



The Pakistan Credit Rating Agency Limited

Rating Report

Roomi Fabrics Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Dec-2018	A-	A2	Stable	Maintain	
30-Jun-2018	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect adequate business profile of Roomi Fabrics Limited and its association with Mahmood Group. The company is principally engaged in the manufacturing of yarn and grieger fabric, primarily catering to the fashion market. The company has built a significant investment portfolio that is managed at the group level. The company witnessed growth in its topline and margins. However, net margins from core business remain low due to high expenses. Overall profitability of the company remains a function of income from its large investment portfolio in shape of dividends and capital gains/losses. Although the company is invested in blue-chip scrips, high market risk exposes the company to volatile returns and valuations. This concern is magnified as the investments are partially financed through short-term borrowings. Liquidating investments in a down market remains a concern. Free Cashflows have recently shown improvement resulting in better coverages. However, financial profile of the company remains stretched given highly leveraged capital structure and limited borrowing capacity. Board's vast experience and association with Mahmood Group bodes well for the company.

The ratings are dependent on the company's ability to improve its financial profile by reducing leveraging through successfully divesting certain scrips. The management is working on this front and timely materialization of these initiatives is critical. Additionally, maintaining margins and improving profitability from core operations is important.

Disclosure

Name of Rated Entity	Roomi Fabrics Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Textile(Oct-18)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

Profile

Legal Structure Roomi Fabrics Limited was incorporated in Pakistan on May 20, 2002, as a Public Limited Company. It is principally engaged in the manufacturing and sale of yarn and greige fabric, primarily catering to the home textile segment.

Background Roomi Fabrics Limited is a venture of Mahmood Group, which was originally established in 1935, initially entering the tannery business. Now the group has presence in complete cotton chain (growing to finished products), tanneries, real estate and food. Cumulatively the group operates ~300,000 spindles and ~850 looms.

Operations Roomi Fabrics Limited has a yearly turnover of ~PKR 9,377mln and employs a total of 1,400 employees. Increase in spinning unit's spindles from 25,200 to 36,000 is in process. Plus! a unit of Textile made-ups has been established which will be operational by next year.

Ownership

Ownership Structure The Khawaja family comprises Mr. Khawaja Muhammad Masood – the father and Chairperson for all group companies, his four sons and three daughters. Although the shareholding may vary across different group companies, it is equally distributed between all children of Mr. Masood, on the group level. In the case of Roomi Fabrics, the family directly owns 64% stake in the company through individuals, while 36% is held indirectly through two group companies.

Stability Defined and streamlined shareholding pattern among family members along with clearly communicated succession adds strength to the structure. However, documentation of the succession plan would bring clarity for practical purposes. A formal family council with defined roles and responsibilities would ensure future sustainability of the group.

Business Acumen Mr. Jalal-ud-Din Roomi, the CEO of the company, is a graduate with overall experience of over 30 years. He has 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. Additionally, Khawaja Jalal-Din Roomi's business expertise is well known to in the market.

Financial Strength Mahmood Group maintains very strong financial profile with an equity base of PKR ~16bln at end-Jun17 and substantial investments in equities and property. This indicates sponsors' ability to provide support if need arises.

Governance

Board Structure Roomi Fabric's board comprises of eight members, including the Chairman – Mr. Khawaja Muhammad Masood, and Chief Executive Officer (CEO) – Khawaja Jalaluddin Roomi. All board members are from the sponsor-family and there are no independent directors.

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. Masood, who is the founder of Mahmood Group, has more than five decades of textile experience and Mr. Roomi, the CEO, has more than three decades of textile experience and has been at his current position for over more than 20 years.

Board Effectiveness Total number of meetings held during the year were 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 and establishing best governance practices.

Financial Transparency M/s ShineWing Hameed Chaudry & Co. Chartered Accountants, classified in category B by the SBP and having a satisfactory QCR rating by ICAP, are the external auditors of the company.

Management

Organizational Structure First tier management functions are held at group level, including marketing, finance, fixed assets procurement and audit. Technical director spinning, technical director weaving, CFO and GM Marketing all report to CEO of the company.

Management Team The top management is supported by a team of professionals working under various sub-divisions to ensure smooth reporting. Mr. Javed Anjum, the CFO of the company, is a qualified Chartered Accountant with an overall experience of ~15 years. He also serves as the Company Secretary. Most of the senior management has been associated with the group for a considerable amount of time.

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

MIS The company's MIS is generated on a monthly and daily basis, for both the spinning and the weaving unit separately. Various reports like monthly operational efficiency, doubling production and finished goods are collected and submitted to higher management.

Control Environment To effectively manage online reporting, the group has in place two teams, one for ERP and the other for IT support. Each team has around 10-12 individuals. In addition to this the group has in place two committees, one for order management and the other for human resources.

Business Risk

Industry Dynamics The substantial devaluation of Pakistani Rupee (a total of ~23% since November, 2017) brought major benefits to textile players, particularly those who are export-oriented. Many players, including foreseeing the devaluation, procured large amounts of inventory beforehand and thus were able to gain advantage of lower costs. Interest rate hiked during the period, negatively impacting the profitability of companies which are highly leveraged. Cotton prices increased significantly during FY18 by PKR 2,000-PKR 3,000 posing a challenge to inventory management.

Relative Position With 25,200 spindles and 228 looms, Roomi Fabrics is able to land in the middle tier of textile industry. Overall as a group Mahmood group has presence in complete cotton chain, cumulatively the group owns ~300,000 spindles and 850 looms and can qualify as one of the biggest textile manufacturing groups in Pakistan.

Revenues During FY18 Roomi Fabric's top-line clocked in at PKR 9,377mln (FY17: PKR 7,198mln) representing a growth rate of ~13% . Export sales share in the total sales revenue is ~86% mainly on account of sale of cloth that contributes more than the sale of yarn. Rupee depreciation against US dollar and prudent procurement of raw materials were the main reasons of increased revenues.

Margins The cost of goods sold of the company increased to PKR 8,346mln (FY17: PKR ~6,751) recording an increase of ~23%. Gross margin of the company improved to 11% (FY17: 6.2%). On the other hand, net profit margin of the company reduced to 2.3% (FY17: 8.9%), main reason behind this reduction was unrealized loss on re-measurement of short term investment and increase in finance cost.

Sustainability Increase in overall sales will be witnessed in the next year because an increase in spinning unit's spindles from 25,200 to 36,000 is in process, and a unit of Textile made-ups has been established which will operate at its full capacity in the next year.

Financial Risk

Working Capital Working capital requirements of the Company increased by ~105% in FY18 because of massive prudent procurement of raw materials, as inventory levels increased to PKR 3,291mln (FY17: PKR 1,878mln). Stocking of inventory also increased the net working capital days to 146 days (FY17: 122 days, FY16: 127 days). average raw material held days also increased to 63 days (FY17: 63 days, FY16: 59 days).

Coverages FCFO of Roomi Fabrics increased magnificently to the amount of PKR 1176mln (FY17: PKR 215mln) more than 5 times, because of increased profitability from its core operations. The interest coverage increased to 2.2x (FY17: 0.6x) and total coverage increase to ~2.0x (FY17: 0.5x). Coverages are expected to deteriorate with further interest rate hikes.

Capitalization Capital structure of the Company is highly leveraged due to increased short-term and long-term borrowings. In FY18 total debt of the company stands at PKR 9,466mln (FY17: PKR 6.180) portraying an increase of ~53% and increased the leveraging to ~71% (FY17: 63%).



Roomi Fabrics Limited

BALANCE SHEET	Jun-18	Jun-17	Jun-16
	FY	FY	FY
Non-Current Assets	4,424	3,373	3,024
Investments (incl. Associates)	3,651	4,378	3,273
Equity	3,651	4,378	3,273
Debt Securities (incl. income funds)	-	-	-
Current Assets	6,249	3,013	3,028
Inventory	3,291	1,878	1,350
Trade Receivables	2,204	776	990
Others	754	359	687
Total Assets	14,323	10,763	9,325
Debt	9,466	6,180	5,611
Short-term	7,770	4,829	4,423
Long-term (incl. Current Maturity of Long-Term debt)	1,696	1,351	1,188
Other Short-term Liabilities	1,022	963	737
Other Long-term Liabilities	-	-	-
Shareholder's Equity	3,836	3,620	2,976
Total Liabilities & Equity	14,323	10,763	9,325

INCOME STATEMENT

Turnover	9,377	7,198	6,916
Gross Profit	1,030	447	589
Other Income	112	1,165	46
Financial Charges	(547)	(362)	(390)
Net Income	215	644	(183)

Cashflow Statement

Free Cashflow from Operations (FCFO)	1,176	215	497
Net Cash changes in Working Capital	(2,566)	(230)	354
Net Cash from Operating Activities	(1,774)	(266)	606
Net Cash from Investing Activities	(1,502)	(533)	(550)
Net Cash from Financing Activities	3,283	569	188
Net Cash generated during the period	7	(230)	244

Ratio Analysis

Performance			
Turnover Growth	30.3%	4.1%	-2.3%
Gross Margin	11.0%	6.2%	8.5%
Net Margin	2.3%	8.9%	-2.6%
ROE	7.5%	17.8%	-6.2%
Coverages			
Debt Service Coverage (x) (FCFO/Gross Interest+CMLTD+Uncovered STB)	1.7	0.4	0.8
Interest Coverage (x) (FCFO/Gross Interest)	2.2	0.6	1.3
Debt Payback (Total LT Debt Including UnCovered Total STBs) / (FCFO- Gross Interest)	2.0	-9.2	11.2
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	146	122	127
Capital Structure (Total Debt/Total Debt+Equity)	71.2%	63.1%	65.3%

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	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ AA AA-	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.	A1	A strong capacity for timely repayment.
A+ A A-	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ BBB BBB-	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ BB BB-	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ B B-	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	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.		
D	Obligations are currently in default.		



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, 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.

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) 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.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

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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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- (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)
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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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- (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
- (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)

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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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