



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-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 ratings reflect Allawasaya Textile and Finishing Mills Limited's (the Company) association with three industrial families of Multan and demonstrated support of sponsors. Sponsors have presence in the oilseed extraction industry and other segments of textile value-chain. The Company is involved in the manufacturing and sale of cotton yarn and man-made fibers. The Company enhanced its capacity during the year, though it still remains relatively small. Recent devaluation of Pakistani currency had no tangible impact on the Company's revenue, since all its sales are made in the local market. The margins of the Company were squeezed during first 3QFY19, which led to losses as business performance remained under pressure. However, with the completion of the Company's BMR in the last quarter of FY19, the Company's performance started to improve. The financial profile of the Company is characterized by moderate leveraging and low coverages. The Company took additional debt to finance BMR. Material improvement in cash flows, in line with upcoming debt obligations, remain imperative.

The ratings are dependent upon the sponsor support and management's ability to improve margins, profitability and the Company's competitive position in the industry. 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 Ratings(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Spinning(Sep-19)
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 in Multan and currently runs two spinning units. The Company is engaged in the production and sale of cotton yarn and made made fibers.

Operations The Company recently concluded a BMR, which increased its spindle capacity to 38,712 spindles, equally divided into two spinning units. The Company is self-sufficient in energy and has an in-house production capacity of 4.2 MW with 3.5MW total electricity demand.

Ownership

Ownership Structure The Company 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 generations of the Jamil and Tauqir families have already joined the business. 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 Out of three sponsor families, i) Maqbool Family has investments in other textile companies and hospitality sector, ii) Tauqir family has a diverse portfolio of investments in a number of other textile companies and the iii) Jamil family has 100% stake in Allawasaya Spinning Mills (Pvt.) Ltd. Cumulatively, the sponsors have requisite financial strength to support the Company, if 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 nonexecutive members, sponsor domination on the board undermines the governance structure. Mrs. Nusrat Jamil, a member of Jamil family, is the Chairperson of the board.

Members' Profile All board members are highly qualified in different disciplines and carry ample experience in textile as well as other industries. Chairperson, Mrs. Nusrat Jamil, 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 guidelines of 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 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 2019.

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

Management Team Mian Tanvir, the Company's CEO did his MBA from USA and has diverse professional experience, spanning over 38 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 in place.

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

Control Environment Production is completely order driven. The Quality Control and HSE departments are appropriately staffed. The Company is ISO 9001 and ISO 14001 certified.

Business Risk

Industry Dynamics During FY19, exports stagnated despite major segments including cotton cloth, knitwear, garments and bedwear displaying strong quantitative growth. Industry players needed to share the benefit of the currency depreciation with their buyers, which resulted in 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. Recently, withdrawal of textile's zero rated status has impacted the industry's overall liquidity and local sales.

Relative Position With 38,712 operational Spindles, Allawasaya Textile and Finishing's position in Pakistan's spinning industry is considered small.

Revenues During FY19, the Company's revenue showed a decline of 3.6% and clocked in at PKR 2,091mln (FY18: PKR 2,168mln), due to closure of a part of its spindle capacity for up gradation purpose. However, revenues improved in the last quarter of FY19, after the entire production capacity became operational with the conclusion of BMR. Sustaining momentum in revenue growth is important for the Company in coming years.

Margins During FY19, the Company's gross profit margin decreased to 4.7% (FY18: 5.8%) and operating profit margin to 1.3% (FY18: 2.8%) due to higher personnel cost and cotton prices. The Company recorded a net loss of PKR 16mln during FY19. On standalone basis, the Company made a profit of PKR 24mln in the fourth quarter of FY19 because of the recent capacity enhancement. The margins of the Company need to improve significantly to ensure future sustainability.

Sustainability The Company is expected to observe improved margins in the coming periods as a result of better yarn prices and the recent capacity enhancement after the conclusion of BMR.

Financial Risk

Working Capital During FY19, the Company's net working capital days increased to 61days (FY18: 54days) due to higher inventory (FY19: PKR 260mln, FY18: PKR 204mln) to meet higher production demand and to safeguard against hike in cotton prices. Trade receivable also increased to PKR 215mln (FY18: PKR 127mln) at the end of FY19, as the customers bought higher amounts of yarn to avoid sales tax implications under the new tax regime. The Company's room to borrow came down to 8% during FY19 (FY18: 31%) at trade level, depicting a disproportionate rise in STB borrowings against net trade assets.

Coverages The Company's FCF0 witnessed a significant decrease to PKR 20mln during FY19 (FY18: PKR 62mln) as the Company made a net loss in the period. This affected the coverages immensely, with interest coverage ratio dropping to 0.6x (FY18: 3.1x) and debt coverage ratio to 0.3x (FY18: 3.1x). Improving cash flows and coverages is imperative.

Capitalization The Company's leverage increased during FY19 to 32.4% (FY18: 24%), mainly due to increase in its borrowings. Short-term borrowings, which make up 62% of the total borrowings (FY19: PKR 521mln, FY18: PKR 262mln) increased to PKR 326mln (FY18: PKR 262mln) and long term borrowings for the BMR clocked in at PKR 173mln.

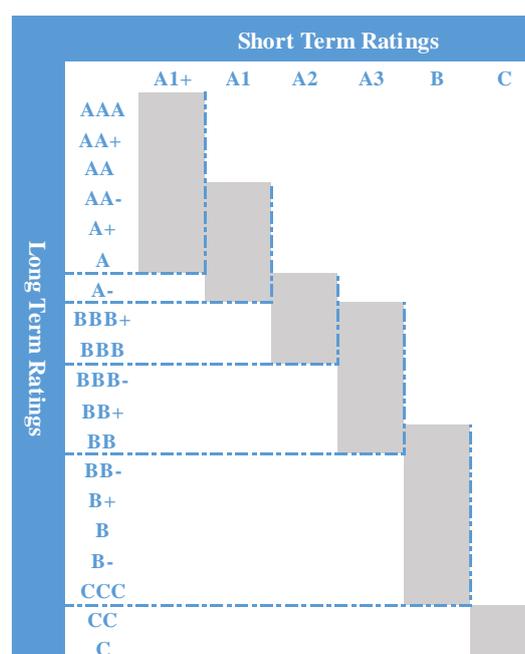


STATEMENT OF FINANCIAL POSITION		Jun-19	Jun-18	Jun-17
		12M <i>Audited</i>	12M <i>Audited</i>	12M <i>Audited</i>
A NON-CURRENT ASSETS				
1	Operating Fixed Assets - Owned and Leasehold	1,433	851	883
2	Intangible Assets	-	-	-
3	Other Non-Current Assets	2	2	2
4	Deferred Taxation	-	-	-
	<i>Non-Current Assets</i>	1,435	854	885
B INVESTMENTS				
1	Equity Instruments	-	-	-
2	Debt Instruments	-	-	-
3	Investment Property	-	-	-
	<i>Investments</i>	-	-	-
C RELATED PARTY EXPOSURE				
1	Equity Instruments	-	-	-
2	Debt Instruments (Including Lending)	-	-	-
3	Due from Related Parties	-	-	-
	<i>Related Party Exposure</i>	-	-	-
D CURRENT ASSETS				
1	Stores and Spares	26	20	20
2	Inventories			
	<i>a. Raw Material</i>	260	204	91
	<i>b. Work in Process</i>	14	12	11
	<i>c. Finished Goods</i>	19	47	60
		292	263	161
3	Trade Receivables	215	127	143
4	Advances to Suppliers	2	1	5
5	Taxes	56	41	25
6	Taxes Refundable	37	27	22
7	Other Current Assets	2	2	2
8	Cash and Bank Balances	19	26	1
	<i>Current Assets</i>	651	506	381
E TOTAL ASSETS (A+B+C+D)		2,085	1,360	1,266
F CURRENT LIABILITIES				
1	Trade Payables	174	19	33
2	Advances from Customers	5	5	8
3	Taxes	16	27	18
4	Interest or Markup Payable	19	-	-
5	Workers' Funds	22	17	10
6	Accrued Liabilities	87	97	66
7	Other Current Liabilities	2	8	2
8	Dividend Payable	1	1	1
	<i>Current Liabilities</i>	326	173	138
G BORROWINGS				
1	Current Maturity of Long-Term Borrowings	22	-	-
2	Short-Term Borrowings			
	<i>a. Borrowings From FI</i>	326	262	168
	<i>b. Borrowings From SBP</i>	-	-	46
	<i>Short-Term Borrowings</i>	326	262	214
3	Long-Term Borrowings			
	<i>a. Borrowings From FI</i>	173	-	-
	<i>b. Borrowings From SBP</i>	-	-	-
	<i>Long-Term Borrowings</i>	173	-	-
4	Debt Instruments	-	-	-
	<i>Borrowings</i>	521	262	214
H RELATED PARTY EXPOSURE				
1	Borrowings	-	-	-
2	Subordinate Borrowings	-	-	-
3	Preference Share Capital	-	-	-
4	Due to Related Parties	-	-	-
	<i>Related Party Exposure</i>	-	-	-
I NON-CURRENT LIABILITIES				
1	Deferred Taxation	149	96	107
2	Other Non-Current Liabilities	-	-	-
	<i>Non-Current Liabilities</i>	149	96	107
J NET ASSETS (E-F-G-H-I)		1,089	828	807
K SHAREHOLDERS' EQUITY				
1	Ordinary Share Capital	8	8	8
2	Capital Reserves	-	-	-
3	Revaluation Reserve			
	<i>a. Fixed Assets</i>	844	555	564
	<i>b. Investments</i>	-	-	-
		844	555	564
4	Revenue Reserves			
	<i>a. General Reserves</i>	83	83	83
	<i>b. Unappropriated Profit</i>	154	182	153
		237	265	235
	<i>Shareholders' Equity</i>	1,089	828	807
L MEMORANDUM ITEM/S				
1	Short Term Borrowing Limits	700	660	660

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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- 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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- (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.
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
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- (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)

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- (19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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