



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
23-Dec-2021	A	A2	Stable	Upgrade	-
24-Jun-2021	A-	A2	Positive	Maintain	-
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 improved business risk profile of Reliance Weaving Mills Limited ("Reliance Weaving" or "the Company") emanating from volumetric growth in exports as well as increase in local sales and better pricing. Over the years, the Company has undertaken continuous BMR translating into operational efficiencies and higher production volumes. The Company has improved its overall margins, these results are due to strong spinning margins and healthy weaving business. Major reason of these results is procurement of cotton in timely manner and at competitive price. Moreover, the Company has ramped up the capacity utilization significantly, in both spinning and weaving segments, give a comfortable picture, ahead. Going forward, the Company aims to undertake further expansion, financed through a mix of internal and external sources. The Governance of the Company is considered strong. The Company has a strategic investment in the energy sector in a group company. The Financial risk matrix has shown improvement over the years. Healthy increase in coverage and reduced debt payback adds the comfort. Ratings positively take in to account the track record and presence of experienced & professional management team which possesses considerable experience in the textile business. 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 upgrade in the ratings is the result of improved revenue and profitability along with the other strong financial parameters. Moreover, comfort can also be drawn from the business risk profile backed by the healthy growth in the business correspondent space as well as benefits from the strong financial position of the sponsors.

The ratings are dependent on the management's ability to prudently manage the liquidity and debt profile of the Company, Prudent managing of cash cycle in the increasing key policy rate scenario, while sustaining and improving business margins remains vital. 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 Rating(Jun-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21)
Related Research	Sector Study Composite and Garments(Dec-21)
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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 427 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 Public Limited Company listed on Pakistan Stock Exchange 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 shareholding in Reliance Weaving is majorly of Fatima Group Family members. 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 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 sector.

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 ending June 30th, 2021.

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 meetings 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 Textile exports of the country recorded an increase of 28.6% to stand at USD 2.9bln as compared to USD 2.3bln from July 21 to Aug 21 due to an increase in demand for textile products internationally, led by a good recovery around the globe post-pandemic. Going forward, the textile sector's outlook is expected to stay stable in the medium term where the demand for textile products is expected to increase. The probability of little attrition in demand remains on the horizon attributable to the outbreak of COVID-19 variants. In the local market, the textile sector has recorded strong performance. The relief measures introduced by the State Bank of Pakistan such as deferment of loan payments for one year, low-interest rates, and salary refinance scheme also provided comfort to the sector.

Relative Position The Company's relative position has improved over the years attributable to continuous BMR. Also, the planned capacity expansion is also at an advance stage.

Revenues The Company's revenues witnessed consistent growth over the year, mainly on account of operational enhancement through installation of new looms along with the upgradation of existing machines. The sales revenue of Reliance Weaving surged by 39% to PKR 24,030m in FY21 as compared to PKR 17,275m in the same period last year. Further analysis reveals that the Company's 65.3% of revenues are being generated from export sales (FY20: 78.9%). The share of local sales recorded sizable improvement to PKR 15.7bln (FY20: PKR 13.6bln) attributable to strong sector dynamics and improved demand pattern. During 1QFY22, the momentum continued and the Company secured net revenue of PKR 7.4bln (1QFY21: PKR 5.9bln). This growth is driven by enhancement of operational efficiencies and strong local demand as well as increase in exports resulting in volumetric growth in fabric and yarn sales. During 1QFY22, operating profits clocked in to PKR 1.1bln (1QFY21: PKR 470m) displaying robust improvement in efficiency.

Margins The Company's gross margins enhanced to 14.6% (FY20: 11.9%). Despite an increase in distribution expenses in FY21, the Company's operating margin increased to 12.5% (FY20: 9.4%). The Company recorded decrease in finance cost attributable to low key policy rate despite increase in borrowing. As a result, net margin surged to 7.2% as compared to 0.4% in FY20. During 1QFY22, gross and operating margin further improved to 17.4% and 14.9% respectively. Net profit margin enhanced to 11.2%.

Sustainability The company has opened LC to import 46 air jet looms, these are expecting to start commercial production in start of December, 2021. The company has also opened LC for new fine cotton mill of 25,520 spindles, this project is expecting to start in last quarter of next year. The management of Reliance Weaving is also concentrating more on volumetric increase of exports of yarn to improve export sales revenue and margins.

Financial Risk

Working Capital During FY21, the net working capital days declined to 100 days (FY20: 134 days) on account of a reduction in inventory days to 74 (FY20: 112 days). Furthermore, trade assets of the Company increased to PKR 9,123m (FY20: PKR 7,387m) on account of higher receivables. Increase in short term borrowing led to a Short-Term trade leverage adequacy of 11.2% (FY20: -6.1%). During 1QFY22, Short Term trade leverage has further increased to 14.3% (1QFY21: -0.9%).

Coverages In FY21, the Company's FCFO recorded healthy improvement in FCFO amounting to PKR 3,177m (FY20: PKR 1,536m). Interest coverage improved to 3.9x (FY20: 1.4x) owing to significant improvement in debt coverage (FY21: 4.3x; FY20: 1.6x) attributable to healthy profitability and low finance cost (FY21: PKR 918m; FY20: PKR 1,167m). During 1QFY22, the company has generated FCFO of PKR 1,237m (1QFY21: PKR 523m) and core coverage further improved to 2.8x. Debt repayment period declined to 0.9 year (end-Jun21: 1.6 years).

Capitalization Total borrowings witnessed an increase to PKR 10,750m (FY20: PKR 9,529m) to finance capacity expansion and increased working capital needs. Overall, almost 13.6% of total borrowing is being availed at the low SBP rates. Though, there is reduction in the overall leverage of the Company clocking at 63.9% (FY20: 71.1%); mainly comprising short-term borrowings (64.1%). During 1QFY22, Total borrowings clocked at PKR 12,380m (1QFY21: PKR 10,211m).



Reliance Weaving Mills Limited Composite	Sep-21 3M	Jun-21 12M	Jun-20 12M	Jun-19 12M
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A BALANCE SHEET

1 Non-Current Assets	8,242	8,158	6,560	6,320
2 Investments	22	21	21	59
3 Related Party Exposure	816	785	844	983
4 Current Assets	13,076	10,348	8,396	9,447
<i>a Inventories</i>	5,976	5,051	4,669	5,945
<i>b Trade Receivables</i>	5,555	3,493	2,333	2,281
5 Total Assets	22,155	19,312	15,821	16,809
6 Current Liabilities	2,445	2,165	2,128	2,478
<i>a Trade Payables</i>	1,575	1,207	1,177	1,363
7 Borrowings	12,380	10,750	9,529	10,181
8 Related Party Exposure	30	34	29	19
9 Non-Current Liabilities	396	282	258	240
10 Net Assets	6,905	6,082	3,877	3,891
11 Shareholders' Equity	6,905	6,070	3,877	3,891

B INCOME STATEMENT

1 Sales	7,408	24,030	17,275	16,605
<i>a Cost of Good Sold</i>	(6,121)	(20,520)	(15,214)	(14,823)
2 Gross Profit	1,288	3,510	2,061	1,783
<i>a Operating Expenses</i>	(182)	(504)	(429)	(345)
3 Operating Profit	1,106	3,006	1,632	1,438
<i>a Non Operating Income or (Expense)</i>	31	(69)	(317)	185
4 Profit or (Loss) before Interest and Tax	1,137	2,937	1,314	1,623
<i>a Total Finance Cost</i>	(223)	(918)	(1,167)	(991)
<i>b Taxation</i>	(81)	(286)	(86)	(129)
6 Net Income Or (Loss)	833	1,733	61	503

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	1,237	3,177	1,536	1,913
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,237	2,254	330	1,073
<i>c Changes in Working Capital</i>	(2,463)	(2,046)	823	(2,340)
1 Net Cash provided by Operating Activities	(1,227)	208	1,153	(1,268)
2 Net Cash (Used in) or Available From Investing Activities	(166)	(1,029)	(442)	(848)
3 Net Cash (Used in) or Available From Financing Activities	1,730	874	(781)	2,149
4 Net Cash generated or (Used) during the period	337	53	(70)	34

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	23.3%	39.1%	4.0%	19.3%
<i>b Gross Profit Margin</i>	17.4%	14.6%	11.9%	10.7%
<i>c Net Profit Margin</i>	11.2%	7.2%	0.4%	3.0%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-16.6%	4.7%	13.7%	-2.6%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl</i>	51.4%	34.8%	1.6%	13.8%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	124	118	161	148
<i>b Net Working Capital (Average Days)</i>	107	100	134	124
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	5.3	4.8	3.9	3.8
3 Coverages				
<i>a EBITDA / Finance Cost</i>	6.3	4.3	1.6	2.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.8	1.8	1.0	0.9
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.9	1.6	7.1	3.2
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	64.2%	63.9%	71.1%	72.4%
<i>b Interest or Markup Payable (Days)</i>	88.2	96.2	80.3	114.0
<i>c Entity Average Borrowing Rate</i>	6.9%	7.4%	11.1%	9.9%

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	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB	
BB-	
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.
B-	
CCC	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.
CC	
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):

<p>Entities</p> <ul style="list-style-type: none"> 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 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk 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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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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- (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)
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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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