



The Pakistan Credit Rating Agency Limited

Rating Report

Ahmed Fine Textile Mills Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Feb-2018	BBB+	A2	Stable	Maintain	-
26-Jan-2017	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect adequate business profile of Ahmed Fine Textile Mills – jointly owned by Fazal Group and Hussain Group. The company, is engaged primarily in spinning business and also has presence in weaving segment through a wholly owned subsidiary – Fazal Rehman Fabrics Limited. The growth in topline of the company has remained limited due to low exports; turnover in local market is impressive. Low margins of the company are inline with struggling spinning sector due to high local cotton prices and ban on import of cotton from India. However, duty on import of yarn and recent export package has provided a breather to the industry. Ahmed Fine's financial risk is strong reflected by (i) relatively efficient working capital cycle, (ii) healthy coverages, and (iii) moderately leveraged capital structure. Going forward, in absence of any debt-driven expansion in the medium-term, financial risk is expected to remain at the same level. The ratings also incorporate the experienced management team and the entity's association with Fazal Group. This should bring improvement in overall governance structure of the Group in future.

The ratings are dependent on sustaining business margins while maintaining financial risk at low level. Any shift from current business strategy, impacting the risk profile of the entity, may negatively affect the ratings.

Disclosure

Name of Rated Entity	Ahmed Fine Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating Methodology(27-Jul-17), Methodology Correlation between long-term and short-term rating scale(30-Jun-17), Methodology Criteria Modifiers(30-Jun-17)
Related Research	Sector Study Textile(10-Oct-17)
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AHMED FINE TEXTILE MILLS LIMITED	
Incorporated	1989
Major business lines	<ul style="list-style-type: none"> Manufacturing and marketing of different varieties of yarn
Legal status	Public unlisted company

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> During FY17, total textile exports stood at USD ~ 12,453mln. Cotton yarn contributes (10%), cotton cloth (17%), home textile (29%), while garments contributes (38%). Pakistan's weaving sector continues to witness suppressed margins. High cost of doing business as compared to other countries like Bangladesh, India and Vietnam.

OWNERSHIP

- Fazal Group and Hussain Group jointly own the company with 50% stake each
- Initially, Fazal Group, Fatima Enterprise, and Hussain Group – descending from Mr. Fazal-ur-Rehman – had joint ownership of the company
- The company operates one spinning unit having 45,888 spindles, manufacturing coarser-count yarn. Power requirement stands at 6MW; met through captive sources
- In Jul14, Ahmed Fine Textile Mills Limited demerged its weaving segment into a separate entity; thereby Ahmed Fine retaining the name and spinning segment
- The group is engaged in weaving business through wholly-owned subsidiary, Fazal Rehman Fabrics Limited

GOVERNANCE

- Overall control vests with seven members BoD. Four directors represent Fazal Group (including Chairman and CEO) while three are representative of Hussain Group; presence of two housewives on board weakens governance profile; lack of challenge to management decision needs improvement
- Mr. Rehman Naseem, CEO, carries with him over two decades of experience in textile sector; supported by seasoned management team

MANAGEMENT

- Oracle based ERP system implemented since 2008
- Comprehensive MIS reports generated on daily and monthly basis
- Operational consolidation with subsidiary in near-term; operational synergies expected to flow gradually

PERFORMANCE

- FY17 company register 5% growth – a factor of higher export volumes, the same trend is being continued and company increased its revenue by ~27% at end Sep-17
- In FY17, Local sales recorded 9% growth due to high prices; exports sales decline heavily by 33% YoY (end at- Mar17: 485mln, end at-Mar16 : 731mln)
- Margins are adequate in comparison to peers (Gross: FY17: ~9.8%, EBITDA: FY17: ~25%). Bottomline decline by ~22% on YoY
- A rise in commission expenses was offset by savings in administrative expenditure, leading to a largely stable operating margin (FY17: 6.8%, FY16: 6.5%)
- In FY17, the company generated revenue amounting to PKR 3209mln, with margins following the past trend; gross margin: 6.8%, operating margin: 7.7%. Net profitability (PKR 87mln) was supported by falling finance costs (PKR ~83mln)
- Having limited operational size, standalone revenues of the company remain prone to cotton price volatility. However, with expansion of subsidiary likely to come online in FY18, consolidated business size is expected to increase, going forward

FINANCIAL RISK

- Due to working capital management decline in net cash cycle days (end-Jun17:114days, end-Jun16: 90days, end-Jun15: 98days).
- Despite reduction in operating cashflows, reduced finance costs led an improvement in core coverage (end-Jun17: 2.0x, end-Jun16: 1.7x, end-Mar16: 2.6x). Nevertheless, incremental cashflows would remain critical to support maintenance regular CAPEX
- Increase in leveraged (end-Jun17: 50%, end-Jun16: 36%, end-Jun15: 46%). In the absence of debt accumulation in medium-term, regular repayments would gradually bring the ratio down
- Ahmed Fine has issued a cross-corporate guarantee on a short/medium-term financing facility of its subsidiary, which is currently in debt-driven expansion mode



Ahmed Fine Textile Mills Limited

BALANCE SHEET	30-Sep-17 1QFY18	30-Jun-17 Annual	30-Jun-16 Annual	30-Jun-15 Annual
Non-Current Assets	1,584	1,604	1,388	1,402
Investments (Incl. associates)	355	355	355	355
Equity	355	355	355	355
Mutual funds	-	-	-	-
Current Assets	1,503	1,626	1,042	1,220
Inventory	426	563	569	539
Trade Receivables	706	698	241	407
Others	371	366	232	274
Total Assets	3,443	3,585	2,785	2,976
Debt	1,333	1,508	855	1,083
Short-term	279	416	408	554
Long-term (Incl. Current Maturity of long-term debt)	1,054	1,091	447	528
Other shortterm liabilities	472	483	520	534
Other Longterm Liabilities	113	112	75	75
Shareholder's Equity	1,525	1,483	1,334	1,284
Total Liabilities & Equity	3,443	3,585	2,785	2,976
INCOME STATEMENT				
Turnover	934	3,209	3,038	2,826
Gross Profit	108	315	297	295
Other Income	(4)	(15)	(15)	(6)
Financial Charges	(25)	(83)	(67)	(111)
Net Income	41	87	112	83
Cashflow Statement				
Free Cashflow from Operations (FCFO)	109	363	262	270
Net Cash changes in Working Capital	112	(656)	310	(92)
Net Cash from Operating Activities	187	(364)	495	73
Net Cash from Investing Activities	(18)	(309)	(131)	(392)
Net Cash from Financing Activities	(175)	724	(357)	194
Net Cash generated during the period	(6)	52	6	(164)
Ratio Analysis				
Performance				
Gross Margin	11.6%	9.8%	9.8%	10.4%
Net Margin	4.4%	2.7%	3.7%	2.9%
ROE	10.9%	5.9%	7.7%	6.9%
Coverages				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	2.2	2.0	1.7	1.4
Interest Coverage (x) (FCFO/Gross Interest)	4.3	4.4	3.9	2.4
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	3.2	3.9	2.6	3.3
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	114	133	90	98
Capital Structure (Total Debt/Total Debt+Equity)				
	46.6%	0.0%	35.9%	45.7%

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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- (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)

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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)

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)

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