



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-Apr-2020	BB+	A3	Stable	Maintain	YES
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. 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 lower capacity resulting in less production. 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 low 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 the textile industry provides comfort to the ratings.

The 'Rating Watch' signifies COVID-19 outbreak and a challenging economic environment. The entire textile chain is expected to be impacted due to the lockdown in Pakistan and major export destinations of the sector. The demand is expected to contract while eventual resumption of operations and recovery of the sector remains uncertain. The Government and SBP have announced several initiatives to provide support. PACRA will monitor the situation and accordingly take action.

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 remain important for the ratings. Any significant deterioration in margins amid prolonged lockdown during COVID 19 will have a negative impact on the rating.

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	Fahad Iqbal fahad.iqbal@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 fibres.

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 Limited.

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 wife.

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.

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 Allawasaya's 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 people i.e. 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 under category "B" by SBP. 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 to handle 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 with 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, there is a rigorous quality check done on the end product by the QC department. The Company has obtained ISO 9001 certification.

Business Risk

Industry Dynamics During 8MFY20, textile exports increased by 5.30% period on period. The US-China trade war earlier in the year disrupted cotton prices across the globe. Considering that China accounts for more than 50% of Pakistan's cotton yarn exports, lesser demand from China negatively impacted the spinning industry. Yarn exports reduced by 0.86% in 8MFY20. Additionally, the withdrawal of zero rated sales tax status from textile sector, coupled with the high interest rates, has impacted liquidity and profitability. The COVID-19 outbreak in early 2020 has affected the entire textile chain. Export orders have been postponed or cancelled as major export destinations remain in lockdown to contain the virus. Several domestic players have shutdown production or are partially operational. Recent government initiatives are expected to provide some relief. However, prevailing uncertainty due to global lockdown will have implications for the industry dynamics.

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

Revenues The Company does not have brand-based clientele and sells all of its output locally in Faisalabad through sales brokers. During 1HFY20, the Company's revenue grew by 6.67% to PKR 703mln (1HFY19: PKR 659mln) due to better yarn prices in local market.

Margins During 1HFY20, the Company's cost of goods sold increased by ~5% and operating expenses by 50% but their impact on margins was overshadowed by ~7% increase in revenue. This is primarily due to an increase in yarn prices but cotton prices increased more than yarn prices. Consequently, gross profit margin improved to 5.1% (1HFY19: 3.3%) and operating profit margin to 3.8% (1HFY19: 2.5%). Net profit of the Company improved to PKR 10mln (1HFY19: PKR 3mln).

Sustainability The Company had to shut down its operations as per government directive. However, the government has eased the lockdown and has allowed the Company to resume production recently. However, full resumption of operations and recovery in sales of the Company remains unclear. The eventual easing and opening up of domestic and global lockdowns is important in this regard, although its timeline is not certain. The Company may opt to avail SBP initiatives to seek support in the short-term.

Financial Risk

Working Capital During 1HFY20, the Company's net working capital days increased to 20 days (1HFY19: 16 days) because the Company maintained higher level of inventory (1HFY20: PKR 107mln, 1HFY19: PKR 98mln) to safeguard against possible hike in the cotton prices and slight decrease in trade payable days to 58 days in 1HFY20 (1HFY19: 59 days). On the other hand, the Company's room to borrow displayed improvement and stood at 24% in 1HFY20 (1HFY19: 2%).

Coverages FCFO of the Company during 1HFY20 increased significantly to PKR 44mln (1HFY19: PKR 14mln) due to increase in profitability. Increase in FCFO resulted in interest coverage ratio increasing to 9.1x in 1HFY20 (1HFY19: 3.8x) and debt coverage ratio to 5.6x (1HFY19: 1.1x). Substantial increase in the debt coverage ratio was also on the back of lower CMLTD which decreased to PKR 6mln in 1HFY20 (1HFY19: PKR 17mln).

Capitalization During 1HFY20, the Company's leveraging improved to 26.3% (1HFY19: 58.3%) due to the revaluation of fixed assets, which came up to PKR 303mln in 1HFY20 (1HFY19: 112mln). Short-term borrowings make upto ~42% of the total borrowings, increased to PKR 50mln in 1HFY20 (1HFY19: 47mln) but overall borrowings of the Company experienced a downward trend and closed at PKR 119mln at the end of 1HFY20 (1HFY19: 133mln).



Allawasaya Spinning Mills Limited Textile	Dec-19 6M	Jun-19 12M	Jun-18 12M	Jun-17 12M
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A BALANCE SHEET

1 Non-Current Assets	561	295	303	313
2 Investments	18	20	20	-
3 Related Party Exposure	4	2	4	-
4 Current Assets	175	164	178	129
<i>a Inventories</i>	107	111	85	59
<i>b Trade Receivables</i>	36	17	52	6
5 Total Assets	758	481	505	442
6 Current Liabilities	122	116	144	122
<i>a Trade Payables</i>	58	61	79	78
7 Borrowings	119	121	147	123
8 Related Party Exposure	102	109	101	87
9 Non-Current Liabilities	81	7	-	-
10 Net Assets	333	128	113	110
11 Shareholders' Equity	333	128	113	110

B INCOME STATEMENT

1 Sales	703	1,381	992	665
<i>a Cost of Good Sold</i>	(667)	(1,324)	(958)	(655)
2 Gross Profit	36	58	34	10
<i>a Operating Expenses</i>	(9)	(14)	(9)	(7)
3 Operating Profit	27	44	25	3
<i>a Non Operating Income</i>	(1)	(2)	(0)	19
4 Profit or (Loss) before Interest and Tax	26	41	25	22
<i>a Total Finance Cost</i>	(5)	(9)	(10)	(14)
<i>b Taxation</i>	(11)	(17)	(12)	(7)
6 Net Income Or (Loss)	10	15	3	0

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	44	29	28	10
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	39	19	20	(5)
<i>c Changes in Working Capital</i>	(26)	(22)	(75)	98
1 Net Cash provided by Operating Activities	13	(2)	(54)	93
2 Net Cash (Used in) or Available From Investing Activities	(9)	-	(20)	17
3 Net Cash (Used in) or Available From Financing Activities	(3)	(5)	48	(79)
4 Net Cash generated or (Used) during the period	1	(7)	(26)	31

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	1.8%	39.2%	49.2%	-19.0%
<i>b Gross Profit Margin</i>	5.1%	4.2%	3.5%	1.5%
<i>c Net Profit Margin</i>	1.5%	1.1%	0.3%	0.1%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	4.7%	3.4%	3.5%	2.2%
<i>e Return on Equity (ROE)</i>	9.0%	12.7%	2.7%	0.4%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	35	35	37	52
<i>b Net Working Capital (Average Days)</i>	20	17	8	15
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	1.4	1.4	1.2	1.1
3 Coverages				
<i>a EBITDA / Finance Cost</i>	6.9	5.8	3.9	1.1
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	5.6	2.0	0.6	0.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.9	4.4	5.8	-62.8
4 Capital Structure (Total Debt/Total Debt+Equity)				
<i>a Total Borrowings / Total Borrowings+Equity</i>	26.3%	52.3%	56.4%	65.6%
<i>b Short-Term Borrowings / Total Borrowings</i>	0.4	0.3	0.3	0.2
<i>c Average Borrowing Rate</i>	7.4%	5.6%	5.0%	5.5%

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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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)

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