

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

RATING REPORT

Saif Textile Mills Limited (STML)

REPORT DATE:

April 17, 2018

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Long-term Rating
Sukuk	A
Rating Outlook	Stable
Rating Date	April 17, 2018

COMPANY INFORMATION

Incorporated in 1989	External auditors: M/s Shinewing Hameed Chaudhri & Co. Chartered Accountants
Public Limited Company	Chairman: Mr. Osman Saifullah Khan
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Zaheen-ud-Din Qureshi
Saif Holdings Ltd (49.6%)	
NIT and ICP (7.2%)	
General Public – Local (34.1%)	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (May 2016)*

<http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

Notching the Issues (June 2016)

http://jcrvis.com.pk/docs/criteria_instrument_16.pdf

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Saif Textile Mills Limited (STML)

OVERVIEW OF THE INSTITUTION

Saif Textile Mills Limited was incorporated into Pakistan as a public limited company on December 24, 1989 under the Companies Ordinance, 1984. The company's mills are located in Industrial Estate, Gadoon Amzai, District Swabi. The company is primarily engaged in manufacture and sale of yarn.

RATING RATIONALE

Corporate Profile

Saif Textile Mills Limited is involved in the manufacturing and sale of cotton and synthetic yarn. Majority shareholding of the company is vested with Saif Holdings Limited (SHL). SHL has interests in Textile, Feeds, Energy, Health, Technology and Real Estate sectors.

Financial Profile

The total asset base of the company increased to Rs. 8.6b in FY17 (FY16: Rs. 8.0b) primarily on the back of stock in trade and trade debts. The company took-up significant short-term borrowings to finance the stock-in-trade.

STML posted a higher profitability for FY17 at Rs. 22.9m (FY16: loss of 49.1m) on the back of improved gross margin. This translated into higher cash flows witnessed for FY17 at Rs. 378.0m (FY16: Rs. 182.2m). Resultantly, indicators of cash flows in relation to outstanding debt have exhibited an improvement. Funds from Operations (FFO) to long term debt multiple increased significantly to 20.0% for FY17 (FY16: 9.5%) while FFO to total debt improved to 7.1% for FY17 (FY16: 3.9%). The improvement in the cash flow generating ability of the company also led the Debt Service Coverage Ratio (DSCR) to increase to 1.0x (FY16: 0.7x) for FY17.

Sukuk Structure and Terms

The company intends to raise Rs. 750m (inclusive of a Rs. 250m green shoe option) through rated, privately placed and secured, diminishing Musharkah based Sukuk.

The tenor of the issue is 6 years inclusive of 1 year grace period. STML will use the proceeds of the issue to fund capital expenditure and working capital requirements. The balance sheet will be re-profiled by paying off short term borrowings. Principal repayment of the Sukuk will be in 20 quarterly installments.

STML will also maintain a Debt Service Accounts (DSA) with its investment agent. The company will ensure that during each month it will deposit its sales proceeds, on priority basis, equivalent to one-third of the amount of the upcoming installment (in any case no later than the 15th day of each month). This will secure the aggregate installment payment amount on the actual due date for the relevant period. Any breach of the DSA mechanism shall be declared as an Event of Default which shall be covered in the transaction documents.

Rating draws strength from the Debt Service Account (DSA) mechanism envisaged for the payment of the Sukuk and its strict implementation whereby proceeds from sales will be transferred to the DSA every month to the extent that it covers 1/3rd of the quarterly installment by the middle of every month.

JCR-VIS Credit Rating Company Limited

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FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			Appendix I
BALANCE SHEET	HY18	FY17	FY16
Fixed Assets	4,584.7	4,485.7	4,604.9
Investments	5.2	6.3	6.1
Stock-in-Trade	2,017.5	2,029.1	1,765.5
Trade Debts	996.6	1,017.6	758.7
Cash & Bank Balances	29.7	27.0	37.3
Total Assets	8,672.6	8,638.9	8,028.7
Trade and Other Payables	593.4	589.1	682.9
Long Term Debt <i>(*incl. current maturity)</i>	1,271.4	1,347.1	1,376.1
Short Term Debt	3,526.4	3,429.9	2,767.6
Total Equity	1,589.7	1,579.4	1,520.5
INCOME STATEMENT	HY18	FY17	FY16
Net Sales	7,598.9	7,586.3	6,697.7
Gross Profit	779.9	763.0	621.9
Operating Profit	440.0	422.8	281.3
Profit After Tax	41.2	22.9	(49.1)
RATIO ANALYSIS	HY18	FY17	FY16
Gross Margin (%)	10.3%	10.1%	9.3%
Net Working Capital	(770.6)	(581.4)	(614.7)
FFO to Total Debt (%)	5.9%	7.1%	3.9%
FFO to Long Term Debt (%)	17.1%	20.0%	9.5%
Gearing (x)	3.4	3.4	3.1
Leverage (x)	4.0	4.0	3.8
Debt Servicing Coverage Ratio (x)	0.80	1.0	0.7

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

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

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

(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

'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.

REGULATORY DISCLOSURES

Appendix III

Name of Rated Entity

Saif Textile Mills Limited

JCR-VIS Credit Rating Company Limited

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

Type of Relationship	Solicited															
Purpose of Rating	Sukuk Rating															
Rating History	<table border="1"><thead><tr><th>Rating Date</th><th>Medium to Long Term</th><th>Short Term</th><th>Rating Outlook</th><th>Rating Action</th></tr></thead><tbody><tr><td colspan="5" style="text-align: center;">RATING TYPE: ENTITY</td></tr><tr><td>17/04/2018</td><td>A</td><td>N/A</td><td>Stable</td><td>Preliminary</td></tr></tbody></table>	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	RATING TYPE: ENTITY					17/04/2018	A	N/A	Stable	Preliminary
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Statement by the Rating Team	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.															
Probability of Default	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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