



The Pakistan Credit Rating Agency Limited

# PROSPERITY WEAVING MILLS LIMITED

## ENTITY RATINGS

	NEW [DEC-17]	PREVIOUS [JUN-17]
<b>Entity</b>		
Long Term	A-	A-
Short Term	A2	A2
<b>Outlook</b>	Stable	Negative

REPORT CONTENTS
1. RATING ANALYSES
2. FINANCIAL INFORMATION
3. RATING SCALE
4. REGULATORY AND SUPPLEMENTARY DISCLOSURE

**Profile & Ownership**

- Incorporated in Nov 1991, Prosperity Weaving is listed on PSX.
- Operating with 340 air-jet looms at end-April17; recent expansion
- Nagina Group (NG), through group companies and individuals, holds 83% stake.

**Governance & Management**

- Nine-member board dominated by sponsoring family: eight NG affiliates, including CEO, and one independent director; six non-executives
- Experience of majority of directors is mostly limited to the group.
- The past year has seen changes in top leadership. After the demise of Mr. Shaikh Enam Ellahi, his elder son, Mr. Shahzada Ellahi Shaikh, assumed the role of Chairman. Later, Mr. Raza Ellahi Shaikh was elected as CEO. Previously serving as Director Marketing, he has 9 years of experience.
- Lack of segregation of governance and management as control of the latter vests with sponsoring family. However, the board is compliant with Code of Corporate Governance.

**Operational Risk**

- Oracle-based ERP system implemented; comprehensive MIS reporting
- Daily management meetings to identify and resolve bottlenecks
- Production re-profiling leading to productivity gains and cost-efficiencies

**Business Risk**

- Sales mix (local: export) has shifted from export-centric to local in recent years.
- During FY17, the company's revenues recovered by ~12% YoY to PKR 5,820mln, whereby a rise in local sales offset the impact of declining exports. This is attributable to surging local demand of textile products.
- A more than proportionate increase in cost of sales (~14%) reduced the company's gross margin (FY17: 5.2%, FY16: 6.9%). The rise in costs was brought about by high raw material and energy costs.
- This reflected into reduction in operating margin as well (FY17: 2.3%, FY16: 3.7%), though distribution expenses were saved with reduced exports.
- Slightly lower finance cost and tax credits aided growth of bottomline for the period (FY17: PKR 56mln, FY16: PKR 40mln).
- For 1QFY18, turnover increased YoY by ~20% to PKR 1,400mln, continuing the trend reversal of negative growth. Business margins slightly picked up (gross margin: 5.5%, operating margin: 2.4%), and break-even was achieved.
- Top ten customers' concentrations in domestic and export markets, are high, though generally falling in recent years.
- Build-up of investment book, now comprising ~50% of equity. High exposure to market risk with stock market investments (Sep17: PKR 468mln) is mitigated via selection of blue-chip stocks. Meanwhile, long-term investment strategy remains conservative.
- Prosperity Weaving took up an expansion (BMR) project of ~PKR 700mln to install 112 new wider-width looms in Apr'17. Significant impact on profitability is yet to be seen. Going forward, the company's focus will be on improving efficiency, and tapping diversified final product.

**Financial Risk**

- Stretched financial profile of the company; weakened in recent years
- The company manages its working capital requirements via a mix of internal generation and short-term borrowing (STB). Increase in working capital needs - greater buying activity in 1QFY18 - coupled with higher investment outlay led to higher utilization of STBs (Sep17: PKR 812mln, Jun16: 297mln).
- Net cash cycle remained strong (FY17: 49days, FY16: 47days); considered efficient relative to peers.
- Lower (9%) operating cash flows, despite higher topline, due to weaker margins
- Debt service coverage remains adequate, with tightened cashflows. The company maintains a cushion in the form of unutilized STB lines, to meet urgent needs of funding, though it has reduced recently.
- Increased leveraging (Sep17: 73%, Jun16: 62%) due to debt-driven expansion. Going forward, profitability would be important for debt-servicing.

**RATING RATIONALE**

The ratings reflect Prosperity Weaving's adequately maintained business profile despite suppressed domestic textile sector fundamentals. The company's revenues have taken hit in recent years mainly due to price decline both in exports and local segments. Lately, revenues have started to pick up, benefitting from local demand. Recent proposal to tax imported fabric should help margins. Meanwhile, support from core business margins is dependent upon efficiency gains via technology upgrades as well as yarn and energy prices in the country. Prosperity Weaving intends to gradually build a sizable investment portfolio; though conservatively investing in blue chip stocks, market risk remains. Financial risk remains stretched owing to (i) additional debt for regular BMR, and (ii) restricted operating cash flows impacting the company's debt-servicing ability, in turn, coverages. However, the assigned ratings derive comfort from the company's liquid investments, ability to manage financial risk, and its association with Nagina Group.

**KEY RATING DRIVERS**

The ratings may be impacted in case pressure develops on financial profile due to further accumulation of debt without build-up of matching cash flows.



**Prosperity Weaving Mills Limited**

<b>BALANCE SHEET</b>	<b>30-Sep-17</b>	<b>30-Jun-17</b>	<b>30-Jun-16</b>	<b>30-Jun-15</b>
	<b>3MFY18</b>	<b>FY16</b>	<b>FY16</b>	<b>FY15</b>
<b>Non-Current Assets</b>	<b>2,230</b>	<b>2,273</b>	<b>1,763</b>	<b>1,913</b>
<b>Investments (incl. Associates)</b>	<b>494</b>	<b>549</b>	<b>120</b>	<b>86</b>
Equity	494	549	120	-
Debt Securities (incl. income funds)	-	-	-	86
<b>Current Assets</b>	<b>1,348</b>	<b>1,476</b>	<b>1,058</b>	<b>790</b>
Inventory	546	386	297	344
Trade Receivables	370	632	283	173
Others	432	458	477	273
<b>Total Assets</b>	<b>4,072</b>	<b>4,299</b>	<b>2,941</b>	<b>2,789</b>
<b>Debt/Borrowings</b>	<b>2,583</b>	<b>2,787</b>	<b>1,570</b>	<b>1,466</b>
Short-Term	812	969	297	106
Long-Term (incl. Current Maturity of Long-Term Debt)	1,772	1,819	1,274	1,360
Other Short-Term Liabilities	440	437	321	318
Other Long-Term Liabilities	111	107	93	56
<b>Shareholder's Equity</b>	<b>938</b>	<b>968</b>	<b>957</b>	<b>949</b>
<b>Total Liabilities &amp; Equity</b>	<b>4,072</b>	<b>4,299</b>	<b>2,941</b>	<b>2,789</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>1,400</b>	<b>5,820</b>	<b>5,211</b>	<b>5,811</b>
Gross Profit	78	303	360	319
Other Income	0	25	(9)	(2)
Financial Charges	(33)	(102)	(111)	(107)
<b>Net Income</b>	<b>1</b>	<b>56</b>	<b>40</b>	<b>61</b>

**Cash Flow Statement**

Free Cash Flows from Operations (FCFO)	81	311	343	240
Net Cash changes in Working Capital	139	(379)	(116)	200
Net Cash from Operating Activities	190	(149)	114	344
Net Cash from Investing Activities	16	(1,139)	(79)	(719)
Net Cash from Financing Activities	(204)	1,185	77	349
Net Cash generated during the period	1	(103)	112	(25)

**Ratio Analysis**

<b>Performance</b>				
Turnover Growth (v.s same period last year)	19.9%	11.7%	-10.3%	-8.4%
Gross Margin	5.5%	5.2%	6.9%	5.5%
Net Margin	0.0%	1.0%	0.8%	1.0%
ROE	0.2%	5.8%	4.2%	6.4%
<b>Liquidity</b>				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	49	45	42	41
<b>Leveraging (Total Debt/Total Debt+Equity)*</b>	<b>73.4%</b>	<b>74.2%</b>	<b>62.1%</b>	<b>60.7%</b>

\*Total Debt = Long-Term Debt + Short-Term Debt

## 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.

<b>LONG TERM RATINGS</b>		<b>SHORT TERM RATINGS</b>
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	<p><b>A1+:</b> The highest capacity for timely repayment.</p> <p><b>A1:</b> A strong capacity for timely repayment.</p> <p><b>A2:</b> A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>A3:</b> An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>B:</b> The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.</p> <p><b>C:</b> An inadequate capacity to ensure timely repayment.</p>
<b>AA+</b>	<b>Very high credit quality.</b> Very low expectation of credit risk.	
<b>AA</b>	Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	
<b>AA-</b>		
<b>A+</b>	<b>High credit quality.</b> Low expectation of credit risk.	
<b>A</b>	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.	
<b>A-</b>		
<b>BBB+</b>	<b>Good credit quality.</b> Currently a low expectation of credit risk.	
<b>BBB</b>	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.	
<b>BBB-</b>		
<b>BB+</b>	<b>Moderate risk.</b> Possibility of credit risk developing.	
<b>BB</b>	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>BB-</b>		
<b>B+</b>	<b>High credit risk.</b>	
<b>B</b>	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.	
<b>B-</b>		
<b>CCC</b>	<b>Very high credit risk.</b> Substantial credit risk	
<b>CC</b>	“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.	
<b>C</b>		
<b>D</b>	Obligations are currently in default.	

**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 surveil the opinion due to lack of requisite information

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**Rated Entity**

Name of Issuer

Prosperity Weaving Mills Limited

Sector

Textile

Type of Relationship

Solicited

Purpose of the Rating

Independent Risk Assessment

**Rating History**

Dissemination Date	Long Term	Short Term	Action	Outlook
28-Dec-17	A-	A2	Maintain	Stable
16-Jun-17	A-	A2	Maintain	Negative
29-Dec-16	A-	A2	Maintain	Negative
29-Dec-15	A-	A2	Maintain	Negative
29-Dec-14	A-	A2	Maintain	Stable
20-Mar-14	A-	A2	Maintain	Stable

**Related Criteria and Research**

Specific Methodology:

Corporate Rating Methodology

Research:

Textile Sector Overview - 2016

**Rating Analysts**

Aman Zafar  
[aman.zafar@pacra.com](mailto:aman.zafar@pacra.com)  
 (92-42-35869504)

Rai Umar Zafar  
[rai.umar@pacra.com](mailto:rai.umar@pacra.com)  
 (92-42-35869504)

**Rating Team Statement**

**Rating Procedure**

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