

# RATING REPORT

## A.A. Spinning Mills Limited

**REPORT DATE:**

August 15, 2022

**RATING ANALYST:**

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### RATING DETAILS

Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	A-	A-2	A-	A-2
<b>Rating Date</b>	August 15, 2022		July 02, 2021	
<b>Rating Action</b>	Reaffirmed		Maintained	
<b>Rating Outlook</b>	Stable		Stable	

### COMPANY INFORMATION

<b>Incorporated in 2003</b>	<b>External auditors:</b> RSM Avais Hyder Liaquat Nauman Chartered Accountants
<b>Unquoted Public Limited Company</b>	<b>Chairman of the Board:</b> Mr. Asim Yaseen
<b>Key Shareholding (more than 5%)</b>	<b>Chief Executive Officer:</b> Mr. Atif Yaseen
<i>Mr. Asim Yaseen – 35.3%</i>	
<i>Mr. Atif Yaseen – 35.3%</i>	
<i>Ms. Ammara Yaseen – 11.8%</i>	
<i>Ms. Ayesha Yaseen – 11.8%</i>	
<i>Ms. Samina Yaseen – 5.9%</i>	

### APPLICABLE METHODOLOGY(IES)

*Applicable Rating Criteria: Corporates (August,2021)*

<https://docs.vis.com.pk/docs/CorporateMethodology202108.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 yarn made from cotton or man-made fibre.*

#### Profile of the Chairman

*Mr. Asim Yaseen is the Chairman of Board of Director at AASML. He has a Master of Computer Science from University of Wales, Cardiff U.K. He previously held directorship in Ibrahim Fibres Limited.*

#### Profile of the CEO

*Mr. Atif Yaseen has been serving AASML as the Chief Executive Officer (CEO) since 2005. He has a Master of Business Administration from University of Wales, Cardiff U.K. He previously held directorship in Ibrahim Fibres Limited and MCB Bank Limited.*

### RATING RATIONALE

Incorporated in 2003, A.A. Spinning Mills Limited ('AASML' or 'the Company') commenced commercial operations in 2006. The principal business of the Company is manufacture and sale of yarn made from cotton and / or manmade fibre. The registered office of the Company is located in Lahore, Punjab. The manufacturing unit is located at Faisalabad, Punjab.

#### Sector Update

**Table 1: Pakistan Export Statistics**

	FY19	FY20	FY21	11M'FY21	11M'FY22
Pakistan Exports (In USD' Millions)	24,257	22,536	25,632	23,147	29,333
Textile Exports (In USD' Millions)	13,659	12,867	14,488	13,027	16,713
PKR/USD Rate (Average)	136.3	158.2	160.3	160.7	175.4

Source: SBP

- Subsequent to posting export contraction in FY20 - owing to the pandemic-induced slowdown experienced in H2'FY20 – Pakistan's export base grew by 14% in FY21, which was partly attributable to a low base effect. As per SBP data, textile exports depicted growth of 28% during 11M'FY22 vis-à-vis corresponding period last year.
- Share of textile exports in total exports has oscillated in the range of 54-59%, coming in at 57% during the past 2-years (FY20-21). In FY21, owing to the similar low-base effect, as discussed above, textile exports were up 13%.
- In USD' terms textile exports have grown at a CAGR of 4.4% during the past 3-year period (FY19-FY21), despite depreciation in average USD/PKR parity of 24%, 16%, and 1% in FY19, FY20 and FY21 respectively.
- The composition of textile exports has depicted improvement in the last 3-year period, but contribution from lower to medium value-added segment has decreased from 24.6% in FY19 to 19.2% in FY21 of aggregate textile exports.

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

	FY19	FY20	FY21	FY22
<b>High Value-Added Segment</b>	<b>75.4%</b>	<b>77.2%</b>	<b>80.7%</b>	<b>80.8%</b>
- Knitwear	2,900	2,794	3,816	5,121
- Readymade Garments	2,653	2,552	3,033	3,905
- Bed wear	2,262	2,151	2,772	3,293
- Towels	786	711	938	1,111
- Made-up Articles (Excl. towels & bed wear)	680	591	756	849
- Art, Silk & Synthetic Textile	297	315	370	460
- Others	468	555	743	872
<b>Low to Medium Value-added Segment</b>	<b>24.6%</b>	<b>22.8%</b>	<b>19.3%</b>	<b>19.2%</b>
- Cotton Cloth	2,102	1,830	1,921	2,438
- Cotton Yarn	1,125	984	1,017	1,207
- Others	54	43	34	74
<b>Total</b>	<b>13,328</b>	<b>12,527</b>	<b>15,400</b>	<b>19,330</b>

Source: PBS

- Cotton production in Pakistan, on the other hand, was at its lowest level in decades for FY21. Cotton prices rose to a new 11-year high of ~Rs. 13,000/maund, as a result of the production shortage. Given favorable weather conditions cotton production in Pakistan posted strong growth in FY22. Nevertheless, the upward momentum in cotton pricing continued in FY22. However, to the end of FY22, the cotton prices eased, falling in the range of Rs. 15.5-16k/maund.

**Table 3: Cotton Prices**

	<i>FY18</i>	<i>FY19</i>	<i>FY20</i>	<i>FY21</i>	<i>FY22</i>
<i>Per Maund (Rs.)</i>	6,953	8,770	8,860	13,000	19,484
<i>% Change</i>	6%	26%	1%	32%	50%

- The margins of textile operators have broadly depicted improvement partly on account of inventory gains on sizable increase in cotton pricing and partly due to favorable exchange rate movement. Nevertheless, higher raw material pricing has increased the working capital requirements for textile operators, which is likely to weigh on the liquidity of textile operators.
- Going forward, challenges on the global economy front as well as the domestic front will weigh on the business risk profile of textile operators; these include waning demand dynamics internationally, and external account crisis on the domestic front, which may affect provision of utilities to exporters at competitive pricing.

### **Business Update - AASML**

#### **Sales & Operations**

**Table 2: Capacity & Production**

	<i>FY20</i>	<i>FY21</i>
<b>Spinning</b>		
<b>Actual capacity of yarn (Lbs.)</b>	17,669,512	17,669,512
<b>Production of yarn (Lbs.)</b>	17,259,550	17,379,722
<b>Utilization</b>	<b>97.7%</b>	<b>98.4%</b>

**Table 4: P&L (Extract)**

	<i>FY19</i>	<i>FY20</i>	<i>FY21</i>	<i>9M<sup>FY22</sup></i>
<b>Net Sales (PKR million)</b>	5,742	4,182	6,936	7,125
<b>Gross Margin (%)</b>	11.0%	7.4%	16.5%	21.8%
<b>EBIT margin (PKR million)</b>	466	180	920	1,295
<b>Net Margin (%)</b>	2.6%	(6.3%)	8.4%	11.6%

- Subsequent to posting adverse performance in FY20 as compared to FY19, owing to the pandemic-induced slow down, AASML's revenue base grew by 65.8% in FY21. Revenue growth momentum has continued in the ongoing year, with topline coming in at Rs 7.1b during 9M<sup>FY22</sup>. The growth is mainly a product of higher quantitative offtake of yarn due to fulfillment of backlogged orders and improved demand during the period.
- In terms of business model, domestic sales comprise bulk of the Company's revenue base, comprising 91.7% (FY20: 94.7%) of the total sales mix in FY21. Top 10 client concentration has been increasing over the years coming at 44.9% (FY20: 39.4%, FY19: 34.4%) in FY21. The client concentration risk is considered manageable given long-standing business relations with major clients.

- The gross margin for FY21 depicted improvement mainly as a result of inventory gains, as lower cost raw material purchased earlier and finished goods inventory left over at end-FY20, was sold in FY21.
- The Company posted a positive bottom line in FY21, subsequent to posting a loss in FY20. As per management, the net margin for FY22 is estimated to be around ~10%.

### Cash Flow Coverages

Table 5: Cash flow Analysis

	FY19	FY20	FY21	9M <sup>FY22</sup>
<b>FFO (Mn.) (PKR million)</b>	350	(123)	653	NA
<b>FFO to Total Debt (%)</b>	16%	(4%)	39%	NA
<b>FFO to Long Term Debt (%)</b>	279%	(145%)	670%	NA
<b>Debt Servicing Coverage Ratio (x)</b>	2.04	0.57	2.71	NA
<b>Current Ratio</b>	1.02	0.88	1.13	1.29
<b>(Stock in trade+ trade debts)/STD</b>	0.84	0.87	1.08	1.62

- Funds from Operations (FFO) improved during FY21 owing to strong growth in revenues. As a result, all cash flow coverage indicators have depicted improvement. Cashflow coverage indicators as of end-FY22 are estimated have improved given higher offtake and margins during the period and limited uptick in debt.
- The Short-term debt coverage ratio has also depicted improvement due to reduction in short-term borrowing as a result of which coverage of short term debt by inventory and trade debt stood comfortably high at 1.6x as of Mar'22.

### Capitalization

Table 3: Balance Sheet (Extract)

	Jun'19	Jun'20	Jun'21	Mar'22
<b>Total Assets (PKR million)</b>	4,432	4,788	4,418	7,603
<b>Total Liabilities (PKR million)</b>	2,623	3,240	2,288	4,643
<b>Total Equity (PKR million)</b>	1,809	1,548	2,130	2,960
<b>Long Term Debt (PKR million)</b>	125	85	97	211
<b>Short Term Debt (PKR million)</b>	2,051	2,778	1,578	2,509
<b>Total Debt (PKR million)</b>	2,176	2,863	1,675	2,720
<b>Leverage (x)</b>	1.45	2.09	1.07	1.57
<b>Gearing (x)</b>	1.20	1.85	0.79	0.92

- Equity base of the Company has improved on account of internal capital generation, growing at a CAGR of 15.6% (Jun'18 - Mar'22). The Company has retained all its profits, having not paid a dividend over the for the past 15 year period.
- The Company's debt largely constitutes short-term debt taken for working capital requirement. However, the management has planned to take Rs. 400m long-term debt in FY23 for construction of Co-gen power plant and installation of Solar Panels. Furthermore, the Company has also planned capacity expansion by constructing another spinning unit of 50,000 spindles in FY24. The total CAPEX requirement estimated for the project Rs. 5.0b with equity contribution to be capped at Rs. 1.5b. The remaining amount will be arranged through Long Term Financing Facility (LTFF).

- Going forward, it is projected that the Company's gearing ratio would rise albeit remain below 2x by end-FY23.

#### **Key Rating Drivers - AASML**

##### **Ratings incorporate AASML's margins and business risk of the spinning segment**

AASML is associated with Ibrahim Group, a leading domestic business conglomerate with stakes in textile, power and financial sectors. AASML operates in the cotton yarn spinning business, wherein the performance is sensitive to cyclicality in cotton prices, which is further determined by crop yield. Historically, margins and financial performance of players have depicted seasonality. Moreover, competitive intensity is high due to commoditized nature of the product.

##### **Rating incorporates historical track record of maintaining adequate leveraging and cash flow coverage**

Financial risk profile of the entity has remained adequate. Furthermore, apart from the one-off FY20 topline contraction, cash flow coverage indicators have remained adequate. The Company has also planned capacity expansion by constructing another spinning unit of 50,000 spindles in FY24. Going forward, it is projected that the Company's gearing ratio would rise albeit remain in line with benchmark for the assigned rating.

## A.A. Spinning Mills Limited

## Appendix I

<b>FINANCIAL SUMMARY</b>				
	<i>(amounts in PKR millions)</i>			
<b>BALANCE SHEET</b>	<b>Jun'19</b>	<b>Jun'20</b>	<b>Jun'21</b>	<b>Mar'22</b>
Fixed Assets	1,875	1,796	1,676	1,753
Stock-in-Trade	1,191	1,898	862	3,126
Trade Debts	525	514	843	948
Cash & Bank Balances	71	15	173	128
<b>Total Assets</b>	<b>4,432</b>	<b>4,788</b>	<b>4,418</b>	<b>7,603</b>
Trade and Other Payables	221	185	442	1,414
Long Term Debt	125	85	97	211
Short Term Debt	2,051	2,778	1,578	2,509
<b>Total Debt</b>	<b>2,176</b>	<b>2,863</b>	<b>1,675</b>	<b>2,720</b>
Paid-up Capital	1,700	1,700	1,700	1,700
<b>Total Equity</b>	<b>1,809</b>	<b>1,548</b>	<b>2,130</b>	<b>2,960</b>
<b>INCOME STATEMENT</b>				
	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>9M'FY22</b>
Net Sales	5,742	4,182	6,936	7,125
Cost of sales	5,109	3,873	5,791	5,570
<b>Gross Profit</b>	<b>633</b>	<b>310</b>	<b>1,145</b>	<b>1,555</b>
<b>Operating Profit</b>	<b>466</b>	<b>180</b>	<b>920</b>	<b>1,295</b>
Finance Cost	259	381	215	188
<b>Profit before Tax</b>	<b>207</b>	<b>(201)</b>	<b>704</b>	<b>1,107</b>
<b>Profit After Tax</b>	<b>151</b>	<b>(264)</b>	<b>585</b>	<b>829</b>
<b>RATIO ANALYSIS</b>				
	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>9M'FY22</b>
<b>Gross Margin (%)</b>	<b>11.0%</b>	<b>7.4%</b>	<b>16.5%</b>	<b>21.8%</b>
<b>Net Margin (%)</b>	<b>2.6%</b>	<b>(6.3%)</b>	<b>8.4%</b>	<b>11.6%</b>
<b>Net Working Capital</b>	<b>40</b>	<b>(382)</b>	<b>297</b>	<b>1,282</b>
<b>FFO</b>	<b>350</b>	<b>(123)</b>	<b>653</b>	<b>NA</b>
<b>FFO to Total Debt (%)</b>	<b>0.16</b>	<b>(0.04)</b>	<b>0.39</b>	<b>NA</b>
<b>FFO to Long Term Debt (%)</b>	<b>2.79</b>	<b>(1.45)</b>	<b>6.70</b>	<b>NA</b>
<b>Debt Servicing Coverage Ratio (x)</b>	<b>2.04</b>	<b>0.57</b>	<b>2.71</b>	<b>NA</b>
<b>Current Ratio (x)</b>	<b>1.02</b>	<b>0.88</b>	<b>1.13</b>	<b>1.29</b>
<b>Leverage (x)</b>	<b>1.45</b>	<b>2.09</b>	<b>1.07</b>	<b>1.57</b>
<b>Gearing (x)</b>	<b>1.20</b>	<b>1.85</b>	<b>0.79</b>	<b>0.92</b>
<b>ROAA (%)</b>	<b>3.6%</b>	<b>(5.7%)</b>	<b>12.7%</b>	<b>18.4%*</b>
<b>ROAE (%)</b>	<b>8.7%</b>	<b>(15.7%)</b>	<b>31.8%</b>	<b>43.4%*</b>
<b>(Stock in trade + trade debts)/STD</b>	<b>0.84</b>	<b>0.87</b>	<b>1.08</b>	<b>1.62</b>

\*Annualized

## ISSUE/ISSUER RATING SCALE &amp; DEFINITION

## 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](http://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](http://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](http://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
<b>Name of Rated Entity</b>	A.A. Spinning Mills Limited				
<b>Sector</b>	Textile Industry				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	15-08-2022	A-	A-2	Stable	Reaffirmed
	02-07-2021	A-	A-2	Stable	Maintained
	27-04-2020	A-	A-2	Rating Watch – Developing	Maintained
	26-02-2020	A-	A-2	Stable	Reaffirmed
17-09-2018	A-	A-2	Stable	Initial	
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meeting Conducted</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>	
	Mr. Mudassar Mukhtar	Chief Financial Officer		<b>06-July-2022</b>	
	Mr. Saad Khalid	Assistant Manager Finance			