

RATING REPORT

Rizwan Enterprises

REPORT DATE:

May 29, 2023

RATING ANALYSTS:

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Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-1	A-	A-1
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Upgrade	
Rating Date	May 29, 2023		May 17, 2022	

COMPANY INFORMATION

Incorporated in 1978	External Auditors: Munaf Yusuf and Co. Chartered Accountants
Association of Persons (AoP)	Managing Partner: Mr. Rizwan Ihsan
Key Shareholders (with stake 10% or more):	
Mr. Rizwan Ihsan ~50%	
Mr. Reham Ihsan ~50%	

APPLICABLE METHODOLOGY(IES)**VIS Entity Rating Criteria:** Industrial Corporates (May 2023)<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>

Rizwan Enterprises

OVERVIEW OF
THE
INSTITUTION

Rizwan Enterprises is a partnership by the Ihsan brothers. The family's history working in the textile industry dates back since 1938 when they set up a textile mill in Hyderabad.

Consequently, in 1978, Mr. Ihsan Ellahi started his company under the name of Messers Rizwan Enterprises. In 1986, his elder son Rizwan joined the family business. By 1994 the company was exporting large volumes to Australia, US, Hong Kong and other regions. Whereas, in 2000, Rehan the younger son of Mr. Ellahi joined the company.

Today the company is engaged in manufacturing and exporting of textile goods and made-ups. Registered office is at F-50, SITE, Karachi.

RATING RATIONALE

Corporate Profile

Rizwan Enterprises (RE) has been operating for more than 40 years as a medium-sized partnership concern, primarily focused on weaving, sizing and stitching. However, fabric processing, bleaching and printing are outsourced to third-party vendors. Product portfolio comprises greige fabrics, finished fabrics ROT, organic bedding, hospitality and healthcare fabrics and pocketing. Average energy demand of 3MW is met through an optimal mix of four gas-based and two diesel-powered generators, along with a dedicated line from the national grid.

Capacity expansion over the review period and future plans

Since last review, the company added 34 new looms and replaced 40 shuttle-less looms with modern air-jet picanol ones, resulting in a total of 250 machinery. Project cost stood at Rs. 420m and was financed through a mix of an LTFF facility and internal cash flows. Management has expressed interest in setting up a spinning facility in the future for vertical integration, and has already acquired a 10-acre land in Nooriabad for this purpose.

Operational Performance

The company's headquarter and manufacturing facility are situated in S.I.T.E Area, Karachi. In FY22, annual production capacity increased by ~10% to 26.3m meters. However, production levels have noted a declining trend over the review period, which management attributed to slowdown in demand. This, combined with the higher installed capacity, resulted in a significant decrease in utilization ratios.

Table: Capacity & Production Data (Unit in millions)

	FY20	FY21	FY22	6M'FY23
Machinery Installed	203	204	250	250
Installed Capacity (Meters)	23.4	23.9	26.3	13.1
Actual Production (Meters)	20.0	20.7	19.2	9.0
Utilization (%)	85%	87%	73%	68%

Key Rating Drivers

Business risk profile is constrained by current weak macroeconomic environment both globally and locally, demand slowdown, high interest rate situation, inflationary pressures and recent floods adversely affecting cotton crop while ongoing energy crisis in the country pose a challenge to margins sustainability and future growth.

Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally broke the threshold, coming in at USD 32.4b. Textile sector contributes nearly one-fourth to industrial value-added segment and 8.5% to the country's GDP, with an estimated market size of around Rs. 4.0tr. Barring seasonal and cyclical fluctuations, textiles sector has maintained an average share of about 60% in national exports.

Table: Pakistan Export Statistics (in USD millions)

	FY20	FY21	FY22	9M'FY22	9M'FY23
Pakistan Total Exports	22,536	25,639	32,450	23,706	21,088
Textile Exports	12,851	14,492	18,525	13,577	12,992
PKR/USD Average rate	158.0	160.0	177.5	171.5	235.5

Source: SBP

Export revenues from textile sector have noted sizeable growth over the years (FY22: \$19.3b FY21: \$15.4b; FY20: \$12.5b; FY19: \$13.6b). Knitwear, Readymade and Bed wear segments continue to contribute higher than other segments, with a cumulative contribution of more than 60% in textile exports. While the growth was primarily driven by volume (excluding knitwear and cotton yarn), higher prices also boosted exports.

Table: Textile Export Details (in USD millions)

	FY20	FY21	FY22	9M'FY22	9M'FY23
High Value-Added Segment	9,669	12,427	15,605	11,482	10,318
- Knitwear	2,794	3,815	5,121	3,730	3,390
- Readymade Garments	2,552	3,033	3,905	2,864	2,657
- Bed wear	2,151	2,772	3,293	2,449	2,032
- Towels	711	938	1,111	820	745
- Made-up Articles	591	756	849	627	535
- Art, Silk & Synthetic Textile	315	370	460	344	309
- Others	555	743	866	650	650
Low to medium Value-Added Segment	2,858	2,972	3,717	2,760	2,158
- Cotton Cloth	1,830	1,921	2,438	1,795	1,538
- Cotton Yarn	984	1,017	1,207	908	573
- Others	43	34	72	56	47
Total	12,527	15,399	19,332	14,243	12,476

Source: PBS

Cotton prices rose to a new 12-year high of ~Rs. 21,600/maund as of March'22, as a result of the shortage and higher input costs of fertilizer and energy. Cotton imports were also up 19.8%, in USD terms, for FY22 vis-à-vis preceding year.

Table: Cotton Prices Trend (In Rs.)

	FY19	FY20	FY21	FY22	9M'FY23
Per Maund	8,770	8,860	13,000	17,380	18,935
YoY % Change	26%	1%	32%	34%	n/a

Floods in Sindh and Southern Punjab during recent monsoon season have caused significant damage to the cotton crop. According to industry estimates, ~45% of the crop has been washed, worth more than \$2.5b, resulting in significant price increases. The government has announced facilitation for raw materials imports to compensate for domestic shortages. Nonetheless, in addition to affecting profit margins, higher raw material pricing is expected to increase the working capital requirements, which is likely to have a negative impact on the liquidity profile of textile operators, particularly spinners, weavers and dyeing companies.

Global and domestic challenges, such as slowdown in export demand (primarily from North America and the EU, which has begun to materialize in Pakistan's monthly export proceeds) due to recessionary trend, industrial gas load shedding expected in the country, and rising production costs due to inflation, will weigh on the business risk profile going forward. These factors may result in competitive market pricing for exporters.

Record high revenue posted in the outgoing fiscal year mainly due to higher dollar prices and volumetric increase. However, global demand slowdown impacted sales growth in the current year.

Sales revenue exhibited a consistent growth trend over the timeline, with a strong double-digit annual growth rate for the second consecutive year, reaching Rs. 5.9b in FY22. The YoY increase of ~56% is mainly attributed to higher prices in dollar terms, uptick in volumes and

rupee devaluation impact. However, recent demand slowdown due to economic downturn in major world economies has impacted the growth in the current fiscal year, with net sales amounting to Rs. 2.6b in 6M'FY23. Management anticipates topline to reach previous year level of Rs. 6b for the full year FY23.

Over 90% of revenue comes from exports of greige fabric, hospitality and home use fabric and made-ups, with only greige fabric being sold locally. Product-wise, grieger fabric constitutes over three-fourth of the total sales, with finished fabric and made-ups making up the rest. Europe remains the primary export market, with Germany, Portugal, and Italy being the major destinations while client concentration is on the higher side.

Profit margins noted a sharp contraction in the current fiscal year due to drop in sales and higher costs for raw materials and power. Shift towards local yarn procurement will lead to improvement in margins, going forward.

Gross and net profitability margins increased over the last two years but noted a contraction in the current fiscal year due to drop in sales and higher expenses for raw materials, salaries, and power. Previously, most yarn was imported with a 60:40 ratio of imports to local procurement. This shifted in the current year, with 63% of yarn purchases coming from domestic sources. Management expects this transition to lead to improved margins in the future.

Administrative overheads increased in line with inflation while distribution cost more than doubled due to sizeable jump in freight and packing expenses in FY22. Similarly, financial charges also increased by two-fold yet remains at manageable levels given limited debt present on the balance sheet.

Liquidity profile remains satisfactory in line with growing profitability while aging profile of trade debts indicates room for improvement.

Fund flow from operations (FFO) grew significantly in FY22, reaching Rs. 821.2m (FY21: Rs. 518.7m), which aligns with record-high net profit. However, cash flow coverages remained nearly at similar levels due to increased debt from the mobilization of LTFF facility for machinery addition during the review period. Debt servicing coverage ratio declined to 4.07x (FY22: 7.91x) at end-9M'FY23.

Current ratio is consistently reported above 2.0x for the last four fiscal years and coverage of short-term borrowings in relation to trade debts and inventory remains sufficient, indicating a sound liquidity profile. Cash conversion cycle has remained consistent within the range of 55 to 80 days over time. Aging profile of trade debts has room for improvement as significant portion of payments are received after 90 days.

Healthy growth in equity base; leverage metrics compare favorably to peers.

Supported by strong bottom-line and healthy retention, equity base grew by ~31% and reached Rs. 2.1b in FY22. Debt profile rose to Rs. 1.0b and comprises a mix of short-term and long-term borrowings; ~29% constituted short-term debt, with majority being the ERF facility. Thus, resulting in a higher proportion of concessional debt. Gearing and leverage ratios have sustained on a timeline basis and compare favorably to peers.

REGULATORY DISCLOSURES				Appendix I	
Name of Rated Entity	Rizwan Enterprises				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	Rating Type: Entity				
	May 29, 2023	A-	A-1	Stable	Reaffirmed
	May 17, 2022	A-	A-1	Stable	Upgrade
	July 19, 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 Conducted	Name		Designation		Date
	Mr. Yasir Idrees		CFO		April 26, 2023
	Mr. Muhammad Umair		Manager Finance		