



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
30-Apr-2019	BBB-	A3	Stable	Maintain	-
28-Dec-2018	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect the adequate business profile of Allawasaya Textile and Finishing Mills Limited (the Company) and its 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 is involved in the manufacturing and sale of cotton yarn and man-made fibers. The Company has a small size, low margins and limited profitability. Recent devaluation of Pakistani currency had little impact on the Company's revenue, since all its sales are made in the local market, which combined with the underutilization of production capacity led to the Company making loss in 1HFY19. Meanwhile, completion of the Company's BMR is expected to bring in efficiency gains and improved margins. The financial profile of the Company is characterized by moderate leveraging and low coverages. Major share of the debt is short-term; however, long-term debt's share is rising since the inception of BMR.

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

Name of Rated Entity	Allawasaya Textile & Finishing Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Textile(Oct-18)
Rating Analysts	Muhammad Hassan muhammad.hassan@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 established in 1958 as a single unit of spinning in Multan. The Company is engaged in the production and sale of cotton yarn and made-made fibers.

Operations The Company currently operates with 30,592 spindles under a single spinning unit in Multan and has the capacity to produce 13mln kgs of yarn annually. The company is self-sufficient in energy and has an in-house production capacity of 4.2 MW and a 3.5MW total electricity demand.

Ownership

Ownership Structure The business is owned by three established business families of Multan. Namely 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 and Tauqir families has 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, value-adding segments of the textile industry and other spinning companies.

Financial Strength Allawasaya Finishing and Textile i) Maqbool family has investments in textile and hospitality sectors in Multan. ii) Tauqir family has a diverse portfolio of investments in Textile products. iii) Jamil family is also financially sound with 100% stake in Allawasaya Spinning Mills Pvt Ltd. The sponsors have enough financial strength to support business, if need be.

Governance

Board Structure Nine-member board is comprised of representatives from sponsor families and one independent director. Despite a good mix of 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 from the third sponsor family sits on the board as a non-executive director.

Members' Profile All the board members are highly qualified in different disciplines and carry ample experience in textile as well as other industries. Chairman, Mian Jamil is a textile engineer and carries 45 years of industry experience. Besides Allawasaya Textile and Finishing Mills Limited, the members hold directorships in other companies as well.

Board Effectiveness Inline with the guidelines of the corporate governance best practices, the board is supported by i) Audit Committee and ii) HR & Remuneration committee. However, the quality of board minutes still has room for 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 periods ended on 30th June 2018 and 31st December 2018. The auditor has an 'A' QCR rating

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

Management Team Mian Tanvir, company's CEO did his MBA from USA and has diverse professional experience, spanning over 37 years. All other members of the management team are also well qualified and experienced.

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 Textile exports of the country grew by ~9% in FY18, backed by devaluation of the rupee, bailout package from the government and GSP Plus Scheme of the EU. During 9MFY19, however, exports stagnated. Even though major segments including cotton cloth, knitwear, garments and bedwear displayed strong quantitative growth, industry players needed to share the benefit of the currency depreciation with their buyers which resulted in a unit price dip across all major categories, curbing overall growth. This, coupled with cotton yarn displaying double-digit quantitative decline on account of the US-China trade war as well as strong domestic demand for yarn, resulted in overall increase in exports of only ~0.1% YoY. Going forward, the devalued currency, recently announced relief in electricity tariffs for textile players as well as expected payment of tax refunds is expected to boost exports.

Relative Position With 30,592 operational Spindles, Allawasaya Textile and Finishing's position in Pakistan Spindle capacity is considered small. Once the in progress BMR completes, the total Spindle capacity would grow to 38,712 Spindles, consequently strengthening Company's market position. However, on standalone basis, the Company's share in local spinning industry is minimal.

Revenues The Company has no exports and all the output is sold in the local market. The revenues have seen a downward trend of 1.09% in 1HFY19 compared to same period last year. This is mainly due to decrease in sales volume because of under utilization of production capacity, compared to the same period last year.

Margins The gross margins in 1HFY19 remained under pressure (1HFY19: 3.7%, 1HFY18: 4.4%) due to increase in cost of cotton. Further, operating margins also declined in line with gross margins in 1HFY19 (1HFY19: 0.2%, 1HFY18: 1.6%) deferred tax from FY18 and increase in finance cost.

Sustainability In line with improving business environment, the Company is carrying out BMR, which increased total number of installed Spindles from 25,000 to current 30,591 in the first half of FY19. Upon its completion, BMR will further increase the number of spindles to 38,712. The total cost of CAPEX has been estimated at ~PKR 200mln of which 30% would be financed through equity and 70% through a long-term loan. 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 working capital cycle increases due to higher receivable days and during cotton procurement season. Working capital cycle increased to 71 days in 1HFY19 (1HFY18: 66 days). Similarly, average inventory days increased to 53 in 1HFY19 (1HFY18: 49 days). STB in 1HFY19 decreased to PKR 350mln, compared to the same period last year (1HFY18: 378mln) because 44% of the Spindles were nonoperational for BMR up-gradation.

Coverages The Company's cash flow from operations (FCFO), a factor of its profitability have decreased significantly in 1HFY19 to -8mln (1HFY18: 15mln). On the other hand, finance cost increased in 1HFY19 to 9.6mln (1HFY18: 8.4mln), consequently, both interest and debt coverages have declined (1HFY19: 0.9x, 1HFY18: 1.8x) and (1HFY19: 0.9x, 6MFY18: 1.9x). Going forward, rising interest rates may further strain Company's leverage.

Capitalization Allawasaya Finishing and Textile has moderately leveraged capital structure. In 1HFY19, leverage increased to 35.7% (1HFY18: 31.9%) primarily due to increased short-term debt to finance higher cotton procurement and long term borrowing to finance CAPEX. Short term borrowing in 1HFY19 made 78% of the total borrowings (1HFY18: 100%).



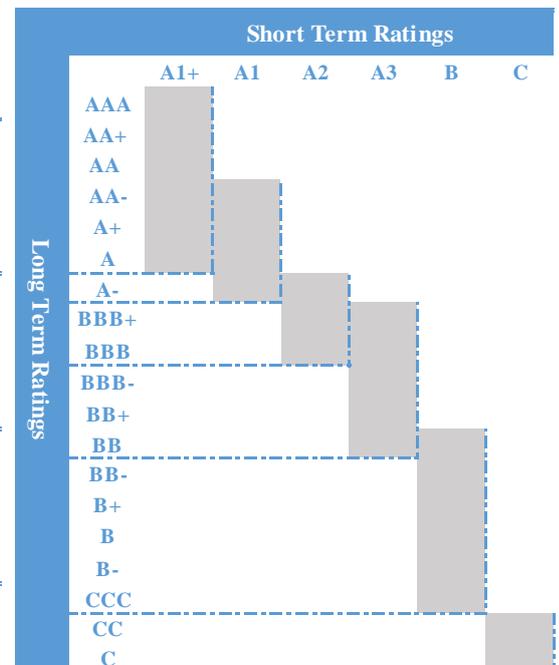
Allawasaya Spinning Mills (Pvt) Limited
Private Limited

A BALANCE SHEET	Dec-18 6M	Jun-18 12M	Jun-17 12M	Jun-16 12M
1 Non-Current Assets	300	303	313	323
2 Investments	-	-	-	-
a Equity Instruments	-	-	-	-
b Debt Instruments	-	-	-	-
3 Current Assets	145	182	129	180
a Inventory	98	85	59	67
b Trade Receivables	15	52	6	16
c Others	31	44	64	97
4 Total Assets	465	505	442	503
5 Borrowings	207	248	210	289
a Short-Term	47	47	31	91
b Long-Term (Incl. CMLTB)	161	201	178	198
6 Other Short-Term Liabilities	105	144	122	104
7 Other Long-Term Liabilities	5	-	-	-
8 Shareholder's Equity	147	113	110	110
9 Total Liabilities & Equity	465	505	442	503
B INCOME STATEMENT				
1 Sales	659	992	665	821
2 Gross Profit	22	34	10	16
3 Non Operating Income	(1)	(0)	19	0
4 Total Finance Cost	(4)	(10)	(14)	(16)
5 Net Income	3	3	0	(15)
C CASH FLOW STATEMENT				
1 Free Cash Flow from Operations (FCFO)	13	28	10	12
2 Total Cashflows (TCF)	13	28	10	12
3 Net Cash changes in Working Capital	(0)	(75)	98	(41)
4 Net Cash from Operating Activities	8	(54)	93	(46)
5 Net Cash from Investing Activities	(1)	(19)	17	0
6 Net Cash from Financing Activities	(11)	48	(79)	49
7 Net Cash generated during the period	(4)	(26)	31	3
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	33%	49%	-19%	#DIV/0!
b Gross Profit Margin	3%	3%	1%	2%
c Net Profit Margin	1%	0%	0%	-2%
d Return of Equity	5%	3%	0%	-13%
2 Working Capital Management				
a Gross Working Capital (Inventory Days + Receivable Days)	34.7	37.2	40.7	29.4
b Net Working Capital (Inventory Days + Receivable Days - Payable Days)	15.6	8.3	4.1	4.8
3 Coverages				
a Debt Service Coverage (FCFO / Finance Cost+CMLTB+Excess STB)	0.8	0.6	0.2	0.2
b Interest Coverage (FCFO / Finance Cost)	3.7	3.2	0.8	0.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	8.6	10.9	-62.8	-80.0
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Capital Structure (Current Borrowings / Total Borrowings)	16	8	4	5
b Capital Structure (Total Borrowings / Total Borrowings+Equity)	59%	69%	66%	72%

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	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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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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.
- (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 | 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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