

RATING REPORT

Sohail Textile Mills Limited

REPORT DATE:

December 02, 2024

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB-	A2	BBB-	A2
Rating Date	December 02, 2024		December 04, 2023	
Rating Outlook/ Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

COMPANY INFORMATION

Incorporated in 1981

External auditors: Munaf Yusuf & Co. Chartered Accountants.

Public Limited (Unlisted) Company

Chief Executive Officer/Chairman: Mr. Najib Usman

Key Shareholders (with stake 5% or more):

Mr. Najib Usman – 59.75%

Mr. Tayyab Najib – 40.04%

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Sohail Textile Mills Limited

OVERVIEW OF THE INSTITUTION

Sohail Textile Mills Limited (STML) was incorporated in 1981 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017).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 Sheikhpura, Sargodha Road, and head office is located at 45-50 Industrial Area, Gulberg III Lahore.

RATING RATIONALE

Company Profile

Sohail Textile Mills Limited (‘STML’ or ‘the Company’) is a public unlisted company, mainly involved in the business of manufacturing and marketing of yarn. The Company’s registered office is situated in Karachi while the head office is in Lahore. STML’s manufacturing facilities are located at Sargodha Road, District Sheikhpura, Punjab.

Group Profile

STML is part of Ayesha Group of Companies, which is a well-known industrial group that operates from Lahore, Pakistan. The Group started its textile operations with incorporation of Ayesha Spinning Mills in 1972. Since then, Ayesha Group has grown to 4 textile spinning mills comprising of 110,000 spindles, a leather tannery, a leather shoe factory, shoe retail stores (brand EPCOT), socks factory, an embroidery factory and a fashion retail setup (Brand Cross Stitch.). The latest addition is the Agility Textile, a state-of-the-art garment stitching unit, specializing in knitted garment of all kinds. The Company has also recently ventured into information technology under the name of Klikk Tech.

Operational Profile

Production and Utilization	FY21	FY22	FY23	FY24
Number of spindles installed	27,012	33,384	33,384	33,384
Number of spindles worked	27,012	33,384	33,384	29,749
Installed capacity of yarn - KGs	8,263,200	9,862,000	9,862,000	9,862,000
Actual production of yarn - KGs	6,870,316	6,919,713	5,474,725	5,559,554
Capacity Utilization (%)	83.1%	70.2%	55.5%	56.4%

In FY23, the Company’s capacity utilization levels were impacted by low demand reducing the capacity utilization to 55.5% (FY22: 70.2%). Demand constraints continue to impact utilization levels in FY24, albeit reporting marginal improvement with capacity utilization of 56.4%.

Key Rating Drivers

Business Risk Profile

Industry Risk; High to Medium

The textile spinning sector in Pakistan is currently assessed as having a High to Medium business risk profile. This evaluation is based on several factors, including fluctuating raw material availability, energy supply challenges, competitive pressures, and evolving regulatory policies.

In FY24, Pakistan's cotton production experienced a significant increase, with output reaching approximately 8.6 to 9.0 million bales, marking a 70% year-on-year growth. This surge was primarily due to favorable weather conditions. Consequently, the textile industry procured around 7.48 million bales, meeting approximately 70% of its raw cotton requirements domestically, thereby reducing reliance on imports.

Despite the increased cotton availability, the spinning sector faced challenges related to energy costs and supply. A reported 116% increase in power tariffs during the period under review adversely affected operational costs, impacting the sector's profitability.

The global textile market's competitive landscape also posed challenges. Pakistan's textile and apparel industry faces stiff competition from countries like India, China, and Bangladesh. Economic factors such as currency depreciation, elevated interest rates, and inflation further pressured the sector.

Regulatory changes, including the withdrawal of the Regionally Competitive Energy Tariffs (RCET) regime and zero-rating for export-oriented sectors, introduced uncertainties.

Looking ahead, while reducing local policy rates offers some relief, the spinning sector must navigate ongoing challenges related to energy costs and local and global competition.

Client Concentration Risk

Customer concentration remains a characteristic of the industry, driven by the highly fragmented nature of the market and intense competition. The concentration of revenue among key clients increased to 43% in FY24 (FY23: 31%), reflecting an elevated level of client concentration risk. The Company actively manages relationships with key clients, leveraging long-standing associations to mitigate risks associated with revenue concentration.

Financial Risk Profile

Profitability Profile

In FY24, the Company's topline grew by 13.53%, reaching Rs 3.58b (FY23:3.15b). This growth was supported by price increase and sale of new variety of yarn (polyester) during the year. The Company's total topline is primarily composed of cotton yarn, waste, and polyester yarn, with cotton yarn accounting for 96% of the overall revenue. In FY24, the Gross Margin contracted to 5.96% (FY23: 6.96%) due to a surge in power and fuel cost and increased raw material cost. The net margin improved slightly to 0.06% in FY24 (FY23: 0.02%) due to higher other income, driven by a gain on the disposal of property, plant, and equipment and a decline in the finance cost. Going forward, the net margin is expected to further improve due an expected decline in interest rates.

Capitalization Profile

The Company's capitalization profile has historically remained manageable, as reflected in a five-year average gearing and leverage of 1.13x and 1.97x, respectively. For FY24, gearing and leverage stood at 0.93x (FY23: 0.86x) and 1.96x (FY23: 1.72x) respectively, representing an increase compared to the prior year, though remaining below the five-year average. The increase in these metrics was primarily attributed to higher short-term debt utilization as at June 2024, necessitated by elevated working capital requirements. Despite continued constraint on profitability, the equity base was strengthened by transferring the surplus from the revaluation of fixed assets on account of incremental depreciation, to the revenue reserve, which had originally been recorded in the capital reserve. The company performed this accounting treatment because excess depreciation had been recorded on revalued assets and that constrained the profitability.

Liquidity Profile

The liquidity profile of the Company reflected stability in FY24, with the current ratio improving to 1.11x (FY23: 1.04x). The improvement was attributed to the partial utilization of internally generated cash flows to address working capital requirements, while the remaining gap was met through short-term borrowings. During the year the Company optimally utilized its internal cash

and short-term debt to manage its working capital gap, thereby improve its liquidity. At the same time short-term debt coverage remains healthy with a ratio of 1.87x (FY23: 2.48x) in FY24.

Coverage Profile

In FY24, the Company's coverage metrics improved, with the debt service coverage ratio increasing to 1.26x (FY23: 0.96x), reflecting a recovery to the adequate levels. This improvement was supported by a slight decline in the current portion of long-term debt and the incurred finance cost.

Sohail Textile Mills Limited
Appendix 1

Financial Summary			
Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A
Property, plant and equipment	1,965.88	1,907.32	2,041.77
Stock-in-trade	361.10	247.34	384.02
Trade debts	75.84	82.85	39.45
Cash & Bank Balances	58.83	15.58	18.27
Other Assets	93.63	113.22	190.95
Total Assets	2,555.28	2,366.31	2,674.46
Creditors	50.38	74.57	53.25
Long-term Debt (incl. current portion)	368.56	315.32	273.86
Short-Term Borrowings	361.62	145.54	240.96
Total Debt	730.18	460.86	514.82
Other Liabilities	336.88	392.54	516.89
Total Liabilities	1,117.44	927.97	1,084.96
Paid up Capital	69.00	69.00	69.00
Revenue Reserve	455.63	469.58	485.51
Equity (excl. Revaluation Surplus)	524.63	538.58	554.51

Income Statement (PKR Millions)	FY22A	FY23A	FY24A
Net Sales	3,541.30	3,152.56	3,578.96
Gross Profit	348.92	219.54	213.39
Operating Profit	242.59	141.97	167.08
Finance Costs	79.04	90.56	84.78
Profit Before Tax	163.55	51.41	37.55
Profit After Tax	90.28	0.50	2.15

Ratio Analysis	FY22A	FY23A	FY24A
Gross Margin (%)	9.85%	6.96%	5.96%
Operating Margin (%)	6.85%	4.50%	4.67%
Net Margin (%)	2.55%	0.02%	0.06%
Funds from Operation (FFO) (PKR Millions)	173.05	79.23	102.96
FFO to Total Debt* (%)	23.70%	17.19%	20.00%
Gearing (x)	1.39	0.86	0.93
Leverage (x)	2.13	1.72	1.96
Debt Servicing Coverage Ratio* (x)	1.69	0.96	1.26
Current Ratio (x)	1.01	1.04	1.11
(Stock in trade + trade debts) / STD (x)	1.28	2.48	1.87
Return on Average Assets* (%)	3.77%	0.02%	0.09%
Return on Average Equity* (%)	19.11%	0.09%	0.39%
Cash Conversion Cycle (days)	33.76	39.27	33.54

*Annualized, if required

A- Actual Accounts

REGULATORY DISCLOSURES		Annexure II			
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
	RATING TYPE: ENTITY				
	02/12/2024	BBB-	A2	Stable	Reaffirmed
	04/12/2023	BBB-	A2	Stable	Reaffirmed
	19/10/2022	BBB-	A2	Stable	Reaffirmed
09/08/2021	BBB-	A2	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.				
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Due Diligence Meetings Conducted	Name	Designation	Date		
	Mr. Salman Haider	Group CFO	November 26 2024		