# Press Release

**VIS Assigns Initial Entity Ratings to Shadab Textile Mills Limited**

Karachi, November 22, 2021: VIS Credit Rating Company Limited (VIS) has assigned initial entity ratings of 'A-/A-2' (Single A Minus/A-Two) to Shadab Textile Mills Limited (STML). The medium to long-term rating of 'A-' signifies good credit quality with strong protection factors. Moreover, risk factors may vary with possible changes in economy. The short-term rating of 'A-2' denotes good certainty of timely payments coupled with sound liquidity and company fundamentals. Outlook on the assigned ratings is 'Stable'.

STML is a spinning company with shares quoted on the stock exchange; main shareholding remains vested with the sponsoring family which is actively involved in the day-to-day affairs of the company. The assigned ratings factor in cyclicality and competitive intensity for spinning segment. On the other hand, holistically business risk profile of the textile industry is supported by stable and growing demand locally and internationally coupled with massive vaccination for Covid-19 and corresponding easing of the business environment. The ratings draw comfort from adequate coverages and significant equity injection from the sponsors in the past two years resulting in increased financial flexibility. On the other hand, leverage indicators have increased on account of higher borrowings to fund capital expenditure and increasing working capital requirements. However, overall leverage indicators remain manageable and on a lower side in comparison to industry averages. Gross margins also exhibited positive momentum during the outgoing year on account of increase in average selling prices and improved demand of textile products owing to positive outlook of the sector as a whole. The ratings also incorporate management's focus on expanding the scale of spinning operations with the setup of latest technology Murata Vortex Spun (MVS) yarn unit. Going forward, sales are expected to escalate on account of adequate orders in pipeline along with expansion in the spinning segment. However, the ratings remain sensitive to any adverse changes in regulatory duties, lack of revenue diversification and limited scale of operations. The ratings are dependent on sustenance of margins, realization of projected targets, incremental cash flow generation and cost savings from recent capital expenditure and maintenance of leverage indicators coupled with evolution of sector dynamics.

For further information on this rating announcement, please contact Ms. Maham Qasim (042-35723411-13, Ext. 8010) and/or the undersigned at 021-35311861-66 or email at info@vis.com.pk .

Faryal Ahmad Faheem
Deputy CEO

Applicable rating criterion: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf