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
15-Nov-2024	A-	A2	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The rating reflects the adequate profile of Ahmed Fine Weaving Limited (“AFWL” or “the Company”) within the competitive textile universe of Pakistan. The principal activity of the Company is the manufacturing and sale of grey cloth. AFWL is considered the sponsor's sole line of business when assessing financial strength, which reflects a concentration risk. The Company’s governance framework is characterized by familial dominance, which depicts an adequate delegation of authority matrix. During FY24, AFWL experienced a significant decline in revenues, reaching PKR 7.6bln (FY23: PKR 9.7bln), primarily due to reduced demand for fabric in international markets and a shift in the Company’s sales strategy. This strategy involves performing conversion services, transforming yarn supplied by clients into fabric to improve cash flow management. Over the past year, the Company’s top ten customers in both local and export segments have largely remained stable, with only moderate changes in client-wise business contributions. During FY24, the Company's gross margins improved primarily driven by the service income generated from conversion services. While AFWL's optimization of its operating expenses-to-sales ratio has improved operating margins, a surge in interest burden and a reduction in foreign exchange gains have diluted the Company's net margins. The Company’s management is considering the installation of a 5-megawatt solar power plant to manage energy cost risk. This year's decline in local cotton production at the national level will increase the demand for imported cotton and raise yarn prices, ultimately impacting the Company's supply chain dynamics and cost structure. The funding matrix of the Company revolves around short-term borrowings to meet working capital requirements. The Company’s financial risk is considered adequate with a slightly stretched working capital cycle depicting the industry norm. The Company maintain a highly leveraged capital structure with adequate coverages and cashflows. The availability of local cotton coupled with escalated energy costs driven by increased electricity and RLNG tariffs, elevated labour expenses, necessitated by inflationary pressures and higher finance costs are prime challenges specific to the textile industry. Textile exports of the country reached USD 16.7bln in FY24, a slight increase from USD 16.5bln in the previous year, reflecting a growth of 0.93% YoY. In FY25, the transition from the final tax regime to the normal tax regime is set to impact the profitability of export-oriented units, with a 29% tax on profits and an additional super tax of up to 10%

The ratings are dependent on the Company's ability to enhance business volumes, increase net profitability, and sustain gross margins. Prudent management of the working capital, and maintaining sufficient cash flows and coverages are imperative. Adherence to the debt matrix at an optimal level is a prerequisite for the assigned ratings.

Disclosure

Name of Rated Entity	Ahmed Fine Weaving Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Rating Modifiers(Apr-24),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-24),Methodology | Corporate Rating(Jul-24)
Related Research	Sector Study | Weaving(Aug-24)
Rating Analysts	Muhammad Harris Ghaffar | harris.ghaffar@pacra.com | +92-42-35869504

Profile

Legal Structure Ahmed Fine Weaving Limited ("the Company" or "AFWL") is a public, unlisted Company.

Background AFWL was incorporated in Pakistan on July 6, 2012, as a public limited Company under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). The Company was incorporated after its separation from Ahmed Fine Textile Mills Limited (AFTML). Through a scheme of arrangements under Ordinance sections 279 to 283, the Company has received "Weaving Business" from AFTML.

Operations AFWL specializes in manufacturing and selling greige fabric globally, operating with two weaving units and 283 air jet looms. The Company's power requirement of 9.1 megawatts(MW) is met through gas-fired generators, supplemented by diesel generators and NTDC as alternative sources. Additionally, the Company has installed a solar power capacity of 3MW. The Company's head office is located in Multan.

Ownership

Ownership Structure Ownership of AFWL rests with the family of Mr. Ashar Fazal. Mr. Rayed Fazal, s/o Mr. Ashar Fazal, holds the majority stake at 48.28%, while Ms. Laraib, D/o Mr. Ashar Fazal, and Mr. Amin Fazal, s/o Mr. Ashar Fazal, hold 13.25% and 36.24% of the Company's shares, respectively.

Stability It is a family-owned business, with Mr. Ashar Fazal acting as guardian, as all his children are minors. The distribution of shareholding among family members reflects a structured line of succession; however, the transfer of ownership to the next generation has not yet been documented.

Business Acumen Mr. Ashar is the grandson of Mr. Fazal-ur-Rehman. The Fazal family is among the pioneers of the modern textile industry in Pakistan. The family's decades-long presence in the industry, coupled with the expertise developed over time, provides the necessary business acumen to sustain itself in this volatile sector. Mr. Ashar is considered the man of the last mile.

Financial Strength The financial strength of the sponsors is primarily vested in a single line of business, reflecting their adequate ability to support the Company in times of need.

Governance

Board Structure The Company's board of directors comprises three members, including two male directors and one female director. Two members belong to the sponsoring family, while one is the executive director. AFWL has a sponsor-dominated board, and the inclusion of independent oversight would improve the governance framework.

Members' Profile All board members have been associated with the board for the last 14 years and possess over three decades of experience in the textile sector. Mr. Ashar Fazal, the Chairman of the board, also serves as the Company's CEO. He is a Management Graduate from the Wharton School of Business, USA Mrs. Maha Fazal, wife of Mr. Ashar Fazal, is a homemaker by profession.

Board Effectiveness During FY24, four board meetings were held and board members ensured their availability and participation. The recent board meetings discussed the shift in the Company's sales policy and progress in the Company's performance. The board has established both an audit committee and an HR committee to assist with relevant matters.

Financial Transparency M/s. Yousaf Adil, Chartered Accountants, is the Company's external auditor categorized under category "A" of SBP's panel of auditors. The auditor has expressed an unqualified opinion on the financial reports for the year ending 30th June 2024.

Management

Organizational Structure Management control rests with Mr. Ashar Fazal, with a defined reporting line to ensure smooth operations and efficiency. Moreover, the Company has five functional departments: (i) Finance & Commercial, (ii) Marketing, (iii) Weaving, (iv) IT, and (v) Internal Audit. All Heads of Departments (HODs) report directly to the CEO. This reflects an adequate delegation of authority matrix.

Management Team Mr. Ashar Fazal - the CEO, has been associated with the Company since its inception. He is supported by a team of seasoned professionals, supplementing his expertise. Mr. Afzal Mujahid, the Company's CFO has a master's in Commerce and has been associated with the Company since 2014.

Effectiveness The Company has no formal management committees, and need-based management meetings are held to resolve or proactively address operational issues, if any, ensuring a smooth flow of operations. The formation of management committees would enhance oversight of key areas such as risk management, financial controls, and operational efficiency.

MIS AFWL has implemented an Oracle-based Enterprise Resource Planning (ERP) system, designed to deliver comprehensive MIS reporting. The reports are periodically fetched from the system and presented in the management meetings.

Control Environment The Company has availed ISO 9001:2008 certification to primarily ensure compliance, product quality, process improvement and effective risk management. 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 Textile exports of the country reached USD 16.7bln in FY24, a slight increase from USD 16.5bln in the previous year, reflecting a growth of 0.93% YoY. The highest contribution came from the composite and garments segment at USD 9.1bln, followed by the weaving segment at USD 6.5bln, and the spinning segment at USD 1.0bln. In FY25, the transition from the final tax regime to the normal tax regime is set to impact the profitability of export-oriented units, with a 29% tax on profits and an additional super tax of up to 10%.

Relative Position The weaving segment is highly fragmented and the relative position of the Company is considered adequate with a fabric production capacity of 48.3mln meters.

Revenues The Company's total revenue for FY24 witnessed a sizeable decline, reaching PKR 7,598mln (FY23: PKR 9,698mln), mainly attributable to a dip in export volumes. The decline in sales is primarily due to reduced demand for fabric in international markets and a shift in the Company's sales strategy. This strategy involves performing conversion services, transforming yarn supplied by clients into the fabric to improve cash flow management. However, the top 10 customers of AFWL largely remained consistent in both the local and export segments.

Margins The Company's gross margin for FY24 was 10.7%, an increase of 2.3% compared to the 8.4% reported in FY23. This increase was primarily driven by the service income generated from conversion services. However, the net margins declined to 0.2% (FY23: 1.4%) due to magnified finance costs and a reduction in foreign exchange gain.

Sustainability The Company is not expected to execute any major CAPEX during FY25. However, the management intends to install an additional 5MW solar power plant. The Company's management is committed to aligning its financial performance with projections, both in terms of top-line growth and profitability.

Financial Risk

Working Capital The Company primarily meets its net working capital requirements from short-term borrowings (STB). In FY24, the STB stood at PKR 1,131mln (FY23: PKR 1,594mln) on account of a dip in business volumes. The Company's short-term trade leverage in FY24 was reported at 24.5%, an increase from the 22.4% recorded in FY23. Notably, both inventory and receivables days witnessed an uptick, contributing to an overall increase in gross working capital days, which stood at 143 days in FY24 compared to 107 days in FY23. Similarly, the net working capital days also experienced a rise, reaching 63 days in FY24, up from 49 days in FY23.

Coverages In FY24, the Company experienced an incline in its operating cash flows (FCFO), which increased to PKR 530mln (FY23: PKR 454mln). The Company's finance costs surged to PKR 320mln in FY24, a noticeable increase from the PKR 247mln reported in FY23, which led to a decline in the EBITDA-to-finance cost ratio to 2.0x in FY24 (FY23: 2.6x).

Capitalization AFWL maintained a highly leveraged capital structure, with the leverage ratio standing at 56.4% in FY24 (FY23: 60.0%). This leverage ratio has remained relatively stable, fluctuating within the range of 53% to 60% over the past four years. The Company's total debt amounted to PKR 2,118mln in FY24 (FY23: PKR 2,438mln), with short-term borrowings accounting for 53.3% (FY23: 65.3%) of the total borrowings. Notably, the long-term borrowings consisted of a mix of subsidized borrowings from the SBP and conventional borrowings. The equity base of the Company clocked at PKR 1,664mln (FY23: PKR 1.655mln).

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Ahmed Fine Weaving Limited	Jun-24	Jun-23	Jun-22
Textile	12M	12M	12M
A BALANCE SHEET			
1 Total Assets	6,062	6,702	5,371
2 Current Liabilities	2,141	2,473	1,988
a Trade Payables	*1,580*	*1,770*	*1,331*
3 Borrowings	2,118	2,438	1,779
4 Related Party Exposure	32	42	-
5 Non-Current Liabilities	109	93	86
6 Shareholders' Equity	1,664	1,655	1,519
C CASH FLOW STATEMENT			
1 Net Cash provided by Operating Activities	681	(486)	550
2 Net Cash (Used in) or Available From Investing Activities	(452)	(190)	(313)
3 Net Cash (Used in) or Available From Financing Activities	(374)	808	117
D RATIO ANALYSIS			
1 Performance			
a Net Profit Margin	0.2%	1.4%	2.7%
b Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	13.2%	-2.7%	7.1%
*c Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareh*	0.9%	8.6%	18.8%
2 Working Capital Management			
a Gross Working Capital (Average Days)	143	107	89
b Net Working Capital (Average Days)	63	49	46
c Current Ratio (Current Assets / Current Liabilities)	1.9	2.0	1.9
3 Coverages			
a EBITDA / Finance Cost	2.0	2.6	7.0
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	1.2	2.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	4.5	3.9	2.1
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	56.4%	60.0%	53.9%
b Interest or Markup Payable (Days)	61.6	82.9	76.3
c Entity Average Borrowing Rate	12.8%	10.3%	6.5%

Credit Rating

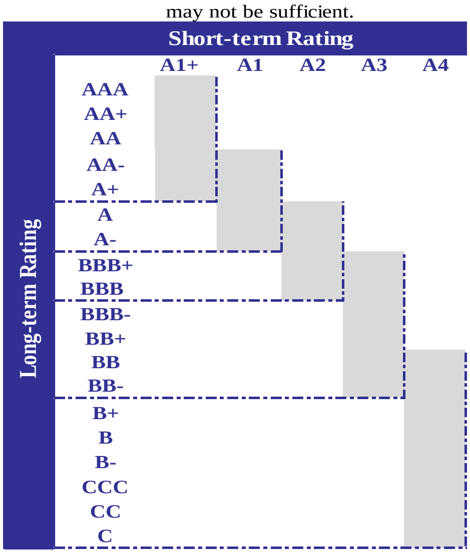
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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