The Pakistan Credit Rating Agency Limited

Rating Report

AL Textile (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
02-May-2022	BBB	A2	Stable	Maintain	-
07-May-2021	BBB	A2	Stable	Maintain	Yes
21-May-2020	BBB	A2	Negative	Maintain	Yes
03-Sep-2019	BBB	A2	Stable	Maintain	-
05-Mar-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned ratings incorporate AL Textile's good operating track record with a modest presence in the textile sector, depicted by its niche market operations and adequate margins. The Company's installed capacity hovers around 25,200 spindles. Presence of senior management team that possesses considerable experience in the textile is positive. The Company's sales mix remain titled towards local market where topline clocked at PKR 4.3bln (FY20: PKR 2.8bln) primarily attributable to enhanced yarn prices. Recently, gross and operating profitability recorded notable improvement; trend should sustain. Same trend displayed in margins where improvement is witnessed. The financial risk is revealing high leveraging, improved gross coverage and improved working capital cycle. The ratings take comfort from the explicit commitment of sponsors to provide support to the Company. During the period July-December FY21-22, textile exports of the country surged 26 percent YoY, fielding $9.39 billion in total export remittances, as compared to $7.44 billion in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of value-added textile items increased in both quantity and value in December 2021.

The ratings are dependent on Company's ability to sustain its business profile while maintaining margins. Meanwhile, maintaining a moderately leveraged capital structure and adequate coverages is vital. Any significant deterioration in profits and/or coverages will have a negative impact on ratings.

Disclosure

Name of Rated Entity	AL Textile (Pvt.) 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 | Spinning(Sep-21)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Legal Structure AL Textile (Pvt.) Limited (AL Textile or "the Company"), was incorporated in 2002, as a private limited company and commenced its operations in 2003.

Background Mr. Abdul Latif started Fine Gases in the early 80's. He formerly had a business in Dubai. In 1985, Latif family diversified their business by setting up Fine Crystoplast (Pvt.) Limited, a plastic molding plant. Later in 2002, the family entered into the textile sector through AL Textile with 15,000 spindles.

Operations AL Textile operates with one spinning unit, having 25,200 spindles. Their production facility is located on Main Multan road (43 km), Lahore, an 130 acre of land. The Company has arranged a line of 3.2MW from LESCO, which is the only source of power.

Ownership

Ownership Structure AL Textile is a family owned business, with majority stake owned by Mr. Omer Latif (~61%) and the remaining shareholding distributed equally (~19% each) among his brother and sister.

Stability The Company is owned entirely by the Latif family. The distribution of shareholding with Mr. Omer Latif as a majority stakeholder portrays a stable line of succession. Moreover, the second generation has already been incorporated into the business, serving at various capacities with clearly defined roles.

Business Acumen AL Textile is the only textile business venture of Latif family. Over the years, the growth of the Company was limited. However, it has sustained through the volatility of the textile industry in recent years. Mr. Abdul Latif's (Ex-Chairman) counsel remains a key factor in ensuring sustainable operations of the Company.

Financial Strength Apart from AL Textile, Latif family has interests in industrial gases and plastic molding through Fine Gas and Fine Crystoplast, respectively. Meanwhile, the sponsors have sufficient financial strength to support AL Textile, when needed, as evident historically.

Governance

Board Structure The Company's board of directors comprises two members, with Mr. Omer Latif as Chairman of the board. The size of the Board is considered adequate as per the Company's operational size. However, room for improvement in the governance framework exists.

Members' Profile The board members have been associated with the Company since its inception. Apart from AL Textile, both the directors sit on the board of associated companies, Fine Gas and Fine Crystoplast. Mr. Omer Latif holds a Master's degree in Industrial Management from the USA

Board Effectiveness s Attendance of the members remained strong during the year. The board meeting minutes have been appropriately recorded. There is no subcommittee in place, which hampers the board's effectiveness.

Financial Transparency M/s Naveed Mukhtar & Co., Chartered Accountants, QCR rated by ICAP, is the external auditor of the Company. The auditors have expressed an qualified opinion on the financial reports for the year ended June 2021.

Management

Organizational Structure Mr. Omer Latif is the CEO of AL Textile. The Company has a lean organizational structure and is broadly divided into five functional departments. All department heads report directly to Mr. Omer Latif.

Management Team Mr. Omer Latif, the CEO, has been associated with the Company since its inception. He is supported by a team of professionals with relevant expertise in the textile value chain. The long association of senior management with the Company bodes well for the sustainability of the Company.

Effectiveness There are multiple management committees in place. The meetings are held on a periodic basis to resolve or proactively address operational issues. Moreover, the matters drafted in these meetings are presented to the board for approval, portraying active participation of senior management in carrying the Company's operations.

MIS A fully functional Oracle 11g has been deployed by the Company in 2020 and the efficiency of the work has also increased after the implementation of the software.

Control Environment The Company is compliant with International Certification for quality assurance ISO 9001:2008. In addition, the Company has maintained a quality management system since the start.

Business Risk

Industry Dynamics During the period July-December FY21-22, textile exports surged 26 percent YoY, fielding $9.39 billion in total export remittances, as compared to $7.44 billion in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of value-added textile items increased in both quantity and value in December 2021. Going forward, the textile sector's outlook is expected to stay positive in the medium term where the demand for textile products is expected to sustain. In the local market, the textile sector has recorded strong performance. The relief measures introduced by the 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. Many players have also availed the TERF scheme announced by the Central Bank. This will lead to overall leverage of the sector to increase; however, on relaxed financing rates. The sustainability of demand pattern for the current higher orders from Europe and USA remains essential for the feasible utilization of added capacity by textile players.

Relative Position AL Textile is a small-sized spinning unit and the only textile venture of the Latif family. However, standard quality Japanese machinery has made the Company capable of producing top-quality yarn, hence, eventually securing its niche clientele. Meanwhile, on a standalone basis, the Company has a minimal share in the local spinning industry

Revenues During 9MFY22, the Company's topline clocked in at PKR 3,468mln (FY21: PKR 4,349mln) posting a negative growth of 16.1% in 9-month period. The Company's sales mix continues to be dominated by local sales 97%. The Company's majority local sales come under the category of indirect exports, as its yarn is mostly processed by customers for export orders. Meanwhile, the Company has a minimal export share.

Margins Margins During 9MFY22, the Company's gross margins improved to 8.85% (FY21: 6.5%). Improvement in gross margins were further translated to improved operating Margin of 8.2% during 9MFY22 (FY21: 5.6%). Net profits were were increased during the period of 9MFY22 amounting to PKR 177mln, and the net profit margins improved to 5.1% indicating good operating efficiency.

Sustainability The Company is planning to replace its old compact spindles with the newer auto-fine version of spindles as the spindles are ~18 years old. The Company has projected PKR 250mln for this project and the project will be completed before September 2021. The Company has also deployed Oracle 11g to improve the overall efficiency of the operations.

Financial Risk

Working Capital The company's capacity for further borrowing is 21% during 9MFY22. Net working capital cycle has been reduced to 57 days during 9MFY22 (FY21: 60) where the gross cash cycle also demonstrated improvement of 70 days in 9MFY22 (FY21: 77 days).

Coverages Interest coverage during the 9MFY22 is 4.2 which indicates company has good positive cash flows. Debt payback of the company is 1.3 9MFY22 demonstrating company's ability to cover its long term debts.

Capitalization AL Textile is a highly leveraged company demonstrating a leveraged capital structure of 65.2% at 9MFY22. leveraging has been improved during the year due to the increase in shareholders equity.

The Pakistan Credit Rating Agency Limited

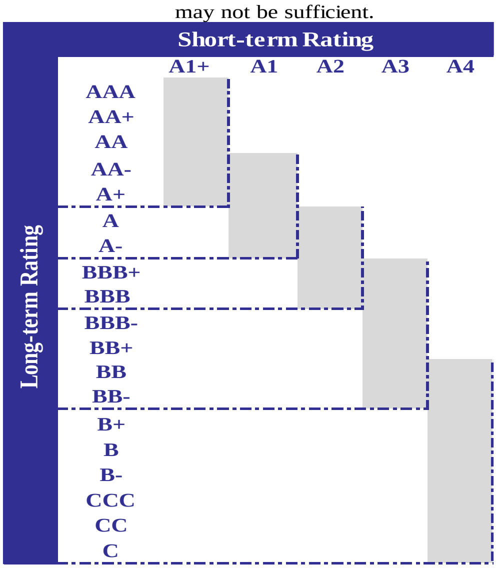
AL-Textiles (Private) Ltd	Mar-22	Jun-21	Mar-21	Dec-20
Spinning	9M	12M	9M	6M
A BALANCE SHEET				
1 Non-Current Assets	548	568	572	573
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,752	715	1,043	1,433
a Inventories	*1,141*	*408*	*701*	*1,060*
b Trade Receivables	*108*	*128*	*177*	*232*
5 Total Assets	2,300	1,284	1,615	2,006
6 Current Liabilities	598	209	405	494
a Trade Payables	*293*	*58*	*237*	*283*
7 Borrowings	782	457	519	983
8 Related Party Exposure	291	291	-	-
9 Non-Current Liabilities	56	-	44	-
10 Net Assets	573	328	648	529
11 Shareholders' Equity	573	328	648	529
B INCOME STATEMENT				
1 Sales	3,468	4,349	3,302	2,465
a Cost of Good Sold	*(3,161)*	*(4,003)*	*(3,048)*	*(2,305)*
2 Gross Profit	307	346	254	160
a Operating Expenses	(21)	(57)	(21)	(23)
3 Operating Profit	286	289	234	137
a Non Operating Income or (Expense)	*(12)*	-	-	-
4 Profit or (Loss) before Interest and Tax	274	289	234	137
a Total Finance Cost	*(53)*	-	-	-
b Taxation	*(43)*	-	-	-
6 Net Income Or (Loss)	177	289	234	137
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*221*	*289*	*234*	*137*
b Net Cash from Operating Activities before Working Capital Changes	*221*	*289*	*234*	*137*
c Changes in Working Capital	-	-	-	-
1 Net Cash provided by Operating Activities	221	289	234	137
2 Net Cash (Used in) or Available From Investing Activities	-	-	-	-
3 Net Cash (Used in) or Available From Financing Activities	-	-	-	-
4 Net Cash generated or (Used) during the period	221	289	234	137
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	6.3%	55.0%	56.9%	75.7%
b Gross Profit Margin	8.9%	8.0%	7.7%	6.5%
c Net Profit Margin	5.1%	6.6%	7.1%	5.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	6.4%	6.6%	7.1%	5.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	52.5%	114.1%	75.5%	77.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	70	77	90	96
b Net Working Capital (Average Days)	57	60	66	73
c Current Ratio (Current Assets / Current Liabilities)	2.9	3.4	2.6	2.9
3 Coverages				
a EBITDA / Finance Cost	4.2	N/A	N/A	N/A
b FCFO / Finance Cost+CMLTB+Excess STB	4.2	N/A	N/A	N/A
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	1.3	1.2	0.0	0.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	65.2%	69.5%	44.5%	65.0%
b Interest or Markup Payable (Days)	127.2	N/A	N/A	N/A
c Entity Average Borrowing Rate	9.1%	0.0%	0.0%	0.0%

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+ 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.
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.
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.
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+ 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.
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.

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