

RATING REPORT

Z.A. Corporation (Pvt.) Limited

REPORT DATE:

April 28, 2020

RATING ANALYSTS:Syed Fahim Haider Shah
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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		31 st Oct'19	

COMPANY INFORMATION

Incorporated in 1995	External auditors: Deloitte Yousuf Adil Chartered Accountants.
Private Limited Company	Chairman/CEO: Sheikh Danish Ali
Key Shareholders (with stake 5% or more):	
Sheikh Danish Ali – 96.9%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)

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

Z.A. Corporation (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Z.A. Corporation (Pvt.) Limited (ZAC) was incorporated in 1994 - 1995 under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017) as a trading company. The company was converted into spinning unit by installing spindles in Oct'17.

Profile of the Chairman/CEO

Sheikh Danish Ali is the owner and CEO of the company. He is a business graduate with more than twenty years of textile experience in spinning, weaving, yarn and fabrics processing segments. Mr.

Danish is a former director of Best Exports (Pvt.) Limited.

Financial Snapshot

Tier-1 Equity: end-FY19: Rs. 969m; end-FY18: Rs. 832m; end-FY17: Rs. 360m.

Assets: end-FY19: Rs. 2.5b; end-FY18: Rs. 1.6b; end-FY17: Rs 0.37b.

Profit After Tax: FY19: Rs. 90.3m; FY18: Rs. 52.7m; FY17: Rs. (0.9m).

RATING RATIONALE

Z.A. Corporation (Pvt.) Limited (ZAC) is a medium-sized spinning unit located in Faisalabad. Shareholding of the company is vested with Sheikh Danish Ali who is actively involved in day to day affairs of the company. ZAC was incorporated two and a half decade ago as a trading company. The transformation began in November 2016 when the management decided to establish a spinning unit. The company installed 29,568 spindles in the first phase which was completed in October 2017 and commercial operations were initiated during the same month. The second phase was completed in December 2018 whereby another 13,728 spindles were installed, taking the total capacity to 43,296 spindles. Barring auto plucker jintan and condenser, all the blow room machinery and draw frames of 2017 model were imported from Switzerland, card machine and auto coner from Germany, and simplex and ring from China.

ZAC produces a wide range of coarse and fine counts, from 16/s to 80/s. The company has the ability to produce high-quality yarn of 100% cotton, blended and synthetic, and polyester/cotton blends, however, the sales mix depends on the customer orders. The company reported higher net sales on the back of volumetric gains and higher selling price. The contribution of viscose yarn in sales mix increased to 76% while cotton yarn accounted for 23% of total sales. Accounting to taxation, the company reported improved net profit, though net margin was lower. The liquidity position of the company is underpinned by funds from operations, though current ratio was on the lower side. The debt profile comprises a mix of long and short-term borrowings. In line with the increased production levels, short-term borrowings were recorded higher, resultantly, gearing and debt leverage ratios increased to 1.36x and 1.57x, 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 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.

Z.A. Corporation (Pvt.) Limited
Annexure I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	FY17	FY18	FY19
Non-Current Assets	295.0	1,036.1	1,279.1
Stock-in-Trade	-	372.9	1,038.7
Total Assets	368.7	1,615.3	2,488.0
Trade and Other Payables	8.7	26.5	79.0
Short-Term Borrowings	-	328.2	961.8
Long-Term Borrowings <i>(Inc. current matur)</i>	-	400.0	360.0
Total Liabilities	8.7	782.9	1,519.4
Tier-1 & Total Equity	360.0	832.4	968.5
Paid-up Capital	357.0	650.0	650.0
<u>INCOME STATEMENT</u>	FY17	FY18	FY19
Net Sales	-	1,001.4	2,586.2
Gross Profit	-	133.8	291.2
Operating Profit	(0.9)	103.1	248.2
Profit/(Loss) Before Tax	(0.9)	76.3	149.9
Profit After Tax	(0.9)	52.7	90.3
FFO	(1.6)	130.8	263.8
<u>RATIO ANALYSIS</u>	FY17	FY18	FY19
Gross Margin (%)	-	13.4	11.3
FFO to Long-Term Debt	-	0.33	0.73
FFO to Total Debt	-	0.18	0.20
Debt Servicing Coverage Ratio (x)	-	6.4	3.0
ROAA (%)	(0.4)	5.3	4.4
ROAE (%)	(0.4)	8.8	10.0
Gearing (x)	-	0.87	1.36
Debt Leverage (x)	0.02	0.94	1.57
Current Ratio	8.5	1.5	1.0

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

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		Annexure III			
Name of Rated Entity	Z.A. Corporation (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				
	28-04-2020	BBB	A-2	Rating Watch – Negative	Maintained
	31-10-2019	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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