



The Pakistan Credit Rating Agency Limited

Rating Report

Saif Textile Mills Limited

Report Contents

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

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jun-2018	A-	A2	Stable	Maintain	-
29-Dec-2017	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

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. The company is in the process of arranging finances from banks of PKR 1bln which will be utilized to partially reprofile the existing debt. 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.

Disclosure

Name of Rated Entity	Saif Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating Methodology(Jul-17),Methodology Correlation between long-term and short-term rating scale(Jun-17),Methodology Criteria Modifiers(Jun-17)
Related Research	Sector Study Textile(Oct-17)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

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

During FY17, total textile exports stood at USD ~ 12,453mln. Cotton yarn contributes (10%), cotton cloth (17%), home textile (29%), while garments contributes (38%).

Pakistan's spinning sector continues to suffer and continues to witness suppressed margins

High cotton prices and ban on import of cotton from India have hampered growth and margins of the spinning sector.

OWNERSHIP

- 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

- 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 Remuneration committee.

MANAGEMENT

- 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

- 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

- 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. In 9MFY18, revenue increased slightly YoY.
- 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 9MFY17, STML's margins witnessed decrease on YoY basis on the back of exchange fluctuation loss.
- Increase in exchange loss coupled with higher finance cost lead to decrease in profitability (9MFY18: 7mln, 9MFY17: 36mln, PKR 6,516mln, 9MFY17: PKR 36mln).

FINANCIAL RISK

- STML mainly uses mix of internal cash flow and short term borrowings to manage its working capital needs. In 9MFY18, STML's short term borrowings stood at PKR 3,327mln (FY17: 3,430mln, FY16: 2,768mln).
- STML's coverages remained low (Debt Service Coverage Ratio: 9MFY18: 0.7x, FY17: 0.8x, FY16: 0.6x).
- STML has a leveraged capital structure. The company's debt to total assets ratio stands at ~63% at end Mar18 (FY17: ~63.1%, FY16: ~60.1%). The company is in process of arranging finances from banks of PKR.1 bln which will be utilized to partially reprofile the existing debt.



Saif Textile Mills Limited

BALANCE SHEET	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	9M	FY	FY	FY
Non-Current Assets	4,721	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	4,049	4,112	3,393	3,120
Inventory	1,987	2,029	1,766	1,581
Trade Receivables	1,129	1,018	759	870
Others	934	1,065	869	669
Total Assets	8,775	8,639	8,029	6,842
Debt/Borrowings	4,891	4,794	4,156	3,617
Short-term	3,328	3,430	2,768	2,340
Long-term (Incl. Current Maturity of Long-Term Debt)	1,563	1,364	1,388	1,277
Other short-term liabilities	850	786	848	870
Other long-term liabilities	205	261	261	163
Shareholders' Equity	2,830	2,798	2,764	2,192
Total Liabilities & Equity	8,775	8,639	8,029	6,842

INCOME STATEMENT

Turnover	5,644	7,586	6,698	7,946
Gross Profit	592	763	622	701
Net Other Income	(53)	28	3	(20)
Financial Charges	(280)	(315)	(324)	(369)
Net Income	7	23	(49)	(55)

Cashflow Statement

Free Cash Flow from Operations (FCFO)	459	641	449	472
Net Cash changes in Working Capital	95	(814)	(257)	(115)
Net Cash from Operating Activities	304	(435)	(68)	(35)
Net Cash from Investing Activities	(381)	(214)	(469)	(380)
Net Cash from Financing Activities	71	639	539	426

Ratio Analysis

Performance				
Turnover Growth (vs. SPLY)	-85%	13%	-16%	0%
Gross Margin	10%	10%	9%	9%
Net Margin	0%	0%	-1%	-1%
Coverages				
Interest Coverage (FCFO/Gross Interest)	1.6	2.0	1.4	1.3
Core: (FCFO) / (Gross Interest+CMLTD+Uncovered Total STB)	0.6	0.4	0.3	0.4
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.6	0.4	0.3	0.4
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest)	2.0	6.1	16.7	16.6
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	173.0	122.0	118.7	97.7
Capital Structure (Total Debt/Total Debt+Equity)	63%	63%	60%	62%

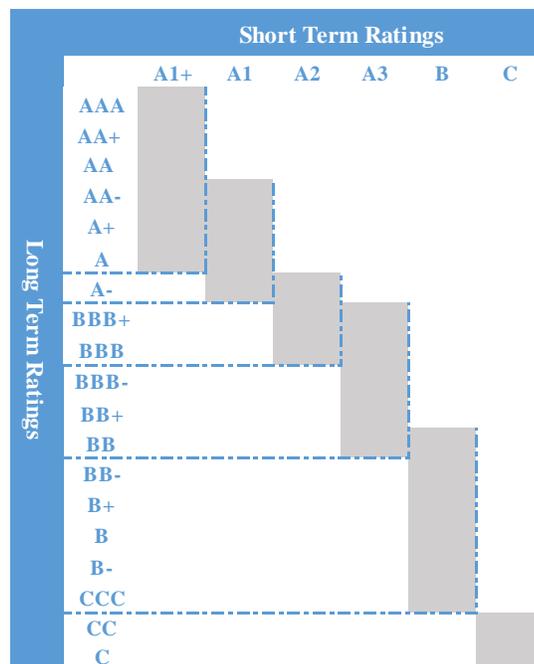
Saif Textile Mills Limited (STML)

June 2018

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be 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.	A3	An adequate capacity for timely repayment. Such capacity is 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.	B	The capacity for timely repayment is more 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.	C	An inadequate capacity to ensure timely repayment.
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.		



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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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.

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

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- (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.
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- (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)
- (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)

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