RATING REPORT

Rajby Textiles (Private) Limited

REPORT DATE:
January 1, 2018

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-1	A-	A-1
Rating Date	*Dec 29, 2017*		*Oct 27, 2016*	
Rating Outlook	Stable		Stable	
Outlook Date	*Dec 29, 2017*		*Oct 27, 2016*	

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)
Applicable Rating Criteria: Industrial Corporates (May, 2016) http://www.jcrvis.com.pk/kc-meth.aspx

Rajby Textiles (Private) Limited

OVERVIEW OF THE INSTITUTION

Rajby Textiles (Private) Limited (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.

Shareholding of RTPL is split between two brothers, namely Mr. Saleem Sultan (Director) and Mr. Nafees Sultan (Chief Executive Officer) who are also the owners of Rajby Industries (RI) under the umbrella of Rajby Group.

RATING RATIONALE

Rajby group (Rajby) has extensive experience in the textile sector (over 4 decades) and has been operating in the Denim manufacturing business since 1988. The group operates through two different companies Rajby Industries (RI) (involved in manufacturing of denim garments) and Rajby Textiles (Private) Limited (RTPL) (involved in manufacturing of denim fabric). In terms of revenues, Rajby group (including fabric and garment business) is amongst the leading Denim fabric and garments manufacturer in the Country.

Operations:
RTPL currently has an installed capacity of 3m meters/month (FY16: 1.5m meters/month). Production capacity was enhanced in the ongoing year through completion of installation of additional 96 air-jet looms (Existing looms: 208, FY16: 112) which have enhanced the productivity and efficiency of the plant as evident from higher rotations per minute. RTPL produced 19.9m mtrs (FY16: 19.4m mtrs) of denim fabric in the outgoing year reporting utilization levels of 97% (FY16: 108%). The full impact of expansion on increased production will be reflected in FY18 financial statements. Aggregate power requirement of the plant based on expanded capacity is 6MWs which is being met through a combination of gas and diesel generators. Adequate back-up arrangements are also in place. Going forward, the management plans to install a spinning unit which will allow Rajby to become vertically integrated.

Key Rating Drivers

Business risks
Business risk profile is supported by stable and growing demand for denim fabric. This is reflected in local and international players enhancing garment manufacturing capacity to cater to the growing demand. However, increased competition on the local and international front is expected to keep pricing power and hence margins under pressure. In the backdrop of sizeable expansion, competitiveness vis-à-vis other key international markets will be tracked, going forward. The company's operations are also concentrated with exposure entirely to the denim industry which might significantly impact business risk profile in case of change in demand patterns or any other industry specific factors. JCR-VIS expects demand for denim products to remain strong over the medium term. Other key business risk factors include efficient procurement of yarn and weakening in law and order situation.

Profitability
Net sales have grown at a CAGR of 7% over the last three years with revenues comprising a mix of local and export sales. However, sales witnessed a decline in the outgoing year on account of 3% decline in volumes and 4% decline in average selling prices. Historically, majority of the company's sales have been to RI, associated company with remaining being generated through exports (South Asian and European Markets) and local non-Rajby sales. Management expects proportion of export sales to grow with increased marketing focus towards the segment. Gross margins trended downwards on account of lower selling prices and increased employee related cost due to fresh inductions for expansion. The company has also undertaken full provisioning for gas infrastructure development cess with quantum of the same amounting to Rs. 225.8m. Overall profitability was supported by tax rebate on imported plant and machinery and limited increase in finance charges due to higher utilization of Export Refinance Facility. Going forward, gross margins are expected to decline on account of lower average selling prices and finance cost is projected to increase due to higher working capital requirements post expansion. However, profitability is expected to grow on the back of volumetric increase in sales (sales during first quarter have increased by 61% vis-à-vis corresponding period) and very limited tax charges. Moreover, finance cost is also projected to decline in FY19 due to higher ERF limits on the back of growth in export sales.

Liquidity
Liquidity profile of the company is considered adequate in view of sufficient cash flows in relation to outstanding obligations with FFO to LTD reported at 32% (FY16: 126%) and strong debt servicing ability with debt service coverage ratio recorded at 2.84x (FY16: 3.72x) during FY17. With current assets being greater than current liabilities, current ratio of RTPL was reported above 1 at end-FY17. Overall cash flows will also benefit from receipt of receivables due to various incentives announced by the government. The

company has an extended working capital cycle with time to taken to convert inventory into cash being higher than payment for trade creditors. Working capital cycle of the company has increased during the outgoing year necessitating higher utilization of short term borrowing.

Funding and Capitalization

Capitalization levels have been strengthened over time through profit retention and cash injection (in the form of loan from directors) with equity base of the company increasing at a 3-yr CAGR of 24%. However, leverage indicators have trended upwards to fund expansion. Gearing and leverage increased to 1.71x (FY16: 1.41x) and 2.18x (FY16: 1.80x) at end FY17. Future trend with respect to leverage indicators will depend on funding mix for the proposed expansion in the spinning division and quantum of internal capital generation. Maintaining leverage indicators within benchmarks for the assigned ratings is considered important.

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. Senior management team is supported by stable and professional management team.

ISSUE/ISSUER RATING SCALE & DEFINITION — Appendix I

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 II**
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				
December 29, 2017	A-	A-1	Stable	Reaffirmed
October 27, 2016	A-	A-1	Stable	Initial