RATING REPORT

Sheikhupura Textile Mills Limited

REPORT DATE:
June 30, 2022

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	BBB	A-2
Rating Date	*30th June 2022*	
Rating Outlook	Stable	

COMPANY INFORMATION	
Incorporated in 1989	External Auditors: Munaf Yousaf & Co.
Public Limited (unquoted) Company	Chairperson of the Board/CEO: Mr. Muhammad Asif
Key Shareholders (More than 5%):	
Mr. Asad Shafi – 33.9%	
Mr. Muhd. Asif– 32.9%	
Mr. Umar Shafi – 30.8%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Sheikhupura Textile Mills Limited

OVERVIEW OF THE INSTITUTION

Sheikhupura Textile Mills Limited (STML) is engaged in the business of manufacturing, selling, buying and dealing in all types of yarn including different counts of blended yarn. The company was listed on the stock exchanges in 1989.

Profile of the Chairman/CEO

Mian Muhammad Asif possesses 45 years of experience in the textile business. He has been associated with the company since inception.

Financial Snapshot

Total Equity: end-9MFY22: Rs. 1.7b; end-FY21: Rs. 1.5b; end-FY20: Rs. 1.4b; end-FY19: Rs. 955m

Assets: end-9MFY22: Rs. 3.8b; end-FY21: Rs. 3.2b; end-FY20: Rs. 3.0b; end-FY19: Rs.2.0b

Profit After Tax: 9MFY22: Rs. 151m; FY21: Rs. 115m; FY20: Rs.15m; FY19: Rs. 8m

RATING RATIONALE

Rating Rationale

Ratings assigned to Sheikhupura Textile Mills Limited (STML) factor in high cyclicality and competitive intensity for spinning segment along with volatility in polyester and cotton prices which translate into moderate to high business risk profile. The company has some revenue diversification through retail sales of fabric under the brand name "Cross Stich"; however, the contribution of spinning segment accounting for over two-thirds of topline is sizable, therefore the company is exposed to moderately high business risk. Assigned ratings capture the extensive sponsor experience, increasing trend in yarn production volume, sound revenue growth and continued improvement in margins over the last three years. However, rising energy cost and sizeable uptick in cotton prices given the present commodities super-cycle will exert pressure on operating margins, going forward.

Liquidity profile is sound with healthy cash flow generation in line with improvement in profitability indicators. Stock levels have increased on a timeline while trade debts and stock in trade are more than sufficient to cover short-term borrowings. On the other hand, management would have to vigilantly monitor the current ratio given the same was reported just a little over threshold requirement for the assigned rating. Equity base despite growth on a timeline basis has remained limited in terms of size due to which leverage metrics remain elevated. The ratings also incorporate management's focus on gradual expansion in the scale of spinning operations with recent installation of 3,000 spindles, on-going capacity expansion of retail unit through procurement of embroidery machines and other cost rationalization initiatives. Going forward, sales are expected to improve on account of adequate orders in pipeline along with expansion in scale of operations. The capitalization plan of the expansion would need to be aligned with that existing capital structure and dovetailing of timely revenue from the same. However, the ratings remain sensitive to any adverse changes in regulatory changes, limited revenue diversification and overall nominal scale of operations. The ratings are dependent on sustenance of margins, realization of projected targets, incremental cash flow generation and cost savings from recent capital expenditure and improvement of leverage indicators.

Key Rating Drivers

Textile and clothing exports have registered a sizeable growth given the surge in demand on account of rerouting of orders to Pakistan and favorable sector policies. Outlook is favorable going forward.

The textile sector contributes nearly one-fourth to industrial value-added segment and 8.5% to the country's GDP, with an estimated market size of Rs. 3.8tr (FY20: Rs. 3.3tr) in FY21. Barring seasonal and cyclical fluctuations, textiles products have maintained an average share of about 60% in national exports. Given post pandemic sustained economic recovery and diversion of export orders to Pakistan, export revenues from textile segment (as per PBS) stood at USD 15.4b (FY20: USD 12.5b; FY19: USD 13.6b) in FY21, registering a sizeable year-on-year growth of ~23%. The similar growth trend has been noted in the ongoing year with exports reaching at USD 9.4b during 6M'FY22, up by 26% vis-à-vis SPLY. Knitwear, Readymade and Bed wear segments continued to contribute higher than other segments, with a cumulative contribution of more than 60% in textile exports. While primarily a volumetric driven growth, the exports also received a boost from higher prices (excluding Knitwear). During the year, while average volumes increased by around 20-30% in various segments as compared to the lock down period, average prices increased by 8-10%.

Going forward, sector dynamics are favorable as Pakistan continues to receive export orders from global economies as competing regional countries remains hampered by the pandemic. Given the surge in demand, the industry is currently operating at full capacity and going through expansion and up-gradation to cater for additional demand. With higher international demand for Pakistani Textiles along with favorable government policies, large capacity enhancement projects in the downstream textile industry are expected, which will further strengthen demand for yarn. Raw material prices along with many other commodities increased from the low levels seen last year, which in turn increased yarn prices. Going forward, the improvement in margins for the spinning segment will remain contingent on investment in technology and capital expansion to reap economies of scale.

Five Year (2020-25) textile policy continues to support the industry:

With the aim to double textile exports in five years, GoP through a five-year textile policy (2020-25) has provided incentives in form of preferential energy rates, low interest rates financing schemes (such as EFS, LTFF and TERF) and timely payments of DLTL, Income tax & Sales tax refund which would support liquidity constraints of local players. Initiatives are also being undertaken in order to increase production and yield of cotton to support the industry. In the long run, improvement in value addition, investment in technology and optimization of energy cost would define the future of textile exports.

Company profile & manufacturing facility:

Ayesha Group entered the spinning industry with the establishment of Ayesha Spinning Mills Ltd. in 1972. Since then, the group has grown into four spinning units, with a combined capacity of more than 120,000 spindles, a leather tannery, a leather shoe factory, a shoe retail chain under the brand name of 'EPCOT', socks factory and an embroidery factory. STML is primarily engaged in the production and sale of yarn of polyester/ cotton yarn (PC yarn) of various counts with total installed capacity of 28,656 spindles. The yarn is being sold for consumption in knitting and weaving industries. The yarn produced is spliced, waxed and electronically cleaned. Moreover, the company is also dealing in sale of ladies' fashion cloth under the brand name "Cross Stitch" with a production capacity of 150,000 meters per month. Cross stitch has 25 outlets all over Pakistan. The ownership of the company is majorly shared among three members of the sponsoring family while presently three are actively involved in business affairs. Production facility is located at District Kasur, Punjab. Power requirement of 3.2MW is met through two sources; national grid and two gas-based generators. The sanctioned loan from WAPDA is 3.2MW while the SNGPL connection provides load of 3.0MW.

Spinning	**FY20**	**FY21**
Total number of spindles installed	28,656	28,656
Production capacity after conversion into 20/s counts (Kgs)	8,500,000	8,500,000
Actual Production (Kgs)	6,158,573	7,138,122
Actual production of yarn after conversion into 20/s counts (Kgs)	10,175,970	12,374,797
No. of shifts worked per day	3	3
Total number of working days	330	360
Capacity Utilization on conversion (%)	120%	146%
Cross Stitch	**FY20**	**FY21**
Number of embroidery/ stitching machines	120	120
Production Capacity	390,000	390,000
Actual Production	356,642	373,410

Total number of working days	275	275
No. of shifts worked per day	1	1
Capacity Utilization on conversion (%)	91%	96%

Capacity utilization levels have witnessed a strong recovery from the pandemic slump on account of sizeable jump in demand in textile sector particularly on the export front. Yarn production has increased by around 22% in FY21 and the growth trend is continued in the ongoing year.

High cyclicality and competitiveness in the spinning sector translate into high business risk profile: Movement in cotton prices and cotton crop levels drives performance of spinning players in Pakistan. Given sizeable deficit in local cotton production vis-à-vis demand in the recent years, cotton prices have remained elevated due to which inventory loss risk is considered limited. As with other domestic spinning players, reliance on China as major export market translates into high country concentration risk. However, business risk is supported by favorable government policies and healthy demand outlook.

Capex incurred to enhance operating scale: STML incurred capex of Rs. 398.4m during FY21; main capex amounting to Rs. 280.0m was incurred on increasing the number of spindles to 31,656 with procurement of 7 ring frame sets (Rs. 207m), auto cone set (Rs. 41m) and 3 sets of cards (Rs. 32m) during FY21, the same came online during the ongoing year. Civil works for set up of another floor of Cross Stitch (retail) factory costing Rs. 50.0m was also completed during FY21.For capacity expansion of retail segment, STML has procured additional six embroidery machinery with total capex amounting to Rs.40m during the outgoing year; the machines will come online by end-HY23. Further, to rationalize fuel cost the company has also planned to install solar plant having 200 KWH capacity at Cross Stich factory with total capex estimated at Rs. 25m. The alternative energy plant is projected to begin operations in July'22.

Topline & profitability indicators picked pace during the outgoing year and onwards: The declining trend in quantum sales was rescued during the outgoing year with the company's capacity utilization exceeding 100% in the spinning sector. STML's topline was recorded higher at Rs. 4.0b (FY20: Rs. 2.9b) during FY21 as a combined outcome of increase in prices of final product along with higher quantum of goods sold; the quantity of yarn sold increased to 162,036 bags (FY20: 133,951 bags) during FY21. Spinning segment contributed around two-thirds of the gross revenue amounting to Rs. 3.1b (FY20: Rs. 2.4b) while the remaining gross revenue of Rs. 1.5m (FY20: Rs. 995.0m) emanated from Cross Stitch sales during FY21. Further, the company was able to reap higher average prices of yarn and fabric, the same therefore were reported higher than the pre-covid values at 19.8% (FY20: 18.3%) during FY21. The improvement in margins was also an outcome of inventory gains as the company had made bulk purchases of cotton at lower rates. Further, margins also increased owing to overall improved business risk dynamics of the spinning and textile sector in line with capitalizing of market gap presented by prolonged lockdowns in competitor countries. Given local cotton has lower yield owing to high moisture and trash content the company uses a mix of imported and local cotton for manufacturing of its blended products; STML maintains cotton stock for around 4 months of projected production. On the other hand, polyester is procured locally so one month buffer stock is retained.

The operating expenses including administrative and selling & distribution expenses were recorded higher at Rs. 484.9m during FY21 vis-à-vis Rs. 358.1m in FY20 on account of increase in employee related cost in line with annual salary increments coupled with higher average headcount of 762 (FY20: 755) during the outgoing year. Moreover, higher marketing expenses were incurred for improved penetration of Cross Stitch brand; however, the increase in operating expenses is in sync with higher business volumes. On the hand, despite higher utilization of borrowings, the finance cost also decreased to Rs. 109.5m (FY20: Rs. 115.5m) during FY21 in line with reduced benchmark rates during the outgoing year. Other charges were also recorded significantly higher at Rs. 52.7m (FY20: Rs. 5.0m) during FY21 on account of loss on sale of fixed asset booked at Rs. 39.8m (FY20: Rs. 0.2m) coupled with higher contribution made to employee participation fund. On the contrary, other income increased to Rs. 19.3m (FY20: 13.2m) during the outgoing year as a result of higher gain on rent concession. As an outcome of positive trajectory of revenues and enhancement of margins, STML reported sizable profit of Rs. 288.5m (FY20: Rs. 126.3m) during FY21; the topline and bottom line of the company for the outgoing year are the highest ever recorded.

Going forward, the management projects to close FY22 with a topline of Rs. 5.7b; VIS expects that the target is realistic and achievable given the company has booked revenue of 4.1b during 9MFY22. The upward trajectory can be evidenced from the fact that the company surpassed the full year sale mark of FY21 during 3QFY22. The margins however declined slightly to 19.2% in the ongoing year due to higher energy cost and significant increase in cotton prices given the present commodities super-cycle. Nevertheless, the margins are also projected to remain healthy and increase to 21.3% for FY22 with any price increase in raw material to be timely transferred to customers coupled with inventory gains to be adjusted in audited financials.

Liquidity position exhibited improvement stemming from enhanced scale of operations & improved margins: Liquidity profile of the company has exhibited positive trajectory with significant improvement during the ongoing year in line with growth in margins and profitability indicators. Funds from Operations (FFO) were recorded sizable at Rs. 275.5m (FY21: Rs. 288.5m; FY20: Rs. 126.3m) during 9MFY22 owing to timeline growth in scale of operations and enhancement of margins. As a result, despite increase in borrowings, FFO to total debt and FFO to long-term debt was recorded significantly higher at 0.31x (FY21: 0.31x; FY20: 0.15x) and 0.66x (FY21: 0.45x; FY20: 0.34x) at end-9MFY22. In addition, the debt service coverage (DSCR) improved on a timeline and was recorded at 2.16x (FY21: 2.52x; FY20: 1.66x) in line with growth in FFO; the same depicts that the company is comfortably placed to meet its contractual obligations due in one year. DSCR was recorded highest at end-FY21 in line with deferments availed for long-term borrowings for one-year loan under SBP's covid relief package.

Stock in trade increased on a timeline basis to Rs. 1.0b (end-FY21: Rs. 635.5m; end-FY20: Rs. 600.8m) at end-9MFY22 owing to sizable raw material inventory held to meet forecasted demand; the same is linked with growth in scale of business operations. Further, trade debts also increased during the outgoing year owing to increase in revenues; the aging of receivables is considered satisfactory as less than 0.3% were overdue for more than six months. As per management, more than three-fifth of sales are on cash basis while credit terms extend up to 60 days. Hence, working capital cycle necessitates utilization of short-term financing to fund inventory levels. Current ratio of the company stands a little over 1.0x. Stock levels are elevated while trade debts and stock in trade are more than sufficient to cover short-term borrowings. As per the management, the liquidity profile will improve in line with enhancement of scale of operations, sustained margins and efficiency improvement initiatives being taken. Going forward, maintenance of liquidity indicators is considered crucial from a rating perspective.

Leveraged capital structure; nominal equity base is a constraint for capitalization indicators:

Tier-I equity of STML increased on a timeline to Rs. 769.9m (FY21: Rs. 618.9m; FY20: Rs. 481.5m) by end-9MFY22 on account of internal capital generation. There has been a sizable shift in the debt matrix as prior to FY21 the debt mix was heavily tilted towards short-term credit owing to limited reliance of the company on long-term borrowings. However, long-term borrowings increased during the outgoing year as STML procured debt amounting to Rs. 275.4m under SBP's Temporary Economic Relief Facility (TERF) to fund the capex of Rs. 398.4m incurred during FY21. The loans are mainly secured against 1st par passu charge over all present and future assets of the company amounting to Rs. 622.4m and personal guarantees of sponsoring directors of the company; the facilities carry a markup charge ranging from SBP rate + 2-4% per annum. However, for all the other existing long-term facilities banks have deferred the loan installments for the period of one year under SBP directive as a relief to the company during COVID-19 pandemic.

Further with increase in working capital requirements in line with improved scale of operations, the utilization of commercial short-term funding also increased on a timeline basis. in line with improved scale of operations. Short-term financing has been obtained from banks on mark-up ranging from 3M-KIBOR+1.5-2.5% and are secured by pledge and hypothecation of stocks, specific charge over imported machinery, lien over import documents, book debts, first charge over present and future fixed assets (land, building and machinery) of the company. The utilization limit for short-term credit decreased to Rs. 955m (FY20: Rs. 1.4bm) hence the unavailed facility was also reported lower at Rs. 665.1m (FY20: Rs. 1.1b) at end-FY21. Despite increase in total borrowings, gearing and leverage still improved on a timeline and were recorded lower at 1.53x (FY21: 1.52x; FY20: 1.77x) and 2.77x (FY21: 2.75x; FY20: 3.19x) respectively at end-9MFY22 in line with gradual augmentation of equity base. Given there are no sizable expansion plans in perspective with only normal BMR to be carried out, the leverage indicators are projected to improve during the rating horizon.

Room for improvement exist in terms of corporate governance framework; IT infrastructure is adequate. The company has in place a qualified senior management team with extensive relevant experience. Board of Directors (BoD) comprises three members while informal meetings are held on ad-hoc basis with no documentation of minutes. Room for improvement exists in terms of increasing board size and setting up an independent internal audit function. IT infrastructure in place commensurate with the scale of operations. Moreover, as per management, there are plans to deploy integrated ERP system going forward.

Sheikhupura Textile Mills Limited *(Rs. in million)*			Annexure I	
BALANCE SHEET	**June 30, 2019**	**June 30, 2020**	**June 30, 2021**	**March 31, 2022**
Non-Current Assets	1,364.6	2,104.4	2,301.5	2,329.4
Stock-in-Trade	464.6	600.8	635.5	1,029.5
Stores & Spares	45.9	50.9	57.3	80.9
Trade Debts	77.8	75.9	102.4	169.4
Advances, Deposits & Prepayments	26.6	93.5	53.7	107.5
Cash & Bank Balances	45.7	39.4	98.9	114.7
Total Assets	2,025.1	2,965.0	3,249.4	3,831.5
Trade and Other Payables	287.1	382.0	456.5	647.1
Short Term Borrowings	404.7	486.3	298.8	620.1
Long Term Borrowings	180.7	366.6	642.5	554.4
Total Borrowings	585.4	852.9	941.3	1,174.6
Total Liabilities	1,069.0	1,536.2	1,702.3	2,133.4
Paid Up Capital	70.5	70.5	70.5	70.5
Core Equity	458.6	482.5	619.9	770.9
Total Equity	956.1	1,431.8	1,547.1	1,698.0
INCOME STATEMENT	**June 30, 2019**	**June 30, 2020**	**June 30, 2021**	**March 31, 2022**
Net Sales	3,239.3	2,902.4	4,028.4	4,096.9
Gross Profit	518.3	531.0	798.5	785.6
Operating Profit	148.5	172.9	313.6	281.3
Profit Before Tax	69.5	65.6	170.7	202.5
Profit After Tax	27.7	14.6	115.2	151.0
FFO	83.2	126.3	288.5	275.5
RATIO ANALYSIS	**June 30, 2019**	**June 30, 2020**	**June 30, 2021**	**March 31, 2022**
Gross Margin (%)	16.0%	18.3%	19.8%	19.2%
Net Margin (%)	0.9%	0.50%	2.9%	3.7%
Current Ratio (x)	0.89	0.90	1.00	1.02
FFO to Total Debt (x)	0.14	0.15	0.31	0.31
FFO to Long Term Debt (x)	0.46	0.34	0.45	0.66
Debt Service Coverage Ratio (x)	1.70	1.66	2.52	2.16
ROAA (%)	1.4	0.6	3.7	4.3
ROAE (%)	6.3	3.1	20.9	21.7
Gearing (x)	1.28	1.77	1.52	1.53
Debt Leverage (x)	2.33	3.18	2.75	2.77
Stock+ Trade debts/ Short-term Borrowings (x)	1.34	1.39	2.47	1.93
Cash Conversion Cycle (days)	33	43	30	43

Sheikhupura Textile Mills Limited , Financial Projections	*(Rs. in million)*			*Annexure II*
BALANCE SHEET	**30-Jun-22**	**30-Jun-23**	**30-Jun-24**	**30-Jun-25**
Non-Current Assets	2166.9	2520.5	2382.6	2252.7
Stock-in-Trade	762.6	915.1	1098.1	1317.8
Stores & Spares	77.4	104.4	141.0	190.3
Trade Debts	128.1	160.1	200.1	250.1
Advances, Deposits & Prepayments	67.2	84.0	105.0	131.3
Cash & Bank Balances	202.1	100.6	226.6	324.9
Total Assets	3404.2	3884.7	4153.5	4467.0
Trade and Other Payables	452.0	447.5	443.0	438.6
Short Term Borrowings	301.8	295.8	289.9	284.1
Long Term Borrowings	481.0	569.0	383.6	239.9
Total Borrowings	782.9	864.8	673.4	524.0
Total Liabilities	1519.5	1596.9	1401.1	1247.2
Paid Up Capital	70.5	70.5	70.5	70.5
Core Equity	957.5	1360.7	1825.2	2292.7
Total Equity	1884.7	2287.8	2752.4	3219.9
INCOME STATEMENT	**30-Jun-22**	**30-Jun-23**	**30-Jun-24**	**30-Jun-25**
Net Sales	5,690.5	6,674.5	7,601.2	8,535.6
Gross Profit	1,210.1	1,525.1	1,782.6	1,979.7
Operating Profit	506.1	613.2	678.0	682.4
Profit Before Tax	423.0	503.2	578.6	595.5
Profit After Tax	337.6	403.1	464.6	467.5
FFO	473.7	551.1	604.3	599.4
RATIO ANALYSIS	**30-Jun-22**	**30-Jun-23**	**30-Jun-24**	**30-Jun-25**
Gross Margin (%)	21.3%	22.8%	23.5%	23.2%
Net Margin (%)	5.9%	6.0%	6.1%	5.5%
Current Ratio (x)	1.33	1.45	1.99	2.70
FFO to Total Debt (x)	0.61	0.64	0.90	1.14
FFO to Long Term Debt (x)	0.98	0.97	1.58	2.50
Debt Service Coverage Ratio (x)	-	-	-	-
ROAA (%)	9.3%	11.1%	11.6%	10.8%
ROAE (%)	39.1%	34.8%	29.2%	22.7%
Gearing (x)	0.82	0.64	0.37	0.23
Debt Leverage (x)	1.59	1.17	0.77	0.54
Stock+ Trade debts/ Short-term Borrowings (x)	2.95	3.64	4.48	5.52
Cash Conversion Cycle (days)	34	42	51	60

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix III

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 IV
Name of Rated Entity	Sheikhupura Textile Mills Limited
Sector	Textile
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.
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
30-06-2022	BBB	A-2	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Salman Haider	CFO	20-May-2022