



The Pakistan Credit Rating Agency Limited

Rating Report

Allawasaya Spinning Mills (Pvt) Limited

Report Contents

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

Rating History

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

Rating Rationale and Key Rating Drivers

The ratings reflect the company's small size, low margins and limited profitability, and modest business profile. Lately, revenues have started to pick up, benefiting from increased demand and better pricing. However, margins remain on the lower side when compared to peers. The company caters to the needs of the local industry and provides different varieties of yarn to improve margins and competitive positioning. The Company has a low leveraged capital structure with moderate coverages. In line with better industry prospects, the company is planning to increase its asset base by adding more spindles, with a view to make efficiency gains, improving the overall margins. The sponsors have demonstrated support in the past.

The ratings are dependent upon the company's ability to improve its margins, in turn, profitability and maintain prudent working capital and financial profile. Any negative movement in margins and/or cash flows will negatively impact the ratings. The governance framework needs strengthening.

Disclosure

Name of Rated Entity	Allawasaya Spinning Mills (Pvt) 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 Spinning Mills (Pvt) Limited (The company) was established in 2004.

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 17,500 spindles. The company's head office and production facility are located in Multan.

Ownership

Ownership Structure Mian Muhammad Jamil owns the company (7%) directly and (36%) indirectly through his daughters. Mian Alamgir Jamil, son of Mian Jamil owns (43%) directly and (14%) indirectly through his wife.

Stability The company was set up especially 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.

Business Acumen Besides, Allawasaya Spinning the family has a 34% stake in "Allawasaya Textile & Finishing Mills Limited" a company engaged in the same industry as the company. The sponsors have vast experience and knowledge of various aspects of textile value-chain.

Financial Strength The total net worth of the Jamil family stood at ~PKR500 mln as of end Mar18. Sponsor's link with other group companies, provide comfort to the company in case of any need.

Governance

Board Structure The board comprises of two people i.e. Mian Muhammad Jamil in the capacity of Chairman and Mian Alamgir Jamil as the company CEO.

Members' Profile Mian Muhammad Jamil a is textile industry specialist and has extensive experience of the industry. Mian Alamgir has been associated with the textile business since 2002. Both the CEO and Chairman are also on the board of directors of Allawasaya Textile and Finishing Mills Limited.

Board Effectiveness The company being a private company does not comply with code of corporate governance and there are 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 Frants" are listed under category "B" by SBP. The auditors issued an unqualified opinion on the company's financial statements for FY18.

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 a textile engineer by profession and carries 45 years of experience. The CEO has completed his BBA (Hons) and has been associated with the textile business since his graduation.

Effectiveness The company has no management committees and no system for recording the minutes. Sponsor's close involvement in day to day affairs of the business bodes well with 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. HSE infrastructure seems adequate.

Business Risk

Industry Dynamics During FY18, total textile exports of Pakistan stood at ~USD 13.5bln, a 9% YoY growth. Re-imposition of the customs duty on cotton imports, coupled with the exclusion of tax rebate on yarn and Grieg Fabric may put pressure on the industry margins.

Relative Position The Jamil family has been associated with the textile business since 1958, through its investment in "Allawasaya Textile & Finishing Mills Limited" strengthening the sponsor's position. However, as a group and standalone basis, the market share of the company remains minimal.

Revenues The company does not have brand based clientele and sells all of its output locally in Faisalabad through sales brokers. The company's revenues have followed an upward trend during the year, which is in line with the industry. During FY18, the company's revenues clocked in at ~PKR 992mln, posting a growth of 49%, owing to better pricing in local market.

Margins The company's gross margins improved (FY18: 3.5%, FY17: 1.5%), a factor of lower than proportionate increase in cost of sales (~46%), followed by better operating margins (FY18: 2.5%, FY17: 0.4%). The finance costs declined, resultantly the company's profit increased to ~PKR 3mln.

Sustainability Going forward, the company aims to add another 7,500 spindles with a cost of ~PKR 130mln. The new spindles are expected to bring in efficiency gains, lowering the cost of operations and consequently, improving margins.

Financial Risk

Working Capital The company's reliance on STB has increased during the year, at the same time, short term borrowing is equal to net trade assets, limiting further room to borrow. Meanwhile, the company's working capital cycle improved, reflected from better gross working capital days (FY18: 37days, FY17, 41days).

Coverages During FY18, the company's operating cash flows (FCFO) increased ~PKR 28mln, on account of better profitability. As result company's interest coverage improved (FY18: 3.0x, FY17: 0.6x), followed by better debt coverage (FY18: 0.6x, FY17: 0.1x); though debt coverage remained below sustainable level. Going forward, rise in interest rate will stretch the company's coverages.

Capitalization The company has a modest capital structure (~40.6%) at end-June 18 (end-June 17: 39.6%). Total debt stood at ~PKR 147mln, with a balanced mix of current and non current debt.



The Pakistan Credit Rating Agency Limited

Spinning

Financial Summary

PKR mln

Allawasaya Spinning Mills (Pvt.) Limited

BALANCE SHEET	30-Jun-18 FY18	30-Jun-17 FY17	30-Jun-16 FY16
Non-Current Assets	323	313	323
Investments (Incl. Associates)	-	-	-
Equity	-	-	-
Debt Instruments	-	-	-
Current Assets	182	128	179
Inventory	86	59	67
Trade Receivables	52	6	16
Others	44	62	96
Total Assets	505	442	502
Debt	147	123	214
Short-Term	47	31	91
Long-Term (Incl. Current Maturity of Long-Term Debt)	99	91	124
Other short-term liabilities	144	132	114
Other long-term liabilities	-	-	-
Shareholders' Equity	214	187	174
Total Liabilities & Equity	505	442	503
INCOME STATEMENT			
Turnover	992	665	821
Gross Profit	34	10	16
Net Other Income	(0)	19	0
Financial Charges	(10)	(14)	(16)
Net Income	3	0.4	(15)
CASH FLOW STATEMENT			
Free Cashflow from Operations (FCFO)	28	9	12
Net Cash changes in Working Capital	(75)	99	(41)
Net Cash from Operating Activities	(54)	92	(46)
Net Cash from Investing Activities	(19)	19	0
Net Cash from Financing Activities	48	(79)	49
RATIO ANALYSIS			
Performance			
Turnover Growth	49.2%	-19.0%	-
Gross Margin	3.5%	1.5%	1.9%
Net Margin	0.3%	0.1%	-1.8%
ROE	2.8%	0.2%	-3.2%
Coverages			
Interest Coverage (FCFO/Gross Interest)	3.0	0.6	0.8
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.6	0.1	0.2
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.6	0.1	0.2
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest)	5.7	-23.0	-40.1
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	8.4	4.1	12.4
Capital Structure (Total Debt/Total Debt+Equity)	40.6%	39.6%	55.1%

Allawasaya Spinning Mills (Pvt.) Limited

December 2018

Credit Rating Scale & Definitions

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings		Short Term Ratings	
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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

Restrictions

- (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)

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)

Independence & Conflict of interest

- (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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent