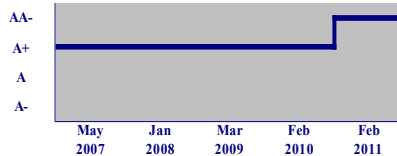


RATINGS (FEBRUARY 2011)
NISHAT MILLS LIMITED (NML)

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

NML LONG TERM ENTITY RATING HISTORY

FINANCIAL DATA
PKR (mln)

	30-Sep-10*	30-Jun-10	30-Jun-09
Total Assets	48,774.3	46,182.3	31,512.7
Pure Equity	27,075.1	25,724.9	18,929.8
Adj. Equity**	32,450.4	31,376.3	19,330.7
Net Debt/Net Debt+Equity (%)	23.7	25.3	34.1
Turnover	9,960.9	31,535.6	23,870.4
Net Income	1,350.1	2,915.5	1,268.0
Gross Margin (%)	21.5	18.9	18.2
RoE (%)	16.6^	9.3	6.6
EBITDA/Interest	5.5	4.2	2.6

*Un-audited, based on 3 months

**Including revaluation surplus/deficit on investments

^Simple Annualized

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RATING RATIONALE AND KEY RATING DRIVERS

- The ratings reflect NML's ability to maintain its positioning in the key markets despite tough economic times. The company's diversified revenue stream, large market segmentation, and sound customer base, while sustaining its margins, have led to a considerably protected business risk profile. In addition, ratings incorporate a consistent dividend stream from strategic investments – lately supplemented by acquisitions in the power segment. The entity continues to maintain sound coverages, engendering good risk absorption capacity against the challenging business dynamics. Meanwhile, NML's association with Nishat Group as its flagship company remains a key rating factor.
- These ratings are dependent on NML's ability to effectively manage its business profile – competitiveness in core textile business and stable dividend stream. Moreover, preserving the sound capital structure and financial coverages would be important. Meanwhile, improvement in NML's governance framework remains critical.

ASSESSMENT

- NML, during FY10, benefiting from increased dyeing and finished products' off-take and significantly higher yarn prices witnessed a considerable jump in its turnover. Moreover, escalation in product pricing helped the company to sustain its gross margin despite increased cost of raw material. The company's dividend income continued its healthy contribution towards the bottomline. In addition, during FY10, NML's finance cost went down, attributed to shift towards low cost SBP refinance in the company's borrowing mix. Thus, NML while registering a rich bottomline, also enjoyed better margin. The company has further improved its performance trend in 1QFY11 mainly benefiting from huge growth in its turnover and thus margins.

- Going forward, to cope with the challenging export market, the company plans to continue with its two fold strategy – exploration of new markets and production efficiency. Moreover, dyeing and sewing capacity enhancement is expected to help NML in further market penetration. Unavailability of cotton, rising energy cost, power crisis, and poor security situation would remain a serious concern for the local textile industry. Nevertheless, NML's competitive edge given its vertical integration, is expected to support the company's bottomline. In addition, the company's investment income is expected to hold up the profitability, going forward.

- NML's significant investment portfolio – constituting 48% of its assets at end-Sep10 – is mainly strategic (PKR 23,338mln). The portfolio consists of investments in group companies mainly MCB Bank Limited, Nishat Power Limited, Pakgen Power Limited, Lal Pir Power Limited, and D.G. Khan Cement Limited. The company carries an unrecognized gain of ~PKR 5,375mln on its portfolio as at end-Sep10.

- NML avails SBP's Export refinance facility to meet its working capital requirements. The company has managed to shorten its cash cycle over the years mainly by improving its inventory holding period.

- NML has strong cash flows, which are supplemented by dividends on investments. This has resulted in improved financial coverages. Moreover, during FY10, NML's self liquidating assets stood at a strong level in comparison with its short term borrowings, as against previous year's level (uncovered short term borrowings: FY10: Nil; FY09: PKR 2,606mln).

- NML maintains a low leveraged capital structure mainly due to management's cautious stance. This is evident by the fact that despite having a borrowing cushion, the company's new investment ventures during the last two years have been financed through fresh equity injection. Meanwhile, the company is planning to sell a portion of its stake in Pakgen Power Limited and Lal Pir Power Limited to list both companies, while also generating nominal capital gains.

PROFILE

- NML, established in 1951, is the single largest textile composite and a leading exporter of textile products in the country. Mansha family together with associated companies of Nishat Mills Limited, mainly D.G Khan Cement Company Limited, collectively owns majority (~50%) shares of the company.

- NML has a seven member board of directors including the Chief Executive Officer. The CEO, Mr. Umer Mansha, also holds the office of the chairman. With the exception of one member, who is a nominee of NIT, the other members of the board are senior executives.

- The company has an experienced and qualified management team. Moreover, the quality of systems and processes in place is good.