

FAZAL WEAVING MILLS LIMITED	
<b>Incorporated</b>	1989
<b>Major business lines</b>	<ul style="list-style-type: none"> <li>Specializes in the entire process of weaving.</li> </ul>
<b>Legal status</b>	Un-Listed

INDUSTRY SNAPSHOT
<ul style="list-style-type: none"> <li>During FY17, total textile exports stood at USD ~ 12,453mln.</li> <li>Cotton yarn contributes (10%), cotton cloth (17%), home textile (29%), while garments contributes (38%).</li> <li>Pakistan's weaving sector continues to witness suppressed margins.</li> <li>High cost of doing business as compared to other countries like Bangladesh, India and Vietnam.</li> </ul>

OWNERSHIP	GOOD
<ul style="list-style-type: none"> <li>Fazal Weaving – a wholly owned subsidiary of Fazal Cloth – is engaged in spinning business. Commercial production started in April-2014. The company operates with 39,600 spindles; 13,200 new spindles installed in Feb16 that gave full benefit in FY17</li> <li>Fazal Cloth – the Flagship Company of Fazal Group – is engaged in the manufacturing and marketing of yarn and grieg cloth. It boots significant capacity. Fazal Cloth – a listed concern – is majority owned by Fazal Group and Fatima Group (~45% each)</li> </ul>	

GOVERNANCE	GOOD
<ul style="list-style-type: none"> <li>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</li> <li>Addition of independent oversight member would benefit the governance framework</li> </ul>	

MANAGEMENT	GOOD
<ul style="list-style-type: none"> <li>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</li> <li>Deploys oracle based ERP</li> <li>Comprehensive MIS reporting</li> </ul>	

BUSINESS RISK	GOOD
<ul style="list-style-type: none"> <li>Topline pre-dominated by spinning sales;</li> <li>During FY17 topline increase by ~28% (Jun17: 26bln, Jun16 20bln), revenues tilted towards local sales. Top ten customers' revenue concentration is considered moderate. However, the growth couldn't translate into improved gross profit due to squeeze in margins</li> <li>During 1QFY18, revenues increased – a factor of higher sales volume in both spinning and weaving segment. Margins slightly improved owing to inventory gain</li> <li>Dividend income increased by ~17%</li> <li>Finance cost marginally decline despite higher average outstanding debt during the period due to better rates. Resultantly, profit before taxation increased to FY17: PKR 591mln (FY16: PKR 456mln).</li> <li>Operating expense of company increased mainly because of selling and marketing expenses (Jun-17 PKR 691mln; Jun-16 PKR 623mln).</li> <li>Investment book, constituting ~42% of its equity base at end-Jun17, comprises equity investments and interest bearing debt to group companies. This is increasing with new investments in a proposed power project.</li> <li>Fazal Cloth plans to diversify into value-added segment by setting up dyeing and finishing plant (capacity: 2.5mln meters per month). However, related timeline would depend on sustainability in operating and demand dynamics.</li> <li>Going forward, margins are expected to improve on account of better expected industry fundamentals i.e. crop size and continued RLNG supply</li> </ul>	

FINANCIAL RISK	GOOD
<ul style="list-style-type: none"> <li>The company is financially structure through long term borrowing and loans from the group. Notably it has guarantee available from parent for its debts. Parents money would only be returned after achieving strong financial matrix</li> <li>The company has short term borrowing facilities available from various commercial banks under markup arrangements having aggregate sanctioned limits of (end-Jun17 : 5,288mln and end-Jun16 4,330mln).</li> <li>Net working capital days decreased due to the decrease in average inventory held, (FY16: 122days, FY17: 62days, 1QFY18: 82days); at par with other textile players.</li> <li>With improved management if working capital cycle. Fazal weaving has managed to lower its short-term borrowings.</li> <li>Improving profitably in turn, cashflows has led to better coverages; though it still required enhancement. Nevertheless, improving cashflows and reduction in long-term debt should bode well for financial profile.</li> </ul>	