

## RATING REPORT

## H.A Fibres (Pvt.) Limited

**REPORT DATE:**

December 10, 2024

**RATING ANALYST:**

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## RATING DETAILS

| Rating Category      | Latest Rating     |            | Previous Rating  |            |
|----------------------|-------------------|------------|------------------|------------|
|                      | Long-term         | Short-term | Long-term        | Short-term |
| Entity               | A                 | A2         | A-               | A2         |
| Rating Outlook/Watch | Stable            |            | Stable           |            |
| Rating Date          | December 10, 2024 |            | October 02, 2023 |            |
| Rating Action        | Upgraded          |            | Maintained       |            |

## COMPANY INFORMATION

Incorporated in 2006

External auditors: BDO Ebrahim &amp; Co. Chartered Accountants

Private Limited Company

Chairperson/CEO: Mrs. Sabeena Husnain

Key Shareholders (with stake 5% or more):

Mrs. Sabeena Husnain—100%

## 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>

## H.A Fibres (Pvt.) Limited

OVERVIEW  
OF THE  
INSTITUTION

**H.A Fibres (Pvt.) Limited** was incorporated as a private limited company in May 2006 under the Companies Ordinance 1984 (Now Companies Act 2017). Registered office of the company is situated at DHA Lahore while plant is located at Sujhan pura 6 km, Off Khanewal Road, Multan.

## RATING RATIONALE

**Company Profile**

H.A Fibres (Pvt.) Limited (“HAFL” or “the Company”), established in May 2006 as a private limited company, operates as a spinning unit based in Multan. It is part of the H.A. Group, which also includes Husnain Textile Mills (Pvt.) Limited (HTML) and Palm Villas, an Association of Persons engaged in the real estate sector. HAFL holds a 30.21% equity stake in HTML, designating it as an associate company.

**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 supply. A reported 116% increase in power tariffs during the period under review adversely affected operational costs, 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 the withdrawal of the Regionally Competitive Energy Tariffs (RCET) regime and zero-rating for export-oriented sectors, introduced uncertainties.

Looking ahead, while reducing local policy rates offers some relief, the spinning sector must navigate ongoing challenges related to energy costs and local and global competition.

**Client Concentration Risk**

Customer concentration has improved on a timeline basis; with the top 10 concentration reported at 37% (FY23: 64%, FY22: 68%; FY21: 74%) of total sales during FY24. While the concentration has improved over the years, it is still considered elevated but are now aligned with industry averages. As per management, client concentration risk is partially eliminated due to long-term association with the existing clientele and specialized yarn produced by the Company.

**Financial Risk Profile**

**Profitability Profile**

In FY24, HAFL's net revenue grew by 58.44%, driven by increased production volumes following capacity expansion and a rise in export demand. The topline revenue increase was predominantly supported by indirect exports and export sales, which rose respectively, thus raising their share in the sales mix to 36.75% (FY23: 8.37%) and 3.28% (FY23: 0.24%). Gross margins improved to 10.39% (FY23: 8.48%), reflecting operational efficiencies gained from newly installed machinery and a shift in the sales mix towards products yielding higher margins.

**Capitalization Profile**

The Company's capitalization profile remained conservative in FY24, though there was a slight weakening as reflected by the increase in the gearing and leverage ratios to 0.63x (FY23: 0.57x) and 0.82x (FY23: 0.78x), respectively. This change was primarily due to increased long-term debt drawdowns for investment in capacity enhancements, partially offset by continued profit retention.

**Coverage Profile and Liquidity Profile**

The Company has historically maintained a strong coverage profile. Healthy coverage is reflected in a 5-year average debt service coverage ratio (DSCR) and FFO/long-term debt of 2.37x and 147.17%, respectively. However, in FY23 and FY24, the coverage metrics were constrained due to an increase in short-term borrowings to address working capital requirements amid a high-interest rate environment. In FY24, the DSCR stood at 1.59x (FY23: 1.35x, FY22: 3.65x), and FFO to long-term debt was recorded at 100.58% (FY23: 55.42%, FY22: 142.53%), remaining below the historical average, albeit reporting improvement over the previous year.

Meanwhile, the liquidity profile of HAFL also remains sound despite some contraction in recent years with a current ratio of 1.41x (FY23: 1.52x).

| REGULATORY DISCLOSURES                  |   |                            |                         |                             | Appendix I           |
|---|---|----------------------------|-------------------------|-----------------------------|----------------------|
| <b>Name of Rated Entity</b>             | H.A Fibres (Pvt.) Limited   |                            |                         |                             |                      |
| <b>Sector</b>                           | Textile   |                            |                         |                             |                      |
| <b>Type of Relationship</b>             | Solicited   |                            |                         |                             |                      |
| <b>Purpose of Rating</b>                | Entity Ratings  |                            |                         |                             |                      |
| <b>Rating History</b>                   | <b>Rating Date</b>  | <b>Medium to Long Term</b> | <b>Short Term</b>       | <b>Rating Outlook/Watch</b> | <b>Rating Action</b> |
| <b>RATING TYPE: ENTITY</b>              |   |                            |                         |                             |                      |
|   | 10/12/2024  | A                          | A2                      | Stable                      | Upgraded             |
|   | 02/10/2023  | A-                         | A2                      | Stable                      | Maintained           |
|   | 23/06/2022  | A-                         | A2                      | Positive                    | Reaffirmed           |
|   | 07/06/2021  | A-                         | A2                      | Positive                    | Maintained           |
|   | 24/04/2020  | A-                         | A2                      | Rating-Watch Developing     | Maintained           |
|   | 03/04/2019  | A-                         | A2                      | 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 Meetings Conducted</b> |   | <b>Name</b>                | <b>Designation</b>      | <b>Date</b>                 |                      |
|   | 1.  | Mr. Muhammad Ismail        | Chief Financial Officer | 13/11/2024                  |                      |
|   | 2.  | Mr Muhammd Asif            | Finance Manager         |                             |                      |