



The Pakistan Credit Rating Agency Limited

ENTITY RATINGS REPORT

SAIF TEXTILE MILLS LIMITED

ENTITY	RATING	OUTLOOK	ACTION	DATE
Saif Textile Mills Limited	Long Term: A- Short Term: A2	Stable	Initial	29 th December 2017

RATING RATIONALE

Saif textile mills limited (Saif Textile), biggest textile mill of Saif group, provides different kinds of yarn which include, Melange yarn, dyed yarn, man-made yarn and raw white yarn. The company, primarily in spinning business, has also small presence in yarn dyeing business. Despite challenging textile industry dynamics, Saif Textile managed to maintain its optimal capacity while constantly expanding its asset base with the help of leveraging. Textile industry in general and spinning industry in particular continues to suffer from low international commodity prices and high cost of doing business in Pakistan. Consequently, performance volatility, featured by cotton price fluctuations, is considered high on standalone basis. Saif Textile's management enhanced and revamped its production capacities with the help of debt, which caused the gross margins to improve, exerted pressure on its financial risk profile. Nevertheless, financial risk is weak reflected by weak coverages, and high leveraged capital structure. Going forward, in absence of improved cashflows, meeting financial needs is expected to remain challenging. The ratings also incorporate the experienced management team and the entity's association with Saif Group which has demonstrated support in the past.

The ratings are dependent on managing financial obligations while sustaining business margins. Any further debt with shift from current business strategy, impacting the risk profile of the entity, may negatively affect the ratings. Going forward, Saif group's support to the entity would remain important.

Report Contents

1. Rating Analyses
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

SAIF TEXTILE MILLS LIMITED PROFILE	
Incorporated	1991
Major business lines	Manufacturing and sale of Yarn
Legal status	Listed
Head office	City Centre, Rawalpindi
Plant Location	Gadoon Industrial Estate, KPK
Number of Plants	3 Manufacturing Units

INDUSTRY SNAPSHOT
<p>During FY17, total textile exports stood at USD ~ 12,453mln. Cotton yarn contributes (10%), cotton cloth (17%), home textile (29%), while garments contributes (38%).</p> <p>Pakistan's spinning sector continues to suffer and continues to witness suppressed margins</p> <p>High cotton prices and ban on import of cotton from India have hampered growth and margins of the spinning sector.</p>

OWNERSHIP	GOOD
<ul style="list-style-type: none"> ▪ Saif Group holds majority of the shareholding of STML through its holding company – Saif Holdings. It exercises management control on the company by virtue of its ~50% shareholding in the company. ▪ Saif Group is one of the leading industrial and services conglomerates in Pakistan. Its primary operations encompass: oil and gas exploration, power generation, textiles manufacturing, real estate development, health care services, information technology services and software development. ▪ Apart from STML, Saif group have two more textile companies in its textile division namely Kohat Textile Mills Limited and Mediterranean Textile Mills. 	

GOVERNANCE	GOOD
<ul style="list-style-type: none"> ▪ The board is dominated by the Saif group's representatives. The company's board of directors comprises of eight directors which include two executive, five non-executive and one independent director. ▪ Mr. Osman Saifullah Khan is the chairman of the board. Mr. Osman has post graduate degree in engineering from University of Oxford and post graduate degree in business administration from University of Stanford. ▪ Overall strategy of the company is discussed in bi-annual group meeting of Saif Group, whereas, operational matters are discussed in board meetings. ▪ For effective oversight of the company matters, the board has formed two board committees namely (i) Audit committee and Human Resource and Ruminant committee. 	

MANAGEMENT	GOOD
<ul style="list-style-type: none"> ▪ The management control of the company vests with Saif Group. Saif group has made management teams for each of its entities headed by competent individuals. ▪ Mr. Zaheen ud Din Qureshi, the CEO, has been spearheading the company for last three years. Mr. Zaheen, a Chartered Accountant, carries with him over two decades of experience in the textile sector. ▪ The organizational structure of the company is divided into various functional departments, namely (i) Finance & Accounts (ii) Sales & Marketing, (iii) Production, (iv) Information Technology, (v) Procurement, (vi) Business Development, (vii) Admin, (viii) HR and (ix) Internal Audit. 	

SYSTEM & CONTROLS	GOOD
<ul style="list-style-type: none"> ▪ Overall all the IT department of the Saif group is centralized. As part of its centralized system STML has implemented Microsoft Dynamics as an ERP with twelve operational modules. ▪ STML has an effective internal audit department which is led by an experienced qualified individual. STML is accredited with International certifications for quality compliance. 	

BUSINESS RISK	ADEQUATE
<ul style="list-style-type: none"> ▪ STML's revenues have followed an uneven trend. In FY16, revenues witnessed 12% YoY decline, whereas in FY17, the company's revenues registered ~11% YoY growth, which is mainly attributable to increase in local sales volume. ▪ STML previously sold most of its final product to unorganized trader based yarn market of Faisalabad. However, recently it has shifted its focus to more organized and brand based customers like, Style textile, Interloop, Gul Ahmed Textile, Sapphire, Khaadi etc. ▪ During FY17, STML's gross margin witnessed a marginal increase on YoY basis (FY17: 10.1%, FY16: 9.3%) a factor of lower fuel and power cost. ▪ Increase in revenue coupled with better margins led to green bottom line as compared to last year (FY17: PKR 23mln, FY16: PKR - 49mln). 	

FINANCIAL RISK	NEEDS IMPROVEMENT
<ul style="list-style-type: none"> ▪ STML mainly uses mix of internal cash flow and short term borrowings to manage its working capital needs STML's short term borrowings increased to PKR 3,397mln (FY17: 3,430mln, FY16: 2,768mln) on the basis of increased cotton procurement in the start of cotton procurement season and increased receivables. ▪ STML's coverages improved slightly though remained low (Debt Service Coverage Ratio: FY17: 0.8x, FY16: 0.6x). ▪ STML has a leveraged capital structure. The company's debt to total assets ratio stands at ~62.9% at end Sep17 (FY17: ~63.1%, FY16: ~60.1%). 	



Saif Textile Mills Limited

BALANCE SHEET	30-Sep-17	30-Jun-17	30-Jun-16	30-Jun-15
	3M	FY	FY	FY
Non-Current Assets	4,599	4,521	4,630	3,716
Investments (Incl. Associates)	5	6	6	6
Equity	5	6	6	6
Loans to Associates/Debt Securities	-	-	-	-
Investment Property	-	-	-	-
Current Assets	4,030	4,112	3,393	3,120
Inventory	2,087	2,029	1,766	1,581
Trade Receivables	1,024	1,018	759	870
Others	920	1,065	869	669
Total Assets	8,634	8,639	8,029	6,842
Debt/Borrowings	4,752	4,794	4,156	3,617
Short-term	3,397	3,430	2,768	2,340
Long-term (Incl. Current Maturity of Long-Term Debt)	1,355	1,364	1,388	1,277
Other short-term liabilities	828	786	848	870
Other long-term liabilities	252	261	261	163
Shareholders' Equity	2,802	2,798	2,764	2,192
Total Liabilities & Equity	8,634	8,639	8,029	6,842

INCOME STATEMENT

Turnover	1,745	7,586	6,698	7,946
Gross Profit	168	763	622	701
Net Other Income	5	28	3	(20)
Financial Charges	(92)	(315)	(324)	(369)
Net Income	2	23	(49)	(55)

Cashflow Statement

Free Cash Flow from Operations (FCFO)	88	641	449	472
Net Cash changes in Working Capital	103	(814)	(257)	(115)
Net Cash from Operating Activities	198	(435)	(68)	(35)
Net Cash from Investing Activities	(155)	(214)	(469)	(380)
Net Cash from Financing Activities	(43)	639	539	426

Ratio Analysis

Performance				
Turnover Growth (vs. SPLY)	-5%	13%	-16%	0%
Gross Margin	10%	10%	9%	9%
Net Margin	0%	0%	-1%	-1%
Coverages				
Interest Coverage (FCFO/Gross Interest)	1.0	2.0	1.4	1.3
Core: (FCFO) / (Gross Interest+CMLTD+Uncovered Total STB)	0.2	0.4	0.3	0.4
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.2	0.4	0.3	0.4
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest)	-47.7	6.1	16.7	16.6
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	139.3	122.0	118.7	97.7
Capital Structure (Total Debt/Total Debt+Equity)	63%	63%	60%	62%

Saif Textile Mills Limited (STML)

December 2017

CREDIT RATING SCALE & DEFINITIONS

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 RATINGS		SHORT TERM RATINGS
AAA AA+ AA AA- A+ A A-	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. 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. 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.	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.
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.	A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
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.	A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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.	B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C: An inadequate capacity to ensure timely repayment.
D	Obligations are currently in default.	

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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

