



The Pakistan Credit Rating Agency Limited

Rating Report

Ahmed Hassan Spinning Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
11-Jan-2023	BBB	A2	Negative	Maintain	Yes
07-Feb-2022	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Ahmed Hassan Spinning Limited (AHSL) specializes in the manufacturing and export of yarn with an average count of 21/1 CDD. The installed capacity is 28,152 spindles. Sales mix comprises of local and as well as exports with export destinations in China and Korea. During FY22, the Company's net profit stood at PKR 75mln (FY21: PKR 207mln). However, afterward, the Company's performance witnessed significant dilution. This was due to multiple factors, chief among them was the impact of a volumetric decline in exports and cotton price adjustment amidst inflation in the economy and significant depreciation of the Pak Rupee. Furthermore, floods' impact on crops resulted in a shortage of raw materials locally produced. This issue along with the price adjustment resulted in high raw material costs. During 3MFY23, the topline declined by 57.4% as compared to its corresponding period last year. Finance costs and other expenses witnessed a normal rise. Consequently, the bottom line reflected a loss of PKR 30mln. In order to hedge increasing receivables and further operating losses, the Company decided to cease production at the beginning of December 2022. The management is eyeing that the manufacturing facility will remain closed for most of 2QFY23 where improvement in demand pattern is awaited. Negative Outlook and Rating Watch incorporate the closure of the manufacturing facility, steel decline in performance, and resultant losses incurred. During FY22, Pakistan's textile exports grew owing to increased volumetric growth of (16% YoY) in the value-added segment, a steep rise in global demand, and record-high cotton prices. However, during 5MFY23, textile exports were valued at \$7.44bln compared to \$7.76bln, reflecting a 4% dip YoY – the declining trend recorded in the last two months. The fall in export value has mainly come from volumetric decline as prices of almost all categories have either increased or stayed flat. This has taken a fiscal year to date exports into negative with a 1.4% decline in the first four months (July – October) FY23. Among value-added items, bedwear has witnessed the largest decline of 19% (on an MoM basis), down to \$217 million. Knitwear remained on the downward path in October 2022 and declined by 10% to \$392 million. Among non-value-added items, cotton yarn has shown the largest decline of 35%. Moreover, a slowdown is expected in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries.

The ratings are dependent upon the Company's ability to steer out of the current challenges while improving the risk profile. The governance framework and financial transparency has room for improvement. The company is expected to adhere to conservative financial discipline, which would be crucial to ratings.

Disclosure

Name of Rated Entity	Ahmed Hassan Spinning Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Spinning(Sep-22)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504

Profile

Legal Structure The Company was incorporated on: 20th October 2016 under the Companies Ordinance 1984 as Ahmed Hassan Spinning Limited. After around two years, Company converted its status from Private Limited to Public Limited Company as Ahmed Hassan Spinning Limited under the Companies Act, 2017 (XIX of 2017) with the same share capital.

Background Ahmed Hassan Spinning Limited was incorporated due to the process of demerger of Ahmad Hassan Textile Mills Limited.

Operations The core operation of the business resides in the manufacturing of yarn. The Company has 28,152 spindles installed and are operational. With this capacity, the company is producing daily 560 to 570 yarn bags as per local and international market requirements.

Ownership

Ownership Structure After the demerger, Ahmed Hassan Spinning Limited (AHSL) is working now independently with the management of Mian Muhammad Parvaiz's (Late) family: Mr. Muhammad Aurangzeb, Mr. Muhammad Jahanzeb, Mrs. Waheeda Parvaiz, Mr. Ahmed Hassan and Miss Faiza Parvaiz. Out of them, the first three shareholders have the major shareholding.

Stability Ahmed Hassan Spinning Limited is a family-owned Company, therefore ownership rests with the family. The family has no other business except their association with Ginning Section as Ahmed Cotton Industries.

Business Acumen The family has been in the textile industry for over three decades, which brings extensive technical knowledge to the business. Two of the major sponsors have direct engagement in the day-to-day operations of the business.

Financial Strength It is the flagship company of the sponsors. Hence, support in case the need arises remains inevitable. Recently, the subordinated loan from sponsors was converted to share capital which is also reflective of the same.

Governance

Board Structure The board comprises four members; all of them are representatives of sponsoring families including the Chairman Mr. Muhammad Aurangzeb and CEO Mr. Muhammad Jahanzeb. The remaining directors include one executive director Mrs. Waheeda Parvaiz, and one non-executive director Mr. Ahmed Hassan.

Members' Profile The board members have vast experience and a relatively long association with the Company. The Chairman of the board – Mr. Muhammad Aurangzeb – carries with him fourteen years of experience in the textile sector, having qualification of MBA in Marketing and Finance.

Board Effectiveness The control of the board vests with sponsoring family. Adequate board size and absence of independent oversight result in weak governance.

Financial Transparency M/s PKF F.R.A.N.T.S, Chartered Accountants is the external auditor of the Company. The company's auditors are QCR-rated.

Management

Organizational Structure Ahmed Hassan Spinning Limited is working under the supervision of Chairman Mr. Muhammad Aurangzeb and Chief Executive Officer Muhammad Jahanzeb. They are directly overseeing all the operations of the Company from the initial stage to the end process.

Management Team Mr. Muhammad Jahanzeb, has a qualification of MBA and has vast experience in Ginning section of Ahmad Hassan Textile Mills Limited namely Ahmad Cotton Industries for more than 10 years.

Effectiveness Management of Ahmed Hassan Spinning Limited is focusing on their business and working together by arranging a meeting on weekly basis or at the end of every month, to do analyses of the performance as well as to fulfill the relevant targets.

MIS A fully functional installation of ERP software has been done by the company which has improved the efficiency. The company deploys MS Windows Server 2003 as operating system. Oracle 9i is being utilized for back-end database work whereas Oracle Developer 6i is used for front-end developer work. While HR MIS was Implemented with ZKTeco and Barcode Reader Machines.

Control Environment The core software can manage comprehensive reports of sales, as well as tax reports, financials, and HRMS. The system, while integrating the business functions of the company, helps the management in timely decision-making. Moreover, it assists the management in establishing a better control environment and achieving efficiency in MIS reporting.

Business Risk

Industry Dynamics During 5MFY23, textile exports were valued at \$7.44bln compared to \$7.76bln, reflecting a 4% dip YoY – the declining trend recorded in the last two months. The fall in export value has mainly come from volumetric decline as prices of almost all categories have either increased or stayed flat. This has taken a fiscal year to date exports into negative with a 1.4% decline in the first four months (July – October) FY23. Among value-added items, bedwear has witnessed the largest decline of 19% (on an MoM basis), down to \$217 million. Knitwear remained on the downward path in October 2022 and declined by 10% to \$392 million. Among non-value-added items, cotton yarn has shown the largest decline of 35%. Moreover, a slowdown is expected in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries.

Relative Position Ahmed Hassan Spinning Limited is a mid-sized spinning unit and one of the textile ventures of the Ahmed Cotton Industries.

Revenues During FY22, the revenue of the Company increased by 27.4% YoY to PKR 5,407m (FY21: PKR 4,245m). The increase was driven by exports which clocked in at PKR 4,222m (FY21: 2,758m), reflecting a sizable increase. During 3MFY23, the revenue dropped on account of a volumetric decline attributable to slow demand to report at PKR 534m (3MFY22: PKR 1,256m).

Margins The Company's gross margin decreased to 6.7% during FY22 (FY21: 10.3%) due to an increase in raw material costs. Operating expenses increased which then translated to an operating margin of 4.2% (FY21: 8.8%). This led to a decline in the net margin (FY22: 1.4%, FY21: 4.9%) as the Company posted a net profit of PKR 75m in FY22 (FY21: PKR 207m). During 3MFY23, the Company incurred a loss of PKR 30m (Profit in 3MFY22: PKR 55m) due to sizable decline in gross profit and high administrative costs.

Sustainability The Company has shut down its operations to avoid further losses. The manufacturing facility is expected to be operational by mid of Feb'23.

Financial Risk

Working Capital The Company meets its working capital requirements through a mix of internal generation and short-term borrowings (STBs). During FY22, the Company improved its net working capital cycle (FY22: 41 days, FY21: 61 days). However, during 3MFY23, the net working capital days increased to 67 days. Gross working capital days have enhanced sizably attributable to an incline in inventory and receivable days.

Coverages The FCFO reflected a decreasing trend in FY22 (FY22: PKR 247m; FY21: PKR 379m). Consequently, the interest coverage ratio dropped to 1.8X (end-Jun21: 3.3x) and the debt coverage ratio dropped to 1.0x (end-Jun21: 1.7x). During 3MFY23, the coverages drastically dropped on account of the major decrease in FCFO reporting at PKR 3m (3MFY22: 17m).

Capitalization The leveraging ratio stood at 31.6% in FY22 (FY21: 50.9%). The increase is on account of the conversion of subordinated debt to equity amounting to PKR 43m and a capital injection of PKR 20m in FY22. The leveraging increased to 37.8% in 3MFY23. Leveraging is not expected to increase in upcoming quarters as the company has closed its operations due to decreased demand and enhanced receivable days. The equity base of the company stands at PKR 1.33bln (end-Jun21: PKR 1.36bln).



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Financial Summary

PKR mln

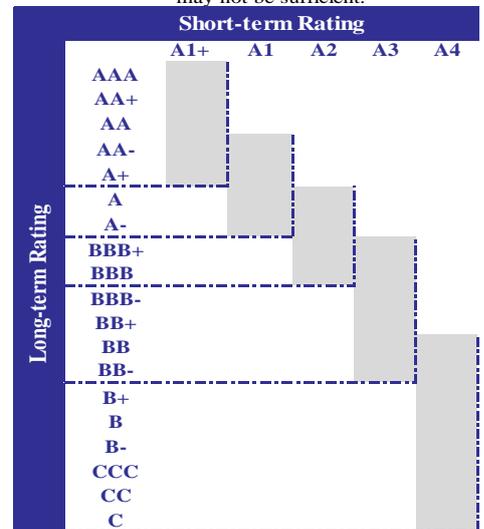
Ahmed Hassan Spinning Limited Spinning	Sep-22 3M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	1,593	1,603	1,156	1,169
2 Investments	30	29	-	-
3 Related Party Exposure	16	11	-	-
4 Current Assets	1,496	977	1,097	994
a Inventories	526	201	601	519
b Trade Receivables	155	446	360	321
5 Total Assets	3,134	2,620	2,253	2,163
6 Current Liabilities	863	498	422	427
a Trade Payables	350	191	190	193
7 Borrowings	810	630	846	952
8 Related Party Exposure	-	-	43	43
9 Non-Current Liabilities	129	129	86	81
10 Net Assets	1,333	1,363	857	660
11 Shareholders' Equity	1,333	1,363	857	660
B INCOME STATEMENT				
1 Sales	534	5,407	4,245	3,598
a Cost of Good Sold	(502)	(5,048)	(3,809)	(3,329)
2 Gross Profit	33	360	436	269
a Operating Expenses	(29)	(131)	(70)	(65)
3 Operating Profit	4	228	366	203
a Non Operating Income or (Expense)	(5)	(11)	(18)	(5)
4 Profit or (Loss) before Interest and Tax	(1)	217	348	199
a Total Finance Cost	(22)	(80)	(85)	(143)
b Taxation	(7)	(62)	(56)	(51)
6 Net Income Or (Loss)	(30)	75	207	5
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	3	231	379	240
b Net Cash from Operating Activities before Working Capital Changes	(17)	151	284	92
c Changes in Working Capital	(143)	228	(137)	(19)
1 Net Cash provided by Operating Activities	(160)	379	147	73
2 Net Cash (Used in) or Available From Investing Activities	(13)	(149)	(49)	3
3 Net Cash (Used in) or Available From Financing Activities	179	(267)	(157)	(69)
4 Net Cash generated or (Used) during the period	7	(37)	(59)	6
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-60.5%	27.4%	18.0%	N/A
b Gross Profit Margin	6.1%	6.7%	10.3%	7.5%
c Net Profit Margin	-5.6%	1.4%	4.9%	0.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-26.2%	8.5%	5.7%	6.1%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	-8.9%	6.8%	27.3%	0.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	113	54	77	85
b Net Working Capital (Average Days)	67	41	61	66
c Current Ratio (Current Assets / Current Liabilities)	1.7	2.0	2.6	2.3
3 Coverages				
a EBITDA / Finance Cost	0.8	3.9	5.2	2.0
b FCFO / Finance Cost+CMLTB+Excess STB	0.1	1.7	2.5	0.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-3.5	1.0	0.8	4.3
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	37.8%	31.6%	50.9%	60.1%
b Interest or Markup Payable (Days)	69.3	65.8	76.3	75.3
c Entity Average Borrowing Rate	11.6%	9.9%	8.5%	14.0%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
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):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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(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

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(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)

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(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 | Clause 11-(A)(p).

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(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)

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(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)

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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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