RATING REPORT

Shafi Lifestyle (Pvt.) Ltd

REPORT DATE:
January 11, 2024
RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Latest Rating**	**Previous Rating**
Entity	**A-/A-2**	**A-/A-2**
Rating Date	*January 11, 2024*	*December 30, 2022*
Rating Outlook	Stable	Stable
Rating Action	Reaffirmed	Upgrade

COMPANY INFORMATION	
Incorporated in 2009	**External auditors:** RSM Avais Hyder Liaquat Nauman Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Muhammad Haleem
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Muhammad Naseem
Shafi Glucochem Pvt Ltd – 65.81%	
Mr. Amjad Hafeez – 7.63%	
Mr. Muhammad Naseem – 6.93%	

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

Shafi Lifestyle (Private) Limited

OVERVIEW OF THE INSTITUTION	RATNG RATIONALE

Shafi Lifestyle (Pvt.) Limited *was incorporated in 2009. The Company was previously known as 'Aisha Sons' and was later on renamed and converted into a private limited company. The Company's regional office is based in Karachi while its factory is located in Lahore.*

Shafi *group was formed by Mian Muhammad Shafi (Late), with his elder sons in 1940. The group includes companies such as Everfresh Farms, Muhammad Shafi Tanneries, Shafi Texcel, Shafi Energy, M/s. Gluco Chem, Shafi Lifestyle, and Shafi Foods.*

Company Profile:

Shafi Lifestyle (Pvt.) Limited ('SLPL' or 'the Company') was incorporated in 2009 as a private limited company. The main operations of the Company include manufacture and sale of leather products, specifically footwear. The registered office of the Company is located at Shafi House 35-A/3, Lalazar, M.T. Khan Road, Karachi Sindh while its factory is situated at 3 KM, Bulhar Road, off 22 KM Ferozpur Road, Rohi Nallah, Lahore, Punjab.

The Company's product mix includes footwear for men, women, and kids' section, which is exported to countries like Holland, Germany, Australia, USA, and Austria etc. The Company belongs to Shafi group and is a subsidiary of M/s. Shafi Gluco Chem (Pvt.) Limited, which owns 65.7% of its shareholdings. Other companies in the group includes Everfresh Farms, Muhammad Shafi Tanneries, Shafi Texcel, Shafi Energy, and Shafi Foods.

Key Rating Drivers:

Business risk profile is characterized by export-oriented nature and cyclicality from consumer preferences as well as changes in international economic trends.

The leather footwear sector is ascribed a medium business risk profile, marked by its export-oriented nature which shields it from significant local economic factors such as currency depreciation and resultant inflation. In FY23, the leather footwear sector exports managed to grow by ~14% to USD 142 mln (FY22: USD 125 mln) despite significant challenges in the export markets during this period.

Otherwise, demand within the sector is linked to the fashion industry. This reliance on fashion trends introduces a level of cyclicality risk, with consumer preferences susceptible to changes in the economic cycle.

Raw material dynamics further contribute to the risk profile. While leather, a major raw material, is primarily sourced locally, other materials like sole material and accessories are predominantly imported, exposing the sector to exchange rate risks. Foreign currency fluctuations may impact on production costs, but much of it can be transferred to export customers through increased selling prices. Additionally, the sector is susceptible to potential influences from Letter of Credit (LC) limitations and import restrictions.

Going forward, sector performance is expected to face continuous challenges from rising gas tariffs, hike in electricity costs, and regional competition, particularly from, China and India, as well as escalating finance costs and high inflation in export markets such as USA and Europe. However, currency depreciation, and extension in the GSP+ status is expected to support export demand.

Exports shield from local economic shifts, although client concentration risk elevated.

The Company relies significantly on exports, with 96.6% of its clientele being export-based, which provides a measure of protection against economic volatility in Pakistan. However, there is notable client concentration risk, with the top two clients contributing approximately 80% to total sales. This risk is somewhat mitigated by the fact that these clients are among the largest shoe production and distribution companies in Europe, engaging with numerous national and international retailers. Their substantial demand minimizes the likelihood of swiftly changing suppliers.

Growth in topline backed by higher volumetric growth and increase in average prices as result of local currency devaluation.

In FY23, the Company witnessed a 44.78% growth in its topline on the back of increase in its exports as well as local sales which increased by 41% and 569% respectively. This increase was mostly on account of a 39% devaluation of the PKR/USD, which the Company was able to pass on to the customers in FY23. The Company has remained focused on export sales, which comprise around 96.6% (FY22: 99.3%) of its total sales in the period under review.

During the period under review, gross margin slightly deteriorated to 28% (FY22: 29%). Furthermore, the positive momentum in topline did not commensurate into higher net margins in FY23 due to the escalation in finance costs attributed to an 825-basispoint increase in local policy rates during FY23, hence reporting the net margin at 12.7% (FY22: 12.2%).

Going forward, due to relatively stable exchange rates and ongoing economic downturn in the international markets, the top line of the Company is expected to face constraints in FY24.

Slight improvement in the Company's gearing and leverage on the back of increase in the equity base.

In FY23, the company's capitalization metrics remain conservative with gearing and leverage ratios of 0.6x (FY22: 0.7x) and 1.2x (FY22: 1.3x), respectively. This marginal improvement is attributed primarily to the company's increased equity with the Company retaining its profits and a reduction in long-term debt through regular repayments. However, there was an increase in the company's short-term borrowings, driven by higher working capital requirements.

SLPL maintains an adequate liquidity profile as well as healthy coverage metrics.

Historically the Company has maintained a stable liquidity profile with a current ratio between 1.2x and 1.5x. In FY23, the liquidity profile remained unchanged with a current ratio of 1.4x (FY22: 1.4x, FY21: 1.5x). Similarly, SLPL has also historically maintained a healthy coverage profile which has strengthened further with a debt service coverage ratio (DSCR) of 6.0x (FY22: 4.4x) in FY23. This is supported by the increase in quantum of funds from operations (FFO).

Key Considerations for Future Reviews

Going forward, ratings will remain sensitive to the Company's ability to maintain its profitability, capitalization, liquidity and coverage profiles commensurate with assigned ratings.

Shafi Lifestyle (Pvt.) Limited

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Shafi Lifestyle (Private) Limited
Sector	Leather Footwear
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
11/01/24	A-	A-2	Stable	Reaffirmed
30/12/22	A-	A-2	Stable	Upgrade
31/01/22	BBB+	A-2	Positive	Maintained
26/08/20	BBB+	A-2	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Mazhar Iqbal	Sr. Manager Accounts & Finance	January 02, 2024