The Pakistan Credit Rating Agency Limited

Rating Report

Maqbool Textile Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-Feb-2024	BBB+	A2	Stable	Maintain	Yes
18-Feb-2023	BBB+	A2	Stable	Maintain	Yes
19-Feb-2022	BBB+	A2	Stable	Maintain	-
20-Feb-2021	BBB+	A2	Stable	Maintain	-
21-Feb-2020	BBB+	A2	Stable	Maintain	-
23-Aug-2019	BBB+	A2	Stable	Maintain	-
21-Feb-2019	BBB+	A2	Stable	Maintain	-
31-Aug-2018	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The rating reflects the adequate presence of Maqbool Group in the textile and seed oil industry of Pakistan. The two Companies primarily operate under the umbrella of the Maqbool Group which includes (i) Mehmooda Maqbool Mills Limited and (ii) Maqbool Textile Mills Limited “the Company or (MTML)”. The principal activity of the Company is the manufacturing and sale of yarn with an average yarn count of 29s and an installed operational capacity of 82,224 spindles and 576 MVS spindles. The spinning industry is highly fragmented and consists of ~368 dedicated spinning units with an estimated size of PKR 775bln and 13.4mln number of spindles installed as of FY23 according to an economic survey of Pakistan. The projected cotton production estimate is revised and projected to be 11.5mln bales and currently, production reached up to ~8.26mln bales surpassing FY23 total production of 4.91mln bales. During FY24 better local raw cotton yield is expected to supplement the Companies for import substitution. Pakistan's requirement for imported cotton stands at 3.5 million bales to 4 million bales this year. The recent elevation of energy tariffs and the availability of locally procured raw cotton are the prime challenges specific to the industry. The Company product slate and revenue streams primarily divest into four categories which include CVC yarn, PC yarn, PV yarn and PP yarn. During FY23, the company's profitability matrix and fundamentals are under stress due to a dip in local and international yarn demand coupled with a hike in energy tariffs, PKR devaluation and an inflated policy rate. To manage energy cost risk, the Company is in the process of executing CAPEX for the installation of a solar power plant. During 3MFY24, the company witnessed a slight recovery in the bottom line owing to the growth in exploring export avenues and improvement in yarn demand pattern. The financial risk profile of the Company is considered adequate considering the leveraged capital structure and slightly stretched working capital management depicting industry norms. The cashflows and coverages of the Company are considered adequate and need improvement. The company’s performance will be observed in the upcoming quarters with a prime focus on converting operational efficiency into internally generated sufficient cashflows to supplement the core business operations. Furthermore, if the Company sustains and improves its performance in terms of topline and profitability and coalesces with the contribution in equity may result in appropriate action in ratings.

The ratings are dependent upon the Company’s ability to improve its performance in terms of business fundamentals sustainability and devise a strategy to manage inflated energy costs in future. The maintenance of capacity utilization at an optimal level while generating sufficient cashflows and coverages remains critical for the ratings. The adherence to the debt matrix at an adequate level is a prerequisite for the assigned rating.

Disclosure

Name of Rated Entity	Maqbool Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Spinning(Sep-23)
Rating Analysts	Muhammad Harris Ghaffar | harris.ghaffar@pacra.com | +92-42-35869504

Profile

Legal Structure Maqbool Textile Mills Limited (`Maqbool Textile' or 'The Company') — the flagship company of Maqbool Group — commenced operations in 1989 and is listed on the Pakistan Stock Exchange. With its head office based in Multan, the Company is engaged in cotton ginning, manufacturing, and sale of cotton and polyester yarn.

Background Maqbool Group started operations in 1958, with the incorporation of a yarn spinning unit — Allawasaya Textiles & Finishing Limited. At present, the group has main interests in textile and seed oil extraction businesses. It was set up by the Maqbool family, a well-reputed business family of industrialists in Multan.

Operations The company operates with four spinning units installed at Muzaffargarh (Unit I, II, and IV), and Tobatek Singh (Unit III), having a total operational capacity of 82,224 spindles (at Unit 1,2 & 3) and 576 MSV installed spindles (at unit-4) which equivalent to ~12,000 conventional spindles

Ownership

Ownership Structure Maqbool Textile is a public listed company with a majority stake held by Maqbool Group directly owned by individuals. Maqbool family holds a 75.2% stake in the company while the remaining 24.8% stake is held by the others.

Stability The second generation of the family has already joined the company and is actively engaged in managing affairs.

Business Acumen Maqbool family has been in the textile business since 1989. Besides textiles, the sponsors also have an interest in seed oil extraction.

Financial Strength Besides this company, Maqbool Group has invested in Mehmooda Maqbool Mills Limited. The sponsors of the Company have shown commitment to support Maqbool Textile, in case of need.

Governance

Board Structure The board comprises ten members. Out of this, four directors are non-executive, three directors occupy executive roles, and three directors are independent. Seven members of the board represent the Maqbool family

Members' Profile Mr. Mian Tanvir Ahmed Sheikh is the Chief Executive Officer, while Mrs. Romana Tanvir Sheikh is the Chairperson of the company. The board members have vast knowledge and extensive experience in the textile industry. The directors' expertise in the textile industry benefits the board's efficient decision-making.

Board Effectiveness The board is supported by two committees i) the Audit Committee and ii) the HR & Remuneration Committee to assist on relevant matters. The board meetings are conducted regularly and the meeting minutes are formally maintained

Financial Transparency M/s. Yousaf Adil & Co. Chartered Accountants are the external auditors of the Company. The auditors have issued an unqualified opinion on the Company's financial statements for the period ending June 30th, 2023

Management

Organizational Structure The organizational structure of the Company is divided into five main functions namely i) Sales & Marketing, ii) Procurement, iii) Admin & Finance, iv) Production, v) IT. All operational departments report directly to the CEO and the procurement lead takes guidance from both the CEO and Chairperson

Management Team The current CEO of the Company, Mr. Mian Tanvir Ahmed Sheikh has been associated with the company since its inception. All members of the management have extensive experience in the textile industry

Effectiveness The company has two management committees; Audit committee and HR remuneration committee in place for taking proactive decisions regarding routine affairs.

MIS The Company's operating environment depends upon an IT Infrastructure supported by an in-house programmed ERP. The IT system is fully integrated into all major departments and ensures proper financial and operational control. Daily reports include cash and bank position, stock consumption, per-spindle cost, receivables, and inventory status while monthly production accounts are also maintained

Control Environment Production is completely order-driven to avoid stock pile-ups. There is a quality control department in place to audit the quality of the output. HSE infrastructure seems appropriate and is emphasized. The Company has adequate relevant quality control standards to meet export requirements.

Business Risk

Industry Dynamics The spinning industry is highly fragmented and consists of ~368 dedicated spinning units with an estimated size of PKR 775bln and 13.4mln number of spindles installed as of FY23, according to an economic survey of Pakistan. The projected cotton production estimate is revised and projected to be 11.5mln bales and currently, production reached up to ~8.26mln bales surpassing FY23 total production of 4.91mln bales. Pakistan's requirement for imported cotton stands at 3.5 million bales to 4 million bales this year. The recent elevation of energy tariffs and the availability of locallyprocured raw cotton are the prime challenges specific to the industry

Relative Position The Maqbool family has been associated with the textile business since 1958. However, as a group and on a stand-alone basis their market share in the spinning sector is moderate. The company has installed a capacity of 82,224 spindles along with 576 MVS spindles in its production facilities.

Revenues During FY23, the company's revenue decreased to PKR 9,837mln (FY22: PKR 10,381mln) owing to the demand shortage of yarn in the local and international markets. During 3MFY24, the company's revenue stood at PKR 3,179mln(3MFY23: PKR 2,698mln)

Margins During FY23, the company's gross margins decreased to 8.2% (FY22: 11.1%). This translated into declined operating margins clocking in at 4.5% (FY22: 7.3%). Finance cost increased to stand at PKR 633mln (FY22: PKR 313mln). The company's net loss stood at PKR 250mln (FY22: PKR 269mln (profit)) owing to declining topline and high finance costs. Subsequently, net margin decreased (FY23: -2.5%, FY22: 2.6%). During 3MFY24, the company's gross margins inclined to 11.2% (3MFY23: 5.5%). Net margin increased to 1.3% (9MFY23: -2.8%)

Sustainability The company has been carrying out regular BMR to upgrade its old machinery with a new one. Further, the company is adding back process and winding sections to the profile. This has resulted in improved efficiency and related strengthening of performance. The company also plans to shift its energy requirement from WAPDA to solar energy and equipment is sourced to install a 7.2-megawatt solar plant to accommodate its total energy requirement.

Financial Risk

Working Capital At the end of Sept 23, the company's net working capital cycle optimized to 69 days (9MFY22: 91 days), mainly on account of lower recievable days (9MFY23: 46 days; 9MFY22: 36 days). Trade assets of the company marginally remained the same (9MFY23: PKR 3,570mln; 9MFY22: PKR 3,524mln). ST trade leverage adequacy declined (9MFY23:-3%; 9MFY22 5%)

Coverages During FY23, finance cost increased (FY23: PKR 633mln, FY22: PKR 313mln). Interest coverage declined owing to lower FCFO (FY23: 0.9x; FY22: 2.9x). Likewise, debt coverage also declined (FY23: 0.4x; FY22: PKR 1.9x). During 3MFY24, the company experienced an increase in operating cash flows clocking in at PKR 273mln (9MFY22: PKR 109mln).

Capitalization At end-Sep23, the company's leverage remained stagnant at 57.2% (9MFY22: 57.6%) as the total borrowings decreased (9MFY23: PKR 3,572mln;9MFY22: PKR 3,794mln). The equity base of the company decreased to stand at PKR 2,669mln (9MFY22: PKR 2,790mln).

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Financial Summary
PKR mln

Maqbool Textile Mills Limited Textile and Allied	Sep-23 3M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	4,461	4,472	4,406	3,462
2 Investments	10	10	-	-
4 Current Assets	3,909	4,019	3,604	2,016
a Inventories	*1,980*	*1,645*	*1,464*	*628*
b Trade Receivables	*1,125*	*1,404*	*1,210*	*852*
5 Total Assets	8,380	8,502	8,010	5,478
6 Current Liabilities	1,472	1,570	1,030	569
a Trade Payables	*642*	*720*	*425*	*149*
7 Borrowings	3,572	3,632	3,414	2,387
9 Non-Current Liabilities	666	670	683	410
10 Net Assets	2,669	2,629	2,883	2,112
11 Shareholders' Equity	2,669	2,629	2,883	2,111
B INCOME STATEMENT				
1 Sales	3,179	9,837	10,381	7,352
a Cost of Good Sold	*(2,823)*	*(9,032)*	*(9,232)*	*(6,631)*
2 Gross Profit	356	805	1,149	721
a Operating Expenses	(115)	(360)	(358)	(251)
3 Operating Profit	242	445	790	470
a Non Operating Income or (Expense)	*(4)*	*31*	*27*	*(11)*
4 Profit or (Loss) before Interest and Tax	238	476	818	459
a Total Finance Cost	*(167)*	*(633)*	*(313)*	*(186)*
b Taxation	*(30)*	*(93)*	*(236)*	*(116)*
6 Net Income Or (Loss)	40	(250)	269	156
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*273*	*528*	*861*	*473*
b Net Cash from Operating Activities before Working Capital	*116*	*(19)*	*609*	*282*
c Changes in Working Capital	*(43)*	*100*	*(1,221)*	*479*
1 Net Cash provided by Operating Activities	73	81	(613)	761
2 Net Cash (Used in) or Available From Investing Activities	(41)	(264)	(355)	(778)
3 Net Cash (Used in) or Available From Financing Activities	(60)	191	991	(13)
4 Net Cash generated or (Used) during the period	(27)	8	23	(29)
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	29.3%	-5.2%	41.2%	25.8%
b Gross Profit Margin	11.2%	8.2%	11.1%	9.8%
c Net Profit Margin	1.3%	-2.5%	2.6%	2.1%
d Cash Conversion Efficiency (FCFO adjusted for Working C	7.2%	6.4%	-3.5%	13.0%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	6.1%	-9.1%	10.8%	7.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	88	106	73	86
b Net Working Capital (Average Days)	69	85	63	78
c Current Ratio (Current Assets / Current Liabilities)	2.7	2.6	3.5	3.5
3 Coverages				
a EBITDA / Finance Cost	1.9	1.1	3.3	3.4
b FCFO / Finance Cost+CMLTB+Excess STB	0.9	0.4	1.9	1.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	2.6	-12.9	1.5	3.4
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equit	57.2%	58.0%	54.2%	53.1%
b Interest or Markup Payable (Days)	96.4	95.7	92.5	74.1
c Entity Average Borrowing Rate	17.5%	16.7%	9.2%	7.8%

Credit Rating

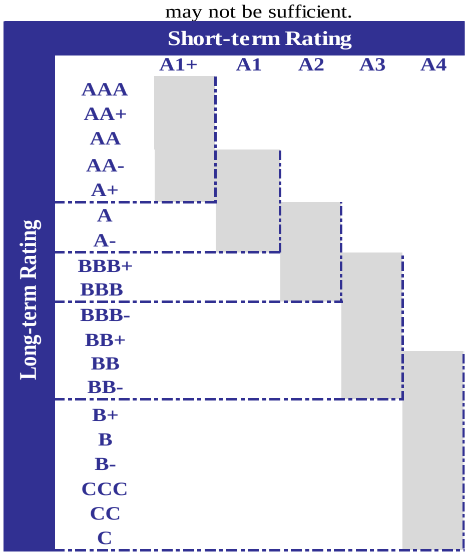
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating

Scale	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
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 surveill 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):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

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)

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 | Clause 11-(A)(p).
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

Proprietary Information