

## RATING REPORT

## Rizwan Enterprises

**REPORT DATE:**

January 13, 2020

**RATING ANALYST:**

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## RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	Stable	
Rating Date	January 13, 2020	

## COMPANY INFORMATION

Incorporated in 1978	External auditors: Munaf Yusuf & Co. Chartered Accountants
Association of Persons	
Key Shareholders (with stake 5% or more):	Managing Partner: Mr. Rizwan Ihsan
Mr. Rizwan Ihsan – 50%	
Mr. Rehan Ihsan – 50%	

## APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria *Industrial Corporates (May 2016)*  
<http://www.vis.com.pk/docs/Corporate-Methodology-201605.pdf>

## Rizwan Enterprises

## OVERVIEW OF THE INSTITUTION

Rizwan Enterprises was established in 1978. The company is engaged in manufacture and export of textile goods and made-ups. Registered office is at F-50, SITE, Karachi.

## RATING RATIONALE

Rizwan Enterprises (RE) is a partnership concern engaged in weaving, processing, stitching, packaging and sale of various kinds of textile products. The products include greige fabrics, finished fabrics ROT, bedding, organic bedding, hospitality and healthcare fabrics and pocketing. The company has manufacturing facilities for weaving and stitching.

**Key Rating Drivers:**

**Business risk profile supported by favourable industry dynamics and greater opportunities for growth**

**Figure 1: Pakistan Textile Exports (Source PBS)**

(Mn Tons, USD Mn)	FY18			FY19		
	Volume	Value	USD/Unit	Volume	Value	USD/Unit
Raw Cotton	35	58	1.66	12	20	1.67
Yarn	518	1,371	2.65	427	1,125	2.63
<b>Non-Value Added</b>	<b>553</b>	<b>1,429</b>	<b>2.58</b>	<b>439</b>	<b>1,145</b>	<b>2.61</b>
Knitwear	117	2,733	23.36	133	2,909	21.9
Bedwear	359	2,261	6.30	376	2,262	6.02
Towels	189	788	4.17	194	786	4.05
Readymade Garments	40	2,581	64.53	50	2,657	53.14
<b>Value Added</b>	<b>705</b>	<b>8,362</b>	<b>11.86</b>	<b>753</b>	<b>8,612</b>	<b>11.44</b>

Total textile exports from Pakistan depicted strong growth during FY18 with increase being driven by the value added segment. While pace of growth has slowed down in FY19 with only 6.8%/3.0% growth registered in volume/value terms in value added textile exports, VIS expects double digit growth in textile exports over the medium term as impact of planned and ongoing capacity expansions and supportive government policies kicks in. Supportive government policies for the textile sector are evident from availability of electricity at competitive rates, sizeable rupee depreciation over the last 18 months, availability of funding lines at concessionary rates, continuation of drawback on local taxes and levies (DLTL) regime and commitment for timely release of outstanding refunds. Moreover, improving perception (opening of visa regimes) and law and order situation is facilitating buyers to visit the Country and place orders. Major buyers are also looking to diversify their procurement from China (ongoing trade war between USA and China and increasing cost of doing business in China), which is already resulting in gradual increase in orders to Pakistan. Nonetheless, key business risk factors include country's macro-economic challenges, slow-down in major markets, inability to pass on increase in input costs, increase in competition from other regional countries and local players and exit of a major customer. Recent 31% hike in gas prices by the government coupled with downward trend witnessed in prices in dollar terms may put pressure on the margins of textile companies in the short term.

**Sound financial profile although concentration in sales is high**

The assigned ratings derive strength from RE's long experience in its business segment, strong growth momentum in sales and profitability and adequate business risk profile. Ratings also draw comfort from the firm's sound financial profile as reflected by strong cash flows in relation to outstanding debt, healthy debt servicing ability and robust coverage of short term borrowings. Although leverage indicators are projected to increase due to debt draw down for funding ongoing expansion, gearing levels and debt servicing capacity are projected to remain manageable over the rating horizon. Ratings take note of the relatively moderate scale of operations and room for improvement in the firm's corporate governance.

Ratings take into account the company's ability to achieve revenue growth through expansion, while ensuring growth in margins and profitability, along with committed policy to maintain strong capitalization indicators. Ratings remain dependent upon maintaining growth profile with sound financial indicators particularly leverage ratios.

Rizwan Enterprises

Appendix I

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>			
<b><u>BALANCE SHEET</u></b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
Partner's Capital Account	912.6	965.5	1,214.5
<b><u>INCOME STATEMENT</u></b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
Net Sales	1,542.2	1,988.8	2,874.8
Profit Before Tax	105.2	176.6	349.4
Profit After Tax	89.2	157.2	321.9
<b><u>RATIO ANALYSIS</u></b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
FFO	97.6	252.2	427.0
Gearing (x)	0.29	0.52	0.45
Current Ratio (x)	1.8	1.9	2.7

**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>	Rizwan Enterprises				
<b>Sector</b>	Textiles				
<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><u>RATING TYPE: ENTITY</u></b>				
	13/1/2020	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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