RATING REPORT

Suraj Cotton Mills Limited (SCML)

REPORT DATE:
December 1, 2021

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A+	A-1
Rating Outlook	Stable	
Rating Date	*December 1,2021*	

COMPANY INFORMATION	
Incorporated in 1984	External Auditors: Riaz Ahmad & Co. Chartered Accountants
Listed Public Limited Company	Chairman of the Board: Mr. Khalid Bashir
Key Shareholders (with stake 5% or more):	CEO: Mr. Nadeem Maqbool
Crescent Powertec Limited– 44.19%	
Mrs. Humaira Iqbal – 7.44%	
Mr. Adil Bashir – 7.12%	
Mr. Ahsan Bashir– 5.90%	

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

OVERVIEW OF THE INSTITUTION

Suraj Cotton Mills Limited was established as a public limited company in December 1984. The company is involved in manufacturing of yarn and griege fabric through its integrated spinning and weaving facilities.

Profile of the Chairman

Mr. Khalid Bashir has over 42 years of association with textile and sugar industry, as well as with financial institutions. He has led the Board of Directors of Crescent Group and held directorships at other companies. He also serves as a member of APTMA electing committee.

Profile of the CEO

Mr. Nadeem Maqbool has 25 years of experience in textile industry. Apart being director at various companies, he also acted as the Chairman of APTMA (Southern Region).

Financial Snapshot

Tier-1 Equity: end-FY21: Rs. 9.3b; end-FY20: Rs. 6.8b; end-FY19: Rs. 6.3b

Assets: end-FY21: Rs. 15.7b; end-FY20: Rs. 13.0b; end-FY19: Rs. 11.8b

Profit After Tax: FY21: Rs. 2.6b; FY20: Rs. 720m; FY19: Rs. 829m

RATING RATIONALE

Suraj Cotton Mills Limited (SCML) consists of four operating units of integrated spinning and weaving facilities at different locations. Majority of the shareholding is held by its associated company and sponsoring family. The ratings assigned to SCML take into account positive momentum in revenue on the back of increase in volumetric sales and higher average selling prices. The ratings derive strength from sound financial risk profile on account of sizeable margins, strong liquidity profile and adequate debt coverages. Economies of scale and operational efficiencies resulting from time-to-time BMR has also reflected positively on profitability. Leverage indicators have remained comfortable on a timeline basis. The ratings also factor in ongoing capacity enhancement in weaving segment and upgradation of spinning unit. Positive outlook of the textile sector on the back of higher demand in export markets coupled with additional support to the industry on the regulatory front bodes well for SCML. Meanwhile, the ratings are constrained by vulnerability of spinning sector to raw material prices and any adverse changes in regulatory duties. Ratings would also be dependent upon timely materialization of the ongoing capex, achievement of projected sales growth and profitability while maintaining capitalization indicators at adequate level.

Local cotton production witnessed a declining trend; meanwhile, post-covid textile sector exhibited growth mainly on the back of higher export orders: According to Pakistan Bureau of Statistics (PBS), the total production of cotton crop for FY21 declined by 23% to 7.06 million bales *(provisional numbers)* from 9.15 million bales in the preceding year. The area under cultivation also fell by 17.4% to 2.08 million hectares from previous year's 2.5 million hectares, mainly due to lack of incentives to farmers to sustain the crop amid challenges from other competing crops like sugarcane. Meanwhile, the government has set a rather optimistic production target of 10.5 million bales for FY22, an increase of 49% from the preceding year. Target cultivation area is also expected to increase by 12% to 2.33 million hectares. However, in September 2021, Cotton Crop Assessment Committee deliberated that cotton output for the current year has been estimated at 8.46 million bales given the climate in this season was much better than the last season and due to less rainfall overall production is expected to increase. Nonetheless, cotton output would remain short of textile industry demand of 14 to 15 million bales despite prospects of relatively higher production.

On the other hand, textile sector started to recover after first wave of Covid-19, on back of increase in exports due to orders shifting from China and other countries due to lockdown. Further, US-China trade war has also aided low-cost suppliers including Pakistan in capturing the untapped share since Sep'19. This has resulted in improvement in gross margins throughout the textile value chain and specifically the players catering to the export industry. Additionally, provision of loans at concessionary rates for economic recovery by State Bank of Pakistan (SBP) amid pandemic and government efforts to boost export industry by giving subsidies for power cost and local taxes has provided positive momentum to revenues and profitability of the textile sector. According to latest data released by the SBP, textile exports in Q1'FY22 were 37% higher than SPLY. Inclusive of Oct'2021, 4M'FY22 textile exports amounted USD 6b. With additional capacities coming online shortly, textile exports for FY22 are likely to exceed the annualized figure of USD 18b.

Company's introduction: SCML was established as a public limited company on December 18, 1984. The company initially set-up its spinning project with a capacity of 16,320 spindles at Nooriabad in 1985, which came into commercial production in 1986. The company has three spinning units located at Nooriabad (Sindh), Shahkot and Raiwind (Punjab) and an integrated weaving unit in Shahkot. SCML produces a broad range of yarn from 10/s count to 135/s count for use in apparel, industrial fabrics, home textile, knitwear and towels. Fabric from weaving unit mainly caters to export-oriented textile units. SCML has two other group companies, Crescent Powertec Limited (CPL) and Shams Textile Mills Limited, with majority of the shareholding vested among members of the same family and the group company. CPL is an unlisted public limited company; a captive power plant with a power generation capacity of 16 MW, which is primarily used as a backup energy resource for one of SCML's units. Shams Textile Mills Limited is a listed public limited company, comprising three units with capacity of 58,416 spindles and is involved in producing various types of slub yarn. The company has also equity interest in three power projects (joint ventures with S2 Hydro Limited (48%), S2 Power Limited (48%) and S2 Solar Limited (50%)) and Premier Financial Services (Pvt.) Limited (9.77%).

SCML has average daily requirement of 15.88 MW power while operating at full capacity. The energy requirements have been met through a mix of Jenbecher gas engines, Nigita Heavy Fuel Oil (HFO) engines, WAPDA sanctioned load, CAT diesel engines and ZED solar power. Gas engines fulfills around 83% of the power requirements of the company and around 14% requirement is met through national grid. Solar power meets around 2% of the energy requirement.

SCML has been using Oracle E-Business Suite Applications since 2009. Initially implemented version of 12.1.1 has recently been upgraded to latest available Application release 12.2.5 and Database version 12c. The company has its own in-house IT team which is managing the systems along with Customer Support Agreement with Oracle.

Capacity utilization has remained optimal on a timeline basis while the company is in process of capacity enhancement in weaving division and upgradation of spinning unit: Presently, the company has a total of 122,304 spindles (FY20 & FY21: 122,304) installed at three spinning units, located in Raiwind and Shahkot, having a total yarn production capacity, converted into 20s count, of 54.7m Kgs/annum (FY20: 48.8m Kgs/annum; FY19: 53.2m Kgs). Production capacity of spinning units has increased in the outgoing year as a result of operational efficiencies emanated from some back process upgradation in FY20. Capacity utilization of spinning segment continued to remain high at 96% (FY20: 96%; FY19: 97%). Weaving units at Shahkot have 204 airjet looms installed, with a total grey fabric production capacity, converted to 50 picks, of 93.8m Sq. Mtr. (FY20: 92.4m Sq. Mtr.; FY19: 100.6m Sq. Mtr.). Capacity utilization of weaving segment has also remained high at 91% (FY20: 94%; FY19: 85%). Installed capacities, actual production and capacity utilization are tabulated below:

	FY19	**FY20**	**FY21**
Spinning Unit:			
No. of installed spindles	122,304	122,304	122,304
No. operational spindles	121,455	113,661	121,832
Installed Capacity-Kgs (converted to 20 s count)	53,226,641	48,823,000	54,716,000
Actual Production-Kgs (converted to 20 s count)	51,486,300	47,051,000	52,592,000
Capacity Utilization	97%	96%	96%
Weaving Unit:			
No. of installed looms	204	204	204
No. operational looms	204	204	204
Installed Capacity-Tons (in 50 picks)	100,639,852	92,389,000	93,847,000
Actual Production-Tons (in 50 picks)	85,554,635	86,614,000	85,410,000
Capacity Utilization	85%	94%	91%

Property, plant and equipment stood higher at Rs. 5.6b (FY20: Rs. 5.0b; FY19: Rs. 5.3b) at end-FY21 mainly as a result of additions in plant and machinery and civil work on a factory building. Total additions including capital work in progress amounted to Rs. 1.12b which pertained to ongoing capital expenditure related to addition of Toyoda 154 wide width airjet looms and related back process machinery and upgradation of spinning unit. Capital expenditure of Rs. 242.9m was incurred on factory building for new weaving unit, Rs. 456.8m on air jet looms and other related machinery and Rs. 185m on auto winders. In addition, cost of Rs. 172.4m was related to upgradation of gas engines and solar power plant.

Total estimated expenditure on capacity enhancement in weaving unit is Rs. 2.5b and on spinning unit upgradation, estimated capex is around Rs. 976m. For weaving project, the company would finance Rs. 2b of capex through bank borrowings while Rs. 500m related to import duties and ancillary expenses would be paid through internal cash flows. The company has received all machinery related to weaving project which is currently been in installation phase. The management contemplates to start trial run in the third week of Nov'21 while commercial operations are expected to begin in Jan'22.

With respect to spinning machinery, letters of credit have been opened and shipments are expected to arrive in 3QFY22 while operations are expected to commence in Jun'22. For BMR in spinning unit at Shahkot, the company is importing extended large frames constituting 1,100 spindles which would replace old frames of 480 spindles. This would effectively increase production, reduce labour and power costs. As per management, around 70-80% requirement of yarn is met through in-house production. The new spinning machinery would be used primarily for fine count production enabling the company to fill the gap for in-house yarn requirement for expanded capacity of weaving unit as well. PP&E increased to Rs. 7.1b at end-1QFY22, mainly on account of CWIP related to aforementioned additions. The company also intends tap dyeing and processing of fabric in FY23 and FY24. Timely materialization of the ongoing capex and achievement of economies of scale along with expected operational efficiencies are considered important.

Investment portfolio: SCML's investment mix comprises real estate, long-term and short-term equity investments and mutual funds. Investment property stood higher at Rs. 477.7m (FY20: Rs. 100m; FY19: Rs. 100m) at end-FY21; these represents residential plots stated at cost. Residential plots of Rs. 50m were sold in FY21 with a gain of Rs. 138m. Long-term investments increased to Rs. 971.6m (FY20: Rs. 746.0m; FY19: Rs. 825.5m) by end-FY21 and mainly constitute equity investment recorded at fair value through other comprehensive income (FVOCI) of Rs. 965.5m (FY20: Rs. 675.1m; FY19: Rs. 667.2m). The equity investments constituted mainly blue-chip stocks and the increase was largely due to fair value adjustments. This also included investment in joint ventures under equity method which were fully provided in FY21 (FY20: Rs. 21.1m; FY19: Rs. 22.3m); these included power companies in which SCML has equity stake of around 48-50%. In addition, this included partnership stake of 11.30% in Knightbridge Residential Real Estate Partners worth Rs. 6.1m (FY20: Rs. 49.8m; FY19: Rs. 50m).

Short-term investments stood higher at Rs. 3.2b (FY20: Rs. 1.3b; FY19: Rs. 134.3m) at end-FY21 which comprised equity investments and investment in mutual funds. Equity investments amounted to Rs. 398.1m (FY20: Rs. 150.5m; FY19: Rs. 134.3m). The company has been investing in mutual funds for the last two years, which increased to Rs. 2.8b (FY20: Rs. 1.2b; FY19: Nil) by end-FY21; these comprised investments in various money market funds. The finance team manages these investments and investment decisions are made after approval from the board. As per management, the company is also considering to invest in a real estate project of Ravi city by Government, which would be financed by surplus cash available with the company.

Profitability underpinned by higher sales and notable improvement in margins: The company recorded net sales of Rs. 17.4b (FY20: Rs. 12.9b; FY19: Rs. 14b) in FY21 on the back of increase in volumetric sales and average selling prices. Net sales were lower in FY20 mainly due to demand disruptions amidst pandemic. Meanwhile, the company's topline has grown at a CAGR of 16% over the last three years. Yarn sales amounted to Rs. 10.6b (FY20: Rs. 7.4b; FY19: Rs. 8.3b) in FY21 and contributed 61% to the revenue mix (FY20: 57%; FY19: 59%). The company sold 410K bags (FY20: 337.2K; FY19: 408.7K bags) in FY21, at a higher average rate of Rs. 25,742/ bag (FY20: 21,972/bag; FY19: Rs. 20,300/bag). Grey fabric sales remained around 35% of the revenue mix and was recorded higher at Rs. 6.1b (FY20: Rs. 4.8b; FY19: Rs. 4.9b) mainly on back of increase in volume sold. SCML sold 32.6m meters fabric (FY20: 26.2m meters; FY19: 30.6m meters) at an average rate of Rs. 187 per meter (FY20: Rs. 182; FY19: 161m). Proceeds from spinning waste and weaving waste amounted to Rs. 660.9m (FY20: Rs. 703.5m; FY19: Rs. 720.5m) and Rs. 23.2m (FY20: Rs. 22.0m; FY19: 31.3m), respectively. Some revenue was generated from sale of cotton, lycra and processed fabric as well.

Export sales have remained largely stagnant at Rs. 274.8m (FY20: Rs. 225.4m; FY19: Rs. 371.7m) and mainly comprised grey fabric. SCML's clientele mainly includes textile mills catering export markets. The company has moderately diversified client portfolio, with top ten customers accounted for 36% (FY20: 30%; FY19: 31%) of net sales in FY21. Proportion of sales from ten customers of SCML is presented as follows:

	Customer Name	% of Sales
1	Nishat (Chunian) Ltd.	8.3%
2	Combined Fabrics Limited	4.4%
3	Gul Ahmad Textile Mills Ltd.	4.1%
4	Sadaqat Limited	3.8%
5	Liberty Mills Limited	3.6%
6	Bhanero Textile Mills Limited	2.5%
7	Kohinoor Mills Limited	2.4%
8	Faisal Spinning Mills Limited	2.3%
9	Master Textile Mills Limited	2.2%
10	Bhanero Textile Mills Limited	2.2%

During FY21, gross profit increased sizeably to Rs. 3.4b (FY20: Rs. 1.3b; FY19: Rs. 1.6b) and gross margins improved to 19.8% (FY20: 10.3%; FY19: 11.4%). The increase in margin was mainly a function of higher average selling prices along with cost benefits emanated from carried over inventory procured at favorable cost in the preceding year. As per management, the effect on gross margins owing to low-cost raw material would remain profound till 3QFY22, following which margins are expected to decrease. Cost of sales was recorded higher at Rs. 13.9b (FY20: Rs. 11.6b; FY19: Rs. 12.4b) in FY21. Raw material consumed increased to Rs. 10b (FY20: Rs. 8.9b; FY19: Rs. 9.2b) while its proportion in cost of goods manufactured remained at 74%. In FY21, the company procured 786.7K mounds (FY20: 748.3K mounds; FY19: Rs. 844.3K mounds) of cotton at an average rate of Rs. 9,242 per mound (FY20: Rs. 8,446 per mound; FY19: Rs. 8,788 per mound). Quantity of yarn procured also increased to 94.1K bags (FY20: 91.3K bags; FY19: Rs. 107.7K bags) at higher average rate of Rs. 20,824 per bag (FY20: Rs. 17,635 per bag; FY19: Rs. 16,525 per bag). Salaries, wages and other benefits increased mainly due to inflationary adjustments. Fuel and power cost remained unchanged at Rs. 1.4b (FY20 & FY19: Rs. 1.4b).

Distribution cost increased to Rs. 155.9m (FY20: Rs. 119.1m; FY19: Rs. 125.3m) in FY21 mainly due to increase in commission to selling agents. Administrative expenses were recorded higher at Rs. 331.8m (FY20: Rs. 204.3m; FY19: Rs. 165.7m) mainly on account of increase in donations to Rs. 126.8m (FY20: Rs. 10.9m; FY19: Rs. 3.3m). The company provided donation of Rs. 100m (FY20: Rs. 2.5m; FY19: Nil) to Lahore Institute of Health Sciences. Other expenses increased to Rs. 261.2m (FY20: Rs. 226.2m; FY19: Rs. 157.1m) mainly due to higher contributions to employees related funds and impairment loss on investment in joint ventures. Meanwhile, other expenses were higher in FY20 mainly due to net exchange loss and increase in allowance for expected credit losses. Other income stood higher at Rs. 553.2m (FY20: Rs. 271m; FY19; Rs. 107.6m) mainly on account of gain on sale of investment properties amounting Rs. 138m (FY20 & 19: Nil); gain on initial recognition of GIDC payable at amortized cost of Rs. 41.1m (FY20 & 19: Nil); gain on sale of investment at FVTPL amounting Rs. 79.1m (FY20: Rs. 18.8m; FY19: Rs. 1.6m) and reversal of allowance for expected credit loss of Rs. 36.8m (FY20 & 19: Nil). This also includes dividend income of Rs. 180.3m (FY20: 188.1m; FY19: Rs. 61.2m). Finance cost was recorded lower at Rs. 165.2m (FY20: Rs. 189.6m; FY19: Rs. 184.4m) owing to lower average markup rates during the outgoing year. Accounting for taxation, bottomline augmented to Rs. 2.6b (FY20: Rs. 719.5m; FY19: Rs. 858.8m) in FY21. Net margins increased to 14.7% (FY20: 5.6%; FY19: 6.1%) on back of higher gross margins, rationalized operating cost, higher other income and lower finance cost.

During 1QFY22, the company recorded net revenue of Rs. 4.9b (1QFY21: Rs. 4.1b). Gross margins improved further to 25.1% mainly on the back of increasing trend in product prices and the impact of lower cost carried over inventory. The company reported net profit of Rs. 824m with net margin of 16.7% during 1QFY22. The management expects to generate net sales of Rs. 20b in FY22 which may be a bit conservative given that new weaving unit would become operational in Jan'22. Increase in fuel and power cost stemming from present RLNG crises and higher cost of raw material are expected to somewhat drag profit margins in the ongoing year.

Sizeable coverages and debt service ability: Overall liquidity position of the company has remained sound in the presence of liquid investments and adequate cash flows in relation to outstanding obligations. Given significant increase in profitability during the outgoing year, funds from operations (FFO) increased sizeably to Rs. 3.0b (FY20: Rs. 992.5m; FY19: Rs. 1.5b). Resultantly, FFO to total debt and long-term debt improved to 0.89x (FY20: Rs. 0.26x; FY19: 0.42x) and 1.02x (FY20: 0.38x; FY19: 0.58x), respectively. Debt service coverage increased notably to 15.34x (FY20: 1.88x; FY19: 3.14x) on account of higher cash flows and lower long-term repayments made during the outgoing year.

Current assets of the company stood higher at Rs. 8.7b (FY20: Rs. 7.1b; FY19: Rs. 5.5b) primarily on account of increase in short-term investments and some increase in trade debts. Trade debts increased to Rs. 1.4b (FY20: Rs. 974.0m; FY19: Rs. 913.0m) by end FY21 while as a proportion of net sales, the same remained at 8%. Aging profile of trade receivables is also considered satisfactory. Receivables amounting Rs. 1.1b were not due by end-June 30, 2021; trade debts of Rs. 318m were overdue out of which 86% fall in 90 days' credit bracket; receivables of Rs. 22m were due above one year. Credit limit ranges from 15 to 90 days period with specific credit limits assigned to each client. Credit sales have remained around 60% of total sales. Stock in trade stood lower at Rs. 3.2b (FY20: Rs. 3.7b; FY19: Rs. 3.1b) at end-FY21 mainly due to lower finished goods stock. Loans and advances amounted to Rs. 40m (FY20: 55.1m; FY19: Rs. 29.1m). Short-term deposits and prepayments amounted to Rs. 105.6m (FY20: Rs. 74.1m; FY19: Rs. 52.4m). Income tax refundable decreased to 137.2m (FY20: Rs. 469.3m; FY19: Rs. 488.4m) by end-FY21. Cash and bank balances amounted to Rs. 283.0m (FY20: Rs. 207.1m; FY19: Rs. 433.9m). Current ratio has remained adequate on a timeline basis (FY21: 2.50x; FY20: 1.95x; FY20: 1.85x). In addition, coverage of short-term borrowings via trade debts and stock in trade was sound at 10.81x (FY20: 3.67x; FY19: 5.72x).

Sound capitalization indicators: Tier-1 equity augmented to Rs. 9.3b (FY20: Rs. 6.8b; FY19: Rs. 6.3b) on back of profit retention. Total equity, after including fair value reserve on FVOCI investments (net of deferred income tax) amounted to Rs. 9.3b (FY20: Rs. 6.6b; FY19: Rs. 6.1b). For the year ended June 2020, the company paid final dividend at rate of Rs. 5.0 per share amounting Rs. 146.7m (FY20: Rs. 183.4m; FY19: Rs. 127.6m). The board has also proposed to payout cash dividend of Rs. 10 per share for FY21.

Total liabilities amounted to Rs. 6.5b (FY20: Rs. 6.4b; FY19: Rs. 5.7b) at end-FY21. Trade and other payables decreased slightly to Rs. 2.2b (FY20: Rs. 2.3b; FY19: Rs. 1.9b) by end-FY21, mainly on account of decrease in accrued liabilities to Rs. 1.2b (FY20: Rs. 1.5b; FY19: Rs. 1.3b) these largely constitute social security payments, cotton cess payables and employee related payments. Trade creditors amounted to Rs. 480.9m (FY20: Rs. 497.9m; FY19: Rs. 462.2m). The company avails a maximum credit period of 30 days from suppliers. Deferred liabilities increased to Rs. 396.5m (FY20: Rs. 209.6m; FY19: Rs. 277.8m) by end-FY21 as a result of recording deferred income from government grant on benefit accrued on concessionary loan at a below-market rate of interest in accordance with IFRS 9. Deferred government grant including current portion amounted to Rs. 163.9m (FY20 & FY19: Nil). In addition, these also included GIDC payable, which inclusive of current portion, amounted to Rs. 467.5m (FY20 & FY19: Nil). On August 13, 2020, the Supreme Court of Pakistan (SCP) announced its decision pertaining to GIDC, directing recovery of Rs. 417b GIDC payables from the industries. According to the decision the amount is payable in twenty-four equal monthly installments starting from August 01, 2020 without the component of late payment surcharges. With respect to GIDC payable to Sui Southern Gas Pipeline Limited, the company has filed a review petition in Sindh High Court, which is pending adjudication. However, with respect to GIDC payable to Sui Northern Gas Pipeline Limited, the company paid Rs. 43.3m in the outgoing year. GIDC payable is recorded at amortized cost in accordance with IFRS 9.

The company meets most of the working capital requirements through internal cash flows. Short-term borrowings comprise around 10% of the total debt and stood lower at Rs. 429.5m (FY20: Rs. 1.3b; FY19: Rs. 699m) at end-FY21 while the company has standby working capital lines of Rs. 4b. Total outstanding long-term debt including current portion amounted to Rs. 2.96b (FY20: Rs. 2.59b; FY19: Rs. 2.82b) at end-FY21. The company mobilized long-term loan of Rs. 566.3m (FY20: Rs. 202m; FY19: Rs. 238.8m) and repaid Rs. 30.3m (FY20: Rs. 433.9m; FY19: Rs. 342.7m) in FY21. Long-term repayments amounting Rs. 343m were deferred for one year under SBP relief for COVID-19 in the outgoing year. New loans were obtained at SBP rate for TERF plus 1%. Debt leverage and gearing has remained comfortable on a timeline basis and decreased to 0.70x (FY20: 0.93x; FY19: 0.91x) and 0.41x

(FY20: 0.57x; FY19: 0.56x), respectively. Meanwhile after adjusting for cash and cash equivalents, net debt becomes negative and debt leverage reduces further to 0.32x (FY20: 0.71x; FY19: 0.82x).

SCML would mobilize additional long-term borrowing of Rs. 2.6b in the ongoing year for capital expenditure out of which Rs. 1.4b have been obtained in 1QFY22. However, with expansion in equity base as a result of profit retention, capitalization indicators are likely to remain around current levels by the end of the ongoing year as well.

Strong internal and external auditors; corporate governance has room for improvement: The independent internal audit function of SCML is outsourced to M/s KPMG Taseer Hadi & Co. Chartered Accountants. Internal audit reports are presented to audit committee on a quarterly basis as per approved annual internal audit plan. External auditors of the company are M/s Riaz Ahmad & Co., Chartered Accountants, which are also in the 'A' category of SBP panel of auditors. The Board has recommended the appointment of M/s Riaz Ahmad & Co. Chartered Accountants as auditors for the ongoing year as well, as recommended by the Audit Committee.

The Board of Directors of SCML comprises seven members, excluding CEO, with majority representing the sponsoring family. Five board meetings were held during the outgoing year. The board has formed Audit Committee, Human Resource, Nomination and Remuneration (HRN&R) committee and Risk Management Committee. Four audit committee meetings were conducted during FY21, while one HRN&R and one risk management committee meetings were held during the same period. There is no independent and female director on the board as required by latest code of corporate governance for listed companies. Composition of the board and board committees is presented below:

Name of Director	Status
Mr. Khalid Bashir	Chairman
Mr. Nadeem Maqbool	CEO
Mr. Amjad Mahmood	Non-Executive Director
Mr. Hamayun Maqbool	Non-Executive Director
Mr. Mohammad Iqbal	Non-Executive Director
Mr. Sharik Bashir	Non-Executive Director
Mr. Adil Bashir	Executive Director
Mr. Ahsan Bashir	Executive Director

Audit Committee	
Mr. Hamayun Maqbool	Chairman
Mr. Ahsan Bashir	Member
Mr. Adil Bashir	Member

Human Resource, Nomination and Remuneration Committee	
Mr. Ahsan Bashir	Chairman
Mr. Adil Bashir	Member
Mr. Nadeem Maqbool	Member

Risk Management Committee	
Mr. Humayun Maqbool	Chairman
Mr. Nadeem Maqbool	Member
Mr. Sharik Bashir	Member

Suraj Cotton Mills Limited (SCML) Appendix I

BALANCE SHEET	June 30, 2019	June 30, 2020	June 30, 2021
Property, Plant and Equipment	5,349	5,012	5,571
Investment Properties	100	100	478
Long-Term Investments	825	746	972
Stock-in-Trade	3,088	3,718	3,204
Stores & Spares	202	204	219
Trade Debts	913	974	1,440
Short-Term Investments	134	1,319	3,211
Income Tax Refundable (net)	488	469	137
Other Receivables	143	97	23
Cash & Bank Balances	434	207	283
Other Assets	113	165	193
Total Assets	**11,789**	**13,011**	**15,731**
Trade and Other Payables	1,870	2,271	2,207
Short Term Borrowings	699	1,278	430
Long-Term Borrowings (Inc. current maturity)	2,823	2,591	2,964
Other Liabilities	329	255	863
Total Liabilities	**5,721**	**6,395**	**6,463**
Total Debt	3,522	3,869	3,393
Net Debt	2,953	2,343	(101)
Paid Up Capital	367	367	403
Tier-1 Equity	**6,309**	**6,846**	**9,258**
Total Equity	6,068	6,617	9,268

INCOME STATEMENT	June 30, 2019	June 30, 2020	June 30, 2021
Net Sales	13,974	12,883	17,375
Gross Profit	1,595	1,321	3,447
Operating Profit	1,304	997	2,959
Other Income	108	271	553
Finance Cost	184	190	165
Profit Before Tax	1,070	851	3,086
Profit After Tax	859	720	2,559

RATIO ANALYSIS	June 30, 2019	June 30, 2020	June 30, 2021
Gross Margin (%)	11.4	10.3	19.8
Net Margin (%)	6.1	5.6	14.7
Net Working Capital	2,526	3,481	5,217
Current Ratio (x)	1.85	1.95	2.50
FFO	1,417	993	3,017
FFO to Long-Term Debt(x)	0.52	0.38	0.89
FFO to Total Debt (x)	0.42	0.26	0.79
Debt Servicing Coverage Ratio (x)	3.14	1.88	15.34
ROAA (%)	7.5	5.8	17.8
ROAE (%)	14.4	10.9	31.8
Gearing (x)	0.56	0.57	0.41
Debt Leverage (x)	0.91	0.93	0.70
Adjusted Gearing (x)*	**0.47**	**0.34**	**NA**
Adjusted Leverage (x)*	**0.82**	**0.71**	**0.32**
(Stock in Trade+ Trade Debts) to Short-term Borrowings (x)	5.72	3.67	10.81

**Calculated on basis of net debt (Total Debt minus cash and cash equivalents)*

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	Suraj Cotton Mills Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
December 1, 2021	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.
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Due Diligence Meetings Conducted

	Name	Designation	Date
1.	Mr. Naeem Sheikh	CFO	21-Oct-2021
2.	Mr. Ansab Zafar	Manager Finance	21-Oct-2021