RATING REPORT

Asher Imran Spinning Mills (Pvt.) Limited

REPORT DATE:

November 20, 2023

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-2	A-	A-2
Rating Outlook	*Stable*		*Stable*	
Rating Action	Reaffirmed		Initial	
Rating Date	*November 20, 2023*		*Aug 18, 2022*	

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

APPLICABLE METHODOLOGY(IES)
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

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 Limited was incorporated as Private Limited Company on May 27, 2000, under the repealed Companies Ordinance 1984 (now the Companies Act, 2017).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.

RATING RATIONALE

Company Profile

Asher Imran Spinning Mills (Private) Limited ('AISML or the Company') was incorporated in 2000 and commenced its commercial operations in 2002. The Company is principally engaged in the manufacturing and sale of yarn. The Company has installed 4,432 rotors which have a capacity to produce ~6.7 mln kgs of 20/s count of yarn. The Company is a wholly owned subsidiary of Comfort Knitwears (Pvt.) Limited (CKPL), holding ~99.98% of AISL's shareholding. The registered office of the Company is located at 45-Industrial Estate, Kot Lakhpat, Lahore and the spinning unit is located at 59-km, Multan Road, Bhai Peru (Bypass), Kasur.

Group Profile

The Company is a part of 'Comfort Group' which has a diversified presence spanning across various sectors including textile, pharmaceutical and transportation businesses. The shareholding of all the group companies is vested within the family. Zulfikar Knitting & Processing Mills (Pvt.) Limited, one of the group companies, is a vertically integrated, export-oriented knitwear manufacturing unit. Comfort Yarn Dyeing and Surgical Cotton Mills (Pvt.) Ltd. Is primarily involved in the yarn dyeing and processing facilities. The group also has two pharmaceutical companies namely Frontier Dextose Limited (FDL) and Curatech Pharma (Pvt.) Limited (CPL), involved in manufacturing and sale of intravenous solutions in propylene packing and antibiotics, respectively. ZAR motors, which is relatively a new venture of Comfort group, is an association of persons involved in manufacturing of first ever electric rickshaw/three-wheeler minicab and loader vehicles in Pakistan.

Key Rating Drivers

Business risk profile constrained by cyclicality, and high competition in the sector.

The business risk profile of the spinning 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 spinning sector faced challenges due to various economic and environmental circumstances. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and diminishing foreign exchange reserves.

The spinning sector in Pakistan comprises ~407 spinning mills, which include both composite units and spinning units. This industry exhibits a competitive market structure with a large number of players producing a relatively homogenous product.

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. 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 difficulties with obtaining letters of credit (LCs). These factors are likely to result in continued sluggish performance for the spinning sector in FY24.

Sound sponsor profile provides comfort to ratings.

Assigned rating draws support from its sponsor, Comfort Knitwears (Private) Limited ('CKPL'). CKPL has over three decades of operational experience, specializing in dyed yarn and offers a wide range of knitted garments. AISML symbiotic relationship with its parent provides it with some stability in its volumetric output. This is evident as CKPL has remained a longstanding top-five client of the Company. Moreover, overall group's established track record provides operational, managerial, and financial support to AISML.

Demand slowdown amid weak macroeconomic environment. Gross margins remain stable; however, higher finance costs are a drag on net margin. Improvement in the same to be the key rating consideration.

Owing to the contraction in demand due to macroeconomic challenges, topline of the Company has come under pressure, registering a decline of ~25% to Rs.3.5b (FY22: Rs.4.8b). Nevertheless, AISML sustained its gross and operating margin at 9.5% (FY22: 9.0%) and 7.3% (FY22: 7.3%) in FY23, respectively. The Company was able to pass on the higher costs to its clients. However, net margins in FY23 were adversely impacted by elevated finance cost as a result of an increase in the policy rate of 825 bps, as well as increase in short term debt drawdown.

Management expects gradual recovery in the national and international economy in FY24. As such, management anticipates improvement in the demand outlook going forward. However, materialization of the same will be an important future ratings consideration.

Capitalization profile remains conservative despite slight deterioration. Maintenance remains important for ratings.

In FY23 the Company's capitalization deteriorated slightly, gearing and leverage ratios were reported at 0.7x (FY22: 0.6x) and 1.8x (FY22: 1.5x) in FY23, respectively. This was on account of higher drawdown of short-term debt to meet increasing working capital requirements.

Going forward, management plans to improve its inflated cash conversion cycle, by recovering its receivables and limiting further accumulation of inventory. This is expected to reduce the Company's short-term debt utilization.

Maintenance of capitalization benchmarks commensurate with assigned ratings will remain important for ratings.

Liquidity and coverage profiles depict deterioration on account of widening working capital gap, increase short-term debt utilization and financial burden as well as constrained cash generation.

AISML's liquidity profile weakened in FY23 with a current ratio of 1.2x (FY22: 1.3x) while short-term debt coverage also deteriorated to 2.6x (FY22: 3.6x) albeit providing sufficient cushion. Weakening of the liquidity profile was on account of a higher increase in current liabilities compared to current assets. Largest contributor to this rise was higher utilization of short-term debt to Rs.646mn (Rs. 344mn), followed by an increase in trade payables to Rs.979mn (FY22: Rs760mn). Current assets were constrained as cash and bank balances reduced to Rs.58mn (FY22: Rs.197mn) and trade debt declined to Rs821mn (FY22: Rs.871mn). Inventory was the only major item to report an increase to Rs.874mn (FY22: Rs.361mn). Cash generation was constrained by lower funds from operations (FFO). FFO declined to Rs.153.4 (FY22: Rs.279.5m) during the period under review on account of lower profitability.

The same also deteriorated the Company's coverage profile as FFO to total debt declining to 19.4% (FY22: 45.6%). Similarly, debt servicing coverage ratio (DSCR) reduced to 1.2x (FY22: 1.3x). DSCR was further impacted by higher finance charges.

Going forward, ratings will be sensitive to the Company's ability to improve the liquidity and coverage profiles in line with assigned ratings.

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

FINANCIAL SUMMARY (PKR Millions)					
BALANCE SHEET	**FY21A**	**FY22A**	**FY23M***	**FY24P**	**FY25P**
Property, plant and equipment	954.3	1,009.8	1,071.0	950.6	1,136.9
Stock-in-trade	293.1	361.4	874.7	457.3	496.9
Trade debts	434.5	870.7	821.3	742.0	779.1
Cash & Bank Balances	78.2	196.7	58.3	122.4	128.1
Total Assets	1,900.0	2,636.3	3,123.7	2,462.6	2,747.9
Trade and Other Payables	381.8	760.7	979.6	342.4	305.0
Long-term Debt (incl. current portion and lease liability)	402.4	268.5	143.4	47.5	0.0
Short Term Borrowings	126.1	344.5	646.1	152.9	145.2
Total Debt	528.4	613.1	789.5	200.4	145.2
Total Liabilities	1,035.6	1,581.9	2,001.8	751.3	672.9
Paid up Capital	250.0	250.0	250.0	250.0	250.0
Equity (excl. Revaluation Surplus)	864.4	1,054.4	1,121.9	1,711.3	2,075.3
INCOME STATEMENT	**FY21A**	**FY22A**	**FY23M***	**FY24P**	**FY25P**
Net Sales	3,270.7	4,793.9	3,583.9	6,009.3	6,872.3
Gross Profit	332.8	431.5	339.3	592.2	685.7
Operating Profit	270.9	348.8	263.1	500.1	582.2
Finance Costs	44.4	85.7	136.8	128.3	131.1
Profit Before Tax	226.4	268.9	129.9	372.2	451.6
Profit After Tax	155.9	191.4	67.6	297.0	365.7
RATIO ANALYSIS	**FY21A**	**FY22A**	**FY23M***	**FY24P**	**FY25P**
Gross Margin (%)	10.2%	9.0%	9.5%	9.9%	10.0%
Net Margin (%)	4.8%	4.0%	1.9%	4.9%	5.3%
Funds from Operation (FFO)	222.0	279.5	153.4	351.2	365.3
FFO to Total Debt (%)	42.0%	45.6%	19.4%	175.2%	251.5%
FFO to Long Term Debt (%)	55.2%	104.1%	107.0%	738.7%	#DIV/0!
Gearing (x)	0.6	0.6	0.7	0.1	0.1
Leverage (x)	1.2	1.5	1.8	0.4	0.3
Debt Servicing Coverage Ratio (x)	1.5	1.7	1.2	2.7	3.8
Current Ratio	1.5	1.3	1.2	2.4	3.0
(Stock in trade + trade debts) / STD (x)	5.8	3.6	2.6	7.8	8.8
Return on Average Assets (%)	8.8%	8.4%	2.3%	24.1%	14.0%
Return on Average Equity (%)	19.8%	19.9%	6.2%	34.7%	19.3%

**Management Accounts*

REGULATORY DISCLOSURES — Annexure II

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				
20-Nov-23	A-	A-2	Stable	Reaffirmed
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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Saqib Naveed	Group CFO	Oct 31, 2023
Mr. Azam Saeed	Finance Manager	