



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
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 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 the past. However, the top line remained stagnant during FY19. The 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 and finance costs, leading to net loss in FY19. The imposition of sales tax on local sales had a negative effect on local demand. Furthermore, due to COVID-19 outbreak, the Company's operations have been shut down and demand has diminished significantly impacting the Company's performance. The Company has a moderately leveraged capital structure characterized by adequate coverages and moderate inventory days. The management intends to implement further financial discipline by limiting leveraging. The ratings take comfort from the explicit commitment of sponsors to provide support to the Company.

The Rating Watch signifies the prevailing uncertainty due to the outbreak of COVID-19 pandemic. This has impacted the entire textile chain as demand contracts due to shutdown in domestic and global markets and tough economic conditions. Recent SBP measures will provide some respite in this regard. The Company's production facilities were shut down but since May 11 operations have partially resumed as the Government has eased down lockdown, though demand remains subdued. PACRA is closely monitoring the situation and will take rating action accordingly.

The ratings are dependent on the Company's ability to resume operations and generate adequate operating cashflows. Meanwhile, prudent working capital and cashflows management remains critical in prevailing circumstances. Prolonged slowdown in demand resulting in significant reduction in revenues and profitability for a long period will impact the ratings. Going forward, sponsors support to the Company would remain critical for the ratings.

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-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 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 majority stake holder 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 comprise two members, with Mr. Omer Latif as Chairman of board. The size of the Board is considered adequate as per the Company's operational size. However, room for 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 sit 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 subcommittee in place, which hampers the board 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 unqualified opinion on the financial reports for the year ended June, 2019.

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 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 sustainability of the Company.

Effectiveness There are multiple management committees in place. 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 installed a local version of Oracle based ERP solution (Vision Plus), which is fully operational.

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 9MFY20, 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. 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 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, the Company has managed to secure niche clientele. Meanwhile, on a standalone basis the Company has a x minimal share in local spinning industry.

Revenues The top-line of the Company remained stagnant during FY19 and clocked in at ~PKR 2,783mln (FY18: PKR 2,729mln), showing meager growth of ~2%. The top-line of the Company is derived majorly from local sales contributing ~98% of total sales.

Margins The gross margins of the Company declined during FY19 and stood at ~4.1% (FY18: 6%), due to higher input costs. The operating margins of the Company also diminished (FY19: ~3%, FY18: ~5%) due to trickle down effect of lower gross margins. The finance cost increased by a massive 125% during the year (FY19: PKR 99mln, FY18: PKR 44mln). On this backdrop, the Company incurred a net loss of PKR 41mln during FY19 (FY18: PKR 50mln profit).

Sustainability Due to COVID-19 outbreak and subsequent lockdown, AL Textile Textile has to shut down all of its operations as per government directive. The government has eased the lockdown from 11th May and has allowed the Company to partially resume production. 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 are important in this regard, although its timeline is not certain.

Financial Risk

Working Capital Working capital is a function of inventory and trade receivables and is financed partly via in house generated cash flows and mainly from short-term borrowings. The Company's reliance on short-term borrowings has increased significantly during FY 19 and clocked in at ~PKR 609mln (FY18: ~PKR 301mln). The cash cycle increased during FY19 (Gross- FY19: 61days, FY18: 43 days, Net- FY19: 50days, FY18: 39days) due to higher inventory levels. Net trade assets of the Company stood at PKR 500mln (FY18: PKR 321mln). Prolonged lockdown and lower demand will put pressure on inventory which may lead to piling up of finished goods.

Coverages The free cash flows (FCFO) of the Company has remained in-line with the previous year and clocked in at ~PKR 80mln during FY19 (FY18: PKR 149mln). The coverages weakened during the year but remain adequate. The interest coverage ratio dropped to 0.8x during FY19 (FY18: 3.4x) on the backdrop of higher finance cost. The debt coverage ratio also decreased to 0.6x during FY19 (FY18: 2.1x). SBP's option of deferring principal repayment for one year will provide a breather to cashflows.

Capitalization The Company has moderately leveraged capital structure. The leveraging stood at ~51% during FY19 (FY18: ~35%). The increase in leveraging is attributable to higher short-term borrowings to finance the increasing working capital requirements. Short-term borrowings comprise ~100% of total borrowings. The leveraging of the Company is expected to remain at the same level, going forward.



AL Textile (Private) Limited Spinning	Jun-19 12M	Jun-18 12M	Jun-17 12M
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A BALANCE SHEET

1 Non-Current Assets	619	637	644
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	872	471	478
a Inventories	561	254	316
b Trade Receivables	67	51	21
5 Total Assets	1,492	1,108	1,122
6 Current Liabilities	215	58	82
a Trade Payables	160	12	48
7 Borrowings	634	352	398
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	34	30	22
10 Net Assets	608	669	619
11 Shareholders' Equity	608	669	619

B INCOME STATEMENT

1 Sales	2,785	2,729	1,851
a Cost of Good Sold	(2,670)	(2,565)	(1,808)
2 Gross Profit	115	165	43
a Operating Expenses	(36)	(34)	(28)
3 Operating Profit	79	131	15
a Non Operating Income	22	(4)	0
4 Profit or (Loss) before Interest and Tax	101	127	15
a Total Finance Cost	(109)	(46)	(36)
b Taxation	(32)	(32)	(10)
6 Net Income Or (Loss)	(41)	50	(31)

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	80	149	45
b Net Cash from Operating Activities before Working Capital Changes	(16)	102	14
c Changes in Working Capital	(313)	5	(137)
1 Net Cash provided by Operating Activities	(329)	107	(123)
2 Net Cash (Used in) or Available From Investing Activities	4	(34)	(56)
3 Net Cash (Used in) or Available From Financing Activities	263	(46)	212
4 Net Cash generated or (Used) during the period	(63)	26	34

D RATIO ANALYSIS

1 Performance			
a Sales Growth (for the period)	2.1%	47.4%	40.4%
b Gross Profit Margin	4.1%	6.0%	2.3%
c Net Profit Margin	-1.5%	1.8%	-1.7%
d Cash Conversion Efficiency (EBITDA/Sales)	4.5%	6.3%	3.0%
e Return on Equity (ROE)	-6.3%	7.8%	-4.9%
2 Working Capital Management			
a Gross Working Capital (Average Days)	61	43	73
b Net Working Capital (Average Days)	50	39	64
c Current Ratio (Total Current Assets/Total Current Liabilities)	4.1	8.2	5.8
3 Coverages			
a EBITDA / Finance Cost	1.2	3.9	1.6
b FCFO / Finance Cost+CMLTB+Excess STB	0.6	2.1	0.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-1.3	0.5	6.8
4 Capital Structure (Total Debt/Total Debt+Equity)			
a Total Borrowings / Total Borrowings+Equity	51.0%	34.5%	39.1%
b Short-Term Borrowings / Total Borrowings	1.0	0.9	0.8
c Average Borrowing Rate	20.2%	11.8%	11.5%

#	Notes
D5	The line includes Advances from Customers, amounting to PKR 2.5bln [FY17: PKR 2.2bln]
-	-
-	-
-	-
-	-

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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