

RATING REPORT

Sunrays Textile Mills Limited

REPORT DATE:

April 22, 2020

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RATING DETAILS

Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-1	A-	A-1
Rating Date	April 22, 2020		December 30, 2019	
Rating Action	Maintained		Initial	
Rating Outlook	Rating Watch- Developing		Stable	

COMPANY INFORMATION

Incorporated in 1987	External auditors: M/s Deloitte Yousuf Adil, Chartered Accountants
Public Limited Company	CEO: Mr. Kashif Riaz
Key Shareholders:	
Mr. Kashif Riaz- 30.96%	
Mr. Imran Ahmad- 11.21%	
Mr. Naveed Ahmed- 11.16%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (April 2019)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

Sunrays Textile Mills Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Sunrays Textile Mills Limited (SUTM) was incorporated in Pakistan on August 27, 1987 as a public limited company. The principal activity of the Company is manufacturing and sale of yarn.</p> <p>The manufacturing facilities of the Company are located in Dera Ghazi Khan, Punjab.</p>	<p>Sunrays Textile Mills Limited (SUTM) is a part of the Indus Group of Companies which is a sizeable player in the country's textile business with an annual turnover of over \$300m. Within textile sector, Indus Group has over five decades of experience and operates through five entities. The group is primarily engaged in the business of cotton ginning, yarn spinning, greige fabric manufacturing and home textiles (primarily towel business). Furthermore, the group is also investing in a 50MW wind power project.</p> <p>Principal activities of SUTM include trade, manufacture and sale of yarn. The Company also operates ginning units and ice factories under leasing arrangements. Head office of the company is located in Karachi with the manufacturing facility located at Khanpur Shumali khewat no. 359, District Muzaffargarh, Dera Ghazi Khan Division, Punjab.</p> <p>Operations</p> <p>SUTM's core business relates to manufacturing of yarn from a mix of imported and local cotton. SUTM has an installed spinning capacity of 11.9m Kgs of yarn with 34,896 spindles. Historically, the company has been operating at high capacity utilization levels. Capacity utilization was reported at 87% (FY18: 85%) during FY19. Over the last 2 years, the company has replaced its old Chinese machinery with new Japanese ring frames through BMR activities thereby enhancing productivity and efficiency of its manufacturing unit.</p> <p>Around three fourth of the yarn is produced on courser counts for Chinese denim manufacturers. The remaining is produced on finer counts for local denim, hosiery and knitwear manufacturers. All units of the company are operating continuously on gas based power generators. Grid based power is an alternate stand-by energy source in case of gas shortage.</p> <p>Export sales represents the major portion of sales mix</p> <p>Sales revenue of the company stood at Rs. 6.1b (FY18: Rs. 4.9b). Growth in topline was a function of both higher average selling prices due to currency devaluation and increase in volumetric sales in the domestic market. Around 72% (FY18: 75%) of the total sales revenue was contributed by exports in FY19 with the remaining emanating from local market. During 1HFY20, the company recorded sales revenue of Rs. 3.4b.</p> <p>Coronavirus to result in uncertainty in textile sector dynamics</p> <p>The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand, sharp fall in cotton prices and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted by these developments. 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-Developing' status. Given the low leveraged capital structure, it is expected that ratings will remain stable post recovery of the ongoing situation; nevertheless as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status.</p>

Sunrays Textile Mills Limited
Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>					
<u>BALANCE SHEET</u>	FY16	FY17	FY18	FY19	1HFY20*
Fixed Assets	1,168	1,176	1,499	1,848	1,805
Stock-in-Trade	815	1,217	2,280	1,766	2,050
Trade Debts	189	304	1,364	1,886	518
Short term investments	1,031	1,008	119	113	122
Cash & Bank Balances	42	35	61	73	80
Total Assets	3,456	4,045	5,693	6,042	4,951
Trade and Other Payables	246	249	331	381	447
Long Term Debt	-	-	502	842	835
Short Term Debt	723	1,190	2,028	1,479	138
Total Debt	723	1,190	2,530	2,321	973
Paid Up Capital	73	73	73	73	73
Total Equity	2,050	2,147	2,427	2,862	3,056
<u>INCOME STATEMENT</u>					
Net Sales	3,858	4,258	4,952	6,085	3,442
Gross Profit	230	372	637	965	550
Profit Before tax	77	191	279	475	406
Profit After Tax	38	144	282	472	355
<u>RATIO ANALYSIS</u>					
Gross Margin (%)	6.0%	8.7%	12.9%	15.9%	16.0%
Net Margin (%)	1.0%	3.4%	5.7%	7.8%	10.3%
Net Working Capital	1,279	1,359	1,786	2,237	2,434
Trade debts/Sales	5%	7%	28%	31%	8%
FFO	156	249	398	661	376
FFO to Total Debt (%)	22%	21%	16%	28%	77%
FFO to Long Term Debt (%)	NA	NA	79%	78%	90%
Debt Servicing Coverage Ratio (x)	NA	14.9	5.1	3.9	7.7
Current Ratio (x)	2.28	1.9	1.7	2.1	4.5
Stock+ Trade Debts/STD	139%	128%	180%	247%	1868%
Gearing (x)	0.35	0.55	1.04	0.81	0.32
Leverage (x)	0.52	0.74	1.23	0.99	0.51
ROAA (%)	NA	4%	6%	8%	13%
ROAE (%)	NA	7%	12%	18%	24%

* Ratios 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	Sunrays Textile Mills Limited					
Sector	Textiles					
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					
	Apr-22-2020	A-	A-1	Rating Watch-Developing	Maintained	
	Dec-30-2019	A-	A-1	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.					
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