

## RATING REPORT

### Sapphire Textile Mills Limited

**REPORT DATE:**

June 8, 2015

**RATING ANALYSTS:**

Waqas Munir, FRM

[waqas.munir@jcrvis.com.pk](mailto:waqas.munir@jcrvis.com.pk)

Moiz Badshah

[moiz.badshah@jcrvis.com.pk](mailto:moiz.badshah@jcrvis.com.pk)
**RATING DETAILS**

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	A+	A-1	A+	A-1
<b>Rating Date</b>	Jun 01, 2015		Mar 5, 2014	
<b>Rating Outlook</b>	Positive		Positive	
<b>Outlook Date</b>	Jun 01, 2015		Mar 5, 2014	

**COMPANY INFORMATION**

<b>Incorporated in 1969</b>	<b>External auditors:</b> M/s Mushtaq & Company, Chartered Accountants
<b>Public Limited Company</b>	<b>Chairman of the Board:</b> Mr. Mohammad Abdullah
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Nadeem Abdullah
Sapphire Agencies (Pvt.) Limited – 11.61%	
Mr. Yousuf Abdullah – 10.56%	
Mr. Amer Abdullah – 10.50%	
Mrs. Shireen Shahid – 8.50%	
Mr. Nadeem Abdullah - 6.72%	
Amer Tex (Pvt.) Limited – 5.62%	

**APPLICABLE METHODOLOGY(IES)**
**JCR-VIS Entity Rating Criteria** *Industrial Corporates (October 2003)*
<http://www.jcrvis.com.pk/images/IndustrialCorp.pdf>

## Sapphire Textile Mills Limited

### OVERVIEW OF THE INSTITUTION

Incorporated in 1969, STML operates as a public limited company and is listed on the Karachi Stock Exchange. Primary business of STML includes manufacturing and sale of yarn, fabrics and home textile products. STML operates with a total capacity of 126,931 spindles, 3,120 rotors and 299 looms.

### RATING RATIONALE

Depressed price of the cotton and ensuing pressure on yarn and value added products present challenges to the textile sector. Beginning FY15, cotton prices have fallen substantially from above 90 cents/lb to under 70 cent/lb. Meanwhile, Pak Rupee strengthened by around 7% during 2HFY14 rendering local products less competitive in the international market. Government of Pakistan recently announced the new Textile Policy (2014-2019) which aims to address the entire value chain of the sector with the objective of increasing productivity and competitiveness. Effective implementation of the policy however remains to be seen. Meanwhile, a concerted effort for utilization of GSP plus status is expected to provide impetus to export revenues.

Sapphire Textile Mills Limited (STML) is one of the largest composite textile units in Pakistan. Net sales largely remained unchanged during FY14 and amounted to Rs. 25.4b (FY13: Rs. 25.3b). Exports continue to represent a high share of overall revenue. Around 60% of sales comprise yarn followed by fabric sales (29.3%) and home textiles (10.0%). The company initiative to add a finishing plant in its production facilities is expected to improve STML's competitive advantage in the value added segment. Gross margin remained under pressure during FY14 and in the ongoing year owing to a general global weakness in prices of raw material translating into reduction in the prices of yarn and other textile products particularly in the domestic market. Bottom line was supported by higher non-operating income attributable to higher dividend income on long-term investments. Reduced margins to some extent were mitigated by lower operating costs and higher other income. Nonetheless, net profit declined to Rs. 983.4m during FY14 (FY13: Rs. 2.14b).

Investment portfolio of the company increased to Rs. 7.8b by end-1HFY15 (FY14: Rs. 7.3b) Other than some additional exposure in existing investments, the increase in portfolio was a function of uptick in stock price of listed equities. Around 83% of the portfolio comprises investment in listed equities with a sizeable share representing investment in the shares of MCB Bank Limited while remaining listed portfolio represents investment in blue chip companies. There is a revaluation surplus on the listed equity portfolio to the tune of Rs. 3.8b at end-FY14 (FY13: Rs. 2.6b); this has further increased during the ongoing year. In addition to this, the company has made strategic investments in group companies belonging to textile, power and dairy sector. Additional investment was made in Sapphire Wind Power Company Limited (SWPCL) and Sapphire Power Generation Limited (SPGL). The company has also setup three subsidiaries during FY14. Moreover, the company entered into a share purchase agreement during 1HFY15 to further enhance its footprints in the renewable energy sector.

Total borrowings increased to Rs. 5.9b by end-FY14 (end-FY13: Rs. 5.4b) and further to Rs. 8.5b by end-1HFY15 mainly on account of higher short term funding acquired for working capital requirements. Additional long term borrowing pertained to fabric processing and printing unit. Long term borrowing may increase further on account of additional investment in group companies. The capital structure is expected to remain strong on the back of healthy profit retention by the company.

Given depressed profitability, FFO to total debt deteriorated to 0.17x by end-FY14 (FY13: 0.41x) and further to 0.14x by end-1HFY15. However, the company continues to depict adequate capacity to pay off its obligations with debt servicing coverage ratio of 1.87x at end-1HFY15 (FY14: 1.60x).

## Sapphire Textile Mills Limited

## Appendix I

<b>FINANCIAL SUMMARY</b>			
	<i>(amounts in PKR millions)</i>		
<b>BALANCE SHEET</b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>	<b>DEC 31, 2012</b>
Fixed Assets	13,726	9,638	7,654
Investments	5,346	3,593	2,232
Stock-in-Trade	3,776	4,908	3,317
Trade Debts	1,224	1,710	1,337
Cash & Bank Balances	98	103	76
<b>Total Assets</b>	<b>22,051</b>	<b>18,842</b>	<b>14,057</b>
Trade and Other Payables	2,036	1,497	1,100
Long Term Debt <i>(*incl. current maturity)</i>	2,747	1,371	1,308
Short Term Debt	3,201	4,058	2,851
Tier-1 Equity	9,392	8,599	6,821
<b>Total Equity</b>	<b>13,341</b>	<b>11,398</b>	<b>8,331</b>
<b>INCOME STATEMENT</b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>	<b>DEC 31, 2012</b>
Net Sales	25,411	25,283	21,070
Gross Profit	2,788	4,205	3,322
Operating Profit	1,475	3,284	2,486
Profit After Tax	983	2,612	2,044
<b>RATIO ANALYSIS</b>	<b>DEC 31, 2014</b>	<b>DEC 31, 2013</b>	<b>DEC 31, 2012</b>
Gross Margin (%)	11.0	16.6	12.9
Net Working Capital	2,380	3,015	1,947
FFO to Total Debt (x)	0.2	0.4	0.2
FFO to Long Term Debt (x)	0.4	1.6	0.8
Debt Servicing Coverage Ratio (x)	1.6	3.3	1.9
ROAA (%)	5.4	16.6	14.1
ROAE (%)	11.6	35.8	31.6

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](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

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 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.

REGULATORY DISCLOSURES		Appendix III			
<b>Name of Rated Entity</b>	Sapphire Textile Mills 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>				
	6/1/2015	A+	A-1	Positive	Reaffirmed
	3/5/2014	A+	A-1	Positive	Maintained
	4/1/2013	A+	A-1	Stable	Upgrade
	2/1/2012	A	A-2	Stable	Reaffirmed
	10/12/2010	A	A-2	Stable	Reaffirmed
<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.				
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2015 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.				