RATING REPORT

Ahmed Oriental Textile Mills Limited (AOTML)

REPORT DATE:

December 30, 2022

RATING ANALYST:

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Negative		Stable	
Rating Date	December 30, 2022		December 31, 2021	
Rating Action	*Maintained*		*Upgrade*	

COMPANY INFORMATION	
Incorporated in June 1989	**External auditors:** Ibrahim Shaikh & Co.
Public Unlisted Company	**Chairman:** Mr. Iftikhar Ahmed Khalid
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Faisal Khalid
Naveena Holdings Limited (62%)	
Shazad Khalid (13%)	
Faisal Khalid (12%)	
Iftikhar A. Khalid (6%)	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Industrial Corporates (August 2021) https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Ahmed Oriental Textile Mills Limited (AOTML)

OVERVIEW OF THE INSTITUTION

Ahmed Oriental Textile Mills Limited (AOTML) was incorporated in November 1989 as a public limited company and was listed on Karachi Stock Exchange (KSE and Lahore Stock Exchange (LSE). Following the request of the directors, AOTML was de-listed from KSE in November 2002 and LSE in April 2003. The registered office of AOTML is located in Karachi and mills at Rahim Yar Khan (RYK).

RATING RATIONALE

Ahmed Oriental Textile Mills Limited (AOTML) is engaged in manufacturing and sales of yarn. The Company is a part of Naveena Group, which also owns Naveena Industries Limited.

The Company has two spinning mills (Unit 1 and Unit 2), both located in Rahim Yar Khan (RYK). Unit 1 is engaged in production of Blended Yarn (polyester cotton) ranging from 8s to 26s count, while Unit 2 is utilized for production of Cotton Yarn (pure cotton) ranging from 7s to 20s count. The following table presents the cumulative installed capacity and capacity utilization of the total manufacturing unit:

Table 1: Production Details

	FY21	FY22
Number of spindles installed	60,700	67,900
Number of spindles worked	60,700	67,900
Number of shifts per day	3	3
Installed capacity after conversion to 20/s count – kgs	25,108,863	36,287,762
Actual production after conversion to 20/s count – kgs	24,766,373	36,111,095
Capacity utilization	98.6%	99.5%

During FY22, the Company managed to install 7200 spindles and increased its installed capacity by 44.5% at end-FY22. Post year end, capiaty utilization has remained lower ~50% on account of global slowdown in demand. At present, Company has no plans for expansion in light of the deteriorating economic conditions.

Sector Update

- Pakistan's export growth came in at 14% and 27% in FY21 and FY22 respectively. Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally broke the threshold, coming in at USD 32.4b.
- As illustrated in the table below, the composition of textile exports has depicted improvement in, with contribution from higher value added segment increasing from 77.2% in FY20 to 80.8% in FY22 of aggregate textile exports.

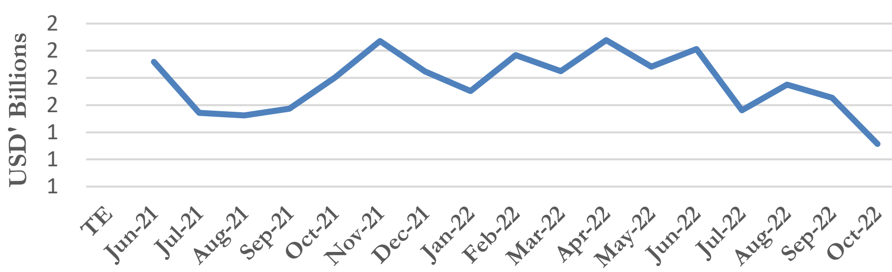
Table 2: Segment-wise textile Exports (All Figures in USD' Millions, except for percentages)

	FY20	FY21	FY22	1Q'FY22	1Q'FY23	FY20	FY21	FY22	1Q'FY22	1Q'FY22
High Value-Added Segment	**9,669**	**12,427**	**15,605**	**3,561**	**3,749**	**77.2%**	**80.7%**	**80.7%**	**80.6%**	**81.8%**
- Knitwear	2,794	3,815	5,121	1,145	1,321	22.3%	24.8%	26.5%	25.9%	28.8%
- Readymade Garments	2,552	3,033	3,905	861	912	20.4%	19.7%	20.2%	19.5%	19.9%
- Bed wear	2,151	2,772	3,293	803	780	17.2%	18.0%	17.0%	18.2%	17.0%
- Towels	711	938	1,111	241	237	5.7%	6.1%	5.8%	5.5%	5.2%

- Made-up Articles (Excl. towels & bed wear)	591	756	849	197	180	4.7%	4.9%	4.4%	4.5%	3.9%
- Art, Silk & Synthetic Textile	315	370	460	108	108	2.5%	2.4%	2.4%	2.4%	2.4%
- Others	555	743	866	206	211	4.4%	4.8%	4.5%	4.7%	4.6%
Low to Medium Value-added Segment	**2,858**	**2,972**	**3,717**	**860**	**835**	**22.8%**	**19.3%**	**19.2%**	**19.4%**	**18.2%**
- Cotton Cloth	1,830	1,921	2,438	557	581	14.6%	12.5%	12.6%	12.6%	12.7%
- Cotton Yarn	984	1,017	1,207	289	236	7.9%	6.6%	6.2%	6.5%	5.2%
- Others	43	34	72	14	18	0.3%	0.2%	0.4%	0.3%	0.4%
Total	**12,527**	**15,399**	**19,332**	**4,421**	**4,584**					
Source: PBS										

- After posting windfall margins in FY21 and H1'FY22, margins of textile operators, particularly spinners, weavers and dying units, have came under pressure during the period Jan-Sep'2022, mainly on account of higher input costs and recessionary trend in export markets.
- The recessionary trend in Pakistan's major export textile export markets, mainly North America and EU, has started to materialize in Pakistan's MoM export proceeds, with receipts for October 2022 (at USD 1.36b) being lower by 11% and 15% vis-à-vis preceding month and corresponding period last year respectively, as also illustrated in the table below.

Figure 1: MoM Textile Exports (TE) (In USD' Billions)



- Given expected industrial gas load shedding during the period Dec-Feb'22, and prevailing recession in major export markets and peak inventory levels, textile export proceeds are expected to fall by ~10% in FY23. Furthermore, profitability margins of textile operators, particularly spinners, weavers and dying companies, are expected to remain under pressure given higher input and financial costs.

Rating Drivers

Topline of the company saw an exponential increase in FY22 driven by augmentation in both sales volume and increase in average selling prices coupled with currency devaluation, however, revenues to remain under pressure in the current year.

- Net sales of the witnessed a sizeable jump of more than 100% in sales revenues to Rs.19.8b in FY22. The increase was driven combination of volume and prices increase, further augmented by the rupee devaluation. Volumes increased by 41% in FY22.

- Net sales comprises direct export, indirect export and local sales, with indirect exports encompassing the larger proportion in gross sales, accounting for 64% (FY21: 54%) in gross sales. Direct exports contributing only 5% to the gross sales, while remainder 33% emanating from local sales. Customer concentration is fairly on the higher side with top 10 customers accounting for 60% of total sales.

- During 1QFY23, revenue of the Company was recorded at Rs.4.7b (1QFY22: Rs.4.3b), registering an increase of 9% from its corresponding period in FY21, however, future prospects in the market depict a slowdown. We expect Q2 and Q3 sales volumes to remain under pressure.

Margins continue to remain under stress

- Gross profit of the Company increased to Rs.3.0b (FY21: Rs.1.9b), albeit gross margins dipped to 15.3% (FY21: 20.1%) on account of increase in prices of raw material, primarily cotton. The Company recorded a favorable uptick in gross margins in FY21 on account of inventory gains. With rising cotton prices in 2022, gross margins have streamlined.

- Net margin of the Company depict notable decline on account of higher financial charges. Financial charges were fueled largely by Foreign Currency based short term borrowings took a hit on devaluation. Consequently, net margins dipped to 8% in FY22 which have further slided to 1.4% in Q1'23 as financial costs continue to drag down profitability. Capacity expansion also contributed towards higher working capital requirements.

- Going forward, margins are expected to remain under pressure on account of slowdown in sales as well as rising interest cost.

While liquidity profile remains adequate, debt servicing may be impacted

- FFO of the Company increased to Rs.1.8b (FY21: Rs.1.5b). The increase is a function of increase in profitability of the Company, however, in the current year FFO has been impacted significantly owing to lower profitability

- Consequently, FFO to Long-Term Debt and FFO to Total Debt remains constrained. Foreign Currency based borrowings continue to impact the profitability in Q1'23 and while management represents that going forward the same will be streamlined, we expect that with a Rs.2bn FE loan exposure as of Sept 2022, debt servicing pressure will remain critical based on current cash flows.

- Liquidity metrics remain adequate with improvements cited in the cash conversion cycle, which has had a positive impact on working capital management. Current ratio as of Q1'23 end stood at 1.31x while short term borrowing coverage was at 144%.

Improvement in capitalization indicators underpinned mainly by increase in equity, albeit increase in total debt. Retention of profitability will be important

- Total debt of the Company increased to Rs.7.3b (FY21: Rs.6.7b). Quantum of short term debt remained at similar level and long term debt increased by 12%.

- Equity base of the Company increased on the back of surge in profitability with the same reported at Rs.5.21b (FY21: Rs.3.6b). On account of nominal profits in Q1 (Rs. 67m) coupled with dividend payout (Rs.55m), equity base remained fairly stagnant at Rs 5.2b.

- As a result of uptick in equity, gearing and leverage indicators depict an improvement, with the same reported at 1.39x and 1.65x (FY21: 1.84x and 2.09x) respectively at end FY22 and subsequently reflect an increase to 1.51x and 1.76x at end Q1'23.

- Given the current market dynamics and pressure on margins, retention of profitability in the Company will remain critical for ratings.

Financial Summary (amounts in PKR millions)						Appendix I
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**1Q23**
Fixed Assets	2,609.31	2,632.78	3,676.45	7,149.81	7,804.16	7,960.39
Stock-in-Trade	1,010.84	1,149.53	1,350.21	2,063.36	1,122.58	2,756.96
Trade Debts	447.87	667.57	1,035.44	1,793.97	3,061.22	2,525.91
Cash & Bank Balances	36.92	44.19	57.88	145.72	461.96	293.51
Refunds Due from Government	186.09	229.32	159.45	296.01	429.60	446.51
Total Assets	4,545.16	4,772.35	6,663.25	11,956.78	14,489.50	15,138.40
Trade and Other Payables	263.68	267.68	382.49	741.41	1,079.70	1,250.83
Long Term Debt (including current maturity)	963.48	750.51	1,202.46	3,671.25	4,096.15	4,194.60
Short Term Debt	1,321.52	1,461.43	2,038.08	3,044.93	3,162.79	3,677.52
Total Debt	2,284.99	2,211.95	3,240.54	6,716.17	7,258.94	7,872.11
Total Liabilities	2,645.66	2,590.76	3,727.20	7,610.13	8,586.60	9,223.67
Total Equity (without surplus revaluation)	1,626.34	1,919.12	2,216.25	3,643.48	5,218.33	5,230.17
Paid-up Capital	187.13	187.13	187.13	187.13	187.13	187.13
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**1Q23**
Net Sales	5,434.59	6,380.63	6,348.80	9,476.66	19,828.29	4,702.12
Gross Profit	606.28	685.96	817.11	1,908.71	3,029.93	558.86
Operating Profit	504.58	580.31	687.16	1,688.69	2,733.52	454.86
Profit Before Tax	323.45	295.92	352.92	1,519.18	1,869.51	96.72
Profit After Tax	304.09	282.08	277.75	1,410.61	1,630.64	67.35
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**1Q23**
Gross Margin (%)	11.2%	10.8%	12.9%	20.1%	15.3%	11.9%
Net Profit Margin	5.6%	4.4%	4.4%	14.9%	8.2%	1.4%
FFO	375.32	337.70	344.27	1,515.28	1,820.11	100.74
FFO to Total Debt (%)	16.4%	15.3%	10.6%	22.6%	100.3%	5.1%
FFO to Long Term Debt (%)	39.0%	45.0%	28.6%	41.3%	177.7%	9.6%
Debt Servicing Coverage Ratio (x)	1.40	1.23	1.19	6.15	2.27	0.57
ROAA (%)	7.1%	6.1%	4.9%	15.2%	45.0%	1.8%
ROAE (%)	17.2%	13.6%	9.5%	38.7%	125.0%	5.2%
Gearing (x)	1.40	1.15	1.46	1.84	1.39	1.51
Leverage (x)	1.63	1.35	1.68	2.09	1.65	1.76
Current Ratio (x)	1.02	1.03	1.13	1.13	1.36	1.31
(Stock in trade + Trade Debts) / Short Term Borrowings (%)	110%	124%	117%	127%	132%	144%

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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.

REGULATORY DISCLOSURES	Appendix III
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
RATING TYPE: ENTITY				
30/12/2022	A-	A-2	Negative	Maintained
31/12/2021	A-	A-2	Stable	Upgrade
20/11/2020	BBB+	A-2	Stable	Maintained
24/4/2020	BBB+	A-2	Rating Watch - Negative	Maintained
17/1/2020	BBB+	A-2	Stable	Reaffirmed
25/10/2018	BBB+	A-2	Stable	Initial

Instrument Structure	N/A
Statement by the Rating Team	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.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
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Due Diligence Meetings Conducted	

	Name	Designation	Date
1	Mr. Muhammad Junaid	CFO	December 12, 2022
2	Mr. Hasan Saleem	General Manager Accounts & Finance	December 12, 2022