The Pakistan Credit Rating Agency Limited

# Rating Report

# Tata Textile Mills Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 18-Jan-2022 | A | A2 | Stable | Initial | - |

**Rating Rationale and Key Rating Drivers**

Tata Textile Mills Limited – a public listed company - primarily engaged in the manufacturing and sale of different varieties of yarn (siro yarns, Modal blend yarn, Tencil blend carded, slub yarn, spun yarns, plied carded & combed yarn and some other). During FY21, Company's revenue improved to PKR 27.1bln (FY20: PKR 20.6bln); Sales have been done both in local and export market. Margins and net profitability enhanced recently where the Company recorded loss in FY20. In FY21, Company's profitability stood at PKR 2.08bln. The company is expected to book robust profits in its first half of FY22. The trend is expected to continue in the near future, as per management projections. The ratings of Tata Textile reflect the financial risk profile of the Company, which is characterized by moderate leveraging, good coverages and adequate working capital management. Long association of experienced and professional management team adds comfort. During the period July-December FY21-22, Pakistan textile exports surged 26% YoY, fielding $9.39 bln in total export remittances, as compared to $7.44 bln in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of value-added textile items increased in both quantity and value in December 2021. Going forward, the textile sector's outlook is expected to stay positive in the medium term where the demand for textile products is expected to sustain. In the local market, the textile sector has recorded strong performance.

The ratings are dependent on improving business margins while maintaining financial risk at a low level. Prudent management of short-term liquidity and sustained coverages are important.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Tata Textile Mills Limited |
| **Type of Relationship** | Solicited |
| **Purpose of the Rating** | Entity Rating |
| **Applicable Criteria** | Methodology \| Corporate Rating(Jun-21),Criteria \| Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria \| Rating Modifiers(Jun-21) |
| **Related Research** | Sector Study \| Spinning(Sep-21) |
| **Rating Analysts** | Iram Shahzadi \| iram.shahzadi@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Tata Textile Mills limited ('The Company' or 'Tata Textile') was incorporated in 1987 and is a public listed company listed on the Pakistan Stock Exchange (PSX). The Company is engaged in the manufacturing and sale of different varieties of yarn.

**Background** In 1980s, Tata Pakistan took over the management of the spinning unit of the already established Island Textile Mills Limited, along with Salfi Textile Mills Limited and swiftly developed a recognized name in the spinning of cotton yarns. It later established Tata Textile Mills Limited, in the early 90s, as part of its expanding business base. On July 1st, 2021, Salfi Textile Mills, Island Textile Mills, and Tata Energy stand merged into Tata Textile Mills.

**Operations** The primary business of the Company is manufacturing and sale of different varieties of yarn. The total number of spindles installed is 127,092 spindles in three manufacturing units.

## Ownership

**Ownership Structure** The CEO (Shahid Anwar Tata), along with other family members and associated companies collectively own majority (81%) shares of the Company. The remaining shareholding of the Company is held by mutual funds (9%), general public and others (10%).

**Stability** Tata group is one of the oldest and renowned groups of Pakistan. Third generation of Tata family has entered into the business. Although there is no formal succession plan but roles among Adeel Shahid Tata and Bilal Shahid Tata are clearly defined. Segregation of roles provides long-term stability.

**Business Acumen** Mr. Anwar's son, Shahid Anwar Tata, is primarily involved in the family business along with his two sons – Mr. Adeel Shahid Tata and Mr. Bilal Shahid Tata. Mr. Bilal Tata is CEO of Tata Best Food Ltd. and is also engaged on the Board of the Company.

**Financial Strength** Apart from Textile, Tata group also has vested interests in food sector. Overall financial strength of the sponsors is considered good.

## Governance

**Board Structure** The control of the Company vests in nine members; including Mr. Mazhar Valjee as the Chairman of the board. There are two executives, three non-executive, and four independent directors in the Board.

**Members' Profile** Board members have diversified experience and relatively long association with the Company. The Chairman - Mr. Mazhar Valjee - has over 3 decades of experience.

**Board Effectiveness** For effective results the board has formed two committees (Audit and HR) to assist the board on relevant matters. During FY21, seven board meetings were held with majority attendance to discuss pertinent matters.

**Financial Transparency** The External Auditors of the Company are M/s. Yousuf Adil, Chartered Accountants. They expressed an unqualified opinion on the Company's financial statements for the year ended June 30, 2021. The auditors fall in the Category - "A" of the SBP's Panel of Auditors.

## Management

**Organizational Structure** Tata Textile Mills Ltd. manages all the textile units at various locations from its corporate head office in Karachi. Shahid Anwar Tata – CEO – primarily manages the Company's affairs, supported by a team of esteemed professionals.

**Management Team** Management team comprises long associated and experienced individuals. Mr. Shahid Anwar Tata, the CEO of the Company, is a graduate with an overall experience of 42 years.

**Effectiveness** All deliberations are held at meetings conducted by department heads on "as and when needed" basis. Though there is no formal process for meetings at Tata Textile but daily and weekly meetings are done to manage affairs.

**MIS** Tata Textile deploys Oracle based Enterprise Resource Planning (ERP) system with the license of 400 corporate users. The Company's MIS can be classified into four categories on the basis of periodicity – daily, monthly, quarterly, and .annual. The daily and weekly reports generated for top management mainly scrutinize production and liquidity position, whereas, the Company's P&L is discussed on need basis in the meetings.

**Control Environment** Tata Textile's plant is connected with head office through VPN, thereby reporting on real time basis. Moreover. All associated companies of Tata Pakistan group are ISO-9001 compliant, whereas Tata Textile is also awarded with OEKO Tex Standard 100 Certifications and Cotton USA License.

## Business Risk

**Industry Dynamics** During the period July-December FY21-22, Pakistan textile exports surged 26% YoY, fielding $9.39 bln in total export remittances, as compared to $7.44 bln in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of value-added textile items increased in both quantity and value in December 2021. Going forward, the textile sector's outlook is expected to stay positive in the medium term where the demand for textile products is expected to sustain. In the local market, the textile sector has recorded strong performance. The relief measures introduced by the State Bank of Pakistan such as deferment of loan payments for one year, low-interest rates, and salary refinance scheme also provided comfort to the sector. Many players have also availed the TERF scheme announced by the Central Bank. This will lead to overall leverage of the sector to increase; however, on relaxed financing rates. The sustainability of demand pattern for the current higher orders from Europe and USA remains essential for the feasible utilization of added capacity by textile players.

**Relative Position** The company's position has strengthened in terms of the spindles installed post merger. The installed capacity stands at 127,092 spindles.

**Revenues** It is noteworthy to mention that the numbers of both periods are consolidated after the aforementioned merger. There is a significant jump not only in the turnover of the company, but also in gross profit. The gross profit has risen from PKR 1,773mln to PKR 4,278mln. However, the quantum of profitability would provide a cushion. As a result, from the loss of PKR 1bln in FY20, the company has booked net profit slightly more than PKR 2bln in FY21. The growth and profitably trend are very strong in the 1st quarter of FY22. This provides comfort that the company would be closing FY22 on an improved note as well. The company is expected to book robust profits in the first half of FY22. The trend is expected to continue in the near future, as per management projections.

**Margins** During FY21, the Company's gross margins clocked in at 15%, though the absolute margins were PKR 4,278mln. The gross margins in the comparative period were 9% with the amount standing at 1,773mln. The net profit margin is 7% for FY21. In the 1QFY22, Tata Textile's margins also show significant improvement. The gross margin stood at 23.3% and the operating margin stood at 20.4%.

**Sustainability** Going forward, the Company is planning to augment its position post merger. Profitability of the company is expected to improve due to expected reduction in borrowing costs as the company shifts its focus towards local procurement of cotton. Additionally, the company has initiated several projects to improve energy effciencies and treasury management.

## Financial Risk

**Working Capital** The working capital requirements of the Company stem from majorly holding of raw material, to hedge against price volatility and built against supply shocks. Trade receivables are the second major avenue for working capital financing. Inventory holding largely follows a cyclical pattern, where raw cotton is purchased during the Aug to Dec period and inventory buildup takes place and thereafter inventory reduces as consumption takes place with lowest levels in Jun. Yet the short-term borrowing, on a consolidated level, has come down to the PKR 5.7bln at end-FY21 when compared to last year number of FY20. The gross cash cycle comes about 120days, and the net cash cycle 118days. This is primarily due to the Company's position on the raw material.

**Coverages** The Company's cash flows remain a function of its profitability. During FY21, the company's EBITDA significantly increased to PKR 4,069mln(FY20: PKR 1,214mln). The impact of an increase in EBITDA is contributing towards improvement in coverage. Interest coverage ratio has witnessed increase to 5.40x (FY20: 0.9x) and debt coverage ratio to 3.1x (FY20: 0.8x). Going forward, the sustainability of coverage remains essential. During 1QFY22, the interest coverage ratio has witnessed an increase to 8.8x and debt coverage ratio to 4.9x; improvement due to the low finance cost (1QFY22: 200mln) and higher cashflows.

**Capitalization** The Company has a moderately leveraged capital structure (FY21: 38.5%, FY20: 44.6%). Out of the total debt, 28% of the debt comprises long-term borrowings. Going forward, in absence of any major capacity expansion, and with the gradual payments of long-term loans, the leveraging is expected to reduce overtime. During 1QFY22, Company leverage stood at 44.9%.

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*Financial Summary*
*PKR mln*

| Tata Textile Mills Limited<br>Textile \| Spinning | Sep-21<br>3M<br>Management | Jun-21<br>12M<br>Merged* | Jun-20<br>12M<br>* | Jun-19<br>12M |
|---|---|---|---|---|
| **A BALANCE SHEET** | | | | |
| 1 Non-Current Assets | 15,419 | 15,510 | 4,736 | 4,686 |
| 2 Investments | - | - | - | 27 |
| 3 Related Party Exposure | - | - | - | - |
| 4 Current Assets | 17,238 | 11,613 | 3,908 | 3,376 |
| *a Inventories* | *9,101* | *6,039* | *2,103* | *2,039* |
| *b Trade Receivables* | *3,992* | *2,859* | *1,010* | *615* |
| **5 Total Assets** | 32,658 | 27,123 | 8,644 | 8,089 |
| 6 Current Liabilities | 4,293 | 3,442 | 659 | 434 |
| *a Trade Payables* | *243* | *199* | *117* | *65* |
| 7 Borrowings | 12,278 | 8,750 | 3,356 | 2,691 |
| 8 Related Party Exposure | - | - | - | - |
| 9 Non-Current Liabilities | 1,045 | 973 | 466 | 493 |
| **10 Net Assets** | 15,042 | 13,957 | 4,162 | 4,470 |
| **11 Shareholders' Equity** | 15,042 | 13,957 | 4,162 | 4,470 |
| **B INCOME STATEMENT** | | | | |
| **1 Sales** | 8,352 | 27,126 | 20,592 | 6,727 |
| *a Cost of Good Sold* | *(6,405)* | *(22,860)* | *(18,819)* | *(6,102)* |
| **2 Gross Profit** | 1,947 | 4,266 | 1,773 | 625 |
| *a Operating Expenses* | (245) | (876) | (766) | (217) |
| **3 Operating Profit** | 1,702 | 3,390 | 1,007 | 408 |
| *a Non Operating Income or (Expense)* | *(170)* | *(76)* | *(602)* | *(20)* |
| **4 Profit or (Loss) before Interest and Tax** | 1,532 | 3,314 | 405 | 389 |
| *a Total Finance Cost* | *(200)* | *(816)* | *(1,280)* | *(281)* |
| *b Taxation* | *(250)* | *(412)* | *(162)* | *(75)* |
| **6 Net Income Or (Loss)** | 1,082 | 2,086 | (1,002) | 33 |
| **C CASH FLOW STATEMENT** | | | | |
| *a Free Cash Flows from Operations (FCFO)* | *1,605* | *4,021* | *340* | *508* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *1,418* | *3,065* | *(25)* | *260* |
| *c Changes in Working Capital* | *(4,765)* | *(2)* | *(159)* | *(795)* |
| **1 Net Cash provided by Operating Activities** | (3,347) | 3,062 | (184) | (534) |
| **2 Net Cash (Used in) or Available From Investing Activities** | (202) | (431) | (256) | (154) |
| **3 Net Cash (Used in) or Available From Financing Activities** | 7,615 | 579 | 1,746 | 728 |
| **4 Net Cash generated or (Used) during the period** | 4,066 | 3,210 | 1,305 | 39 |
| **D RATIO ANALYSIS** | | | | |
| **1 Performance** | | | | |
| *a Sales Growth (for the period)* | 23.2% | 303.1% | 0.0% | 11.4% |
| *b Gross Profit Margin* | 23.3% | 15.7% | 7.4% | 9.3% |
| *c Net Profit Margin* | 13.0% | 7.7% | -4.9% | 0.5% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)* | -37.8% | 14.8% | 2.7% | -4.3% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity )]* | 29.8% | 23.0% | -7.6% | 0.8% |
| **2 Working Capital Management** | | | | |
| *a Gross Working Capital (Average Days)* | 120 | 81 | 156 | 123 |
| *b Net Working Capital (Average Days)* | 118 | 79 | 151 | 120 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 4.0 | 3.4 | 5.9 | 7.8 |
| **3 Coverages** | | | | |
| *a EBITDA / Finance Cost* | 9.6 | 5.7 | 1.0 | 2.4 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 4.9 | 3.1 | 0.8 | 1.4 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | 0.5 | 0.9 | -16.2 | 2.2 |
| **4 Capital Structure** | | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 44.9% | 38.5% | 44.6% | 37.6% |
| *b Interest or Markup Payable (Days)* | 80.3 | 72.2 | 87.7 | 84.4 |
| *c Entity Average Borrowing Rate* | 9.0% | 14.5% | 13.3% | 9.7% |

| # | Notes |
|---|---|
| | ***FY21 & FY20 financials are management consolidated accounts of the merged entity** |

## Credit Rating

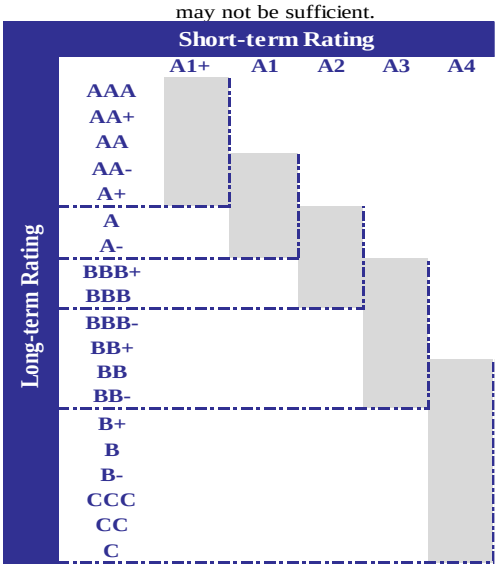
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

### 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+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>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):

**Entities**
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

**Instruments**
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

**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.
(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 | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)
**Proprietary Information**