RATING REPORT

Rizwan Enterprises

REPORT DATE:
May 17, 2022

RATING ANALYST:
Sara Ahmed
sara.ahmed@vis.com.pk

Muzammil Noor Sultan
muzammil.noor@vis.com.pk

RATING DETAILS				
Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-1	A-	A-2
Rating Date	*May 17, 2022*		*July 19, 2021*	
Rating Action	Upgrade		Initial	
Rating Outlook	Stable		Stable	

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 (Aug 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Rizwan Enterprises

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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.

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 is met through 4 gas-based, and 2 diesel-based power generators while sanctioned load from national grid has also been increased from 1200KW to 3500KW to support additional requirements. The Company houses a dedicated IT team to constantly update the ERP platform as per the requirements.

Sector Dynamics

Pakistan's textile exports have grown at a CAGR of 4.4% during 3 year period from FY19 to FY21. Within the textiles, high value-added segment held the maximum share, which has been trending upward for last three years, increasing from 73.9% in FY19 to 80.7% in FY21. Knitwear, readymade garments, and bed wear constitute the major portion of this segment. Total textile exports for 9MFY22 have been recorded at USD 14.2b (FY21: USD 15.4b, FY20: USD 12.5b). The combined proportion of cotton cloth, knitwear, bed wear, and towels amounted to USD 8.76b in 9MFY22 (FY21: USD 9.4b, FY20: USD: 7.4b). The increase in exports is attributed to government's favorable policies for exporters, shifting of orders from competitors to Pakistani manufacturers, and an increase in demand on account of opening up of markets post pandemic lockdowns.

Key Rating Drivers

Enhanced production capacity to contribute towards topline growth.
During 8MFY22, multiple additional key production machines came online to increase the capacity from 24m meters to 26m meters per annum. Impact of this enhanced capacity will be fully reflective in FY23. During the year, 34 air jet looms were purchased, through an LTFF facility of Rs. 420m as well as internal cash flows. Moreover, a property of 10 acres has been acquired in Nooriabad area of Karachi, financed through internal cash flows, for future expansion projects not yet finalized. Overall, capacity utilization increased marginally to 87% in FY21, driven by increased demand post pandemic ease down.

	FY20	FY21	8M'FY22
Number of Key Machinery installed	203	204	250
Number of Key Machinery worked	203	204	250
Number of working days	31	31	31
Number of shifts per day	3	3	3
Installed capacity (Length in m)	23,450,253	23,919,258	26,311,183
Actual production (Length in m)	20,044,555	20,716,788	14,570,285
Utilization	85%	87%	55%

Growth in the topline is expected to continue as the Company on-boards new clients in untapped geographical markets

Topline of the company witnessed an increase of 23%, standing at Rs. 3.8b (FY20: 3.1b). This uptick is primarily volume-based; however, some support was provided by exchange gains. Export sales continue to dominate the sales mix, making up more than 87% of total revenues. Product-wise, greige fabric remained the top selling product. Overall, fabric sales continue dominate the sales mix at both local and international levels, while made-ups have comprised less than 4% of total sales over the years. Europe remains the primary export market, driven by the GSP+ status to Pakistan. Client concentration is on the higher side.

During 9MFY22 the Company has already crossed the Rs. 5.44b mark, and management expects to close FY22 around Rs. 6b, albeit the impact of exchange gain is expected to be more pronounced in the ongoing year, due to significant rupee de-valuation.

Gross margins compare favorably to peers

Gross margins of the Company have remained strong relative to peers, and continue to further strengthen in FY21 (FY21: 18%, FY20: 17.3%), supported by growth in topline as well as improved operational efficiencies. Gross margins in 1HFY22 also show an upward trend to 19.4%, generating a higher quantum of gross profits than same period last year. Going forward, the same is expected to improve further as the backup power costs will significantly reduce because the additional load has been sanctioned from the national grid instead of relying on expensive diesel-generated power.

Operating margins witnessed some pressure because of a significant increase in freight costs and reduced export rebate. This impact trickled down to net margins, which were restricted to 10.3% in FY21 (FY20: 10.5%). Moreover, in 1HFY22, although improvement in GMs was witnessed, net margins remained flat as a result of increased finance costs.

Sound capitalization indicators are in line with the assigned ratings

Total debt increased to Rs. 698.9m (FY20: Rs. 577.7m) owing to increased short term borrowing. Short term loans amounting to Rs. 259m (FY20: Rs. 119.9m) are availed through two running finance facilities and one packing credit facility with a combined limit of Rs. 330m. Long term loans slightly decreased during FY21 to Rs. 439m (FY20: Rs. 457m), of which only Rs. 373m was outstanding at end-FY21 after retiring a larger current portion than the previous year.
On account of the above changes in the debt and equity structures, gearing and leverage ratios stand at 0.44x (FY20: 0.41x) and 0.72x (FY20: 0.64x) respectively. Capitalization indicators remain sound in support of the assigned ratings.

Strong liquidity profile

Higher profitability contributed towards improved Funds from operations year-on-year basis (FY21: Rs. 518.7m, FY20: Rs. 452m). This combined with declining long-term debt, strengthened the FFO-to-LT debt ratio to 118% (FY20: 98.8%). FFO to total debt, despite witnessing a year on year decline due to increase in short term borrowing, remains strong at 74%, well above the peer average. Debt servicing also remains strong with DSCR of 7.58x (FY20: 8.68x), while inventory and trade debts provide comfortable cushion to short term borrowings. Cash conversion cycle is stable at 77 days with no change in the terms of trade. Trend in current ratio on a timeline basis (FY21: 2.15x; FY20: 2.59x) is reflective of strong liquidity profile.

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	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	17/05/2022	**A-**	**A-1**	**Stable**	**Upgrade**
	19/07/2021	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 Meeting	**Name**	**Designation**	**Date**		
	Mr. Yasir Idrees	CFO	April 12, 2022		
	Mr. Muhammad Umair	Manager Finance			