



The Pakistan Credit Rating Agency Limited

AHMED FINE TEXTILE MILLS LIMITED

	INITIAL [JAN-17]
Entity	
Long Term	BBB+
Short Term	A2
Outlook	Stable

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JANUARY 2017

Profile

- Ahmed Fine Textile Mills Limited (Ahmed Fine), incorporated in 1989 as a public unlisted company, is engaged in manufacturing and marketing of different varieties of yarn
- The group is engaged in weaving business through wholly-owned subsidiary, Fazal Rehman Fabrics Limited
- In Jul14, Ahmed Fine demerged its weaving segment into a separate entity; thereby Ahmed Fine retaining the name and spinning segment
- The company operates one spinning unit having 45,888 spindles, manufacturing coarser-count yarn. Power requirement stands at 5MW; met through captive sources

Ownership

- Initially, Fazal Group, Fatima Group, and Hussain Group – descending from Mr. Fazal-ur-Rehman – had joint ownership of the company
- Fazal Group and Hussain Group jointly own the company with 50% stake each
- Fazal Group (flagship entity: Fazal Cloth – equity at end-Sep16: PKR 15bln), has interests in Textile, Fertilizer, Energy, and Real Estate sectors
- Hussain Group, through its flagship entity (Hussain Mills Limited), is primarily engaged in spinning and weaving business. The group has interest in ginning as well; Hussain Mills: equity at end-Jun15: PKR 4,137mln.

Governance & Management

- Overall control vests with seven members BoD. Four directors represent Fazal Group (including Chairman and CEO) while three are representative of Hussain Group; presence of two housewives on board weakens governance profile; lack of challenge to management decision needs improvement
- Mr. Rehman Naseem, CEO, carries with him over two decades of experience in textile sector; supported by seasoned management team

Systems & Controls

- Oracle based ERP system implemented since 2008
- Comprehensive MIS reports generated on daily and monthly basis
- Operational consolidation with subsidiary in near-term; operational synergies expected to flow gradually

Business Risk

- Post-demerger, revenues followed an uneven trend; registering 2% decline in FY15, while ~8% growth in FY16 – a factor of higher export volumes
- In FY16, Local sales recorded 4% decline due to lower prices; exports surged by 43% YoY [sales mix: Local: 68%, Export: 32%]
- Margins are adequate in comparison to peers (Gross: FY16: ~10%, EBITDA: FY16: ~11%). Bottomline increased by 35% YoY, though still small (FY16: PKR 112mln)
- A rise in commission expenses was offset by savings in administrative expenditure, leading to a largely stable operating margin (FY16: 6.5%, FY15: 7.0%)
- In 1QFY17, the company generated revenue amounting to PKR 730mln, with margins following the past trend; gross margin: 9.5%, operating margin: 6.6%. Net profitability (PKR 27mln) was supported by falling finance costs (PKR ~12mln)
- Having limited operational size, standalone revenues of the company remain prone to cotton price volatility. However, with expansion of subsidiary likely to come online in FY18, consolidated business size is expected to increase, going forward

Financial Risk

- Better working capital management improved net cash cycle days (end-Sep16: 80days, end-Jun16: 90days, end-Jun15: 98days).
- Despite reduction in operating cashflows, reduced finance costs led an improvement in core coverage (end-Sep16: 2.3x, end-Jun16: 1.7x, end-Jun15: 1.4x). Nevertheless, incremental cashflows would remain critical to support maintenance regular CAPEX
- Moderately leveraged (end-Sep16: 37%, end-Jun16: 36%, end-Jun15: 46%). In the absence of debt accumulation in medium-term, regular repayments would gradually bring the ratio down
- Ahmed Fine has issued a cross-corporate guarantee on a short/medium-term financing facility of its subsidiary, which is currently in debt-driven expansion mode
- On consolidated basis, though coverages and leveraging are expected to be negatively impacted in near term, financial risk profile is considered strong

RATING RATIONALE

The ratings reflect adequate business profile of Ahmed Fine Textile Mills jointly owned by Fazal Group and Hussain Group. The company, primarily in spinning business, has presence in weaving segment through a wholly owned subsidiary - Fazal Rehman Fabrics Limited. Ahmed Fine has achieved optimal capacity utilization levels at given size; thus volumetric growth would remain limited in the medium-term. Consequently, performance volatility, featured by cotton price fluctuations, is considered high on standalone basis. In this regard, besides expansion plans over the long-term, overall size of the group (Ahmed Fine plus its wholly owned subsidiary Fazal Rehman Fabrics), and business diversification on a consolidated level provides cushion. However, concentration levels - both customer and geographical – are significantly high. Nevertheless, financial risk is strong reflected by (i) relatively efficient working capital cycle, (ii) healthy coverages, and (iii) moderately leveraged capital structure. Going forward, in absence of any debt-driven expansion in the medium-term, financial risk is expected to remain strong. The ratings also incorporate the experienced management team and the entity's association with Fazal Group. This should bring improvement in overall governance structure of the Group in future.

KEY RATING DRIVERS

The ratings are dependent on sustaining business margins while maintaining financial risk at low level. Any shift from current business strategy, impacting the risk profile of the entity, may negatively affect the ratings.



Ahmed Fine Textile Mills Limited

BALANCE SHEET	30-Sep-16	30-Jun-16	30-Jun-15	30-Jun-14
	3M	Annual	Annual	Annual
Non-Current Assets	1,434	1,442	1,402	1,110
Investments (Incl. associates)	355	355	355	355
Equity	355	355	355	355
Mutual funds	-	-	-	-
Current Assets	1,071	972	1,220	1,123
Inventory	324	345	539	324
Trade Receivables	332	331	407	387
Others	414	295	274	412
Total Assets	2,859	2,768	2,976	2,588
Debt	852	783	1,083	889
Short-term	249	275	554	494
Long-term (Incl. Current Maturity of long-term debt)	603	508	528	395
Other shortterm liabilities	503	509	534	425
Other Longterm Liabilities	82	80	75	73
Shareholder's Equity	1,423	1,396	1,284	1,201
Total Liabilities & Equity	2,859	2,768	2,976	2,588
INCOME STATEMENT				
Turnover	730	3,038	2,826	2,886
Gross Profit	69	297	295	234
Other Income	(2)	(15)	(6)	(13)
Financial Charges	(12)	(67)	(111)	(51)
Net Income	27	112	83	28
Cashflow Statement				
Free Cashflow from Operations (FCFO)	77	262	270	237
Net Cash changes in Working Capital	(123)	310	(92)	(71)
Net Cash from Operating Activities	(58)	495	73	33
Net Cash from Investing Activities	(26)	(131)	(392)	(527)
Net Cash from Financing Activities	69	(357)	194	586
Net Cash generated during the period	(16)	6	(164)	93
Ratio Analysis				
Performance				
Turnover Growth (same period last year)	N/A	7.5%	-2.1%	-61.8%
Gross Margin	9.5%	9.8%	10.4%	8.1%
Net Margin	3.7%	3.7%	2.9%	1.0%
ROE	7.6%	7.7%	6.9%	2.0%
Coverages				
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	2.3	1.7	1.4	2.3
Interest Coverage (x) (FCFO/Gross Interest)	6.4	3.9	2.4	4.7
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	2.3	2.6	3.3	2.1
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	80	90	98	126
Capital Structure (Total Debt/Total Debt+Equity)				
	37.4%	35.9%	45.7%	42.5%



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 AA+ AA AA- A+ A A-	<p>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.</p> <p>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.</p> <p>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.</p>	<p>A1+: The highest capacity for timely repayment.</p> <p>A1: A strong capacity for timely repayment.</p> <p>A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p>A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p>B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p>C: An inadequate capacity to ensure timely repayment.</p>
BBB+ BBB BBB-	<p>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.</p>	
BB+ BB BB-	<p>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.</p>	
B+ B B-	<p>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.</p>	
CCC CC C	<p>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.</p>	
D	<p>Obligations are currently in default.</p>	

<p>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.</p>	<p>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’.</p>	<p>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.</p>	<p>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.</p>
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Name of Issuer	Ahmed Fine Textile Mills Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of the Rating	Independent Risk Assessment				
Rating History	Notification Date	Long Term	Short Term	Outlook	Action
	26-Jan-17	BBB+	A2	Stable	Initial
Related Criteria and Research	<p>Corporate Rating Methodology Textile Sector Overview - 2016</p>				
Rating Analysts	Haider Imran haider.imran@pacra.com (92-42-35869504)		Rai Umar rai.umar@pacra.com (92-42-35869504)		
Rating Team Statement	<p>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.</p>				
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Probability of Default (PD)	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				