



The Pakistan Credit Rating Agency Limited

## Rating Report

### Ahmad Hassan Textile Mills Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
29-Dec-2023	BBB+	A2	Stable	Maintain	-
30-Dec-2022	BBB+	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The assigned ratings of Ahmad Hassan Textile Mills Limited (AHTM) reflect the adequate positioning of the company in the relative universe. The company specializes in the manufacturing of greige fabric, with an installed capacity of 171 looms. The management involves experienced professionals looking after the operations of the company. Since its inception, the company has managed an intact business risk profile. The sales mix comprises local and export sales with a large portion of indirect export sales. The export destinations of the company include the U.S., Europe, and Asia. During 1QFY24, the company reported a revenue of PKR 1,296mln (1QFY23: PKR 1,385mln) due to reduced demand in global markets primarily. The margins of the company witnessed attrition due to an inflated cost structure. Hence, the bottom line of the company was recorded at PKR 17mln (1QFY23: PKR 76mln). The financial risk matrix displays good leveraging, improved working capital management, and weakened coverages. The management expects an improvement in the financial performance with the revival of demand and efficient management of the cost structure. Going forward, with planned BMR, leverage is expected to increase. Hence, prudent management remains vital for the rating. During FY23, textile exports were valued at \$16.5 billion as against \$19.33 billion, reflecting a 15% year-on-year decline – a downward trend seen since the beginning of FY23. Exports declined due to higher energy prices, cotton shortages, and uncertainty in foreign exchange rates. Taming the demand represented by export routes was also a challenge.

The ratings are dependent upon the management's ability to capitalize on growth opportunities in a competitive landscape, operate at an optimal level, and improve margins and coverages, going forward. The company is expected to adhere to conservative financial discipline, which would be crucial to ratings.

#### Disclosure

<b>Name of Rated Entity</b>	Ahmad Hassan Textile Mills Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   Weaving(Aug-23)
<b>Rating Analysts</b>	Uswa Sikandar   uswa.sikandar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Ahmad Hassan Textile Mills Limited was incorporated on December 03, 1989, as a public limited company.

**Background** The foundation of Ahmad Hassan Textile Mills Limited was laid by Mr. Ahmad Hassan (late) in 1989. Since then, The company has evolved as a prominent manufacturer of fabric. The company has more than three decades-long association with the textile sector. The production facility is located in the vicinity of District Muzaffargarh.

**Operations** The Company operates with 171 Looms. BMR and the upgradation of machinery were done over the course. Currently, 159 looms are operating. The total energy requirement of the Company is 2.5MW which is wholly met through WAPDA at the capacity of 7.5MW and internal power generation through 3MW gas based and 0.954MW Solar power plant.

## Ownership

**Ownership Structure** The majority stakes (57%) of the Company are held by Mr. Javed's family. The remaining shareholding rests with the general public and financial institutions.

**Stability** The company has a structured line of succession, reflected by the equalized distribution of shareholding among Mr. Javed's family members. Meanwhile, the third generation has already been in business, serving in various capacities.

**Business Acumen** Ahmad Hassan Textile is one of the oldest small-sized textile houses in Pakistan. Operating under Mr. Ahmad Hassan's (late) family for three decades, developing credential expertise in weaving over time. The company has adequately expanded its operations despite the competitive textile industry.

**Financial Strength** It is the flagship company of the sponsors. Hence, support in case the need arises remains inevitable. Over the years, the subordinated loan from sponsors is being provided to the company which is also reflective of the support.

## Governance

**Board Structure** Ahmad Hassan Textile's board comprises seven members. Five members are from the sponsoring family. Three members are non-executive directors, two directors carry the executive role and two are independent directors. Mrs. Salma Javed serves the role of Chairperson.

**Members' Profile** Mr. Muhammad Haris – the CEO – carries with him almost three decades of experience in the local textile industry. The board members have a vast knowledge of the textile industry; though diversity in experiences exists as well. The directors' expertise in different stages of the textile value chain benefits the board for efficient decision-making.

**Board Effectiveness** Two committees: Audit and HR, are in place to assist the board in relevant matters and ensure proper oversight. Attendance of board members remains strong and meeting minutes were formally documented.

**Financial Transparency** M/s. Yousuf Adil, Chartered Accountants are the external auditors of the Company. They have expressed an unqualified opinion on the financial statements of the Company for FY23.

## Management

**Organizational Structure** The organizational structure of the Company is divided into various functional departments, namely: (i) Marketing, (ii) Finance, (iii) Administration & HR, (iv) Accounts, and (v) Commercial (fixed asset procurement). The procurement of raw materials is handled at group-level.

**Management Team** The management team is headed by the CEO Muhammad Haris who also holds a degree of MBBS. He is well versed in the textile business providing requisite acumen. He is supported by a team of seasoned professionals, who supplement his expertise.

**Effectiveness** The management meetings are held daily with follow-up points to resolve or proactively address operational issues, if any, eventually ensuring a smooth flow of operations. The Company's MIS can be classified into categories based on periodicity – Daily, and Monthly.

**MIS** The Company has implemented Oracle-based ERP software which integrates the flow of information between various business processes and integrates business transactions with the company's financial system in real-time.

**Control Environment** Ahmad Hassan Textile is accredited with local and international certifications for compliance. The Company follows the latest Quality Assurance Standards for fabric production and trade.

## Business Risk

**Industry Dynamics** During FY23, textile exports were valued at \$16.5 billion compared to \$19.33 billion, reflecting a dip of 15% YoY – the declining trend has been witnessed by the start of FY23. The exports tumbled attributable to high energy costs, shortage of cotton, and uncertainty in the foreign exchange rate. The suppressed demand pattern exhibited by export avenues was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments witnessed a decline of 13% YoY. The basic textiles including raw cotton, cotton yarn, and cotton cloth posted a drop of 21% YoY.

**Relative Position** Ahmad Hassan Textile is the flagship company of the Ahmad Hassan Group. The Group has a long history of operations in Pakistan's spinning and weaving sectors. This strengthens the Company's market position. However, on a standalone basis, Ahmad Hassan's share in the local weaving industry is one of the minimal in the relative universe.

**Revenues** During FY23, the company's revenue decreased by 22% YoY to stand at PKR 4,327m (FY22: PKR 5,545m), due to a slump in the demand. The company's export share of total revenue declined to 42% (FY22: 68%) of the total revenue, and the company's large portion of its export base comprises indirect exports. During 1QFY24, the revenue decreased by 6% YoY to stand at PKR 1,296m (1QFY23: PKR 1,385m).

**Margins** During FY23, the company's gross margins increased to 8.5% (FY22: 6.1%). This translated to an improvement in the operating margin to 6.1% (FY22: 4.7%). The finance cost of the company increased to PKR 87m (FY22: PKR 52m) resulting in a declined net margin of 2.1% (FY22: 3.6%). During 1QFY24, gross margins declined to 6.4% (1QFY23: 11%). Consequently, the operating margin declined to 3.8% (1QFY23: 9.3%). The finance cost was recorded at PKR 29m (1QFY23: PKR 21m) due to the increase in the policy rate. Consequently, net income decreased to PKR 17m (1QFY23: PKR 76m). The net profit margin was recorded at 1.3% (1QFY23: 5.5%).

**Sustainability** The Company has a long-term plan to set up its spinning unit and also intends to increase the captive generation of power through solar. Moreover, the newly erected solar unit with the capacity of 1MW will be operational by January 2024. Furthermore, the company is planning to replace old looms with newly imported looms having the latest technology.

## Financial Risk

**Working Capital** At end-Sept23, the net working capital cycle days were recorded at 65 days (At end-Jun23: 75 days) on account of decreased inventory days. The trade assets of the company increased by 13% to stand at PKR 1,779m (At end-Jun23: PKR 1,570m). The short-term trade leverage adequacy increased to 47% (At end-Jun22: 44%).

**Coverages** During FY23, the company's FCFO inched up to PKR 285m (FY22: PKR 283m). The interest coverage declined to 3.7x (FY22: 6.2x) mainly attributable to increasing finance costs. The debt coverage also declined to 1.7x (FY22: 1.9x). Whereas, the debt repayment period of the company remained intact at 1.6 years (FY22: 1.6 years). During 1QFY24, the free cash flows decreased to PKR 50m (1QFY23: PKR 134m). The interest coverage decreased to 1.9x (1QFY23: 7.1x). The debt coverage also declined to 0.8 (1QFY23: 3.0x).

**Capitalization** At end-Sept23, the leveraging of the company increased to 30.6% (end-Jun23: 27.1%) as the total borrowings increased to PKR 802m (end-Jun23: PKR 671m). Whereas, the equity base inched up to PKR 1,817m (end-June23: PKR 1,800m). ST borrowings constitute 49.8% of total borrowings.



Ahmad Hassan Textile Mills Limited  
Textile | Weaving

Sep-23	Jun-23	Jun-22	Jun-21
3M	12M	12M	12M

**A BALANCE SHEET**

1 Non-Current Assets	1,601	1,648	1,703	1,390
2 Investments	30	-	-	-
3 Related Party Exposure	29	18	19	33
4 Current Assets	1,857	1,676	1,833	1,355
<i>a Inventories</i>	1,076	1,116	1,395	839
<i>b Trade Receivables</i>	494	226	217	404
<b>5 Total Assets</b>	<b>3,518</b>	<b>3,343</b>	<b>3,555</b>	<b>2,777</b>
6 Current Liabilities	798	769	949	711
<i>a Trade Payables</i>	538	531	649	574
7 Borrowings	740	608	732	552
8 Related Party Exposure	63	63	63	63
9 Non-Current Liabilities	101	103	86	130
<b>10 Net Assets</b>	<b>1,817</b>	<b>1,800</b>	<b>1,726</b>	<b>1,322</b>
<b>11 Shareholders' Equity</b>	<b>1,817</b>	<b>1,800</b>	<b>1,726</b>	<b>1,322</b>

**B INCOME STATEMENT**

1 Sales	1,296	4,327	5,545	3,816
<i>a Cost of Good Sold</i>	(1,213)	(3,958)	(5,207)	(3,510)
<b>2 Gross Profit</b>	<b>83</b>	<b>370</b>	<b>338</b>	<b>307</b>
<i>a Operating Expenses</i>	(34)	(107)	(80)	(72)
<b>3 Operating Profit</b>	<b>49</b>	<b>263</b>	<b>259</b>	<b>234</b>
<i>a Non Operating Income or (Expense)</i>	8	(16)	(1)	7
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>57</b>	<b>247</b>	<b>258</b>	<b>241</b>
<i>a Total Finance Cost</i>	(29)	(87)	(52)	(28)
<i>b Taxation</i>	(12)	(67)	(5)	(45)
<b>6 Net Income Or (Loss)</b>	<b>17</b>	<b>93</b>	<b>201</b>	<b>168</b>

**C CASH FLOW STATEMENT**

<i>a Free Cash Flows from Operations (FCFO)</i>	50	285	283	248
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	25	201	244	219
<i>c Changes in Working Capital</i>	(161)	(11)	(249)	(200)
<b>1 Net Cash provided by Operating Activities</b>	<b>(136)</b>	<b>190</b>	<b>(5)</b>	<b>19</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>(14)</b>	<b>2</b>	<b>(151)</b>	<b>(11)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>133</b>	<b>(97)</b>	<b>41</b>	<b>(10)</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>(17)</b>	<b>94</b>	<b>(114)</b>	<b>(2)</b>

**D RATIO ANALYSIS**

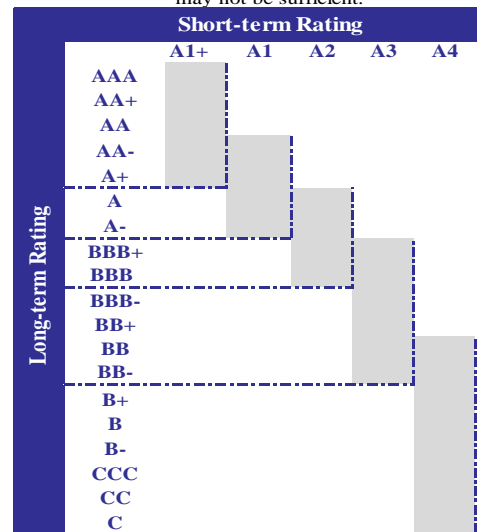
<b>1 Performance</b>				
<i>a Sales Growth (for the period)</i>	19.8%	-22.0%	45.3%	1.7%
<i>b Gross Profit Margin</i>	6.4%	8.5%	6.1%	8.0%
<i>c Net Profit Margin</i>	1.3%	2.1%	3.6%	4.4%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-8.6%	6.3%	0.6%	1.3%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]</i>	3.8%	5.3%	13.2%	13.5%
<b>2 Working Capital Management</b>				
<i>a Gross Working Capital (Average Days)</i>	103	125	94	101
<i>b Net Working Capital (Average Days)</i>	65	75	54	54
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.3	2.2	1.9	1.9
<b>3 Coverages</b>				
<i>a EBITDA / Finance Cost</i>	2.7	4.6	7.9	11.5
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.8	1.7	1.9	1.9
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	4.2	1.6	1.6	1.8
<b>4 Capital Structure</b>				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	30.6%	27.1%	31.5%	31.7%
<i>b Interest or Markup Payable (Days)</i>	73.2	78.9	116.1	64.8
<i>c Entity Average Borrowing Rate</i>	13.2%	10.0%	6.5%	4.4%

### 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+	
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-	
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):

- 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

**Disclaimer:** PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

### **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 | Clause 11-(A)(p).
- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

### **Proprietary Information**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent