RATING REPORT

Faisal Spinning Mills Limited (FSML)

REPORT DATE:
April 4, 2018

RATING ANALYST:
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RATING DETAILS		
	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	A	A-1
Rating Outlook	Stable	
Rating Date	*March 30, 2018*	

COMPANY INFORMATION	
Incorporated in 1985	**External auditors:** M/S Mushtaq & Company
Public Limited Company	**Chairman:** Mr. Mohammed Salim
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Bilal Sharif
Admiral (Pvt) Limited – 12.8%	
Mr. Faisal Shakeel – 7.4%	
Mrs. Adil Shakeel– 6.6%	
Mrs. Samia Bilal – 5.3%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria *Industrial Corporates (May 2016)*
http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf

Faisal Spinning Mills Limited

OVERVIEW OF THE INSTITUTION

Faisal Spinning Mills Limited (FSML) is a part of Umer Group of Companies. The group owns business interests in Textile (Weaving and Spinning), Power Generation, Footwear manufacturing/Retail, Leather manufacturing, Leather Garments, Dairy milk and construction activities. Reported turnover of the group is more than USD 300 million. FSML was incorporated as a public limited company in 1985, under the Companies Ordinance, 1984. FSML is listed on Pakistan Stock Exchange (PSX) and registered office of the company is based in Karachi

RATING RATIONALE

Incorporated in 1985, Faisal Spinning Mills Limited (FSML) is one of the three textile companies owned by Umer Group (UG). The company is primarily engaged in production of yarn and fabric through its one spinning unit and one weaving unit. Moreover, each unit has its own ancillary power unit. Shareholding pattern illustrates that FSML is a closely held organization with majority shares held by institutional investors.

Spinning unit of FSML is based in Nooriabad, Sindh, while the weaving unit is located in Ferozewatan, Shiekhupura. Coarse to medium yarn with count range varying from 8-30 single is produced in the spinning unit and is primarily exported to clients for utilization in manufacturing of denim. Total installed capacity of this plant post conversion into 20/s count is 19.9m kgs. Weaving unit of FSML is engaged in production of greige fabric and has total installed capacity is 41.8m meters.

Key Rating Drivers:

Business Risk: One key risk factor affecting the financial profile textile companies operating in low to medium non-value added segment is the inherent volatility in cotton prices owing to factors affecting cotton crop production and cotton demand. Demand of yarn from China is considered a major determinant of yarn prices. Resultantly, weaker demand from China in FY16 resulted in depressed yarn prices. Reimbursement of receivables owed by GoP to textile companies under various incentive schemes is also critical from liquidity perspective.

Profitability: Profitability of the company was reported higher in Q1'18 and FY17 vis-à-vis the corresponding periods in preceding years. Improvement in gross margins was the primary reason for the increase in bottom-line of the company. The increase in gross margins can be attributed to control over production related overhead costs and increase in yarn prices which were passed onto customers in the form higher yarn prices.

Liquidity: Overall liquidity profile is supported by healthy cash flows in relation to debt obligations and sizeable current ratio. Higher cash flows were a result of growth in profitability. However, cash flows continue to remain exposed to volatility in gross margins. Cash conversion cycle has also depicted improvement on timeline basis as the inventory turnover and day's payable outstanding increased. Aging of trade debt also remains within manageable limits.

Capitalization: Equity base of the company has depicted growth on timeline basis due to internal capital generation. Gearing and leverage indicators have been reported lower in Q1'18 and FY17 due to repayment of short term borrowing and increase in equity base of FSML. Short term borrowings are acquired on seasonal basis and resultantly impact leverage ratios.

Outlook: Management plans to replace more looms in order to increase fabric production; the expansion will be financed through borrowing under LTFF scheme. Management believes that growth in fabric production will directly impact volumetric growth and gross profit. Moreover, textile package introduced by Government of Pakistan (GoP) and renewal of GSP plus status for Pakistan by European Union also bodes well for exports of FSML. Given the recent rupee depreciation, profitability of FSML is expected to improve in future. Moreover, textile package introduced by GoP and renewal of GSP plus status for Pakistan by European Union also bodes well for exports of FSML. In view of management's expansion plan, risk profile of the company is expected to remain commensurate with the outstanding rating.

FINANCIAL SUMMARY *(amounts in PKR millions)*			Appendix I
BALANCE SHEET	**FY17**	**FY16**	**FY15**
Fixed Assets	3,499.2	3,196.3	2,466.9
Investments	549.6	510.1	496.4
Stock-in-Trade	2,010.3	1,998.9	1,703.0
Trade Debts	395.9	497.6	267.4
Cash & Bank Balances	110.7	53.8	77.2
Total Assets	7,327.0	7,005.5	5,437.2
Trade and Other Payables	920.5	751.1	552.8
Long Term Debt ***(*incl. current maturity)***	1,786.6	1,478.2	1,025.3
Short Term Debt	164.0	753.0	0.0
Total Equity	4,171.0	3,790.3	3,664.4
INCOME STATEMENT			
Net Sales	10,563.7	9,282.0	9,281.0
Gross Profit	1,047.0	676.0	807.1
Operating Profit	603.4	301.8	449.6
Profit After Tax	431.0	169.2	174.5
RATIO ANALYSIS			
Gross Margin (%)	9.9%	7.3%	8.7%
Net Margin	4.1%	1.8%	1.9%
Net Working Capital	2,005.8	1,649.4	1,578.9
FFO to Total Debt (x)	0.36	0.17	0.41
FFO to Long Term Debt (x)	0.39	0.26	0.41
Gearing	0.47	0.59	0.28
Leverage	0.76	0.85	0.48
Debt Servicing Coverage Ratio (x)	3.1	1.1	1.3
ROAA (%)	6.0%	2.7%	3.1%
ROAE (%)	10.8%	4.5%	4.8%

ISSUE/ISSUER RATING SCALE &DEFINITIONS — Appendix II

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.

REGULATORY DISCLOSURES					Appendix III
Name of Rated Entity	Faisal Spinning 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				
	30/3/2018	A	A-1	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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