JCR-VIS Credit Rating Company Limited
Founder Shareholder - Islamic International Rating Agency (IIRA), Bahrain
Joint Venture Partner - Credit Rating & Information Services Ltd. (CRISL), Bangladesh
Member - Association of Credit Rating Agencies in Asia (ACRAA)

Ref: FSML/0002
Date: March 30, 2018

Confidential

Mr. Bilal Sharif
Chief Executive Officer
Faisal Spinning Mills Limited
Umer House, 23/1, Sector 23,
S.M. Farooq Road,
Korangi Industrial Area
Karachi, Pakistan

Entity Ratings of Faisal Spinning Mills Limited

Dear Mr. Sharif,

JCR-VIS Credit Rating Company Limited (JCR-VIS) has assigned initial entity ratings of 'A/A-1' (Single A/A-One) to Faisal Spinning Mills Limited (FSML). Outlook on the assigned ratings is 'Stable'.

The assigned ratings of the company are supported by healthy liquidity and capitalization ratios and improving profitability indicators, thereby indicating sound financial profile. Ratings also indicate moderate business risk profile as indicated by fluctuations in cotton prices and currency exchange rates. Extensive experience and sound track record of sponsors is also factored in the assigned rating.

We have noted the increase in profitability of the company in Q1'18 and FY17 vis-à-vis the corresponding periods in preceding years. We have observed that improvement in gross margins due to control over production related costs and increase in yarn prices was the primary reason for the increase in bottom-line of the company. We opine that profitability of FSML is expected to improve in future given the recent rupee depreciation. Moreover, textile package introduced by Government of Pakistan and renewal of GSP plus status for Pakistan by European Union also bodes well for exports of FSML. However, management must also exercise caution as sizeable proportion of overall export sales is directed towards China and subdued demand from the same may have considerable impact on company's export sales and margins.

In our opinion, overall liquidity profile is considered adequate as indicated by satisfactory cash flows in relation to debt obligations and adequate current ratio. However, cash flows continue to remain a function of volatility in gross margins as the same have varied in line with gross margins during the last three years. Resultantly, any adverse movement in gross margins may impact the debt repayment capacity of the company. Equity base of the company has depicted growth on timeline basis due to internal capital generation. Gearing and leverage indicators have been reported lower in Q1'18 and FY17 due to repayment of short term borrowing and increase in equity base of FSML. In view of management's expansion plan, we believe that risk profile of the company is expected to remain commensurate with the outstanding rating.

Please note that ratings continue to be under surveillance during the period of the contract. Moreover, please note that in terms of the regulatory requirements, ratings would require a mid-term review. In view of this, mid-term review of the assigned rating would fall due in September 2018. Accordingly we would seek your cooperation for updating information available on the system. Furthermore, please notify JCR-VIS of any material development that may impact the risk profile of the institution

We would like to express our appreciation for the courtesy and cooperation extended to us during the course of the rating assignment.

Regards,

Javed Callea
Advisor