RATING REPORT

Arshad Corporation (Pvt.) Limited

REPORT DATE:

September 27, 2021

RATING ANALYSTS:

Tayyaba Ijaz
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RATING DETAILS				
	Latest Ratings		Previous Ratings	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	BBB+	A-2
Rating Date	September 27, 2021		April 23, 2020	
Rating Action	Upgrade		Maintained	
Rating Outlook	Stable		Rating Watch – Negative	

COMPANY INFORMATION	
Incorporated in 1973	External auditors: Zahid Jamil & Co. Chartered Accountants.
Private Limited Company	Chairman/CEO: Mr. Muhammad Arshad Sheikh
Key Shareholders (with stake 5% or more):	
Mr. Muhammad Arshad Sheikh – 27.50%	
Mr. Shahzad Ahmed Sheikh – 26.0%	
Mr. Nisar Ahmed Sheikh – 24.0%	
Mr. Sharhyar Arshad – 5.0%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (May 2019)
https://docs.vis.com.pk/docs/Corporate-Methodology-201904.pdf

Arshad Corporation (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Arshad Corporation (Pvt.) Limited was incorporated in 1973 under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). The company is principally engaged in manufacturing of sale of fabric and made-ups.

Profile of the Chairman/CEO
Mr. Muhammad Arshad Sheikh is the Chairman of the Board and Chief Executive Officer (CEO). Mr. Arshad is a graduate and has over 50 years of textile industry experience.

Financial Snapshot

Tier-1 Equity: end-FY21: Rs. 4.1b; end-FY20: Rs. 3.5b; end-FY19: Rs. 3.0b

Assets: end-FY21: Rs. 15.1b; end-FY20: Rs. 13.2b; end-FY19: Rs 11.2b.

Profit After Tax: FY21: Rs. 561m; FY20: Rs. 542m; FY19: Rs. 427m.

RATING RATIONALE

Arshad Corporation (Pvt.) Limited (ACL) is an export-oriented composite textile unit and primarily operates four business segments, including grey fabric, processed fabric, made-ups and garments. The U.S. and Europe are primary target markets, which account for nearly three-fourth of total sales. Shareholding of the company is held by the sponsoring family, who have been in the industry since 1954. Ratings are supported by growth in topline driven by higher volumetric sales and average selling prices. Debt service coverage has remained adequate. Debt leverage has improved slightly in FY21 on the back of higher equity base despite increase in borrowings and trade and other payables. The management has embarked upon enhancing operational efficiencies, optimizing production capacities at processing end and expanding production capacity of weaving segment to meet raw material demand through in-house production. Positive outlook of the textile sector on the back of higher demand in export markets coupled with additional support to the industry on the regulatory front also bodes well for ACL. Meanwhile, ratings will remain sensitive to materialization of the intended capex, achievement of projected sales growth and profitability while maintaining capitalization indicators at an adequate level. The ratings also factor in company's exposure to exchange rate fluctuations and strong competition from local and regional textile players.

Improvement in capacity utilization in the outgoing year in line with higher export orders while the company is currently in process of optimizing capacities at the processing end: Under the special approval from GoP for export oriented companies, with orders in hand, lockdown restrictions were lifted only after ten days during first wave of Covid-19. During FY20, actual production was slightly lower in all product lines due to some decrease in demand in the last quarter of FY20. Capacity utilization of all units improved notably in FY21 in line with higher export orders. During FY21, ACL weaved 18.4m meters of grey fabric (FY20: 15.1m meters; FY19: 15.6m meters) with increase in capacity utilization to 97% (FY20: 83%; FY19: 92%). Fabric processing unit of the company processed 31.7m meters of fabric (FY20: 28.1m meter; FY19: 30m meters) in FY21 with higher capacity utilization of 96% (FY20: 86%; FY19: 91%). Further, ACL printed 38.6m meters of fabric (FY20: 36.9m meters; FY19: 39.6m meters) through its printing facility in FY21 with capacity utilization of 92% (FY20: 88%; FY19: 94%). Installed capacity of the aforementioned segments remained unchanged during FY21. Whereas the company enhanced production capacity of stitching and garments divisions in FY21. Installed capacity of stitching unit I was enhanced to 82,192 meters per day (FY20: 65,000 meters per day; FY19: 59,178 meters per day) in FY21 and the company stitched 27.6m meter fabric (FY20: 15.8m meters; FY19: 15.4m meters) with capacity utilization of 92% (FY20: 67%; FY19: 71%). Stitching unit-II production capacity remained unchanged at 1,000 Kgs per day and the actual production was recorded at 328.5K (FY20: 219K; FY19: 309.5kg) with increase in capacity utilization to 90% (FY20: 60%; FY19: 85%). Stitching unit II capacity utilization was lower in FY20 in the absence of tender orders from government departments routed through Arshad Textile Mills Limited (An associated company). Garments unit capacity was also increased to 4,521 pieces per day (FY20: 2,700 pieces per day; FY19: 2,500 pieces per day) and the company manufactured 1.5m pieces of garments (FY20: 599K; FY19: 533K pieces) in FY21 with higher capacity utilization of 91% (FY20: 61%; FY19: 58%). Installed and actual production per day along with capacity utilization of all units are tabulated below:

	Installed Capacity per Day			Actual Production per Day			Capacity Utilization		
Unit Name	**FY19**	**FY20**	**FY21**	**FY19**	**FY20**	**FY21**	**FY19**	**FY20**	**FY21**
Weaving – Meters	51,600	51,600	51,600	42,732	41,354	50,052	83%	80%	97%
Processing – Meters	90,000	90,000	90,000	82,147	77,000	86,400	91%	86%	96%
Printing – Meters	115,000	115,000	115,000	108,369	101,065	105,800	94%	88%	92%
Stitching Unit I– Meters	59,178	65,000	82,192	42,211	43,240	75,617	71%	67%	92%
Stitching Unit II- Kgs	1,000	1,000	1,000	848	600	900	85%	60%	90%
Garments – Pieces	2,500	2,700	4,521	1,460	1,641	4,114	58%	61%	91%

The company is in process of optimizing production capacities at the processing end to fill gaps. Property, plant and equipment (PP&E) stood at Rs. 2.9b (FY20: Rs. 2.6b; FY19: Rs. 2.5b) at end-FY21. In FY20, the company made capital expenditure of Rs. 194.7m in plant and machinery along with civil work on building of Rs. 12.7m. The expenditure mainly pertained to setting up of a new stitching line comprising 186 stitching machines and hanging machines at the existing facility. Capacity enhancement of garments unit by adding 274 stitching machines, installation of a raising machine, heat recovery plant and major overhauling of some machines was also executed in FY20. In FY21, addition to PP&E amounted to Rs. 501.1m which largely pertained to plant and machinery worth Rs. 379.1m related to 418 stitching machines for stitching and garments divisions, a sanforizing machine, 1.5 MW gas generator for processing unit, a raising machine and a stenter machine. Civil work on building amounted to Rs. 63.5m while expenditure of Rs. 58.5m was made on electrical installations, vehicles and furniture & fixtures. Stitching machines are currently operational while rest of the machines are in installation phase and will be fully operational by end-1QFY22. Total power requirement of processing unit at full capacity is 4.5 MW, which is being met through a combination of gas generators, coal powered plant and national grid and is utilized by assessing per unit cost of each source. While power requirement is expected to remain around current level after all the upgradation and capacity enhancement, new generator is being purchased to replace an old one which would be then used as a backup source.

In addition, the company is in process of installing 70 Picanol air jet looms and some other machinery in FY22. Total estimated capex is Rs. 1.4b out of which Rs. 1.05b, related to imported machinery, would be financed through bank borrowings under Long Term Financing Facility (LTFF) by SBP at a subsidized markup rate of 5%. Out of total expenditure, Rs. 644.8m would be incurred on looms, Rs. 126m on sizing machine, Rs. 51.2m on air compressor and dryer, Rs. 44.9m on air conditioner and chiller plant, Rs. 20m on overhead cleaners, Rs. 17.8m on sampling machines and Rs. 135.2m on other related equipment. Power requirements for weaving unit will increase to 4 MW from the current requirement of 2 MW, for which a gas generator of the required capacity worth Rs. 64m would also be purchased. Cost related to local components amounted to Rs. 355.2m, which includes freight, duties and taxes, installation of imported machinery, civil work and other expenditure related to land, electrical and mechanical work. Expenditure on local components would be funded through equity injection. The aforementioned capex is being conducted for back process integration of specific types of fabric which are presently being outsourced and then added value for export. Subsequent to the weaving unit becoming operational in 3QFY22, fabric requirements are expected to be 80%entirely met through in-house production.

Growth in sales mainly led by higher export sales: Despite economic slowdown, ACL managed to record higher gross sales of Rs. 11.4b (FY19: Rs. 10.6b) in FY20. However, the increase was not fully reflected in net sales, which were recorded at Rs. 10.8b (FY19: Rs. 10.6b) in FY20 as the government imposed 17% sales tax (previously zero rated) on local sale of all textile products, effective from July 1, 2019. Exports constituted 85% (FY19: 82%) of the sales mix. Increase in sales during FY20 was driven by higher volumetric sales of all export products except for processed fabric while average selling price of all export products increased on a timeline basis. Revenue from beddings sales was recorded higher at Rs. 4.6b (FY19: Rs. 4.2b) in FY20 and constituted 40% (FY19: 39%) of the gross sales mix. The company sold 9.8m meters of beddings (FY19: 9.6m meters) in FY20 at a higher average rate of Rs. 471 per meter (FY19: Rs. 442 per meter). Processed fabric constituting 32% (FY19: 34%) of gross revenue was recorded slightly lower at Rs. 3.6b (FY20: Rs. 3.7b). Volumetric sales of processed fabric were recorded lower at 16.7m meters (FY19: 18.7m meters) as the management shifted some of its resources to other product lines while average selling price was higher at Rs. 215 per meter (FY19: Rs. 198 per meter). Garments sale was recoded higher at Rs. 1.1b (FY19: Rs. 707.5m) in FY20 and constituted 10% (FY19: 7%) of gross revenue. Volumetric sales of garments sales increased notably to 2.8m meters (FY19: 1.8m meters) at a higher average rate of Rs. 402 per meter (FY19: Rs. 385 per meter). Revenue from kitchen items and kids items comprised 3% (FY19: 2%) of gross sales and increased to Rs. 337.7m (FY19: Rs. 190.2m) in FY20 on back of increase in both volume and average selling price. Proceeds from fabric processing services to local textile mills decreased to Rs. 1.7b (FY19: Rs. 2.0b) in FY20. While volumetric sales increased to 43.5m meters (FY19: 41.8m meters), average selling rate charged for processing stood lower at Rs. 39 per meter (FY19: Rs. 47 per meter) given average rate varies with the type of fabric processed. Export sales have remained majorly concentrated in Europe and USA on a timeline basis and contribution of these regions to gross export revenue has remained at 56% and 32% (FY19: 52% and 32%), respectively in FY20.

During FY21, sales were recorded at Rs. 13.1b with around 90% of the revenue comprising export sales. Increase in topline was driven by higher volumetric sales of all products, except for processed fabric, coupled with some increase in average selling prices. Revenue from local processing decreased as the processing for local clients is undertaken only after meeting export orders. Revenue from beddings comprised 43%, processed fabric 29%, garments 11% and kids & kitchen item 6% of the sales mix. Segment-wise breakdown of volumetric sales and average prices are tabulated below:

	Quantity Sold (Million)			Average Price Rs./Unit		
	FY19	**FY20**	**FY21**	**FY19**	**FY20**	**FY21**
Export Sales:						
Beddings	9.6	9.8	11.5	442	471	505
Garments	1.8	2.8	3.6	385	402	420
Kitchen Items	0.5	0.9	1.5	330	355	370
Kids Items	0.03	0.04	0.5	396	420	435
Processed Fabric	18.7	16.7	18.3	198	215	210
Local Sales:						
Fabric Processing	41.8	43.5	36.8	47	39	40

Gross profit was recorded slightly higher at Rs. 1.8b (FY19: Rs. 1.7b) in FY20 with gross margins of 16.3% (FY19: 16.1%) mainly on account of increase in average selling prices of all products. Cost of sales was recorded higher at Rs. 9.1b (FY19: Rs. 8.9b) in FY20. The increase in cost was mainly manifested in cost of dyes and chemicals used amounting Rs. 1.4b (FY19: Rs. 1.1b). Raw material consumed decreased slightly in FY20 in line with lower production while its proportion in cost of goods manufactured remained largely the same at 54% (FY19: 55%). The company purchased dyes and chemicals worth Rs. 1.9b (FY19: Rs. 1.8b), where quantity purchased increased slightly to 7.71m Kgs (FY19: 7.66m Kgs) and average rate was higher at Rs. 251/Kg (FY19: Rs. 237/Kg). Cost incurred on procurement of fabric amounted to Rs. 3.3b (FY19: Rs. 2.9b), whereas quantity procured has decreased to 19.05m meters (FY19: 21.21m meters) due to decrease in local processing of fabric at a higher average rate of Rs. 173/meter (FY19: Rs. 135/meter). Yarn procurement has decreased in FY20 to Rs. 1.8b (FY19: Rs. 2.3b), on account of decrease in quantity procured to 5.51m Kgs (FY19: 8.02m Kgs) while average rate increased to Rs. 322/Kg (FY19: Rs. 291/Kg).

Salaries, wages and benefits were also recorded higher at Rs. 839.6m (FY19: Rs. 769.2m) due to annual salary adjustments and increase in average headcount during the year. Moreover, wadding and quilting charges were higher at Rs. 15.6m (FY19: Rs. 0.7m). Some other components of cost of production including stores and spares consumed, cutting and stitching, packing and threading and processing charges decreased in FY20. Fuel and power cost also decreased to Rs. 910.8m (FY19: Rs. 961.9m) mainly due to availability of gas at subsidized rate for export industry.

Administrative expenses increased to Rs. 381.2m (FY19: Rs. 322.5m) in FY20 largely as a result of increase in staff salaries and benefits. Distribution charges were recorded slightly higher at Rs. 330.8m (FY19: Rs. 319.5m) primarily due to increase in shipping and clearing charges. Other income increased notably to 284.6m (FY19: Rs. 0.2m) in FY20 due to gain on sale of a property. Finance cost increased to Rs. 657.5m (FY19: Rs. 502.9m) on account of higher average borrowings and markup rates during FY20. Other expenses comprising employee related payments amounted to Rs. 34.3m (FY19: 27.7m). Despite largely unchanged operating profit and increase in finance cost, profit after taxation was recorded higher at Rs. 542.4m (FY19: Rs. 427.1m) mainly on account of one-off gain on sale of fixed asset.

During FY21, the company recorded gross profit of Rs. 2.1b while gross margin remained at 16.2%. Admin expenses and distribution expenses were recorded at Rs. 417.3m and Rs. 460m, respectively, where major increase in the latter vis-à-vis preceding year was mainly due to higher freight expenses Despite higher average borrowings, finance cost was recorded lower at Rs. 549.1m in FY21, due to lower average markup rates. Accounting for taxation, net profit amounted to Rs. 561.5m in FY21. Sales are projected to grow by 18% in FY22 on account of capacity enhancement coming online by end-Dec'21. Gross margins are expected to improve in FY23 on back of operational efficiencies and production of fabric through in-house operations. The entitlement of SBP concessionary loan amounting Rs. 1.3b has been approved, priced at 3% per annum. The management plans to replace costly borrowings with the said loan; thereby having positive impact on finance cost. The said entitlement is based on export performance, calculated on the basis of 50% of the incremental export revenue generated in a given year vis-à-vis preceding year.

Adequate debt service coverage: Funds from operations (FFO) increased to Rs. 671.7m (FY20: Rs. 398.9m; FY19: Rs. 592.6m) in FY21 primarily due to higher non-cash adjustments. In FY20, FFO decreased despite higher profitability, owing to adjustment of gain on sale of property. FFO to total debt and long-term debt increased marginally to 0.08x (FY20: 0.06x; FY19: 0.10x) and 0.85x (FY20: 0.68x; FY19: 1.25x) in FY21. Debt service coverage ratio remained adequate at 1.71x (FY20: 1.33x; FY19: 1.76x) on the back of higher cash flows and lower finance cost paid in FY21.

Stock in trade stood higher at Rs. 6.1b (FY20: Rs. 5.1b; FY19: Rs. 4.2b) at end-FY21 mainly on account of overall increase in inventory levels. Higher stock in trade at end-FY20 was due to the reason that the company has started procuring a specific kind of Fabric for winter (Flannel) in FY20, which is imported during May and June. After undergoing further value addition, the final product is then shipped by end of August. As a result of this, raw material inventory at year end is expected to remain high going forward as well. Trade debts stood at Rs. 3.7b (FY20: Rs. 3.4b; FY19: Rs. 3.0b) by end-FY21. Aging profile of trade debts is considered satisfactory given 57% receivables fall within 3 months' credit bracket and 37% within 3-6 months' credit bracket. Local sales emanating from fabric processing services is largely on a cash basis with maximum credit period of 15 days while leftover fabric is entirely sold on a cash basis. Coverage of short-term borrowings via stock in trade and trade debts remained adequate at 1.35x (FY20: 1.31x; FY19: 1.29x). Loans and advances amounted to Rs. 399.3m (FY20: Rs. 397.2m; FY19: Rs. 246.6m) at end-FY21 and mainly comprised advances paid to suppliers and against letters of credit. Tax refunds due from government have increased sizably to Rs. 1.0b (FY20: Rs. 854.9m; FY19: Rs. 454.5m) mainly due to higher sales tax refunds accumulated during the last two years. In addition, other receivables have also increased to Rs. 395.2m (FY20: Rs. 278m; FY19: Rs. 272.2m) by end-FY21 and comprised rebate/duty drawback. Cash and bank balances stood at Rs. 80.7m (FY20: Rs. 102.2m; FY19: Rs. 52m). Coverages are projected to improve steadily on the back of increasing FFO, going forward.

Leverage indicators remained on a higher side: Tier-1 equity increased to Rs. 4.1b (FY20: Rs. 3.5b; FY19: Rs. 3.0b) by end-FY21 on the back of profit retention. The sponsors have continued to support the equity through provision of interest free loan amounting Rs. 247.5m (FY20: Rs. 240.8m; FY19: Rs. 231.1m), repayable at the discretion of the company. Total liabilities stood higher at Rs. 11.0b (FY20: Rs. 9.6b; FY19: Rs. 8.2b). Trade and other payables increased to Rs. 2.7b (FY20: Rs. 2.4b; FY19: Rs. 2.1b) by end-FY21 mainly on account of higher trade creditors of Rs. 2.1b (FY20: Rs. 1.9b; FY19: Rs.

1.7b) and bank overdrawn of Rs. 153.7m (FY20 & FY19: Nil). ACL avails a credit period of 15-30 days for local yarn purchases, 12 – 60 days for local fabric purchases, and yarn imports on LC plus 90 days.

Short-term borrowings stood higher at Rs. 7.3b (FY20: Rs. 6.5b; FY19: Rs. 5.6b) at end-FY21, in line with higher working capital requirements. Long-term loans including current portion increased to Rs. 789.9m (FY19: Rs. 586.1m; FY19: 474.8m) by end-FY21. The company secured a loan of Rs. 370m under SBP refinance scheme for payment of salaries and wages under Covid relief which was adjusted against outstanding running finance facilities. In addition, the company mobilized additional loan of Rs. 487m under LTFF scheme for the import of machinery related to processing unit. The management also deferred loans of Rs. 125m under Covid relief provided by SBP in FY20. Debt leverage and gearing decreased slightly to 2.69x (FY20: 2.72x; FY19: Rs. 2.76x) and 1.96x (FY20: 2.01x; FY19: 2.03x), respectively by end-FY21.

As per management, sponsors would inject equity amounting Rs. 355.2m, as mentioned earlier in this report, for the ongoing capex in FY22 coupled with provision of working capital of around Rs. 400m to support capitalization. Leverage indicators are expected to decrease on account of equity injection and higher profit generation, in FY22 and onwards.

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	**FY19**	**FY20**	**FY21***
Non-Current Assets	2,590	2,608	2,926
Stock-in-Trade	4,154	5,138	6,130
Trade Debts	3,034	3,393	3,685
Loans and Advances	247	397	399
Other Receivables	272	278	395
Tax Refund Due From Government	454	855	1,012
Other Assets	412	387	496
Cash and Bank Balances	52	102	81
Total Assets	**11,215**	**13,158**	**15,124**
Trade and Other Payables	2,070	2,427	2,869
Short-Term Borrowings	5,580	6,502	7,265
Long-Term Borrowings *(Inc. current maturity)*	475	586	790
Other Liabilities	110	111	123
Total Liabilities	8,235	9,626	11,024
Paid-up Capital	500	500	500
Tier-1 Equity	**2,980**	**3,533**	**4,101**
Total Equity	2,980	3,533	4,101
INCOME STATEMENT	**FY19**	**FY20**	**FY21***
Net Sales	10,565	10,839	13,089
Gross Profit	1,699	1,771	2,123
Finance Cost	503	657	549
Other Income	-	285	1
Profit Before Tax	526	652	663
Profit After Tax	427	542	561
FFO	593	399	672
RATIO ANALYSIS	**FY19**	**FY20**	**FY21***
Gross Margin (%)	16.1	16.3	16.2
Net Margin (%)	4.0	5.0	4.3
Net Working Capital	749	1,386	1,631
Current Ratio (x)	1.10	1.15	1.15
FFO to Long-Term Debt	1.25	0.68	0.85
FFO to Total Debt	0.10	0.06	0.08
Debt Servicing Coverage Ratio (x)	1.76	1.33	1.71
ROAA (%)	4.1	4.5	3.9
ROAE (%)	15.4	16.7	14.0
Gearing (x)	2.03	2.01	1.96
Debt Leverage (x)	2.76	2.72	2.69
Inventory + Receivable/Short-term Borrowings (x)	1.29	1.31	1.35

**Unaudited*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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.

REGULATORY DISCLOSURES Annexure III

Name of Rated Entity	Arshad Corporation (Pvt.) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
27/09/2021	A-	A-2	Stable	Upgrade
23/04/2020	BBB+	A-2	Rating Watch-Negative	Maintained
03/04/2019	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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2021 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Irfan Shahzad	CFO	July 29, 2021