

## RATING REPORT

### Shahtaj Textile Limited (STL)

**REPORT DATE:**

April 23, 2020

**RATING ANALYSTS:**

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**RATING DETAILS**

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Date	Apr 23, 2020		Jan 18, 2019	

**COMPANY INFORMATION**

<b>Incorporated in 1990</b>	<b>External auditors:</b> Deloitte Yousuf Adil, Chartered Accountants
<b>Public Listed Company</b>	<b>Chairman of the Board:</b> Mr. Muneer Nawaz
Shahtaj Sugar Mills – 11.90%	<b>Chief Executive Officer:</b> Mr. M. Naem
Mr. Ahmed Naeem – 9.19%	
Mrs. Amtul Bari Naeem – 8.65%	
Treet Corporation Limited – 8.99%	
Mr. Muneer Nawaz – 8.62%	

**APPLICABLE METHODOLOGY(IES)**
**VIS Entity Rating Criteria**

Industrial Corporates (May 2019) <https://vis.com.pk/kc-meth.aspx>

## Shahtaj Textile Limited

### OVERVIEW OF THE INSTITUTION

Shahtaj Textile Limited (STL) was incorporated in 1990 as a public limited company. The company was later listed on Pakistan Stock Exchange (PSX).

Head office of the company is situated in Karachi while the factory is located in Kasur.

#### Profile of the Chairman:

The Board is chaired by Mr. Muneer Nawaz who possesses extensive experience in sugar and food industries. He has been associated with STL since 1990.

#### Profile of the CEO:

Mr. M. Naeem, Chief Executive Officer (CEO). He holds an M.A.L.L.B degree and possesses more than four decades of experience in trading and textile industry. Mr. M. Naeem joined Shahnawaz Group in 1967 and assumed responsibilities of its Managing Director in 1972. He is the CEO of Shahtaj Textiles Ltd since inception. Along with this, he is also Chief Executive of Shahnawaz Private Limited and on the Board of Directors of other group companies.

### RATING RATIONALE

Shahtaj Textile Limited (STL) is part of 'Shahnawaz Group'. The group consists of six companies including STL. The other five companies are Shezan International, Shahtaj Sugar Limited, Shahnawaz Engineering Ltd., Cornstar ISA and Nawazabad Farms. STL is engaged in the manufacturing, selling and marketing of grey fabric.

#### Key Rating Drivers

##### **Satisfactory existing governance framework.**

The Board of Directors comprises nine members including two independent directors. In order to ensure effective oversight, two committees, namely Board Audit Committee (BAC) and Board Human Resources and Remuneration Committee (BHRRC), are present at Board level. In line with best practices, board committees are chaired by independent Board members and woman representation is present on the Board.

##### **Efficiency enhancement initiatives are underway**

Under the company's Balancing, Modernization and Rebalancing Program (BMR), STL is in process of replacement of its 2 gas generators of 1,750KW with brand new 2000KW generators to achieve better energy efficiency. These machines will be installed at a cost of ~Rs. 160m and will be funded through long term financing. As per management, both these facilities will be fully operational in FY20, thereby translating into improved efficiency and reduction in running costs. Existing capacity utilization remains approximately 91%.

##### **Net sales have increased on the back of increase in average selling prices.**

Net sales of STL witnessed a growth of 22.0% during the outgoing year (FY19: 4.8b). More than 50% of the sales remain geared towards the local markets. Local Sales (including indirect export sales) increased by 65% to Rs. 3.0b (FY18: 2.3b). In contrast, export sales of the company increased at a relatively modest rate of 8% to Rs. 1.8b (FY18: Rs. 1.7b). Growth in sales was due to favorable rate variances both in export and local sales while volumes were maintained at around prior year levels. Country wise concentration in sales is considered moderate with top two European export markets constituting approximately 30% (FY18: 29%) of gross sales in FY19. Client wise concentration in sales is considered to be on the higher side with top 10 clients accounting for 84% (FY18: 73%) of gross sales in FY19. However, the concentration risk is partly mitigated by long term relationship with clients. Net sales of STL were reported at Rs. 1.1b (Q1'FY19: Rs. 1.1b) in Q1'FY20. Management has projected net sales of Rs. 4.9b for FY20.

##### **Coronavirus to result in uncertainty in textile sector dynamics**

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 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.

**Shahtaj Textile Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>			
	<i>(amounts in PKR millions)</i>		
<b><u>BALANCE SHEET</u></b>	<b>1Q20</b>	<b>FY19</b>	<b>FY18</b>
Non-Current Assets	1,112.99	1,131.33	1,191.65
Stock-in-Trade	673.36	529.34	507.91
Trade Debts	646.4	948.9	619.2
Cash & Bank Balances	32.2	25.0	6.5
<b>Total Assets</b>	<b>2,796.02</b>	<b>2,899.03</b>	<b>2,683.13</b>
Trade and Other Payables	336.6	353.8	393.5
Short Term Borrowings	682.07	791.17	776.30
Long Term Debt (Inc Current Maturity)	383.8	386.4	331.6
<b>Total Interest Bearing Debt</b>	<b>1,065.89</b>	<b>1,177.57</b>	<b>1,107.93</b>
<b>Total Liabilities</b>	<b>1,554.11</b>	<b>1,681.30</b>	<b>1,623.99</b>
Paid up capital	96.6	96.6	96.6
<b>Total Equity (Exc Revaluation Surplus)</b>	<b>1,167.80</b>	<b>1,141.75</b>	<b>972.19</b>
<b><u>INCOME STATEMENT</u></b>	<b>1Q20</b>	<b>FY19</b>	<b>FY18</b>
Net Sales	1,149.55	4,787.65	3,925.33
Gross Profit	118.1	448.8	295.8
Administrative Expenses	26.7	98.3	93.8
Other Income	0.454	87.178	20.041
Finance Cost	25.2	87.3	47.9
<b>Profit before Tax</b>	<b>34.9</b>	<b>251.4</b>	<b>84.6</b>
<b>Profit After Tax</b>	<b>24.1</b>	<b>188.0</b>	<b>68.1</b>
<b><u>RATIO ANALYSIS</u></b>	<b>1Q20</b>	<b>FY19</b>	<b>FY18</b>
Gross Margin (%)	10.27%	9.37%	7.54%
Net Margin (%)	2.10%	3.93%	1.73%
Current Ratio (x)	1.5	1.4	1.2
Net Working Capital	583	541	253
Gearing (x)	0.9	1.0	1.1
Leverage (x)	1.3	1.5	1.7
FFO	52.3	259.0	174.4
FFO to Long Term Debt (x)	0.62	0.76	0.61
FFO to Total Debt (x)	0.20	0.22	0.16
Debt Servicing Coverage Ratio (x)	n/a	2.6	2.9
ROAA (%)	3.39%	6.74%	2.86%
ROAE (%)	17.79%	7.09%	11.52%

## ISSUE/ISSUER RATING SCALE &amp; 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](http://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](http://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](http://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.

<b>REGULATORY DISCLOSURES</b>		<b>Appendix III</b>			
<b>Name of Rated Entity</b>	Shahtaj Textile Limited				
<b>Sector</b>	Textile				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	4/23/2020	A-	A-2	Rating Watch Developing	Maintained
	12/26/2019	A-	A-2	Stable	Reaffirmed
	01/18/2019	A-	A-2	Stable	Reaffirmed
	12/14/2017	A-	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings</b>	N/A				