

RATING REPORT

Sitara Textile Industries Limited (STIL)

REPORT DATE:

October 01, 2024

RATING ANALYSTS:

M. Amin Hamdani

amin.hamdani@vis.com.pk

Abdul Kadir

kadir@vis.com.pk

RATING DETAILS

| Rating Category | Latest Rating | | Previous Rating | |
|-----------------------------|-------------------------|------------|-------------------|------------|
| | Long-term | Short-term | Long-term | Short-term |
| Entity | BB+ | A-3 | BBB+ | A-2 |
| Rating Outlook/Rating Watch | Rating Watch - Negative | | Negative | |
| Rating Action | Downgrade | | Maintained | |
| Rating Date | October 01, 2024 | | February 01, 2024 | |

COMPANY INFORMATION

Incorporated in 1985

External Auditors: RSM Avasi Hyder Liaquat Nauman, Chartered Accountants (FY22)

Unlisted Public Limited Company

Chairman/CEO: Mr. Mian Muhammad Anees

Key Shareholders (with stake 5% or more):

Mian Muhammad Anees – 86.96%

Mrs. Naila Anees – 12.81%

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial 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>

Sitara Textile Industries Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Sitara Textile Industries Limited (STIL) is a public limited unlisted company incorporated in Pakistan in 1985 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The principal activity of the company is processing and export of value-added cloth and made-ups. The registered office is located at 6 Km Sargodha Road, Faisalabad.

During the review period Mr. Muti-ur-Rasool was appointed as the new Group CFO in place of Mr, Salabuddin Aliani who last held the position for 6 years.

Profile of the

Chairman/C.E.O:

Mian Muhammad Anees serves as the Chairman of the Board and CEO of STIL and two other group companies (Sitara Hamza (Pvt.) Limited and Sitara Studios (Pvt.) Limited). Mr. Anees has done MSc in International Fashion Retailing from University of Manchester, UK. He is a seasoned industrialist having more than two decades of experience.

Corporate Profile

Sitara Textile Industries Limited (‘STIL’ or ‘the Company’), is principally involved in processing and exports of home textiles. Having more than three decades of operational history. STIL is wholly owned and managed by the sponsoring family. The Board comprises of four members including a female director. The organization structure is essentially clustered around two separate functions, namely, processing and marketing, while the finance department is directly look after by the CEO.

Group Profile

STIL is part of the Mian Anees Group which came into existence following division of the Sitara Group, well known for Sitara Chemicals, into four independent groups. Other group companies include Sitara Hamza (Pvt) Ltd and Sitara Studios (Pvt) Ltd. Sitara Hamza sells processed fabrics while Sitara Studios is a retail outlet chain for fashion garments.

Operational Performance

The registered office and mills are located at Sarghodha Road, Faisalabad. Sitara Textile Industries Ltd. is an export-oriented processing unit with more than 80% of revenues realized from exports while the remaining comes from commercial processing for Sitara Hamza (Pvt) Ltd. and other third parties. Exports of Sitara Textile Industries include home textile fabric and home textile made ups including bedding, table clothing kitchen coordinates and curtains/valances. STIL exports are mostly made to order, which include procurement of yarn of required quality and then have it weaved through third party weaving mills. The weaved cloth is then processed in STIL own facility. The entire process is usually completed in 4-5 months.

Production figures have shown a consistent decrease during the last 2 financial years, as reflected by the falling capacity utilization levels, with management attributing this trend to reduced demand for export-oriented orders.

Table 1: Capacity & Production Data (Units in millions)

| Capacity | FY21 | FY22 | FY23 |
|-----------------------------|-------|-------|-------|
| Installed Capacity (meters) | 42.0 | 42.0 | 42.0 |
| Actual Production (meters) | 35.3 | 29.3 | 20.3 |
| Capacity Utilization % | 84.1% | 69.7% | 48.3% |

In FY22, the company acquired a 12-acre land for Rs. 20m at FIEDMC Faisalabad, with future plans to develop a spinning and processing unit on this site in the long term.

Update on plant closure

Sitara Textile Company Limited's primary processing plant has been shut down, significantly impacting its operations. Currently, only 100 out of 300 stitching machines remain operational. The Company, primarily engaged in the processing of home textiles, is facing a financial strain, with a total debt of Rs. 1.6b, which includes both short- and long-term obligations. This is an improvement from Rs. 2.0b reported in the FY23 management

accounts. The sponsors plan to address the debt by swapping it with land from personal assets and liquidating the Company's existing assets. Although some financial obligations are overdue, they remain within the 90-day period. The sponsors have expressed plans to restart operations with a smaller composite textile unit at a new location.

Topline has been on a decreasing trend during FY23 and 9MFY24 primarily due to lower demand orders and decreased operational activity.

Net sales fell by ~23% Y/Y, reaching Rs. 3.8b mark in FY23 (FY22: Rs. 5.0b), reversing the growth trend seen from FY20-FY22. This downward trend continued in the first nine months of FY24, with sales totaling Rs. 2.0b. Management attributes this decline primarily to the global economic downturn, which has led to reduced demand and lower export volumes. As per the management accounts of FY23 and 9MFY24, gross margins registered improvement, however, net margins stayed intact at thin levels amid higher operating and financial expenses.

Cash flow coverage indicators leave room for improvement. Working capital cycle continued to increase.

Funds flow from operations (FFO) stood at Rs. 106.9m (FY23: Rs. 126.9m; FY22: Rs. 66.6m) in 9MFY24. However, cashflow coverage indicators remained short with FFO to total debt standing at 0.07x (FY23: 0.063x, FY22: 0.03x). However, debt service coverage ratio (DSCR) which defines as FFO to Current Debt Service Requirement remains adequate at 1.38x (FY23: 1.22x; FY22: 0.93x) in 9MFY24.

The liquidity profile considered adequate with current ratio remaining above 1x. However, the net cash conversion cycle has exhibited notable increase during the review period, driven by higher inventory holding and receivable days.

Equity growth remained subdued

The equity base (excluding revaluation surplus) largely remained intact with a marginal growth during FY23 & 9MFY24. Adjusted equity stood at Rs. 1.67b as of Mar'23 (Jun'23: Rs. 1.65b; Jun'22: Rs. 1.61b). The debt profile consists of both long-term and short-term borrowings, with total interest-bearing liabilities decreasing to Rs. 1.6b as of Mar'24 (Jun'23: Rs. 2.0b; Jun'22: Rs. 2.1b). This reduction in debt has resulted in a slight decrease in the leverage ratio to 2.02x (FY23: 2.39x) in 9MFY24, while the gearing ratio also declined to 0.96x (FY23: 1.20x) in 9MFY24.

Sitara Textile Industries Limited
Appendix I

| FINANCIAL SUMMARY | | (PKR Million) | | | |
|--|-------------|---------------|--------------|----------------|--|
| BALANCE SHEET | FY21 | FY22 | FY23* | 9MFY24* | |
| Property, Plant, & Equipment | 3,492.44 | 3,368.76 | 3,314.67 | 3,276.00 | |
| Investment in Subsidiary | 286.88 | 286.88 | 286.88 | 286.88 | |
| Store, Spares, and Loose Tools | 243.04 | 308.30 | 210.52 | 236.46 | |
| Stock-in-Trade | 1,609.58 | 1,848.55 | 1,852.73 | 1,870.04 | |
| Trade Debts | 831.57 | 858.74 | 980.11 | 799.02 | |
| Advances, Deposits, & Prepayments | 531.34 | 460.08 | 664.10 | 368.84 | |
| Tax Refunds Due from Government | 324.98 | 351.63 | 341.95 | 249.96 | |
| Cash & Cash Balances | 66.71 | 39.86 | 23.66 | 15.52 | |
| Total Assets | 7,449.42 | 7,688.89 | 7,832.58 | 7,270.04 | |
| Trade and Other Payables | 1,495.35 | 1,565.11 | 1,702.22 | 1,529.29 | |
| Long Term Debt (including current maturity) | 291.78 | 275.48 | 217.77 | 186.31 | |
| Short Term Debt | 1,634.07 | 1,782.10 | 1,771.88 | 1,419.33 | |
| Total Debt | 1,925.85 | 2,057.58 | 1,989.65 | 1,605.64 | |
| Total Liabilities | 3,638.07 | 3,851.47 | 3,953.37 | 3,370.06 | |
| Tier-1 Equity | 1,583.53 | 1,609.59 | 1,651.38 | 1,672.15 | |
| Total Equity | 3,811.35 | 3,837.41 | 3,879.20 | 3,899.97 | |
| Paid-up-Capital | 150.00 | 150.00 | 150.00 | 150.00 | |
| INCOME STATEMENT | FY21 | FY22 | FY23* | 9MFY24* | |
| Net Sales | 4,787.24 | 5,012.77 | 3,845.15 | 2,030.25 | |
| Gross Profit | 533.29 | 631.18 | 639.84 | 369.66 | |
| Profit Before Tax | 128.03 | 85.95 | 65.80 | 37.64 | |
| Profit After Tax | 75.00 | 32.95 | 30.60 | 20.77 | |
| Funds from Operations | 112.58 | 66.57 | 126.87 | 106.91 | |
| RATIO ANALYSIS | FY21 | FY22 | FY23* | 9MFY24* | |
| Gross Margins (%) | 11.14% | 12.59% | 16.64% | 18.21% | |
| Operating Margins (%) | 5.26% | 3.63% | 9.00% | 10.12% | |
| Net Margins (%) | 1.57% | 0.66% | 0.80% | 1.02% | |
| Current Ratio (x) | 1.12 | 1.14 | 1.14 | 1.19 | |
| Net Working Capital | 391.49 | 469.19 | 520.04 | 587.60 | |
| FFO to Total Debt (%) | 5.85% | 3.24% | 6.38% | 6.66% | |
| FFO to Long Term Debt (%) | 38.58% | 24.17% | 58.26% | 57.38% | |
| Leverage (x) | 2.30 | 2.39 | 2.39 | 2.02 | |
| Gearing (x) | 1.22 | 1.28 | 1.20 | 0.96 | |
| DSCR (x) | 1.93 | 0.93 | 1.22 | 1.38 | |
| ROAA (%) | 1.16% | 0.44% | 0.39% | 0.37% | |
| ROAE (%) | 4.85% | 2.06% | 1.88% | 1.67% | |
| (Stock in Trade + Trade Debt) to STD Ratio (x) | 1.49 | 1.52 | 1.60 | 1.88 | |

*Un-audited accounts

| REGULATORY DISCLOSURES | | | | | Appendix II |
|--|---|----------------------------|-------------------|-----------------------|----------------------|
| Name of Rated Entity | Sitara Textile Industries 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 |
| | 01/10/2024 | BB+ | A-3 | Rating Watch-Negative | Downgrade |
| | 01/02/2024 | BBB+ | A-2 | Negative | Maintained |
| | 30/01/2023 | | | | Suspended |
| | 31/12/2021 | BBB+ | A-2 | Stable | Reaffirmed |
| | 02/10/2020 | 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. | | | | |
| 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. Muti-ur-Rasool | Chief Financial Officer | August 22, 2024 | | |