



The Pakistan Credit Rating Agency Limited

Rating Report

Al Rahim Textile Industries

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jul-2018	A-	A2	Stable	Maintain	-
17-Jan-2018	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

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's primary business remains towel oriented exports and it is now a leading towel exporter of Pakistan. 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 increased cotton 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. Expansion and increased inventory levels caused build up 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.

Disclosure

Name of Rated Entity	Al Rahim Textile Industries
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale Jun18(Jun-18)
Related Research	Sector Study Textile(Oct-17)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

Profile
<p>Legal Structure Al Rahim Textile Industries is registered as a sole proprietorship and sole proprietor is Shahzad Rahim Saya – Son of Abdul Rahim Saya.</p> <p>Background The foundations of Al Rahim Textile Industries were laid down by Mr. Abdul Rahim Saya in 1991.</p> <p>Operations Al Rahim is involved in manufacturing of terry towels and fabric. Moreover it provides processing services to other weaving companies.</p>
Ownership
<p>Ownership Structure Al Rahim is owned by Saya Family headed by Mr. Abdul Rahim Saya. Mr. Abdul Rahim Saya's two sons, Mr. Faisal Rahim Saya and Mr. Shahzad Rahim Saya own family businesses however, Al Rahim Textile industries' ownership lies with Mr. Shahzad Rahim Saya as sole proprietor.</p> <p>Stability The sponsors are in the process of setting up a holding company in Singapore which will hold all the sponsor's businesses. Al Rahim will be brought under umbrella of the holding structure by end of FY19. This will ensure stability and succession of the entity going forward.</p> <p>Business Acumen Saya family is engaged in textile business for decades. It also owns Al Rahim (Private) Limited and real estate properties at prime locations in Pakistan.</p> <p>Financial Strength With estimated financial strength of over ~25bln, Saya family is considered a strong financial group which can inject cash into business when needed.</p>
Governance
<p>Board Structure 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.</p> <p>Members' Profile Saya Family have extensive experience in textile. Saya brothers are associated with textile family for more than two decades.</p> <p>Board Effectiveness Sponsors are actively involved in day to day matters. However, effectiveness of governance function will improve after the planned structural changes to the entity.</p> <p>Financial Transparency Entity needs to improve its financial transparency. For this perspective it is planning to hire better auditors for financial year ending June 2018.</p>
Management
<p>Organizational Structure There are two separate teams at site and at head office. At site management team is headed by Mr. Shahzad Saya and at head office functions are headed by Mr. Faisal Rahim Saya.</p> <p>Management Team Al Rahim has employed experienced individuals who oversees management functions.</p> <p>Effectiveness There are no formal committees, however management meets regularly to discuss daily operations.</p> <p>MIS Management has installed Oracle EBS 12.1.3 as its main ERP software. Variety of MIS reports are generated for senior management especially having emphasis on cash.</p> <p>Control Environment Al Rahim has an internal audit department which ensures proper internal controls within organization.</p>
Business Risk
<p>Industry Dynamics Pakistan's towel industry is exporting ~800mln\$ to Europe and America. With courser counts being Pakistan's strength, Denim and towel continues to give good margins to industry Players.</p> <p>Relative Position Al Rahim is one of the leading towel manufacturer of the country. After completion of recent expansion it has largest towel manufacturing facility in Pakistan.</p> <p>Revenues In 9MFY18 topline grew by ~27% to PKR 6,107bln. Towel exports from Al Rahim increased by 33% YoY depicted increase in share of exports in Al Rahim's revenues.</p> <p>Margins Despite recent decrease in margins, Al Rahim continues to enjoy healthy gross margins (9MFY18: 22%, 9MFY17: 23%). However, increased finance cost due to higher borrowing led to decrease in Net Profit margin (9MFY18: 10.5%, 9MFY17: 12.5%).</p> <p>Sustainability Al Rahim's expansion and its subsequent full utilization will lead to increased market share going forward. However, increase in finance cost amidst rising interest rates will be critical in sustaining its profitability.</p>
Financial Risk
<p>Working Capital 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 (9MFY19: 740mln, FY17: 986mln, FY16: 1.6mln).</p> <p>Coverages Despite increase in profitability and cashflows, increase in finance cost led to slight deterioration in coverages (9MFY18, 2x, FY17: 2.5x, FY16: 21.5x).</p> <p>Capitalization Al Rahim procured long term debt in FY17 which increased its leveraging. As of 9MFY18, Al Rahim has a moderately leveraged capital structure with debt to equity ratio of 30% (FY17: 37%, FY16: 6%).</p>



Al Rahim Textile Mills Limited

BALANCE SHEET	31-Mar-18	30-Jun-17	30-Jun-16	30-Jun-15
	9M	FY	FY	FY
Non-Current Assets	5,105	4,560	4,225	2,282
Investments (Incl. Associates)	-	-	-	-
Equity	-	-	-	-
Loans to Associates/Debt Securities	-	-	-	-
Investment Property	-	-	-	-
Current Assets	6,088	5,860	3,225	1,963
Inventory	3,516	3,033	793	153
Trade Receivables	1,001	1,030	1,309	1,216
Others	1,572	1,797	1,123	594
Total Assets	11,193	10,420	7,449	4,245
Debt/Borrowings	2,876	3,232	288	229
Short-term	1,721	1,982	288	229
Long-term (Incl. Current Maturity of Long-Term Debt)	1,155	1,250	-	-
Other short-term liabilities	1,743	1,650	2,956	1,811
Other long-term liabilities	-	-	-	-
Shareholders' Equity	6,574	5,538	4,205	2,205
Total Liabilities & Equity	11,193	10,420	7,449	4,245

INCOME STATEMENT

Turnover	6,107	6,239	6,149	4,962
Gross Profit	1,330	1,581	1,480	447
Net Other Income	104	89	88	36
Financial Charges	(278)	(182)	(65)	(29)
Profit Before Tax	647	919	1,069	217

Cashflow Statement

Free Cash Flow from Operations (FCFO)	1,148	1,392	1,400	401
Net Cash changes in Working Capital	(176)	(3,588)	(84)	-
Net Cash from Operating Activities	693	(2,378)	1,251	371
Net Cash from Investing Activities	(391)	(212)	(1,288)	-
Net Cash from Financing Activities	(300)	2,562	49	(338)

Ratio Analysis

Performance				
Turnover Growth (vs. SPLY)	27%	1%	24%	NA
Gross Margin	22%	25%	24%	9%
Net Margin	10%	14%	16%	3%
Coverages				
Interest Coverage (FCFO/Gross Interest)	4.1	7.6	21.5	15.4
Core: (FCFO) / (Gross Interest+CMLTD+Uncovered Total STB)	2.0	2.5	1.9	1.9
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	2.0	2.5	1.9	1.9
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest)	1.3	1.0	0.5	0.5
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	132.2	152.2	-10.9	-2.6
Capital Structure (Total Debt/Total Debt+Equity)	30%	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.

Long Term Ratings		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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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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- (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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- (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)

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- (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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