



The Pakistan Credit Rating Agency Limited

Rating Report

Saif Textile Mills Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Jul-2021	A-	A2	Stable	Maintain	-
26-Jun-2020	A-	A2	Stable	Maintain	Yes
27-Dec-2019	A-	A2	Stable	Maintain	-
28-Jun-2019	A-	A2	Stable	Maintain	-
28-Dec-2018	A-	A2	Stable	Maintain	-
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), a prominent textile venture of Saif Group, is involved in manufacturing and marketing of several varieties of cotton yarn including, melange yarn, dyed yarn, man-made yarn and raw white yarn. The top line of the Company has recorded a healthy growth. During 9MFY21, underpinned by higher volumetric sales and favorable yarn prices. Hence, the Company recorded good net profitability after losses in FY20. Improvement in profitability reflects on the margins of the Company. The company's financial risk profile remains adequate. Improvement in coverage witnessed after healthy profitability, however leveraging remains towards margin end. Going forward, with better efficiency and specialized product profile, the management expects Saif Textile's margins to improve further. COVID-19 is an ongoing challenge. The proactive measures are taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. Vigilance is required as the loan repayment cycle remains amid variants of the pandemic continue to re-emerge. The assigned ratings incorporate an experienced management team, the strong financial muscle of the Sponsors and their willingness to support the entity as demonstrated historically.

The ratings are dependent on managing financial obligations effectively while improving business margins. Any further accumulation of debt and/or 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 and prudent debt management would remain critical.

Disclosure

Name of Rated Entity	Saif Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Spinning(Sep-20)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504

Profile

Legal Structure Saif Textile Mills Limited (Saif Textile), was incorporated in 1989 as a Public Limited Company. It is listed on Pakistan Stock Exchange.

Background Saif Textile is associated with Saif Group since its inception. The Group has presence in spinning sector through Kohat Textile and Mediterranean Textile. The Company's production facilities are located in Gadoon Industrial Estate, KPK

Operations The Company's current operational capacity comprises 106,326 Spindles. The total energy requirement of the Company is ~10MW which is wholly met through gas fired captive plant. Furthermore, the Company has NTDC connection as alternative source.

Ownership

Ownership Structure Saif Group holds majority of the shareholding of Saif Textile's through its holding company – Saif Holdings. It exercises its control over the Company's board by virtue of its ~50% shareholding in the Company, followed by NIT and State life with 7% and 4% stake respectively. The Company has a large free float dispersed among general public.

Stability The Group has a holding company in place, with equal shareholding of all Saif brothers, portraying structured line of succession. However, the transfer of ownership to next generation is not documented yet.

Business Acumen Saif Group is one of the oldest medium-sized business conglomerate in Pakistan with considerable interests in textile. The sponsors have a presence of five decades in local Spinning industry, eventually developing expertise. However, the Group's growth in textile sector was limited but it sustained through the volatility experienced by local textile industry.

Financial Strength Saif Group is one of the leading industrial and services conglomerates in Pakistan. The Group's interests lies in oil and gas exploration, power generation, textiles manufacturing, real estate development and health care services, through 7 subsidiaries and 4 associated companies across different sectors. The strong financial muscles of the Group portrays ability to support Saif Textile in time of need, as demonstrated in the past.

Governance

Board Structure Saif Textile's board comprises seven members, including the Chairman - Mr. Osman Saifullah. The board include four non-executive directors, while two directors are independent.

Members' Profile Mr. Osman Saifullah – Chairman – holds a post graduate degree in engineering from University of Oxford and post graduate degree in business administration from University of Stanford. Mr. Osman has overall experience of over two decades and he is also a senator. The board members have vast knowledge and expertise of textile industry, though diversity in experiences exists as well, ensuring a requisite skill mix for strategic planning.

Board Effectiveness Two committees: Audit and Human Resource & Remuneration, are in place to assist the board in relevant matters and it ensures proper oversight. Attendance of board members in meetings remains adequate and meeting minutes were formally documented. Meanwhile, overall strategy of the Company is discussed in bi-annual meeting of Saif Group, whereas, operational matters are discussed in board meetings.

Financial Transparency M/s Shinewing Hameed Chaudhri & Co., Chartered Accountants are the external auditors of the Company. They have expressed an unqualified opinion on the financial reports for the year ended June, 2020.

Management

Organizational Structure The management team is headed by Mr. Syed Masroor Hasnain (CEO), newly appointed on 1 June, 2021. He is Graduate University of Pennsylvania (History and Culture) and has 13 years of experience in textile industry. Meanwhile, the Company has nine functional departments, while all HOD's reports directly to CEO.

Management Team Mr. Syed Masroor Hasnain newly appointed on 1 June 2021 after the resignation of Mr. Assad Saifullah Khan (CEO). Mr. Syed Masroor Hasnain is supported by a team of seasoned professionals, most of them have been associated with the Company for a reasonably long period of time.

Effectiveness There is no formal management committee, however the Company maintains an adequate IT infrastructure and related controls. Additionally, delegation of power by sponsors to management is considered positive for management effectiveness.

MIS Saif Textile has in place Microsoft Dynamics-based ERP system that provides comprehensive MIS reporting.

Control Environment The Company is compliant with following quality assurance standards; OEKA TEX 100, ISO 9001:2008, ISO 14001, Global Organic Textile Standards and Supima.

Business Risk

Industry Dynamics Textile exports of the country dropped by ~8% for 11MFY20 to stand at ~USD 11.6bln as compared to ~USD 12.6bln in 11MFY19 due to slowdown in demand for textile products internationally, instigated by Covid-19 led lock downs in major export destinations. Going forward, prevailing uncertainty in the dynamics of textile sector due to Covid-19 outbreak globally, lifting of lock downs in most countries, contraction in local and international demand is expected to affect the entire textile value chain. Locally, textile sector will find comfort in relief measures introduced by State Bank of Pakistan such as, deferment of loan payments for one year, low interest rates and salary refinance scheme.

Relative Position The Company's association with Saif Group strengthen its position in local spinning industry. However, on standalone basis the Company's share in local spinning industry is minimal.

Revenues During 9MFY21, the Company recorded turnover of PKR 7,466mln against PKR 6,043mln for the same period last year; an increase of PKR 1,424 million (24%), mainly due to acceleration in the sale price of yarn in the second and third Quarter of this financial year. Moreover, the sales mix displayed more focus on local sales which dominated by 92.5% shares. In FY20 Company's revenue stood at PKR 7,651mln (FY19: PKR 8,976mln).

Margins The Company's margins significantly increased. Gross margins stood at in 9MFY21 to 16.2% (9MFY20: 13.1%) and operating margins is stood at 10.9% (3MFY20: 7.9%) due to increase in revenue and cost of sales; led by increased raw material and fuel prices, was lower than that registered by the revenue. However, finance cost decrease (9MFY21: PKR 465mln; 9MFY20: PKR 645mln). Company posted Net profit of PKR 249mln after bearing loss in the same period last year and also in FY20 (FY20: PKR 672mln; 9MFY20: PKR 235mln).

Sustainability Going forward, with better efficiency and a specialized product profile, the management expects Saif Textile's margins to improve further. COVID-19 is an ongoing challenge. The proactive measures are taken by the regulators and other concerning bodies have mitigated the potential damages much anticipated from this pandemic. Vigilance is required as the loan repayment cycle remains amid variants of the pandemic continue to re-emerge.

Financial Risk

Working Capital During 9MFY21, the Company's net working capital days improved to 137days (FY20: 158days) due to decrease in inventory days (9MFY21: PKR 93mln, FY20: PKR 116mln). The Company's room to borrow came down and witnessed improved to 3% during 3MFY21 (FY20: -6%) at trade level.

Coverages In 9MFY21, the Company's FCFO increased and clocked at PKR 1,014mln (FY20: PKR 388mln) on the back of improvement in margins. However, due to decrease in short term borrowing and finance cost the Company's coverages improved. During 9MFY21, interest coverage stood at 2.3x (FY20: 0.5x) Core operating coverage also slightly improve and stood at 1.0x (FY20: 0.3x). However, the Company has opted to defer principal repayment of debt for one year under SBP COVID-19 relief initiative which will provide a much-needed breather to the coverages.

Capitalization The Company's leverage slightly decreased during 9MFY21 to 66.6% (FY20: 68.4%), mainly due to the slight decrease in borrowings. Short-term borrowings, which make up 60.7% of the total borrowings (9MFY21: PKR 6,786mln, FY20: PKR 6,857mln) decreased to PKR 4,122mln (FY20: PKR 4,262mln) and long term borrowings PKR 1,853mln. The Company has recently availed SBP loan for salaries introduced by SBP under COVID-19 relief initiative.



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Financial Summary

PKR mln

Saif Textile Mills Limited Textile	Mar-21 9M	Jun-20 12M	Jun-19 12M	Jun-18 12M
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A BALANCE SHEET

1 Non-Current Assets	6,491	6,591	5,439	5,023
2 Investments	39	36	6	5
3 Related Party Exposure	1	1	11	10
4 Current Assets	5,248	5,258	4,547	3,967
a Inventories	2,557	2,517	2,340	1,836
b Trade Receivables	1,893	1,824	1,211	1,268
5 Total Assets	11,779	11,887	10,003	9,005
6 Current Liabilities	1,020	1,357	911	903
a Trade Payables	583	719	542	445
7 Borrowings	6,786	6,857	5,664	5,472
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	563	511	229	227
10 Net Assets	3,410	3,161	3,198	2,402
11 Shareholders' Equity	3,410	3,161	3,198	2,402

B INCOME STATEMENT

1 Sales	7,466	7,651	8,976	7,852
a Cost of Good Sold	(6,260)	(7,014)	(7,938)	(6,997)
2 Gross Profit	1,207	637	1,038	855
a Operating Expenses	(397)	(411)	(356)	(342)
3 Operating Profit	810	227	682	513
a Non Operating Income or (Expense)	1	5	833	(78)
4 Profit or (Loss) before Interest and Tax	811	232	1,515	435
a Total Finance Cost	(465)	(856)	(595)	(385)
b Taxation	(97)	(48)	(89)	(4)
6 Net Income Or (Loss)	249	(672)	830	46

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	1,014	388	796	668
b Net Cash from Operating Activities before Working Capital Changes	426	(336)	313	346
c Changes in Working Capital	(218)	(323)	(407)	204
1 Net Cash provided by Operating Activities	208	(659)	(94)	550
2 Net Cash (Used in) or Available From Investing Activities	(139)	(506)	(676)	(602)
3 Net Cash (Used in) or Available From Financing Activities	(78)	1,175	781	44
4 Net Cash generated or (Used) during the period	(8)	10	11	(8)

D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	30.1%	-14.8%	14.3%	3.5%
b Gross Profit Margin	16.2%	8.3%	11.6%	10.9%
c Net Profit Margin	3.3%	-8.8%	9.3%	0.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	10.7%	0.8%	4.3%	11.1%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	9.7%	-23.1%	27.3%	1.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	161	188	135	173
b Net Working Capital (Average Days)	137	158	115	153
c Current Ratio (Current Assets / Current Liabilities)	5.1	3.9	5.0	4.4
3 Coverages				
a EBITDA / Finance Cost	2.5	0.6	1.6	2.0
b FCFO / Finance Cost+CMLTB+Excess STB	1.0	0.3	0.7	0.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.5	-6.9	8.7	8.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	66.6%	68.4%	63.9%	69.5%
b Interest or Markup Payable (Days)	67.4	103.9	91.8	234.6
c Entity Average Borrowing Rate	8.7%	12.9%	9.7%	6.8%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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-	
CCC	
CC	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	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(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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- (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)

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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)
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- (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)
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- (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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