

RATING REPORT

Rajby Textiles (Private) Limited

REPORT DATE:

September 03, 2024

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/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	September 03, 2024		July 14, 2023	

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

*Saleem Sultan ~60%**Daniyal Saleem ~10%**Bilal Saleem ~10%*
APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

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. The head office and production facility are located in Karachi.

RATING RATIONALE

Corporate Profile

Rajby Textiles (Private) Limited ('RTPL' or 'the Company'), 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 1,004 employees at end-FY23. Average energy demand of 3.8MW is met via a mix of diesel and gas-based generators. In FY24, the Company started using 1.5MW from solar power to reduce fuel costs.

Group Profile

Established in 1988, Rajby Group is a leading player in the textile sector, specializing in denim fabric manufacturing. The group operates through Rajby Industries (RI) and RTPL. Formerly, Saleem Sultan and Nafees Sultan were co-owners of both entities, but their business partnership was dissolved in June'23. As a result, Saleem Sultan now majorly owns RTPL with 60% share as of Jun'24, while Nafees Sultan retains his share of ownership in Rajby Industries, with the rest distributed among the family members.

Sector Update

The business risk profile of the textile sector in Pakistan is characterized by a high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors.

In FY23, the textile sector faced challenges due to various economic and environmental factors. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and import restrictions due to diminishing foreign exchange reserves. During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, as a result of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Reduction in cotton supply, coupled with global economic slowdown and contractionary economic policies, led to a decrease in demand for textile products and, consequently, cotton yarn.

MONTH-WISE EXPORT DATA FOR TEXTILE SECTOR

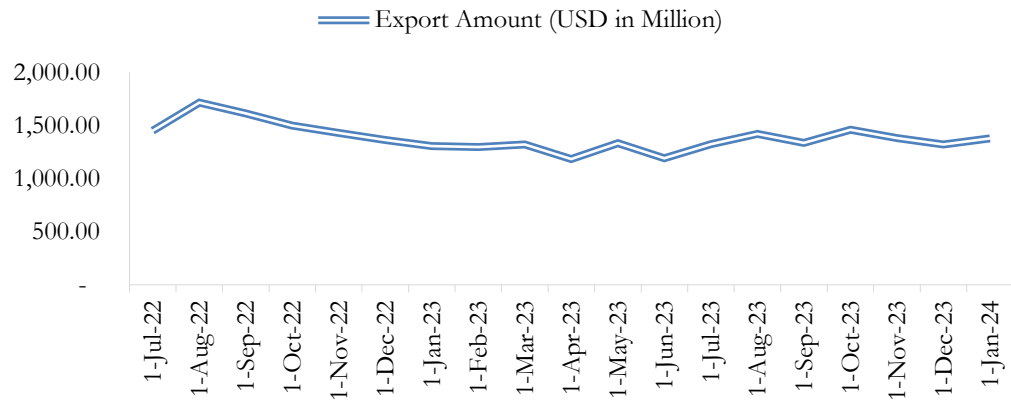


Figure: MoM Textile Exports (in USD millions)
Source: SBP

Some optimism, however, can be drawn from expansion in agriculture sector by 6.25% in FY24, according to Economic Survey 2023-24. Recovery in cotton exports in FY24 and beyond is supported by a resurgence of cotton production to 10.22m bales (FY23: 4.91m bales) in FY24. Nevertheless, the sector's vulnerability to global market dynamics and the domestic economic landscape further contribute to its high business risk profile. While the global cotton crop is anticipated to recover, domestic textile sector faces challenges of high policy rate, escalating energy costs, elevated government taxation and rising import costs. Previous incentives from a five-year textile policy were reduced or withdrawn due to economic instability and IMF advisory, impacting the industry.

Operational Performance

Since last review, installed capacity remains unchanged while actual production has improved significantly by 60% in the last year due to uptick in demand from Dec'23 onwards. As a result, the utilization levels reached 67% by end-FY24. Moreover, the Company aims to optimize its supply chain by installing a spinning facility in long-term and diversify its operations.

Table: Capacity & Production Data (units in million)

	FY20	FY21	FY22	FY23	FY24
Number of looms installed	208	208	208	208	208
Installed Capacity – Meters	36.0	36.0	36.0	36.0	36.0
Actual Production – Meters	23.8	29.6	28.3	15.0	24.0
Capacity Utilization	66%	82%	78%	42%	67%

Key Rating Drivers

Fluctuation in demand impacted profitability during FY23, however, FY24 registered a rebound in volumetric sales

During FY23, net sales decreased to Rs. 10.8b (FY22: Rs. 15.4b) due to lower demand on account of global economic slowdown. Gross profit declined to Rs. 1.7b (FY22: Rs. 2.0b) in during FY23, however gross margin improved to 15.6% (FY22: 12.8%), as a result of decrease in overheads. High policy rate during the outgoing year resulted in an increase in finance cost

by 10.3% (FY23: Rs. 509.0m, FY22: Rs. 461.5m). Given the downturn in topline and higher finance cost, net profit contracted to Rs. 593.9m (FY22: Rs. 941.5m) during FY23. Net margin also decreased to 5.5% (FY22: 6.1%), the same remains favorable among peers.

During 9MFY24, net sales surged by 34.2% to Rs. 10.6b (9MFY23: Rs. 7.9b) amid rebound in demand, however, gross margin declined amid higher cost of production and absence of exchange gain. Given lower gross margin and elevated finance cost (9MFY24: Rs. 481.3m, 9MFY23: Rs. 363.2m), net profit decreased to Rs. 295.0m (9MFY23: Rs. 544.8m); net margin also decreased to 2.9% (9MFY23: 6.9%) during 9MFY24.

Indirect exports (local sales) form largest portion of total sales followed by export sales whereas wastage sales to local customers are minimal. Concentration risk is high given that Rajby Industries, an associated concern, was the top revenue contributor in FY24 with a 29% share, followed by Indigo Textiles at 14%. Furthermore, top 10 clients contributed 66% of total revenue in FY24. Geographically, majority of exports clients are currently based in Turkey and Bangladesh. Top-ten exports clients represented 58% (FY23: 66%) of total exports. Total sales (in PKR terms) comprised of indirect export (local), export sales and wastage sales/local as tabulated below:

Table: Sales Mix

	FY22	FY23	9MFY23	9MFY24
Indirect export/local sales	69%	77%	76%	80%
Export sales	24%	20%	18%	17%
Wastage sales/local	6%	3%	5%	3%

As per management, net sales will reach Rs. 16.0b (FY23: Rs. 10.8b; FY22: Rs. 15.4b) and net profit will reach Rs. 400.0m in FY24. The ratings are dependent on growth in topline translating to improvement in margins, moving forward.

Cashflows and subsequent coverages deteriorated during the review period

FFO (funds from operations) decreased by 37.7% to Rs. 995.7m (FY22: Rs. 1.6b) in FY23 on account of lower operating profit. While FFO to debt coverages remained rangebound at healthy levels, DSCR (debt servicing coverage ratio) inched down to 2.27x (FY22: 2.44x) due to decline in FFO in FY23. Current ratio improved to 1.25x (FY22: 1.16x) owing to lower quantum of short-term borrowings at end-FY23. Current ratio remained almost at the same level by end-9MFY24.

Ageing profile of trade debts remains sound, as almost all receivables are settled within 30 days; and no bad debt has been reported. Trade debts decreased to Rs. 3.0b (end-FY22: Rs. 3.9b) at end-FY23 due to lower sales while the same has increased to Rs. 4.0b at end-9MFY24 with rise in sales. Short-term debt coverage enhanced during the review period (9MFY24: 2.38x, 9MFY23: 1.93x; FY23: 1.67x, FY22: 1.49x) on account of higher trade debts and stock-in-trade. However, cash conversion cycle (CCC) stretched to 121 days in FY23 (FY22: 102 days) owing to considerably higher inventory holding days. Cash conversion cycle, albeit still high, improved to 100 days (*annualized*) on account of improvement in inventory turnover during 9MFY24. The management states that growth in demand during the ongoing year will augment revenues resulting in stable liquidity metrics. Ratings will remain dependent on improvement in coverages moving forward.

Ratings incorporate reduction in debt level

Total equity enhanced to Rs. 4.3b (end-FY22: Rs. 3.7b) at end-FY23 on the back of profit retention. Short-term borrowings decreased to Rs. 3.3b (FY22: Rs. 4.4b) at end-FY23. In addition, RTPL settled a loan-term loan from the directors of Rs. 250m that was obtained for allocation of financing facilities to the Company as part of bank requirement. The ratings incorporate sustained reduction in total debt levels (9MFY24: Rs. 3.1b, FY23: Rs. 3.7b, FY22: Rs. 5.2b). Resultantly, gearing ratio and debt leverage have improved, reaching 0.96x (FY22: 0.96x) and 1.34x (FY22: 1.83x) respectively. Gearing ratio improved to 0.72x by end-9MFY24. However, leverage deteriorated to 1.45x in 9MFY24 due to rise in trade payables. Capitalization indicators are expected to remain manageable with no major capex planned in near term though the Company plans to add a spinning facility in the long run.

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 Watch	Rating Action	
	03-09-2024	A-	A-2	Stable	Reaffirmed	
	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.					
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 Meeting Conducted	Name	Designation		Date		
	Mr. Zubair Kazi	CFO		08-Aug-2024		
	Mr. Farhan Ahmed	Accounts Manager				