



The Pakistan Credit Rating Agency Limited

## Rating Report

### AL Textile (Pvt.) Limited

#### Report Contents

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-May-2024	BBB	A2	Stable	Maintain	Yes
02-May-2023	BBB	A2	Stable	Maintain	Yes
02-May-2022	BBB	A2	Stable	Maintain	-
07-May-2021	BBB	A2	Stable	Maintain	Yes
21-May-2020	BBB	A2	Negative	Maintain	Yes
03-Sep-2019	BBB	A2	Stable	Maintain	-
05-Mar-2019	BBB	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Pakistan's spinning industry is highly fragmented and consists ~368 spinning units with ~13.4mln spindles installed as of FY23 according to an Economic Survey of Pakistan. The industry has an estimated size of ~PKR 775bln. The projected cotton production estimates have been revised upto ~11.5mln bales. Currently, the production has reached upto ~8.26mln bales, surpassing FY23 total production of ~4.91mln bales. During FY24, better local raw cotton yield is expected to supplement the industry for import substitution. Pakistan's requirement for imported cotton has increased from ~3.5mln bales to ~4mln bales for the ongoing year. The recent hike in energy tariffs further elevated the challenges for the industry. Overall, the industry's cashflow, thus liquidity remains stretched. Consequently, the industry's overall outlook is on the Watch.

The assigned ratings of AL Textile (Pvt.) Limited ('AL Textile' or 'the Company') reflects modest operating track record and presence in the textile sector. The Company's governance structure requires attention. The Company operates with one spinning unit, having ~25,200 spindles installed. The Company's posts diwindling performance due to several operational challenges. Despite growth in the revenue, it remains on the lower end when compared to industry peers. Going forward, the management aims to diversify its revenue stream by tapping into fine-count yarn market. For this, minor BMR is required. This along with a cautious approach to manage the energy cost remains imperative. Overall business margins of the Company are paltry. Though the Company has recovered from net losses; however, bottomline remains meagre. On the financial risk front, working capital has been adequately managed primarily through short-term borrowings. Coverages and capital structure remains stretched. Overall, the Company exhibits a stressed business and financial risk profile; thus, has been assigned a Rating Watch. Going forward, the Company's governance framework along with creating operational efficiency remain crucial for the ratings.

The ratings are dependent upon the management's ability to operate at an optimal level leading to improved profitability and/or margins remains critical. Strict financial discipline is required so as to support the debt cover. Successful and timely materialization of envisioned strategies along with cautious efforts to improve the governance framework remains crucial for the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	AL Textile (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   Spinning(Sep-23)
<b>Rating Analysts</b>	Nabia Rauf   nabia.rauf@pacra.com   +92-42-35869504

## Profile

**Legal Structure** AL Textile (Pvt.) Limited ('AL Textile' or 'the Company') was incorporated in 2002 as a private limited company under the repealed Companies Act 17.

**Background** Mr. Abdul Latif established Fine Gas Company Ltd. in the early 80's. Formerly, he had a business in UAE. In 1985, Latif family diversified their business by setting up Fine Crystoplast (Pvt.) Ltd., a plastic molding plant. Later in 2002, the family entered into the textile sector through AL Textile (Pvt.) Limited with ~15,000 spindles. The Company formally commenced its operations in 2003.

**Operations** The Company operates through one spinning unit, having ~25,200 spindles installed. The Company produces pure cotton-based, ring-spun yarn ranging between 6/1 to 30/1 counts. The production facility is located on Main Multan Road, Lahore covering an area of ~130 acre. The corporate office of the Company is located at Quaid-E-Azam Boulevard, Quaid-e-Azam Industrial Estate, Lahore.

## Ownership

**Ownership Structure** Major stake (~61%) is held by owned by Mr. Omer Latif Ch. While, the remaining stake is held by his siblings, Mr. Atif Latif Ch. (~21%) and Mrs. Neelofer Latif Ch. (~19%).

**Stability** The ownership seems stable as 100% stake of the Company lies with the Sponsoring family.

**Business Acumen** AL Textile is the only textile business venture of Latif family. Over the years, the Company sustained through the volatility of the textile industry in recent years. Mr. Abdul Latif's (Ex-Chairman) counsel remains a key factor in ensuring sustainable operations of the Company.

**Financial Strength** The Sponsors have interests in other business domains, industrial gases and plastic molding, through Fine Gas Co. Ltd. and Fine Crystoplast (Pvt.) Ltd., respectively. Moreover, the Sponsors possess sufficient financial strength to support the Company, if needs be.

## Governance

**Board Structure** Overall control of the Company lies with two members Board. However, the size of the Board is considered adequate as per the Company's operations.

**Members' Profile** Mr. Omer serves as the Chairman of the Board. He is associated with the Company since its inception. He holds an overall experience of two decades. The Board members are experienced professionals and have been involved in the various business for decades.

**Board Effectiveness** The Sponsors directly monitor the overall performance of the Company. However, room for improvement exhibits as there is no formal BoD committee.

**Financial Transparency** M/S Naveed Mukhtar & Co., Chartered Accountants, are the External Auditors and expressed qualified opinion on the financial statements for FY23. The firm is QCR rated, however not on SPB's panel of auditors. The Company does not has internal audit function.

## Management

**Organizational Structure** The operations are divided into five key functions, namely (i) Sales & Marketing, (ii) Administration, (iii) IT, (iv) Finance & Accounts and (v) Supply Chain. Each function Head reports directly to the CEO.

**Management Team** Mr. Omer serves as the CEO of the Company since its inception. He is supported by a team of professionals with relevant expertise in the textile value chain. The long association of senior management with the Company bodes well for the sustainability of the Company.

**Effectiveness** No formal committees exist at the management level; however senior management of the Company convenes weekly meetings to discuss the overall business operations.

**MIS** A fully functional Oracle 11g has been deployed. The MIS generates monthly comprehensive reports for the BoD. This also provides management with structured information which helps the Company to monitor operational efficiency.

**Control Environment** The Company is compliant with International Certification for quality assurance ISO 9001:2008. In addition, the Company has maintained a quality management system since its inception.

## Business Risk

**Industry Dynamics** Pakistan's spinning industry is highly fragmented and consists of ~368 dedicated spinning units with an estimated size of ~PKR 775bln and ~13.4mln number of spindles installed as of FY23 according to an economic survey of Pakistan. The projected cotton production estimate is revised and projected to be ~11.5mln bales and currently, the production has reached upto ~8.26mln bales, surpassing FY23 total production of ~4.91mln bales. During FY24, better local raw cotton yield is expected to supplement the industry for import substitution. Pakistan's requirement for imported cotton has increased from ~3.5mln bales to ~4mln bales for the ongoing year. The recent hike in energy tariffs further elevated the challenges for the industry. Overall, the industry's cashflow, thus liquidity remains stretched. Consequently, the industry's overall outlook is on the Watch.

**Relative Position** The Company has a minimal share in the local spinning industry.

**Revenues** The Company manufactures and sells yarn ranging between 6/1 to 30/1 counts. During 6MFY24, the Company's topline increased by reported ~248% and reported at ~PKR 1.9bln (6MFY23: ~PKR 0.5bln). The increase in revenue is attributed to increase in price along with volumes uptick. However, the Company's revenue deviates from industry norms due to suboptimal operational efficiency. Going forward, the management aims to diversify its revenue stream by adding fine count yarn.

**Margins** During 6MFY24, the gross profit reported at ~PKR 164mln (6MFY23: 0.02mln), owing to increase in prices. Cost of goods sold surged by ~219% and reported at ~PKR 1,806mln (6MFY23: ~PKR 566mln). Resultantly, gross profit margin of the Company improved clocked at ~8.3% (6MFY23: nil). Operating profit margin of the Company also increased and stood at ~7.4%. During 6MFY24, the Company reported negative gross profit margin of ~2.7%. Net profit margin improved and stood at ~1.1% (6MFY23: ~-9.3%). Nevertheless, it is important to underscore that the Company's margins are not congruent with prevailing standards within the spinning industry.

**Sustainability** The Company is planning to replace its old compact spindles with the newer auto-fine version of spindles to enhance operational efficiency. Going forward, the management aims to install solar power ~3.5MW to reduce energy costs.

## Financial Risk

**Working Capital** Working capital requirements are met by combination of internal cash generation and bank borrowings. As of 6MFY24, net working capital days reduced and stood negative at 3days (6MFY23: 22days), owing to decreased inventory days (6MFY24: 32days, 6MFY23: 72days). Trade payable days stood at 46days (6MFY23: 76days). Trade receivables days improved and stood at 11days (6MFY23: 26days). Borrowing cushion reduced and stood at ~2% (6MFY23: ~13%).

**Coverages** As of 6MFY24, FCFO remains negative at ~PKR 40mln (6MFY23: ~46mln), showing an improvement of ~13%. Finance cost increased ~210% and reported at ~PKR 96mln (6MFY23: ~PKR 31mln), owing to higher interest. Thus, the intertest cover of the Company and stood at 0.5x (6MFY23: -1.6x).

**Capitalization** As of 6MFY24, debt-to-equity ratio decreased ~74.8% (6MFY23: ~63.4%), owing to decreased equity, and increased borrowings. Total equity of the Company decreased ~37% and reported at ~PKR 336mln (6MFY23: ~PKR 535mln), owing to decrease in accumulated profit (6MFY24: ~PKR 132mln, 6MFY23: ~PKR 331mln). Total borrowings comprises short-term borrowing only; increased by ~11% and reported at ~PKR 706mln (6MFY23: ~PKR 636mln).



AL Textile (Pvt.) Limited Spinning	Dec-23	Jun-23	Jun-22	Jun-21
	6M	12M	12M	12M

**A BALANCE SHEET**

1 Non-Current Assets	675	687	716	568
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,891	943	557	715
a Inventories	1,000	545	222	408
b Trade Receivables	78	159	129	128
<b>5 Total Assets</b>	<b>2,566</b>	<b>1,630</b>	<b>1,273</b>	<b>1,284</b>
6 Current Liabilities	1,149	256	244	209
a Trade Payables	936	49	63	58
7 Borrowings	706	687	250	404
8 Related Party Exposure	291	291	291	291
9 Non-Current Liabilities	84	83	65	52
<b>10 Net Assets</b>	<b>336</b>	<b>314</b>	<b>423</b>	<b>328</b>
<b>11 Shareholders' Equity</b>	<b>336</b>	<b>314</b>	<b>423</b>	<b>328</b>

**B INCOME STATEMENT**

1 Sales	1,970	1,927	4,578	4,349
a Cost of Good Sold	(1,806)	(1,874)	(4,298)	(4,003)
2 Gross Profit	164	53	280	346
a Operating Expenses	(18)	(48)	(64)	(77)
3 Operating Profit	146	5	216	269
a Non Operating Income or (Expense)	(2)	8	7	1
4 Profit or (Loss) before Interest and Tax	143	13	223	270
a Total Finance Cost	(96)	(98)	(71)	(57)
b Taxation	(25)	(24)	(57)	(63)
6 Net Income Or (Loss)	22	(109)	95	150

**C CASH FLOW STATEMENT**

a Free Cash Flows from Operations (FCFO)	(40)	(34)	203	213
b Net Cash from Operating Activities before Working Capital Ch	(40)	(50)	118	213
c Changes in Working Capital	-	210	210	-
1 Net Cash provided by Operating Activities	(40)	161	328	213
2 Net Cash (Used in) or Available From Investing Activities	-	(166)	(166)	-
3 Net Cash (Used in) or Available From Financing Activities	-	(154)	(154)	-
4 Net Cash generated or (Used) during the period	(40)	(159)	8	213

**D RATIO ANALYSIS**

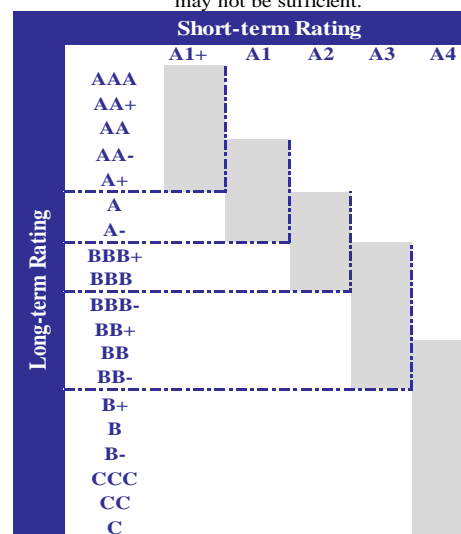
<b>1 Performance</b>				
a Sales Growth (for the period)	104.4%	-57.9%	5.3%	N/A
b Gross Profit Margin	8.3%	2.8%	6.1%	8.0%
c Net Profit Margin	1.1%	-5.6%	2.1%	3.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capi	-2.0%	9.2%	9.0%	4.9%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total	13.8%	-29.6%	25.2%	45.8%
<b>2 Working Capital Management</b>				
a Gross Working Capital (Average Days)	43	50	21	32
b Net Working Capital (Average Days)	-3	39	17	27
c Current Ratio (Current Assets / Current Liabilities)	1.6	3.7	2.3	3.4
<b>3 Coverages</b>				
a EBITDA / Finance Cost	-0.2	0.4	4.1	3.7
b FCFO / Finance Cost+CMLTB+Excess STB	-0.4	-0.3	3.0	3.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finan	-1.1	-2.2	2.1	1.9
<b>4 Capital Structure</b>				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	74.8%	75.7%	56.1%	67.9%
b Interest or Markup Payable (Days)	0.0	96.2	34.6	33.0
c Entity Average Borrowing Rate	19.9%	12.0%	8.7%	8.2%

### 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 Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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.
BBB-	
BB+	
BB	<b>Moderate risk.</b> 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.
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	
CC	<b>Very high credit risk.</b> 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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 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.

**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

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(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

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- (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)
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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)
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- (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)
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- (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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