RATING REPORT

Saya Weaving Mills (Pvt.) Limited

REPORT DATE:
April 17, 2024

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		Reaffirmed	
Rating Date	*April 17, 2024*		*February 22, 2023*	

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)

Applicable Rating Criteria: Corporates:
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

VIS Issue/ Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Saya Weaving Mills (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Saya Weaving Mills (Pvt.) 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 (Pvt.) Limited ("SWML or "the Company"), is engaged in the production and sale of greige, finished fabrics, home textiles, and apparel. It is a family-owned business, with entire shareholding distributed among five members. The company operates through two units located in SITE - Karachi, which includes weaving and stitching facilities. Currently, 20% of the Company's energy needs are met vis in-house installed solar panels.

Operational Performance

The capacity expansion project to install new 130 looms began in 2019 which is completed in FY23 with last 13 new looms added this year, bringing the total to 306 looms. The fabrics division saw a remarkable 65% growth rate in production levels with utilization levels exceeding 90%.

Figure: Capacity & Production Data

Plant Capacity & Actual Production	FY23	FY22	FY21
Number of looms installed	306	293	197
Number of looms worked	306	293	197
Fabric			
Installed capacity (sq. meters)	103,241,348	65,303,576	64,626,537
Actual production (sq. meters)	95,498,250	57,902,986	57,535,319
Capacity Utilization	93%	89%	89%
Towels			
Installed capacity (kgs)	2,653,542	2,653,542	1,632,949
Actual production (kgs)	2,388,655	2,179,028	1,883,945
Capacity Utilization	90%	82%	115%

**from period FY21 to FY23*

The Company's plans for cost-efficient backwards integration have been temporarily paused due to current economic conditions. Additionally, a proposal for a 600KW solar power plant is currently under review. Moving forward, the Company's objectives include minimizing costs, operating at 95% capacity, and focusing on expanding into the export market to effectively manage exchange rate risks.

Sector Update

The business risk profile of the textile sector in Pakistan is characterized by a high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors.

In FY23, the textile sector faced challenges due to various economic and environmental factors. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and import restrictions due to diminishing foreign exchange reserves.

During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, as a result of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Reduction in cotton supply, coupled with global economic slowdown and contractionary economic policies, led to a decrease in demand for textile products and, consequently, cotton yarn.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs and inflationary pressures. Additionally, the sector's vulnerability to global market dynamics and the domestic economic landscape further contribute to its high business risk profile. However, there is optimism as an anticipated bigger cotton crop in FY24 is expected to alleviate some pressure on input costs and margins.

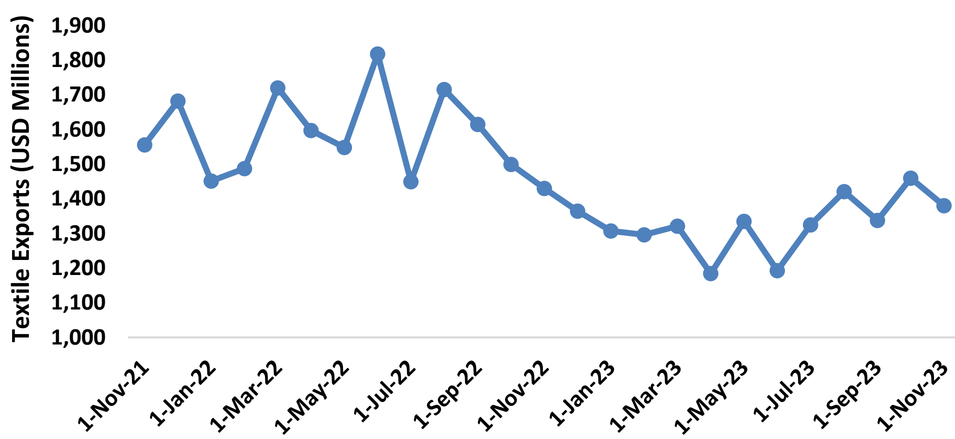

Figure 1: MoM Textile Exports (In USD' Millions)
Source: SBP

<u>**Key Rating Drivers**</u>

Sales growth higher than peer average

The Company's Sales Revenue experienced a year-on-year increase of 17% in FY23, surpassing that of its peers by ~4%. This growth was mainly noted in exports, primarily driven by the depreciation of the rupee. The proportion of exports to total sales increased from 34% to 42%, with local sales accounting for the remaining 58% in FY23. The Company maintained a moderate level of client concentration, with 51% of sales coming from the top-10 clients.

Cost of Sales increased by 20%, mainly due to the increase in cost of utilities. The utility charges grew by 41% YoY from FY22 to FY23. As a result, the Gross Profit Margin decreased slightly to 10.0% (FY22:11.7%).

Administrative expenses grew in line with inflationary pressures, while Selling Expenses saw a significant increase of 95%, mainly driven by higher commission expenses in FY23. The finance cost of the Company increased by 14%, leading to a decrease in net profit margin to 3.1% compared to 4.6% in the previous year.

In the first half of FY24, gross profit margin stood at 8.7% while the bottom line of the Company declined to 2.2% compared to 3% in FY23 due to higher production costs.

The Company has projected for sales to grow by 10% by the end of FY24 compared to FY23, with more than 40% of revenue stemming from exports and the remaining from domestic sales. Company's Projections indicate gross profit and net profit margins to hover around 10% and 2% respectively for the period FY24.

Adequate Liquidity and Cash flow Coverage Indicators
The Company's Funds from Operations (FFO) in FY23 experienced a decline to Rs. 760.6 Mln compared to Rs. 890.5 Mln in FY22 resulting in slight reduction in cash flow coverage, with the FFO to total debt ratio decreasing to 0.40x from 0.46x in the previous year. Furthermore, the Debt Service Coverage Ratio (DSCR) also witnessed a decrease from 2.92x in FY22 to 1.82x in FY23, attributed to decreasing profitability and higher finance costs. Nevertheless, the DSCR is deemed adequate from a ratings perspective.

On the liquidity front, the Company maintained an adequate position, with the current ratio standing above 1x in FY23. The cash conversion cycle remained efficient at -12 days, however, a notable 347% increase in trade receivables over a two-year period was observed. This has resulted in deterioration of the aging profile of trade receivables, with approximately 19% of receivables overdue for more than 180 days in FY23 compared to around 10% in the previous year.

During 1H'FY24, the Company upheld a satisfactory liquidity profile with a current ratio above 1x. Moreover, the company has maintained a DSCR of 1.50x.

Capitalization Indicators are expected to remain within manageable levels
In FY23, the Company issued 11.6 million bonus shares valued at Rs. 1.16 Bln, driving the total paid-up capital up to Rs.2.3 Bln as of June 2023 (FY22: Rs.1.1 Bln). The total equity of the Company amounted to Rs. 2.7 Bln as of June 2023 (FY22: Rs. 2.3 Bln).
During 1H'FY24, the Company's Equity base has steadily increased to Rs. 2.9 Bln (FY23: Rs. 2.7 Bln), primarily driven by retained earnings. Moreover, the Company raised its short-term borrowings by 50%. This aligns with industry norms amid raw material procurement phase. Hence, the Company's debt levels have shown a slight upward trajectory. However, the growth rate of Equity has outpaced that of debt, resulting in an improved gearing position for the Company, which stood at 0.67x in 1H'FY23, 0.69x in FY23, as compared to 0.83x in FY22. Furthermore, the Company has demonstrated a strengthened leverage position, with leverage ratio of 2.82x in 1H'FY24 compared to 2.89x in FY23, and 3.10x in FY22.

Environment and Social Responsibility
The Company has initiated "Weaving a sustainable future" program to reduce its climate impact by adopting sustainable manufacturing practices, investing in renewable energy, ensuring a sustainable supply chain, and monitoring and reducing its carbon impact.

	Furthermore, the Company has installed 900kw solar panels, covering almost 20% of its total energy needs towards a more sustainable future.

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				
04-17-2024	A-	A-2	Stable	Reaffirmed
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information.

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Nadeem ul Haq	CFO	March 28, 2024
Mr. Murtaza Ajaz Saya	Director	