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-2024	A-	A2	Stable	Maintain	Yes
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	-

Rating Rationale and Key Rating Drivers

Saif Textile Mills Limited ("STML" or "the Company") rating emanates from the strapping profile of its sponsoring group, the Saif Group. The Saif group has an appreciable presence in diversified industry segments like Power, Textile, oil & gas exploration, Real Estate, IT & Communication and Healthcare. STML produce a variety of Yarn as accru yarn is their prime selling product followed by mélange yarn and dyed yarn. The Company has minute export volumes and is contributed by the sale of surgical cotton. The Company's financial health has been challenged by the deterioration in company-specific business fundamentals coupled with sluggish trends in the spinning industry and under-stress macroeconomic indicators. During 9MFY24, STML reported a topline of PKR 9,563mln (FY23: PKR 11,692mln, 9MFY23: PKR 8,337mln) and generated a profit after tax of PKR 74mln mainly supplemented by a loan wavier of PKR 600mln from Saif Holding. The gross profit margin improved to 12.6% in 9MFY24 (FY23: 4%, 9MFY23 4.4%), however, magnifying finance cost has diluted the net profit margin to 0.8% (FY23: -9.7%, 9MFY23: -9.9%). The recent cut in the monetary policy rate will provide a cushion in the profitability matrix of the Company. The management of the Company remains committed to aligning its financial performance with projected targets. The financial strength of the Company is underpinned by the financial backing of the Saif Group and its ongoing support to STML. An agreement is in place for an unsecured finance facility of up to PKR 1.5bln from Saif Power, specifically designated for debt servicing and fulfilling working capital needs. STML is authorized to utilize this facility and make repayments under it at its discretion. The company's financial risk profile is under stress but some gradual recovery is expected. The company relies on short-term borrowings to fuel its working capital requirements. The cashflows and coverages of the Company are considered adequate and require prudent management to fund core operations. The Company's maintained leverage capital structure with a 61.4% leveraging ratio, mirroring the industry's propensity for increased borrowings. The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn ~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector has a contribution of ~ PKR 1.6Trn mainly dominated by knitwear, readymade garments, bedwear and towels followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs & finance costs, PKR devaluation and ensuring the availability of optimum quality raw materials are prime challenges.

The ratings are dependent upon the continuity of financial support from sponsors. The augmentation in profitability matrix while generating sufficient cashflows with improved coverages remains critical. The adherence of debt matrix at an optimal level is a prerequisite for assigned ratings. The sponsor support remains critical for ratings sustainability. 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(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-24)
Related Research	Sector Study | Spinning(Sep-23)
Rating Analysts	Muhammad Harris Ghaffar | harris.ghaffar@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 The Company engage in the manufacturing and marketing of diverse yarn varieties, including accru yarn, melange yarn, dyed yarn, and surgical cotton. The Company operates with a total of 105,744 ring spindles and 19 doubling machines, achieving an annual production capacity of 19 million kilograms. Additionally, the Company has a dyeing unit with a production capacity of 12.5 tonnes per day. At full capacity utilization, the Company's total energy requirement is 11 MW, sourced as follows: 8.5 MW from gas, 1.7 MW from the grid, and 0.8 MW from solar power.

Ownership

Ownership Structure Saif Group, via its holding entity Saif Holdings, maintains a controlling stake in Saif Textiles. This control is enabled through a 49.58% shareholding in the company. The ownership structure of Saif Textiles includes Saif Holdings as the majority shareholder, supplemented by significant holdings from NIT (5.80%) and State Life (3.90%), with the remaining 40.72% constituting a significant free float.

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 eight members, including the Chairman - Mr. Javed Saifullah Khan. Ms. Hoor Yousafzai, a Chartered Accountant, serves as the female director on the board and is also the Chairperson of Saif Health Care. Additionally, two directors are independent.

Members' Profile On May 7, 2024, Mr. Javed Saifullah Khan was appointed Chairman of the Company, succeeding Mr. Osman Saifullah Khan, who now serves as a director of the Company. Mr. Javed Saifullah Khan holds an MBA from the University of Pittsburgh and brings over four decades of extensive experience to the role. The board comprises members with substantial and diverse expertise.

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.

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 2023.

Management

Organizational Structure The Company employs a well-established organizational structure, with each department managed by respective departmental heads reporting directly to the CEO, while the management committees, (i) Audit Committee and (ii) HR & Remuneration Committee, report directly to the board.

Management Team Mr. Sohail Hussain Hydari serves as the CEO of the Company, holding an MBA from IBA. With over four decades of experience, he has been associated with the board for three and a half years. Muhammad Luqman, the CFO, brings with him over two decades of experience to his role.

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 implemented Microsoft Dynamics AX 2012 R3 ERP system, which provides comprehensive MIS reporting.

Control Environment The Company adheres to several quality assurance standards, including OEKA TEX 100, ISO 9001:2008, ISO 14001, Global Organic Textile Standards, and Supima. The Company maintains an effective internal audit department that enhance risk management, control, and governance processes. The department comprises a dedicated team led by the Internal Auditor.

Business Risk

Industry Dynamics The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn ~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector has a contribution of ~ PKR 1.6Trn mainly dominated by knitwear, readymade garments, bedwear and towels followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs & finance costs, PKR devaluation and ensuring the availability of optimum quality raw materials are prime challenges specific to the industry to assess the international market and stay price-wise competitive.

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 During 9MFY24, the Company reported net revenue of PKR 9,563mln (FY23: PKR 11,692mln, 9MFY23: PKR 8,337mln), reflecting a 14.7% from 9MFY24. The majority of the Company's revenue is derived from local yarn sales, with a significant portion attributed to Accru yarn. The Company's export markets include Turkey, Poland, Germany, UAE, and Brazil. However, the contribution of exports to total sales remains minimal, with total exports amounting to PKR 250mln in FY23.

Margins The Company's margins are under stress due to inflationary pressures impacting raw material prices, and energy tariffs. The financial results of FY24 showed improvement, with a gross profit of PKR 1,201mln (FY23: PKR 462mln, 9MFY23: PKR 365mln) and a net profit of PKR 74mln, (FY23: PKR -1,134mln, 9MFY23: PKR -825mln). However, the profit growth mainly stems from other income totaling PKR 630mln leading to increased profit margins to 12.6% (FY23: 4%, 9MFY23: 4.2%) for gross profit and 0.8% (FY23: -9.7%, 9MFY23: -9.9%) for net profit. The finance cost to sales ratio increased from 5.6% to 11.8%, putting pressure on the Company profitability. However, the recent cut in monetary policy rate will provide a cushion in profitability matrix of the Company.

Sustainability The management of the Company remains committed to aligning its financial performance with projected targets. Given the current economic outlook and challenging business environment, the focus is directed toward prioritizing the generation of positive returns before pursuing further business expansion.

Financial Risk

Working Capital During 9MFY24, the company's net working capital days improved to 120 days, compared to 158 days in FY23. This improvement is mainly due to a decrease in inventory days, which fell to 84 days from 106 days. The company primarily funds its working capital requirements through short-term borrowings.

Coverages In 9MFY24, the Company's free cash flow from operations (FCFO) reached PKR 1,055mln, up from PKR 8mln in FY23, driven by improved profitability. Short-term borrowings decreased to PKR 4,952mln from PKR 5,159mln. Interest coverage improved to 0.9x. Moving forward, further strengthening of interest coverage is essential.

Capitalization During 9MFY24, the Company's leverage ratio decreased to 61.4%, (FY23: 63.2%) owing to a waiver of a long-term loan of PKR 600mln from Saif Holding. The equity base has shown minimal improvement over the past few years due to low profitability, standing at PKR 4.2bln in 9MFY24 (FY23: PKR 4.1bln). Strengthening the equity base will remain vital moving forward.

The Pakistan Credit Rating Agency Limited

Saif Textile Mill Limited Spinning	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	8,032	8,364	6,567	6,478
2 Investments	15	15	12	38
3 Related Party Exposure	-	25	46	-
4 Current Assets	5,481	5,057	7,246	5,389
a Inventories	*3,070*	*2,794*	*3,970*	*2,309*
b Trade Receivables	*1,787*	*1,527*	*2,541*	*2,276*
5 Total Assets	13,528	13,461	13,871	11,906
6 Current Liabilities	1,686	1,203	1,910	996
a Trade Payables	*500*	*275*	*427*	*295*
7 Borrowings	5,802	6,346	7,068	6,580
8 Related Party Exposure	901	859	-	61
9 Non-Current Liabilities	920	908	962	599
10 Net Assets	4,219	4,145	3,932	3,670
11 Shareholders' Equity	4,219	4,145	3,932	3,670
B INCOME STATEMENT				
1 Sales	9,563	11,692	12,665	10,647
a Cost of Good Sold	*(8,362)*	*(11,230)*	*(10,304)*	*(8,755)*
2 Gross Profit	1,201	462	2,361	1,892
a Operating Expenses	(369)	(529)	(574)	(488)
3 Operating Profit	832	(67)	1,787	1,404
a Non Operating Income or (Expense)	*623*	*(13)*	*(138)*	*(46)*
4 Profit or (Loss) before Interest and Tax	1,455	(80)	1,649	1,358
a Total Finance Cost	*(1,230)*	*(1,497)*	*(792)*	*(666)*
b Taxation	*(152)*	*444*	*(575)*	*(165)*
6 Net Income Or (Loss)	74	(1,134)	282	527
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,055*	*8*	*1,755*	*1,573*
b Net Cash from Operating Activities before Working Capital Changes	*(170)*	*(1,215)*	*1,062*	*824*
c Changes in Working Capital	*(29)*	*1,327*	*(1,221)*	*(322)*
1 Net Cash provided by Operating Activities	(199)	112	(159)	501
2 Net Cash (Used in) or Available From Investing Activities	24	(177)	(361)	(213)
3 Net Cash (Used in) or Available From Financing Activities	177	38	519	(285)
4 Net Cash generated or (Used) during the period	2	(27)	(1)	4
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	9.0%	-7.7%	19.0%	39.1%
b Gross Profit Margin	12.6%	4.0%	18.6%	17.8%
c Net Profit Margin	0.8%	-9.7%	2.2%	4.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	10.7%	11.4%	4.2%	11.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	2.3%	-28.1%	7.4%	15.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	131	169	160	153
b Net Working Capital (Average Days)	120	158	149	136
c Current Ratio (Current Assets / Current Liabilities)	3.3	4.2	3.8	5.4
3 Coverages				
a EBITDA / Finance Cost	1.0	0.1	2.7	2.9
b FCFO / Finance Cost+CMLTB+Excess STB	0.4	0.0	1.2	1.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-28.1	-2.4	1.8	2.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	61.4%	63.2%	64.3%	64.2%
b Interest or Markup Payable (Days)	101.5	86.2	92.5	71.3
c Entity Average Borrowing Rate	21.1%	17.9%	10.3%	8.7%

Credit Rating

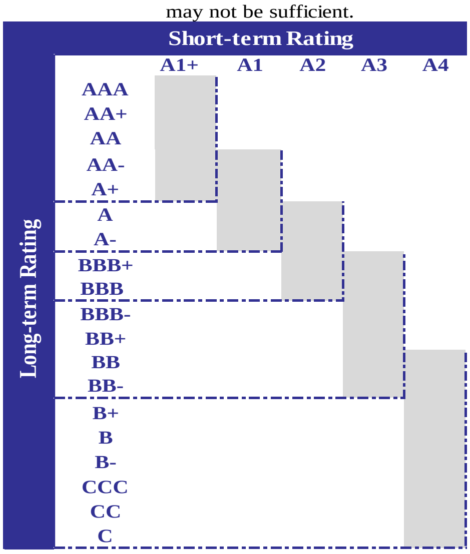
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information