

RATING REPORT

Rizwan Enterprises

REPORT DATE:

April 23, 2020

RATING ANALYST:

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Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	Apr 23, 2020		Jan 6, 2020	
Rating Outlook	Rating Watch-Developing		Stable	

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.

Operations

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.

Corporate Governance framework is considered weak and depicts room for improvement

As RE is a family-owned partnership company, the Board is composed of family members. In line with best practices, corporate governance framework may be improved through inclusion of independent directors on board and development of board level committees. An experienced management team with relevant industry expertise is in place. Internal controls are also considered adequate.

Coronavirus to result in uncertainty in textile sector dynamics

The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand, sharp fall in cotton prices and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating Watch-Developing' status. Given the capital structure, it is expected that ratings will remain stable post recovery of the ongoing situation; nevertheless as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status.

Rizwan Enterprises
Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	FY17	FY18	FY19
Paid up capital	N/A	N/A	N/A
Partner's Capital Account	912.6	965.5	1,214.5
<u>INCOME STATEMENT</u>	FY17	FY18	FY19
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
<u>RATIO ANALYSIS</u>	FY17	FY18	FY19
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

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	Rizwan Enterprises				
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
	<u>RATING TYPE: ENTITY</u>				
	22/4/2020	A-	A-2	Rating Watch-Developing	Maintain
	6/1/2020	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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Due Diligence Meetings	N/A				