



The Pakistan Credit Rating Agency Limited

Rating Report

AL Textile (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-May-2023	BBB	A2	Stable	Maintain	Yes
02-May-2022	BBB	A2	Stable	Maintain	-
07-May-2021	BBB	A2	Stable	Maintain	Yes
21-May-2020	BBB	A2	Negative	Maintain	Yes
03-Sep-2019	BBB	A2	Stable	Maintain	-
05-Mar-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

AL Textile (Pvt.) Limited (AL Textile or "the Company"), was incorporated in 2002, as a private limited company and commenced its operations in 2003. AL Textile has a modest operating track record and presence in the textile sector. The Company operates with one spinning unit, having 25,200 spindles installed. The Company's sales mix is inclined towards the local market and has exhibited growth over the years. During FY22, the top-line clocked at PKR 4.5bln (FY21: PKR 4.3bln) attributable to an escalation in yarn demand. Gross profitability declined to PKR 280mln (FY21: PKR 346mln); a similar trend was observed in the net profitability (FY22: PKR 95mln; FY21: PKR 150mln). During 1HFY23, the Company's performance recorded sizable dilution where gross and net loss was recorded. The financial risk profile of the Company reveals high leveraging, low coverages and an increased working capital cycle. Rating watch incorporates the Company's recent dilution in performance and net losses recorded.

During 9MFY23, the textile exports were valued at \$12.47bln compared to \$14.24bln, reflecting a 12% decline YoY - the declining trend has been recorded in the last two quarters. The Country's textile exports for the month of March clocked in at US\$1.26bln, up 7% MoM. The decline in the previous overall exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand in international markets is also a challenge. During the month of March, value-added textile exports increased by 6% MoM to US\$863mln mainly due to Readymade Garments and Knitwear increasing by 8% and 12% MoM respectively while towels decreased by 6% MoM. Basic textiles witnessed an increase of 8% MoM to US\$230mln in Mar-23. In volume terms, Knitwear, Readymade Garments, Bedwear, and Towels increased by 18%, 13%, 5%, and 2% MoM respectively. 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 in the upcoming quarters.

Disclosure

Name of Rated Entity	AL Textile (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	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504

Profile

Legal Structure AL Textile (Pvt.) Limited (AL Textile or "the Company"), was incorporated in 2002, as a private limited company and commenced its operations in 2003.

Background Mr. Abdul Latif started Fine Gases in the early 80's. He formerly had a business in Dubai. In 1985, Latif family diversified their business by setting up Fine Crystoplast (Pvt.) Limited, a plastic molding plant. Later in 2002, the family entered into the textile sector through AL Textile with 15,000 spindles.

Operations AL Textile operates with one spinning unit, having 25,200 spindles. Their production facility is located on Main Multan road (43 km), Lahore, an 130 acre of land. The Company has arranged a line of 3.2MW from LESCO, which is the only source of power.

Ownership

Ownership Structure AL Textile is a family owned business, with majority stake owned by Mr. Omer Latif (~61%) and the remaining shareholding distributed equally (~19% each) among his brother and sister.

Stability The Company is owned entirely by the Latif family. The distribution of shareholding with Mr. Omer Latif as a majority stakeholder portrays a stable line of succession. Moreover, the second generation has already been incorporated into the business, serving at various capacities with clearly defined roles.

Business Acumen AL Textile is the only textile business venture of Latif family. Over the years, the growth of the Company was limited. However, it has sustained through the volatility of the textile industry in recent years. Mr. Abdul Latif's (Ex-Chairman) counsel remains a key factor in ensuring sustainable operations of the Company.

Financial Strength Apart from AL Textile, Latif family has interests in industrial gases and plastic molding through Fine Gas and Fine Crystoplast, respectively. Meanwhile, the sponsors have sufficient financial strength to support AL Textile, when needed, as evident historically.

Governance

Board Structure The Company's board of directors comprises two members, with Mr. Omer Latif as Chairman of the board. The size of the Board is considered adequate as per the Company's operational size. However, room for improvement in the governance framework exists.

Members' Profile The board members have been associated with the Company since its inception. Apart from AL Textile, both the directors sit on the board of associated companies, Fine Gas and Fine Crystoplast. Mr. Omer Latif holds a Master's degree in Industrial Management from the USA.

Board Effectiveness Attendance of the members remained strong during the year. The board meeting minutes have been appropriately recorded. There is no subcommittee in place, which hampers the board's effectiveness.

Financial Transparency M/s Naveed Mukhtar & Co., Chartered Accountants, QCR rated by ICAP, is the external auditor of the Company. The auditors have expressed an qualified opinion on the financial reports for the year ended June 2022.

Management

Organizational Structure Mr. Omer Latif is the CEO of AL Textile. The Company has a lean organizational structure and is broadly divided into five functional departments. All department heads report directly to Mr. Omer Latif.

Management Team Mr. Omer Latif, the CEO, has been associated with the Company since its inception. He is supported by a team of professionals with relevant expertise in the textile value chain. The long association of senior management with the Company bodes well for the sustainability of the Company.

Effectiveness There are multiple management committees in place. The meetings are held on a periodic basis to resolve or proactively address operational issues. Moreover, the matters drafted in these meetings are presented to the board for approval, portraying active participation of senior management in carrying the Company's operations.

MIS A fully functional Oracle 11g has been deployed by the Company in 2020 and the efficiency of the work has also increased after the implementation of the software.

Control Environment The Company is compliant with International Certification for quality assurance ISO 9001:2008. In addition, the Company has maintained a quality management system since the start.

Business Risk

Industry Dynamics During 9MFY23, the textile exports were valued at \$12.47bln compared to \$14.24bln, reflecting a 12% decline YoY - the declining trend has been recorded in the last two quarters. The Country's textile exports for the month of March clocked in at US\$1.26bln, up 7% MoM. The decline in the previous overall exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand in international markets is also a challenge. During the month of March, value-added textile exports increased by 6% MoM to US\$863mln mainly due to Readymade Garments and Knitwear increasing by 8% and 12% MoM respectively while towels decreased by 6% MoM. Basic textiles witnessed an increase of 8% MoM to US\$230mln in Mar-23. In volume terms, Knitwear, Readymade Garments, Bedwear, and Towels increased by 18%, 13%, 5%, and 2% MoM respectively. 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 in the upcoming quarters.

Relative Position AL Textile is a small-sized spinning unit and the only textile venture of the Latif family. However, standard quality Japanese machinery has made the company capable of producing top-quality yarn, hence, eventually securing its niche clientele. Meanwhile, on a standalone basis, the Company has a minimal share in the local spinning industry.

Revenues During FY22, the Company's topline clocked in at PKR 4.5bln (FY21: PKR 4.3bln) exhibiting growth of 5.26%. The company's sales mix continues to be dominated by local sales. The Company's majority of local sales come under the category of indirect exports, as its yarn is mostly processed by customers for export orders. During 1HFY23, the Company generated revenue worth PKR 566mln, comprising local sales.

Margins During FY22, the Company's cost of sales has reflected a significant increase recorded at PKR 4.2bln. Due to this, the Gross profit of the Company in absolute terms displayed a decrease. Gross margins reduced to 6.1% in FY22 (FY21: 8.0%). Similarly, operating margins were recorded at 4.7% in FY22 (FY21: 6.6%). The net margins of the Company significantly reduced to 2.1% in FY22 (FY21: 6.6%). During 1HFY23, the Company recorded a net loss of PKR 53mln.

Sustainability The Company is planning to replace its old compact spindles with the newer auto-fine version of spindles as the spindles are ~18 years old. The Company has also deployed Oracle 11g to improve the overall efficiency of the operations.

Financial Risk

Working Capital During FY22, the Company's net working capital days reduced significantly which is evident from the decrease in inventory days (end-Jun22: 25 days, end-Jun 21: 69 days). However, inventory days reflected a noticeable increase in end-Dec22 to 121 days, therefore, net working capital days stood at 71 days.

Coverages During FY22, interest and core coverage stood at 3.0x. The debt payback was recorded at 2.6x which displays the ability of the Company to cover its long-term debts.

Capitalization AL Textile is a highly leveraged company ratio that has shown an increase over the years, as it stood at 58.9% on end-June 22 (end-June 21: 69.5%). Total borrowings decreased to PKR 315mln in FY22 (FY21: PKR 457mln). At end-Dec 22, leveraging posted a sharp increase to 63.4% as borrowings increased substantially. The equity base of the Company stood at PKR 535mln.



The Pakistan Credit Rating Agency Limited

Financial Summary

	PKR mln			
AL Textile	Dec-22	Jun-22	Jun-21	Jun-20
Textile	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	739	716	568	589
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,339	557	715	1,423
<i>a Inventories</i>	529	222	408	1,241
<i>b Trade Receivables</i>	32	129	128	52
5 Total Assets	2,078	1,273	1,284	2,012
6 Current Liabilities	509	244	209	423
<i>a Trade Payables</i>	410	63	58	340
7 Borrowings	636	315	457	1,120
8 Related Party Exposure	291	291	291	291
9 Non-Current Liabilities	66	-	-	-
10 Net Assets	577	423	328	178
11 Shareholders' Equity	535	423	328	178
B INCOME STATEMENT				
1 Sales	566	4,578	4,349	2,806
<i>a Cost of Good Sold</i>	(566)	(4,298)	(4,003)	(2,760)
2 Gross Profit	0	280	346	45
<i>a Operating Expenses</i>	(15)	(64)	(57)	(38)
3 Operating Profit	(15)	216	289	8
<i>a Non Operating Income or (Expense)</i>	-	7	-	-
4 Profit or (Loss) before Interest and Tax	(15)	223	289	8
<i>a Total Finance Cost</i>	(31)	(71)	-	-
<i>b Taxation</i>	(7)	(57)	-	-
6 Net Income Or (Loss)	(53)	95	289	8
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	(46)	203	289	8
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	(46)	118	289	8
<i>c Changes in Working Capital</i>	-	210	-	-
1 Net Cash provided by Operating Activities	(46)	328	289	8
2 Net Cash (Used in) or Available From Investing Activities	-	(166)	-	-
3 Net Cash (Used in) or Available From Financing Activities	-	(154)	-	-
4 Net Cash generated or (Used) during the period	(46)	8	289	8
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	-75.3%	5.3%	55.0%	--
<i>b Gross Profit Margin</i>	0.0%	6.1%	8.0%	1.6%
<i>c Net Profit Margin</i>	-9.3%	2.1%	6.6%	0.3%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-8.1%	9.0%	6.6%	0.3%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	-22.1%	25.2%	114.1%	4.2%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	147	35	77	168
<i>b Net Working Capital (Average Days)</i>	71	31	60	124
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.6	2.3	3.4	3.4
3 Coverages				
<i>a EBITDA / Finance Cost</i>	-1.6	4.1	N/A	N/A
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	-1.6	3.0	N/A	0.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-1.9	2.6	1.2	54.8
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	63.4%	58.9%	69.5%	88.8%
<i>b Interest or Markup Payable (Days)</i>	136.1	34.6	N/A	N/A
<i>c Entity Average Borrowing Rate</i>	6.7%	8.3%	0.0%	0.0%

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+	
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-	
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):
 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

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 | Clause 11-(A)(p).

(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)

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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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