



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
29-Mar-2024	A-	A2	Stable	Maintain	-
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

The rating reflects the adequate presence of Masood Fabric Limited ('the company' or "MFL) in the textile industry of Pakistan. The principal activity of the company is the manufacturing and sale of grey cloth and yarn. The financial strength of the Company primarily divests into the six companies which operate under the umbrella of the Masood Roomi group which includes Masood Fabrics Limited, Roomi Fabrics Limited, and Masood Apparels (Pvt.) Limited, Roomi Home (Pvt.) Limited, Masood Holdings (Pvt.) Limited, and Roomi Holdings (Pvt.) Limited. The board is dominated by the sponsoring family and acts more in an execution role as they possess considerable industry-specific exposure. The MFL has enhanced product diversity by introducing the production of double yarn and technical fabric. The Company has installed solar power plants to manage energy cost risk. The Company has dependency on the procurement of imported raw cotton reflects inherent supply chain and foreign exchange risk for price transferability. The top customers of the Company are stable entities that provide comfort to the business sustainability. During FY23, the Company generated a topline of PKR 25.36bln (FY22: PKR 24.1bln) mainly dominated by the export segment and their export destinations include mainly Europe and USA. In recent times, the Company profitability matrix has been under stress on account of a consistent surge in the cost of production coupled with magnifying finance costs. However, the non-operating income has created a buffer in the Company's profitability and provided some support to the margins. The financial risk profile of the Company is adequate considering the leveraged capital structure and stretched working capital management. The cashflows and coverages of the Company are considered adequate and need improvement. The Pakistan textile industry size is estimated to be PKR 2.62Trn in LSM (Large Scale Manufacturing) ~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector has a contribution of ~ PKR 1.6Trn mainly dominated by knitwear, readymade garments, bedwear, and towels followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs & finance costs, PKR devaluation, and ensuring the availability of optimum quality raw materials are prime challenges specific to the industry to assess the international market and stay price-wise competitive

The ratings are dependent upon the Company's ability to prudent working capital management. Improvement in coverages, sustainability of margin, and sufficient generation of cash flows from core operations while expanding business volumes remains vital. Adherence to the debt matrix at an optimal level is a prerequisite for assigned ratings.

Disclosure

Name of Rated Entity	Masood Fabrics Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Composite and Garments(Dec-23)
Rating Analysts	Muhammad Harris Ghaffar harris.ghaffar@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 governments, 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 the 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 Crowe Hussain Chaudhry & 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, 2023.

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 Adamjee Insurance Company Limited. His son, Khawaja Najam-ud-Din Roomi is the executive director of the company. Currently, he is also on the board of Arif Habib Corporation. 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 The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn in LSM (Large Scale Manufacturing) ~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector has a contribution of ~ PKR 1.6Trn mainly dominated by knitwear, readymade garments, bedwear and towels followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs & finance costs, PKR devaluation, and ensuring the availability of optimum quality raw materials are prime challenges specific to the industry to assess the international market and stay price-wise competitive.

Relative Position With 32,640 spindles and 260 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 FY23, the company's topline recorded improvement to stand at PKR 25.3bln (FY22: PKR 24.1bln). The sales mix tilted toward the export market attributable to high demand. The export sales recorded an increase to PKR 24bln (FY22: PKR 21.9bln) comprising the sale of yarn and fabric. The company's local sales declined to PKR 1.8bln (FY22: PKR 2.4bln). During 3MFY24, the revenue base stood at PKR 6.6bln.

Margins During FY23, the gross margin reflected a decline at 19.9% (FY22: 23.2%) followed by a hike in production cost. The operating margin also improved to 15.1% (FY22: 18.4%) The net profit of the company saw a sizeable decline to stand at PKR 1.36bln (FY22: PKR 2.1bln) Consequently, the net profit margin stood at 5.4% (FY22: 8.8%). During 3MFY24, the company's gross profit margin and net profit margin were rationalized at 15% and 1.4% respectively.

Sustainability During FY23, the Company replaced its old machinery with new automated machines to achieve operational efficiency and reduce labor costs. The company's management is focusing on increasing its exports by adding new products (finished goods) to its product range

Financial Risk

Working Capital At end-Jun23, the company's net working capital days marginally stretched to 141 days (end-Jun 22: 139 days) owing to an increase in the inventory days recorded at 132 days (end-Jun 22: 121 days). The company's short-term trade leverage improved to 0.2% (end-Jun22: 3.4%) due to a decrease in trade assets recorded at PKR 12.9bln (end-Jun22: PKR 13.4bln). At end-Sep23, the net working capital days stood at 130 days. The company's short-term trade leverage inched up to 1.9%

Coverages At end-Jun23, the company's free cash flows from operations decreased at PKR 3.6bln (end-Jun22: PKR 4.1bln). The company's interest coverage ratio declined to 1.8x (end-Jun22: 3.5x). The company's debt payback extended to 4.0 years (end-Jun22: 1.8 years). At end-Sep23, the company's interest coverage and core operating coverage stood at 1.2x and 0.8x respectively.

Capitalization At end-Jun23, the company has high leveraged capital structure. The company's leveraging inched down to 62.3% (end-Jun22: 66.4%). During FY23, the company's equity base increased to PKR 9.9bln (end-Jun22: PKR 8.4bln). Total borrowings to stand at PKR 16.1bln (end-Jun22: PKR 16.7bln). At end-Sep23, the company's equity base stood at PKR 9.9bln. The company's leveraging clocked in at 62.9%



Masood Fabrics Limited Composite & Garments	Sep-23 3M	Jun-23 12M	Jun-22 12M	Jun-21 12M
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A BALANCE SHEET

1 Non-Current Assets	7,136	7,225	5,589	4,382
2 Investments	5,063	5,240	4,862	4,699
3 Related Party Exposure	3,268	3,181	3,143	2,143
4 Current Assets	14,806	13,629	14,583	11,047
a Inventories	8,680	9,110	9,226	6,748
b Trade Receivables	3,103	1,775	3,094	2,678
5 Total Assets	30,274	29,275	28,177	22,271
6 Current Liabilities	3,622	3,290	3,072	2,208
a Trade Payables	1,957	1,819	1,896	1,582
7 Borrowings	16,750	16,176	16,659	13,658
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	82
10 Net Assets	9,901	9,808	8,447	6,322
11 Shareholders' Equity	9,901	9,808	8,447	6,322

B INCOME STATEMENT

1 Sales	6,614	25,366	24,147	14,729
a Cost of Good Sold	(5,620)	(20,324)	(18,534)	(12,685)
2 Gross Profit	994	5,042	5,612	2,045
a Operating Expenses	(275)	(1,215)	(1,180)	(491)
3 Operating Profit	719	3,827	4,433	1,553
a Non Operating Income or (Expense)	144	241	(657)	428
4 Profit or (Loss) before Interest and Tax	864	4,068	3,775	1,981
a Total Finance Cost	(693)	(2,330)	(1,317)	(970)
b Taxation	(77)	(376)	(334)	(170)
6 Net Income Or (Loss)	93	1,361	2,124	841

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	881	3,633	4,111	1,687
b Net Cash from Operating Activities before Working Capital	270	1,548	2,875	685
c Changes in Working Capital	(1,144)	983	(4,040)	(1,446)
1 Net Cash provided by Operating Activities	(874)	2,531	(1,165)	(761)
2 Net Cash (Used in) or Available From Investing Activities	153	(1,917)	(1,855)	(620)
3 Net Cash (Used in) or Available From Financing Activities	574	(483)	2,992	1,428
4 Net Cash generated or (Used) during the period	(147)	131	(28)	47

D RATIO ANALYSIS

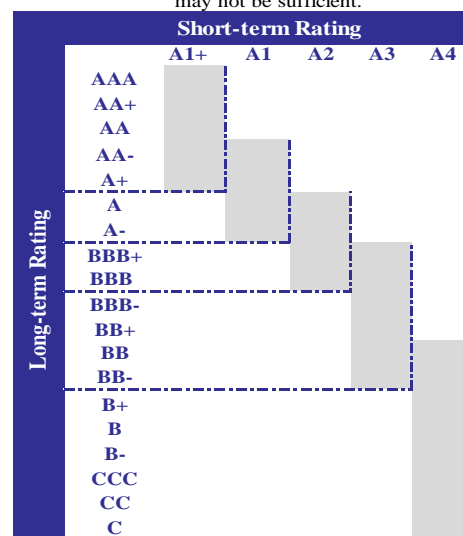
1 Performance				
a Sales Growth (for the period)	4.3%	5.0%	63.9%	11.3%
b Gross Profit Margin	15.0%	19.9%	23.2%	13.9%
c Net Profit Margin	1.4%	5.4%	8.8%	5.7%
d Cash Conversion Efficiency (FCFO adjusted for Working C	-4.0%	18.2%	0.3%	1.6%
e Return on Equity [Net Profit Margin * Asset Turnover * (T	3.8%	14.9%	28.8%	14.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	156	167	164	235
b Net Working Capital (Average Days)	130	140	138	207
c Current Ratio (Current Assets / Current Liabilities)	4.1	4.1	4.7	5.0
3 Coverages				
a EBITDA / Finance Cost	1.5	1.8	3.5	2.1
b FCFO / Finance Cost+CMLTB+Excess STB	1.0	1.1	1.9	1.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	6.3	4.0	1.8	7.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equit	62.9%	62.3%	66.4%	68.4%
b Interest or Markup Payable (Days)	89.7	93.2	97.0	96.9
c Entity Average Borrowing Rate	15.7%	13.2%	8.0%	7.0%

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

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- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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