



The Pakistan Credit Rating Agency Limited

Rating Report

Al Rahim Textile Industries Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Dec-2021	A-	A1	Stable	Upgrade	-
06-Aug-2021	A-	A2	Stable	Maintain	-
06-Aug-2020	A-	A2	Negative	Maintain	Yes
25-Jan-2020	A-	A2	Stable	Maintain	-
26-Jul-2019	A-	A2	Stable	Maintain	-
25-Jan-2019	A-	A2	Stable	Maintain	-
27-Jul-2018	A-	A2	Stable	Maintain	-
17-Jan-2018	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Al Rahim Textile Industries Limited (Al Rahim) is a family-owned export-oriented towel manufacturing concern. The Company has diversified portfolio where product assortment ranges from daily use towel to high end fashion towels of different types and categories. The management asserts to have ~ 8% market share and positioned itself as 5th largest towel exporter. The Country's textile exports have witnessed a growth of ~ 23% in FY21 and stood at \$15bln as compared to \$12bln in FY20, whereas towel exports contributes ~ 6% (value wise) of it. The exports of towels increased by 14% value wise and ~ 8% volume wise in 1QFY22 as compared to same quarter last year which is a positive sign. Towel industry enjoys relatively better margins that are reflected in Al Rahim's profitability on the back of local cotton, which is more suitable for manufacturing towels. During FY21, top-line of the Company increased by ~75% mainly due to overall industry growth and increasing demand in international markets. Moreover, the Company has completed its corporate transition phase where all assets, liabilities and business of sole proprietorship has been transferred to the new corporate entity. Key pillar of business strategy are product's diversification and differentiation. The Company's financial risk profile is characterized by moderate leveraging and strong coverages and robust cashflows. Working capital cycle of the Company has improved due to prudent working capital management. The assigned ratings incorporate recent corporatization of the entity, growth trajectory, experienced management team, and expected sponsor support as demonstrated historically.

The ratings are dependent on upheld market share, optimal operations and top-line, sustaining margins and reducing customer concentration, while maintaining financial risk at low level is critical. Meanwhile, strengthening of governance framework for better oversight of strategic affairs is considered essential.

Disclosure

Name of Rated Entity	Al Rahim Textile Industries 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 Towel(Jan-21)
Rating Analysts	Kanwal Ejaz kanwal.ejaz@pacra.com +92-42-35869504

Profile

Legal Structure Al Rahim Textile Industries Limited (Al Rahim or 'the Company') traces its roots to Al Rahim Textile Industries, which was established in 1991 as a sole proprietorship. In order to strengthen the corporate structure, a public unlisted company was formed by the name of Al Rahim Textile Industries Limited in July 2019. As per agreement, all assets and liabilities of sole proprietorship were transferred to Al Rahim Textile Industries Limited. The registered office of the Company is situated in Karachi, with manufacturing facility in Nooriabad, Sindh.

Background The Company was formed by Mr. Abdul Rahim Saya. Al Rahim started its business by providing processing and weaving facilities. The Company established Nooriabad facility in 2005. After 2015 expansion, the Company has become one of the largest manufacturers of towels in Pakistan.

Operations Al Rahim is involved in manufacturing of towels and fabrics. The Company is export oriented and sells its products to large retail chains like, Family Dollar Store Inc., Primark and others. Al Rahim has total capacity of 284 Air-jet looms. After incorporation of new company in FY20, all assets and liabilities have been transferred to the newly incorporated entity.

Ownership

Ownership Structure Al Rahim is owned by Saya Family. Mr. Faisal Rahim Saya holds major stake in the Company while rest of the shareholding is split equally between Mr. Moiz Saya (Son of Mr. Faisal Saya) and Mr. Abdul Rahim Saya.

Stability Although both sons of Mr. Abdul Rahim Saya (Mr. Faisal Saya and Mr. Shehzad Saya) are involved in the operations of the Company, most of the shareholding resides with Mr. Faisal Saya. There is no formal succession plan in place but ownership and business roles are clearly divided among family members at group level.

Business Acumen Saya family is involved in textile business for last three decades. The phenomenal growth over the years reflects sponsors' strong business acumen

Financial Strength The members of Saya family owns adequate wealth, reflecting well on financial strength of the sponsors. The sponsors have supported the Company in the past in the form of equity injections. The family also owns Al Rahim Retail (Pvt.) Limited - Zellbury Brand Stores - and real estate properties in Pakistan.

Governance

Board Structure The board comprises three members and is chaired by Mr. Abdul Rahim Saya. It includes two executive (including the CEO) and one non-executive director. All members represent Saya Family. There is room for improvement at board level through induction of more members, including independent directors.

Members' Profile Saya family is in textile business since 1991 and has vast experience of textile industry. Board members possess strong acumen in textile manufacturing and towel industry as reflected in the growth of the Company

Board Effectiveness Board members are actively involved in the Company's operations. Board meetings are held on as and when required basis. The board has not formed any committees. There is no formal policy of recording board minutes.

Financial Transparency Reanda Haroon Zakaria & Company, Chartered Accountants, are the external auditors of the Company. They gave an unqualified opinion on financial statements for the year end June 30, 2021. The firm is QCR rated by ICAP and is classified in Category 'B' in the panel of auditors maintained by SBP.

Management

Organizational Structure The Company's management structure is divided into divisions and functional departments with clear lines of responsibilities. Head office and site management functions are headed by Mr. Faisal Saya, the CEO.

Management Team Mr. Faisal Saya (CEO) leads the management team. He has been associated with the family business for last 27 years and has played a key role in the success of the Company. The CEO is supported by an able and professional team.

Effectiveness The Company has no management committees in place. However, senior management members meet on daily basis to discuss ongoing issues and plans.

MIS Al Rahim is using Oracle EBS 12.1.3 as its main ERP software. Oracle was fully implemented in 2015. Al Rahim uses three modules of Oracle. Regular MIS reports are submitted to top management relating to liquidity and profitability profile of the Company.

Control Environment Sponsors of the Company are part of both the Board and management. Al Rahim has established internal audit department, which is an integral part of the management control system. Further, the Company has rigorous quality control procedures in place. The Company has valid certificates from Oeko Tex 100 Class-I and Class-II, BSCI, C-TPAT, Sedex, GOTS and BRC, reflecting well on overall control environment.

Business Risk

Industry Dynamics The Country's textile exports have witnessed a growth of 22.94% during FY21 and remained \$15.4 bln compared to \$12.526 bln in FY20. It registered an increase of 57.81 % on MoM basis as it reached \$1.660 bln in June 2021 compared to \$1.051 bln in May 2021. The exports of towels during eleven months of FY 21 grew by 28.54% as compared to the exports of the corresponding period of last year. Towels worth US \$838,507 were also exported in the FY21 as compared to the exports of valuing US \$ 652,351 in FY20.

Relative Position Al Rahim is one of the biggest players of the towel industry in Pakistan with ~8% share in total towel exports of the Country. Whereas, Feroze 1888 is considered as a leader in towel industry with a share of ~27%.

Revenues The Company derives its revenue mainly from manufacturing and sales of towels. During 1QFY22, the Company's topline clocked in at ~PKR 4,145mln (FY21: ~PKR 13,529mln, FY20: ~7,800mln), reflecting a growth of ~73.5% on YOY basis.

Margins During 1QFY22, the gross margin of the Company reached to ~10.4% (FY21: ~14.6%, FY20: ~16.3%). However, the Company's operating margin stood at 4.9% as at 1QFY22 (FY21: ~9.1%, FY20: ~7.0%). Net profit margin in 1QFY22 stood at ~6.9% (FY21: ~8%, FY20: 5.7%)

Sustainability After Covid-19 outbreak there was an overall industry resumption which led to increase in export orders as well. The Company being an export-oriented entity have found an increasing trend from export destinations (USA and Europe). Going forward demand and sales of the company's product is expected to grow.

Financial Risk

Working Capital During 1QFY22, the Company's gross working capital days reached to 219 days (FY21: 210 days, FY20: 326days), inventory days also reached to 73days as at 1QFY22 (FY21:77 days). Net working capital days reached to 175 days as at FY21 (FY20: 224days)

Coverages The Company's free cashflows (FCFO) as at 1QFY22 reached to PKR ~269mln and increased to PKR ~1,706mln in FY21 (FY20: ~PKR 1,497mln) owing to overall increase in sales of the company. Meanwhile, the interest coverage ratio and debt coverage ratio also increased. The Company has availed SBP measure of deferring its principal repayments on long-term loans. This, coupled with lower interest rates has provided a relief to cashflows.

Capitalization The Company has a moderately leveraged capital structure, in 1QFY22, the leveraging stood at ~33.7% (FY21: ~34.4%). The short term borrowings reached to ~PKR 4,207mln (FY21: ~PKR 4,092mln) to finance the working capital requirements.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

AI Rahim Textile Industries Limited Towel	Sep-21 3M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	5,139	5,168	5,727	6,584
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	12,893	10,968	7,946	9,278
<i>a Inventories</i>	6,176	5,540	4,288	4,420
<i>b Trade Receivables</i>	4,473	3,717	2,053	3,184
5 Total Assets	18,031	16,136	13,674	15,863
6 Current Liabilities	3,919	3,090	2,390	2,851
<i>a Trade Payables</i>	884	531	2,097	2,282
7 Borrowings	4,719	4,454	2,302	3,666
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	89	110	104	36
10 Net Assets	9,304	8,481	8,877	9,310
11 Shareholders' Equity	9,304	8,481	8,877	9,310
B INCOME STATEMENT				
1 Sales	4,145	13,529	7,800	9,720
<i>a Cost of Good Sold</i>	(3,714)	(11,557)	(6,530)	(7,111)
2 Gross Profit	431	1,972	1,270	2,609
<i>a Operating Expenses</i>	(227)	(746)	(721)	(821)
3 Operating Profit	204	1,226	550	1,789
<i>a Non Operating Income or (Expense)</i>	190	356	339	136
4 Profit or (Loss) before Interest and Tax	395	1,582	888	1,925
<i>a Total Finance Cost</i>	(68)	(365)	(378)	(510)
<i>b Taxation</i>	(41)	(131)	(68)	(96)
6 Net Income Or (Loss)	285	1,086	443	1,319
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	269	1,706	1,497	2,525
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	195	1,383	1,125	2,015
<i>c Changes in Working Capital</i>	(1,258)	(2,171)	(3,195)	(639)
1 Net Cash provided by Operating Activities	(1,063)	(788)	(2,070)	1,377
2 Net Cash (Used in) or Available From Investing Activities	4	(37)	(116)	(1,315)
3 Net Cash (Used in) or Available From Financing Activities	1,058	658	2,355	(43)
4 Net Cash generated or (Used) during the period	(1)	(167)	169	19
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	22.5%	73.5%	-19.8%	11.2%
<i>b Gross Profit Margin</i>	10.4%	14.6%	16.3%	26.8%
<i>c Net Profit Margin</i>	6.9%	8.0%	5.7%	13.6%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-23.9%	-3.4%	-21.8%	19.4%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	12.8%	12.5%	4.9%	15.4%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	219	210	326	243
<i>b Net Working Capital (Average Days)</i>	204	175	224	181
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	3.3	3.5	3.3	3.3
3 Coverages				
<i>a EBITDA / Finance Cost</i>	6.9	7.3	4.8	5.9
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	5.6	3.4	4.0	5.7
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.6	0.2	0.1	0.8
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	33.7%	34.4%	20.6%	28.3%
<i>b Interest or Markup Payable (Days)</i>	31.9	26.4	5.5	0.0
<i>c Entity Average Borrowing Rate</i>	4.4%	7.0%	10.6%	11.2%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	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.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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(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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- (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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- (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)
- (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)
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- (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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