RATING REPORT

Asher Imran Spinning Mills (Pvt.) Limited

REPORT DATE:

December 30, 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-	A2	A-	A2
Rating Outlook/Watch	*Stable*		*Stable*	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*December 30, 2024*		*November 20, 2023*	

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
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	RATING RATIONALE

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 Limited *was incorporated as Private Limited Company on May 27, 2000, under the repealed Companies Ordinance 1984 (now the Companies Act, 2017).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

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 in Lahore and the spinning unit is located in 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 involved in manufacturing of first ever electric rickshaw/three-wheeler minicab and loader vehicles in Pakistan.

Industry Review

In the fiscal year 2023-24 (FY24), Pakistan's textile sector experienced a marginal increase in exports, recording a 0.93% rise to $16.65 billion from $16.50 billion in the previous year. This modest growth was achieved despite a challenging economic environment characterized by elevated interest rates and stringent fiscal measures.

Throughout FY24, the State Bank of Pakistan maintained a high policy rate, peaking at 22% to combat inflationary pressures. This monetary stance resulted in increased borrowing costs for textile manufacturers.

In June 2024, the central bank initiated a series of rate cuts, reducing the policy rate by 150 basis points to 20.5%. Subsequent reductions brought the rate down to 17.5% by September 2024. These adjustments are anticipated to alleviate financing costs for textile enterprises, potentially fostering increased investment and production capacity in the forthcoming fiscal year.

Going forward, the textile sector's performance will likely be influenced by the trajectory of domestic interest rates, global demand dynamics, and the implementation of supportive fiscal policies. The recent monetary easing measures may provide a more conducive environment for growth; however, sustained attention to structural challenges and competitiveness remains essential for long-term sectoral stability.

Key Rating Drivers

Business Risk Profile

Industry Risk; High to Medium

The textile spinning sector in Pakistan is currently assessed as having a High to Medium business risk profile. This evaluation is based on several factors, including fluctuating raw material availability, energy supply challenges, competitive pressures, and evolving regulatory policies.

In FY24, Pakistan's cotton production experienced a significant increase, with output reaching approximately 8.6 to 9.0 million bales, marking a 70% year-on-year growth. This surge was primarily due to favorable weather conditions. Consequently, the textile industry procured around 7.48 million bales, meeting approximately 70% of its raw cotton requirements domestically, thereby reducing reliance on imports.

Despite the increased cotton availability, the spinning sector faced challenges related to energy costs and steady power supply. A reported 116% increase in power tariff during the period under review adversely affected operational costs, impacting the sector's profitability.

The global textile market's competitive landscape also posed challenges. Pakistan's textile and apparel industry faces stiff competition from countries like India, China, and Bangladesh. Economic factors such as currency depreciation, elevated interest rates, and inflation further pressured the sector.

Regulatory changes, including the withdrawal of the Regionally Competitive Energy Tariffs (RCET) regime and zero-rating for export-oriented sectors, introduced uncertainties.

Going forward, while reducing local policy rates offers some relief, higher energy costs and competition from local and regional players remain challenge for the spinning sector.

Sponsor Profile

Assigned rating draws support from its sponsor, which 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. This is evident as CKPL has remained a longstanding top five client of the Company. Moreover, the group also provides operational, managerial, and financial support to AISML.

Client Concentration Risk

The assigned ratings reflect an increase in client concentration risk, with the top 10 customers accounting for approximately 63% of total sales in FY24 (FY23: 54%). Elevated client concentration is a characteristic of the textile spinning industry; however, the Company's exposure exceeds industry norms, thereby raising the associated risk.

Management has attributed the rise in concentration risk to a strategic shift toward focusing on more reliable and recurring customers with whom the company has established long-term relationships. Additionally, the Company's associate, CKPL, which contributes approximately 10% to the concentration, has consistently remained among the top customers, offering a degree of stability to the ratings.

Going forward ratings will remain sensitive to the company's ability to address client concentration levels and implement risk mitigation measures effectively.

Financial Risk Profile

Profitability Profile

The Company reported top-line growth of 5.91% in FY24, primarily attributed to higher selling prices. Gross margins improved to 10.59% (FY23: 9.75%), supported by a shift in the product mix toward higher-margin yarns and a reduction in raw material costs. The management attributed this to stable exchange rates, which enhanced cost predictability for imported raw materials and facilitated more informed procurement decisions.

Although the improvement in gross margins positively impacted the net margins, however, it was partially offset by higher financial costs. The elevated interest rate environment in the country contributed to increased borrowing costs, despite lower debt drawdowns during the period. Net margins for FY24 were recorded at 2.51% (FY23: 2.35%).

Capitalization Profile

The Company reported a recovery in its capitalization metrics during FY24, attributed to reduced debt utilization. The gearing and leverage ratios were reported to be 0.24x (FY23: 0.88x) and 1.23x (FY23: 1.94x), respectively. This improvement was primarily driven by lower short-term debt drawdowns as of June 2024 as the Company generated sufficient operating cashflows to meet its working capital requirement for the period. Moreover, timely payment of long-term obligations, without any further drawdowns, as well as continued equity enhancement from profit retention also contributed to the improvement in the capitalization profile.

Coverage Profile

AISML demonstrated an improved coverage profile in FY24, with a Debt Service Coverage Ratio (DSCR) of 1.48x (FY23: 1.16x). This improvement is primarily attributed to a reduction in the current portion of long-term debt as the Company's long-term debt matures. Also, the short-term debt coverage ratio improved to 5.99x (FY23: 2.26x) amidst lower utilization of its short-term credit lines.

Liquidity Profile

The liquidity profile of the Company also improved in FY24, as reflected in a higher current ratio of 1.28x (FY23: 1.13x) on account of sufficient cash generation during the year to meet its working capital requirements and reduce its dependence on short-term debt.

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

Financial Summary

Balance Sheet (PKR Millions)	FY22A	FY23A	FY24M
Property, plant and equipment	1,009.81	1,077.86	1,024.45
Stock-in-trade	361.41	876.52	539.23
Trade debts	870.68	1,033.83	907.89
Cash & Bank Balances	196.75	58.43	23.26
Other Assets	197.62	294.23	252.12
Total Assets	2,636.27	3,340.87	2,746.95
Creditors	315.62	996.12	872.74
Long-term Debt (incl. current portion)	268.51	143.36	47.54
Short-Term Borrowings	344.54	861.83	249.83
Total Debt	613.05	1,005.19	297.37
Other Liabilities	653.24	202.59	344.58
Total Liabilities	1,581.91	2,203.89	1,514.69
Paid up Capital	250.00	250.00	250.00
Revenue Reserve	804.35	886.97	982.26
Equity (excl. Revaluation Surplus)	1,054.35	1,136.97	1,232.26

Income Statement (PKR Millions)	FY22A	FY23A	FY24M
Net Sales	4,793.88	3,583.91	3,795.56
Gross Profit	431.48	349.48	402.06
Operating Profit	354.61	276.49	323.75
Finance Costs	85.70	155.60	180.02
Profit Before Tax	268.91	120.88	143.73
Profit After Tax	191.39	84.23	95.29

Ratio Analysis	FY22A	FY23A	FY24M
Gross Margin (%)	9.00%	9.75%	10.59%
Operating Margin (%)	7.40%	7.71%	8.53%
Net Margin (%)	3.99%	2.35%	2.51%
Funds from Operation (FFO) (PKR Millions)	279.48	158.33	135.86
FFO to Total Debt* (%)	45.59%	15.75%	45.69%
FFO to Long Term Debt* (%)	104.09%	110.44%	285.78%
Gearing (x)	0.58	0.88	0.24
Leverage (x)	1.50	1.94	1.23
Debt Servicing Coverage Ratio* (x)	1.72	1.16	1.48
Current Ratio (x)	1.28	1.13	1.28
(Stock in trade + trade debts) / STD (x)	3.69	2.26	5.99
Return on Average Assets* (%)	8.44%	2.82%	3.13%
Return on Average Equity* (%)	19.95%	7.69%	8.04%
Cash Conversion Cycle (days)	57.81	92.82	68.99

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - 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	see table below
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	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
RATING TYPE: ENTITY				
30-Dec-2024	**A-**	**A2**	**Stable**	**Reaffirmed**
20-Nov-23	A-	A2	Stable	Reaffirmed
18-Aug-22	A-	A2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Saqib Naveed	Group CFO	16-Dec-2024
Mr. Azam Saeed	Finance Manager	