

RATING REPORT

H.A Fibres (Pvt.) Limited (HAFL)

REPORT DATE:

April 24, 2019

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	3 rd April' 2019	

COMPANY INFORMATION

Incorporated in May 2006	External auditors: EY Ford Rhodes – Chartered Accountants
Private Limited Company	Chairperson of the Board: Mrs. Sabeena Husnain
Key Shareholders (with stake 5% or more): Mrs. Sabeena Husnain – 100%	Chief Executive Officer: Mrs. Sabeena Husnain

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates (May 2016)

<https://www.vis.com.pk/kc-meth.aspx>

H.A Fibres (Pvt.) Limited (HAFL)

OVERVIEW OF THE INSTITUTION

H.A Fibres (Pvt.) Limited was incorporated as a private limited company in May 2006 under the Companies Ordinance 1984. Registered office of the company is in DHA Lahore while plant is situated at 6 km, Off Khanewal Road, Multan.

Profile of Chairperson of Board & Chief Executive Officer
Mrs. Sabeena Husnain serves as chairperson of the board and Chief Executive Officer of the company. She has over 12 years' of experience in textile sector. She is also the Chief Executive Officer of associated concern "Husnain Textile Mills (Pvt.) Limited".

RATING RATIONALE

H.A Fibres (Pvt.) Limited (HAFL) belongs to H.A group which operates three companies, i.e. Husnain Textile Mills (Pvt.) Limited, HAFL & Real Estate company namely "Palm Villas" registered as AOP. HAFL was incorporated as a Private Limited Company in May 2006. The company commenced commercial production in 2006 after acquiring the assets from "Greenhouse Spinning Mills Limited". The company commenced operation as spinning unit with a capacity of 32,644 spindles to produce 100% cotton yarn of various counts. The company sells its yarn both in the local & the international market.

In 2016, the company carried out BMR which increased the total number of spindles to 41,844. The company also installed compact devices on spinning frame during 2017 which helped to increase production from 901 bags per day to 955 bags per day at count of 20/S. The cumulative power requirement of the unit is 4.8 MW which is met through gas fired generators of 5.4 MW along with 4.9 MW electricity connection from WAPDA.

Product Portfolio – focused on manufacturing of cotton yarn

HAFL manufactures 100% cotton carded compact yarn from imported and locally procured cotton with counts ranging from 10/S to 60/S for multiple uses. The coarser yarn mainly caters to denim, towel and socks while fine carded compact yarn caters to shirt fabric etc.

Spinning Products			
Yarn Type	Count Range	Composition	End Use
Carded Compact	10/S - 60/S	100% cotton yarn	Denim, Upholstery, Apparel, Towels

Operational Capabilities & Performance – Increasing capacity on a timeline basis

BTML has 41,844 spindles with production capacity to produce 17.39m kg of yarn during FY18 converted to 20/S count. Average capacity utilization has remained high during the last two years.

Spinning	FY18	FY17
Total Spindles	41,844	41,844
Installed Capacity Converted to 20/S Count (Mn Kgs)	17.39	15.84
Actual Production (Mn Kgs)	16.48	14.89
Capacity Utilization %	94.76%	94.01%

Sales growth emanating from increase in volumetric sales and favorable prices – Trade debts increased mainly against foreign LCs

During FY18, the company reported net sales of Rs. 4.12b (FY17: Rs. 3.21b; FY16: Rs. 2.59b), driven largely by notable increase in volumetric sales and favorable average selling prices of yarn in the local & international market. It is pertinent to note that company generated export sales of Rs. 1.89b during FY18 (FY17: Rs. 1.04b) while remaining sales of Rs. 2.21b (FY17: Rs. 2.15b) were generated from local market. HAFL fetched relatively better selling price due to a blend of imported and local cotton and good quality control on account of compact devices installed on spinning frames. Gross profit of the company increased to Rs. 462.9m (FY17: Rs. 288.4m) on the back of higher sales and better production efficiencies; resultantly gross margins stood higher at 13% (FY17: 11.2%; FY16: 9%). Operating expenses of the company increased to Rs. 108m (FY17: Rs. 78m) on account of higher freight expenses of Rs. 40.1m (FY17: Rs. 25.7m) and export commission of Rs. 13.9m (FY17: Rs. 6.61m). Finance cost of the company increased to Rs. 115.6m (FY17: Rs. 109.5m) on account of higher utilization of bank loans. The company has investment of Rs. 100m in associate concern "Husnain Textile Mills (Pvt.) Ltd"

and earned a profit of Rs. 61.5m (FY17: Rs. 21.0m) on the said investment. The company was able to generate net profit of Rs. 273.9m (FY17: Rs. 70.4m) while net profit margin increased to 6.6% (FY17: 2.2%). As per projections, revenue generation is expected to grow to around Rs. 4.6b during FY19 on account of higher yarn prices and rupee devaluation against dollars.

The company incurred a capex of Rs. 117.9m (FY17: Rs. 121.8m) during FY18; fixed assets of the company stood slightly lower at Rs. 1.36b (FY17: Rs. 1.38b) owing to depreciation charge. The company holds 10 million shares in associated concern "Husnain Textile Mills (Pvt.) Ltd amounting to Rs. 100m which has increased to PKR 184.1m (FY17: Rs. 139.8m) by end-FY18 on account of higher carrying amount of investment. Trade debts of the company increased to Rs. 628.8m (FY17: Rs. 259.1m) during FY18 out of which Rs. 336.9m are secured against foreign LCs (FY17: Nil) while remaining amount of Rs. 291.9m (FY17: Rs. 259.7m) are due from local customers. The management deliberately held foreign receivables on books (without discounting) anticipating currency devaluation. The company follows the practice of procuring local cotton between July and Dec and imported cotton between January and June while maintaining a buffer stock of around six to eight months. At end-FY18, HAFL held inventory of Rs. 1.04b (FY17: Rs. 1.02b) out of which raw material inventory constituted Rs. 959.6m (FY17: Rs. 857.1m). Overall trade & other payables of the company decreased to Rs. 282m (FY17: Rs. 398m) which included trade payable of Rs. 104m (FY17: Rs. 66m) along with Due to Related Parties which has been fully paid in FY18 (FY17: Rs. 219m).

Sound coverages and adequate liquidity

Funds from operations (FFO) improved to Rs. 362m (FY17: Rs. 211m) in line with higher profit during FY18. FFO to total debt ratio increased to 0.23x (FY17: 0.18x) while FFO to long-term debt improved further to 1.26x (FY17: 0.68). The debt service coverage ratio also improved to 3.55x (FY17: 2.53x) while the current ratio increased to 1.20x (FY17: 1.09x). Meanwhile, inventory plus trade receivables to short-term borrowings ratio decreased to 1.30x (FY17: 1.50x), albeit considered adequate. Going forward, the cash flow position is expected to remain sound on the back of rupee depreciation and improvement in sales price during FY19.

Manageable leverage indicators

Total equity enhanced to Rs. 1.69b by end-FY18 (FY17: Rs. 1.42b; FY16: Rs. 1.38b) on the back of profit retention. Equity base also includes share deposit money of Rs. 254.8m (FY17: Rs. 254.8m) which will be converted to paid up capital by March 31, 2019. Long term loan of the company decreased to Rs. 288m (FY17: Rs. 310m) on account of repayment of loan of Rs. 22.3m during FY18. The gearing ratio increased slightly to 0.93x (FY17: 0.82x) owing to increase in short term borrowings while debt leverage remained at 1.10x at end-FY18 (FY17: 1.11x).

Governance & Audit

The Board of Directors of HAFL comprises three members, including CEO, director and commercial director. In addition to Board committee, the company has following committees:

1. Executive committee: Develops & plans policies, procedures and budget.
2. Operation management & technical committee: Plans production & quality.
3. Energy Management Committee: Monitor energy prices & energy cost changes.
4. Finance Committee: Develops financial plans including purchases and BMR.
5. Mill Administration Committee: Monitors and plans activities at mill premises.

The company has appointed "EY Ford Rhodes" as external auditors of the company which has 'A' rating on SBP panel of auditors.

H.A Fibers (Pvt.) Limited
Appendix I

FINANCIAL SUMMARY				
<i>(amounts in PKR millions)</i>				
BALANCE SHEET	30-Jun-16	30-Jun-17	30-Jun-18	31-Dec-18
Non-Current Assets	1,407	1,393	1,375	1,317
Investment in Associates	128	140	184	184
Stock-in-Trade	1,412	1,026	1,041	1,718
Trade Debts	139	260	629	385
Other Assets	134	158	285	691
Cash & Bank Balances	3	20	37	26
Total Assets	3,223	2,997	3,551	4,321
Trade and Other Payables	217	399	283	343
Short Term Borrowings	1,259	855	1,283	1,941
Long Term Loan	324	310	288	240
Total Interest Bearing Debt	1,583	1,165	1,571	2,182
Other Liabilities	34	12	2	2
Total Liabilities	1,834	1,576	1,856	2,526
Total Equity	1,389	1,421	1,695	1,795
INCOME STATEMENT				
	30-Jun-16	30-Jun-17	30-Jun-18	31-Dec-18
Net Sales	2,599	3,216	4,127	1,957
Gross Profit	117	289	463	254
Net Operating Profit	107	216	356	208
Finance Cost	85	110	116	84
Net Profit	3	71	274	100
RATIO ANALYSIS				
	30-Jun-16	30-Jun-17	30-Jun-18	31-Dec-18
Gross Margin (%)	4.5	9	11.2	13.0
Net Operating Profit Margin (%)	4.1	6.7	8.6	10.6
Net Profit Margin (%)	0.1	2.2	6.6	5.1
Current Ratio (x)	1.06	1.09	1.20	1.19
Net Working Capital (Millions)	92	118	333	443
Debt Leverage (x)	1.32	1.11	1.10	1.41
Gearing (x)	1.14	0.82	0.93	1.22
FFO	76	211	362	204
FFO to Long Term Debt (%)	23	68	126	85
FFO to Total Debt (%)	5	18	23	9
Debt Servicing Coverage Ratio (x)	0.60	2.53	3.55	2.46
Inventory + Receivables/Short-term Borrowings (x)	1.23	1.50	1.30	1.08
ROAA (%)	0.1	2.3	8.4	5.2
ROAE (%)	0.2	5.0	17.6	11.6

ISSUE/ISSUER RATING SCALE & DEFINITIONS

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

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.

{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	H.A Fibers (Pvt.) 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				
	03-April-19	A-	A-2	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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