RATING REPORT

Amna Industries (Private) Limited

REPORT DATE:
May 17, 2024

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
Rating Outlook	*Negative*		*Stable*	
Rating Date	*May 17, 2024*		*Mar 1 ,2023*	
Rating Action	*Maintained*		*Initial*	

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)
Applicable Rating Criteria: 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*

Amna Industries (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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.

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. 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. The production facility of the Company is located at Landhi Industrial Area, Karachi, while the registered office of the Company is in West Wharf Road 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.

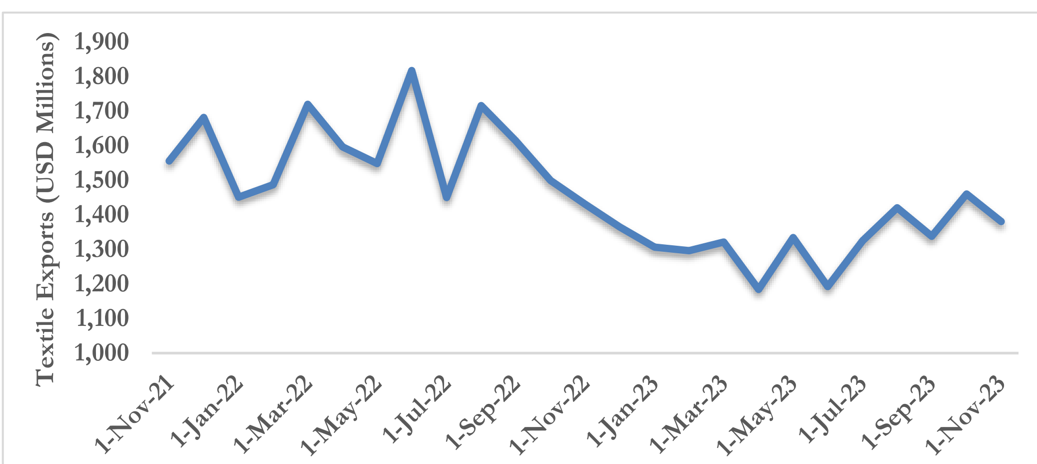

Figure 1: MoM Textile Exports (In USD' Millions) | Source: SBP

Operational Update: During the review period (FY23 & 1H'FY24) lower demand in export markets led to reduced capacity utilization in the yarn segment. In the short-to-medium term, the Company has no plans for any major expansion.

Capacity & Production (MT)	FY20	FY21	FY22	FY23	1H'FY24
Number of spindles installed	36,770	37,320	37,716	37,716	37,716
Number of spindles worked	36,770	37,320	37,716	37,716	37,716
Number of working days	360	360	360	360	180
Number of shifts per day	3	3	3	3	3
Installed capacity of yarn (Lbs.) [20/S]	29,783,700	29,783,700	30,166,830	30,549,960	15,487,133
Actual production of yarn (Lbs.) [20/S]	26,579,162	29,349,493	28,007,701	23,069,081	9,536,911
Capacity Utilization	89%	99%	93%	76%	62%
Installed capacity of yarn (Lbs.) [30/S]	17,373,825	17,373,825	17,597,318	17,820,810	9,034,161
Actual production of yarn (Lbs.) [30/S]	15,504,511	17,120,537	16,337,825	13,456,964	5,563,198
Capacity Utilization	89%	99%	93%	76%	62%
DYEING UNIT					
Installed capacity of yarn (Tons/day)	20	20	20	20	20
Actual production (Tons/day)	varies	varies	varies	varies	varies
KNITTING UNIT					
Installed capacity of yarn (Tons/day)	-	1.5	1.5	1.5	1.5
Actual production (Tons/day)	-	varies	varies	varies	varies

Key Rating Drivers:

Topline remained static in FY23, while increased operating expenses and finance cost resulted in negative net profit. 1H'FY24 reflects growth in topline with improved profitability.

During FY23, net sales remained unchanged at Rs. 6.6b (FY22: Rs. 6.6b). The Company attained higher avg. selling prices of cotton yarn, which was offset by lower volumetric sales. Local sales as a percentage of net sales stood at 91% (FY23: 92.3%; FY22: 93.4%) by end-1H'FY24, while the remaining constituted export sales. Majority of local sales are made to export oriented clients. During FY23, top 10 clients contributed 41.7% (FY22: 34.0%). Client concentration risk has remained low on a timeline basis since top clients vary on YoY basis. Despite no growth in topline, cost of sales increased by ~9%, amounting to Rs. 6.06b (FY22: Rs. 5.5b), primarily due to higher imported prices of cotton. Imported cotton prices increased by 57.8%, while local procurement prices increased by 22.3%. Resultantly, gross profit declined to Rs. 566.7m (FY22: Rs. 1.1b), with gross margins recorded lower at 8.6% (FY22: 17.1%). Operating expenses increased to Rs. 525.8m vis-à-vis Rs. 286.9m SPLY, mainly on account of higher distribution expenses coupled with impairment loss recorded on Joint Venture agreement Rs. 137.8m. This Joint Venture relates to a sister concern AKAZ Brand, to whom AIL rendered capital for working capital, while the arrangement between AKAZ and AIL was on Profit/loss basis. Upon the recommendation of the auditors, the Company realized a loss on this amount in FY23. Finance cost increased by more than 60% to Rs. 650.3m (FY22: Rs. 401.3m). This is mainly attributed to reliance on working capital financing coupled with higher markup rates. As a result of higher operating expenses and financial charges bottomline recorded a loss of Rs. 423.8m vis-à-vis a profit of Rs. 353.1m in FY22.

During 1H'FY24, net sales increased by ~32% vis-à-vis SPLY, amounting to Rs. 3.8b (1H'FY23: Rs. 2.9b). Increase was mainly due to higher selling prices. During the same period, client concentration remained stable given 43.1% of net sales emanated from top 10 clients. This level of client concentration is deemed to pose a moderate risk, given fluctuation of top clients on a yearly basis. Gross margins improved to 19.0% (1H'FY23: 6.8%) amid better procurement prices of cotton. During the same period, operating expenses increased in line with the inflationary trend in economy. While finance cost increased to Rs. 420m (1H'FY23: Rs. 276m) owing to higher reliance on working capital financing coupled with higher markup rates. Despite higher operating expenses and financial charges, net margins were positive for 1H'FY24, owning to significant increase in topline and increased gross margin. The management expects to close FY24 at Rs. 7.5b, with 3/4th of the sales contribution by yarn, while garments and retail sales are expected to clock in at a combined value of Rs. 1.5b. For FY24, gross margins are expected to remain around similar levels as compared to 1H'FY24, while the management expects net margins to remain suppressed in lieu of higher financial charges. Focus will remain on increasing export garment sales, going forward.

Profitability pressures leading to cashflow fluctuations. Short-term financing is used to make loan repayments.

Liquidity profile deteriorated in FY23, due to net loss recorded by the Company. Resultantly, funds from operations (FFO) were recorded negative at Rs. 228m in FY23 vis-à-vis a positive FFO of Rs. 650m in FY22. However, FFO turned positive in 1H'FY24, on the back of adjustment in non-cash expenses coupled with positive profitability. Cash flow coverages fluctuated during the review period. Despite experiencing a downturn in FFO during the review period, AIL is effectively managing its debt obligations by employing short-term financing. Due to positive FFO in 1H'FY24, debt service coverage ratio (DSCR) showed improvement and was recorded at 1.26x (FY23: 0.33x; FY22: 1.52x). Current ratio remained marginally above 1.0x at 1.01x (FY23: 1.01x; FY22: 1.24), indicating room for improvement. Net operating cycle has shown continuous improvement on a timeline basis to 134 days (FY23: 149 days; FY22: 163 days), on the back of better terms with clients. Going forward, improvement in cash flow coverages and overall strengthening of working capital profile is considered imperative from rating's perspective.

Slight augmentation in equity during the review period; while leverage indicators remain elevated due to higher borrowings.

Equity (adjusted for surpluses) in FY23, diminished considerably owing to loss, while a marginal augmentation was witnessed in 1H'FY24, on the back of internal capital generation. At end-Dec'23, long-term financing (including current portion) amounted to Rs. 1.1b (FY23: Rs. 1.25b; FY22: 1.48b). By-end 1H'FY24, ~ 50% of the total loan was priced on TERF basis, while the remaining was priced on KIBOR rate. During the review period, gearing and leverage elevated to 2.65x (FY23: 2.66x; FY22: 1.93x) and 3.90x (FY23: 3.94x; FY22: 2.85x) respectively, on account of higher short-term borrowings despite slight augmentation in equity base. During the rating horizon, the management did not mobilize any long-term loans and does not intend to do so going forward. However, regular BMR and investment in energy efficient projects will continue which will be funded through internal capital generation. Looking ahead, improvement in equity base and leverage indicators is important from ratings perspective.

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	**FY21**	**FY22**	**FY23**	**1H'FY24**
Property Plant and Equipment	3,685	3,966	4,104	4,011
Stores and spares	112	132	216	246
Stock-in-Trade	1,001	1,410	1,659	2,259
Trade Debts	2,515	2,622	1,905	1,637
Loans and Advances	64	549	405	269
Cash & Bank Balances	4	50	57	43
Other Assets	318	303	648	582
Total Assets	7,698	9,031	8,995	9,047
Trade and Other Payables	567	1,156	1,111	1,127
Long Term Financing (Current Portion)	1,484	1,481	1,251	1,107
Short Term Borrowings	2,072	2,332	2,831	3,020
Total Debt	3,556	3,813	4,082	4,127
Other Liabilities	536	678	863	831
Total Liabilities	4,660	5,647	6,056	6,084
Paid Up Capital	178	178	178	178
Tier-1 Equity	1,635	1,980	1,535	1,560
Total Equity	3,038	3,383	2,938	2,963
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**1H'FY24**
Net Sales	5,147	6,677	6,623	3,824
Gross Profit	847	1,142	567	728
Operating Profit	756	880	136	444
Profit Before Tax	605	478	(514)	24
Profit After Tax	471	353	(424)	24
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**1H'FY24**
Gross Margin (%)	16.5%	17.1%	8.6%	19.0%
Net Margin (%)	9.2%	5.3%	N/A	0.6%
Net Working Capital	1,015	963	67	41
FFO	453	650	(228)	303
FFO to Total Debt (%)	0.13	0.17	N/A	0.15*
FFO to Long Term Debt (%)	0.31	0.44	N/A	0.55*
Debt Servicing Coverage Ratio (x)	1.76	1.52	0.33	1.26*
Current Ratio (x)	1.34	1.24	1.01	1.01
Stock+Trade Debts/STD	1.70	1.73	1.26	1.29
Net Operating Cycle (Days)	214	163	149	134
Gearing (x)	2.18	1.93	2.66	2.65
Leverage (x)	2.85	2.85	3.94	3.90
ROAA (%)	5.7%	4.2%	N/A	0.5%*
ROAE (%)	23.6%	19.5%	N/A	3.2%*

**Annualized*

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				
	05/17/2024	BBB+	A-2	Negative	Maintained
	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.				
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Due Diligence Meetings Conducted		Name	Designation	Date
	1	Tabish Sharif	CFO	4th April. 2024
	2	Saleem Advani	Executive Director	