



The Pakistan Credit Rating Agency Limited

Rating Report

Ahmed Hassan Spinning Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
11-Jan-2024	BBB	A2	Negative	Maintain	Yes
11-Jan-2023	BBB	A2	Negative	Maintain	Yes
07-Feb-2022	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects the company's adequate profile in Pakistan's spinning industry. Ahmed Hassan Spinning Limited ("The Company" or "AHSL") specializes in the manufacturing and export of yarn with an average count of 21/1 CDD with an installed capacity of 28,152 spindles. 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 ~6.0mln 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. During FY23, the company's business fundamentals are under stress coupled with the closure of manufacturing facilities for ~five months. The set forth factor behind this closure was a dip in local demand of yarn for indirect export. As per the AHSL management presentation, they resume operations in March '23 with capacity utilization gradually beefing up to 80%. Additionally, the impact of floods on crops led to a scarcity of locally produced raw cotton, and switching to imported cotton was not feasible for AHSL in terms of price competitiveness. These are the prime factors that caused a pile-up in inventory levels and triggered the risk of inventory obsolescence which was partially mitigated through trading of raw cotton and reduced intensity of loss to PKR 195.48mln in FY23. During 3MFY24, the company witnessed a slight recovery in the topline owing to the restart of the manufacturing facility and improvement in yarn demand pattern. The financial risk profile of the Company is considered adequate with a moderately leveraged capital structure and slightly stretched working capital management depicting the industry norm. The cashflows and coverages of the Company are considered adequate and needs improvement. The company's performance will be observed in the upcoming quarters with a prime focus on converting operational efficiency into internally generated sufficient cashflows to supplement the core business operations. Furthermore, if the Company sustains and improves its performance in terms of topline and profitability and coalesces with the contribution in equity may result in appropriate action in ratings.

The ratings are dependent upon the Company's ability to improve its performance in terms of business fundamentals sustainability and devise a strategy to manage inflated energy costs in the future. The maintenance of capacity utilization at an optimal level while generating sufficient cashflows and coverages remains critical for the ratings. The governance framework and financial transparency have room for improvement. The adherence to the debt matrix at an adequate level is prerequisite for the assigned rating.

Disclosure

Name of Rated Entity	Ahmed Hassan Spinning 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 on: 20th October 2016 under the Companies Ordinance 1984 as Ahmed Hassan Spinning Limited. After around two years, the Company converted its status from Private Limited to Public Limited Company as Ahmed Hassan Spinning Limited under the Companies Act, 2017 (XIX of 2017) with the same share capital.

Background Ahmad Hassan Spinning Limited was incorporated due to the process of demerger of Ahmad Hassan Textile Mills Limited. Ahmad Hassan Textile Mills Limited was incorporated in Pakistan on December 3rd, 1989 as a Public Limited Company under the repealed Companies Ordinance, 1984. The Company is principally engaged in the manufacturing and sale of Yarn and Fabric.

Operations The core operation of the business resides in the manufacturing of yarn. The Company has 28,152 spindles installed and in good working condition. With this capacity, the company is producing daily 560 to 570 yarn bags as per local and international market requirements

Ownership

Ownership Structure After the demerger, Ahmed Hassan Spinning Limited (AHSL) is working now independently with the management of Mian Muhammad Parvaiz's (Late) family: Mr. Muhammad Aurangzeb, Mr. Muhammad Jahanzaib, Mrs. Waheeda Parvaiz, Mr. Ahmad Hassan and Ms. Faiza Parvaiz. Out of them, the first three shareholders have the major shareholding

Stability Ahmed Hassan Spinning Limited is a family-oriented Company, therefore ownership rests with the family. The family has no other business except their engagement in Ginning Section as Ahmed Cotton Industries

Business Acumen The family has been in the textile industry for over three decades, which brings extensive technical knowledge to the business. Two of the major sponsors have direct involvement in the day-to-day operations of the business

Financial Strength Ahmed Hassan Spinning is the flagship company of the sponsors. Hence, support in case the need arises remains inevitable. Recently, the subordinated loan from sponsors is being converted to share capital which is also reflective of the same

Governance

Board Structure The board comprises four members; all of them are representatives of sponsoring families including the Chairman Mr. Muhammad Aurangzeb and the CEO Mr. Muhammad Jahanzaib. The remaining directors include one executive director Mrs. Waheeda Parvaiz, and one non-executive director Mr. Ahmed Hassan

Members' Profile Board members have vast experience and a relatively long association with the Company. The Chairman of the board – Mr. Muhammad Aurangzeb – carries with him fourteen years of experience in the textile sector, having qualification of MBA in Marketing and Finance

Board Effectiveness Control of the board vests with the sponsoring family. The adequate board size and absence of independent oversight resulted in weak governance.

Financial Transparency M/s PKF F.R.A.N.T.S, Chartered Accountants is the external auditor of the Company. The company's auditors are QCR-rated.

Management

Organizational Structure Ahmad Hassan Spinning Limited is working under the supervision of Chairman Mr. Muhammad Aurangzeb and Chief Executive Officer Muhammad Jahanzaib. They are directly overseeing all the operations of the Company from the initial stage to the end process of yarn.

Management Team Mr. Muhammad Jahanzaib has completed his MBA and has vast experience in the Ginning section of Ahmad Hassan Textile Mills Limited namely Ahmad Cotton Industries of more than 10 years.

Effectiveness Management of Ahmed Hassan Spinning Limited is focusing on their business and working together by arranging meetings on a weekly basis or at the end of every month, to do analyses of their achievement performance in accordance with the company's goals.

MIS A fully functional installation of ERP software has been done by the company, improving efficiency. The company deploys MS Windows Server 2003 for the operating system. Oracle 9i is used for back-end database work whereas Oracle Developer 6i is used for front-end developer work. While HR MIS Implemented with ZKTeco and Barcode Reader Machine.

Control Environment The core software can manage comprehensive reports of sales, as well as tax reports, financials, and HRMS. The system, while integrating the business functions of the company, helps the management in timely decision-making. Moreover, it assists the management in establishing a better control environment and achieving efficiency in MIS reporting.

Business Risk

Industry Dynamics Exports of Pakistan's textile sector witnessed a significant decline of 20%, clocking in at \$1.31 billion in May in comparison to \$1.64 billion recorded in the same month of the previous year, as per provisional data released by the All-Pakistan Textile Mills Association (APTMA). Given the trajectory of decline, Pakistan is likely to fall short by \$3 billion in textile exports from the exports achieved last year of \$19.4 billion without considering any increase in newly installed capacity. In addition, economic recession and catastrophic flooding in a substantial portion of Pakistan have had a detrimental impact on cotton crops, potentially posing a barrier to raw material availability. As a result, the cost of production is likely to rise, and as a result, finished goods costs, such as yarn, are predicted to increase as well. Stiff competition from textile-based countries internationally and locally as well. Internationally India is the main competitor as their government gives a rebate of 7% to their exporters of yarn which gives a big hit to the Pakistan exporters of yarn.

Relative Position Ahmed Hassan Spinning Limited is a mid-sized spinning unit and one of the textile ventures of the Ahmed Cotton Industries.

Revenues During FY23, the revenue of the Company decreased substantially YoY to PKR 1,830m (FY22: PKR 5,407m). The decrease was driven by the demand shortage of yarn in the local and international markets. During 3MFY24, the company's topline stood at PKR 644m (3MFY23: PKR 544m)

Margins The Company's gross margin decreased to 2.7% during FY23 (FY22: 6.7%) due to an increase in raw material costs. Operating expenses increased which then translated to an operating margin of -2.4% (FY22: 4.2%). This led to a decline in the net margin (FY23: -2.9%, FY22: 4%) as the Company posted a net loss of PKR 73m in FY23 (FY22: PKR 218m (n.p)). During 3MFY24, the company slightly recovered and a profit of PKR 70m (loss in 3MFY24: PKR 10m) was recorded.

Sustainability The manufacturing facility was closed last year to avoid further losses. However, the operations have started again since 1st March 2023.

Financial Risk

Working Capital The Company meets its working capital requirements through a mix of internal generation and short-term borrowings (STBs). During FY23, the company's net working capital cycle stood at 113 days (FY22: 41 days, FY21: 61 days). However, during 3MFY24, the net working capital days decreased to 78 days.

Coverages The FCFO reflected a decreasing trend in FY23 (FY23: PKR 8m; FY22: PKR 232m). Consequently, the interest coverage ratio dropped to 0.1x (end-Jun22: 3.1x) and the debt coverage ratio dropped to 0.1x (end-Jun22: 1.7x). During 3MFY24, the interest coverage ratio and debt coverage ratio stood at 1.5x and 0.8x respectively.

Capitalization The leveraging ratio stood at 39.4% in FY23 (FY22: 31.6%). The increase is on account of the conversion of subordinated debt to equity amounting to PKR 43m and a capital injection of PKR 20m in FY22. The leveraging decreased to 36.7% in 3MFY24. The equity base of the company stands at PKR 1,170m as of end-Jun'23 (end-Jun22: PKR 1,363m).



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Financial Summary
PKR mln

Ahmed Hassan Spinning Limited Spinning	Sep-23 3M	Jun-23 12M	Jun-22 12M	Jun-21 12M
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A BALANCE SHEET

1 Non-Current Assets	1,538	1,548	1,603	1,156
2 Investments	31	31	29	-
3 Related Party Exposure	11	11	11	-
4 Current Assets	1,358	1,317	977	1,097
a Inventories	716	927	201	601
b Trade Receivables	283	289	446	360
5 Total Assets	2,938	2,907	2,620	2,253
6 Current Liabilities	925	845	498	422
a Trade Payables	582	534	191	190
7 Borrowings	675	761	630	846
8 Related Party Exposure	15	-	-	43
9 Non-Current Liabilities	131	131	129	86
10 Net Assets	1,192	1,170	1,363	857
11 Shareholders' Equity	1,192	1,170	1,363	857

B INCOME STATEMENT

1 Sales	644	1,830	5,407	4,245
a Cost of Good Sold	(534)	(1,790)	(5,048)	(3,809)
2 Gross Profit	110	40	360	436
a Operating Expenses	(40)	(85)	(131)	(70)
3 Operating Profit	70	(45)	228	366
a Non Operating Income or (Expense)	(0)	(8)	(10)	(20)
4 Profit or (Loss) before Interest and Tax	70	(53)	218	346
a Total Finance Cost	(40)	(127)	(80)	(85)
b Taxation	(8)	(15)	(62)	(56)
6 Net Income Or (Loss)	22	(195)	76	205

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	57	(8)	232	377
b Net Cash from Operating Activities before Working Capital	57	(111)	151	282
c Changes in Working Capital	79	(11)	228	(137)
1 Net Cash provided by Operating Activities	136	(122)	380	145
2 Net Cash (Used in) or Available From Investing Activities	(8)	(26)	(149)	(49)
3 Net Cash (Used in) or Available From Financing Activities	(238)	379	(267)	(157)
4 Net Cash generated or (Used) during the period	(110)	232	(37)	(61)

D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	40.7%	-66.2%	27.4%	18.0%
b Gross Profit Margin	17.1%	2.2%	6.7%	10.3%
c Net Profit Margin	3.4%	-10.7%	1.4%	4.8%
d Cash Conversion Efficiency (FCFO adjusted for Working C)	21.1%	-1.0%	8.5%	5.6%
e Return on Equity [Net Profit Margin * Asset Turnover * (T	7.5%	-15.4%	6.8%	27.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	157	186	54	86
b Net Working Capital (Average Days)	78	113	41	69
c Current Ratio (Current Assets / Current Liabilities)	1.5	1.6	2.0	2.6
3 Coverages				
a EBITDA / Finance Cost	2.2	0.2	3.9	5.2
b FCFO / Finance Cost+CMLTB+Excess STB	0.8	0.0	1.7	2.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	3.5	-2.2	1.0	0.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equit	36.7%	39.4%	31.6%	50.9%
b Interest or Markup Payable (Days)	88.3	110.4	65.8	76.3
c Entity Average Borrowing Rate	20.1%	16.1%	9.9%	8.5%

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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(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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- (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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- (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)

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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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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)

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