The Pakistan Credit Rating Agency Limited

Rating Report

Al Rahim Textile Industries Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Dec-2023	A	A1	Stable	Maintain	-
28-Dec-2022	A	A1	Stable	Upgrade	-
28-Dec-2021	A-	A1	Stable	Upgrade	-
06-Aug-2021	A-	A2	Stable	Maintain	-
06-Aug-2020	A-	A2	Negative	Maintain	Yes
25-Jan-2020	A-	A2	Stable	Maintain	-
26-Jul-2019	A-	A2	Stable	Maintain	-
25-Jan-2019	A-	A2	Stable	Maintain	-
27-Jul-2018	A-	A2	Stable	Maintain	-
17-Jan-2018	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Al-Rahim Textile Industries Limited (‘Al-Rahim’ or ‘the Company’) is primarily engaged in the manufacturing of towels and fabrics. Established in 1991, Al-Rahim is a leading home textile manufacturer and exporter from Pakistan with a modern, state-of-the-art plant & machinery to produce quality products including towels, bedding, and kitchen linens. Constructed over an area of 38 acres of land in Nooriabad, the mill has a semi-vertically integrated setup that allows all production within the premises and contributes towards efficiency. Over the period Al-Rahim has gone through different phases of capacity expansions in air-jet terry weaving, yarn-dyed & jacquard towel manufacturing, terry and fabric dyeing, printing, and Stitching. Al-Rahim has developed a strong customer base which is among the company's greatest assets. The company aims to provide the highest quality product to achieve customer satisfaction through innovation, commitment, integrity, and efficiency. Al-Rahim Textile Industries has valid certificates for its products and facilities and is periodically audited by internationally recognized certification bodies including Oeko Tex 100 Class-I and Class-II, BSCI, C-TPAT, Sedex, GOTS, SCAN, BCI, Egyptian Cotton Gold Certificate, GRA, RCS, Cradle to Cradle, Made in Green, EcoLabel and BRC. The management asserts to have ~9% market share. The Country's textile exports have witnessed a decline of ~15% in FY23 and stood at $16bln as compared to $19bln in FY22, whereas towel exports contributed ~6% (value wise) of it. However, in dollar terms, the exports stood at USD~1bln in FY23 as compared to USD~1.1bln in FY22 reflecting a decline of ~10%. There was a decline of 11% in towel volume exports in FY23 compared to FY22. As per the audited accounts, the company’s topline clocked in at ~PKR 25,935mln out of which ~PKR 23,222mln from the exports sales and ~PKR 3,184mln from the local sales, reflecting growth of ~15.2% on a YoY basis mainly due to price inflation and Pak Rupee depreciation. Moreover, the company margins are largely sustained at all levels. Sponsors have a good understanding of the business and they are actively involved in all business decisions. Key pillars of business strategy are maintaining a diversified customer portfolio with a lower concentration and also producing the complete range of terry towel products. The Company's financial risk profile is characterized by robust coverages, cashflows, and a comfortable working capital cycle. Capital structure is leveraged and mainly comprised of short-term borrowings for working capital management.

The ratings are dependent upon improvement in market share, optimal operations, sustaining growth in top-line, and retaining sufficient margins while maintaining financial risk at a low level is important. Meanwhile, strengthening the governance framework for better oversight of strategic affairs is considered essential.

Disclosure

Name of Rated Entity	Al Rahim Textile Industries Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Towel(Sep-23)
Rating Analysts	Sohail Ahmed Qureshi | sohail.ahmed@pacra.com | +92-42-35869504

Profile

Legal Structure Al Rahim Textile Industries Limited (Al Rahim or 'the Company') traces its roots to Al Rahim Textile Industries, which was established in 1991 as a sole proprietorship. To strengthen the corporate structure, a public unlisted company was formed by the name of Al Rahim Textile Industries Limited in July 2019. As per the agreement, all assets and liabilities of the sole proprietorship were transferred to Al Rahim Textile Industries Limited. The registered office of the Company is situated in Karachi, with a manufacturing facility in Nooriabad, Sindh.

Background The Company was formed by Mr. Abdul Rahim Saya. Al Rahim started its business by providing processing and weaving facilities. The Company established the Nooriabad facility in 2005. After the 2015 expansion, the Company has become one of the largest manufacturers of towels in Pakistan.

Operations Al Rahim is involved in the manufacturing of towels and fabrics. The Company is export-oriented and sells its products to retailers and the hospitality industry (hospitals and hotels). Al Rahim has a total capacity of 284 Air-jet looms, 447 stitching machines, 3 printing machines, 7 embroidery machines, and 44 dyeing machines. After the incorporation of a new company in FY20, all assets and liabilities have been transferred to the newly incorporated entity.

Ownership

Ownership Structure Al Rahim is owned by Saya Family. Mr. Faisal Rahim Saya holds a major stake in the Company while the rest of the shareholding is split equally between Mr. Moiz Saya (Son of Mr. Faisal Saya) and Mr. Abdul Rahim Saya.

Stability Although both sons of Mr. Abdul Rahim Saya (Mr. Faisal Saya and Mr. Shehzad Saya) are involved in the operations of the Company, most of the shareholding resides with Mr. Faisal Saya. There is a formal succession in place, the business will be handed over to Mr. Moiz Saya, director and son of Mr. Faisal Saya, CEO.

Business Acumen Saya's family is involved in the textile business for the last three decades. The phenomenal growth over the years reflects the sponsors' strong business acumen.

Financial Strength The members of the Saya family own adequate wealth, reflecting well on the financial strength of the sponsors. The sponsors have supported the Company in the past in the form of equity injections. The family also owns Al Rahim Retail Limited - Zellbury Brand Stores, Real Estate and Construction Business in Pakistan.

Governance

Board Structure The board comprises three members and is chaired by Mr. Abdul Rahim Saya. It includes two executives (including the CEO) and one non-executive director. All members represent Saya Family. There is room for improvement at the board level through the induction of more members, including independent directors.

Members' Profile Saya family is in the textile business since 1991 and has vast experience in the textile industry. Board members possess strong acumen in textile manufacturing and towel industry as reflected in the growth of the Company.

Board Effectiveness Board members are actively involved in the Company's operations. Board meetings are held on as and when required basis. The board has not formed any committees. There is no formal policy for recording board minutes.

Financial Transparency Reanda Haroon Zakaria & Company, Chartered Accountants, are the external auditors of the Company. They gave an unqualified opinion on financial statements for the year ended June 30, 2023. The firm is QCR-rated by ICAP and is classified in Category 'B' in the panel of auditors maintained by SBP.

Management

Organizational Structure The Company's management structure is divided into divisions and functional departments with clear lines of responsibilities. Head office and site management functions are headed by Mr. Faisal Saya, the CEO.

Management Team Mr. Faisal Saya (CEO) leads the management team. He has been associated with the family business for the last 27 years and has played a key role in the success of the Company. The CEO is supported by an able and professional team.

Effectiveness The Company has no management committees in place. However, senior management members meet on daily basis to discuss ongoing issues and plans.

MIS In FY23, the company adopted G-Tech software, offering dependable business solutions and transforming information handling. Live Dashboards enable instant reporting for management, eliminating the need for manual reports by staff.

Control Environment Sponsors of the Company are part of both the Board and management. Al Rahim has established an internal audit department, which is an integral part of the management control system. Further, the Company has rigorous quality control procedures in place. The Company has valid certificates from Oeko Tex 100 Class-I and Class-II, BSCI, C-TPAT, Sedex, GOTS, and BRC, reflecting well on the overall control environment.

Business Risk

Industry Dynamics In Pakistan, there are approximately 10,000 towel looms, including shuttle and shuttle-less looms operating in both organized and unorganized segments of the towel manufacturing sector. The towel sector is predominantly export-oriented. Overall exports of the towel industry decreased during FY23 and stood at USD ~1,000mln as compared to USD ~1,111mln same period last year depicting a negative growth of ~10% value-wise, where volumes also posted a negative growth of ~11% in the same period. The towel sector's contribution to overall textile exports was unchanged and stood at ~6%. Pakistan has earned a reputable position among towel-exporting countries due to its exceptional product quality and the significant benefits it provides to the local industry. The top 5 exporters consist of China, India, Pakistan Turkey, and Vietnam and together they account for approximately ~80% of the total export market.

Relative Position Al Rahim is one of the biggest players in the towel industry in Pakistan with a ~10% share in total towel exports of the Country. Whereas, Feroze 1888 is considered a leader in the towel industry with a share of ~20%.

Revenues The Company derives its revenue mainly from the manufacturing and sales of towels. During FY23, the Company's topline clocked in at ~PKR 25,935mln out of which ~PKR 23,222mln from the exports side and ~PKR 3,184mln from the local side (FY22: ~PKR 22,522mln), reflecting a growth of ~15.2% on a YOY basis mainly due to global inflation and Pak Rupee depreciation.

Margins During FY23, the gross margin of the Company increased to 21.3% (FY22: ~14.2%) due to high sales, optimization of the workforce which led to a reduction in payroll cost, and utilization of ageing inventory instead of purchasing or manufacturing new raw material and products. However, the Company's operating margin also increased and stood at 13% (FY22: ~7.6%). Net profit margin in FY23 declined and stood at ~7.1% due to high expenses and finance costs (FY22: ~8.4%).

Sustainability The Company being an export-oriented entity has found an increasing trend from export destinations (USA and Europe). Going forward demand and sales of the company's product are expected to grow.

Financial Risk

Working Capital During FY23, the Company's gross working capital days showed a bit increase to 187 days (FY22: 180 days), and inventory days remained consistent at 109 days (FY22:109 days). The Company trade payable reached to 57 days in FY23 (FY22: 53 days). However, trade receivable days clocked in at 79 days in FY23 (FY22:72 days) This resulted in net working capital days of 131 days in FY23 (FY22: 127 days).

Coverages The Company's free cashflows (FCFO) as of FY23 increased to ~PKR 2,666mln (FY21:~PKR 2,193mln) owing to the overall increase in sales of the company. Meanwhile, the interest coverage ratio and debt coverage ratio clocked in at 5.9x (FY22: 8.6x) and 4.1x (FY22: 4.2x) respectively.

Capitalization The Company has a moderately leveraged capital structure, in FY23, the leveraging decreased to ~34.8% (FY2:2 ~41%). The short-term borrowings reached ~PKR 5,689mln (FY21: ~PKR 6,103mln) to finance the working capital requirements. And long-term borrowings increased to ~PKR 273mln (FY22: ~PKR 203mln).

The Pakistan Credit Rating Agency Limited

AL RAHIM TEXTILE INDUSTRIES	Jun-23	Jun-22	Jun-21
TEXTILE	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	4,830	4,888	5,168
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	17,793	16,117	10,968
a Inventories	*7,611*	*7,865*	*5,540*
b Trade Receivables	*6,034*	*5,134*	*3,717*
5 Total Assets	22,623	21,004	16,136
6 Current Liabilities	4,944	4,883	3,090
a Trade Payables	*4,013*	*4,032*	*2,549*
7 Borrowings	6,103	6,537	4,448
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	148	124	110
10 Net Assets	11,427	9,461	8,488
11 Shareholders' Equity	11,427	9,461	8,481
B INCOME STATEMENT			
1 Sales	25,935	22,522	13,529
a Cost of Good Sold	*(20,398)*	*(19,329)*	*(11,557)*
2 Gross Profit	5,537	3,194	1,972
a Operating Expenses	(2,146)	(1,480)	(746)
3 Operating Profit	3,391	1,714	1,226
a Non Operating Income or (Expense)	*(678)*	*418*	*356*
4 Profit or (Loss) before Interest and Tax	2,712	2,132	1,582
a Total Finance Cost	*(883)*	*(437)*	*(365)*
b Taxation	*1*	*199*	*(131)*
6 Net Income Or (Loss)	1,831	1,894	1,086
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*2,666*	*2,193*	*1,706*
b Net Cash from Operating Activities before Working Capital	*1,854*	*1,701*	*1,383*
c Changes in Working Capital	*(1,204)*	*(2,578)*	*(2,171)*
1 Net Cash provided by Operating Activities	649	(877)	(788)
2 Net Cash (Used in) or Available From Investing Activities	(449)	(216)	(37)
3 Net Cash (Used in) or Available From Financing Activities	(301)	1,213	658
4 Net Cash generated or (Used) during the period	(100)	120	(167)
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	15.2%	66.5%	73.5%
b Gross Profit Margin	21.3%	14.2%	14.6%
c Net Profit Margin	7.1%	8.4%	8.0%
d Cash Conversion Efficiency (FCFO adjusted for Working C	5.6%	-1.7%	-3.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	17.5%	21.1%	12.5%
2 Working Capital Management			
a Gross Working Capital (Average Days)	187	180	210
b Net Working Capital (Average Days)	131	127	148
c Current Ratio (Current Assets / Current Liabilities)	3.6	3.3	3.5
3 Coverages			
a EBITDA / Finance Cost	5.9	8.6	7.3
b FCFO / Finance Cost+CMLTB+Excess STB	4.1	4.2	3.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	0.2	0.2	0.2
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equit	34.8%	40.9%	34.4%
b Interest or Markup Payable (Days)	79.4	65.3	26.4
c Entity Average Borrowing Rate	8.1%	5.4%	7.0%

Credit Rating

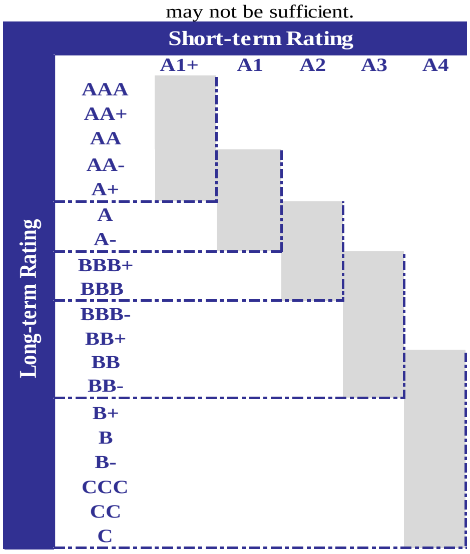
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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+ 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.

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):

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 Companies 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 | 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)

Proprietary Information