The Pakistan Credit Rating Agency Limited

Rating Report

Alhamd Corporation (Pvt.) Limited

Report Contents

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Feb-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned ratings of Alhamd Corporation (Pvt) Limited reflect good positioning of the Company in the textile spinning industry. The Company's history goes back to 1983 when it was incorporated as a Public Limited Company. Afterwards, in 2005, it was converted to Private Limited Company. Alhamd is a family-owned business engaged in manufacturing and selling of cotton/blended yarn. Governance framework lacks independent oversight. The Company has 126,696 spindles installed – manufacturing facility located in Dera Ghazi Khan. The planned capacity expansion of 43,776 spindles is deemed to be added to the profile post FY22. Recently, enhanced capacity utilization (FY21: 97%) has provided stimulus to the profitability of the Company. Revenues are majorly driven by local market where the company enjoys long association with reputed clientele. The management is positive about maintaining the growth trajectory. Margins recorded sizable improvement attributable to enhanced efficiency and strong sector driven factors where significant increase in demand has been witnessed. The financial risk matrix reflects comfortable picture with fairly low leverage. The Company's planned expansion will increase the leveraging, in the upcoming years, but expected to remain range bound relative to equity base. Going forward, vigilant handling of leverage amidst increasing interest rate environment remains vital. During the period July-December FY21-22, textile exports of the country 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. In the local market, the textile sector has recorded strong performance. 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.

The ratings are dependent upon the management's ability to capitalize on growth opportunities in a competitive landscape, operate at optimal level and sustain margins, going forward. Excessive borrowing, leading to higher leverage and/or deterioration in coverages, can impact the ratings. Going forward, timely commencement of additional capacity to finance repayments will remain important.

Disclosure	
Name of Rated Entity	Alhamd Corporation (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	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Legal Structure The company was incorporated in 1983 as a public limited company, under the previous name: Alhamd Textile Mills Limited. It was quoted on Karachi Stock Exchange and Lahore Stock Exchange, in 1988. Afterwards, the company was voluntarily delisted from the Stock Exchanges in 2004 and converted to a private limited company in 2005.

Background Alhamd Corporation (Pvt) Limited (ACL) was once part of a group of companies led by Sheikh Imdad Ahmed (late) as its chairman and the founding force. Sheikh Imdad Ahmed died in 1987, and after amicable business settlement between his four sons, Sheikh Afzaal Ahmed and his immediate family own 99.64% of the paid-up shares of Alhamd Corporation (Pvt) Limited, since 1998.

Operations The core operations of the business are manufacturing and sale of cotton/blended yarn. The Company has 126,696 spindles installed. The manufacturing facility is located in Dera Ghazi Khan, a major cotton-growing area of Pakistan.

Ownership

Ownership Structure Alhamd Corporation is a family-owned business. Majority stake vests with Sheikh Afzaal Ahmed and his son Mr. Asad Imdad Sheikh around 74% and 25% respectively.

Stability The ownership majorly rests with the Sheikh Family. Minuscule shares rests with others where few are family members. The distribution of shareholding with a clear majority held by Sheikh Afzaal Ahmed and his son, Mr. Asad Imdad Sheikh portrays a structured line of succession.

Business Acumen The Sheikh family has been in the textile industry over three decades, which brings extensive technical knowledge into the business. Sheikh Afzaal Ahmed, the key personnel have adequate acumen of textile spinning, ensuring sustainable operations of the Company.

Financial Strength The financial strength of the sponsor family is adequate. The Company being the only operational Company of the shareholders reflects the willingness to support in case of need.

Governance

Board Structure The Company's board of directors comprise of four members. Sheikh Afzaal Ahmed as CEO and Chairman of the board. The presence of family members on board along with its limited size indicates room for improvement within the governance framework of the Company.

Members' Profile Sheikh Afzaal Ahmed overseas and manages the Company from all aspects. He is a founding member and seasoned businessman having experience of 42 years. Mr. Asad Imdad Sheikh is a graduate from Duke University, Durham, North Carolina, USA, where he studied Marketing and Business Management, in addition to Social Sciences. He has been associated with the Company since last 10 years.

Board Effectiveness Attendance of the members remained strong during the year. The board meeting minutes are appropriately documented. There is no board committee in place, which anchors the board's effectiveness.

Financial Transparency M/s Shinewing Hameed Chaudhari and Co., Chartered Accountants are the external auditors of the Company. The Company's auditors are QCR rated. The auditors have expressed an unqualified opinion on the financial reports for the year ended 30 June'2021.

Management

Organizational Structure The Company's organizational structure has functional departments and all functions are headed by professionals having extensive experience in the textile industry.

Management Team Sheikh Afzaal Ahmed is the CEO of ACL and his son Mr. Asad Imdad Sheikh, is a COO. Other two executive directors lead the technical and commercial department. The management team is highly qualified and enjoys long association with the Company.

Effectiveness The management meetings are held quarterly to resolve or proactively address operational issues.

MIS A fully functional installation of ERP software has been implemented recently which has improved the efficiency.

Control Environment The Company has maintained a quality management system since the start. The Company is more focused towards producing premier quality yarn.

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 State Bank of Pakistan. 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 ACL is a mid-sized spinning unit with an installed capacity of 126,696. The Company is planning to further enhance the existing capacity by 43,776 spindles.

Revenues The Company's revenues are on a growing trajectory. During FY21, the Company's topline clocked in at PKR 9.5bln (FY20: PKR 6.0bln) posting a growth of 57.3%, owing to economic recovery from pandemic and boom in the local market and higher volumetric production. The Company's sales mix continues to be dominated by local sales 100%. The Company's major customers are Kamal Textile Mills (Pvt) Limited, Faisalabad and Kamal Limited, Lahore. The Company clocked in healthy revenues in 1QFY22 at PKR 2.6bln (1QCY20: PKR 2.2bln).

Margins During FY21, the Company's gross margins increased to 19.2% (FY20: 8.3%, FY19: 14.3%), due to adequate implementation of actions/procedures to mitigate the impact of pandemic. Also, improved sector dynamics along with higher yarn prices resulted in healthy performance. Higher gross profit further translated into good operating margins (FY21: 15.4%, FY20: 3.4%). Finance cost decreased by 58.7%, due to very low leverage. The Company's bottom line closed in green, with a net profit of PKR 1,030mln in FY21 (FY20: 57mln). Simultaneously, the Company managed to clock in profitability in 1QFY22 at PKR 384mln due to improvement in operating profit and lower finance cost. Whereas, in comparison to the same corresponding period last year, the net profit stood at PKR 141mln. The management is confident of maintaining positive trend, going forward.

Sustainability For its medium/long term sustenance and growth, ACL is in the process of BMR of the existing machinery and setting up a new spinning unit of 43,776 spindles. The new spinning unit will increase production volume, resulting in substantial increase in revenue along with the ability to produce export quality yarns.

Financial Risk

Working Capital The Company's borrowing capacity at the trade assets level is considered strong (FY21: 92.0%, FY20: 89.0 %). This is because of miniscule short-term borrowings. Additionally, the company's net-working capital has shown vigorous improvement as (FY21: 102 days: FY20: 141 days). Moreover, the cash cycle further improved to 89 days in 1QFY22.

Coverages During FY21, the Company's operating cash flows (FCFO) drastically increased as it is approximately 4.8 times higher than the prior year (FY21: PKR 1,535mln, FY19: PKR 323mln), which is attributable to elevated profitability. This indicates that company has sufficient cushion available. Moreover, the momentum is maintained as during 1QFY22, interest coverage and core coverage stood at 389.9x and 18.5x respectively.

Capitalization ACL has fairly low leveraged capital structure (3.6%) at end-June 21 (end-June 20: 20.3%) due to decline in short-term borrowings. Total debt is going to increase in upcoming time period as company has to finance its expansion. Furthermore, the situation also remains healthy in 1QFY22, as the leverage position stood at 7.6%.

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Financial Summary
PKR mln

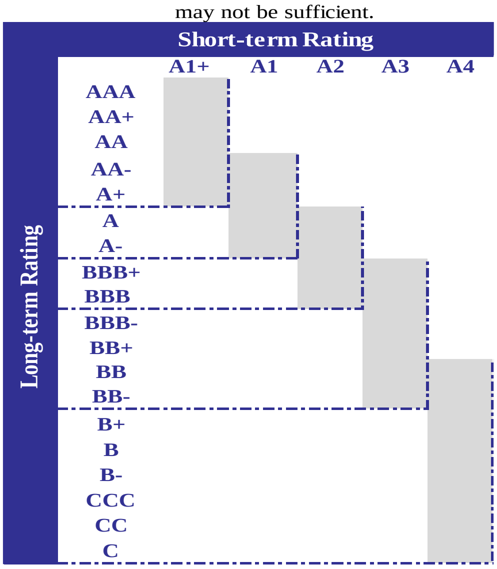
Alhamd Corporation (Pvt.) Limited Spinning	Sep-21 3M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	3,615	3,584	3,825	3,781
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	4,833	4,070	3,471	2,275
a Inventories	*2,475*	*2,164*	*2,718*	*1,486*
b Trade Receivables	*488*	*394*	*355*	*283*
5 Total Assets	8,449	7,653	7,296	6,056
6 Current Liabilities	1,313	1,171	728	705
a Trade Payables	*205*	*207*	*144*	*31*
7 Borrowings	482	207	1,168	-
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	785	791	824	831
10 Net Assets	5,869	5,485	4,575	4,520
11 Shareholders' Equity	5,869	5,485	4,576	4,520
B INCOME STATEMENT				
1 Sales	2,614	9,482	6,026	7,804
a Cost of Good Sold	*(2,010)*	*(7,658)*	*(5,529)*	*(6,690)*
2 Gross Profit	604	1,824	497	1,114
a Operating Expenses	(69)	(365)	(308)	(253)
3 Operating Profit	535	1,459	189	860
a Non Operating Income or (Expense)	*(18)*	*19*	*4*	*(49)*
4 Profit or (Loss) before Interest and Tax	517	1,478	194	811
a Total Finance Cost	*(2)*	*(36)*	*(88)*	*(46)*
b Taxation	*(132)*	*(412)*	*(49)*	*(241)*
6 Net Income Or (Loss)	384	1,030	57	524
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*562*	*1,535*	*323*	*1,034*
b Net Cash from Operating Activities before Working Capital Changes	*562*	*1,494*	*242*	*988*
c Changes in Working Capital	*(1,177)*	*604*	*(1,126)*	*(695)*
1 Net Cash provided by Operating Activities	(615)	2,098	(884)	293
2 Net Cash (Used in) or Available From Investing Activities	(110)	(93)	(237)	(94)
3 Net Cash (Used in) or Available From Financing Activities	275	(1,089)	1,015	(237)
4 Net Cash generated or (Used) during the period	(450)	917	(105)	(38)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	10.3%	57.3%	-22.8%	--
b Gross Profit Margin	23.1%	19.2%	8.3%	14.3%
c Net Profit Margin	14.7%	10.9%	0.9%	6.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-23.5%	22.6%	-13.3%	4.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	27.0%	20.5%	1.2%	11.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	96	108	147	81
b Net Working Capital (Average Days)	89	102	141	80
c Current Ratio (Current Assets / Current Liabilities)	3.7	3.5	4.8	3.2
3 Coverages				
a EBITDA / Finance Cost	389.9	59.1	6.9	27.6
b FCFO / Finance Cost+CMLTB+Excess STB	18.5	8.4	0.3	23.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.2	0.1	4.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	7.6%	3.6%	20.3%	0.0%
b Interest or Markup Payable (Days)	0.0	0.0	0.0	0.0
c Entity Average Borrowing Rate	1.8%	4.6%	7.4%	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.

Long-term Rating	
Scale	**Definition**
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating	
Scale	**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
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 surveill 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):

Entities
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

Instruments
a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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