



The Pakistan Credit Rating Agency Limited

Rating Report

Alhamd Corporation (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Feb-2023	A-	A2	Stable	Maintain	-
22-Feb-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned ratings of Alhamd Corporation (Pvt) Limited reflect the good positioning of the Company in the textile spinning industry. The Company was incorporated in 1983 as a Public Limited Company, under the previous name: Alhamd Textile Mills Limited. It was Quoted on Karachi Stock Exchange and Lahore Stock Exchange, in 1988. Afterwards, the Company was voluntarily delisted from the Stock Exchanges in 2004 and converted to a private limited company in 2005. Alhamd Corporation (Pvt) Limited is a family-owned business engaged in manufacturing and selling of cotton/blended yarn. The Company's board of directors comprise of four members. Sheikh Afzaal Ahmed has presence as CEO and Chairman of the board. The presence of family members on board along with its limited size indicates room for improvement within the governance framework of the Company. The Company has 126,696 spindles installed, manufacturing facility located in Dera Ghazi Khan. The planned capacity expansion of 43,776 spindles is deemed to be added to the profile post FY23. The sales mix is dominated by local market and are on a growing trajectory. Profitability sizably improved, the Company's topline has reflected sizable growth (1QFY23: PKR 3.3bln, 1QFY22: PKR 2.6bln). However, the net profitability declined (1QFY23: PKR 55mln, 1QFY22: PKR 384mln) attributable to increased operational expenses and finance costs. Margins also deteriorated along with the net profitability. Coverage declined sizably; should improve in the upcoming quarters. Meanwhile, leveraging increased to ~50% - half of which pertains to short-term borrowing.

During 7MFY23, the textile exports were valued at \$10.08bln compared to \$10.93bln, reflecting an 8% decline YoY – the declining trend has been recorded in the last few months. The decline in exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand for yarn in international markets is also a challenge. The analysis of 5MFY23 reveals that among value-added items, bedwear has witnessed the largest decline of 19 (on an MoM basis), down to \$217 million. Knitwear remained on the downward path in October 2022 and declined by 10% to \$392 million. Among non-value-added items, cotton yarn has shown the largest decline of 35%. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve post-Jun-23.

Disclosure

Name of Rated Entity	Alhamd Corporation (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Spinning(Sep-22)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504

Profile

Legal Structure The Company was incorporated in 1983 as a Public Limited Company, under the previous name: Alhamd Textile Mills Limited. It was Quoted on Karachi Stock Exchange and Lahore Stock Exchange, in 1988. Afterward, the company was voluntarily delisted from the Stock Exchanges in 2004 and converted to a private limited company in 2005.

Background Alhamd Corporation (Pvt) Limited (ACL) was once part of a group of companies led by Sheikh Imdad Ahmed (late) as its chairman and the founding force. Sheikh Imdad Ahmed died in 1987, and after an amicable business settlement between his four sons, Sheikh Afzaal Ahmed and his immediate family own 99.64% of the paid-up shares of Alhamd Corporation (Pvt.) Limited, since 1998.

Operations The core operations of the business are manufacturing and sale of cotton/blended yarn. The Company has 126,696 spindles installed. The manufacturing facility is located in Dera Ghazi Khan, a major cotton-growing area of Pakistan.

Ownership

Ownership Structure Alhamd Corporation (Pvt) Limited is a family-owned business. Majority stakes vested with Sheikh Afzaal Ahmed and his son Mr. Asad Imdad Sheikh around 74% and 25% respectively.

Stability The ownership majorly rests with the Sheikh Family. Minuscule shares rests with others where few are family members. The distribution of shareholding with a clear majority held by Sheikh Afzaal Ahmed and his son, Mr. Asad Imdad Sheikh portrays a structured line of succession.

Business Acumen The Sheikh family has been in the textile industry over three decades, which brings extensive technical knowledge into the business. Sheikh Afzaal Ahmed, the key personnel have adequate acumen of textile spinning, ensuring sustainable operations of the Company.

Financial Strength The financial strength of the sponsor family is adequate. The Company being the only operational company of the shareholders reflects the willingness to support in case of need.

Governance

Board Structure The Company's board of directors comprise of four members. Sheikh Afzaal Ahmed as CEO and Chairman of the board. The presence of family members on board along with its limited size indicates room for improvement within the governance framework of the Company.

Members' Profile Sheikh Afzaal Ahmed overseas and manages the Company from all aspects. He is a founding member and seasoned businessman having experience of 42 years. Mr. Asad Imdad Sheikh is a graduate from Duke University, Durham, North Carolina, USA, where he studied Marketing and Business Management, in addition to Social Sciences. He has been associated with the company since last 10 years.

Board Effectiveness Attendance of the members remained strong during the year. The board meeting minutes are appropriately documented. There is no board committee in place, which anchors the board's effectiveness.

Financial Transparency M/s Shinewing Hameed Chaudhari and Co., Chartered Accountants are the external auditors of the Company. The Company's auditors are QCR rated. The auditors have expressed an unqualified opinion on the financial reports for the year ended June'2022.

Management

Organizational Structure The Company's organizational structure has functional departments, and all functions are headed by professionals having extensive experience in the textile industry.

Management Team Sheikh Afzaal Ahmad is the CEO of ACL and his son Mr. Asad Imdad Sheikh, is the COO. Other two executive directors leads the technical and commercial department. The team is highly qualified and experienced.

Effectiveness The management meetings are held quarterly to resolve or proactively address operational issues.

MIS A fully functional installation of ERP software has been implemented during 2021 which has improved the efficiency.

Control Environment The Company has maintained a quality management system since the start. The company is more focused towards producing premier quality yarn for which sometimes the Company imports raw cotton from PIMA, USA.

Business Risk

Industry Dynamics During 7MFY23, the textile exports were valued at \$10.08bln compared to \$10.93bln, reflecting an 8% decline YoY – the declining trend has been recorded in the last few months. The decline in exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand for yarn in international markets is also a challenge. The analysis of 5MFY23 reveals that among value-added items, bedwear has witnessed the largest decline of 19% (on an MoM basis), down to \$217 million. Knitwear remained on the downward path in October 2022 and declined by 10% to \$392 million. Among non-value-added items, cotton yarn has shown the largest decline of 35%. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve post-Jun-23.

Relative Position Alhamd Corporation (Pvt) Limited is a mid-sized spinning unit and one of textile venture of the Sheikh family.

Revenues The Company's revenues are on a growing trajectory. During FY22, the Company's topline clocked in at PKR 12.3bln (FY21: PKR 9.4bln) posting growth, owing to a boom in the textile sector, local sales improved along with higher volumetric production. The Company's sales mix continues to be dominated 100% by local sales. The Company's major customers are Kamal Textile Mills (Pvt.) Limited, Faisalabad, and Kamal Limited, Lahore. The company exhibited an increase in revenue (1QFY23: PKR 3.3bln; 1QFY22: PKR 2.6bln). Meanwhile, net profitability declined to PKR 55mln 1QFY23 (1QFY22: PKR 384mln) attributable to industry-wide trends for spinning segment.

Margins During FY22, the Company's gross margin remained stagnant at 19.2% (FY21: 19.2%), due to sustained business activity. Also, improved sector dynamics along with higher yarn prices resulted in a healthy performance. However, the operating margin reflected a decline (FY22: 14.3%, FY21: 15.4%). The Company's bottom line reflected a net profit of PKR 901mln in FY22 (FY21: 1030mln). Simultaneously, the Company managed to clock in profitability in 1QFY23 at PKR 55mln (1QFY22: PKR 384mln) due to declined operating profit (1QFY23: PKR 251mln, 1QFY22: PKR 535mln) attributable to the declined sales price of yarn along with high operational expenses.

Sustainability For its medium/long term sustenance and growth, ACL has undergone BMR of the existing machinery during financial year 2021-22. Setting up of a new spinning unit of 43,776 spindles, for the domestic and export markets, started in financial year 2021-22. The operation of this new unit is delayed by six months and now we are expecting that this new unit of 43,776 spindles will start its production by July 2023. The new spinning unit will increase production volume, resulting in substantial increase in revenue along with the ability to produce export-quality yarns.

Financial Risk

Working Capital The Company's borrowing capacity at the trade assets level stood at (FY22: 66%, FY21: 93%) due to an increase in short-term borrowings. In 1QFY23, the capacity improved to 93% as there were no borrowings during the period. During FY22 The company's net-working cycle remained the same at 102 days (FY21: 102 days). Although, the cash cycle deteriorated to 130 days in 1QFY23 owing to an increase in inventory days (end-Sep22: 119 days, end-Jun22: 93 days). Working capital management remains vital in the upcoming quarters.

Coverages During FY22, the Company's operating cash flows (FCFO) declined slightly to PKR 1,414mln (FY21: PKR 1,535), which is attributable to a decline in profitability. Whereas, the same trend was followed in 1QFY23 as FCFO stood at PKR 202mln (1QFY22: PKR 562mln). Interest coverage and core operating coverage stood at 1.8x and 1.6x (end-Jun22: 8.0x) respectively. The improvement in coverage, in upcoming quarters, remains essential.

Capitalization At end-Sep'22, the company has a fairly leveraged capital structure touching (50%) due to an incline in total borrowings. Total debt stood at PKR 6.1bln comprising 50.1% (end-Jun22: 43.9%) of short-term borrowings. The equity base of the company stands at PKR 6.19bln (end-Jun22: PKR 6.1bln). Going forward, strengthening of the equity base is necessary to enhance risk absorption capacity.



The Pakistan Credit Rating Agency Limited

Financial Summary

	PKR mln			
Alhamd Corporation (Pvt.) Limited	Sep-22	Jun-22	Jun-21	Jun-20
Spinning	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	7,392	5,672	3,584	3,825
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	7,637	6,217	4,070	3,471
a Inventories	4,744	4,069	2,164	2,718
b Trade Receivables	662	793	394	355
5 Total Assets	15,029	11,888	7,653	7,296
6 Current Liabilities	1,835	1,845	1,171	728
a Trade Payables	308	353	207	144
7 Borrowings	6,179	3,078	207	1,168
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	854	829	791	824
10 Net Assets	6,162	6,136	5,485	4,575
11 Shareholders' Equity	6,192	6,136	5,485	4,576
B INCOME STATEMENT				
1 Sales	3,372	12,239	9,482	6,026
a Cost of Good Sold	(2,962)	(9,884)	(7,658)	(5,529)
2 Gross Profit	410	2,355	1,824	497
a Operating Expenses	(159)	(608)	(365)	(308)
3 Operating Profit	251	1,747	1,459	189
a Non Operating Income or (Expense)	(7)	(91)	19	4
4 Profit or (Loss) before Interest and Tax	243	1,656	1,478	194
a Total Finance Cost	(119)	(116)	(36)	(88)
b Taxation	(69)	(638)	(412)	(49)
6 Net Income Or (Loss)	55	901	1,030	57
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	202	1,414	1,535	323
b Net Cash from Operating Activities before Working Capital Changes	153	1,331	1,494	242
c Changes in Working Capital	(1,456)	(2,356)	604	(1,126)
1 Net Cash provided by Operating Activities	(1,304)	(1,024)	2,098	(884)
2 Net Cash (Used in) or Available From Investing Activities	(1,815)	(2,466)	(93)	(237)
3 Net Cash (Used in) or Available From Financing Activities	3,102	2,617	(1,089)	1,015
4 Net Cash generated or (Used) during the period	(17)	(873)	917	(105)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	10.2%	29.1%	57.3%	-22.8%
b Gross Profit Margin	12.2%	19.2%	19.2%	8.3%
c Net Profit Margin	1.6%	7.4%	10.9%	0.9%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-37.2%	-7.7%	22.6%	-13.3%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	3.6%	15.5%	20.5%	1.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	139	111	108	147
b Net Working Capital (Average Days)	130	102	102	141
c Current Ratio (Current Assets / Current Liabilities)	4.2	3.4	3.5	4.8
3 Coverages				
a EBITDA / Finance Cost	3.0	18.5	59.1	6.9
b FCFO / Finance Cost+CMLTB+Excess STB	1.6	8.0	8.4	0.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	8.8	1.3	0.1	4.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	49.9%	33.4%	3.6%	20.3%
b Interest or Markup Payable (Days)	82.0	111.0	0.0	0.0
c Entity Average Borrowing Rate	18.7%	8.9%	4.6%	7.4%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
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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2) Conflict of Interest

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- 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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- (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).
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- (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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- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(F-VII)

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