



The Pakistan Credit Rating Agency Limited

Rating Report

Maksons Textile (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
22-Mar-2018	BBB-	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings account for financial strength of the company's sponsors - AL-Tariq Group; having expertise in textile engineering. This provides cushion to relatively stretched financial risk profile of Maksons, characterized by high leveraging and adequate debt servicing ratio. Free cashflows, though small in size, demonstrated stable and rising trend. Company caters to niche market in textile industry providing textile solutions in the form of semi-finished and finished fabrics; reflecting good in gross margins. Company's bottomline, though small in size, has remained stable over years. With latest BMR activities, the company is expected to bring efficiencies and growth, going forward,

The ratings are dependent on rationalization of top ten client concentration, with anticipated growth in topline. Risk absorption capacity would improve with scheduled repayments easing out leveraged capital structure. Debt services overages should be closely monitored.

Disclosure

Name of Rated Entity	Maksons Textile (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating Methodology(Jul-2017), Methodology Correlation between long-term and short-term rating scale(Jun-2017)
Related Research	Sector Study Textile(Oct-2017)
Rating Analysts	Aman Zafar aman.zafar@pacra.com +92-42-35869504 Amara Gondal amara.gondal@pacra.com +92-42-35869504

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MAKSONS TEXTILE (PVT.) LIMITED		INDUSTRY SNAPSHOT
Incorporated	2000	
Major business lines	Sales of yarn and fabrics	
Manufacturing Facilities	Weaving unit that manufactures the greige fabric used for home textile, sources the processing for the finished goods	
Capacities	114 total looms	
Legal status	Un-Listed	<ul style="list-style-type: none"> • During FY17, total textile exports stood at USD ~ 12,453mln. • Cotton yarn contributes (10%), cotton cloth (17%), home textile (29%), while garments contributes (38%). • Pakistan's weaving sector continues to witness suppressed margins. • High cost of doing business as compared to other countries like Bangladesh, India and Vietnam.

OWNERSHIP

- Maksons is a venture of five individuals a group of friends. While shareholding is held by four individuals equally, profit sharing ratio has been agreed to be distributed between five individuals
- Makson was setup by AL-Tariq Group, having presence in engineering, construction, trading and power. In addition to cash injection in the form of capital, ATL Group, supports the company, from time to time

GOVERNANCE

- Maksons Textile's Board comprises four members, all are sponsors. The position of chairman is held by Mr. Abdul Quddoos whereas Mr. Khallid Majeed is the CEO of the company.
- The board mainly comprises vast knowledge and extensive experience of textile industry.
- Board meetings are held regularly on monthly basis in which discussion on various aspect are recorded in minutes and decision or action is refer to Chairman, Mr. Abdul Quddoos.

MANAGEMENT

- Mr. Muhammad Khalid is the director and manages day to day affairs. He carries twenty three years of professional experience and holds the B.Sc textile engineer degree. He has been working with this group since the beginning which makes him to be with this group from eighteen years. Mr. Khalid plays a key role and looks after all the managerial work of the company. The CEO is more of monitoring role
- The organizational structure of the company is divided into various functional departments

PERFORMANCE

- Company makes most of revenue ~75% through exports; majorly sold to Korea ~50%, followed by Belgium ~24%, China ~4% and France ~2%. Revenue from Germany, Italy and Portugal saw significant decline.
- Top client concentration is significantly high; revenue from top four customer (66% of topline) have seen significant variation over, latest three years
- Company's revenue growth witnessed variation in latest three years, However, gross margin sustained at 12% - 14% range, reflecting good on business risk profile
- Management keeps a close monitoring system over operating expenses, translating into stable operating margins of 5% every year (pre-tax operating profit: 3%)
- Size if the net profit of the company is very small, exposing the company to low risk absorption capacity.

FINANCIAL RISK

- Maksons prudently manages its working capital requirement. It doubled its stocking policy in FY17 onwards; keeping 2.8 months of stocks (FY16: 1.5months). Company's credit arrangements of less than a month reflects positively on short-term needs, absolutely covered by availing one month credit from suppliers. This leaves the company to arrange short term borrowings to only finance stocks. Short term trade leverage stays strong in the range of 20% - 30%
- Free Cashflows from Operations (FCFO) increased massively in FY17 ~38%, clocking in at PKR 146mln (1HFY18: PKR67mln). This is sufficient to make debt servicing of PKR 94mln (CMLTD: PKR 68mln, interest: PKR 26mln). Though FCFO increased, debt servicing hike due to high borrowing to finance BMR activities, resulted in debt servicing ratio muted at 1.5x (FY16 : 1.4x, FY15 : 1.8x). Size of FCFO is small
- Makson's borrowings at end-Dec17 (PKR 680mln), comprise 53% long Term Debt (LTD) and 47% Short Term Borrowing (STB). LTC increased three times to finance BMR activities of the company. This pushed the leveraging of the company to considerably higher level (1HFY18; 72%, FY17: 72%. FY16: 58%). Risk absorption capacity is squeezed, depressing the financial risk profile. However, comfort is drawn from strong standing of ATL Group and sponsors financial strength



Textile

The Pakistan Credit Rating Agency Limited

Financials (Summary)

PKR mln

Maksons Textile (Pvt.) Limited

BALANCE SHEET	31-Dec-17	30-Jun-17	30-Jun-16	30-Jun-15
	1HYFY18	Annual	Annual	Annual
Non-Current Assets	579	617	398	431
Current Assets	515	457	295	334
Inventory	236	258	144	151
Trade Receivables	164	85	73	107
Others	115	114	79	76
Total Assets	1,094	1,074	694	766
Debt	680	636	310	375
Short-term Borrowings (STBs)	320	290	180	205
Long-term (Incl. Current Maturity of Long-Term Debt)	360	346	130	170
Other short-term liabilities	77	110	66	74
Other long-term liabilities	77	83	95	119
Shareholder's Equity	260	245	223	197
Total Liabilities & Equity	1,094	1,074	693	766
INCOME STATEMENT				
Turnover	706	1,312	1,281	1,353
Gross Profit	88	185	159	159
Net operating and other expense	(56)	(123)	(93)	(104)
Financial Charges	(11)	(26)	(28)	(14)
Net Income	14	22	25	27
Cashflow Statement				
Free Cashflow from Operations (FCFO)	67	146	106	100
Net Cash changes in Working Capital	(123)	(89)	34	(113)
Net Cash from Operating Activities	(66)	30	112	(28)
Net Cash from Investing Activities	(6)	(319)	(20)	(288)
Net Cash from Financing Activities	71	286	(90)	316
Ratio Analysis				
Performance				
Gross Margin	12%	14%	12%	12%
Operating Margin	5%	5%	5%	4%
Net Margin	2%	2%	2%	2%
Coverages				
Interest Coverage (FCFO/Gross Interest)	6.3	5.5	3.8	6.9
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total)	1.5	1.5	1.6	1.8
Debt Payback (Total LT Debt Including Uncovered Total)	4.5	4.3	4.1	4.8
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	90	74	48	54
Capital Structure (Total Debt / Total Debt+Equity)	72%	72%	58%	66%

Maksons Textile (Pvt.) Limited (Maksons)

March 2018

www.pacra.com



ENTITY CREDIT RATING SCALE & DEFINITIONS

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

LONG TERM RATINGS		SHORT TERM RATINGS	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments.	A1+: The highest capacity for timely repayment.	
AA+ 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.	A1: A strong capacity for timely repayment.	
A+ 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.	A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.	
BBB+ 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 or economic conditions are more likely to impair this capacity.	A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.	
BB+ 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.	B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. C: An inadequate capacity to ensure timely repayment.	
B+ 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.		
CCC CC C	Very high 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.		
D	Obligations are currently in default.		
Rating Watch Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled.	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 or 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’.	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, a suspended rating should be considered withdrawn.	Withdrawn A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Disclaimer: PACRA's rating is an assessment of the credit standing of an entity/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

Regulatory and Supplementary Disclosure

(Credit Rating Companies Regulations,2016)



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.

(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 principle 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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