RATING REPORT

Sunrays Textile Mills Limited

REPORT DATE:

August 22, 2022

RATING ANALYST:

Syeda Batool Zehra Zaidi
batool.zaidi@vis.com.pk

RATING DETAILS				
	Latest Ratings		Previous Ratings	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-1	A-	A-1
Rating Date	*August 22, 2022*		*June 08, 2021*	
Rating Action	Reaffirmed		Maintained	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION	
Incorporated in 1987	**External auditors:** M/s Yousuf Adil, Chartered Accountants
Public Limited Company	**CEO:** Mr. Kashif Riaz
Key Shareholders:	
Mr. Kashif Riaz- 20.65% *Ms. Fadia Kashif- 11.66%* *Mr. Shahzad Ahmad -9.40%Mr. Irfan Ahmad-8.51%*	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (August 2021) *https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf*

Sunrays Textile Mills Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

OVERVIEW OF THE INSTITUTION

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. The manufacturing facilities of the Company are located in Dera Ghazi Khan, Punjab.

RATING RATIONALE

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, and home textiles (primarily towel business). Furthermore, the group also has a presence in the power sector through exposure in wind power project of 50MW by the name of Indus Wind Energy Limited.

Principal activities of SUTM include trade, manufacture and sale of yarn. 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.

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. The Company operated at almost 100% capacity utilization, further up from previous year in which average capacity utilization has remained ~87%. The Company has been consistently investing in BMR activities to replace the machinery thereby enhancing productivity and efficiency of its manufacturing unit.

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.

<u>Key Rating Drivers</u>

Industry remains exposed to commodity price fluctuations and fears of global recession.

Overall demand for textile products remained robust during the year, Pakistan's exports remained undisrupted relative to other countries in the international market leading to a shift in demand to the county. Supply chain crises and raw material price volatility also remained a challenge during FY21, however, the textile industry benefitted from favorable raw material and inventory procurement at lower prices leading to inventory gains later on. While cotton crop yields are seemingly favorable in the coming half, ratings will remain constrained due to size of cotton crop and resultant volatility in commodity prices. Uncertainty around local economic situation as well fears of a global recession will continue to weigh in on the long-term demand prospects for the industry.

Topline of the company increased during FY21 primarily on account both higher selling prices. Sales revenue during 9MFY22 further improved led by higher revenue emanating from the domestic market's hosiery segment.

Sales revenue of the Company recorded notable increase of 33% in FY21 to Rs. 8.6b (FY20 Rs. 6.5b). Growth in topline was primarily led by higher selling prices, although volume growth was also recorded during the year. Export sales account for 86% of total sales. Geographic concentration risk in exports sales is considered on the higher side with more than 80% of exports sales directed to Chinese stockists. Company expects Chinese market to continue to dominate. During 9MFY22, the company recorded sales revenue of Rs. 7.3b, significantly higher (25%) than same period last year. Strong demand in the local and international market has kept volumes and prices on the higher side. Going forward, while FY22 has ended with a strong topline, we expect the pace of growth to slowdown in FY23 amidst concerns of a global slowdown. In case of weakening in the denim sector continues, it may impact future revenue growth of the Company.

Gross margins continued to incline in FY21 and FY22. Uncertainty around sustainability of the same prevails

Gross margins (GMs) of the Company inclined to 18.3% in FY21 (FY20: 14,1%) and further increasing to 25% in the first nine months of FY22. Higher yarn prices coupled with favorable cotton prices resulted in significant inventory gains. The gains have been realized in the recently ended fiscal year also, however, with uncertainty around cotton prices and corresponding impact on yarn prices going forward, sustainability of these margins beyond Q2FY23 remains uncertain. Gross margin uptick has also translated into improved operating and net margins for the Company, thereby providing a boost to the profitability profile of the Company. Net profitability at the end of 9MFY22 was recorded at Rs. 1.4b versus Rs 1.15b in FY21 and Rs. 0.56b in FY20.

Healthy cash flow generation supports liquidity profile of the Company

Healthy cash flow generation in FY21 & FY22 has led to further strengthening of liquidity of the Company. As a result of higher profitability, Funds Flow from Operations improved and provided comfortable coverage to debt servicing. Current ratio has consistently remained higher than peer average. In addition, short term borrowing coverage from stocks and book debts has historically remained above peers. Aging profile of trade debt remains within manageable levels.

Low gearing and leverage indicators continue to support assigned ratings

Equity base strengthened on account of higher profitability and retention by the Company. Debt levels have been maintained fairly at a similar level over the last three years. The Company has conserved internal cash generation towards debt reduction. All capital expenditure has also been conservatively funded through LTFF & internal cash. On account of stable debt levels and higher equity base, gearing and leverage depict a declining trend. Going forward, we expect capitalization indicators to sustain as no major capex funding has been planned by the Company. Sustained growth in profitability profile supported by profit retention, resulting in strengthening of equity base will remain important for ratings.

Adequate Corporate Governance Framework

Board of Directors (BoD) includes eleven members comprising three independent directors, two executive directors, and six non-executive directors with extensive experience in textile sector. Presently, the Company has implemented an in-house developed ERP system which has Sales, Finance and Payroll modules. External auditors of the company are M/s Yousuf Adil, Chartered Accountants. Auditors belong to category 'A' on the approved list of auditors published by the State Bank of Pakistan.

Sunrays Textile Mills Limited

FINANCIAL SUMMARY *(amounts in PKR millions)*					Appendix I
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**9MFY22**
Fixed Assets	1,499	1,848	1,811	1,661	1,713
Stock-in-Trade	2,280	1,766	1,824	1,650	2,654
Trade Debts	1,364	1,886	343	1,186	1,836
Short term investments	119	113	409	835	664
Cash & Bank Balances	61	73	33	121	111
Total Assets	5,693	6,042	4,911	5,967	7,446
Trade and Other Payables	331	381	339	262	491
Long Term Debt	502	842	969	988	975
Short Term Debt	2,028	1,479	19	30	11
Total Debt	2,530	2,321	988	1,017	986
Paid Up Capital	73	73	73	211	211
Total Equity (excluding revaluation surplus)	2,427	2,862	3,088	4,139	5,512
INCOME STATEMENT					
Net Sales	4,952	6,085	6,476	8,641	7,317
Gross Profit	637	965	911	1,582	1,849
Profit Before tax	279	475	646	1,239	1,541
Profit After Tax	282	472	560	1,150	1,465
RATIO ANALYSIS					
Gross Margin (%)	12.9%	15.9%	14.1%	18.3%	25.3%
Net Margin (%)	5.7%	7.8%	8.6%	13.3%	20.0%
Net Working Capital	1,786	2,237	2,566	3,749	4,950
Trade debts/Sales	28%	31%	5%	14%	25%
FFO	398	661	700	696	1,238
FFO to Total Debt (%)	16%	28%	71%	68%	167%
FFO to Long Term Debt (%)	79%	78%	72%	70%	169%
Debt Servicing Coverage Ratio (x)	5.1	3.9	8.5	7.7	9.7
Current Ratio (x)	1.7	2.1	5.9	7.8	7.4
Stock+Trade Debts/STD	180%	247%	11491%	9601%	39935%
Gearing (x)	1.04	0.81	0.32	0.25	0.18
Leverage (x)	1.23	0.99	0.50	0.38	0.30
ROAA (%)	5%	8%	10%	19%	29%
ROAE (%)	12%	18%	19%	28%	40%
** Ratios Annualized*					

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix II

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				
	Aug-22-2022	A-	A-1	Stable	Reaffirmed
	June-08-2021	A-	A-1	Stable	Maintained
	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.				
Probability of Default	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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, 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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted	**Name**	**Designation**	**Date**		
	Mr. Zahid Mahmood	Group CFO	20-Jun-2022		