



The Pakistan Credit Rating Agency Limited

Rating Report

Shujabad Weaving Mills Limited

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Rating History

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|-------------------|---------|----------|--------------|
| 28-Jun-2019 | BBB- | A3 | Stable | Maintain | - |
| 31-Dec-2018 | BBB- | A3 | Stable | Initial | - |

Rating Rationale and Key Rating Drivers

The ratings reflect the adequate business profile of Shujabad Weaving Mills Limited (The Company). The Company benefited from favorable government textile policies, mainly subsidized power cost. The Company's share of local sales further grew in its sales mix, due to better fabric prices in the domestic market, while exports shrank. Revenues showed limited growth, with margins improving moderately. The Company's stretched financial profile exhibits its highly leveraged capital structure. The working capital cycle of the Company has increased in recent years and currently stands in line with the industry average. Cash flow from operations and consequently coverages though improved, remained adequate. Going forward, rising interest rates are expected to put further pressure on the Company's financial profile. The Company's association with Shujabad Group remains a comforting factor.

The ratings are dependent upon the sponsor support, better governance structure and management's ability to improve margins and profitability. Keeping the debt levels manageable and strengthening coverages remains critical.

Disclosure

| | |
|------------------------------|--|
| Name of Rated Entity | Shujabad Weaving Mills Limited |
| Type of Relationship | Solicited |
| Purpose of the Rating | Entity Rating |
| Applicable Criteria | Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18) |
| Related Research | Sector Study Textile(Oct-18) |
| Rating Analysts | Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504 |

Profile

Legal Structure Shujabad Weaving Mills Limited (Shujabad Weaving) was incorporated on April 5th 2005, as a public unlisted company.

Background Shujabad Group entered into business arena in 1980's. In 1986, the Group setup its own ginning mill named Shujabad Industries (Pvt.) Limited. Over time, the Group integrated into weaving business through Shujabad Weaving. Meanwhile, the group expanded its business in edible oil and poultry.

Operations Shujabad Weaving's current operational capacity comprises of 250 Looms. The total energy requirement of the company clocks in at ~8.1MW which is met through a mix of captive plant and NTDC connection.

Ownership

Ownership Structure Shujabad Weaving is collectively owned by three families. Among all families, major stake rests with Wahid family (~39.7%), followed by Shabbir family (~35.4%) and Akram family (~25.0%).

Stability All three families have mutual consent over the operational control of the company. The distribution of shareholding among three families portrays a structured line of succession. The second generation has already been in business, serving at various capacities. However, the transfer of ownership to the next generation is not documented.

Business Acumen The Group has presence in ginning sector and over time, the Group has integrated into weaving business as well, through Shujabad Weaving. The Group has developed sufficient expertise in textile industry with a decade long presence, which provides the Group with sufficient Business Acumen, in order to sustain through volatile textile industry.

Financial Strength Shujabad Group has a prominent standing in textile, edible oil and poultry sector. The Group had an annual turnover of PKR 25bln in FY18, with adequate profitability and strong financial strength, portraying ability to support its group companies in time of need.

Governance

Board Structure The Company's board of directors consists of four members, all of them are serving as executive directors, with Mr. Abdul Wahid as Chairman of the board. Two directors represent Shabbir family, including the CEO. The remaining two families have one representative each. The presence of all sponsors on the board is considered constructive, while absence of independent oversight indicates room for improvement in the governance framework of the Company.

Members' Profile All the board members have more than ten years of association with the board. Overall, the board of directors have adequate experience in the textile sector, ensuring efficient decision making.

Board Effectiveness Attendance of the members remained strong during the period. The board meeting minutes have been appropriately recorded. However, absence of board committees is considered negative for the board's effectiveness.

Financial Transparency M/s Shinewing Hameed Chaudary & Co., Chartered Accountants, a category 'B' firm as per SBP, is the external auditor of the Company. The auditors have expressed unqualified opinion on the financial reports for the year ended June, 2018.

Management

Organizational Structure Management control vests with Mr. Abdul Wahid (Chairman), while Mr. Qaisar Shabbir (CEO) oversees the financial aspects of the Company. The Company has a well-defined reporting line to ensure smooth operations and efficiency. Moreover, the Company has five functional departments.

Management Team Mr. Qaisar Shabbir - the CEO - has been associated with the Company since its inception. He holds a master's degree and carries with him over a decade of experience in the textile sector. He is supported by a team of professionals with relevant expertise of textile value chain. Moreover, Mr. Salman Rasheed, the CFO, has been with the Company since 2005.

Effectiveness The management meetings are held on need basis to resolve and pro-actively address operational issues, if any, eventually ensuring smooth flow of operations.

MIS Shujabad Weaving has a Microsoft Dynamics based enterprise resource planning (ERP) system in place that provides comprehensive MIS reporting.

Control Environment The Company is compliant with International Certification for quality assurance; majorly including ISO 9001:2008. In addition, Shujabad Weaving's plant is connected with head office through VPN, thereby reporting on the real time basis.

Business Risk

Industry Dynamics Textile sector exports during 9MFY19 stagnated and clocked in at US\$ 9,991mln (9MFY18: US\$ 9,983mln). In terms of local currency, value of textile exports increased by ~23% (9MFY19: PKR 1,322bln, 9MFY18: PKR 1,074bln), on the back of depreciating Pak Rupee against the US\$. Cotton cloth contributes ~16% in the total textile exports of Pakistan. During the period ~2mln Th. Sqm cotton cloth of worth US\$ 1,596mln was exported from the country (9MFY18: ~1.7mln Th. Sqm for US\$ 1,630mln). The quantity exported increased by ~18%, value in PKR increased by ~20%, whereas, value in terms of US\$ decreased by ~2%. Going forward, the recently announced "Revised FTA" with China is expected to improve the situation of textile firms of Pakistan.

Relative Position Shujabad Weaving is associated with Shujabad Group. The Group has representation in textile ginning, while Shujabad weaving is the only weaving concern of the Group. On standalone basis, with only 250 looms, the Company has a minimal share in local weaving industry.

Revenues During 9MFY19, the Company's revenue clocked in at PKR 4,882mln, with a small increase of 1.5% compared to the same period last year (9MFY18: 4,809mln). The Company's current sales mix is dominated by local sales – 92% (9MFY18: 81%), due to better fabric prices in the local market, despite the devaluation of rupee.

Margins During 9MFY19, Shujabad Weaving's gross margin increased significantly to 9.1% (9MFY18: 6.9%) and operating margin to 7% (9MFY18: 4.7%) due to better selling prices. Decrease in yarn price and reduction in electricity cost per unit also supported higher margins, consequently, the Company booked a net profit of PKR 100mln (9MFY18: PKR 20mln).

Sustainability The Company has incurred a BMR of ~PKR 174mln during recent years, for the purpose of maintenance and mechanical efficiency. Furthermore, Shujabad Weaving is planning to enhance its marketing efforts in order to capture new markets and opportunities. This will help in improving the business fundamentals of the Company.

Financial Risk

Working Capital The Company meets its working capital needs through internally generated cash flows and short-term borrowings. Despite high working capital requirement, the Company's STB remained unchanged due to improvement in internal cash flow generation (STB; 9MFY19: PKR 2,429mln, 9MFY18: PKR 2,404mln). The Company's finished goods increased, reflected from higher inventory days (9MFY19: 102 days, 9MFY18: 80 days), eventually translating into higher net working capital cycle (9MFY19: 123 days, 9MFY18: 108 days).

Coverages During 9MFY19, the Company's cash flow from operations (FCFO) experienced a significant increase of 33% (9MFY19: PKR 405mln, 9MFY18: PKR 305mln), due to higher profitability. Finance cost increased by 18% (9MFY19: PKR 206mln, 9MFY18: PKR 175mln) mainly due to higher long term borrowings and increase in interest rates. Despite increase in the finance cost, better profitability led to improvement in coverages (Interest coverage ratio; 9MFY19: 2x, 9MFY18: 1.7X and debt coverage ratio; 9MFY19: 1.4x, 9MFY18: .8x). Going forward, the Company's coverages may come under pressure amidst rising interest rates.

Capitalization The Company has a highly leveraged capital structure. In 9MFY19, leverage slightly decreased to 70.3% (9MFY18: 72.5%) due to decrease in STB as a result of improved earnings. Total debt stood at PKR 2,764mln (9MFY18: 2,734mln), mainly comprising of STB at 91% (9MFY18: 95%). Long term borrowings increased to PKR 234mln (9MFY18: PKR 137mln), as the Company purchased a new electricity generator.



Shujababad Weaving Mills Limited
Private Limited

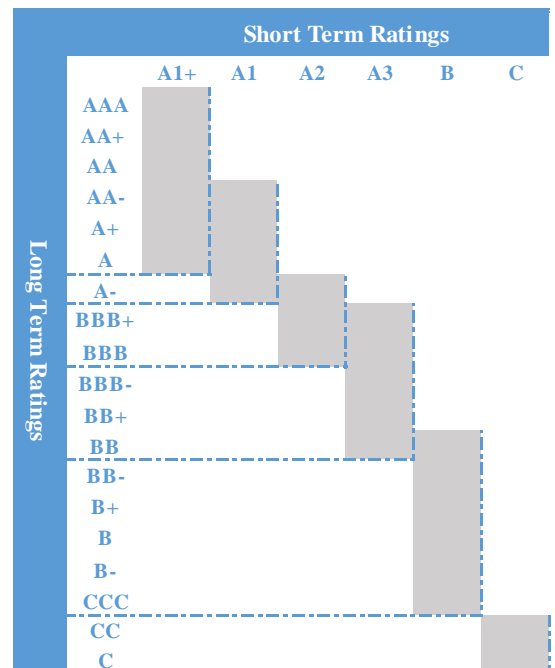
| A BALANCE SHEET | Jun-19 12M | Mar-19 9M | Jun-18 12M | Mar-18 9M | Jun-17 12M | Mar-17 9M | Jun-16 12M |
|---|---------------|--------------|---------------|--------------|---------------|--------------|---------------|
| 1 Non-Current Assets | - | 1,451 | 1,509 | 1,548 | 1,654 | - | 1,778 |
| 2 Investments | - | - | - | - | - | - | - |
| a Equity Instruments | - | - | - | - | - | - | - |
| b Debt Instruments | - | - | - | - | - | - | - |
| 3 Current Assets | - | 2,897 | 2,963 | 2,591 | 2,495 | - | 2,328 |
| a Inventory | - | 1,829 | 1,792 | 1,370 | 1,436 | - | 1,294 |
| b Trade Receivables | - | 630 | 681 | 684 | 594 | - | 664 |
| c Others | - | 438 | 490 | 536 | 465 | - | 370 |
| 4 Total Assets | - | 4,403 | 4,553 | 4,167 | 4,475 | - | 4,211 |
| 5 Borrowings | - | 2,792 | 2,843 | 2,760 | 2,870 | - | 2,705 |
| a Short-Term | - | 2,429 | 2,551 | 2,404 | 2,379 | - | 2,027 |
| b Long-Term (Incl. CMLTB) | - | 363 | 292 | 356 | 491 | - | 678 |
| 6 Other Short-Term Liabilities | - | 404 | 584 | 269 | 467 | - | 396 |
| 7 Other Long-Term Liabilities | - | 27 | 47 | 112 | 131 | - | 155 |
| 8 Shareholder's Equity | - | 1,179 | 1,079 | 1,026 | 1,006 | - | 954 |
| 9 Total Liabilities & Equity | - | 4,403 | 4,553 | 4,167 | 4,474 | - | 4,211 |
| B INCOME STATEMENT | - | 4,882 | 6,158 | 4,809 | 6,167 | - | 5,877 |
| 1 Sales | - | 4,882 | 6,158 | 4,809 | 6,167 | - | 5,877 |
| 2 Gross Profit | - | 444 | 430 | 330 | 426 | - | 363 |
| 3 Non Operating Income | - | 11 | 21 | (0) | 1 | - | 7 |
| 4 Total Finance Cost | - | (212) | (244) | (182) | (217) | - | (228) |
| 5 Net Income | - | 100 | 74 | 20 | 53 | - | 13 |
| C CASH FLOW STATEMENT | - | 405 | 399 | 305 | 396 | - | 449 |
| 1 Free Cash Flow from Operations (FCFO) | - | 405 | 399 | 305 | 396 | - | 449 |
| 2 Total Cashflows (TCF) | - | 405 | 399 | 305 | 396 | - | 449 |
| 3 Net Cash changes in Working Capital | - | (76) | (86) | 24 | (289) | - | (441) |
| 4 Net Cash from Operating Activities | - | 107 | 64 | 152 | (90) | - | (231) |
| 5 Net Cash from Investing Activities | - | (60) | (25) | (18) | (55) | - | (73) |
| 6 Net Cash from Financing Activities | - | (52) | (30) | (111) | 163 | - | 303 |
| 7 Net Cash generated during the period | - | (5) | 10 | 22 | 18 | - | (1) |
| D RATIO ANALYSIS | | | | | | | |
| 1 Performance | | | | | | | |
| a Sales Growth (for the period) | N/A | 6% | 0% | 4% | 5% | N/A | #DIV/0! |
| b Gross Profit Margin | N/A | 9% | 7% | 7% | 7% | N/A | 6% |
| c Net Profit Margin | N/A | 2% | 1% | 0% | 1% | N/A | 0% |
| d Return of Equity | N/A | 12% | 7% | 3% | 5% | N/A | 1% |
| 2 Working Capital Management | | | | | | | |
| a Gross Working Capital (Inventory Days + Receivable Days) | N/A | 138.3 | 133.4 | 116.3 | 118.0 | N/A | 73.5 |
| b Net Working Capital (Inventory Days + Receivable Days - Payable Days) | N/A | 123.2 | 116.4 | 107.7 | 104.8 | N/A | 60.3 |
| 3 Coverages | | | | | | | |
| a Debt Service Coverage (FCFO / Finance Cost+CMLTB+Excess STB) | N/A | 1.4 | 0.7 | 0.8 | 0.5 | N/A | 0.9 |
| b Interest Coverage (FCFO / Finance Cost) | N/A | 2.0 | 1.7 | 1.7 | 1.9 | N/A | 2.1 |
| c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost) | N/A | 1.4 | 2.7 | 2.5 | 4.4 | N/A | 3.3 |
| 4 Capital Structure (Total Debt/Total Debt+Equity) | | | | | | | |
| a Capital Structure (Current Borrowings / Total Borrowings) | N/A | 123 | 116 | 108 | 105 | N/A | 60 |
| b Capital Structure (Total Borrowings / Total Borrowings+Equity) | N/A | 70% | 72% | 73% | 74% | N/A | 74% |

Jun-19

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.

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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)

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- 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)
- (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)
- (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)

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- (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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