The Pakistan Credit Rating Agency Limited

# Rating Report

## Al Rahim Textile Industries Limited

**Report Contents**



| Rating History | | | | | |
|---|---|---|---|---|---|
| Dissemination Date | Long Term Rating | Short Term Rating | Outlook | Action | Rating Watch |
| 06-Aug-2021 | A- | A2 | Stable | Maintain | - |
| 06-Aug-2020 | A- | A2 | Negative | Maintain | Yes |
| 25-Jan-2020 | A- | A2 | Stable | Maintain | - |
| 26-Jul-2019 | A- | A2 | Stable | Maintain | - |
| 25-Jan-2019 | A- | A2 | Stable | Maintain | - |
| 27-Jul-2018 | A- | A2 | Stable | Maintain | - |
| 17-Jan-2018 | A- | A2 | Stable | Initial | - |

### Rating Rationale and Key Rating Drivers

Al Rahim Textile Industries Limited (Al Rahim) is a family-owned textile company that enjoys strong position in towel manufacturing. The Company is primarily an export oriented towel manufacturing concern. Overall export volumes of towel industry inclined in FY21. During 1HFY21 towel exports stood at PKR~72bln (USD~446mln) as compared to PKR~59bln (USD~379mln) in 1HFY20. This exhibited a growth of ~23% in PKR terms. Meanwhile, there was ~9% growth in quantitative terms. Growth in towel sector was witnessed as Pakistan was able to attract export orders when regional players were struggling due to the pandemic and unable to meet demand. During 1HFY21, the towel sector's contribution to overall textile exports was ~6%. Meanwhile, contribution to total country exports was ~3%. Towel industry enjoys relatively better margins that are reflected in the Al Rahim's profitability on the back of local cotton, which is more suitable for manufacturing towels. During 9MFY21, the top-line of the Company increased by ~64% mainly due to overall industry resumption and increasing demand in international markets of Europe and USA. Moreover, the Company has completed its corporate transition phase where all assets, liabilities and business of sole proprietorship are transferred to the new corporate entity. The revenues are expected to follow upward trajectory due to higher demand in international markets i.e. Europe & USA. However, this could be disrupted by fourth wave of COVID-19 expected to emerge .The Company's financial risk profile is characterized by moderate leveraging and strong coverages. Working capital cycle of the Company has improved due to prudent working capital management. The assigned ratings incorporate recent corporatization of the entity, experienced management team, and expected sponsor support as demonstrated historically.

The ratings are dependent on maintaining optimal operations and top-line amidst expected tough situation due to fourth wave of Covid-19. Sustaining margins and reducing customer concentration, while maintaining financial risk at low level is critical. Meanwhile, strengthening of governance framework for better oversight of strategic affairs is considered essential.

| Disclosure | |
|---|---|
| **Name of Rated Entity** | Al Rahim Textile Industries 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),Criteria \| Rating Modifiers(Jun-21) |
| **Related Research** | Sector Study \| Towel(Jan-21) |
| **Rating Analysts** | Kanwal Ejaz \| kanwal.ejaz@pacra.com \| +92-42-35869504 |

## Profile

**Legal Structure** Al Rahim Textile Industries Limited (Al Rahim or 'the Company') traces its roots to Al Rahim Textile Industries, which was established in 1991 as a sole proprietorship. In order to strengthen the corporate structure, a public unlisted company was formed by the name of Al Rahim Textile Industries Limited in July 2019. As per agreement, all assets and liabilities of sole proprietorship were transferred to Al Rahim Textile Industries Limited. The registered office of the Company is situated in Karachi, with manufacturing facility in Nooriabad, Sindh.

**Background** The Company was formed by Mr. Abdul Rahim Saya. Al Rahim started its business by providing processing and weaving facilities. The Company established Nooriabad facility in 2005. After 2015 expansion, the Company has become one of the largest manufacturers of towels in Pakistan.

**Operations** Al Rahim is involved in manufacturing of towels and fabrics. The Company is export oriented and sells its products to large retail chains like, Family Dollar Store Inc., Primark and others. Al Rahim has total capacity of 284 Air-jet looms. After incorporation of new company in FY20, all assets and liabilities (except land ) have been transferred to the newly incorporated entity.

## Ownership

**Ownership Structure** Al Rahim is owned by Saya Family. Mr. Faisal Rahim Saya holds major stake in the Company while rest of the shareholding is split equally between Mr. Moiz Saya (Son of Mr. Faisal Saya) and Mr. Abdul Rahim Saya.

**Stability** Although both sons of Mr. Abdul Rahim Saya (Mr. Faisal Saya and Mr. Shehzad Saya) are involved in the operations of the Company, most of the shareholding resides with Mr. Faisal Saya. There is no formal succession plan in place but ownership and business roles are clearly divided among family members at group level.

**Business Acumen** Saya family is involved in textile business for last three decades. The phenomenal growth over the years reflects sponsors' strong business acumen.

**Financial Strength** The members of Saya family owns adequate wealth, reflecting well on financial strength of the sponsors. The sponsors have supported the Company in the past in the form of equity injections. The family also owns Al Rahim Retail (Pvt.) Limited - Zellbury Brand Stores - and real estate properties in Pakistan.

## Governance

**Board Structure** The board comprises three members and is chaired by Mr. Abdul Rahim Saya. It includes two executive (including the CEO) and one non-executive director. All members represent Saya Family. There is room for improvement at board level through induction of more members, including independent directors.

**Members' Profile** Saya family is in textile business since 1991 and has vast experience of textile industry. Board members possess strong acumen in textile manufacturing and towel industry as reflected in the growth of the Company

**Board Effectiveness** Board members are actively involved in the Company's operations. Board meetings are held on as and when required basis. The board has not formed any committees. There is no formal policy of recording board minutes.

**Financial Transparency** Reanda Haroon Zakaria & Company, Chartered Accountants, are the external auditors of the Company. They gave an unqualified opinion on financial statements for the year end June 30, 2020. The firm is QCR rated by ICAP and is classified in Category 'B' in the panel of auditors maintained by SBP.

## Management

**Organizational Structure** The Company's management structure is divided into divisions and functional departments with clear lines of responsibilities. Head office and site management functions are headed by Mr. Faisal Saya, the CEO.

**Management Team** Mr. Faisal Saya (CEO) leads the management team. He has been associated with the family business for last 27 years and has played a key role in the success of the Company. The CEO is supported by an able and professional team.

**Effectiveness** The Company has no management committees in place. However, senior management members meet on daily basis to discuss ongoing issues and plans.

**MIS** Al Rahim is using Oracle EBS 12.1.3 as its main ERP software. Oracle was fully implemented in 2015. Al Rahim uses three modules of Oracle. Regular MIS reports are submitted to top management relating to liquidity and profitability profile of the Company.

**Control Environment** Sponsors of the Company are part of both the Board and management. Al Rahim has established internal audit department, which is an integral part of the management control system. Further, the Company has rigorous quality control procedures in place. The Company has valid certificates from Oeko Tex 100 Class-I and Class-II, BSCI, C-TPAT, Sedex, GOTS and BRC, reflecting well on overall control environment.

## Business Risk

**Industry Dynamics** During FY20, During IHFY21, towel exports increased in both quantitative and values terms and stood at PKR~72bln (USD~446mln) as compared to PKR~59bln (USD~379mln) in FY19. This exhibited a growth of ~23% in PKR terms. Meanwhile, there was ~9% growth in quantitative terms. The growth reflected Pakistan's recovery from COVID-19 pandemic, as it was able to attract export orders when regional players were still struggling due to the pandemic and unable to meet demand. During FY20, the towel sector's contribution to overall textile exports was ~6%. Meanwhile, contribution to total country exports was ~3%.

**Relative Position** Al Rahim is one of the biggest players of the towel industry in Pakistan with ~8% share in total towel exports of the Country. Whereas, Feroze 1888 is considered as a leader in towel industry with a share of ~27%.

**Revenues** The Company derives its revenue mainly from manufacturing and sales of towels. During 9MFY21, The Company's topline clocked in at ~PKR 9,568mln (FY20: ~PKR 7,800mln), reflecting a growth of ~64%.

**Margins** During 9MFY21, the gross margin of the Company increased to ~20% (FY20: ~16.3%), as sales increased considerably in review period. However, the Company's operating margin stood at 14%(FY20: ~7%). Net profit margin in 9MFY21 stood at ~13% (FY20: ~6%).

**Sustainability** After Covid-19 outbreak there was an overall industry resumption which led to increase in export orders as well. The Company being an export-oriented entity have found an increasing trend from export destinations (USA and Europe). Going forward demand and sales of the company's product is expected to grow.

## Financial Risk

**Working Capital** During 9MFY21, the Company's gross working capital days decreased to 194 days (FY20: 326 days), inventory days also reduced to 76 days (FY20: 119 days). The Company has reduced its trade payable days, which clocked in at 61 days as at 9MFY21 (FY20: 102days). This resulted in net working capital days of 133 days in 9MFY21 (FY20: 224 days).

**Coverages** The Company's free cashflows (FCFO) increased to ~PKR 1,783mln (FY20: ~PKR 1,497mln) owing to overall increase in sales of the company. Meanwhile, the interest coverage ratio and debt coverage ratio increased significantly as impact of long-term borrowings is still not reflected on books from the proprietorship. The Company has availed SBP measure of deferring its principal repayments on long-term loans. This, coupled with lower interest rates has provided a relief to cashflows.

**Capitalization** The Company has a moderately leveraged capital structure. In 9MFY21, the leveraging stood at ~35% (FY20: ~21%). The short term borrowings increased to ~PKR 3,636mln (FY20: ~PKR 2,163mln) to finance the higher working capital requirements.

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| Al Rahim Textile Industries Limited<br>Towels | Mar-21<br>9M | Jun-20<br>12M | Jun-19<br>12M |
|---|---|---|---|
| **A BALANCE SHEET** | | | |
| 1 Non-Current Assets | 5,315 | 5,727 | 6,584 |
| 2 Investments | - | - | - |
| 3 Related Party Exposure | 167 | - | - |
| 4 Current Assets | 9,185 | 7,946 | 9,278 |
| *a Inventories* | *5,079* | *4,288* | *4,420* |
| *b Trade Receivables* | *2,150* | *2,053* | *3,184* |
| **5 Total Assets** | 14,667 | 13,674 | 15,863 |
| 6 Current Liabilities | 2,788 | 2,390 | 2,851 |
| *a Trade Payables* | *2,188* | *2,097* | *2,282* |
| 7 Borrowings | 4,083 | 2,302 | 3,666 |
| 8 Related Party Exposure | - | - | - |
| 9 Non-Current Liabilities | 75 | 104 | 36 |
| **10 Net Assets** | 7,721 | 8,877 | 9,310 |
| **11 Shareholders' Equity** | 7,721 | 8,877 | 9,310 |
| **B INCOME STATEMENT** | | | |
| **1 Sales** | 9,568 | 7,800 | 9,720 |
| *a Cost of Good Sold* | *(7,695)* | *(6,530)* | *(7,111)* |
| **2 Gross Profit** | 1,873 | 1,270 | 2,609 |
| *a Operating Expenses* | (555) | (721) | (821) |
| **3 Operating Profit** | 1,318 | 550 | 1,789 |
| *a Non Operating Income or (Expense)* | *216* | *339* | *136* |
| **4 Profit or (Loss) before Interest and Tax** | 1,534 | 888 | 1,925 |
| *a Total Finance Cost* | *(232)* | *(378)* | *(510)* |
| *b Taxation* | *(96)* | *(68)* | *(96)* |
| **6 Net Income Or (Loss)** | 1,207 | 443 | 1,319 |
| **C CASH FLOW STATEMENT** | | | |
| *a Free Cash Flows from Operations (FCFO)* | *1,783* | *1,497* | *2,525* |
| *b Net Cash from Operating Activities before Working Capital Changes* | *1,622* | *1,125* | *2,015* |
| *c Changes in Working Capital* | *(957)* | *(3,195)* | *(639)* |
| **1 Net Cash provided by Operating Activities** | 665 | (2,070) | 1,377 |
| **2 Net Cash (Used in) or Available From Investing Activities** | (21) | (116) | (1,315) |
| **3 Net Cash (Used in) or Available From Financing Activities** | (689) | 2,355 | (43) |
| **4 Net Cash generated or (Used) during the period** | (45) | 169 | 19 |
| **D RATIO ANALYSIS** | | | |
| **1 Performance** | | | |
| *a Sales Growth (for the period)* | 63.6% | -19.8% | 11.2% |
| *b Gross Profit Margin* | 19.6% | 16.3% | 26.8% |
| *c Net Profit Margin* | 12.6% | 5.7% | 13.6% |
| *d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)* | 8.6% | -21.8% | 19.4% |
| *e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity )]* | 21.6% | 4.6% | 15.6% |
| **2 Working Capital Management** | | | |
| *a Gross Working Capital (Average Days)* | 194 | 326 | 243 |
| *b Net Working Capital (Average Days)* | 133 | 224 | 181 |
| *c Current Ratio (Current Assets / Current Liabilities)* | 3.3 | 3.3 | 3.3 |
| **3 Coverages** | | | |
| *a EBITDA / Finance Cost* | 10.2 | 4.8 | 5.9 |
| *b FCFO / Finance Cost+CMLTB+Excess STB* | 9.3 | 4.0 | 5.7 |
| *c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)* | 0.2 | 0.1 | 0.8 |
| **4 Capital Structure** | | | |
| *a Total Borrowings / (Total Borrowings+Shareholders' Equity)* | 34.6% | 20.6% | 28.3% |
| *b Interest or Markup Payable (Days)* | 109.2 | 5.5 | 0.0 |
| *c Entity Average Borrowing Rate* | 8.3% | 10.6% | 11.2% |

## Credit Rating

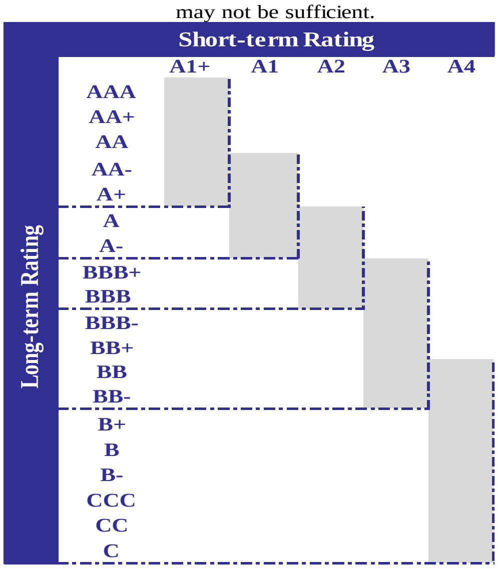
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

### Long-term Rating

| Scale | Definition |
|---|---|
| AAA | **Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+<br>AA<br>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. |
| A+<br>A<br>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. |
| BBB+<br>BBB<br>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. |
| BB+<br>BB<br>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+<br>B<br>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. |
| CCC<br>CC<br>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. |

### Short-term Rating

| Scale | 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 |
| 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 surveill 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):

**Entities**

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

**Instruments**

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

## Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

**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

**Restrictions**
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(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)

**Independence & Conflict of interest**
(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)
**Proprietary Information**