

## RATING REPORT

### Shahtaj Textile Limited (STL)

**REPORT DATE:**

January 02, 2018

**RATING ANALYSTS:**

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#### RATING DETAILS

| Rating Category | Latest Rating     |            |
|-----------------|-------------------|------------|
|                 | Long-term         | Short-term |
| Entity          | A-                | A-2        |
| Rating Date     | December 14, 2017 |            |
| Rating Outlook  | Stable            |            |
| Outlook Date    | December 14, 2017 |            |

#### COMPANY INFORMATION

|                                   |   |
|-----------------------------------|---|
| <b>Incorporated in 1990</b>       | <b>External auditors:</b> Deloitte Yousuf Adil, Chartered Accountants |
| <b>Public Listed Company</b>      | <b>Chairman of the Board:</b> Mr. Muneer Nawaz                        |
| Shahtaj Sugar Mills – 11.90%      | <b>Chief Executive Officer:</b> Mr. M. Naem                           |
| Mrs. Amtul Bari Naeem – 10.72%    |   |
| Mr. Ahmed Naeem – 9.19%           |   |
| Treet Corporation Limited – 8.99% |   |
| Mr. Muneer Nawaz – 8.62%          |   |

#### APPLICABLE METHODOLOGY(IES)

**JCR-VIS Entity Rating Criteria** *Industrial Corporates (May 2016)*  
<http://www.jcrvis.com.pk/kc-meth.aspx>

## Shahtaj Textile Limited

### OVERVIEW OF THE INSTITUTION

*Shahtaj Textile Limited (STL) was incorporated in 1990 as a public limited company. The company, later, got listed on Pakistan Stock Exchange (PSX). Head office of the company is situated in Karachi while the factory is located in Kasur. The company is mainly engaged in manufacturing, selling and marketing of grey fabric.*

#### **Profile of the Chairman:**

*The Board is chaired by Mr. Muneer Nawaz who possesses extensive experience in sugar and food industries. He has been associated with STL since 1990.*

#### **Profile of the CEO:**

*Mr. M. Naeem, Chief Executive Officer (CEO). He holds an M.A.L.L.B degree and possesses more than four decades of experience in trading and textile industry. Mr. M. Naeem joined Shahnawaz Group in 1967 and assumed responsibilities of its Managing Director in 1972. He is the CEO of Shahtaj Textiles Ltd since inception. Along with this, he is also Chief Executive of Shahnawaz Private Limited and on the Board of Directors of other group companies.*

### RATING RATIONALE

Shahtaj Textile Limited (STL) is mainly engaged in manufacturing, selling and marketing of grey fabric. STL belongs to 'Shahnawaz Group' comprising five other companies under its ambit; they have presence in sugar, food, distribution, power and agricultural sectors. Shareholding of the company is vested majorly by family members.

#### **Key Rating Drivers**

**Industry Dynamics:** Textile industry in Pakistan is largely export-oriented and contributes around 62% towards total exports. However, export from this sector has showcased negative growth for the past few years. As a result, textile sector is losing its competitiveness at the international level and facing a number of challenges at global and domestic levels; exports in textile and clothing of other countries has been higher in comparison to Pakistan. In order to arrest this trend, a few initiatives have taken by the local government. Nonetheless, given the extended period of market dullness, greater corrective measures are expected to be taken by the government in order to restore market condition.

**Production Capacity:** During FY17, the company completed its Balancing, Modernization and Rehabilitation (BMR) initiative with an addition of 4 new looms while the remaining were upgraded during FY17. Subsequently, production capacity of the company increased by 1m sq. meters. Currently, STL has 178 looms installed. Further BMR initiatives, planned in the ongoing year, are expected to improve operational efficiencies to its optimal level.

**Profitability:** Given recent dynamics of textile industry, sales of the company have remained subdued for the past few years. However, despite depressed prices, net sales increased by 10.8% during FY17. Growth in sales was largely a function of business volumes driven by marketing efforts and improved production capacity utilization. Nonetheless, gross margins of the company declined. In absolute terms, gross profit marginally increased to Rs. 328.3m (FY16: Rs. 325.1m) during FY17. Accounting for lower tax charge, STL posted a net profit of Rs. 105.9m (FY16: Rs. 98.8m). Net sales of the company amounted to Rs. 768.8m during 1QFY18. Lower sales in the first quarter, in comparison to the corresponding quarter last year, were primarily on account of delayed delivery of sales orders which are booked in advance; sales are expected to recoup in the coming quarters.

**Sales Mix:** Historically, proportion of export to local sales for STL has hovered around 40:60 ratio. Both client and country wise concentration in sales of STL is on the higher side. Around 4/5<sup>th</sup> of export sales were generated through top three countries while top 10 customers contributed 77% (FY16: 65%) in total sales in FY17.

**Liquidity:** Liquidity profile of the company is considered satisfactory in view of adequate cash flows in relation to outstanding obligations and profile of trade debts which remain within manageable levels. Liquidity buffer in terms of liquid assets carried on balance sheet are limited while short term borrowings utilized, in relation to stock-in-trade and stores carried on the balance sheet, are considered adequate. Long overdue amount of sales tax from the government has remained unsettled; adding to the financial burden of the company. Debt servicing coverage ratio is adequate at 2.7x (FY16: 2.5x) for FY17.

**Capitalization and Funding:** Equity base of the company has grown at a CAGR of 5.7% over the last five years on account of profit retention; equity amounted to Rs. 950.2m (FY16: Rs. 890.4m) at end-FY17. Major portion of the total debt is short-term in nature. With increase in liabilities, leverage indicators have trended upwards, however, they continue to remain within manageable levels. Gearing and leverage stood at 0.8x (FY16: 0.5x) and 2.7x (FY16: 2.5x), respectively at end-FY17. Going forward, management will need to ensure that leverage indicators remain at similar levels in order to commensurate with its current ratings.

**Outlook:** Considering current dynamics of the industry, expansion plans of the company are kept on hold. Nonetheless, STL plans to implement a forward integration strategy in order to tap into the local value-added segment. This will provide room for revenue diversification; developments in this regard are yet to materialize.

**Shahtaj Textile Limited**

**Appendix I**

| <b>FINANCIAL SUMMARY</b>                |                                  |                      |                      |
|---|----------------------------------|----------------------|----------------------|
|   | <i>(amounts in PKR millions)</i> |                      |                      |
| <b>BALANCE SHEET</b>                    | <b>June 30, 2017</b>             | <b>June 30, 2016</b> | <b>June 30, 2015</b> |
| Non-current Assets                      | 1,045.7                          | 829.5                | 887.6                |
| Stock-in-trade                          | 420.2                            | 355.9                | 295.9                |
| Trade Debts                             | 260.4                            | 203.0                | 267.8                |
| Cash & Bank Balances                    | 6.5                              | 13.1                 | 13.3                 |
| <b>Total Assets</b>                     | <b>2,077.7</b>                   | <b>1,636.3</b>       | <b>1,650.2</b>       |
| Long-term borrowings                    | 298.3                            | 82.3                 | 171.0                |
| Short-term borrowings                   | 430.4                            | 305.0                | 299.6                |
| Current Portion of long-term borrowings | 29.6                             | 50.2                 | 54.7                 |
| <b>Total Debt</b>                       | <b>758.3</b>                     | <b>437.5</b>         | <b>525.4</b>         |
| Trade Payables                          | 245.1                            | 201.3                | 199.9                |
| <b>Total Equity</b>                     | <b>950.2</b>                     | <b>890.5</b>         | <b>819.0</b>         |
| <b>Total liabilities</b>                | <b>1,122.9</b>                   | <b>740.5</b>         | <b>825.2</b>         |
| <b>INCOME STATEMENT</b>                 |                                  |                      |                      |
|   | <b>June 30, 2017</b>             | <b>June 30, 2016</b> | <b>June 30, 2015</b> |
| Net Sales                               | 3,498.8                          | 3,155.9              | 3,291.9              |
| Gross Profit                            | 328.4                            | 325.1                | 309.3                |
| Distribution Expenses                   | 69.1                             | 60.3                 | 62.4                 |
| Administrative Expenses                 | 101.3                            | 100.7                | 113.8                |
| Operating Profit/(Loss)                 | 148.3                            | 153.7                | 126.7                |
| Profit/(Loss) After Tax                 | 106.0                            | 98.9                 | 58.2                 |
| <b>RATIOS &amp; KEY NUMBERS</b>         |                                  |                      |                      |
|   | <b>June 30, 2017</b>             | <b>June 30, 2016</b> | <b>June 30, 2015</b> |
| Gross Margin                            | 9.4%                             | 10.3%                | 9.4%                 |
| Net Working Capital                     | 320.1                            | 243.7                | 198.2                |
| FFO                                     | 189.8                            | 194.7                | 168.0                |
| FFO/Total Debt                          | 25.0%                            | 44.5%                | 32.0%                |
| Gearing                                 | 0.8                              | 0.5                  | 0.6                  |
| Debt Leverage                           | 1.2                              | 0.8                  | 1.0                  |
| Debt Servicing Coverage                 | 2.7                              | 2.5                  | 1.6                  |
| ROAA                                    | 5.7%                             | 6.0%                 | 3.4%                 |
| ROAE                                    | 11.5%                            | 11.6%                | 7.3%                 |

**Shahtaj Textile Limited (STL)****Appendix II**

| <b>SENIOR MANAGEMENT TEAM</b> |                                    |  |
|-------------------------------|------------------------------------|--|
| <b><u>NAME</u></b>            | <b><u>DESIGNATION</u></b>          | <b><u>PROFILE</u></b>  |
| <b>Mr. M. Naeem</b>           | Chief Executive Officer<br>(CEO)   | Mr. M. Naeem holds an M.A.L.L.B degree. He has more than 45 years working experience in trading and textile industry. He joined Shahnawaz Group in 1967 and assumed responsibilities of its Managing Director in 1972. He is the CEO of Shahtaj Textiles Ltd since its inception. He is also Chief Executive of Shahnawaz Pvt Limited and on the Board of Directors of other group companies.  |
| <b>Col. (Retd.) R.D.Shams</b> | Resident Director                  | Mr. R.D.Shams is a qualified mechanical engineer. He has 22 years working experience in electrical and mechanical engineering in Pakistan Army. He joined Shahtaj Textile in January 1990. Currently he is working as Resident Director at STL Factory. He is on the Board of Directors of the Company since 1997.   |
| <b>Mr. Rashid Mahmood</b>     | Director Operations &<br>Marketing | Mr. Rashid Mahmood holds a degree in B.A. He joined Shahtaj Textile Ltd. in 1991. He has more than 25 years working experience in textile business. Earlier he served as a trainee student for 5 years from 1984 to 1989 and audit & tax in charge for a period of 2 years from 1989 to 1991 in Qavi & Co. Chartered Accountants Karachi.  |
| <b>Mr. Amir Ahmed</b>         | Chief Financial Officer<br>(CFO)   | Mr. Amir Ahmed is an Associate Chartered Accountant. He completed his articleship from A.F. Ferguson & Co. Chartered Accountants in 2010. He worked for 2 years as Assistant General Manager Accounts in Alpha Insurance Company Limited. He joined Shahtaj Textile Ltd as Assistant General Manager Finance in 2013 and was later promoted to CFO in July 2015.   |
| <b>Mr. Jamil Ahhamd Butt</b>  | Company Secretary                  | Mr. Jamil Ahhamd Butt is a fellow member of Institute of Cost & Management. He joined Shahtaj Textile Ltd in 1990. Earlier he worked for 2 years as Manager Accounts in Rupali Polyester Ltd. His past experience includes working in Habib Jute Ltd, Board of Internal Trade (Tanzania), Karachi Nuclear Power Plant (KANPP) & Investment Corporation of Pakistan (ICP). Currently he is working as Company Secretary in Shahtaj Textile Ltd and Shahtaj Sugar Mills Limited. |

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix III**

Medium to Long-Term

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

Short-Term

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

| REGULATORY DISCLOSURES              |   |                            |                   |                       | Appendix IV          |
|-------------------------------------|---|----------------------------|-------------------|-----------------------|----------------------|
| <b>Name of Rated Entity</b>         | Shahtaj Textile Limited   |                            |                   |                       |                      |
| <b>Sector</b>                       | Textile   |                            |                   |                       |                      |
| <b>Type of Relationship</b>         | Solicited   |                            |                   |                       |                      |
| <b>Purpose of Rating</b>            | Entity Rating   |                            |                   |                       |                      |
| <b>Rating History</b>               | <b>Rating Date</b>  | <b>Medium to Long Term</b> | <b>Short Term</b> | <b>Rating Outlook</b> | <b>Rating Action</b> |
|                                     | <b>RATING TYPE: ENTITY</b>  |                            |                   |                       |                      |
|                                     | 12/14/2017  | A-                         | A-2               | Stable                | Initial              |
| <b>Instrument Structure</b>         | N/A   |                            |                   |                       |                      |
| <b>Statement by the Rating Team</b> | JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.  |                            |                   |                       |                      |
| <b>Probability of Default</b>       | JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.  |                            |                   |                       |                      |
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