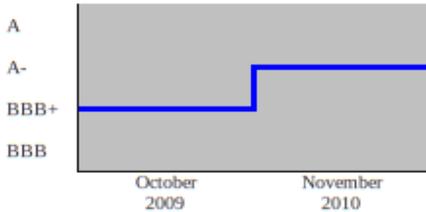


RATINGS (NOVEMBER 2010)
PROSPERITY WEAVING MILLS LIMITED

ENTITY	NEW	PREVIOUS
LONG TERM	A-	BBB+
SHORT TERM	A2	A2

PWML L.T. ENTITY RATING HISTORY

FINANCIAL DATA

PKR (MLN)

	Jun-10	Jun-09
Total Assets	1513.8	1,547.8
Equity	502.0	411.6
Net Turnover	4,070.2	3,634.6
Gross Margin (%)	9.8	10.2
Net Income	127.3	83.9
EBITDA	374.1	339.1
ROE (%)	25.4	20.4
EBITDA Interest Cover (X)	3.2	2.5
Net Debt/ Free Cashflow from operating activities	2.0	3.0
Total Debt/ Equity (%)	57.2	68.9

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RATING RATIONALE & KEY DRIVERS

- The ratings reflect PWML's significantly improved business risk profile, emanating from a combination of factors including demand supply equilibrium in key markets of the company. Moreover, the company is taking significant steps on both production and marketing fronts to consolidate, indeed further fortify, its market position in these markets. Meanwhile, PWML's financial profile is expected to remain manageable.
- The ratings are dependent on the management's ability to sustain its improved competitive position among its peers. Meanwhile, any adverse changes in the socio-economic environment impacting the company's margins and putting its cash-flows and coverages under significant pressure would have negative implications for the ratings.

ASSESSMENT

- The company holds an agreement to sell excess electricity to LESCO (~2.6MW) after catering for its own internal power requirements (5.5MW). The company's sales mix (excluding electricity) comprised 56% local and 44% exports in FY10 (FY09: 44% local and 56% exports). The near reversal in the sales mix can be attributed to high demand resulting in close to international prices witnessed in the local markets during the year. In the export front, the Far-Eastern (70%) and European (20%) markets remained major contributors towards the total exports in monetary terms.
- During FY10, PWML continued to experience growth in its turnover. Although business volumes declined by 7% on a YoY basis on account of change in construction of fabric, the top-line benefited from better pricing of their products. This was attributed to improved demand dynamics in both domestic and regional markets, to which was added a slight advantage of depreciating national currency. As a result, PWML witnessed a rise in its gross margins in the initial period of FY10. However, yarn increasingly became a dearer commodity as its export demand also experienced an upsurge. Although GoP took several measures to cool down the hike in yarn pricing, it rose significantly, diluting PWML's improved margins later on. Meanwhile, PWML's power sale to LESCO, also clubbed in the topline, declined by 2% to PKR 274mln due to a one-off supply suspension during FY10. Nevertheless, the company earned net profit of PKR 12.8mln on sale of surplus electricity. The company's administrative expenses escalated, on account of increased staff salaries and higher travelling expenditure; however this was cushioned by a proportionate decrease in distribution costs – mainly freight and commission – as exports declined. Meanwhile, PWML retired a significant portion of long term borrowing resulting in lower financial charges during the year. Furthermore, gains realized on sale of investments augmented the company's bottom line with PWML registering historic profitability.
- Going forward, PWML intends to fortify its position in its key markets. Meanwhile, changing socio-economic dynamics in the competing economies has well placed the Pakistani textile industry in the export market. PWML, to capitalize on the growth opportunity, intends to increase the proportion of multiple fibre fabric in their product mix with special focus on PV, raw cotton and LYCRA® based fabrics. For this, PWML is planning to add 16 air-jet looms, which would add 1.8mln linear meters to productive capacity. The machines are expected to be operational by Apr11. Moreover, power sale to LESCO is expected to continue providing a constant income stream, supporting PWML's profitability.
- The company liquidated its investment book prior to Jun10, realizing a net gain of PKR 14.8mln. The company, as a policy, invests only in mutual funds that have limited exposure in TFCs and equities.
- PWML's self liquidating assets stand at a strong level in comparison with its short term borrowings, since the company mostly financed its recent procurement of raw materials through internally generated cash flows. During FY10, average inventory days increased on account of raw material build-up as prices followed an increasing trend and also due to accumulation of sizeable finished goods inventory. Meanwhile, improved profitability enabled the company to report higher Free Cash Flows from Operations on a YoY basis. This, coupled with a simultaneous decline in gearing, led to an improvement in coverages, indicating the company's enhanced position to meet its financial commitments. Going forward, PWML's cash flows are expected to remain good.
- PWML has a moderately leveraged capital structure. The company availed Long-term Financing Facilities for Export Oriented Projects (LTFE-EOP), which comprise ~42% of total long term commitments of PWML at end-FY10. Although gearing declined during FY10, in the wake of pending capital expenditure likely to be financed through fresh borrowing, the company's debt base is expected to increase; however remaining within manageable levels.

PROFILE

- Prosperity Weaving Mills Limited (PWML), incorporated in Nov 1991, is primarily engaged in the production of apparel and home furnishing greige fabric and dyed yarn fabric (capacity: 324 air jet looms). The company is listed on Karachi and Lahore Stock Exchanges. Nagina Group (NG), founded by Mr. Enam Ellahi Shaikh, owns PWML, through group companies (53%) and key sponsoring individuals (35%). Other entities in the group include Nagina Cotton Mills Limited and Ellicot Spinning Mills Limited, having 46,428 and 54,528 spindles respectively, along with five private limited companies.
- PWML's board of directors, comprising seven members including the MD, is dominated by key sponsoring individuals. The company's CEO and son of NG's founder, Mr. Shaukat Ellahi Shaikh, is a graduate of Columbia University and has been associated with PWML since its inception.