

RATING REPORT

Rajby Textiles (Private) Limited

REPORT DATE:

April 24, 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-1	A-	A-1
Rating Date	April 24, 2020		Feb 21, 2020	
Rating Outlook	Rating Watch - Developing		Stable	
Outlook Date	April XX, 2020		Feb 21, 2020	

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 (April, 2019) <https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

Rajby Textiles (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>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.</p> <p>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.</p>	<p>Rajby Textiles (Private) Limited (RTPL) is a part of Rajby Group, which 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).</p> <p>Operations</p> <p>RTPL has an installed capacity of 3.2m meters per month. No change was witnessed in the installed capacity in FY19 vis-à-vis the preceding year. However, higher actual production due to increased demand resulted in higher capacity utilization (FY19: 90%; FY18: 89%). Going forward, the management has plans to set up a spinning unit in two phases which will allow the operations of the group to become vertically integrated. First phase of the proposed expansion in the spinning segment will cater to around 40% of the total internal existing yarn requirement, while the second phase will cater to another 40%. However, this expansion plan is currently on hold and timeline for execution of the same is dependent on demand outlook and orders in hand. Power requirement of the plant is being met through a combination of gas and diesel generators. Adequate back-up arrangements are also in place.</p> <p>Coronavirus to result in uncertainty in textile sector dynamics</p> <p>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 moderately leveraged 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.</p>

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			Appendix I
<u>BALANCE SHEET</u>	FY17	FY18	FY19
Paid Up Capital	500	500	500
Total Equity	3,254	3,600	3,687
<u>INCOME STATEMENT</u>			
Net Sales	4,735	7,904	9,607
Profit Before Tax	352	411	566
Profit After Tax	352	411	520
<u>RATIO ANALYSIS</u>			
FFO	551	799	962
Gearing (x)	1.05	1.14	1.44
Current Ratio (x)	1.12	1.21	1.17

ISSUE/ISSUER RATING SCALE & DEFINITION

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

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

(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

'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			
Name of Rated Entity	Rajby Textiles (Private) Limited				
Sector	Textiles				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	April 24, 2020	A-	A-1	Rating Watch - Developing	Maintained
	February 21, 2020	A-	A-1	Stable	Reaffirmed
	December 26, 2018	A-	A-1	Stable	Reaffirmed
	December 29, 2017	A-	A-1	Stable	Reaffirmed
	October 27, 2016	A-	A-1	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	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.				
Probability of Default	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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Due Diligence Meetings Conducted	Name		Designation		Date