



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
25-Aug-2021	A-	A2	Positive	Maintain	-
28-Aug-2020	A-	A2	Stable	Maintain	-
29-Aug-2019	A-	A2	Stable	Maintain	-
28-Feb-2019	A-	A2	Stable	Maintain	-
29-Aug-2018	A-	A2	Stable	Upgrade	-
28-Feb-2018	BBB+	A2	Stable	Maintain	-
26-Jan-2017	BBB+	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect Ahmed Fine Textile Mills Limited's (Ahmed Fine) association with renowned business groups of Pakistan. The Company is primarily engaged in the spinning business and also has presence in weaving segment through a wholly owned subsidiary – Fazal Rehman Fabrics Limited. Positive Outlook on the entity ratings incorporates the Company's improving business profile plus its strong financial risk matrix reflected by reasonable working capital cycle; healthy coverages; and moderately leveraged capital structure. During 9MFY21, the Company's revenue witnessed double digit growth to stand at PKR 4.5bln. During the period, improved margins and reduced finance cost have strengthened the net-income to stand at PKR 300mln. Additionally, Ahmed Fine is planning on enhancing its capacity by 49,248 spindles, thereby improving its business profile to boost revenues. Textile exports of the country recorded a double-digit increase of ~23% for FY21 to stand at USD 15.4bln as compared to USD 12.5bln in FY20 due to an increase in demand for textile products internationally, led by 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.

The ratings are dependent on continuous strengthening of business operations under the current economic conditions; and a strong financial profile with healthy coverages and moderate leveraging. The Company's ability to generate ensuing cash flows to fulfill its financial obligations will remain critical for the ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Ahmed Fine Textile Mills Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Spinning(Sep-20)
<b>Rating Analysts</b>	Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Ahmed Fine Textile Mills Limited (Ahmed Fine), a public unlisted company, was incorporated in 1989.

**Background** The Company is engaged in the manufacturing and marketing of different varieties of yarn. Historically, the Company was involved in the manufacturing of fabric. However, in July 2014 the weaving segment of the Company was demerged into a separate entity, Ahmed Fine Textile Mills Limited retained the name and spinning segment.

**Operations** Ahmed Fine operates with a single spinning unit having a capacity of 46,128spindles - manufacturing coarser count yarn.

## Ownership

**Ownership Structure** Structure The Company is jointly owned by the families of Mian Naseem and Mian Farooq. Both belong to the same family descending from late Mr. Fazal-ur-Rehman.

**Stability** The clear shareholding pattern of the Company along with mutual consent of both Groups over its controls portrays a structured line of succession. However, the transfer of ownership to the next generation is yet to be documented.

**Business Acumen** The sponsoring Groups have over five decades of presence in Pakistan's textile industry, developing expertise to sustain through the industry's volatility. Mr. Rehman Naseem – a textile veteran, primarily manages the Company's operations with sufficient acumen in order to sustain and flourish in the competitive textile industry.

**Financial Strength** Fazal Group maintains a dominant position in Multan's textile industry. Fazal Group, in particular, is one of the most resourceful groups with strong financial health. Strategic investment in fertilizers and textile provides ample room for financial support to Ahmed Fine if needed.

## Governance

**Board Structure** The Company's seven-member Board consists of four Fazal Group's representatives, including the Chairman and CEO.

**Members' Profile** The board comprises experienced professionals and has a reasonably long association with the Company. Mr. Sheikh Naseem is the Chairman of the board. He carries with him over five decades of experience in the textile industry

**Board Effectiveness** The Board has Audit Committee in place to assist the board on relevant matters. Additionally, the attendance of board members in meetings remained strong and meeting minutes are documented.

**Financial Transparency** M/s Yousuf Adil & Co., Chartered Accountants are the external auditor of the Company.

## Management

**Organizational Structure** The management control of the Company vests with Fazal Group, with Mr. Rehman Naseem as CEO of the Company. The organizational structure of the Company is divided into five functional departments.

**Management Team** Mr Rehman Naseem – the – CEO is a Columbia University graduate and carries over two decades of experience in the textile sector. Moreover, Ahmed Fine employs long associated professionals, which bodes well for the Company's sustainable growth. Mr. Naveed Amer is serving in the capacity of CFO, carrying almost three decades of experience.

**Effectiveness** The management meetings are held on a periodic basis with formal recording of meeting minutes, followed by need based meetings to resolve bottlenecks and to ensure smooth operations.

**MIS** Ahmed Fine has deployed Oracle based Enterprise Resource Planning (ERP) system that provides comprehensive MIS reporting.

**Control Environment** Ahmed Fine is accredited with various International certifications for compliance. The Company is following latest Quality Assurance Standards for yarn and fabric production. Few of the prominent certification includes ISO 9001, Lycra assured and Fair Trade.

## Business Risk

**Industry Dynamics** Textile exports of the country recorded a double digit increase of ~23% for FY21 to stand at USD 15.4bln as compared to USD 12.5bln in FY20 due to increase in demand for textile products internationally, Led by 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 horizon attributable to outbreak of COVID-19 variants. In the local market, textile sector has recorded strong performance. The relief measures introduced by 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** Ahmed Fine is associated with Fazal Group. The Group has a leading position in Pakistan's spinning sector, consequently strengthening Ahmed Fine's market position. However, on standalone basis Ahmed Fine's share in spinning industry is minimal.

**Revenues** During 9MFY21, revenues increased by 32.1% (9MFY21: PKR 4,524mln; 9MFY20: PKR 3,424mln) attributable to increased local sales. Moreover, the sales mix was dominated by local sales, however its contribution further increased when compared with the same period last year (9MFY21: ~79%; FY20: ~70%). The Company determines its sales mix based on availability of better prices in local market and international market, to achieve optimal profitability.

**Margins** Ahmed Fine recorded an insignificant decrease in gross margin (9MFY21: 12.7%; FY20: 12.9%) due to increased raw materials cost. This translated in to a slight drop in the operating margins (9MFY21: 10.4%; FY20: 11.0%). However, lower finance cost (9MFY21: PKR 82mln; 9MFY20: PKR 148mln) supported net income (9MFY21: PKR 300mln; 9MFY20: PKR 124mln). Subsequently net margin improved (9MFY21: 6.6%; FY20: 4.3%).

**Sustainability** Ahmed Fine had planned an expansion of its production facilities, which came to a halt due to the coronavirus pandemic. However, going forward, the Company is looking to resume the process of expanding its facilities by 50,000 spindles which will be done in two phases. In first phase, 32,000 spindles will be installed at an estimated cost of PKR 4bln. Moreover, the Company also deferred principle repayments for one year under SBP's moratorium relief package and also availed SBPbacked loan to cover 3 months' worth of employees' salaries and wages at a nominal rate.

## Financial Risk

**Working Capital** During 9MFY21, net working capital cycle improved (9MFY21: 113 days; FY20: 124 days) on the back of shortened receivables cycle. Furthermore, Ahmed Fine registered an increase in trade assets (9MFY21: PKR 2,265mln; FY20: PKR 2,037mln) due to higher inventory level (9MFY21: PKR 1,122mln; FY20: PKR 935mln). Ahmed Fine's working capital needs are mostly fulfilled through internal cash flows with a very low portion of short term borrowing (9MFY21: PKR 53mln; FY20: PKR 0mln). This results in healthy ST trade leverage (9MFY21: 94.1%; FY20: 97.4%).

**Coverages** During 9MFY21, net working capital cycle improved (9MFY21: 113 days; FY20: 124 days) on the back of shortened receivables cycle. Furthermore, Ahmed Fine registered an increase in trade assets (9MFY21: PKR 2,265mln; FY20: PKR 2,037mln) due to higher inventory level (9MFY21: PKR 1,122mln; FY20: PKR 935mln). Ahmed Fine's working capital needs are mostly fulfilled through internal cash flows with a very low portion of short term borrowing (9MFY21: PKR 53mln; FY20: PKR 0mln). This results in healthy ST trade leverage (9MFY21: 94.1%; FY20: 97.4%).

**Capitalization** In 9MFY21, Ahmed Fine's leverage slightly decreased (9MFY21: 38.3%; FY20: 39.1%) as equity base improved (9MFY21: PKR 2,496mln; FY20: PKR 2,196mln) on account of profit retention. The Company historically pays off any short-term debt within the financial year through internal cash flows, hence, total borrowing majorly constitutes of long term debt (9MFY21: PKR 1,546mln; FY20: PKR 1,409mln).



Ahmed Fine Textile Mills Limited Spinning	Mar-21 9M	Jun-20 12M	Jun-19 12M	Jun-18 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	1,792	1,812	1,796	1,510
2 Investments	-	-	-	-
3 Related Party Exposure	355	355	355	355
4 Current Assets	2,784	2,228	2,052	1,860
<i>a Inventories</i>	1,122	935	630	674
<i>b Trade Receivables</i>	856	963	693	662
5 Total Assets	4,931	4,396	4,203	3,726
6 Current Liabilities	728	626	587	539
<i>a Trade Payables</i>	82	46	57	26
7 Borrowings	1,546	1,409	1,453	1,392
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	161	165	163	141
10 Net Assets	2,496	2,196	2,000	1,655
11 Shareholders' Equity	2,496	2,196	2,000	1,655
<b>B INCOME STATEMENT</b>				
1 Sales	4,524	4,590	4,851	3,952
<i>a Cost of Good Sold</i>	(3,948)	(3,996)	(4,204)	(3,514)
2 Gross Profit	576	593	647	438
<i>a Operating Expenses</i>	(104)	(90)	(108)	(118)
3 Operating Profit	472	504	539	319
<i>a Non Operating Income or (Expense)</i>	(26)	(32)	36	(4)
4 Profit or (Loss) before Interest and Tax	445	471	575	315
<i>a Total Finance Cost</i>	(82)	(210)	(155)	(109)
<i>b Taxation</i>	(63)	(63)	(69)	(32)
6 Net Income Or (Loss)	300	198	351	174
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	549	579	731	430
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	430	385	584	315
<i>c Changes in Working Capital</i>	(449)	(476)	(28)	(15)
1 Net Cash provided by Operating Activities	(19)	(91)	556	301
2 Net Cash (Used in) or Available From Investing Activities	(102)	(173)	(433)	(71)
3 Net Cash (Used in) or Available From Financing Activities	137	(44)	61	(116)
4 Net Cash generated or (Used) during the period	16	(307)	185	114
<b>D RATIO ANALYSIS</b>				
<b>1 Performance</b>				
<i>a Sales Growth (for the period)</i>	31.4%	-5.4%	22.7%	23.2%
<i>b Gross Profit Margin</i>	12.7%	12.9%	13.3%	11.1%
<i>c Net Profit Margin</i>	6.6%	4.3%	7.2%	4.4%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	2.2%	2.2%	14.5%	10.5%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sl</i>	16.9%	9.2%	18.6%	10.7%
<b>2 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	117	128	100	137
<i>b Net Working Capital (Average Days)</i>	113	124	97	135
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	3.8	3.6	3.5	3.5
<b>3 Coverages</b>				
<i>a EBITDA / Finance Cost</i>	8.1	3.2	5.1	5.0
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.6	2.0	1.7	1.4
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	2.3	3.7	2.5	4.2
<b>4 Capital Structure</b>				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	38.3%	39.1%	42.1%	45.7%
<i>b Interest or Markup Payable (Days)</i>	35.2	84.6	77.3	83.9
<i>c Entity Average Borrowing Rate</i>	5.7%	12.6%	8.8%	6.8%

**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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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+	<b>Moderate risk.</b> 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	<b>High credit risk.</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-	
CCC	
CC	<b>Very high credit risk.</b> 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.
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><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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- (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)
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### **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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