



The Pakistan Credit Rating Agency Limited

Rating Report

Allawasaya Spinning Mills (Pvt) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Oct-2019	BB+	A3	Stable	Maintain	-
30-Apr-2019	BB+	A3	Stable	Maintain	-
28-Dec-2018	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect adequate business profile of Allawasaya Spinning Mills (Pvt.) Limited. The Company is engaged in the manufacturing and sale of cotton yarn. Recent devaluation of Pakistani currency had no tangible impact on the Company's revenue, since all its sales are made in the local market. The Company has a relatively small size, low margins and limited profitability. The Company's net margins were lower than other similar companies in the spinning sector, mainly due to higher finance cost. In the long term, the planned BMR is expected to bring in efficiency gains and improve margins. The financial profile of the Company is characterized by moderate leveraging and coverages. Long-term debt comprises majority share of total debt, while short term borrowings vary with seasons, increasing during the cotton procurement season. The Company's association with an established business family in spinning sector of textile industry provides comfort to the ratings.

The ratings are dependent upon the management's ability to improve margins, profitability and financial profile of the Company. This includes keeping the debt levels manageable and improve the Company's competitive position in the industry. Sponsor's support and business acumen remains important for the ratings.

Disclosure

Name of Rated Entity	Allawasaya Spinning Mills (Pvt) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Spinning(Sep-19)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

Profile

Legal Structure Allawasaya Spinning Mills (Pvt) Limited ('Allawasaya Spinning' or 'The Company') was established in 2004. The Company's production facility is located in Multan.

Background The Company is a venture of "Jamil Family", a well-respected family of industrialists in Multan. The Company is engaged in the production of cotton yarn and man-made fibers.

Operations The Company operates a single spinning unit with 17,500 spindles. The Company's head office and production facility are located in Multan, on a 38 acres facility that the Company shares with Allawasaya Textile and Finishing Mills Limited. The Company utilizes in-house electricity production capacity (4.2MW) and also has a backup MEPCO connection.

Ownership

Ownership Structure Mian Muhammad Jamil owns the company (7%) directly and (36%) indirectly through his daughters. Mian Alamgir Jamil, son of Mian Jamil owns, (43%) directly and (14%) indirectly through his spouse.

Stability The Company was set up to engage and transfer over the technical and business skills of the first generation to the second generation of the Jamil family. The Company encompasses the advice and expertise of first-generation and leadership of the new generation. Although, no official succession plan has been announced till date, the second generation's induction in the business bodes well for succession.

Business Acumen Besides Allawasaya Spinning, the family has a 34% stake in Allawasaya Textile & Finishing Mills Limited, which is engaged in the production of yarn as well. The sponsors have vast experience and knowledge of various aspects of textile value-chain.

Financial Strength Jamil family has a major stake in Allawasaya Textile & Finishing Mills Limited. Both companies collectively own 38 acres land as their premises, most of which is not being utilized. The Company's management aims to capitalize on this asset by starting a real estate development project in the future.

Governance

Board Structure The board comprises of two members, Mian Muhammad Jamil in the capacity of Chairman and Mian Alamgir Jamil as an executive director.

Members' Profile All the board members are highly qualified in different disciplines and carry ample experience in textile as well as other industries. Mian Muhammad Jamil is a textile engineer and carries 45 years of industry experience. Mian Alamgir has been associated with the textile business since 2002 and holds a BBA. Both board members are also on the board of directors of Allawasaya Textile and Finishing Mills Limited.

Board Effectiveness Being a private Company, Allawasaya Spinning does not comply with code of corporate governance and there is no independent director on the board. There is no system to record the board minutes and the overall governance structure needs improvement.

Financial Transparency External auditors of the company "PKF F.R.A.N.T.S & Co" are listed in the category "B" of SBP's approved auditors panel. The auditors issued an unqualified opinion on the Company's financial statements for the year ended 30th June, 2019.

Management

Organizational Structure The organizational structure of the Company is divided into three main departments namely, i) Finance, Admin & Marketing, ii) Purchase, and iii) Production. The finance, admin and marketing department reports directly to the CEO while other departments report to the Chairman.

Management Team Mian Alamgir, CEO of the Company, has completed his BBA (Hons) and has been associated with the textile business since 2002, earning him excessive experience to run the affairs of the Company. Other members of the management are also experienced and equipped with the knowledge of the Company and industry at large.

Effectiveness The Company has no management committees. Sponsor's close involvement in day to day affairs of the business bodes well for the effectiveness of the Company.

MIS The Company has built an in-house ERP to cater to its business needs. The senior management monitors the business performance through certain Key MIS reports.

Control Environment Production is completely order driven, rigorous quality check is done on the end product by the QC department. The Company has obtained ISO 9001 certification.

Business Risk

Industry Dynamics During FY19, exports stagnated despite major segments including cotton cloth, knitwear, garments and bedwear displaying strong quantitative growth. Industry players needed to share the benefit of the currency depreciation with their buyers, which resulted in unit price dip across all major categories, curbing overall growth. This, coupled with cotton yarn displaying double-digit quantitative decline on account of the US-China trade war, as well as, strong domestic demand for yarn, resulted in overall increase in exports of only 0.1% YoY. Recently, withdrawal of textile's zero rated status has impacted the industry's overall liquidity and local sales.

Relative Position With 17,500 operational Spindles, Allawasaya Spinning Mills standalone position in Pakistan's spinning industry is small.

Revenues The Company does not have brand-based clientele and sells all of its output locally in Faisalabad through sales brokers. During FY19, the Company's revenue grew by 39% to PKR 1,381mln (FY18: PKR 882mln) due to better yarn prices in the local market.

Margins During FY19, the Company's cost of goods sold increased by 38% and operating expenses by 55% but their impact on margins was overshadowed by proportionately higher increase in yarn prices. This consequently increased gross profit margin to 4.2% (FY18: 3.5%) and operating profit margin to 3.2% (FY18: 2.5%). Net profit of the Company improved to PKR 33mln (FY18: PKR 15mln).

Sustainability The Company is planning to start a BMR, which will add 7,500 Spindles to its existing capacity. The total cost of CAPEX is estimated to be PKR 130mln. This will be entirely funded from equity. BMR is expected to bring in efficiency gains, lowering cost per spindle and is expected to improve margins. Going forward, impact of imposition of sales tax on the Company's revenue is expected to be negligible, since the Company was already selling yarn to only tax registered customers.

Financial Risk

Working Capital During FY19, the Company's net working capital cycle stretched 17days (FY18: 8days) because the Company maintained higher level of inventory (FY19: PKR 111mln, FY18: PKR 85mln) to safeguard against possible hike in the cotton prices and decrease in trade payable days to 19days (FY18: 29days). On the other hand, the Company's room to borrow clocked in at 12% (FY18: -3%), with net trade assets clocking in at PKR 66mln (FY18: PKR 43mln) and short term borrowings at PKR 49mln (FY18: PKR 47mln).

Coverages FCFO of the Company during FY19 increased slightly to PKR 29mln (FY18: PKR 28mln) due to better profit. Increase in FCFO resulted in interest coverage ratio increasing to 3.6x (FY18: 3.2x) and debt coverage ratio to 2.0x (FY18: 0.6x). Substantial increase in the debt coverage ratio was also on the back of lower CMLTD, which decreased to PKR 6mln (FY18: PKR 27mln).

Capitalization During FY19, the Company's leveraging improved to 52.3% (FY18: 56.4%) due to the repayment of long-term debt, which came down to PKR 66mln (FY18: 72mln). Short-term borrowings make up 40% of the total borrowings, increased to PKR 49mln (FY18: 47mln) but overall borrowings of the Company experienced a downward trend and closed at PKR 121mln at the end of FY19 (FY18: 147mln). Loan from the directors stood at PKR 89mln (FY18: PKR 101mln).



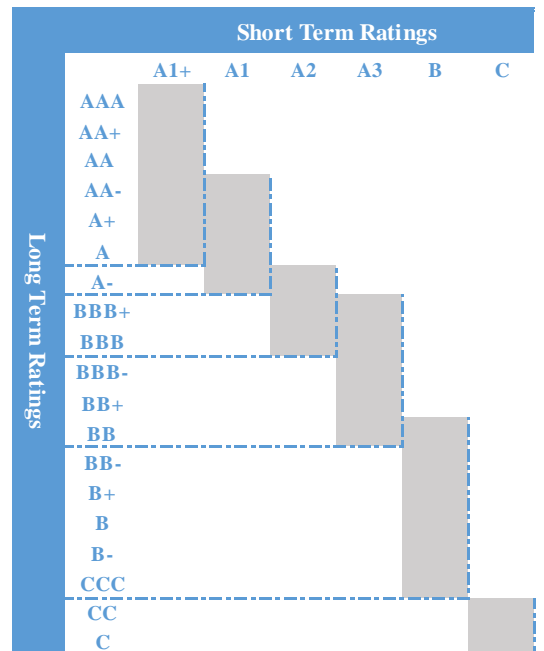
Allawasaya Spinning Mills Limited
STATEMENT OF FINANCIAL POSITION

	Jun-19	Dec-18	Jun-18	Dec-17	Jun-17
	12M	6M	12M	6M	12M
	Audited	Audited	Audited	Audited	Audited
A NON-CURRENT ASSETS					
1 Operating Fixed Assets - Owned and Leasehold	294	298	302	-	311
2 Intangible Assets	-	-	-	-	-
3 Other Non-Current Assets	2	2	2	-	2
4 Deferred Taxation	-	-	-	-	-
<i>Non-Current Assets</i>	295	300	303	-	313
B INVESTMENTS					
1 Equity Instruments	-	-	-	-	-
2 Debt Instruments	-	-	-	-	-
3 Investment Property	20	20	20	-	-
<i>Investments</i>	20	20	20	-	-
C RELATED PARTY EXPOSURE					
1 Equity Instruments	-	-	-	-	-
2 Debt Instruments (Including Lending)	-	-	-	-	-
3 Due from Related Parties	2	-	4	-	-
<i>Related Party Exposure</i>	2	-	4	-	-
D CURRENT ASSETS					
1 Stores and Spares	13	11	12	-	10
2 Inventories					
a. Raw Material	72	63	55	-	31
b. Work in Process	8	7	6	-	6
c. Finished Goods	32	28	24	-	23
	111	98	85	-	59
3 Trade Receivables	17	15	52	-	6
4 Advances to Suppliers	-	2	-	-	4
5 Taxes	6	11	1	-	4
6 Taxes Refundable	13	3	4	-	8
7 Other Current Assets	1	-	13	-	1
8 Cash and Bank Balances	3	5	10	-	36
<i>Current Assets</i>	164	147	178	-	129
E TOTAL ASSETS (A+B+C+D)	481	467	505	-	442
F CURRENT LIABILITIES					
1 Trade Payables	61	59	79	-	78
2 Advances from Customers	15	16	19	-	3
3 Taxes	18	9	14	-	7
4 Interest or Markup Payable	2	-	4	-	-
5 Workers' Funds	1	1	1	-	1
6 Accrued Liabilities	19	22	26	-	34
7 Other Current Liabilities	0	(0)	(0)	-	(0)
8 Dividend Payable	-	-	-	-	-
<i>Current Liabilities</i>	116	107	144	-	122
G BORROWINGS					
1 Current Maturity of Long-Term Borrowings	6	17	27	-	27
2 Short-Term Borrowings					
a. Borrowings From FI	49	47	47	-	31
b. Borrowings From SBP	-	-	-	-	-
<i>Short-Term Borrowings</i>	49	47	47	-	31
3 Long-Term Borrowings					
a. Borrowings From FI	66	69	72	-	64
b. Borrowings From SBP	-	-	-	-	-
<i>Long-Term Borrowings</i>	66	69	72	-	64
4 Debt Instruments	-	-	-	-	-
<i>Borrowings</i>	121	133	147	-	123
H RELATED PARTY EXPOSURE					
1 Borrowings	-	-	-	-	-
2 Subordinate Borrowings	-	-	-	-	9
3 Preference Share Capital	20	30	-	-	77
4 Due to Related Parties	89	74	101	-	-
<i>Related Party Exposure</i>	109	104	101	-	87
I NON-CURRENT LIABILITIES					
1 Deferred Taxation	-	-	-	-	-
2 Other Non-Current Liabilities	7	5	-	-	-
<i>Non-Current Liabilities</i>	7	5	-	-	-
J NET ASSETS (E-F-G-H-I)	128	117	113	-	110
K SHAREHOLDERS' EQUITY					
1 Ordinary Share Capital	70	70	70	-	70
2 Capital Reserves	-	-	-	-	-
3 Revaluation Reserve					
a. Fixed Assets	112	112	112	-	112
b. Investments	-	-	-	-	-
	112	112	112	-	112
4 Revenue Reserves					
a. General Reserves	-	-	-	-	-
b. Unappropriated Profit	(54)	(66)	(70)	-	(73)
	(54)	(66)	(70)	-	(73)
<i>Shareholders' Equity</i>	128	117	113	-	110
L MEMORANDUM ITEM/S					
1 Short Term Borrowing Limits	50	50	50	50	50

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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- 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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- (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)
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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)
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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)

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(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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