Press Release

VIS Reaffirms Entity Ratings of Shahtaj Textile Limited

Karachi, November 22, 2022: VIS Credit Rating Company Limited (VIS) has reaffirmed entity ratings of Shahtaj Textile Limited (STL) at 'A-/A-2' (Single A Minus/A-Two). Outlook on the assigned ratings is 'Stable'. Previous rating action was announced on January 14, 2022.

Ratings reaffirmation are underpinned by sound sponsor strength and more than two-decade operating track record in the weaving industry. The group has over six decades of experience and a cumulative annual turnover of ~Rs. 30b according to management. Ratings take note of strong growth in sales revenue, while a significant increase in power costs impacted margins during the current fiscal year. However, cash flow generation is in excess of outstanding debt repayments, thereby liquidity profile remains sound. Leverage indicators have trended upwards on account of increase in debt levels.

During the review period, 49 existing looms were replaced at a total capex of Rs. 500m, with the entire cost financed by TERF facility; all looms are currently operational. The same resulted in an increase in plant capacity, with an additional 5% to 6% increase expected given full year impact. Utilization levels have largely remained consistent with previous years. The company uses order-based production, and orders are fully booked until mid-December, as per management.

While crossing the Rs. 7b mark in FY22, topline registered a sizeable growth of ~51% (FY21: ~13%) primarily driven by increase in fabric prices, while volumetric growth remained nominal. On average, sales have been evenly split between direct/indirect exports and local sales. More than half of all export sales are concentrated in Italy with a diverse client portfolio, while remainder shared among Spain, Belgium, Portugal, and United States. Overall client wise concentration risk in sales remains elevated. Profitability margins (on both gross and net basis), following a decline in FY22, fell further in the ongoing year on the back of increasing trend in yarn prices and significant uptick in power cost in the recent months given energy shortages in the country. Business risk profile takes into account industry wide growth in exports over the last year; however, recent floods across the country, rising interest rates, inflationary pressures, and higher electricity costs pose risks on the sector over the medium term. Ratings are constrained by current weak macroeconomic environment globally and locally. Hence, meeting projected growth targets and maintaining financial risk profile will be important for ratings.

For further information on this rating announcement, please contact Mr. Muhammad Tabish (Ext: 206) or the undersigned (Ext. 207) at 021-35311861-70 or email at info@vis.com.pk

Sara Ahmed
Advisor

Applicable Rating Criteria: Industrial Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf