



The Pakistan Credit Rating Agency Limited

Rating Report

Sarena Textile Industries (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jul-2024	A	A2	Stable	Maintain	-
27-Jul-2023	A	A2	Stable	Maintain	-
29-Jul-2022	A	A2	Stable	Maintain	-
30-Jul-2021	A	A2	Stable	Upgrade	-
30-Jul-2020	A-	A2	Positive	Maintain	-
01-Aug-2019	A-	A2	Positive	Maintain	-
30-Jan-2019	A-	A2	Stable	Maintain	-
30-Jul-2018	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects the prominent profile of Sarena Textile Industries (Pvt.) Limited (“the Company” or “STIL”) in the textile industry of Pakistan. The core operating activity of the Company is manufacturing and exporting fabrics and apparel. STIL is a semi-vertically integrated textile company, featuring in-house facilities for dyeing/processing, weaving, and garment production. STIL has carved out a market for itself by processing and manufacturing specialized materials for uniform and fire protection. The company is also a licensee for PROBAN® in Pakistan. The product slate is primarily vested in the fabric; dyed and printed followed by the garments. The top line of the Company has shown annual growth of 12% and stood at PKR 26bln as of 9MFY24 (9MFY23: PKR 23.2bln) mainly dominated by exports of fabrics. However, price inflation on local raw cotton, soaring energy costs, and elevated finance costs have heavily impacted the margins and profitability matrix of the Company. The clientele of STIL consists of established entities situated across various export destinations worldwide, primarily in the European market. This has bolstered the Company's business sustainability. The management remains diligent in aligning financial performance with projections. The execution of CAPEX for solar installation is executed to manage escalating energy cost risk. The board of the Company is sponsor-dominated with moderate size and board members possess considerable industry-specific exposure, supported by a team of seasoned and professional management. The financial risk profile of the Company is considered adequate with a stretched working capital cycle depicting industry norms. The working capital requirement of the Company is met through a mix of internally generated cashflows and short-term borrowings. The company has maintained a leveraged capital structure with adequate coverages and cashflows. The rating incorporates financial strength and a proven track record of sponsoring family. The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn (LSG) ~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.

The ratings are dependent on the Company's ability to sustain its operations in prevailing conditions. Prudent working capital management and generating sufficient cashflows/profitability from core operations while maintaining comfortable coverages remain critical. The adherence to the debt matrix at an optimal level is a pre-requisite for assigned ratings.

Disclosure

Name of Rated Entity	Sarena Textile Industries (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-24),Methodology Corporate Rating(Jul-23)
Related Research	Sector Study Composite and Garments(Dec-23)
Rating Analysts	Muhammad Harris Ghaffar harris.ghaffar@pacra.com +92-42-35869504

Profile

Legal Structure Sarena Textile Industries (Private) Limited (Sarena Textile) is a private limited company incorporated in 2001.

Background Sarena Textile belongs to the same group as Sefam Pvt. Limited, headquartered in Lahore, Pakistan. The Group is vertically integrated into the textile industry and has expanded its operations over the years

Operations The Company is engaged in the manufacture and sale of fabrics and garments used for fashion and workwear with production operations divided into three main units: weaving, processing, and stitching/apparel. The Company is self-sufficient in power generation with the capacity to produce 10.5 MW/H through its own sources and has its own grid of 12MW from LESCO while its power requirement adds up to an average of ~7 MW/H.

Ownership

Ownership Structure Shareholding of Sarena Textile lies with Mr. Hamid Zaman, holding 83.34% of the Company while Mr. Tariq Zaman and Ms. Ambreen Zaman hold the remaining 16.6%, equally.

Stability The Group has recently formalized the Group structure in line with the current management structure.

Business Acumen The sponsor Group holds extensive experience and expertise in the textile and retail industry. They are viewed as the pioneers in introducing the concept of brands in Pakistan. Apart from the textile industry, the Group has also diversified into corporate farming, energy, etc, through small-scale ventures.

Financial Strength The net worth of the Group is considered strong and the sponsors have shown willingness and ability to support the Company in the past.

Governance

Board Structure Sarena Textile Industries Board operates in two parts: one is the 'Business Board', which comprises six members, four from the sponsor family (majority Hamid Zaman family) and two independent members that oversee the strategic planning, while the other is the 'Ownership Board' which comprises only the sponsor's family members and discusses matters pertaining to operations and future strategy. The Textile Board is reportable to the Business Board

Members' Profile Mr. Hamid Zaman possesses a quality education from a prestigious university as well as significant experience in the textile industry. The engagement of the second generation in the business's strategic affairs bodes well for the Company. Other Board members are also well-qualified and have been associated with the Company for a reasonable period of time

Board Effectiveness The frequency of board meetings varies across both Boards. The business board meets quarterly; however, additional meetings can be held as and when required basis during the year. Minutes of meetings are well documented

Financial Transparency The Company has appointed Riaz Ahmad & Co. Chartered Accountants as its external auditor, listed in the "A" category on the State Bank of Pakistan's panel of auditors. The quality of the auditor reflects well on the governance framework of the Company.

Management

Organizational Structure A simplified organizational structure exists in the Company. The business profile is segregated into different departments, which are headed by their respective heads resulting in effective control and management.

Management Team The position of Group CEO lies with Mr. Mustafa Ahmad Zaman. The CEO of Sarena Textile- Mr. Asif Masood looks after all the day-to-day operations of the Company. All the department heads report to the CEO, who in turn reports to Mr. Mustafa Ahmad Zaman (Group CEO), engaged in key strategic decision-making. The management of the Company comprises qualified and experienced professionals with a wide range of skills and relevant experience

Effectiveness The Company does have a formal management committee/board in place. Meetings among management are held only monthly and attended by the relevant engagement personnel. Formal meeting minutes are well-documented.

MIS Sarena Textile deploys SAP ECC6 as their primary ERP solution, in addition to having Oracle (modified in-house) and S-Track, which is an in-house developed software. The Company has a comprehensive MIS in place with regular generation of reports to aid informed and timely decision-making.

Control Environment Sarena Textile has an ISO17025 accredited Quality Assurance Lab and is the only Licensee in Pakistan for PROBAN®, a quality-controlled technological process that gives cotton and cotton-rich woven and knitted textiles flame retardant properties.

Business Risk

Industry Dynamics The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn in LSM (Large Scale Manufacturing) ~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 Sarena Textile is an established name in Pakistan's textile industry. The Company enjoys higher margins in comparison to local competitors mainly due to its penetration into the niche of workwear, leading to a higher value-added product mix.

Revenues During FY23, the revenue exhibited an increase of 24% YoY to stand at PKR 31,688mln (FY22: PKR 25,456mln). Sarena Textile is involved in the sales of workwear-focused fabrics and garments. The company's sales mix is tilted towards exports. The company's customer base mainly comprises well-known local and international brands. During 3QFY24, the topline of the company recorded at PKR 26,014mln (3QFY23: PKR 23,283mln).

Margins During FY23, the gross margin of the company increased to 19.5% (FY22: 15.7%). This translated into an inclined operating margin of 10.5% (FY22: 11.2%). The finance cost of the company is inclined to PKR 1,516mln (FY22: PKR 729mln). However, the net income is inclined to PKR 2,425mln (FY22: PKR 2,030mln). The net margin marginally declined to 7.7% (FY22: 8%). During 3QFY24, the gross margin marginally inclined to 17.9% (3QFY23: 17.6%). The finance cost increased to PKR 1,913mln (3QFY23: PKR 1,013mln). The bottom line declined to PKR 35mln (3QFY23: PKR 2,714mln). Consequently, the net margin declined to 0.1% (1QFY23: 11.7%)

Sustainability In recent years, the Company has utilized a mix of internal resources and long-term financing for capex focused on energy efficiency. Moreover, the management is eyeing more penetration in the export markets to strengthen its customer base by establishing its own marketing department there.

Financial Risk

Working Capital At end-Mar24, the net working capital cycle increased to 106 days (end-Jun23: 105 days) on account of increased inventory days at 64 days (end-Jun23: 59 days). The trade assets inched up to PKR 15,392mln (end-Jun23: PKR 15,001mln). ST trade leverage stood at 10.1% (end-Jun23: 10.3%) as ST borrowings clocked in at PKR 10,997mln (end-Jun23: PKR 9,156mln).

Coverages During FY23, the free cash flows inclined to PKR 4,437mln (FY22: PKR 3,244mln) owing to increased profitability. The finance cost paid inclined to PKR 1,181mln (FY23: PKR 571mln). Consequently, the interest coverage of the company declined to 3.2x (FY22: 5.1x). The debt coverage declined to 2.3x (FY22: 2.8x). During 3QFY24, the FCFOs decreased to PKR 2,410mln (3QFY23: PKR 3,395mln). The interest coverage declined to 1.4x (3QFY23: 3.7x).

Capitalization At end-Mar24, leveraging of the company increased to 59.2% (end-Jun23: 55.3%) owing to decrease in the equity base clocking in at PKR 8,764mln (end-Jun23: PKR 8,949mln) attributable to decreased profits. The total borrowings inclined to PKR 12,722mln (end-Jun23: PKR 10,927mln) out of which ST borrowing constitutes 86.1%.



Sarena Textile Industries (Pvt.) Limited Textile	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
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A BALANCE SHEET

1 Non-Current Assets	8,384	8,314	7,478	5,768
2 Investments	100	328	112	-
3 Related Party Exposure	79	174	41	124
4 Current Assets	17,100	16,863	15,278	8,550
<i>a Inventories</i>	6,310	5,947	4,336	2,751
<i>b Trade Receivables</i>	7,427	6,758	7,616	3,515
5 Total Assets	25,664	25,679	22,908	14,442
6 Current Liabilities	4,115	5,670	6,306	3,212
<i>a Trade Payables</i>	2,467	3,817	2,648	1,705
7 Borrowings	12,722	10,927	9,684	6,419
8 Related Party Exposure	43	133	251	193
9 Non-Current Liabilities	0	0	41	21
10 Net Assets	8,784	8,949	6,627	4,596
11 Shareholders' Equity	8,784	8,949	6,627	4,596

B INCOME STATEMENT

1 Sales	26,014	31,688	25,456	15,529
<i>a Cost of Good Sold</i>	(21,350)	(25,495)	(21,459)	(13,455)
2 Gross Profit	4,664	6,193	3,996	2,074
<i>a Operating Expenses</i>	(2,297)	(2,852)	(1,133)	(806)
3 Operating Profit	2,366	3,341	2,863	1,268
<i>a Non Operating Income or (Expense)</i>	(37)	969	307	(275)
4 Profit or (Loss) before Interest and Tax	2,329	4,310	3,170	993
<i>a Total Finance Cost</i>	(1,913)	(1,516)	(729)	(333)
<i>b Taxation</i>	(382)	(370)	(411)	(148)
6 Net Income Or (Loss)	35	2,425	2,030	512

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	2,410	4,437	3,244	1,314
<i>b Net Cash from Operating Activities before Working Capital</i>	460	3,251	2,673	1,011
<i>c Changes in Working Capital</i>	(1,814)	(2,581)	(3,836)	(218)
1 Net Cash provided by Operating Activities	(1,355)	670	(1,163)	793
2 Net Cash (Used in) or Available From Investing Activities	(254)	(1,420)	(1,648)	(1,237)
3 Net Cash (Used in) or Available From Financing Activities	1,506	656	3,119	521
4 Net Cash generated or (Used) during the period	(103)	(94)	308	78

D RATIO ANALYSIS

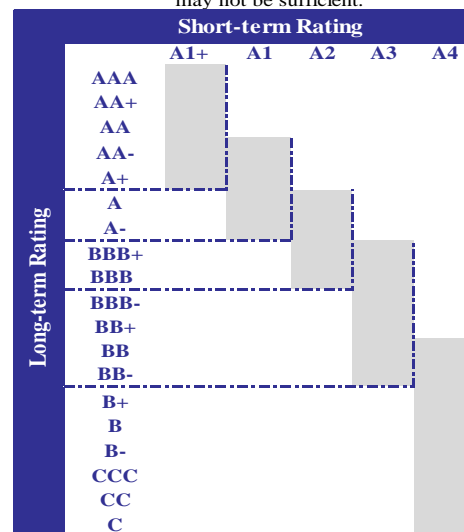
1 Performance				
<i>a Sales Growth (for the period)</i>	9.5%	24.5%	63.9%	0.0%
<i>b Gross Profit Margin</i>	17.9%	19.5%	15.7%	13.4%
<i>c Net Profit Margin</i>	0.1%	7.7%	8.0%	3.3%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital / Net Cash from Operating Activities before Working Capital)</i>	2.3%	5.9%	-2.3%	7.1%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets / Total Equity)]</i>	0.5%	31.1%	36.2%	11.1%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	139	142	131	147
<i>b Net Working Capital (Average Days)</i>	106	105	99	107
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	4.2	3.0	2.4	2.7
3 Coverages				
<i>a EBITDA / Finance Cost</i>	1.6	3.7	5.8	5.6
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.1	2.3	2.8	1.5
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Financing Cost)</i>	2.0	0.6	0.8	1.7
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	59.2%	55.3%	60.0%	59.0%
<i>b Interest or Markup Payable (Days)</i>	72.5	132.6	135.3	133.0
<i>c Entity Average Borrowing Rate</i>	19.6%	12.3%	7.4%	4.1%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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(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

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- (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)
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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)

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