The Pakistan Credit Rating Agency Limited

Rating Report

Stylers International Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Oct-2023	A	A1	Stable	Maintain	-
24-Nov-2022	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Stylers International Limited, a prominent textile venture of the US Group, operates alongside other group companies under the flagship Holdco, AJ Holdings. Business oversight is provided by sponsors, while professional and experienced management leads individual companies. The company follows its established strategic direction. Management comprises seasoned professionals who benefit from comprehensive reporting, ensuring autonomous supervision of company operations. The assigned ratings find assurance in Stylers International's association with the US Group. In 9MFY23, the company achieved sales revenue of PKR 10.8bln, marking an 11.3% increase from the corresponding previous period. The majority of this revenue is derived from export sales, accounting for 98% of the total. Key export destinations during 9MFY22 included the US and various European countries such as Spain, Germany, and France. All exports are conducted through LCs and other financial documents. Stylers International maintains a favorable capital structure and strong coverages, indicating a robust financial profile. The company's capacity utilization dwindled to ~55% in the latest period owing to subdued demand in export markets, also reflected by a decline in dollar-denominated earnings. However, management is hopeful that the demand will pick up from January 2024 onwards. During FY23, the country's textile exports decreased to $16.5bln, reflecting a 15% YoY decline. This decline was attributed to factors such as high energy costs, cotton shortages, and foreign exchange rate uncertainties. Value-added products like knitwear, bedwear, towels, and readymade garments witnessed a 13% YoY decline, while basic textiles, including raw cotton, cotton yarn, and cotton cloth, experienced a 21% YoY decrease. Notably, in June 2023, there was a 7% MoM increase in cotton yarn exports, and value-added exports depicted a volumetric increase of 16% on a MoM basis. Knitwear and readymade garments witnessed an 18% and 19% increase, respectively.

The ratings are dependent on the Company's ability to maintain a strong business profile amidst current circumstances. Preserving low-leveraged capital structure and sound coverages remain imperative.

Disclosure

Name of Rated Entity	Stylers International Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Composite and Garments(Dec-22)
Rating Analysts	Uswa Sikandar | uswa.sikandar@pacra.com | +92-42-35869504

Profile

Legal Structure Stylers International Limited (“the Company”), was incorporated in Pakistan as a Private Limited Company on November 27, 1991 under the Companies Ordinance, 1984 (Now the Companies Act, 2017) and was converted into a Public Limited Company with effect from 21 May 2021.

Background Stylers International Limited is a prominent business venture of the US Group.

Operations The Company is principally engaged in carrying out the manufacturing, and marketing of ready-made garments and processing services. The company has a total energy demand of 1,221,837 units, which can be met through various sources such as captive sources (coal, gas, furnace oil) and power supplied by WAPDA.

Ownership

Ownership Structure Mr. Mian Muhammad Ahsan owns 3% directly and 36% indirectly through his wife Mrs. Shabnam and Mr. Javed Arshad Bhatti owns 3% directly and 36% indirectly through his wife Mrs. Shama Javed (Late) while the rest is with Naimat Saleem Trust.

Stability The Group ownership is divided between the two families Javed Arshad Bhatti & family & Mian Muhammad Ahsan & family. The Group’s holding Company, AJ Holdings Limited, primarily manages investments in subsidiaries and associated companies and this bodes fairly well for the stability of the overall structure.

Business Acumen US Group is one of the oldest business conglomerates in Pakistan with considerable interest in textiles. The group has developed quite good expertise in the textile garments sector, over the years, and enjoys long-term association with several customers abroad. The group’s presence has been limited to the textile sector, but sustained volatility effectively over the years. Apart from the garment business, US Group is also involved in the Fabric and logistics business.

Financial Strength The presence of the holding company and details of a business profile and operations of almost all group companies, as mentioned above, reflect the strong financial strength of sponsors. This indicates sponsors’ ability and willingness to support the flagship company of the group in case of need.

Governance

Board Structure The Company’s Board comprises six directors including the Chairman, Mr. Ahsan. The board of the Company consists of four non-executive members and the CEO.

Members’ Profile The members of the Board have relevant stature and extensive experience of around three decades in the textile industry.

Board Effectiveness The board meetings are held regularly in which discussion on various aspects is also formally documented in minutes.

Financial Transparency Riaz Ahmad & Co. Chartered Accountants, who are in category ‘A’ of SBP and have a QCR rating by ICAP, are the auditors of the company. They have expressed an unqualified opinion on the financial statements of the company for the period ended March 31, 2023.

Management

Organizational Structure The organizational structure of the company is divided into several functional departments, namely: (i) Finance, (ii) Marketing, (iii) Technical, (iv) Production & Supply chain, (v) Information Technology, and (vi) Human resource & Admin. All departments report to respective CEO(s).

Management Team Mr. Hafiz Mustanser Ahmed is the CEO of the Company. He carries more than 2 decades of professional experience and he is MBA. He has been working with this group since 2021. Mr. Ghulam Mohioudin, CFO of the Company, has been associated since the year 2019. He is a Chartered Accountant.

Effectiveness The management meetings are held on a periodic basis with follow-up points to resolve or pro-actively address operational issues, if any, eventually ensuring smooth flow of operations. These meetings are headed by the CEO.

MIS The Company’s daily and monthly MIS comprises comprehensive performance reports which are reviewed frequently by senior management. Recognizing the need for quality information systems to control and maintain the efficiency of operations, the company has implemented an Oracle-based ERP solution - Oracle E-business Suite, Harmony version 12.2.11.

Control Environment Stylers International utilizes management systems as their mechanism for ensuring control. There is clear evidence of these systems being audited and certified externally. The Company has attained C-TPAT, WRAP, SMETA (SEDEX), amfori BSCI, ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018, Oeko-Tex, REACH, GOTS, OCS, GRS, RCS, Higg Index (FEM), ZDHC and BCI certification.

Business Risk

Industry Dynamics During FY23, textile exports were valued at $16.5 billion compared to $19.33 billion, reflecting a dip of 15% YoY – the declining trend has been witnessed by the start of FY23. The exports tumbled attributable to high energy costs, shortage of cotton, and uncertainty in the foreign exchange rate. The suppressed demand pattern exhibited by export avenues was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments witnessed a decline of 13% YoY. The basic textiles including raw cotton, cotton yarn, and cotton cloth posted a drop of 21% YoY. During the month of June 2023, cotton yarn exports increased by 7% MoM. The value-added exports reported a volumetric increase of 16% on a MoM basis. Knitwear and readymade garments witnessed an incline at 18% and 19% respectively. During the month of July 2023, textile exports were valued at $2 billion compared to $2.3 billion, reflecting a slump of 12.6% on a MoM basis. Further analysis reveals an overall decline of 8.6% YoY.

Relative Position Pakistan’s top manufacturers of high-quality denim and non-denim bottom wear for leading brands across the globe demanding more sustainable supplies.

Revenues The Company generates the majority of its sales revenue through exports, constituting a significant 98% of the total sales revenue. In FY22, the Company experienced substantial growth in its top line, reaching PKR 14.1bln, marking an increase of 38.8% compared to the previous fiscal year's figure of PKR 10.7bln. Moving on to the 9MFY23, the total revenue amounted to PKR 10.8bln, reflecting an 11% increase compared to the corresponding period 9MFY22, when the total revenue stood at PKR 9.7bln

Margins In FY22, the company achieved a gross profit of PKR 2.3bln, resulting in a margin of 16.4%. This marked a decrease compared to FY21 when the gross profit amounted to PKR 2.1bln with a higher gross profit margin of 19.9%. The decline in gross profit margin was primarily due to a 37.5% increase in the cost of sales. The operating profit for FY22 was recorded at PKR 1.2bln, accompanied by an operating margin of 9.1%, which represented a drop from the corresponding period in FY21 when the operating profit stood at PKR 1.5bln, with an operating margin of 14.5%. This decrease in operating margin was attributed to a substantial 46.4% rise in selling and distribution expenses, reaching PKR 652mln (compared to FY21's figure of PKR 199mln). Consequently, the net profit for FY22 amounted to PKR 1.0bln, with a net profit margin of 7.1%, down from FY21's net profit margin of 10.9%. However, in 9MFY23, there was an improvement in the gross profit margin, reaching PKR 2.4bln with a gross profit margin of 22.4%. The operating profit for 9MFY23 was PKR 1.4bln, and the operating margin increased to 13%. The net profit for 9MFY23 stood at PKR 2.2bln, resulting in a net profit margin of 18.3%.

Sustainability Going forward, the state-of-the-art expansion project (Project Sunshine) at Raiwind Rd is under construction which will enhance the production capacity from the current 10M garments to 12M garments per annum. Apart from Project Sunshine, the company will continue capital expenditure on a routine basis.

Financial Risk

Working Capital During FY22, the Company’s net working capital cycle recorded an increase to 30 days (FY21: 23 days) attributable to attrition in receivable days (FY22: 36 days; FY21: 26 days). The Company’s net trade assets increased by 46% to clock in at PKR 5.4bln (FY21: PKR 3.7bln) which reflects a good cushion in trade assets.

Coverages In FY22, the Free Cash Flows from Operations (FCFO) experienced a decline, totaling PKR 1.1bln (FY21: PKR 1.2bln). This decrease was primarily attributed to a lower YoY EBITDA, with FY22's EBITDA at PKR 1.5bln compared to FY21's figure of PKR 1.7bln. However, there was a notable improvement in FCFO in 9MFY23, as it increased to PKR 2.1bln. This positive trend indicates strong coverage and a substantial boost in cash flows

Capitalization The Company's capital structure is characterized by a low level of leverage, standing at 8.7% as of the end-Jun'22. Furthermore, the equity base of the Company demonstrated significant growth, reaching PKR 6.2bln, up from FY21's PKR 5.03bln. It's noteworthy that short-term borrowings now constitute 34% of the total borrowings, a notable increase from the FY21 proportion of 5%.

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Financial Summary

PKR mln

Stylers International Limited Composite & Garments	Mar-23 9M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	4,938	3,285	2,912	2,185
2 Investments	820	492	264	-
3 Related Party Exposure	-	-	9	-
4 Current Assets	6,155	6,118	4,761	2,819
a Inventories	*2,041*	*2,130*	*1,612*	*1,243*
b Trade Receivables	*1,124*	*1,780*	*975*	*539*
5 Total Assets	11,913	9,896	7,947	5,005
6 Current Liabilities	2,428	3,039	2,376	1,594
a Trade Payables	*2,041*	*2,366*	*1,816*	*1,224*
7 Borrowings	710	595	497	1,160
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	16	30	39	32
10 Net Assets	8,758	6,232	5,035	2,218
11 Shareholders' Equity	8,758	6,232	5,035	2,218
B INCOME STATEMENT				
1 Sales	10,888	14,086	10,690	8,166
a Cost of Good Sold	*(8,454)*	*(11,779)*	*(8,565)*	*(6,810)*
2 Gross Profit	2,434	2,307	2,126	1,356
a Operating Expenses	(1,021)	(1,021)	(575)	(511)
3 Operating Profit	1,413	1,286	1,551	845
a Non Operating Income or (Expense)	*847*	*11*	*(148)*	*32*
4 Profit or (Loss) before Interest and Tax	2,261	1,297	1,403	877
a Total Finance Cost	*(123)*	*(142)*	*(116)*	*(93)*
b Taxation	*(142)*	*(149)*	*(125)*	*(99)*
6 Net Income Or (Loss)	1,996	1,006	1,162	685
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*2,138*	*1,117*	*1,503*	*973*
b Net Cash from Operating Activities before Working Capital Cha	*2,138*	*1,016*	*1,430*	*912*
c Changes in Working Capital	-	*(891)*	*(526)*	*239*
1 Net Cash provided by Operating Activities	2,138	125	904	1,151
2 Net Cash (Used in) or Available From Investing Activities	-	(807)	(387)	(1,069)
3 Net Cash (Used in) or Available From Financing Activities	-	296	154	26
4 Net Cash generated or (Used) during the period	2,138	(386)	671	108
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	3.1%	31.8%	30.9%	0.0%
b Gross Profit Margin	22.4%	16.4%	19.9%	16.6%
c Net Profit Margin	18.3%	7.1%	10.9%	8.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capit	19.6%	1.6%	9.1%	14.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total*	35.5%	17.9%	32.0%	30.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	89	84	107	N/A
b Net Working Capital (Average Days)	34	30	55	-31
c Current Ratio (Current Assets / Current Liabilities)	2.5	2.0	2.0	1.8
3 Coverages				
a EBITDA / Finance Cost	167.4	37.9	41.6	36.1
b FCFO / Finance Cost+CMLTB+Excess STB	24.3	6.9	11.7	13.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Financ	0.0	0.4	0.3	0.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	7.5%	8.7%	9.0%	34.3%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	2.3%	5.8%	5.1%	2.8%

Credit Rating

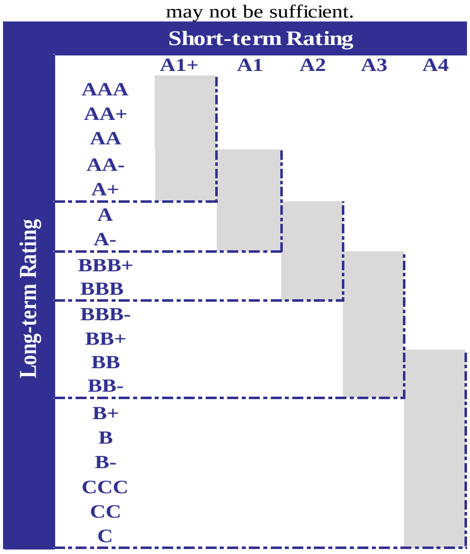
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating

Scale	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
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 surveill 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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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 | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(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)

Independence & Conflict of interest
(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)
Proprietary Information