



Restructuring Proposal – Dar es Salaam Textile Mills Limited

Dar es Salaam Textiles Mills Limited

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Introduction

Purpose of The Restructuring Proposal

The purpose of this report is to provide an overview on trading and marketing of yarn and fibres and restructure Dar-Es-Salam Textile Mills from a yarn manufacture to trader of yarn, fibre and other options in securities / business opportunities through proposed sale of its Land, Building, Plant & Machinery and other Assets.

The Company

Based in Muridke, Sheikhpura district, Dar es Salaam Textile Mills Limited was set up as a spinning unit in 1989. The Company was listed on the Pakistan Stock Exchanged as a Public Limited Company in 1992. It started its production with 12,480 spindles in 1989 and in 1992, the production capacity was enhanced to 16,320 spindles.

Over its two decades of chequered growth it has experienced remarkable returns in early 2000 to extremely challenging times in recent years. In Fiscal Year 2013-14, the company suffered electricity disconnection from August 2013 to November 2013 owing to floods in the area that resulted in reduced production and higher costs. Moreover, due to deteriorating market conditions, pressure from all creditors – banks and market, reduced market demand, the management shut down operation in August 2014. The management tried to raise capital to restart operations via foreign investment, however given the circumstances of the textile industry in Pakistan and country risk, the deal fell through. With the increasing pressure of banks to service its debt, the management felt that the most viable solution would be to sell the unit to a credible party. The old management entered into a rental agreement with Sally Textile with the understanding of future sale. Unfortunately, due to Sally Textile's inability to satisfy the lead lender, the deal fell through. Sally Textile officially withdrew their Public Offer on 28th November 2016.

After the rescinding of the Public Offer, the original stakeholders with new management took back physical possession of the unit. After repossession and over the past twelve months, the management observed that the Company was in a vicious circle in view of pressures from outstanding debt repayment and resultantly its inability to raise further working capital lines from financial institutions to resume the operations. Despite the recent "Export Package" announced by the Government of Pakistan worth PKR 180 billion (\$1.72 billion) to enhance foreign trade owing to the GSP+ status granted to Pakistan, the management found it difficult to function and felt that it must settle its long-term liabilities.

In view of the above; the management assessed the liquidity requirements of the Company keeping in mind market conditions and proposed to sell freehold land, buildings, plant and machinery, electric fittings and installations and stores and spares and to enter into trading of man-made fibers (including but not limited to polyester, viscose and acrylic), yarn and shares.

The management has also proposed to let out the Company's premises subsequent to sale of machinery till the time land and building could be sold. It will provide the Company an opportunity to generate reasonable cash flows to meet operational requirements of the Company. It is expected that the Company would be able to

recommence its operations before the close of financial year ending on June 30, 2019. The above objects are authorized by the Memorandum of Association of the Company.

Future Business Plan - Trading Business

The management had assessed numerous options to satisfy its debt obligations and to convert Dar es Salaam Textile into a profitable venture. As stated above, the management plans to enter into trading of man-made fibers (including but not limited to polyester, viscose and acrylic), yarn and shares.

Rational for Trading Business – Yarn, Fibre and /or Allied Product

The global export patterns are changing fast as a result of reduction in trade barriers and technological advancements that have led to gains in productivity and change in comparative advantage patterns in world economies. Asian economies such as China and India are enjoying a notable growth in changing circumstances across the world. Given the importance of the textile sector in Pakistan, the country also has great potential for higher growth in the sector.

Despite the tumultuous few years in the textile industry where numerous units have shut down, certain manufacturers have enjoyed profits despite the pressure on margins and also the trading business of yarn, fibre and /or allied products has done remarkably well. Therefore, keeping in sight the future outlook of Pakistan's economy and capital position in post CPEC era, the management has planned for the company to enter yarn, fibre and allied products trading business.

The Company senior management is already in contact with different local and international buyers/sellers/agents in order to make a steadfast entry in this field. The aim of the management is to commence trading once capital investment is available by selling off its Plant & Machinery as proposed in the EOGM notice. The management has started engaging company's recent clientele while looking for new business partners as well.

Some of yarn counts and fibres company has planned to include in its business are:

- NE 08/1-80/1 Cotton Carded Yarn
- NE 10/1-80/1 Cotton Combed Weaving
- NE 16/1-65/1 Polyester Viscose Blended Yarn
- NE 20/1-70/1 Polyester Cotton Blended Yarn
- Viscose, Tencel and Polyester Fibre
- Different varieties of specialized yarn.

Non-exhaustive list, and product range might change from time to time depending on prevailing market conditions.

Target Market for Trading Business – Yarn, Fibre and /or Allied Product

The management of Dar Es Salam Textile Mills Limited has spent numerous months building up both clientele and potential trading partners in this field. This includes both local and foreign partners. Following are some of international textile companies being considered in this regard focusing mainly on China and Far-East South America:

- Xiamen C & D Light Industry Co., Ltd. China
- Formosa Chemicals & Fibre Corporation (FCFC)
- South Pacific Viscose (SPV)
- Birla Fibres Co., Ltd.
- Wuhu Fuchun dye & weave co., Ltd. China
- Zhejiang Twin Lantern Home Textiles Co., Ltd. China
- Hickman International N.T.Hong Kong
- Tai Zeus International Corporation Taiwan
- Jinfang Cotton Technology Co., Ltd. China
- Hangzhou Fuchun dye & weave co., Ltd. China
- Tai Zeus International Corporation Taiwan

The management is in contact with these firms regarding import/export of different variety of yarn and fibre to Pakistan, which also includes exclusive selling and branding rights to some of the renowned textile brands in the world. Additionally, the Management is also in contact with number of local companies/agents who are willing to extend their full cooperation in the future business of the company.

Marketing Strategy for Trading Business – Yarn, Fibre and /or Allied Product

Given the nature of our product and the variety the management plans on introducing, the Company will have a multi-dimensional marketing strategy.

- I. Sales Team - To keep clientele engaged and to specifically target the organized sectors of the industry, we would have a suitably sized sales team.
- II. Commission Agents - Commission agents provide a large number of services and act as a bridge for both contracting parties. In Pakistani textile industry, commission agents provide services of finding buyers, negotiating the deal, and giving credit to buyers. Their role is very important for exploring new markets, as not only the agents cut down the risk by buying on cash and providing credit to their clients but also, they buy in large quantities and supply to smaller customers.
- III. Electronic Business to Business (E-B2B) Forums – These forums are a growing trend in textile industry of Pakistan, but majority of the players in the industry lack awareness to reap full benefits of such services. Such businesses play a significant role in reducing transaction costs and can be seen as a direct alternative to the traditional intermediaries. Thus, with the increased use of Internet amongst various industrial suppliers and buyers, the Company may reap additional benefits.

Restructuring Details

At present, the Company is highly leveraged and the management wants to reduce the outstanding liabilities in two phases

- **Phase I** – Start reducing the debt obligation of First Charge Holders via funds generated through Machinery Sale immediately and entering the trading of man-made fibers (including but not limited to polyester, viscose and acrylic), yarn and shares.
- **Phase II** – Rent / Sell Property / Land / Building to pay down mandatory Government and labour dues within the next two years

Please refer to the 31st December 2017 half yearly accounts for detailed noting of the total Liability of the Company – approx. PKR 594 million out of which 70 percent is owed to financial institutions, and 30 percent is owed to Government Entities, Labour dues & Trade payables.

Phase I

Out of the approx. total financial debt owed to financial institutions, the management will utilize the proceeds received from the sale of machinery to pay down the First Charge Holders principal amounts as per the percentage of their total outstanding.

The management needs to take quick action to sell the machinery, otherwise it will lose value. For example, the price of the machinery drastically deteriorated between 2014 and 2016, by over 50 percent. The main reasons for the decrease in price is the near collapse of the spinning segment in textile as well as lower demand of this type of machinery due to technology upgradation in spinning units.

Phase II

After utilizing the sale proceeds to partially clear the debt of the First Charge Holders, the management has plan to either set up the unit as a warehouse / rent out land & building and / or to sell the property, land and building to generate appropriate funds. It will provide the Company an opportunity to generate reasonable cash flows to meet the trading business operational requirements of the Company. It is expected that the Company would be able to recommence its operations before the close of financial year ending on June 30, 2019.

Conclusion

Since the past few years, the Company has not been able to service its financial obligation and has shut down operations for over a year. In order to service its debt and reduce liabilities, the management has tried all options from outright sale of unit, to rental as a textile unit – both options have not only had a negative impact on the Company, but further increased its financial liabilities.

Hence to truly overcome its challenges, the management required to think creatively. The management believes that the plan will not only reduce the debt but also provide an opportunity to generate reasonable cash flows to meet the trading business operational requirements of the Company.

Financial Projections for Trading Business

DAR ES SALAAM TEXTILES LTD

PROJECTED STATEMENT OF FINANCIAL POSITION

AS AT

	Year 1	Year 2	Year 3	Year 4	Year 5
	Rupees	Rupees	Rupees	Rupees	Rupees
Non-Current Assets					
Operating fixed assets	175,334,841	8,219,053	12,432,450	10,033,447	8,105,495
Long term deposits	1,326,354	-	-	-	-
	176,661,195	8,219,053	12,432,450	10,033,447	8,105,495
Current Assets					
Stock in trade	28,282,946	45,617,840	49,340,256	53,622,990	58,556,305
Trade debts	26,155,732	42,027,030	45,019,355	48,224,733	51,658,334
Investments	-	20,000,000	30,000,000	30,000,000	30,000,000
Advances, deposits, prepayments and other receivables	55,730,415	50,885,557	22,898,501	26,333,276	30,283,267
Cash and bank balances	25,943,365	25,954,160	41,940,548	45,290,301	51,647,237
	136,112,458	184,484,587	189,198,659	203,471,299	222,145,143
Current Liabilities					
Trade and other payables	131,737,487	39,521,246	45,019,355	48,224,733	51,658,334
Short term borrowings	247,908,372	-	-	-	-
Accrued mark up	5,587,000	-	-	-	-
	385,232,859	39,521,246	45,019,355	48,224,733	51,658,334
	(249,120,400)	144,963,342	144,179,304	155,246,566	170,486,809
Net Capital Employed	(72,459,205)	153,182,395	156,611,754	165,280,013	178,592,305

Represented by:

Share Capital and reserves

Share Capital	80,000,000	80,000,000	80,000,000	80,000,000	80,000,000
Accumulated Profit (Loss)	(293,391,117)	18,598,298	22,027,657	30,695,916	44,008,208
Loan from Sponsors	54,584,097	54,584,097	54,584,097	54,584,097	54,584,097
	(158,807,020)	153,182,395	156,611,754	165,280,013	178,592,305
Revaluation surplus	86,347,815	-	-	-	-
	(72,459,205)	153,182,395	156,611,754	165,280,013	178,592,305

PROJECTED RETAINED EARNINGS

	Year 1	Year 2	Year 3	Year 4	Year 5
	Rupees	Rupees	Rupees	Rupees	Rupees
Opening retained earnings/Accumulated loss	(453,984,716)	(293,391,117)	18,598,298	22,027,657	30,695,916
Gain/(loss) on sale of property, plant and equipment	(297,284,721)	217,477,612	-	-	-
Surplus on revaluation of property, plant and equipment	305,218,461	86,347,814	-	-	-
Profit for the year	152,659,859	8,163,990	7,429,359	14,668,259	21,312,292
	(293,391,117)	18,598,298	26,027,657	36,695,916	52,008,208
Less: Dividend	-	-	4,000,000	6,000,000	8,000,000
Balance (Closing)	(293,391,117)	18,598,298	22,027,657	30,695,916	44,008,208

DAR ES SALAAM TEXTILES LTD
PROJECTED INCOME STATEMENT

	Year 1	Year 2	Year 3	Year 4	Year 5
	Rupees	Rupees	Rupees	Rupees	Rupees
Revenue	282,829,460	304,118,932	328,935,037	357,486,598	390,375,365
Cost of revenue	(274,202,547)	(280,180,201)	(300,129,032)	(321,498,219)	(344,388,892)
Gross Profit	8,626,913	23,938,731	28,806,005	35,988,379	45,986,473
Administrative and general expenses	(12,570,000)	(13,798,500)	(15,148,425)	(16,631,846)	(18,262,039)
Selling and marketing expenses	(2,398,488)	(3,209,755)	(3,485,783)	(3,794,476)	(4,140,154)
Finance costs	(300,000)	(315,000)	(330,750)	(347,288)	(364,652)
Operating Profit	(6,641,576)	6,615,476	9,841,047	15,214,770	23,219,629
Credit Balances written back	148,811,759	-	-	-	-
Other Income	6,750,000	5,500,000	2,000,000	3,000,000	3,000,000
Profit before Tax	148,920,183	12,115,476	11,841,047	18,214,770	26,219,629
Taxation	3,739,676	(3,951,487)	(4,411,688)	(3,546,511)	(4,907,337)
Profit after Tax	152,659,859	8,163,990	7,429,359	14,668,259	21,312,292
Earning Per Share	19.08	1.02	0.93	1.83	2.66

DAR ES SALAAM TEXTILES LTD
PROJECTED STATEMENT OF CASHFLOWS

	Year 1	Year 2	Year 3	Year 4	Year 5
	Rupees	Rupees	Rupees	Rupees	Rupees
Profit before tax	148,920,183	12,115,476	11,841,047	18,214,770	26,219,629
Adjustment for non-cash charges/items					
Depreciation	7,593,227	1,919,753	1,786,603	2,399,003	1,927,951
Credit Balances written back	(148,811,759)	-	-	-	-
	7,701,652	14,035,229	13,627,650	20,613,773	28,147,580
Operating profit before working capital changes					
<i>(Increase)/decrease in current assets</i>					
Stock in trade	(26,155,732)	(15,871,298)	(2,992,325)	(3,205,378)	(3,433,601)
Trade debts	(28,282,946)	(17,334,894)	(3,722,416)	(4,282,734)	(4,933,315)
Advances, deposits, prepayments and other receivables	9,613,898	4,844,858	27,987,056	(3,434,775)	(3,949,991)
<i>Increase/(decrease) in current liabilities</i>					
Accrued mark up	-	(5,587,000)	-	-	-
Trade and other payables	-	(92,216,242)	5,498,109	3,205,378	3,433,601
Changes in working capital	(44,824,780)	(126,164,576)	26,770,425	(7,717,509)	(8,883,306)
Cash (used in) /generated from Operations	(37,123,128)	(112,129,346)	40,398,075	12,896,264	19,264,274
Taxes Paid	12,027,218	(3,951,487)	(4,411,688)	(3,546,511)	(4,907,337)
Net cash (used in) /generated from Operations	(25,095,911)	(116,080,833)	35,986,387	9,349,753	14,356,937
Cash flow from investing activities					
Sale proceeds against sale of property, plant and equipment	110,000,000	390,000,000	-	-	-
Capital expenditure incurred	-	(6,000,000)	(6,000,000)	-	-
Investments	-	(20,000,000)	(10,000,000)	-	-
Net cash generated from / (used in) investing activities	110,000,000	364,000,000	(16,000,000)	-	-
Cash Flow from Financing Activities					
Dividend Paid	-	-	(4,000,000)	(6,000,000)	(8,000,000)
Short term borrowings	(60,000,000)	(247,908,372)	-	-	-
Net cash used in financing activities	(60,000,000)	(247,908,372)	(4,000,000)	(6,000,000)	(8,000,000)
Net increase / decrease in cash and cash equivalents	24,904,089	10,795	15,986,387	3,349,753	6,356,937
Opening cash and cash equivalents	1,039,276	25,943,365	25,954,160	41,940,548	45,290,301
Closing cash and cash equivalents	25,943,365	25,954,160	41,940,548	45,290,301	51,647,237

DAR ES SALAAM TEXTILES LTD
FINANCIAL PROJECTIONS
NOTES AND ASSUMPTIONS:

PROJECTED STATEMENT OF SALES AND REVENUE

		Year 1	Year 2	Year 3	Year 4	Year 5
Tencil Fibre	Kgs	375,678	390,705	406,333	422,587	439,490
Expected Rate	Rs/Kg	345	357	371	388	407
Projected Sale		129,608,910	139,511,031	150,895,131	163,992,828	179,080,168
Man made Fibres (viscose)	Kgs	625,390	650,406	676,422	703,479	731,618
Expected Rate	Rs/Kg	245	253	263	275	289
Projected Sale		153,220,550	164,607,901	178,039,906	193,493,770	211,295,197
Total Projected Sale		282,829,460	304,118,932	328,935,037	357,486,598	390,375,365

PROJECTED STATEMENT OF COST OF GOODS SOLD

		Year 1	Year 2	Year 3	Year 4	Year 5
Tencil Fibre Purchase	Kgs	375,678	390,705	406,333	422,587	439,490
Expected Rate (Landed Cost)	Rs/Kg	325	335	345	355	366
Projected Tencil Purchase		122,095,350	130,788,539	140,100,683	150,075,852	160,761,252
Man made Fibres (viscose) Purchase	Kgs	625,390	650,406	676,422	703,479	731,618
Expected Rate (Landed Cost)	Rs/Kg	223	230	237	244	251
Projected Viscose Purchase		139,461,970	149,391,662	160,028,349	171,422,367	183,627,640
Total Projected Purchases		261,557,320	280,180,201	300,129,032	321,498,219	344,388,892
Salary and Wages-Security Guards		1,200,000	1,320,000	1,452,000	1,597,200	1,756,920
Insurance		1,452,000	1,555,382	1,666,126	1,784,754	1,911,828
Rent		1,800,000	1,980,000	2,178,000	2,395,800	2,635,380
Fuel, Power and Water		350,000	374,920	401,614	430,209	460,840
Repair and Maintenance		250,000	267,800	286,867	307,292	329,172
Depreciation		7,593,227	1,919,753	1,786,603	2,399,003	1,927,951
		12,645,227	7,417,856	7,771,211	8,914,259	9,022,091
Total Cost of Goods Sold		274,202,547	287,598,057	307,900,242	330,412,477	353,410,983

PROJECTED STATEMENT OF ADMINISTRATIVE EXPENSES

	Year 1	Year 2	Year 3	Year 4	Year 5
Administrative Salaries	12,000,000	13,200,000	14,520,000	15,972,000	17,569,200
Printing and Stationery	12,000	12,600	13,230	13,892	14,586
Vehicle Running and Conveyance	252,000	264,600	277,830	291,722	306,308
Office Maintenance	66,000	69,300	72,765	76,403	80,223
Telephone and Telex	120,000	126,000	132,300	138,915	145,861
Entertainment	60,000	63,000	66,150	69,458	72,930
Others	60,000	63,000	66,150	69,458	72,930
	12,570,000	13,798,500	15,148,425	16,631,846	18,262,039

PROJECTED STATEMENT OF SELLING AND MARKETING EXPENSES

	Year 1	Year 2	Year 3	Year 4	Year 5
Selling Salaries	1,000,000	1,100,000	1,210,000	1,331,000	1,464,100
Commission to Selling Agents	848,488	1,520,595	1,644,675	1,787,433	1,951,877
Freight and Forwarding Expenses	400,000	428,480	458,988	491,668	526,674
Others	150,000	160,680	172,120	184,375	197,503
	2,398,488	3,209,755	3,485,783	3,794,476	4,140,154

PROJECTED STATEMENT OF OTHER INCOME

	Year 1	Year 2	Year 3	Year 4	Year 5
Rental income	6,750,000	4,500,000			
Income on investments	-	1,000,000	2,000,000	3,000,000	3,000,000
	6,750,000	5,500,000	2,000,000	3,000,000	3,000,000

PROJECTED STATEMENT OF INCOME TAX

	Year 1	Year 2	Year 3	Year 4	Year 5
Turnover Tax	3,535,368	3,801,487	4,111,688	3,096,511	4,457,337
Tax on Return on Investment	1,012,500	150,000	300,000	450,000	450,000
	4,547,868	3,951,487	4,411,688	3,546,511	4,907,337

* Higher of :

Turnover Tax @ 1.25%	3,535,368	3,801,487	4,111,688	4,468,582	4,879,692
Alternate Tax @ 17%	25,316,431	2,059,631	2,012,978	3,096,511	4,457,337