The Pakistan Credit Rating Agency Limited

AHMED FINE WEAVING LIMITED

RATING REPORT

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

REPORT CONTENTS

OCTOBER 2017

Profile

- Ahmed Fine Weaving Limited (AFWL), incorporated on July 6th 2012 as a public unlisted company. The objective of the company includes manufacturing and sale of fabric and yarn, as its principal business activity.
- In July 2012 the weaving segment of the company was de-merged into Ahmed Fine Weaving Limited (AFWL) which was separated by AFTML.
- This separation was done through a scheme of arrangement whereby all the assets, liabilities, agreements, arrangements and other matters relating to the weaving business.
- AFWL operates two weaving units with a total of 236 Air Jet looms.

Ownership

- With Post de-merger, the ownership of AFWL rests with one family. The two brothers Mr. Asher Fazal and Mr. Imtaiaz Fazal holds the majority stake (85.15%) through their family members.
- Late Sheikh Fazal-ur-Rehman, the founder of the Fatima and Fazal Groups, started his journey in 1936 by setting up a vegetable oil and ghee unit. The owners of the AWFL belongs to the same group through their father Sheikh Zafar Iqbal, son of Late Sheikh Fazal-ur-Rehman.

Governance & Management

- The company's board of directors comprises four members. Three members belong to the sponsoring family with one executive director. Effective members of the board reduces to three as one members is a housewife.
- Sponsoring family dominance and absence of independent oversight indicates room for improvement in the governance framework of the company. Mr. Ashar Fazal the CEO of the company is also the Chairman of the board.
- **Systems & Controls**
- The company generates regular MIS reports on daily and monthly basis for senior management.
- Operational consolidation with subsidiary in near-term; operational synergies expected to flow gradually

Business Risk

- The company mainly operating in the weaving segment observed a decline in its revenue during FY16 on account of lower prices in the local market.
- During 9MFY17, the company revenues increased on a YoY basis mainly benefitting from the higher volumes and better pricing.
- The local sales continue to dominate the overall revenue mix. The export volumes are mainly concentrated in Asian and European regions with China (24%) and Germany (31%) leading the share.
- Top ten customers' revenue concentration in both local (9MFY17: ~36%, FY16: ~50%) and export markets (9MFY17: ~26%, FY16: ~29%), have improved, yet considered high.
- During 9MFY17, AFWL's gross margins observed a slight decline (9MFY17: 7.3. %, FY16: 8.9%) mainly in line with the industry on account of higher energy and labour costs.

Financial Risk

- During 9MFY17 the company's working capital management has largely remained in line with the previous year evident from slight reduction in net working capital days (end-Mar17: 65days, end- Jun16: 68days).
- The company's Liquidity position provides room for additional borrowing (net current assets at end-Mar17: PKR 267mln, end-Jun16: PKR 224mln). During the period the company observed a slight decline in its cashflows in line with the dip in the overall profitability. With a marginal increase in the company's interest expense owing to greater reliance on short-term borrowings alongwith the low level of long-term debt, the company's coverages declined on a YoY basis (9MFY17: 1.9x, FY16: 2.1x).
- AFWL has a moderately leveraged capital structure with the debt to debt plus equity ratio stands at ~41% at end-Mar17 (end-Jun16: ~42%). The company's almost entire debt represents the short-term borrowings. The management plan to fund the future expansion and BMR projects thorough a conservatively designed financial matrix where the company's long-term borrowing should not exceed 4 times of the free cashflows.

RATING RATIONALE

The ratings reflect adequate business profile of Ahmed Fine Weaving Limited – independently owned by a family stream belonging to erstwhile Fazal family of Multan. The company is engaged in the weaving business. The sponsor's long association with the textile business is considered positive. The business risk is characterized by balanced revenue mix in terms of local and export sales. However, its margins need attention. These are keeping profitability limited. Relatively high effective tax cost is also a drag. The management is cognizant of this and intends to strengthen its performance by expanding volumes. For this, in addition to BMR (impacting around 30% of existing capacity), the company is planning to add 72 new looms (adding another 30% to capacity). New technology is expected to boost energy efficiency as well. The company currently enjoys good, financial risk profile reflected by (i) relatively efficient working capital cycle, (ii) healthy coverages, and (iii) moderately leveraged capital structure. The management plans to fund the future expansion projects through a conservatively designed financial matrix conservatively, designed financial matrix. Longer tenure and competitive rates of underlying debt should help aligning the impact of these financial obligation with ensuing cashflows.

KEY RATING DRIVERS

The ratings are dependent on nurturing business margins compliance with financial matrix. Enhancement of overall governance framework and careful management financial risk would remain important. Any shift in business strategy, impacting the risk profile of the entity, may negatively affect the ratings

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Financials (Summary)

Ahmed Fine Weaving Limited

BALANCE SHEET	30-Mar-17	30-Jun-16	30-Jun-15
	9M	Annual	Annual
Non-Current Assets	**639**	**651**	**680**
Current Assets	**1,337**	**1,138**	**949**
Inventory	632	550	522
Trade Receivables	351	231	205
Others	353	356	222
Total Assets	**1,974**	**1,789**	**1,629**
Debt	**630**	**591**	**534**
Short-term	617	575	500
Long-term (Inlc. Current Maturity of long-term debt)	13	16	34
Other shortterm liabilities	438	323	259
Other Longterm Liabilities	42	36	24
Shareholder's Equity	**864**	**838**	**812**
Total Liabilities & Equity	**1,974**	**1,789**	**1,629**
INCOME STATEMENT			
Turnover	**3,029**	**3,347**	**3,639**
Gross Profit	221	299	204
Other Income	(3)	(5)	0
Financial Charges	(37)	(44)	(64)
Net Income	**16**	**25**	**(65)**
Cashflow Statement			
Free Cashflow from Operations (FCFO)	82	125	57
Net Cash changes in Working Capital	(94)	(145)	30
Net Cash from Operating Activities	(12)	(20)	87
Net Cash from InvestingActivities	(31)	(35)	0
Net Cash from Financing Activities	44	57	(39)
Net Cash generated during the period	1	2	9
Ratio Analysis			
Performance			
Gross Margin	7.3%	8.9%	5.6%
Net Margin	0.5%	0.7%	-1.8%
ROE	0.0%	3.1%	-15.9%
Coverages			
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.9	2.1	0.7
Interest Coverage (x) (FCFO/Gross Interest)	2.2	2.9	0.9
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	0.1	0.2	-5.1
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	65	68	32
Capital Structure (Total Debt/Total Debt+Equity)	41.9%	41.4%	39.7%

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

Rating	Definition
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

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Regulatory and Supplementary Disclosure

Name of Rated Entity	Ahmed Fine Weaving Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
11-Oct-17	BBB+	A2	Stable	Initial

Related Criteria and Research

Rating Methodology — Corporate Rating Methodology

Sector Research — Textile Sector - Viewpoint | Oct-17

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Rating Team Statement

Rating Procedure

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