

## RATING REPORT

### Zephyr Textiles Limited (ZTL)

#### REPORT DATE:

July 05, 2021

#### RATING ANALYSTS:

Maham Qasim  
[maham.qasim@vis.com.pk](mailto:maham.qasim@vis.com.pk)

#### RATING DETAILS

| Rating Category | Latest Rating           |            | Previous Rating            |            |
|-----------------|-------------------------|------------|----------------------------|------------|
|                 | Long-term               | Short-term | Long-term                  | Short-term |
| Entity          | BBB+                    | A-2        | BBB+                       | A-2        |
| Rating Outlook  | Positive                |            | Rating Watch<br>Negative   |            |
| Rating Date     | 30 <sup>th</sup> Jun'21 |            | 23 <sup>rd</sup> Apr' 2020 |            |

#### COMPANY INFORMATION

|                                         |                                                            |
|-----------------------------------------|------------------------------------------------------------|
| Incorporated in 1999                    | External auditors: Azhar Zafar & Co. Chartered Accountants |
| Public Limited Company                  | Chairperson: Ms. Tehniyat Mussaid                          |
| <b>Key Shareholders (More than 5%):</b> | CEO: Mr. Mussaid Hanif                                     |
| Mr. Mussaid Hanif – 35.9%               |                                                            |
| Ms. Sabah Burhan – 13.6%                |                                                            |
| Mr. Khitab Muhammad Khan – 11.7%        |                                                            |
| Mr. Arbab Muhammad Khan – 11.5%         |                                                            |
| Ms. Tehniyat Mussiad – 6.8%             |                                                            |
| Ms. Henna Haque – 5.8%                  |                                                            |

#### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)

<https://www.vis.com.pk/kc-meth.aspx>

## Zephyr Textiles Limited

### OVERVIEW OF THE INSTITUTION

Zephyr Textiles Limited (ZTL) was incorporated in 1999 as a private limited company which later on went public in 2004. The company is involved in the production and sale of greige and finished fabric, towels and made ups. The company is listed on Pakistan stock Exchange. Registered office of the company is in Lahore while weaving unit is situated at Balloki Bhai Pheru Road and towel unit at district Kasur.

#### Profile of the Chairperson

Ms. Tehniyat Mussaid is the chairperson of ZTL. She graduated in Accountancy from the UK, and has worked in the UK Barclays Bank for about three years.

#### Profile of the CEO

Mr. Mussaid Hanif is the CEO of ZTL. He holds an MBA from Lahore University of Management Sciences (LUMS) and has over twenty years of sales and management experience in the textile industry.

#### Financial Snapshot

**Total Equity:** end-HY21: Rs. 1.74b; end-FY20: Rs. 1.61b; end-FY19: Rs.1.59b; end-FY18: Rs. 2.8b

**Assets:** end-HY21: Rs. 4.87b; end-FY20: Rs. 4.48b; end-FY19: Rs. 4.16b; end-FY18: Rs. 4.21b

**Profit After Tax:** HY21: Rs. 122m; end-FY20: Rs. 55m;

### RATING RATIONALE

The ratings assigned to Zephyr Textiles Limited (ZTL) take into account its moderate business risk profile emanating from a fairly diversified revenue stream, both in terms of product profile and geographical footprint, coupled with presence in export-oriented value added segment. Moreover, holistically business risk profile of the textile industry is supported by stable and growing demand as US-China Trade disruption enhance sales given major buyers continue to diversify procurement. Client concentration risk is considered on the higher side as almost two-thirds of the sales revenue is being generated by top-10 clients; however, the same is mitigated by high customer satisfaction and cumbersome supplier switching process.

Ratings also incorporate sound financial risk manifested by enhancement of margins, positive momentum in profitability, adequate liquidity and comfortable debt service coverages. Further, owing to reduction in benchmark rates, the financial cost for the company has reduced, reflecting positively on the bottom line. Given improvement in the company's operational performance owing to pandemic led boom in textile sector during the period under review, the outlook assigned to ZTL's ratings has been revised to 'Positive'. Even though concerns of successive waves of Covid-19 are present, strong order book of the industry in the ongoing year along with vaccine rollout has largely subsided business risk concerns. However, the ratings remain sensitive to relatively high leverage indicators. Going forward, the ratings are dependent on maintenance of gearing, sustenance of long-standing relations with customers, realization of projected targets and incremental cash flow generation from new product line extension coupled with evolution of sector dynamics post ongoing pandemic.

**Shareholding mainly vested with sponsoring family with adequate experience in textile sector:** Shareholding structure of the company is mainly vested with the sponsoring family with controlling stake of 85.3%. Remaining shareholding rests with general public and other institutions. CEO, Mr. Mussaid Hanif holds 35.9% of shares; meanwhile after the demise of Mr. Burhan Muhammad Khan (Executive Director), his shares were distributed amongst his wife Ms. Sabah Burhan and his children, Mr. Khitab Khan, Mr. Arbab Khan, and Ms. Henna Haque, as per the sharia law. The Board of Directors of ZTL comprises six members including one executive director, three nonexecutive directors and two independent directors. Board meetings are held on a quarterly basis at least with satisfactory attendance of members.

**Local Textile Sector performance during COVID-19:** The coronavirus pandemic led to 3% drop in global trade volumes in the 1QFY20 according to United Nations conference on Trade and Development forecasts. Industries whose operations were more globalized (particularly those who relied on Chinese inputs for production) were highly exposed to initial supply side disruptions. However, given most of the textile companies in Pakistan are heavily reliant on local cotton produce; the supply side risk was largely curtailed. In addition, the lockdown in China at the initial stage turned advantageous as the orders got shifted to Pakistan. Prior to onslaught of the pandemic, the European buyers were attracted by repetitive rupee weakening since 4QFY18, as unit prices fell only for Pakistan in 9MFY20

FY19: Rs. 118m; FY18: Rs. 103m

vis-à-vis its competitors. The price effect was further enforced by duty-free/quota free access under the GSP Plus agreement. Bangladesh and Pakistan have been able to increase their exports to the bloc as they enjoy preferential trade treatment within EU. Moreover, US-China trade war with USA applying additional tariffs on Chinese apparel imports since Sep'19 has aided low cost suppliers including Pakistan in capturing the untapped share. So after global onslaught of corona virus European and American retailers, the two main destination markets for this sector, cancelled their orders causing serious concerns in many sourcing countries. With only a few buyers honoring their import commitments with local manufactures, exports declined during April'20. Exports of readymade garments dipped by 69% in April'20 compared to same month in the preceding year.

The country's textile industry has scaled up production to pre-Covid level of full-capacity as a significant improvement in containment of the pandemic in the country led the world buyers to partially divert their orders to domestic manufacturers. The growth in production is backed by a big jump in the import of basic raw materials – cotton and man-made yarn – after the recent heavy rainfall and pest attack damaged notable portion of cotton crops in the fields to a multi-year low. Secondly, the industry recovered on a fast pace with the government's support in the shape of rationalizing energy price to a regional competitive level, the same included continued supply of raw material and subsidized financing for the expansion of production and setting up new units. Further, the textile exports have also largely recovered from the Covid-19 pandemic shocks and are still growing both in terms of their quantity and dollar value. The textile shipments have surged by 3.8% to \$4.8 billion between July and October from \$4.6bn in the corresponding period last year. The rise in the textile and clothing group has been slightly faster than the 0.6% growth in the overall export. The export recovery is most prominent in the knitwear, home textiles and denim segments.

**Product Portfolio includes textile products including grey & finished fabric, towel, knitted fabrics, made ups:** ZTL is engaged in the production and sale of grey & finished fabric, towel and textile made ups. During the period under review, the production capacities of fabric weaving, towel weaving and towel processing remained unchanged. Grey fabric production facility comprises 199 Air Jet looms with total weaving capacity of 84.6m square meters per annum. On the other hand, the towel manufacturing unit comprises 45 looms with total production capacity of 4,835 tons per annum while towel dyeing and processing units have a recorded capacity of 5,700 tons per annum. ZTL follows a build to order approach where products are produced once orders are confirmed. In response to the ongoing pandemic resulting in dampened demand, the production activities and utilization took a downturn during FY20; however, the same exhibited improvement from pre-covid numbers in line with capitalization of the opportunity given production units of neighboring countries closed were for a longer tenure. Installed capacities and actual production are tabulated below:

| Capacity Analysis                              | FY19 | FY20 | HY21 |
|------------------------------------------------|------|------|------|
| <b>Fabric Weaving Unit:</b>                    |      |      |      |
| Installed Capacity (Square Meters in Millions) | 84.6 | 84.6 | 84.6 |
| Actual Production (Square Meters in Millions)  | 73.1 | 65.6 | 37.8 |
| Capacity Utilization %                         | 86   | 78   | 89   |
| <b>Towel Weaving Unit:</b>                     |      |      |      |

|                                          |       |       |       |
|------------------------------------------|-------|-------|-------|
| Installed Capacity (Tons)                | 4,835 | 4,835 | 4,835 |
| Actual Production (Tons)                 | 4,238 | 3,805 | 2,242 |
| Capacity Utilization %                   | 88    | 79    | 93    |
| <b>Tower Dyeing and Processing Unit:</b> |       |       |       |
| Installed Capacity (Million Sq. meter)   | 5,700 | 5,700 | 5,700 |
| Actual Production (Million Sq. meter)    | 3,802 | 3,795 | 2,072 |
| Capacity Utilization %                   | 67    | 67    | 73    |

ZTL's total power requirement when operating at full capacity is around 4.2 megawatts; the same is all internally provided through gas-fired power generation facility having total capacity of 4.5 megawatts. In addition, ZTL also has WAPDA connection for emergency power requirements.

**Topline and profitability indicators impacted during FY20 in line with onslaught of COVID-19 as orders spilled over to the ongoing year:** With the ongoing pandemic, the company fell short off its last year revenues by 15% as sales were recorded lower at Rs. 4.3b (FY19: Rs. 5.1b) during FY20; the decline was primarily an outcome of complete halt to order placement, reception of shipments and delay in payments from the export originating countries. As per ZTL's business model, the highest number of orders are received during 4QFY20; however, as the outgoing year was marked by uncertainty following the emergence of the pandemic, export orders worth almost Rs. 500m got spilled over to the ongoing year; the same is the main contributing factor of decline in sales. The contribution of local sales increased slightly during FY20 with a total share of 56% (FY19: 54%) in the revenue mix; local sales mainly constitute sale of greige fabric. On the other hand, contribution of export sales, comprising of towels, took a slight hit owing to shifting of orders to the ongoing year. Despite higher average price of Rs. 188.9/meter (FY19: Rs. 150.8/meter), the revenue from fabric segment (local) decreased to Rs. 1.3b (FY19: Rs. 1.5b) on account of decline in quantum sales. As per the management, in line with government directives the fabric unit was completely closed during lockdown, meanwhile towel unit continued production by following requisite protocols and standard operating procedures. Moreover, the towel sales were also recorded lower at Rs. 2.3b (FY19: Rs. 2.9b) during FY20 in line with reduced quantum sale; towel segment is the largest revenue driver contributing 53% (FY19: 56%) to total sales. The margins of the company declined to 9.3% (FY19: 10.3%) in FY20 due to reduced contribution of export segment, entailing higher margins, to total revenues along with increase in cost of yarn to Rs. 183.9/lb (FY19: Rs. 177.5/lb) during FY20. Reduction in scale of operations also contributed to decline in margins as the absorption of fixed components of the production process was relatively inefficient. The concentration risk is relatively on a higher as top-10 customers account for 64% (FY20: 65%) of total revenue during HY21. The concentration risk has been mitigated by established business relations with customers, high customer satisfaction underpinned by focus on quality and sustainability and fairly cumbersome supplier switching process.

The distribution cost declined to Rs. 131.3m (FY19: Rs. 140.3m) during FY20 on account of reduced freight expense incurred in line with decline in quantum of exports during the year. On the other hand, administrative expenses have largely remained at prior year's level of Rs. 84.5m (FY19: 85.0m) despite slight increase in employee related expenses on account of no provision for expected credit losses made during FY20 as opposed to provision amounting to Rs. 5.6m booked in the preceding year. Other expenses stood higher at Rs. 22.4m (FY19: Rs. 9.8m) on account of loss on disposal of plant and machinery incurred during the outgoing year. The company booked other income of Rs. 34.5m (FY19: Rs. 4.3m) in FY20

in line with sizable exchange gain of Rs. 30.2m booked as a result of depreciation of local currency benefiting exporters. The finance cost was recorded lower at Rs. 121.6m (FY19: 144.4m) due to a shift from packing refinance to Export Finance Scheme (EFS) and utilization of lower borrowing rates. Subsequently, with decline in scale of operations in terms of exports and decline in margins, the company's bottom line was reported lower at Rs. 55.1m (FY19: Rs. 117.8m) during FY20.

The declining trend in quantum sales was rescued during the ongoing year with the company's operations back at full capacity. ZTL's topline was recorded higher at Rs. 2.9b at HY21 owing to a combined impact of increase in export quantum coupled with higher prices on account of positive momentum in demand of finished towels. The increased demand of domestic products is underpinned by capitalizing on supply gaps as production units in competing countries were not operating at full potential owing to COVID-19 related lockdowns. In addition, the power subsidy announced by the government for the sector has made the prices even more competitive globally, therefore positively resulted in the off-take of local products. The orders from New Zealand, U.K, France and Thailand got cancelled in HY21; however, the same got shifted towards U.S and Germany. Further, margins also exhibited improvement and were recorded above pre-COVID level at around 12.1% (FY20: 9.3%) in line with improved output prices primarily in the export market as the towel prices were recorded higher at Rs. 840.8/kg during HY21 as opposed to Rs. 764.6/kg in FY20. Moreover, major raw material cost remained unchanged at Rs. 184/lb of yarn; the same also contributed positively to margins of the company. Another contributing factor of increase in margins is that the company's composition of yarn procurement tilted slightly towards imports in HY21 in comparison to no utilization of imported yarn in the outgoing year. The imported yarn, entailing better quality, became economically viable given prices of locally produced cotton soared on account of sizable decline in production, the same plunged down the projected output to 21 years' lowest for Pakistan.

The operating expenses were recorded higher at Rs. 160.9m (HY20: Rs. 105.5m) during HY21 with increase largely manifested in distribution cost; however, the same if annualized is largely in sync with increase in scale of operations. On the other hand, the finance cost was rationalized to Rs. 52.0m during HY21 as compared to Rs. 65.3m in the corresponding period last year owing to sharp dip in benchmark interest rates despite increase in total borrowings of the company during the period under review. As a result of positive trajectory of revenues, improved margins and curtailment of interest expense, ZTL reported healthy profit of Rs. 121.7m (HY20: Rs. 23.6m) during HY21. Going forward, the management projects to close FY21 with a topline of Rs. 6b; the company is on track of meeting the projected target as revenue clocked at Rs. 4.3b by end-3QFY21 and company has orders of over Rs. 2.0b in the pipeline.

ZTL has opted for new market development strategy with exposure in the knitted fabric sports garments for revenue diversification. The company has already secured orders amounting to Rs. 500.0m from newly explored knitted sport fabric market in Sri Lanka. The company currently utilizes the weaving set-up used for towel manufacturing. Going forward, the management believes that expansion of facilities for knitted fabric is contingent upon on the offtake of the new product line extension. Further, ZTL plans on easing out the credit terms of online marketplace for better market reception; moreover, specific market budget is also going to be allocated for the same during the ongoing year.

**Adequate liquidity profile as evident from healthy cash flows in relation to outstanding obligations and sound debt service ability:** Liquidity profile of the

company is considered sound in view of sizable cash flows in relation to long-term outstanding obligations and sound debt service capacity. However, the cash flow generation depicted a volatile trend during the period under review; the same is directly proportional to profitability indicators. As an outcome of depressed revenues, reduced margins and lower profitability, Funds from Operations (FFO) declined and were recorded lower at Rs. 253.1m (FY19: Rs. 309.9m) during FY20. However, with the improvement in scale of operations and margins during the ongoing year, FFO amounted to Rs. 204.6m during HY21. Although, there has been an increase in the total borrowings on a timeline basis as the decline in short-term funding was offset by increase in long-term credit during the ongoing year, FFO in terms of outstanding obligations was adequate. Similarly, debt service coverage remained sizeable during the period under review. Going forward, cash flows are expected to improve on account of increase in sales supported by revenue diversification in sports knitted fabric along with positive prospects of knitting industry.

Stock in trade stood at 1.0b (end-FY20: Rs. 1.1b; end-FY19: 0.9b) during end-HY21 due to the delay in the shipment of orders coupled with higher quantum of unsold finished goods in FY20; however, the same is being subsided during the ongoing year. Similarly, trade debts were also reported higher at Rs. 933.1m (end-FY20: Rs. 708.9m; end-FY19: Rs. 712.5m) during end-HY21; the same is in line with increase in scale of operations. The aging of receivables is considered satisfactory since all receivables, local and export, pertained to less than six-month bracket. Loans and advances increased to Rs. 150.6m (end-FY20: 76.7m, end-FY19: 100.5m) at end-HY21 on account of higher advance payments to suppliers and against letters of credit; the same is sync with increased business volumes. Moreover, trade deposits and other receivables also stood higher at Rs. 391.2m (end-FY20: 326.1m, end-FY19: 299.6m) at end-HY21 on account of higher sales tax refundable and performance-based rebates due from the government. To support the liquidity position, ZTL has short term investments amounting to Rs. 67.9m (end-FY20: 63.1m, end-FY19: 1.0m) comprising short-term money market mutual funds at end-HY21. Given there is no liquidity stress, the management does not plan on liquidating the securities during the rating horizon.

On the other hand, trade and other payables were recorded higher at Rs. 1.0b (end-FY20: Rs. 818.3m, end-FY19: Rs. 558.7m) since ZTL locked in more raw material for fulfilling delayed orders originating from European countries that were hit by the lockdown amid pandemic crisis. Contract liabilities declined to Rs. 12.1m (end-FY20: Rs. 28.9m, end-FY19: Rs. 24.7m) at end-HY21, the same pertain to employee related liabilities including workers' provident fund. Subsequently, the current ratio was maintained at prior year's level during the period under review. In addition, the company made an investment worth Rs. 182.6m on routine balancing, modernization and replacement (BMR) to improve process efficiencies. Going forward, the company plans on investing in BMR and new projects by anticipating expansion in value added products; the same will help to strengthen export, profitability and liquidity profile.

**Moderately leveraged capital structure:** The equity base of ZTL increased on a timeline basis Rs. 1.7b (end-FY20: Rs. 1.6b, end-FY19 Rs. 1.6b) at end-HY21 owing to internal capital generation. The debt matrix of the company is tilted towards short term credit comprising around 70% of total borrowings. The working line capital requirements largely remained range bound; however, short-term borrowings peaked to Rs. 1.32b (end-FY19: Rs. 1.25b) at end-FY20 to fund higher inventory. The short-term borrowings are secured against first ranking pari passu charge over current assets of the company; the same carry mark-up charge ranging from 3.00% to 15.10% per annum during the year on the balance outstanding. The company's long-term debt increased to Rs. 567.9m (end-FY20: Rs.

415.5m, end-FY19: Rs. 471.8m) and majorly comprises SBP's long term finance facility (LTFF), refinance schemes, renewable energy schemes and demand finance to fund the capital expenditure of Rs. 150.7m during HY21. The company procured incremental around Rs. 100.0m under SBP's term finance during the ongoing year; the same is repayable in eight quarterly installments commencing from Jan'21 with markup locked at SBP rate plus 3.0% per annum. On the other hand, existing major demand finance is repayable in twenty-eight quarterly installments; markup charged on the facility is recorded at 3 months Kibor plus 1% per annum. For all existing long-term facilities banks have deferred the loan installments for the period of one year under SBP directive as a relief to the company during COVID-19 pandemic. Despite increase in borrowings gearing decreased on a timeline basis during the period under review owing to augmentation of equity base. On the other hand, debt leverage trended upwards as a result of higher payables held on the books. Going forward, although ZTL plans to enhance capacity of weaving and processing units, however; leverage indicators are expected to remain around current levels on the back of growth in equity.

**Zephyr Textiles Limited**
**Appendix I**

| <b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i> |                      |                      |                      |                     |
|-----------------------------------------------------------|----------------------|----------------------|----------------------|---------------------|
| <b>BALANCE SHEET</b>                                      | <b>June 30, 2018</b> | <b>June 30, 2019</b> | <b>June 30, 2020</b> | <b>Dec 31, 2020</b> |
| Non-Current Assets                                        | 2,003.9              | 1,963.2              | 1,989.2              | 2,062.7             |
| Stock-in-Trade                                            | 1,069.5              | 914.6                | 1,103.9              | 1,030.9             |
| Trade Debts                                               | 658.6                | 712.5                | 708.9                | 933.1               |
| Loans and Advances                                        | 35.9                 | 100.5                | 76.7                 | 150.6               |
| Other Receivables                                         | 117.8                | 86.4                 | 80.0                 | 129.1               |
| Cash & Bank Balances                                      | 30.0                 | 55.6                 | 71.8                 | 79.6                |
| <b>Total Assets</b>                                       | <b>4,208.0</b>       | <b>4,156.8</b>       | <b>4,479.5</b>       | <b>4,865.8</b>      |
| Trade and Other Payables                                  | 642.0                | 558.6                | 818.3                | 1,028.1             |
| Short Term Borrowings                                     | 1,158.7              | 1,250.0              | 1,320.2              | 1,278.3             |
| Long Term Borrowings                                      | 581.1                | 471.8                | 415.5                | 567.9               |
| <b>Total Debt</b>                                         | <b>1,739.8</b>       | <b>1,721.8</b>       | <b>1,735.7</b>       | <b>1,846.2</b>      |
| <b>Total Liabilities</b>                                  | <b>2,667.0</b>       | <b>2,569.8</b>       | <b>2,866.3</b>       | <b>3,130.9</b>      |
| Paid Up Capital                                           | 594.3                | 594.3                | 594.3                | 594.3               |
| Tier 1 Equity                                             | 1,189.4              | 1,261.0              | 1,310.7              | 1,443.5             |
| <b>Total Equity</b>                                       | <b>1,540.6</b>       | <b>1,587.1</b>       | <b>1,613.3</b>       | <b>1,735.0</b>      |
| <b>INCOME STATEMENT</b>                                   | <b>June 30, 2018</b> | <b>June 30, 2019</b> | <b>June 30, 2020</b> | <b>Dec 31, 2020</b> |
| Net Sales                                                 | 4,252.3              | 5,091.1              | 4,326.1              | 2,916.8             |
| Gross Profit                                              | 465.5                | 523.7                | 401.7                | 352.6               |
| Operating Profit                                          | 287.3                | 288.7                | 163.6                | 191.7               |
| Profit Before Tax                                         | 129.4                | 148.6                | 76.4                 | 154.5               |
| Profit After Tax                                          | 103.4                | 117.8                | 55.1                 | 121.7               |
| FFO                                                       | 339.5                | 309.9                | 253.1                | 204.6               |
| <b>RATIO ANALYSIS</b>                                     | <b>June 30, 2018</b> | <b>June 30, 2019</b> | <b>June 30, 2020</b> | <b>Dec 31, 2020</b> |
| Gross Margin (%)                                          | 10.9                 | 10.3                 | 9.3                  | 12.1                |
| Current Ratio (x)                                         | 1.10                 | 1.08                 | 1.10                 | 1.11                |
| FFO to Total Debt (x)                                     | 0.20                 | 0.18                 | 0.15                 | 0.22                |
| FFO to Long Term Debt (x)                                 | 0.58                 | 0.66                 | 0.61                 | 0.72                |
| Debt Service Coverage Ratio (x)                           | 1.41                 | 1.57                 | 1.62                 | 3.29                |
| ROAA (%)                                                  | 1.3                  | 2.8                  | 1.3                  | 5.2                 |
| ROAE (%)                                                  | 4.6                  | 7.5                  | 3.4                  | 14.5                |
| Gearing (x)                                               | 1.46                 | 1.37                 | 1.32                 | 1.28                |
| Debt Leverage (x)                                         | 2.24                 | 2.04                 | 2.19                 | 2.17                |
| Stock+ Trade debts/ Short-Term Borrowings (x)             | 1.49                 | 1.30                 | 1.37                 | 1.54                |



**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>             | Zephyr Textiles 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>                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                            |                    |                         |                      |
|                                         | 30-06-2021                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | BBB+                       | A-2                | Positive                | Maintained           |
|                                         | 23-04-2020                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | BBB+                       | A-2                | Rating Watch - Negative | Maintained           |
|                                         | 12-04-2019                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | BBB+                       | A-2                | Stable                  | Reaffirmed           |
| 10-11-2018                              | BBB+                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | 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.                                                                                                                                                                                                           |                            |                    |                         |                      |
| <b>Disclaimer</b>                       | Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS. |                            |                    |                         |                      |
| <b>Due Diligence Meetings Conducted</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | <b>Name</b>                | <b>Designation</b> | <b>Date</b>             |                      |
|                                         | 1                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Mr. Naveed Aleem           | CFO                | 06-May-2021             |                      |