



The Pakistan Credit Rating Agency Limited

## Rating Report

### Ahmad Hassan Textile Mills Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Dec-2022	BBB+	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The assigned ratings of Ahmad Hassan Textile Mills Limited (AHTM) reflect the adequate positioning of the company in the relative universe. The company specializes in the manufacturing of greige and dyed fabric, with an installed capacity of 171 looms. Board comprises eight members; five members are from the sponsor family. The management involves experienced professionals looking after the operations of the company. Sales mix comprises export; local sales comprise indirect export with destinations in the U.S. and Europe. Over the last few years, the company has witnessed a growing trend. During FY22, the company's revenues increased by 45% YoY to stand at PKR 5,545mln (FY21: PKR 3,816mln), mainly attributable to high-quality products sold. Operating profits and net profitability recorded a sizeable improvement in the recent year whilst margins remain good. The financial risk matrix displays good leveraging and improved coverage compared to last year. As of Jun22, the finished goods of the company recorded a sizable increase. Going forward, with planned capacity expansion, leverage is expected to increase. Hence, prudent management remains vital for the rating. During FY22, Pakistan's textile exports surged to \$19.3bln (recording a growth of 26%). In July to August 2022, the cumulative exports of knitwear increased by 15.4% to \$1.32 billion; cotton cloth by 4.2% to \$580.5 million, and readymade garments by 5.9% to \$911.5 million over their exports in the same period of last year. However, bed wear exports were down 2.9% to \$780 million, towels 1.7% to \$237.3 million, and cotton yarn sales declined by 18%. However, a slowdown is expected in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries.

The ratings are dependent upon the management's ability to capitalize on growth opportunities in a competitive landscape, operate at an optimal level, and sustain margins, going forward. The company is expected to adhere to conservative financial discipline, which would be crucial to ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Ahmad Hassan Textile Mills Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Weaving(Aug-22)
<b>Rating Analysts</b>	Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Ahmad Hassan Textile Mills Limited was incorporated on December 03, 1989, as a public limited company.

**Background** The foundation of Ahmad Hassan Textile Mills Limited was laid by Mr. Ahmad Hassan (late) in 1989. Since then, The company has evolved as a prominent manufacturer of fabric. The company has more than three decades-long association with the textile sector. The production facility is located in the vicinity of District Muzaffargarh.

**Operations** The Company operates with 171 Looms. BMR and the upgradation of machinery were done over the course. Currently, 159 looms are operating. The total energy requirement of the Company is 2.5MW which is wholly met through WAPDA at the capacity of 7.5MW and internal power generation through 3MW gas based and 0.954MW Solar power plant.

## Ownership

**Ownership Structure** The majority stakes (57.06%) of the Company are held by Mr. Javed's family. The remaining shareholding rests with the general public and financial institutions.

**Stability** The company has a structured line of succession, reflected by the equalized distribution of shareholding among Mr. Javed's family members. Meanwhile, the third generation has already been in business, serving in various capacities.

**Business Acumen** Ahmad Hassan Textile is one of the oldest small-sized textile houses in Pakistan. Operating under Mr. Ahmad Hassan's (late) family for three decades, developing credential expertise in weaving over time. The company has adequately expanded its operations despite the competitive textile industry.

**Financial Strength** It is the flagship company of the sponsors. Hence, support in case the need arises remains inevitable. Over the years, the subordinated loan from sponsors is being provided to the company which is also reflective of the support.

## Governance

**Board Structure** Ahmad Hassan Textile's board comprises eight members. Five members are from the sponsoring family. Four members are non-executive directors, two directors carry the executive role and two are independent directors. Mrs. Salma Javed serves the role of Chairwoman.

**Members' Profile** Mr. Muhammad Haris – the CEO – carries with him almost three decades of experience in the local textile industry. The board members have a vast knowledge of the textile industry; though diversity in experiences exists as well. The directors' expertise in different stages of the textile value chain benefits the board for efficient decision-making.

**Board Effectiveness** Two committees: Audit and Executive, are in place to assist the board in relevant matters and ensure proper oversight. Attendance of board members remains strong and meeting minutes were formally documented.

**Financial Transparency** M/s. Yousuf Adil, Chartered Accountants are the external auditors of the Company. They have expressed an unqualified opinion on the financial statements of the Company for FY22.

## Management

**Organizational Structure** The organizational structure of the Company is divided into various functional departments, namely: (i) Marketing, (ii) Finance, (iii) Administration & HR, (iv) Accounts, and (v) Commercial (fixed asset procurement). The procurement of raw materials is handled at group-level.

**Management Team** The management team is headed by the CEO Muhammad Haris who also holds a degree of MBBS. He is well versed in the textile business providing requisite acumen. He is supported by a team of seasoned professionals, who supplement his expertise.

**Effectiveness** The management meetings are held daily with follow-up points to resolve or proactively address operational issues, if any, eventually ensuring a smooth flow of operations. The Company's MIS can be classified into categories based on periodicity – Daily, and Monthly.

**MIS** The Company has implemented Oracle-based ERP software which integrates the flow of information between various business processes and integrates business transactions with the company's financial system in real-time.

**Control Environment** Ahmad Hassan Textile is accredited with local and international certifications for compliance. The Company follows the latest Quality Assurance Standards for fabric production and trade.

## Business Risk

**Industry Dynamics** During 5MFY23, textile exports were valued at \$7.44bln compared to \$7.76bln, reflecting a 4% dip YoY – the declining trend recorded in the last two months. The fall in export value has mainly come from volumetric decline as prices of almost all categories have either increased or stayed flat. This has taken a fiscal year to date exports into negative with a 1.4% decline in the first four months (July – October) FY23. Among value-added items, bedwear has witnessed the largest decline of 19% (on an MoM basis), down to \$217 million. Knitwear remained on the downward path in October 2022 and declined by 10% to \$392 million. Among non-value-added items, the cotton yarn has shown the largest decline of 35%. Moreover, a slowdown is expected in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries.

**Relative Position** Ahmad Hassan Textile has a long history of operations in Pakistan's weaving sector. However, on a standalone basis, the Company's share in the local weaving industry is one of the minimal in the relative universe.

**Revenues** The analysis of the last three years reveals that the company's revenue base has witnessed a growing trend. During FY22, the company's revenues increased by 45% YoY to stand at PKR 5,545mln (FY21: PKR 3,816mln), mainly attributable to high-quality products sold. The company's export share of total revenue declined to 49% (FY21: 55%) of the total revenue, the company's large portion of its export base comprises indirect exports. During 1QFY23, the revenues increased by 37% YoY to stand at PKR 1,835mln (1QFY22: PKR 1,011mln).

**Margins** During FY22, the company's gross margins decreased to 6.1% (FY21: 8%) on account of the higher cost structure. This translated to attrition in the operating margin to record at 4.7% (FY21: 6.1%). The finance cost increased to PKR 52mln (FY21: PKR 28mln) resulting in a declined net margin of 3.6% (FY21: 4.4%). During 1QFY23, gross margins were recorded at 11% (9MCY21: 10%). The operating margin clocked in at 9.3% (9MCY21: 8.4%). The finance cost was recorded at PKR 21mln (9MCY21: PKR 9mln). Net income was recorded at 76mln (9MCY21: PKR 85mln). Net margin recorded at 5.5% (9MCY21: 8%).

**Sustainability** The Company has a decades-long history where a consistent BMR has been witnessed. The Company is planning CAPEX inclusive of setting up its spinning unit, the company also intends to increase the captive generation of power through solar, and the construction of a new shed consisting of an additional 56 air jet looms is also a part of the plan. Furthermore, the company is planning to replace 26 old looms with newly imported looms having the latest technology.

## Financial Risk

**Working Capital** At end-Jun22, the net working capital cycle days remained stagnant at 54 days (FY21: 54 days) on account of higher inventory days. Trade assets increased by 37% to stand at PKR 1,779mln (FY21: PKR 1,300mln) which reflects a good cushion in trade assets. The increase in short-term borrowing led to a declined Short-Term trade leverage adequacy of 36% (FY21: 40%). During 1QFY22, the net working capital cycle days increased to 72 days on account of higher inventory days.

**Coverages** During FY22, the company's FCFO increased to PKR 283mln (FY21: PKR 248mln). The interest coverage declined to 6.2x (FY21: 9.4x) mainly attributable to increasing finance costs. Debt coverage of the company remained stagnant at 1.9x (FY21: 1.9x). Whereas, the debt repayment period of the company decreased to 1.6 years (FY21: 1.8 years). During 1QFY22, the company generated FCFO of PKR 143mln, and debt coverage improved to 3.0x. The debt repayment period improved to 0.9 years.

**Capitalization** At end-Jun22, the company's leverage remained largely the same at 31.5% (FY21: 31.7%) as the equity climbed up to PKR 1,726mln (FY21: PKR 1,322mln). Total borrowings of the company have increased to stand at PKR 794mln (FY21: PKR 615mln). ST borrowings constitute 51% of total borrowings. At end-Sept22, leveraging increased to 35.2% as the total borrowings increased to PKR 980mln. The equity base inched up to PKR 1,802mln.



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Financial Summary

PKR mln

Ahmad Hassan Textile Mills Limited Textile   Weaving	Sep-22 3M	Jun-22 12M	Jun-21 12M	Jun-20 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	1,685	1,703	1,390	1,417
2 Investments	-	-	-	43
3 Related Party Exposure	9	19	33	0
4 Current Assets	1,928	1,833	1,355	976
a Inventories	1,282	1,395	839	580
b Trade Receivables	422	217	404	288
5 Total Assets	3,623	3,555	2,777	2,436
6 Current Liabilities	755	949	711	577
a Trade Payables	489	649	574	404
7 Borrowings	917	732	552	524
8 Related Party Exposure	63	63	63	63
9 Non-Current Liabilities	85	86	130	107
10 Net Assets	1,802	1,726	1,322	1,165
11 Shareholders' Equity	1,802	1,726	1,322	1,165
<b>B INCOME STATEMENT</b>				
1 Sales	1,385	5,545	3,816	3,754
a Cost of Good Sold	(1,233)	(5,207)	(3,510)	(3,483)
2 Gross Profit	152	338	307	270
a Operating Expenses	(23)	(80)	(72)	(58)
3 Operating Profit	129	259	234	213
a Non Operating Income or (Expense)	(14)	(1)	7	(9)
4 Profit or (Loss) before Interest and Tax	115	258	241	204
a Total Finance Cost	(21)	(52)	(28)	(66)
b Taxation	(17)	(5)	(45)	(22)
6 Net Income Or (Loss)	76	201	168	116
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	134	283	248	246
b Net Cash from Operating Activities before Working Capital Changes	117	244	219	171
c Changes in Working Capital	(309)	(249)	(200)	66
1 Net Cash provided by Operating Activities	(192)	(5)	19	237
2 Net Cash (Used in) or Available From Investing Activities	7	(151)	(11)	8
3 Net Cash (Used in) or Available From Financing Activities	184	41	(10)	(161)
4 Net Cash generated or (Used) during the period	(1)	(114)	(2)	84
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	-0.1%	45.3%	1.7%	--
b Gross Profit Margin	11.0%	6.1%	8.0%	7.2%
c Net Profit Margin	5.5%	3.6%	4.4%	3.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-12.6%	0.6%	1.3%	8.3%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity )]	17.3%	13.2%	13.5%	9.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	109	94	101	84
b Net Working Capital (Average Days)	72	54	54	45
c Current Ratio (Current Assets / Current Liabilities)	2.6	1.9	1.9	1.7
3 Coverages				
a EBITDA / Finance Cost	7.5	7.9	11.5	4.5
b FCFO / Finance Cost+CMLTB+Excess STB	3.0	1.9	1.9	3.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.9	1.6	1.8	2.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	35.2%	31.5%	31.7%	33.5%
b Interest or Markup Payable (Days)	88.3	116.1	64.8	51.3
c Entity Average Borrowing Rate	8.6%	6.5%	4.4%	10.9%

### 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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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	<b>Moderate risk.</b> 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	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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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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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(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

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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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