RISK ASSESMENT REPORT

Overview Of Company

This is the 2023 Annual Report for Gul Ahmed. Gul Ahmed is a textile company. The report includes financial statements (consolidated and un-consolidated), a directors' report, financial highlights, and other information such as a sustainability report, details on the board of directors, and risk management.

Income Statement Analysis

Revenue:

The provided text gives sales figures for several quarters and years, but not consistently across three full years. To answer your question completely, I need sales data for three consecutive fiscal years. The report offers the following:

Sales Data Available:

* **Q3 2023:** Rs. 29,428 million
* **SPLY (Same Period Last Year) Q3 2022:** Rs. 21,279 million
* **Preceding Year Q3 (presumably Q3 2021):** Not explicitly stated.
* **FY 2023:** Total sales are not explicitly stated but can be derived from the sum of the provided quarterly data if available.
* **FY 2022:** Rs. 41,818 million (Export Sales - Indirect) + Rs. 56,299 million (Export Sales - Direct) + Rs. 11,357 million (Local Sales) = Rs. 109,474 million
* **FY 2021:** Sales figures for FY2021 are not directly provided.

Analysis and Impact on Investors:

Based on the limited data, we can see that sales increased significantly from Q3 2022 to Q3 2023 (Rs. 21,279 million to Rs. 29,428 million), representing a 38.30% growth. However, without complete sales figures for FY 2021 and FY 2023, a comprehensive three-year trend analysis is impossible.

To determine if revenue is increasing or decreasing over the past three years and its effect on investors, we need the missing data. A consistent increase in revenue generally indicates positive growth and would likely be viewed favorably by investors, potentially leading to a higher share price. Conversely, a decrease in revenue would suggest negative growth, potentially causing investors to be concerned and leading to a lower share price.

COCS (Cost of good sold):

The provided text only contains the Cost of Goods Sold (COGS) for the year ending June 2023 and June 2022. Data for a third year is not available.

COGS:

* **June 2023:** Rs. 110,746,798,000

* **June 2022:** Rs. 94,800,552,000

Analysis:

The COGS increased from Rs. 94,800,552,000 in June 2022 to Rs. 110,746,798,000 in June 2023. This represents a substantial increase.

Impact on Investors:

An increase in COGS, without a corresponding increase in sales revenue at a faster rate, will negatively impact the company's gross profit margin and profitability. This would likely lead to lower earnings per share (EPS), potentially reducing the return on equity (ROE) and impacting investor confidence. Investors may react negatively to this trend, potentially leading to a decrease in the company's stock price. Conversely, a decrease in COGS (if it were to occur) would generally be viewed favorably by investors, as it suggests improved efficiency and potentially higher profitability. However, a sudden or unexplained decrease might also warrant further investigation to ensure it's not masking other issues.

Gross profit:

Here's the gross profit data for the past three years, extracted from the provided annual report, along with a short analysis:

Gross Profit (Rs. in Million):

* **2023:** 16,678,982
* **2022:** 17,367,670
* **2021:** 12,868,608

Analysis:

The gross profit shows a decline from 2022 to 2023 (Rs. 688,688 million or 3.97%). However, there was a significant increase from 2021 to 2022 (Rs. 4,499,062 million or 34.96%). Overall, the trend over the three-year period is mixed.

Impact on Investors:

A decrease in gross profit, as seen from 2022 to 2023, is generally viewed negatively by investors. It suggests that the company's ability to generate profit from its core operations is weakening. This could lead to lower returns and a decrease in the company's stock price. The reasons for this decrease (e.g., increased raw material costs) are important factors for investors to consider.

Conversely, the substantial increase from 2021 to 2022 would be seen positively, indicating improved operational efficiency or pricing power. However, investors would need to understand the sustainability of this increase and whether it's a one-off event or a sign of a longer-term trend. A mixed trend, as observed here, requires a deeper dive into the company's financial statements and operational performance to assess the underlying causes and future prospects.

Total Operating Expence:

The provided text gives a Profit & Loss account summary for only two years, not three. Therefore, I cannot calculate the total operating expenses for the past three years.

Operating Expenses for June 2023 and June 2022:

To calculate operating expenses, we need to sum up the distribution expenses, administrative expenses, and other expenses from the Profit & Loss account.

* **June 2023:** 2,200,949 + 3,428,329 + 432,181 = Rs. 6,061,459,000
* **June 2022:** 1,957,801 + 2,220,600 + 860,379 = Rs. 5,038,780,000

Analysis:

Operating expenses increased from Rs. 5,038,780,000 in June 2022 to Rs. 6,061,459,000 in June 2023. This is a significant rise.

Effect on Investors:

An increase in operating expenses, without a corresponding increase in revenue, negatively impacts profitability (reducing net income). This can lead to:

* **Lower earnings per share (EPS):** Reducing the return on investment for shareholders.
* **Lower dividend payouts:** Companies might reduce or forgo dividend payments to conserve cash.
* **Decreased stock price:** Investors may react negatively to lower profitability, leading to a decline in the company's stock price.
* **Increased scrutiny:** Investors and analysts will likely investigate the reasons for the increased operating expenses to assess the company's management and future prospects.

It's crucial to note that this analysis is based solely on the provided two-year data. A more comprehensive analysis would require a longer time series of data and consideration of revenue growth and other financial metrics.

Operating Profit:

Here's the operating profit for the past three years, extracted from the provided text, along with a short analysis:

Operating Profit (Rs. in Million):

* **2023:** 11,296.897
* **2022:** 13,137.979
* **2021:** 7,505.847

Analysis:

The operating profit shows a decline from 2022 to 2023 (13,138 million to 11,297 million). However, there was a significant increase from 2021 to 2022 (7,506 million to 13,138 million). Overall, the trend over the three-year period is mixed.

Effect on Investors:

Decreases in operating profit, like that seen between 2022 and 2023, are generally viewed negatively by investors. It suggests a decline in the company's ability to generate earnings from its core operations. This can lead to lower returns and potentially a decrease in the company's stock price.

Conversely, increases in operating profit, such as the one from 2021 to 2022, are generally positive. They indicate improved operational efficiency and profitability, potentially leading to higher dividends, stock buybacks, or increased stock valuation. However, investors will also consider the reasons behind the profit changes (e.g., one-time gains vs. sustainable improvements) before making investment decisions. The mixed trend shown here would likely prompt investors to seek further clarification and analysis from management regarding the factors influencing profitability.

Net Profit:

Here's the net profit data for the past three years, extracted from the provided annual report, followed by a short analysis:

Net Profit (Rs. in '000):

* **2023:** 3,986,019
* **2022:** 8,861,647
* **2021:** 4,424,540

Analysis:

The net profit shows a fluctuating trend over the past three years. There was a significant increase from 2021 to 2022 (approximately 100%), followed by a substantial decrease from 2022 to 2023 (approximately 55%).

Effect on Investors:

* **Increase in Net Profit:** Generally, an increase in net profit is positive for investors. It indicates improved profitability and potentially higher returns on their investments (dividends or share price appreciation). Increased profitability can also lead to higher investor confidence and a rise in the company's stock valuation.
* **Decrease in Net Profit:** A decrease in net profit, as seen from 2022 to 2023, is typically negative for investors. It suggests a decline in the company's financial health and may lead to reduced dividends, lower share prices, and decreased investor confidence. Investors may react by selling their shares, causing a drop in the company's market capitalization. A thorough understanding of the reasons behind the profit decline is crucial for investors to assess the long-term prospects of the company. In this case, the report attributes the decline to high finance costs and inflation.

Ratio Analysis

Liquidity Ratio Analysis

Current Ratio and Quick Ratio

Here's the information on the current and quick ratios for the past three years, along with a short analysis. The provided text gives data for six years, not three. I will use the last three years available (2021, 2022, 2023).

Current Ratio and Quick Ratio (2021-2023):

Year	Current Ratio	Quick Ratio
2021	1.12	0.57
2022	1.15	0.55
2023	1.11	0.47

Analysis:

* **Current Ratio:** The current ratio has remained relatively stable over the three-year period, fluctuating slightly between 1.11 and 1.15. There is a slight downward trend.

* **Quick Ratio:** The quick ratio shows a more noticeable downward trend, decreasing from 0.57 in 2021 to 0.47 in 2023. This suggests a decline in the company's ability to meet its short-term obligations using its most liquid assets.

Effect on Investors:

* **Decreasing Quick Ratio:** A declining quick ratio might concern investors as it indicates a reduced ability to pay short-term debts without relying on the sale of inventory. This could signal potential liquidity problems.

* **Stable Current Ratio:** The relatively stable current ratio, while slightly decreasing, suggests that the company's overall ability to meet short-term obligations remains reasonably sound, although the trend is not positive.

Comparison to Averages:

To compare to averages, we need to calculate the average current and quick ratios for the three-year period:

* **Average Current Ratio:** (1.12 + 1.15 + 1.11) / 3 = 1.13

* **Average Quick Ratio:** (0.57 + 0.55 + 0.47) / 3 = 0.53

The company's current ratio in each year is very close to the three-year average. However, the quick ratio in each year is

Laverage Ratio Analysis

Debt-to-Equity Ratio and Interest Coverage Ratio:

The provided text gives Debt-to-Equity Ratio and Interest Coverage Ratio for the past three years, but it lacks the data to calculate averages for comparison. Here's what we can extract:

Debt-to-Equity Ratio & Interest Coverage Ratio (Past 3 Years):

Year	Debt-to-Equity Ratio (%)	Interest Coverage Ratio (Times)
2023	33	2.11
2022	36	4.92
2021	41	3.86

Short Analysis:

* **Debt-to-Equity Ratio:** This ratio has decreased from 41% in 2021 to 33% in 2023. A lower debt-to-equity ratio generally indicates lower financial risk. The decrease suggests improved financial stability, as the company relies less on debt financing relative to equity.
* **Interest Coverage Ratio:** This ratio has also decreased, from 4.92 times in 2022 to 2.11 times in 2023. A lower interest coverage ratio implies a reduced ability to meet interest obligations from earnings. This decline is a cause for concern, suggesting increased financial risk.

Effect on Investors:

* **Decreasing Debt-to-Equity Ratio:** A lower debt-to-equity ratio is generally viewed positively by investors as it suggests lower risk. It indicates the company is less vulnerable to economic downturns and interest rate hikes. This could lead to increased investor confidence and potentially higher share prices.
* **Decreasing Interest Coverage Ratio:** A decreasing interest coverage ratio is a negative signal for investors. It raises concerns about the company's ability to service its debt obligations. This could lead to decreased investor confidence and potentially lower share prices. Investors may perceive a higher risk of default.

Comparison to Averages:

The provided text does *not* contain data to calculate average Debt-to-Equity ratios or Interest Coverage ratios for comparison. To perform this comparison, you would need data from additional years beyond the three reported.

Investor Profitibility Ratio

Net Profit Margin, ROE, ROA, and EPS:

The provided annual report gives Net Profit Margin, ROE, and EPS for the past six years, not just three. ROA is not explicitly calculated but can be derived using the DuPont analysis components. Here's a summary table and analysis:

Year	Net Profit Margin (%)	ROE (%)	EPS (Rs.)	ROA (%)*

2023	3.56	10.46	5.39	3.25
2022	8.84	27.96	11.97	7.87
2021	5.62	21.46	7.83	4.72

*ROA Calculation: ROA is calculated using the DuPont formula components provided in the report. For 2023, ROA = Net Profit Margin * Asset Turnover = 3.56% * 0.91 = 3.25%. Similar calculations were done for 2022 and 2021.
Trend Analysis:
* **Net Profit Margin:** Shows a significant decrease from 8.84% in 2022 to 3.56% in 2023, followed by a period of lower profitability in 2021 (5.62%). This indicates a decline in profitability relative to sales.
* **ROE:** Similarly, ROE has dropped considerably from 27.96% in 2022 to 10.46% in 2023, with 21.46% in 2021. This shows a substantial decrease in the return generated on shareholder equity.
* **ROA:** ROA also demonstrates a downward trend, falling from 7.87% in 2022 to 3.25% in 2023, with 4.72% in 2021. This suggests reduced efficiency in using assets to generate profits.
* **EPS:** EPS experienced a sharp decline from Rs. 11.97 in 2022 to Rs. 5.39 in 20
Major Cash Flow Risks:
The annual report identifies several major cash flow risks:
* **Interest/Mark-up Rate Risk:** Fluctuations in interest and markup rates on financial instruments (both assets and liabilities) impact the company's cash flows. A 1% increase in markup on long-term financing in 2023 would have lowered post-tax profit by Rs. 232.1 million, while a similar increase on short-term borrowings would have lowered it by Rs. 302.05 million.
* **Currency Risk:** Fluctuations in foreign exchange rates affect the cash flows from trade debts, cash and bank balances, short-term borrowings, and trade and other payables. The net exposure to this risk varied between years.
* **Utilities Availability and Prices Risk:** Depletion of natural gas resources and reliance on imported fuel for thermal electric generation expose the company to fluctuating energy costs, impacting cash outflows. The company is mitigating this through tri-fuel generating sets and a transition to renewable energy.
* **Market Risk (Raw Materials):** Fluctuations in cotton and yarn prices, import policies, utility rates, and markup rates affect the company's cash flows. The company manages this through stock management, working capital optimization, and exchange rate risk management techniques (forward contracts, bill discounting, and FCY credit).
* **Market Risk (Export Sales):** Geopolitical risks and reduced global demand can lead to a decline in export sales, impacting cash inflows. Mitigation strategies include subsidiary offices,

resource optimization, and engagement of risk managers.
* **Economic Policy Changes:** Changes in duties, taxes, and tax rates in Pakistan directly impact material costs, finished goods pricing, divisible profits, and cash outflows. The company addresses this by forecasting profit and cash flow based on an understanding of government economic strategies.
Operational Risks
The annual report mentions several key operational risks:
* **Credit Risk:** Risk of default on receivables, primarily from local sales. Mitigated through due diligence and security measures for credit extensions.
* **Market Risk:** Fluctuations in raw material prices (cotton, yarn), import policies, utility rates, and markup rates. Mitigated through stock management, working capital optimization, and using financial instruments like forward contracts to manage exchange rate risk. Also includes the risk of declining export sales due to geopolitical factors and global economic downturns; mitigated through subsidiary offices, resource optimization, and engagement of risk managers.
* **Liquidity Risk:** Risk of difficulty meeting financial obligations. Mitigated by maintaining sufficient cash and credit facilities. The report states that management believes this risk is insignificant at the reporting date.
* **Technology Risk:** The report highlights the importance of staying current with technology and mentions a systematic approach to adopting new technologies. While not explicitly stated as a *risk*, the implication is that failure to adapt to technological advancements could pose a risk.
* **Economic Policy Risk:** The risk of changing economic policies and taxation in Pakistan impacting material costs, finished goods pricing, and profitability. Mitigated by proactively understanding government strategies and revising profit and cash flow forecasts.
* **Security Issues:** Internal and external security concerns that could disrupt operations. The report mentions a Business Continuity Plan (BCP) to mitigate this.
* **Geopolitical Risks:** Potential actions by dominant nations posing threats. The BCP also addresses this.
* **Raw Material Shortages:** Natural disasters and price fluctuations leading to cotton shortages.
* **Competition:** Competition from numerous competitors, including informal setups and retail chains.
* **Employee Attrition:** Key employees being lured away by competitors.
The report also highlights opportunities to mitigate some of these risks, such as transitioning to renewable energy to reduce reliance on fluctuating fuel prices and implementing a Business Continuity Plan (BCP) to address security and geopolitical risks.

Major Market Risks

Based on the provided annual report, the major market risks affecting Gul Ahmed are:

* **Fluctuations in raw material prices:** Specifically, cotton and yarn prices are cited as significant concerns.
* **Changes in import policies and restrictions:** Government regulations impacting the import of raw materials pose a risk.
* **Shifts in utility rates:** Changes in energy costs affect operational expenses.
* **Fluctuations in markup rates:** Changes in interest rates impact borrowing costs and profitability.
* **Exchange rate risk:** Fluctuations in foreign exchange rates affect the company's international transactions and profitability, particularly export sales.
* **Decline in export sales due to geopolitical risk:** Geopolitical instability and reduced global demand can negatively impact export revenue.

The company uses various strategies to mitigate these risks, including stock management, working capital optimization, exchange rate risk management (forward contracts, bill discounting, FCY credit), utilizing subsidiary offices for export operations, resource optimization, and engaging risk managers.

Governance And Regulatory Risks:

The provided text mentions several governance and regulatory risks, although not explicitly labeled as such. Here's a summary based on the information given:

Governance Risks:

* **Risk of Non-Compliance:** The report highlights the auditors' responsibility to review the company's compliance with regulations. While they found no material non-compliance, the existence of this review process itself indicates a governance risk of potential non-compliance. The report specifically mentions compliance with regulations 3, 6, 7, 8, 27, 32, 33, and 36, implying the existence of other regulations that could pose a risk.
* **Related Party Transactions:** The report notes that related party transactions must be reviewed and approved by the Audit Committee and Board of Directors. The potential for conflicts of interest in these transactions represents a governance risk.
* **Internal Control Effectiveness:** Although the auditors are not required to form an opinion on the effectiveness of internal controls, the report mentions that the company outsources its internal audit function. The effectiveness of this outsourced function and the overall internal control system represent a governance risk.
* **Risk Management Committee:** The company chose not to have a separate Risk Management Committee, opting instead for management to handle risk. This decision, while

permitted by regulation, represents a governance risk as it concentrates risk management responsibilities within a smaller group. The effectiveness of this approach is not explicitly assessed in the provided text.

* **Nomination Committee:** Similarly, the absence of a Nomination Committee, while optional, represents a potential governance risk, as the Board shoulders all responsibilities.

Regulatory Risks:

The report doesn't explicitly list regulatory risks as separate items but implies them through the discussion of compliance requirements. The numerous regulations mentioned (3, 6, 7, 8, 27, 32, 33, and 36, plus others) represent potential regulatory risks if the company fails to comply. The specific nature of these regulations is not detailed in the provided excerpt. Failure to comply with any of these regulations could lead to penalties or other negative consequences.

The report focuses more on the *processes* for managing these risks (e.g., Board oversight, Audit Committee review, internal audit function) rather than a detailed catalog of specific risks themselves.