

RATING REPORT

Sohail Textile Mills Limited

REPORT DATE:

April 28, 2020

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Long-term	Long-term	Long-term
Entity	BBB-	A-2	BBB-	A-2
Rating Outlook	<i>Rating Watch – Negative</i>		<i>Stable</i>	
Rating Action	Maintained		Initial	
Rating Date	28 th Apr'20		13 th Dec'19	

COMPANY INFORMATION

Incorporated in 1981	External auditors: Munaf Yusuf & Co. Chartered Accountants.
Public Limited (Unlisted) Company	Chairman: Mr. Muhammad Nasir Chief Executive Officer: Mr. Najib Usman
Key Shareholders (with stake 5% or more):	
Directors – 57.39%	
Rizmar International (Pvt.) Limited – 11.91%	
S&R Associates (Pvt.) Limited – 11.91%	
Ahmed Rahim Associates (Pvt.) Limited – 11.65%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)

<https://www.vis.com.pk/kc-meth.aspx>

Sohail Textile Mills Limited

OVERVIEW OF THE INSTITUTION

Sohail Textile Mills Limited (SOT) was incorporated in 1981 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The company is engaged in manufacturing and sale of yarn. The spinning unit is located at 9-KM Sheikhupura, Sargodha Road, and head office is located at 45-50 Industrial Area, Gulberg III Lahore.

Financial Snapshot

Tier-1 Equity: end-FY19: Rs. 303.5m; end-FY18: Rs. 272.2m; end-FY17: Rs. 270m.

Assets: end-FY19: Rs. 1.4b; end-FY18: Rs. 1.36b; end-FY17: Rs 879.3m.

Profit After Tax: FY19: Rs. 23.6m; FY18: Rs. 86.1m; FY17: Rs. 1.5m.

RATING RATIONALE

Sohail Textile Mills Limited (SOT) is a part of Ayesha Group, which is one of the renowned players in yarn spinning industry of Pakistan. Ayesha Group entered the spinning industry with the establishment of Ayesha Spinning Mills Ltd. in 1972. Since then, the group has grown into four spinning units, a leather tannery, a leather shoe factory, a shoe retail chain under the brand name of ‘EPCOT’, socks factory, an embroidery factory and a fashion retail chain under the brand name of ‘Cross Stitch’. SOT has installed 27,012 spindles where blended polyester-cotton (PC) and chief-value-cotton (CVC) yarn of counts ranging from 10/1 to 36/1 is made.

Cotton required for the entire year is procured from the local market between September and December; whereas polyester is also procured locally with maintenance of 15 days buffer stock. Cotton is procured on a credit period of 30 days while polyester is purchased on cash/advance payment terms. Over the years, the company has steadily upgraded its spinning infrastructure to enhance efficiencies. Capacity utilization has averaged just over 80% over the review period.

Majority sales are on cash and advance basis, though a credit period of up to 15 days is given to a few trustworthy customers. The company has depicted stability in business relations with major customers, and concentration risk is considered manageable as top-10 customers on average account for nearly half of total sales. SOT has shown growth in revenue on a timeline basis, driven largely by increased volumetric sales and higher selling price. In line with the higher revenues, the company has also witnessed increase in funds from operations generation over the review period, which has resulted into maintenance of adequate debt service coverage.

The debt profile of the company comprises a mix of short-term borrowings from commercials banks, subordinated long-term loan from directors, and finance lease. Short-term borrowings were largely stable at end-FY19 while sub-ordinated long-term loan from the directors remained unchanged. Finance lease obligations, inclusive of current maturity, decreased slightly on account of scheduled repayments. Resultantly, gearing and debt leverage indicators improved to Rs. 1.02x and 1.73x, respectively by end-FY19.

The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand and challenging economic environment. It is expected that the entire value chain of the textile industry will be effected 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, warranting a ‘Rating Watch’ status. Considering the limited scale of spinning operations of the company and the likely pressure on debt indicators, ratings are being placed on ‘Negative’ outlook. Nevertheless as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status. The ratings are dependent upon maintenance of overall sales, profit margin, debt service coverage, and gearing ratios at prudent levels.

Sohail Textile Mills Limited
Annexure I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>			
	FY17	FY18	FY19
Total Assets	879.3	1,357.2	1,400.1
Total Liabilities	399.9	540.5	524.1
Total Equity	479.4	816.7	876.1
Paid-up Capital	30.0	69.0	69.0
<u>INCOME STATEMENT</u>			
	FY17	FY18	FY19
Net Sales	1,523.1	1,760.3	2,190.8
Profit Before Tax	14.9	32.4	47.9
Profit After Tax	1.5	86.1	23.6
FFO	27.8	42.9	72.2
<u>RATIO ANALYSIS</u>			
	FY17	FY18	FY19
Gross Margin (%)	5.2	6.7	7.7
FFO to Long-Term Debt	5.47	0.25	0.44
FFO to Total Debt	0.22	0.13	0.23
Debt Servicing Coverage Ratio (x)	2.6	3.0	2.1
Gearing (x)	0.46	1.16	1.02
Debt Leverage (x)	1.48	1.94	1.73
Current Ratio	1.16	1.12	1.12

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure 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

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.

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.

(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		Annexure III			
Name of Rated Entity	Sohail Textile Mills 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
	<u>RATING TYPE: ENTITY</u>				
	28-04-202	BBB-	A-2	Rating Watch – Negative	Maintained
	13-12-2019	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	Name	Designation	Date		