RATING REPORT

Rizwan Enterprises

REPORT DATE:
August 21, 2024

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-1	A-	A-1
Rating Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	August 21, 2024		May 29, 2023	

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. Rehan Ihsan~50%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates
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

RATING RATIONALE

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, Honk 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.

Corporate Profile

Rizwan Enterprises (RE or 'the company') has been operating for more than 4 decades 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, organic bedding, hospitality and healthcare fabrics and pocketing. Average energy demand of 2.3MW is met through an optimal mix of four gas-based, two diesel-powered generators, 424-KW installed Solar, along with a dedicated line from the national grid. The registered office and factory of the company is located in Karachi.

Sector Update:

The business risk profile of the textile sector in Pakistan is characterized by a high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors. In FY23, the textile sector faced challenges due to various economic and environmental factors. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and import restrictions due to diminishing foreign exchange reserves.

During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, as a result of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Reduction in cotton supply, coupled with global economic slowdown and contractionary economic policies, led to a decrease in demand for textile products and, consequently, cotton yarn.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs and inflationary pressures. Additionally, the sector's vulnerability to global market dynamics and the domestic economic landscape further contribute to its high business risk profile. However, there is optimism as an anticipated bigger cotton crop in FY24 is expected to alleviate some pressure on input costs and margins.
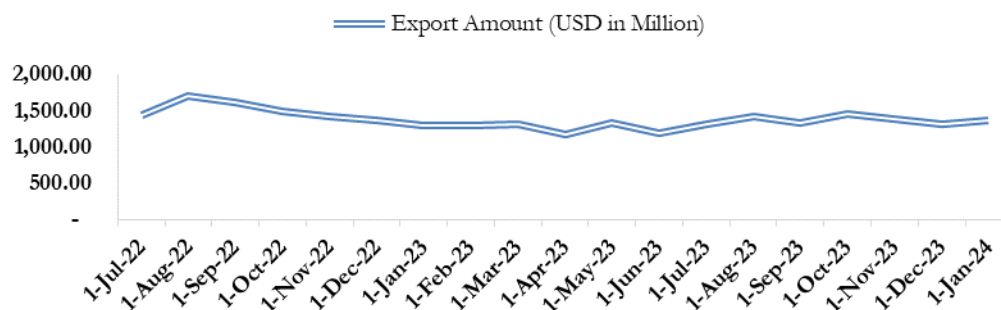
MONTH-WISE EXPORT DATA FOR TEXTILE SECTOR

Figure 1: MoM Textile Exports (In USD' Millions) | Source: SBP

Operational Performance

Production levels have noted a declining trend in FY23, which was attributed to slowdown in demand. However, during 10M'FY24, improvement in production and capacity utilization levels was depicted on the back of recovery in demand.

Key Rating Drivers

Revenue and Profitability:

Net sales of the Company registered a decline of approximately 12.7% Y/Y in FY23 attributed to lower volumetric sales despite higher selling prices on the back of rupee depreciation. For 10M'FY24, net sales demonstrated recovery in demand. Export and indirect export sales compose the Company's sales, with export sales representing a fluctuating share over the past three fiscal years, reaching 73.2% in 10M'FY24 from 92.2% and 92.5% in the preceding years. Client concentration is considered high with the top 10 clients contributing more than half of the total revenue on a timeline basis; however, comfort is drawn from the fact that the company has long-withstanding relations with these clients.

Gross margins decreased to 16.6% in FY23 (FY22: 21.8%) mainly due to high fuel and power cost to the Company. During 10M'FY24, gross margins further declined to 10.4% mainly due to the elevated fuel and power component of cost of goods sold. Around 55% of the yarn is procured locally, while the remaining is imported. Net margins in line with gross margins, followed a similar trend during the review period, declining to 7.8% in FY23 (FY22: 11.0%), with a further drop to 3.3% in 10M'FY24. This is attributed to reduced gross margins of the Company during the review period. Nevertheless, the Company maintained margins higher than its peer average during the review period.

In full year (FY24), the management achieved net sales of Rs. 4.8b, 8% lower than FY23 sales with margins of the Company clocking in at similar levels for FY24 compared to FY23. Moving forward, RE aims to concentrate on value-added products, such as made-ups, within the export market to boost its topline and increase its margins.

Liquidity Profile:

As of Jun'23, FFO of the Company has decreased by 34% clocking in at Rs. 542.1m (FY22:

Rs. 821.2m), mainly driven by reduced profitability. Resultantly, FFO coverage has also reduced. FFO to total debt and FFO to long-term debt has declined from 0.8x and 1.1x to 0.6x and 0.8x respectively. Debt Service Coverage Ratio ("DSCR") of the Company has also reduced from 7.5x to 4.8x in FY23 but continued to remain healthy and higher than its peer average. As of Jun'23, the Company maintained a healthy current ratio of 2.7x (FY22: 2.2x). With further deterioration in profitability margins during the 10M'FY24 period, cash flow and debt coverage indicators further declined but remained within the ratings benchmarks. Although the FFO coverage metrics for FY24 are lower than those for FY23, they still remain adequate from a ratings perspective.

Capitalization:

The core-equity base increased by ∼4% over as of Jun'23 amounting to Rs. 2.2b (Jun'22: Rs. 2.1b) due to profit retention. Total debt of the Company also reduced by approximately 14% on the account of lower short-term borrowings and repayments of long-term loans. Resultantly, Gearing and leverage marginally improved to 0.41x (FY22: 0.49x) and 0.65x (FY22: 0.81x) by end-FY23. The debt profile, a combination of short-term and long-term debts, showed a total interest-bearing liability of Rs. 885.2m (FY22: 1.0b). During 10M'FY24, the Company obtained Rs. 39.4m on a subsidized rate for the installation of its 424 KW solar power plant. As of Apr'24, the Company's total debt totaled at Rs. 1.0 billion, with a proportion of 59% long-term debt and 41% short-term debt. During the rating horizon, the Company does not intend to obtain any further long-term loans. As per the management, capitalization indicators are expected to further improve going forward, supported by internal capital generation.

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				
	Aug 21, 2024	A-	A-1	Stable	Reaffirmed
	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		July 10, 2024
	Mr. Muhammad Umair		Manager Finance		