RATING REPORT

Ahmed Oriental Textile Mills Limited

REPORT DATE:
January 15, 2024

RATING ANALYST:
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RATING DETAILS				
Rating Category	Latest Rating		Latest Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Negative		Negative	
Rating Date	January 15, 2024		December 30, 2022	
Rating Action	*Reaffirmed*		*Maintained*	

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 (99.17%)	

APPLICABLE METHODOLOGY(IES)
***Applicable Rating Criteria: Corporates**:*   **https://docs.vis.com.pk/docs/CorporateMethodology.pdf**

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: **https://docs.vis.com.pk/docs/VISRatingScales.pdf**

Ahmed Oriental Textile Mills Limited (AOTML)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
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).	**Company Profile:** 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 delisted from KSE in November 2002 and LSE in April 2003. The principal business of the Company is the manufacture and sale of yarn in local and export market. The registered office of AOTML is located in Karachi and mills at Rahim Yar Khan (RYK). **Key Rating Drivers:** **Business risk profile constrained by cyclicality, and high competition in the sector.** The business risk profile of the spinning sector in Pakistan is characterized by high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors. In FY23, the spinning sector faced challenges due to various economic and environmental circumstances. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and diminishing foreign exchange reserves. The spinning sector in Pakistan comprises ~407 spinning mills, which include both composite units and spinning units. This industry exhibits a competitive market structure with a large number of players producing a relatively homogenous product. During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, as a result of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Global economic slowdown and contractionary economic policies led to a decrease in demand for textile products and, consequently, cotton yarn. While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs, and difficulties with obtaining letters of credit (LCs). These factors are likely to result in continued sluggish performance for the spinning sector in FY24. **Subdued demand in the wake of macroeconomic environment has impeded growth in topline. Margins have come under stress.** During FY23, the Company experienced subdued growth, with net sales recording a decline of ~0.5%. This can be attributed to dampened demand in both export and local markets due to recessionary trends. Gross and operating margins were adversely impacted by elevated raw material costs, reporting at 7.2% (FY22: 15.5%) and 6.0% (FY22: 13.8%), respectively. However, there was a slight improvement noted in 1QFY24.

Due to monetary tightening by the SBP in FY23, interest rates saw a substantial hike during this period, resulting in heightened finance burden on the company's bottom line, leading to a significant constraint in net margins.

Higher short-term borrowing resulted in deterioration on the capitalization profile in FY23.

During FY23, AOTML's capitalization profile weakened, with gearing and leverage ratios increasing to 2.0x (FY22: 1.4x) and 2.2x (FY22: 1.6x), respectively. This was primarily attributable to the significantly heightened drawdown of short-term debt. The increased need for short-term borrowing stemmed from constraints on internal cash generation during the period to sustain AOTML's operations.

Adequate liquidity profile despite weakening. However, coverage profile depicts significant constraint on assigned ratings.

The liquidity profile of the Company witnessed deterioration, with the current ratio at 1.1x (FY22: 1.4x) in FY23. Short-term borrowing coverage also reduced to 1.1x (FY22: 1.3x). Overall, the liquidity profile remains adequate with the assigned ratings.

Owing to significant strain on the Company's operational performance in FY23, FFO coverages came under pressure, with FFO to total debt and FFO to long-term debt worsening to 2.1% (FY22: 25.1%) and 4.9% (FY22: 4.9%), respectively. Similarly, the debt servicing ratio (DSCR) also deteriorated to below 1.0x, standing at 0.8x in FY23 and subsequently to 0.9x in 1QFY24.

Key Considerations for Future Ratings:

Going forward, ratings will remain sensitive to the Company's ability to recover its profitability, capitalization and coverage metrics while maintaining its liquidity profile commensurate with the assigned ratings.

FINANCIAL SUMMARY				(PKR Millions)
Balance Sheet	**FY21**	**FY22**	**FY23**	**3MFY24**
Property, plant and equipment	7,149.8	7,804.2	9,979.7	9,944.0
Stock-in-trade	2,063.4	1,122.6	2,827.1	4,008.6
Trade debts	1,794.0	3,061.2	3,067.2	3,082.7
Cash & Bank Balances	145.7	462.0	304.0	570.2
Total Assets	11,956.8	14,489.5	17,429.3	18,314.5
Trade and Other Payables	741.4	1,079.7	807.1	1,460.6
Long-term Debt (incl. Current Portion)	3,671.2	4,096.1	3,906.7	3,846.4
Short-Term Borrowings	3,044.9	3,162.8	5,305.1	5,662.4
Total Debt	6,716.2	7,258.9	9,211.8	9,508.8
Total Liabilities	7,610.1	8,586.6	10,439.1	11,314.0
Paid up Capital	187.1	187.1	187.1	187.1
Equity (excl. Revaluation Surplus)	3,643.5	5,218.3	4,696.7	4,707.0
Income Statement	**FY21**	**FY22**	**FY23**	**3MFY24**
Net Sales	9,476.7	19,828.3	19,722.2	7,511.5
Gross Profit	1,908.7	3,029.9	1,415.7	680.6
Operating Profit	1,687.3	2,727.5	1,183.6	504.3
Finance Costs	169.5	864.0	1,589.2	454.6
Profit Before Tax	1,519.2	1,869.5	-400.1	50.3
Profit After Tax	1,410.6	1,630.6	-526.9	10.3
Ratio Analysis	**FY21**	**FY22**	**FY23**	**3MFY24**
Gross Margin (%)	20.1%	15.3%	7.2%	9.1%
Net Margin (%)	14.9%	8.2%	-2.7%	0.1%
Funds from Operation (FFO)	1,515.3	1,820.1	189.6	61.6
FFO to Total Debt* (%)	22.6%	25.1%	2.1%	2.6%
FFO to Long Term Debt* (%)	41.3%	44.4%	4.9%	6.4%
Gearing (x)	1.8	1.4	2.0	2.0
Leverage (x)	2.1	1.6	2.2	2.4
Debt Servicing Coverage Ratio* (x)	3.4	2.1	0.8	0.9
Current Ratio	1.1	1.4	1.1	1.0
(Stock in trade + trade debts) / STD (x)	1.3	1.3	1.1	1.3
Return on Average Assets* (%)	15.2%	12.3%	-3.3%	0.2%
Return on Average Equity* (%)	38.7%	31.8%	-8.2%	0.6%

**Annualized, if required*

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Ahmed Oriental Textile Mills Limited				
Sector	Textiles Spinning				
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				
	15/01/2024	A-	A-2	Negative	Reaffirmed
	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	January 3, 2024	