



The Pakistan Credit Rating Agency Limited

## Rating Report

### Allawasaya Textile & Finishing Mills Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Dec-2018	BBB-	A3	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect Allawasaya Textile & Finishing Mills Limited's (The Company) association with three industrial families of Multan and demonstrated support of sponsors. Besides the company, sponsors have presence in the oilseed extraction industry and textile value-chain. The company has relatively small size, lower margins, and limited profitability, as compared to peers. The rising interest rate environment could put further pressure on margins. The Company has plans to undertake BMR in the current year to add and replace its spindles to increase efficiency and improve margins. The financial profile of the company is characterized by moderate leveraging and adequate coverages. The entire debt structure of the company is comprised of short-term borrowings.

The ratings are dependent upon the sponsor support and management's ability to improve margins, profitability and financial profile of the company. This includes keeping the debt levels manageable and improve the company's competitive position in the industry.

#### Disclosure

<b>Name of Rated Entity</b>	Allawasaya Textile & Finishing Mills Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-18),Methodology   Criteria   Rating Modifier(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
<b>Related Research</b>	Sector Study   Textile(Oct-18)
<b>Rating Analysts</b>	Muhammad Hassan   muhammad.hassan@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Allawasaya Textile & Finishing Mills Limited (Allawasaya Textile), is listed entity on the Pakistan Stock Exchange.

**Background** Allawasaya Textile was established by two friends in 1958 as a single unit of spinning in Multan. The company is engaged in the production and sale of cotton yarn and man-made fibers.

**Operations** The company operates with 25,000 spindles and has the capacity to produce 13mln Kgs of yarn annually. The company is self-sufficient in energy and has a production capacity of 4.2MW.

## Ownership

**Ownership Structure** The business is owned by three well-respected business families of Multan. This includes i) Tauqir Family (38%), ii) Jamil Family (36%) and Maqbool Family (25%).

**Stability** The sponsor families are all related, and the third generation of the Jamil family has already joined the company.

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

**Financial Strength** As at Jun18, the total equity of Maqbool Group stood at ~PKR 1.9bln, while the total equity for Jamil Group stood at ~PKR 500mln. Included in the company assets, is a piece of land spanning over 38 acres.

## Governance

**Board Structure** Eleven member board comprised of representatives from sponsor families and independent directors. Despite having a good mix of the executive and non-executive members, sponsor domination on the board undermines the governance structure. Mian Muhammad Jamil, head of Jamil family, is the Chairman of the board. Mian Tanvir Ahmed Sheikh, Chairman of the Maqbool Group, is the current CEO of the company. Mian Tauqir sits on the board as a non-executive director.

**Members' Profile** All board members are highly qualified in different disciplines and carry ample experience of textile as well other industries. Besides Allawasaya Textile the members hold directorships in other companies as well.

**Board Effectiveness** Inline with the guidelines of the corporate governance, the board is supported by i) Audit Committee and ii) HR & Remuneration Committee. However, the quality of board minutes needs improvement.

**Financial Transparency** Deloitte M/S Yousaf Adil & Co. Chartered Accountants 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 2018.

## 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 oversees the finance, admin & procurement while Chairman looks after production. All other departments are headed by executive directors.

**Management Team** Mian Jamil is a textile engineer and carries 45 years of experience. Mian Tanvir did his MBA from the USA and has diverse professional experience of 37 years. All other members of the management team are also well qualified and experienced.

**Effectiveness** There are no management committees as such and minutes are not recorded.

**MIS** The company has developed an in-house ERP system to cater to the needs of the business. The 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 FY18, total textile exports of Pakistan stood at ~USD 13.5bln, a 9% growth YoY. Re-imposition of the customs duty on cotton imports, coupled with the exclusion of the tax rebate on yarn and Greig fabric may put pressure on the industry margins.

**Relative Position** The company has been operating since 1958 and enjoys strong sponsor support. However, on a standalone basis, the market share of the Allawasaya Textile in the spinning industry remains small.

**Revenues** The company has no exports and all output is sold in the local market. During FY18 the company's revenues clocked in at ~PKR 2,168mln, posting a growth of 10.3% YoY. This is attributable to improved local industry dynamics, in turn, better product pricing. While, in 1QFY19 the company's top-line continued the growth trend.

**Margins** The company's gross margins improved during the year (FY18: 5.8%, FY17: 2.5%), a factor of lower than proportionate increase in cost of sales (~6.6%), owing to prudent inventory procurement. This was followed by higher operating margins (FY18: 2.8%, FY17: -0.5%). The company's better margins and stagnant finance costs, eventually translated into improved bottom-line ~PKR 18mln (FY17: loss of PKR 40mln). Whereas, in 1QFY19 the company's margins followed the growth trend, reflected from higher margins (gross - 1QFY19: 6.9%, net - 1QFY19: 3.5%).

**Sustainability** In line with the improving business environment, the company plans to carry out BMR including replacement of 15,000 and addition of 10,000 spindles. The total cost of CAPEX has been estimated at ~PKR 300mln. The planned BMR is expected to bring in efficiency gains, lowering the energy cost per spindle, consequently improving the margins.

## Financial Risk

**Working Capital** The company's reliance on STB has increased during the year, portraying prudent management of cash flows. At the same time, STB remained well covered when compared to net trade asset, portraying sufficient room to borrow. Meanwhile, the company's cash cycle has improved, reflected from lower net working capital days (FY18: 54days, FY17, 60days); considered strong. The trend of improving working capital cycle continued in 1QFY19, reflected from better working capital days (gross - 1QFY19: 45days, net - 1QFY19: 42days), largely led by lower inventory.

**Coverages** During FY18, the company's operating cash flows (FCFO) improved ~PKR 62mln, which is attributable to better profitability. Eventually, it has translated into better interest and debt coverages (FY18: 2.5x, FY17: 0.5x) and (FY18: 2.5x, FY17: 0.5x), respectively. Whereas, the coverage further strengthened in 1QFY19 (interest - 1QFY19: 7.7x, debt - 1QFY19: 7.7x). Going forward, rise in interest rate may stretch the company's coverages.

**Capitalization** The company has a low leveraged capital structure (~24.1%) at end-June 18, wholly comprising short term borrowing. During 1QFY19, the company's leveraging declined (~12.8%), on the back of lower short term borrowing.



The Pakistan Credit Rating Agency Limited

## Spinning

Financial Summary

PKR mln

### Allawasaya Textile & Finishing Mills Limited

BALANCE SHEET	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
	1QFY19	FY18	FY17	FY16
<b>Non-Current Assets</b>	<b>848</b>	<b>854</b>	<b>885</b>	<b>893</b>
<b>Investments (Incl. Associates)</b>	-	-	-	-
Equity	-	-	-	-
Debt Instruments	-	-	-	-
<b>Current Assets</b>	<b>407</b>	<b>506</b>	<b>378</b>	<b>454</b>
Inventory	157	263	161	253
Trade Receivables	154	127	143	146
Others	96	117	74	55
<b>Total Assets</b>	<b>1,257</b>	<b>1,361</b>	<b>1,264</b>	<b>1,347</b>
<b>Debt</b>	<b>124</b>	<b>262</b>	<b>214</b>	<b>271</b>
Short-Term	124	262	214	271
Long-Term (Incl. Current Maturity of Long-Term Debt)	-	-	-	-
Other short-term liabilities	198	173	136	112
Other long-term liabilities	95	96	107	120
<b>Shareholders' Equity</b>	<b>839</b>	<b>828</b>	<b>807</b>	<b>845</b>
<b>Total Liabilities &amp; Equity</b>	<b>1,257</b>	<b>1,361</b>	<b>1,264</b>	<b>1,347</b>
<b>INCOME STATEMENT</b>				
<b>Turnover</b>	<b>602</b>	<b>2,168</b>	<b>1,966</b>	<b>1,673</b>
Gross Profit	42	125	49	51
Net Other Income	(1)	(3)	(2)	1
Financial Charges	(4)	(21)	(21)	(13)
<b>Net Income</b>	<b>10</b>	<b>18</b>	<b>(40)</b>	<b>(38)</b>
<b>CASH FLOW STATEMENT</b>				
Free Cashflow from Operations (FCFO)	28	62	(11)	(19)
Net Cash changes in Working Capital	93	(66)	95	(101)
Net Cash from Operating Activities	116	(23)	83	(132)
Net Cash from Investing Activities	(2)	-	(28)	(7)
Net Cash from Financing Activities	(139)	48	(57)	134
<b>RATIO ANALYSIS</b>				
<b>Performance</b>				
Turnover Growth	22.6%	34.9%	17.5%	-4.9%
Gross Margin	6.9%	5.8%	2.5%	3.0%
Net Margin	1.7%	0.8%	-2.1%	-2.3%
<b>Coverages</b>				
Interest Coverage (FCFO/Gross Interest)	7.7	2.9	-0.5	-1.4
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	7.7	2.9	-0.5	-1.4
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	7.7	2.9	-0.5	-1.4
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest)	0.0	0.0	0.0	0.0
<b>Liquidity</b>				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	50.0	53.9	60.4	72.6
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	12.8%	24.1%	20.9%	24.3%

Allawasaya Textile & Finishing Mills Limited

December 2018

## Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> 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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> 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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.		
<b>D</b>	Obligations are currently in default.		



**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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

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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)

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- 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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