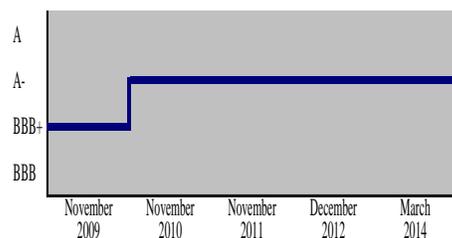


RATINGS (MARCH 2014)

PROSPERITY WEAVING MILLS LIMITED (PWML)

ENTITY	NEW	PREVIOUS
Long Term	A-	A-
Short Term	A2	A2

LONG TERM ENTITY RATING HISTORY



FINANCIAL DATA

PKR (MLN)

	1HFY14*	FY13	FY12
Total Assets	1,903	1,774	1,652
Equity	918	894	598
Net Turnover	3,337	6,600	5,382
Gross Margin (%)	8.7	10.1	7.0
Net Income	135	343	78
EBITDA	251	576	310
ROE (%)	30.4^	39.7	13.3
EBITDA Interest Cover (X)	7.0	6.9	2.9
Total Debt/Total Debt + Equity (%)	42.6	40.2	57.6

*Based on reviewed accounts for six months

^Simple Annualized

ANALYSTS

Aisha Khalid
+92 42 3586 9504
aisha@pacra.com

Rana M. nadeem
+92 42 3586 9504
nadeem@pacra.com

RATING RATIONALE & KEY DRIVERS

- The ratings reflect PWML's conservative business strategy to gradually expand its scale of operations, while maintaining its overall risk profile at manageable level. This, besides strengthening its presence in identified international markets, is helping capitalizing on conducive business environment for the overall textile industry. The same is reflected in improved profitability of the company in recent periods. The ratings continue to take support from the company's quality support infrastructure and seasoned management team having sound understanding of the industry dynamics. The company's financial profile has strengthened due to strong cashflows. This has yielded the room for debt-driven capacity expansion. Healthy operational cash flows are expected to keep debt servicing ability of the company at decent level.
- The ratings are dependent on the company's ability to remain abreast and aligned to changing dynamics in weaving segment, particularly given this being the only business segment. Successful and timely execution of the expansion projects without major cost overruns is important. Meanwhile effective management of the company's financial risk profile is crucial.

ASSESSMENT

- During 1HFY14, textile exports witnessed a modest YoY rise with weaving segment continued to be the major contributor in terms of value in the overall exports of Pakistan. Although the sector has gradually ventured into production of fairly high quality textile products, it still represents a significant size in low value-added segments. The gradual increase in the share of China, India and Bangladesh in the world's textile exports represents intense competition from the regional markets. Nevertheless, domestic textile industry has strong growth prospects owing to pro-demand factors including FTA with China and recently approved GSP Plus status for European Union. Nevertheless, there exist supply-side constraints in terms of energy shortage.
- PWML's topline is tilted towards export sales, though the share of exports in the overall revenues continued to fluctuate. This is attributable to increase in demand from the international market. However, this carries less regional diversification as major concentration of sales stays within Asia (FY13: 90%; FY12:82%). Moreover, PWML's top ten customers' concentration surged further on YoY basis (FY13: 66%; FY12: 51%), portraying higher risk. However this is partially mitigated due to long term relationships with customers. The company is yet to establish a strong foothold in the EU with negligible exports in the region (FY13: 2%, FY12: 3%).
- During FY13, the company witnessed a significant improvement in the topline on account of both increased volumes and better pricing in the local market. This helped the company in registering improvement in the gross margins as compared to the same period last year (FY13: 10%, FY12: 7%). Moreover, controlled operating cost and reduced financial charges on account of repayments of debt helped the company in posting considerably higher net income for the year.
- During 1HFY14, the company's gross margin declined YoY (1HFY14: 8.7%; 1HFY13: 10.2%) a facet of increased raw material cost. Thus overall profitability of the company declined YoY (Dec13: PKR 135mln; Dec12: PKR 152mln).
- Going forward, PWML intends to fortify its position in its key markets. Meanwhile, changing socioeconomic dynamics in the competing economies has well placed Pakistani textile industry in the export market. PWML, to capitalize on the growth opportunity, intends to expand its capacity by adding 52 looms. The project to be fully financed by debt is expected to be operational in 1QFY15. The cost of the project is estimated at PKR 663mln.
- The company's short term borrowings are mainly a function of its inventory requirements and receivables. During FY13, PWML witnessed a reduction in short term borrowings due to efficient working capital management. Moreover, owing to substantially high self-liquidating net quick assets, the company enjoys considerable room to borrow as depicted by improved short term adjusted quick ratio (end-Jun13: 2.7x, end-Jun12: 1.6x). Meanwhile, the company's net cash cycle largely remained intact on YoY basis (end-Jun13: 36 days, end-Jun12: 37 days).
- During FY13, PWML's EBITDA, a function of its profitability, increased sharply, leading to higher operational cashflows. Resultantly, the coverages, both interest and debt, improved. During 1HFY14, the company continued managing its working capital requirement by internal resources. However, with incremental leveraging, these coverages would decline. Going forward, a close monitoring of PWML's financial risk profile is important, given on-going capacity expansion.
- PWML's capital structure has significantly improved to 40% at end-Jun13 (end-Jun12: 58%), a factor of higher debt repayments. Going forward, with expected further borrowing to finance capacity expansion, the leveraging is expected to rise. The company continued its practice of profit distribution to its shareholders, although dividend payout has reduced on YoY basis (FY13: 32%, FY12: 60%) mainly to build reserves.

PROFILE

- Prosperity Weaving Mills Limited (PWML), incorporated in November 1991, is primarily engaged in production of apparel and home furnishing greige fabric and dyed yarn fabric of various widths and constructions (capacity: 344 air jet looms; planned expansion: 48 looms). The company is listed on Karachi and Lahore Stock Exchanges. PWML is majority owned by Nagina Group (NG), through key sponsoring individuals (57%) and group companies (30%). NG, also operating in the spinning business, has a collective capacity of 100,956 spindles.
- PWML's board of directors, comprising eight members including the Managing Director (MD), is dominated by sponsoring family. The company's MD, Mr. Shaukat Ellahi Shaikh, is a graduate of Columbia University and has been associated with PWML since its inception. He is supported by a team of professionals with relevant experience in the textile industry.