



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
27-Dec-2019	BBB-	A3	Stable	Maintain	-
28-Jun-2019	BBB-	A3	Stable	Maintain	-
31-Dec-2018	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect adequate business profile of Shujabad Weaving Mills Limited ('Shujabad Weaving' or 'The Company'). The Company's share of local sales further grew in its sales mix due to better fabric prices in the domestic market, as exports decreased. 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, though stands in line with industry average. Cash flow from operations and coverages improved, albeit remaining adequate. Going forward, higher interest rates are expected to put pressure on the Company's financial profile. The Company's association with Shujabad Group provides comfort to the ratings.

The ratings are dependent upon continued 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-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Weaving(Sep-19)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

Profile

Legal Structure Shujabad Weaving Mills Limited ('Shujabad Weaving' or 'The Company') was incorporated in 2005, as a public unlisted company.

Background Shujabad Group entered into textile business 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 250 Looms. The total energy requirement of the Company clocks in at ~8.9MW which is met through a mix of captive plant and backup MEPCO 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 21bln in FY19, 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 Shinewning Hameed Chaudary & Co., Chartered Accountants, a category 'B' firm as per SBP's panel of auditors, is the external auditor of the Company. The auditors have expressed unqualified opinion on the financial reports for the year ended June, 2019.

Management

Organizational Structure Management control vests with Mr. Abdul Wahid (Chairman), while Mr. Qaisar Shabbir (CEO) oversees the financial aspects of the Company along with other group companies. 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 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 Pakistan's textile exports displayed small YoY growth in dollar terms in 4MFY19. While some leading textile categories displayed strong volumetric growth, the hit to unit prices on account of exporters having to share the benefit of the currency depreciation with buyers in the extremely competitive international market, curbed overall growth. Meanwhile, cotton yarn exports witnessed sizable decline, driven by falling yarn prices as well as the US-China trade war. Recent economic policies including the reimposition of duty on ginned cotton, removal of zero-rated status of the textile sector and sharp rise in interest rates has pressurized margins of industry players.

Relative Position Shujabad Weaving is associated with Shujabad Group. The Group have considerable representation in textile ginning and weaving sectors. Meanwhile, On standalone basis, with only 250 looms, the Company has a minimal share in local weaving industry.

Revenues During FY19, the Company's topline registered a limited growth of ~1.3% and clocked in at PKR 6,237mln (FY18: PKR 6,158mln), on the back of better fabric prices in the local market. The Company's sales mix continues to be dominated by local sales ~90% (FY18: 80%). Whereas during 1QFY20, revenues clocked in at PKR 1,241mln (1QFY19: PKR 1,726mln), down by ~28% on QoQ basis due to volumetric decrease in sales.

Margins During FY19, Shujabad Weaving's gross margins slightly improved (FY19: 7.6 %, FY18: 7.0%) due to marginally higher top line YoY. This was followed by similar improvement in operating margins (FY19: 5.3%, FY18: 4.6%), due to lower distribution cost, a factor of higher portion of local sales. The finance cost increased by ~21%, as increase in interest rates overshadowed the impact of decrease (by ~8.3) in the Company's short term borrowings. The company's net profit declined by ~38% in FY19 to PKR 46mln (FY18: ~PKR 74mln) due to higher finance cost. The trend of improving margins continued in 1QFY20. Gross profit margin increased to 11% and operating profit margin to 8.4%.

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.

Financial Risk

Working Capital During FY19, the Company's reliance on STB decreased (FY19: PKR 2,338mln, FY18: PKR 2,551mln) as the Company was re-profiling its debt mix by increasing the share of long term borrowings for inventory procurement. Net working capital cycle increased to 120days (FY18: 116days) due to increase in average inventory days to 106days (FY18: 96days). The Company has a negative room to borrow (FY19: -9%, FY18: -11%); though improved over the year. The net working capital cycle further increased in 1QFY20 to 151days (1QFY19: 106days).

Coverages During FY19, the Company's operating cash flows (FCFO) largely remained stagnant YoY (FY19: PKR 408mln, FY18: PKR 399mln). Meanwhile, the considerable increase in finance cost (~21%) resulted in deterioration of interest coverage (FY19: 1.5x, FY18: 1.7x) and debt coverage (FY19: 0.6x, FY18: 0.7x). During 1QFY20, FCFO increased to PKR 135mln (1QFY19: PKR 131mln) which resulted in improvement in interest coverage ratio to 1.9x (1QFY19: 1.1x) and debt coverage ratio to 1.1x (1QFY19: 0.9x).

Capitalization Shujabad Weaving had a highly leveraged capital structure (~71.1%) at end-June 19 (end-June 18: 72.5%). Total debt during FY19 stood at PKR 2,743mln (FY18: PKR 2,816mln), mainly comprising current debt ~85%. During 1QFY19, the Company's leveraging almost remained stagnant at ~71.9%.



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Financial Summary
PKR mln

Shujabad Weaving Mills Limited
Textile

	Sep-19	Jun-19	Jun-18	Jun-17
	3M	12M	12M	12M

A BALANCE SHEET

1 Non-Current Assets	1,578	1,616	1,509	1,654
2 Investments	-	-	-	-
3 Related Party Exposure	174	232	80	325
4 Current Assets	2,865	2,714	2,963	2,495
a Inventories	1,880	1,816	1,792	1,436
b Trade Receivables	571	533	681	594
5 Total Assets	4,617	4,562	4,553	4,475
6 Current Liabilities	542	638	584	467
a Trade Payables	310	385	339	235
7 Borrowings	2,882	2,743	2,816	2,846
8 Related Party Exposure	30	29	27	24
9 Non-Current Liabilities	25	27	47	131
10 Net Assets	1,138	1,125	1,079	1,006
11 Shareholders' Equity	1,138	1,125	1,079	1,006

B INCOME STATEMENT

1 Sales	1,241	6,237	6,158	6,167
a Cost of Good Sold	(1,104)	(5,763)	(5,729)	(5,741)
2 Gross Profit	136	474	430	426
a Operating Expenses	(32)	(145)	(147)	(124)
3 Operating Profit	105	329	283	302
a Non Operating Income	(0)	15	21	1
4 Profit or (Loss) before Interest and Tax	105	344	304	303
a Total Finance Cost	(74)	(295)	(244)	(217)
b Taxation	(17)	(3)	14	(33)
6 Net Income Or (Loss)	13	46	74	53

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	135	408	399	396
b Net Cash from Operating Activities before Working Capital Changes	46	116	150	198
c Changes in Working Capital	(180)	127	(86)	(289)
1 Net Cash provided by Operating Activities	(134)	243	64	(90)
2 Net Cash (Used in) or Available From Investing Activities	(9)	(208)	(25)	(55)
3 Net Cash (Used in) or Available From Financing Activities	139	(73)	(30)	163
4 Net Cash generated or (Used) during the period	(4)	(38)	10	18

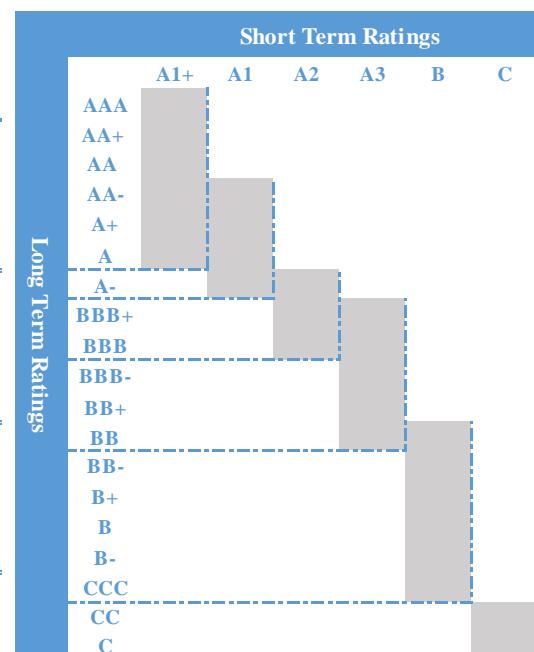
D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	-20.4%	1.3%	-0.1%	4.9%
b Gross Profit Margin	11.0%	7.6%	7.0%	6.9%
c Net Profit Margin	1.1%	0.7%	1.2%	0.9%
d Cash Conversion Efficiency (EBITDA/Sales)	12.6%	8.4%	8.0%	8.1%
e Return on Equity (ROE)	4.6%	4.1%	7.1%	5.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	176	141	133	68
b Net Working Capital (Average Days)	151	120	116	54
c Current Ratio (Total Current Assets/Total Current Liabilities)	5.3	4.3	5.1	5.3
3 Coverages				
a EBITDA / Finance Cost	2.2	1.9	2.2	2.4
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	0.6	0.7	0.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.8	5.5	2.7	4.4
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	71.9%	71.1%	72.5%	74.1%
b Short-Term Borrowings / Total Borrowings	0.8	0.8	0.9	0.8
c Average Borrowing Rate	10.0%	10.0%	8.0%	7.1%

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+	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.
AA		A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
A		C	An inadequate capacity to ensure timely repayment.
A-			
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			
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+	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			
B-			
CCC	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.		
CC			
C			
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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Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

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- 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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- (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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- (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)

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- (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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