



The Pakistan Credit Rating Agency Limited

Rating Report

Reliance Weaving Mills Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
31-Dec-2018	A-	A2	Stable	Upgrade	-
25-Apr-2018	BBB	A3	Stable	Maintain	-
30-Jun-2017	BBB	A3	Stable	Upgrade	-
11-Nov-2016	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect sound business profile of Reliance Weaving Mills Limited (Reliance Weaving). The company's revenues are on a growing trajectory over the years, a factor of continuous BMR translating into operational efficiencies and higher production volumes. Over the years, the company has sustained its overall margins, despite challenging textile industry dynamics. Moreover, re-imposition of custom duties and sales tax on cotton & yarn imports, coupled with increasing interest rates has made it challenging for the local textile industry. While on standalone basis, the rupee devaluation has provided a requisite breather to the company, reflected in improving margins. Fatima Group has parked a strategic investment in energy sector on Reliance Weaving's books. However, major investment portion is in development stage and is not expected to provide returns in near future. The company has a relatively stretched financial profile. This is reflected in higher short-term debt vis-à-vis self-liquidating current assets. Cognizant of these issues, the management is in process of re-profiling its balance sheet in favor of long term debt. The assigned ratings incorporate strong sponsors support demonstrated by explicit guarantee provided by majority sponsors on all debt related obligations of the company.

The ratings are dependent on the management's ability to prudently manage the liquidity and debt profile of the company, particularly working capital, while sustaining its business margins. Going forward, support from sponsors would remain important.

Disclosure

Name of Rated Entity	Reliance Weaving Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Textile(Oct-18)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

Profile

Legal Structure Reliance Weaving Mills Ltd. (Reliance Weaving) a listed concern, commenced operations in 1990. The company is engaged in the manufacturing and marketing of yarn and greige fabric.

Background Reliance Weaving is associated with Fatima Group (FG) since its inception. Fatima Group is one of the renowned business conglomerates in Pakistan.

Operations Reliance Weaving operates with five units, constituting two spinning and three weaving units, having capacities of 61,920 spindles and 448 air jet looms, respectively. The company caters its power needs via in-house production (12.5 MW), as well as NTDC connection.

Ownership

Ownership Structure Reliance Weaving's majority stake (~78.2%) is owned by representatives of Fatima Group. The remaining shareholding rests with general public (13.49%), financial institutions (4%), and joint stock companies (4%).

Stability The major positions in Reliance Weaving are held by Fatima Family. However, the group succession planning and investments are overseen through Fatima holding.

Business Acumen Fatima Group's association with Fazal Group – a leading textile group, provides adequate expertise of textile sector, in order to sustain local challenges and penetrate highly competitive international market.

Financial Strength Fatima Group is one of the leading corporate groups in Pakistan with interests in sugar, textile, fertilizer, packaging and foreign trade. The Group's financial strength provide ample financial support to Reliance Weaving when needed.

Governance

Board Structure The board comprises seven members; five directors are representatives of sponsoring group – including two executive directors. The remaining two members are independent directors. Mr. Fawad Ahmed Mukhtar is the Chairman of the BoD.

Members' Profile Board members have diversified experience, and relatively long association with the company. The Chairman of board – Mr. Fawad Ahmed, carries an experience of over three decades in textile value chain.

Board Effectiveness Control of the board vests with Fatima Group, with strong independent oversight providing constructive challenge. Meanwhile, Audit, HR and Risk management committees are in place to assist the board on relevant matters.

Financial Transparency M/s Shinewing Hameed Chaudri & Co., Chartered Accountants is the external auditor of the company. The auditors have expressed unqualified opinion on the financial reports for the year ended 30th June, 2018.

Management

Organizational Structure Management control vests with Fatima Group, with well-defined reporting line to ensure smooth operations and excellence.

Management Team Mr. Fazal Ahmed Sheikh – the CEO– a textile industry veteran; primarily manages the company's affairs, supported by a team of seasoned professionals. Mr. Fazal Ahmed Sheikh is associated with the company since 1990.

Effectiveness The company's management meetings are held on periodic basis to ensure efficiency and strategic planning. Furthermore, need based meeting are called in order to resolve bottlenecks.

MIS Reliance Weaving deploys Oracle based Enterprise Resource Planning (ERP) system that provides comprehensive MIS reporting.

Control Environment Reliance Weaving maintains a documented 'quality policy' with clear focus on quality and excellence. Moreover, the company is compliant with quality assurance standards; mainly including, ISO 9001, ISO 27001, Oeko-Tex standard 100 and Global Organic Textile Standards.

Business Risk

Industry Dynamics During FY18, total textile exports of Pakistan stood at ~ USD 13.53bln, a 9% YoY growth. Re-imposition of custom duty and sales tax on cotton imports in FY19 budget, coupled with exclusion of tax rebate on yarn and greige fabric has further stretched the industry margins. However, rupee devaluation in recent times has provided breather to textile ventures with net exports.

Relative Position Reliance Weaving is associated with Fatima Group, matching its family line with Fazal Group. Fazal Group with considerable representation in textile sector; eventually strengthening Reliance Weaving market position. However, on standalone basis, Reliance Weaving's share in textile composite sector is minimal.

Revenues Reliance Weaving has experienced consistent growth in revenues over the years. During FY18, top line clocked in at PKR 13.9bln, (FY17 PKR 11.34bln) posting a growth of ~22%. The share of exports in total revenue is ~47% with the top three exporting regions being Asia (~58%), Europe (18%) and Africa (5%). Whereas during 1QFY19, revenues declined by ~2.8% on QoQ basis, on account of rupee devaluation.

Margins The company's gross margins improved (FY18: 9.7%, FY17: 8.7%), a factor of operational efficiencies and rupee devaluation. This was followed by better operating margin (FY18: 7.4%, FY17: 6.4%), as operating expense increase in lesser proportion to sale. However, despite the increase in finance cost by ~15%, net profitability improved ~PKR 311mln (FY17: PKR 101mln). Moreover, the company's margins improved in 1QFY19 (gross – 13.2%, net - 11.1%), a factor better industry dynamics.

Sustainability Reliance Weaving has incurred a capex of PKR 400mln in recent times, to increase its capacities and operational efficiencies, for better capitalization of market with improved margins. Moreover, the company maintains a portfolio of strategic investment comprising PKR 767mln in Fatima Energy Limited, however the project is not yet operational.

Financial Risk

Working Capital During FY18, company reliance on STB has significantly increased (FY18: PKR 6,065mln, FY17: PKR 4,582mln), in order to meet higher working capital needs. Furthermore, receivables significantly increased resulting in higher trade debtor days (FY18: 34days, FY17: 13days), consequently led to hiked net cash cycle (FY18: 98days, FY17: 67days). The working capital cycle improved in 1QFY19, reflected from decreased working capital days (gross – 1QFY19: 147days, net – 1QFY19: 124days), owing to higher inventory and receivables.

Coverages Reliance Weaving's operating cashflows (FCFO) increased by ~51% on YoY basis, resulting in both interest and debt coverages marginally improved (FY18: 2.2x; FY17: 1.7x) and (FY18: 0.6x; FY17: 0.4x), respectively. Going forward, despite the increase in interest rates the company's coverages are expected to improve as no major capex is expected in near future. Whereas, in 1QFY19 interest coverage marginally improved (1QFY19: 2.0x), followed by deteriorated debt coverage (1QFY19: 0.6x) on account of uncovered STB. Going forward, despite the hike in interest rate the company's coverages may improve, as no major CAPEX is expected in near future.

Capitalization The company has a highly leveraged capital structure ~70.0% at end-Jun18 (at end-Jun17: ~69%). Out of total borrowing, 84% represents current debt at end- June18 (end- June17: 75.4%). During 1QFY19, the company's leveraging largely remained at same level.



Reliance Weaving Mills Limited

BALANCE SHEET	30-Sep-18	30-Jun-18	30-Jun-17	30-Jun-16
	3M	FY	FY	FY
Non-Current Assets	5,669	5,724	5,451	5,238
Investments (Incl. associates)	956	944	966	906
Equity	956	944	966	906
Debt				
Current Assets	6,665	6,598	4,805	4,007
Inventory	3,659	3,222	3,009	2,346
Trade Receivables	1,568	2,006	604	528
Others	1,439	1,370	1,192	1,132
Total Assets	13,291	13,267	11,221	10,151
Debt	7,833	7,948	7,179	6,250
Short-term	5,819	6,065	4,582	3,560
Long-term (Incl. Current Maturity of long-term debt)	2,014	1,883	2,597	2,691
Other shortterm liabilities	1,627	1,650	998	972
Other Longterm Liabilities	284	268	185	155
Shareholder's Equity	3,547	3,402	2,859	2,774
Total Liabilities & Equity	13,291	13,267	11,221	10,151

INCOME STATEMENT

Turnover	3,242	13,914	11,342	10,049
Gross Profit	428	1,346	984	887
Other Income	(15)	28	(14)	(4)
Financial Charges	(174)	(622)	(540)	(523)
Net Income	131	311	-	3

Cashflow Statement

Free Cashflow from Operations (FCFO)	407	1,353	895	809
Net Cash changes in Working Capital	(91)	(1,327)	(755)	(70)
Net Cash from Operating Activities	122	(569)	(379)	213
Net Cash from Investing Activities	(5)	(199)	(515)	(11)
Net Cash from Financing Activities	(130)	750	913	(196)

Ratio Analysis

Performance				
Turnover Growth	-2.8%	22.7%	12.9%	-7.6%
Gross Margin	13.2%	9.7%	8.7%	8.8%
Net Margin	4.0%	2.2%	0.9%	0.0%
ROE	16.5%	9.8%	3.7%	0.1%
Coverages				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	0.6	0.6	0.4	0.5
Interest Coverage (x) (FCFO/Gross Interest)	7.0	2.2	1.7	1.5
Debt Payback (Years) (Total Lt.Debt (excluding Covered Short Term Borrowings) / FC	3.2	4.0	9.2	10.9
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	123.9	98.4	67.3	52.1
Capital Structure (Total Debt/Total Debt+Equity)	68.8%	70.0%	71.5%	69.3%

Reliance Weaving Mills Limited

December 2018

Credit Rating Scale & Definitions

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 Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

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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

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- (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.
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (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)

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- (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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