



The Pakistan Credit Rating Agency Limited

FAZAL WEAVING MILLS LIMITED

	INITIAL [SEP-16]
Entity	
Long Term	A-
Short Term	A2
Outlook	Stable

REPORT CONTENTS
1. RATING ANALYSES
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SEPTEMBER 2016

Profile & Ownership

- Fazal Weaving – a wholly owned subsidiary of Fazal Cloth – is engaged in spinning business. Commercial production started in Apr14. The company operates with 39,600 spindles; 13,200 new spindles installed in Feb16
- Fazal Cloth – the Flagship Company of Fazal Group – is engaged in the manufacturing and marketing of yarn and grieg cloth. Fazal Cloth – a listed concern – is majority owned by Fazal Group and Fatima Group (~45% each)

Governance & Management

- The BoD comprises seven members; four representatives from Fazal Group and three from Fatima Group. Representation of two families provides adequate challenge to management decision
- Independent oversight is lacking indicating room for improvement in the governance framework
- Management control vests with Fazal Group. Involvement of Sheikh Naseem – the CEO, is limited as Mr. Rehman Naseem – the Chairman – is primarily managing the company’s affairs

Operational Risk

- Sound operational infrastructure; Japanese technology is deployed
- Deploys oracle based ERP
- Comprehensive MIS reporting

Performance

- Limited size of operations
- Revenues are tilted towards export sales (9MFY16: ~61%, FY15: ~55%)
- Small customer base; hence, significantly high customer and geographical concentration
- Revenues have witnessed increase in recent period (9MFY16: 3%). This is attributable to increase in sales volume in export market
- Margins (gross: 9MFY16: ~4.9%, 9MFY15: ~11%; operating: 9MFY16: ~3.6%, 9MFY15: ~9.7%) declined significantly owing to higher operating expenses
- Company posted loss of PKR 68mln (9MFY15: profit of PKR 41mln)
- Going forward, topline is expected to grow an account of complete year effect of lately added additional capacity and better expected industry fundamentals i.e crop size and continued RLNG supply

Financial Risk

- Working capital requirements, a function of its receivables and inventory, are met through short term borrowings, and working capital loan from Fazal Cloth
- Inventory and receivables as a percentage of sales continued to decrease. Resultantly, net working capital days decreased (9MFY16: 114days, FY15: 131days, 9MFY15: 155days) YoY; though still considered high
- Long term loan (PKR 530mln at end Jul16) from parent company is a regular feature. Loan is repayable in five years and carries annual markup of 1M KIBOR plus 1%
- Weak coverages (end-Mar16: interest: 0.9x; debt service: 0.4x). Without incorporating the parent company debt, coverages remain below adequate level
- Highly leveraged capital structure (end-Mar16; ~91%)
- All long term loans from financial institutions (end-Mar16: PKR 1.7bln) have irrevocable and unconditional corporate guarantee of holding company

RATING RATIONALE

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.

KEY RATING DRIVERS

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.



Fazal Weaving Mills Limited

The Pakistan Credit Rating Agency Limited

Financials (Summary)

PKR mln

Fazal Weaving Mills Limited

BALANCE SHEET

	31-Mar-16 9MFY16	30-Jun-15 Annual	30-Jun-14 Annual
Non-Current Assets	3,233	2,524	2,155
Investments (Incl. associates)	-	-	-
Equity	-	-	-
Debt	-	-	-
Current Assets	1,364	1,371	1,465
Inventory	911	988	1,187
Trade Receivables	212	243	219
Others	240	140	59
Total Assets	4,597	3,895	3,620
Debt	3,149	2,778	3,028
Short-term	658	974	1,259
Long-term (Incl. Current Maturity of long-term debt)	2,491	1,805	1,769
Other shortterm liabilities	974	578	286
Other Longterm Liabilities	11	8	2
Shareholder's Equity	462	531	304
Total Liabilities & Equity	4,597	3,895	3,620

INCOME STATEMENT

Turnover	2,751	3,560	763
Gross Profit	134	335	34
Net Other Income	-	-	-
Financial Charges	(157)	(292)	(85)
Net Income	(68)	(7)	51

Cashflow Statement

Free Cashflow from Operations (FCFO)	138	317	17
Net Cash changes in Working Capital	540	403	(1,222)
Net Cash from Operating Activities	456	470	(1,201)
Net Cash from Investing Activities	(792)	(227)	(1,875)
Net Cash from Financing Activities	371	(249)	3,028

Ratio Analysis

Performance			
Turnover Growth	3.0%	366.7%	n.a
Gross Margin	4.9%	9.4%	4.5%
Net Margin	-2.5%	-0.2%	6.7%
ROE	-21.1%	-1.4%	31.4%
Coverages			
Interest Coverage (FCFO/Gross Interest)	0.9	1.1	0.2
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	0.4	0.8	0.2
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	0.4	0.8	0.2
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	-151.5	105.8	-35.3
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	114	131	325
Capital Structure (Total Debt/Total Debt+Equity)	90.6%	87.4%	92.3%

Fazal Weaving Mills Limited

September 2016

www.pacra.com



STANDARD 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. This capacity is highly unlikely to be adversely affected by foreseeable events.	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-	Speculative. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change 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-	Highly speculative. Significant 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	High default 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.	

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. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

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’.

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, or e) the entity/issuer defaults.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issues 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.



Name of Issuer
Sector
Type of Relationship
Purpose of the Rating

Fazal Weaving Mills Limited
 Textile
 Solicited
 Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
07-Sep-16	A-	A2	Stable	-

Related Criteria and Research

Rating Methodology
 Sector Research

Corporate Rating Methodology
 Textile Sector - Viewpoint | Sep-15

Rating Analysts

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[Rating Team Statement](#)

Rating Procedure

Rating is an opinion on relative credit worthiness of an entity or debt instrument. It does not constitute recommendation to buy, hold or sell any security. The rating team for this assignment does not have any beneficial interest, direct or indirect in the rated entity/instrument.

[Disclaimer](#)

Rating Shopping

PACRA maintains principle of integrity in seeking rating business.

PACRA has used due care in preparation of this document. Our information has been obtained directly from the underlying entity and public 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.

Conflict of Interest

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The analysts involved in the rating process do not have any interest in a credit rating or any of its family members has any such interest

The analysts and members of the rating committees including the external members have disclosed all the conflict of interest, including those of their family members, if any, to the Compliance Officer PACRA

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Surveillance

PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the rated entity/ issuer, the security arrangement, the industry etc, is disseminated to the market, in a timely and effective manner, after appropriate consultation with the entity/issuer

PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating

Reporting of Misconduct

PACRA has framed and implemented whistle-blower policy encouraging all employees to intimate the compliance officer any unethical practice or misconduct relating to the credit rating by another employees of the company that came to his/her knowledge. The Compliance Officer reports to the BoD and SECP

Confidentiality

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Where feasible and appropriate, prior to issuing or revising a rating, PACRA informs the issuer of the critical information and principal considerations upon which a rating will be based and provide the opportunity to clarify any likely factual misperception or other matter that PACRA would wish to be made aware of in order to produce a fair rating. PACRA duly evaluates the response. Where in a particular circumstance PACRA has not informed the entity/issuer prior to issuing or revising a rating, it informs the entity/issuer as soon as practical thereafter

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[Probability of Default \(PD\)](#)

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