The Pakistan Credit Rating Agency Limited

Rating Report

Reliance Weaving Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Dec-2019	A-	A2	Stable	Maintain	-
28-Jun-2019	A-	A2	Stable	Maintain	-
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" or "the Company") emanating from growth in revenues and better margins. Over the years, the Company has undertaken continuous BMR translating into operational efficiencies and higher production volumes. The Company has sustained its overall margins despite the higher cotton price and rising interest rates. However, significant rupee devaluation has provided a requisite breather to the Company in the shape of higher exports and better pricing. The Company has a sizeable strategic investment in the energy sector in a group company. However, it is still evolving and yet to generate any profits. The company has a relatively squeezed financial capacity when considering leverage. However, the overall borrowing has reduced in 1QFY20 and the assigned ratings incorporate strong sponsors support and the 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 mange the liquidity and debt profile of the Company, particularly working capital, while sustaining its business margins. Going forward, support from sponsors would remain critical.

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-19),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria | Rating Modifier(Jun-19)
Related Research	Sector Study | Composite(Nov-19)
Rating Analysts	Adil Kaleem | Adil.kaleem@pacra.com | +92-42-35869504

Profile

Legal Structure Reliance Weaving Mills Limited, "the Company," began operations in 1990 as a Public Listed Company.

Background Reliance Weaving is associated with Fatima Group since its inception. The Company commenced operations with a small scale weaving unit established in Multan. Later on, the Company entered into spinning segment as a consequence of the acquisition of a company in 1999, based in Rawat, Rawalpindi. Presently, the Company operates with three weaving units, all located in Multan and two Spinning units; one in Rawat and the other in Multan.

Operations The Company's operational capacity comprises of 65,280 spindles and 396 looms; increased from 61,920 spindles and 392 looms, in the previous financial year. The Company is equipped with state-of-the-art technology, enabling it to produce a variety of high quality cotton yarn, and griege fabric. The total energy requirement stands at 12.5MW, adequately powered by eight gas-fired captive power generators. Furthermore, MEPCO and IESCO connections are kept as back-up power sources.

Ownership

Ownership Structure Reliance Weaving Ltd is a family owned business with majority stake (81%) held by Fatima Group through individual family members (78.11%) and associated companies (2.74%). The remaining are spread amongst financial institutions and general public.

Stability The majority shareholdings in Reliance Weaving are held by Fatima Group's family members. However, succession planning and transfer of ownership to the next generation is not yet documented.

Business Acumen The Sponsors have decades of experience; Mr. Fawad Ahmed Mukhtar (Chairman), alone, has spent 30 years developing the family business. Mr. Fazal Ahmed (CEO) is the key person in managing the Company, playing a strategic role in Fatima Group's expansion and success.

Financial Strength Fatima Group is one of the leading conglomerates in Pakistan with concerns in sugar, textiles, fertilizers packaging and foreign trade. The sponsors have strong financial muscles and; are willing to support Reliance Weaving Ltd, shall the need arises.

Governance

Board Structure The overall control of the Company rests with a seven-member board of directors with Chairman – Mr. Fawad Ahmed Mukhtar and the CEO – Mr. Fazal Ahmed Sheikh. Five directors are Fatima Group's family members, including two executive directors, while two members are independent directors.

Members' Profile Board members have diversified experience, and relatively long association with the Company. The Chairman of the board, Mr. Fawad Ahmed, is a graduate and carries with him an experience of around three decades of textile value chain.

Board Effectiveness Fatima Group is in control of the board, with strong independent oversight providing constructive challenge; thus portraying effective governance. Meanwhile, Audit, HR and Risk management committees are in-place to assist the board on relevant matters.

Financial Transparency Shinewing Hameed Chaudhri & Co., Chartered Accountants is the external auditor of the Company. The auditor has given an unqualified opinion for the periods ended FY19.

Management

Organizational Structure The organizational structure of the Company is divided into various functions, including: (i) Finance & Accounts, (ii) Production, (iii) Procurement, iv) Marketing, (v) Administration & Human Resource and (vi) Internal Audit. The hierarchy of Head of Departments is channeled through Executive Directors, who then reports to the CEO. This segregation of responsibilities ensures smooth flow of the Company's operations.

Management Team Mr. Fazal Ahmed Sheikh is the CEO of the Company and he has been associated with the Company since its inception. Meanwhile, Mr. Faisal Ahmed (Executive Director), a textile industry veteran, primarily manages the Company's affairs. He is supported by a team of seasoned professionals.

Effectiveness The Company's management meetings are held on periodic basis to highlight potential challenges and to devise both counter and growth strategies. In these meetings the Company's current performance and liquidity position is reviewed. Furthermore, need based meeting are called in order to resolve bottlenecks, ensuring efficiency in operations.

MIS Cognizant of the importance of real-time information, Reliance Weaving has deployed Oracle based ERP solution with advanced technology infrastructure.

Control Environment Reliance Weaving maintains a documented 'quality policy' with clear focus on customer satisfaction and commitment to excellence. The Company is accredited with number of certifications for compliance to the following latest Quality Assurance Standards, including: ISO 9001, Oeko-Tex Standard 100 (AITEX Spain), Better Cotton Initiative (Switzerland), Global Organic Textile Standard.

Business Risk

Industry Dynamics During 4MFY20, textile exports increased by 4.1% YoY in comparison to 3.81% overall growth in exports. The balance of trade within the textile group appreciated by 13% in 4MFY20. Furthermore, US-China trade war has a disrupting impact on the cotton yarn prices across the globe. Considering that China accounts for more than 50% of Pakistan's cotton yarn exports, the retaliatory tariffs imposed by the Chinese Government have left Pakistani cotton exporters gasping for air. Additionally; the withdrawal of zero-rated sales tax status from textile sector coupled with the high interest rates, has impacted liquidity and profitability.

Relative Position Reliance Weaving is the only textile venture of Fatima Group with minimal share in local spinning and weaving segment. However, standard quality machinery has made the Company capable of producing diverse product range in weaving segment, hence, developing a niche clientele.

Revenues In FY19, the company's revenue flourished; recording an increase of around 19%, at PKR 16,605Mln on the back of production capacity enhancements, causing volumetric growth and better prices due to currency devaluation. Weaving accounted for 63% of the total revenues in FY19; remaining attributable to the Spinning segment. Whereas, 64% of the total revenue were generated locally (FY19: PKR. 10,548Mln); top three exporting regions being Asia, Europe and Africa. Revenues for 1QFY20 stood at PKR. 4,633Mln (1QFY19: PKR. 3,242Mln).

Margins In FY19, the Company's gross margin saw an increase of 10.73% (FY18: 9.67%) attributed to the volumetric increase in sales. The resultant net margin was 3.03% (FY18: 2.23%) on the back of an exchange gain worth PKR. 307Mln. This gain contributed towards off-setting the otherwise significantly high finance cost (FY19: PKR 991Mln); incurred as a result of an increase in short-term borrowing at higher interest rates. . The net income was therefore recorded at PKR. 502Mln for FY19 against PKR. 310Mln for FY18. In 1QFY20, the net income was PKR. 101Mln with the net margin of 2.2%.

Sustainability Reliance Weaving has incurred a CAPEX of PKR. 858Mln in FY19 (FY18: PKR. 228Mln) used for the importation of 48 looms; 2 Generators; and Rawat unit's extension. The company plans to further add 50 Air Jet looms; additionally, the investment in associated company - Fatima Energy Ltd - is still under developing stages and its dividend inflow will take some time. Fluctuating yarn prices owing to the US-China trade war have impacted the revenues; when the market prices stabilize, performance can improve.

Financial Risk

Working Capital In FY19, the Company's gross working capital cycle increased, standing at 148 days (FY:18 116 Days). Net working capital cycle climbed as well, to 124 days in FY19 from 98 days in FY18. Primary reason was the intentional pile up of cotton stock and yarn at competitive prices due to the fluctuations in the global market. This resulted in a significant increase in Net Trade Assets to PKR. 7,233Mln (FY19) from PKR. 4,954Mln (FY18). However, the corresponding increase in STB kept the room-to-borrow to negative. In 1QFY20, gross working capital cycle improved slightly to 143 Days, and net working cycle reduced favorably to 119 days.

Coverages The Company's FCFO grew in FY19, largely resultant of higher profitability. Meanwhile, substantial increase in finance cost led to deteriorated interest coverage to 2.2 times from 2.5 times in FY18. Furthermore, due to higher operating cashflows in FY19, improved debt coverage was recorded at 0.9x (FY18:0.6x). Debt-coverage stood at 1.0x in 1QFY20.

Capitalization The Company's leverage has gone up over the year, owing to BMR and higher STB in order to meet its growing working capital needs. In FY19, the Company has increased its total leverage to 72.4% (FY18: 70%). Out of the total debt of PKR. 10,181Mln, STB comprises of 76% i.e. PKR. 7,816Mln. In 1QFY20, leverage slightly dropped to 68.4%.

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Financial Summary
PKR mln

Reliance Weaving Mills Limited	Sep-19	Jun-19	Jun-18	Jun-17
Composite	3M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	6,307	6,320	5,724	5,451
2 Investments	74	137	107	110
3 Related Party Exposure	976	905	866	884
4 Current Assets	7,482	9,447	6,570	4,777
a Inventories	*4,298*	*5,945*	*3,222*	*3,009*
b Trade Receivables	*2,031*	*2,281*	*2,006*	*604*
5 Total Assets	14,839	16,809	13,267	11,221
6 Current Liabilities	1,950	2,478	1,619	998
a Trade Payables	*1,085*	*1,363*	*801*	*540*
7 Borrowings	8,624	10,181	7,963	7,179
8 Related Party Exposure	18	19	15	-
9 Non-Current Liabilities	261	240	268	185
10 Net Assets	3,985	3,891	3,402	2,859
11 Shareholders' Equity	3,985	3,891	3,402	2,859
B INCOME STATEMENT				
1 Sales	4,633	16,605	13,914	11,342
a Cost of Good Sold	*(3,997)*	*(14,823)*	*(12,568)*	*(10,358)*
2 Gross Profit	636	1,783	1,346	984
a Operating Expenses	(108)	(345)	(310)	(263)
3 Operating Profit	527	1,438	1,036	721
a Non Operating Income	*(40)*	*185*	*28*	*(14)*
4 Profit or (Loss) before Interest and Tax	488	1,623	1,064	707
a Total Finance Cost	*(331)*	*(991)*	*(622)*	*(540)*
b Taxation	*(57)*	*(129)*	*(131)*	*(67)*
6 Net Income Or (Loss)	101	503	311	101
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*576*	*1,913*	*1,354*	*895*
b Net Cash from Operating Activities before Working Capital Changes	*230*	*1,073*	*759*	*376*
c Changes in Working Capital	*1,371*	*(2,340)*	*(1,327)*	*(755)*
1 Net Cash provided by Operating Activities	1,601	(1,268)	(568)	(379)
2 Net Cash (Used in) or Available From Investing Activities	(53)	(848)	(199)	(515)
3 Net Cash (Used in) or Available From Financing Activities	(1,557)	2,149	750	913
4 Net Cash generated or (Used) during the period	(10)	34	(18)	19
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	11.6%	19.3%	22.7%	12.9%
b Gross Profit Margin	13.7%	10.7%	9.7%	8.7%
c Net Profit Margin	2.2%	3.0%	2.2%	0.9%
d Cash Conversion Efficiency (EBITDA/Sales)	12.7%	12.5%	10.2%	9.0%
e Return on Equity (ROE)	10.2%	13.8%	9.9%	3.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	143	148	116	104
b Net Working Capital (Average Days)	119	124	98	87
c Current Ratio (Total Current Assets/Total Current Liabilities)	3.8	3.8	4.1	4.8
3 Coverages				
a EBITDA / Finance Cost	1.8	2.2	2.5	2.1
b FCFO / Finance Cost+CMLTB+Excess STB	1.0	0.9	0.6	0.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.1	3.1	3.7	8.1
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	68.4%	72.4%	70.1%	71.5%
b Short-Term Borrowings / Total Borrowings	0.7	0.8	0.8	0.6
c Average Borrowing Rate	14.1%	10.3%	7.5%	7.3%

Credit Rating Scale & Definitions

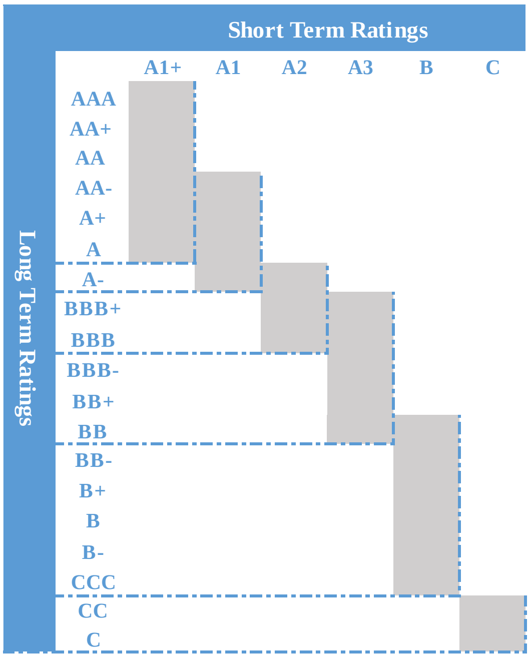
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

Rating	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 Ratings

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.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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 surveill the opinion due to lack of requisite information.

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

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