



The Pakistan Credit Rating Agency Limited

## Rating Report

### Fazal Holdings (Pvt.) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Nov-2018	A	A1	Stable	Maintain	-
07-May-2018	A	A1	Stable	Maintain	-
31-Aug-2017	A	A1	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Fazal Holdings (Pvt.) Limited ('Fazal Holdings') is an investment holding company for Fazal Group. It's investment portfolio comprises a combination of strategic investments (long-term investments in subsidiaries and associates) and trading investments (with short to medium - term time horizon). As per policy, active trading is minimal. The portfolio comprises a combination of blue chip companies. Fazal Holdings investments are spread across diverse sectors of economy. The ensuing dividend stream from the investments supplements Fazal Holdings revenues, which include capital gains. Sponsors intend to expand Fazal Holdings. Consequently, profits are being retained and any surplus funds, elsewhere in the Group, are also routed to Fazal Holdings. The Company has designed a conservative leverage policy according to the size of investment book. This should help absorb the effects of volatility in stock market on assets of Fazal Holdings and keep financial risk manageable. Investment decisions are led by Mr. Rehman Naseem. He gets assistance from resources within Fazal Group and certain research/brokerage houses. Herein, institutionalization would be beneficial.

Ratings are dependent on management's initiatives to strengthen mechanism for monitoring performance of underlying investments. This would facilitate Fazal Holdings assimilation into an effective holding company. Downturn in capital market and/or material performance weakening of investee companies would have a negative impact on ratings. At the same time, adhering to agreed financial matrix and keeping debt coverages at adequate level is critical.

#### Disclosure

<b>Name of Rated Entity</b>	Fazal Holdings (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18),Methodology   Holding Company (Jun-18)
<b>Related Research</b>	Sector Study   Holding Company(Aug-18)
<b>Rating Analysts</b>	Adnan Dilawar   adnan@pacra.com   +92-42-35869504



## Profile

**Legal Structure** Fazal Holdings (Private) Limited is a Private Limited Company incorporated in Pakistan on April 23, 1995 under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). The registered office of the Company is in Multan.

**Background** The Company was established in April, 1995 in the name of Amir Fine Export (Private) Limited. The Company was engaged in the trading of yarn and cloth along with the listed and unlisted securities. In 2016, the Company's name was changed to Fazal Holdings (Pvt.) Limited.

**Operations** The Company is principally engaged in investing in quoted and un-quoted securities.

## Ownership

**Ownership Structure** Mr. Rehman Naseem holds 49% of the shareholding followed by Mr Yousaf Amir and Mr Abdullah Amir (Sons of Mr. Amir Naseem) holding 22% each. Remaining 7% shareholding is held by other members of Fazal family.

**Stability** Ownership of the business is seen as stable as the major ownership vests with the sponsors.

**Business Acumen** Fazal Group (The term 'Group' may be defined differently in Prudential Regulations for Corporate/Commercial Banking and/or other laws) is a renowned textile Group in Pakistan. Fazal cloth mills Limited – Groups' flagship Company, was incorporated in 1966 and had set up its first spinning unit in 1972 in Muzaffargarh. Other businesses operated by Fazal Group include Ahmed Fine textile Mills, Fazal Weaving Mills and Fazal Rehman Fabrics Limited among others.

**Financial Strength** The Group as a whole has an asset base of over PKR 70bln supported by PKR 31bln equity as at end Jun' 18. It has an annual turnover of over PKR 49bln for the year end Jun' 18.

## Governance

**Board Structure** BoD comprises three members, two directors and CEO of the Company. Limited size of the Board, dominance of sponsoring family and absence of independent oversight indicates room for improvement in the overall governance framework.

**Members' Profile** Mr. Rehman Naseem is a Columbia University graduate. He is CEO of Ahmed Fine Textile Mills Limited, Rehman Amir Fabrics Ltd and Chairman of Fazal Cloth Mills. During the year, Mr. Amir Naseem joined the BoD in place of Mrs Mehnaz Amir. The BoD members experience is mostly concentrated towards textile and fertilizer industry.

**Board Effectiveness** There were four board meetings held during FY18, which had full attendance.

**Financial Transparency** M/s Shinewings Hameed Chaudhri & Co were been appointed as external auditors during FY18. The auditors have expressed unqualified opinion on the financial reports for FY18.

## Management

**Organizational Structure** Fazal Holdings is headed by a CEO; with two main functions (a) Finance and (b) MIS both headed by CFO. The CFO reports to the CEO. Company Secretary looks after compliance related matters and reports to both CEO & CFO.

**Management Team** Mr. Sheikh Naseem Ahmed, CEO of Fazal Holdings, has over 50 years of experience in textile and in fertilizer sector. He has the directorship of other Fazal Group companies. Mr. Azam, CFO, is an FCA and FCMA with a long association of over a decade with the Fazal Group of companies.

**Effectiveness** Various reports are generated on daily, weekly and monthly basis highlighting the performance of the investment portfolio.

**MIS** During FY18, the Company has implemented Investment Management and Accounting Software. The Company has adopted parallel changeover method for the implementation of new system.

**Control Environment** Due to the limited operations of the Company, there is no internal audit function. The risk management is handled by management and Director, Mr Rehman Naseem, who defines the investment management procedures and develops effective risk management policies and procedures. These practices suggest a need for improvement in the control environment of Fazal holdings.

## Business Risk

**Industry Dynamics** Holding companies are an emerging phenomena in Pakistan. Some operating companies that held strategic investments gradually for the purpose of diversification and growth eventually de-merged from their operations and structured itself so that holding companies could concentrate their investments for the purpose of business growth and diversification.

**Relative Position** Fazal Holdings has an investment book of PKR 10bln comprising of Strategic Investments (PKR 7bln), Trading Investments (PKR 3bln) and Investment Properties (PKR 0.5bln). Strategic Investments include Fazal Group's flagship Company - Fazal Cloth which maintains a prominent position in spinning sector on a standalone basis. Strategic Investments also include Fatima Energy Limited, Fatima Transmission Company Limited, Reliance Weaving Mills and Pakarab Fertilizers Limited. Trading Investments include primarily blue chip companies that keep the business risk of the Company i.e. market risk in check.

**Revenues** During FY18 Fazal Holdings, dividend income closed in at PKR 260mln, a decline of 24% (YOY basis). Gain on sale of short term investments stood at PKR 16mln, a decline of 92% (YOY basis). Remeasurement on short term investments resulted in a loss of 43mln. This decline is due to overall negative performance of the market owing to weak economic conditions and volatile nature of the business. Finance costs continued to dominate on the profit and loss account at PKR 171mln (Jun '17: PKR 205mln). Profits from associates supported the bottom line by PKR 280mln, an increase of 209% (YOY basis). Bottom-line closed in at PKR 154mln, a decline of 63% on YOY basis.

**Margins** Despite a reduction in the topline, the Company's Net Profit Margin improved and clocked in at 66% as compared to 63% in FY17. This increase is primarily driven by a substantial increase of 209% in share of profits from associates i.e. Fazal Cloth

**Sustainability** Sponsors intend to expand Fazal Holdings. During the year, Fazal Holdings has acquired Investment Property worth PKR 44mln. Fazal Holdings has also issued advance of PKR 40mln to Fazal Farms (Private) Limited for issue of shares.

## Financial Risk

**Working Capital** Short term debt to Trading Portfolio was maintained at 49% as at end Jun' 18 (including Fatima Fertilizer Company Limited).

**Coverages** During FY18, EBITDA/Interest Coverage Ratio stood at 3x (Jun '17: 3.7x). The deterioration is due to the lower dividends, declined gain on short term investments and remeasurement loss on short term investments.

**Capitalization** As on June '18 Fazal Holdings' debt:equity ratio improved to 35% (Jun '17: 54%). Equity base mainly represents profits accumulated profit over the years. 90% of the Company's debt emanates from short-term borrowings to finance the trading portfolio.



The Pakistan Credit Rating Agency Limited

## Holding Company

### Financials (Summary)

*PKR mln*

#### Fazal Holdings (Pvt.) Limited (FHPL)

##### BALANCE SHEET

	30-Jun-18	30-Jun-17	30-Jun-16
	Annual	Annual	Annual
<b>Investments</b>	<b>10,110</b>	<b>9,836</b>	<b>8,587</b>
Strategic Investments	7,050	6,031	5,782
Trading Investments	2,548	3,335	2,342
Investment Property	512	470	463
Other Assets	430	189	135
<b>Total Assets</b>	<b>10,540</b>	<b>10,025</b>	<b>8,722</b>
 Borrowings	 <b>2,218</b>	 <b>2,866</b>	 <b>2,325</b>
Long Term	188	263	300
Short Term	2,030	2,604	2,025
Total Liabilities (Excluding Borrowings)	1,999	1,837	1,448
<b>Shareholder's Equity</b>	<b>6,323</b>	<b>5,321</b>	<b>4,949</b>
<b>Total Liabilities &amp; Equity</b>	<b>10,540</b>	<b>10,025</b>	<b>8,722</b>

##### INCOME STATEMENT

<b>Net Revenue</b>	<b>349</b>	<b>555</b>	<b>(136)</b>
Gain on Sale of Investment	16	211	(168)
Dividend Income	260	341	157
Financial Charges	(171)	(205)	(161)
<b>Net Income</b>	<b>154</b>	<b>412</b>	<b>(111)</b>

##### Ratio Analysis

###### Profitability

ROA	1.5%	2.2%	-1.3%
ROE	4.1%	11.9%	-3.3%

###### Capital Structure

Total Debt/Total Equity	35.1%	53.9%	47.0%
Total Debt/Total Debt+Equity	26.0%	35.0%	32.0%
Total Debt/Pure Equity	56.9%	77.8%	71.9%

###### Coverage

EBITDA/Interest Coverage	3.0	3.7	0.1
FCFO/Interest Coverage	1.28	2.68	1.06

Trading Investment/Short Term Debt *	2.0	1.9	1.9
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\* Including Shares of Fatima Fertilizer Company Limited classified as Held for Trading by Client

##### Fazal Holdings (Pvt.) Limited (FHPL)

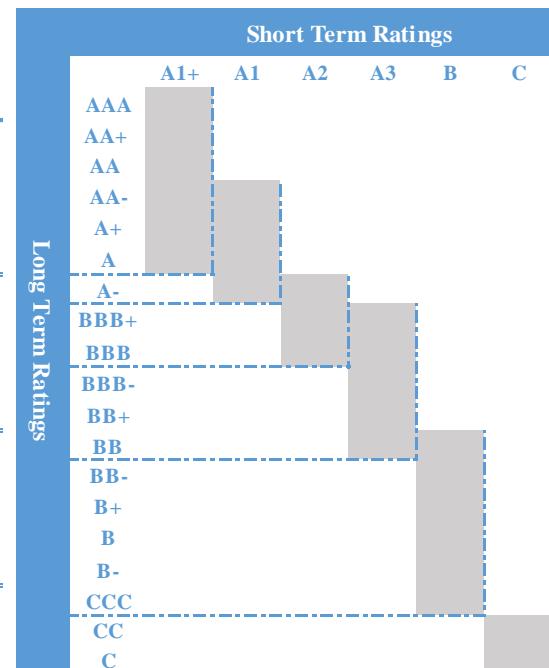
Nov-18

[www.pacra.com](http://www.pacra.com)

## Credit Rating Scale & Definitions

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.

Long Term Ratings		Short Term Ratings	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b>	<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.	<b>A1</b>	A strong capacity for timely repayment.
<b>AA</b>		<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>AA-</b>		<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>A+</b>	<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.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>A</b>		<b>C</b>	An inadequate capacity to ensure timely repayment.
<b>A-</b>			
<b>BBB+</b>	<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.		
<b>BBB</b>			
<b>BBB-</b>			
<b>BB+</b>	<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.		
<b>BB</b>			
<b>BB-</b>			
<b>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>B</b>			
<b>B-</b>			
<b>CCC</b>	<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.		
<b>CC</b>			
<b>C</b>			
<b>D</b>	Obligations are currently in default.		
<b>Outlook (Stable, Positive, Negative, Developing)</b>	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'.	<b>Rating Watch</b>	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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.
		<b>Suspension</b>	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.
		<b>Withdrawn</b>	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, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.
		<b>Harmonization</b>	A change in rating due to revision in applicable methodology or underlying scale.



**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/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)

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(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)

### 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](http://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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