

## RATING REPORT

### Soorty Enterprises (Private) Limited

**REPORT DATE:**

March 25, 2020

**RATING ANALYSTS:**

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#### RATING DETAILS

| Rating Category       | Latest Rating  |            | Previous Rating |            |
|-----------------------|----------------|------------|-----------------|------------|
|                       | Long-term      | Short-term | Long-term       | Short-term |
| <b>Entity</b>         | AA-            | A-1        | AA-             | A-1        |
| <b>Rating Date</b>    | March 25, 2020 |            | Dec 31, 2018    |            |
| <b>Rating Outlook</b> | Stable         |            | Stable          |            |
| <b>Outlook Date</b>   | March 25, 2020 |            | Dec 31, 2018    |            |

#### COMPANY INFORMATION

**Incorporated in** 1984

**External auditors:** Kreston Hyder Bhimji & Co.  
Chartered Accountants

**Private Limited Company**

**Directors:**

- Mr. Shahid Rashid Soorty (CEO & Managing Director)
- Mrs. Nargis Shahid Soorty
- Mr. Asad Shahid Soorty

#### APPLICABLE METHODOLOGY(IES)

*Applicable Rating Criteria: Industrial Corporates (April 2019)*

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

## Soorty Enterprises (Private) Limited

OVERVIEW OF  
THE  
INSTITUTION

Soorty Enterprises (Private) Limited (SEL) was incorporated as a Private Limited Company on March 12, 1984.

SEL is a family owned business with major shareholding resting with Mr. Shahid Rashid Soorty and Mr. Abdul Rashid. Mr. Shahid Soorty has been associated with SEL since the past three decades and is currently the CEO & Managing Director of the company.

SEL is compliant with International Social and Environmental & Quality standards. SEL owns 99.99% shareholding in Soorty Textiles (BD) Limited which is involved in the manufacturing of denim garments. The company also has a wholly owned subsidiary in UAE involved in investment in securities and providing textile related services.

The company has a Marketing and Display Center in Amsterdam and a Product Development Center in Turkey. The company also has a marketing office in Dubai to facilitate its sponsors and staff visa and business meetings.

## RATING RATIONALE

Soorty Enterprises (Private) Limited (SEL) is one of the leading denim fabric and garment manufacturers in the country with vertically integrated operations. SEL operates through various units at different locations in Landhi and Korangi, Karachi and Nooriabad, Pakistan, comprising spinning, denim weaving, garments and washing units. The Company also has international presence through a subsidiary in Bangladesh, a marketing company in United Arab Emirates, a Research, Development and Design Office in Amsterdam, Netherlands and a Product Development Center in Turkey. The subsidiary in Bangladesh reported double digit growth in revenues owing to increasing capacity utilization levels.

The company has also diversified operations through investments in the power (Rs. 506.5m) and industrial gases (Rs. 1b). Short term investment portfolio of the company was reported at Rs. 536m (FY18: Rs. 1.9b) at end-FY19 comprising shares of one marketable security.

**Key Rating Drivers****Satisfactory operating track record with consistently high capacity utilization in all three segments**

During FY19, the company enhanced its capacity in all three divisions- spinning, weaving and garments division. Weaving capacity increased by 14% during FY19. Capacity utilization continues to remain on the higher side but witnessed a dip across all segments during FY19 owing to new installed capacities coming online in the latter half of FY19. The company currently meets around three-fifth of its fabric division's yarn requirement. Company's expansion plans are ongoing in all three operating segments which are targeted to be completed over the next 5 years. Financing of the expansion plans will be done through an estimated 65:35 mix of debt (concessionary rate borrowings) to equity. In addition to capital expenditures pertaining to core operations, the company also has plans to incur investments for sustainability requirements and to remain compliant with best practices.

**Moderate business risk profile supported by stable demand for denim products; US-China Trade disruption and recent coronavirus outbreak to support sales as major buyers look to diversify procurement. However, disruption in order pipeline and supply chain due to coronavirus outbreak remains key business risk factor in the short-term for most textile players.**

Business risk profile is supported by stable and growing demand for denim products. However, local and international expansion by major players is expected to keep pricing power and hence margins slightly under pressure. VIS expects demand for denim products to remain stable over the medium term. Given the favorable policies & incentives of the government on enhancing exports and imposition of duties on Chinese exports to USA, there is significant opportunity for local players to enhance exports. Increased expansion by leading denim and non-denim textile players is also on account of favorable demand and expected increase in orders. SEL is well positioned to tap this opportunity given its strong brand and consistent investments to enhance productivities, efficiencies, and competitiveness across value chain. On the flip side, disruption in order pipeline and supply chain due to coronavirus outbreak remains key business risk factor in the short-term for most textile players.

**Healthy sales growth with garment segment dominating sales mix**

Sales revenue of the company posted a double-digit growth of 19% in FY19 largely being a function of higher average selling prices due to sizeable currency devaluation. Exports comprise around 95% of the sales revenue. Garments and Fabric exports sales grew by 15% and 29%, respectively on account of some volumetric growth and sizeable rise in selling prices. Moreover, with consistent expansion in the fabric division, product sales mix of the company changed during the outgoing year with proportion of denim fabric sales increasing to around 28% of overall sales with remaining revenues emanating from garment sales. Going forward, management expects fabric: garments sales mix to clock in the ratio of 35:65. Geographic sales mix demonstrates higher concentration of fabric sales directed to Bangladesh and garment sales directed to European market. The management is also looking to increasingly tap the US market. Increased focus on research and development and training and branding is being undertaken to sustain and diversified growth in revenues.

**Robust profitability profile which is expected to sustain over the rating horizon**

Gross Margins (GMs) of the company compare favorably to denim and non-denim textile operators; however, the same witnessed a decline during FY19 primarily on the back of higher cotton prices. The company envisages maintaining margins at similar levels. Operating profit during FY19 was supported by sizeable exchange gain on exports. Quantum of dividend income reduced by half during FY19. Going forward, management expects dividend income to remain subdued at similar levels in FY20. Impact of increase in interest rates on profitability has remained limited due to low leveraged capital structure and concessionary rate borrowings. Going forward, VIS expects profitability profile to sustain on the back of volumetric growth in sales post increase in capacities over the rating horizon.

**Strong liquidity profile with healthy cash flow coverages**

Liquidity profile of the company is considered strong in view of healthy cash flows in relation to outstanding obligations and ageing profile of trade debts which remain within manageable levels. Funds flow from operations increased by 14% and is expected to remain sufficient for funding all planned capex. With current assets being greater than current liabilities, current ratio of SEL was reported greater than 1 at end-FY19. With majority payment of cotton being made upfront (local cotton is procured on cash and imported cotton is obtained on site LC), and higher time to collect receivables and inventory days, SEL's working capital cycle necessitates utilization of short term borrowing.

**Low leveraged capital structure and conservative financial policy**

The company's historical stance of maintaining very low dividend payouts and funding its expansions through limited debt is reflective of a conservative financial policy. Equity base of the company have grown at a healthy pace over the last three years due to profit retention. Debt carried on the balance sheet comprises short-term debt to fund working capital requirements. Despite company's projections to finance its expansions through internal cash flows and Islamic LTFF, leverage and gearing indicators are expected to remain commensurate with benchmarks for the assigned ratings.

**Adequate corporate governance infrastructure**

Overall scope and functioning of internal audit and IT function are considered adequate. Given the company's nature as a private limited company, there is significant room for improvement in board composition and oversight.

## Soorty Enterprises (Private) Limited

## Appendix I

| <u>FINANCIAL SUMMARY</u> (amounts in PKR millions) |             |             |
|--|-------------|-------------|
| <b><u>BALANCE SHEET</u></b>                        |             |             |
|  | <b>FY18</b> | <b>FY19</b> |
| Paid Up Capital                                    | 150         | 150         |
| Total Equity                                       | 28,644      | 34,830      |
| <b><u>INCOME STATEMENT</u></b>                     |             |             |
| Net Sales  | 32,175      | 38,153      |
| Profit Before Tax                                  | 4,750       | 5,960       |
| Profit After Tax                                   | 4,489       | 5,933       |
| <b><u>RATIO ANALYSIS</u></b>                       |             |             |
| Adjusted FFO                                       | 7,188       | 8,193       |
| Current Ratio (x)                                  | 1.8         | 1.7         |
| Gearing (x)  | 0.31        | 0.35        |

**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](http://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](http://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](http://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               |                          |                       |                      |
|---|--|----------------------------|--------------------------|-----------------------|----------------------|
| <b>Name of Rated Entity</b>             | Soorty Enterprises (Private) Limited   |                            |                          |                       |                      |
| <b>Sector</b>                           | Textile Industry   |                            |                          |                       |                      |
| <b>Type of Relationship</b>             | Solicited  |                            |                          |                       |                      |
| <b>Purpose of Rating</b>                | Entity Rating  |                            |                          |                       |                      |
| <b>Rating History</b>                   | <b>Rating Date</b>   | <b>Medium to Long Term</b> | <b>Short Term</b>        | <b>Rating Outlook</b> | <b>Rating Action</b> |
|   | <b>RATING TYPE: ENTITY</b>   |                            |                          |                       |                      |
|   | March 25, 2020   | AA-                        | A-1                      | Stable                | Reaffirmed           |
|   | December 31, 2018  | AA-                        | A-1                      | Stable                | Reaffirmed           |
|   | March 22, 2018   | AA-                        | A-1                      | Stable                | Initial              |
| <b>Instrument Structure</b>             | N/A  |                            |                          |                       |                      |
| <b>Statement by the Rating Team</b>     | 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.   |                            |                          |                       |                      |
| <b>Probability of Default</b>           | 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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| <b>Due Diligence Meetings Conducted</b> | <b>Name</b>  |                            | <b>Designation</b>       | <b>Date</b>           |                      |
|   | 1  | Mr. Muhammad Abdullah      | General Manager, Finance | 16-March-2020         |                      |
|   | 2  | Mr. Waqas Ahmed            | Head of Finance          | 16-March-2020         |                      |