

RATING REPORT

Naveena Industries Limited (NIL)

REPORT DATE:

April 24, 2020

RATING ANALYST:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook	Rating Watch - Negative		Positive	
Rating Date	April 24, 2020		February 28, 2020	
Rating Action	<i>Maintained</i>		<i>Maintained</i>	

COMPANY INFORMATION

Incorporated in June 1989	External auditors: Ibrahim Shaikh & Co.
Public Unlisted Company	Chairman: Mr. Iftikhar Ahmed Khalid
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Shazad Khalid
Shazad Khalid (30%)	
Faisal Khalid (30%)	
Iftikhar Ahmed Khalid (25%)	
Yasmin Khalid (7.5%)	
Shazia Naveed (7.5%)	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria *Industrial Corporates (April 2019)*

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

Naveena Industries Limited (NIL)

OVERVIEW OF THE INSTITUTION

Naveena Industries Limited (NIL) was incorporated as a Private Limited Company in March 1966. Later, the company was converted to unquoted public limited company in March 2011. The registered office of the company is situated in Karachi

RATING RATIONALE

The principal business of Naveena Industries Limited (NIL) includes manufacturing and export of grey cloth. NIL started commercial operations in 1966 as an embroidery unit (and later weaving) of Naveena Group which is involved in the business of spinning and weaving. The group also owns Ahmed Oriental Textile Mills Limited, which is engaged in production of yarn.

Production facilities

NIL's production facilities are located at F-130, SITE, Karachi and Mauza Kot, Kamoon Shah, Tehsil and District, Rahim Yar Khan. At present, the company operates a mix of airjet and shuttleless looms. The company operates with 411 looms presently.

Coronavirus to result in uncertainty in textile sector dynamics

The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand, sharp fall in cotton prices and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action. Aforementioned operating dynamics coupled with leveraged capital structure of the company warrant a 'Rating Watch-Negative' status. The ratings are dependent upon maintenance of overall sales, profit margins, debt service coverage, and gearing ratios at an adequate level, with outlook subject to be reviewed once the situation stabilizes.

Financial Summary (amounts in PKR millions)		Appendix I			
<u>BALANCE SHEET</u>		FY17	FY18	FY19	HY20
Paid up Capital		199.6	199.6	199.6	199.6
Total Equity		1,728.8	1,897.9	2,216.1	2,451.4
<u>INCOME STATEMENT</u>		FY17	FY18	FY19	HY20
Net Sales		4,476.0	5,252.2	6,440.1	3,655.7
Profit Before Tax		147.5	161.7	402.1	312.1
Profit After Tax		100.4	169.2	338.2	275.1
<u>RATIO ANALYSIS</u>		FY17	FY18	FY19	HY20
FFO		257.7	287.4	550.6	373.1
FFO to Total Debt (%)		13.6%	10.7%	20.1%	24.5%
Current Ratio (x)		1.10	1.10	1.13	1.16
Gearing (x)		1.09	1.42	1.24	1.24
Leverage (x)		1.35	1.70	1.58	1.58

ISSUE/ISSUER RATING SCALE & DEFINITIONS

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 moderate 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	Naveena Industries Limited (NIL)											
Sector	Textiles											
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											
	24/04/2020	BBB+	A-2	Rating Watch - Negative	Maintained							
	28/02/2020	BBB+	A-2	Positive	Maintained							
	31/12/2018	BBB+	A-2	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 Meetings Conducted	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 33%;">Name</th> <th style="width: 33%;">Designation</th> <th style="width: 33%;">Date</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>					Name	Designation	Date				
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