The Pakistan Credit Rating Agency Limited

Rating Report

Ahmed Fine Weaving Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
18-Nov-2022	A-	A2	Stable	Maintain	-
18-Nov-2021	A-	A2	Stable	Maintain	-
18-Nov-2020	A-	A2	Stable	Maintain	-
29-Nov-2019	A-	A2	Stable	Upgrade	-
30-May-2019	BBB+	A2	Positive	Maintain	-
07-Dec-2018	BBB+	A2	Stable	Maintain	-
30-May-2018	BBB+	A2	Stable	Maintain	-
11-Oct-2017	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings of Ahmed Fine Weaving Limited (Ahmed Fine Weaving) reflect its business profile emanating from a sustained revenue base and profitability. The Company is a public unlisted company and possesses a weaving capacity of 270 Air Jet looms where BMR has been recently completed. The ownership rests with Mr. Ashar Fazal and his children. The current governance framework is comprised of all sponsors, where inclusion of independent director may pave the way for further improvement in the overall governance. The Company's management is cognizant of the textile industry's volatility and has planned up gradation of machinery to remain competitive. The Company's topline increased, during FY22, to stand at PKR 9.6bln (FY21: PKR 6.6bln); resultant of higher capacity utilization accompanied by good general industry trends. The sales mix represents the contribution from both local and export markets; FY22 is majorly tilted towards export. During the period, margins remained largely the same while there has been an increase in net profit attributable to a sizable improvement in other income. Ratings also incorporate good financial risk manifested by improvement in working capital and sustained coverage.

During FY22, Pakistan's textile exports surged to $19.3bln (recording a growth of 26%). Exports grew owing to increased volumetric growth of (16% YoY) in the value-added segment, a steep rise in global demand, and record-high cotton prices. Under the value-added category, the knitwear segment remained the top performer by posting 34% YoY growth in exports to $5.1 billion in FY22 due to a sharp rise in global demand, especially in the US and European countries. Other value-added segments such as ready-made garments, bed wear, and towel posted YoY growth of 29%, 19%, and 19% to $3.9 billion, $3.3 billion, and $1.1 billion respectively. In July to August 2022, the cumulative exports of knitwear increased by 15.4% to $1.32 billion; cotton cloth by 4.2% to $580.5 million, and readymade garments by 5.9% to $911.5 million over their exports in the same period of last year. However, bed wear exports were down 2.9% to $780 million, towels 1.7% to $237.3 million, and cotton yarn sales declined by 18%. However, a slowdown is expected in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries.

The ratings are dependent on the management's ability to uphold the entity's performance trend. Meanwhile, maintaining strong margins and coverages to fulfill financial obligations will remain critical. Improvement in the governance framework is considered important.

Disclosure

Name of Rated Entity	Ahmed Fine Weaving Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Weaving(Aug-22)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Legal Structure Ahmed Fine Weaving Limited (Ahmed Fine), was incorporated on July 6th 2012 as a public unlisted company.
Background In July 2014, the weaving segment of the Company was de-merged from Ahmed Fine Textile Mills into Ahmed Fine Weaving Limited. This separation was done through a scheme of arrangements. All assets, liabilities, agreements, arrangements, and other matters relating to the weaving business were transferred to and vested in the Company as approved by the High Court of Sindh.
Operations Ahmed Fine's primary business is to manufacture and sell cotton fabric in the local and international markets. The Company operates two weaving units with a total of 270 Air Jet looms. Weaving Unit-1 is located at Basti Malook - Multan and Weaving Unit-2 is located at Qadir Pur Rawan - Multan. The Company's total power requirement is 5MW which is met through gas-fired generators. The company has acquired diesel generators and NTDC as alternative sources.

Ownership

Ownership Structure The ownership of Ahmed Fine Weaving rests with the family of Mr. Ashar Fazal including his mother and children.
Stability The considerable positions in the company are held by Mr. Ashar Fazal's family. The distribution of shareholding among family members portrays a structured line of succession.
Business Acumen Mr. Ashar is one of the grandsons of Fazal-ur-Rehman. The Fazal family is among the pioneers of the modern textile industry in Pakistan. The decades-long presence of the family in the textile industry, while developing expertise over time, provides sufficient business acumen to sustain through the volatile textile industry.
Financial Strength Ahmed Fine Weaving is the only entity of the Fazal family primarily engaged in the weaving business. Given the scale of operations of the Company, the sponsor's financial strength to provide requisite support in times of stress remains adequate.

Governance

Board Structure The Company's board of directors comprises three members. Two members belong to the sponsoring family, while one member is the executive director. The sponsor's dominance and the absence of independent oversight indicate room for improvement in the governance framework of the Company.
Members' Profile All the board members have more than six years of association with the board and have adequate experience in the textile sector. Mr. Ashar Fazal – the Chairman of the board, is also the CEO of the Company.
Board Effectiveness The attendance of the members remained strong during the year. The board meeting minutes have been formally recorded; though needs improvement. Moreover, the minutes reflect minimum participation by the board members. The board has an Audit and HR committee in place to assist the board on relevant matters.
Financial Transparency M/s. Yousaf Adil, Chartered Accountants, is the external auditor of the Company. The auditor has expressed an unqualified opinion on the financial reports for the year ending 30th June 2022. The auditors fall under category' A' of SBP's panel of auditors.

Management

Organizational Structure Management control vests with Mr. Ashar Fazal, with a defined reporting line to ensure smooth operations and efficiency. Moreover, the company has five functional departments, namely (i) Finance & Commercial, (ii) Marketing, (iii) Weaving, (iv) IT, and (v) Internal Audit. All HODs report directly to the CEO.
Management Team The management team is headed by the CEO, Mr. Ashar Fazal, who is a management graduate from the USA. He is well-versed in the textile business and carries strong business acumen. He is supported by a team of seasoned professionals, supplementing his expertise.
Effectiveness The management meetings are held on a periodic basis with follow-up points to resolve or pro-actively address operational issues, if any, eventually ensuring a smooth flow of operations.
MIS Ahmed Fine Weaving has in place Oracle-based Enterprise Resource Planning (ERP) system that provides comprehensive MIS reporting.
Control Environment The Company is compliant with multiple safety and quality assurance standard; comprising ISO 9001:2008. In addition, the Company's plant is connected to head office through VPN, thereby reporting on a real-time basis.

Business Risk

Industry Dynamics During FY22, Pakistan's textile exports surged to $19.3bln (recording a growth of 26%). Exports grew owing to increased volumetric growth of (16% YoY) in the value-added segment, a steep rise in global demand, and record-high cotton prices. Under the value-added category, the knitwear segment remained the top performer by posting 34% YoY growth in exports to $5.1 billion in FY22 due to a sharp rise in global demand, especially in the US and European countries. Other value-added segments such as ready-made garments, bed wear, and towel posted YoY growth of 29%, 19%, and 19% to $3.9 billion, $3.3 billion, and $1.1 billion respectively. In July to August 2022, the cumulative exports of knitwear increased by 15.4% to $1.32 billion; cotton cloth by 4.2% to $580.5 million, and readymade garments by 5.9% to $911.5 million over their exports in the same period of last year. However, bed wear exports were down 2.9% to $780 million, towels 1.7% to $237.3 million, and cotton yarn sales declined by 18%. However, a slowdown is expected in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries.
Relative Position Before the demerger, Ahmed Fine Weaving was associated with the Fazal Group, the group has a considerable presence in Pakistan's textile industry. Currently, Ahmed Fine Weaving has an adequate share in the local weaving industry, on a standalone basis.
Revenues Over the last few years, the Company's revenue has been growing. Sales revenue clocked at PKR 9.6bln (FY20: PKR 6.6bln), up 46% YoY which is in line with the industry trend. The contribution from exports to the revenue remained largely the same YoY at PKR 4.9bln. The growth in revenue is driven by, i) the completion of BMR, yielding volumetric growth, ii) an upsurge in local prices and iii) an increased quantum of exports, given notable YoY rupee devaluation. The operating profitability enhanced YoY (FY22: PKR 349mln, FY21: PKR 330mln). Improved other income (FY22: PKR 224mln, FY21: PKR 12mln), during FY22, provided a positive stimulus to the profitability. This is mainly attributable to the sizable foreign currency gain recorded.
Margins The Company's gross margin remained largely the same (FY22: 9.4%, FY21: 9.7%), on the back of efficiency gains already recorded and a generally stable industry trend. However, a slight decrease in operating margin was witnessed (FY22: 3.6%, FY21: 5.0%) attributable to higher operating expenses, a factor of increased exports (higher commission on sales and ocean freight). The net profit margin of the Company remained largely the same YoY (FY22: 2.7%, FY21: 2.0%) despite higher finance costs recorded.
Sustainability The Company has recently incurred BMR for the up-gradation of machinery. This, along with continuously improving marketing efforts will help in improving the business fundamentals of the Company.

Financial Risk

Working Capital The Company's working capital requirements are a function of its inventory and receivables, for which the Company relies on a mix of internal cash generation and short-term borrowings. During FY22, the reliance on STB declined (FY22: PKR 875mln, FY21: PKR 904mln). The Company's short-term trade leverage decreased slightly to 29% in FY22 (FY21: 32%). The Company's gross working capital days improved to 89days (FY21: 109days) which ultimately led to an improvement in net working capital days (FY22: 46days, FY21: 67days).
Coverages During FY22, the Company's operating cash flows (FCFO) enhanced to PKR 548mln (FY21: PKR 371mln) attributable to improved EBITDA. Interest coverage recorded slight attrition (FY22: 4.6x, FY21: 5.0x). However, debt coverage recorded a slight improvement (FY22: 2.2x, FY21: 1.8x) due to enhanced trade leverage.
Capitalization The Company has a moderately leveraged capital structure 53.9% in FY22 (FY21: 57.8%). The total debt stood at PKR 1.7bln with STB constituting 49.2%. The predominant portion of long-term borrowing is availed at the State Bank's concessionary rates. The equity base witnessed a slight improvement YoY (FY22: PKR 1.5bln, FY21: PKR 1.2bln). Strengthening of equity base, going forward, shall enhance the risk absorption capacity of the company.

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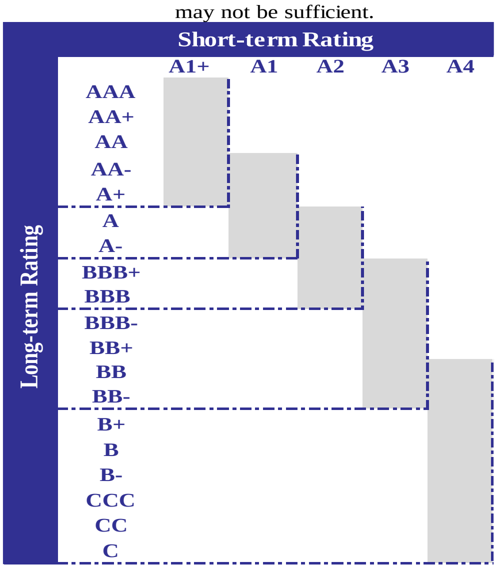
Ahmed Fine Weaving Limited Weaving	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET			
1 Non-Current Assets	1,635	1,448	1,236
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	3,736	3,039	2,214
a Inventories	*1,475*	*1,174*	*1,011*
b Trade Receivables	*970*	*1,118*	*647*
5 Total Assets	5,371	4,487	3,449
6 Current Liabilities	1,988	1,330	925
a Trade Payables	*1,331*	*990*	*540*
7 Borrowings	1,779	1,728	1,320
8 Related Party Exposure	-	0	0
9 Non-Current Liabilities	86	165	70
10 Net Assets	1,519	1,263	1,134
11 Shareholders' Equity	1,519	1,263	1,134
B INCOME STATEMENT			
1 Sales	9,671	6,611	5,767
a Cost of Good Sold	*(8,761)*	*(5,969)*	*(5,228)*
2 Gross Profit	910	642	538
a Operating Expenses	(561)	(311)	(239)
3 Operating Profit	349	330	299
a Non Operating Income or (Expense)	*195*	*(12)*	*(28)*
4 Profit or (Loss) before Interest and Tax	544	318	271
a Total Finance Cost	*(143)*	*(90)*	*(125)*
b Taxation	*(140)*	*(97)*	*(39)*
6 Net Income Or (Loss)	261	131	106
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*548*	*371*	*384*
b Net Cash from Operating Activities before Working Capital Changes	*413*	*278*	*258*
c Changes in Working Capital	*137*	*(348)*	*60*
1 Net Cash provided by Operating Activities	550	(69)	318
2 Net Cash (Used in) or Available From Investing Activities	(313)	(342)	(188)
3 Net Cash (Used in) or Available From Financing Activities	117	532	14
4 Net Cash generated or (Used) during the period	353	121	143
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	46.3%	14.6%	3.7%
b Gross Profit Margin	9.4%	9.7%	9.3%
c Net Profit Margin	2.7%	2.0%	1.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	7.1%	0.4%	7.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]*	18.8%	10.9%	9.8%
2 Working Capital Management			
a Gross Working Capital (Average Days)	89	109	107
b Net Working Capital (Average Days)	46	67	77
c Current Ratio (Current Assets / Current Liabilities)	1.9	2.3	2.4
3 Coverages			
a EBITDA / Finance Cost	7.0	6.3	3.8
b FCFO / Finance Cost+CMLTB+Excess STB	2.2	1.8	3.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.1	2.8	2.0
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	53.9%	57.8%	53.8%
b Interest or Markup Payable (Days)	76.3	83.7	65.7
c Entity Average Borrowing Rate	6.5%	5.0%	8.1%

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

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 | 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)
Proprietary Information