

RATING REPORT

Arshad Textile Mills Limited (ATML)

REPORT DATE:

April 28, 2020

RATING ANALYSTS:

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Rating Category	RATING DETAILS		Previous Ratings	
	Latest Ratings		Long-term	Short-term
Entity	BB+	A-3	BB+	A-3
Rating Date	April 28, 2020		April 03, 2019	
Rating Action	Maintained		Initial	
Rating Outlook	Rating Watch – Negative		Stable	

COMPANY INFORMATION

Incorporated in 1984	External auditors:	Riaz Ahmed & Company. Chartered Accountants.
Public Limited Company – Unquoted	Chairman/CEO:	Shahzad Ahmed Sheikh
Key Shareholders (with stake 5% or more):		
Mr. Shahzad Ahmed Sheikh – 24.66%		
Mr. Muhammad Arshad Sheikh – 19.17%		
Mr. Sharhyar Arshad – 13.33%		
Mr. Nisar Ahmed Sheikh – 12.06%		

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (May 2019)
<https://www.vis.com.pk/kc-meth.aspx>

Arshad Textile Mills Limited (ATML)

OVERVIEW OF THE INSTITUTION

Arshad Textile Mills Limited (ATML) incorporated in 1984 as a public limited company. The principal business activity of ATML is manufacturing and sale of cotton-blended yarn.

Profile of the Chairman/CEO

Mr. Shahzad Ahmed Sheikh is the Chairman of the Board and Chief Executive Officer (CEO).

Mr. Shahzad holds a Master's degree in Commerce. He has over 25 years of textile industry experience.

Financial Snapshot

Tier 1 Equity:
end-HY20: Rs. 709m;
end-FY19: Rs. 624m;
end-FY18: Rs. 503m.

Assets:
end-HY20: Rs. 3.1b;
end-FY19: Rs. 3.1b;
end-FY18: Rs. 3.0b.

Profit After Tax:
HY20: Rs. 84m;
FY19: Rs. 113m;
FY18: Rs. 41m.

RATING RATIONALE

Arshad Textile Mills (Pvt.) Limited (ATML) is a small-scale spinning unit involved in the manufacturing and sale of cotton-blended yarn. ATML is a part of Arshad Group and shareholding is mainly vested sponsoring family who are actively involved in the day-to-day operations of the company. Haji Muhammad Ishaq and his four sons laid the foundation of Arshad Group in 1954 with the establishment of a yarn trading company. Arshad Group ventured into textile export business in 1968 and subsequently established its first textile mill in 1973. Three companies are currently operating under the umbrella of Arshad Group, including ATML, Arshad Corporation (Pvt.) Limited (ACL), and Arshad Energy Limited (AEL). ACL is an export oriented composite unit while AEL is a public listed company engaged in power generation through furnace oil based power house having gross capacity of 12 MW. The family members of Arshad Group also own around 5% stake in MCB Bank Limited (MCB) as well as 250 acres of land in Faisalabad.

The principal business activity of ATML is manufacturing and sale of cotton-blended yarn, with knitting and weaving units being the primary target customers. ATML mainly procures raw materials from local market while some cotton is also procured from international market depending on quality requirements. The company has a single spinning unit, which houses 24,924 spindles. The production capacity currently stands at 7.29m kgs of yarn per annum while capacity utilization remained high during the last two years. ATML manufactures three blends of carded and combed yarn, including PC, CVC, and PV yarn with count range of Ne 7/1 – Ne 40/1. ATML's fabric trading division purchases grey fabric from weaving mills and obtains dyeing, finishing, and stitching services from ACL. After that, ATML sells its home textile products under the brand name "Arasih" through an online store and men's suiting fabric under the brand name "Shahsawar" to a network of 162 retailers across Pakistan. ATML is also involved in delivering uniform and protective cloth articles to police and other government departments via competitive bidding process.

Net sales of the company increased to Rs. 4.07b (FY18: Rs. 3.21b) during FY19 on account of higher volume and favorable prices. Since ATML mainly relies on local sales which increased to 3.7b (FY18: Rs. 3.0b) while export sales also increased to Rs. 291m (FY18: Rs. 178m) during FY19. Gross profit increased to Rs. 443m (FY18: Rs. 273m) with improvement in gross margin to 10.9% (FY18: 8.5%) and net profit increased to Rs. 113m (FY18: Rs. 41m) during FY19. ATML reported sales and net profit of Rs. 2.0b and Rs. 84m respectively during 1HFY20. Debt profile of the company comprises a mix of short-term and long-term borrowings. Tier-1 equity increased to Rs. 709m (FY19: Rs. 624m) by end-1HFY20 on the back of profit retention. The gearing ratio decreased to 1.5x (FY18: 2.1x) which slightly increased to 1.6x at end-1HFY20. The debt leverage ratio decreased to 2.8x (FY18: 3.7x) which decreased further to 2.4x by end-1HFY20. The funds from operations (FFO) stood at Rs. 149m (FY18: Rs. 69m) during FY19.

The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand and challenging economic environment. It is expected that the entire value chain of the textile industry will be effected by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating Watch-Developing' status. Considering the scale of spinning operations of the company and being on the lowest of textile chain, ratings are being placed on 'Negative' outlook. Nevertheless as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status. The ratings are dependent upon maintenance of overall sales, profit margin, debt service coverage and gearing ratios at an adequate level, with outlook subject to be reviewed once the situation stabilizes.

Arshad Textile Mills Limited (ATML)

Annexure I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	FY18	FY19	1HFY20
Non-Current Assets	1,312	1,589	1,505
Stores, Spares and Loose Tools	37	37	39
Stock-in-Trade	710	526	328
Trade Debts	366	495	750
Other Receivables	259	287	308
Other Current Assets	249	158	188
Cash & Bank Balances	72	18	20
Total Assets	3,005	3,110	3,138
Trade and Other Payables	937	889	606
Other Liabilities	82	136	128
Short Term Borrowings	905	713	965
Long-Term Borrowings <i>(Inc. current matur)</i>	352	382	365
Total Borrowings	1,257	1,095	1,330
Total Liabilities	2,276	2,120	2,064
Tier-1 Equity	503	624	709
Total Equity	729	990	1,075
Paid Up Capital	100	100	100
INCOME STATEMENT	FY18	FY19	1HFY20
Net Sales	3,213	4,076	2,031
Gross Profit	273	443	262
Profit Before Tax	35	128	114
Profit After Tax	41	113	84
FFO	69	149	248*
RATIO ANALYSIS	FY18	FY19	1HFY20
Gross Margin (%)	8.5	10.9	12.9
Net Margin (%)	1.3	2.8	4.1
FFO to Long-Term Debt	0.20	0.39	0.68*
FFO to Total Debt	0.06	0.14	0.18*
Debt Servicing Coverage Ratio (x)	1.04	1.38	3.12
Inventory + Receivable/Short-term Borrowings (x)	1.19	1.43	1.12
Gearing (x)	2.13	1.52	1.66
Debt Leverage (x)	3.70	2.82	2.46
Current Ratio (x)	0.87	0.86	0.95

*Annualized

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

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.

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.

(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	Arshad Textile Mills Limited				
Sector	Textile				
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				
	April-28-2020	BB+	A-3	Rating Watch – Negative	Maintained
April-03-2019	BB+	A-3	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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