The Pakistan Credit Rating Agency Limited

Rating Report

Din Textile Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
06-Sep-2024	A-	A2	Stable	Maintain	-
08-Sep-2023	A-	A2	Stable	Maintain	-
08-Sep-2022	A-	A2	Stable	Maintain	-
08-Sep-2021	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings of Din Textile Mills Limited ("DTML" or "the Company") reflect the sponsor's prominent profile in diversified business segments. The Company is equipped with state-of-the-art machinery in its spinning, weaving, and dyeing units. The Company's product slate divests into combed compact yarn, core spun lycra yarn, slub lycra yarn, dyed yarn, melange yarn, ply yarn, gassed yarn, knitwear yarn, greige fabric, and bleached cotton web for surgical and cosmetic use. In terms of segment-wise revenue contribution, spinning is the foremost segment followed by weaving. During 9MFY24, the Company's topline showed an improvement on a YoY basis, reaching PKR 29.6bln (9MFY23: PKR 23.0bln), primarily driven by local sales. There is a strategic shift in the knitwear yarn category by moving from the export to a local segment on account of favorable product pricing and margins. The Company's top clients and suppliers are established and stable entities. The Company's margins dipped on the back of the inflated cost of production due to expensive raw material procurement and elevated energy tariffs coupled with magnified finance cost. The Company has already commissioned a solar project for 3.5MW and 4.5MW solar is in the installation phase to manage the energy cost risk primarily financed through the subsidized borrowings from SBP. A gradual shift in international demand patterns and consumption trends for yarn and greige fabric has been observed mainly due to the global recession and changing customer preferences. The management of the Company is mindful of coping with these challenges adeptly and is progressing into the value-added segment (towels) on a small scale, initially through toll manufacturing, while also initiating the stitching segment to cater to the export made-up market, executing minimal CAPEX by utilizing the existing building structure. This would diversify the revenue streams by exploring new potential export markets and strengthening the sustainability profile of the Company. The financial risk profile of the Company is considered adequate with minute improvement in coverages and cashflows. The working capital requirements of the Company are primarily met through internally generated cashflows followed by short-term borrowings. The Company has maintained a leveraged capital structure. The ratings take comfort from the sponsor's commitment to providing financial support and some equity injection expected to create a cushion in the financial matrix of DTML.

The ratings are dependent on intact business operations under the current economic conditions and draw comfort from the sponsor profile. Improving margins, healthy coverages, and capital structure while growing the business profile remains critical for the Company. Any deterioration in the financial profile will have a negative impact on the ratings.

Disclosure	
Name of Rated Entity	Din Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Corporate Rating(Jul-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study | Composite and Garments(Dec-23)
Rating Analysts	Tasveeb Idrees | Tasveeb.Idrees@pacra.com | +92-42-35869504

Profile

Legal Structure Din Textile Mills Limited is a public limited company, incorporated in 1988.

Background Din Textile Mills Limited is engaged in the manufacturing and sale of yarn. Its product portfolio comprises combed compact yarn, core spun lycra yarn, slub lycra yarn, dyed yarn, melange yarn, ply yarn, gassed yarn, and bleached cotton web for surgical and cosmetic use while the weaving product portfolio comprises greige fabric. Geographically, it derives a majority of its revenue from Pakistan. The manufacturing units I and II are located at Pattoki, while unit III and IV are located at Raiwind in the province of Punjab

Operations The Company has four state-of-the-art spinning units and 1 dyeing unit located at Multan Road Pattoki & Raiwind, having consolidated annual production capacity of 45.51 million Kgs yarn. Din Textile Mills Unit 1 is dedicated to Melange (Blended) Yarns. At Textile Mills Unit 2, Spandex Core Spun Yarn (both carded and combed) and Slub Yarn is produced. Unit 3 manufactures export quality compact yarn and Spandex core spun with compact yarn and Unit 4 is engaged in weaving operations. Din Power Plant generates power for all the Spinning and Dyeing units so that the production activities can run smoothly and high yarn quality can be assured.

Ownership

Ownership Structure Mr. Shaikh Muhammad Pervez, Din Corporation (Pvt.) Limited and Din Industries Management (Pvt.) Limited own 14.06%, 12.33% and 10.83% respectively. Rest of the shareholders own less than 10% each of the shareholding.

Stability Din Group was established in 1954 it is one of the leading exporters and most well-established business groups of Pakistan with interests in Leather and Textile.

Business Acumen Shaikh Muhammad Naveed is the CEO of Din Textile Mills Limited and has been associated with the Board of Directors for over two decades.

Financial Strength Din Group has its business across various sectors including textile, dairy, poultry and real estate. The versatile business profile of The Group depicts strong financial strength of the sponsors.

Governance

Board Structure The overall control of the Company vests in a nine members' board with Shaikh Muhammad Jawed as Chairman. Three are non-executive directors, three are executive directors while three members are independent directors.

Members' Profile Shaikh Muhammad Jawed – the Chairman – carries with him over 45 years of experience and has been associated with the board since its incorporation.

Board Effectiveness Din Textile Mills has two board committees: Audit Committee and HR & Remuneration Committee (HR&R).

Financial Transparency The External Auditors of the Company are Naveed Zafar Ashfaq Jaffery & Co. Chartered Accountants. They have expressed an unqualified opinion on the company's annual financial statements for FY23.

Management

Organizational Structure Manager sales & marketing and General manager admin from Head Office report to the CFO. Whereas, the Technical Director and CFO report to the directors.

Management Team Shaikh Muhammad Naveed is the CEO of the Company. He is supported by a team of experienced professionals. Most of the senior management has been associated with the Company for a reasonably long time.

Effectiveness Din Textile works closely with end-users in studying their day-to-day activities and finding opportunities to automate and streamline various tasks. The Company is committed to the process of upgrading and enhancing its IT infrastructure and moving toward greater process automation.

MIS SAP was implemented on 1st July 2020 for the best utilization of Company resources and timely decisions. DTML is currently using SAP version SAP ECC 6.0 A1 implemented with the professional help of Siemens Pakistan Pvt. Limited.

Control Environment A strong control environment and established internal control framework exists in the company comprising clear structures, segregation of duties, authorization limits for the Company officials for operating bank accounts and approving expenditures, well-define policies and procedures, budgeting and review processes to reduce the risk of undetected error / fraud and limit opportunities for misappropriation of assets or concealment of intentional misstatements

Business Risk

Industry Dynamics The country's textile exports reached USD 15.2bln during 11MFY24 compared to USD 14.7bln in the same corresponding period, indicating a modest growth of ~0.03% on a YoY basis. In value terms, the Composite & Garments segment had the highest contribution of USD 8.5bln, followed by Weaving segment at USD 5.7bln and Spinning segment at USD 0.9bln. This growth is primarily attributed to a surge in the exports of Cotton Yarn, Towels, Readymade garments, Bed wear and Made-up articles. However, the exports of Combed cotton, Knitwear, Cotton cloth and Tents, canvas & tarpaulins reflected a dip YoY. The global economic slowdown subdued the demand patterns and consumption trends in the international market. The factors affecting the textile industry are escalated energy tariffs and challenges in the procurement of raw materials on account of lower local cotton yield impacting the finished product margins. However, the gradual decline in the interest rates is anticipated to provide comfort to the local industry.

Relative Position The Company has ~134,928 spindles and ~144 looms on a standalone basis and falls in the mid-tier of the respective industry.

Revenues A major portion of the Company's topline is generated through local sales. While the remaining portion is derived from the export sales. During 9MFY24, the Company's revenue base portrayed a sizeable improvement at PKR 29.6bln (9MFY23: PKR 23.0bln) up by 28.8% YoY. The sales mix tilted towards the local market. The Company's export sales indicated a substantial increase on a YoY basis recorded at PKR 11.7bln (9MFY23: PKR 5.3bln). The Company has a stable customer base around the globe. The Company's export destinations are Portugal, France, China, Italy, Bangladesh and Ethiopia. The local sales indicated a marginal growth of 2.3% clocking at PKR 18.2bln (9MFY23: PKR 17.8bln).

Margins During 9MFY24, the Company's gross profit margin reflected a dip at 4.1% (9MFY23: 12.6%) mainly on the back of expensive raw material procurement and elevated energy tariffs. The same trend has been reflected by the operating profit margin (9MFY24: 2.1%; 9MFY23: 9.9%). The Company's finance cost increased manifold (9MFY24: PKR 2.9bln; 9MFY23: PKR 2.0bln) due to higher interest rates. The Company booked net losses of PKR 2.3bln compared to a net profit of PKR 31mln in 9MFY23. Hence, the net Company's net profit margin was reported negatively clocking at -7.8% (9MFY23: 0.1%).

Sustainability The Company is venturing into value-added segments via toll manufacturing to augment its revenue streams and execution of cost-efficiency projects (solar installation) to manage energy cost risk which strengthens its sustainability profile.

Financial Risk

Working Capital The Company meets its working capital requirements through a mix of internally generated cash and short-term borrowings. As of end-Mar24, the Company's net working capital cycle was contracted to 135 days (end-Jun23: 170 days) due to an optimization of the inventory days (end-Mar24: 100 days; end-Jun23: 124 days).

Coverages As of end-Mar24, the Company's Free Cash Flows from Operations (FCFO) were recorded at PKR 3.9bln (end-Jun23: PKR 1.1bln). This led to a slight improvement in the coverages. Due to this incline, the Company's interest coverage and core operating coverage improved (end-Mar24: 1.4x; end-Jun23: 0.4x) and (end-Mar24: 1.1x; end-Jun23: 0.3x).

Capitalization The Company has a moderately leveraged capital structure. As of end-Mar24, the Company's total leveraging exhibited an increase and stood at 58.5% (end-Jun23: 54.1%). The Company's equity base reported a dip at PKR 8.2bln (end-Jun23: PKR 10.5bln). The Company's long-term borrowings were recorded at PKR 7.3bln (end-Jun23: PKR 7.0bln) constituting 63.4% of the borrowing book.

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Financial Summary
PKR mln

Din Textile Mills Limited Textile | Composite	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	15,964	16,298	9,999	9,201
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	17,708	21,694	18,111	8,407
a Inventories	*9,991*	*11,795*	*10,186*	*4,127*
b Trade Receivables	*4,354*	*4,914*	*4,843*	*3,289*
5 Total Assets	33,671	37,992	28,111	17,608
6 Current Liabilities	13,438	14,725	9,334	5,017
a Trade Payables	*872*	*950*	*665*	*438*
7 Borrowings	11,623	12,441	10,431	7,602
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	373	287	232	312
10 Net Assets	8,238	10,540	8,113	4,676
11 Shareholders' Equity	8,238	10,540	8,113	4,676
B INCOME STATEMENT				
1 Sales	29,676	32,314	31,353	17,641
a Cost of Good Sold	*(28,451)*	*(29,212)*	*(25,382)*	*(14,528)*
2 Gross Profit	1,225	3,102	5,970	3,113
a Operating Expenses	(610)	(860)	(671)	(401)
3 Operating Profit	615	2,242	5,299	2,712
a Non Operating Income or (Expense)	*125*	*147*	*(177)*	*(74)*
4 Profit or (Loss) before Interest and Tax	740	2,389	5,122	2,638
a Total Finance Cost	*(2,989)*	*(3,013)*	*(1,389)*	*(701)*
b Taxation	*(53)*	*(243)*	*(290)*	*(374)*
6 Net Income Or (Loss)	(2,302)	(868)	3,443	1,563
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*3,924*	*1,172*	*4,275*	*3,212*
b Net Cash from Operating Activities before Working Capital Ch	*961*	*(1,019)*	*3,242*	*2,618*
c Changes in Working Capital	*229*	*2,901*	*(4,272)*	*(826)*
1 Net Cash provided by Operating Activities	1,190	1,883	(1,030)	1,792
2 Net Cash (Used in) or Available From Investing Activities	(179)	(3,969)	(1,728)	(4,041)
3 Net Cash (Used in) or Available From Financing Activities	43	1,189	(56)	3,043
4 Net Cash generated or (Used) during the period	1,054	(897)	(2,814)	793
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	22.4%	3.1%	77.7%	41.3%
b Gross Profit Margin	4.1%	9.6%	19.0%	17.6%
c Net Profit Margin	-7.8%	-2.7%	11.0%	8.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capi	14.0%	12.6%	0.0%	13.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Tota*	-32.7%	-9.3%	53.8%	40.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	143	179	131	132
b Net Working Capital (Average Days)	135	170	124	111
c Current Ratio (Current Assets / Current Liabilities)	1.3	1.5	1.9	1.7
3 Coverages				
a EBITDA / Finance Cost	0.6	1.2	4.9	5.3
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	0.3	1.6	1.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finan	5.9	-4.8	2.4	2.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	58.5%	54.1%	56.2%	61.9%
b Interest or Markup Payable (Days)	97.4	137.1	112.7	88.2
c Entity Average Borrowing Rate	31.4%	24.9%	13.6%	9.3%

Credit Rating

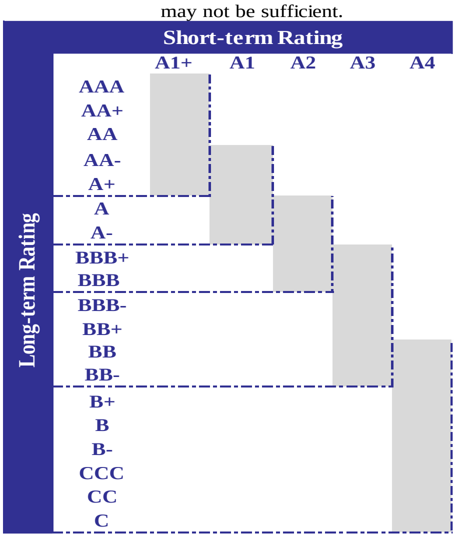
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

(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

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(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

(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).

(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)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(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)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(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)

Proprietary Information