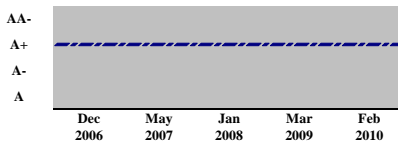


RATINGS (FEBRUARY 2010)
NISHAT MILLS LIMITED (NML)

ENTITY	NEW	PREVIOUS
Long Term	A+	A+
Short Term	A1	A1



FINANCIAL DATA
PKR (mln)

	30-Sep-09	30-Jun-09	30-Jun-08
Total Assets	35,559.3	31,512.7	40,277.2
Pure Equity	19,442.9	18,929.8	16,063.9
Adj. Equity**	23,966.6	19,330.7	26,492.1
Net Debt/Equity (%)	47.1	52.8	72.3
Turnover	6,395.6	23,870.4	19,589.8
Net Income	513.4	1,268.0	5,857.6
Gross Margin (%)	18.5	18.2	14.3
RoE (%)	9.5^	7.6	20.7

*Un-audited, based on 3 months

**Including revaluation surplus/deficit on investments

^Simple Annualized

ANALYSTS

Rai Umar Zafar
+92 42 35869504
rai.umar@pacra.com

Jhangeer Hanif
+92 42 35869504
jhangeer@pacra.com

RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect NML's ability to sustain its leading position as a textile composite unit of the country. The diversified array of the company's product portfolio, extensive market outreach, and stable customer base has helped the company to maintain its margins through subdued socio-economic conditions in the national and international markets. The rating incorporates NML's strong risk absorption capacity, emanating from its low leveraged capital structure and robust operating cashflows. Meanwhile, association of the company with Nishat Group as its flagship company is also a key rating factor.
- The ratings are dependent on NML's sustained competitive positioning in the challenging industry dynamics. Although a stable dividend stream is supplementing NML's profitability, the complete realization of its strategic investments especially IPPs is yet to materialize, which would have positive implications for the ratings of the company. Nevertheless, NML's governance framework and transparency in the group's shareholding structure remains a challenge.

ASSESSMENT

- In the wake of world economic recession, the company faced substantial pressure on business volumes for all segments except dyeing and finishing. However, this was cushioned by relatively higher offtake in the local market and impact of rupee devaluation. Consequently, NML witnessed growth in its turnover during FY09. In addition to revisiting its market strategy, the company focused on exploration of new markets. This helped NML to manage the tough operating environment. The company's dividend income, largely in line with the last year's level, continued to augment the bottom line. Meanwhile, financial charges showed a notable increase due to rising interest rate environment during the period, thereby exerting negative pressure on the company's bottom line. However, NML's net revenue remained healthy on YoY basis after adjusting the one off capital gain last year. The company has maintained its performance trend during 1QFY10, whereby gradual fall in key interest rate of the country benefited its profitability.
 - Going forward, due to slow recovery in the international market, there is a continuing pressure on the company's export market. The rise in operating costs, growing infrastructure constraints, and deteriorated law and order situation in the country are some of the other factors which compound the problems for the local textile industry. Nevertheless, the management's ability to adapt to changing dynamics of the industry and ongoing initiatives to enhance production efficiency and penetrate new markets would help in sustaining the competitive edge. Diversification into power, with acquisition of two further IPPs after Nishat Power Limited (NPL), would also supplement NML's profitability. NPL is in the process of rectifying initial problems, with plans to become fully operational within FY10.
 - NML's working capital requirements are a function of its inventory management. For this, the company resorts to export refinance at subsidized rates. Meanwhile, NML continues to enjoy sound cashflows and coverages.
 - NML has a significant investment portfolio, constituting ~49% of its assets at end-Sep09. The investment book comprises strategic investments in group companies mainly MCB Bank, Nishat Power, and D.G. Khan Cement. During FY09, NML booked a sizeable revaluation loss (~PKR 10bln), mainly on MCB, directly in equity. However, with the improved market conditions there has been a significant reversal of this loss by end-Sep09 (~PKR 4bln).
 - NML has a low leveraged capital structure. The company's debt to equity ratio improved on YoY basis as a combined effect of equity injection and reduction in debt levels. The proportion of current debt in the total debt mix is relatively high as a portion of it is used to finance the company's long-term strategic investments. Meanwhile, the company is planning a right issue of PKR 4.4bln to finance its planned investments (~ 32% stake) in AES Lal Pir (362MW) and AES Pak Gen (365MW).
- PROFILE**
- NML, established in 1951, is the single largest textile composite and a leading exporter of textile products in the country. Nishat Group, a leading conglomerate with interests in textile, cement, energy and financial sectors, owns majority (~51%) holding in the company through family members (Mansha family) and associated concerns – mainly D.G Khan Cement.
 - NML has a seven member board of directors including the Chief Executive Officer. The CEO, Mr. Umer Mansha, holds the office of chairman. With the exception of one member, who is a nominee of NIT, the other members of the board are senior executives in group companies.
 - The company has an experienced and qualified management team. Moreover, the quality of systems and processes in place is sound.