

RATING REPORT

Rajby Industries

REPORT DATE:

April 23, 2020

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 Date	April 23, 2020		29 November 2019	
Rating Outlook	Rating Watch-Negative		Stable	
Rating Action	Maintained		Initial	

COMPANY INFORMATION

Incorporated in 1990

External auditors: Muniff Ziauddin & Co. Chartered Accountants

Partnership Firm

Chairman of the Board: Mr. Saleem Sultan
Chief Executive Officer: Mr. Nafees Sultan

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (April 2019)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

Rajby Industries

OVERVIEW OF
THE
INSTITUTION

RATING RATIONALE

Rajby Industries (RI), the partnership firm was registered in Pakistan on November 15, 1990. The firm is principally engaged in manufacturing of ready-made garments (mostly comprising denim) for exports.

Shareholding of RI is split between two brothers, namely Mr. Saleem Sultan (Director) and Mr. Nafees Sultan (Chief Executive Officer) who are also the owners of Rajby Textiles (Private) Limited (RTPL) under the umbrella of Rajby Group.

Rajby Industries belong to the Rajby Group of Companies which has extensive experience in the textile sector (over 4 decades) and has been operating in the denim manufacturing business since 1988. The group operates through two different companies Rajby Industries (RI) (involved in manufacturing of denim garments) and Rajby Textiles (Private) Limited (RTPL) (involved in manufacturing of denim fabric and is also setting up a spinning unit which will make the group vertically integrated). RI offers one-stop solution offering cutting, stitching, washing, finishing, quality control to clearance and delivery of denim apparels through a number of production facilities. Power requirement of the manufacturing units are met through gas based generators.

Operations

During FY17, the company enhanced its denim garments production capacity to an average of 1.5m pieces/month from 1.2m pieces/month translating into an annual installed capacity of 18m pieces. Capacity utilization has been increasing on a timeline basis and was reported at 89% (FY18: 81%) during FY19 owing to improved demand.

Export sales has historically represented the major portion of sales mix

Sales revenue entirely comprises exports sales. Product portfolio also includes sales of jackets, chinos, and twills etc. which represents around one-tenth of total revenues. In terms of geographical concentration in revenues, sales generated from top 3 countries represented around three-fourths of total sales. While client concentration is currently manageable, management plans to enhance proportion of sales to top-tier high margin clients (where long-term relationship will be beneficial for RI) as part of a deliberate strategy which might result in some increase in client concentration.

Coronavirus to result in uncertainty in textile sector dynamics

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 impacted 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. Given the demand compression emerging from the continued lockdown situation in major export markets and elevated leverage indicators, ratings are being placed on 'Negative' outlook. Ratings remain dependent on maintaining cash flow coverages and prudent leverage indicators. VIS will closely monitor and will accordingly take action to resolve the outlook status.

Rajby Industries

Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>					
<u>BALANCE SHEET</u>	FY15	FY16	FY17	FY18	FY19
Partners' Capital	1,345	1,810	1,307	2,219	3,014
<u>INCOME STATEMENT</u>					
Net Sales	8,652	8,642	9,198	11,120	15,493
Profit Before tax	398	345	345	1,172	1,118
Profit After Tax	308	262	256	1,072	963
<u>RATIO ANALYSIS</u>					
FFO	452	390	405	1,260	1,257
Current Ratio (x)	1.06	1.29	1.0	1.2	1.1
Gearing (x)	0.56	0.44	1.44	1.11	1.28

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	Rajby Industries				
Sector	Textile Industry				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	April 23, 2020	A-	A-2	Rating Watch-Negative	Maintained
	November 29, 2019	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 Meetings Conducted	Name	Designation	Date		
	N/A				