



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
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 ratings reflect the adequate business profile of Masood Fabrics Limited ('Masood Fabrics' or 'The Company'). The Company is part of Mahmood Group, one of the leading textile conglomerates in the country. The Company is principally engaged in the manufacture of yarn and greige fabric, primarily catering to the home textile market. The profitability of the Company improved in 1HFY21, due to an increase in the topline. The topline primarily consists of exports. During 1HFY21, Company's gross and operating margins also witnessed a marginal decline. The Company has built a significant investment portfolio that is managed at the group level. The financial risk matrix remains adequate with high leveraging, declined coverages, and stretched working capital cycle has increased. EBITDA decreased so did FCFO and finance cost increases as a consequence, coverages deteriorated. Board's vast experience and association with Mahmood Group provide comfort to the ratings of the Company. Going forward, the planned CAPEX is expected to bring in efficiency gains and improvement in margins. The Company is going through the process of a change in its shareholding which will be finalized over the course of some months. Upon finalization and thorough evaluation of the new shareholding structure, further updates will be made if deemed essential.

The outlook of the Company is 'stable' as the company resumed operations and continued its business fundamentals after the resumption of operations post-July 20. The Rating Watch signifies the prevailing uncertainty due to the third wave of COVID-19 prevailing in Pakistan and internationally. While the business continues to function, there is a need to remain vigilant. Textile industry dynamics are prone to challenges posed by pandemics. Exports front witnessed dilution in the first two months of CY21. The trend of export orders will determine stability in the sector's outlook in the medium term.

The ratings are dependent on the Company's ability to prudently manage the working capital cycle, sustaining margins, and generating sustainable cash flows from core operations is important. Significant deterioration in business profile due to prolonged downturn 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 Ratings(Jun-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Composite(Nov-20)
Rating Analysts	Sehar Fatima sehar.fatima@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 Masood Fabrics is a venture of 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.

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 Chairman for all group companies Mr. Khawaja Muhammad Iqbal– the eldest son of late Mr. Khawaja Muhammad Masood, his three brothers and three sisters. Khawaja family directly owns 97% of the Company and the remaining 3% is indirectly owned through group companies.

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 The Chairman and his three brothers form the core cabinet, which is the main decision making body for finalizing the future strategy of the group. The group's core functions are divided between each of the four brothers.

Financial Strength Mahmood Group maintains very strong financial profile with a considerable equity base and substantial investments in equities and property. This indicates sponsors' ability to provide support if need arises.

Governance

Board Structure Masood Fabrics board comprises seven members, all from the sponsor family including the Chairman - Mr. Khawaja Jalal ud Din Roomi, and Chief Executive Officer (CEO) - Khawaja Muhammad Ilyas. Chairman of the board, Mr. Roomi provides requisite challenge and effective oversight to the management of the Company.

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. Iqbal – Chairman – has more than four decades of experience in textile industry. He succeeded his late father Mr. Khawaja Muhammad Masood, who passed away earlier this year. Mr. Ilyas – CEO – has more than three decades of experience in textile industry.

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 M/s Deloitte 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, 2020. They have performed an interim review on the financial statements for the six months ending December 2020.

Management

Organizational Structure Top tier management control is held by sponsors while middle tier is taken care by a team of experienced professionals. 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. Khawaja Muhammad Ilyas, the CEO of the Company, has relevant experience of more than three decades. However, the Company is looked after by Mr. Jalaluddin Roomi, who is the brother of Mr. Ilyas and carries vast experience in leading different government, semi-government and public limited companies. Currently he is also on the board of Arif Habib Corporation and Shakarganj Limited.

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 Textile Sector has depicted an overall growth of approximately 8% (USD value terms) in the exports in the first six months of the fiscal year 2021 where knitwear, bed wear and towels segments recorded highest growth of 16.5%, 16.3% and 17.4% respectively. Knitwear, ready-made garments, bed wear and cotton cloth segment combined have achieved almost 9% growth over the same period last year excluding cotton cloth which has experienced a decline. Towel and made-up articles both recorded growth of 17% each. In Pak Rupee terms, the overall growth of textile exports has been recorded at around 13%. Covid-19 pandemic and related lock down imposed by the governments around the globe in FY20 had its ramifications, however, Pakistani textile exports have been seen rebounding in 1HFY20. Excluding knit wear and yarn, all other segments recorded incline in prices (USD terms) which is positive. The export outlook is likely to remain stable in the medium term as textile units have been operating at optimized capacity levels.

Relative Position With 32,640 spindles and 244 looms, Masood Fabrics can be classified as a middle tier textile company. Overall as a group. Cumulatively, the group owns 300,000 spindles and 850 looms and can comfortably qualify as one of the biggest textile manufacturing groups in Pakistan.

Revenues 85% of the revenue for the Company comes from export sales. During FY20, Masood Fabrics grew its top line by 10% bringing the value of sales up to ~PKR 13,236mln compared to the same period last year (FY19: PKR 12,000mln). The growth can be traced to the increase in local sales which grew by 37%, mainly because of better local prices. A decrease of 4% in the revenue from the same period last year (1HFY21: PKR 7113mln; 1HFY20: PKR 7,442mln).

Margins Despite the increase in sales, the margins of the Company decreased. In FY20 the gross and operating margins 12.1% and 8.7% (FY19: 13.5% and 10.4%) respectively. The decrease in margins was due to an increase in the raw material. The Company's profitability was declined by 76% and stood at PKR 107mln (FY19: PKR 448mln). In 1HFY21, Company's margins also decreased and clocked at 11.5% and 7.6% respectively.

Sustainability The trend of increase in revenues is expected to be halted by the outbreak of Covid-19 pandemic, as Europe and US, the Company's two out of three main export markets recently emerged from prolonged lockdowns and demand for textile products in those markets have not shown any clear signs of recovery to pre-pandemic levels. The Company has announced a change in its shareholding which will be finalized over the course of some month.

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 173 days in 1HFY21 from 164 days in FY20. This was the result of average inventory days slightly up to 142 days (FY20:139 days) and average receivable days to 46 days (FY20: 41 days).

Coverages During FY20, the Company experienced a 29% decrease in its FCFO, combined with an increase in the finance mainly due to witnessed decrease in profitability, this, in turn, resulted in lower coverages for Masood Fabrics. Interest coverage ratio in FY20 stood at 1.4x (FY19: 2.2x) and debt coverage ratio at 1.2x (FY19: 1.6x). During 1HFY21, showed a slight improvement in coverages - Interest coverage ratio stood at 1.9x and debt coverage ratio at 1.1x.

Capitalization During FY20, the Company's debt-to-equity ratio stood at 69.1% (FY19: 65.5%) Most of the debt is in terms of short-term borrowing, which makes up 58% of total debt (FY19: 70%). At the end of FY20, total borrowings of the company stood at PKR 12,230mln, representing an increase of 19% (FY19: PKR 10,317mln). During 1HFY21, the Company's debt-to-equity ratio remains stagnant and stood at 69.2%.



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Financial Summary

PKR mln

Masood Fabrics Limited Textile	Dec-20 6M	Jun-20 12M	Jun-19 12M	Jun-18 12M
A BALANCE SHEET				
1 Non-Current Assets	4,408	4,381	4,245	4,007
2 Investments	4,670	4,296	4,055	4,423
3 Related Party Exposure	1,785	1,785	1,776	1,322
4 Current Assets	8,592	8,567	6,719	5,519
a Inventories	5,736	5,335	4,715	3,170
b Trade Receivables	1,563	2,043	898	1,529
5 Total Assets	19,456	19,029	16,794	15,271
6 Current Liabilities	1,181	1,312	1,050	791
a Trade Payables	554	664	448	336
7 Borrowings	12,631	12,230	10,317	10,547
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	14	6	0	0
10 Net Assets	5,630	5,481	5,427	3,934
11 Shareholders' Equity	5,630	5,481	5,427	3,934
B INCOME STATEMENT				
1 Sales	7,113	13,236	12,000	9,179
a Cost of Good Sold	(6,297)	(11,636)	(10,375)	(8,150)
2 Gross Profit	816	1,600	1,626	1,029
a Operating Expenses	(277)	(444)	(374)	(323)
3 Operating Profit	539	1,156	1,252	706
a Non Operating Income or (Expense)	106	197	338	(39)
4 Profit or (Loss) before Interest and Tax	645	1,353	1,589	668
a Total Finance Cost	(424)	(1,118)	(1,017)	(576)
b Taxation	(71)	(128)	(124)	249
6 Net Income Or (Loss)	149	107	448	341
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	752	1,481	2,094	712
b Net Cash from Operating Activities before Working Capital Changes	278	330	1,054	384
c Changes in Working Capital	(170)	(1,678)	(1,260)	(2,636)
1 Net Cash provided by Operating Activities	108	(1,348)	(205)	(2,252)
2 Net Cash (Used in) or Available From Investing Activities	(517)	(593)	442	(2,621)
3 Net Cash (Used in) or Available From Financing Activities	408	1,938	(230)	4,875
4 Net Cash generated or (Used) during the period	(1)	(3)	6	2
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	7.5%	10.3%	30.7%	29.2%
b Gross Profit Margin	11.5%	12.1%	13.5%	11.2%
c Net Profit Margin	2.1%	0.8%	3.7%	3.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	8.2%	-1.5%	7.0%	-21.0%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	5.4%	2.1%	8.7%	10.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	188	179	157	149
b Net Working Capital (Average Days)	173	164	145	139
c Current Ratio (Current Assets / Current Liabilities)	7.3	6.5	6.4	7.0
3 Coverages				
a EBITDA / Finance Cost	1.9	1.6	2.1	1.4
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	1.2	1.6	1.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	7.7	11.8	2.7	13.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	69.2%	69.1%	65.5%	72.8%
b Interest or Markup Payable (Days)	102.9	95.3	98.0	105.2
c Entity Average Borrowing Rate	6.7%	9.8%	9.1%	6.5%

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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- (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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- (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)
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- (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)
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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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