RATING REPORT

Rajby Textiles (Private) Limited

REPORT DATE:
October 31, 2016

RATING ANALYST:
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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity	A-	A-1
Rating Outlook	Stable	
Rating Date	*27th Oct'16*	

COMPANY INFORMATION	
Incorporated in 2014	**External auditors:** M/s Muniff Ziauddin & Co, Chartered Accountants
Private Limited Company	**Chairman:** Mr. Saleem Sultan
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Nafees Sultan
Mr. Saleem Sultan – 50.0%	
Mr. Nafees Sultan – 50.0%	

APPLICABLE METHODOLOGY(IES)	
JCR-VIS Entity Rating Criteria	*Industrial Corporates (May 2016)* ***http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf***

Rajby Textiles (Private) Limited

OVERVIEW OF THE INSTITUTION

RTPL is a private limited company incorporated on December 29, 2014 to takeover business operations of Rajby Textiles; an Associations of Persons (AOP) set up in February 2005. The company produces manufacture and sale of denim cloth, denim fabric and various fabric allied products.

RATING RATIONALE

Rajby Textiles (Private) Limited (RTPL) was established to takeover business operations of Rajby Textiles; an Associations of Persons (AOP). The company was established to take advantage of significant tax incentives available to the capital-intensive company which was not available to an AOP. Ownership of RTPL is split between two brothers (Chief Executive Officer and Chairman). RTPL comes under the Rajby Group umbrella along with Rajby Industries (RI), a denim garment producing AOP owned by the same brothers.

RTPL produces denim fabric and allied products through a single mill. Despite being a capital-intensive operation, the company employs a labour-force of over 900 individuals, requiring significant training to operate machinery. Large portion of RTPL local sales are conducted on nomination basis, where garment producing organizations are required to utilize RTPL fabric based on their quality.

Rating Drivers:

Group Operations: A large portion of RTPL sales are sourced through RI for the production of denim-based garments. Due to a growing top-line, local-RI sales proportion decreased to 46% (FY15: 52%) at end-FY16. RI provides finished goods to major retail brands in Europe and the United States of America. Clients are provided a one stop solution (quality of fabric from RTPL, stitching, washing, finishing etc.) at the company's 'Design Studio' to ascertain the true quality of a finished ready-made product.

Production: Capacity utilization of RTPL has exceeded 100% during the past year, directly impacting the top-line which has reached Rs. 5.1b (FY15: Rs. 4.2b) at end-FY16. This is achieved through the use of state-of-the-art production machinery (sourced from Germany and Belgium) and a motivated work-force. The increase in volumes has been reflected in total proportion of export sales, increasing from 21% during FY15 to 30% during FY16.

Funding: Total capital support of the company is sizeable through paid-up capital, Director's Loans and sub-ordinated debt. The structure of the organization is placed as such to re-invest accumulated profits to meet operational requirements through capital investment. Gearing and debt leverage indicators are deemed strong. Long term debt through Diminishing Musharakah is solely utilized for the acquisition of imported machinery. During FY16, the company witnessed significant growth in short term borrowings through Local bills discounting / Murabaha financing. Through this measure, RTPL achieved 95% collection against revenues to meet Presumptive Tax Regime (PTR) compliance. As per projections of future sales and growth, Murabaha (working capital) and Musawama financing will cease FY18 and FY19 onwards, respectively. The ability of the company to meet debt obligations remains strong through a sizeable debt service coverage ratio.

Strategy: RTPL is currently in the process of plant expansion to more-than double monthly output from their production line. Of the total project cost, 64% is being provided through debt financing, solely for the import of machinery. Growth in production, fully effective from July-2017 onwards, will directly impact volumetric growth in exports. Despite taking on additional debt, gearing and debt leverage indicators are projected to remain within manageable levels, with debt servicing still remaining sizeable.

Corporate Governance: Ratings of RTPL are constrained by the current corporate infrastructure where authority is concentrated in two family members. The same can be strengthened through improvement in board composition and oversight along with development of a detailed procedure and policy framework.

Rajby Textiles (Private) Limited — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*
BALANCE SHEET	**JUN 30, 2016**	**JUN 30, 2015**	**JUN 30, 2014**
Fixed Assets	1,531	1,394	1,501
Investments	-	-	-
Stock-in-Trade	510	441	410
Trade Debts	1,101	1,174	524
Cash & Bank Balances	251	163	10
Total Assets	3,629	3,242	2,531
Trade and Other Payables	448	1,298	611
Long Term Debt *(*incl. current maturity)*	256	243	358
Short Term Debt	1,336	494	439
Net Equity (Including Director's Loan for FY16)	1,558	1,206	1,123
INCOME STATEMENT	**JUN 30, 2016**	**JUN 30, 2015**	**JUN 30, 2014**
Net Sales	5,092	4,231	3,905
Gross Profit	767	616	377
Operating Profit	567	461	277
Profit After Tax	460	334	140
RATIO ANALYSIS	**JUN 30, 2016**	**JUN 30, 2015**	**JUN 30, 2014**
Gross Margin (%)	15.1%	14.6%	9.7%
Net Working Capital	140	(57)	(137)
FFO to Total Debt (x)	0.41	0.72	0.45
FFO to Long Term Debt (x)	2.53	2.17	1.00
Debt Leverage	1.33	1.69	1.25
Debt Servicing Coverage Ratio (x)	3.72	3.05	N/a
ROAA (%)	13.4%	11.6%	N/a
ROAE (%)	33.3%	28.7%	N/a

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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	Rajby Textiles (Private) Limited
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	JCR-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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
10/27/2016	A-	A-1	Stable	Initial