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-2024	A-	A2	Stable	Maintain	-
22-Feb-2023	A-	A2	Stable	Maintain	-
22-Feb-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The Alhamd Corporation (Pvt) Limited ("ACL" or "the Company") rating emanates from the adequate profile of the Company in the spinning industry of Pakistan. The principal operating activity of the Company is the manufacturing and sales of cotton/blended yarn. The Company operates with an operational capacity of 170,472 spindles. According to ACL management, the Company has a capacity utilization of 97.0% as of Dec-23. The Company has a family-dominated board that depicts room for improvement in the corporate governance framework. The management of the Company possesses industry specific exposure and its structure reflects adequate delegation of authority matrix. The sales portfolio of ACL is primarily dominated by local sales with a minute contribution by the export segment. During FY23, the top line of the Company showed a growth of 14.4% mainly attributed to cotton yarn price impact. The product slate of the Company mainly comprised of PC, CVT, CT and combed yarn. During FY23, the margins and profitability matrix of the Company were under stress and the prime contributing factors include expensive raw material procurement, escalated energy tariff and hike in policy rate which inflates the finance cost. However, in 3MFY24, the Company regained some of its momentum and generated a green bottom line. Previously in Nov'23, ACL executed a CAPEX by successful commercialization of a new unit with an operating capacity of 43,776 spindles for expansion purposes and is now planning to install ~ 8.0 Mega Watt solar plant to optimize energy cost risk. The working capital cycle of the Company is stretched given high extent of short-term borrowings at the moment. The cashflows and coverages of the Company are considered adequate. The ACL has leveraged capital structure. The management of the Company is mindful of performance alignment with their financial projections. The 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, production reached up to ~8.26mln bales surpassing FY23 total production of 4.91mln bales. During FY24 better local raw cotton yield is expected to supplement the Companies for import substitution. Pakistan's requirement for imported cotton stands at 3.5 million bales to 4 million bales this year. The recent elevation of energy tariffs and the availability of locally procured raw cotton are the prime challenges specific to the industry.

The ratings are dependent upon the sustainable performance of the Company both in terms of topline and bottom line. The generation of sufficient cashflows to supplement business operations and maintenance of coverages at an adequate level remains vital for the ratings. The adherence to the debt matrix at an optimal level is a prerequisite for the assigned rating.

Disclosure	
Name of Rated Entity	Alhamd Corporation (Pvt.) 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 | Spinning(Sep-23)
Rating Analysts	Muhammad Harris Ghaffar | harris.ghaffar@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. Afterwards, 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 the manufacturing and sale of cotton/blended yarn. The Company has 170,472 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 comprises of four members. Sheikh Afzaal Ahmed as CEO and Chairman of the board. The presence of family members on the board along with its limited size indicates room for improvement within the governance framework of the Company.

Members' Profile Sheikh Afzaal Ahmed oversees and manages the Company from all aspects. He is a founding member and seasoned businessman having experience of over 42 years. Mr. Asad Imdad Sheikh is a graduate of 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 for 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 B category rated from SBP panel of auditors. The auditors have expressed an unqualified opinion on the financial reports for the year ended June'2023.

Management

Organizational Structure The Company's organizational structure has functional departments, all 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. The other two executive directors lead 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 and is is more focused towards producing premier-quality yarn for which the Company imports raw cotton from PIMA, USA etc. The Company conducts internal audit in-house rather than outsourcing.

Business Risk

Industry Dynamics The 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, production reached up to ~8.26mln bales surpassing FY23 total production of 4.91mln bales. Pakistan's requirement for imported cotton stands at 3.5 million bales to 4 million bales this year. The recent elevation of energy tariffs and the availability of locally procured raw cotton are the prime challenges specific to the industry.

Relative Position Alhamd Corporation (Pvt) Limited is a mid-sized spinning unit and one of textile ventures of the Sheikh family. The total spindles installed in Pakistan's spinning industry are 13.4 mln out of which the Company has 170,472 spindles installed i.e., 1.3%.

Revenues The Company's revenues are on a growing trajectory. During FY23, the Company's topline clocked in at PKR 14.0bln (FY22: PKR 12.2bln) 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 in the first quarter (1QFY24: PKR 3.9bln; 1QFY23: PKR 3.4bln).

Margins During FY23, the Company's gross margin reduced to 6.3% (FY22: 19.2%), due to increase in the cost of raw material and energy. Also, the operating margin reflected a decline (FY23: 2.1%, FY22: 14.3%). The Company's bottom line reflected a net loss of PKR 171mln (FY22: profit of PKR 901mln), due to declining operating profits during FY23. However, the Company recorded a net profit of PKR 26mln in 1QFY24 (1QFY23: PKR 55mln).

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. This new unit has been in operation since November' 2023. The overall cost of the new unit is around PKR 6.5 bln.

Financial Risk

Working Capital The Company's borrowing capacity at the trade assets level stood at (FY23: 20%, FY22: 66%) due to an increase in short-term borrowings. In 1QFY24, the capacity decreased to 17% (1QFY23: 45%). During FY23, the Company's net-working cycle increased to 110 days (FY22: 102 days). Although, the cash cycle deteriorated to 123 days in 1QFY24 owing to an increase in inventory days (end-Sep'23: 117 days, end-Jun'23: 97 days). Working capital management remains vital in the upcoming quarters.

Coverages During FY23, the Company's operating cash flows (FCFO) declined to PKR 448mln (FY22: PKR 1.4bln), which is attributable to a decline in profitability. Whereas, during 1QFY24, FCFO clocked in at PKR 276mln (1QFY23: PKR 202mln). Interest coverage and core operating coverage increased and stood at 0.9x and 0.7x respectively, during FY23 (FY22: 0.3x and 0.3x respectively). The improvement in coverage, in upcoming quarters, remains essential. During 1QFY24, interest coverage and core operating coverage increased to 1.7x and 1.4x respectively.

Capitalization At end-Jun'23, the Company has a high leveraged capital structure touching 51% due to an incline in total borrowings (at end-Jun'23: 33%). At end-Sep'23, the high leveraged capital structure touched 58% due to further incline in total borrowings (at end-Sep'23: 50%). At end-Jun'23, total debt stood at PKR 7.3bln comprising 47.5% (end Jun'22: 43.9%) of short-term borrowings. However, at end-Sep'23, total debt increased and stood at PKR 9.8bln comprising 58.1% (end Sep'22: 50.2%) of short-term borrowings. The equity base of the company stands at PKR 7.1bln (end-Jun'22: PKR 6.1bln). As at end Sep'23, the equity base of the company stands at PKR 7.1bln (end-Sep'22: PKR 6.2bln). Currently, PKR 850 mln loan from NBP is under approval for 8 MW Solar Power Plant. 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 Spinning	Sep-23 3M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	11,729	11,396	5,672	3,584
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	9,045	5,871	6,217	4,070
a Inventories	*6,494*	*3,391*	*4,069*	*2,164*
b Trade Receivables	*1,136*	*1,231*	*793*	*394*
5 Total Assets	20,774	17,267	11,888	7,653
6 Current Liabilities	2,646	1,685	1,845	1,171
a Trade Payables	*1,133*	*665*	*353*	*207*
7 Borrowings	9,790	7,270	3,078	207
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	1,219	1,219	829	791
10 Net Assets	7,120	7,094	6,136	5,485
11 Shareholders' Equity	7,120	7,094	6,136	5,485
B INCOME STATEMENT				
1 Sales	3,867	14,005	12,239	9,576
a Cost of Good Sold	*(3,490)*	*(13,116)*	*(9,884)*	*(7,658)*
2 Gross Profit	377	888	2,355	1,918
a Operating Expenses	(166)	(592)	(608)	(427)
3 Operating Profit	211	297	1,747	1,491
a Non Operating Income or (Expense)	*13*	*145*	*(91)*	*(13)*
4 Profit or (Loss) before Interest and Tax	224	441	1,656	1,478
a Total Finance Cost	*(166)*	*(477)*	*(116)*	*(36)*
b Taxation	*(32)*	*(135)*	*(638)*	*(412)*
6 Net Income Or (Loss)	26	(171)	901	1,030
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*276*	*448*	*1,414*	*1,535*
b Net Cash from Operating Activities before Working Capital Changes	*273*	*207*	*1,331*	*1,494*
c Changes in Working Capital	*(2,363)*	*139*	*(2,356)*	*604*
1 Net Cash provided by Operating Activities	(2,090)	345	(1,024)	2,098
2 Net Cash (Used in) or Available From Investing Activities	(442)	(4,527)	(2,466)	(91)
3 Net Cash (Used in) or Available From Financing Activities	2,520	4,192	2,617	(1,089)
4 Net Cash generated or (Used) during the period	(13)	10	(873)	919
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	10.5%	14.4%	27.8%	58.9%
b Gross Profit Margin	9.7%	6.3%	19.2%	20.0%
c Net Profit Margin	0.7%	-1.2%	7.4%	10.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-54.0%	4.2%	-7.7%	22.3%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	1.5%	-2.6%	15.5%	20.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	145	124	111	107
b Net Working Capital (Average Days)	123	110	102	101
c Current Ratio (Current Assets / Current Liabilities)	3.4	3.5	3.4	3.5
3 Coverages				
a EBITDA / Finance Cost	2.2	1.8	18.5	59.1
b FCFO / Finance Cost+CMLTB+Excess STB	1.4	0.7	8.0	8.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	8.9	-150.9	1.3	0.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	57.9%	50.6%	33.4%	3.6%
b Interest or Markup Payable (Days)	246.0	208.4	111.0	6.4
c Entity Average Borrowing Rate	8.5%	8.0%	8.9%	4.6%

Credit Rating

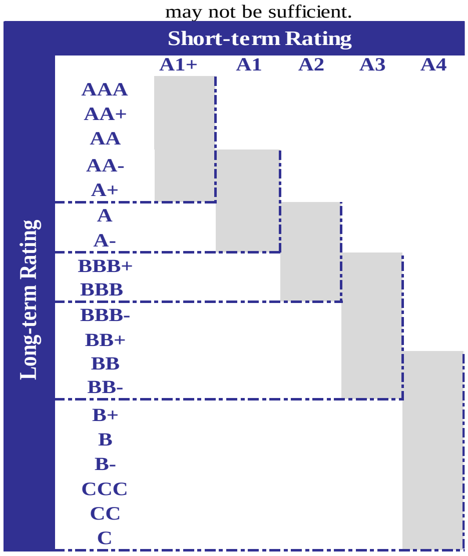
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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**
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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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(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).
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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)
(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)
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(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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