

RATINGS (JANUARY 2012)

AHMED FINE TEXTILE MILLS LIMITED (AFTML)

ENTITY	INITIAL
Long Term	A-
Short Term	A2

FINANCIAL DATA

PKR (MLN)

	Jun-11	Jun-10
Total Assets	4,580.1	4,025.9
Equity	1,498.4	1,262.7
Net Turnover	8,511.9	5,686.8
Gross Margin (%)	10.4	13.0
Net Income	273.6	227.8
EBITDA	807.7	699.2
ROE (%)	19.8	19.8
EBITDA Interest Cover (X)	2.7	2.8
Total Debt/Total Debt + Equity (%)	61.7	62.9

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PROFILE

Ahmed Fine Textile Mills Limited, incorporated in 1989, is engaged in the manufacturing of different varieties of yarn and fabric. The company operates one spinning and two weaving units having capacities of 36,288 spindles and 236 Air jet looms respectively. It also has an additional capacity of 132 looms through its wholly owned subsidiary - Fazal Rehman Fabrics Limited. The shareholding of AFTML is divided between three groups: Fazal Group (34%), Fatima Enterprises Limited (32%) and Hussain Group (34%) - all belonging to the same family descending from Mr. Fazal-ur-Rehman. Textile industry is their basic forte with prime focus on spinning and weaving.

AFTML has a seven member board including the CEO. All three groups have their representatives on the board. Mr. Rehman Naseem, a member of Fazal Group, is the CEO and also the Chairman of the board. The CEO co-manages the company with Mr. Ashar Fazal, who is a director on the board, representing Fatima Enterprises. Both the CEO and the executive director have a good educational background with a significant exposure to the textile industry. They are assisted by a team of experienced management.

RATING RATIONALE & KEY DRIVERS

- The ratings reflect the company's demonstrated ability to identify and penetrate into promising consumption centres, particularly in international markets, while understanding fragile economic environment and changing demand patterns. This has ensured maintained growth and profitability, in turn, adequate cash flows. The ratings recognize benefits of strong oversight of experienced management team reflected in efficient production process in terms of both quality and yield. The company is working on improving its technology infrastructure, while planning to cover all production and control functions. Meanwhile, the company's leveraging is low and coverages coincide with the ratings of the company.
- The ratings are dependent on the continued competitiveness of the company in its key markets, which may be subject to volatility due to ongoing economic crisis in Europe. Meanwhile, any material deterioration in the company's margins or adverse drop in operational cash flows, emanating from business risk, would have negative implication for the ratings.

ASSESSMENT

- The performance of the textile industry is varying inline with changing demand pattern. This in turn reflects the key players' view on the outlook of the world economy and expected customer behaviour down the retail chain. Because of its subjective nature, speculation also plays a role in influencing supply/demand dynamics, in turn, pricing. Nevertheless, there is a dominant portion of intrinsic demand, given critical importance of textiles and related products for people at large. Apart from seasonal cum cyclical spikes, the growth is mainly a function of increase in world population and changing world demographics including distribution of wealth. The local operating environment is, however, another bottleneck to deal with. The acute energy crisis, high inflation, precarious security situation, fiscal and economic imbalances continue to pose a challenge.
- Ahmed Fine has experienced significant growth over the last few years. This was partly attributable to enhancement in spinning capacity during FY09. After that, the growth was mainly a function of robust demand in the international market. This influenced product prices to go up significantly, hence increasing turnover. The impact of prices was witnessed particularly in FY11, whereby the turnover grew by 50%. Although the gross profit went up, the margin was slightly lower. The reason was sharp revision in raw material prices, in the later part of FY11, causing a decline in the gross margin. At the same time, operating expenses increased mainly due to distribution cost inline with exports. Finance cost increased due to higher working capital borrowing. Nevertheless, the company posted historic net income for FY11.
- During 1QFY12, the company witnessed substantial improvement in its gross margin due to locked high price orders carried from the last year, wherein inventory write down was booked previously. However, the remaining FY12 is expected to be tough, characterised by reduced topline and profit margins.
- Going forward, the management while holding its position in conventional products intends to focus more on high margin products. In this regard, technical fabrics used for specific purposes would be a prime area of attention. The management considers it as the strong forte of the company, given sizable switching cost attached with the product, and higher margin.
- AFTML's investment book - ~ 21% of the equity as at end-Sep11 - solely comprises a wholly owned subsidiary - Fazal Rehman Fabrics Limited (FRFL). The investment, recorded at cost (PKR 355mln), is also engaged in the manufacturing of different varieties of fabric, and has likewise recorded appreciable profitability in recent periods. FRFL, managed by AFTML's management team, has generated an unrecognised gain of ~ PKR 373mln since its inception in 2004.
- The company operates an Oracle based ERP system by the name of Oracle E-Business Suite. This system, while integrating the business functions of the company, helps the management in decision making by collecting information timely.
- Working capital requirements of AFTML is primarily a function of its inventory, for which the company resorts to short term credit lines. The company's short-term assets exceed its short-term obligations, signifying room for further borrowing. The company's cash coverages have improved in line with its profitability though the extent is only one to one. To maintain the current financial profile of the company, sustainability of this coverage is crucial.
- AFTML has relatively low leveraged capital structure with debt/capital ratio standing at 51% as at end-Sept11. However, significant portion of it constitutes current liabilities, mainly acquired to finance inventory and receivables. Going forward, with limited capital expenditure, this ratio is expected to be at a reasonable level.