

## RATING REPORT

### Siara Textile Mills (Pvt.) Limited (STML)

**REPORT DATE:**

December 13, 2018

**RATING ANALYSTS:**

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**RATING DETAILS**

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BBB-	A-2
Rating Outlook	Stable	
Rating Action	Initial	
Rating Date	January 28,'19	

**COMPANY INFORMATION**

Incorporated in 2004	External Auditors: Arshad Raheem & Co. Chartered Accountants
Private Limited Company	Chairman of the Board: Choudhry Mussarat Ali Chief Executive Officer: Mr. Akhtar Ali Choudhry
<b>Key Shareholders (with stake 5% or more):</b>	
Ch. Mussarat Ali – 16.66%	
Akhtar Ali Ch. – 16.33%	
Mr. Sufyan Akhtar – 16.33%	
Mr. Amjad Ali – 14.33%	
Ch. Zulfiqar Ali – 11.66%	
Ch. Ghazanfar Ali – 9.33%	
Ms. Razia Begum – 9.33%	
Ms. Naseem Akhtar – 6.0%	

**APPLICABLE METHODOLOGY(IES)**
**JCR-VIS Entity Rating Criteria:** *Industrial Corporates (October 2016)*
<http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

## Siara Textile Mills (Pvt.) Limited

### OVERVIEW OF THE INSTITUTION

Siara Textile Mills (Pvt.) Limited (STML) was incorporated in 2004 and commenced commercial operations in 2007. The principal business activity of the company is manufacturing and sale of yarn in the local and international market. STML is ISO 9001 certified.

#### Profile of Chairman/CEO

Choudhry Mussarat Ali is the Chairman of Board of Director at STML. He is also Chairman of Lal Qila Group in Manchester, UK.

Akhtar Ali Choudhry is the Chief Executive of the company. He is a graduate and has over twenty five years of experience in the textile sector. He has also served as Chairman Union Council from 1983-1991 and is an active member of Lahore, Gujrat and Sheikhpura Chamber of Commerce and Industry as well as the All Pakistan Textile Mills Association.

#### Financial Snapshot

**Total Equity:** : end-FY18: Rs. 973.9m; end-FY17: Rs. 958.0m; end-FY16: Rs. 964.7m

**Assets:** Rs. 1.70b; end-FY17: Rs. 1.67b; end-FY16: Rs. 1.77b

**Profit After Tax:** FY18: Rs. 20.1m; FY17: Rs. (6.6m); FY16: Rs. (100.6m)

### RATING RATIONALE

#### Rating Rationale

Siara Textile Mills (Pvt.) Limited (STML) is a small-sized spinning unit involved in manufacturing of yarn. STML is a family owned business with 100% shareholding vested with the sponsoring family; members of which are actively involved in the operations of the company. The ratings also take into account sound debt coverage with adequate funds from operations and virtual absence of long-term debt. The ratings are largely constrained by STML's spinning unit running close to full capacity, small equity base and the vulnerability of the spinning sector to raw material prices. With increasing proportion of imported cotton, the company remains exposed to fluctuations in Pak rupee vis-à-vis foreign currencies.

#### Key Rating Drivers

##### Operating close to full capacity

The company is currently operating a single spinning unit having 23,232 spindles. STML has the capacity to manufacture carded coarse yarn of counts ranging from 10/s to 30/s depending on market demand. The production output of STML has steadily improved over the past three years. The unit is currently running on around 96% capacity. STML manufactures coarse yarn from local and imported cotton. The proportion of imported cotton has increased on the timeline basis.

##### STML possesses a favorable credit policy

Total asset base of the company stood slightly higher by end-FY18. With no major capex during the last few years, the net book value of plant, property & equipment has decreased on a timeline basis. Trade debts stood higher by end-FY18; trade debts still accounted for only 2.7% as a proportion of sales, which is in line with the company's credit policy. According to the management, about one fifth of STML's total sales during FY18 were on cash basis while for the remaining, the company allows a credit period of up to 10 days. STML's concentration risk is considered to be on higher side with top 10 customers accounting for about two third of total sales during FY18.

##### Depressed profitability over the years

After a downturn in 2016 for the spinning industry, which resulted in lower yarn prices; the industry started to recover during 2017. Following the trend, the profitability of STML showcased some improvement during FY18. Net sales have increased on a timeline basis. STML's export sales has increased to 19% as a proportion of net sales during FY18 (FY17: 12%). As a result of higher average selling prices and a rationalization of overall production cost, gross margin also stood higher at 4.8% (FY17: 3.6%; FY16: 0.1%) during FY18. The company posted positive bottom line of Rs. 20.1m in FY18 [(FY17: Rs. (6.6m); FY16: Rs. (100.6m)]. Going forward, direction of overall profit margins will largely remain a function of yarn and cotton prices.

##### Sound coverages amid improved liquidity profile

Overall liquidity position of the company is considered adequate with improvement in cash generation over the past three years. Funds from Operations (FFO) increased to Rs. 116m (FY17: Rs. 105.4m; FY16: Rs. 6.9m) in FY18 mainly on the back of improved profitability indicators during the year. This along with repayment of long-term debt, FFO to long-term debt ratio strengthened further to 12.21x (FY17: 9.32x; FY16: 0.14x). However, with increase in short-term borrowings, FFO to total debt remained at 0.28x by end-FY18 (FY17: 0.29x; FY15: 0.01x). The debt repayment ability of the company is considered sufficient with DSCR recorded at 3.18x (FY17: 1.76x; FY16: 0.46x) during FY18. Stock-in-trade plus trade debts to short-term borrowings also remained adequate at 1.24x during the last two years.

##### Sound gearing and leverage indicators

Tier-1 equity base of STML stood higher on the back of higher retained earnings in FY18. The debt profile of the company mainly comprises short term borrowings while liabilities against assets subject to finance lease remained modest. Short-term borrowings increased by end-FY18 due to higher working capital requirements. By end-FY18, the gearing ratio, though deteriorated slightly, remained low at 0.65x (FY17: 0.59x; FY16: 0.79x).

The company on its balance sheet has an unsecured interest free loan from directors subordinated to the extent

of Rs. 159.5m against the facilities obtained from various financial institutions. The external auditors of the company have given a qualified opinion; the basis of it being that the company has not recognized the long term subordinated loan from directors and associates of directors at amortized cost as defined in IAS-39 since the terms and conditions regarding repayment of the loans are not yet finalized. Accordingly, requirements of IAS-39 for amortization of loan cannot be met. The said loan has been treated as a part of tier-1 equity instead a long term liability for analysis purposes.

**Considering options for expansion**

STML is in process of conducting feasibility studies regarding future expansion projects. As the spinning unit is running close to maximum capacity utilization, the company is taking into consideration adding 30,000 more spindles. The management is also considering adding looms to its operations for vertical integration. The company has not incorporated expansion project in projections as the management is still contemplating different options and studying feasibilities.

## JCR-VIS Credit Rating Company Limited

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

### Siara Textile Mills (Pvt.) Limited

### Appendix I

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>				
<b>BALANCE SHEET</b>	<b>June 30, 2015</b>	<b>June 30, 2016</b>	<b>June 30, 2017</b>	<b>June 30, 2018</b>
Non-Current Assets	1,322.7	1,210.3	1,126.9	1,039.5
Store, spares and loose tools	11.4	22.5	18.6	24.1
Stock-in-Trade	193.6	300.5	418.1	438.1
Trade Debts	27.6	25.1	13.4	73.2
Cash & Bank Balances	4.6	2.9	2.9	6.8
Advances, Prepayments and other receivable	83.0	138.1	6.5	23.6
Tax Refunds due from the Government	53.2	70.7	80.8	93.8
<b>Total Assets</b>	<b>1,696.1</b>	<b>1,770.1</b>	<b>1,667.2</b>	<b>1,699.1</b>
Trade and Other Payables	81.1	149.0	161.2	123.8
Short-Term Borrowings	223.9	412.6	347.5	411.2
Long-Term Borrowings <i>(Inc. current maturity)</i>	116.7	51.0	9.5	1.8
Liabilities against assets subject to finance lease	-	-	1.8	7.7
Deferred & other Liabilities	203.1	192.8	189.3	180.7
<b>Tier-1 Equity</b>	<b>654.1</b>	<b>583.7</b>	<b>608.2</b>	<b>652.2</b>
Surplus on revaluation of fixed assets	417.1	380.9	349.7	321.6
<b>Total Equity</b>	<b>1071.2</b>	<b>964.7</b>	<b>958.0</b>	<b>973.9</b>
<b>INCOME STATEMENT</b>	<b>June 30, 2015</b>	<b>June 30, 2016</b>	<b>June 30, 2017</b>	<b>June 30, 2018</b>
Net Sales	2,182.7	2,207.5	2,402.5	2,668.0
Gross Profit	70.4	2.5	88.1	128.4
Operating Profit	13.9	(49.8)	43.6	76.3
Profit After Tax	13.5	(100.6)	(6.6)	20.1
FFO	74.6	6.9	105.4	116.1
<b>RATIO ANALYSIS</b>	<b>June 30, 2015</b>	<b>June 30, 2016</b>	<b>June 30, 2017</b>	<b>June 30, 2018</b>
Gross Margin (%)	3.2%	0.1%	3.6%	4.8%
Net Working Capital	(2.2)	(50.6)	15.8	118.4
Current Ratio	0.99	0.92	1.03	1.22
FFO to Long-Term Debt	0.64	0.14	9.32	12.21
FFO to Total Debt	0.22	0.01	0.29	0.28
Debt Servicing Coverage Ratio (x)	1.06	0.46	1.76	3.18
ROAA (%)	-	-	-	1.2%
ROAE (%)	-	-	-	2.1%
Gearing (x)	0.52	0.79	0.59	0.65
Debt Leverage (x)	0.96	1.38	1.17	1.11

## ISSUE/ISSUER RATING SCALE & DEFINITIONS

## Appendix II

### 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

**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

### 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.

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 III	
<b>Name of Rated Entity</b>	Siara Textile Mills (Pvt.) 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>					
	1/28/2019	BBB-	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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