

# RATING REPORT

## Soorty Enterprises (Private) Limited

### REPORT DATE:

September 06, 2024

### RATING ANALYSTS:

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### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	AA-	A-1	AA-	A-1
Rating Outlook/ Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	September 06, 2024		July 07, 2023	

### 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
Key Shareholders (more than 5%)	
	- Mr. Shahid Soorty – 79.3%
	- Mrs. Nargis Shahid Soorty – 20%

### APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates Methodology

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

VIS Issue/Issuer Rating Scale: <https://docs.vis.com.pk/docs/VISRatingScales.pdf>

## Soorty Enterprises (Private) Limited

### OVERVIEW OF THE INSTITUTION

*Soorty Enterprises (Private) Limited (SEL) was established as a private limited company on March 12, 1984.*

#### Profile of CEO/MD:

*Mr. Shahid Rashid Soorty is a major shareholder of the company. He has been associated with SEL since the past three decades and is currently the CEO & Managing Director of the Company.*

### RATING RATIONALE

#### Corporate Profile

Soorty Enterprises (Private) Limited (“SEL” or “the Company”) is a manufacturer and seller of denim products with vertically-integrated production facilities. The Company has a significant international presence, including subsidiaries in Bangladesh and the UAE, as well as marketing offices in the Netherlands, Spain, USA and Turkey. Its production operations are based in Karachi and supported by a workforce of over 20,000 employees.

SEL is a leading manufacturer and exporter of denim fabric and garments, achieving the fifth position among the top ten exporters in the country for 2024, up from the sixth position in 2023.

The average energy requirement of 42.5 MW is mainly fulfilled by gas generators, with backup sources including the national grid, diesel, and furnace oil generators, as well as solar power.

#### Strategic Investment Portfolio

The Company holds long-term investments totaling Rs. 5.1 billion in subsidiaries and associated companies. Its subsidiaries include Soorty Textiles (BD) Limited and Soorty International Limited. The associated companies are Liberty Power Tech Limited, Pakistan Aluminum Beverage Cans Limited, Pakistan Oxygen Limited, and Lakson Private Equity Fund.

#### Environmental, Social, & Governance (ESG) Initiatives

SEL’s denim fabric mill and garment factories hold LEED Platinum and Cradle-to-Cradle Gold certifications, reflecting their dedication to energy efficiency, environment improvement and sustainability. The Company also adheres to international quality standards with ISO 9001:2000 certification. Furthermore, SEL in Alliance with Water Stewardship (AWS), operates a water recycling system, and is actively developing a comprehensive Clean Water plan, including collaborative partnerships and knowledge-sharing initiatives to encourage responsible water use.

In terms of energy conservation, SEL has implemented solar panels, wind power projects, and a Passive Denim Drying System, resulting in a 50% reduction in greenhouse gas emissions. By 2027, the company plans to replace coal-fired boilers with high-efficiency boilers and waste heat recovery systems, and transition to biomass boilers by 2024.

The Company’s waste management strategy includes categorizing waste into domestic and post-industrial segments, emphasizing recycling and responsible practices to minimize operational waste impact. An in-house recycling facility processes used denim, fabric waste, and garment waste into recycled bales for various applications. SEL also engages in tree plantation projects, such as the Soorty Forest Rescue Initiative, which uses WaterBoxx technology for urban forestation and mass-plantation efforts in the Thar Desert. SEL has also partnered with WWF for mangrove plantation along Karachi’s coastline.

Additional initiatives include the Prism Project, which employs hearing-impaired individuals in noisy laundry areas to turn disabilities into strengths, and the Organic Cotton Initiative, which supports 1,000 farmers by promoting livelihoods, financial inclusion, women's training, and clean water access. The Women's Service program uses street theater to advocate for female employment.

### Operational Performance

SEL operates integrated production facilities including spinning, denim weaving, garment stitching and washing units across multiple locations in Karachi and Nooriabad. Production levels demonstrated a decline during FY23 amid reduced global demand. However, recovery is noted during 9M'FY24 period.

Approximately 75% of the yarn is consumed in-house by the Company whereas ~60% of the fabric produced is also consumed by the Company internally. Rest is sold in local and international markets.

Moving forward the Company plans to increase its installed capacity for Weaving and Garment segments during the rating horizon.

**Figure: Capacity & Production Data (Units in millions)**

	FY21	FY22	FY23	9M'FY24
<b>Denim Spinning</b>				
No. of spindles installed	56,400	56,400	80,400	104,400
No. of rotors installed	1,080	1,080	2,520	2,520
Installed Capacity – Kgs	31.1	32.2	48.5	40.6
Actual Production – Kgs	29.9	31.0	34.9	37.1
<b>Denim Fabric</b>				
No. of looms installed	478	576	576	576
Installed Capacity – Meters	78.0	91.2	91.2	68.4
Actual Production – Meters	56.2	76.0	51.9	52.7
<b>Denim Garments</b>				
Installed Capacity – Pieces	32.4	32.4	34.2	26.7
Actual Production – Pieces	23.2	31.0	24.7	24.5

### 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.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs and inflationary pressures. Additionally, the sector's vulnerability to global market dynamics and the domestic economic landscape further contribute to its high business risk profile. However, there is optimism as an anticipated bigger cotton crop in FY24 is expected to alleviate some pressure on input costs and margins.

**MONTH-WISE EXPORT DATA FOR TEXTILE SECTOR**

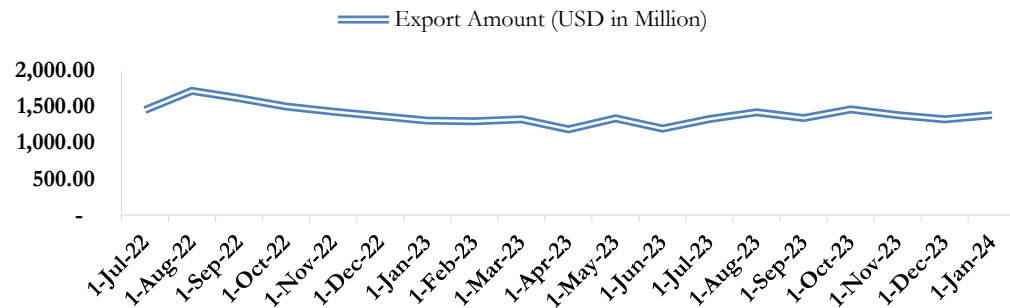


Figure 1: MoM Textile Exports (In USD' millions)  
Source: SBP

**Key Rating Drivers**

**Sales Revenue Demonstrates Growth While Net Margins Remained Under Pressure due to Notable Decrease in Other Income, decrease in margins and substantial increase in cost of doing business.**

Despite a 12% drop in volumetric sales, the Company's net sales increased by 13% Y/Y to Rs. 77.9b (FY22: 68.9b) in FY23. This uptick was mainly attributed to increase in prices amid rupee depreciation. On the other hand, net sales of the Company registered a CAGR of 17% during the last 4.75-years (FY20 to end'9MFY24). Approximately 90% of the Company's sales come from exports, while the remaining 10% is from the domestic market including indirect exports. Client concentration has remained moderate at 72% in FY23, up from 69% in FY22.

Gross margins have returned to historical levels of around 21% in FY23, compared to 30% in FY22, 23% in FY21, and 21% in FY20. Administrative and selling expenses have grown in line with the overall inflationary trend. Other Income of the Company has doubled from Rs.3.7 billion to Rs. 7.0 billion in FY23 amid exchange rate gain. Despite lower total debt as of Dec'23, Finance costs have more than doubled, increasing from Rs. 1.4 billion in FY22 to Rs. 3.4 billion in FY23 due to high interest rates and fluctuating short-term borrowings, during the year leading to a reduction in net margins to 12% in FY23, down from 20% in FY22.

During 9MFY24, the Company registered a 47% YoY increase in net sales, totaling Rs. 79.1 billion compared to Rs. 53.9 billion in the same period of FY23. This sales growth is attributed to recovery in demand. Gross profit margins inched down to 21% from 22% on account of high raw material, fuel costs and tough economic conditions leading to increased cost of doing business. Other income fell by 63% YoY, dropping to Rs. 1.5 billion in 9MFY24 from Rs. 4.0 billion in 9MFY23 amid stable exchange rate. The reduction in other income and increased finance charges resulted in a decline in net margins to 4% in 9MFY24, compared to 13% in 9MFY23.

Management has reported projected sales of approximately Rs. 108 billion for the full fiscal year FY24, with margins expected to be consistent with those observed in the first nine months of FY24.

**Although FFO and Coverage Ratios have declined in FY23, yet remain healthy. Though the 9MFY24 coverages are adequate, improvements will be necessary moving forward.**

Funds from Operations (FFO) marginally declined to Rs. 18.0 billion in FY23 from Rs. 18.6 billion in the previous year, attributable to decreased profitability. Despite decrease in FFO, cashflow coverages including FFO to total debt improved to 0.51x (FY22:0.31x) in FY23, due to reduction in short-term borrowings. Conversely, the ratio of FFO to long-term debt decreased from 1.49x to 1.46x, due to increase in long-term borrowings. Also, the Debt Service Coverage Ratio (DSCR) experienced a decline to 7.3x (FY22:17.9x) in FY23, though remained sound from the given ratings perspective. The decline was mainly driven by lower FFO and higher finance charges during the period.

For 9MFY24 period, the FFO amounted to Rs. 7.7 billion. Resultantly, the FFO to total debt ratio and the FFO to long-term debt ratio decreased to 0.27x and 0.98x, respectively. The DSCR for this period was recorded at 2.9x due to incident of higher finance cost. The Company, however, maintained a healthy liquidity position, with a current ratio of 1.9x. Going forward, VIS foresee FFO and debt service coverage to remain under pressure for rest of the FY24; however, the same is expected to improve going forward amid higher projected profitability. Maintenance and improvement in debt service coverage will remain an important rating consideration.

#### **Capitalization Indications Remain Within Manageable Levels**

As of June 2023, the Company's tier-1 equity increased by 24% to Rs. 70.3 billion, driven by profit retention. Concurrently, the Company significantly reduced its total debt by 41%, from Rs. 59.2 billion to Rs. 35.1 billion. Notably, short-term borrowings were halved, dropping from Rs. 46.7 billion to Rs. 22.7 billion. Increase in equity base and reduction in total debt improved the gearing to 0.50x (FY22: 1.04x) in FY23.

During 9MFY24, the Company's equity grew modestly by 9% to Rs. 76.8 billion, further improving the gearing to 0.48x although total debt levels rose slightly, totaling to Rs. 36.5 billion due to increased short-term borrowings.

In FY25, the Company projects an increase in net long-term borrowings due to planned expansions in the weaving and garments sectors. This will lead to an increase in the Company's gearing and leverage metrics to 0.79x and 1.1x, respectively. Despite this increase, the capitalization profile will remain at acceptable levels.

**IT infrastructure**

SEL implements Datatex, a integrated suite of ERP and Product Lifecycle Management (PLM) software designed for the textile and apparel industry. This system is integrated with Oracle to enhance operational efficiency and reduce costs.

REGULATORY DISCLOSURES					Appendix I
<b>Name of Rated Entity</b>	Soorty Enterprises (Pvt) Limited				
<b>Sector</b>	Textile				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<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>
	<u>Rating Type: Entity</u>				
	06-09-2024	AA-	A-1	Stable	Reaffirmed
	07-07-2023	AA-	A-1	Stable	Reaffirmed
	30-05-2022	AA-	A-1	Stable	Reaffirmed
	24-05-2021	AA-	A-1	Stable	Reaffirmed
	25-03-2020	AA-	A-1	Stable	Reaffirmed
	31-12-2018	AA-	A-1	Stable	Reaffirmed
22-03-2018	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 debt issue will default.				
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<b>Due Diligence Meeting Conducted</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>	
	Mr. Sheikh Muhammad Abdullah	Chief Financial Officer		August 15, 2024	
	Mr. Abid Lakhani	Senior Manager Finance			