RATING REPORT

Suraj Cotton Mills Limited (SCML)

REPORT DATE:
December 29, 2022

RATING ANALYSTS:

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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	December 29, 2022		December 1, 2021	
Rating Action	Reaffirmed		Initial	
Rating Outlook	Stable		Stable	

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. Humera Iqbal – 7.44%	
Mr. Adil Bashir – 7.14%	
Mr. Ahsan Bashir– 5.90%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (August 2022)
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 four decades 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 around 30 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-FY22: Rs. 11.6b; end-FY21: Rs. 9.3b; end-FY20: Rs. 6.8b

Assets: end-FY22: Rs. 20.7b; end-FY21: Rs. 15.7b; end-FY20: Rs. 13.0b

Profit After Tax: FY22: Rs. 2.8b; FY21: Rs. 2.6b; FY20: Rs. 720m

RATING RATIONALE

Suraj Cotton Mills Limited (SCML) consists of Five 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 assigned ratings take into account sound financial risk of the company underpinned by sizeable margins, sound liquidity and capitalization profiles. The company reported healthy growth in topline largely due to considerable increase in average selling prices driven by covid led expansion in textile industry of Pakistan. The company has executed expansion in its weaving unit in Jan'22. The BMR entailing upgradation of one of its spinning units is currently in progress, and expected to come online by the end-3QFY23.

During 1QFY23, the company reported substantial decline in profitability and margins owing to the impact of lower capacity utilization leading to diseconomies of scale coupled with relative increase in cost of sales vis-à-vis selling prices amidst regressed demand. The ratings factor in high cyclicality and competitive intensity of the spinning industry along with volatility in cotton prices. Additionally, in the aftermath of recent floods leading to cotton shortage, weakening demand of non-essential items in the local and international markets amid looming recession is expected to negatively impact the outlook of textile industry.

Key Rating Drivers:

Update on textile industry of Pakistan: According to the Federal Commission on Agriculture, the cotton crop's goal area was 2.53 million hectares (2020-21: 2.32 million hectares), with an output target of 11.03 million bales (2020-21: 10.5m bales). Meanwhile, actual area seeded in 2022-23 was expected to be 2.065 million hectares (2020-21: 1.935 million hectares), a 6.5% increase over the previous year. (Source: Departments of Agriculture Extension and Crop Reporting). However, the latest floods have wreaked havoc on the country's agriculture and cattle sectors. Cotton and rice crop belts, as well as fresh vegetables were badly hit. According to news reports, major cotton producing areas primarily impacted include Sanghar, Khairpur, Naushahro Feroz, and other regions in Sindh, as well as Rahim Yar Khan, Dera Ghazi Khan, and Rajanpur in South Punjab. The All Pakistan Textile Mills Association (APTMA) predicts cotton losses of 3.5 million bales, or approximately 36% of the crop, or USD 1.5 billion, owing to rainfall and floods in the nation. According to the latest weekly statistics given by Pakistan Cotton Ginners Association, the devastation resulted in a 24% YoY decrease in cotton arrival (PCGA). Sindh was the most afflicted province, with a 41% drop reported. According to a Pakistan Textile Exporters Association (PTEA) official, cotton output in Pakistan may fall to 6.5 million bales during the current fiscal year, much below the planned harvest.

Due to demand and supply gap, Pakistan textile industry has to rely on imported cotton to meet country's demand. According to provisional numbers by Pakistan Bureau of Statistics (PBS), around 4.57m bales of cotton were imported during FY22 vis-à-vis 5.04m bales in FY21 while in terms of value, the imported cotton cloaked at Rs. 3.29b as compared to Rs. 2.35b in the preceding year; an increase of ~40%, primarily on account of surge in cotton prices due to demand supply dynamics. Cotton prices dropped by over 20% globally to six months low by end-June, 2022 and exhibited range bound variation afterwards owing to slowdown in demand amidst recession in global markets. With recent destruction of cotton crop, the country might have to spend around USD 3b on import of cotton which would further stress the forex reserves.

Textile industry in Pakistan plays a significant role in supporting economy in terms of industrial growth, employment opportunities, and most importantly in improving current account deficit.

Pakistan exported USD 19.3b worth textile products during FY22, exhibiting an increase of 25.5% as compared to USD 15.4b in the preceding year (PBS). The textile exports contributed ~61% to the total exports of USD 31.8b during the outgoing year. Local currency devaluation against USD has been giving a competitive advantage to textile exporters in the international markets in terms of pricing.

The Govt. set the target to achieve USD 25b exports during FY23, however, domestic and global challenges may dampen the outlook of local textile industry. In addition, rising energy prices, inflationary pressure and recent increase in food inflation arising from flood has suppressed the purchasing power of local customers which may hamper the local demand of textile products.

Capacity utilization has remained optimal on a timeline basis; the new weaving unit started operations in Jan'22 while the company is in process of upgradation of one of its spinning units. Overall capacity utilization has been reported lower during the ongoing year owing to regressed demand: The company currently has 122,304 spindles installed across three units in Nooriabad (Sindh), Raiwind and Shahkot (Punjab), with an annual cumulative capacity of 55.2m Kgs of yarn per year, converted to 20s count (FY21:54.7m Kgs). The production capacity increased slightly due to operational efficiencies from regular Balancing, Modernization and Replacement (BMR), which has also yielded optimal capacity utilization on a timeline basis. The company added 154 Airjet looms in the outgoing year. Whilst it started commercial operations in Jan'22, the capacity utilization was reported lower at 80% (FY21: 91%) in line with demand dynamics and partly due to unavailability of gas for around a month. Installed capacities, actual production and capacity utilization are tabulated below:

	FY20	**FY21**	**FY22**
Spinning Unit:			
No. of installed spindles	122,304	122,304	122,304
No. operational spindles	113,661	121,832	121,900
Installed Capacity-Kgs (Converted to 20 s count)	48,823,000	54,716,000	55,216,000
Actual Production-Kgs (Converted to 20 s count)	47,051,000	52,592,000	52,392,000
Capacity Utilization	96%	96%	95%
Weaving Unit:			
No. of installed looms	204	204	358
No. operational looms	204	204	358
Installed Capacity-Tons (In 50 picks)	92,389,000	93,847,000	130,654,000
Actual Production-Tons (in 50 picks)	86,614,000	85,410,000	104,755,000
Capacity Utilization	94%	91%	80%

Property, Plant, and Equipment (PP&E) stood higher at Rs. 7.8b (FY21: Rs. 5.6b) primarily due to the addition of new weaving unit at Shahkot, as discussed above. The expansion has been carried out with an expenditure of Rs. 2.9b, out of which Rs. 2.2b pertained to imported machinery component and installation cost. The company has also invested in freehold land amounting Rs. 723.6m and building amounting Rs. 343.8m to accommodate the new production setup. The company has financed this capex with a debt to equity mix of 70:30, where financing has been obtained under Temporary Economic Finance Facility (TERF) by SBP priced at 2%.

In addition, the management is also executing BMR entailing replacement of 43,000 spindles, which accounts for around 50% of the existing spindles, at Shahkot unit. Total expenditure on the same is estimated at Rs. 1.2b which has been majorly financed with subsidized bank borrowing under TERF. Accordingly, PP&E increased to Rs. 8.4b primarily on account of capital work in progress amounting Rs. 855.0m related to plant and machinery and electrical installations related to BMR project during 1QFY23. The project is expected to bring efficiency and enhance production by ~15% in full year of operations. At present, power requirement of all units on cumulative basis is reported at 15.8 MW while operating at nearly full capacity, it increases to 17.8 MW. During FY22 and the ongoing year, the company has been meeting around 76% of its power though captive gas generators, 22% from national grid and 2% from its solar setup.

As per management, due to underway BMR of spinning unit, the operations have been halted leading to underutilization of the overall spinning capacity, during the ongoing year. Weaving units have also been running at around 70% capacity contributing to diseconomies of scale. The underutilization of capacities would remain a major challenge for overall textile industry of the country amidst reduction in demand at the local and international level, going forward.

Investment portfolio: SCML's investment portfolio includes real estate, long-term and short-term stock investments in stocks and various money market mutual funds. Investment property stood at Rs. 477.7m (FY21: Rs. 477.7m) at end-FY22, which included residential plots reported at cost. The market value of these properties is reported at Rs. 1.1b as evaluated by an independent valuer (Jasper & Jasper). Long-term investments, which majorly comprised fair value through profit & loss (FVTPL) decreased to FY21: 772.2m (FY21: Rs. 971.6m) due to fair value adjustment. These equity investments comprised dividend paying blue-chip stocks. The other long-term investment is related to partnership share of 11.30% in Knightsbridge Residential Real Estate Partners valued at Rs. 6.1m (FY21: Rs. 6.1m).

Short-term investments comprised mutual funds and equity investments. Short-term investments decreased to Rs. 1.6b (FY21: Rs. 3.2b) due to liquidation of mutual fund units while equity investments decreased to Rs. 290.1m (FY21: Rs. 398.1m) owing to decrease in fair value by end-FY22. At end-1QFY23, short-term investments were reported higher at Rs. 3.1b due to increase in money market mutual funds.

Healthy topline and profitability during FY22 while the company reported substantial dip in margins during 1Q'23 vis-à-vis CPLY largely due to relatively higher cost of production: The net sales were recoded notably higher at Rs. 23.5 billion (FY21: 17.4b) during FY22. The company's revenue has increased at a CAGR of ~19% over the period of three years. Yarn sales totaled at Rs. 13.5b (FY21: Rs. 10.6b), accounting for 57.3% of revenue (FY21: 64.5%) in FY22. In terms of volume, quantity of yarn sold decreased by around 32% while average prices increased notably to Rs. 39,043/bag (FY21: Rs. 22,203/bag). Greige fabric sales grew to 42% (FY21: 35%) of the revenue mix and amounted higher at Rs. 10.0b (FY21: Rs. 6.1b). SCML sold 34.4 million meters of fabric (FY21: 32.6 million meters) at a higher average rate of Rs. 290 per meter (FY21: Rs. 187 per meter). A small proportion of revenue was generated from sale of cotton and waste sales as well.

	FY 2021			FY 2022		
	Quantity	**Value '000' Rs.**	**Average Price**	**Quantity**	**Value in '000' Rs.**	**Average Price**
Yarn (bags)	505,000	11,212,610	22,203	344,991	13,469,371	39,043
Fabric (m. meters)	32.64	6,147,231	188	34.36	9,959,988	290

Cotton and Waste Sales	14,959	71,300
Total	**17,374,800**	**23,500,659**

The proportion of export sales has remained very limited and mostly comprised greige fabric. SCML's customers are mostly export-oriented textile mills. The company possess a relatively diverse client portfolio, with the top ten clients accounting for 37% (FY21: 36%) of net sales in FY22. The value of sales from major clients of the company along with their respective proportions in net sales are tabulated below:

Client	Amount	% Of Sales
Gul Ahmed Textile Mills Ltd	1,215,312,277	13.87%
Bhanero Textile Mills Ltd	1,117,527,554	12.75%
Combined Fabrics Ltd.	1,048,858,141	11.97%
Liberty Mills Limited	984,813,038	11.24%
Master Textile Mills Limited	895,180,574	10.22%
Sadaqat Limited	850,262,391	9.70%
Kohinoor Textile Mills Limited	788,588,949	9.00%
Kohinoor Mills Limited	713,463,564	8.14%
Faisal Spinning Mills Limited	580,415,262	6.62%
Style Textile (Pvt.) Ltd.	568,149,500	6.48%

During FY22, gross profit augmented to Rs. 4.7b (FY21: Rs. 3.4b) with largely intact gross margins of 19.9% (FY21: 19.8%) as the impact of increase in cost of sales was offset by higher average product prices. The cost of sales was reported higher at Rs. 18.8b (FY21: Rs. 13.9b) primarily due to increase in cost of raw material consumed (FY22: Rs. 17.4b; FY21: Rs. 10b) with its share in cost of sales amounting higher at 79.8% (FY21:74.1%). In FY22, the company purchased 752.6K mounds (FY21: 786.7K mounds) of cotton at an average price of Rs. 16,192 per mound (FY21: Rs. 9,242 per mound). The amount of yarn purchased grew to 264.6 K bags (up from 94.1K bags in FY21) at a higher average pricing of Rs. 35,278 per bag (FY21: Rs. 20,824 per bag). Other cost components increased mainly due to inflationary pressure.

Distribution costs was recorded higher at Rs. 240.5m (FY21: Rs. 155.9m), primarily attributable to increased commission to selling agents during FY22. Administrative expenses amounted to Rs. 311.2m (FY21: Rs. 331.8m). Other income decreased to Rs. 401.7m (FY21: Rs. 553.2m) mainly due to absence of unrealized gain on FVTPL investments, gain on initial recognition of GIDC, lower gain on sale of investments at FVTPL. Whereas, dividend income was recorded higher at 307.2m (FY21: 180.3m). Other expenses increased considerably to Rs. 601.7m (FY21: 261.2m) mainly due to allowance for expected credit losses amounting Rs. 171.8m (FY21: Nil), unrealized loss on re-measurement of investments at FVTPL amounting Rs. 142.9m (FY21: Nil) and some increase in contributions to employee related funds. Finance cost was recorded higher at Rs. 213.9m (FY21: Rs. 165.2m) due to increase in average markup rates and borrowings. The effective tax rate increased notably to 24.9% (FY21: 17.1%) due one-time super tax at rate of 10% as imposed by the Government on certain sectors earning net profits of Rs. 300m and above. Accordingly, net margins decreased to 11.9% (FY21: 14.6%) while the company earned higher net profits of Rs. 2.8b (FY21: Rs. 2.6b) during FY22.

During 1QFY22, net revenues remained largely stable at Rs. 5.0b (1QFY21: Rs. 4.9b) whereas gross margins squeezed to 6.6% as compared to 25.1% in the SPLY. The gross margins declined primarily due to the impact of lower capacity utilization leading to diseconomies of scale coupled with relative increase in cost of sales. The average product prices also remained under pressure on account of piled up inventories amidst recession in global and local markets. Distribution and administrative expenses increased due to inflationary pressure. Finance cost was recorded higher mainly owing to higher average markup rates along with increase in overall debt levels. Profit after tax was reported significantly lower YoY with decline in net margins to 2.3%. The management expects some rebound in demand in the first quarter of CY23 while depressed demand and stacked up inventories are expected to keep the product prices lower. The management has started export of grey fabric in Bangladesh and trying to expand its export sales in order to make up for some loss in local revenues. Pakistan's economy has been facing political and economic uncertainties leading to weaker currency. Although this may help our products to become more competitive in the world, our imports will become more costly leading to higher inflationary pressures. In addition, higher markup rates will further deplete the bottomline.

Sizeable coverages and debt service ability: The company's overall liquidity has remained strong due to sizeable liquid investments and adequate cash flows in relation to outstanding obligations. Funds from operations (FFO) grew to Rs. 4.0b (FY21: Rs. 3.0b) in line with higher profitability during the outgoing year. Resultantly, FFO to total debt and long-term debt remained sizeable at 0.87x (FY21: 0.89x) and 1.03x (FY21: 1.02x), respectively. Debt service coverage also remained sizeable at 6.16x (FY21: 15.34x).

The company's current assets increased to Rs. 11.6b (FY21: Rs. 8.7b) primarily due to a rise in stock-in-trade and trade debts. Stock in trade increased to Rs. 6.2b (FY21: Rs. 3.2b) largely due to increase in finished products inventory amounting Rs. 3.7b (FY21: Rs. 842.4m) at end-FY22. The finished inventories piled up due to subdued demand in the backdrop of economic slowdown. Trade debts increased to Rs. 2.6 billion (FY21: Rs. 1.4 b) by the end-FY22, accounting for 11% (FY21: 8%) of net sales. Aging profile is considered satisfactory as around 95% of the past due receivables were outstanding for less than three months. However, as the company was experiencing delays from its customers due to some cash flow constraints across the local industry, higher allowance for expected credit losses amounting Rs. 220.1m (FY21: Rs. 49.2m) was booked in accordance with the accounting standards. Credit sales have been consistent at roughly 60% of overall sales while the company generally provides 15 to 90 days of credit to its customers. Related-party trade debts remained at nominal levels.

Loans and advances amounted to Rs. 76.6m (FY21: 40m) which majorly included advances to suppliers. Short-term deposits and prepayments increased to Rs. 171.8m (FY21: Rs. 105.6m) mainly due to higher security deposits. Other receivables increased to Rs. 216.6m (FY21: Rs. 23.0m) due to sales tax refundable and claims receivables from insurance company. The company also has maintained healthy cash and bank balances over the years (FY22: Rs. 420.7m; FY21: Rs. 283m). Trade and other payables stood higher at Rs. 3.0b (FY21: Rs. 2.2b) largely in line with increase in creditors to Rs. 1.0b (FY21: Rs. 480.9m), employee related fund contributions amounting Rs. 377.8m (FY21: Rs. 267.9m) and accrued liabilities amounting Rs. 1.4b (FY21: Rs. 1.2b). The payables also included infrastructure payable which increased to Rs. 181.8m (FY21: Rs. 116.2m). The current ratio has remained adequate on a timeline basis (FY22: 2.25x; FY21: 2.50x). In addition, coverage of short-term borrowings via trade debts and stock in trade remained sizeable at 12.07x (FY21: 10.81x). Net operating cycle of the company has remained manageable and comparable to the industry median.

During 1QFY23, cash flow position of the company weakened due to slashed profitability. However, liquidity profile in terms of working capital management remained adequate. In addition, sizeable liquid investments and cash and bank balances provide sufficient liquidity cushion to the company.

Sound capitalization indicators: Tier-1 equity augmented to Rs. 11.6b (FY21: Rs. 9.3b) on the back of profit retention. After accounting for the fair value reserve on FVOCI assets (net of deferred income tax), total equity stood at Rs. 11.5b (FY21: Rs. 9.3b). The company issued a final dividend of Rs. 403.4m (FY21: Rs. 146.7m) for FY21.

The company meets most of the working capital requirements through internal cash flows. Short-term borrowings merely comprised 16% (FY21: 13%) of the total debt. Long-term debt including current portion increased to Rs. 3.9b (FY21: Rs. 3.0b) as a result of additional borrowings to support capex. Deferred liabilities including current portion of long-term liabilities increased to Rs. 1.2b (FY21: Rs. 829.7m). These included deferred income in lieu of recording government grant for loans at below-market rate of interest (i.e., TERF) amounting Rs. 555.6m (FY21: Rs. 163.9m); GIDC cess amounted to Rs. 428.6m (FY21: Rs. 467.2m), which was completely paid off during FY22. In addition, deferred liabilities also included Rs. 251.4m (FY21: Rs. 198m) of net deferred income tax liability originated due to timing differences relating to deferred tax liabilities and assets. Despite higher borrowings, gearing and debt leverage remained at 0.39x (FY21: 0.37x) and 0.79x (FY21: 0.70x), respectively at end-FY22. Additionally, after adjusting for short-term investments and cash and bank balances, gearing and debt leverage further reduces to 0.22x and 0.61x, respectively.

During 1QFY23, the company obtained an additional loan amounting Rs. 692.7m to execute ongoing BMR, as discussed earlier in this report. The management does not intend to obtain any substantial long-term borrowings in the medium term; therefore, capitalization indicators are expected to remain manageable, going forward.

Strong internal and external auditors; corporate governance has room for improvement: SCML's independent internal audit function is outsourced to M/s KPMG Taseer Hadi & Co. Chartered Accountants. Internal audit reports are sent to the audit committee quarterly per the authorized yearly internal audit plan. External audit was conducted by M/s Riaz Ahmad & Co., Chartered Accountants, who are on the SBP panel of auditors in the 'A' category. The Board has recommended that M/s Riaz Ahmad & Co. Chartered Accountants be appointed auditors for the current fiscal year as well, as proposed by the Audit Committee.

SCML's Board of Directors consists of seven members, excluding the CEO. As per corporate governance best practices, the Board has appointed two independent members, including a female representation, in place of non-executive directors (Mr. Amjad Mehmood and Mr. Shams Rafi) during FY22. Five board meetings were conducted during the outgoing year. The Board has established Audit Committee, Human Resources, Nomination and Remuneration (HRN&R) Committee, and Risk Management Committee (RMC). During FY22, four audit committee meetings and one HRN&R and one risk management committee meetings were held while no RMC meeting has been conducted since its constitution. The Board and Board committees' composition is shown below:

Name of Director	Status
Mr. Khalid Bashir	Chairman
Mr. Nadeem Maqbool	CEO
Ms. Maheen Hisham Adamjee	Independent Director
Mr. Shams Rafi	Independent Director

Mr. Hamayun Maqbool	Non-Executive Director
Mr. Mohammad Iqbal	Non-Executive Director
Mr. Adil Bashir	Executive Director
Mr. Ahsan Bashir	Executive Director

Audit Committee	
Mr. Shams Rafi	Chairman
Mr. Ahsan Bashir	Member
Mr. Adil Bashir	Member

Human Resource, Nomination and Remuneration Committee	
Ms. Maheen Hisham Adamjee	Chairman
Mr. Adil Bashir	Member
Mr. Nadeem Maqbool	Member
Mr. Adil Bashir	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, 2020	June 30, 2021	June 30,2022	Sept 30, 2022
Property, Plant and Equipment	5,012	5,571	7,830	8,429
Investment Properties	100	478	478	478
Long-Term Investments	746	972	772	723
Stock-in-Trade	3,718	3,204	6,165	5,648
Stores & Spares	204	219	257	345
Trade Debts	974	1,440	2,605	2,433
Short-Term Investments	1,319	3,211	1,623	3,080
Income Tax Refundable (net)	469	137	0.0	0.0
Other Receivables	97	23	217	157
Cash & Bank Balances	207	283	421	306
Other Assets	165	193	298	322
Total Assets	**13,011**	**15,731**	**20,665**	**21,922**
Trade and Other Payables	2,271	2,207	3,014	3,050
Short Term Borrowings	1,278	430	727	1,271
Long-Term Borrowings (Inc. current maturity)	2,591	2,964	3,849	4,454
Other Liabilities	255	863	1,275	1,283
Total Liabilities	**6,395**	**6,463**	**9,205**	**10,395**
Total Debt	3,869	3,393	4,577	5,725
Net Debt	2,343	(101)	2,533	2,340
Paid Up Capital	367	403	443	443
Tier-1 Equity	**6,846**	**9,258**	**11,645**	**11,760**
Total Equity	6,617	9,268	11,460	11,527

INCOME STATEMENT	June 30, 2020	June 30, 2021	June, 30 2022	Sept 30,2022
Net Sales	12,883	17,375	23,501	5,027
Gross Profit	1,321	3,447	4,685	334
Operating Profit	997	2,959	4,133	189
Other Income	271	553	402	101
Finance Cost	190	165	214	67
Profit Before Tax	851	3,086	3,719	198
Profit After Tax	720	2,559	2,791	115

RATIO ANALYSIS	June 30, 2020	June 30, 2021	June, 30 2022	Sept 30,2022
Gross Margin (%)	10.3	19.8	19.9	6.6
Net Margin (%)	5.6	14.7	11.9	2.3
Net Working Capital	3,481	5,217	6,522	6,654
Current Ratio (x)	1.95	2.50	2.29	2.19
FFO	993	3,017	3,968	181
FFO to Long-Term Debt(x)	0.38	0.89	1.03	0.16*
FFO to Total Debt (x)	0.26	0.79	0.87	0.13*
Debt Servicing Coverage Ratio (x)	1.88	15.34	6.16	1.60
ROAA (%)	5.8	17.8	15.3	2.2*
ROAE (%)	10.9	31.8	26.7	3.9*
Gearing (x)	0.57	0.41	0.39	0.49
Debt Leverage (x)	0.93	0.70	0.79	0.88
Adjusted Gearing (x)**	0.34	NA	0.22	0.2
Adjusted Leverage (x)**	0.71	0.32	0.61	0.60
(Stock in Trade+ Trade Debts) to Short-term Borrowings (x)	3.67	10.81	12.07	6.36
Net Operating Cycle (days)	119	103	108	139

*Annualized **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				
	29/12/2021	A+	A-1	Stable	Reaffirmed
	01/12/2021	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.	Aniq Arshad	Accounts Manager	23-Nov-2022	
	2.	Mr. Ansab Zafar	Manager Finance	23-Nov-2022	