



The Pakistan Credit Rating Agency Limited

Rating Report

Masood Fabrics Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Mar-2023	A-	A2	Stable	Maintain	-
30-Mar-2022	A-	A2	Stable	Maintain	-
26-Apr-2021	A-	A2	Stable	Maintain	Yes
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	-
30-Jun-2018	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Masood Fabric Limited ('Masood Fabric' or 'The Company') is a public unlisted limited company. The Company is principally engaged in the manufacture of yarn and greige fabric, primarily catering to the home textile market. The Company maintains two separate units, Unit-I consists of 32,640 spindles and Unit-II consists of weaving operations with installed 244 air-jet looms. During FY22, the company's top line displayed an enormous increase recorded at PKR 24.1bln (FY21: PKR 14.7bln). The sales mix tilted towards the export market attributable to a higher demand pattern for textile products during FY22. The exports comprise the sale of fabric (51.5%) and yarn (48.5%). The margins and coverages demonstrated an improvement on account of operational efficiencies. The company's financial risk profile has reflected a comfortable position. During 1HFY23, the company's bottom line stood at PKR 619mln (1HFY22: PKR 1.2bln) on the back of higher expenses and finance costs which is in line with the industry trend. The company's financial risk profile witnessed a slight attrition primarily attributable to a decline in coverages. During 7MFY23, 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.

The ratings are dependent on the Company's ability to prudently manage the working capital cycle, sustaining margins, and generating sustainable cash flows from core operations. Significant deterioration in business profile leading to deterioration in coverages and/or margins may impact the ratings.

Disclosure

Name of Rated Entity	Masood Fabrics 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 Masood Fabrics Limited ('Masood Fabrics' or 'The Company') was incorporated in 1998, as a public limited company.

Background The Company was a venture of the Mahmood Group, which was originally established in 1935. Starting with the tannery business, the group now has a presence in the complete cotton chain (growing to finished products), tanneries, real estate, and food. Masood Fabric is now part of the Masood-Roomi group, which was formed in Apr'21.

Operations The Company is primarily engaged in the manufacture and sale of greige fabric and yarn. It also carries a significant investment portfolio and participates in the equity market. The Company has a combined power generation of 10,900 KW/h through captive generators, 5,400 KW/h in the spinning unit, and 5,000 KW/h in the weaving unit.

Ownership

Ownership Structure Mr. Khawaja Jalaluddin Roomi is the Chairperson. The ownership of the Company rests with the family of Mr. Roomi including his wife, sons and sisters. The major shareholding of the Company is owned by Mr. Khawaja Jalaluddin Roomi which is 77.28%.

Stability A defined and streamlined shareholding pattern among family members and clear succession add strength to the structure. However, the documentation of the succession plan shall bring more clarity.

Business Acumen Mr. Khawaja Jalaluddin Roomi - is a graduate with an overall experience of over 30 years. He has vast experience in leading different government, semi-government, and public limited companies, developing credential expertise over time which provides sufficient business acumen, to sustain any upcoming challenges.

Financial Strength Masood Fabric is a part of the Masood-Roomi Group of Companies. The sponsoring family has three other textile Companies; Roomi Fabric Limited, Roomi Home, and Masood Apparels, and two holding Companies Masood Holding and Roomi Holding. This indicates sponsors' ability to provide support if the need arises.

Governance

Board Structure The board comprises three members from the sponsoring family. The position of Chairman and CEO is with - Mr. Khawaja Jalaluddin Roomi.

Members' Profile The board has vast knowledge and experience of entire textile chain. The directors' expertise in various stages of the textile value chain leads to a good skill mix.

Board Effectiveness The total number of meetings held during the year was four, which were attended by all of the members. High attendance bodes well for board effectiveness.

Financial Transparency Yousuf Adil & Co. Chartered Accountants, who are categorized in category 'A' by the SBP and have a satisfactory QCR rating by ICAP, were the external auditors of the company. They have expressed an unqualified opinion on the company's financial statements for the year ending June 30, 2022.

Management

Organizational Structure Masood Fabrics' middle management is structured at the Company-level. The organizational structure of the Company is divided into various departments with reporting to the CEO and BOD. Both the executive directors and GM Audit report directly to the BOD, while the rest report to the CEO.

Management Team Mr. Jalal-ud-Din Roomi, the CEO of the company, is a graduate with an overall experience of over 30 years. He has vast experience in leading different government, semi-government, and public limited companies. Currently, he is also on the board of Arif Habib Corporation. His son, Khawaja Najam-ud-Din Roomi is the executive director of the company. He is actively engaged in the day-to-day operations of the company. The Director of Finance, Mr. Javed Anjum is a fellow Chartered Accountant and brings with him an experience of several years. The top management is supported by a team of professionals working under various subdivisions to ensure smooth reporting. Mr. Shoaib Yazdani is a qualified Chartered Accountant with an overall experience of 15 years.

Effectiveness The board meetings are held formally and separately for all group companies and are chaired by Mr. Khawaja Jalal-ud-Din Roomi. Meeting minutes are formally maintained.

MIS Various MIS reports are generated and submitted to higher management regarding monthly operations, finished goods, cotton reconciliation reports, yield reports, and raw material reports.

Control Environment The Company deployed Oracle as an ERP solution in 2014. The group is currently operating Oracle R12, which has been customized by KPMG Taseer Hadi & Co. Chartered Accountants.

Business Risk

Industry Dynamics During 7MFY23, 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, the 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 32,640 spindles and 244 looms installed, the Company can be classified as a middle-tier textile Company.

Revenues The company generates a major portion of its revenue from export sales. During FY22, the company's topline recorded a sizeable improvement to stand at PKR 24.1bln (FY21: PKR 14.7bln). The sales mix tilted toward the export market attributable to high demand. The export sales recorded a robust increase to PKR 21.9bln (FY21: PKR 13.2bln) comprising the sale of yarn and fabric. The company's local sales also improved to PKR 2.4bln (FY21: PKR 1.6bln). During 1HFY23, the revenue base stood at PKR 12.4bln. The export sales constituted 91% of the company's topline recorded at PKR 11.3bln. The company's local sales recoded at PKR 1.2bln.

Margins During FY22, the gross margin reflected a good increase at 23.2% (FY21: 13.69%) followed by an improved revenue base. The operating profit also improved to 18.4% (FY21: 10.5%). Despite an increase in the finance cost, the company's bottom line displayed an enormous increase to PKR 2.1bln (FY21: PKR 841mln). Consequently, the net profit margin stood at 8.8% (FY21: 5.7%). During 1HFY23, the company's gross profit margin and net profit margin were rationalized at 18.0% and 5.0% respectively.

Sustainability The Company has planned to replace its old machinery with new automated machines to achieve operational efficiency and reduce labor costs. The company's management is focusing to increase its exports by adding new products (finished goods) to its product range.

Financial Risk

Working Capital At end-Jun22, the company's net working capital days improved to 139 days (end-Jun 21: 207 days) owing to a decrease in the inventory days recorded at 121 days (end-Jun 21: 176 days). The company's short-term trade leverage improved to 9.2% (end-Jun21: 5.7%) due to an increase in trade assets recorded at PKR 14.3bln (end-Jun21: PKR 10.2bln). At end-Dec22, the net working capital days increased to 155 days attributable to inventory days. The company's short-term trade leverage inched down to 7.2%.

Coverages At end-Jun22, the company's free cash flows from operations increased manifold at PKR 4.1bln (end-Jun21: PKR 1.6bln). The company's interest coverage ratio improved to 3.4x (end-Jun21: 1.9x). The company's debt payback improved to 1.8 years (end-Jun21: 7.1 years). At end-Dec22, the company's interest coverage and core operating coverage stood at 1.8x and 1.1x respectively. The company's debt payback increased to 4.6 years.

Capitalization At end-Jun22, the company has a moderately leveraged capital structure. The company's leveraging inched down to 66.4% (end-Jun21: 68.4%). During FY22, the company's equity base increased to PKR 8.4bln (end-Jun21: PKR 6.3bln). Short-term borrowings constitute 67.4% of the total borrowings to stand at PKR 16.6bln (end-Jun21: PKR 13.6bln). At end-Dec22, the company's equity base increased to PKR 9.0bln. The company's leveraging clocked in at 65.2%.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Masood Fabrics Limited Composite & Garments	Dec-22 6M	Jun-22 12M	Jun-21 12M	Jun-20 12M
--	--------------	---------------	---------------	---------------

A BALANCE SHEET

1 Non-Current Assets	6,219	5,330	4,382	4,381
2 Investments	5,351	4,712	4,699	4,296
3 Related Party Exposure	2,650	2,650	2,143	1,785
4 Current Assets	14,906	15,341	11,047	8,567
<i>a Inventories</i>	9,018	9,226	6,748	5,335
<i>b Trade Receivables</i>	3,220	3,094	2,678	2,120
5 Total Assets	29,126	28,033	22,271	19,029
6 Current Liabilities	2,734	2,927	2,208	1,312
<i>a Trade Payables</i>	1,617	1,724	1,582	664
7 Borrowings	17,326	16,659	13,658	12,230
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	82	6
10 Net Assets	9,066	8,447	6,322	5,481
11 Shareholders' Equity	9,066	8,447	6,322	5,481

B INCOME STATEMENT

1 Sales	12,453	24,147	14,729	13,236
<i>a Cost of Good Sold</i>	(10,209)	(18,534)	(12,685)	(11,636)
2 Gross Profit	2,245	5,612	2,045	1,600
<i>a Operating Expenses</i>	(658)	(1,180)	(491)	(444)
3 Operating Profit	1,587	4,433	1,553	1,156
<i>a Non Operating Income or (Expense)</i>	41	(657)	428	197
4 Profit or (Loss) before Interest and Tax	1,628	3,775	1,981	1,353
<i>a Total Finance Cost</i>	(871)	(1,317)	(970)	(1,118)
<i>b Taxation</i>	(137)	(334)	(170)	(128)
6 Net Income Or (Loss)	619	2,124	841	107

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	1,449	4,111	1,687	1,481
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	722	2,875	685	330
<i>c Changes in Working Capital</i>	217	(4,040)	(1,446)	(1,678)
1 Net Cash provided by Operating Activities	939	(1,165)	(761)	(1,348)
2 Net Cash (Used in) or Available From Investing Activities	(1,624)	(1,855)	(617)	(593)
3 Net Cash (Used in) or Available From Financing Activities	667	(213)	1,428	1,938
4 Net Cash generated or (Used) during the period	(18)	(3,233)	50	(3)

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	3.1%	63.9%	11.3%	0.0%
<i>b Gross Profit Margin</i>	18.0%	23.2%	13.9%	12.1%
<i>c Net Profit Margin</i>	5.0%	8.8%	5.7%	0.8%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	13.4%	0.3%	1.6%	-1.5%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	14.1%	28.8%	14.3%	2.0%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	180	164	235	N/A
<i>b Net Working Capital (Average Days)</i>	155	139	207	40
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	5.5	5.2	5.0	6.5
3 Coverages				
<i>a EBITDA / Finance Cost</i>	2.2	3.5	2.1	1.6
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.1	1.9	1.0	1.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	4.6	1.8	7.1	11.8
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	65.6%	66.4%	68.4%	69.1%
<i>b Interest or Markup Payable (Days)</i>	106.4	97.0	96.9	95.3
<i>c Entity Average Borrowing Rate</i>	9.8%	8.0%	7.0%	9.8%

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+	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	
BBB-	
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	
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	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	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

Disclaimer: PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

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)

Independence & Conflict of interest

(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)

Proprietary Information

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent