



The Pakistan Credit Rating Agency Limited

Rating Report

Masood Fabrics Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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, spinning units of which Unit-I consists of 32,640 spindles and Unit-II consists of weaving operations with installed 244 air-jet looms. Assigned ratings take into account consistent growth in revenues, higher margins. Around three-fourths of the topline comprise export sales. The bulk of the export sales come from the export of fabric, which accounts for 65% of total export sales and 43% of total sales. The profitability of the Company has improved supported by strong margins led by operating efficiencies and positive sector dynamics. During 1HFY22, net profitability recorded a robust rise to PKR 1.2bln (1HFY21: PKR 104mln); a trend expected to continue in the upcoming quarters. The financial risk matrix remains adequate with high leveraging, marginal increase in coverage, and stretched working capital cycle. Going forward, in order to maintain the respective position of the company in such a competitive landscape, the management is planning to enhance the installed capacity of the weaving segment (expected to commence by Jul-22).

During the period July-December FY21-22, textile exports surged 26 percent YoY, fielding \$9.39 billion in total export remittances, as compared to \$7.44 billion in the same period last year. This is attributable to an increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of value-added textile items increased in both quantity and value in December 2021.

The ratings are dependent on the Company's ability to prudently manage the working capital cycle, sustaining margins and generating sustainable cashflows 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-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Composite and Garments(Dec-21)
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Profile

Legal Structure Masood Fabrics Limited ('Masood Fabrics' or 'The Company') was incorporated in 1998, as a public limited company.

Background Masood Fabrics was a venture of Mahmood Group, which was originally established in 1935. Starting with the tannery business, the group now has presence in complete cotton chain (growing to finished products), tanneries, real estate and food. Now Masood Fabric is the part of Masood-Roomi group which is formed in April 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 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 The Khawaja family comprises of four sons and two daughters of late Mr. Khawaja Muhammad Masood. The youngest son, Mr Khawaja Jalaluddin Roomi acts as the Chairperson. The ownership of the Company rests with the family of Mr. Roomi including his wife, sons, sisters and brothers. The major shareholding of the Company is owned by Mr. Khawaja Jalaluddin Roomi which is 77.28%.

Stability Defined and streamlined shareholding pattern among family members along with clear succession adds strength to the structure. However, documentation of succession plan would bring clarity for practical purposes.

Business Acumen Mr. Khawaja Jalaluddin Roomi - is an MBA 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 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 need arises.

Governance

Board Structure Masood Fabrics board comprises three members, all are sponsors. The position of Chairman and CEO is with - Mr Khawaja Jalaluddin Roomi. Company should consider adding an independent director, thereby bringing a fresh view to the Company's affairs.

Members' Profile The board has vast knowledge and experience of entire textile chain. The directors' expertise of various stages of the textile value-chain leads to a good skill mix. Mr. Roomi has more than three decades of textile experience.

Board Effectiveness Total number of meeting held during the year was four, which were attended by all of the members. High attendance bodes well for board effectiveness. However, there is room for improvement in recording minutes.

Financial Transparency Yousuf Adil & Co. Chartered Accountants, who are categorized in category 'A' by the SBP and have a satisfactory QCR rating by ICAP, are the external auditors of the company. They have expressed an unqualified opinion on the financial statements of the company for the year ended June 30, 2021.

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. The top management is supported by a team of professionals working under various sub-divisions to ensure smooth reporting. Mr. Shoaib Yazdani, the CFO of the Company, is a qualified Chartered Accountant with an overall experience of 15 years.

Effectiveness Board meetings are held formally and separately for all group companies, and are chaired by Mr. Khawaja Muhammad Iqbal. Meeting minutes are captured formally; however there is room for improvement.

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

Control Environment The Company deploys Oracle as ERP solution since 2014. The group is currently operating Oracle R12, which has been customized from KPMG Taseer Hadi & Co. Chartered Accountants.

Business Risk

Industry Dynamics During the period July-December FY21-22, textile exports surged 26 percent YoY, fielding \$9.39 billion in total export remittances, as compared to \$7.44 billion 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 value-added textile items increased in both quantity and value in December 2021. Going forward, the textile sector's outlook is expected to stay positive in the medium term where the demand for textile products is expected to sustain. In the local market, the textile sector has recorded strong performance. The relief measures introduced by the State Bank of Pakistan such as deferment of loan payments for one year, low-interest rates, and salary refinance scheme also provided comfort to the sector. Many players have also availed the TERF scheme announced by the Central Bank. This will lead to overall leverage of the sector to increase; however, on relaxed financing rates. The sustainability of demand pattern for the current higher orders from Europe and USA remains essential for the feasible utilization of added capacity by textile players.

Relative Position With 32,640 spindles and 244 looms can be classified as a middle-tier textile Company.

Revenues During FY21, Masood Fabrics grew its top line by 10% bringing the value of sales up to PKR 14,729mln compared to same period last year (FY20: PKR 13,236mln). The growth can be traced to the increase in export sales which grew by 18%, mainly because of better prices internationally. Topline of the Company has witnessed a double-digit growth and showed an increase of 55% in the revenue from the same period last year (1HFY22: PKR 11,055mln; 1HFY21: PKR 7113mln).

Margins Despite the increase in the cost of goods sold, the margins of the Company increased. During FY21, the gross and operating margins of the Company improved to 13.9% and 11.0% (FY20: 12.1% and 8.7%) respectively. Finance costs, which make up the major share of operating costs also decreased significantly and clocked at PKR 970mln (FY20: PKR 1,118mln). With all these factors mentioned above, the Company's profitability was also improved by 686% and stood at PKR 841mln (FY20: PKR 107mln). In 1HFY22, Company's margins also increased and clocked at 22.9% (1HFY21:11.0%) and 18.3% (1HFY21:7.6%) respectively.

Sustainability In line with improving business environment, the Company is planning to add 16 looms and upgrade spinning unit through BMR. The total cost of CAPEX is estimated to be PKR 1bln. BMR is expected to bring in efficiency gains, lowering cost per spindle and will consequently improve margins.

Financial Risk

Working Capital The majority of Masood Fabrics working capital needs arise from its trade receivables and Inventories. The Company's Net Working Capital Cycle increased to 181 days in FY21 from 165 days in FY20. This was the result of average inventory days slightly up to 150 days (FY20:139 days) and average receivable days to 42 days (FY20: 59 days). While in 1HFY22, Company's working capital decreased to 152days.

Coverages During FY21, the Company experienced a 13% increase in its Free Cash Flow from Operations (FCFO), combined with a decrease in the finance mainly due to witnessed increase in profitability, this, in turn, resulted in slight improvement in coverages for Masood Fabrics. Interest coverage ratio in FY21 stood at 1.9x (FY20: 1.4x) and debt coverage ratio slightly decline and is at 1.0x (FY20: 1.2x). During 1HFY22, showed improvement in coverages - Interest coverage ratio stood at 3.8x and debt coverage ratio at 1.9x.

Capitalization During FY21, the Company's debt-to-equity ratio stood at 68.4% (FY20: 69.1%). Most of the debt is in terms of short-term borrowing, which makes up 59% of total debt (FY20: 58%). At the end of FY21, total borrowings of the company stood at PKR 13,658mln, representing an increase of 12% compared to the same period last year (FY20: PKR 12,230mln). During 1HFY22, the Company's debt-to-equity ratio remain stagnant and stood at 67.3%.



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Financial Summary

PKR mln

Masood Fabrics Limited Composite & Garments	Dec-21 6M	Jun-21 12M	Jun-20 12M	Jun-19 12M
A BALANCE SHEET				
1 Non-Current Assets	4,372	4,382	4,381	4,245
2 Investments	4,380	4,699	4,296	4,055
3 Related Party Exposure	2,143	2,143	1,785	1,776
4 Current Assets	14,496	11,047	8,567	6,719
a Inventories	8,278	6,748	5,335	4,715
b Trade Receivables	3,771	2,678	2,120	898
5 Total Assets	25,391	22,271	19,029	16,794
6 Current Liabilities	2,222	2,208	1,312	1,050
a Trade Payables	1,486	1,582	664	448
7 Borrowings	15,545	13,658	12,230	10,317
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	82	82	6	0
10 Net Assets	7,542	6,322	5,481	5,427
11 Shareholders' Equity	7,542	6,322	5,481	5,427
B INCOME STATEMENT				
1 Sales	11,055	14,729	13,236	12,000
a Cost of Good Sold	(8,523)	(12,685)	(11,636)	(10,375)
2 Gross Profit	2,532	2,045	1,600	1,626
a Operating Expenses	(508)	(491)	(444)	(374)
3 Operating Profit	2,025	1,553	1,156	1,252
a Non Operating Income or (Expense)	(166)	428	197	338
4 Profit or (Loss) before Interest and Tax	1,859	1,981	1,353	1,589
a Total Finance Cost	(519)	(970)	(1,118)	(1,017)
b Taxation	(120)	(170)	(128)	(124)
6 Net Income Or (Loss)	1,220	841	107	448
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	1,827	1,687	1,481	2,094
b Net Cash from Operating Activities before Working Capital Changes	1,318	685	330	1,054
c Changes in Working Capital	(3,452)	(1,446)	(1,678)	(1,260)
1 Net Cash provided by Operating Activities	(2,134)	(761)	(1,348)	(205)
2 Net Cash (Used in) or Available From Investing Activities	225	(617)	(593)	442
3 Net Cash (Used in) or Available From Financing Activities	1,880	1,428	1,938	(230)
4 Net Cash generated or (Used) during the period	(29)	50	(3)	6
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	50.1%	11.3%	10.3%	30.7%
b Gross Profit Margin	22.9%	13.9%	12.1%	13.5%
c Net Profit Margin	11.0%	5.7%	0.8%	3.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-14.7%	1.6%	-1.5%	7.0%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	35.2%	14.3%	2.0%	9.6%
2 Working Capital Management				
a Gross Working Capital (Average Days)	177	209	180	157
b Net Working Capital (Average Days)	152	181	165	145
c Current Ratio (Current Assets / Current Liabilities)	6.5	5.0	6.5	6.4
3 Coverages				
a EBITDA / Finance Cost	4.0	2.1	1.6	2.1
b FCFO / Finance Cost+CMLTB+Excess STB	1.9	1.0	1.2	1.6
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.0	7.1	11.8	2.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	67.3%	68.4%	69.1%	65.5%
b Interest or Markup Payable (Days)	94.2	96.9	95.3	98.0
c Entity Average Borrowing Rate	6.9%	7.0%	9.8%	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	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+	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	
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):

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

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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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.
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- (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
- (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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