



The Pakistan Credit Rating Agency Limited

Rating Report

Allawasaya Spinning Mills (Pvt) Limited

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Rating History

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

Rating Rationale and Key Rating Drivers

Allawasaya Spinning Mills (Pvt.) Limited is a spinning mill engaged in the manufacturing and sale of yarn. The Company manufactures various types of cotton rings and open-end yarn and generates almost 100% of its sales through local customers (70% are from Karachi and 30% are from Faisalabad). Assigned ratings take into account double-digit revenue growth and stood at PKR 3.7bln (FY21: PKR 1.5bln). The profitability of the Company has grown over the years supported by the margins led by operating efficiencies. The company's financial risk profile remains good. Following the improvement in cash flows, interest, and debt coverages along with consistently low leveraged capital structure. In 1HFY23, the Company's performance observed 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 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 Allawasaya Spinning's margins to improve further.

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 management's ability to improve margins, profitability, and financial profile of the Company. This includes keeping the debt levels manageable and improving the business profile of the company in upcoming quarters. Sponsor's support and business acumen remain important for the ratings.

Disclosure

Name of Rated Entity	Allawasaya Spinning Mills (Pvt) 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 Spinning Mills (Pvt) Limited ('Allawasaya Spinning' 'The Company') was established in 2004. The Company is a part of Allawasaya Group, with Allawasaya Textile & Finishing Mills Limited being the other group company, which is operational since 1958. The Company's production facility is located in Multan.

Background The Company is a venture of "Jamil Family", a well-respected family of industrialists in Multan. The Company is engaged in the production of cotton yarn and man-made fibres.

Operations The Company operates a single spinning unit with 26,608 spindles. The Company's head office and production facility are located in Multan, on a 38 acres area that the Company shares with Allawasaya Textile and Finishing Limited. The Company utilizes in-house production as well as MEPCO connections.

Ownership

Ownership Structure Mian Muhammad Jamil owns the company (7%) directly and (32%) indirectly through his daughters. Mian Alamgir Jamil, son of Mian Jamil owns (47%) directly and (14%) indirectly through his wife.

Stability The Company was set up to engage and transfer over the technical and business skills of the first generation to the second generation of the Jamil family. The Company encompasses the advice and expertise of first-generation and leadership of the new generation. Although, no official succession plan has been announced to date.

Business Acumen Besides Allawasaya Spinning, the family has a 34% stake in Allawasaya Textile & Finishing Mills Limited, which is engaged in the production of yarn as well. The sponsors have vast experience and knowledge of various aspects of the textile value chain.

Financial Strength Jamil family has a major stake in Allawasaya Textile & Finishing Mills Limited. Both Allawasaya's collectively own 38 acres of land as their premises, most of which is not being utilized. The Company's management aims to capitalize on this asset by starting a real estate development project in the future.

Governance

Board Structure The overall control of the Company vests in the two-member board of directors. All members of the board are representatives of the sponsors. Despite being a private limited company, sponsor domination on the board undermines the board's effectiveness. Mr. Mian Muhammad Jamil is the current Chairman.

Members' Profile All the board members are highly qualified in different disciplines and carry ample experience in textile as well as other industries. Mian Muhammad Jamil is a textile engineer and carries 45 years of industry experience. Mian Alamgir has been associated with the textile business since 2002 and holds a BBA. Both board members are also on the board of directors of Allawasaya Textile and Finishing Mills Limited.

Board Effectiveness Being a private Company, Allawasaya Spinning does not comply with the code of corporate governance and there is no independent director on the board. There is no system to record the board minutes and the overall governance structure needs improvement.

Financial Transparency External auditors of the company "PKF F.R.A.N.T.S & Co" are listed under category "B" by SBP. The auditors issued an unqualified opinion on the Company's financial statements for FY22.

Management

Organizational Structure The organizational structure of the Company is divided into three main departments namely, i) Finance, Admin & Marketing, ii) Purchase, and iii) Production. The finance, admin, and marketing department reports directly to the CEO while other departments report to the Chairman.

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 the excessive experience to handle the affairs of the Company. Other members of the management are also experienced and equipped with knowledge of the Company and industry at large.

Effectiveness The Company has no management committees. The Sponsor's close involvement in the day-to-day affairs of the business bodes well for the effectiveness of the Company.

MIS The Company has built an in-house ERP to cater to its business needs. The senior management monitors the business performance through certain key MIS reports.

Control Environment The production is completely order driven, there is a rigorous quality check done on the end product by the QC department. The Company has obtained ISO 9001 certification.

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 With 26,608 operational spindles, Allawasaya Spinning Mills' position in Pakistan's Spindle capacity is considered small.

Revenues The Company does not have a brand-based clientele and sells all of its output locally in Faisalabad through sales brokers. The revenue of Allawasaya Spinning doubled to PKR 3.7bln in FY22 (FY21: PKR 1.5bln) largely on account of capacity expansion.

Margins The expenses increased in line with the growth in sales revenue. During FY22, the Company's cost of goods sold increased to PKR 3.4bln (FY21: PKR 1.4bln), mainly driven by a hike in raw material and energy costs YoY. Operating expenses also increased to PKR 37mln (FY21: 16mln). The impact of the increase in the cost of goods sold and operating expenses was overshadowed by the increase in revenue. Consequently, the gross profit margin declined to 6.7% (FY21: 7.5%) and the operating profit margin to 5.7% (FY21: 6.4%).

Sustainability Going forward, the Company's revenue and margins are expected to remain under pressure. The management is eying to handle business affairs prudently in the upcoming quarters.

Financial Risk

Working Capital The Company's working capital needs are driven by its inventory requirements of cotton, polyester, and viscose through a mix of internal generation and short-term borrowings. During FY22, the Company's working capital requirement increased to 28days (FY21: 20days) because of receivable days (FY22: 25days, FY21: 19days). On the other hand, the Company's short-term trade leverage displayed attrition and stood at 24% (FY21: 37%) as its trade assets stood at PKR 729mln and short-term borrowings at PKR 329mln.

Coverages The Company's cash flows from operations, a factor of its increase in EBITDA, witnessed an uptick and clocked in at PKR 236mln (FY21: PKR 114mln). Furthermore, due to the increase in the policy rate, the finance cost of the Company increased to stand at PKR 35mln (FY21: PKR 10mln). Consequently, the coverage reflected a decline. The interest coverage ratio, decreased to 5.0x (FY21: 7.3x), and the debt coverage ratio also slightly reduced to 1.4x (FY21: 1.5x).

Capitalization During FY22, the Company's leverage exhibited an increase to 40.7% (FY20: 34.7%) due to the increase in short-term debt, which came up to PKR 329mln (FY21: 30mln). Short-term borrowings make up 64% of the total borrowings. The equity base of the company reflected an increase to stand at PKR 755mln (end-Jun21: PKR 477mln).



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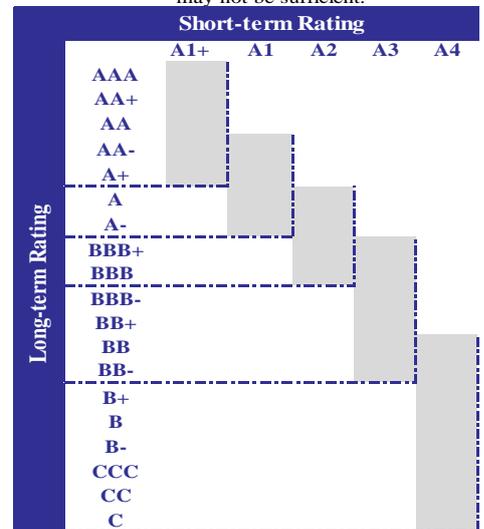
Allawasaya Spinning Mills (Pvt.) Limited Spinning	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET			
1 Non-Current Assets	875	667	553
2 Investments	10	24	32
3 Related Party Exposure	-	-	-
4 Current Assets	942	300	276
<i>a Inventories</i>	253	103	106
<i>b Trade Receivables</i>	431	72	86
5 Total Assets	1,827	991	861
6 Current Liabilities	422	191	207
<i>a Trade Payables</i>	212	82	123
7 Borrowings	441	170	127
8 Related Party Exposure	78	83	109
9 Non-Current Liabilities	132	70	78
10 Net Assets	755	477	340
11 Shareholders' Equity	755	477	340
B INCOME STATEMENT			
1 Sales	3,688	1,493	1,160
<i>a Cost of Good Sold</i>	(3,442)	(1,382)	(1,098)
2 Gross Profit	246	111	62
<i>a Operating Expenses</i>	(37)	(16)	(12)
3 Operating Profit	210	96	49
<i>a Non Operating Income or (Expense)</i>	(3)	11	0
4 Profit or (Loss) before Interest and Tax	207	107	50
<i>a Total Finance Cost</i>	(35)	(10)	(14)
<i>b Taxation</i>	(77)	(15)	(19)
6 Net Income Or (Loss)	95	82	17
C CASH FLOW STATEMENT			
<i>a Free Cash Flows from Operations (FCFO)</i>	172	87	31
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	150	81	11
<i>c Changes in Working Capital</i>	(427)	(16)	17
1 Net Cash provided by Operating Activities	(277)	65	27
2 Net Cash (Used in) or Available From Investing Activities	(11)	(133)	(16)
3 Net Cash (Used in) or Available From Financing Activities	290	71	13
4 Net Cash generated or (Used) during the period	2	3	25
D RATIO ANALYSIS			
1 Performance			
<i>a Sales Growth (for the period)</i>	147.0%	28.7%	-15.7%
<i>b Gross Profit Margin</i>	6.7%	7.5%	5.3%
<i>c Net Profit Margin</i>	2.6%	5.5%	1.5%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-6.9%	4.7%	4.1%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	15.4%	20.1%	5.2%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	43	45	58
<i>b Net Working Capital (Average Days)</i>	28	20	23
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.2	1.6	1.3
3 Coverages			
<i>a EBITDA / Finance Cost</i>	6.8	9.5	5.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.4	1.5	1.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.4	3.0	10.0
4 Capital Structure			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	40.7%	34.7%	41.0%
<i>b Interest or Markup Payable (Days)</i>	151.7	122.4	56.9
<i>c Entity Average Borrowing Rate</i>	9.2%	4.6%	8.2%

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+	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	
BBB-	
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	
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	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.
CC	
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)

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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 | 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)

(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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