



The Pakistan Credit Rating Agency Limited

**Rating Report**

<b>A.J. Textile Mills Limited</b>	<b>Report Contents</b>
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<b>Rating History</b>					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Oct-2021	A-	A2	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

AJ Textile, a private limited company is a group concern of Aziz group – one of the oldest conglomerates, with business ventures in Textile (Yarn Production); FMCG (Match Manufacturing), Laminated Boards, MDF and Particles Chip Board Production. The Group has recently entered into Real Estate Sector with their first project (AJ Tower) under development in Islamabad. Over the years, since its commencement, the Company has expanded in to three units with installed capacity of 90,845 spindles, producing blended, cotton and plied yarns in Ring and Vortex spinning (equivalent to 15,000 spindles). The Company has installed power generation capacity of 9 MW power plant and 1 MW Solar plant on its profile. The ratings incorporate the Company’s moderate yet improving business profile where the revenue is emanating from single segment. Further improvement in control environment remains vital. The management meetings are held regularly with follow-up points to resolve or pro-actively address operational issues, if any, eventually ensuring smooth flow of operations. During FY21, revenues and margins witnessed significant growth trend along with sizably improved profitability. The Company has moderately leveraged capital structure, maintained over the years. The strengthening of equity base has enhanced the risk absorption capacity of the company. Coverages and cash cycle has improved during the period. Textile exports of the country recorded a double-digit increase of ~23% for FY21 to stand at USD 15.4bln as compared to USD 12.5bln in FY20 due to an increase in demand for textile products internationally, led by good recovery around the globe post-pandemic. Going forward, the textile sector’s outlook is expected to stay stable in the medium term where the demand for textile products is expected to increase. The probability of little attrition in demand remains on the horizon attributable to the outbreak of COVID-19 variants.

The ratings are dependent on improving business profile under the current economic conditions; and a strong financial profile with healthy coverage. Improvement in governance framework and inclusion of independent oversight remains essential. The ability to generate ensuing cash flows to fulfill its financial obligations will remain critical for the ratings.

<b>Disclosure</b>	
<b>Name of Rated Entity</b>	A.J. Textile Mills Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21)
<b>Related Research</b>	Sector Study   Spinning(Sep-21)
<b>Rating Analysts</b>	Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504

## Profile

**Legal Structure** AJ Textile commenced operations in 1993 with the establishment of its first blended and cotton yarn spinning mill i.e., Unit #1 located at Gadoon Amazai, Khyber Pakhtunkhwa. Followed by Unit #2, which started production in 2004 and Unit #3 in 2013 with Piled yarns followed by MVS yarns in 2016-17.

**Background** AJ Textile is associated with Aziz Group of Industries since its inception. Aziz Group is one of the oldest conglomerates, with business ventures in Textile (Yarn Production); FMCG (Match Manufacturing); Real Estate Sector (AJ Tower – project under development), Laminated Boards, MDF and Particles Chip Board Production.

**Operations** The Company's current operational capacity comprises 90,845 Spindles. The total energy requirement of the Company is ~176,850 units/day which is met by in-house power generation of 10MW through ~5MW gas-based generators plus HFO and Solar based generation.

## Ownership

**Ownership Structure** AJ Textile is privately owned Company, through sponsoring individuals. Major shareholder is Mr. Mohsin Aziz, followed by Mr. Afan Aziz.

**Stability** The entire Aziz Group comprises of private limited companies. Documentation is in place with regards to the transfer of ownership to the next generation.

**Business Acumen** Aziz Group is one of the oldest conglomerates in Pakistan, which traces its roots as far back as 1940s. Operating under Aziz family for more than six decades, the Group has adequately expanded its operations manifolds despite competitive textile industry.

**Financial Strength** Aziz Group comprises of seven various business ventures which includes six private limited companies, namely; i) AJ Textile Mills Limited, ii) Mohsin Match Factory (Pvt) Limited, iii) AJ Match (Pvt) Limited, iv) Premier Formica Industries Limited, v) Premier Chipboard (Pvt) Limited, and vi) Premier MDF (Pvt) Limited; along with an Ice factory by the name of Aziz Ice Factory and Cold Storage. Additionally, the Company has initiated a Real Estate project by the name of AJ Tower located in Islamabad. The project involves corporate, commercial and residential buildings covering 500,000 sq. ft. in total. Currently, this project is in execution stage and the development work is in full flow.

## Governance

**Board Structure** AJ Textile's board consists of four members, all belonging to the Aziz family. The board is chaired by Mr. Mohsin Aziz.

**Members' Profile** Mr. Mohsin – the Chairman possess 40 years of industrial experience. He is also a current member of the Senate of Pakistan. His expertise are supplemented by Mr. Afan's; who has 20 years of industrial experience.

**Board Effectiveness** Two committees: Audit and Human Resource & Remuneration, are in place to assist the board in relevant matters and ensure proper oversight.

**Financial Transparency** M/s. RSM Avais Hyder Liaquat Nauman, Chartered Accountants are the external auditors of the Company. They have expressed unqualified opinion on the financial statements of the Company for FY21.

## Management

**Organizational Structure** The management team is headed by the CEO Mr. Afan Aziz. The organizational structure of the Company is divided into various functional departments, namely; (i) Marketing, (ii) Finance, (iii) Legal, (iv) HR & IT, (v) Corporate Finance & Treasury, (vi) Purchase, and (vii) Internal Audit, (viii) Sales, (ix) Projects. Meanwhile, Cotton procurement is handled by cotton purchase manager who makes all the decisions with the consultation of management.

**Management Team** Mr. Afan Aziz; son of Mr. Mohsin Aziz, holds a bachelors' degree from the illustrious London School of Economics; and has been associated with the company since 2002. He possesses over 20 years of industrial experience and has strong business acumen. Effectiveness The management meetings are held regularly with follow-up points to resolve or pro-actively address operational issues, if any, eventually ensuring smooth flow of operations.

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**MIS** AJ Textile has been using SAP Business One version 9.2 (9.20.160) PL: 06, since 2013. Following are the operating modules: Financials, Sale AR Module, Purchasing AP Module, Business Partners, Banking Module, Inventory Module, Production Module, Human Resource and Project Management.

**Control Environment** The Company is accredited with multiple certifications for compliance and quality assurance, namely; Standard 100 by OEKO-TEX, Global Organic Textile Standards (GOTS), Organic Content Standard, Sustainable (PRIMARK).

## Business Risk

**Industry Dynamics** Textile exports of the country recorded a double digit increase of ~23% for FY21 to stand at USD 15.4bln as compared to USD 12.5bln in FY20 due to increase in demand for textile products internationally, Led by good recovery around the globe post pandemic. Going forward, the textile sector's outlook is expected to stay stable in the medium term where the demand for textile products is expected to increase. The probability of little attrition in demand remains on horizon attributable to outbreak of COVID-19 variants. In the local market, textile sector has recorded strong performance. The relief measures introduced by 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.

**Relative Position** Aziz Group has a long operating history in Pakistan and has developed prominent position in local match manufacturing sector and regional spinning industry. Currently, AJ Textile's spinning capacity stands at 90,845 spindles; however, its share in the total revenue of the local spinning industry is minimal.

**Revenues** Revenue of the Company, during FY21, increased by 38% (FY21: PKR 7,877mln; FY20: PKR 5,703mln) on account of increased capacity utilization. Sales mix is heavily dominated by local sales constituting 91.4% of the total revenue.

**Margins** During FY21, gross margin experienced an improvement (FY21: 13.9%; FY20: 11.6%) on account of better prices of yarn in both local and international market. It further translated in to higher operating margins (FY21: 12.0%; FY20: 9.5%). Reduced finance cost (FY21: PKR 142mln; FY20: PKR 203mln) further augmented the net income (FY21: PKR 727mln; FY20: PKR 218mln); resulting in significant improvement in net margin to stand at 9.2% (FY20: 3.8%).

**Sustainability** Going forward, the Company expects the revenue to grow steadily, from FY21 onwards. Moreover, AJ Textile is currently in expansions of all the units, adding approx. 14,000 spindles costing ~PKR 2.3bln and another solar power plant worth ~PKR 465mln adding another 6MW into already efficient power mix.

## Financial Risk

**Working Capital** In FY21, net working capital cycle improved to 112 days (FY20: 133days) mainly on the back of lower receivables days (FY21: 42days; FY20: 61days). Furthermore, room-to-borrow at the trade level increased (FY21: PKR 1,638mln; FY20: PKR 1,443mln) mainly due to increase in trade assets (FY21: PKR 3,162mln; FY20: PKR 2,291mln). However, increase in ST borrowings (FY21: PKR 1,286mln; FY20: PKR 600mln) resulted into lower ST trade leverage adequacy (FY21: ~42%; FY20: ~63%).

**Coverages** The Company recorded higher free cash flows (FY21: PKR 1,150mln; FY20: 751mln) on account of higher profitability; coupled with reduced finance cost. This strengthened interest coverage (FY21: 8.7x; FY20: 3.9x) and debt coverage (FY21: 2.3x; FY20: 1.7x).

**Capitalization** AJ Textile fulfills its working capital needs through a mix of internal cash flows and short term borrowing. During FY21, Company's leverage increased to ~44% (FY20: ~32%) as total debt increased (FY21: PKR 3,936mln; FY20: 1,931mln). However, the capital structure remained moderately leveraged. Out of total debt, short term borrowing constituted ~33% (FY20: ~31%).



AJ Textile Mills Limited Spinning	Jun-21 12M	Jun-20 12M	Jun-19 12M	Jun-18 12M
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**A BALANCE SHEET**

1 Non-Current Assets	6,299	4,556	3,503	3,187
2 Investments	232	225	270	135
3 Related Party Exposure	29	30	29	23
4 Current Assets	3,747	2,717	2,795	2,505
<i>a Inventories</i>	1,896	1,319	1,132	1,540
<i>b Trade Receivables</i>	1,056	750	1,166	455
5 Total Assets	10,307	7,529	6,596	5,850
6 Current Liabilities	697	671	514	332
<i>a Trade Payables</i>	93	109	96	44
7 Borrowings	3,936	1,931	2,671	2,595
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	628	833	456	406
10 Net Assets	5,046	4,094	2,956	2,517
11 Shareholders' Equity	5,046	4,094	2,955	2,517

**B INCOME STATEMENT**

1 Sales	7,877	5,703	7,350	5,316
<i>a Cost of Good Sold</i>	(6,781)	(5,043)	(6,496)	(4,734)
2 Gross Profit	1,096	659	854	582
<i>a Operating Expenses</i>	(147)	(116)	(116)	(97)
3 Operating Profit	949	543	738	485
<i>a Non Operating Income or (Expense)</i>	(38)	(3)	(22)	(25)
4 Profit or (Loss) before Interest and Tax	911	540	716	460
<i>a Total Finance Cost</i>	(142)	(203)	(194)	(120)
<i>b Taxation</i>	(42)	(119)	(106)	(49)
6 Net Income Or (Loss)	727	218	416	290

**C CASH FLOW STATEMENT**

<i>a Free Cash Flows from Operations (FCFO)</i>	1,150	751	916	601
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	1,017	533	736	499
<i>c Changes in Working Capital</i>	(980)	369	(188)	(380)
1 Net Cash provided by Operating Activities	37	902	548	118
2 Net Cash (Used in) or Available From Investing Activities	(2,069)	(27)	(701)	(941)
3 Net Cash (Used in) or Available From Financing Activities	2,010	(734)	76	907
4 Net Cash generated or (Used) during the period	(22)	141	(77)	85

**D RATIO ANALYSIS**

1 Performance				
<i>a Sales Growth (for the period)</i>	38.1%	-22.4%	38.3%	1.7%
<i>b Gross Profit Margin</i>	13.9%	11.6%	11.6%	10.9%
<i>c Net Profit Margin</i>	9.2%	3.8%	5.7%	5.5%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	2.2%	19.6%	9.9%	4.2%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]</i>	16.7%	5.7%	14.9%	13.0%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	116	140	107	137
<i>b Net Working Capital (Average Days)</i>	112	133	103	134
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	5.4	4.1	5.4	7.6
3 Coverages				
<i>a EBITDA / Finance Cost</i>	9.7	4.2	5.1	6.0
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.3	1.7	2.3	2.5
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	2.6	2.4	2.0	2.3
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	43.8%	32.0%	47.5%	50.8%
<i>b Interest or Markup Payable (Days)</i>	117.5	63.6	94.1	112.1
<i>c Entity Average Borrowing Rate</i>	4.3%	8.4%	7.1%	5.3%

**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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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.
AA-	
A+	
A	<b>High credit quality.</b> 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.
A-	
BBB+	
BBB	<b>Good credit quality.</b> 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.
BBB-	
BB+	<b>Moderate risk.</b> 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.
BB	
BB-	
B+	
B	<b>High credit risk.</b> 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.
B-	
CCC	
CC	<b>Very high credit risk.</b> 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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
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- (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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