

Sapphire Textile Mills Limited

Chairman: Mr. Mohammad Abdullah & CEO: Mr. Nadeem Abdullah

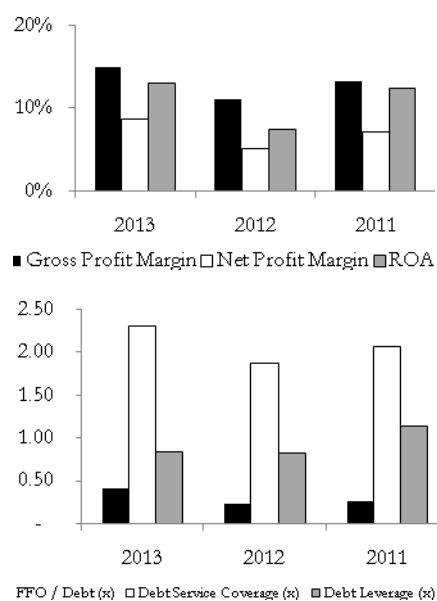
March 5, 2014

Analysts: Amir Shafique
Muniba Khan

| Category | Latest | Previous |
|----------|-------------|-------------|
| Entity | A+ / A-1 | A+ / A-1 |
| | Mar 05, '14 | Apr 01, '13 |

| | | |
|---------|----------|--------|
| Outlook | Positive | Stable |
|---------|----------|--------|

Key Financial Trends



| (Rs. in Million) | 2013 | 2012 | 2011 |
|--|---------|---------|---------|
| Net Sales | 25,283 | 21,491 | 22,937 |
| Gross Margin | 16.60% | 12.91% | 14.90% |
| Net Profit | 2,136.5 | 1,073.7 | 1,607.4 |
| Equity (ex. Reval surplus)* | 8,816 | 6,991 | 6,047 |
| Total Debt | 5,428 | 4,159 | 5,332 |
| Long term debt (inc. Current Maturity) | 1,371 | 1,308 | 1,149 |
| Gearing* | 0.66 | 0.63 | 0.92 |
| FFO | 2,235 | 985 | 1,430 |
| FFO/Total Debt | 0.41 | 0.24 | 0.27 |
| ROAE | 27.03% | 16.50% | 29.40% |
| ROAA | 12.99% | 7.54% | 12.38% |

Rating Rationale

The market conditions remained robust for the local textile sector in general during FY13. The increasing trend in prices of yarn and allied products both locally and internationally enabled textile companies to post better margins during the year. The impact was more profound for yarn exporters where price trend remained most favorable on the back of demand from China..

Sapphire Textile Mills Limited (STML) is one of the largest composite textile units in Pakistan generating more than ¾ of sales from exports. Net sales amounted to Rs. 25.3b (FY12: Rs. 21.5b), depicting a 3 year CAGR of 20.6%. The largest contributor to revenue was yarn constituting up to 60% of total sales while fabric and home textile products comprised around 29% and 10%, respectively. The increase in revenue was not only volumetric but also a function of higher prices in yarn and fabrics. Consequently, gross margins improved to 16.6% (FY12: 12.9%). On the contrary, margins in home textile, though still healthy, stood lower in comparison to the preceding year due to higher processing charges. The company is in the process of setting up an in house fabric processing and printing unit that is likely to improve margins in home textile segment, going forward.

STML has an investment portfolio amounting to Rs. 5.1b (FY12: Rs. 3.0b). Around 90% of the portfolio comprises exposure in listed equities with sizable investment in shares of MCB Bank Limited. There was a revaluation surplus of Rs. 2.6b (FY12: Rs. 1.3b) on the listed equity portfolio. Moreover, the company has made strategic investments in unlisted entities belonging to textile, power and dairy sectors. STML has made additional investment in projects pertaining to wind power and dairies. The company has invested up to Rs. 235m (FY12: Rs. 90m) in Sapphire Dairies (Pvt.) Ltd against a total sanctioned investment limit of Rs. 300m. Sapphire Wind Power Company limited has an investment of Rs. 147m (FY12: Rs. 86.2m) while another Rs. 2b is likely to be injected as equity in the project over a period of two years.

Total borrowings increased to Rs. 5.4b (FY12: Rs. 4.2b) mainly on account of short term loans acquired for working capital requirements. Short term financing comprised around ¾ of total borrowings while the remaining portion was long term in nature. STML has acquired long term loans for regular BMR and CAPEX. The management intends to acquire another long term facility of Rs. 1b in near term for fabric processing and printing unit. Given the robust internal cash generation, FFO to total debt improved to 0.41x (FY12: 0.24x) in FY13 and stood at 0.35x in 1Q14. Debt servicing capacity is expected to remain strong, even with the planned mobilization of additional long term debt.

There was stability at senior management level. As per the requirement of CCG 2012, the company intends to appoint an independent director on the board prior to June 30, 2014. STML has implemented an Oracle based ERP and has a separate DRP site with real time synchronization of data.

*Equity has been adjusted for unlisted strategic investments for calculating gearing and leverage

Overview of the Institution

Incorporated in 1969, STML operates as a public limited company and has been listed on the Karachi Stock Exchange. Primary business of STML includes manufacturing and sale of yarn, fabrics and home textile products. It operates a total of 122,410 spindles, 3,111 rotors and 300 looms. The financial statements for FY13 have been audited by M/s Mushtaq & Company, Chartered Accountants [JCR-VIS]

JCR-VIS Credit Rating Company Limited

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

| Rating Date | Medium to Long Term | Outlook | Short Term | Rating Action |
|-----------------------------------|---------------------|----------|------------|---------------|
| <u>RATING TYPE: Entity</u> | | | | |
| 05-Mar-14 | A+ | Positive | A-1 | Maintained |
| 01-Apr-13 | A+ | Stable | A-1 | Upgrade |
| 01-Feb-12 | A | Stable | A-2 | Reaffirmed |
| 12-Oct-10 | A | Stable | A-2 | Reaffirmed |