RATING REPORT

Rajby Industries

REPORT DATE:
July 15, 2024

RATING ANALYSTS:
M. Amin Hamdani
amin.hamdani@vis.com.pk

Mahekash Kumar
mahekash.kumar@vis.com.pk

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	Positive		Stable	
Rating Action	Maintained		Reaffirmed	
Rating Date	*July 15, 2024*		*June 22, 2023*	

COMPANY INFORMATION

Incorporated in 1990	**External Auditors:** Muniff Ziauddin & Co. Chartered Accountants
Partnership Firm	**Board Chairman:** Mr. Nafees Sultan
Key Shareholders (with stake 5% or more):	**CEO:** Mr. Mudassir Nafees
Mr. Nafees Sultan ~50%	
Mr. Mudassir Nafees ~10%	
Mr. Hamad Nafees ~10%	
Mr. Taha Nafees ~10%	
Ms. Zainab Salman ~10%	
Mrs. Shumaila Nafees ~10%	

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

Rajby Industries

OVERVIEW OF THE INSTITUTION

Rajby Industries (RI), a partnership firm registered in Pakistan on November 15, 1990, specializes primarily in manufacturing readymade garments, predominantly denim, for export markets.

RATING RATIONALE

Corporate Profile

Rajby Industries ("RI" or "the Company"), a key member of the Rajby Group, has been a proficient player in the denim garment industry for over three decades. Specializing in cutting, stitching, washing, finishing, quality control, and export, RI offers a diverse product lineup including trousers, shorts, skirts, dungarees, jackets, jeggings, vests, and more. The registered office of the firm is situated at Plot # 38-39, Sector 27, Korangi Industrial Area, Karachi.

Group Profile

Established in 1988, Rajby Group is a leading player in the textile sector, specializing in denim manufacturing. The group operates through RI and Rajby Textiles (Private) Limited. Formerly, Mr. Saleem Sultan and Mr. Nafees Sultan were co-owners of both entities, but their business partnership was dissolved in June'23. As a result, Mr. Saleem Sultan now majorly owns Rajby Textiles (Private) Limited, while Mr. Nafees Sultan retains his share of ownership in RI, with the remaining shares of both companies distributed among the family members.

Operating Performance

Headquartered in Karachi, the Company operates six production units spread across various locations, with a combined monthly production capacity of 1.8 million pieces. In response to reduced international market demand following the pandemic, management had decided to fully close two units (I & V). However, in light of rising demand, the company is currently undertaking necessary repairs and maintenance to restore these units to operation. This initiative is expected to increase installed capacity by approximately 30% moving forward.

Figure: Capacity & Production Data (In millions)

	FY21	FY22	FY23	9M'FY24
Installed capacity – Pcs.	16.8	13.5	13.5	10.1
Actual production – Pcs.	11.2	12.2	12.2	7.3
Capacity Utilization	***67%***	***90%***	***90%***	***72%***

The Company currently fulfills its power needs using gas generators, supplemented by backup from K-electric. Furthermore, RI is in the process of installing two 500 KW solar facilities to enhance its power capacity.

<u>Sector Update</u>

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.

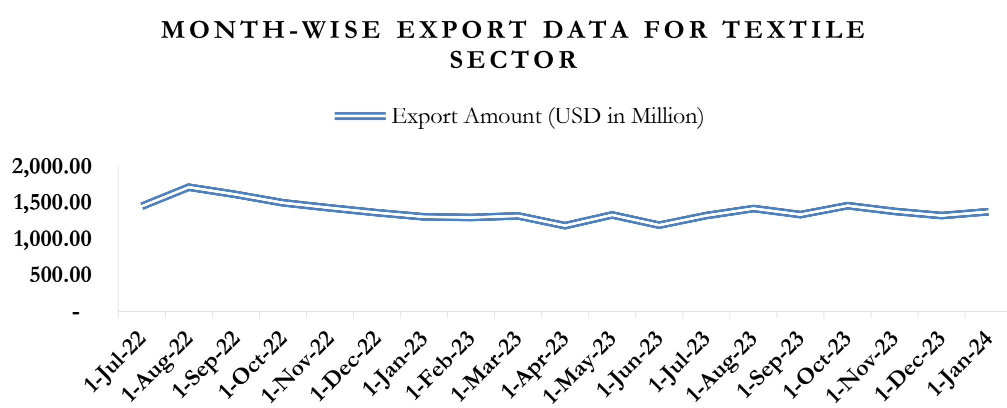

Figure 1: MoM Textile Exports (In USD' millions)
Source: SBP

Key Rating Drivers

Enhanced gross margins achieved through customer centric approach during review period

- Despite a decrease in volume, the Company's net sales increased marginally to Rs. 17.6 billion in FY23 compared to Rs. 17.0 billion in FY22, driven by an effective price increase resulting from the depreciation of the rupee.
- The Company's entire revenue is derived from exports, with only wastages sold locally.
- The Company achieved an increase in its gross profit margin in FY23 mainly due to Company's higher product pricing and a strategic emphasis on selected customers and geographical segments.
- Sales of the Company in the European region have shown a steady increase, rising from 58% in FY22 to 61% in FY23 and further to 73% in 9M'FY24. Conversely, sales to the USA have declined from 38% in FY22 to 37% in FY23 and down to 24% as of Mar'24.
- The Company has reduced its client concentration from 82% in FY22 to 79% in FY23 and further to 71% as of Mar'24.

- The Company's Admin and Selling expenses increased in line with inflationary pressures in the economy. Meanwhile, Finance costs grew by 1.5 times in FY23, reaching 2.4% of revenue compared to 1.7% in FY22.
- The increase in gross margins has directly contributed to the Company's higher net margin in FY23.
- The Company's net sales have increased by 16.2% from 9M'FY23 to 9M'FY24, mainly driven by a rebound in volumes.
- Gross Profit Margins of the Company has increased in 9M'FY24 compared to 9M'FY23.
- The Company has shown some improvement in controlling its Admin and Selling Expenses. Similarly, Finance cost of the Company has also reduced from 2.5% in 9M'FY23 to 2.1% in 9M'FY24.
- Net Profit Margin of the Company has increased significantly in 9M'FY24 compared to 9M'FY23.
- The Company has sustained increased gross margins in FY24.

Improved Debt Coverage Metrics Driven by Declining Debt Levels and Growth in Cash Flow Trends.

- Improved net profit margins led to FFO a higher FFO in Jun'23, marking a 2x growth from FY22.
- Debt coverage metrics also saw significant improvements by Jun'23, with FFO to long-term debt at 2.6x (FY22: 1.0x) and FFO to short-term debt at 0.7x (FY22: 0.3x), driven by higher profitability, and reduced short-term borrowings.
- The DSCR increased from 1.3x in Jun'22 to 2.8x in Jun'23, attributed to increased FFO and lower current loan repayments.
- Liquidity remained adequate wherein current ratio stood at 1.3x as of Jun'23 (Jun'22: 1.1x).
- By Mar'24, FFO grew by 2.2x compared to Mar'23. Resultantly, DSCR of the Company also grew to 6.0x as of Mar'24.
- FFO to long-term debt ratio grew to 5.6x by Mar'24, reflecting all-time high FFO levels and timely debt repayments.
- The Company's liquidity profile strengthened to a satisfactory level of 1.8x as of Mar'24.

Debt Levels Continued to Decline On a Timeline Basis With Zero Short Term Debt Stood on Company's Balance Sheet as at Mar'24. Gearing And Leverage Indicators Registered Notable Decline During the Review Period.

- As of June 2023, the Company's total equity increased by 37% mainly driven by profit retention and capital injection by Mr. Nafees Sultan.
- At the same time, the Company's total debt has been decreasing consistently on a timeline basis. This reduction is due to repayments on long-term loans and decreased short-term borrowings.
- Concurrently, the Company's gearing ratio has improved, with it standing at 0.6x in June 2023 compared to 1.1x in June 2022.
- As of June 2023, the Company's debt profile indicates that 21% of its total debt is long-term, while 79% is short-term.
- As of Mar'24, the Company's equity grew attributed to strong profit retention of the Company. Simultaneously, the Company's debt levels saw a substantial decrease as of March 2024, while the Company has took its short term borrowings to zero. As a result, the Company's gearing ratio was recorded at a mere 0.09x.

- Simultaneously, leverage ratio also strengthened to 0.7x (FY23: 1.4x) as of March 2024.

Environmental, Social, & Governance (ESG) Initiatives

The company has implemented various initiatives aimed at enhancing environmental sustainability. These efforts include the installation of solar panels and achieving LEED Certification for two operational facilities (Unit III & IV). Effluent Treatment Plants (ETPs) have also been installed to reduce water and soil contamination.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Rajby Industries
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				
15-07-2024	A-	A-2	Positive	Maintained
22-06-2023	A-	A-2	Stable	Reaffirmed
07-06-2022	A-	A-2	Stable	Maintained
03-06-2021	A-	A-2	Negative	Maintained
23-04-2020	A-	A-2	Rating Watch - Negative	Maintained
29-11-2019	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.
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. Copyright 2024 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Tauseef Karim Siddiqui	Director Finance	June 27, 2024
Mr. Adnan Feroz	Vice President Marketing	
Mr. Muhammad Ilyas Qaazi	General Manager Taxation & Internal Audit	