

## RATING REPORT

### Shahtaj Textile Limited (STL)

**REPORT DATE:**

December 29, 2020

**RATING ANALYST:**

Muhammad Tabish

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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		Rating Watch Developing	
Rating Date	December 29, 2020		April 23, 2020	

**COMPANY INFORMATION**

<b>Incorporated in 1990</b>	<b>External auditors:</b> Yousuf Adil, Chartered Accountants
<b>Public Listed Company</b>	<b>Chairman of the Board:</b> Mr. Muneer Nawaz
<b>Key Shareholding (more than 5%)</b>	<b>Chief Executive Officer:</b> Mr. M. Naeem
<i>Shahtaj Sugar Mills – 11.90%</i>	
<i>Mr. Ahmed Naeem – 9.19%</i>	
<i>Mrs. Amtul Bari Naeem – 8.65%</i>	
<i>Mr. Muneer Nawaz – 8.62%</i>	
<i>Mr. Mubammad Naeem – 6.8%</i>	

**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

Incorporated in 1990, Shahtaj Textile Limited (STL) is about to complete two decades in the business of manufacturing and sale of grey fabric. Headquartered in Karachi, STL has its manufacturing facility in Lahore with total annual installed capacity of 64.6m (Sq. Meters). Overall capacity utilization stood at ~85% (FY19: 91%) in FY20. Moreover, the company has recently upgraded its 2000 KW gas-powered generators which are sufficient to power the plant. This up-gradation has resulted in improved overall efficiency and reduction of running costs.

**Key Rating Drivers****Strong sponsor strength**

STL belongs to 'Shahnawaz Group' comprising five other companies under its ambit; they have presence in sugar, food, distribution, power and agricultural sectors. Other companies include Shezan International, Shahtaj Sugar Limited, Shahnawaz Engineering Ltd., Cornstar ISA and Nawazabad Farms.

**COVID-19 hit textile industry is gradually recovering and the outlook is favorable going forward.**

In FY20, export revenues from textile segment dropped by ~6% to USD 12.5b (FY19: USD 13.3b) due to COVID-19 induced lockdowns both domestically and globally. Negative trend was noted in all segments with major drop in raw cotton (-16.6%), cotton yarn (-12.5%) and cotton cloth (-12.9%). However, in the 1Q of ongoing fiscal year the exports rise to USD 3.5b (vis-à-vis USD 3.4b same period last year), registering a growth of ~3%. Going forward, sector dynamics are favorable given the surge in demand from export destinations. With the export orders booked till next June, the industry is currently operating at full capacity and going through expansion and up-gradation to cater for additional demand.

Moreover, GoP's approval of five-year textile policy (with the aim to double textile exports in five years) which mainly includes preferential energy rates and timely payments of DLTL would support the liquidity constraints of local players and overall sector's dynamics. In the long run, improvement in value addition, investment in technology and optimization of energy cost would be the key determinants of textile exports.

**Topline declined in the wake of pandemic however, the same has recovered in 1Q'FY21. Outlook assigned to ratings has been revised to 'Stable'.**

After registering a double-digit growth in the previous year, topline declined by ~9% in the outgoing fiscal year (FY20: Rs. 4.4b; FY19: Rs. 4.8b) in the wake of covid-19 pandemic. Historically, proportion of export to local sales for STL has hovered around 40:60 ratio. Nevertheless, given the impact of Covid-19-induced slowdown in FY20, share of exports reduced to 23% (FY19: 37%). In absolute terms, export sales dropped by ~34% while local sales grew by 14% in FY20. Of total exports, more than one-half is concentrated in Italy though with diversified client portfolio. Remaining half is shared by Spain, Belgium, Portugal, UK, Indonesia and USA. Top 10 clients representing more than four-fifth of total sales (while 2 local clients comprising around 47%) results in high client concentration. However, the risk is partly mitigated given the company's established long-term relationships with these customers over the years which ensure repeat business. In 1Q'FY21, net sales witnessed some recovery and stood at around prior year's level. Going forward, given favorable industry outlook due to strong

demand in the ongoing year ease the business risk concerns.

**Margins have witnessed improvement in 1Q'FY21. Leverage indicators are satisfactory.**

Despite decline in net sales, gross margin remained stable at 9.6% (FY19: 9.4%) in FY20. The same has improved to 10.3% in the 1Q'FY21. Distribution expense along with other operating overheads also stood lower than corresponding period last year. Given the reduction in benchmark rates, financing cost for the company has also reduced and thus, positively impacted the bottom-line. Net margin was reported at 3.7% (FY20: 1.7% FY19: 3.9%) in 1Q'FY21. Gearing and leverage were reported at 0.9x (FY20: 0.8x; FY19: 1.0x) and 1.3x (FY20: 1.4x; FY19: 1.5x) at end-1Q'FY21, respectively.

**Sound corporate governance framework.**

The Board comprises ten members including two independent directors. For effective oversight, two board level committees, namely Board Audit Committee (BAC) and Board Human Resources and Remuneration Committee (BHRRC) are in place. Moreover, as per best governance practices, board committees are chaired by independent Board members while woman representation is also present on the Board.

## Shahtaj Textile Limited

## Appendix I

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>				
<b><u>BALANCE SHEET</u></b>	<b>1Q'FY21</b>	<b>FY20</b>	<b>FY19</b>	<b>FY18</b>
Non-Current Assets	1,163.0	1,185.7	1,131.3	1,191.6
Stock-in-Trade	646.8	690.7	529.3	507.9
Trade Debts	703.2	590.6	948.9	619.2
Cash & Bank Balances	5.6	49.2	32.2	25.0
<b>Total Assets</b>	<b>2,821.9</b>	<b>2,842.1</b>	<b>2,899.0</b>	<b>2,683.1</b>
Trade and Other Payables	357.8	544.5	353.8	393.5
Short Term Borrowings	484.8	390.5	791.2	776.3
Long Term Debt <i>(Including current maturity)</i>	578.0	540.7	386.4	331.6
<b>Total Interest Bearing Debt</b>	<b>1,062.9</b>	<b>931.2</b>	<b>1,177.6</b>	<b>1,107.9</b>
<b>Total Liabilities</b>	<b>1,581.8</b>	<b>1,627.0</b>	<b>1,681.3</b>	<b>1,624.0</b>
Paid up capital	96.6	96.6	96.6	96.6
<b>Total Equity <i>(Excluding Revaluation Surplus)</i></b>	<b>1,179.1</b>	<b>1,134.0</b>	<b>1,141.8</b>	<b>972.2</b>
<b><u>INCOME STATEMENT</u></b>				
Net Sales	1,174.1	4,365.8	4,787.6	3,925.3
Gross Profit	121.3	421.3	448.8	295.8
Administrative Expenses	26.6	105.8	98.3	93.8
Other Income	-	0.3	87.2	20.0
Finance Cost	15.5	80.2	87.3	47.9
Profit before Tax	59.8	113.1	251.4	84.6
Profit After Tax	43.6	72.6	188.0	68.1
<b><u>RATIO ANALYSIS</u></b>				
Gross Margin (%)	10.3%	9.6%	9.4%	7.5%
Net Margin (%)	3.7%	1.7%	3.9%	1.7%
Current Ratio (x)	1.8	1.6	1.4	1.2
Net Working Capital	728.9	636.0	541.4	252.6
Gearing (x)	0.9	0.8	1.0	1.1
Leverage (x)	1.3	1.4	1.5	1.7
FFO	79.6	199.3	259.0	174.4
FFO to Long Term Debt (x)	0.55	0.37	0.76	0.61
FFO to Total Debt (x)	0.30	0.86	0.22	0.16
Debt Servicing Coverage Ratio (x)	4.26	2.19	2.63	2.87
ROAA (%)	6.2%	2.5%	6.7%	2.9%
ROAE (%)	15.1%	6.4%	17.8%	7.1%

## 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.

REGULATORY DISCLOSURES					Appendix III
<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>RATING TYPE: ENTITY</b>				
	12/29/2020	A-	A-2	Stable	Reaffirmed
	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 Conducted</b>	NA				