



The Pakistan Credit Rating Agency Limited

Rating Report

Allawasaya Textile & Finishing Mills Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
01-Mar-2024	BBB	A2	Stable	Maintain	Yes
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

The rating reflects the adequate presence of Allawasaya Textile and Finishing Mills Limited (“the Company” or “AWTX”) in textile industry of Pakistan. The principal activity of the Company is the manufacturing and sale of yarn with an operating capacity of 46,488 spindles. The three companies primarily operate under the umbrella of Allawasaya group which includes Allawasaya Spinning Mills (Pvt) Limited, Allawasaya Textile and Finishing Mills Limited and Shah Shams Cotton Industries (Pvt) Limited reflects adequate financial strength. The board is dominated by the sponsoring family and acts more in an execution role as they possess considerable industry-specific exposure. The management structure of the Company reflects adequate delegation of authority matrix. The product slate of the Company includes PC(Polyester Cotton) Yarn, PV (Polyester Viscose) yarn and CVC (Chief Value of Cotton) Yarn with an average yarn count of 29s. During FY23, the Company’s profitability matrix and business fundamentals are under stress due to a dip in local and international yarn demand coupled with escalated energy tariffs. This resulted in net losses incurred in FY23. However, slight improvement is observed in the company’s performance during 1HFY24 owing to raw material procurement efficiency. The financial risk profile of the Company is adequate considering the leveraged capital structure and slightly stretched working capital management depicting industry norms. The cashflows and coverages of the Company are considered adequate and needs improvement. The company’s performance will be observed in the upcoming quarters with prime focus on converting operational efficiency into internally generated sufficient cashflows to supplement the core business operations. The spinning industry is highly fragmented and consists of ~368 dedicated spinning units with an estimated size of PKR 775bln and 13.4mln number of spindles installed as of FY23 according to an economic survey of Pakistan. The projected cotton production estimate is revised and projected to be 11.5mln bales and currently, production reached up to ~8.26mln bales surpassing FY23 total production of 4.91mln bales. During FY24 better local raw cotton yield is expected to supplement the Companies for import substitution. Pakistan’s requirement for imported cotton stands at 3.5 million bales to 4 million bales this year. The recent elevation of energy tariffs and the availability of locally procured raw cotton are the prime challenges specific to the industry.

The ratings are dependent upon the Company’s ability to improve its performance in terms of business fundamentals sustainability a devise strategy to manage inflated energy costs in the future. The maintenance of capacity utilization at an optimal level while generating sufficient cashflows and coverages remains critical for the ratings. The adherence to the debt matrix at an adequate level is a prerequisite for an assigned rating.

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(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Spinning(Sep-23)
Rating Analysts	Muhammad Harris Ghaffar harris.ghaffar@pacra.com +92-42-35869504

Profile

Legal Structure Allawasaya Textile & Finishing Mills Limited ('The Company' or 'Allawasaya Textile') is a public listed company engaged in the manufacturing and sale of cotton yarn and man-made fibers.

Background The Company was incorporated in 1958 as a private limited Company. It was converted into a public limited Company in 1965. The Company is engaged in the production and sale of cotton yarn and manmade fibers and has since expanded both its operations and clientele

Operations The primary business of the Company is the production of Polyester Viscose (PV), Pure Viscose (Staple Yarn), and Polyester Cotton (PC) with a count range of 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 unit, the total number of spindles installed is 46,488 (FY22: 38,232 spindles).

Ownership

Ownership Structure The business is primarily owned by three families which are all related. Mian Idrees Ahmed Sheikh, who was previously associated with the Maqbool group. He along with his family collectively holds 24.28% of the shareholding. Mian Jamil is the head of the Jamil Family and collectively owns 26.30% of the total shareholding. Lastly, Mian Tauqir is the head of the Tauqir family, which owns 12.20% of the total shareholding in the Company.

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

Business Acumen Besides Allawasaya Textile and Finishing Mills Limited, the sponsors possess shareholdings in Allawasaya Spinning Mills and Shah Shams Cotton Industries (Pvt.) Ltd.

Financial Strength Out of the three sponsor families, i) Maqbool Family has investments in other textile companies and the hospitality sector, ii) the Tauqir family has a diverse portfolio of investments in a number of other textile companies and iii) Jamil family has 100% stake in Allawasaya Spinning Mills Pvt Ltd.

Governance

Board Structure Eleven-member board is comprised of representatives from sponsor families and two independent directors. Despite a good mix of executive and nonexecutive 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 Mrs. Nusrat Jamil replaced her husband Mian Muhammad Jamil as the Chairman of the Company during FY19. She has been affiliated with the board of the Company for almost two years now. Mian Muhammad Jamil (Jamil Family) is a graduate of textile engineering from National College of Textile Engineering, Faisalabad. He has been associated with the Company for the last 46 years. Mian Idrees Ahmad Sheikh has an overall experience of over 30 years. Mian Tauqir Ahmed Sheikh (Tauqir Family) is also an MBA and acts as a non-executive director on the board

Board Effectiveness In line, with the guidelines of code of corporate governance, the board is supported by two committees to assist on relevant matters.

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 2023.

Management

Organizational Structure The organizational 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 CEO oversees the finance, admin & procurement department, the Chairman looks after the production while other departments are headed by other executive directors.

Management Team Allawasaya Textile places high importance on experience and all members of the management have extensive experience. Mian Alamgir Jamil Khan is the current CEO of the Company

Effectiveness The Company has no management committees. All department heads have access to the MIS to generate relevant reports according to their departments

MIS The Company's operating environment depends upon an IT Infrastructure supported by an in-house programmed ERP. The implementation is deemed to be successful as per the CFO and IT head of the Company. The IT system is fully integrated in all major departments and ensures proper financial and operational control.

Control Environment The senior management including the CEO and Chairman monitor the business performance through certain key MIS reports. Daily reports include cash and bank position, stock consumption, per spindle cost, receivables, and inventory status while monthly production accounts are also maintained.

Business Risk

Industry Dynamics The spinning industry is highly fragmented and consists of ~368 dedicated spinning units with an estimated size of PKR 775bln and 13.4mln number of spindles installed as of FY23 according to an economic survey of Pakistan. The projected cotton production estimate is revised and projected to be 11.5mln bales and currently, production reached up to ~8.26mln bales surpassing FY23 total production of 4.91mln bales.

Relative Position The spinning industry is highly fragmented and consists of ~368 dedicated spinning units with an estimated size of PKR 775bln and 13.4mln number of spindles installed as of FY23 according to an economic survey of Pakistan. Keeping the figures in consideration, Allawasaya's textile's relative position will be considered adequate with an operational capacity of 46,224 spindles.

Revenues During FY23, the Company's revenue witnessed a decline in their turnover and stood at PKR 3,776mln (FY22: 4,827mln) owing to the local demand shortage of yarn. The Company has a brand-based clientele, notably A.B Exports and the total revenue is generated from the local market. During 1HFY24, the revenue base of the company sizeably improved and stood at PKR 3,128mln.

Margins During 1HFY24, the gross profit witnessed incline and stood at PKR 275mln on the back of high turnover. Due to higher interest rates, the finance cost increased sizably to stand at PKR 144mln (1HFY23: PKR 108mln). Consequently, the company recorded net profit of PKR 29mln (1HFY23: loss of PKR 104mln). The company's gross margin inclined to 8.8% during 1HFY24 (1QFY23: 4.2%) while the operating margin was recorded at 6.6% (1HFY23: 1.1%). The net profit margin also illustrated an upward trend and was recorded at 0.9% attributable to higher turnover.

Sustainability The company has installed new spindles in their production facility during FY23 to take the capacity from 38,234 spindles to 46,488 spindles. Going forward, with better efficiency and a specialized product profile, the management expects the Company's margins to improve.

Financial Risk

Working Capital During FY23, the Company's working capital requirement has deteriorated which is evident from the increase in net working capital days (FY23: 95 days, FY21: 58 days). The reason behind this was the increase in inventory days to 73 days (FY22: PKR 32 days). Furthermore, room-to-borrow at the trade level decreased (FY23: PKR 8mln; FY22: PKR 263mln)

Coverages The company's cash flows from operations – a factor of its profitability witnessed decline (FY23: PKR 33mln, FY22: PKR 274mln) because of the high tax. This impact also reflected on the coverages immensely, with the interest coverage ratio during FY23 dropping to 0.1x (FY22: 3.5x) and the debt coverage ratio remaining stagnant at 0.1x (FY22: 1.8x)

Capitalization The Company's leverage increased during FY23 to 48.6% (FY22: 38.6%), mainly due increase in its borrowings. Short-term borrowings, which make up 90% of the total borrowings



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Allwasaya Textile and Finishing Mills Limited Textile Spinning	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
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A BALANCE SHEET

1 Non-Current Assets	2,273	2,304	2,142	1,395
2 Investments	15	15	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,607	1,650	1,382	724
a Inventories	700	935	568	271
b Trade Receivables	576	406	553	332
5 Total Assets	3,896	3,969	3,523	2,119
6 Current Liabilities	787	786	480	238
a Trade Payables	352	344	161	35
7 Borrowings	1,277	1,380	1,093	462
8 Related Party Exposure	108	105	-	-
9 Non-Current Liabilities	127	129	212	170
10 Net Assets	1,597	1,568	1,739	1,249
11 Shareholders' Equity	1,597	1,568	1,739	1,249

B INCOME STATEMENT

1 Sales	3,128	3,776	4,827	3,547
a Cost of Good Sold	(2,853)	(3,631)	(4,372)	(3,184)
2 Gross Profit	275	145	455	363
a Operating Expenses	(68)	(115)	(129)	(85)
3 Operating Profit	207	29	327	278
a Non Operating Income or (Expense)	2	19	(16)	(10)
4 Profit or (Loss) before Interest and Tax	209	48	311	268
a Total Finance Cost	(144)	(249)	(92)	(51)
b Taxation	(37)	36	(75)	(71)
6 Net Income Or (Loss)	29	(165)	144	145

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	216	33	274	277
b Net Cash from Operating Activities before Working Capital	65	(166)	190	218
c Changes in Working Capital	47	2	(444)	39
1 Net Cash provided by Operating Activities	112	(164)	(254)	256
2 Net Cash (Used in) or Available From Investing Activities	(10)	(227)	(329)	(16)
3 Net Cash (Used in) or Available From Financing Activities	(80)	387	586	(261)
4 Net Cash generated or (Used) during the period	22	(4)	3	(21)

D RATIO ANALYSIS

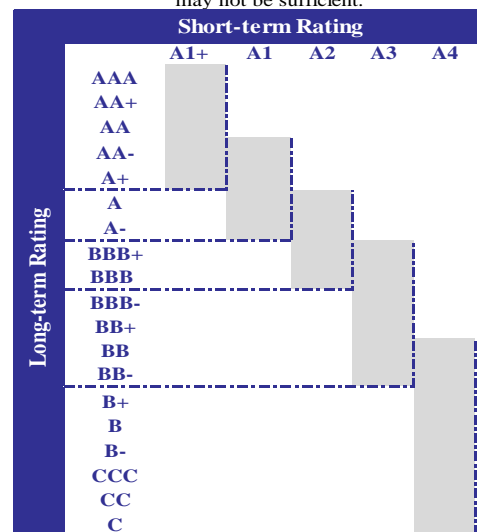
1 Performance				
a Sales Growth (for the period)	65.7%	-21.8%	36.1%	33.5%
b Gross Profit Margin	8.8%	3.8%	9.4%	10.2%
c Net Profit Margin	0.9%	-4.4%	3.0%	4.1%
d Cash Conversion Efficiency (FCFO adjusted for Working C	8.4%	0.9%	-3.5%	8.9%
e Return on Equity [Net Profit Margin * Asset Turnover * (T	3.7%	-10.0%	9.6%	12.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	76	119	65	76
b Net Working Capital (Average Days)	56	95	58	64
c Current Ratio (Current Assets / Current Liabilities)	2.0	2.1	2.9	3.0
3 Coverages				
a EBITDA / Finance Cost	2.0	0.5	4.8	6.6
b FCFO / Finance Cost+CMLTB+Excess STB	0.8	0.1	1.8	1.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	3.4	-3.0	1.4	1.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equit	46.5%	48.6%	38.6%	27.0%
b Interest or Markup Payable (Days)	83.7	109.2	88.8	76.4
c Entity Average Borrowing Rate	18.1%	16.5%	8.3%	7.7%

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+	
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-	
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	
CC	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.
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):

- 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

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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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- (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)

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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)
- (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)

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