



The Pakistan Credit Rating Agency Limited

Rating Report

Nishat Mills Limited | PPSTS | PKR 10bln | Nov-23

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Jan-2024	AA	A1+	Stable	Initial	-
22-Sep-2023	AA	A1+	Stable	Preliminary	-

Rating Rationale and Key Rating Drivers

The ratings reflect the established position of Nishat Mills Limited (“Nishat Mills or the company”) in the country’s competitive textile landscape. This stems from its remarkable history as the largest export-based, fully integrated unit along with a sizable strategic portfolio on a standalone basis. The Company enjoys prominence in the textile sector attributable to its diverse product range comprising Yarn, Comber Noil, Grey Cloth, Processed Cloth, Made-ups, Garments, Towels, and Bathrobes. A major portion of topline emanates from export sales as the Company has established a stable customer base with several export destinations during the last few years. This has benefited the topline with attractive foreign exchange gain. A significant chunk of revenue is also captured from the local market. The Company has a forte in the local textile industry catering to the segments of Spinning, Weaving, Dyeing, Garments, Home textile, and Terry. On a consolidated basis, the investment portfolio, emanating from the company’s implicit Holdco status within the Group, generates a healthy dividend stream, boosting the core profitability. During 1QFY24, the Company’s topline demonstrated positive growth YoY despite the onslaught of macroeconomic challenges. Due to the consolidated efforts of management on the expense side, the Company secured good margins. Deployment of funds in the capital market benefited the bottom line. The Company was able to secure a net profitability of PKR 4.5bln (1QFY23: PKR 4.1bln). The free cash flows from operations (FCFO) illustrate that the company is generating sufficient cash to meet its working capital requirements as evidenced by reduced borrowings. However, the management of coverages and the working capital cycle remains essential. The Company is expected to maintain its strong financial profile, going forward.

The ratings are dependent on the Company's ability to sustain its core margins and profitability. Preserving low-leveraged capital structure and sound coverages remains imperative.

Disclosure

Name of Rated Entity	Nishat Mills Limited PPSTS PKR 10bln Nov-23
Type of Relationship	Solicited
Purpose of the Rating	Debt Instrument Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23),Methodology Debt Instrument Rating(Aug-23)
Related Research	Sector Study Composite and Garments(Dec-23)
Rating Analysts	Uswa Sikandar uswa.sikandar@pacra.com +92-42-35869504



Issuer Profile

Profile Nishat Mills Limited ("Nishat Mills" or "the Company") is a listed concern, which commenced operations in 1951. Nishat Mills is the flagship company of Nishat Group. Nishat Group is one of the renowned business conglomerates in Pakistan. The Company's current operational capacity comprises 251,808 Spindles, 931 Looms, 7320 Roters, 4 Rotary Printing Machines, 11 Digital Printing machines, 6 Thermosole Dyeing, and 5931 Stitching Machines. Overall, Nishat Mills has 29 manufacturing units each specializing in a specific product range.

Ownership Mian Mansha's family collectively owns the majority (~51%) shares of the Company directly through individuals (~42%) and group companies (~8%). The remaining (~49%) stake is spread among financial institutions, companies, and the general public. Mansha Family holds prominent positions in Nishat Mills. The Group maintains a substantial presence in the country's financial sector and has a strong foothold in Textile, Cement, Power, Dairy, Automobile assembly industry, and Hospitality sector. Nishat Mills is among the pioneers of progressive textile manufacturers of Pakistan, with approximately seven decades of presence in the textile value chain. The sponsors have seen several economic cycles and kept the growth trend intact to become the leading textile concern in the country.

Governance The board comprises seven members with two directors representing the sponsoring family, including the Chairman and the CEO. The directors include two independent directors, four non-executive directors, and one executive director working with other Nishat Group entities. Board members have diversified experience and a relatively long association with the Company. The Chairman of the board, Mr. Hassan Mansha carries with him over two decades of experience in the textile value chain. The Company's board has two board committees, the Audit, and Human Resource & Remuneration Committee, to assist the board on relevant matters. M/s. Riaz Ahmad & Company, Chartered Accountants are the external auditors of the Company. The auditors have expressed an unqualified opinion on the financial statements for the period ended June 30th, 2023.

Management Management control vests with Nishat Group, with a well-defined reporting line to ensure smooth operations and efficiency. Mr. Umer Mansha, the CEO, primarily manages the Company's affairs and is supported by a team of seasoned professionals. The Company's management meetings are held on a periodic basis to ensure efficiency and formulate strategic plans. The top management tier ensures effective delegation of functional responsibility across various departments, facilitating the smooth flow of operations. Nishat Mills has deployed an Oracle-based Enterprise Resource Planning (ERP) system. The Company is accredited with international certifications for compliance.

Business Risk The Company generates a major portion of its revenue from exports with a wide product range. The Company's export destinations are Europe, America, Africa, Asia, and Australia. During 1QFY24, the exports constituted 60% of the top line and remained largely the same at PKR 24.2bln (1QFY23: PKR 23.4bln). The Company's revenue base displayed a sizeable increase on a YoY basis to stand at PKR 40bln (1QFY23: PKR 34.3bln). Further segregation reveals that the Company's total sales comprise the sale of Yarn, Grey cloth, Processed cloth, Made-ups, Garments, Towels and Bath robes, and Electricity. During 1QFY24, the Company's top-performing segments were Spinning and Home Textile & Terry. The Company's local sales sizably improved to PKR 15.7bln (1QFY23: PKR 10.8bln). Despite an incline in revenue base, the gross margin posted a decline at 12.4% (1QFY23: 19.4%) attributable to higher expenses. The same trend has been witnessed throughout the industry trend. The quantum of income from financial assets is large. Resultantly, the other income clocked portrayed a massive increase and clocked at PKR 5.6bln (1QFY23: PKR 1.5bln). The finance cost posted a hike (1QFY24: PKR 2.3bln; 1QFY23: PKR 832mln) due to higher interest rates. The Company's bottom line was recorded at PKR 4.5bln (1QFY23: PKR 4.1bln). Hence, the net profit margin inched down to 11.4% (1QFY23: 12.1%).

Financial Risk At end-Sep23, the Company's working capital days decreased to 87 days (end-Jun23: 93 days) due to a decline in the inventory days recorded at 82 days (end-Jun23: 86 days). The Company's free cash flows from operations were recorded at PKR 3.2bln (end-Jun23: PKR 14.1bln). Due to this decline, the Company's interest coverage went down to 1.5x (end-Jun23: 2.2x). The Company's debt payback surged to 3.3 years (end-Jun23: 1.9 years). The Company has a moderately leveraged capital structure. The total leveraging displayed a slump (end-Sep23: 38.4%; end-Jun23: 40.3%). The Company's equity base enhanced at PKR 93.5bln (end-Jun23: PKR 89.7bln). The borrowing book decreased slightly at PKR 58.3bln (end-Jun23: PKR 60.5bln). Out of which, the short-term borrowings constitute 75.5% reported at PKR 44.1bln (end-Jun23: PKR 45.7bln).

Instrument Rating Considerations

About The Instrument Nishat Mills Limited has issued a Privately Placed, Unsecured, Non-convertible, and Shariah Compliant Short-term Sukuk (PPSTS) of PKR 10bln on November 23rd, 2023. The Company's legal advisor is MCB Bank Limited. The proceeds of the facility will be utilized by the Company for funding its short-term working capital requirements including the procurement of cotton. The tenor of the instrument will be 6 months from the date of issue. The instrument carries a profit rate of 3MK + 15bps and profit will be paid quarterly. The call option is exercisable by the issuer after three months from the issue date with at least 15 days prior notice. The principal will be redeemable at the maturity date through a bullet payment. The maturity date will be 6 months after the issuance of the instrument.

Relative Seniority/Subordination Of Instrument The claim of the Sukuk will rank superior to the claim of ordinary shareholders.

Credit Enhancement The instrument is unsecured.



The Pakistan Credit Rating Agency Limited

Nishat Mills Limited Textile	Sep-23	Jun-23	Jun-22	Jun-21
	3M	12M	12M	12M

A BALANCE SHEET

1 Non-Current Assets	48,898	45,704	40,336	36,552
2 Investments	470	471	475	480
3 Related Party Exposure	55,436	55,590	40,084	55,923
4 Current Assets	69,424	68,520	56,639	38,158
a Inventories	36,836	34,802	31,827	17,973
b Trade Receivables	13,033	13,209	10,366	6,549
5 Total Assets	174,228	170,286	137,535	131,112
6 Current Liabilities	20,568	18,177	14,092	11,014
a Trade Payables	11,403	9,727	8,564	6,251
7 Borrowings	58,346	60,538	42,051	33,295
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	1,772	1,806	2,191	1,056
10 Net Assets	93,543	89,764	79,201	85,748
11 Shareholders' Equity	93,543	89,764	79,201	85,748

B INCOME STATEMENT

1 Sales	40,028	141,756	115,768	71,431
a Cost of Good Sold	(35,069)	(120,678)	(98,432)	(62,113)
2 Gross Profit	4,959	21,079	17,336	9,318
a Operating Expenses	(2,067)	(8,389)	(7,337)	(4,437)
3 Operating Profit	2,892	12,690	9,998	4,881
a Non Operating Income or (Expense)	5,505	9,644	5,069	3,418
4 Profit or (Loss) before Interest and Tax	8,397	22,334	15,068	8,300
a Total Finance Cost	(2,380)	(6,928)	(2,160)	(1,229)
b Taxation	(1,468)	(3,240)	(2,596)	(1,148)
6 Net Income Or (Loss)	4,549	12,166	10,312	5,922

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	3,252	14,125	11,886	6,332
b Net Cash from Operating Activities before Working Capital	5,107	16,006	13,635	8,202
c Changes in Working Capital	2,846	(7,214)	(20,612)	576
1 Net Cash provided by Operating Activities	7,952	8,792	(6,977)	8,778
2 Net Cash (Used in) or Available From Investing Activities	(4,999)	(23,495)	(5,481)	(6,434)
3 Net Cash (Used in) or Available From Financing Activities	(2,211)	16,963	7,277	2,800
4 Net Cash generated or (Used) during the period	743	2,260	(5,181)	5,144

D RATIO ANALYSIS

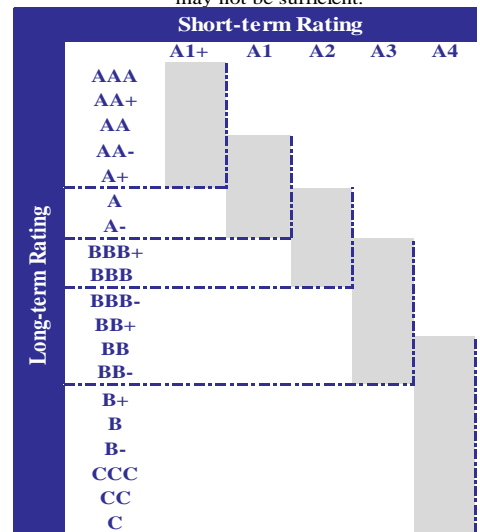
1 Performance				
a Sales Growth (for the period)	12.9%	22.4%	62.1%	17.3%
b Gross Profit Margin	12.4%	14.9%	15.0%	13.0%
c Net Profit Margin	11.4%	8.6%	8.9%	8.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital / Net Cash from Operating Activities before Working Capital)	15.2%	4.9%	-7.5%	9.7%
e Return on Equity [Net Profit Margin * Asset Turnover * Equity Multiplier]	19.9%	14.4%	12.5%	7.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	112	116	105	127
b Net Working Capital (Average Days)	87	93	82	94
c Current Ratio (Current Assets / Current Liabilities)	3.4	3.8	4.0	3.5
3 Coverages				
a EBITDA / Finance Cost	1.8	2.6	7.6	8.8
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	1.5	2.5	1.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Interest)	3.3	1.9	1.5	2.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	38.4%	40.3%	34.7%	28.0%
b Interest or Markup Payable (Days)	46.6	105.1	77.3	80.0
c Entity Average Borrowing Rate	14.4%	11.1%	4.0%	2.9%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB	
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	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.
CC	
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

- 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)

Conduct of Business

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- (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).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (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
- (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)
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- (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)
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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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Regulatory and Supplementary Disclosure

Nature of Instrument	Size of Issue (PKR)	Tenor	Security	Quantum of Security	Nature of Assets	Trustee	Book Value of Assets (PKR mln)
Rated, Privately placed, Short-term Sukuk (PPSTS)	10,000mln	6 months	Unsecured	N/A	N/A	MCB Bank Limited	N/A

Name of Issuer	Nishat Mills Limited						
Issue Date	23-Nov-23						
Maturity	6 months after the issuance						
Call Option	Call option available after 3 months of issuance of the instrument						

Due Date Principal*	Opening Principal	Principal Repayment*	Due Date Markup/ Profit*	Markup/Profit rate	3M Kibor Plus 15 bps	Markup/Profit Payment	Installment Payable	Principal Outstanding
	PKR in mln					PKR in mln		
Issuance								10,000
23-Nov-23	10,000			3M KIBOR + 0.15%	21.56%		-	10,000
23-May-24	10,000	10,000	23-May-24	3M KIBOR + 0.15%	21.56%*	2,156	12,156	-
		10,000				2,156	12,156	

* Draft