

RATING REPORT

Ahmed Oriental Textile Mills Limited (AOTML)

REPORT DATE:

October 30, 2018

RATING ANALYST:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BBB+	A-2
Rating Outlook	Stable	
Rating Date	October 25, 2018	

COMPANY INFORMATION

Incorporated in June 1989

External auditors: Ibrahim Shaikh & Co.

Public Unlisted

Chairman: Mr. Iftikhar Ahmed Khalid

Key Shareholders (with stake 5% or more):

Chief Executive Officer: Mr. Faisal Khalid

Naveena Industries Limited (62%)

Shazad Khalid (13%)

Faisal Khalid (12%)

Iftikhar A. Khalid (6%)

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (May 2016)*

<http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

Ahmed Oriental Textile Mills Limited (AOTML)

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Ahmed Oriental Textile Mills Limited (AOTML) was incorporated in November 1989. The registered office of AOTML is located in Karachi and mills at Rahim Yar Khan (RYK).

Ahmed Oriental Textile Mills Limited (AOTML) started commercial operation in 1992 as a spinning unit of Naveena Group which is involved in the business of spinning and weaving. Majority of AOTML’s sales are geared towards the local market in coarse count thread and in the export market mainly to China. AOTML also holds GOTS (Global Organic Textile Standard) certification for use of environment friendly and socially responsible chemical processes.

Rating Drivers:

Business Risk: Inherent volatility of yarn and cotton prices drives the performance of textile companies which are in the low value added segment. Adverse changes in cotton prices may impact financial performance.

Corporate Governance: Overall board composition and oversight has room for improvement through inclusion of independent directors. Furthermore, in line with best practices, committees pertaining to audit and HR functions may be introduced.

Sales: Majority of AOTML’s sales are local, owing to stronger domestic demand for coarser count. Major clients include local weaving mills including Azgard Nine, Naveena Industries Limited and weaving mills located in China.

Profitability: AOTML’s profitability came under pressure in FY16 due to decrease in the yarn prices but recovered subsequently owing to favorable price adjustments. Resultantly, gross margin for FY18 was 11.2% (FY17: 7.8%).

Liquidity: In line with profitability Funds From Operations (FFO) of the company also witnessed an increase. Improvement in FFO along with lower long-term debt resulted in an increase in FFO to long-term debt to 39.0% (FY17: 16.3%). This aforementioned increase in FFO, resulted in an improvement in the Debt Service Coverage Ratio (DSCR) for FY18 amounted to 1.4x (FY17: 0.9x) exhibiting sufficiency of internal cash flows to cover debt servicing.

Capitalization and Leverage: The equity base of AOTML has increased on the back of increased retained earnings since the company seldom pays dividends. Gearing decreased to 1.4x at end FY18 (FY17: 1.6x) despite increase in short-term borrowings. Leverage also exhibited a decline to 1.6x at end FY18 (FY17: 1.9x). Leverage indicators are expected to decrease as management does not plan to take on additional debt and the existing long term debt is retired, going forward.

Outlook

AOTML’s financial profile has witnessed improvement over the year owing to increase in yarn prices which has led to higher FFO multiples and DSCR. It is important that leverage indicators remain limited and profit margins remain at current levels so that risk profile of the company remains commensurate with the outstanding ratings.

ISSUE/ISSUER RATING SCALE &DEFINITIONS

Appendix I

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES						Appendix II
Name of Rated Entity	Ahmed Oriental Textile Mills Limited					
Sector	Textiles					
Type of Relationship	Solicited					
Purpose of Rating	Entity Rating					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	
	<u>RATING TYPE: ENTITY</u>					
	25-Oct-2018	BBB+	A-2	Stable	Initial	
Instrument Structure	N/A					
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.					
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