The Pakistan Credit Rating Agency Limited

Rating Report

Allawasaya Textile & Finishing Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
03-Mar-2023	BBB	A2	Stable	Maintain	Yes
03-Mar-2022	BBB	A2	Stable	Upgrade	-
26-Apr-2021	BBB-	A3	Stable	Maintain	Yes
30-Apr-2020	BBB-	A3	Stable	Maintain	Yes
30-Oct-2019	BBB-	A3	Stable	Maintain	-
30-Apr-2019	BBB-	A3	Stable	Maintain	-
28-Dec-2018	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Allawasaya Textile and Finishing Mills are engaged in the manufacturing and sale of PC Yarn, PV Yarn which is man-made fiber & CVC Yarn. In FY22, due to better yarn prices in the local market, the Company's topline grew by 36% and stood at PKR 4.8bln (FY21: PKR 3.5bln). Similarly, due to high expenses, the company's net profitability reflects a slight attrition in FY22. However, in the medium term, the Company’s performance witnessed significant dilution. The company’s operating profit witnessed a dip YoY on the back of higher expenses. The finance cost increased manifold and the company recorded net losses. This was due to multiple factors, chief among them was the impact of a volumetric decline and cotton price adjustment amidst high inflation and significant depreciation of the Pak Rupee. Furthermore, floods’ impact on crops resulted in a shortage of raw materials locally produced. The debt structure is skewed towards short-term borrowings. The rating watch has been incorporated attributable to incurred losses and the aforementioned parameters. Going forward, with better efficiency and a specialized product profile, the management expects the Company’s margins to improve.
During 7MFY23, the textile exports were valued at $10.08bln compared to $10.93bln, reflecting an 8% decline YoY – the declining trend has been recorded in the last few months. The decline in exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand for yarn in international markets is also a challenge. The analysis of 5MFY23 reveals that among value-added items, bedwear has witnessed the largest decline of 19% (on an MoM basis), down to $217 million. Knitwear remained on the downward path in October 2022 and declined by 10% to $392 million. Among non-value-added items, cotton yarn has shown the largest decline of 35%. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve post-Jun-23.

The ratings are dependent upon the sponsor’s support and management's ability to improve margins, and net profitability in upcoming quarters. This includes keeping the debt levels manageable. Any further deterioration in margins or coverages will have a negative impact on the ratings.

Disclosure	
Name of Rated Entity	Allawasaya Textile & Finishing Mills 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 | Spinning(Sep-22)
Rating Analysts	Iram Shahzadi | iram.shahzadi@pacra.com | +92-42-35869504

Profile

Legal Structure Allawasaya Textile & Finishing Mills Limited is a listed entity on the Pakistan Stock Exchange.

Background The Company was incorporated in 1958 as a private limited Company. It was converted into a public limited Company in 1965.

Operations The Company is engaged in the production and sale of cotton yarn and manmade fibers and has since expanded both its operations and clientele. The primary business of the Company is blended polyester cotton yarn (52:48) & CVC (60:40) count range 10 – 40. These qualities of Yarn are produced by using Pakistani Cotton and Polyester in accordance with customer satisfaction. For this purpose, the core business activity is cotton spinning. Functioning with one manufacturing units, the total number of spindles installed is 38,232 spindles. The Company is self-sufficient in energy and has an in-house production capacity of 4.2MW and a 3.5MW total electricity demand.

Ownership

Ownership Structure The business is primarily owned by three families which are all related. Mian Tanvir is the head of the Maqbool Family which owns 25% of the total shareholding. Mian Jamil is the head of the Jamil Family collectively owns 35.7% of the total shareholding. Lastly, Mian Tauqir is the head of the Tauqir family, which owns 37.6% of the total shareholding in the Company. The remaining 1.7% of the shareholding is held by the general public.

Stability The sponsor families are all related and the third generation of the Jamil and Tauqir families have already joined the Company. However, no formal succession plan has been documented.

Business Acumen Besides the Company, sponsor families have investments in seed oil extraction, ginning, and value-adding segments of the textile industry and other spinning companies.

Financial Strength Out of the three sponsor families, i) Maqbool Family has investments in other textile companies and the hospitality sector, ii) Tauqir family has a diverse portfolio of investments in a number of other textile companies and iii) the Jamil family has a 100% stake in Allawasaya Spinning Mills Pvt Ltd. Cumulatively, the sponsors have enough financial strength to support the Company if a need arises.

Governance

Board Structure Eleven-member board is comprised of representatives from sponsor families and two independent directors. Despite a good mix of executive and non-executive members, sponsor domination on the board undermines the governance structure. Mrs. Nusrat Jamil, a member of the Jamil family is the Chairman of the board.

Members' Profile All the board members are highly qualified in different disciplines and carry ample experience in textile as well as other industries. Chairman, Mrs. Nusrat Jahan, has been affiliated with the board for two years. Mian Jamil (Jamil Family) is a textile engineer and carries 45 years of industry experience. Mian Tanvir Ahmad Sheikh (Maqbool Family) has an overall experience of over 36 years. Mian Tauqir Ahmed Sheikh (Tauqir Family) is an MBA and acts as a non-executive director on the board. Other board members also possess years of industry-relevant experience.

Board Effectiveness In line with the guidelines of the corporate governance best practices, the board is supported by an i) Audit Committee and ii) HR & Remuneration committee. However, the quality of board minutes still has room for improvement.

Financial Transparency M/s M. Yousaf Adil & Co. Chartered Accountants (Deloitte) are the external auditors of the Company. The auditors have issued an unqualified opinion on the company's financial statements for the period ending 30th June 2022. They have performed an interim review of the financial statements for the six months ending December 2022.

Management

Organizational Structure The organization structure of the Company is divided into four main departments namely i) Finance, Admin & Procurement ii) Audit & Planning iii) Sales & Marketing and iv) Production. The Chairman overseas production while the CEO looks after finance, admin & procurement. All other departments are headed by executive directors.

Management Team Mian Alamgir, CEO of the Company has completed his BBA (Hons) and has been associated with the textile business since 2002, earning him excessive experience to run to handle the affairs of the Company. Other members of the management are also experienced and equipped with the knowledge of the Company and industry at large.

Effectiveness All department heads have access to MIS to generate reports, relevant to their departments. Management frequently meets to discuss any issues affecting the smooth flow of business operations, however, there are no management committees.

MIS The Company has developed an in-house ERP system to cater to the needs of the business. Senior management, including the CEO and Chairman monitor the business performance through certain key MIS reports.

Control Environment Production is completely order driven. The QC and HSE departments seem appropriate. The Company is ISO 9001 and ISO 14001 certified.

Business Risk

Industry Dynamics During 7MFY23, the textile exports were valued at $10.08bln compared to $10.93bln, reflecting an 8% decline YoY – the declining trend has been recorded in the last few months. The decline in exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand for yarn in international markets is also a challenge. The analysis of 5MFY23 reveals that among value-added items, bedwear has witnessed the largest decline of 19% (on an MoM basis), down to $217 million. Knitwear remained on the downward path in October 2022 and declined by 10% to $392 million. Among non-value-added items, cotton yarn has shown the largest decline of 35%. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve post-Jun-23.

Relative Position Allawasaya Textile and Finishing's position in the country's spinning capacity is considered small. However, combined with the spindle capacity of Allawasaya Spinning Mills Limited (38,232 Spindles), this share increases to a moderate extent but still remains lower than other similar groups in the spinning industry.

Revenues During FY22, the Company's revenue reflected an increase of 64% and clocked in at PKR 4,827mln (FY21: PKR 3,547mln) due to better yarn prices in the local market. The Company's revenues wholly comprise local yarn sales with adequate customer concentration. In 1HFY23, the Company topline stood at PKR 1,764mln and a net loss of PKR 104mln has been recorded.

Margins Due to the sizable increase in the cost of goods, the margins of the Company declined. In FY22, the gross profit margin stood at 9.4% (FY21: 10.2%) and the operating profit margin was at 6.8% (FY21: 7.8%). The finance cost of the Company increased to PKR 92mln in FY22 (FY21 PKR 51mln) due to the increased key policy rate. This is attributable to enhanced short-term borrowing which is a requirement of the course of business. Consequently, the Company's profitability reflected attribution to PKR 144mln (FY21: PKR 145mln). While in 1HFY23, the gross margin stood at 4.2% & operating margin was reported at 1.1%.

Sustainability Going forward, with better efficiency and a specialized product profile, the management expects the Company's margins to improve.

Financial Risk

Working Capital During FY22, the Company's working capital cycle remained largely the same (FY22: 58 days, FY21: 60 days). A decrease in inventory days to 32 days (FY21: PKR 48 days) was recorded. Furthermore, room-to-borrow at the trade level decreased (FY22: PKR 263mln; FY21: PKR 387mln) where the increase was recorded in the short-term borrowing (FY22: PKR 814mln; FY21: PKR 207mln) and an increase in net trade assets (FY22: PKR 1,248mln; FY21: PKR 637). This culminated in lower ST trade leverage adequacy (FY22: 21%; FY21: 61%). In 1HFY23, working capital days increased and clocked at 116 days which warrants attention.

Coverages The company's cash flows from operations – a factor of its profitability reflected slight attrition (FY22: PKR 274mln, FY21: PKR 277mln). This impact also reflected on the coverages immensely, with the interest coverage ratio during FY22 dropping to 3.5x (FY21: 5.6x) and the debt coverage ratio remaining stagnant at 1.8x (FY21: 1.8x).

Capitalization The Company's leverage increased during FY22 to 38.6% (FY21: 27%), mainly due increase in its borrowings. Short-term borrowings, which make up 74% of the total borrowings (FY22: PKR 1,093mln, FY21: PKR 462mln) increased to PKR 814mln (FY21: PKR 207mln), and long-term borrowings clocked in at PKR 207mln (FY21: PKR 151mln). The equity base of the company enhanced to PKR 1.7bln (end-Jun21: PKR 1.2bln). Going forward, the equity base should improve to enhance the risk absorption capacity of the company.

Allawasaya Textile & Finishing Mills Limited **Rating Report** **Mar-23** **www.PACRA.com**

The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Allawasaya Textile and Finishing Mills Limited	Dec-22	Jun-22	Jun-21	Jun-20
Textile | Spinning	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	2,225	2,142	1,395	1,426
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,777	1,382	724	931
a Inventories	*1,098*	*568*	*271*	*538*
b Trade Receivables	*412*	*553*	*332*	*248*
5 Total Assets	4,001	3,523	2,119	2,357
6 Current Liabilities	613	480	238	412
a Trade Payables	*222*	*161*	*35*	*192*
7 Borrowings	1,530	1,093	462	724
8 Related Party Exposure	21	-	-	-
9 Non-Current Liabilities	208	212	170	118
10 Net Assets	1,629	1,739	1,249	1,104
11 Shareholders' Equity	1,629	1,739	1,249	1,104
B INCOME STATEMENT				
1 Sales	1,764	4,827	3,547	2,657
a Cost of Good Sold	*(1,691)*	*(4,372)*	*(3,184)*	*(2,481)*
2 Gross Profit	73	455	363	177
a Operating Expenses	(55)	(129)	(85)	(74)
3 Operating Profit	19	327	278	103
a Non Operating Income or (Expense)	*3*	*(16)*	*(10)*	*(2)*
4 Profit or (Loss) before Interest and Tax	21	311	268	101
a Total Finance Cost	*(108)*	*(92)*	*(51)*	*(78)*
b Taxation	*(18)*	*(75)*	*(71)*	*(8)*
6 Net Income Or (Loss)	(104)	144	145	15
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*(9)*	*274*	*277*	*124*
b Net Cash from Operating Activities before Working Capital	*(85)*	*190*	*218*	*46*
c Changes in Working Capital	*(236)*	*(444)*	*39*	*(204)*
1 Net Cash provided by Operating Activities	(321)	(254)	256	(158)
2 Net Cash (Used in) or Available From Investing Activities	(126)	(329)	(16)	(39)
3 Net Cash (Used in) or Available From Financing Activities	453	586	(261)	529
4 Net Cash generated or (Used) during the period	6	3	(21)	332
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-26.9%	36.1%	33.5%	27.1%
b Gross Profit Margin	4.2%	9.4%	10.2%	6.7%
c Net Profit Margin	-5.9%	3.0%	4.1%	0.6%
d Cash Conversion Efficiency (FCFO adjusted for Working C	-13.9%	-3.5%	8.9%	-3.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	-12.4%	9.6%	12.4%	1.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	136	65	71	89
b Net Working Capital (Average Days)	116	58	60	64
c Current Ratio (Current Assets / Current Liabilities)	2.9	2.9	3.0	2.3
3 Coverages				
a EBITDA / Finance Cost	0.7	4.8	6.6	2.1
b FCFO / Finance Cost+CMLTB+Excess STB	-0.1	1.8	1.8	1.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	-1.9	1.4	1.1	4.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equit	48.8%	38.6%	27.0%	39.6%
b Interest or Markup Payable (Days)	101.0	88.8	76.4	87.9
c Entity Average Borrowing Rate	14.8%	8.4%	7.7%	12.8%

Credit Rating

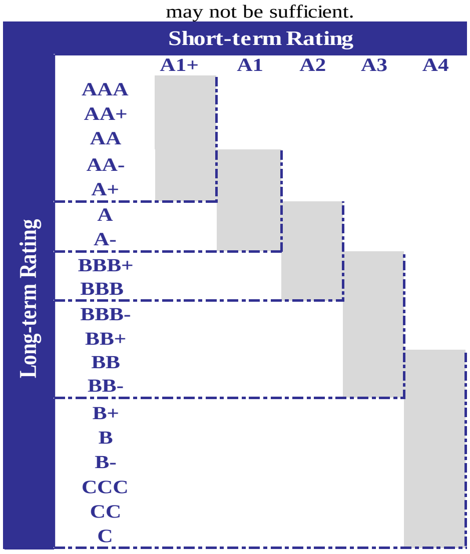
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High credit risk.** A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**Very high credit risk.** Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

Short-term Rating

Scale	Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

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

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(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
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(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)

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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(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)
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Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
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