

RATING REPORT

Soorty Enterprises (Private) Limited

REPORT DATE:

May 30, 2022

RATING ANALYST:

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RATING DETAILS

Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	AA-	A-1	AA-	A-1
Rating Date	May 30, 2022		May 24, 2021	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Outlook Date	May 30, 2022		May 24, 2021	

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: Corporates (August,2021)

<https://docs.vis.com.pk/docs/CorporateMethodology202108.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. He 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.

RATING RATIONALE

Soorty Enterprises (Private) Limited (“SEL” or “the Company”) 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, FBA 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.

Sector Update

Table 1: Pakistan Export Statistics

	FY19	FY20	FY21	9M'FY21	9M'FY22
Pakistan Exports (In USD' Millions)	24,029	22,536	25,639	18,713	23,699
Textile Exports (In USD' Millions)	13,659	12,798	14,415	10,426	13,506
PKR/USD Rate (Average)	136.3	158.2	160.3	162.1	172.3

- Subsequent to posting export contraction in FY20 - owing to the pandemic-induced slowdown experienced in H2'FY20 – Pakistan’s export base grew by 14% in FY21, which is partly attributable to a low base effect. Pakistan’s export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21). So the uptick is largely aligned with historical numbers and is not considered material.
- Share of textile exports in total exports has oscillated in the range of 54-59%, coming in at 57% during the past 2-years (FY20-21). In FY21, owing to the similar low-base effect, as discussed above, textile exports were up 13%.
- In USD’ terms textile exports have grown at a CAGR of 4.4% during the past 3-year period (FY19-FY21), despite depreciation in average USD/PKR parity of 24%, 16%, and 1% in FY19, FY20 and FY21 respectively.
- As illustrated in the table above, textile exports in 9M'FY22 were 27% higher than SPLY. With additional capacities coming online in Q4'FY22, textile exports for FY22 are likely to come in the range of USD 31-32b.
- As illustrated in the table below, the composition of textile exports has depicted improvement in the last 4-year period, but contribution from lower to medium value added segment has been decreasing from 27.1% in FY18 to 19.3% in FY21 of aggregate textile exports.

Table 2: Segment-wise textile Exports (All Figures in USD’ Millions, except for percentages)

	FY18	FY19	FY20	FY21	FY18	FY19	FY20	FY21
HIGH VALUE-ADDED SEGMENT	9,854	10,046	9,669	12,428	72.9%	75.4%	77.2%	80.7%
- KNITWEAR	2,711	2,900	2,794	3,816	20.1%	21.8%	22.3%	24.8%
- READYMADE GARMENTS	2,577	2,653	2,552	3,033	19.1%	19.9%	20.4%	19.7%
- BED WEAR	2,261	2,262	2,151	2,772	16.7%	17.0%	17.2%	18.0%
- TOWELS	797	786	711	938	5.9%	5.9%	5.7%	6.1%
- MADE-UP ARTICLES (EXCL. TOWELS & BED WEAR)	685	680	591	756	5.1%	5.1%	4.7%	4.9%
- ART, SILK & SYNTHETIC TEXTILE	310	297	315	370	2.3%	2.2%	2.5%	2.4%
- OTHERS	513	468	555	743	3.8%	3.5%	4.4%	4.8%
LOW TO MEDIUM VALUE-ADDED SEGMENT	3,667	3,282	2,858	2,972	27.1%	24.6%	22.8%	19.3%
- COTTON CLOTH	2,204	2,102	1,830	1,921	16.3%	15.8%	14.6%	12.5%
- COTTON YARN	1,372	1,125	984	1,017	10.1%	8.4%	7.9%	6.6%
- OTHERS	92	54	43	34	0.7%	0.4%	0.3%	0.2%

TOTAL	13,521	13,328	12,527	15,400	-
SOURCE: PBS					

- Cotton production in Pakistan, on the other hand, was at its lowest level in decades for FY21. Cotton prices rose to a new 11-year high of ~Rs. 13,000/maund as a result of the production shortage, and cotton imports have climbed by 59.8% in quantity and 68.1% in USD terms, for FY21 vis-à-vis preceding year.

Table 3: Cotton Prices

	<i>FY18</i>	<i>FY19</i>	<i>FY20</i>	<i>FY21</i>	<i>9MFY22</i>
<i>Per Maund (Rs.)</i>	6,953	8,770	8,860	13,000	20,180
<i>% Change</i>	6%	26%	1%	47%	55%

- Given favorable weather conditions, cotton production in Pakistan posted strong growth for FY22, with cotton crop for Jul-Nov'21 (Rabi) season being 81% higher than SPLY. Nevertheless, the upward momentum in cotton pricing continued in 9M'FY22, with prices as of May 2022 hovering at ~Rs. 22,000 per mound.
- The margins of textile operators have broadly depicted improvement partly on account of inventory gains on sizable increase in cotton pricing and partly due to favorable exchange rate movement. Nevertheless, higher raw material pricing has increased the working capital requirements for textile operators, which is likely to weigh on the liquidity of textile players.

Business Update - SEL

Sales & Operations

- SEL's capacity utilization has depicted improvement across all segments in H1'FY22 on the back of higher sales offtake. Given the strong improvement in sales offtake, SEL is undertaking an expansion of its spinning and weaving segment, which is to be concluded over the next 3 year period.
- In FY21, the Company posted topline growth of 12.7% exceeding FY20 growth of 3.7% that was marred by the pandemic-induced slowdown. During the past 5-year period (FY17-FY21), the Company's topline has grown at a CAGR of 12.1%.
- Growth in FY21 is mainly a product of quantitative growth in offtake, wherein fabric & garment volumetric sales were up 4.0% and 9.6% (YoY) respectively.
- SEL's revenue base is pre-dominantly export-centric, with the same comprising ~92% of sales as of FY21.
- While in terms of product mix, proportion of denim fabric to garments sales is around 31:67 ratio in FY21 (FY20: 33:67).
- Geographic sales mix demonstrates higher concentration of fabric sales directed to Bangladesh and garment sales directed to the European market. Going forward, the management is looking to increasingly tap the US market with new clients added during the ongoing year.
- In line with peers in the textile industry, SEL's gross margin improved in FY21 mainly as a result of inventory gains emanating from the commodities supercycle 21.
- The Company's net margins also depicted notable improvement on the back of higher operational profitability and other income.

Cash Flow Coverages

- Strong growth in revenues translated in growth in cash flows and hence a strong debt servicing capacity. As of June'21, the FFO to Debt implies full debt repayment with just 3 year FFO. The Company's DSCR has decreased in the ongoing year, since a sizable principal payment on debt has become due in FY21.
- Current ratio has remained consistently above 1x, supporting the short term rating assessment of SEL. Furthermore, coverage of short term debt by stock of trade debts and inventory is considered adequately high.
- The cash conversion cycle has posted improvement in FY21 owing to reduction in inventory days.

Capitalization

- Equity base (excluding revaluation on surplus) of the Company, has improved on account of internal capital generation, growing at a CAGR of 15.9% during the last 5 years. (FY17-FY21). This is mainly a result of growing offtake and full profit retention.
- The Company's debt is almost entirely composed of financing under SBP's concessionary debt financing scheme.
- In H1'FY22, the Company has taken long term debt under concessionary rate to finance its expansion, as a result of which slight increase in gearing has been noted. Nevertheless, it remained in line with the threshold for the assigned rating.
- Given adequate profit retention, the Company's gearing remained conservatively low during the period FY19-21. Going forward, gearing is projected to remain range-bound and below 0.7x.

Key Rating Drivers**Rating incorporates SEL's market positioning as a leading exporter**

SEL is one of the leading denim fabric and garment manufacturers and exporters with vertically integrated operations. As of FY21, SEL was the fourth largest exporter of Pakistan. The ratings take into account business risk of denim sector and regional & counterparty concentration inherent in SEL's revenue base.

Ratings take into account consistent uptick in topline, strong gross margin and comfortable cash flow coverage indicators

During the past 5-year period (FY17-FY21), the Company's topline has grown at a CAGR of 12.1%. At the same time, the margins have depicted improvement over a timeline. Cash flow coverage indicators have remained strong and aligned with peer median.

Rating incorporates conservative capital structure of SEL

The Company's debt utilization remains conservative, as reflected by the gearing & leverage levels. The Company's debt is almost entirely composed of financing under SBP's concessionary debt financing scheme. Furthermore, the Company has sizable liquidity available on the balance sheet, which has largely been placed in money market mutual funds. Inclusive of dividend income, income from financial assets has contributed 19% of the Company's operating profit for FY21, which translates in a diversified business risk profile.

Soorty Enterprises (Private) Limited

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
<u>BALANCE SHEET</u>	FY19	FY20	FY21
Paid Up Capital	150	150	150
Total Equity	34,830	37,143	42,793
<u>INCOME STATEMENT</u>			
Net Sales	38,153	39,546	44,583
Profit Before Tax	5,960	2,382	6,242
Profit After Tax	5,933	2,229	5,671
<u>RATIO ANALYSIS</u>			
FFO	8,193	4,540	7,468
Current Ratio (x)	1.7	1.6	1.8
Gearing (x)	0.35	0.45	0.53

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	Soorty Enterprises (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				
	May 30, 2022	AA-	A-1	Stable	Reaffirmed
	May 24, 2021	AA-	A-1	Stable	Reaffirmed
	March 25, 2020	AA-	A-1	Stable	Reaffirmed
	December 31, 2018	AA-	A-1	Stable	Reaffirmed
	March 22, 2018	AA-	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. Abid Lakhani	Senior Manager Finance	27-April-2022		