



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
07-May-2021	BBB	A2	Stable	Maintain	YES
21-May-2020	BBB	A2	Negative	Maintain	YES
03-Sep-2019	BBB	A2	Stable	Maintain	-

Rating Rationale and Key Rating Drivers

The assigned ratings of AL Textile (Pvt.) Limited (AL Textile) reflects the adequate financial profile of Sponsors and their support to the entity. The Company mainly caters to the need of the local market and has developed brand-based clientele over the years. The Company's revenue and profitability witnessed improvement in 9MFY21. The relatively smaller capacity of AL Textile has limited its margins. Recently, the Company's margins and profitability have improved, leading to net profit. The imposition of sales tax on local sales had a negative effect on local demand. The Company has a moderately leveraged capital structure characterized by good coverages and moderate inventory days. The financial matrix observed improvement after the conversion of the director's loan into equity. The ratings take comfort from the explicit commitment of sponsors to provide support to the Company.

The outlook of the Company is now 'stable' as the Company's performance rebounded along with improvement in leveraging. The Rating Watch signifies the prevailing uncertainty due to the ongoing challenges of the COVID-19 pandemic. While the business continues to function, there is a need to remain vigilant. Furthermore, Textile industry dynamics are prone to challenges posed by the third wave of the COVID-19 pandemic. The country's textile group exports, however, have witnessed 9.06% growth during the first nine months (July-March) 2020-21. The trend of export orders will determine stability in the sector's outlook in the medium term.

The ratings depend on sustaining operations and profitability. Meanwhile, prudent working capital and cashflows management remains critical in prevailing circumstances. Going forward, sponsors' support to the Company would remain critical for the ratings.

Disclosure

Name of Rated Entity	AL Textile (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Spinning(Sep-20)
Rating Analysts	Muhammad Fahad Iqbal fahad.iqbal@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.

Financial Transparency M/s Naveed Mukhtar & Co., Chartered Accountants, QCR rated by ICAP, is the external auditor of the Company. The auditors have expressed a qualified opinion on the financial reports for the year ended June 2020 due to the loss the Company incurred in FY20 in the lockdown period. Also IAS-19 'Employees Benefit' has not been opted by the Company.

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 The country's textile group exports have witnessed 9.06% growth during the first nine months (July-March) 2020-21 and remained at \$11.35bln compared to \$10.4bln during the same period last year. Textile group exports have witnessed an increase of 9.85% in Mar-21 as it stood at \$1.35bln compared to \$1.2bln during Feb-21. Textile group exports have registered a growth of 30.38% on a year-on-year basis as it reached \$1.3bln in Mar-21 compared to \$1.03bln in Mar-20. COVID-19 pandemic and related lockdown imposed by the governments around the globe in FY20 had its ramifications however Pakistani textile exports have been seen rebounding in 1HFY20. Most of the segments recorded incline in prices (USD terms) which is positive. The export outlook is likely to remain stable in the medium term as textile units have been operating at optimized capacity levels.

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 9MFY21, the Company's topline clocked in at PKR 3.3bln (FY20: PKR 2.8bln) posting a growth of 17.6% in a 9-month period, owing to better pricing in the local market and higher volumetric production. The Company's sales mix continues to be dominated by local sales 97%. The Company's majority local sales come under the category of indirect exports, as its yarn is mostly processed by customers for export orders. Meanwhile, the Company has a minimal export share.

Margins During 9MFY21, the Company's gross margins improved to 6.5% (FY20: 1.6%), due to a high increase in revenue despite the increase in raw materials. Higher gross profit further translated into higher operating margins 5.6% in 9MFY21 (FY20: 0.3%). Finance cost decreased by 58.6%, due to a decrease in borrowings which resulted in the higher net profit margin of 2.4% in 9MFY21 (FY20: -5.3%). The Company's bottom line closed with a net profit of PKR 127mln in 9MFY21 (FY20: 150mln loss).

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 projected PKR 250mln for this project and the project will be completed before September 2021. The Company has also deployed Oracle 11g to improve the overall efficiency of the operations.

Financial Risk

Working Capital The Company's borrowing capacity at the trade assets level is negative (FY20: -5%, FY19: -16%). Additionally, an increase in inventory days led to a lower cash cycle (gross - FY20: 125 days, FY19, 61 days, net - FY20: 92days, FY19: 50days). However, the Company's performance improved in 9MFY21.

Coverages During FY20, the Company's operating cash flows (FCFO) became negative in (FY20: PKR -6mln, FY19: PKR 80mln), which is attributable to negative profitability. Due to an increase in finance cost (by 6.4%), the Company's coverages have considerably declined (interest - FY20: -0.1x, FY19: 0.8x, debt - FY20: 0.0x, FY19: 0.6x), a factor of lower FCFO. However, the Company's performance in 9MFY21 shows better results.

Capitalization AL Textile has a highly leveraged capital structure (88.8%) at end-June 20 (end-June 19: 51%) due to an increase in short-term borrowings. Total debt stood at PKR 1.1bln, mainly comprising of the short-term borrowings of PKR 1bln. However, the Company's leveraging declined in 9MFY21 as the related party borrowing became part of the equity.



AL Textile (Private) Limited Spinning	Mar-21 9M	Jun-20 12M	Jun-19 12M	Jun-18 12M
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A BALANCE SHEET

1 Non-Current Assets	572	589	619	637
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,043	1,423	872	471
<i>a Inventories</i>	701	1,241	561	254
<i>b Trade Receivables</i>	177	52	67	51
5 Total Assets	1,615	2,012	1,492	1,108
6 Current Liabilities	405	423	215	58
<i>a Trade Payables</i>	237	340	160	12
7 Borrowings	519	1,120	634	352
8 Related Party Exposure	-	291	-	-
9 Non-Current Liabilities	44	-	34	30
10 Net Assets	648	178	608	669
11 Shareholders' Equity	648	178	608	669

B INCOME STATEMENT

1 Sales	3,302	2,806	2,785	2,729
<i>a Cost of Good Sold</i>	(3,048)	(2,760)	(2,670)	(2,565)
2 Gross Profit	254	45	115	165
<i>a Operating Expenses</i>	(21)	(38)	(36)	(34)
3 Operating Profit	234	8	79	131
<i>a Non Operating Income or (Expense)</i>	(9)	0	22	(4)
4 Profit or (Loss) before Interest and Tax	224	8	101	127
<i>a Total Finance Cost</i>	(48)	(116)	(109)	(46)
<i>b Taxation</i>	(50)	(42)	(32)	(32)
6 Net Income Or (Loss)	127	(150)	(41)	50

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	209	(6)	80	149
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	209	(122)	(16)	102
<i>c Changes in Working Capital</i>	303	(340)	(313)	5
1 Net Cash provided by Operating Activities	512	(462)	(329)	107
2 Net Cash (Used in) or Available From Investing Activities	(3)	2	4	(34)
3 Net Cash (Used in) or Available From Financing Activities	(419)	450	263	(46)
4 Net Cash generated or (Used) during the period	90	(10)	(63)	26

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	56.9%	0.7%	2.1%	47.4%
<i>b Gross Profit Margin</i>	7.7%	1.6%	4.1%	6.0%
<i>c Net Profit Margin</i>	3.9%	-5.3%	-1.5%	1.8%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	15.5%	-12.3%	-8.4%	5.6%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	23.3%	-96.9%	-7.6%	7.4%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	90	125	61	43
<i>b Net Working Capital (Average Days)</i>	66	92	50	39
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.6	3.4	4.1	8.2
3 Coverages				
<i>a EBITDA / Finance Cost</i>	5.5	0.5	1.2	3.9
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	4.4	0.0	0.6	2.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.0	-3.4	-1.3	0.5
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	44.5%	88.8%	51.0%	34.5%
<i>b Interest or Markup Payable (Days)</i>	42.5	67.8	76.9	61.8
<i>c Entity Average Borrowing Rate</i>	6.5%	11.2%	12.0%	11.8%

#	Notes
	Cash flow statement was not available

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	Very high credit risk. Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
CC	
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

<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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- 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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- (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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