RATING REPORT

Ahmed Oriental Textile Mills Limited (AOTML)

REPORT DATE:

November 20, 2020

RATING ANALYST:

Narendar Shankar Lal
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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	Stable		Rating Watch - Negative	
Rating Date	November 20, 2020		April 24, 2020	
Rating Action	*Maintained*		*Maintained*	

COMPANY INFORMATION	
Incorporated in June 1989	**External auditors:** Ibrahim Shaikh & Co.
Public Unlisted Company	**Chairman:** Mr. Iftikhar Ahmed Khalid
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Faisal Khalid
Naveena Holdings Limited (62%)	
Shazad Khalid (13%)	
Faisal Khalid (12%)	
Iftikhar A. Khalid (6%)	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria *Industrial Corporates (April 2019)*
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Ahmed Oriental Textile Mills Limited (AOTML)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Ahmed Oriental Textile Mills Limited (AOTML) was incorporated in November 1989 as a public limited company and was listed on Karachi Stock Exchange (KSE and Lahore Stock Exchange (LSE). Following the request of the director's, AOTML was de-listed from KSE in November 2002 and LSE in April 2003. The registered office of AOTML is located in Karachi and mills at Rahim Yar Khan (RYK).

Ahmed Oriental Textile Mills Limited (AOTML) is engaged in manufacturing and sales of yarn. The company is a part of Naveena Group, which also owns Naveena Industries Limited.

Production facilities

The company has two spinning mills (Unit 1 and Unit 2), both located in Rahim Yar Khan (RYK). Unit 1 is engaged in production of Blended Yarn (polyester cotton) ranging from 8s to 26s count, while Unit 2 is utilized for production of Cotton Yarn (pure cotton) ranging from 7s to 20s count. The following table presents the cumulative installed capacity and capacity utilization of the company:

Figure 1: Production Details

	FY19	FY20
Number of spindles installed	39,096	39,096
Number of spindles worked	39,096	39,096
Number of shifts per day	3	3
Installed capacity after conversion to 20/s count - kgs	18,212,040	18,212,040
Actual production after conversion to 20/s count - kgs	19,984,575	19,708,750
Capacity utilization	109.7%	108.2%

At present, the company is operating at full capacity. Capacity utilization is greater than 100% due to production of lower count yarn than 20s. During FY20, the company incurred capex to replace old frames with new frames, which will result in an increase in installed capacity by approximately 5%. This increase will be reflected in FY21.

Rating Drivers

High cyclicality & competitive nature of spinning industry along with volatility in cotton prices translate to high business risk profile for the spinning sector

Inherent cyclicality of cotton price and crop levels drives performance of players operating in the spinning sector. Historically, margins and financial performance of players have depicted seasonality. Moreover, competitive intensity is high due to commoditized nature of the product. Comfort is drawn from AOTML's product diversity (as it produces both cotton and blended yarn).

Despite the impact of COVID-19 resulting in slowdown in growth during the last quarter, overall profitability was largely maintained in FY20. With rebound in the country's economic acitivity, the company is also expected to depict moderate growth going forward

Net Sales of the company were reported at Rs. 6.35b (FY19: Rs. 6.38b) in FY20. Due to the impact of COVID-19, volumetric sales were lower vis-à-vis the preceding year; however, increase in average selling prices compensated for the decrease in volumes. Majority of AOTML's sales constitute local sales and indirect exports. Sales mix is expected to remain similar going forward as local players offer better margins. Gross margins witnessed improvement on account increase in average selling prices and reduction in raw material costs as a result of decrease in cotton prices. Net margins remained at a similar level as higher director remuneration resulted in increase in administrative expenses. With recovery in economy post improvement in COVID-19 situation in the country, momentum in sales has increased. The company reported net sales and net profit of Rs. 1.9b and Rs. 117m in Q1'FY21. Going forward, management expects moderate growth in the top-line in FY21, while margins are expected to sustain at Q1'FY21 level. Reduction in finance costs due decrease in benchmark rates is expected to provide support to overall profitability of the company.

Leverage indicators have increased but remain at a manageable level, while liquidity profile is also considered adequate

At end-FY20, total debt was reported higher at Rs. 3.2b (FY19: Rs. 2.2b) on account of increase in both short term and long term debt. Additional long term debt was acquired to fund installation of new frames, while short term debt increased to fund working capital requirements. Equity base has increased on a timeline basis due to profit retention. However, as the increase in debt was greater than the increase in the equity base, both leverage and gearing indicators were reported higher at 1.46x (FY19: 1.15x) and 1.68x (FY19: 1.68x) at end-FY20. Gearing and leverage indicators depicted improvement at end-Q1'FY21 on account of repayment of short term debt. Leverage indicators are expected to improve in the medium term in the absence of any major capex plans. Overall liquidity profile is considered satisfactory in view sufficient cash flows in relation to outstanding liabilities and adequate debt servicing ability.

ISSUE/ISSUER RATING SCALE &DEFINITIONS — Appendix I

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 II
Name of Rated Entity	Ahmed Oriental Textile Mills Limited				
Sector	Textiles				
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				
	20/11/2020	BBB+	A-2	Stable	Maintained
	24/4/2020	BBB+	A-2	Rating Watch - Negative	Maintained
	17/1/2020	BBB+	A-2	Stable	Reaffirmed
	25/10/2018	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	Mr. Muhammad Junaid	CFO	November 11, 2020