



The Pakistan Credit Rating Agency Limited

## ENTITY RATINGS REPORT

### AL RAHIM TEXTILE INDUSTRIES

ENTITY	RATING	OUTLOOK	ACTION	DATE
Al Rahim Textile Industries	Long Term: A- Short Term: A2	Stable	Initial	17 <sup>th</sup> January 2018

#### RATING RATIONALE

Al Rahim Textile Industries (Al Rahim) is a family owned, textile entity that boasts a strong position in towel manufacturing followed by gradual entry in processed fabric. Al Rahim has managed to increase its business profile following expansion at its state of the art production site in Nooriabad, Sindh. Al Rahim is now a leading towel exporter of Pakistan. Al Rahim's primary business remains towel oriented exports. However, it provides fabric and other processing facilities to its associated company – Al Rahim Retail and to other local manufacturers. Textile industry overall is witnessing suppressed margins due to international lower commodity prices and higher cost of doing business in Pakistan. However, towel and denim industry continues to surge forward on the back of Pakistan's cotton which is more suitable for coarse counts linked products. Towel industry continues to give good margins which is reflected in Al Rahim's profitability. However, on standalone basis, significant increase in inventory levels following increased production requires prudent working capital management. In FY17, Al Rahim procured long term debt to meet its Capex. Expansion and increased inventory levels caused buildup of financial risk. Nevertheless, it still carries adequate leveraging with good coverages. Going forward, in absence of any further debt-driven expansion and with better working capital management, financial risk profile is expected to become stronger.

The ratings are dependent on sustaining business margins while maintaining financial risk at manageable level. Prudent management of cash flows to meet financial obligations will remain critical. Strengthening of corporate and governance framework and timely completion of related exercise in a timely manner is critical to hold ratings.

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AL RAHIM TEXTILE INDUSTRIES PROFILE	
<b>Incorporated</b>	1991
<b>Major business lines</b>	<ul style="list-style-type: none"> <li>▪ Terry Towel, Fabric, dyeing</li> <li>▪ Processing services</li> </ul>
<b>Legal status</b>	Sole Proprietor
<b>Head office</b>	Karachi, Sindh
<b>Plant Site</b>	Nooriabad, Sindh
<b>Sole Proprietor</b>	Shahzad Rahim Saya

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> <li>▪ During FY17, total textile exports stood at USD ~ 12,453mln.</li> <li>▪ Cotton yarn contributes (10%), cotton cloth (17%), home textile (29%), while garments contributes (38%)</li> <li>▪ Pakistan's Towel sector continues to give good margins on the back of high quality course count yarns and demand from large store chains from Europe and USA.</li> <li>▪ Overall towel exports have remained largely stagnant in last three years.</li> </ul>

OWNERSHIP	ADEQUATE
<ul style="list-style-type: none"> <li>▪ The foundations of Al Rahim Textile Industries were laid down by Mr. Abdul Rahim Saya in 1991.</li> <li>▪ Al Rahim industries is registered as a sole proprietorship and sole proprietor is Shahzad Rahim Saya – Son of Abdul Rahim Saya.</li> <li>▪ The sponsors are in the process of setting up a holding company in Singapore which will hold all the sponsor's businesses.</li> </ul>	

GOVERNANCE	DEVELOPING
<ul style="list-style-type: none"> <li>▪ Being a Sole Proprietor the entity does not comply with code of corporate governance. The overall governance matters are overlooked by Abdul Rahim Saya and his sons. Mr. Abdul Rahim Saya has been designated as Chairman whereas Mr. Faisal Rahim Saya is the Deputy Chairman.</li> <li>▪ Sponsors are planning to convert entity into a corporate after which governance is expected to improve. Inclusion of independent director, formation of board committee afterwards would remain important</li> <li>▪ Subsequent to conversation of entity into a corporate, Al Rahim will become subsidiary of Singapore based holding company - LAURENS GLOBAL PTE LTD, which will help to improve governance structure.</li> </ul>	

MANAGEMENT	STRONG
<ul style="list-style-type: none"> <li>▪ Faisal Rahim Saya – Deputy Chairman leads the management team of the entity. Mr. Faisal Rahim Saya is associated with Al Rahim since 1998.</li> <li>▪ Overall the entity's management structure is divided into various functional departments, namely: (i) Sales &amp; Marketing, (ii) Finance, (iii) Administration &amp; HR, (iv) Accounts, (v) Procurement (vi) Production and (vi) IT.</li> <li>▪ Al Rahim has Management has divided Marketing &amp; Sales area into areas. (i) Local Sales &amp; Marketing (ii) Export Sales &amp; Marketing – USA (iii) Export Sales &amp; marketing – Europe. Mr. Shehzad Khan is the GM Finance of the entity.</li> </ul>	

SYSTEM & CONTROLS	ADEQUATE
<ul style="list-style-type: none"> <li>▪ Al Rahim is using Oracle EBS 12.1.3 as its main ERP software.</li> <li>▪ Variety of MIS reports are generates for senior management especially which have emphasis on cash.</li> <li>▪ Al-Rahim Textile Industries has valid international certificates for its products and facilities and is periodically audited by internationally recognized certification bodies including Oeko Tex 100 Class-I and Class-II, BSCI, C-TPAT, Sedex, GOTS, BRC.</li> </ul>	

BUSINESS RISK	GOOD
<ul style="list-style-type: none"> <li>▪ Al Rahim has, in recent years, witnessed an increase in its revenues on the back of increasing exports fueled by recent expansion by the sponsors. Al Rahim mainly exports its towels as exports are 78% of its total revenues in FY17. Europe remain its major buyer with over 60% share of exports</li> <li>▪ In contrast to export sales, Al Rahim provide various products which includes, Greige fabric, Greige towel and manufacturer services - Processing services to other weavers. In FY17 Greige Towel's share decreased in comparison to increased manufacturer services income.</li> <li>▪ During FY17, though topline remain largely stagnant, a more than proportionate fall in cost of sales slightly increased gross margins (FY17: 25%, FY16: 24%).</li> <li>▪ Despite better gross margins, increased finance cost (FY17: 182mln, FY16: 65mln), however, dented growth of pre-tax profitability for the period (FY17: PKR 919mln, FY16: PKR 1,069mln).</li> </ul>	

FINANCIAL RISK	STRONG
<ul style="list-style-type: none"> <li>▪ Al Rahim mainly uses internal cash flow to manage its working capital needs however, with increased capacity and increased business volume Al Rahim needed to borrow to meet its working capital needs (FY17: 986mln, FY16: 1.6mln).</li> <li>▪ As at end FY17, working capital requirements of the company increased in the wake of higher finished goods inventory owing to the delay in shipments of some of its exports. Consequently, net cash cycle increased significantly (FY17: 152days, FY16: - 11days) on the back of increased finished goods days (FY17: 148days, FY16: 38days).</li> <li>▪ For the first time in Al Rahim's history it procured long term loan in FY17 which caused its coverages to deteriorate, though remained strong (FY17: 2.7x, FY16: 22.7x).</li> <li>▪ The company has not procured debt before so going forward, prudent management of business operations in order to meet its financial obligation will be critical.</li> </ul>	



**Al Rahim Textile Mills Limited**

BALANCE SHEET	30-Sep-17	30-Jun-17	30-Jun-16	30-Jun-15
	3M	FY	FY	FY
<b>Non-Current Assets</b>	<b>5,173</b>	<b>4,560</b>	<b>4,225</b>	<b>2,282</b>
<b>Investments (Incl. Associates)</b>	-	-	-	-
Equity	-	-	-	-
Loans to Associates/Debt Securities	-	-	-	-
Investment Property	-	-	-	-
<b>Current Assets</b>	<b>5,957</b>	<b>5,860</b>	<b>3,225</b>	<b>1,963</b>
Inventory	3,016	3,033	793	153
Trade Receivables	1,337	1,030	1,309	1,216
Others	1,604	1,797	1,123	594
<b>Total Assets</b>	<b>11,131</b>	<b>10,420</b>	<b>7,449</b>	<b>4,245</b>
<b>Debt/Borrowings</b>	<b>2,794</b>	<b>3,232</b>	<b>288</b>	<b>229</b>
Short-term	1,926	1,982	288	229
Long-term (Incl. Current Maturity of Long-Term Debt)	868	1,250	-	-
Other short-term liabilities	2,154	1,650	2,956	1,811
Other long-term liabilities	-	-	-	-
<b>Shareholders' Equity</b>	<b>6,183</b>	<b>5,538</b>	<b>4,205</b>	<b>2,205</b>
<b>Total Liabilities &amp; Equity</b>	<b>11,131</b>	<b>10,420</b>	<b>7,449</b>	<b>4,245</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>1,922</b>	<b>6,239</b>	<b>6,149</b>	<b>4,962</b>
Gross Profit	469	1,581	1,480	447
Net Other Income	50	89	88	36
Financial Charges	(85)	(182)	(65)	(29)
<b>Profit Before Tax</b>	<b>285</b>	<b>919</b>	<b>1,069</b>	<b>217</b>

**Cashflow Statement**

Free Cash Flow from Operations (FCFO)	441	1,392	1,400	401
Net Cash changes in Working Capital	90	(3,588)	(84)	-
Net Cash from Operating Activities	446	(2,378)	1,251	371
Net Cash from Investing Activities	(402)	(212)	(1,288)	-
Net Cash from Financing Activities	(56)	2,562	49	-

**Ratio Analysis**

<b>Performance</b>				
Turnover Growth (vs. SPLY)	69%	1%	24%	NA
Gross Margin	24%	25%	24%	9%
Net Margin	14%	14%	16%	3%
<b>Coverages</b>				
Interest Coverage (FCFO/Gross Interest)	5.2	7.6	21.5	15.4
Core: (FCFO) / (Gross Interest+CMLTD+Uncovered Total STB)	2.4	2.5	1.9	1.9
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	2.4	2.5	1.9	1.9
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest)	2.4	1.0	0.5	0.5
<b>Liquidity</b>				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	113.5	152.2	-10.9	-2.6
<b>Capital Structure</b> (Total Debt/Total Debt+Equity)	31%	37%	6%	9%

## 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.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<b>A1+:</b> The highest capacity for timely repayment.  <b>A1:</b> A strong capacity for timely repayment.  <b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.  <b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.  <b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.  <b>C:</b> An inadequate capacity to ensure timely repayment.
<b>AA+</b>	<b>Very high credit quality.</b> Very low expectation of credit risk.	
<b>AA</b>	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
<b>AA-</b>		
<b>A+</b>	<b>High credit quality.</b> Low expectation of credit risk.	
<b>A</b>	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.	
<b>A-</b>		
<b>BBB+</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk.	
<b>BBB</b>	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.	
<b>BBB-</b>		
<b>BB+</b>	<b>Moderate risk.</b> Possibility of credit risk developing.	
<b>BB</b>	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>BB-</b>		
<b>B+</b>	<b>High credit risk.</b>	
<b>B</b>	A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	
<b>B-</b>		
<b>CCC</b>	<b>Very high credit risk.</b> Substantial credit risk	
<b>CC</b>	“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.	
<b>C</b>		
<b>D</b>	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

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

