RATING REPORT

Naveena Exports Limited

REPORT DATE:
February 23, 2021

RATING ANALYST:

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RATING DETAILS				
Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A	A-1
Rating Date	*February 23, 2021*		*April 22, 2020*	
Rating Action	Maintained		Maintained	
Rating Outlook	Stable		Rating Watch-Developing	

COMPANY INFORMATION	
Incorporated in 1989	**External auditors:** Ibrahim, Shaikh & Co. Chartered Accountants
Public Unlisted Company	**Chairman of the Board:** Mr. Asif Riaz
Key Shareholding (more than 5%)	**Chief Executive Officer:** Mr. Masood Riaz
Mr. Asif Riaz – 31%	**Managing Director:** Mr. Saqib Riaz
Mr. Masood Riaz – 33%	
Mr. Saqib Riaz – 26%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (April 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Naveena Exports Limited

OVERVIEW OF THE INSTITUTION

Incorporated in 1989, Naveena Exports Limited (NEL) is a family owned business managed by three brothers: Mr. Asif Riaz (Chairman), Mr. Masood Riaz (Chief Executive Officer) and Mr. Saqib Riaz (Managing Director).

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

Profile of Chairman

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.

RATING RATIONALE

Naveena Exports Limited (NEL) has completed 32 years in the business of manufacturing and sale of yarn and denim fabric. Headquartered in Karachi, the company has its manufacturing facilities located in Industrial Area Karachi and Raiwind Road Lahore with total annual installed capacity of 22.3m (Kg) of spinning yarn and 35.5m (mtr) of denim production. In FY20, capacity utilization of spinning unit decreased to ~88% (FY19: 98%) while the denim segment utilized 77% (FY19: 97%) of its capacity. NEL's facilities are powered primarily by in-house gas based generators.

Spinning division has 43,200 spindles installed and the yarn produced is mainly utilized in-house for production of denim fabric while weaving segment has 232 looms installed. Going forward, the management has planned to enhance its spinning capacity by ~55% (New spindles to be installed: 21,600); negotiations for purchase of land are in final stages. Total cost of the project is estimated at Rs 2.5b; of which three-fourth will be funded through TERF financing facility and the remaining will be financed by internal capital generation. Timeline for the completion of this expansion project is FY22.

Investment Portfolio

The company maintains a portfolio of long-term investments in various sectors including steel, real estate and renewable energy sector. Total long-term investment portfolio stands at Rs. 6.8b (FY19: Rs. 3.4b) in FY20.

As per the management, NEL's entire shareholding along with its long-term investments will be transferred to a group holding company (Naveena Group) in a stepwise manner. Moreover, regulatory approval process for formation of group holding company is underway. The holding entity will ultimately consolidate following companies: Naveena Exports, Naveena Steel Mills, Naveena Developers and Naveena Builders, Naveena Capital and Lakeside Energy.

Key Rating Drivers

Covid-19 hit textile industry is gradually recovering and the outlook is favorable going forward.

In FY20, export revenues from textile segment dropped by ~6% to USD 12.8b (FY19: USD 13.6b) in the wake of Covid-19 induced lockdowns both domestically and globally. Negative trend was noted in all segments. However, following the ease in pandemic restrictions after the first wave along with the implementation of smart lockdown policy and given subsequent economic recovery, textile exports (as per PBS) rose to USD 12.7b in 10M'FY21 (vis-à-vis USD 10.8b SPLY), registering a sizeable growth of ~17%. This growth was mainly was driven from the value-added sector while growth in knitwear exports (both in terms of value and volume) outpaced the other segments. Meanwhile, the commodities that witnessed negative growth in trade included raw cotton, cotton yarn and cotton cloth.

Moreover, GoP's approval of five-year textile policy (with the aim to double textile exports in five years) which mainly includes preferential energy rates and timely payments of DLTL would support the liquidity constraints of local players and overall sector's dynamics. In the long run, improvement in value addition, investment in technology and optimization of energy cost would be the key determinants of textile exports.

Topline has largely remained stable given higher average selling prices and growth in yarn sales. Outlook assigned to ratings has been revised to 'Stable'.
After registering a double-digit annual growth in the last two consecutive years, NEL's topline declined by ~1% in the outgoing fiscal year (FY20: Rs. 15.5b; FY19: Rs. 15.6b; FY18: Rs. 12.1b) in the wake of Covid-19 pandemic. In 1H'FY21, net sales stood at around prior year's level.

Revenues of the company almost entirely emanates from export sales (direct and indirect) while in terms of product mix, proportion of denim fabric to yarn sales has hovered around 90:10 ratio. Of total denim fabric exports, more than two-fifth is concentrated in Bangladesh and Egypt though with diversified client portfolio while the yarn is only sold locally or exported to China. NEL over the years has established strong business relations with the leading international brands in denim wear which ensures repeat business. Few prominent brands. In volumetric terms, denim fabric sales declined by ~14% in FY20; nonetheless, higher average selling prices along with the growth in yarn sales significantly reduced the negative impact of volumetric decline.

Margins continue to witness a growth trend. Going forward, improvement in earning profile will be a function of increase in production volumes.

Gross margins have consistently grown on a timeline basis (FY20: 29.8%; FY19: 28.4%; FY18: 24.3%) and compare favorably among peers. The growth in margins is mainly attributable to efficient procurement, higher quantum of value added products and recent cost reduction initiatives which included replacement of looms.

Overall operating expenses increased primarily due to higher distribution cost incurred while on account of higher utilization of short term borrowing in FY20, financial charges also increased. However, the same remains limited given that more than four-fifth of total borrowings is on concessionary rates. Bottom-line of the company stood similar to prior year's level, amounting to Rs. 2.4b in FY20. Going forward, margins are expected to sustain while growth in profitability will be a function of increase in production volumes.

Healthy cash flow generation, sound debt servicing ability and the deferment of principal repayment for a period of one year support overall liquidity profile.

In absolute terms, Funds from Operations (FFO) decreased slightly to Rs. 2,964m (FY19: Rs. 3,083m); nonetheless, the cash flow generation remains strong in relation to debt obligations. FFO to total debt and FFO to long-term debt were reported at 23.3% (FY20: 29.4%) and 60.8% (FY20: 81.5%), respectively in 1QFY21. Debt Service Coverage Ratio (DSCR) stood at 4.69x (FY19: 5.90x). Current ratio of the company remains over 1.0x, while trade debts and stock in trade are more than sufficient to cover short term borrowings. Moreover, liquidity profile draws additional support from the deferral of principal payment of long-term debt for a period of one year under covid-19 relief package.

NEL's liquid assets comprise cash & bank balances and short term investments which collectively were reported at Rs. 2.2b at end-1QFY21. Short term investments comprise exposure in mutual funds as a pledge for investment in renewable power project.

Gearing and leverage indicators may trend upwards but are expected to remain within manageable levels.
Equity base of the company has grown on timeline basis due to profit retention and no dividend payout policy. Debt profile of the company comprises a mix of short term and long term debt with total interest bearing liabilities amounting to Rs. 10.2b (FY20: Rs. 10.1b; FY19: Rs. 8.0b) at end-1QFY21; short-term debt (ERF) constituted more than around three-fifth of total debt.

Gearing and leverage indicators were reported at 0.74x (FY20: 0.74x, FY19: 0.71x) and 0.90x (FY20: 0.92x, FY19: 0.87x), respectively at end-1QFY21. While leverage indicators are expected to increase given the planned debt draw down for expansion of spinning unit, the same will remain manageable over the rating horizon.

Naveena Exports Limited — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY17**	**FY18**	**FY19**	**FY20**
Paid Up Capital	849	849	850	850
Total Equity	7,679	8,879	11,316	13,698
INCOME STATEMENT				
Net Sales	10,716	12,109	15,612	15,506
Profit Before Tax	957	1,301	2,482	2,576
Profit After Tax	833	1,199	2,437	2,382
RATIO ANALYSIS				
FFO	1,255	1,842	3,083	2,964
Current Ratio (x)	1.49	1.35	1.55	1.35
Gearing (x)	0.62	0.68	0.71	0.74

ISSUE/ISSUER RATING SCALE & DEFINITION 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 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: 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 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	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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
23/02/2021	A	A-1	Stable	Maintained
22/04/2020	A	A-1	Rating Watch-Developing	Maintained
31/01/2020	A	A-1	Stable	Upgrade
08/04/2019	A-	A-1	Positive	Upgrade
19/04/2018	A-	A-2	Stable	Initial

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Waqas Hanif	General Manager Finance	08-Feb-2021