RATING REPORT

Naveena Industries Limited (NIL)

REPORT DATE:

November 20, 2020

RATING ANALYST:

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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	Stable		Rating Watch - Negative	
Rating Date	November 20, 2020		April 24, 2020	
Rating Action	*Maintained*		*Maintained*	

COMPANY INFORMATION	
Incorporated in June 1989	**External auditors:** Ibrahim Shaikh & Co.
Public Unlisted Company	**Chairman:** Mr. Iftikhar Ahmed Khalid
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Shazad Khalid
Shazad Khalid (30%)	
Faisal Khalid (30%)	
Iftikhar Ahmed Khalid (25%)	
Yasmin Khalid (7.5%)	
Shazia Naveed (7.5%)	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria *Industrial Corporates (April 2019)*
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Naveena Industries Limited (NIL)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Naveena Industries Limited (NIL) was incorporated as a Private Limited Company in March 1966. Later, the company was converted to unquoted public limited company in March 2011. The registered office of the company is situated in Karachi

The principal business of Naveena Industries Limited (NIL) includes manufacturing and export of grey cloth. NIL started commercial operations in 1966 as an embroidery unit (and later weaving) of Naveena Group which is involved in the business of spinning and weaving. The group also owns Ahmed Oriental Textile Mills Limited, which is engaged in production of yarn.

Production facilities

NIL's production facilities are located at F-130, SITE, Karachi and Mauza Kot, Kamoon Shah, Tehsil and District, Rahim Yar Khan. At present, the company operates a mix of airjet and shuttleless looms. Production details are mentioned in the following table:

Figure 1: Production Details

	FY19	FY20
Number of airjet looms	*330*	*330*
Number of shuttleless looms	*81*	*81*
Total number of looms	411	411
Installed capacity - fabric (million meters per annum)	45	45
Actual production - fabric (million meters per annum)	44	36
Capacity utilization	96.9%	80.3%

Capacity utilization decreased during FY20 on account of lower production in line with reduction in volumetric sales.

Rating Drivers

Business risk profile is supported by favorable government policies for the textile sector

Favorable policies & incentives of the government to enhance exports, which include access to cheaper financing and provision of gas at subsidized rate, bode well for the textile industry. Moreover, overall textile sector has healthy order pipeline with increased orders emanating from China (due to US-China trade dispute) and India and Bangladesh (due to relatively greater COVID impact). All these factors contribute to low business risk of the sector.

Top-line depicted nominal growth in FY20 on account of increase in average prices; overall profitability was slightly lower on account of increase in overheads

Net sales increased by 3.8% to Rs. 6.7b (FY19: Rs. 6.4b) in FY20. Growth in sales was a function of increase in average prices as volumes were reported lower vis-à-vis the preceding year. Direct exports constituted around 80% (FY19: 78%) of total gross sales in FY20, while the remaining sales included indirect export and local sales. Despite decreasing on yearly basis, client concentration is considered to be on the higher side with top 10 client accounting for 53.3% (FY19: 64.2%) of net sales in FY19. However, client concentration risk is partly mitigated due to long term association with clients.

Gross margins were reported slightly lower at 13.2% (FY19: 13.8%) on account of increase in overheads and raw materials costs. Increase in administrative expenses primarily on the back of higher director's remuneration expense resulted in decrease in net margins to 4.4% (FY19: 5.3%). Dividend payout ratio amounted to 13.7% (FY19: 5.9%) in FY20. In Q1'FY21, the company posted net sales and net profit of Rs. 1.6b and Rs. 69.7m, respectively. Going forward, management expects moderate growth in the top-line in FY21, while margins are expected to sustain at Q1'FY21 level. Reduction in finance costs due to decrease in benchmark rates is expected to provide support to overall profitability of the company.

Improving leverage indicators and adequate liquidity profile

Total equity base of the company has increased on a timeline basis on account of profit retention. At end-Q1'FY21, total debt of the company was reported lower at Rs. 2.51b (FY20: Rs. 2.65b; FY19: 2.75b) due to repayment of long term debt. Going forward, leverage indicators are expected to improve in the medium term in the absence of any major capex plans. Overall liquidity profile of the company draws support from adequate cash flows and satisfactory debt coverage metrics.

ISSUE/ISSUER RATING SCALE &DEFINITIONS — Appendix I

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 II
Name of Rated Entity	Naveena Industries Limited (NIL)
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
20/11/2020	BBB+	A-2	Stable	Maintained
24/04/2020	BBB+	A-2	Rating Watch - Negative	Maintained
28/02/2020	BBB+	A-2	Positive	Maintained
31/12/2018	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.
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Due Diligence Meetings Conducted

S.No	Name	Designation	Date
1	Mr. Muhammad Junaid	CFO	November 11, 2020