



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
01-Mar-2024	BBB-	A3	Stable	Maintain	Yes
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

The rating reflects the adequate presence of Allawasaya Spinning Mills (Pvt.) Limited (“the Company” or “ASML”) in the textile industry of Pakistan. The principal activity of the Company is the manufacturing and sale of yarn with an operating capacity of 26,608 spindles. The three companies primarily operate under the umbrella of the 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 product slate of the Company primarily divests into cotton rings and open-end yarn with an average yarn count of 20s. During FY23, the Company’s profitability matrix and fundamentals are under stress due to a dip in local and international yarn demand coupled with a hike in 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 mainly supplemented by the recovery in local cotton yield coupled with optimization of energy cost through the installation of the solar power plant. 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 need improvement. The company’s performance will be observed in the upcoming quarters with a 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 depend upon the Company’s ability to improve its performance in terms of business fundamentals sustainability and 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. Adherence to the debt matrix at an adequate level is a prerequisite for an assigned rating.

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(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 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 and Shah Shams Cotton Industries (Pvt.) Limited being the other group company, which is operational since 1958.

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 fibers.

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-acre facility that the Company shares with Allawasaya Textile and Finishing Limited.

Ownership

Ownership Structure Mian Muhammad Jamil owns the company (23%) directly and (21%) indirectly through his daughters. Mian Alamgir Jamil, son of Mian Jamil owns (37%) directly and (6%) 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 experience and knowledge of various aspects of the textile value-chain. Mian Muhammad Jamil has vast experience in textile industry, which spans over 45 years. His son, Mian Alamgir, the Company's CEO is also well versed in the knowledge of running a textile business and has been associated with the Company for over 20 years

Financial Strength Mian Jamil Group wholly owns i) Allawasaya Spinning Mills (Pvt.) Limited Industries and has investments in iii) Allawasaya Textile & Finishing Mills Limited.

Governance

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

Members' Profile Both the board members are qualified in different disciplines and carry ample experience in textile as well as other industries. Mian Muhammad Jamil is a textile engineer and carries 46 years of industry experience. Mian Alamgir has been associated with the textile business since 2002 and holds a BBA.

Board Effectiveness Being a private Company, Allawasaya Spinning does not comply with code of corporate governance and there is no independent director on the board.

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 FY23.

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 Muhammad Jamil is the founder of the Company, he graduated as a textile engineer from National College of Textile Engineering, Faisalabad in 1971. He has been associated with the Company for the last 46 years. He is currently one of the Executive Director. Mian Alamgir has been associated with the textile business since 2002 and holds a BBA.

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 the business needs. The senior management monitors the business performance through certain Key MIS reports

Control Environment 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 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, the Allawasaya Spinning's relative position will be considered as adequate with operational capacity of 26,608 spindles.

Revenues The Company does not have a brand-based clientele and sells all of its output locally in Faisalabad through sales brokers. During FY23, the Company's revenue witnessed decline in their turnover and stood at PKR 1,588mln (FY22: 3,688mln) owing to the local demand shortage of yarn. During IHFY24, the revenue base trend of the company remained same and stood at PKR 717mln.

Margins The expenses decreased in line with the decrease in sales revenue. During FY23, the Company's cost of goods sold decreased to PKR 1.5bln (FY22: PKR 3.4bln), mainly driven by low production volume due to low sales. Operating expenses also decreased and stood at PKR 27mln (FY22: 37mln). The impact of the increase in the cost of goods sold and operating expenses was reflected by the decrease in revenue and consequently, the gross profit margin declined to 3% (FY22: 6.7%) and the operating profit margin to 1.3% (FY22: 5.7%).

Sustainability During 2021, the Company has taken spinning unit on lease on lease from Three Star Hoisery Mills (Pvt.) Limited. Going forward, with better efficiency and a specialized product profile, the management expects Allawasaya Spinning Mills's margins to improve further.

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 FY23, the Company's working capital requirement increased to 92days (FY22: 28days) attributable to increase in receivable days (FY23: 78days, FY22: 25days).

Coverages The Company's cash flows from operations – a factor of its increase in EBITDA – witnessed a decrease and clocked in at PKR 53mln (FY22: PKR 236mln). Furthermore, due to the increase in policy rate the finance cost of the Company increased at stood at PKR 52mln (FY22: PKR 10mln). Consequently, the coverage of the Company declined. The interest coverage ratio, decreased to 0.2x (FY22: 5x), and the debt coverage ratio also reduced to 0.2x (FY22: 1.4x.)

Capitalization During FY23, the Company's leverage exhibited decrease to 38.1% (FY22: 40.7%) due to the decrease in short term borrowings, which came up to PKR 227mln (FY22: 329mln). Short-term borrowings make up 62% of the total borrowings



Allawasaya Spinning Mills (Pvt.) Ltd Spinning	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M
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A BALANCE SHEET

1 Non-Current Assets	910	925	875	667
2 Investments	37	37	11	24
3 Related Party Exposure	-	-	-	-
4 Current Assets	625	665	942	300
a Inventories	197	204	253	103
b Trade Receivables	176	245	431	72
5 Total Assets	1,572	1,627	1,828	991
6 Current Liabilities	229	322	422	191
a Trade Payables	68	121	212	82
7 Borrowings	393	367	441	170
8 Related Party Exposure	54	77	78	83
9 Non-Current Liabilities	125	141	132	70
10 Net Assets	772	720	755	477
11 Shareholders' Equity	772	720	755	477

B INCOME STATEMENT

1 Sales	717	1,588	3,688	1,493
a Cost of Good Sold	(654)	(1,540)	(3,442)	(1,382)
2 Gross Profit	62	47	246	111
a Operating Expenses	(11)	(27)	(37)	(16)
3 Operating Profit	52	21	210	96
a Non Operating Income or (Expense)	2	25	(3)	11
4 Profit or (Loss) before Interest and Tax	53	46	207	107
a Total Finance Cost	(33)	(52)	(35)	(10)
b Taxation	(9)	(29)	(77)	(15)
6 Net Income Or (Loss)	11	(35)	95	82

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	61	12	172	87
b Net Cash from Operating Activities before Working Capital	28	(33)	150	81
c Changes in Working Capital	(44)	169	(427)	(16)
1 Net Cash provided by Operating Activities	(16)	136	(277)	65
2 Net Cash (Used in) or Available From Investing Activities	15	(84)	(11)	(133)
3 Net Cash (Used in) or Available From Financing Activities	3	(75)	290	71
4 Net Cash generated or (Used) during the period	2	(23)	2	3

D RATIO ANALYSIS

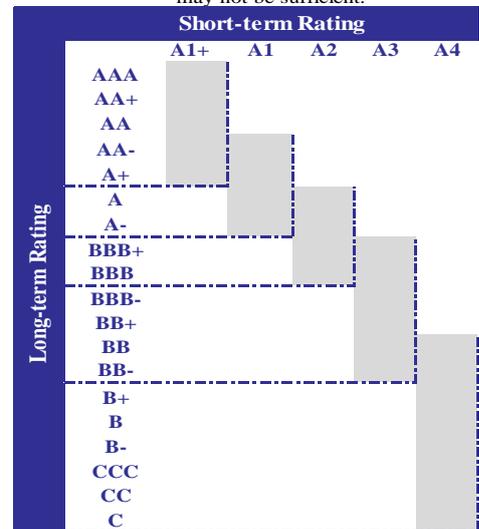
1 Performance				
a Sales Growth (for the period)	-9.7%	-56.9%	147.0%	28.7%
b Gross Profit Margin	8.7%	3.0%	6.7%	7.5%
c Net Profit Margin	1.6%	-2.2%	2.6%	5.5%
d Cash Conversion Efficiency (FCFO adjusted for Working C)	2.4%	11.4%	-6.9%	4.7%
e Return on Equity [Net Profit Margin * Asset Turnover * (T	3.0%	-4.7%	15.4%	20.1%
2 Working Capital Management				
a Gross Working Capital (Average Days)	105	130	43	52
b Net Working Capital (Average Days)	81	92	28	27
c Current Ratio (Current Assets / Current Liabilities)	2.7	2.1	2.2	1.6
3 Coverages				
a EBITDA / Finance Cost	2.2	1.1	6.8	9.5
b FCFO / Finance Cost+CMLTB+Excess STB	1.4	0.2	1.4	1.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	3.3	-5.6	1.4	3.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equit	36.7%	38.1%	40.7%	34.7%
b Interest or Markup Payable (Days)	89.4	154.2	151.7	122.4
c Entity Average Borrowing Rate	14.5%	10.4%	9.2%	4.6%

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.
CC	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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(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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- (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).
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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)
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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)
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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)

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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