

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

RATING REPORT

Sapphire Textile Mills Limited

REPORT DATE:

October 25, 2016

RATING ANALYSTS:

Jazib Ahmed - CFA

jazib.ahmed@jcrvis.com.pk

Momina Masood

momina.masood@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Rating Date	Oct 25, 2016		Jun 01, 2015	
Rating Outlook	Positive		Positive	
Outlook Date	Oct 25, 2016		Jun 01, 2015	

COMPANY INFORMATION

Incorporated in 1969	External auditors: M/s Mushtaq & Company, Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Mohammad Abdullah
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Nadeem Abdullah
Sapphire Agencies (Pvt.) Limited – 11.6%	
Mr. Yousuf Abdullah – 10.6%	
Mr. Amer Abdullah – 8.5%	
Mrs. Shireen Shahid – 8.0%	
Mr. Nadeem Abdullah - 5.7%	
Amer Tex (Pvt.) Limited – 5.6%	

APPLICABLE METHODOLOGY(IES)

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

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

Sapphire Textile Mills Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Sapphire Textile Mills Limited (STML) was incorporated in 1969 as a public limited company. Financial Statements of the company for FY16 were audited by Mushtaq & Co., Chartered Accountants.</p>	<p>Sapphire Textile Mills Limited (STML) is a part of Sapphire Group of Companies (SGC) which has presence in textile, power and dairy sectors. STML, a vertically integrated firm, operates in the textile sector. The company's core business operations include production and distribution of yarn, fabric, home textile and ready-to-wear garments.</p> <p>Rating Drivers</p> <ul style="list-style-type: none">• Market Dynamics: Post reversal of China's stock piling policy, the world is faced with excess cotton produce coupled with dearth of buyers. This oversupply situation resulted in depressed cotton prices, although the same slightly recovered in FY16, it remains below its historical peak.• Business Mix: STML derives a substantial 73% (FY15: 81%) of its revenue from exports, thus, making it susceptible to volatility in cotton prices. During FY16, yarn (FY16: 51%, FY15: 55%) remained the flagship product accounting for over half of the inflows, followed by fabric (FY16: 31%, FY15: 30%) and home textile (FY16: 14%, FY15: 13%) segment.• Investments: STML holds a sizeable portfolio of investments which was reported at Rs. 13.8b (FY15: 12.0b). Approximately 70% of the portfolio comprises listed equities of other companies whereas residual pertains to related parties.• Diversification: The company is in the process of diversifying the corporate profile from a textile products dominated unit to one with diversified revenue streams from investments and wind power projects.• Leverage: Debt indicators increased on account of higher borrowing to finance diversification projects, i.e. installation and operation of finishing and wind power plant. Since the management plans to further install three power plants, debt indicators are expected to increase. However, prospective cash flows from these strategic investments are projected to contain leverage indicators with levels commensurate with the outstanding ratings.• Profitability: Despite the challenges posed by the operating environment, STML has managed to maintain its gross profit margins at 11% (FY15: 11%). Bottom line is supported through dividends from investments.• Liquidity: The investment portfolio serves as a source of earnings and the substantial liquid component, over two-thirds of same, acts as a buffer as well. Amending for dividends received, adjusted FFO is reported at Rs. 1.2b (FY15: Rs. 1.1b) for FY16. Accounting for higher debt levels, adjusted FFO to debt declined to 9.0% (FY15: 11.1%). Furthermore, current ratio (FY16: 1.69x, FY15: 1.84x) remains on the higher side, depicting STML's ability to honor its current liabilities. Likewise, acid test ratio (FY16: 1.25x, FY15: 1.34x) gives credence to the fact that liquidity of the company rests at comfortable levels.

Outlook

Going forward, the company envisages greater contribution from value added segment. In doing so, the company has successfully installed a finishing and printing facility for the manufacture of ready-made garments. Furthermore, the management envisages itself to become a major player in the renewable energy sector by adding three more wind power projects; materialization of these plans will be tested over time.

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Sapphire Textile Mills Limited

Appendix I

FINANCIAL SUMMARY			
<i>(amounts in PKR millions)</i>			
BALANCE SHEET	JUN 30, 2016	JUN 30, 2015	JUN 30, 2014
Fixed Assets	20,217	18,881	13,726
Investments	13,772	11,969	7,261
Stock-in-Trade	4,281	3,969	3,776
Trade Debts	1,474	1,298	1,224
Cash & Bank Balances	100	50	98
Total Assets	31,801	28,088	22,051
Trade and Other Payables	2,526	2,317	2,036
Long Term Debt <i>(*incl. current maturity)</i>	8,358	5,502	2,747
Short Term Debt	4,657	4,718	3,201
Tier-1 Equity	11,676	10,411	9,593
Total Equity	14,904	14,370	13,341
INCOME STATEMENT			
	JUN 30, 2016	JUN 30, 2015	JUN 30, 2014
Net Sales	23,111	23,315	25,411
Gross Profit	2,563	2,608	2,788
Profit from Operations	2,610	1,268	1,475
Profit After Tax	1,448	1,034	983
RATIO ANALYSIS			
	JUN 30, 2016	JUN 30, 2015	JUN 30, 2014
Gross Margin (%)	11.1%	11.2%	11.0%
Net Working Capital	8,598	7,997	6,559
FFO	423	698	1,375
FFO to Total Debt (x)	0.03	0.07	0.23
FFO to Long Term Debt (x)	0.05	0.21	0.62
Debt Servicing Coverage Ratio (x)	0.95	1.74	2.27
Adjusted FFO	1,172	1,139	1,710
Adjusted FFO to Total Debt (x)	0.09	0.11	0.29
Adjusted FFO to Long Term Debt (x)	0.14	0.21	0.62
Debt Servicing Coverage Ratio (x)	1.50	1.74	2.27
Gearing (x)	0.87	0.71	0.45
Debt Leverage (x)	1.13	0.95	0.65
ROAA (%)	4.8%	4.1%	4.8%
ROAE (%)	9.9%	7.5%	8.0%

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.

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REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	Sapphire Textile Mills Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	10/25/2016	A+	A-1	Positive	Reaffirmed
	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
Instrument Structure	N/A				
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.				
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