The Pakistan Credit Rating Agency Limited

# Rating Report

## Stylers International Limited

**Report Contents**



**Rating History**

| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
|---|---|---|---|---|---|
| 24-Nov-2022 | A | A1 | Stable | Initial | - |

**Rating Rationale and Key Rating Drivers**

Stylers International Limited (Stylers) is a prominent textile venture of US Group. The group companies operate under the umbrella of AJ holdings – the flagship HoldCo of the group. Sponsors exercise oversight of the businesses; professional management are well-equipped and well-experienced, and spearhead the individual companies. Strategic direction is meticulously worked out and rigorously followed once decided and finalized. The Company's management has experienced professionals, aided by comprehensive reporting, where operations of the Company are supervised with complete autonomy. The assigned ratings derive comfort from Styler International's association with the US Group. The majority of the sales revenue for the Company comes from export sales, which account for 94.4% of total sales revenue. The main export destinations in FY22 were the US and European countries (Spain, Germany, France). All exports are made through L.C's and other financial documents. Stylers International continues to maintain a favorable capital structure and strong coverages signifying a robust financial profile. Going forward, the State of an Art expansion project (Project Sunshine) is under construction which will enhance the production capacity from the current 9.4M garments gradually to 12M garments per annum. Apart from Project Sunshine, the company will continue capital expenditure on a routine basis. During FY22, Pakistan's textile exports surged to $19.3bln (recording a growth of 26%). Exports grew owing to increased volumetric growth of (16% YoY) in the value-added segment, a steep rise in global demand, and record high cotton prices. Under the value-added category, the knitwear segment remained the top performer by posting 34% YoY growth in exports to $5.1 billion in FY22 due to a sharp rise in global demand, especially in the US and European countries. However, a slowdown is expected in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries.

The ratings are dependent on the Company's ability to maintain a strong business profile amidst current circumstances. Preserving low leveraged capital structure and sound coverages remain imperative.

**Disclosure**

| | |
|---|---|
| **Name of Rated Entity** | Stylers International 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 \| Composite and Garments(Dec-21) |
| **Rating Analysts** | Iram Shahzadi \| iram.shahzadi@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Stylers International Limited ("the Company"), was incorporated in Pakistan as a Private Limited Company on November 27, 1991 under the Companies Ordinance, 1984 (Now the Companies Act, 2017) and was converted into a Public Limited Company with effect from 21 May 2021.

**Background** Stylers International Limited is a prominent business venture of US Group.

**Operations** The Company is principally engaged in carrying out manufacturing, marketing of ready made garments and processing services. The Company meets the energy requirement through different sources - Coal, Gas, Furnace Oil, WAPDA etc. On average 700,000 KWH units per month are supplied by LESCO at a PKR Average rate of 21/KWH rate. Further, coal boiler is being used to generate steam using coal as a source of energy with a monthly consumption of coal at 507,000 Kgs at PKR 40 per Kg.

## Ownership

**Ownership Structure** Mr. Mian Muhammad Ahsan owns 3% directly and 36% indirectly through his wife Mrs. Shabnam and Mr. Javed Arshad Bhatti owns 3% directly and 36% indirectly through his wife Mrs. Shama Javed (Late) while rest is with Naimat Saleem Trust.

**Stability** The Group ownership is divided between the two families Javed Arshad Bhatti & family & Mian Muhammad Ahsan & family. The Group's holding Company, AJ Holdings Limited, primarily manages investments in subsidiary and associated companies and this bodes fairly well for the stability of the overall structure.

**Business Acumen** US Group is one of the oldest business conglomerates in Pakistan with considerable interest in textiles. The group has developed quite good expertise in the textile garments sector, over the years, and enjoys long-term association with several customers abroad. The group's presence has been limited to the textile sector, but sustained volatility effectively over the years. Apart from garment business, US Group is also involved in Fabric and logistics business. US Denim Mills Limited, is a weaving mill whereas leeds logistics deals in the fleet and logistics business. This has assisted the Company in expanding its operations despite challenging market dynamics.

**Financial Strength** The detail of business profile and operations of almost all group companies reflect the strong financial strength of sponsors.

## Governance

**Board Structure** The Company's Board comprises seven directors, including the Chairman - Mr. Mian Muhammad Ahsan & CEO - Mr. Hafiz Mustanser Ahmed. The board of the Company consists of one non-executive and four independent members.

**Members' Profile** The members of the Board have relevant stature and extensive experience of around three decades in the various industries.

**Board Effectiveness** The board meetings are held regularly in which discussion on various aspects is also formally documented in the minutes.

**Financial Transparency** EY Ford Rhodes Chartered Accountants, who are in category 'A' of SBP and have a QCR rating by ICAP, are the external auditors of the company. They have expressed an unqualified opinion on the financial statements of the company for the year ended June 30th, 2022.

## Management

**Organizational Structure** The organizational structure of the company is divided into several functional departments, namely: (i) Finance, (ii) Marketing, (iii) Technical, (iv) Production & Supply chain, (v) Information Technology, and (vi) Human resource & Admin. All departments report to respective CEO(s).

**Management Team** Mr. Hafiz Mustanser Ahmed - CEO- carries more than 2 decades of professional experiences and he is an MBA. He has been working with this group since 1998. Mr. Ghulam Mohioudin, GM Finance of the Company, has been associated with the group since year 1998. He is a Chartered Accountant.

**Effectiveness** The management meetings are held on a periodic basis with follow-up points to resolve or pro-actively address operational issues, if any, eventually ensuring smooth flow of operations. These meetings are headed by the CEO.

**MIS** The Company's daily and monthly MIS comprises comprehensive performance reports which are reviewed frequently by senior management. Recognizing the need for quality information systems to control and maintain the efficiency of operations, the company has implemented an Oracle based ERP solution - Oracle E business suite, Harmony version 4.

**Control Environment** Stylers International's utilize management systems as their mechanism for ensuring control. There is clear evidence of these systems being audited and certified externally. The Company has attained C-TPAT, WRAP, SMETA (SEDEX), amfori BSCI, ISO 9001:2015, ISO 14001:2015 and ISO 45001:2018, Oeko-Tex, REACH, GOTS, OCS, GRS, RCS, Higg Index (FEM), ZDHC and BCI certification.

## Business Risk

**Industry Dynamics** During FY22, Pakistan's textile exports surged to $19.3bln (recording a growth of 26%). Exports grew owing to increased volumetric growth of (16% YoY) in the value-added segment, a steep rise in global demand, and record high cotton prices. Under the value-added category, the knitwear segment remained the top performer by posting 34% YoY growth in exports to $5.1 billion in FY22 due to a sharp rise in global demand, especially in the US and European countries. Other value-added segments such as ready-made garments, bed wear, and towel posted YoY growth of 29%, 19%, and 19% to $3.9 billion, $3.3 billion, and $1.1 billion respectively. However, a slowdown is expected in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries.

**Relative Position** Pakistan's top manufacturers of high-quality denim and non-denim bottom wear for leading brands across the globe demanding more sustainable supplies.

**Revenues** The majority of the sales revenue for the Company comes from export sales, which account for 95% of total sales revenue. The main export destinations in FY22 were Europe and USA. During FY22, the Company's top line has improved to PKR 14.1bln growth of 31.8% (FY21: PKR 10.7bln). The Company's cost of goods sold surged by 37.5% and recorded at PKR 11.8bln (FY21; PKR 8.6bln). Despite the increase cost of goods sold, the gross profits enhanced to PKR 2.3bln (FY21: PKR 2.1bln). Hence, the net profitability clocked in at PKR 1.0bln (FY21: PKR 1.2bln), down by 13.4% YoY, owing to the increase in cost of goods sold.

**Margins** During FY22, the gross profit margin stood at 16.4% (FY21: 19.9%) owing to the increase of 37.5% in the cost of sales. Operating margin witnessed a decline to 9.1% (FY21: 14.5%), owing to the increase in operating expenses to PKR 652mln (FY21: PKR 199mln). Hence, net profit margin clocked at 7.1% (FY21: 10.9%).

**Sustainability** Going forward, State of the an Art expansion project (Project Sunshine) at Raiwind Rd is under construction which will enhance the production capacity from the current 9.4M garments to 12M garments per annum. Apart from Project Sunshine, the company will continue capital expenditure a routine basis.

## Financial Risk

**Working Capital** During FY22, the Company's net working capital cycle recorded an increase to 30 days (FY21: 23days) attributable to attrition in receivable days (FY22: 36days; FY21: 26days). The Company's net trade assets increased by 46% to clock in at PKR 5.4bln (FY21: PKR 3.7bln) which reflects good cushion in trade assets.

**Coverages** Free Cash Flows from Operations (FCFO) decreased in FY22 and clocked in at PKR 1,117mln on the back of lower EBITDA YoY (FY22: PKR 1,531mln; FY21: PKR 1,775mln). Hence, coverage is very strong higher cashflows.

**Capitalization** The capital structure is low leveraged, with leveraging at 8.7% as of end-Jun22. Equity base of the Company recorded good growth to PKR 6.2bln (FY21: PKR 5.03bln). Short term borrowings from directors stood at PKR 201mln. The Company's non-current lease liabilities are PKR 273mln due to the adoption of IFRS16.

The Pakistan Credit Rating Agency Limited

| Stylers International Limited<br>Composite & Garments | Jun-22 | Jun-21 | Jun-20 |
|---|---|---|---|
| | 12M | 12M | 12M |
| **A BALANCE SHEET** | | | |
| 1 Non-Current Assets | 3,285 | 2,912 | 2,185 |
| 2 Investments | 492 | 264 | - |
| 3 Related Party Exposure | - | 9 | - |
| 4 Current Assets | 6,118 | 4,761 | 2,819 |
| *a Inventories* | *2,130* | *1,612* | *1,243* |
| *b Trade Receivables* | *1,780* | *975* | *539* |
| **5 Total Assets** | 9,896 | 7,947 | 5,005 |
| 6 Current Liabilities | 3,039 | 2,376 | 1,594 |
| *a Trade Payables* | *2,366* | *1,816* | *1,224* |
| 7 Borrowings | 595 | 497 | 1,160 |
| 8 Related Party Exposure | - | - | - |
| 9 Non-Current Liabilities | 30 | 39 | 32 |
| **10 Net Assets** | 6,232 | 5,035 | 2,218 |
| **11 Shareholders' Equity** | 6,232 | 5,035 | 2,218 |
| **B INCOME STATEMENT** | | | |
| **1 Sales** | 14,086 | 10,690 | 8,166 |
| *a Cost of Good Sold* | *(11,779)* | *(8,565)* | *(6,810)* |
| **2 Gross Profit** | 2,307 | 2,126 | 1,356 |
| *a Operating Expenses* | (1,021) | (575) | (511) |
| **3 Operating Profit** | 1,286 | 1,551 | 845 |
| *a Non Operating Income or (Expense)* | *11* | *(148)* | *32* |
| **4 Profit or (Loss) before Interest and Tax** | 1,297 | 1,403 | 877 |
| *a Total Finance Cost* | *(142)* | *(116)* | *(93)* |
| *b Taxation* | *(149)* | *(125)* | *(99)* |
| **6 Net Income Or (Loss)** | 1,006 | 1,162 | 685 |
| **C CASH FLOW STATEMENT** | | | |
| *a Free Cash Flows from Operations (FCFO)* | *1,117* | *1,503* | *973* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *1,016* | *1,430* | *912* |
| *c Changes in Working Capital* | *(891)* | *(526)* | *239* |
| **1 Net Cash provided by Operating Activities** | 125 | 904 | 1,151 |
| **2 Net Cash (Used in) or Available From Investing Activities** | (807) | (387) | (1,069) |
| **3 Net Cash (Used in) or Available From Financing Activities** | 296 | 154 | 26 |
| **4 Net Cash generated or (Used) during the period** | (386) | 671 | 108 |
| **D RATIO ANALYSIS** | | | |
| **1 Performance** | | | |
| *a Sales Growth (for the period)* | 31.8% | 30.9% | 55.9% |
| *b Gross Profit Margin* | 16.4% | 19.9% | 16.6% |
| *c Net Profit Margin* | 7.1% | 10.9% | 8.4% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)* | 1.6% | 9.1% | 14.8% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity )]* | 17.9% | 32.0% | 37.6% |
| **2 Working Capital Management** | | | |
| *a Gross Working Capital (Average Days)* | 84 | 75 | 88 |
| *b Net Working Capital (Average Days)* | 30 | 23 | 35 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 2.0 | 2.0 | 1.8 |
| **3 Coverages** | | | |
| *a EBITDA / Finance Cost* | 37.9 | 41.6 | 36.1 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 6.9 | 11.7 | 13.2 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | 0.4 | 0.3 | 0.2 |
| **4 Capital Structure** | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 8.7% | 9.0% | 34.3% |
| *b Interest or Markup Payable (Days)* | 0.0 | 0.0 | 0.0 |
| *c Entity Average Borrowing Rate* | 5.8% | 5.1% | 3.3% |

## Credit Rating

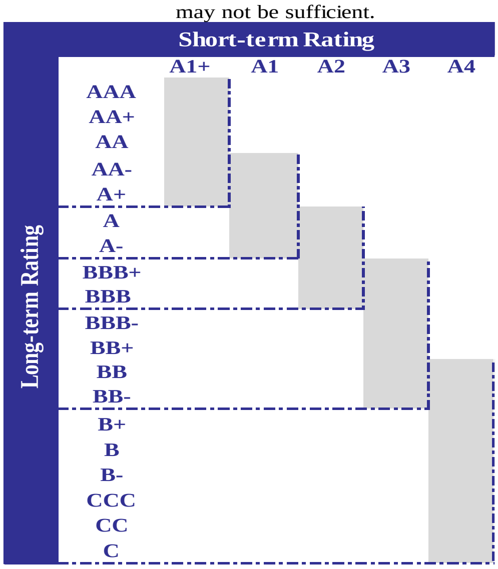
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

### 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+<br>AA<br>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+<br>A<br>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+<br>BBB<br>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+<br>BB<br>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+<br>B<br>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<br>CC<br>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):

**Entities**
a) Broker Entity Rating
b) Corporate Rating
c) Financial Institution Rating
d) Holding Company Rating
e) Independent Power Producer Rating
f) Microfinance Institution Rating
g) Non-Banking Finance Companies (NBFCs) Rating

**Instruments**
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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)

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