



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-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

Pakistan is the fourth-largest producer of cotton in the world. Punjab is of special importance in this regard as about 80% of the total production is produced in Punjab. This year, the cotton crop is being cultivated on about 4 million acres, which is expected to yield an average of more than 17 million per acre. The Punjab government is providing Rs. 1,000 per bag of approved varieties of seeds and whitefly protection to cotton growers for an area of more than 200,000 acres at a subsidy of Rs. 4.4 billion. The approved BT varieties of cotton are IUB 13, MNH 886, BS 15, Niab 878, and FH 142 while other approved varieties for specific districts should be selected in consultation with local agronomists.

Allawasaya Spinning Mills (Pvt.) Limited is a spinning mill manufacturing and sale of yarn. The Company manufactures various types of cotton rings and open-end yarn. The company generates almost 100% sales through local customers (70% are from Karachi and 30% are from Faisalabad). The upgrade in ratings reflects the improved business performance of the Company. Assigned ratings take into account the growth in revenues and higher margins. The profitability of the Company has grown over the years supported by strong margins led by operating efficiencies. The company's financial risk profile displays the improvement in cash flows, interest, and debt coverages along with a consistent low leveraged capital structure. Going forward, the planned CAPEX is expected to bring in efficiency gains and improve margins. The Company's association with an established business family in the spinning sector of the textile industry provides comfort to the ratings.

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 Company's competitive position in the industry. The 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-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Spinning(Sep-21)
Rating Analysts	Iram Shahzadi iram.shahzadi@pacra.com +92-42-35869504

Profile

Legal Structure Allawasaya Spinning Mills (Pvt) Limited ('Allawasaya Spinning' or 'The Company') was established in 2004. 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 17,500 spindles. The Company's head office and production facility are located in Multan, on a 38 acres facility that the Company shares with Allawasaya Textile and Finishing Limited.

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 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 till 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 textile value-chain.

Financial Strength Jamil family has a major stake in Allawasaya Textile & Finishing Mills Limited. Both Allawasaya's collectively own 38 acres 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 board comprises of two people i.e. Mian Muhammad Jamil in the capacity of Chairman and Mian Alamgir Jamil as an 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. 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 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 FY21.

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

Effectiveness The Company has no management committees. 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 to its 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 During the period July-December FY21-22, textile exports surged 26 percent YoY, fielding \$9.39 billion in total export remittances, as compared to \$7.44 billion in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of value-added textile items increased in both quantity and value in December 2021. Going forward, the textile sector's outlook is expected to stay positive in the medium term where the demand for textile products is expected to sustain. In the local market, the textile sector has recorded strong performance. The relief measures introduced by the State Bank of Pakistan such as deferment of loan payments for one year, low-interest rates, and salary refinance scheme also provided comfort to the sector. Many players have also availed the TERF scheme announced by the Central Bank. This will lead to overall leverage of the sector to increase; however, on relaxed financing rates. The sustainability of demand pattern for the current higher orders from Europe and USA remains essential for the feasible utilization of added capacity by textile players.

Relative Position With 17,604 operational Spindles, Allawasaya Spinning Mills position in Pakistan's Spindle capacity is considered small. The Company plans to carry out a BMR to add 8,000 more Spindles to its existing capacity. However, even after the proposed expansion, the Company's share in local spinning industry will remain minimal.

Revenues The Company does not have brand-based clientele and sells all of its output locally in Faisalabad through sales brokers. During FY21, the Company's revenue incline by 19% to PKR 1,376mln (FY20: PKR 1,160mln) due to better yarn prices in the local market. In 1HFY22, the revenue of the Company showed witnessed improvement and stood at PKR 1,445mln (1HFY21: PKR 698mln).

Margins During FY21, the Company's cost of goods sold decreased by 26% to PKR 1,382mln (FY20: PKR 1,098mln), mainly driven by hike in raw material and energy cost, which increased by 11% and 18% respectively YoY, while the Company's operating expenses increased by 33% YoY to PKR 16mln (FY20: PKR 12mln). The impact of increase in cost of goods sold and operating expenses was overshadowed by 39% increase in revenue and consequently, gross profit margin improved to 7.5% (FY20: 5.3%) and operating profit margin to 6.4% (FY20: 4.3%). In 1HFY22, the margins of the Company improved; gross margin 10.0% and operating margin 8.8%. Net profit of the Company also improved during 1HFY22 to PKR 78mln (1HFY21: PKR 26mln).

Sustainability In line with improving business environment, the Company is planning to start a BMR, which will add 8,000 Spindles to existing capacity. The total cost of CAPEX is estimated to be PKR 225mln, which will entirely be funded from equity. BMR is expected to bring in efficiency gains, lowering cost per spindle and will consequently improve margins.

Financial Risk

Working Capital During FY21, the Company's working capital requirement has deteriorated which is evident from a decrease in net working capital days to 20days (FY20: 23days) because of inventory days (FY21: 26days, FY20: 35days). On the other hand, the Company's room to borrow displayed improvement and stood at 37% (FY20: 12%) as its trade assets stood at PKR 214mln and short-term borrowings at PKR 30mln. While the short-term trade leverage witnessed improved and stood at 36.5% (FY20: 12.1%).

Coverages The Company's cash flows from operations – a factor of its increase in profitability – witnessed an increase and clocked in at PKR 87mln (FY20: PKR 31mln), consequently, interest coverage ratio, increased to 7.3x (FY20: 2.4x), and debt coverage ratio that also decreased to 1.5x (FY20: 1.2x).

Capitalization During FY21, the Company's leverage showed a slight increase to 23.3% (FY19: 22.0%) due to the increase in long-term debt, which came up to PKR 94mln (FY19: 58mln). Short-term borrowings make up 18% of the total borrowings, decreased to PKR 30mln (FY20: 55mln) but overall borrowings of the Company experienced an upward trend and closed at PKR 170mln at the end of FY21 (FY20: 170mln). In 1HFY22, Company's leveraging slightly increased and clocked at 36% due to the increase in borrowing and were recorded at PKR 365mln.



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Financial Summary

PKR mln

Allawasaya Spinning Mills (Pvt.) Limited Spinning	Dec-21 6M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	667	667	553	570
2 Investments	48	24	32	18
3 Related Party Exposure	-	-	-	-
4 Current Assets	699	300	276	220
a Inventories	249	103	106	115
b Trade Receivables	213	72	86	61
5 Total Assets	1,414	991	861	808
6 Current Liabilities	328	191	207	186
a Trade Payables	146	82	123	100
7 Borrowings	365	170	127	122
8 Related Party Exposure	-	-	-	101
9 Non-Current Liabilities	70	70	78	76
10 Net Assets	651	560	449	323
11 Shareholders' Equity	651	560	449	323
B INCOME STATEMENT				
1 Sales	1,455	1,493	1,160	1,376
a Cost of Good Sold	(1,310)	(1,382)	(1,098)	(1,311)
2 Gross Profit	146	111	62	64
a Operating Expenses	(17)	(16)	(12)	(11)
3 Operating Profit	129	96	49	53
a Non Operating Income or (Expense)	(8)	11	0	(1)
4 Profit or (Loss) before Interest and Tax	120	107	50	51
a Total Finance Cost	(10)	(10)	(14)	(13)
b Taxation	(32)	(15)	(19)	(19)
6 Net Income Or (Loss)	78	82	17	19
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	100	87	31	49
b Net Cash from Operating Activities before Working Capital Changes	97	81	11	41
c Changes in Working Capital	(8)	(16)	17	(12)
1 Net Cash provided by Operating Activities	89	65	27	28
2 Net Cash (Used in) or Available From Investing Activities	(67)	(133)	(16)	(8)
3 Net Cash (Used in) or Available From Financing Activities	36	71	13	(25)
4 Net Cash generated or (Used) during the period	58	3	25	(5)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	95.0%	28.7%	-15.7%	38.7%
b Gross Profit Margin	10.0%	7.5%	5.3%	4.7%
c Net Profit Margin	5.4%	5.5%	1.5%	1.4%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	6.3%	4.7%	4.1%	2.7%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	25.9%	16.3%	4.5%	8.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	40	45	58	42
b Net Working Capital (Average Days)	26	20	23	18
c Current Ratio (Current Assets / Current Liabilities)	2.1	1.6	1.3	1.2
3 Coverages				
a EBITDA / Finance Cost	10.0	9.5	5.5	5.1
b FCFO / Finance Cost+CMLTB+Excess STB	3.3	1.5	1.2	1.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.6	1.9	4.0	2.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	35.9%	23.3%	22.0%	27.4%
b Interest or Markup Payable (Days)	40.1	122.4	56.9	267.6
c Entity Average Borrowing Rate	10.7%	8.1%	9.9%	8.4%

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+	
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-	
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	
CC	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.
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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk 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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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.
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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)
- (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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