

## RATING REPORT

## Sitara Hamza (Pvt) Limited

**REPORT DATE:**29<sup>th</sup> March 2024**RATING ANALYST:**

Muhammad Subhan

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| Rating Details | Latest Rating  |            |
|----------------|----------------|------------|
|                | Long-term      | Short-term |
| Entity         | BBB            | A-3        |
| Rating Date    | March 29, 2024 |            |
| Rating Outlook | Stable         |            |
| Rating Action  | Initial        |            |

## COMPANY INFORMATION

Incorporated in 1956

External auditors: RSM Avais Hyder Liaquat Nauman  
Chartered Accountants

Private Limited Company

Chairman/CEO: Mr. Mian Muhammad Anees

Key Shareholders (with stake 5% or more):

*Sitara Textile Industries Limited- 100%*

## 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 Hamza (Pvt) Limited**

**OVERVIEW OF THE INSTITUTION**

**RATING RATIONALE**

**Sitara Hamza (Pvt) Ltd.** was incorporated in Pakistan under the repealed Companies Ordinance, 1984. SHL is a family owned business comprising father and son running the operations of the Company. The principal business of the Company is to carry out business of builders, estate developers, construction contractors and consultants and trading in fabrics after outside conversion of yarn and processing cloth.

**Chairman/CEO Profile: Mr. 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 Hamza (Pvt) Limited (“SHL” or “the Company”) is a wholly owned subsidiary of Sitara Textile Industries Limited (Holding Company), and was incorporated in Pakistan under the repealed Companies Ordinance, 1984. SHL is a family owned business managed by father and son duo. The principal business of the Company is trading in processed fabrics. The Company buy grey fabric from the market or Sitara Textile Industries Limited (STIL) and get it processed mostly from the STIL and sell the processed fabric to Sitara Studio, a sister concern, other retail outlet and the wholesale market. Additionally the Company is also in real estate development. The Company operates through its registered office located at Mumtaz Hassan Road, in the province of Sindh.

**Sponsor Profile:**

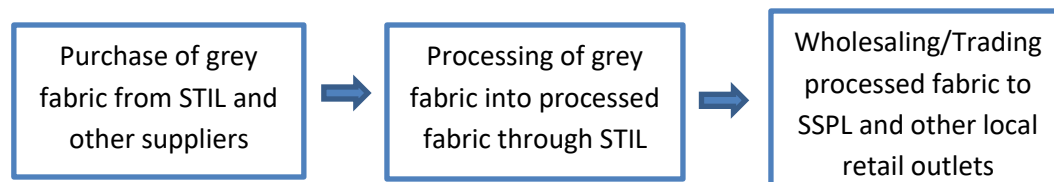
Sitara Textile Industries Limited (STIL), the group flagship company, is a public unlisted company and part of Mian Anees Group, which came into existence following division of the Sitara Group into four independent groups. STIL is principally engaged in processing and exports of home textiles and have more than three decades of rich experience. STIL is wholly owned and managed by the sponsoring family. STIL also holds 100% shareholding in Sitara Studios (Pvt.) Ltd (SSPL).

**Business Segments**

**Fabrics:** This segment of the business contributes around 98.5% of its total sales and primarily focuses on trading of the men and women fabrics. It also acts as a commercial bridge between STIL and the market, wholesaling fabrics acquired from STIL. The Company sells a significant portion of the fabric to its related party, Sitara Studios (Pvt.) Ltd., a retail outlet chain for fashion garments. Going forward, the management plans transferring the fabric business to SSPL, transforming SHL into solely a real estate entity.

**Real Estate Development:** Presently this segment of the Company accounts for only 1.5% of its total revenues, and deals in buying and selling of commercial and residential plots. The Company has completed a project named Sitara Sapna City, a housing society in Faisalabad, and is developing another project under the banner of Sitara Executive. The Company plans to further expand this part of the business by venturing into mall construction.

**Business Model**



**Clientele**

The Company deals in a business-to-business (BSB) sales model with a large client base comprising of different textile mills and major clothing retail stores operating in Pakistan. Some major clients are tabulated below:

|   |
|---|
| Sitara Studios Private Limited              |
| Metro Pakistan Private Limited              |
| Imtiaz Provision Store                      |
| Metro Cash & Carry Pakistan Private Limited |
| R-Sheen Fashion Paradise                    |
| Al Kabeer Cotton Industries                 |
| Genius Textile Network                      |
| Raja Sahib                                  |
| M.Hussain Cotton Waste Factory              |
| Traditions                                  |
| Ayesha Cottex                               |
| Farooq Private Limited                      |
| Makki Madni Textiles                        |
| M/S. Royal Fashion                          |
| Qadri Textile Mills                         |
| Portia Fabrics                              |
| Rameez Enterprises                          |

### Key Rating Drivers

#### **Business risk profile constrained by cyclical, and high competition in the sector.**

The business risk profile of textile sector in Pakistan is characterized by high level of exposure to economic cyclical 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.

The industry's demand is highly cyclical with the changes in economy like inflationary pressure reducing the purchasing power of the customers. Textile being one of the most important sector in Pakistan faces challenges like unavailability of raw material, high-energy costs, and natural disasters further destroying the cotton crops. As a result, many of the textile companies during FY23 closed their business operations on account of rising business cost.

Cotton, the primary raw material, sourced from Sindh and Punjab, represents a critical dependency for the sector. However, the Company's focus on textile product trading, rather than production, offers some resilience against these supply-side risks. Furthermore, the Company's engagement in the real estate sector serves as a strategic diversification supporting the Company's topline in times of need.

Moreover, the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs, and persistent inflationary pressures. These factors are likely to result in continued sluggish performance for the textile sector in FY24.

#### **Sponsor support provides comfort to ratings**

Ratings derive comfort from the sponsor support extended to the Company. This support is evident from the contributions made historically, with loans from directors standing at PKR 94.5 mln in FY23. This helped the Company to prevent severe stress on the coverage profile. Notably, these loans are classified in equity due to their non-interest-bearing nature and the Company's entitlement to pay back the loan.

#### **Profitability performance constrained on account of lower demand in the sector amid the inflationary pressure**

In FY23, the Company witnessed a 4.6% decline in its topline attributed to a reduction in fabric sales. This decrease in the fabric sales is on account of lower demand in the local market resulting from the inflationary pressure in the country. However, a minimal sale from the plots segment supported the topline.

Concurrently, the gross margin also saw a decline to 7.1% (FY22: 8.0% FY21: 6.7%) in FY23. However, the operating margin improved to 4.7% (FY22: 4.0% FY21: 3.8%), through cost control measures.. Higher finance cost due to an 825-bps increase in local policy rates in FY23 marginally constrained the net margin at 1.4% (FY22: 1.6% FY21: 1.7%).

#### **Coverage profile weakened due to higher finance cost and income tax payments.**

The coverage profile of the Company in FY23 further weakened with debt service coverage ratio (DSCR) reporting at 1.0x (FY22: 1.5x FY21: 4.7x). This decline in the DSCR is primarily attributed to lower funds flow from operations (FFO) affected by higher income tax payments and substantial increase in finance cost emanating from increasing short-term debt drawdown and increase in the policy rate.

#### **Company maintains a conservative capitalization profile**

SHL's leverage, in FY23, slightly improved to 2.2x (FY22: 2.3x, FY21: 1.9x) with a marginal improvement in the Company's equity base attributed to retention of profits. The gearing, however, deteriorated to 0.8x (FY22: 0.6x, FY21: 0.7x) in FY23, a result of higher drawdown of short-term debt to support the increasing working capital needs.

Going forward, the ratings will remain sensitive to the substantial proportion of payables remaining with the parent company ensuring they do not deteriorate or shift towards the market, coupled with improvement in its financial metrics.

#### **Adequate liquidity profile witnessed a slight decline in FY23**

Historically, the Company maintains an adequate liquidity profile while maintaining a 4Y average current ratio of 1.07x. In FY23, the current ratio slightly declined to 0.9x (FY22: 1.1x, FY21: 1.1x) on account of reduction in trade debts, estate development work in progress and increase in short term borrowings. In addition, the short-term debt coverage also witnessed a reduction, reporting at 1.9x (FY22: 3.4x, FY21: 2.0x) in FY23.

| REGULATORY DISCLOSURES                  |   |                            |                                 |                       |                      | Appendix I |
|---|---|----------------------------|---------------------------------|-----------------------|----------------------|------------|
| <b>Name of Rated Entity</b>             | Sitara Hamza (Pvt) Limited  |                            |                                 |                       |                      |            |
| <b>Sector</b>                           | Textile   |                            |                                 |                       |                      |            |
| <b>Type of Relationship</b>             | Solicited   |                            |                                 |                       |                      |            |
| <b>Purpose of Rating</b>                | Entity Rating   |                            |                                 |                       |                      |            |
| <b>Rating History</b>                   | <b>Rating Date</b>  | <b>Medium to Long Term</b> | <b>Short Term</b>               | <b>Rating Outlook</b> | <b>Rating Action</b> |            |
|   | <b>RATING TYPE: ENTITY</b>  |                            |                                 |                       |                      |            |
|   | 29-03-2024  | BBB                        | A-3                             | Stable                | Initial              |            |
| <b>Instrument Structure</b>             | N/A   |                            |                                 |                       |                      |            |
| <b>Statement by the Rating Team</b>     | 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.  |                            |                                 |                       |                      |            |
| <b>Probability of Default</b>           | 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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| <b>Due Diligence Meetings Conducted</b> | <b>Name</b>   | <b>Designation</b>         | <b>Date</b>                     |                       |                      |            |
|   | Mr Muti Ur Rasool   | Chief Financial Officer    | 15 <sup>th</sup> November, 2023 |                       |                      |            |
|   | Mr. Amjad   | Manager - Accounts         |                                 |                       |                      |            |