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
26-Dec-2020	A-	A2	Stable	Maintain	-
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 moderate business risk profile of Reliance Weaving Mills Limited ("Reliance Weaving" or "the Company") emanating from volumetric growth in exports and better pricing. 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. Moreover, the Company has ramped up the capacity utilization significantly, in both spinning and weaving segments, give a comfortable picture, ahead. The Company has a sizeable strategic investment in the energy sector in a group company. Reliance Weaving has a relatively squeezed financial capacity when considering leverage. However, the Company has availed moratorium relief, hence principal repayments are deferred for a year. The assigned ratings incorporate strong sponsors support and the explicit guarantee provided by majority sponsors on all debt related obligations of the Company. Moreover, synergies between the group companies are considered positive.

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 and improving 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-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Composite(Nov-20)
Rating Analysts	Muhammad Noor Ul Haq | noorulhaq@pacra.com | +92-42-35869504

Profile

Legal Structure Reliance Weaving Mills Limited (Reliance Weaving) commenced its operations in 1990 as a public limited company.

Background Reliance Weaving is associated with Fatima Group since its inception. The Company started its operations with a small scale weaving unit based in Multan. Later on, the Company entered into spinning segment by acquiring a company in 1999, located at Rawat, Rawalpindi. Presently, the Company operates with three weaving units, all located in Multan and two spinning units, one in Rawat and other in Multan.

Operations Currently, the Company operational capacity comprises 65,280 spindles and 396 looms. The Company is capable of producing high quality cotton yarn, and greige fabric. The Company's total energy requirement stands at 12.5MW. The power is sourced through eight gas-fired captive power generators, which is sufficient for energy requirement. Furthermore, MEPCO and LESCO connections are kept as back-up arrangement.

Ownership

Ownership Structure Reliance Weaving is a family owned business with majority stake (82%) held by Fatima Group. Out of which (79%) stake rests with Fatima family individuals. The remaining is spread among financial institutions and general public.

Stability The major positions in Reliance Weaving are held by Fatima Family members. However, succession planning and transfer of ownership to next generation is not documented yet.

Business Acumen The Sponsors have presence of around three decades in local textile industry through Reliance Weaving, developing expertise over time. Mr. Faisal Ahmed (CEO) is the key person in managing the Company's operations and he has requisite expertise of textile sector in order to spearhead the Company.

Financial Strength Fatima Group is one of the leading corporate groups in Pakistan with interests in sugar, textiles, fertilizer, packaging and foreign trade. The Sponsors have strong financial muscle and are willing to support Reliance Weaving, if needed.

Governance

Board Structure The overall control of the Company vests in seven-member board of directors with the Chairman – Mr. Fawad Ahmed Mukhtar and the CEO – Mr. Faisal 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 board, Mr. Fawad Ahmed, is a graduate, having a experience of around three decades in textile value chain.

Board Effectiveness Control of the board vests with Fatima Group, 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 period ended FY20.

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 HoD's 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 The CEO - Mr. Faisal Ahmed, a textile industry veteran, has a diversified experience. 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 As lockdowns are being gradually eased around the world months after the outbreak of Covid-19 pandemic, the country’s textile exports have rebounded in 1QFY21 after registering negative growth in the previous quarters. Pakistan’s textile and clothing exports increased by 14.4% in Jul’20 from the lows of Apr’20 and May’20 owing to the revival as exporters have resumed production to honor orders whereas during FY20 it posted a negative growth of ~6%. Though the Covid-19 outbreak in early 2020 has affected the entire textile chain. Several domestic players have shut down production or are partially operational. Currency devaluation and US-China trade war earlier in the year helped the country to increase its exports in value-added segments. During FY20, despite a decrease in per-unit prices, a factor of sharing currency devaluation benefits with buyers, exports of value-added segments also increased. However, prevailing uncertainty due to global lockdown may have implications for the industry dynamics. The export outlook is likely to remain weak as against demand for home textiles.

Relative Position On stand alone basis the Company has minimal share in local market.

Revenues Despite many economic challenges, the sales revenue of Reliance Weaving for FY20 increased by 4.0% from PKR 16,605mln to PKR 17,275mln, owing to enhancement of operational efficiencies and strong export demand resulting in volumetric growth in fabric and yarn sales. The Company’s 78.8% (FY19: 36.2%) of revenues are being generated from export sales while local sales for the year include polyester and viscose sales aggregating PKR 256mln (FY19: 126mln). During 3MFY21, the revenues of the Company grew by 27.8% to PKR 5,920mln (3MFY20: PKR 4,633mln) due to significant increase in exports.

Margins The Company’s gross margin increased (FY20: 11.9%; FY19: 10.7%) owing to controlled input cost. The Company's operating margin was impacted due to high distribution cost. Dependency on debt finance has forced the Company bear heavy finance cost (FY20: PKR 1,167mln; FY19: PKR 991mln) which has eroded significant portion of net profit (FY20: PKR 61mln; FY19: PKR 503mln) while net margin reported as 0.4% (FY19: 3.0%). During 3MFY21, the Company earned net profit of PKR 203mln as compared to PKR 100mln in same period last year, owing to improved topline coupled with low finance cost due to reduced interest rates and availed dollar based financing.

Sustainability The Company is set to add 50 air jet looms to its capacity. Building and construction work was carried out in FY19 and the new looms are expected to install in 2QFY21. Furthermore, after a shut down period of nearly a week in the beginning of the lockdown due to COVID-19, the Company obtained approvals to resume operations. Currently, the plant is operating at its maximum capacity to fulfill the demand of export and local sales. The management of Reliance Weaving is also concentrating more on enhancement of exports of yarn to improve export sales revenue and margins.

Financial Risk

Working Capital In 3MFY21, net working capital cycle declined to 96 days (FY19: 134 days) due to decrease in inventory days. Trade assets of the Company increased to PKR 8,553mln (FY20: PKR 7,387mln) on account of higher trade receivables (3MFY21: PKR 3,680mln; FY20: PKR 2,333mln). ST borrowing increased to PKR 7,110mln in 3MFY21(FY20: PKR 6,658), resulting in a ST trade leverage adequacy of 1% (FY20: -4%).

Coverages In 3MFY20, the Company generated FCFO amounting to PKR 523mln (FY20: PKR 1,536). During the same period, interest coverage improved to 2.8x (FY20: 1.4x) owing to significant improvement in debt coverage (3MFY21: 3.0x; FY21: 1.6x) on account of low finance cost (3MFY21: PKR 200mln; 3MFY20: PKR 331mln) and high profit. Moreover, the Company has availed moratorium relief, hence principal repayments are deferred for a year.

Capitalization Total borrowing has witnessed an increase of 7.2% to PKR 10,211mln (FY20: PKR 9,529mln) to fulfill the commitment of expansion and increased working capital needs. Overall, almost 25.4% of total borrowing is being availed at the SBP rates. Though, there is some reduction in the overall leverage of the Company but still high at 67.9% (FY20: 71.1%); mainly comprising short-term borrowings (69.4%).

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Financial Summary
PKR mln

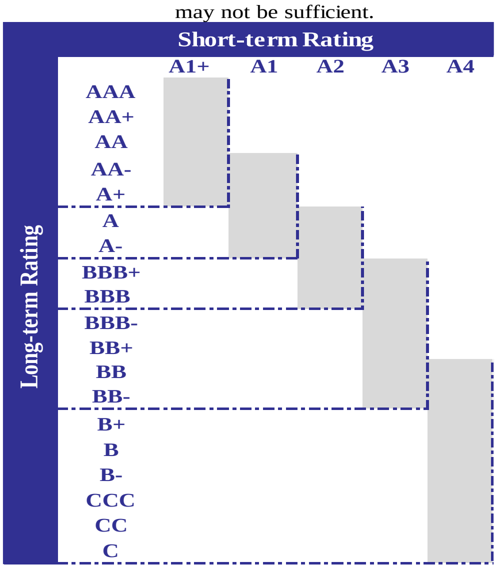
Reliance Weaving Mills Limited Composite	Sep-20 3M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	7,335	6,560	6,320	5,724
2 Investments	21	21	59	21
3 Related Party Exposure	867	844	983	951
4 Current Assets	9,594	8,396	9,447	6,570
a Inventories	*4,447*	*4,669*	*5,945*	*3,222*
b Trade Receivables	*3,680*	*2,333*	*2,281*	*2,006*
5 Total Assets	17,817	15,821	16,809	13,267
6 Current Liabilities	2,433	2,128	2,478	1,619
a Trade Payables	*1,518*	*1,177*	*1,363*	*801*
7 Borrowings	10,211	9,529	10,181	7,963
8 Related Party Exposure	54	29	19	15
9 Non-Current Liabilities	272	258	240	268
10 Net Assets	4,847	3,877	3,891	3,402
11 Shareholders' Equity	4,847	3,877	3,891	3,402
B INCOME STATEMENT				
1 Sales	5,920	17,275	16,605	13,914
a Cost of Good Sold	*(5,332)*	*(15,214)*	*(14,823)*	*(12,568)*
2 Gross Profit	588	2,061	1,783	1,346
a Operating Expenses	(118)	(429)	(345)	(310)
3 Operating Profit	470	1,632	1,438	1,036
a Non Operating Income or (Expense)	*2*	*(317)*	*185*	*28*
4 Profit or (Loss) before Interest and Tax	472	1,314	1,623	1,064
a Total Finance Cost	*(200)*	*(1,167)*	*(991)*	*(622)*
b Taxation	*(68)*	*(86)*	*(129)*	*(131)*
6 Net Income Or (Loss)	204	61	503	311
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*523*	*1,536*	*1,913*	*1,354*
b Net Cash from Operating Activities before Working Capital Changes	*263*	*330*	*1,073*	*759*
c Changes in Working Capital	*(834)*	*823*	*(2,340)*	*(1,327)*
1 Net Cash provided by Operating Activities	(571)	1,153	(1,268)	(568)
2 Net Cash (Used in) or Available From Investing Activities	(69)	(442)	(848)	(199)
3 Net Cash (Used in) or Available From Financing Activities	697	(781)	2,149	750
4 Net Cash generated or (Used) during the period	56	(70)	34	(18)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	37.1%	4.0%	19.3%	22.7%
b Gross Profit Margin	9.9%	11.9%	10.7%	9.7%
c Net Profit Margin	3.4%	0.4%	3.0%	2.2%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-5.3%	13.7%	-2.6%	0.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	17.8%	1.5%	14.4%	9.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	117	161	148	142
b Net Working Capital (Average Days)	96	134	124	124
c Current Ratio (Current Assets / Current Liabilities)	3.9	3.9	3.8	4.1
3 Coverages				
a EBITDA / Finance Cost	3.0	1.6	2.2	2.5
b FCFO / Finance Cost+CMLTB+Excess STB	2.1	1.0	0.9	0.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.3	7.1	3.2	3.8
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	67.9%	71.1%	72.4%	70.1%
b Interest or Markup Payable (Days)	90.9	80.3	114.0	92.6
c Entity Average Borrowing Rate	7.6%	11.1%	9.9%	7.5%

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