

RATING REPORT

Zephyr Textile Limited (ZTL)

REPORT DATE:

April 23, 2020

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook	Rating Watch – Negative		Stable	
Rating Action	Maintained		Reaffirmed	
Rating Date	23 rd Apr'20		4 th Dec'19	

COMPANY INFORMATION

Incorporated in 1999	External auditors: Azhar Zafar & Co. Chartered Accountants
Public Limited Company	Chairperson of the Board: Ms. Tahniat Mussaid
Key Shareholders (with stake 5% or more):	CEO: Mr. Mussaid Hanif
Mr. Mussaid Hanif – 35.86%	
Mr. Burhan Muhammad Khan – 32.98%	
Ms. Sabah Burhan – 9.45%	
The Bank of Punjab, Treasury Division – 8.01%	
Ms. Tahniyat Mussaid – 6.78%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (May 2019)

<https://www.vis.com.pk/kc-meth.aspx>

Zephyr Textile Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Zephyr Textile Limited (ZTL) was established in 1999 as a private limited company which was later on converted into public limited company in 2004.

The company is involved in the production and sale of grey & finished fabric, towels and made ups. The company is listed on the Pakistan Stock Exchange.

Registered office of the company is in Lahore

while weaving unit is situated at Balloki Bhai Pheru Road & towel unit is situated at district Kasur.

Profile of the Chairperson

Ms. Tahniat Mussaid is a graduate in Accountancy from UK and has worked in Barclays Bank for about 3 years after graduation.

She is not involved on every day matters of the company.

Profile of the CEO

Mr. Mussaid Hanif serves as the Chief Executive of the company. He has an MBA degree from LUMS and has over 20 years of experience in marketing, sales, and corporate management in some of prestigious textile companies in Pakistan.

Financial Snapshot:**Tier-1 Equity:**

1HFY20: Rs. 1.28b;
FY19: Rs. 1.30b;
FY18: Rs. 1.19b

Total Assets:

1HFY20: Rs. 4.3b;
FY19: Rs. 4.2b;
FY18: Rs. 4.2b

Profit After Tax:

1HFY20: Rs. 24m;
FY19: Rs. 118m;
FY18: Rs. 103m

Zephyr Textile Limited (ZTL) is a weaving and finishing unit and primarily operates in grey and finished fabric, towel and made-ups. Shareholding structure of the company is mainly vested with the sponsoring family with controlling stake of 85.15%. Remaining shareholding mainly rests with general public and other institutions. Mr. Mussaid Hanif (CEO) and Mr. Burhan Muhammad Khan (Executive Director) cumulatively hold 68.84% shares of the company.

The company is mainly engaged in the production and sales of grey & finished fabric, towel & textile made ups. The grey fabric production facility comprises 199 Air Jet looms which can weave up to 84.62m square meters of grey fabric per annum. The towel manufacturing unit comprises 45 looms with production capacity of 4,835 tons per annum. The total processing capacity of towel dyeing and processing unit is 5,700 tons per annum. Capacity utilization of grey fabric was recorded higher at 86% during FY19 (FY18: 79%), followed by towel unit 88% (FY18: 79%) and towel dyeing & processing at 67% (FY18: 62%).

The company recorded Rs. 315m in revenue from the sale of men's unstitched finished fabric during FY19 (FY18: Rs. 398m, FY17: Rs. 186m). However, given relatively long credit period in the men fabric business, the company intends not to grow further in the said business. Meanwhile, considering demand dynamics, the company has started production of ladies fabric rather recently. In addition, the company has also started commercial dyeing of knitted fabric for other companies as well.

Sales of the company increased to 5.1b during FY19 (FY18: Rs. 4.3b), which are segregated into fabric and towel segments. Fabric sales decreased slightly to Rs. 2.2b (FY18: Rs. 2.3b) as the impact of higher price was offset by lower volumes. Towel sales, which mainly constitute exports, increased to Rs. 2.9b (FY18: Rs. 1.9b) on account of volumetric gains and favorable pricing due to rupee depreciation. Gross profit increased to Rs. 524m (FY18: Rs. 466m) with slightly lower margin of 10.3%, while net profit amounted to Rs. 118m (FY18: Rs. 103m) with largely stable margin. Net sales were recorded at Rs. 2.1b during 1HFY20 with reduced net profit of 23.6m and net margin of 1.1%.

Debt profile of the company comprises a mix of short-term and long-term borrowings. In order to meet the working capital requirements, the company relies on short-term borrowing which amounted to Rs. 1.3b by end-1HFY20 (FY19: Rs. 1.3b). However, outstanding balance of long-term debt decreased to Rs. 403.2m (FY19: Rs. 471.8m) owing to scheduled repayments. Tier-1 equity remained stagnant at Rs. 1.3b due to dividend payment, resulting in gearing and debt leverage of 1.3x and 2.1x at end-1HFY20.

With the advent of global Coronavirus disease (COVID-19) pandemic, the demand outlook for textile products in general and especially value-added, export-oriented units looks weak. Given increased proportion of exports in overall revenue mix and hence ZTL's considerable dependence on exports sales for cash flows generation and servicing of its financial obligations, status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating-Watch' status. With the demand compression emerging from ongoing global economic crisis and continued lockdown situation coupled relatively high financial risk profile vis-à-vis peer companies, ratings are being placed on 'Negative' outlook. The ratings are dependent upon maintenance of overall sales, market share in exports, profit margin, debt service coverage, and gearing ratios at an adequate level, with outlook subject to be reviewed once the situation stabilizes.

Zephyr Textile Limited
Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	FY17	FY18	FY19	1HFY20
Non-Current Assets	2,025	2,004	1,963	1,972
Stock-in-Trade	905	1,070	932	1,073
Trade Debts	350	659	712	601
Loans and Advances	33	36	101	61
Trade Deposits, Prepayments & Balance with Statutory Authorities	197	189	213	364
Other Current Assets	168	220	237	139
Cash & Bank Balances	52	30	57	43
Total Assets	3,730	4,208	4,215	4,252
Trade and Other Payables	366	642	576	692
Short Term Borrowings	982	1,159	1,250	1,278
Long-Term Borrowings <i>(Inc. current matur)</i>	744	581	472	403
Other Liabilities	241	285	289	298
Total Liabilities	2,333	2,667	2,587	2,672
Tier-1 Equity	1,063	1,190	1,301	1,267
Total Equity	1,397	1,541	1,627	1,581
Paid-Up Capital	594	594	594	594
<u>INCOME STATEMENT</u>	FY17	FY18	FY19	1HFY20
Net Sales	3,728	4,252	5,091	2,139
Gross Profit	409	466	524	202
Operating Profit	211	287	293	109
Profit before Tax	90	147	149	43
Profit After Tax	69	103	118	24
FFO	298	340	310	110
<u>RATIO ANALYSIS</u>	FY17	FY18	FY19	1HFY20
Gross Margin (%)	11.0	10.9	10.3	9.4
Net Margin (%)	1.8	2.4	2.3	1.1
Current Ratio	1.09	1.10	1.10	1.04
Net Working Capital	141	196	210	91
FFO to Long-Term Debt (%)	40.1	58.4	65.6	55.6*
FFO to Total Debt (%)	17.3	19.5	18.0	13.1*
Debt Servicing Coverage Ratio (x)	0.95	1.41	1.57	1.32
Debt Leverage (x)	2.19	2.24	1.99	2.11
Gearing (x)	1.62	1.46	1.32	1.33

*Annualized

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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.

REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	Zephyr Textile Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	23-04-2020	BBB+	A-2	Rating Watch – Negative	Maintained
	04-12-2019	BBB+	A-2	Stable	Reaffirmed
	11-10-2018	BBB+	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	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.				
Probability of Default	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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Due Diligence Meetings Conducted	Name	Designation	Date		
	Mr. Naveed Aleem	CFO	17 th Apr'20		