The Pakistan Credit Rating Agency Limited

Rating Report

Al-Textile (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
05-Mar-2019	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned ratings of AL Textile (Pvt.) Limited (AL Textile) reflect strong financial profile of Sponsors and their support to the entity in the form of guarantee and subordinated loan. The Company mainly caters to the need of local market and has developed brand based clientele over the years. The Company's revenue has witnessed growth in harmonization with textile industry in FY18. However, relatively smaller capacity of AL Textile has limited its margins. Recently, the Company's margins and profitability have come under pressure on the back of higher input costs. Moreover, recent withdrawal of custom duty and sales tax on cotton imports, coupled with subsidized utilities for textile industry has improved industry dynamics. While incorporating these factors the Company's expects its business profile to improve in near future. The Company has a adequately leveraged capital structure characterized by weak coverages and high inventory days. The management intends to implement further financial discipline by limiting leveraging.

The ratings are dependent on the Company’s ability to improve its margins and financial profile. Any further reduction in margins, impacting cash-flows and profitability for a long period will impact the ratings. Similarly, prudent working capital management is considered important. Going Forward, sponsors support to the Company would remain critical.

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

Profile

Legal Structure AL Textile (Pvt) Limited (AL Textile), 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, formerly had a business in Dubai. In 1985, Latif family diversified their business by setting up Fine Crystoplast (Pvt.) Limited, a plastic moulding 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, with 25,200 spindles. Their production facility is located on Main Multan road (43 km), Lahore. 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 Latif family. The distribution of shareholding with Mr. Omer Latif as majority stake holder portrays a structured line of succession. Moreover, the second generation has already been incorporated into the business, serving at various capacities.

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 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. Both of these companies have an annual turnover of PKR 400mln in FY17; considered adequate. 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 board. The representation of Latif family is considered adequate as per the Company's operational size. However, the improvement in governance framework exists.

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

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

Financial Transparency M/s Naveed Mukhtar & Co., Chartered Accountants, QCR rated, is the external auditor of the Company. The auditors have expressed unqualified opinion on the financial reports for the year ended June, 2018. The Company's auditor is QCR rated.

Management

Organizational Structure Mr. Omer Latif is the CEO of AL Textile. The Company's organizational structure is broadly divided into five functional departments. All department heads reports directly to Mr. Omer Latif.

Management Team Mr. Omer Latif is also the CEO of the Company and has been associated with the Company since inception. He is supported by a team of professionals with relevant expertise of textile value chain. Long association of senior management with the Company bodes well for sustainable growth of the Company.

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

MIS AL Textile has in place local version of Oracle based ERP solution, by the name of Vision Plus with eleven modules.

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

Business Risk

Industry Dynamics During FY18, total textile exports of Pakistan stood at USD ~ 13.53bln, a 9% YoY growth. The withdrawal of custom duty and sales tax on cotton imports, coupled with subsidized gas rates for textile industry has made the local textile industry cost competitive. Moreover, rupee devaluation in recent times has further improved the textile industry dynamics, particularly for the entities with net exports.

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 local spinning industry.

Revenues During FY18, the Company's top-line clocked in at ~PKR 2,737mln (FY17: PKR 1,851mln), posting a growth of ~47%. This is attributable to better pricing in local market and higher volumetric production, a factor of largely switching its product line to coarse count. The Company's sales mix continues to be dominated by local sales ~92% (FY17: 91%). Revenues posted a limited growth in 1HFY19 and landed at ~PKR 976mln.

Margins The Company's sales has increased in higher proportion to its cost of sales in FY18, which has resulted in considerably improved gross margins (FY18: 6.0%, FY17: 2.3%), a factor of better industry prospects during the year. Higher gross profit further translated into better operating margins (FY18: 4.8 %, FY17: 0.8%), despite the significant increase (~21%) in operating costs. The Company's finance cost increased by ~12.5%, due to higher interest rates. While, on account of taxation the Company's bottom line closed in green, with a net profit of ~PKR 50mln (FY18). In 1HFY19, the Company's margins deteriorated on account of slowdown in local industry, largely triggered by US/China trade war. this has pressurize the supply side in local market, eventually resulting in lower yarn prices.

Sustainability The Company has incurred a BMR of ~PKR 435mln since FY14 for up-gradation of machinery and capacity enhancement. 5,040 spindles of adequate quality has been added in the production facility, these are expected to be operational soon. Additional capacity will help the Company in optimizing its fixed cost and improving its margins. The Company has recently designated a spinning line with a capacity of 130 bags per day for production of CF yarn - a better margin product.

Financial Risk

Working Capital During FY18, the Company's reliance on STB largely remained the same (FY18: PKR 326mln, FY17: PKR 322mln), despite an higher requirement, reflecting efficiency in the cash cycle. The Company's borrowing capacity at trade assets level is positive (FY18: 5%, FY17: 4%). Additionally, lower inventory levels coupled with considerable increase in revenues led to lower cash cycle (gross - FY18: 43days, FY17, 54days, net - FY18: 39days, FY17 46days), which is considered strong when compared to their peers. Whereas in 1HFY19, the Company's inventory days has significantly increased (1HFY19: 174days, FY18 38 days), on the back of seasonal inventory procurement and piled up finished goods stock. These factors has translated into considerably high net cash cycle (1HFY19: 167days, FY18 39days).

Coverages During FY18, the Company's operating cash flows (FCFO) almost tripled (FY18: PKR 149mln, FY17: PKR 45mln), which is attributable to higher profitability. Despite the increase in finance cost by (~28%), coverages have considerably improved (interest - FY18: 3.3x, FY17: 1.3x, debt - FY18: 3.2x, FY17: 0.7x), a factor of better profitability. However, the Company's coverages has dropped below sustainable level in 1HFY19 (interest - 0.8x, debt - 0.8x). This was largely led by lower FCFO generation (1HFY19: PKR 23mln, FY18 PKR 149mln). While incorporating the current industry dynamics, the Company's coverages are expected to remain stretched in near future.

Capitalization AL Textile has a moderately leveraged capital structure (~34.5%) at end-Jun 18 (end-Jun 17: 39.1%). Total debt stood at PKR 352mln, mainly comprising of the current debt ~ 92%. Leveraging significantly increased (~71.2%) at end-Dec 18, mainly triggered by considerable in increase in STB.

PKR mln

AL Textile (Pvt.) Limited

Private Limited

BALANCE SHEET	Dec-18	Jun-18	Jun-17	Jun-16
	6M	12M	12M	12M
a Non-Current Assets	**648**	**637**	**644**	**620**
b Investments (Incl. Associates)	**-**	**-**	**-**	**-**
Equity	-	-	-	-
Fixed Income	-	-	-	-
c Current Assets	**1,748**	**471**	**478**	**303**
Inventory	1,603	254	316	191
Trade Receivables	45	52	21	22
Others	100	165	141	90
d Total Assets	**2,395**	**1,108**	**1,121**	**923**
e Debt/Borrowings	**1,507**	**352**	**398**	**188**
Short-Term	1,470	326	322	87
Long-Term (Incl. Current Maturity of Long-Term Debt)	38	25	76	101
Other Short-Term Liabilities	248	58	82	69
Other Long-Term Liabilities	29	30	22	19
f Shareholder's Equity	**611**	**669**	**619**	**647**
g Total Liabilities & Equity	**2,395**	**1,108**	**1,121**	**923**
INCOME STATEMENT				
a Turnover	**976**	**2,737**	**1,851**	**1,318**
b Gross Profit	(2)	165	43	10
c Net Other Income	0	(4)	0	33
d Financial Charges	(28)	(46)	(36)	(13)
e Net Income	**(58)**	**50**	**(30)**	**5**
CASH FLOW STATEMENT				
a Free Cash Flow from Operations (FCFO)	23	149	45	33
b Total Cashflows (TCF)	23	149	45	33
c Net Cash changes in Working Capital	(1,188)	5	(137)	(45)
d Net Cash from Operating Activities	(1,192)	107	(122)	(56)
e Net Cash from InvestingActivities	(38)	(34)	(56)	(14)
f Net Cash from Financing Activities	1,156	(46)	212	86
g Net Cash generated during the period	(75)	26	34	15
RATIO ANALYSIS				
a Performance				
Turnover Growth (vs SPLY)	N/A	48%	40%	N/A
Gross Margin	0%	6%	2%	1%
Net Margin	-6%	2%	-2%	0%
ROE	-18%	8%	-5%	1%
b Coverages				
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+U	0.8	3.3	0.7	0.8
Interest Coverage (X) (FCFO/Gross Interest)	0.8	3.3	1.3	2.5
Debt Payback (Years) (Total Debt (excluding Covered Short T	-153.3	3.4	40.7	9.7
c Capital Structure (Total Debt/Total Debt+Equity)				
Net Cash Cycle (Inventory Days + Receivable Days - Payable D	167	39	46	48
d **Capital Structure** (Total Debt/Total Debt+Equity)	71%	34%	39%	23%

PACRA

Rating Scale

Credit Rating Scale & Definitions

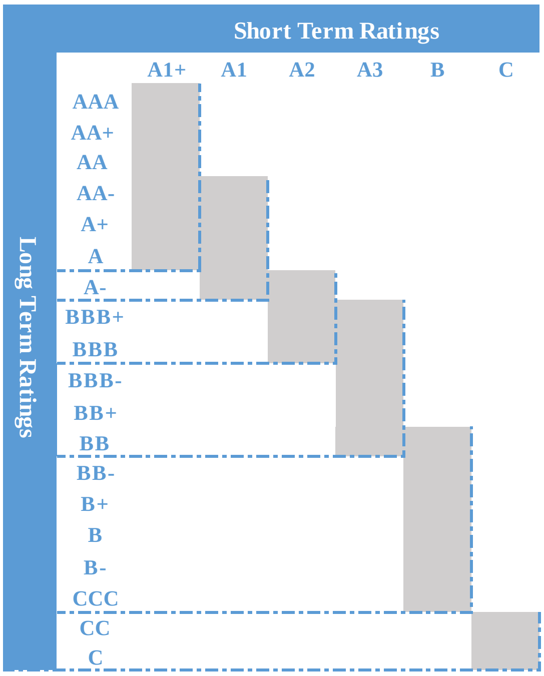
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

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 Ratings

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 conditions.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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 surveill the opinion due to lack of requisite information.

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

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