RATING REPORT

Naveena Exports Limited

REPORT DATE:
April 19, 2018

RATING ANALYSTS:

Talha Iqbal
talha.iqbal@jcrvis.com.pk

Asfia Aziz
asfia.aziz@jcrvis.com.pk

RATING DETAILS

	Latest Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A-	A-2
Rating Date	*April 19, 2018*	
Rating Outlook	Stable	
Outlook Date	*April 19, 2018*	

COMPANY INFORMATION

Incorporated in 1989	**External auditors:** Ibrahim, Shaikh & Co. Chartered Accountants
Public Unlisted Company	**Managing Directors:** - Mr. Asif Riaz (Chairman) - Mr. Masood Riaz (CEO) - Mr. Saqib Riaz

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (May, 2016) http://www.jcrvis.com.pk/kc-meth.aspx

Naveena Exports Limited

OVERVIEW OF THE INSTITUTION

Naveena Exports Limited (NEL) was incorporated in 1989. The Company is currently operating as a Public Unlisted Company.

NEL is a family owned business managed by three brothers: Mr. Asif Riaz (Chairman), Mr. Masood Riaz (Chief Executive Officer) and Mr. Saqib Riaz (Director). Mr. Asif Riaz possesses over 30 years of experience in the textile sector. He was the Chairman of Pakistan Knitwear & Sweater Exporters Association (Oct'03-Sep'04) and Pakistan Denim Manufacturers and Exporters Association (Oct'10-Sep'11). He has been associated with Naveena since its inception.

NEL is fully compliant with International Social and Environmental & Quality standards. The company has a liaison office in Bangladesh with sales representatives in US, South America, Europe and Turkey.

RATING RATIONALE

Naveena Exports Limited (NEL) is engaged in the business of manufacturing and sale of yarn and denim fabric with investments in various sectors including capital market, steel, real estate and renewable energy sector.

NEL is amongst the leading exporters of denim fabric from Pakistan. NEL operates through three manufacturing units located at Karachi and Lahore. Capacity utilization of both segments (yarn and denim fabric) has remained high with revenues of the company almost entirely comprising export sales (direct and indirect).

Spinning division, with 42,000 spindles, produces yarn which is mainly utilized in-house for production of denim fabric. Further, denim fabric division currently has 233 looms installed for production of denim fabric. More than four fifth of the company's sales revenue is contributed by denim fabric segment. Almost entire exports sales are to clients in US and Europe.

NEL's diversification plans entail the following investments:

- The company has exposure to short term capital market investment. These may be liquidated to fund the future investment as mentioned below.
- The company is actively engaged in investing in steel melting and re-rolling mill project which will be a subsidiary of NEL under the name of Naveena Steel Mills (Private) Limited (NSMPL). NSMPL is expected to commence operations in FY20 with installed capacity of the project being 200,000TPA and 300,000TPA of billets and rebars, respectively.
- NEL's management has also approved plans to invest in high end residential and corporate construction projects in Lahore by the names of Naveena Developers (Private) Limited and Naveena Builders (Private) Limited. Land for these projects has been purchased.
- The company plans to invest in the power sector to set up a 50MW wind power project in Jhimpir, Sindh by the name of Lakeside Energy (Private) Limited. Fund outflow for the same will depend on pending regulatory approval.

Key Rating Drivers

Business risks

Business risk profile is supported by stable and growing demand for denim fabric. However, local and international expansion by major players is expected to keep pricing power and hence margins under pressure. Moreover, significant investment required by customers as part of sustainability initiative is expected to add to cost pressures for denim manufacturers. Despite diversification plans, the company's operations are currently concentrated with exposure entirely to the denim industry which might significantly impact business risk profile in case of change in demand patterns or any other industry specific factors. Therefore, keeping pace with rapid changes in fashion trends and successful commissioning of diversification initiatives could prove positive rating drivers. JCR-VIS expects demand for denim products to remain stable over the medium term.

Profitability

Sales revenue of the company has grown at a CAGR of 7% over the past three years. Profit after tax declined during FY17 primarily due to diminishing margins. However, during 1HFY18, profitability of the company has improved on the back of improving utilization levels and gross margins. Going forward, JCR-VIS expects gross margins of denim manufacturers to remain under pressure on account of pressure on prices (due to significant capacities coming online) and increasing cost due to sustainability related investment that the company is entitled to comply with as per client requirements. In contrast to industry trend where prices for denim fabric have witnessed a decline, NEL has posted an increase in average selling prices due to focus on higher value added fabric. Management expects gross margins to sustain at current levels, going forward.

Liquidity
Liquidity profile of the company is considered adequate in view of sufficient cash flows in relation to outstanding obligations and ageing profile of trade debts which remain within manageable levels. With current assets being greater than current liabilities, current ratio of NEL was reported greater than 1 at end-FY17. With majority payment of cotton being made upfront, and higher collection and inventory days, NEL's working capital cycle necessitates utilization of short term borrowing.

Funding and Capitalization
Company's focus on funding expansions through internal cash flows with limited long term financing reflects a conservative financial policy. Equity base of the company has grown at a 3-yr CAGR of 16% due to profit retention. Debt carried on the balance sheet largely comprises short-term debt to fund working capital requirements. With increase in equity base being higher than growth in debt, leverage indicators have improved on a timeline basis. However, at end Dec'2017, debt levels of the company rose significantly on account of cotton procurement during peak season. Given the company's investment plans, gearing is expected to increase but remain below 1(x) over the rating horizon.

Corporate Governance
Overall scope and functioning of internal audit and IT function are considered adequate. NEL has employed an Oracle based ERP with in-house developed modules integrated with the ERP. Adequate back-up procedures are in place. Given the company's status as a Public Unlisted Company, there is significant room for improvement in board composition and oversight.

ISSUE/ISSUER RATING SCALE & DEFINITION — Appendix I

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 — Appendix II

Name of Rated Entity	Naveena Exports Limited
Sector	Textile Industry
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
April 19, 2018	A-	A-2	Stable	Initial