

RATING REPORT

Shahbaz Garments (Private) Limited (SGL)

REPORT DATE:

April 30, 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		Stable	
Rating Date	April 30, 2020		May 02, 2019	
Rating Action	<i>Maintained</i>		<i>Reaffirmed</i>	

COMPANY INFORMATION

Incorporated on 5th August 1972

External auditors: A.F. Ferguson & Co.,
Chartered Accountants

Private Limited Company

General Manager: Mr. Raza Azar

APPLICABLE METHODOLOGY(IES)

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

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

Shahbaz Garments (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Shahbaz Garments (Private) Limited (SGL) was incorporated in 1972, as a private limited company. Financial Statements of the company for 2018 were audited by A.F Ferguson & Co.</p> <p>Profile of GM</p> <p>Mr. Raza Azar joined the company in 2016 after spending 20 years in ICI Pakistan Limited and has more than 23 years of professional experience.</p>	<p>Shahbaz Garments (Private) Limited (SGL) is engaged in manufacturing and sale of various types of industrial gloves, along with fabric and yarn. The parent group also owns five other companies in Pakistan including Beltexco Limited (BEL), Prime Safety Limited (PSL), Midas Clothing Limited (MCL), Industrial Clothing Limited (ICL), and Work Clothing Limited (WCL). BEL and PSL are also engaged in production and sale of gloves, while the latter three companies manufacture industrial and safety clothing.</p> <p>The registered office of SGL is based in Karachi. The company has three manufacturing units, out of which two units are based in Faisalabad, while one unit is based in S.I.T.E Karachi.</p> <p>Coronavirus to result in uncertainty in textile sector dynamics</p> <p>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.</p>

Financial Summary (amounts in PKR millions)	Appendix I		
	2016	2017	2018
<u>BALANCE SHEET</u>			
Paid up Capital	4.6	4.6	4.6
Total Equity	847.4	841.9	1,131.1
<u>INCOME STATEMENT</u>			
Net Sales	3,996.7	4,399.2	5,059.1
Profit / (Loss) Before Tax	48.8	(83.1)	291.2
Profit After Tax	12.5	-127.4	240.2
<u>RATIO ANALYSIS</u>			
FFO	132.7	(49.6)	426.4
FFO to Total Debt (%)	12%	-3%	36%
Gearing (x)	1.3	1.9	1.0
Current Ratio (x)	0.91	0.88	1.03

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: 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	Shahbaz Garments (Private) Limited					
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					
	30/04/2020	BBB+	A-2	Rating Watch-Negative	Maintained	
	02/05/2019	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.					
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Due Diligence Meetings Conducted						