SAJJAD TEXTILE MILLS LIMITED

FUTURE BUSINESS PLAN

FEASIBILITY REPORT

Disclaimer: Financial Projections included in this report are based on underlying assumptions and departures from these assumptions may affect the projections.
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EXECUTIVE SUMMARY

Objectives of report

The broad objective of this report is to provide an overview on trading and marketing of yarn and man-made fibres and restructure Sajjad Textile Mills from yarn manufacturing to yarn and fibre trading from proposed disposal of its entire Plant and Machinery and its viability.

Company overview

The macro-economic environment in the last couple of years has played a significant role and affected the textile industry on the whole. The inability of Government to take appropriate steps to encourage the most important sector of the economy rendered the textile industry to either close or to continue running in losses ultimately unable to keep-up with their debt obligations. The Government also failed to take notice of high lending rates, reduction in punitive duties and refusal of banks to show flexibility towards textile industry. The combined effect of all the factors have resulted in disaster for such industries.

The current financial position of Sajjad Textile Mills Limited shows that the mismatching of funding resulted in accumulation of losses and inadequate net working capital which deteriorated the financial position of the company at the same time it is also interesting to note that the textile units operating in the 1992-94 era were all hit by the macro-economic factors. In this regard four different spinning mills were taken into consideration and a detail comparative ratio analysis were performed which show that Sajjad Textile Mills Limited is following the trend in the textile industry and the entire industry is facing a major crises.

The Company had already suspended its manufacturing operations since September 22, 2016 due to shortage of working capital, unfavorable market conditions and continuous losses. At the balance sheet date, the Company's accumulated losses stood at Rs. 426.701 million. Its equity is eroded by Rs. 214.010 million and its current liabilities exceed its current assets by Rs. 387.806 million. The management explored various options to run the plant but the plans could not work out. Meanwhile, the trade creditors were pressing for their overdue payments as their concerns sparked with the closure of mill operations.

In view of aforesaid, the Management has proposed to dispose off the entire Plant and Machinery to partially settle the overdue trade creditors and to utilize the remaining balance in trading activities along with renting/letting out of Company's premises as allowed by Memorandum of Association of the Company.
INTRODUCTION

The company was incorporated on 12th June 1988 as Public Limited Company and obtained certificate of commencement of business on 20th March 1989. The company is listed on Pakistan Stock Exchange (previously listed on Karachi and Lahore Stock Exchanges). The company belongs to SARGODHA GROUP which is well known for its expertise and achievement in textile business, manufacturing and trading of yarn of all types made from raw cotton & synthetic fiber.

• MISSION STATEMENT

  □ Complete satisfaction of buyers/consumers is our motto.
  □ Manufacturing of blender yarn as per the customers requirement and market demand.
  □ Enhancing the profitability by improved efficiency and cost controls. □ Betterment of Mills employees as quality policy.

• LEGAL STRUCTURE

  □ Public Limited Company with shares listed on Pakistan Stock Exchange.

• MANAGEMENT OF THE COMPANY

  The company is being managed by a family whose three generations are in the business textile over four decade. The company management has expertise which generally required doing textile business, especially yarn manufacturing and trading. In past management have no problem to sell their products in local or international market.

• SHAREHOLDING

  □ The Directors, Sponsors and Associates holds around 93% shareholding of the Company
PROPOSED MANAGEMENT STRUCTURE

Sajjad Textile Mills Limited as a trading concerned will be managed by its Chief Executive Officer Mr. Muhammad Asim Sajjad, its Chief Operating Officer Mr. Sajjad Aslam and its Director Finance Mr. Salman Muhammad Aslam.

Mr. Muhammad Asim Sajjad is a seasoned businessman, completed his graduation from United Kingdom in 2001 and started working as Chief Executive since June 2006. He bears good knowledge of the textile industry including hands on experience in production activities.

Mr. Sajjad Aslam, a graduate from Punjab University, has a vast and diversified experience of nearly 45 years in the textile sector. He has hands on experience with all the contours of management, manufacturing and trading processes.

Mr. Salman Muhammad Aslam is a business management graduate from Bentley University-USA and has been looking after the financial and commercial activities of the Company since 2006. He also handles sales and promotional activities and has a very competent and active personality in Company’s management.

RESTRUCTURING METHODOLOGY:

After a careful financial analysis of Sajjad Textile Mills Limited and finances available with the company in the form of sale proceeds of entire plant and machinery after payments of its overdue liabilities, the following restructuring proposal has been developed. The restructuring will be in two faces:

1. Sale of entire plant and machinery of the company and settlement of overdue liabilities
2. Setting up of trading house of yarn and man-made fibres

The management has sought approval from its members to dispose off the entire plant and machinery and to start a yarn, fibre and allied products trading business along with a portfolio in Pakistan Stock Exchange.

The company intends to enter in trading of different varieties of yarn, fibre and allied products, the first target for the management is to maintain its existing clientele in yarn market of Pakistan and international market. After its existing clientele is maintained, company intends to enter in trading of different and specialized varieties of these products, and the plan includes in getting exclusive selling, distribution and branding rights to some of the renowned brands in the textile industry.
Future Business Plan
Trading of Yarn, Fibre and Allied Products

Due to the current economic situation in Pakistan surrounding large-scale manufacturing, and the importance of textile industry in the country, management of Sajjad Textile Mills Limited has decided to take approval from its members to change its primary business from manufacturing of yarn to trading of different varieties and counts of yarn, fibre and allied products along with some investment in stock exchange.

Given the future outlook of Pakistan's economy and capital position in post CPEC era, management has planned for the company to enter yarn, fibre and allied products trading business. While running as a yarn manufacturing business, Sajjad Textile Mills Limited had a lot of limitation in terms of the variety of its products, as switching from one count to another, one fiber to another or between different blends had a lot of cost and investment attached to it, while manufacturing other varieties of yarn was not possible without capital investment in new machinery and building. In the trading business, these switching costs are minimized and it is possible for the company to start trading in different varieties of yarn, fabric and allied products.

Company senior management is already in contact with different local and international buyers/sellers/agents in order to make a steadfast entry in this field. Although actual business can only be started once capital investment is available by selling off its entire plant and machinery as proposed in the EOGM notice. The management has started engaging company's current clientele while looking for new business partners as well.

Some of yarn counts company has planned to start company's business include:

1. NE 20/1-80/1 Cotton Carded Yarn
2. NE 20/1-80/1 Cotton Combed Weaving
3. NE 18/1-65/1 Polyester Viscose Blended Yarn
4. NE 20/1-70/1 Polyester Cotton Blended Yarn
5. Viscose and Polyester Fibre
6. Different varieties of specialized yarn.

Non-exhaustive list, and product range might change from time to time depending on prevailing market conditions.
Management of Sajjad Textile Mills Limited is in contact with both current clientele and also with new potential trading partners in this field. This includes both local and foreign partners. Following are some of international textile companies our management have approached in this regard focusing mainly on China, India and Indonesia:

1. Hangzhou Fuchun dye & weave co., Ltd. China
2. Wuhu Fuchun dye & weave co., Ltd. China
3. Zhejiang Twin Lantern Home Textiles Co., Ltd. China
4. Hickman International N.T. Hong Kong
5. Tai Zeus International Corporation Taiwan
6. Jinfang Cotton Technology Co., Ltd. China
7. Xiamen C & D Light Industry Co., Ltd. China
8. Formosa Chemicals & Fibre Corporation (FCFC)
9. South Pacific Viscose (SPV)
10. Birla Fibres Co., Ltd.

Management is in contact with these firms regarding import/export of different variety of yarn and fibre to Pakistan, which also includes exclusive selling and branding rights to some of the renowned textile brands in the world.

Additionally, we have attached letterheads of companies we are in contact locally just for reference (Appendix A). These companies include:

*Letterheads from different agents and companies are being arranged and will be attached in the appendix section.*

Customers

First focus of management in terms of target market or customers will be to at least maintain company's existing clientele by providing quality yarn, fibre and allied products to them at best possible prices. Efforts have already been made in this regard and management has received a very positive response.

After maintaining its current customer base, management plans on introducing specialized yarn, fibre and allied products in the local industry, which include MVS Yarn, Acrylic and other varieties. These products required specialized machinery and are not widely manufactured by the local industry, while have an increasing demand.
As per the product variety of the company, the niche for our product will be limited to textile industry but will be wide enough to cater different sectors inside the industry. Just to clarify to non-industry readers, our product niche will not only be limited to one type of garment/fabric/yarn but our product variety will entertain all sectors of industry and the product can be used for socks, towel, denim, and other products.

Strategy

Given the nature of our product and the variety we plan on introducing, we will have a multi-dimensional marketing strategy. This would include marketing through our salaried distribution team, commission agents and making use of the growing e-B2B environment in the industry.

Sales Team:

To keep our current clientele engaged and to specifically target the organized sectors of the industry, we would have a suitably sized sales team.

Commission Agents:

Commission agents provide a large number of services and act as a bridge for both contracting parties. Khan & Khan's (2010) research emphasizes on their importance in Pakistan's textile sector. As further depicted by Nordas (2004), services of intermediaries include getting the contract signed by both parties; these contracts contain conditions about product quality, quantity, packing, delivery time, shipping company and other related clauses.

In Pakistani textile industry, commission agents provide services of finding buyers, negotiating the deal, and giving credit to buyers. Their role is very important for exploring new markets, as not only the agents cut down the risk by buying on cash and providing credit to their clients but also they buy in large quantities and supply to smaller customers.

- E-B2B Forums

Electronic business to business (e-b2b) forums are a growing trend in textile industry of Pakistan, but majority of the players in the industry lack awareness on high to reap full benefits of such services. ICT can play a significant role in reducing transaction costs, it can be seen as a direct alternative to the traditional intermediaries (Christiaanse, et al., 2001, pp.464). As Chong et al (2010) argues that the intermediary cost can be eliminated if buyers view the products directly over the Internet and then contacts the supplier directly. Thus, with the increased use of Internet amongst various industrial suppliers and buyers, the traditional role of intermediaries becomes questionable (Tay and Chelliah, 2011, pp.217). Alibaba, tradekey, yarn.com, fabric.com and other such websites already account for huge transactions in the textile industry.
Investment in Pakistan Stock Exchange

Pakistan stock market is one of the highest performing markets in Asia. Bloomberg has labeled it as best performing market in Asia, as it yielded more that 27% year-to-year return in 2016, and outperformed MSCI index. Foreign investment in Pakistan’s stock exchange has also increase and Chinese consortium is in talks to get stake in Pakistan Stock Exchange.

In this regard, management of Sajjad Textile Mills Limited has decided to maintain a portfolio in the equity market. Company intends to engage suitable financial analysts and maintain a reasonable portfolio, purely based on fundamentals.
MARKET AND COMPETITION ANALYSIS

Analysis of the market:

Textile industry in Pakistan, in its widest concatenation is the largest and most important industrial sector in the national economy and occupied a major position in the world. Textile Industry in terms of production and exports the demand for cotton/ P.C. yarn in export market has been increasing and this trend is expected to continue in future. At the same time with the introduction of high speed shut less, air jet and other frames of looms in Pakistan, there is rapid growth in the domestic weaving industry. The knitting and power loom industry have also registered a similar increase in demand of cotton yarn. These trends indicated consistently increasing demand for cotton yarn in both export and domestic market.

SWOT ANALYSIS

Strengths

The growth prospects of Pakistan’s economy largely depend on Recovery in output of cotton.

Weaknesses

The main reason for the crises is the price of raw cotton, which had gone unstably high due to the worldwide failure of the cotton crop and in particular in the country.

The matching funds could not be attained due to the stiff stance maintained by the banks resulting in full cotton requirements purchased at the right time.

Opportunities

Past growth in export of cotton yarn
Past growth in exports/home consumption of various sub-sector of textile using yarn at some stage of manufacturing. Generous incentive provided by the Government for rapid industrialization.
The demand of yarn is projected to grow.
Textile industry is the largest foreign exchange earner as it contributes nearly 50% the foreign exchange receipts.

Threats

The macroeconomic environment and market condition further deteriorated the operations of the company.
Currently there are more than 300 spinning mills in the country; most of them produce yarn of coarse and medium counts. Pakistan has the inherent advantage of being the 4th largest producer of cotton in the world with a huge potential to further increase crop yield. The domestic availability of basic raw material is considered to be an added advantage for the success of any export led industry. In this context, Pakistan ranks as 3rd in the world in the field of yarn production.

Pakistan is amongst the largest producers of cotton, with large spinning capacity in Asia. In fact Pakistan contributes 5% to the global spinning capacity after China and India. At present, there are 1,221 ginning units, 472 spinning units (including unorganized units) and 425 other small units that produce textile products. All these factors now contribute about 55% to the country’s total exports.

Pakistan has emerged as one of the major cotton textile product suppliers in the world market, with a share of world yarn and cotton fabric trade of about 30% and 8% respectively, maintaining the sector as a backbone of industrial activity for the country. The annual volume of total world textile trade is more than US$ 400 billion, but Pakistan’s share is less than 2%.

The production of yarn increased significantly from 2.79 billion kg in 2009-10 to 3.08 billion kg in 2014-15, thus showing an average growth of 2% per annum. The production of yarn share in coarse counts is 47.1%, medium counts 23.7%, whereas fine and super counts 5.4% and mixed polyester 23.8% respectively. Installed capacity, working and production of yarns are given in Table 1.

Table 1: Installed Working Capacity and Production of Yarn

<table>
<thead>
<tr>
<th>Year</th>
<th>Installed Capacity (Million Kg)</th>
<th>Working Capacity (Million Kg)</th>
<th>Production of yarn (Million Kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>11,992</td>
<td>10,631</td>
<td>2.787</td>
</tr>
<tr>
<td>2010-11</td>
<td>11,762</td>
<td>10,757</td>
<td>2.939</td>
</tr>
<tr>
<td>2011-12</td>
<td>11,946</td>
<td>10,872</td>
<td>2.955</td>
</tr>
<tr>
<td>2012-13</td>
<td>11,946</td>
<td>10,872</td>
<td>3.018</td>
</tr>
<tr>
<td>2013-14</td>
<td>12,910</td>
<td>11,000</td>
<td>3.066</td>
</tr>
<tr>
<td>2014-15</td>
<td>13,269</td>
<td>11,083</td>
<td>3.082</td>
</tr>
</tbody>
</table>

Source:  
1) All Pakistan Textile Mills Association.  
2) Source: State Bank of Pakistan Annual Reports.
Exports

Export of cotton yarn decreased from US$ 2.25 billion in 2012-13 to US$ 1.85 billion in 2014-15, showing decline of 18%. Average unit price realization of Pakistani cotton yarn in the international markets is also very low compared to that of its competitors. Average unit price of cotton yarn decreased from US$ 4.10/kg in 2010-11 to $ 2.74/kg in 2014-15. Exports of cotton yarn from Pakistan are given in Table 2.

<table>
<thead>
<tr>
<th>Year</th>
<th>Quantity (000Kg)</th>
<th>Value (000 US $)</th>
<th>Unit Value ($/ Kg)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>625,418</td>
<td>1,433,094</td>
<td>2.29</td>
</tr>
<tr>
<td>2010-11</td>
<td>536,126</td>
<td>2,201,405</td>
<td>4.10</td>
</tr>
<tr>
<td>2011-12</td>
<td>572,047</td>
<td>1,810,798</td>
<td>3.16</td>
</tr>
<tr>
<td>2012-13</td>
<td>737,586</td>
<td>2,253,952</td>
<td>3.05</td>
</tr>
<tr>
<td>2013-14</td>
<td>663,354</td>
<td>1,997,338</td>
<td>3.01</td>
</tr>
<tr>
<td>2014-15</td>
<td>671,293</td>
<td>1,849,389</td>
<td>2.74</td>
</tr>
</tbody>
</table>

Source: Trade Development Authority of Pakistan.

Pakistan's leading buyers of cotton yarn are China, Hong Kong, Bangladesh, Korea Republic, Turkey, Japan and Portugal. Country-wise exports of cotton yarn from Pakistan are given in Table 3.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,561,121</td>
<td>1,333,374</td>
<td>1,279,411</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>176,672</td>
<td>139,901</td>
<td>109,314</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>116,924</td>
<td>120,160</td>
<td>109,390</td>
</tr>
<tr>
<td>Korea</td>
<td>59,104</td>
<td>52,585</td>
<td>45,377</td>
</tr>
<tr>
<td>Portugal</td>
<td>42,185</td>
<td>52,400</td>
<td>34,520</td>
</tr>
<tr>
<td>Japan</td>
<td>43,369</td>
<td>35,189</td>
<td>29,843</td>
</tr>
<tr>
<td>Italy</td>
<td>21,419</td>
<td>23,886</td>
<td>15,071</td>
</tr>
<tr>
<td>U.S.A</td>
<td>17,419</td>
<td>16,162</td>
<td>17,069</td>
</tr>
<tr>
<td>Turkey</td>
<td>39,465</td>
<td>50,333</td>
<td>45,135</td>
</tr>
<tr>
<td>Bahrain</td>
<td>12,175</td>
<td>18,194</td>
<td>9,733</td>
</tr>
<tr>
<td>Malaysia</td>
<td>13,609</td>
<td>13,705</td>
<td>12,345</td>
</tr>
<tr>
<td>Vietnam</td>
<td>25,786</td>
<td>19,434</td>
<td>19,288</td>
</tr>
<tr>
<td>All other countries</td>
<td>115,506</td>
<td>107,550</td>
<td>122,893</td>
</tr>
<tr>
<td>Total</td>
<td>2,252,952</td>
<td>1,997,338</td>
<td>1,8493,89</td>
</tr>
</tbody>
</table>

Source: Trade Development Authority of Pakistan.
PRODUCT / SERVICE DESCRIPTION

The business line of the company will be trading of yarn and man-made fibres in local and international market. The Company will also invest in stocks of different listed Companies.

OPERATIONAL PLANS

Strategic Goals and Objectives

The Company sets the following objectives for its achieve:

To strive hard to optimize profit through conduction of transparent business operation within legal and social framework with malice to none and justice for all in respective of gender disparity, cast, creed or region.

• To increase profitability
• To be competitive in the international market