RATING REPORT

Rizwan Enterprises

REPORT DATE:
July 19, 2021

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	*July 19, 2021*	

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

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria *Industrial Corporates (May 2019)* **https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.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

Headquartered in Karachi, Rizwan Enterprises (RE) is a moderate-sized partnership concern engaged in weaving and sizing business with limited presence in stitching segment. Processing, bleaching and printing is outsourced to third parties. RE is an export-oriented company while its sponsors are well-experienced with the presence of more than 40 years in textile business. Product portfolio includes greige fabrics, finished fabrics ROT, bedding, organic bedding, hospitality and healthcare fabrics and pocketing. Manufacturing facility is located in S.I.T.E Karachi. Power requirement of 3.5MW is met through gas-based power generators while sanctioned load from national grid is also available as a backup.

Capacity utilization remained under pressure in FY20 due to the pandemic-induced slowdown in demand. However, given subsequent economic recovery utilization levels have recovered in the ongoing year on account of sizeable jump in export orders. In view of the same, the management has planned to install additional looms at a total capex of Rs. 525m; of which Rs. 425m will be financed through LTFF and remaining through internal capital. Post expansion, installed production capacity would increase by 5.1m meter per annum and the project is expected to come online in FY22.

Weaving Segment	FY19	FY20	9M'FY21
No of Looms	238	272	272
Installed capacity (in M Meters)	18.0	23.4	23.9
Actual production (in M Meters)	16.7	20.0	22.4
Capacity Utilization	93%	85%	94%

Key Rating Drivers

Textile and clothing exports rebounded post ease in nation-wide lockdowns (due to Covid-19 pandemic); outlook is favorable going forward.

In FY20, export revenues from textile segment dropped by ~6% to USD 12.8b (FY19: USD 13.6b) in the wake of Covid-19 induced lockdowns both domestically and globally. Negative trend was noted in all segments. However, following the ease in pandemic restrictions after the first wave along with the implementation of smart lockdown policy and given subsequent economic recovery, textile exports (as per PBS) rose to USD 12.7b in 10M'FY21 (vis-à-vis USD 10.8b SPLY), registering a sizeable growth of ~17%. This growth was mainly was driven from the value-added sector while growth in knitwear exports (both in terms of value and volume) outpaced the other segments. Meanwhile, the commodities that witnessed negative growth in trade included raw cotton, cotton yarn and cotton cloth.

Segments	Amount in USD (millions)		(%) Change
	10M'FY21	10M'FY20	
Knitwear products	$3,126	$2,392	31%
Readymade Garments	$2,512	$2,232	13%
Bed wear	$2,292	$1,838	25%
Towels	$777	$611	27%
Made-up Articles	$628	$513	22%
Art, silk and synthetic textile	$302	$273	11%

Tents, canvas and tarpaulin	$96	$78	23%
Yarn (other than cotton yarn)	$27	$22	23%

Going forward, sector dynamics are favorable as Pakistan continues to receive export orders from global economies as competing regional countries like India and Bangladesh remains hampered by the Covid-19 outbreak. Given the surge in demand, the industry is currently operating at full capacity and going through expansion and up-gradation to cater for additional demand.

5-Year (2020-25) textile policy continues to support the industry.
With the aim to double textile exports in five years, GoP through a five-year textile policy (2020-25) has provided incentives in form of preferential energy rates, low interest rates financing schemes (such as EFS, LTFF and TERF) and timely payments of DLTL which would support liquidity constraints of local players. Initiatives are also being undertaken in order to increase production and yield of cotton to support the industry. Nevertheless, downside risk, in the short-tern, remains elevated on account of third wave of Covid-19. In the long run, improvement in value addition, investment in technology and optimization of energy cost would be the key determinants of textile exports.

Despite pandemic-induced slowdown, topline continues to witness a growth trend on account of higher average selling prices.
Topline of the company posted a 5-Year CAGR of ~16% and amounted to Rs. 3.1b (FY19: Rs. 2.9b) in FY20. The year-on-year uptick of ~8% in sales was attributable to higher average selling prices whereas volumes declined on the back of pandemic-induced fall in demand. Subsequently, upon diversion of export orders to Pakistan, volumes witnessed a healthy recovery in the ongoing year where major growth was derived from the hospitability segment. In 9M'FY21, the company recorded net sales of Rs. 2.8b and the growth momentum is expected to continue on the back of rising international demand with projected sales expected to cross Rs. 5b mark by end-FY22.

Majority of company's sales are exported and comprise fabric while made-ups and provision of sizing services represent a small proportion of revenues. During FY20 and in the ongoing year, the company diversified into new regions including France, Greece, Bulgaria and Australia.

Profitability margins have sustained during the past two consecutive years. Going forward, increase in production capacity will drive the future growth in earning profile.
Gross margins remained healthy at above 18% during last two consecutive years mainly due to rupee devaluation (24% in FY19 and 16% in FY20) and inventory management (70% raw material is imported due to favorable pricing). However, in the ongoing fiscal year margins have remained under pressure. Operating overheads continue to witness an increasing trend on the back of higher depreciation and increase in salaries expenses in line with higher inflation. Financial charges despite the increase remain on the lower side given limited debt present on the balance sheet and the same being mobilized at concessionary rates. Profitability profile is also supported by other income which mainly includes export rebates and profit on bank deposits. During 9M'FY21, the company posted profit after tax (PAT) of Rs. 252.6m (FY20: 330.2m). Going forward, increase in production capacity will drive the growth in profitability profile.

Liquidity profile is sound; timeline growth in earnings has led to improvement in

cash flow coverages.

Liquidity profile is considered strong with healthy cash flow generation in line with improving profitability. In absolute terms, Funds from Operations (FFO) increased to Rs. 453.3m (FY19: Rs. 427.0m) in FY20. As a result, FFO to total debt and FFO to long-term debt were also reported higher at 78.5% (FY19: 77.7%; FY18: 50.3%) and 106.0% (FY19: 92.0%; FY18: 85.1%), respectively. Debt Service Coverage Ratio (DSCR) stood lower at 8.7x (FY19: 11.4x) due to higher finance cost paid. Current ratio of the company remains strong and over 2.0x while trade debts and stock in trade are more than sufficient to cover short term borrowings. Aging profile of trade debts remain within manageable levels.

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix I

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 II
Name of Rated Entity	Rizwan Enterprises
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see table below)
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	(see table below)

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
19/07/2021	A-	A-2	Stable	Initial

Due Diligence Meeting

Name	Designation	Date
Mr. Yasir Idrees	CFO	July 05, 2021
Mr. Muhammad Umair	Manager Finance	