The Pakistan Credit Rating Agency Limited

Rating Report

Ahmed Fine Textile Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Feb-2024	A	A1	Stable	Maintain	-
23-Feb-2023	A	A1	Stable	Upgrade	-
23-Feb-2022	A	A2	Stable	Upgrade	-
25-Aug-2021	A-	A2	Positive	Maintain	-
28-Aug-2020	A-	A2	Stable	Maintain	-
29-Aug-2019	A-	A2	Stable	Maintain	-
28-Feb-2019	A-	A2	Stable	Maintain	-
29-Aug-2018	A-	A2	Stable	Upgrade	-
28-Feb-2018	BBB+	A2	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The ratings reflect Ahmed Fine Textile Mills Limited's (Ahmed Fine) association with the Fazal Group, a renowned business group in Pakistan. The product portfolio of the company comprises different types of yarn, greige fabric, and a variety of towels. The fabric has a major contribution to the revenue followed by yarn and towel. The company has recently penetrated into the value-added segment with the establishment of a towel unit and is also aiming at the expansion of the export business through this. Ahmed Fine has a diverse export base around the globe, out of which Europe and Asia are the major export destinations. During FY23, the revenue increased by 23% to stand at PKR 37bln (FY22: PKR 30bln). The margins reflected attrition due to an inclined cost structure; mainly comprising energy and financial charges. Consequently, the net profit was recorded at PKR 1.3bln (FY22: PKR 2.4bln). During 1QFY24, the topline of the company enhanced by 47% to PKR 11.86bln (1QFY23: PKR 8bln). The bottom line of the company was recorded at PKR 149mln (1QFYFY23: PKR 479mln). The financial matrix indicates a highly leveraged capital structure, moderate coverages, and a stretched working capital cycle. The management expects an improvement in the financial performance in the upcoming quarters by increasing the volume of exports and the efficient procurement of raw materials. Furthermore, the company is in the process of enhancing its solar power capacity which shall curb the energy costs to an extent. Moreover, the management is confident that the company’s capacity utilization levels shall remain optimum. Ahmed Fine is planning on enhancing its spinning capacity by 18,000 spindles, deemed to be operational by the end of CY24 which will improve its business profile to boost revenues. Going forward, the company is planning to expand its product portfolio with the addition of a towel printing unit and a stitching unit for bedsheets. During FY23, textile exports were valued at $16.5 billion as against $19.33 billion, reflecting a 15% year-on-year decline – a downward trend seen since the beginning of FY23. Exports declined due to higher energy prices, cotton shortages, and uncertainty in foreign exchange rates. Taming the demand represented by export routes was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments saw an annual decline of 13 percent. Basic textiles, including raw cotton, cotton yarn, and cotton fabrics, declined by 21 percent year-on-year. During the month of June 2023, cotton yarn exports increased by 7% MoM. Value-added exports reported volume growth of 16 percent on a month-on-month basis.

The ratings are dependent on the continuous strengthening of business operations under the current economic conditions; and a sound financial profile with good coverages and moderate leveraging. The Company’s ability to tone down its cost structure and generate ensuing cash flows to fulfill its financial obligations will remain critical for the ratings.

Disclosure

Name of Rated Entity	Ahmed Fine Textile 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 Ahmed Fine Textile Mills Limited (Ahmed Fine), a public unlisted company, was incorporated in 1989.

Background The Company is engaged in the manufacturing and marketing of different varieties of yarn, fabric, and towels. Previously, the Company was only involved in the manufacturing of yarn. In July 2021, the company acquired the wholly-owned subsidiary Fazal Rehman Fabrics; a weaving unit. Now Ahmed Fine Textile Mills Limited operates as a composite unit.

Operations The production capacity of the company stands at 78,960 spindles, 492 looms, and 25 terry looms. The Company has two state-of-the-art spinning units, one located at Multan & second one located at Rahim Yar Khan, having a consolidated annual production capacity of 28.3 million Kg yarn. The company's weaving unit is located at Multan and is engaged in the manufacturing of greige fabric and export quality towels.

Ownership

Ownership Structure The Company is jointly owned by the families of Mian Naseem and Mian Farooq. Both belong to the same family descending from the late Mr. Fazal-ur-Rehman

Stability The clear shareholding pattern of the Company along with the mutual consent of both Groups over its controls portrays a structured line of succession. However, the transfer of ownership to the next generation is yet to be documented.

Business Acumen The sponsoring Groups have over five decades of presence in Pakistan’s textile industry, developing expertise to sustain through the industry's volatility. Mr. Rehman Naseem – a textile veteran, primarily manages the Company's operations with sufficient acumen to sustain and flourish in the competitive textile industry.

Financial Strength Fazal Group maintains a dominant position in Multan’s textile industry. Fazal Group, in particular, is one of the most resourceful groups with strong financial health. Strategic investment in fertilizers and textile provides ample room for financial support to Ahmed Fine if needed.

Governance

Board Structure The Company’s seven-member Board consists of four Fazal Group representatives, including the Chairman and CEO.

Members’ Profile The board comprises experienced professionals and has a reasonably long association with the Company. Mr. Sheikh Naseem is the Chairman of the board. He carries with him over five decades of experience in the textile industry.

Board Effectiveness The Board has Audit Committee in place to assist the board on relevant matters. Additionally, the attendance of board members in meetings remained strong and meeting minutes are documented.

Financial Transparency M/s Yousuf Adil & Co., Chartered Accountants are the external auditor of the Company. They have expressed an unqualified opinion on the company's annual financial statements for FY23.

Management

Organizational Structure The management control of the Company vests with Fazal Group, with Mr. Rehman Naseem as CEO of the Company. The organizational structure of the Company is divided into five functional departments.

Management Team Mr. Rehman Naseem – the – CEO is a Columbia University graduate and carries over two decades of experience in the textile sector. Moreover, Ahmed Fine employs long-associated professionals, which bodes well for the Company’s sustainable growth. Mr. Naveed Amer is serving in the capacity of CFO, carrying almost three decades of experience.

Effectiveness The management meetings are held periodically with the formal recording of meeting minutes, followed by need-based meetings to resolve bottlenecks and to ensure smooth operations

MIS Ahmed Fine has deployed Oracle based Enterprise Resource Planning (ERP) system that provides comprehensive MIS reporting.

Control Environment Ahmed Fine is accredited with various international certifications for compliance. The Company is following the latest Quality Assurance Standards for yarn and fabric production. A few of the prominent certification includes ISO 9001, Lycra assured, and Fair Trade.

Business Risk

Industry Dynamics During FY23 the country's textile exports decreased to $16.5bln, reflecting a 15% YoY decline. This decline was attributed to factors such as high energy costs, cotton shortages, and foreign exchange rate uncertainties. Value-added products like knitwear, bedwear, towels, and readymade garments witnessed a 13% YoY decline, while basic textiles, including raw cotton, cotton yarn, and cotton cloth, experienced a 21% YoY decrease. Notably, in June 2023, there was a 7% MoM increase in cotton yarn exports, and value-added exports depicted a volumetric increase of 16% on an MoM basis. Knitwear and readymade garments witnessed an 18% and 19% increase, respectively.

Relative Position The spinning capacity of the company stands at 78,960 spindles and weaving unit comprises 492 fabric looms & 25 towel looms. Hence, on a standalone basis, the company is among the medium-term players in the market.

Revenues During FY23, the revenue of the company increased by 23% to stand at PKR 37,030mln (FY22: PKR 30,126mln) attributable to increased local sales. The composition of export sales declined to 51% (FY22: 62%) of the total sales. During 1QFY24, the topline inclined to PKR 11,866mln (1QFY23: PKR 8,090mln) with the increased concentration of the export sales to total sales clocking in at 34% (1QFY23: 25%).

Margins During FY23, the gross margin of the company declined to 13% (FY22: 15.7%). The operating margins witnessed a similar trend clocking in at 10.4% (FY22: 12.4%). The finance cost increased to PKR 2,702mln (FY22: PKR 935mln). Hence, the net income was recorded at PKR 1,373mln (FY22: PKR 2,405mln). Subsequently, the net margin declined to 3.7% (FY22: 8%). During 1QFY24, the gross profit margin was recorded at 12.4% (1QFY23: 16.4%). The operating profit margin of the company inched down to 10.6% (1QFY23: 12%). The finance cost is inclined to PKR 1,046mln (1QFY23: PKR 462mln). Subsequently, the net profit margin declined to 1.3% (1QFY23: 5.9%).

Sustainability Ahmed Fine planned an expansion of its spinning facilities, which came to a halt due to the coronavirus pandemic. However, going forward, the Company resumed the expansion process in which spinning production facilities are to be enhanced by 50,000 spindles, this whole expansion process was to be done in two phases. In the first phase, 32,000 spindles are installed at an estimated cost of PKR 4bln and have been operational since Sept-22. In the second phase, the other 18,000 spindles will be installed, the process is at a halt these days. Moreover, the company is planning to add 3MW of Solar energy on top of 3 MW installed already.

Financial Risk

Working Capital At end-Sept23, the net working capital cycle days inched down to 125 days (end-Jun23: 127 days) on the back of decreased finished good days. Furthermore, trade assets of the company increased by 3% to stand at PKR 22,637mln (end-Jun23: PKR 21,995mln) owing to a higher inventory level clocking in at PKR 14,820mln (end-Jun23: PKR 14,361mln).The short-term borrowing recorded at PKR 15,170mln (end-Jun23: 15,238mln). This results in ST trade leverage of 19% (end-Jun23: 17%).

Coverages During FY23, the free cash flows inclined to PKR 5,558mln (FY22: PKR 4,240mln). The finance cost paid inclined to PKR 2,133mln (FY22: PKR 797mln). Hence, the interest coverage of the company diluted to 2.1x (FY22: 5.0x). The debt coverage declined to 1.5x (FY22: 2.4x). During 1QFY24, the FCFOs increased to PKR 1,434mln (1QFY23: PKR 1,141mln). The interest coverage declined to 1.4x (1QFY23: 2.5x).

Capitalization At end-Sept23, leveraging of the company largely remained stagnant at 70.5% (end-Jun23: 70.1%) owing to a higher increase in the total borrowings clocking in at PKR 24,902mln (end-Jun23: PKR 24,054mln) out of which ST borrowing constitutes 60.9%. The equity base inched upto to PKR 10,424mln (end-Jun23: PKR 10,243mln).

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Financial Summary
PKR mln

Ahmed Fine Textile Mills Limited Textile | Composite & Garments	Sep-23 3M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	15,559	15,786	13,778	1,922
2 Investments	40	40	-	-
3 Related Party Exposure	1,412	1,400	1,841	355
4 Current Assets	24,451	23,420	15,503	2,934
a Inventories	*14,820*	*14,361*	*8,289*	*1,298*
b Trade Receivables	*4,973*	*4,285*	*3,735*	*1,191*
5 Total Assets	41,463	40,646	31,122	5,211
6 Current Liabilities	5,512	5,742	4,465	883
a Trade Payables	*3,180*	*2,835*	*1,991*	*166*
7 Borrowings	24,902	24,054	17,101	1,430
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	625	607	532	150
10 Net Assets	10,424	10,243	9,024	2,749
11 Shareholders' Equity	10,424	10,243	9,024	2,749
B INCOME STATEMENT				
1 Sales	11,866	37,030	30,126	6,290
a Cost of Good Sold	*(10,392)*	*(32,217)*	*(25,396)*	*(5,294)*
2 Gross Profit	1,474	4,813	4,729	996
a Operating Expenses	(222)	(979)	(998)	(139)
3 Operating Profit	1,252	3,834	3,731	857
a Non Operating Income or (Expense)	*95*	*684*	*139*	*(58)*
4 Profit or (Loss) before Interest and Tax	1,347	4,519	3,870	799
a Total Finance Cost	*(1,046)*	*(2,702)*	*(935)*	*(117)*
b Taxation	*(152)*	*(444)*	*(530)*	*(127)*
6 Net Income Or (Loss)	149	1,373	2,405	555
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*1,434*	*5,558*	*4,240*	*887*
b Net Cash from Operating Activities before Working Capital Changes	*426*	*3,425*	*3,443*	*745*
c Changes in Working Capital	*(1,275)*	*(7,235)*	*(5,648)*	*(395)*
1 Net Cash provided by Operating Activities	(848)	(3,810)	(2,205)	350
2 Net Cash (Used in) or Available From Investing Activities	(116)	(3,142)	(7,369)	(275)
3 Net Cash (Used in) or Available From Financing Activities	920	6,953	9,443	21
4 Net Cash generated or (Used) during the period	(44)	0	(131)	96
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	28.2%	22.9%	378.9%	37.0%
b Gross Profit Margin	12.4%	13.0%	15.7%	15.8%
c Net Profit Margin	1.3%	3.7%	8.0%	8.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	1.3%	-4.5%	-4.7%	7.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	5.8%	14.2%	40.9%	22.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	148	151	88	127
b Net Working Capital (Average Days)	125	127	75	121
c Current Ratio (Current Assets / Current Liabilities)	4.4	4.1	3.5	3.3
3 Coverages				
a EBITDA / Finance Cost	1.7	2.3	5.5	9.7
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	1.5	2.4	1.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	6.0	3.0	2.4	1.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	70.5%	70.1%	65.5%	34.2%
b Interest or Markup Payable (Days)	74.4	112.5	100.7	76.2
c Entity Average Borrowing Rate	18.4%	12.5%	10.0%	6.7%

Credit Rating

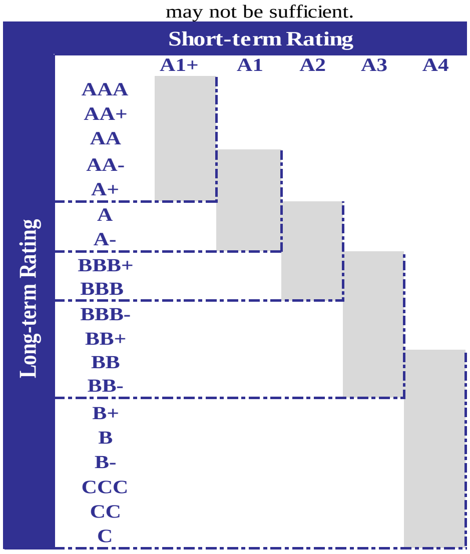
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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