RATING REPORT

Amna Industries (Private) Limited

REPORT DATE:
March 01, 2023

RATING ANALYSTS:
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RATING DETAILS		
	Initial Rating	
Rating Category	**Long-term**	**Short-term**
Entity	BBB+	A-2
Rating Outlook	Stable	
Rating Date	March 01, 2023	

COMPANY INFORMATION	
Incorporated in 2003	**External auditors:** Hyder Bhimji & Co. Chartered Accountants
Public Limited Company	**Chief Executive Officer:** Mr. Afzal Umer
Key Shareholders (with stake 5% or more)[1]**:**	
Mr. Afzal Umer (28.30%)	
Mr. Abid Umer (26.53%)	
M/s. Akila Umer (16.12%)	
M/s. Ameena Haji Umer (8.62%)	
M/s. Anisa Umer (7.68%)	
M/s. Azila Umer (7.15%)	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Amna Industries (Private) Limited

OVERVIEW OF THE INSTITUTION

Amna Industries (Private) Limited was incorporated in Pakistan on September 19, 2003 as a private Limited.

Profile of CEO

Mr. Afzal Umer is graduate of Business Administration from University of Houston, Texas, USA. He has been serving on the Board of Amna Industries (Private) Limited for over 25 years. He has also served on the Board of Al-Karam Textile Mills (Private) Limited.

RATING RATIONALE

Amna Industries (Private) Limited ('AIL' or 'the Company') is principally engaged in manufacturing and sale of yarn. AIL has a spinning capacity of 37,716 spindles and the Company employs a work force of 1,170. It specializes in production of knitted yarn ranging from 9 singles up to very fine yarn of 80 singles. In addition, the Company has also installed "Fabric Dyeing Unit" and a knitting department, with plans to grow export sales through garment segment.

Sector Update

Table 2: Pakistan Export Statistics

	FY20	FY21	FY22	H1'FY22	H1'FY23
PAKISTAN EXPORTS (IN USD' MILLIONS)	22,536	25,639	32,450	15,122	14,267
TEXTILE (IN USD' MILLIONS)	12,851	14,492	18,525	9,381	8,717
PKR/USD RATE (AVERAGE)	158.0	160.0	177.5	169.4	223.2
SOURCE: SBP					

- Pakistan's export growth came in at 14% and 27% in FY21 and FY22 respectively. Pakistan's export proceeds had oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally grew to USD 32.5b.
- In FY22, textile exports were up 28%. Growth in textile exports played a significant role in the uptick in Pakistan's export base, contributing 59% of the overall growth in exports. Share of textile exports in total exports has oscillated in the range of 54-59%, during the past 3-years (FY20-22).
- As illustrated in the table below, the composition of textile exports has depicted improvement in the on a timeline, with contribution from higher value added segment increasing from 77.2% in FY20 to 80.8% in FY22 of aggregate textile exports.

Table 3: Segment-wise textile Exports (All Figures in USD' Millions, except for percentages)

	FY20	FY21	FY22	H1'FY22	H1'FY23	FY20	FY21	FY22	H1'FY22	H1'FY23
High Value-Added Segment	**9,669**	**12,427**	**15,605**	**7,604**	**7,235**	**77.2%**	**80.7%**	**80.7%**	**81.1%**	**83.0%**
- Knitwear	2,794	3,815	5,121	2,500	2,467	22.3%	24.8%	26.5%	26.7%	28.3%
- Readymade Garments	2,552	3,033	3,905	1,832	1,833	20.4%	19.7%	20.2%	19.5%	21.0%
- Bed wear	2,151	2,772	3,293	1,660	1,428	17.2%	18.0%	17.0%	17.7%	16.4%
- Towels	711	938	1,111	524	492	5.7%	6.1%	5.8%	5.6%	5.6%
- Made-up Articles (Excl. towels & bed wear)	591	756	849	422	378	4.7%	4.9%	4.4%	4.5%	4.3%
- Art, Silk & Synthetic Textile	315	370	460	225	209	2.5%	2.4%	2.4%	2.4%	2.4%
- Others	555	743	866	441	429	4.4%	4.8%	4.5%	4.7%	4.9%
Low to Medium Value-added Segment	**2,858**	**2,972**	**3,717**	**1,777**	**1,483**	**22.8%**	**19.3%**	**19.2%**	**18.9%**	**17.0%**
- Cotton Cloth	1,830	1,921	2,438	1,135	1,066	14.6%	12.5%	12.6%	12.1%	12.2%
- Cotton Yarn	984	1,017	1,207	610	382	7.9%	6.6%	6.2%	6.5%	4.4%
- Others	43	34	72	32	34	0.3%	0.2%	0.4%	0.3%	0.4%
Total	**12,527**	**15,399**	**19,332**	**9,381**	**8,717**					
Source: PBS										

- Cotton production in Pakistan, was at its lowest level in decades for FY21, albeit the same posted 18% uptick in FY22. Actual production at 8.33m bales still missed the targeted production of 10.5m bales. 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.
- According to United States Department of Agriculture (USDA), the 2022/23 harvested area has declined notably following devastation caused by recent flood in Sindh and Southern Punjab.

Hence, the projected production has been brought down to 5m bales. To counter the shortage, import of 5.8m bales is expected during FY23, which is 29% higher than preceding year.

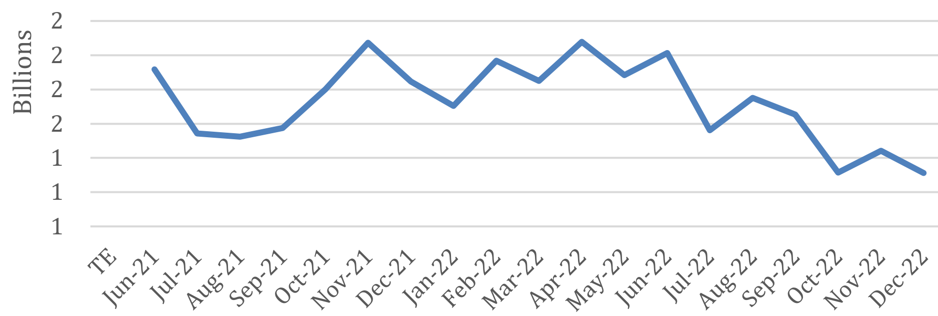
Table 4: Cotton Prices

	FY19	FY20	FY21	FY22
Per Maund (Rs.)	8,770	8,860	13,000	17,380
% Change	26%	1%	32%	34%

Future Outlook – Textile Industry

- After posting windfall margins in FY21 and H1'FY22, margins of textile operators, particularly spinners, weavers and dying units, have come under pressure during the period Jan-Sep'2022, mainly on account of higher input costs and recessionary trend in export markets.
- The recessionary trend in Pakistan's major export textile markets, mainly North America and EU, has started to materialize, with receipts for Q2'FY23 being 17% lower vis-à-vis corresponding period last year. The MoM decline in exports is illustrated in the graph below.

Figure 1: MoM Textile Exports (TE) (In USD' Billions)



- Given industrial gas load shedding during the period Dec-Feb'22, and prevailing recession in major export markets and peak inventory levels, export proceeds are expected to fall by 5-10% in FY23. Furthermore, profitability margins of textile operators, particularly spinners, weavers and dying companies, are expected to remain under pressure given higher input and financial costs.

Business Update – AIL

Sales & Operations

Table 1: Production Capacity

	FY19	FY20	FY21	FY22
NUMBER OF SPINDLES INSTALLED	36,770	36,770	37.320	37,716
NUMBER OF SPINDLES WORKED	36,770	36,770	37,320	37,716
NUMBER OF WORKING DAYS	360	336	360	360
NUMBER OF SHIFTS PER DAY	3	3	3	3
INSTALLED CAPACITY OF YARN (LBS.) 20/S	29,229,930	29,783,700	29,783,700	30,549,960
ACTUAL PRODUCTION OF YARN (LBS.) 20/S	28,973,858	29,349,493	26,579,162	28,007,701
	99%	99%	89%	92%
INSTALLED CAPACITY – KNITTING PRODUCTION (KGS)	-	-	-	500,000
ACTUAL PRODUCTION – KNITTING PRODUCTION (KGS)	-	-	-	358,271
	-	-	-	72%

Table 5: P&L (Extract)

	FY20	FY21	FY22
NET SALES (PKR MILLION)	4,033	5,147	6,677
GROSS MARGIN (%)	16.4%	16.5%	17.1%
NET MARGIN (%)	1.6%	9.2%	5.3%

- AIL's topline has grown at a CAGR of 16.1% during the past 5-year period (FY18-22). During FY22, growth in topline was relatively elevated at 29.7%. The uptick in topline was partly driven by uptick in local yarn sales and exports (direct & indirect), which contributed 75% and 22% of the uptick respectively.
- AIL's revenue base is dominated by local yarn sales, accounting for 78% of the topline, followed by a 13% contribution emanating from processing units.

Table 6: Revenue Breakup

	FY20		FY21		FY22	
NET SALES (PKR MILLION)	4,033		5,147		6,677	
- LOCAL SALES (YARN)	2,921	72.4%	4,047	78.6%	5,194	77.8%
- PROCESSING INCOME (DYEING)	687	17.0%	871	16.9%	872	13.1%
- WASTE SALLES	35	0.9%	29	0.6%	42	0.6%
- EXPORT (DIRECT & INDIRECT)	390	9.7%	108	2.1%	439	6.6%
- GARMENT SALES	-	-	92	1.8%	131	2.0%

- AIL's revenue base depicts moderate concentration, with largest 10 clients contributing 39% of the revenue base.
- Given challenges on the macroeconomic front, such as rising input costs, and slowdown in Pakistan's major export markets, the management expects topline to remain stagnant in FY23. During Q1'FY23, uptick in topline was reported at 6% vis-à-vis SPLY.
- AIL's gross margin has remained stable and strong over the past 3-year period (FY20-FY22). However, these depicted contraction Q1'FY23, dropping to 7.7% on account of higher raw material cost. As per management, given inventory gains, the margins have depicted improvement in Q2'FY23.
- Going forward, margins are expected post slight improvement from Q1'FY23 to come in the range of 10-12%.

Table 7: Cash Conversion Cycle

	FY20	FY21	FY22
-DIO	121	112	79
-DSO	199	166	140
-DPO	81	64	57
CASH CONVERSION CYCLE	**239**	**214**	**163**

- The Company operates with a long cash conversion cycle, which has exceeded 200 days during FY20-21. The cash conversion cycle did depict some improvement in the outgoing year. The cycle is mainly elevated on account of higher receivable days. Ageing of trade debts depicts 'High to

Medium' credit risk, with 54.5% of the trade debts falling under the 3-months bucket while 26.3% of the trade debts falling under 3-6 months bucket. Expected Credit Loss (ECL) charge of Rs.17.1m was created against receivables in in FY22 (FY21: Rs.21.6m).

- Given elevated cash conversion cycle, more than half of Company's asset base remains tied in the working capital. As at June'22, stock in trade and trade debts were recorded at Rs.1.4b and Rs.2.6b respectively, constituting 16% and 52% of the asset base respectively.
- The short term borrowing remained adequately covered by stock of trade debts and inventory, with a cover of 1.7x.
- In addition to the asset base tied in working capital, the Company has also provided advances to associate companies of Rs. 520.6m on profit sharing basis, which is more than a quarter of the Company's equity base.

Cash Flow Coverages

Table 8: Cash flow Analysis

	FY20	FY21	FY22
FFO (PKR MILLION)	115	453	650
FFO TO TOTAL DEBT (%)	2.9%	12.6%	17.9%
FFO TO LONG TERM DEBT (%)	11.9%	29.9%	49.7%
DEBT SERVICING COVERAGE RATIO (X)	1.00	1.36	1.61

- Given limited increase in total debt and more pronounced increase in FFO, the cash flow coverage indicators have depicted consistent improvement over past 3-year period (FY20-22). The increase is in tandem with the uptick in AIL's profitability.
- Given higher finance costs, rising working capital requirements and depressed profitability projections, the Company's FFO to Debt is projected to fall below 10%, while DSCR is projected to remained ~1x through the rating horizon.

Capitalization

Table 9: Balance Sheet Extract

	JUN'20	JUN'21	JUN'22
TOTAL ASSETS	8,870	7,698	9,031
TOTAL LIABILITIES	5,259	4,660	5,647
TOTAL EQUITY	2,364	1,635	1,980
TOTAL DEBT	3,919	3,589	3,639
- **LONG TERM DEBT**	964	1,517	1,307
- **SHORT TERM DEBT**	2,949	2,072	2,332
GEARING (X)	1.66	2.20	1.84
LEVERAGE (X)	2.22	2.85	2.85

- The Company's financial risk profile is viewed as 'High to Medium', given gearing ratio of 1.84x, and stressed projections on cash flow coverage indicators. Adjusting for advances provided to associates on profit sharing basis, the gearing increased to 2.5x.
- Going forward, management has envisaged that gearing will be kept under check, albeit the same is likely to be challenging task. However, for purposes of DSCR projections, VIS has assumed gearing ratio of ~1.8x through the rating horizon.

Key Rating Drivers – AIL

Rating incorporates AIL's operational track record, revenue base and margins

The assigned rating incorporates operational track record of AIL and its sponsors, who had a long standing association with the textile industry under the umbrella of AL Karam Textiles. Barring a one-off contraction of 10% in FY20, AIL's revenue base has depicted an increasing trend on timeline basis. AIL's revenue base depicts moderate concentration, with largest 10 clients contributing 39% of the revenue base. Given challenges on the macroeconomic front, such as rising input costs, and slowdown in Pakistan's major export markets, the management expects topline to remain stagnant in FY23. AIL's gross margin has remained stable and strong over the past 3-year period (FY20-FY22). However, these depicted contraction Q1'FY23, dropping to 7.7% on account of higher raw material cost. As per management, given inventory gains, the margins have depicted improvement in Q2'FY23. Going forward, margins are expected post slight improvement from Q1'FY23 to come in the range of 10-12%.

Rating takes into account business risk profile of the spinning sector

AIL operates in the cotton yarn spinning business, wherein performance is subject to cyclicality in cotton prices, which is further determined by crop yield. Historically, margins and financial performance of players has depicted seasonality. Moreover, competitive intensity is high due to commoditized nature of the product. AIL's major revenue is drawn from its spinning segment. However, AIL has managed to diversify in garment segment. Management projects garment sales to come in at Rs.1b in FY23, thereby improving the revenue mix of AIL.

AIL's high dependence on imported raw material poses a pertinent risk, given the procurement challenges on the back of import curtailment measures taken by the Government of Pakistan (GoP). However, AIL has managed to mitigate this risk by maintaining sufficient raw materials buffers.

Rating constrained by financial risk profile of the Company

AIL's financial risk profile is elevated, given 'High to Medium' level of gearing, which is viewed to be 'High' when adjusted for advances extended to associate companies. The management expects to maintain the gearing at a similar level through the rating horizon, which is likely to be a challenging task.

Amna Industries (Private) Limited			Annexure I
BALANCE SHEET	FY20	FY21	FY22
Fixed Assets	2,526	3,685	3,966
Long term Investments	1,891	-	-
Stock-in-Trade	1,637	1,001	1,410
Trade Debts	2,160	2,515	2,622
Cash & Bank Balances	18	4	50
Total Assets	8,870	7,698	9,031
Trade and Other Payables	941	567	1,156
Long Term Debt	964	1,517	1,307
Short Term Debt	2,949	2,072	2,332
Total Debt	3,913	3,589	3,639
Paid Up Capital	180	178	178
Total Equity	2,364	1,635	1,980
INCOME STATEMENT			
Net Sales	4,033	5,147	6,677
Gross Profit	662	847	1,142
Operating Profit	433	756	880
Profit Before Tax	75	605	478
Profit After Tax	63	471	353
RATIO ANALYSIS			
Gross Margin (%)	16.4%	16.5%	17.1%
Net Margin (%)	1.6%	9.2%	5.3%
Net Working Capital	324	1,015	963
Trade Debt/Sales	53.6%	48.9%	39.3%
FFO	115	453	650
FFO to Total Debt (%)	2.9%	12.6%	17.9%
FFO to Long Term Debt (%)	11.9%	29.9%	49.7%
Debt Servicing Coverage Ratio (x)	1.00	1.36	1.61
Current Ratio (x)	1.08	1.34	1.24
(Stock + Trade Debts) / STD	1.29	1.70	1.73
Gearing (x)	1.66	2.20	1.84
Leverage (x)	2.22	2.85	2.85
ROAA (%)	0.8%	5.7%	4.2%
ROAE (%)	2.7%	23.6%	19.5%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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	Amna Industries (Private) Limited
Sector	Textile
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				
03/01/2023	BBB+	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 Conducted

	Name	Designation	Date
1	Tabish Sharif	CFO	30th January 2023
2	Sheharyar Majeed	Deputy Manager Finance	