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
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	-
26-Jan-2017	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Ahmed Fine Textile Mills Limited's (Ahmed Fine) association with renowned business group of Pakistan. The Company is primarily engaged in the spinning business and also has presence in weaving segment through a wholly owned subsidiary – Fazal Rehman Fabrics Limited. Upgrade on the entity ratings incorporate the Company's improving business profile plus its strong financial risk matrix reflected by reasonable working capital cycle; healthy coverages; and moderately leveraged capital structure. The ratings incorporate consolidated position of the parent and that of the wholly owned subsidiary. The Company achieved commendable profitability in FY21. The momentum was maintained in the subsequent quarter. During 1QFY22, the Company's revenue witnessed 28% YoY growth to stand at PKR 1.6bln. During the period, robust margins has strengthened the net-income to stand at PKR 302mln. Healthy coverage and reduced debt payback are displaying comfortable picture. The management is positive about sustaining the growth momentum, going forward. Furthermore, Ahmed Fine is planning on enhancing its capacity by 49,248 spindles, thereby improving its business profile to boost revenues. During the period July-December FY21-22, textile exports surged 26 percent YoY, fielding $9.39 billion in total export remittances, as compared to $7.44 billion in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of value-added textile items increased in both quantity and value in December 2021. Going forward, the textile sector’s outlook is expected to stay positive in the medium term where the demand for textile products is expected to sustain. In the local market, the textile sector has recorded strong performance. The relief measures introduced by the State Bank of Pakistan such as deferment of loan payments for one year, low-interest rates, and salary refinance scheme also provided comfort to the sector. Many players have also availed the TERF scheme announced by the Central Bank. This will lead to overall leverage of the sector to increase; however, on relaxed financing rates. The sustainability of demand pattern for the current higher orders from Europe and USA remains essential for the feasible utilization of added capacity by textile players.

The ratings are dependent on continuous strengthening of business operations under the current economic conditions; and sound financial profile with good coverages and moderate 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 Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Spinning(Sep-21)
Rating Analysts	Sehar Fatima | sehar.fatima@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. Historically, the Company was involved in the manufacturing of fabric. However, in July 2014 the weaving segment of the Company was demerged into a separate entity, Ahmed Fine Textile Mills Limited retained the name and spinning segment.
Operations Ahmed Fine operates with a single spinning unit having a capacity of 46,128 spindles - manufacturing coarser count yarn.

Ownership

Ownership Structure Structure The Company is jointly owned by the families of Mian Naseem and Mian Farooq. Both belong to the same family descending from late Mr. Fazal-ur-Rehman.
Stability The clear shareholding pattern of the Company along with 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 in order 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's 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.

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 on a periodic basis with 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 latest Quality Assurance Standards for yarn and fabric production. Few of the prominent certification includes ISO 9001, Lycra assured and Fair Trade.

Business Risk

Industry Dynamics During the period July-December FY21-22, textile exports surged 26 percent YoY, fielding $9.39 billion in total export remittances, as compared to $7.44 billion in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of value-added textile items increased in both quantity and value in December 2021. Going forward, the textile sector’s outlook is expected to stay positive in the medium term where the demand for textile products is expected to sustain. In the local market, the textile sector has recorded strong performance. The relief measures introduced by the State Bank of Pakistan such as deferment of loan payments for one year, low-interest rates, and salary refinance scheme also provided comfort to the sector. Many players have also availed the TERF scheme announced by the Central Bank. This will lead to overall leverage of the sector to increase; however, on relaxed financing rates. The sustainability of demand pattern for the current higher orders from Europe and USA remains essential for the feasible utilization of added capacity by textile players.
Relative Position Ahmed Fine is associated with Fazal Group. The Group has a leading position in Pakistan's spinning sector, consequently strengthening Ahmed Fine’s market position. However, on standalone basis Ahmed Fine’s share in spinning industry is minimal.
Revenues During FY21, revenues increased by 37% (FY21: PKR 6,290mln; FY20: PKR 4,590mln) attributable to increased export sales. The Company determines its sales mix based on availability of better prices in local market and international market, to achieve optimal profitability. At end-Sept21 company recorded turnover of PKR 1,614mln.
Margins Ahmed Fine recorded significant increase in gross margin (FY21: 15.8%; FY20: 12.9%). This translated in to increase in the operating margins (FY21: 13.6%; FY20: 11.0%). Furthermore, lower finance cost (FY21: PKR 117mln; FY20: PKR 210mln) supported net income (FY21: PKR 555mln; FY20: PKR 198mln). Subsequently net margin improved (FY21: 8.8%; FY20: 4.3%). At end-Sept21, company's net profit margin increased to 18.7%.
Sustainability Ahmed Fine had planned an expansion of its production facilities, which came to a halt due to the coronavirus pandemic. However, going forward, the Company is looking to resume the process of expanding its facilities by 50,000 spindles which will be done in two phases. In first phase, 32,000 spindles will be installed at an estimated cost of PKR 4bln.

Financial Risk

Working Capital During FY21, net working capital cycle days improved (FY21: 121 days; FY20: 124 days) on the back of shortened receivables cycle. Furthermore, Ahmed Fine registered an increase in trade assets (FY21: PKR 2,669mln; FY20: PKR 2,037mln) due to higher inventory level (FY21: PKR 1,298mln; FY20: PKR 935mln). Ahmed Fine's working capital needs are mostly fulfilled through internal cash flows with a very low portion of short term borrowing (FY21: PKR 10mln; FY20: PKR 0mln). This results in healthy ST trade leverage (FY21: 92.9%; FY20: 97.4%). At end-Sept21, net working capital cycle days increased to 142 days and ST trade leverage recorded at 76.2%.
Coverages During FY21, company recorded FCFO at PKR 887mln (FY20: PKR 579mln), resulting in improvement of interest coverage (FY21: 8.7x, FY20: 2.9x). Core coverage ratio inched down to 1.9x (FY20: 2.0x). Debt coverage improved to 1.8x (FY20: 3.7x). At end-Sept21, FCFO recorded by company clocked at PKR 374mln while debt coverage improved to 1.1x.
Capitalization In FY21, Ahmed Fine's leverage improved to 34.2% (FY20: 39.1%) as equity base improved (FY21: PKR 2,749mln; FY20: PKR 2,196mln) on account of profit retention. The Company historically pays off any short-term debt within the financial year through internal cash flows, hence, total borrowing majorly constitutes of long term debt (FY21: PKR 1,430mln; FY20: PKR 1,409mln). At end-Sept21, leveraging of the company improved to 40.7%. Equity base of the company clocked in at PKR 3,051mln.

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Financial Summary
PKR mln

Ahmed Fine Textile Mills	Sep-21	Jun-21	Jun-20	Jun-19
Textile | Spinning	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	2,119	1,922	1,812	1,796
2 Investments	-	-	-	-
3 Related Party Exposure	355	355	355	355
4 Current Assets	3,665	2,934	2,228	2,052
a Inventories	*1,599*	*1,298*	*935*	*630*
b Trade Receivables	*1,216*	*1,191*	*963*	*693*
5 Total Assets	6,139	5,211	4,396	4,203
6 Current Liabilities	845	883	626	587
a Trade Payables	*127*	*166*	*46*	*57*
7 Borrowings	2,092	1,430	1,409	1,453
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	152	150	165	163
10 Net Assets	3,051	2,749	2,196	2,000
11 Shareholders' Equity	3,051	2,749	2,196	2,000
B INCOME STATEMENT				
1 Sales	1,614	6,290	4,590	4,851
a Cost of Good Sold	*(1,196)*	*(5,294)*	*(3,996)*	*(4,204)*
2 Gross Profit	418	996	593	647
a Operating Expenses	(44)	(139)	(90)	(108)
3 Operating Profit	374	857	504	539
a Non Operating Income or (Expense)	*(24)*	*(58)*	*(32)*	*36*
4 Profit or (Loss) before Interest and Tax	350	799	471	575
a Total Finance Cost	*(28)*	*(117)*	*(210)*	*(155)*
b Taxation	*(20)*	*(127)*	*(63)*	*(69)*
6 Net Income Or (Loss)	302	555	198	351
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*374*	*887*	*579*	*731*
b Net Cash from Operating Activities before Working Capital Changes	*342*	*745*	*385*	*584*
c Changes in Working Capital	*(858)*	*(395)*	*(476)*	*(28)*
1 Net Cash provided by Operating Activities	(516)	350	(91)	556
2 Net Cash (Used in) or Available From Investing Activities	(237)	(275)	(173)	(433)
3 Net Cash (Used in) or Available From Financing Activities	662	21	(44)	61
4 Net Cash generated or (Used) during the period	(91)	96	(307)	185
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	2.6%	37.0%	-5.4%	22.7%
b Gross Profit Margin	25.9%	15.8%	12.9%	13.3%
c Net Profit Margin	18.7%	8.8%	4.3%	7.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-30.0%	7.8%	2.2%	14.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	41.7%	22.4%	9.5%	19.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	150	127	128	100
b Net Working Capital (Average Days)	142	121	124	97
c Current Ratio (Current Assets / Current Liabilities)	4.3	3.3	3.6	3.5
3 Coverages				
a EBITDA / Finance Cost	14.9	9.7	3.2	5.1
b FCFO / Finance Cost+CMLTB+Excess STB	4.0	1.9	2.0	1.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.1	1.8	3.7	2.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	40.7%	34.2%	39.1%	42.1%
b Interest or Markup Payable (Days)	61.7	76.2	84.6	77.3
c Entity Average Borrowing Rate	6.4%	6.7%	12.6%	8.8%

Credit Rating

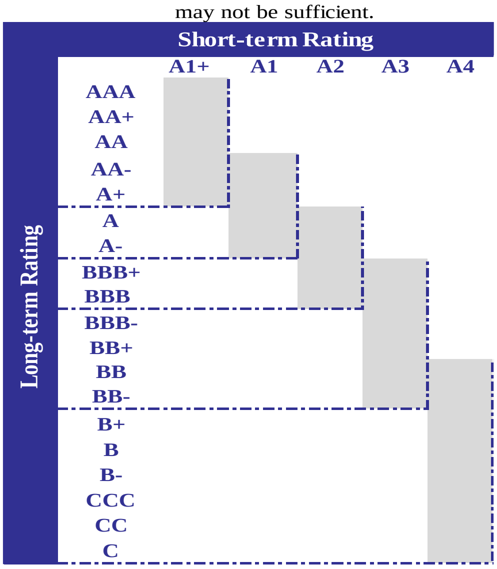
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities

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

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk 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

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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.
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(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)
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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)
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(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 | 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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