



The Pakistan Credit Rating Agency Limited

Rating Report

Mahmood Textile Mills Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Jun-2023	A-	A2	Stable	Maintain	-
25-Jun-2022	A-	A2	Stable	Maintain	-
25-Jun-2021	A-	A2	Stable	Maintain	-
26-Jun-2020	A-	A2	Stable	Maintain	Yes
27-Dec-2019	A-	A2	Stable	Maintain	-
28-Jun-2019	A-	A2	Stable	Maintain	-
28-Dec-2018	A-	A2	Stable	Maintain	-
28-May-2018	A-	A2	Stable	Maintain	-
15-Aug-2017	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect the business profile of Mahmood Textile Mills Limited ('Mahmood Textile' or 'The Company') – the flagship entity of Mahmood Group. Business operations comprise a spinning segment and two weaving units. The Company has enhanced the spinning segment with the addition of 35,000 - 50,000 spindles and established a new apparel unit with a capacity of 35,000 product units/day. The top line of the Company inclined sizably and the sales mix remained dominated by healthy exports. However, the Company is engaged in the exports of yarn and greige fabric. Hence, does not qualify for the export refinance facility. Margins of the Company reflected decline over last nine months. Consequently, the Company reported a bottom line of PKR 127mln in 9MFY23 (1HFY22: 1,825mln). Overall, the financial matrix remains stretched given the highly leveraged capital structure and limited borrowing capacity. Coverages witnessed deterioration on account of a decline in free cashflows. The working capital cycle increased considerably driven by higher inventory days. The Company has a sizeable investment portfolio, which further upsurged. The portfolio is managed at the Group level. Although, the Company has invested in blue-chip stocks, high market risk exposes the Company to significant risks. The sponsor's vast experience and the Company's association with Mahmood Group provide comfort to the ratings of the Company. The companies that fall under the umbrella of Mahmood group are Masood Spinning Mills Ltd, MG Apparel, MG Agri Foods (Pvt.) Ltd, and Roomi Enterprises (Pvt.) Ltd.

Textile exports in 9MFY23 were valued at \$10.08bln, an 8% YoY decline. Lower demand, high cotton prices, and weak yarn demand contributed to the export decrease. Bedwear saw the largest decline of 19%, while knitwear dropped by 10%. Cotton yarn experienced a significant decline of 35%. Demand is expected to improve post-Jun-23 despite inflationary pressures.

The ratings draw comfort from the Company's ability to prudently manage the working capital cycle, sustaining margins and generating sustainable cash flows from core operations, accompanied by decent financial performance and expansion plans.

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Disclosure

Name of Rated Entity	Mahmood Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Composite and Garments(Dec-22)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504

Profile

Legal Structure Mahmood Textile Mills Limited ('Mahmood Textile' or 'The Company') is a public listed concern, incorporated in 1970. The Company is listed on Pakistan Stock Exchange.

Background The Company is a part of Mahmood Group, which was originally established in 1935 by entering the tannery business. The group has now evolved into a diversified business empire with Mahmood Textile as the Group's flagship Company.

Operations Mahmood Textile is engaged in the production and sale of yarn and greige fabric. Its production facilities are located in Muzaffargarh, DG Khan and Multan. The Company has 126,824 spindles and 196 looms. The Company's energy requirement of ~11MW is completely met by generation capacity of ~21MW. Furthermore, the Company has a line from MEPCO as a backup.

Ownership

Ownership Structure Cumulatively, sponsors own ~45% of shareholding through group companies, directors as well as distant relatives. The remaining shareholding is held by the general public

Stability The Group has no holding company. The third generation of the sponsor family is actively involved in the operations of the Company but no formal succession plan has been announced. Documentation or formation of a family office will bode well with stability and succession of ownership

Business Acumen With over eight decades of experience, the sponsors have expertise in diversified sectors including textile, tanneries, real estate, and food.

Financial Strength Mahmood Group maintains an adequate financial profile with a considerable equity base through Group companies and stock market investments. Investments enhance the Group's financial profile through dividends and capital gains but also expose the Group to financial risk. The group has strong financial strength to support the Company, if needed.

Governance

Board Structure Mahmood Textile has an eight-member board including two independent directors. The board is dominated by Mahmood's family members.

Members' Profile Mr. Khawaja Muhammad Ilyas has more than four decades of textile experience and is the Chairman of the Company. He has been a key position holder in various local corporate bodies of Pakistan. Overall, the board members possess diversified knowledge and experience which leads to a good skill mix of their individual competencies.

Board Effectiveness In line with best corporate governance practices, there are two sub-committees in place to assist the Board on relevant matters: Audit and Human Resources. Attendance of directors in meetings remains high, boding well for the board's effectiveness. Meanwhile, minutes have room for improvement.

Financial Transparency M/s Shinewing Hameed Chaudhri & Co. Chartered Accountants are the external auditors of the Company, listed in Category "B" of the State Bank's panel of auditors. The auditor expressed an unqualified opinion on the financial statements of the company for the period ending June 30th, 2022. There is also an internal audit function in place to ensure effective oversight, with the Head of Internal Audit reporting directly to the Board Audit Committee.

Management

Organizational Structure The organizational structure of Mahmood Textile is divided into various departments reporting to the CEO and CFO. The departments are as follows: (i) Audit (ii) Taxation (iii) HR and Admin (iv) IT and ERP (v) Export and (vi) Finance.

Management Team The Company CEO – Mr. Khawaja M. Iqbal – has been associated with the Company for over four decades and also acts as the group Chairman. Mr. Iqbal is supported by a team of seasoned professionals, most of whom have been associated with the Company for a reasonably long period of time.

Effectiveness Adequate IT infrastructure and related controls are maintained. There is the preparation of regular reports regarding the Company's receivables and payables position, purchases and procurement, audit report, etc., to be submitted to higher management.

MIS The Company has deployed Oracle-based ERP with daily and monthly MIS to ensure the timely availability of information for effective decision-making.

Control Environment Mahmood Textile is accredited with international certifications for compliance including ISO 9001. The company adheres to the latest quality assurance standards for fabric production and trade in addition to the employment of quality control procedures.

Business Risk

Industry Dynamics During 9MFY23, the textile exports were valued at \$10.08bln compared to \$10.93bln, reflecting an 8% decline YoY – the declining trend has been recorded in the last few months. The decline in exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand for yarn in international markets is also a challenge. The analysis of 5MFY23 reveals that among value-added items, bedwear has witnessed the largest decline of 19% (on an MoM basis), down to \$217 million. Knitwear remained on the downward path in October 2022 and declined by 10% to \$392 million. Among non-value-added items, cotton yarn has shown the largest decline of 35%. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve post-Jun-23.

Relative Position With 126,824 spindles and 196 looms, Mahmood Textile is one of the large players in the industry. Cumulatively, Mahmood Group owns ~300,000 spindles and 750 air-jets looms and is one of the biggest textile manufacturing groups in Pakistan.

Revenues During 9MFY23, Mahmood Textile's topline amounted to PKR 37,841mln (FY22: PKR 40,969mln). The Company's topline predominately comprises yarn sales followed by greige fabric. The export market made up 62% of the total sales because of an established overseas customer base and better margins on export sales.

Margins The Company's gross profit margin declined to 12.7% in 9MFY23 (FY22: 18.1%). Similarly, the operating margin stands at 8.1% (FY22: 12.1%). During 9MFY23, the Company's net profit decreased significantly to PKR 127mln (FY22: PKR 3,178mln) due to high COGS and finance costs. Consequently, the net profit margin fell to 0.3% (FY22: 7.8%).

Sustainability In line with improving the business environment, the Company has gone into expansion with the addition of 35,000 to 50,000 spindles and an Apparel Unit with a production capacity of 35,000 product units/Day.

Financial Risk

Working Capital Mahmood Textile's net working capital cycle increased to 148 days (FY22: 120 days) due to high inventory days (9MFY23: 98 days, FY22: 87 days). The company possesses a high current ratio of 6.1x as of 9MFY23 (FY22: 4.0x). The short-term borrowings stand at 66% of the total borrowings where the quantum has sizably enhanced over the last years (end-Mar23: PKR 20.2bln, end-Jun22: PKR 12.2bln, end-Jun21: PKR 7.3bln).

Coverages Free cash flows (FCFO) decreased in 9MFY23 to PKR 4,608mln (FY22: PKR 5,285mln) factor of decreased profits from operations. Consequently, the interest coverage ratio decreased to 1.9x (FY22: 3.2x).

Capitalization During 9MFY23, the Company's capital structure remained leveraged at 70.9% (FY22: 62.8%). The equity base of the company has recorded improvement over the last few years to clock in at PKR 12.6bln (end-Jun22: PKR 12.6bln).



Mahmood Textile Mills Limited Textile - Composite	Mar-23 9M	Jun-22 12M	Jun-21 12M
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A BALANCE SHEET

1 Non-Current Assets	14,746	13,999	9,722
2 Investments	290	325	311
3 Related Party Exposure	5,113	5,114	4,610
4 Current Assets	28,218	20,355	12,181
<i>a Inventories</i>	15,482	11,638	7,820
<i>b Trade Receivables</i>	9,304	6,281	2,650
5 Total Assets	48,367	39,793	26,825
6 Current Liabilities	4,601	5,146	2,313
<i>a Trade Payables</i>	732	975	400
7 Borrowings	30,610	21,377	14,131
8 Related Party Exposure	46	62	56
9 Non-Current Liabilities	520	558	388
10 Net Assets	12,590	12,651	9,938
11 Shareholders' Equity	12,590	12,651	9,938

B INCOME STATEMENT

1 Sales	37,841	40,969	27,934
<i>a Cost of Good Sold</i>	(33,025)	(33,538)	(24,121)
2 Gross Profit	4,817	7,431	3,813
<i>a Operating Expenses</i>	(1,745)	(2,471)	(1,312)
3 Operating Profit	3,072	4,960	2,502
<i>a Non Operating Income or (Expense)</i>	311	786	632
4 Profit or (Loss) before Interest and Tax	3,383	5,746	3,133
<i>a Total Finance Cost</i>	(2,697)	(1,784)	(1,258)
<i>b Taxation</i>	(559)	(784)	(535)
6 Net Income Or (Loss)	127	3,178	1,341

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	4,608	5,285	3,159
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	2,257	5,285	1,456
<i>c Changes in Working Capital</i>	(8,951)	-	13
1 Net Cash provided by Operating Activities	(6,695)	5,285	1,469
2 Net Cash (Used in) or Available From Investing Activities	(1,631)	-	(1,133)
3 Net Cash (Used in) or Available From Financing Activities	9,046	-	(283)
4 Net Cash generated or (Used) during the period	721	5,285	53

D RATIO ANALYSIS

1 Performance			
<i>a Sales Growth (for the period)</i>	23.2%	46.7%	14.2%
<i>b Gross Profit Margin</i>	12.7%	18.1%	13.6%
<i>c Net Profit Margin</i>	0.3%	7.8%	4.8%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-11.5%	12.9%	11.4%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shu</i>	1.3%	28.1%	14.5%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	154	126	135
<i>b Net Working Capital (Average Days)</i>	148	120	130
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	6.1	4.0	5.3
3 Coverages			
<i>a EBITDA / Finance Cost</i>	1.7	3.5	3.1
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.4	1.9	1.5
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	3.6	2.5	3.4
4 Capital Structure			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	70.9%	62.8%	58.7%
<i>b Interest or Markup Payable (Days)</i>	92.3	108.5	86.4
<i>c Entity Average Borrowing Rate</i>	13.1%	9.4%	7.6%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

- a) Broker Entity Rating
- b) Corporate Rating
- c) Debt Instrument Rating
- d) Financial Institution Rating
- e) Holding Company Rating
- f) Independent Power Producer Rating
- g) Microfinance Institution Rating
- h) Non-Banking Finance Companies Rating

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Rating Team Statements

(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)

ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)

iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions

(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)

(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)

(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)

(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).

(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)

(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)

(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity

(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)

(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)

(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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