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
23-Oct-2024	A	A1	Stable	Maintain	-
23-Oct-2023	A	A1	Stable	Maintain	-
24-Nov-2022	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings of Stylers International Limited ("the Company" or "SIL") reflect the US group's prominent profile in the competitive textile landscape and value-added business segment. The Group has established a firm footing in the international denim industry through its state-of-the-art production mechanisms and has built the capacity to produce top-notch quality products. It aims to grow by protecting its core business, moderately diversifying into attractive segments, and implementing good governance for the long-term sustainability of the organization. SIL is categorized under the new venture vertical of the US group, along with its workwear business segment. The Company has developed expertise in producing a wide range of denim jeans, denim shorts, jackets, shirts, trousers, cotton jeans, twill and various kid's wear products. The denim jeans is the best-selling product in terms of volume. SIL is an export-oriented textile unit having export sales of PKR 14.0bln during FY24 (FY23: PKR 14.5bln) with a minute share of local sales at PKR 250.6mln (FY23: PKR 440.5mln). The Company's topline largely remained intact in volumetric terms while the dip in monetary value is mainly attributable to a shift in the product mix and an adequate pricing matrix from customers. Europe is the Company's leading export destination. During FY24, the Company progressively ventured into kids' wear and denim shorts, which benefited the topline by catering to peak-season customer demands during the summer. The Company's margins dipped minutely due to an escalated energy tariff. The Company's bottom line stood at PKR 1.47bln as of FY24 (FY23: PKR 2.52bln). The business sustainability takes comfort from SIL's long-term association with well-established and stable international brands/entities as their top clientage. The management of the Company is mindful of implementing a client consolidation strategy to optimize concentration risk. SIL's "Sunshine" project is in its final stages of completion and is expected to be fully operational by 1QCY25; with an estimated cost of ~PKR 10bln; financed through the right issue and internally generated cashflows. This is coupled with a more systematic production mechanism to enhance the control environment of the facility. SIL has installed a ~1.6 Mega Watt Solar power plant, strengthening its operational resilience while contributing positively to environmental stewardship in the industry. The Company's financial risk profile is considered strong with an aptly managed working capital cycle. SIL maintained a minutely leveraged capital structure with stable coverages and cashflows. The ratings incorporate the transition in the Company's status to a publicly listed Company following the merger of AEL Textile Limited with Stylers International Limited.

The ratings are dependent upon the intact business operations under the current economic conditions and draw comfort from the sponsor's profile. Improvement in margins, maintenance of coverages and cashflows at an optimal level while expanding business volumes remains critical.

Disclosure

Name of Rated Entity	Stylers International Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology | Corporate Rating(Jul-24)
Related Research	Sector Study | Composite and Garments(Dec-23)
Rating Analysts	Tasveeb Idrees | Tasveeb.Idrees@pacra.com | +92-42-35869504

Profile

Legal Structure Stylers International Limited ("the Company" or "SIL") is a public limited Company.

Background SIL was incorporated as a private limited Company under the repealed Companies Ordinance 1984 (now the Companies Act 2017) on November 27, 1991. During the BOD meeting held on June 07, 2023, the BOD approved the Scheme of arrangement for the merger of AEL Textile Limited with Stylers International Limited. After filing the requisite documents with the PSX, the shares of SIL were listed on the PSX on 22 January 2024.

Operations The Company is engaged in the manufacturing and marketing of ready-made garments and processing services. Its registered office is situated at 20 km, Ferozepur Road, Anum Road, Glaxo Town, Lahore, Punjab. It has three manufacturing facilities, collectively achieving an annual production capacity of ~7.96 million pieces per annum (based on the 296 production days convention) during FY24.

Ownership

Ownership Structure SIL is a prominent business venture of two sponsoring families (Mr. Mian Muhammad Ahsan & Mr. Javed Arshad Bhatti) of the US (Umer-Siddique) Group. The Company's major stake is owned by sponsors through Individuals (78.24%) and Associate Companies (21.41%). The remaining stake rests with the General public (0.31%) and Others (0.04%).

Stability The Company has a family constitution in place, outlining a formal succession plan, with the second generation actively involved in the business. The ownership structure is expected to remain stable in the foreseeable future.

Business Acumen US Group is recognized as the leading exporter of denim and twill in Pakistan, supported by a rich history in the textile industry. Despite its focus on a single sector, the group has consistently demonstrated resilience and growth through various economic cycles. Mr. Muhammad Umer and Mr. Muhammad Saqib serve as oversight directors at SIL.

Financial Strength The Company's affiliation with the US group demonstrates the strong financial muscle of the sponsors. According to the US Group Sustainability Report CY23, the group size is estimated at USD 356mln. The group includes four additional companies within the industry: (i) US Apparel & Textile, (ii) US Denim, (iii) US Workwear and (iv) US Dyeing & Finishing. The sponsors have shown a willingness to support the Company if needed.

Governance

Board Structure The board comprises seven members (six male directors & one female director) including the CEO. Four members act as non-executive directors, two independent directors and one executive director. The inclusion of independent oversight has strengthened the governance matrix of the Company.

Members' Profile The BOD members have diverse experience and possess all the requisite skills and competencies necessary for growth. The two founders of the US group, Mr. Javed Arshad Bhatti, the Chairman of the board, and Mr. Mian Muhammad Ahsan, a non-executive director, have both been associated with the business since 1975. Other board members, Mr. Muhammad Umer and Mr. Muhammad Saqib, each possess approximately two decades of experience in the textile industry. Furthermore, Ms. Samar Masood Soofi, a lawyer by profession, and Mr. Jehanzeb Khan, the former CEO of Akzo Nobel Pakistan Limited, serve as independent directors.

Board Effectiveness The Company has established two committees to address business matters, namely the Audit Committee and the HR & Remuneration Committee. During FY24, three board meetings were convened to evaluate the Company's overall performance and progress toward its targets, as well as to approve the constitution of board committees and the announcement of an interim dividend. The minutes of these meetings have been formally documented.

Financial Transparency Riaz Ahmad & Co. Chartered Accountants are the external auditors of the Company. They have expressed an unqualified opinion on the financial statements of the Company for the period ended June 30th, 2024.

Management

Organizational Structure The Company has a well-structured organizational layout 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 the CEO/MD.

Management Team The CEO, Mr. Hafiz Mustansar Ahmed holds a Master's degree in Business Administration degree. He possesses a high level of proficiency in the textile sector supported by an experience of over 26 years. The CFO, Mr. Umer Kibria is a Chartered Accountant by profession and possesses 15 years of experience.

Effectiveness Management meetings are held on a monthly basis, with follow-up points to resolve or proactively address any operational issues, ensuring a smooth flow of operations. These meetings are led by the Company's 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 12.2.11 along with an internal web and mobile portal for internal approvals and reporting.

Control Environment Stylers International utilizes 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 Textile exports of the country reached USD 16.7bln in FY24, a slight increase from USD 16.5bln in the previous year, reflecting a growth of 0.93% YoY. The highest contribution came from the composite and garments segment at USD 9.1bln, followed by the weaving segment at USD 6.5bln and the spinning segment at USD 1.0bln.

Relative Position SIL has a strong relative positioning with an overall production capacity of ~7.9 million pieces per annum during FY24 and it falls in the mid-tier of the respective industry.

Revenues During FY24, the Company's top line reached PKR 14.4bln (FY23: PKR 15.2bln) down by 5.1% YoY as the product mix shifted towards denim shorts and kid's wear. The Company's top line is predominantly vested with export sales with a contribution of 97.7% recorded at PKR 14.0bln (FY24: PKR 14.5bln). The Company has established a stable customer base in Europe.

Margins During FY24, the Company secured a GP margin of 20.6% (FY23: 23.4%) mainly on account of an increase in salary expense coupled with elevated energy cost. Despite controlled operating expenses, the operating margin declined to 13.8% (FY23: 16.4%). The Company secured a net profitability of PKR 1.4bln (FY23: PKR 2.5bln).

Sustainability To clinch the future demand of the denim industry, SIL's "Sunshine" project is in its final stages of completion and is expected to be fully operational by 1QCY25, with a project cost of ~ PKR 10bln; financed through the right issue and internally generated cashflows. The facility operates with a capacity of 7,000 pcs/day, which will gradually increase to 20,000 pcs/day. Furthermore, SIL has already installed a ~1.6 MW Solar power plant to manage energy cost risk.

Financial Risk

Working Capital The Company prioritizes financing its working capital requirements through internally generated cashflows. The net working capital cycle stood at 38 days (end-Jun23: 31 days) followed by increased trade receivable days at 44 days (end-Jun23: 39 days). The payments secured against the LCs have augmented the quality of SIL's receivables.

Coverages The free cash flows from operations (FCFO) remained largely the same (end-Jun24: PKR 1.8bln; end-Jun23: PKR 2.2bln) which signifies prudent financial management and the Company's ability to sustain its operations. The interest coverage stood at 25.7x (end-Jun23: 145.0x) indicating the strong capacity to meet financial obligations.

Capitalization The Company's funding matrix is primarily supplemented by interest-free loans from sponsors. As of end-June 2024, the leveraging ratio stood at 5.5% (end-June 2023: 0.6%) despite a surge in unappropriated profit, which reached PKR 4.5bln (end-Jun23: PKR 3.4bln). Total equity increased to PKR 10.2bln (end-June 2023: PKR 9.2bln).

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Financial Summary
PKR mln

Styler International Limited Composite & Garments	Jun-24 12M	Jun-23 12M	Jun-22 12M
A BALANCE SHEET			
1 Non-Current Assets	9,248	6,073	3,285
2 Investments	1,403	1,092	492
3 Related Party Exposure	11	107	-
4 Current Assets	5,927	5,566	6,118
a Inventories	*2,114*	*1,434*	*2,130*
b Trade Receivables	*2,011*	*1,468*	*1,780*
5 Total Assets	16,589	12,839	9,896
6 Current Liabilities	2,926	2,586	3,039
a Trade Payables	*2,116*	*1,869*	*2,366*
7 Borrowings	600	60	394
8 Related Party Exposure	2,653	891	201
9 Non-Current Liabilities	143	17	30
10 Net Assets	10,267	9,286	6,232
11 Shareholders' Equity	10,267	9,286	6,232
B INCOME STATEMENT			
1 Sales	14,439	15,215	14,086
a Cost of Good Sold	*(11,469)*	*(11,653)*	*(11,779)*
2 Gross Profit	2,971	3,563	2,307
a Operating Expenses	(983)	(1,069)	(1,021)
3 Operating Profit	1,987	2,493	1,286
a Non Operating Income or (Expense)	*3*	*446*	*11*
4 Profit or (Loss) before Interest and Tax	1,991	2,940	1,297
a Total Finance Cost	*(259)*	*(187)*	*(142)*
b Taxation	*(254)*	*(236)*	*(149)*
6 Net Income Or (Loss)	1,478	2,517	1,006
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*1,899*	*2,249*	*1,117*
b Net Cash from Operating Activities before Working Capital Changes	*1,639*	*2,062*	*1,016*
c Changes in Working Capital	*(336)*	*534*	*(891)*
1 Net Cash provided by Operating Activities	1,303	2,597	125
2 Net Cash (Used in) or Available From Investing Activities	(3,717)	(2,372)	(807)
3 Net Cash (Used in) or Available From Financing Activities	1,886	281	296
4 Net Cash generated or (Used) during the period	(528)	506	(386)
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	-5.1%	8.0%	31.8%
b Gross Profit Margin	20.6%	23.4%	16.4%
c Net Profit Margin	10.2%	16.5%	7.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	10.8%	18.3%	1.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	15.1%	32.4%	17.9%
2 Working Capital Management			
a Gross Working Capital (Average Days)	89	82	84
b Net Working Capital (Average Days)	38	31	30
c Current Ratio (Current Assets / Current Liabilities)	2.0	2.2	2.0
3 Coverages			
a EBITDA / Finance Cost	31.1	170.1	37.9
b FCFO / Finance Cost+CMLTB+Excess STB	21.5	30.0	6.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.3	0.0	0.4
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	5.5%	0.6%	5.9%
b Interest or Markup Payable (Days)	0.0	0.0	0.0
c Entity Average Borrowing Rate	22.4%	6.0%	9.4%

***FY23 numbers are the pre-merger numbers.**

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
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.

Scale	Short-Term Rating
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.

Rating Modifiers | Rating Actions

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. Rating actions may include "maintain", "upgrade", or "downgrade".

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 Company

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)
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