

RATING REPORT

Siara Textile Mills (Pvt.) Limited (STML)

REPORT DATE:

April 27, 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 Date	April 27, 2020		Mar 26, 2020	
Rating Outlook	Rating Watch-Negative		Stable	

COMPANY INFORMATION

Incorporated in 2004

External Auditors: Arshad Raheem & Co. Chartered Accountants

Private Limited CompanyChairman of the Board: Choudhry Mussarat Ali
Chief Executive Officer: Mr. Akhtar Ali Choudhry**Key Shareholders (with stake 5% or more):**

Ch. Mussarat Ali – 44%

Akhtar Ali Chaudhary – 19%

Mr. Imran Akhtar – 10%

Mr. Sufiyan Akhtar – 10%

Mr. Wajid Ali – 10%

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)

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

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 the Chairman

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

Profile of Chief Executive Officer

Akhtar Ali Choudhry is the CEO 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

Core Equity: end-FY19: Rs. 652.2m; end-FY18: Rs. 699.6m; end-FY17: Rs. 609.0m
Assets: end-FY19: Rs. 2.1b; end-FY18: Rs. 1.7b; end-FY17: Rs. 1.7b
Profit After Tax: FY19: Rs. 23.2m; FY18: Rs. 20.1; FY16: Rs. (6.6m)

RATING RATIONALE

Siara Textile Mills (Pvt.) Limited (STML) is a small-sized spinning unit, with shareholding vested with the sponsoring family who is actively involved in day-to-day operations of the company. The assigned ratings take into account gradual improvement in cash flows along with sound coverages. Overall liquidity indicators have remained adequate. The company has also been able to increase sales and gross margins on back of higher yarn price, though net margins have remained nominal on a timeline basis. The ratings are constrained by nearly full capacity utilization, vulnerability of spinning sector to raw material prices and any adverse changes in regulatory duties. Some increase in leverage indicators have been witnessed lately, maintenance of that within acceptable limits is considered imperative for ratings, going forward.

Nearly full capacity utilization; expansion plan shelved due to unfavorable economic conditions: STML manufacture carded coarse yarn of 10/s to 30/s counts depending on market demand. Total installed and operational spindles of STML were 23,232 (FY18: 23,232) at end-FY19. Capacity after conversion into 20/s count increased to 7.9 million Kgs (FY18: 7.6 million Kgs) due to increase in operational efficiency from addition of compact frames, as a part of regular BMR during the outgoing year. Mill has been running at nearly full capacity utilization (FY19: 97%; FY18: 96%) over the years.

The management's plan to add 30,000 spindles to its existing operations and vertical integration plan of adding looms has been put on hold amid higher interest rates and local currency depreciation.

Profitability underpinned by higher yarn prices: While volumetric sales of the company decreased by around 12% to 179,203 bags (FY18: 202,752 bags), topline increased to Rs. 2.8b (FY18: Rs. 2.7b) on account of higher yarn prices in local and international markets during FY19. Local sales of 166,923 bags (FY18: 159,827 bags) accounted for 92% (FY18: 81%) of the total revenue, with an average sales price of Rs. 15,587/bag (FY18: Rs. 13,334/Bag) during FY19. Average sale price of exported yarn during FY19 was 16,123.5/Bag (FY18: Rs. 11,500/Bag) as the company exports 10s count yarn. Customer concentration, as measured in terms of sales to top 10 customers as a proportion of total sales, has remained high at 74% (FY18: 64%) during FY19. As per management, the company has developed long-term relationship with customers over the years, which along with production of higher quality carded yarn mitigates the above mentioned risk to a certain extent.

Coronavirus to result in uncertainty in textile sector dynamics: The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand and challenging economic environment. 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 crisis and continued lockdown situation, which will virtually impact the entire textile value chain, ratings are being placed on 'Negative' outlook. Ratings remain dependent on maintaining cash flow coverages and prudent leverage indicators. VIS will closely monitor and will accordingly take action to resolve the outlook status.

Siara Textile Mills (Pvt.) Limited Appendix I

BALANCE SHEET (PKR Millions)	FY17	FY18	FY19	1HFY20
Property, Plant & Equipment	1,116	1,029	973	937
Store, Spares and Loose Tools	19	24	18	23
Stock-in-Trade	418	438	665	784
Trade Debts	13	73	75	140
Advances, Deposits & Prepayments	7	24	230	99
Balances with Statutory Authorities	81	94	46	41
Cash & Bank Balances	3	7	21	15
Other Assets	11	11	29	11
Total Assets	1,668	1,699	2,057	2,050
Trade and Other Payables	161	124	106	241
Deferred Liabilities	183	176	183	183
Long Term Debt <i>(including current maturity)</i>	11	10	26	23
Short Term Debt	348	411	732	570
Other Liabilities	6	4	16	22
Tier-1 Equity	609	652	700	726
Total Equity <i>(including revaluation surplus)</i>	959	974	996	1,011
Paid-up Capital	300	300	300	300
<u>INCOME STATEMENT</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>	<u>1HFY20</u>
Net Sales	2,402	2,668	2,835	1,765
Gross Profit	88	128	189	126
Profit Before Tax	4	40	58	40
Profit After Tax	(7)	20	23	15
Funds from Operations	105	116	156	79
<u>RATIO ANALYSIS</u>	<u>FY17</u>	<u>FY18</u>	<u>FY19</u>	<u>1HFY20</u>
Gross Margin (%)	3.7	4.8	6.7	7.1
Net Margins (%)	-0.3	0.8	0.8	0.9
Current Ratio (x)	1.03	1.22	1.25	1.32
Net Working Capital	16	118	215	270
FFO to Total Debt (x)	0.29	0.28	0.21	0.27*
FFO to Long Term Debt (x)	9.34	12.21	6.10	6.84*
Debt Leverage (x)	1.16	1.11	1.52	1.43
Gearing (x)	0.59	0.65	1.08	0.82
DSCR (x)	1.78	3.18	2.87	-
ROAA (%)	-0.4	1.2	1.2	1.5*
ROAE (%)	-1.1	3.2	3.4	4.3*
(Stock in Trade+Trade Debt) to Short-Term Borrowing Ratio (x)	1.24	1.24	1.01	1.62

*Annualized

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	Siara Textile Mills (Pvt.) Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History		Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY			
	27/04/2020	BBB-	A-2	Rating Watch-Negative	Maintained
	25/03/2020	BBB-	A-2	Stable	Reaffirmed
	28/01/2019	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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