

RATING REPORT

A.A. Spinning Mills Limited

REPORT DATE:

January 15, 2025

RATING ANALYST:

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Rating Category	RATING DETAILS			
	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A2	A-	A2
<i>Rating Date</i>	<i>January 15, 2025</i>		<i>December 27, 2023</i>	
Rating Action	Reaffirmed		Reaffirmed	
Rating Outlook/Watch	Stable		Stable	

COMPANY INFORMATION

Incorporated in 2003	External auditors: RSM Avais Hyder Liaquat Nauman
Unquoted Public Limited Company	Chairman of the Board: Mr. Asim Yaseen
Key Shareholding (more than 5%)	Chief Executive Officer: Mr. Atif Yaseen
<i>Mr. Asim Yaseen – 47.06%</i>	
<i>Mr. Atif Yaseen – 47.06%</i>	
<i>Ms. Samina Yaseen – 5.88%</i>	

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>

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 fiber.

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 Ibrahīm 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 Ibrahīm Fibres Limited and MCB Bank Limited.

RATING RATIONALE

Company Profile

AA spinning Mills Limited (AASML or ‘the Company’) was incorporated in 2003 and commenced its commercial operations in 2006. The principal business of the Company is manufacturing and sale of yarn from cotton and / or man-made fiber. The Company has installed 50,544 spindles which have a capacity to produce ~17.6 mln kgs of 20/s count of yarn. The registered office of the Company is in Lahore, Punjab while the manufacturing facilities are located at Faisalabad, Punjab.

Operational Profile

Capacity and Utilization	FY22	FY23	FY24
Number of spindles installed	50,544	50,544	50,544
Number of spindles worked	50,544	50,544	50,544
Installed capacity of yarn - KGs	17,669,512	17,669,512	17,669,512
Actual production of yarn - KGs	17,498,498	11,626,557	14,468,597
Capacity Utilization (%)	99%	66%	82%

In FY24, capacity utilization improved to 82% (FY23: 66%, FY22: 99%) as operations normalized following disruptions in FY23 caused by reduced cotton availability, supply chain disruptions from floods, and import restrictions. The improvement reflects stabilization of raw material supplies and production processes. However, utilization levels remained influenced by adjustments in the product mix, as the shift toward producing lycra, which necessitates slower spinning speeds for thread production, resulted in comparatively lower capacity utilization to historical levels.

Industry Review

In the fiscal year 2023-24 (FY24), Pakistan's textile sector experienced a marginal increase in exports, recording a 0.93% rise to \$16.65 billion from \$16.50 billion in the previous year. This modest growth was achieved despite a challenging economic environment characterized by elevated interest rates and stringent fiscal measures.

Throughout FY24, the State Bank of Pakistan maintained a high policy rate, peaking at 22% to combat inflationary pressures. This monetary stance resulted in increased borrowing costs for textile manufacturers.

In June 2024, the central bank initiated a series of rate cuts, reducing the policy rate by 150 basis points to 20.5%. Subsequent reductions brought the rate down to 13% by December 2024. These adjustments are anticipated to alleviate financing costs for textile enterprises, potentially fostering increased investment and production capacity in the forthcoming fiscal year.

Going forward, the textile sector's performance will likely be influenced by the trajectory of domestic interest rates, global demand dynamics, and the implementation of supportive fiscal policies. The recent monetary easing measures may provide a more conducive environment for growth; however, sustained attention to structural challenges and competitiveness remains essential for long-term sectoral stability.

Key Rating Drivers

Business Risk Profile

Industry Risk; High to Medium

The textile spinning sector in Pakistan is currently assessed as having a High to Medium business risk profile. This evaluation is based on several factors, including fluctuating raw material availability, energy supply challenges, competitive pressures, and evolving regulatory policies.

In FY24, Pakistan's cotton production experienced a significant increase, with output reaching approximately 8.6 to 9.0 million bales, marking a 70% year-on-year growth. This surge was primarily due to favorable weather conditions. Consequently, the textile industry procured around 7.48 million bales, meeting approximately 70% of its raw cotton requirements domestically, thereby reducing reliance on imports.

Despite the increased cotton availability, the spinning sector faced challenges related to energy costs and steady power supply. A reported 116% increase in power tariff during the period under review adversely affected operational cost, impacting the sector's profitability.

The global textile market's competitive landscape also posed challenges. Pakistan's textile and apparel industry faces stiff competition from countries like India, China, and Bangladesh. Economic factors such as currency depreciation, elevated interest rates, and inflation further pressured the sector.

Regulatory changes, including withdrawal of the Regionally Competitive Energy Tariffs (RCET) regime and zero-rating for export-oriented sectors, introduced uncertainties.

Going forward, while reduction in interest rates offers some relief, higher energy costs and competition from local and regional players remain challenge for the spinning sector.

Client Concentration Risk

The Company's client concentration risk has increased with the top 10 customers accounting for 37% of total sales in FY24 (FY23: 26%). The elevated client concentration is a characteristic of the textile spinning industry and is mitigated by the Company's long-standing relationships with its top clients.

Financial Risk Profile

Profitability Profile

In FY24, the Company's revenue increased by 37.8% as production volumes improved following challenges in FY23, which were impacted by local cotton unavailability due to floods and import restrictions. While local cotton availability improved in FY24 compared to the prior year, it remained below expectations due to crop infection in southern Punjab. Import constraints eased significantly, supporting production activity to address existing market demand. However, sales growth was limited by ongoing economic challenges in the country, which continued to constrain overall consumer demand and market dynamics.

Despite rising fuel and power costs, the Company maintained stable margins at 14.83% in FY24 (FY23: 14.54%) through adjustments in the product mix towards higher-margin products such as lycra. Additionally, in-house gas generators enable electricity generation at lower costs compared to grid rates. To enhance operational efficiencies, the Company plans to install solar energy systems, targeting to meet approximately 50% of its daytime electricity requirements. The solar project is scheduled for completion by April 2025. In 1QFY25, with continued shift towards higher margin threads, the Company's gross margin improved to 18.77%.

Capitalization Profile

The Company maintains a manageable capitalization profile with five-Year average gearing and leverage ratios 1.13x and 1.41x, respectively. In FY24, as per the management, due to elevated interest rates in the country, the short-term debt utilization was restrained to the lowest possible levels, by stringent inventory management and credit management. Nevertheless, gearing was slightly higher at 1.12x (FY23: 1.03x) while leverage extended to 1.41x (1.28x) in FY24. In 1QFY25, as the demand outlook has improved and interest rates have charted a downward trend, the Company has eased its restraints on short-term borrowing with higher draw down to manage increasing working capital needs. This has resulted in gearing increasing to 1.32x and leverage to 1.70x.

Liquidity Profile

The Company maintains a sound liquidity profile with a five-year average current ratio of 1.23x, though standing higher at 1.38x (FY23: 1.41x) in FY24. In 1QFY25 the ratio remained stable at 1.34x. Similarly, the short-term debt coverage ratio is also considered adequate with a five-year

average of 1.35x, reported at 1.49x (FY23: 1.54x) in FY24 but lower in 1QFY25 at 1.30x, with higher short-term borrowing.

Coverage Profile

In FY24, the coverage profile remained stable, with some improvement, reflected in a Debt Service Coverage Ratio (DSCR) of 1.41x (FY23: 1.31x). This was supported by increased cashflow from operations, with a higher quantum of sales and stable margins. In 1QFY25, the DSCR remained stable at 1.40x. Going forward, the profitability profile is expected to receive support from lowering interest rates and an improved demand outlook, which is expected to positively impact the coverage profile.

A.A. Spinning Mills Limited
Appendix I

Financial Summary			
Balance Sheet (PKR Millions)	FY23A	FY24A	1QFY25M
Property, plant and equipment	1,863.35	1,829.29	1,767.06
Right-of-use Assets	17.29	13.83	0.00
Stock-in-trade	2,937.99	2,944.72	3,570.56
Trade debts	1,234.47	1,686.20	1,295.20
Cash & Bank Balances	77.50	47.74	56.23
Other Assets	791.25	1,063.01	1,860.75
Total Assets	6,921.85	7,584.79	8,549.80
Creditors	52.19	200.08	320.50
Long-term Debt (incl. current portion)	304.60	269.63	258.58
Short-Term Borrowings	2,818.25	3,258.80	3,920.00
Total Debt	3,122.85	3,528.43	4,178.58
Other Liabilities	713.34	713.33	889.93
Total Liabilities	3,888.38	4,441.84	5,389.01
Paid up Capital	1,700.00	1,700.00	1,700.00
Revenue Reserve	1,333.47	1,442.92	1,460.79
Equity (excl. Revaluation Surplus)	3,033.47	3,142.92	3,160.79
Income Statement (PKR Millions)	FY23A	FY24A	1QFY25M
Net Sales	7,021.51	9,675.12	2,471.91
Gross Profit	1,021.19	1,435.18	463.86
Operating Profit	722.77	1,078.39	259.25
Finance Costs	563.06	815.44	196.07
Profit Before Tax	159.71	262.95	63.18
Profit After Tax	218.38	110.84	32.53
Ratio Analysis	FY23A	FY24A	1QFY25M
Gross Margin (%)	14.54%	14.83%	18.77%
Operating Margin (%)	10.29%	11.15%	10.49%
Net Margin (%)	3.11%	1.15%	1.32%
Funds from Operation (FFO) (PKR Millions)	302.59	428.53	78.73
FFO to Total Debt* (%)	9.69%	12.15%	7.54%
FFO to Long Term Debt* (%)	99.34%	158.93%	121.78%
Gearing (x)	1.03	1.12	1.32
Leverage (x)	1.28	1.41	1.70
Debt Servicing Coverage Ratio* (x)	1.31	1.41	1.40
Current Ratio (x)	1.41	1.38	1.34
(Stock in trade + trade debts) / STD (x)	1.54	1.49	1.30
Return on Average Assets* (%)	3.34%	1.53%	1.61%
Return on Average Equity* (%)	7.47%	3.59%	4.13%
Cash Conversion Cycle (days)	212.47	179.80	191.23

*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES				Appendix II	
Name of Rated Entity	A.A. Spinning Mills Limited				
Sector	Textile Industry				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	15-01-2025	A-	A2	Stable	Reaffirmed
	27-12-2023	A-	A2	Stable	Reaffirmed
	15-08-2022	A-	A2	Stable	Reaffirmed
	02-07-2021	A-	A2	Stable	Maintained
	27-04-2020	A-	A2	Rating Watch – Developing	Maintained
	26-02-2020	A-	A2	Stable	Reaffirmed
	17-09-2018	A-	A2	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 Meeting Conducted	Name	Designation	Date		
	Mr. Mudassar Mukhtar	Chief Financial Officer	10-January-2025		
	Mr. Saad Khalid	Assistant Manager Finance			