Tariq Nisar (~18.10%).

Stability Over the years the ownership structure of the Company has remained stable as complete control lies with the sponsoring family. The formal shareholder agreement along with the exit option strengthens the succession planning and provides comfort to the stability in the ownership structure.

Business Acumen The Sponsor group (ATS)-the Nisar Family is in the business for more than five decades and possesses considerable multiple industries-specific exposure and expertise and has the power to direct relevant activities of the Company. This depicts strong business acumen.

Financial Strength Nimir Chemicals Pakistan Limited & ATS Synthetics (Private) Limited, being the prominent group entities maintain strong financial profile with substantial access to diversified markets. This indicates Sponsors' ability to provide support, is considered high, if the need arises. The estimated group revenue stands at over PKR ~100bln.

Governance

Board Structure The board is dominated by the sponsors of the Company. The board consists of two members which include CEO Mr. Anjum Nisar (Group chairman) and Mr. Tariq Nisar-Executive Director.

Members' Profile All board members have strapping industry-specific experience. Mr. Anjum Nisar has vast experience, extending over four decades, of leading textile, spinning, plastic, Artificial Leather and Chemicals' Industries. On the other side, Mr. Tariq Nisar holds over four decades of chemical sector experience in Pakistan.

Board Effectiveness The board of NSML is more of an advisory nature accompanied by professional management. The authority is delegated to relevant departmental heads to execute day to day operations of the Company.

Financial Transparency ShineWing Hameed Chaudhri & Co chartered accountants, the 'SBP-B category' accounting firm, is the external auditor of the Company. The auditors expressed an unqualified audit opinion on the financial statements for the year ended June, 2023.

Management

Organizational Structure The Company has a lean organizational structure. The company's structure is mainly divided into four divisions. The four divisions are 1) Finance, 2) Sales & Marketing Services, 3) Production and 4) Administration. All divisions are mainly headed by CEO and Executive Director.

Management Team Mr. Anjum Nisar is the CEO of the Company have possessed over four decades of industry-specific experience. Mr. Naveed Amjad- a qualified chartered accountant is the CFO of the Company and has ~02 decades of experience.

Effectiveness The current management committee within the Company is functioning adequately in terms of duties, delegation of authority and decision-making.

MIS Nisar Spinning Mills (Pvt.) Limited has implemented the latest version of SAP Business One 9.3 PL: 11. Currently, they are in contractual agreement with Abacus Consulting (Pvt.) Limited for maintenance and any upgradation of SAP software.

Control Environment The Company has an in-house internal audit department which comes under the supervision of the Board. For the purpose of quality assurance, the Company has installed VI spectrographs, Tensojet 4, Uster Tester 5 and Quantum yarn clearer, from uster Technologies of Switzerland.

Business Risk

Industry Dynamics The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn ~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector has a contribution of ~ PKR 1.6Trn mainly dominated by knitwear, readymade garments, bedwear and towels followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs & finance costs, PKR devaluation and ensuring the availability of optimum quality raw materials are prime challenges specific to the industry to assess the international market and stay price-wise competitive.

Relative Position The relative position of the Company is adequate in comparison to the overall Spinning industry size of Pakistan.

Revenues In 9MFY24, the Company achieved impressive revenue growth, reaching PKR 11,648mln (9MFY23: PKR 5,741mln, FY23: PKR 9,804mln). The majority of this revenue is attributed to yarn sales, with siro yarn standing out as the key product. Export revenues accounted for ~23%, with China being the primary export market.

Margins During 9MFY24, the Company achieved a gross profit of PKR 852mln (FY23: 1,072mln, 9MFY23: 762mln) and a bottom line of PKR -97mln (FY23: 139mln, 9MFY23: 15mln). Margins deteriorated with the gross profit margin at 7.3% (FY23: 10.9%, 9MFY23: 13.3%) and net profit margins at -0.8% (FY23: 1.4%, 9MFY23: 0.3%). The surge in local raw cotton prices and hike in energy tariffs resulted in the dilution of the Company margins and profitability matrix.

Sustainability The management of the Company is mindful of aligning its performance with financial projections. The Company plans to augment and diversify its operations through vertical integration both up and down the production chain—firstly, towards weaving, and secondly, through Auto Coro expansion, which will enable them to produce yarn from waste. This initiative will ultimately reduce their raw material costs and create another business line. The installation of a solar power plant is expected to provide additional support to the Company's profitability matrix.

Financial Risk

Working Capital During 9MFY24, net working capital days improved to 132 days (FY23: 202 days), primarily due to a reduction in inventory days, which decreased to 77 days (FY23: 127 days). The Company relies on short-term borrowings and advance payment facility from its group company to meet its working capital requirements.

Coverages During 9MFY24, the Company's Free Cash Flow from Operations (FCFO) was recorded at PKR 843mln (FY23: PKR 1,059mln, 9MFY23: PKR 754mln). The Company's coverages remain intact, with the interest coverage ratio standing at 1.5x (FY23: 1.4x, 9MFY23: 1.3x).

Capitalization As of 9MFY24, the Company's leverage increased slightly to 54.2% (FY23: 53.4%). Short-term borrowings decreased to PKR 1,568mln (FY23: PKR 1,875mln), while long-term borrowings increased to PKR 1,179mln (FY23: PKR 919mln). The equity base of the Company was recorded at PKR 2,428mln (FY23: PKR 2,525mln).

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Financial Summary
PKR mln

Nisar Spinning Mills (Pvt) Limited	Mar-24	Jun-23	Jun-22	Jun-21
Spinning	9M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	3,312	3,296	3,274	2,513
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	8,973	8,295	5,455	4,083
a Inventories	*2,854*	*3,726*	*3,100*	*1,881*
b Trade Receivables	*1,948*	*3,027*	*1,328*	*1,606*
5 Total Assets	12,285	11,592	8,729	6,596
6 Current Liabilities	1,548	698	570	293
a Trade Payables	*135*	*197*	*144*	*67*
7 Borrowings	2,873	2,890	5,462	4,523
8 Related Party Exposure	5,017	5,017	-	-
9 Non-Current Liabilities	418	461	310	203
10 Net Assets	2,428	2,525	2,387	1,577
11 Shareholders' Equity	2,428	2,525	2,387	1,577
B INCOME STATEMENT				
1 Sales	11,648	9,804	10,075	7,985
a Cost of Good Sold	*(10,795)*	*(8,732)*	*(8,174)*	*(6,922)*
2 Gross Profit	852	1,072	1,902	1,063
a Operating Expenses	(166)	(161)	(183)	(143)
3 Operating Profit	686	911	1,719	919
a Non Operating Income or (Expense)	*(44)*	*(16)*	*(62)*	*41*
4 Profit or (Loss) before Interest and Tax	643	895	1,657	960
a Total Finance Cost	*(578)*	*(787)*	*(462)*	*(309)*
b Taxation	*(161)*	*31*	*(381)*	*(138)*
6 Net Income Or (Loss)	(97)	139	814	513
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*843*	*1,059*	*1,683*	*1,031*
b Net Cash from Operating Activities before Working Capital Changes	*254*	*323*	*1,262*	*703*
c Changes in Working Capital	*196*	*2,300*	*(1,191)*	*4*
1 Net Cash provided by Operating Activities	449	2,623	71	706
2 Net Cash (Used in) or Available From Investing Activities	(259)	(360)	(636)	(377)
3 Net Cash (Used in) or Available From Financing Activities	(18)	(2,275)	592	(329)
4 Net Cash generated or (Used) during the period	173	(13)	27	(0)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	58.4%	-2.7%	26.2%	40.7%
b Gross Profit Margin	7.3%	10.9%	18.9%	13.3%
c Net Profit Margin	-0.8%	1.4%	8.1%	6.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	8.9%	34.3%	4.9%	13.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	-5.2%	5.6%	41.1%	38.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	136	208	143	163
b Net Working Capital (Average Days)	132	202	140	159
c Current Ratio (Current Assets / Current Liabilities)	5.8	11.9	9.6	13.9
3 Coverages				
a EBITDA / Finance Cost	1.5	1.5	4.2	4.0
b FCFO / Finance Cost+CMLTB+Excess STB	1.3	1.2	3.0	1.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.6	3.6	1.0	1.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	54.2%	53.4%	69.6%	74.1%
b Interest or Markup Payable (Days)	47.2	51.3	54.5	51.0
c Entity Average Borrowing Rate	22.4%	18.2%	9.0%	6.1%

Credit Rating

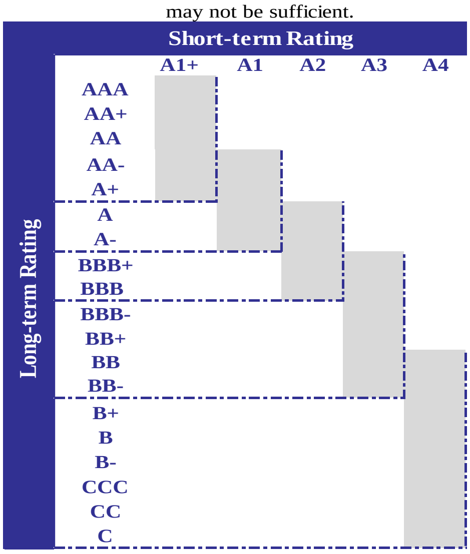
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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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**
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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(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)

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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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(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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
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(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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