RATING REPORT

Naveena Industries Limited

REPORT DATE:
January 4, 2019

RATING ANALYST:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	BBB+	A-2
Rating Outlook	Stable	
Rating Date	31st December 2018	

COMPANY INFORMATION	
Incorporated in June 1966	**External auditors:** Ibrahim Shaikh & Co.
Public Unlisted Company	**Chairman:** Iftikhar Ahmed Khalid
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Shazad Khalid
Shazad Khalid (30%)	
Faisal Khalid (30%)	
Iftikhar Ahmed Khalid (25%)	
Yasmin Khalid (8%)	
Shazia Naveed (8%)	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria ***Industrial Corporates (May 2016)***
http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

Naveena Industries Ltd

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
Naveena Industries Limited (NIL) was incorporated in 1966 as a small embroidery unit and currently serves as the weaving division of Naveena Group	Naveena Industries Limited (NIL) started commercial operation in 1966 as an embroidery unit (and later weaving) of Naveena Group which is involved in the business of spinning and weaving. Majority of NIL's sales are geared towards the export market for greige cloth spun from yarn of medium to fine count. NIL also holds GOTS (Global Organic Textile Standard) certification for use of environment friendly and socially responsible chemical processes.

Rating Drivers:

Corporate governance has room for improvement

Overall board composition and oversight has room for improvement through inclusion of independent directors. Furthermore, in line with best practices, committees pertaining to audit and HR functions may be introduced.

Export oriented fabric sales focused towards producers of home textiles and specialized apparels

Majority of NIL's sales are export oriented owing to stronger international demand for medium to fine count greige cloth. Major clients include companies in Europe, USA and China that are involved in home textiles and specialized apparel production (medical, engineering, construction). NIL is addressing the growing demand for home textiles and plain weaves, thus aiming to reduce concentration in sales.

Sound profitability with challenges for growth

Gross margin for FY18 was 11.1% (FY17: 9.8%), exhibiting a gradual positive trend. Due to higher borrowings and resultantly finance cost, profit before tax exhibited only a slight increase year on year. However owing to tax reversals in FY18 profit after tax improved to Rs. 169.2m (FY17: Rs. 100.4m).

Liquidity coverage adequately placed for debt servicing

The company depicted healthier cash flows on the back of improved profitability in FY18. Funds from Operations (FFO) amounted to Rs. 287.4m in FY18 (FY17: Rs. 257.7m). Although FFO increased during FY18, FFO to total debt and FFO to long term debt declined on a timeline basis owing increase in both short term and long term debt. FFO to long term debt declined to 29.5% at end FY18 (FY17: 42.6%) whereas FFO to total debt declined to 10.7% at end FY18 (FY17: 13.6%). Meanwhile, the Debt Service Coverage Ratio (DSCR) for FY18 declined to 1.5x (FY17: 2.1x) due to higher debt repayment. It is expected that, at current levels of profitability, cash flows would be sufficient to cover principal repayment.

Retention has supported capitalization indicators

The equity base of NIL as at FY18 increased to Rs. 1.9b (FY17: Rs. 1.7b; FY16: Rs. 1.6b) on account of increasing trend of unappropriated profit witnessed during the course of the last three years coupled with the intermittent and decreasing nature of dividend payments. Gearing has increased to 1.4x for FY18 (FY17: 1.1x) due to increase in long term & short term borrowings. Gearing is expected to decrease going forward since NIL does not plan to take on additional debt.

Increase in production and sales bodes well for financial profile

Going forward, the foreseeable increases in sales for NIL, owing to a capacity increase of around 13% from loom expansion and rupee depreciation, will likely increase margins in rupee terms. NIL's margins are expected to improve in line with its increased production levels. The resultant improvement in cash flows as well as expected decrease in gearing will bode well for the financial profile of the company.

FINANCIAL SUMMARY *(in Rs. millions)*			Appendix I
BALANCE SHEET	**FY18**	**FY17**	**FY16**
Property, plant and equipment	2,318.6	1,857.7	1,936.9
Stock-in-Trade	1,124.5	940.0	856.3
Trade Debts	531.8	331.6	246.8
Cash & Bank Balances	501.3	455.1	445.9
Total Assets	5,132.9	4,057.8	3,859.6
Trade and Other Payables	459.7	381.5	335.3
Long Term Debt ***(*incl. current maturity+ liabilities subject to finance lease)***	973.5	604.3	714.0
Short Term Debt	1,724.2	1,286.7	1,115.2
Total Equity	1,897.9	1,728.8	1,640.3
INCOME STATEMENT			
Net Sales	5,252.2	4,476.0	4,113.5
Gross Profit	585.4	440.0	430.1
Operating Profit	340.4	226.6	173.0
Profit After Tax	169.2	100.4	16.2
RATIO ANALYSIS			
Gross Margin (%)	11.1%	9.8%	10.5%
FFO to Total Debt (%)	10.7%	13.7%	9.5%
FFO to LT Debt (%)	29.5%	42.6%	24.3%
Gearing (x)	1.4	1.1	1.1
Leverage (x)	1.7	1.3	1.4
DSCR (x)	1.5	2.1	1.2
ROAA (%)	3.7%	2.5%	0.4%
ROAE (%)	9.3%	6.0%	1.0%

ISSUE/ISSUER RATING SCALE &DEFINITIONS — Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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.

<table>
<tr><th colspan="5">REGULATORY DISCLOSURES</th><th>Appendix III</th></tr>
<tr><td>Name of Rated Entity</td><td colspan="5">Naveena Industries Limited</td></tr>
<tr><td>Sector</td><td colspan="5">Textiles</td></tr>
<tr><td>Type of Relationship</td><td colspan="5">Solicited</td></tr>
<tr><td>Purpose of Rating</td><td colspan="5">Entity Rating</td></tr>
<tr><td rowspan="3">Rating History</td><td>Rating Date</td><td>Medium to Long Term</td><td>Short Term</td><td>Rating Outlook</td><td>Rating Action</td></tr>
<tr><td colspan="5"><u>RATING TYPE: ENTITY</u></td></tr>
<tr><td>31/12/2018</td><td>BBB+</td><td>A-2</td><td>Stable</td><td>Initial</td></tr>
<tr><td>Instrument Structure</td><td colspan="5">N/A</td></tr>
<tr><td>Statement by the Rating Team</td><td colspan="5">JCR-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.</td></tr>
<tr><td>Probability of Default</td><td colspan="5">JCR-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.</td></tr>
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