The Pakistan Credit Rating Agency Limited

RELIANCE WEAVING MILLS LIMITED

	NEW [JUN-17]	PREVIOUS [NOV-16]
Entity		
Long Term	BBB	BBB-
Short Term	A3	A3
Outlook	Stable	Stable

REPORT CONTENTS

JUNE 2017

Profile & Ownership

- Reliance Weaving Mills Limited (RWML) – a Fatima Group company – commenced operations in 1990; listed on Pakistan Stock Exchange
- Engaged in manufacturing of yarn and fabric; currently operating with 61,920 spindles and 336 air-jet looms
- Majority owned by Fatima Group, through individuals (78%) and corporate (~3%)
- Fatima Group (FG) – a leading corporate group – has interests in fertilizer, textile, sugar, trading, and energy sectors

Governance

- Overall control of the company vests in seven-member board; Six directors are FG's family members, while one director is independent
- Apart from non-executive Chairman, three of the family directors are in executive roles, while two are directors' spouses

Management

- Mr. Fazal Ahmed Sh. is the designated CEO; however, Mr. Faisal Ahmed Mukhtar, Executive Director (ED), oversees operational matters while Mr. Fahd Mukhtar, the other ED, is mainly engaged in marketing
- Management team comprises experienced individuals

Operational Risk

- Deploys Oracle based ERP; comprehensive MIS reporting
- Captive power generation to meet power requirements (12.5MW)

Performance

- The turnover growth rate increase from the last year by ~ 13% YOY, this is mainly because of buying the cotton at a competitive rate.
- Sales mix has equal contribution from local and exports – previously skewed towards exports. Revenues dominated by weaving (65%), followed by spinning (35%)
- Since FY14, revenues have witnessed a declining trend; performance remained subdued. During 9MFY17, the revenues (PKR 8bln) witnessed an incline of ~13% on YoY basis – attributable to volumetric better results in exports and increase in local spinning sales provided support
- Companies Margins also improved in (9MFY17 8.9% ; 9MFY16 7.4%) due to availability of RLNG to the sector in last quarter
- RWML's investment portfolio (PKR 986mln at end-Mar17) constitutes ~33% of its equity base; with majority portion comprising strategic investments: Fatima energy (~88%), followed by equity stake (~10%) in Fatima Fertilizer. Dividend stream yet to build up
- Going forward, Going forward, as the cotton market is very bullish so benefit of cotton buying at competitive rate shall also translate in next quarter of the current year. Textile sector is demanding from the Government to release the rebate amount which was announced in the last textile package
- RWML is expected to hold its performance. Companies CAPEX (~PKR 400mln) planned in FY17 includes replacement of 63 looms; likely to bring efficiency gains

Financial Risk

- Stretched working capital cycle mainly attributable to high inventory days
- Asset-liability mismatch (PKR 870mln at end-Mar17) – continued to exist (though reduced on YoY basis). However, it is expected to reduce on account of expected re-profiling of balance sheet – ~PKR 1.5bln short-term loan will be converted into long-term
- Marginal improvement in coverages witnessed; though remained weak. Effective loan re-profiling will positively impact future coverages
- Highly leveraged capital structure (end-Mar17: ~69%); however, no major debt planned

RATING RATIONALE

The ratings reflect RWML's adequate business profile. Volumetric growth in local sales, on the back of recent capacity expansion, has provided support to revenues despite lower product prices. Overall gross margins further squeezed mainly due to spinning segment – a phenomenon largely observed industry wide. However, the management expects gradual improvement in margins in future beneficiary from, (i) better cotton crop expectation for upcoming season and rebound in international prices, and (ii) continuous energy supply at cheaper rates. The ratings are constrained by stretched financial profile. This is reflected in mismatch in short-term debt vis-à-vis self-liquidating current assets. Limited cashflows – a factor of lower profitability – constrained the coverages. Lately, decline in finance cost has provided respite to debt service coverages. Cognizant of these issues, the management is in process of re-profiling its balance sheet – converting short-term debt into long-term at lower rates, financial risk profile lately. RWML's association with Fatima Group, a growing conglomerate, is a key rating factor.

KEY RATING DRIVERS

The ratings are dependent on the management's ability to prudently mange the liquidity and debt profile of the company, particularly working capital, while sustaining business margins. Significant deterioration in coverages will have negative implication for the ratings. Meanwhile, strengthening of governance framework for better oversight of strategic affairs is considered essential.

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Reliance Weaving Mills Limited
BALANCE SHEET
As at

	31-Mar-17	30-Jun-16	31-Mar-16	30-Jun-15
	Cumulative	*Cumulative*	*Cumulative*	*Cumulative*
A NON-CURRENT ASSETS				
1 Operating Fixed Assets - Owned and Leasehold	5,013	5,166	5,219	5,377
2 Intangible Assets	5	6	6	7
3 Other Non-Current Assets	71	67	73	79
Non-Current Assets	**5,089**	**5,238**	**5,298**	**5,462**
B INVESTMENTS				
1 Associates / Subsidiaries				
a. Equity	986	906	902	936
b. Debt Securities / Loans	-	-	-	-
	986	906	902	936
2 Investment Property	-	-	-	-
3 Other Investments				
a. Equity Securities	-	-	-	-
b. Debt Securities	-	-	-	-
	-	-	-	-
Investments	**986**	**906**	**902**	**936**
C CURRENT ASSETS				
1 Stores and Spares	187	183	194	184
2 Inventories				
Raw Material	2,190	1,510	1,039	732
Work in Process	242	167	224	158
Finished Goods	971	669	975	687
	3,403	2,346	2,238	1,576
3 Trade Receivables	841	528	524	954
4 Other Current Assets	935	872	805	954
5 Cash and Bank Balances	72	77	109	71
Current Assets	**5,439**	**4,007**	**3,870**	**3,738**
D TOTAL ASSETS (A+B+C)	**11,514**	**10,151**	**10,070**	**10,137**
E CURRENT LIABILITIES				
1 Current Maturity of Long Term Debt	771	744	694	730
2 Short Term Borrowings	5,461	3,560	3,726	3,564
3 Trade Payables	474	563	342	349
4 Other Current Liabilities	340	404	583	451
5 Provision for Taxation	-	-	-	-
6 Dividend Payable	4	5	-	26
Current Liabilities	**7,050**	**5,276**	**5,344**	**5,121**
F NON-CURRENT LIABILITIES				
1 Borrowings	1,440	1,947	1,935	2,102
2 Due to Associates	-	-	-	-
3 Other Non-Current Liabilities	177	155	182	170
Non-Current Liabilities	**1,617**	**2,102**	**2,117**	**2,272**
G NET ASSETS (D-E-F)	**2,847**	**2,774**	**2,609**	**2,744**
H SHAREHOLDERS' EQUITY				
1 Ordinary Share Capital	308	308	308	308
2 Preference Share Capital	-	-	-	-
3 Share Premium Account	41	41	38	41
4 Revaluation Reserve				
a. Fixed Assets	634	634	634	634
b. Investments	78	65	70	76
	712	699	705	711
5 Revenue Reserves	74	74	68	74
6 Unappropriated Profit	1,712	1,651	1,490	1,610
Shareholders' Equity	**2,847**	**2,774**	**2,609**	**2,744**

**Fatima Transmission Company (FTC) = PKR 71mln*

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Reliance Weaving Mills Limited

PROFIT & LOSS ACCOUNT

		31-Mar-17	30-Jun-16	31-Mar-16	30-Jun-15
		Cumulative	*Cumulative*	*Cumulative*	*Cumulative*
A	**Turnover**	**8,551**	**10,049**	**7,543**	**10,878**
B	**Operating Costs**	(7,786)	(9,162)	(6,987)	(10,036)
C	**Gross Profit**	**765**	**887**	**556**	**842**
D	**Operating Expenses**				
	1 Administrative and General Expenses	(109)	(146)	(108)	(149)
	2 Selling and Marketing Expenses	(84)	(107)	(81)	(163)
		(193)	(252)	(189)	(312)
E	**Operating Profit / (Loss)**	**573**	**634**	**367**	**530**
F	**Other Income / Expenses**				
	Recurring Non-Core				
	1 Dividend from Associates	-	-	-	-
	2 Share of Profit/ (Loss) from Associates	(5)	(11)	(3)	(4)
	3 Dividend Income from Investments	-	-	-	-
	4 Rental Income	-	-	-	-
	5 Interest Income	-	14	17	27
		(5)	3	14	24
G	**Profit / (Loss) before Non-Recurring Impact**	**567**	**637**	**381**	**554**
	Non-Recurring Non-Core				
	1 Profit/(Loss) on Sale of Assets	(0)	0	-	-
	2 Profit/(Loss) on Sale of Investments	14	8	-	-
	2 Surplus / (Deficit) on revaluation	-	-	-	-
	3 Exchange Gain (Loss)	(10)	(7)	1 [1]	(6)
	4 Other Income/(Expense)	(11)	(8)	1 [2]	(8)
	5 Extraordinary Items	-	-	-	-
		(6)	(7)	2	(13)
H	**Profit / (Loss) before Financial Charges**	**561**	**630**	**383**	**540**
I	**Financial Charges**				
	1 Interest Expense				
	Gross Interest	(398)	(523)	(427)	(682)
	Interest Capitalized	-	-	-	-
		(398)	(523)	(427)	(682)
J	**Profit / (Loss) before Taxation**	162	107	(44)	(142)
K	**Taxation**	(86)	(104)	(76)	44
L	**Net Income / (Loss)**	76	3	(120)	(98)
M	**Unappropriated Profit/(Loss) Brought Forward**	1,651	1,610	1,610	1,788
		1,727	1,613	1,490	1,690
N	**Adjustments (+/-)**	0	-	0	-
O	**Available for Appropriation**	1,727	1,613	1,490	1,690
P	**Appropriations**				
	1 Reserves	-	38	-	(34)
	2 Dividends				
	a. Stock	-	-	-	-
	b. Cash	(15)	-	-	(46)
	c. Preference	-	-	-	-
		(15)	-	-	(46)
Q	**Effect of change in Accounting Policy (+/-)**				
R	**Unappropriated Profit Carried Forward**	**1,712**	**1,651**	**1,490**	**1,610**

* *Prorated based on latest annuals*

1. Exchange loss PKR 6.9mln (FY14: PKR 36mln), Realised Gain PKR 1.2mln (FY14: PKR 61mln)

2. Donations PKR 18mln (FY14: PKR 15 mln), Share of loss from Associate PKR 3.59mln (FY14: 0.1mln), Gross Revenue PKR 11.02mln (FY14: PKR 11mln)

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CASH FLOW STATEMENT

	31-Mar-17	30-Jun-16	31-Mar-16	30-Jun-15
	Cumulative	*Cumulative*	*Cumulative*	*Cumulative*
A CASH FLOWS FROM OPERATING ACTIVITIES				
1 Profit Before Tax	162	107	(44)	(142)
2 Adjustments for:				
a. Depreciation/Amortization	174	245	184	242
b. Adjustments for other Non-Cash Charges/Items	58	58	36	56
c. Recurring non core (income)/expense	-	-	-	-
3 Add back:				
a. Interest Expense/(Income)	398	520	397	679
EBITDA	**792**	**930**	**573**	**835**
4 Subtract:				
a. Taxes paid	(47)	(96)	(75)	(121)
b. Others (+/-)	(39)	(25)	(21)	(14)
Free Cash Flows from Operations (FCFO)	706	809	477	699
5 Recurring non core income/(expense) from Subsidiaries/Associates	-	-	-	-
6 Recurring non core income/(expense) from Other Investments	-	-	-	-
Total Operating Cash Flows (TCF)	706	809	477	699
7 Interest paid	(401)	(525)	(364)	(695)
Net Cash from Operating Activities before Working Capital Changes (WCC)	305	284	113	5
8 Changes in Working Capital				
a. (Increase)/Decrease in Current Assets	(1,471)	(270)	(96)	858
b. Increase/(Decrease) in Current Liabilities (Excl. Debt)	(146)	200	93	69
	(1,617)	(70)	(3)	926
Net Cash provided by Operating Activities	**(1,312)**	**213**	**111**	**931**
B CASH FLOWS FROM INVESTING ACTIVITIES				
1 Capital Expenditure	(26)	(34)	(24)	(1,033)
2 Proceeds from sale of Fixed Assets	3	1	1	4
3 (Purchase)/Sale of Investments	(72)	16	-	(487)
4 Investment/Loan in Subsidiary/Associated Companies	-	-	16	-
5 Others	(4)	6	5	1
Net Cash (Used in)/Available From Investing Activities	**(99)**	**(11)**	**(2)**	**(1,515)**
C CASH FLOWS FROM FINANCING ACTIVITIES				
1 Proceeds from Issue of Ordinary Shares	-	-	-	-
2 Dividends Paid	(15)	(21)	(0)	(24)
3 Net increase (decrease) in short term borrowings	1,901	(33)	133	(167)
4 Net increase (decrease) in long term borrowings	(464)	(113)	(181)	747
5 Net increase (decrease) in preference share capital	-	-	-	-
6 Rentals against finance lease	(16)	(29)	(23)	(16)
7 Others (+/-)	-	-	-	-
Net Cash (Used in)/Available From Financing Activities	**1,406**	**(196)**	**(70)**	**540**
D Non recurring/unusual and non core (expense) income	-	-	-	-
E NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(5)**	**7**	**39**	**(44)**
F OPENING BALANCE OF CASH AND CASH EQUIVALENTS	76	71	71	115
G CLOSING BALANCE OF CASH AND CASH EQUIVALENTS	**71**	**77**	**109**	**71**

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RATIO ANALYSIS

		31-Mar-17	30-Jun-16	31-Mar-16	30-Jun-15
		Cumulative 9M	*Cumulative Annual*	*Cumulative 9M*	*Cumulative Annual*
A	**EARNINGS/PROFITABILITY**				
	Turnover (PKR mln)	*8,551*	*10,049*	*7,543*	*10,878*
1	Turnover Growth (same period last year)	13.4%	-7.6%	-10.4%	-4.7%
2	Turnover Growth (for the period)	13.4%	-7.6%	-7.6%	-4.7%
3	Gross Margin	8.9%	8.8%	7.4%	7.7%
4	Operating Margin	6.7%	6.3%	4.9%	4.9%
5	Pre-Tax Profit Margin	1.9%	1.1%	-0.6%	-1.3%
6	Effective Tax Rate	53.2%	97.0%	-173.6%	31.2%
7	Pre-Tax Return on Equity	7.6%	4.0%	-2.2%	-5.1%
8	Return on Assets (ROA)	0.9%	0.0%	-1.6%	-1.0%
	DuPont Analysis				
14	Return on Equity (ROE)	3.8%	0.1%	-5.9%	-3.7%
15	Net Profit Margin	0.9%	0.0%	-1.6%	-0.9%
16	Leverage (Total Assets / Equity)	4.0	3.7	3.9	3.7
17	Asset Turnover (Sales / Average Total Average Assets)	1.1	1.0	1.0	1.1
B	**WORKING CAPITAL MANAGEMENT**				
1	Average Inventory Held (Days)	103	45	71	36
a)	Average Raw Material Held (Days)	68	23	33	18
b)	Average WIP (Days)	7	4	7	3
c)	Average Finished Goods Held (Days)	28	17	31	15
2	Average Trade Debtors (Days)	24	11	27	18
3	Average Trade Creditors (Days)	21	8	13	7
4	Net Working Capital Days	105	47	85	48
5	Short-term Trade Leverage (1- (STB)/ Net Trade Assets OR (Liabilities))	-42%	-49%	-52%	-55%
6	Short-term Total Leverage (Net Current Assets - STB) / Current Assets	-15%	-13%	-20%	-17%
7	Current Ratio (Total Current Assets/Total Current Liabilities excluding CMLTD)	0.9	0.9	0.8	0.9
C	**COVERAGES**				
1	EBITDA/Gross Interest	2.0	1.8	1.3	1.2
2	FCFO/Gross Interest	1.8	1.5	1.1	1.0
3	FCFO/Gross Interest+CMLTD	0.7	0.6	0.5	0.5
4	FCFO/Gross Interest+CMLTD+Uncovered Short Term Borrowings	0.7	0.5	0.3	0.3
5	TCF/Gross Interest+CMLTD+Uncovered Short Term Borrowings	0.7	0.5	0.3	0.3
6	Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	7.4	11.2	51.6	206.6
D	**CAPITAL STRUCTURE**				
1	Total Debt/Total Debt+Equity	72.9%	69.3%	70.9%	70.0%
2	Total Debt/Total Debt+Equity(net of rev. surplus)	78.2%	75.1%	76.9%	75.9%
3	Current Debt/Total Debt	81.2%	68.9%	69.6%	67.1%

CREDIT 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

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.
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.
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.
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.
BB+ 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.
B+ 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.
CCC CC C	**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.
D	Obligations are currently in default.

SHORT TERM RATINGS

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.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information

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