



Rating Action

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PACRA Assigns Entity Ratings to Fazal Weaving

PACRA has assigned a long-term entity rating of 'A-' (Single A Minus) and short-term rating of 'A2' (Single A Two) to Fazal Weaving Mills Limited (Fazal Weaving). These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The ratings of Fazal Weaving primarily reflect irrevocable and unconditional guarantee on all long term obligations from financial institutions by Fazal Cloth Mills Limited (Fazal Cloth) - the parent. Fazal Weaving, a wholly owned subsidiary of Fazal Cloth, runs a small sized spinning unit, which is at nascent stage of business operations. Fazal Weaving's standalone risk profile is weak owing to (i) limited scale of operations, (ii) high business concentrations - customer as well as geographical (iii) off-late debt driven expansion thus putting additional pressure on coverages, and (iv) highly leveraged capital structure. However, regular financial support from Fazal Cloth cushions the risk profile. Going forward, the management expects its standalone profile to improve given on account of positive industry dynamics - better crop size and continued supply of RLNG, and absence of any further debt driven expansion.

The ratings are dependent on continuation of irrevocable and unconditional guarantee on financial obligations by the parent company. Meanwhile, improvement in stand-alone performance of the entity is considered important.

About the Company

Fazal Weaving - a wholly owned subsidiary of Fazal Cloth - is engaged in spinning business. Commercial production of yarn started in Apr14. The company operates with 39,600 spindles. Fazal Cloth - the Flagship Company of Fazal Group - is engaged in the manufacturing of yarn and grieg cloth. Fazal Cloth - a listed concern - is majority owned by Fazal Group and Fatima Group (~45% each).

Fazal Weaving has a seven member board of directors. The board has four representatives from Fazal Group and three representatives from Fatima Group. Representation of two families provides adequate challenge to management decision. Management control vests with Fazal Group. Involvement of Sheikh Naseem - the CEO, is limited as Mr. Rehman Naseem - the Chairman - primarily manages the company's affairs. Mr. Rehman is supported by an experienced management team.

Applicable Criteria and Related Research

- Textile Sector - Viewpoint | Sep-15
- Corporate Rating Methodology

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