RATING REPORT

Rajby Textiles (Private) Limited

REPORT DATE:
July 14, 2023

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-2
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Downgrade	
Rating Date	*July 14, 2023*		*June 8, 2022*	

COMPANY INFORMATION	
Incorporated in 2014	**External Auditors:** Muniff Ziauddin & Co. Chartered Accountants
Private Limited Company	**Chairman/ Director:** Mr. Saleem Sultan
Key Shareholders (with stake 10% or more):	**Chief Executive/Director:** Mr. Daniyal Saleem
Mr. Saleem Sultan ~60%	
Mr. Daniyal Saleem ~10%	
Mr. Bilal Saleem ~10%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (May 2023) *https://docs.vis.com.pk/docs/CorporateMethodology.pdf*

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: *https://docs.vis.com.pk/docs/VISRatingScales.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 take over the business operations of Rajby Textiles; an Association of Persons (AOP) set up in February 2005.

RATING RATIONALE

Corporate Profile

Rajby Textiles (Private) Limited (RTPL), part of the Rajby Group, specializes in denim fabric production, with operations including weaving and finishing. Production infrastructure is based in Karachi, supported by a workforce of over 1,300 employees. Average energy demand of 3.8MW is met via a mix of diesel and gas-based generators.

Group Profile

Established in 1988, Rajby Group is a leading player in the textile sector, specializing in denim manufacturing. The group operates through Rajby Industries and RTPL. Formerly, Mr. Saleem Sultan and Mr. Nafees Sultan were co-owners of both entities, but their business partnership was dissolved in June'23. As a result, Mr. Saleem Sultan now majorly owns RTPL, while Mr. Nafees Sultan retains his share of ownership in Rajby Industries, with the remaining shares of both companies distributed among the family members.

Operational Performance

Since last review, installed capacity remains unchanged while operational loom count has declined by ~49% in the last 9 months due to global demand slowdown. This decline has led to consistent reductions in production levels, and thus utilization ratios. In response, management has implemented measures such as reducing the number of shifts per day and laying off around 300-350 contractual workers.

Table: Capacity & Production Data (Units in million)

	FY20	FY21	FY22	9M'FY23
Number of looms Installed	208	208	208	208
Number of looms Worked	157	188	199	96
Installed Capacity – Meters	36.0	36.0	36.0	27.0
Actual Production – Meters	23.8	29.6	28.3	10.4
Capacity Utilization	***66%***	***82%***	***78%***	***39%***

Key Rating Drivers

Business risk profile is constrained by current weak macroeconomic environment both globally and locally, demand slowdown, high interest rate situation, inflationary pressures and recent floods adversely affecting cotton crop while ongoing energy crisis in the country pose a challenge to margins sustainability and future growth.

Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally broke the threshold, coming in at USD 32.4b. Textile sector contributes nearly one-fourth to industrial value-added segment and 8.5% to the country's GDP, with an estimated market size of around Rs. 4.0tr. Barring seasonal and cyclical fluctuations, textiles sector has maintained an average share of about 60% in national exports.

Table: Pakistan Export Statistics (in USD millions)

	FY20	FY21	FY22		10M'FY22	10M'FY23
Pakistan Total Exports	22,536	25,639	32,450		26,858	23,211

Textile Exports	12,851	14,492	18,525		15,174	14,178
PKR/USD Average Rate	158.0	160.0	177.5		174.4	245.4

Source: SBP

Export revenues from textile sector have noted sizeable growth over the years (FY22: \$19.3b FY21: \$15.4b; FY20: \$12.5b; FY19: \$13.6b). Knitwear, Readymade and Bed wear segments continue to contribute higher than other segments, with a cumulative contribution of more than 60% in textile exports. While the growth was primarily driven by volume (excluding knitwear and cotton yarn), higher prices also boosted exports in FY22. However, current fiscal year has been significantly impacted and 10M export proceeds (in value terms) reflect a year-on-year (YoY) decline of ~14%.

Table : Textile Export Details (in USD millions)

	FY20	FY21	FY22		10M'FY22	10M'FY23
High Value-Added Segment	**9,669**	**12,427**	**15,605**		**12,908**	**11,337**
- Knitwear	2,794	3,815	5,121		4,218	3,712
- Readymade Garments	2,552	3,033	3,905		3,214	2,905
- Bed wear	2,151	2,772	3,293		2,727	2,250
- Towels	711	938	1,111		928	825
- Made-up Articles	591	756	849		710	585
- Art, Silk & Synthetic Textile	315	370	460		385	343
- Others	555	743	866		725	718
Low to medium Value-Added Segment	**2,858**	**2,972**	**3,717**		**3,074**	**2,372**
- Cotton Cloth	1,830	1,921	2,438		2,006	1,685
- Cotton Yarn	984	1,017	1,207		1,006	637
- Others	43	34	72		62	51
Total	**12,527**	**15,399**	**19,332**		**15,982**	**13,709**

Source: PBS

Cotton prices rose to a new 12-year high of ~Rs. 21,600/maund as of March'22, as a result of the shortage and higher input costs of fertilizer and energy. Cotton imports were also up 19.8%, in USD terms, for FY22 vis-à-vis preceding year.

Table: Cotton Prices Trend (In Rs.)

	FY19	FY20	FY21	FY22	10M'FY23
Per Maund	8,770	8,860	13,000	17,380	20,235
YoY % Change	26%	1%	32%	34%	*n/a*

Floods in Sindh and Southern Punjab during recent monsoon season have caused significant damage to the cotton crop. According to industry estimates, ~45% of the crop has been washed, worth more than \$2.5b, resulting in significant price increases. The government has announced facilitation for raw materials imports to compensate for domestic shortages. Nonetheless, in addition to affecting profit margins, higher raw material pricing is expected to increase the working capital requirements, which is likely to have a negative impact on the liquidity profile of textile operators, particularly spinners, weavers and dying companies.

Global and domestic challenges, such as slowdown in export demand (primarily from North America and the EU, which has begun to materialize in Pakistan's monthly export proceeds) due to recessionary trend, industrial gas load shedding expected in the country, and rising production costs due to inflation, will weigh on the business risk profile going forward. These factors may result in competitive market pricing for exporters.

Robust growth in sales revenue in FY22 was fueled by higher prices; however, recent demand slowdown significantly impacted volumetric off-take this fiscal year. Client concentration risk remains high in local and export sales.

Net sales achieved strong double-digit annual growth for two consecutive years, culminating in a record high of Rs. 15.4b in FY22. The YoY uptick of ~45% was primarily driven by higher average prices. Management highlighted that fabric manufacturers are now capitalizing on rupee depreciation by leveraging domestic sales priced in dollars and a shorter lead time for sales booking orders (typically 15 to 20 days before delivery). This strategic approach allows them to maximize benefits from favorable exchange rate fluctuations, a privilege that was previously enjoyed by garment players.

All revenue is from exports, including both direct and indirect channels. Over time, there has been a clear shift towards indirect exports, which refers to domestic sales. On average, about three-fourth of total revenue is generated from local sales, while direct exports make up the rest. Rajby Industries, an associated company, consistently contributes one-third of sales revenue thus, resulting in high single client concentration risk. In addition, top-ten export clients representing ~66% of total exports, and top-ten local clients constituting ~77% of local sales further add to sales concentration. Geographic wise, majority of exports are currently focused on Bangladesh and Turkey; however, management has plans to expand its target markets to include regions such as South America and Europe in the future.

Recent demand slowdown due to the economic downturn in major world economies led to a sizeable dip in volumes and impacted growth in the current fiscal year, with revenues amounting to Rs. 7.9b in 9M'FY23. Despite significant support from consistent rupee depreciation, management projects full-year revenue for FY23 to decline to Rs. 11b.

Considerable improvement in gross margins and sustained net profit margins were achieved over the review period by implementing effective cost-cutting measures.

Gross margins sustained in FY22 and improved considerably this fiscal year due to consistent rupee devaluation, limited dependence on imported yarn and decrease in operating costs resulting from reduced capacity. Majority of yarn (~95%) is sourced locally from 6-8 fixed major suppliers, with a small proportion imported from China. Adequate inventory levels of around two months are maintained to fulfill confirmed sales orders. Operating overheads were curtailed by implementing cost-cutting measures such as staff layoffs and decreasing freight charges, primarily driven by the shift in sales mix towards indirect exports (domestic sales). However, financial charges increased due to higher benchmark rates, despite declining levels of debt utilization. Net profit margins showed improvement in FY22 and have remained steady, even with a significant decline in revenues in the ongoing year. Earning profile continues to receive support from healthy exchange gains.

Cash flow generation remains healthy on a timeline basis; debt coverage metrics are aligned with peers. Liquidity profile is adequate with slightly elevated cash conversion cycle.

Improved earnings in the last two years significantly increased funds flow from operations (FFO) to Rs. 1.6b (FY21: Rs. 841.6m; FY20: Rs. 541.5m) at end-FY22. Despite a decline in bottom line impacting cash flows in the current fiscal year, debt coverage metrics showed a healthy improvement due to reduced debt utilization levels. Current ratio is consistently reported above 1.0x and coverage of short-term borrowings in relation to trade debts and inventory remains sufficient, suggesting an adequate liquidity profile. Despite extended credit payable days, cash conversion cycle has stretched to 146 days in 9M'FY23 from 105 days in FY22, due to both higher inventory holding and debtor days. Ageing profile of trade debts remains sound, as almost all receivables are settled within 30 days; and no bad debt has been reported. As per management, ~40% of receivables are due from associate concern, Rajby Industries.

Leverage metrics have improved, showing a slight favorable comparison to similar rated peers.

Supported by healthy bottom-line and all-out profit retention, equity base grew by ~38% in the last 21 months, reaching Rs. 4.3b at end-9M'FY23. Debt profile is a mix of short-term and long-term debt, with total interest-bearing liabilities decreasing to Rs. 3.0b (FY22: Rs. 5.2b) at end-9M'FY23; ~84% constituted short-term debt. Aggregated running finance lines amount to Rs.8.7b, with majority being Kibor-based facilities. In addition, an interest-free loan from directors stood at Rs. 120m at end-9M'FY23. Leverage ratios have improved significantly with declining debt levels, showing a slightly favorable position compared to similar-rated peers.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Rajby Textiles (Private) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
14-07-2023	A-	A-2	Stable	Reaffirmed
08-06-2022	A-	A-2	Stable	Downgrade
03-06-2021	A-	A-1	Stable	Maintained
24-04-2020	A-	A-1	Rating Watch-Developing	Maintained
21-02-2020	A-	A-1	Stable	Reaffirmed
26-12-2018	A-	A-1	Stable	Reaffirmed
29-12-2017	A-	A-1	Stable	Reaffirmed
27-12-2016	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.
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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Zubair Kazi	CFO	June 19, 2023
Mr. Farhan Ahmed	Accounts Manager	