The Pakistan Credit Rating Agency Limited

Rating Report

Saif Textile Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jun-2023	A-	A2	Stable	Maintain	Yes
30-Jun-2022	A-	A2	Stable	Maintain	-
01-Jul-2021	A-	A2	Stable	Maintain	-
26-Jun-2020	A-	A2	Stable	Maintain	Yes
27-Dec-2019	A-	A2	Stable	Maintain	-
28-Jun-2019	A-	A2	Stable	Maintain	-
28-Dec-2018	A-	A2	Stable	Maintain	-
27-Jun-2018	A-	A2	Stable	Maintain	-
29-Dec-2017	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Saif Textile Mills Limited was incorporated in 1989 as a Public Limited Company. It is listed on Pakistan Stock Exchange. Saif Textile is associated with Saif Group since its inception. The Group has a presence in the spinning sector through Kohat Textile and Mediterranean Textile. The Company's production facilities are located in Gadoon Industrial Estate, KPK. The Company is engaged in manufacturing and marketing several varieties of cotton yarn including, melange yarn, dyed yarn, man-made yarn, and raw white yarn. The top line of the Company has reflected growth in the last three years attributable to both volume and prices. During FY22, net revenues clocked in at PKR 12.6bln (FY21: PKR 10.6bln) with the sales portfolio being dominated by local sales. Whereas, in 9MFY23, revenues stood at PKR 8.3bln, marginally lower as compared to the respective quarter of the last year. Net profitability fell to PKR 282mln in FY22 from PKR 527mln in FY21, which was attributed to higher finance costs due to an increase in borrowings and key policy rates. During 9MFY23, the Company's gross profit significantly decreased to PKR 365mln due to the high COGS coupled with finance costs the Company recorded a net loss. Going forward, the management anticipates that Saif Textile's margins would hold steady in the future. The company provides goods to a large number of downstream export-oriented businesses in Pakistan that are looking forward to a significant uptick in demand internationally. During 9MFY23, the textile exports were valued at $12.47bln compared to $14.24bln, reflecting a 12% decline YoY - the declining trend has been recorded in the last two quarters. The Country's textile exports for the month of March clocked in at US$1.26bln, up 7% MoM. The decline in the previous overall exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand in international markets is also a challenge. During the month of March, value-added textile exports increased by 6% MoM to US$863mln mainly due to Readymade Garments and Knitwear increasing by 8% and 12% MoM respectively while towels decreased by 6% MoM. Basic textiles witnessed an increase of 8% MoM to US$230mln in Mar-23. In volume terms, Knitwear, Readymade Garments, Bedwear, and Towels increased by 18%, 13%, 5%, and 2% MoM respectively. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve in the upcoming quarters.

Effective financial obligation management while increasing profit margins remains necessary. The ratings could be negatively impacted by any additional debt accumulation and/or deviation from the entity's current business strategy that would increase relevant risks. The Saif group will continue to be crucial to the entity's success, as will its smart debt management. Moreover, it is still crucial to strengthen the equity foundation.

Disclosure

Name of Rated Entity	Saif Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Spinning(Sep-22)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Legal Structure Saif Textile Mills Limited (Saif Textile), was incorporated in 1989 as a Public Limited Company. It is listed on Pakistan Stock Exchange.

Background Saif Textile is associated with Saif Group since its inception. The Group has a presence in the spinning sector through Kohat Textile and Mediterranean Textile. The Company's production facilities are located in Gadoon Industrial Estate, KPK.

Operations Saif Textiles is uniquely positioned towards various segments of the market offering a diverse product line to fulfill the demands of customers worldwide for multiple end-uses including Denim, Apparel, Home Textiles, and Technical Fabrics. Saif Textile sells a variety of yarn which include, raw white yarn, mad made yarn, melange yarn, dyed yarns, and surgical cotton. The Company's current operational capacity comprises 107,760 spindles. The company's total power requirement of 10MW is being met through a gas-fired captive power generation plant (12MW). Meanwhile, Solar Plant connections are utilized as a backup in case the need arises.

Ownership

Ownership Structure Saif Group holds the majority of the shareholding of Saif Textiles through its holding company – Saif Holdings. It exercises its control over the Company's board by virtue of its ~50% shareholding, followed by Modarbas and Mutual Funds with 7% and State Life Insurance with a 4% stake respectively. The Company has a large free float dispersed among the general public.

Stability The Group has a holding company in place, with an equal shareholding of all Saif brothers, portraying a structured line of succession. However, the transfer of ownership to the next generation is not documented yet.

Business Acumen Saif Group is one of the oldest medium-sized business conglomerates in Pakistan with considerable interests in textiles. The sponsors have a presence of five decades in the local Spinning industry, eventually developing expertise. However, the Group's growth in the textile sector was limited but it was sustained through the volatility experienced by the local textile industry.

Financial Strength The Group is one of the prominent industrial and services conglomerates in Pakistan. The Group's interests lie in oil and gas exploration, power generation, textiles manufacturing, real estate development, and health care services, through 7 subsidiaries and 4 associated companies across different sectors. The strong financial muscles of the Group portray the ability to support Saif Textile in time of need, as demonstrated in the past.

Governance

Board Structure Saif Textile's board comprises seven members, including the Chairman - Mr. Osman Saifullah. The board include four non-executive directors, while two directors are independent.

Members' Profile Mr. Assad Saifullah - Chairman - appointed on 1st June, 2022. He graduated from the University of Pennsylvania in 2004. He is the CEO of Kohat Textile Mills Limited. He is also a director in other Group Companies.

Board Effectiveness Two committees: Audit and Human Resource & Remuneration, are in place to assist the board in relevant matters and it ensures proper oversight. Attendance of board members in meetings remains adequate and meeting minutes were formally documented. Meanwhile, the overall strategy is discussed in frequent meetings of Saif Group, whereas, operational matters are discussed in board meetings.

Financial Transparency M/s Shinewing Hameed Chaudhri & Co., Chartered Accountants are the external auditors of the Company. They have expressed an unqualified opinion on the financial reports for the year ended June 2022.

Management

Organizational Structure The management team is headed by the newly appointed Ms. Nadial Bilal (CEO). Ms. Nadia holds an M.B.A. degree in Marketing and Finance. She has previously been associated with one of the largest textile companies in Pakistan – Nishat Chunian as Managing Director. With 25 years of experience, she is a seasoned professional in the textile industry.

Management Team Management of the group comprises qualified and experienced professionals with a wide range of skills related and diversified experience. Mr. Muhammad Faisal Raza is the CFO. The remaining team consists of seasoned professionals.

Effectiveness There is no formal management committee, however, the Company maintains an adequate IT infrastructure and related controls. Additionally, delegation of power by sponsors to management is considered positive for management effectiveness.

MIS Saif Textile has in place Microsoft Dynamics based ERP system that provides comprehensive MIS reporting.

Control Environment The Company is compliant with following quality assurance standards; OEKA TEX 100, ISO 9001:2008, ISO 14001, Global Organic Textile Standards and Supima.

Business Risk

Industry Dynamics During 9MFY23, the textile exports were valued at $12.47bln compared to $14.24bln, reflecting a 12% decline YoY - the declining trend has been recorded in the last two quarters. The Country's textile exports for the month of March clocked in at US$1.26bln, up 7% MoM. The decline in the previous overall exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand in international markets is also a challenge. During the month of March, value-added textile exports increased by 6% MoM to US$863mln mainly due to Readymade Garments and Knitwear increasing by 8% and 12% MoM respectively while towels decreased by 6% MoM. Basic textiles witnessed an increase of 8% MoM to US$230mln in Mar-23. In volume terms, Knitwear, Readymade Garments, Bedwear, and Towels increased by 18%, 13%, 5%, and 2% MoM respectively. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve in the upcoming quarters.

Relative Position The Company's association with Saif Group strengthen its position in local spinning industry. However, on standalone basis the Company's share in local spinning industry is minimal.

Revenues The Company's net revenues are dominated by local sales, during FY22, they were recorded at PKR 12.6bln (FY21: PKR 10.6bln) witnessing an improvement of 20%. Gross profit enhanced to PKR 2.3bln (FY21: 1.9bln) due to increased net revenue compared to COGS. During FY22, total finance cost surged to by PKR 792mln (FY21: PKR 666mln), owing to an incline in markup on borrowings. During 9MFY23, sales stood at PKR 8.3bln displaying a slight decrease on a YoY basis. Whereas, the Company recorded a net loss of PKR 825mln due to increased COGS, higher operating expenses, and rising finance costs.

Margins Due to an increase in costs, margins deteriorated in 9MFY23. Gross profit margin decreased to 4.4% (9MFY22: 21.5%) and operating profit margin to -0.3% (9MFY22: 16.8%). PBIT Margins also witnessed a downfall and were recorded at 1.1% (3QFY22: 16.4%) due to increased expenses and a rise in the COGS.

Sustainability Going forward, the management's focus is to achieve efficiency and record profitability. The Company supplies to many downstream export-oriented units in Pakistan which are anticipating a good rebound in global demand.

Financial Risk

Working Capital The Company's net working capital days remained largely the same at 133 days in FY22 (FY21: 131 days), owing to a rise in inventory days. Gross working capital days rose to 160 days. Meanwhile, during 9MFY23, net working capital days recorded a further increase to 163 days, whereas, due to an increase in inventory days. The company's room to borrow came down drastically to -14%.

Coverages In 9MFY23, the Company's FCFO clocked at PKR 304mln (9MFY22: PKR 1.6bln) owing to decreased profitability. There was an increase in short-term borrowing and finance costs, and the Company's coverages also recorded attrition. Interest coverage stood at 0.3x (FY22: 2.5x). Core operating coverage dropped down and stood at 0.2x (FY22: 1.2x). Going forward, the strengthening of coverage is essential.

Capitalization The Company's leverage increased drastically during 9MFY23 to 71.6% (FY22: 64.3%, FY21: 64.2%), mainly due to the increase in borrowings comprising of financial institutions. The improvement in equity base over many last years has been minimal due to low profitability and stood at PKR 3.1bln (9MFY22: PKR 4.1bln). The strengthening of the equity base shall remain vital, going forward.

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Financial Summary
PKR mln

Saif Textile Mills Limited	**Mar-23**	**Jun-22**	**Jun-21**	**Jun-20**
Textile	**9M**	**12M**	**12M**	**12M**
A BALANCE SHEET				
1 Non-Current Assets	6,521	6,567	6,478	6,591
2 Investments	15	12	38	36
3 Related Party Exposure	-	46	-	1
4 Current Assets	6,316	7,246	5,389	5,258
a Inventories	*3,739*	*3,970*	*2,309*	*2,517*
b Trade Receivables	*1,674*	*2,541*	*2,276*	*1,824*
5 Total Assets	12,852	13,871	11,906	11,887
6 Current Liabilities	1,228	1,901	1,057	1,357
a Trade Payables	*678*	*1,314*	*579*	*719*
7 Borrowings	7,049	7,077	6,580	6,857
8 Related Party Exposure	770	-	-	-
9 Non-Current Liabilities	697	962	599	511
10 Net Assets	3,107	3,932	3,670	3,161
11 Shareholders' Equity	3,107	3,932	3,670	3,161
B INCOME STATEMENT				
1 Sales	8,337	12,665	10,647	7,651
a Cost of Good Sold	*(7,972)*	*(10,304)*	*(8,755)*	*(7,014)*
2 Gross Profit	365	2,361	1,892	637
a Operating Expenses	(389)	(574)	(488)	(411)
3 Operating Profit	(24)	1,787	1,404	227
a Non Operating Income or (Expense)	*117*	*(138)*	*(46)*	*5*
4 Profit or (Loss) before Interest and Tax	94	1,649	1,358	232
a Total Finance Cost	*(1,064)*	*(792)*	*(666)*	*(856)*
b Taxation	*145*	*(575)*	*(165)*	*(48)*
6 Net Income Or (Loss)	(825)	282	527	(672)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*304*	*1,755*	*1,573*	*388*
b Net Cash from Operating Activities before Working Capital Changes	*(605)*	*1,062*	*824*	*(336)*
c Changes in Working Capital	*113*	*(1,221)*	*(322)*	*(323)*
1 Net Cash provided by Operating Activities	(492)	(159)	501	(659)
2 Net Cash (Used in) or Available From Investing Activities	(191)	(361)	(213)	(506)
3 Net Cash (Used in) or Available From Financing Activities	747	519	(285)	1,175
4 Net Cash generated or (Used) during the period	65	(1)	4	10
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-12.2%	19.0%	39.1%	-14.8%
b Gross Profit Margin	4.4%	18.6%	17.8%	8.3%
c Net Profit Margin	-9.9%	2.2%	4.9%	-8.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	5.0%	4.2%	11.7%	0.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	-31.3%	7.4%	15.4%	-21.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	196	160	153	188
b Net Working Capital (Average Days)	163	133	131	158
c Current Ratio (Current Assets / Current Liabilities)	5.1	3.8	5.1	3.9
3 Coverages				
a EBITDA / Finance Cost	0.3	2.7	2.9	0.6
b FCFO / Finance Cost+CMLTB+Excess STB	0.2	1.2	1.1	0.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-3.1	1.8	2.5	-6.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	71.6%	64.3%	64.2%	68.4%
b Interest or Markup Payable (Days)	96.4	92.5	71.3	103.9
c Entity Average Borrowing Rate	17.0%	10.3%	8.7%	12.9%

Credit Rating

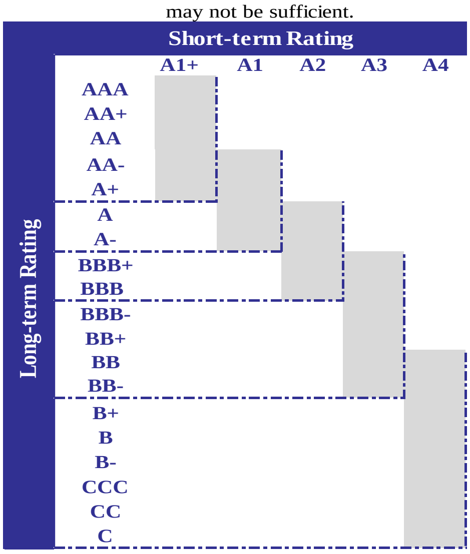
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term “family members” shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst’s area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information