RATING REPORT

Asher Imran Spinning Mills (Pvt.) Limited

REPORT DATE:
August 18, 2022

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Outlook	*Stable*	
Rating Action	Initial	
Rating Date	*Aug 18, 2022*	

COMPANY INFORMATION	
Incorporated in 2000	**External auditors:** Baker Tilly Mehmood Idrees Qamar Chartered Accountants.
Private Limited Company	**CEO:** Mr. Muhammad Imran Khurram
Key Shareholders (with stake 5% or more):	**Chairman:** Mr. Muhammad Ismail Khurram
Comfort Knitwears (Pvt.) Limited – 99.98%	

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

Asher Imran Spinning Mills (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Asher Imran Spinning Mills (Pvt.) Limited was incorporated as Private Limited Company on May 27, 2000, under the repealed Companies Ordinance 1984 (now the Companies Act, 2017). It is principally engaged in manufacturing and sale of yarn. Registered office of the company is located at 45-Industrial Estate, Kot Lakhpat, Lahore.

Financial Snapshot

Tier-1 Equity: end-9MFY22: Rs. 1.1b; end-FY21: Rs. 864.4m; end-FY20: Rs. 709.9m.

Assets: end-9MFY22: Rs. 2.3b; end-FY21: Rs. 1.9b; end-FY20: Rs. 1.6b.

Profit After Tax: 9MFY22: Rs. 195.2m; FY21: Rs. 155.9m; FY20: Rs. 33.7m

RATING RATIONALE

Asher Imran Spinning Mills (Pvt.) Limited (AISML) is virtually a wholly-owned subsidiary of Comfort Knitwears (Pvt.) Limited (CKPL). CKPL is an export-oriented, vertically integrated knitwear apparel facility comprising spinning, knitting, dyeing and stitching facilities. AISML is an open-ended spinning unit that specializes in manufacturing and sale of yarn from recyclable waste material and cotton. AISML's clients largely include export-oriented knitwear and hosiery units. The ratings incorporate extensive experience of sponsors in the textile industry and their diversified exposure to pharmaceutical and transportation businesses.

The ratings take into account sustainable margins during the outgoing year as a result of favorable yarn prices and economies of scale. Liquidity profile is underpinned by adequate cash flow coverages in relation to outstanding obligations. The ratings also incorporate moderately leveraged capital structure supported by profit retention. Whilst there is high cyclicality and competitive intensity for the spinning industry along with volatility in cotton prices, overall business risk profile of the textile industry is supported by relatively stable demand and favorable regulatory regime. However, ongoing economic uncertainties in the domestic and international markets may impact the growth in the textile segment. The ratings will remain sensitive to achieving projected growth in sales and profitability, maintaining margins, and improving gearing and liquidity indicators, going forward.

Key Rating Drivers

Group's Introduction: The company is a part of 'Comfort Group' involved in diversified business interests primarily involving textile, pharmaceutical and transportation businesses. The shareholding of all the group companies is vested within the family. Zulfikar Knitting & Processing Mills (Pvt.) Limited (Z-KAP) is one of the group companies, which is a vertically integrated, export-oriented knitwear manufacturing unit. Major customers of Z-KAP includes renowned international brands namely, NEXT, Marc Ecko Enterprises, VF Corp, Sean John, Levi Strauss, and Liz Claiborne. Z-KAP manufacturing facility is situated in Lahore, within the immediate vicinity of CKPL. Comfort Yarn Dyeing and Surgical Cotton Mills (Pvt.) Ltd. is primarily involved in yarn dyeing and processing facilities. The group also includes two pharmaceutical companies under the banners of Frontier Dextrose Limited (FDL) and Curatech Pharma (Pvt.) Limited (CPL), involved in manufacturing and sale of intravenous solutions in polypropylene packing and antibiotics, respectively. As per management, FDL is undergoing a major expansion plan and is a market leader in its related industry. ZAR Motors is an association of persons, which is relatively a new venture of Comfort Group, involved in manufacturing of first ever electric rickshaw/three-wheeler minicab and loader vehicles in Pakistan.

AISML's Operations: AISML is a spinning unit comprising 4,432 rotors with a manufacturing capacity of 6.68m Kgs per annum. The company was initially acquired as closed-end spinning unit which was later replaced by autocoro unit in 2011 in order to diversify the group's spinning operations. The company specializes in manufacturing yarn from recyclable spinning waste and is among 'A' rated approved manufacturers of Inditex, a Spanish multinational clothing company (flagship store: Zara). The company also holds certifications of Global Organic Textile Standards (GOTS), Organic Content Standards (OCS), Global Recycling Standards (GRS), OEKO-TEX and is a member organization of Better Cotton Initiative (BCI).

Capacity utilization was reported at 60% (FY20: 50%; FY19: 82%) during FY21 in terms of 20s count. Property, plant and equipment (PP&E) stood at Rs. 928.3m (FY21: Rs. 954.3m; FY20: Rs. 750.0m) at end-9MFY22. The company added gas generator worth Rs. 77m during 9MFY22; meanwhile, the management conducted balancing, modernization and replacement (BMR) amounting Rs. 243m, largely comprising autocoro 9 spinning machinery during FY21. Around two-third of the expenditure was financed with long-term loan and the rest was funded through own sources. Additionally, the company has purchased Taitan's rotor spinning machinery recently, which is worth Rs. 130m. The management also intends to replace some old rotors which will increase the production efficiency by around 20%. Total estimated cost on this would be Rs. 174.9m which will be financed through own sources. Total power requirement of the company while operating at full capacity, stands at 2.7 MW which is being met through sanctioned load of 3 MW and gas generators of 1.5 MW capacity.

Growth in sales with largely intact gross margins during FY22: During FY21, the company recorded net sales of Rs. 3.3b (FY20: Rs. 2.1b; FY19: Rs. 3.1b). Topline was impacted during last quarter of FY20 due to pandemic that caused operations to remain closed for around two months. Net sales were recorded higher at Rs. 3.4b during 9MFY22 while full year net sales are reported at Rs. 4.7b (*Provisional numbers*). AISML's clients largely include export-oriented knitwear and hosiery units. The company sold 7.57m Kgs of yarn (FY21: 9.90m Kgs; FY20: 6.65m Kgs) at Rs. 442.2m/Kg (FY21: Rs. 296.9/Kg; FY20: Rs. 288.47/Kg) during 9MFY22. Overall yarn prices witnessed a hike owing to covid induced growth in textile industry of the country. Sales concentration risk is considered moderate as top ten clients accounted for 40% (FY21: 33%; FY20: 45%) of the net sales while not a single client has more than 10% contribution to the topline.

Top 10 Clients	**9MFY22**	**%**
Comfort Knitwears	317	9%
Crown Textile	187	6%
Usman & Sons	136	4%
M.R Industries	126	4%
Mustaqim Dyeing & Printing	121	4%
Moon Silk	120	4%
Afroze Textile Industries	94	3%
Hyades Internaional	91	3%
S.H & Co.	80	2%
Lal Industries	78	2%

The company recorded gross profit amounting Rs. 332.8m (FY20: Rs. 198.1m; FY19: Rs. 279.9m) with gross margin of 10.2% (FY20: 9.4%; FY19: 8.9%) during FY21. The increase in gross margin was primarily on account of favorable yarn rates and economies of scale. Cost of sales was recorded higher at Rs. 2.9b (FY20: Rs. 1.9b; FY19: Rs. 2.9b) while the proportion of raw material consumed in cost of goods manufactured decreased to 79% (FY20: 84%; FY19: 85%) as the ratio of spinning waste in raw material mix nearly doubled to 62% in FY21 as compared to 32% in the preceding year. AISML utilizes a mix of local and imported raw material depending on the orders composition. Polyester and viscose are entirely imported while waste material is procured from local spinning units, including the parent company. During FY21, around 32% (FY20: 11%) of the raw material was imported. Administrative expenses were recorded at Rs. 23.6m (FY20: Rs. 24.6m; FY19: Rs. 23.5m). Distribution expenses increased to Rs. 20.4m (FY20: Rs. 10.0m; FY19: Rs. 20.3m) due to higher freight and forwarding expenses in line with scale of operations. Finance cost was recorded lower at Rs. 44.4m (FY20: Rs. 104.2m; FY19: Rs. 75.9m) as a result of lower average borrowings and markup rates. Accounting for taxation, net profit was reported considerably higher at Rs. 155.9m (FY20: Rs. 33.7m; FY19: Rs. 141.6m) with increase in net margin to 4.8% (FY20: 1.6%; FY19: 4.5%) on the back of rationalization of operating expenses and decrease in finance cost.

During 9MFY22, gross profit was reported higher at Rs. 353.9m with gross margin of 10.5%. The cost of sales was recorded at Rs. 3.0b while raw material consumed accounted for 82% of the COGM. The proportion of waste material used decreased to 37% whereas proportion of cotton increased to 54% (FY21: 12%; FY20: 58%) during 9MFY22. Average rates of local and imported cotton witnessed a hike during the outgoing year mainly due to contraction in crop output. During 9MFY22, AISML procured local cotton at ~87% higher average prices as compared to preceding year. However, the gross margins have remained largely intact mainly on account of ~49% increase in yarn prices. As per management, given presence of the company in autocoro spinning operations, the gross margins are relatively less exposed to inventory gains or losses. Finance cost increased to Rs. 60.6m due to increase in average markup rates and borrowings. Bottomline was reported higher at Rs. 195.2m with net margins of 5.8% during 9MFY22. The management projects sales to grow at a CAGR of around 22% over the next three years mainly supported by demand dynamics of the textile industry.

Adequate liquidity profile in terms of cash flow coverages: The liquidity position of the company has remained largely adequate over the years. The company generated Rs. 269.9m (FY21: 222.0m; FY20: Rs. 77.4m; FY19: Rs. 181.7m) in funds from operations (FFO) during 9MFY22 in line with higher profitability. Resultantly, FFO to total debt and FFO to long-term debt increased to 0.54x (FY21: 0.42x; FY20: 0.11x; FY19: 0.28x) and 1.20x (FY21: 0.55x; FY20: 0.28x; FY19: 0.54x), respectively. Debt service coverage also remained adequate at 1.71x (FY21: 3.14x; FY20: 1.06x; FY19: 1.96x) while some decrease was on account of higher long-term repayments during 9MFY22. Meanwhile, overall cash flow position of the company remained weakened owing to lower profitability during FY20.

Stock in trade stood higher at Rs. 504;.4m (FY21: Rs. 293.1m; FY20: Rs. 581.1m) mainly due to higher raw material inventory amounting Rs. 416.8m (FY21: Rs. 230.0m; FY20: Rs. 516.3m) at end-9MFY22. The cotton is procured from August to December while waste material is purchased throughout the year according to requirements. Trade debts stood higher at Rs. 672.6m (FY21: 434.5m; FY20: Rs. 155.4m) at end-9MFY22. Sales to outside parties is generally made on 30-35 days credit and related party sales are made on 45 days credit on average. Trade debts were reported at Rs. 689.7m at end-June'22 while aging profile is considered satisfactory as around 99% of the receivables were outstanding for less than three months. Advances, deposits and prepayments stood at Rs. 87.4m (FY21: Rs. 97.7m; FY20: Rs. 113.0m) and largely comprised tax refunds from government. Cash and bank balances amounted to Rs. 81.8m (FY21: Rs. 78.2m; FY20: Rs. 14.1m). Trade and other payables stood at Rs. 430.4m (FY21: Rs. 381.8m; FY20: Rs. 151.3m) at end-9MFY22. The management procures cotton on cash basis, whereas waste material from related parties is purchased on 45 days credit and payments to outside parties are made after 30 days. Import of raw material is based on letter of credit (LCs) at sight. Net operating cycle has remained manageable and relatively lower than the industry median on a timeline basis (9MFY22: 79 days; FY21: 54 days; FY20: 95 days). Current ratio was reported at 1.45x (FY21: 1.49x; FY20: 1.36x) at end-9MFY22. Coverage of short-term borrowings via stock in trade and trade debts remained sizeable at 3.26x (FY21: 5.77x; FY20: 1.71x). Liquidity position of the company is projected to strengthen further in line with higher profitability and improvement in working capital management, going forward.

Moderately leveraged capital structure: The equity base has grown steadily to Rs. 1.06b (FY21: Rs. 864.4m; FY20: Rs. 709.9m) on account of internal capital generation. Debt profile of the company comprised a mix of long-term and short-term borrowings. Long-term loan inclusive of current maturity stood lower at Rs. 299.8m (FY21: Rs. 402.4m; FY20: Rs. 271.6m) at end-9MFY22. The long-term financing includes term finance facilities mobilized for BMR from various banks, priced at 3 M KIBOR Plus 1.5-2%. These finance facilities are secured against pari passu charge including margin over fixed assets of the company, personal guarantees of all directors and cross-corporate guarantee of the Holding company. During FY21, AISML obtained a diminishing musharaka facility under Islamic Temporary Economic Refinance Facility by SBP amounting Rs. 166.4m at a flat markup rate of 5% to finance BMR. All of these long-term financing facilities would be repaid fully by end-FY25. Short-term borrowings stood at Rs. 361.6m (FY21: Rs. 126.1m; FY20: Rs. 430.1m) at end-9MFY22. The company has obtained various funded short-term finance facilities aggregating Rs. 1.1b (FY21: Rs. 1.1b; FY20: Rs. 700m) from banks. The facilities available for opening letters of credit aggregate to Rs. 100m. In addition, bill discounting facilities are available upto a maximum limit of Rs. 150m. Deferred tax liabilities stood at Rs. 108.5m (FY21: Rs. 108.5m; FY20: Rs. 37.9m) at end-9MFY22. Gearing and debt leverage have remained fairly comfortable at 0.62x (FY21: 0.61x; FY20: 0.99x) and 1.19x (FY21: 1.20x; FY20: 1.32x), respectively. The management does not intend to mobilize any additional long-term loan, going forward. Capitalization indicators are projected to improve further primarily on the back of profit retention and scheduled repayment of long-term loans.

Asher Imran Spinning Mills (Pvt.) Limited — Annexure I

BALANCE SHEET	Jun 30, 2019	Jun 30, 2020	Jun 30, 2021	Mar 31, 2021
Property and Equipment	764	750	954	928
Stock in Trade	473	581	293	504
Trade Debts	409	155	434	673
Advances, deposit, prepayments	96	113	98	87
Cash & Bank Balances	16	14	78	82
Other Assets	35	33	42	46
Total Assets	1,793	1,647	1,900	2,321
Trade and Other Payables	416	151	382	430
Short Term Borrowings	301	430	126	362
Long-Term Borrowings (incl. current maturity)	338	272	402	300
Total Interest-Bearing Debt	639	702	528	661
Deferred Liabilities	47	38	108	108
Other Liabilities	14	46	17	77
Total Liabilities	1,116	937	1,036	1,261
Paid Up Capital	250	250	250	250
Tier-1/Total Equity	677	710	864	1,060

INCOME STATEMENT	Jun 30, 2019	Jun 30, 2020	Jun 30, 2021	Mar 31, 2022
Net Sales	3,148	2,106	3,271	3,380
Gross Profit	280	198	333	354
Operating Profit	236	163	289	313
Finance Cost	76	104	44	61
Profit Before Tax	152	56	226	237
Profit After Tax	142	34	156	195

RATIO ANALYSIS	Jun 30, 2019	Jun 30, 2020	Jun 30, 2021	Mar 31, 2022
Gross Margin (%)	8.9	9.4	10.2	10.5
Net Margins	4.5	1.6	4.8	5.8
Current Ratio	1.23	1.36	1.49	1.45
Net Working Capital	195	238	309	430
Funds from Operations (FFO)	182	77	222	270
FFO to Total Debt (x)	0.28	0.11	0.42	0.54*
FFO to Long Term Debt (x)	0.54	0.28	0.55	1.20*
Debt Leverage	1.65	1.32	1.20	1.19
Gearing	0.94	0.99	0.61	0.62
Debt Servicing Coverage Ratio (x)	1.96	1.06	3.14	1.71
ROAA (%)	7.9	2.0	8.8	12.4*
ROAE (%)	20.9	4.9	19.8	27.2*
(Stock in Trade+ Trade Debt) to Short-Term Borrowing (x)	2.93	1.71	5.77	3.26
Net Operating Cycle (days)	55	95	54	79

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITION Annexure 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	Annexure III
Name of Rated Entity	Asher Imran Spinning Mills (Pvt.) Limited
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				
18-Aug-22	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 Meetings Conducted	

Name	Designation	Date
Mr. Saqib Naveed	Group CFO	July 19, 2022
Mr. Azam Saeed	Finance Manager	July 19, 2022