RATING REPORT

Saya Weaving Mills (Private) Limited

REPORT DATE:
January 10, 2022

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Date	*January 10, 2022*	
Rating Outlook	Stable	

COMPANY INFORMATION	
Incorporated in 1987	**External auditors:** M. Saleem Associates
Private Limited Company	**Chairman and CEO:** Mr. Muhammad Ajaz Saya
Key Shareholders:	
Mr. Muhammad Ajaz Saya ~ 31.63% *Mrs. Dilara Ajaz Saya ~ 24.99%* *Mr. Moazzam Ajaz Saya ~ 17.00%* *Mr. Murtaza Ajaz Saya ~ 16.86%* *Mrs. Iqra Ajaz Saya ~ 9.52%*	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria *Industrial Corporates (August 2021)* **https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf**

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Saya Weaving Mills (Private) Limited was incorporated as a private limited company in March 1987, under the companies' ordinance 1984 with its head office and production facilities based in Karachi, Pakistan. External auditors of the company are M/s. M. Saleem Associates, Chartered Accountants.

Financial Snapshot

Net Equity: June '21: PKR 1,727.6m, June '20: PKR 1,383.9m

Total Assets: June '21: PKR 5,837.6m, June '20: PKR 4,156.2m

Incorporated in 1987, SWML possesses more than three decades of experience in the textile business and is primarily involved in the manufacturing of greige and finished fabrics, home textiles and apparel. SWML is a family-owned business with shareholding vested among members of the immediate family. Along with textiles, the group has exposure FMCG distribution and commodity trading.

The principal activity of the company is weaving, for which the company has invested in a complete in-house process from yarn to fabric, employing a variety of narrow to extra wide looms equipped with plain, dobby and jacquard shedding technology to produce and cater to a diverse market. SWML operates through two units at SITE, Karachi with weaving and stitching facilities.

More area has been acquired adjacent to current facility for expansion of weaving unit, construction and machinery installation for the facility is in process and the company expects commercial production to commence by the end of first quarter 2022. This addition will increase the company's installed capacity approximately by 70%.

Rating Drivers

Positive Industry outlook provides support to the business risk profile of the company

For FY22, the textile exports are expected to cross the government's target of $21b, as per All Pakistan Textile Mills Association (APTMA). This growth is expected as a result of sustained demand, focus of the producers on value-added segment, higher efficiency and government's policies to curb smuggling. According to Grand View Research, the global textile sector is expected to grow at a CAGR of 4.3% till FY27. Moreover, a capital expenditure of USD 4b has been done by textile manufacturers of Pakistan on import of machinery, which will result in increased efficiency and overall capacity to meet the increasing demand. Furthermore, the continuation of GSP+ status to Pakistan will continue to provide support. One key risk, however, is the government's consideration of revising the tariff on gas from $6.5/MMBtu to $9/MMBtu. This may result in increased costs for the manufacturers.

Business integration aims to enhance margins

Given high demand levels of apparel and home textiles in local and export markets, the management envisages to enhance its production capacity by installing a wet processing line. The company will also undergo backward integration to ensure quality assurance and achieve cost efficiencies from the spinning segment. As a result, SWML will be converted from a weaving unit to a composite one. Total capex is planned to be around Rs. 5 Billion over a span of three years and will be funded by a mix of debt and equity. As per management, long-term leverage indicators will be maintained at similar levels. Besides catering to additional demand from existing customers, this capacity enhancement project will enable the company to diversify its product mix in order tap high value-added product markets. The company is also continuing efforts towards building its own brand and retail network in future.

Uptick in revenues and margins

The company recorded a significant increase in sales revenue in FY21 (increase of 48.67%) mainly driven by increase in volume sales of grey cloth. Export sales increased by 52% in FY21 with towels gaining a larger proportion of export sales relative to previous years. In addition to higher grey cloth sales, increases were recorded in sale of unstitched apparel segment which constituted a larger proportion of local sales as compared to previous years. Exports are mainly concentrated in Europe, with Portugal being the largest export market followed by Italy and Spain. The company expects to maintain its European clientele, while also tapping into the American market in coming years. The local clientele consists of well-known retailers and brands.

Margins of the company depict improvement with FY21 recording a gross margin of 12% (FY20: 9%), more in line with peer average. This increase is attributed to a higher proportion of value-added products, in the sales mix. Going forward, management expects margins to be maintained as any increase in yarn prices will be adjusted through change in product mix without taking a hit on the margins.

Higher gross margins translated into improved operating and net margins which increased to 8% (FY20: 6%) and 5% respectively while gross margin reported at 12% (FY20: 09%) despite an increase in the cost of yarn.

<u>Improved liquidity and Cash Flow Coverage</u>

Higher income resulted in an improved cash flow coverage as the funds from operations (FFO) increased by 45% in FY21. As a result of higher FFO and lower borrowings, FFO to total debt coverage improved to 47% (FY20: 26%) and debt service coverage increased to 4.13x (FY20: 2.71x). During the year, the sponsors loan was converted from short term to long term, which improved the maturity match of assets and liabilities, consequently improving current ratio to 1.38x (FY20: 1.04x). Cash conversion cycle of the company reduced to 45 days (FY20: 67 days), while trade debts and stock-in-trade provide 25x coverage to short term borrowings, which is reflective of strong liquidity cushion.

<u>Strong Capitalization Indicators</u>

Equity base in FY21 increased to PKR 1,727m (FY20: PKR 1,383m), driven by higher profitability. Gearing ratio 0.74x (FY20: 1.15x) of the company depicts improvement on account of lower borrowings and higher equity base at end FY21, while adjusted gearing after excluding related party loans stands at 0.27x. Leverage levels depict increase on account of higher supplier credit, although remaining manageable at 2.38x (FY20: 2.0x). Going forward, while debt is projected to increase for capex purposes, management projects that improved profitability will maintain capitalization indicators at existing levels.

Saya Weaving Mills (Private) Limited

Appendix I

	FY19	FY20	FY21
BALANCE SHEET			
Total Assets (PKR in Millions)	3,546.38	4,156.21	5,837.60
Total Equity (Adjusted for Revaluation gains)	1,200.71*	1,383.92*	1,727.62
RATIO ANALYSIS			
Gross Margin (%)	9.69%	9.19%	11.61%
Operating Margin (%)	6.15%	6.06%	8.19%
Net Margin (%)	5.89%	3.74%	4.52%
FFO	388.66	417.82	606.87
Debt Servicing Coverage Ratio (x)	-	2.71	4.13
ROAA (%)	4.20%	4.81%	6.66%
ROAE (%)	8%	14%	21%
Gearing (x)	1.11x	1.15x	0.74x
Gearing Adjusted for Related Party Loans (x)	0.37x	0.43x	0.27x
Leverage (x)	1.95x	2.00x	2.38x
Current Ratio (x)	1.00x	1.04x	1.38x

**Restated*

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 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	Saya Weaving Mills (Private) Limited
Sector	Textiles
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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Due Diligence Meeting Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
Jan-10-2022	A-	A-2	Stable	Initial

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Murtaza Ajaz Saya	Director Operations	December 03, 2021
Mr. Nadeem U. Haque	CFO	