



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
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 improved 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 plans to enhance the spinning segment with addition of 35,000 - 50,000 spindles and establishing a new apparel unit with capacity of 35,000 product units/day. Topline 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 witnessed substantial surge. Consequently, the Company reported bottom-line of PKR 1,825mln in 1HFY22 (1HFY21: 239mln). Overall, financial profile of the Company remains stretched given highly leveraged capital structure and limited borrowing capacity. However, coverages witnessed improvement on account of enhanced free cashflows. Working capital cycle reduced considerably driven by lower 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 provides comfort to the ratings of the Company. During 9MFY22 (Jul21-Mar22), Pakistan textile exports surged to \$14.2bln (recording growth of 25%) as compared to \$11.3bln in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of raw cotton, cotton (carded or combed) and cotton cloth recorded notable growth. However, month on month basis, textile exports have declined by 3.5%. Going forward, the textile sector's outlook is expected to stay good in the medium term where demand for textile products is expected to sustain.

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

#### Disclosure

<b>Name of Rated Entity</b>	Mahmood Textile Mills Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Composite and Garments(Dec-21)
<b>Rating Analysts</b>	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 backup.

## Ownership

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

**Stability** The Group has no holding company. 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 family members.

**Members' Profile** Mr. Khawaja Muhammad Ilyas having more than four decades of textile experience 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 Resource. 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 ended June 30th, 2021. 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 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 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 latest quality assurance standards for fabric production and trade in addition to employment of quality control procedures.

## Business Risk

**Industry Dynamics** During 9MFY22 (Jul21-Mar22), Pakistan textile exports surged to \$14.2bln (recording growth of 25%) as compared to \$11.3bln in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of raw cotton, cotton (carded or combed) and cotton cloth recorded notable growth. However, month on month basis, textile exports have declined by 3.5%. Going forward, the textile sector's outlook is expected to stay good in the medium term where demand for textile products is expected to sustain.

**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 6MFY22, Mahmood Textile's topline amounted to PKR 18,660mln (6MFY21: PKR 13,143mln) growing by 42%. The Company's topline predominately comprises yarn sales (64%) followed by greige fabric (32%). Export market made up 32% of the total sales because of established overseas customer base and better margins on export sales.

**Margins** The Company's gross profit margin increased to 19% in 6MFY22 (FY21: 13.6%). Similarly, operating margin also inclined, and stands at 13.8% (FY21: 9.0%). During 6MFY22, the Company's net profit increased significantly to PKR 1,825mln (6MFY21: PKR 239mln). Consequently, net profit margin rose to 9.8% (FY21: 4.8%).

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

## Financial Risk

**Working Capital** Mahmood Textile's net working capital cycle decreased during 6MFY22 to 116 days (FY21: 130 days) due to lower inventory days (6MFY21: 88days, FY21: 97days). The company possesses a high current ratio of 4.0x as at 6MFY22 (FY21: 5.3x).

**Coverages** Free cash flows (FCFO) increased in 6MFY22 to PKR 2,358mln (6MFY21: PKR 555mln) factor of increased profits from operations. Consequently, interest coverage ratio increased to 3.7x (FY21: 2.7x).

**Capitalization** During 6MFY22, the Company's capital structure remained leveraged at 60.2% (FY20: 58.7%).



Mahmood Textile Mills Limited Textile - Composite	Dec-21 6M	Jun-21 12M	Jun-20 12M	Jun-19 12M
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#### A BALANCE SHEET

1 Non-Current Assets	11,929	9,722	8,591	8,951
2 Investments	678	311	725	1,370
3 Related Party Exposure	4,960	4,610	4,190	3,889
4 Current Assets	16,214	12,181	11,942	11,056
a Inventories	10,148	7,820	7,059	7,593
b Trade Receivables	3,997	2,650	3,103	1,686
5 Total Assets	33,781	26,825	25,448	25,266
6 Current Liabilities	4,079	2,313	2,312	2,006
a Trade Payables	589	400	303	222
7 Borrowings	17,489	14,131	14,441	14,647
8 Related Party Exposure	162	56	8	49
9 Non-Current Liabilities	475	388	104	81
10 Net Assets	11,576	9,938	8,582	8,484
11 Shareholders' Equity	11,576	9,938	8,582	8,484

#### B INCOME STATEMENT

1 Sales	18,660	27,934	24,465	24,387
a Cost of Good Sold	(15,121)	(24,121)	(22,352)	(21,813)
2 Gross Profit	3,540	3,813	2,114	2,574
a Operating Expenses	(966)	(1,312)	(1,034)	(906)
3 Operating Profit	2,574	2,502	1,079	1,667
a Non Operating Income or (Expense)	239	632	750	921
4 Profit or (Loss) before Interest and Tax	2,814	3,133	1,829	2,588
a Total Finance Cost	(695)	(1,258)	(1,527)	(1,526)
b Taxation	(294)	(535)	(231)	(312)
6 Net Income Or (Loss)	1,825	1,341	72	751

#### C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	2,358	3,159	2,326	3,397
b Net Cash from Operating Activities before Working Capital Changes	2,700	1,456	165	702
c Changes in Working Capital	(2,328)	13	(611)	(1,771)
1 Net Cash provided by Operating Activities	371	1,469	(446)	(1,069)
2 Net Cash (Used in) or Available From Investing Activities	(2,957)	(1,133)	672	(1,613)
3 Net Cash (Used in) or Available From Financing Activities	2,516	(283)	(205)	2,675
4 Net Cash generated or (Used) during the period	(69)	53	20	(8)

#### D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	33.6%	14.2%	0.3%	34.3%
b Gross Profit Margin	19.0%	13.6%	8.6%	10.6%
c Net Profit Margin	9.8%	4.8%	0.3%	3.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	0.2%	11.4%	7.0%	6.7%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/STB)]	33.9%	14.5%	0.8%	11.3%
2 Working Capital Management				
a Gross Working Capital (Average Days)	120	135	145	118
b Net Working Capital (Average Days)	116	130	141	114
c Current Ratio (Current Assets / Current Liabilities)	4.0	5.3	5.2	5.5
3 Coverages				
a EBITDA / Finance Cost	4.0	3.1	1.9	2.7
b FCFO / Finance Cost+CMLTB+Excess STB	1.9	1.5	1.6	1.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.4	3.4	5.4	2.1
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	60.2%	58.7%	62.7%	63.3%
b Interest or Markup Payable (Days)	88.0	86.4	83.8	101.8
c Entity Average Borrowing Rate	7.9%	7.6%	8.8%	9.1%

**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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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+	<b>Moderate risk.</b> 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	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
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(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)

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- 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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- (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)
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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
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- (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)

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- (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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