The Pakistan Credit Rating Agency Limited

Rating Report

Ahmed Fine Weaving Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
17-Nov-2023	A-	A2	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The credit ratings assigned to Ahmed Fine Weaving Limited (Ahmed Fine Weaving) are emblematic of its corporate profile, characterized by the steadfast establishment of revenue and profitability. Ahmed Fine Weaving, a publicly unlisted entity, possesses a formidable weaving capacity, boasting 283 Air Jet looms with recent refurbishments in its BMR endeavors. The ownership of this company is vested in Mr. Ashar Fazal and his progeny. Presently, the governance framework is constituted exclusively by the company's sponsors, and there exists an opportunity for amelioration in overall corporate governance by introducing an independent director to the fold. The management of Ahmed Fine Weaving is astutely attuned to the inherent volatility of the textile industry and is unwaveringly committed to the continuous modernization of its machinery to maintain its competitive edge. During FY23, the company's top-line revenues remained relatively stable at PKR 9.69bln, compared to PKR 9.67bln in FY22. This revenue composition stems from a combination of domestic and international markets, with FY23 primarily leaning towards exports, contributing a substantial 54% to the total revenue. Throughout this period, the company's profit margins experienced a marked decline, attributable to factors including heightened financing costs, increased energy-related expenditures, and the adverse repercussions of the global economic downturn. The assigned credit ratings also take into account the financial risks arising from deteriorating working capital and coverage ratios.

During FY23, textile exports were valued at $16.5 billion compared to $19.33 billion, reflecting a dip of 15% YoY – the declining trend has been witnessed by the start of FY23. The exports tumbled attributable to high energy costs, shortage of cotton, and uncertainty in the foreign exchange rate. The suppressed demand pattern exhibited by export avenues was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments witnessed a decline of 13% YoY. The basic textiles including raw cotton, cotton yarn, and cotton cloth posted a drop of 21% YoY. During the month of June 2023, cotton yarn exports increased by 7% MoM. The value-added exports reported a volumetric increase of 16% on a MoM basis. Knitwear and readymade garments witnessed an incline at 18% and 19% respectively. During the month of July 2023, textile exports were valued at $2 billion compared to $2.3 billion, reflecting a slump of 12.6% on a MoM basis. Further analysis reveals an overall decline of 8.6% YoY.

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(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Weaving(Aug-23)
Rating Analysts	Uswa Sikandar | uswa.sikandar@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 specializes in manufacturing and selling cotton fabric globally. Operating two weaving units with 283 Air Jet looms, the company's power requirement of 9.1MW is met through gas-fired generators, complemented by diesel generators and NTDC as alternative sources.

Ownership

Ownership Structure The ownership of Ahmed Fine Weaving rests with Mr. Ashar Fazal and his 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 decadeslong 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 10 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 need 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 2023. The auditors fall under the 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 Mr. Ashar Fazal - the CEO/Chairman, has been associated with the Company since its inception. He is a Management Graduate from the Wharton School of Business, USA. He carries with him over three decades of experience in the textile sector. 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 standards; comprising ISO 9001:2008. In addition, the Company’s plant is connected to the head office through a VPN, thereby reporting on a real-time basis.

Business Risk

Industry Dynamics During FY23, textile exports were valued at $16.5 billion compared to $19.33 billion, reflecting a dip of 15% YoY – the declining trend has been witnessed by the start of FY23. The exports tumbled attributable to high energy costs, shortage of cotton, and uncertainty in the foreign exchange rate. The suppressed demand pattern exhibited by export avenues was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments witnessed a decline of 13% YoY. The basic textiles including raw cotton, cotton yarn, and cotton cloth posted a drop of 21% YoY. During the month of June 2023, cotton yarn exports increased by 7% MoM. The value-added exports reported a volumetric increase of 16% on a MoM basis. Knitwear and readymade garments witnessed an incline at 18% and 19% respectively. During the month of July 2023, textile exports were valued at $2 billion compared to $2.3 billion, reflecting a slump of 12.6% on a MoM basis. Further analysis reveals an overall decline of 8.6% YoY.

Relative Position Before the demerger, Ahmed Fine Weaving was associated with Fazal Group, the group has a considerable presence in Pakistan’s textile industry. Currently, Ahmed Fine Weaving has a minimal share in the local weaving industry, on a standalone basis.

Revenues The company's total revenue for FY23 experienced a marginal uptick, reaching PKR 9,698mln, as compared to the FY22 figure of PKR 9,671mln, marking a modest 0.2% increase. This modest growth can be attributed to a significant 13.9% surge in direct exports, which, unfortunately, was offset by a substantial 32% decline in indirect exports. The export segment remains a critical component, contributing to 54.5% of the company's overall revenue.

Margins The company's gross margin for FY23 was registered at 8.4%, marking a 1% decrease compared to the 9.4% reported in FY22. The company's operating profit margins experienced a significant contraction, falling from 3.6% in FY22 to 1.8% in FY23. The net margins depicted a decline of 1.3%, with FY23 figures resting at 1.4% in comparison to the 2.7% recorded in FY22. This translated into a net profit of PKR 136mln, a decrease from the PKR 261mln achieved in FY22.

Sustainability The company has recently invested in a BMR upgrade, augmenting its machinery infrastructure by incorporating an additional 20 looms, thereby bolstering its operational capabilities and ultimately elevating production output. In the foreseeable future, the company is strategically poised for further expansion, with plans to establish a stitching unit dedicated to value addition, particularly in the realm of bottom wear. Furthermore, the company is actively engaged in the integration of a 3MW solar energy system, slated for implementation within the upcoming weeks, marking a significant step towards sustainability and energy efficiency.

Financial Risk

Working Capital In FY23, the company's dependence on short-term borrowings increased to PKR 1,594mln, up from PKR 875mln in FY22. This rise in reliance on STBs can be attributed to a YoY increase in production costs, which necessitated a higher level of working capital. The company's short-term trade leverage in FY23 was reported at 22.4%, a decrease from the 29.2% recorded in FY22. Notably, both inventory and receivables days witnessed an uptick, contributing to an overall increase in gross working capital days, which stood at 107 days in FY23 compared to 89 days in FY22. Similarly, the net working capital days also experienced a rise, reaching 49 days in FY23, up from 46 days in FY22.

Coverages In FY22, the company experienced a decline in its operating cash flows (FCFO), which decreased to PKR 454mln (FY22: PKR 548mln). This decline was primarily attributed to a decrease in profit before tax, which amounted to PKR 451mln in FY23, down from PKR 544mln in FY22. Furthermore, the company's finance costs surged to PKR 247mln in FY23, a noticeable increase from the PKR 143mln reported in FY22. This increase was driven by a 37% rise in the total borrowings of the company. Consequently, the company's debt coverage ratio declined in FY23, with a recorded figure of 1.2x, in contrast to the 2.2x ratio reported in FY22.

Capitalization Ahmed Fine Weaving maintained a moderate level of leverage, standing at approximately 60% in FY23. This leverage ratio has remained relatively stable, fluctuating within the range of 53.8% to 57.8% over the past three years. The company's total debt amounted to PKR 2,438mln in FY23 (FY22: PKR 1,779mln), with short-term borrowings accounting for 65.3% (FY22: 49.1%) of the total borrowings. Notably, the majority of long-term borrowings were sourced from the SBP.

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Ahmed Fine Weaving Limited	Jun-23	Jun-22	Jun-21	Jun-20
Textile	12M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	1,709	1,635	1,448	1,236
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	4,993	3,736	3,039	2,214
a Inventories	*1,858*	*1,475*	*1,174*	*1,011*
b Trade Receivables	*1,379*	*970*	*1,118*	*647*
5 Total Assets	6,702	5,371	4,487	3,449
6 Current Liabilities	2,473	1,988	1,330	925
a Trade Payables	*1,770*	*1,331*	*990*	*540*
7 Borrowings	2,438	1,779	1,728	1,320
8 Related Party Exposure	42	-	0	0
9 Non-Current Liabilities	93	86	165	70
10 Net Assets	1,655	1,519	1,263	1,134
11 Shareholders' Equity	1,655	1,519	1,263	1,134
B INCOME STATEMENT				
1 Sales	9,699	9,671	6,611	5,767
a Cost of Good Sold	*(8,887)*	*(8,761)*	*(5,969)*	*(5,228)*
2 Gross Profit	812	910	642	538
a Operating Expenses	(637)	(561)	(311)	(239)
3 Operating Profit	175	349	330	299
a Non Operating Income or (Expense)	*277*	*195*	*(12)*	*(28)*
4 Profit or (Loss) before Interest and Tax	451	544	318	271
a Total Finance Cost	*(247)*	*(143)*	*(90)*	*(125)*
b Taxation	*(69)*	*(140)*	*(97)*	*(39)*
6 Net Income Or (Loss)	136	261	131	106
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*454*	*548*	*371*	*384*
b Net Cash from Operating Activities before Working Capital Changes	*235*	*413*	*278*	*258*
c Changes in Working Capital	*(721)*	*137*	*(348)*	*60*
1 Net Cash provided by Operating Activities	(486)	550	(69)	318
2 Net Cash (Used in) or Available From Investing Activities	(190)	(313)	(342)	(188)
3 Net Cash (Used in) or Available From Financing Activities	808	117	532	14
4 Net Cash generated or (Used) during the period	132	353	121	143
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	0.3%	46.3%	14.6%	--
b Gross Profit Margin	8.4%	9.4%	9.7%	9.3%
c Net Profit Margin	1.4%	2.7%	2.0%	1.8%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-2.7%	7.1%	0.4%	7.7%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	8.6%	18.8%	10.9%	9.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	107	89	109	105
b Net Working Capital (Average Days)	49	46	67	71
c Current Ratio (Current Assets / Current Liabilities)	2.0	1.9	2.3	2.4
3 Coverages				
a EBITDA / Finance Cost	2.6	7.0	6.3	3.8
b FCFO / Finance Cost+CMLTB+Excess STB	1.2	2.2	1.8	3.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.9	2.1	2.8	2.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	60.0%	53.9%	57.8%	53.8%
b Interest or Markup Payable (Days)	82.9	76.3	83.7	65.7
c Entity Average Borrowing Rate	10.3%	6.5%	5.0%	8.2%

Corporate Rating Criteria

Scale

Credit Rating

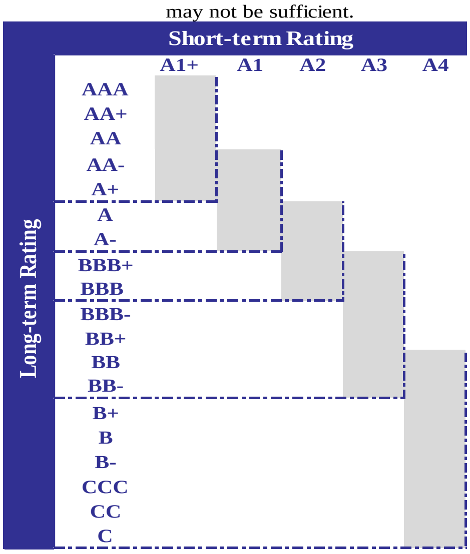
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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