RATING REPORT

Saya Weaving Mills (Private) Limited

REPORT DATE:
February 22, 2023

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	**Latest Rating**		**Previous Rating**	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A-2	A-	A-2
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Initial	
Rating Date	*February 22, 2023*		*January 10,2022*	

COMPANY INFORMATION	
Incorporated in 1987	**External auditors:** M. Saleem Associates
Private Limited Company	**Chairman and CEO:** Mr. Muhammad Ajaz Saya
Key Shareholders (with stake 5% or more):	
Mr. Muhammad Ajaz Saya ~ 31.6%	
Mrs. Dilara Ajaz Saya ~ 24.9%	
Mr. Moazzam Ajaz Saya ~ 17.0%	
Mr. Murtaza Ajaz Saya ~ 16.9%	
Mrs. Iqra Ajaz Saya ~ 9.5%	

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

Saya Weaving Mills (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

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.

RATING RATIONALE

Corporate Profile

Saya Weaving Mills Limited (SWML), with operating history of over 35 years, is primarily engaged in the production of griege and finished fabrics, home textiles, and apparel. It is a family-owned business, with entire shareholding distributed among five members. The sponsoring family also has investments in FMCG distribution and commodity trading business. The company operates through two units located in SITE - Karachi, which includes weaving and stitching facilities. Currently, entire energy requirement of 5.5MW is met primarily by gas-powered generators, with additional support from local grid as needed. Total staff strength stands at ~500 employees.

Operational Performance

During the review period, total 109 new looms were installed in the production line of newly established Unit-II, with 10 dedicated to the terry division and the rest to fabric division. Additionally, there are 35 looms on hold due to import restrictions on LCs. At present, total number of looms across both units has reached 306 (Unit-I: 197; Unit-II: 109). As a result, production capacity in the fabric division has noted a sizeable growth of ~49% while utilization level remained consistent with previous year. Meanwhile, capacity utilization in the towel division with increase in installed capacity has returned to normal, as it was previously operating beyond capacity.

Figure: Capacity & Production Data

	FY19	FY20	FY21	FY22
Fabric looms installed	163	181	181	267
Terry looms installed	16	16	16	26
Fabric				
Installed capacity (sq. meters in m)	60.1	66.2	66.2	98.4
Actual production (sq. meters in m)	55.3	57.0	60.9	90.6
Capacity Utilization	***92%***	***86%***	***92%***	***92%***
Towel				
Installed capacity (kgs in m)	1.6	1.6	1.6	2.6
Actual production (kgs in m)	0.9*	1.8	1.9	2.2
Capacity Utilization	***55%***	***112%***	***115%***	***82%***

**from period Dec'18 to Jun'19*

Recent capacity enhancement project; renewable energy project will bring cost-efficiencies.

The capacity expansion project began in 2019 with the acquisition of adjacent plot and it included the construction of building (Unit-II), which is now 95% complete. The new machinery (109 looms) has been installed and operational while office block will be completed by Mar'23. Management has plans for backward integration in the medium term to drive cost efficiencies from the spinning segment, but it has been postponed for now due to unfavorable macroeconomic environment.

In order to reduce reliance on gas-based energy, management initiated a 1MW solar power project, which is currently in the installation phase; panels and allied equipment have been imported. The project is expected to come online by Mar'23. In view of same, management expects around 15% to 20% reduction in energy cost.

Key Rating Drivers

Business risk profile is supported by industry wide growth in exports over the last year; however, with recent floods adversely affecting cotton crop and ongoing energy crisis in the country pose a challenge to margins sustainability and future growth.
Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally broke the threshold, coming in at USD 32.4b. Textile sector contributes nearly one-fourth to industrial value-added segment and 8.5% to the country's GDP, with an estimated market size of around Rs. 4.0tr. In addition, textile sector has maintained an average share of about 60% in national exports.

Figure: Pakistan Export Statistics (in USD millions)

	FY20	FY21	FY22		5M'FY22	5M'FY23
Pakistan Total Exports	22,536	25,639	32,450		15,056	14,965
Textile Exports	12,851	14,492	18,525		7,239	7,706
PKR/USD Average rate	158.0	160.0	177.5		167.3	222.7

Source: SBP

Export revenues from textile sector have noted sizeable growth over the years (FY22: $19.3b FY21: $15.4b; FY20: $12.5b; FY19: $13.6b). Knitwear, Readymade and Bed wear segments continue to contribute higher than other segments, with a cumulative contribution of more than 60% in textile exports. While the growth was primarily driven by volume (excluding knitwear and cotton yarn), higher prices also boosted exports.

Figure: Textile Export Details (in USD millions)

	FY20	FY21	FY22		H1'FY22	H1'FY23
High Value-Added Segment	**9,669**	**12,427**	**15,605**		**8,027**	**7,614**
- Knitwear	2,794	3,815	5,121		2,500	2,466
- Readymade Garments	2,552	3,033	3,905		1,832	1,833
- Bed wear	2,151	2,772	3,293		1,660	1,428
- Towels	711	938	1,111		524	492
- Made-up Articles	591	756	849		422	379
- Art, Silk & Synthetic Textile	315	370	460		225	209
- Others	555	743	866		864	807
Low to medium Value-Added Segment	**2,858**	**2,972**	**3,717**		**1,777**	**1,483**
- Cotton Cloth	1,830	1,921	2,438		1,135	1,066
- Cotton Yarn	984	1,017	1,207		610	382
- Others	43	34	72		32	35
Total	**12,527**	**15,399**	**19,332**		**9,803**	**9,097**

Source: PBS

Cotton prices rose to a new 12-year high of ~Rs. 21,600/maund as of March'22, as a result of the shortage and higher input costs of fertilizer and energy. Cotton imports were also up 19.8%, in USD terms, for FY22 vis-à-vis preceding year.

Figure: Cotton Prices Trend (In Rs.)

	FY19	FY20	FY21	FY22
Per Maund	8,770	8,860	13,000	17,380
YoY % Change	26%	1%	32%	34%

Floods in Sindh and Southern Punjab during recent monsoon season have caused significant damage to the cotton crop. According to industry estimates, ~45% of the crop has been washed, worth more than $2.5b, resulting in significant price increases. The government has announced facilitation for raw materials imports to compensate for domestic shortages. Nonetheless, in addition to affecting profit margins, higher raw material pricing is expected to increase the working capital requirements, which is likely to have a negative impact on the liquidity profile of textile operators, particularly spinners, weavers and dying companies.

Global and domestic challenges, such as slowdown in export demand (primarily from North America and the EU, which has begun to materialize in Pakistan's monthly export proceeds) due to recessionary trend, industrial gas load shedding expected in the country, and rising production costs due to inflation, will weigh on the business risk profile going forward. These factors may result in competitive market pricing for exporters.

5-Year (2020-25) textile policy continues to support the industry.
With an aim to double textile exports in five years, GoP through a five-year textile policy (2020-25) has provided incentives in form of preferential energy rates, low interest rates financing schemes (such as EFS, LTFF and TERF) and timely payments of DLTL, Income tax & Sales tax refund which support liquidity constraints of local players. Initiatives have also been undertaken to increase production and yield of cotton to support the industry. However, imposition of 10% super tax would have a negative effect on profitability profile of textile players. In addition, contractionary monetary policy and political uncertainties in the country are the present major business risk factors. In the long run, improvement in value addition, investment in technology and optimization of energy cost would define the future of textile exports.

Robust revenue growth was fueled by increased capacity, higher prices, rupee devaluation impact and enhanced focus towards higher value-added products.
Net sales have more than doubled over the last two fiscal years. The sizeable YoY uptick of ~63% was primarily driven by increased capacity (volumetric growth clocked in at ~40%) along with higher prices, rupee depreciation impact and a shift towards higher value-added products (from griege to finished fabric). This positive revenue trend has continued in 6M'FY23.

The proportion of export to local sales has remained steady at 35:65 over the years. Presently, nearly three-quarters of exports are directed towards Europe, with Portugal being the largest market, followed by Italy, Spain, and Belgium. The rest are split between the US and Middle East. Strong sales growth in these regions during the review period was noted due to recessionary trend in European markets. The company serves reputable retailers and brands as local clients and has also launched its own e-commerce retail brand, Sahar. Fabric sales make up the majority of revenues, followed by terry towels, home textile and apparels. Client concentration in sales is satisfactory, with top five customers accounting for ~31% of exports and ~63% of domestic sales. Management plans to drive growth by expanding sales to existing clients and exploring new international markets such as Turkey.

Profitability margins have remained healthy, which provides comfort to earning profile.
Gross margins, following the recovery from pandemic slump, have sustained above 11% for the past two fiscal years, largely due to efficient procurement and higher share of value-added products. The average cost of yarn procured rose by ~39% during the year and adequate stocks are maintained against confirmed sales orders for the next six months. The domestic-imported yarn procurement ratio has remained around 40:60 in recent years.

On the cost front, administrative and selling overheads increased considerably in line with topline growth, while financing charges remains limited given that entire debt is mobilized on concessionary rates. Profitability margins (both on gross and net basis) have noted a slight contraction during 1Q'FY23 due to increasing yarn prices and uptick in power costs in recent months given energy shortages in the country.

Cash flows noted positive trend while liquidity profile remains strong.
Improved earnings have led to a positive trend in funds flow from operations (FFO) over the past two fiscal years, reaching Rs. 890.5m (FY21: Rs. 606.8m) in FY22. However, there was a slight decrease in cash flow coverages due to higher debt levels, as reflected in FFO to total debt of 0.37x (FY21: 0.47x). Debt servicing coverage ratio was reported at 2.92x (FY21: 4.44x) in FY22.

Liquidity position has remained strong, with current ratio consistently reported above 1x while coverage of short-term borrowing in relation to trade debts and inventory is considered satisfactory. Despite uptick in inventory holdings (in line with industry phenomenon), cash conversion cycle has improved over the last two years, falling from 67 days in FY20 to 36 days in FY22. Trade debts have increased in tandem with business growth, and ageing profile is sound with ~10% receivables overdue for more than 180 days; nonetheless, no bad debt has been reported.

Retained profits supported capitalization levels; leveraged balance sheet.
Higher profitability and all-out retention continue to reinforce capital buffers, wherein net equity has doubled over the period of last four fiscal years, reaching Rs. 2.4b by end-1Q'FY23. Debt profile is a mix of short-term and long-term debt. Owing to increase in debt levels, leverage indicators have trended upwards over the review period. Gearing ratio adjusted for related party loans stands lower at 0.74x.

Experienced senior management team; family board of directors in place.
Sponsors have over three decades of experience in the textile sector, and senior management team comprises seasoned professionals. Board comprises five members, all shareholders, with two active directors, separate CFO and Company Secretary from Shareholder. Internal audit and IT functions are considered adequate, with an integrated Oracle-based ERP system in place. Room for improvement exists in terms of increasing board size, addition of external members and segregating ownership and management.

Saya Weaving Mills (Pvt.) Limited — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**3M'FY23**
Total Assets	**4,156.2**	**5,837.6**	**9,483.9**	**10,300.1**
Tier-1 Equity	1,407.4	1,734.2	2,333.6	2,440.9
Total Equity	**1,383.9**	**1,727.6**	**2,312.9**	**2,420.3**
RATIO ANALYSIS				
Gross Margin (%)	9.2%	11.6%	11.7%	10.3%
Net Margin (%)	3.7%	4.5%	4.7%	3.1%
FFO	417.8	606.9	890.5	183.3
Debt Leverage (x)	2.00	2.38	3.10	3.26
Gearing (x)	1.15	0.74	1.05	1.04
DSCR (x)	3.77	4.44	2.92	1.97
Current Ratio (x)	1.04	1.38	1.11	1.12

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 (Pvt) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
Rating Type: Entity				
02-22-2023	A-	A-2	Stable	Reaffirmed
01-10-2022	A-	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 Meeting Conducted

Name	Designation	Date
Mr. Nadeem ul Haq	CFO	Jan 30, 2023
Mr. Moazzam Ajaz Saya	Director	