RATING REPORT

A.A. Spinning Mills Limited (AASML)

REPORT DATE:
September 19, 2018

RATING ANALYSTS:
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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	*Stable*	
Rating Action	Initial	
Rating Date	*September 17th.'18*	

COMPANY INFORMATION	
Incorporated in 2003	External Auditors: RSM Avais Hyder Liaquat Nauman Chartered Accountants
Unquoted Public Limited Company	Chairman of the Board: Mr. Asim Yaseen Chief Executive Officer: Mr. Atif Yaseen
Key Shareholders (with stake 5% or more):	
Mr. Asim Yaseen – 35.29%	
Mr. Atif Yaseen – 35.29%	
Ms. Ammara Yaseen – 11.76%	
Ms. Ayesha Yaseen – 11.76%	
Ms. Samina Yaseen – 5.88%	

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

A.A. Spinning Mills Limited

OVERVIEW OF THE INSTITUTION

A.A. Spinning Mills Limited (AASML) was incorporated in October 2003 and commenced commercial operations in 2006. The principal business activity of the company is manufacturing and sale of a yarn.

Profile of the Chairman/CEO

Mr. Asim Yaseen is the Chairman of Board of Director at AASML. He previously held directorship in Ibrahim Fibers Limited.

Mr. Atif Yaseen has been serving AASML as the Chief Executive Officer (CEO) since 2006. He previously held directorship in Ibrahim Fibers Limited and MCB Bank Limited.

Financial Snapshot

Total Equity: end-9MFY18: Rs. 1.61b; end-FY17: Rs. 1.55b; end-FY16: Rs. 1.48b

Assets: end-9MFY18: Rs. 4.42b; end-FY17: Rs 3.65b; end-FY16: Rs. 3.50b

Profit After Tax: 9MFY18: Rs., 69.9m; FY17: Rs. 71.7m; FY16**:** Rs. 32.6m

RATING RATIONALE

A.A. Spinning Mills Limited (AASML) is a mid-sized spinning unit involved in manufacturing of yarn. Shares of the company are held by the sponsoring family which is actively involved in the operations of the company. The assigned ratings take into account association of AASML with Ibrahim Group, a large conglomerate with presence in textile and financial services. Overall profitability of the company has showcased improvement on account of higher yarn prices. With procurement of cotton and sale of yarn mainly emanating from local market, the company vulnerability to fluctuations in forex rates is low. AASML is in process of expanding its spinning operations by adding 39,185 spindles. In addition to higher volumetric production leading to increase sales revenue, spinning unit-II is expected to yield diversification in product line and cost reduction.

The ratings are largely constrained by stagnant sales growth in the recent years, vulnerability of the spinning sector to raw material prices and comparatively higher gearing indicators. Material delays in the implementation of expansion plan or unfavorable changes in foreign exchange market leading to increase in machinery cost would negatively the impact ratings.

Rating Drivers

<u>Business Strategy</u>

AASML manufactures a wide range of yarn from locally procured cotton and polyester yarn which is currently being sold in Punjab and Karachi. Considering the favorable market dynamics, the company is increasing its scale of operations by developing the spinning unit-II which will be completed in two separate phases. AASML will install 39,185 spindles in the first phase having production capacity of 10,253 tons per annum. The estimated cost of phase-I is Rs. 3.4b which is being financed with a debt to equity mix of 70:30. The phase-I is expected to generate incremental sales of approximately Rs. 3.5b when it comes online in June 2020.

<u>Performance</u>

Over the last three years, sales growth has remained subdued. Overall profitability of the company showcased improvement during FY17 and FY18 as a result favorable selling price of yarn and exit from relatively low-margin viscose trading business. Going forward, sales and profit margins are expected to improve on account of enhanced yarn production and prevailing upward trend in yarn prices. The addition of comparatively high-margin Polypropylene yarn to its existing product line will also positively impact overall margins.

<u>Liquidity & Cash Flow</u>

Overall cash flows generation has depicted steady improvements over the past three years due to growth in profitability. Funds from Operations (FFO) rose 19% to Rs. 212m during FY17 (FY16: Rs. 178m; FY15: Rs. 157m), resulting in a slightly improved FFO to total debt ratio of 0.12x. Short-term borrowings to inventory plus receivables ratio averaged at 1.5x during the last three years suggesting that short-term borrowing is being used to fund both working capital and operational costs.

<u>Capitalization and Funding</u>

The equity base of the company has steadily strengthened with the augmentation of unappropriated profits, leading to a notable reduction in accumulated loss. Total outstanding debt has increased on account of higher utilization of short-term credit lines to meet elevated working capital requirements. Gearing ratio stood at 0.87x at end-FY18 and is considered slightly higher as compared to peer organizations. Gearing is expected to improve further due to scheduled repayments of long-term debt and lower utilization of short-term borrowings. The equity issuance of Rs. 1b will partially offset the impact of a long-term debt of Rs. 2.4b which is being raised for the development of first phase of unit-II.

<u>Governance</u>

Board of Directors of AASML comprises three family members, two of whom are actively involved in day to day operations of the company. The senior management comprises well-experienced resources from the textile industry and has largely depicted stability.

<u>IT & Internal Audit</u>

The company has implemented Oracle-based integrated ERP system since 2006. The internal audit department is adequately staffed and have a well-defined scope of work.

A.A. Spinning Mills Limited — Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**June 30, 2015**	**June 30, 2016**	**June 30, 2017**	**March 31, 2018**
Non-Current Assets	1,728	1,834	1,911	1,817
Stock-in-Trade	679	724	878	1,286
Trade Debts	158	215	204	307
Cash & Bank Balances	20	27	26	108
Advances, Deposits, and Prepayments	267	377	149	373
Tax Refunds due from the Government	109	111	264	270
Total Assets	3,187	3,496	3,646	4,419
Trade and Other Payables	140	99	81	605
Short-Term Borrowings	1,207	1,611	1,578	1,796
Long-Term Borrowings ***(Inc. current matur)***	260	162	267	172
Provision for Taxation	44	39	37	77
Tier-1 Equity	1,436	1,478	1,547	1,617
INCOME STATEMENT	**June 30, 2015**	**June 30, 2016**	**June 30, 2017**	**March 31, 2018**
Net Sales	4,382	4,756	4,365	3,298
Gross Profit	351	344	360	325
Operating Profit	225	211	256	223
Profit After Tax	11	33	72	70
FFO	157	178	212	109*
RATIO ANALYSIS	**June 30, 2015**	**June 30, 2016**	**June 30, 2017**	**March 31, 2018**
Gross Margin (%)	8.0%	7.2%	8.2%	9.9%
Net Working Capital	(123)	(179)	(80)	40
Current Ratio	0.92	0.90	0.96	1.02
FFO to Long-Term Debt	0.60	1.10	0.80	0.61*
FFO to Total Debt	0.11	0.10	0.12	0.06*
Debt Servicing Coverage Ratio (x)	0.75	1.06	1.95	-
ROAA (%)	-	1.0%	2.0%	2.3%
ROAE (%)	-	2.2%	4.7%	5.9%
Gearing (x)	1.02	1.20	1.19	1.22
Debt Leverage (x)	1.22	1.36	1.36	1.73

**Annualized*

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	A.A. Spinning 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				
17/09/2018	A-	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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