RATING REPORT

Rajby Textiles (Private) Limited

REPORT DATE:

June 08, 2022

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-2	A-	A-1
Rating Date	*June 08, 2022*		*June 03, 2021*	
Rating Outlook	Stable		Stable	
Rating Action	*Downgrade*		*Maintained*	

COMPANY INFORMATION

Incorporated in 2014	**External auditors:** Muniff Ziauddin & Co. Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Saleem Sultan **Chief Executive Officer:** Mr. Nafees Sultan
Key Shareholders (with stake 5% or more):	
Mr. Saleem Sultan – 50% Mr. Nafees Sultan – 50%	

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

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 Textiles (Private) Limited (RTPL) belongs to the Rajby Group of Companies 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 the manufacturing of denim fabric. Power requirement of the manufacturing unit is met via a mix of diesel and gas-based generators.

Over the long term, the company has a plan for backward integration, involving establishment of a spinning unit; however timeline is not concrete. The objective is to benefit from economies of scale and have a better control over procurement costs. Within the existing plant, the management plans to add around 15-20 looms, which is expected to enhance the capacity by 150k meters per month (1.8m meters per annum) and offer overhead savings of around Rs. 15m per month (Rs. 180m). The project is estimated to cost Rs. 200-230m and is expected to be finalized over the next few months. The project will be financed completely through ILTFF.

Although capacity utilization declined slightly in FY21, quantum of fabric sold increased in the outgoing year due to carry over finished goods stock. Utilization levels during HY22 has exhibited further improvement due to influx of orders post recovery in COVID related slowdown. The same has increased to 2.9m meters per month as compared to 2.3m meters in FY21.

	FY20	**FY21**
Number of Looms installed	208	208
Number of Looms worked	157	199
Installed capacity (meters)	36,000,000	36,000,000
Actual Production (meters)	28,835,538	28,256,332
Capacity Utilization (%)	80%	78%

Business risk profile is supported by industry wide growth in exports over the last year

Surge in textile exports has continued in FY22 as COVID-19 related restriction are lifted across the globe. In the period July-January 2022, businesses in Pakistan earned $10.9b from the export of textile and apparel products, an increase of 26% year-on-year. With an investment plan of $3.5b in place for the sector, exports are projected to reach a figure of $21b for FY22, which will be a 40% increase over the last year. A similar trend has been noticed in the exports of denim apparels as well.

The margins of textile companies have broadly depicted improvement despite the uptick in raw material costs, given that the same was offset by exchange rate movement. Nevertheless, higher raw material pricing has increased the working capital requirements for the companies in the sector, which is likely to weigh on the liquidity of textile players. Due to relatively high demand in comparison to the supply, cotton prices in Pakistan have depicted a rise of around 50% over the last six months. The order book for the industry is expected to remain adequate in the ongoing year along with transfer orders of neighboring countries, easing our business risk concerns. The issues of freight cost and raw material prices continue to pose challenge for the sector though.

Topline of the company has trended upwards on a timeline basis.

With the gradual recovery from the effects of COVID-19, revenue of the company went up by 19% and was reported at Rs. 10.6b (FY20: Rs. 8.9b) in FY21. The uptick was mainly attributable to volumetric growth. Almost all of the revenue base comprises exports with indirect exports to local clients accounting for 58% (FY20: 64%) of the total revenue base in FY21. Rajby Industries continue to contribute a significant share of around 33% in total sales mix of the company.

Geographic concentration for direct exports remained on the higher side, as around 90% of customer are based in either Bangladesh or Turkey. The growth momentum in revenues was sustained in 1HFY22, as revenue of Rs. 8b was reported at for the period. With adequate order base and projected expansion plans, topline is expected to follow an upward trajectory.

Profitability indicators have depicted a pattern of recovery.

Gross margins in FY21 were reported higher at 12.3% primarily due to inventory gains. Around 90% of the yarn was locally purchased because of its high quality, with the remainder being imported from China. Raw material is usually booked 1-1.5 months in advance to mitigate the risk of price fluctuation. As for sales, all transactions are priced in USD and locked one week in advance to hedge against the risk of fluctuation in currency value. A higher gross margin, coupled with a lower finance cost ensured a relatively more pronounced improvement in net margin, which was reported at 4% (FY20: 1%). A slight dip in gross margin was experienced in 1HFY22 because of the noticeable rise in raw material costs. However, net margin for the period was reported higher attributable to one-off exchange gain. With projected growth in revenues, overall profitability profile is expected to depict upward trend; although rising interest rates may cause a drag on the overall profitability profile.

An adequate liquidity profile.

On the back of higher profitability, Funds from operations (FFO) of the entity was reported at Rs. 371m for 1HFY22 (FY21: Rs. 323m, Rs. 341m). Consequently, improvement was observed in cash flow coverages, as relevant indicators (FFO to Total Debt, FFO to Long Term Debt, and Debt Servicing Coverage) rose to 19% (FY21: 16%, FY20: 15%), 123% (FY21: 74%, FY20: 39%), and 3.1x (FY21: 1.8x, FY20: 1.3x), respectively. Stock in trade and trade debts provide sufficient coverage against short-term debt, while cash conversion cycle improved on a timeline basis; however remains on the higher side. Around 40% of total receivables are due from the sister concern-Rajby Industries. Aging profile of trade debts is considered satisfactory. Recently, the company has tightened its credit policy for Rajby Industries and clients in Turkey, which might lead to further improvement in working capital management.

A gradual increase in leverage indicators post COVID-19.

Quantum of debt increased by about Rs. 2.7b in the period July'20-Dec'21. The change was mainly attributable to a higher level of short-term borrowings to finance the working capital needs, which accounts around 85% of total debt. Although noticeable improvement was observed in the bottom-line, growth in equity base over the 18 months was limited due to the gradual repayment of loan from directors. Consequently, leverage and gearing ratios were reported higher at 2.49x (FY21: 2.17x, FY20: 1.59x) and 1.79x (FY21: 1.59, FY20: 1.13), respectively. Considering that no significant addition *(a meager Rs. 220m addition is expected in the ongoing year for adding looms)* is projected in borrowings going forward, leverage indicators are expected to strengthen with profit retention.

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

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 II
Name of Rated Entity	Rajby Textiles (Private) Limited
Sector	Textile Industry
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				
June 08, 2022	**A-**	**A-2**	**Stable**	**Downgrade**
June 03, 2021	A-	A-1	Stable	Maintained
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
December 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
Mr. Zubar Kazi	CFO	28-April-2022