The Pakistan Credit Rating Agency Limited

Rating Report

Reliance Weaving Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Dec-2023	A	A2	Stable	Maintain	-
23-Dec-2022	A	A2	Stable	Maintain	-
23-Dec-2021	A	A2	Stable	Upgrade	-
24-Jun-2021	A-	A2	Positive	Maintain	-
26-Dec-2020	A-	A2	Stable	Maintain	-
27-Dec-2019	A-	A2	Stable	Maintain	-
28-Jun-2019	A-	A2	Stable	Maintain	-
31-Dec-2018	A-	A2	Stable	Upgrade	-
25-Apr-2018	BBB	A3	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

Reliance Weaving Mills Limited (RWML) is the textile arm of the Fatima Group; one of the leading conglomerates of Pakistan. The Company is a composite unit engaged in the production of yarn and greige fabric. The company's weaving capacity is amongst the highest in the country on a standalone basis with 490 looms. Since its inception, the Company has undertaken continuous BMR translating into operational efficiencies and higher production volumes. During the period under review, RWML successfully ramped up its spinning capacity by 25,536 spindles to 91,152 spindles. The ratings reflect the sustained business risk profile of Reliance Weaving Mills Limited. During 1QFY24, the topline of the company increased by 27% YoY to stand at PKR 11,142mln (1QFY23: PKR 8,770mln). Conversely, the profit margins declined as a result of an inflated cost structure resulting in a diminution of the bottom line to PKR 102mln (1QFY23: PKR 353mln). The exports have a major share in topline clocking in at 63% with major exports to Asia, Europe, the U.S., and Africa. Going forward, the Company aims to undertake further expansion initiatives once inflationary pressures subside, financing them through a mix of internal and external sources. The Governance of the Company is considered strong. The Company has a strategic investment in the energy sector through a group company which provides it a competitive advantage over industry peers in terms of energy cost. The financial matrix indicates a leveraged capital structure, moderate coverages and working capital cycle. The management expects an improvement in the financial performance of the company in the upcoming quarters on account of the revival of export demand and the efficient procurement of raw materials. During FY23, textile exports were valued at $16.5 billion compared to $19.33 billion, reflecting a dip of 15% YoY – the declining trend has been witnessed by the start of FY23. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments witnessed a decline of 13% YoY.

The assigned ratings incorporate strong sponsors' support and the explicit guarantee provided by the majority of sponsors on all debt-related obligations of the Company. Moreover, synergies between the group companies are considered positive.

Disclosure

Name of Rated Entity	Reliance Weaving Mills 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 | Composite and Garments(Dec-23)
Rating Analysts	Uswa Sikandar | uswa.sikandar@pacra.com | +92-42-35869504

Profile

Legal Structure Reliance Weaving Mills Limited (Reliance Weaving) – an associated company of Fatima Group commenced operations in 1990 and is listed on Pakistan Stock Exchange.

Background Reliance Weaving is associated with Fatima Group since its inception. The Company started its operations with a small-scale weaving unit based in Multan. Later on, the Company entered into the spinning segment by acquiring a company in 1999, located at Rawat, Rawalpindi. Presently, the Company operates with four spinning units, one in Rawat and three in Multan.

Operations Currently, the company's operational capacity comprises 91,152 spindles and 490 looms. The Company is capable of producing high-quality cotton yarn, and greige fabric. The Company's total energy requirement stands at 14MW. Furthermore, the solar power unit 7.3MW is available to meet the need. The power is sourced through eight gas-fired captive power generators, which is sufficient for energy requirements. Furthermore, MEPCO and LESCO connections are kept as backup arrangements.

Ownership

Ownership Structure Reliance Weaving is a Public Limited Company listed on Pakistan Stock Exchange with a majority stake (80.8%) held by Fatima Group. Out of which (78.1%) stake rests with Fatima family individuals. The remaining is spread among financial institutions and the general public.

Stability The shareholding in Reliance Weaving is majorly of Fatima Group Family members. Succession planning and transfer of ownership to the next generation is not documented yet.

Business Acumen The Sponsors have a presence of around three decades in the local textile industry through Reliance Weaving, developing expertise over time. Mr. Faisal Ahmed (CEO) is the key person in managing the Company's operations and has the requisite expertise in the textile sector to spearhead the Company.

Financial Strength Fatima Group is one of the leading corporate groups in Pakistan with interests in sugar, textiles, fertilizer, packaging, and foreign trade. The sponsors have a strong financial muscle and are willing to support Reliance Weaving if needed.

Governance

Board Structure The overall control of the Company vests in a seven-member board of directors with the Chairman – Mr. Fawad Ahmed Mukhtar and the CEO – Mr. Faisal Ahmed Sheikh. Five directors are Fatima Group's family members. The board comprises one executive director, four non-executive directors and two independent directors.

Members' Profile Board members have diversified experience and a relatively long association with the Company. The Chairman of the board, Mr. Fawad Ahmed, is a graduate, having an experience of around three decades in the textile sector.

Board Effectiveness Control of the board vests with Fatima Group, with strong independent oversight providing constructive challenge; thus portraying effective governance. Meanwhile, Audit, HR, Nomination, and Risk management committees are in place to assist the board on relevant matters.

Financial Transparency M/s ShineWing Hameed Chaudhri & Co., Chartered Accountants are the external auditors. The auditors have given an unqualified opinion for the year ending June 30th, 2023.

Management

Organizational Structure The organizational structure of the Company is divided into various functions, including (i) Finance & Accounts, (ii) Production, (iii) Procurement, (iv) Marketing, (v) Administration & Human Resources, and (vi) Internal Audit. The hierarchy of HoD is channeled through Executive Directors, who then report to the CEO. This segregation of responsibilities ensures the smooth flow of the operations.

Management Team The CEO - Mr. Faisal Ahmed, a textile industry veteran, has diversified experience. He is supported by a team of seasoned professionals.

Effectiveness The Company's management meetings are held periodically to highlight potential challenges and to devise both counter and growth strategies. In these meetings, the Company's current performance and liquidity position is reviewed. Furthermore, need-based meetings are called to resolve bottlenecks, ensuring efficiency in operations.

MIS Cognizant of the importance of real-time information, Reliance Weaving has deployed Oracle based ERP solution with advanced technology infrastructure.

Control Environment Reliance Weaving maintains a documented 'quality policy with a clear focus on customer satisfaction and commitment to excellence. The Company is accredited with many certifications for compliance with the following latest Quality Assurance Standards, including ISO 9001, Oeko-Tex Standard 100 (AITEX Spain), Better Cotton Initiative (Switzerland), and Global Organic Textile Standard.

Business Risk

Industry Dynamics During FY23, textile exports were valued at $16.5 billion compared to $19.33 billion, reflecting a dip of 15% YoY – the declining trend has been witnessed by the start of FY23. The exports tumbled attributable to high energy costs, shortage of cotton, and uncertainty in the foreign exchange rate. The suppressed demand pattern exhibited by export avenues was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments witnessed a decline of 13% YoY. The basic textiles including raw cotton, cotton yarn, and cotton cloth posted a drop of 21% YoY.

Relative Position The Company's relative position has improved over the years attributable to continuous BMR. The company's weaving capacity is amongst the highest in the country on a standalone basis with 490 looms and the spinning capacity stands at 91,152 spindles.

Revenues During FY23, revenues recorded a growth of 6% YoY to stand at PKR 32,682mln (FY22: PKR 30,704mln). The company's share of export sales to total revenue decreased to 63% clocking in at PKR 20,538mln (FY22: PKR 21,831mln). The sales mix depends upon prevailing demand and pricing, where the Company seeks the best mix to optimize revenue. The analysis of the sales mix reveals that fabric has a large share in the revenue clocking at 76% with a major contribution of 46% from the export sales. On the other hand, the contribution of yarn is 24% of total revenue; emanating equally from local and export sales. During 1QFY24, the topline increased by 27% YoY to stand at PKR 11,142mln (1QFY23: PKR 8,770mln).

Margins During FY23, the gross margin decreased to 11.1% (FY22: 17.7%) due to higher costs incurred. This translated into a declined operating margin of 8.7% (FY22: 15.1%). Net margin QoQ weakened as well to 0.6% (FY22: 8.6%), as net income diluted to PKR 203mln (FY22: PKR 2,639mln). During 1QFY24, the gross margin recorded at 13.5% (1QFY23: 14%). The finance cost increased to PKR 1,111mln (1QFY23: PKR 474mln) resulting in a diminution of the bottom line to PKR 102mln (1QFY23: PKR 353mln). Consequently, the net margin declined to 0.9% (1QFY23: 3.6%).

Sustainability Reliance Weaving Mills is committed to modernizing and expanding its production line according to rapidly changing technology to produce international quality products. A new spinning mill project with a fine count ranging from 20/s to 40/s of 25,520 spindles started its operations in 1QFY24. Further, the installation of a 5 MW solar panel is also completed.

Financial Risk

Working Capital At end-Sept23, the net working capital cycle decreased to 90 days (end-Jun23: 104 days) on account of decreased inventory days at 87 days (end-Jun23: 100 days). The trade assets increased to PKR 16,901mln (end-Jun23: PKR 15,770mln) on account of an increased receivable level of PKR 5,400mln (end-Jun23: PKR 4,702mln). ST trade leverage adequacy diluted to -9% (end-Jun23: -6%) due to increased ST borrowings clocking in at PKR 14,346mln (end-Jun23: PKR 11,372mln).

Coverages During FY23, the FCFO's declined to PKR 2,882mln (FY22: PKR 4,585mln) due to decreased profitability. The increasing policy rate led to higher finance costs clocking in at PKR 1,867mln (FY22: PKR 1,186mln). The interest coverage of the company diluted to 1.3x (FY22: 3.9x). The debt coverage also declined to 0.6x (FY22: 2.1x). During 1QFY24, the FCFO's increased to PKR 1,471mln (1QFY23: PKR 963mln). The interest coverage declined to 1.4x (1QFY23: 2.2x).

Capitalization At end-Sept23, leveraging of the company increased to 67.4% (end-Jun23: 64.3%) owing to a higher increase in the total borrowings clocking in at PKR 21,079mln (end-Jun23: PKR 18,251mln) out of which ST borrowing constitutes 68.1%. The equity base inched up to PKR 10,213mln (end-Jun23: PKR 10,113mln).

The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

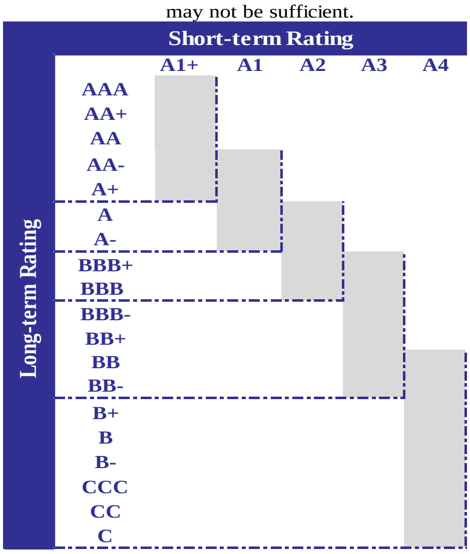
Reliance Weaving Mills Limited Textile | Composite	Sep-23 3M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	17,108	17,047	10,859	8,158
2 Investments	-	-	-	-
3 Related Party Exposure	1,809	1,803	2,271	807
4 Current Assets	19,080	17,684	14,627	10,348
a Inventories	*11,008*	*10,163*	*7,789*	*5,051*
b Trade Receivables	*5,400*	*4,702*	*4,498*	*3,493*
5 Total Assets	37,996	36,534	27,757	19,312
6 Current Liabilities	6,239	7,738	4,981	2,177
a Trade Payables	*4,051*	*5,347*	*3,151*	*1,207*
7 Borrowings	21,079	18,251	13,214	10,750
8 Related Party Exposure	50	39	31	34
9 Non-Current Liabilities	416	394	370	282
10 Net Assets	10,213	10,113	9,161	6,070
11 Shareholders' Equity	10,213	10,113	9,161	6,070
B INCOME STATEMENT				
1 Sales	11,142	32,682	30,704	24,030
a Cost of Good Sold	*(9,636)*	*(29,066)*	*(25,263)*	*(20,520)*
2 Gross Profit	1,506	3,616	5,441	3,510
a Operating Expenses	(208)	(786)	(810)	(504)
3 Operating Profit	1,298	2,830	4,630	3,006
a Non Operating Income or (Expense)	*62*	*85*	*(214)*	*(69)*
4 Profit or (Loss) before Interest and Tax	1,361	2,914	4,416	2,937
a Total Finance Cost	*(1,111)*	*(2,449)*	*(1,303)*	*(918)*
b Taxation	*(148)*	*(262)*	*(474)*	*(286)*
6 Net Income Or (Loss)	102	203	2,639	1,733
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,471*	*2,882*	*4,585*	*3,177*
b Net Cash from Operating Activities before Working Capital Changes	*613*	*1,016*	*3,400*	*2,254*
c Changes in Working Capital	*(3,113)*	*(338)*	*(2,565)*	*(2,046)*
1 Net Cash provided by Operating Activities	(2,499)	678	834	208
2 Net Cash (Used in) or Available From Investing Activities	(245)	(5,172)	(3,197)	(1,029)
3 Net Cash (Used in) or Available From Financing Activities	2,828	4,918	2,401	874
4 Net Cash generated or (Used) during the period	84	423	38	53
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	36.4%	6.4%	27.8%	39.1%
b Gross Profit Margin	13.5%	11.1%	17.7%	14.6%
c Net Profit Margin	0.9%	0.6%	8.6%	7.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-14.7%	7.8%	6.6%	4.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	4.0%	2.1%	34.7%	34.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	128	152	124	118
b Net Working Capital (Average Days)	90	104	98	100
c Current Ratio (Current Assets / Current Liabilities)	3.1	2.3	2.9	4.8
3 Coverages				
a EBITDA / Finance Cost	1.5	1.5	4.2	4.3
b FCFO / Finance Cost+CMLTB+Excess STB	0.9	0.6	2.1	1.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	4.7	13.6	1.3	1.6
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	67.4%	64.3%	59.1%	63.9%
b Interest or Markup Payable (Days)	96.6	137.6	97.0	96.2
c Entity Average Borrowing Rate	23.0%	13.9%	9.1%	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.

Long-term Rating	
Scale	**Definition**
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating	
Scale	**Definition**
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)

Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

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

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest

(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)

(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument;| Chapter III | 17-(d)

Probability of Default

(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

Proprietary Information