



The Pakistan Credit Rating Agency Limited

Rating Report

Ahmed Fine Textile Mills Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Feb-2019	A-	A2	Stable	Maintain	-
29-Aug-2018	A-	A2	Stable	Upgrade	-
28-Feb-2018	BBB+	A2	Stable	Maintain	-
26-Jan-2017	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Ahmed Fine Textile Mills (Ahmed Fine) association with renowned business groups of Pakistan - jointly owned by Fazal Group and Hussain Group. The Company is primarily engaged in spinning business and also has presence in weaving segment through a wholly owned subsidiary – Fazal Rehman Fabrics Limited. The ratings incorporate improved business performance of the Company, on the back of timely inventory procurement resulting in improved margins. Meanwhile, recent withdrawal of custom duty and sales tax on cotton imports, coupled with subsidized utilities for textile industry has made the local textile industry cost competitive. While incorporating these factors, the Company expects to uphold its business profile, going forward. Ahmed Fine's financial profile is considered strong reflected by (i) efficient working capital cycle, (ii) strong coverages, and (iii) moderately leveraged capital structure. Additionally, the Company is in possess of enhancing its capacity. This will increase its leveraging, however the loan is expected to be on SBP's concessional rate.

The ratings are dependent on sustaining business margins while maintaining a sound financial profile with strong coverages and manageable leveraging. The Company's ability to 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 Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Textile(Oct-18)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

Profile

Legal Structure Ahmed Fine Textile Mills Limited (Ahmed Fine), a public unlisted company, was incorporated in 1989.

Background Ahmed Fine is associated with Fazal Group since its inception. The Company's production facility is located in Rahim Yar Khan.

Operations Ahmed Fine operates with a single spinning unit having a capacity of 45,888 spindles - manufacturing coarser count yarn. The Company caters its power needs via in-house production (6MW), as well as MEPCO's connection.

Ownership

Ownership Structure The Company is jointly owned by Fazal Group and Hussain Group (~50% each). Both groups belong to the same family descending from late Mr. Fazal-ur-Rehman.

Stability Both groups have mutual consent over the operational control of the Company. However, the transfer of ownership to next generation is not documented yet.

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 providing sufficient acumen in order to sustain and flourish in competitive textile industry.

Financial Strength Fazal and Hussain Groups maintain dominant position in Multan's textile industry. Fazal Group in particular is one of the wealthiest group with strong financial health. Strategic investment in fertilizers and textile provide ample room for financial support to Ahmed Fine, if needed.

Governance

Board Structure The Company's seven member Board is dominated by Fazal Group's representatives, including the Chairman and CEO. The remaining three members are representatives of Hussain Group.

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

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

Financial Transparency M/s Deloitte Yousuf Adil & Co., Chartered Accountants serves as external auditor for Ahmed Fine. They have expressed unqualified opinion and review report for the year ended 30th June, 2018.

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 and all departments are headed by professionals having extensive experience of textile value chain.

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 on a periodic basis with formal recording of meeting minutes, followed by need based meetings to resolve bottlenecks and ensure smooth operations.

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

Control Environment Ahmed Fine's plant is connected with head office through VPN, thereby reporting on real time basis. Furthermore, Ahmed Fine is compliant with multiple certifications for safety and product quality; majorly including ISO 9001, Lycra assured and Fair Trade.

Business Risk

Industry Dynamics During 1HFY19, textile exports clocked in at PKR ~858bln (1HFY18: PKR 703bln), portraying an increase of ~22% on the back of volumetric increase in segments of knitwear (20%), ready-made garments (24%) and bed-wear (12%). New government and its exports promoting policies in order to reduce trade deficit have brought a positive affect on the textile exports of Pakistan.

Relative Position Ahmed Fine is associated with Fazal Group, which maintains a prominent position in Pakistan's spinning sector and significant share in yarn exports, consequently strengthening Ahmed Fine's market position. However, on standalone basis, Ahmed Fine's share in local spinning industry is minimal.

Revenues Ahmed Fine's revenue clocked in at ~PKR 3,987mln, posting growth of ~24%. This was largely attributable to increase in exports share, coupled with better pricing in local market. The Company's sales mix has remained tilted toward local sales ~74% (FY17: 75%); though it has improved over the year. With regard to export revenues, Portugal remained the key export destination. In the domestic market, top ten customer concentration is high ~64%. Out of total local sales, sales to associated companies is ~36%, largely mitigating the sales concentration risk. Whereas during 1HFY19, the Company's revenues increased by ~15% on half yearly basis and reported at ~PKR 2,288mln, a factor of comparatively higher yarn prices, when compared on same period basis.

Margins The Company's gross margins improved during the year (FY18: 11.9%, FY17: 9.9%), owing to lower than proportionate increase in cost of sales. This was due to prudent inventory procurement and better pricing in local market. This was followed by better operating margins (FY18: 8.9%, FY17: 6.8%). Despite decreased borrowing, the Company's finance cost has increased by ~31%, due to higher interest rates. While, on account of taxation, the Company's net profit almost doubled and stood at ~PKR 174mln (FY17: ~PKR 87mln). The Company's margins further strengthened in 1HFY19 (gross: 18.3%, net: 16.5%), a factor of consuming cotton from last year's stock, benefiting almost ~30% in raw material cost. Meanwhile, despite the significant increase in finance cost, the Company's net profit has increased to ~PKR 258mln (1HFY18: PKR 61mln), an impact carried from higher gross profit.

Sustainability The Company has a wholly owned subsidiary, Fazal Rehman Fabrics Limited. Despite generating profits, Fazal Rehman has yet not paid dividend. In future, dividend from Fazal Rehman will supplement the cash generation of the Company. Additionally, the Company is planning a CAPEX, comprising addition of 50,000 spindles. The LC's for import of 32,000 spindles will be open by end march. This expansion project will ensure optimization of fixed cost coupled with operational efficiency, eventually ensuring better business profile.

Financial Risk

Working Capital The Company meets its working capital requirements through a mix of internal cash generation and short term borrowings. During FY18, the Company's reliance on STB for working capital needs had reduced, portraying efficiency in cash cycle. Resultantly, the Company has a considerably higher room to borrow when compared to net trade assets (FY18: 98%, FY17: 68%). Overall the Company's working capital needs remained at the same level, however, minor change in inventory days and trade debtor days led to marginally higher net cash cycle (FY18: 119days, FY17: 111days). The working capital cycle picked up in 1HFY19, reflected from higher working capital days (gross – 1HFY19: 154days, net – 1HFY19: 144days), on the back of seasonal inventory procurement.

Coverages The Company's operating cash flows increased by (~32%) on YoY basis, on the back of improved profitability. The finance cost increased in a lower proportion of FCFO, resultantly it has translated into better interest coverage (FY18: 3.9x, FY17: 3.8x). Meanwhile, debt coverage deteriorated (FY18: 1.3x, FY17: 1.7x), on the back of higher CMLTD. In 1QFY19, the Company's coverages further strengthened (interest – 1HFY19: 5.9x, debt – 1HFY19: 2.3x), a factor of considerably high FCFO generation (1HFY19: PKR 413mln, 1HFY18: PKR 188mln). Additionally, the expected CAPEX in near future coupled with high interest rates may put pressure on the Company's coverages.

Capitalization Ahmed Fine has moderately leveraged capital structure ~45.7% at end-June 18 (at end-June 17: 50.4%), constituting wholly of long-term borrowing. Furthermore, the Company is looking towards debt driven expansion (constituting PKR 4.4bln in debt to equity of 80:20), with ten years debt payback period. Whereas at end-Dec 18, the Company's leveraging has increased ~52.3%, largely triggered by higher STB.



Ahmed Fine Textile Mills Limited

Unlisted Public Limited

BALANCE SHEET

	Dec-18 6M	Jun-18 12M	Jun-17 12M	Jun-16 12M
a Non-Current Assets	1,534	1,510	1,604	1,442
b Investments (Incl. Associates)	355	355	355	355
Equity	355	355	355	355
Fixed Income	-	-	-	-
c Current Assets	3,003	1,861	1,625	972
Inventory	1,501	674	563	345
Trade Receivables	1,016	662	767	331
Others	486	525	295	295
d Total Assets	4,892	3,726	3,584	2,768
e Debt/Borrowings	2,101	1,392	1,508	783
Short-Term	776	-	416	275
Long-Term (Incl. Current Maturity of Long-Term Debt)	1,325	1,392	1,091	508
Other Short-Term Liabilities	739	539	483	509
Other Long-Term Liabilities	140	141	112	80
f Shareholder's Equity	1,912	1,655	1,483	1,396
g Total Liabilities & Equity	4,892	3,726	3,584	2,768

INCOME STATEMENT

a Turnover	2,288	3,987	3,209	3,038
b Gross Profit	418	473	315	297
c Net Other Income	(21)	(41)	(15)	(15)
d Financial Charges	(70)	(109)	(83)	(67)
e Net Income	258	173	87	112

CASH FLOW STATEMENT

a Free Cash Flow from Operations (FCFO)	413	430	316	262
b Total Cashflows (TCF)	413	430	316	262
c Net Cash changes in Working Capital	(1,082)	(15)	(656)	310
d Net Cash from Operating Activities	(728)	301	(410)	495
e Net Cash from Investing Activities	(94)	(71)	(309)	(131)
f Net Cash from Financing Activities	709	(116)	724	(357)
g Net Cash generated during the period	(113)	114	6	6

RATIO ANALYSIS

a Performance				
Turnover Growth (vs SPLY)	15%	24%	6%	7%
Gross Margin	18%	12%	10%	10%
Net Margin	11%	3%	3%	4%
ROE	29%	8%	6%	8%
b Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+U	2.3	1.3	1.7	1.7
Interest Coverage (X) (FCFO/Gross Interest)	5.9	3.9	3.8	3.9
Debt Payback (Years) (Total Debt (excluding Covered Short T	3.1	4.3	6.5	4.0
c Capital Structure (Total Debt/Total Debt+Equity)				
Net Cash Cycle (Inventory Days + Receivable Days - Payable D	144	119	111	90
d Capital Structure (Total Debt/Total Debt+Equity)	52%	46%	50%	36%

Ahmed Fine Textile Mills Limited

Feb-19

Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

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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

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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.
- (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)
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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)
- (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)

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- (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 | 18-(a)
- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

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

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