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
31-Aug-2018	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Maqbool Textile Mills Limited's (the company) established track record and association with Maqbool Group, an established group with a presence in textile and seed oil extraction industry. Despite challenging textile industry dynamics, Maqbool Textile managed to maintain its optimal capacity while also expanding its asset base. The commoditized nature of spinning products keeps margins in check due to strong competition in local and international markets. However, recently, the dynamics have changed favourably with rupee devaluation and better pricing of certain products. The company's revenue and margins grew in line with better industry prospects. The margins remain on the lower side when compared with peers resulting in relatively subdued profitability. Maqbool Textile enhanced and revamped its production capacities to be more efficient. The financial profile of the company is constrained due to high leverage and adequate coverages. The debt structure is skewed towards short-term borrowings, which may lead to the asset-liability mismatch.

The ratings are dependent upon the management's ability to improve margins, profitability and financial profile of the company. This includes avoiding any asset-liability mismatch that may arise and effectively manage risks to maintain its position in a competitive segment. Any deterioration in debt coverages leading to higher financial risk or subdued profitability will have a negative impact on ratings.

Disclosure

Name of Rated Entity	Maqbool Textile Mills 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-17)
Rating Analysts	Farhan Ali | farhan.ali@pacra.com | +92-42-35869504 Muhammad Hassan | muhammad.hassan@pacra.com | +92-42-35869504

Profile

Legal Structure Maqbool Textile Mills Limited was established and listed in 1989.

Background The company was set up by Maqbool family a well-respected business family of industrialists in Multan. The company is engaged in manufacturing and sale of yarn.

Operations The company operates with 70,000 spindles and has a production capacity of 1.8mln Kgs of yarn per year. The manufacturing facilities are located at Muzaffargarh (units I & II) and Toba Tek Singh (unit III), while the head office is situated in Multan.

Ownership

Ownership Structure The company is primarily owned by Maqbool family (72.5%), followed by National investment Trust (9.9%), financial institutions and the general public (17.6%).

Stability The second generation of the family has already joined the company, Mr. Mian Atta Tanvir Sheikh (BBA) is the son of the company Chairman and sits on the BoD and oversees procurement. The company, however, lacks a formal documented succession plan.

Business Acumen In addition to textile, Maqbool family has a presence in seed oil extraction businesses. Sponsors have vast experience and knowledge of various aspects of the textile value chain.

Financial Strength As at end March 2018, Maqbool Group had net assets of PKR 1.2bln.

Governance

Board Structure The board comprises seven directors and is dominated by family representatives. This includes 2 non-executive, 2 independent and 3 executive directors.

Members' Profile Mr. Mian Tanvir Ahmed Sheikh (MBA) is the Chairman while Mr. Mian Anis Ahmed Sheikh (BBA) is the CEO of the company. The board members have vast knowledge and extensive experience of the textile industry.

Board Effectiveness For effective oversight of the company matters, the board has formed two board committees namely (i) Audit committee and (ii) HR & remuneration committee. The company meets corporate governance standard for listed companies.

Financial Transparency M/s M. Yousaf Adil & Co. Chartered Accountants (Deloitte) are the external auditors of the company. The auditors have issued an unqualified opinion on the company's financial statements for the periods ending 30th June 2017 and 31st December 2017.

Management

Organizational Structure The management control of the company vests with Maqbool family. There is a well-defined organizational structure with clear segregation of responsibilities. There are three functional departments including, i) sales and marketing, ii) procurement and production and iii) finance and admin. Each department is headed by a director, spare the finance and admin departments which are headed by the CFO.

Management Team Management team comprises long associated and experienced individuals, including Mr.Ehsanullah Khan (MBA) in the capacity of CFO, Mr.Mohd. Ilyas (Bsc. Textile Engineering) as GM production for units I & II and Mr.Zafar Akhtar (Bsc. Textile Engineering) as GM production unit III.

Effectiveness There are no formal management committees in place, however key management personal meet on regular basis to discuss operational matters.

MIS The company has built an in-house ERP to cater the business needs. The system for reporting has been designed as per the requirements of the senior management.

Control Environment The senior management monitors the business performance through certain key MIS reports including cash positions, stock consumption, per spindle cost, among others. Production is completely order driven to avoid the stock-pile ups. There is QC department to ensure the quality of the end product. HSE infrastructure is adequate.

Business Risk

Industry Dynamics During FY18, total textile exports of Pakistan stood at USD ~ 13.5bln, a 9% YoY growth. Re-imposition of the custom duty and sales tax on cotton imports in FY19 budget, coupled with the exclusion of tax rebate on yarn and Greig fabric may put pressure on the industry margins.

Relative Position The Maqbool family has been associated with the textile business since 1958, through its investment in "Allawasaya Textile & Finishing Mills Limited", strengthing Maqbool Textile's position. However, as a group and on a stand-alone basis the market share of the company in the spinning sector remains small.

Revenues The company sells most of its products to the local market through brokers in Faisalabad region. The main export destination for the company lies in China. Local sales dominate the mix with ~70% contribution to the overall revenues in FY18. The company's revenues have followed an upward trend in line with the industry. In FY18, the revenues witnessed a growth of 11% due to increased local sales.

Margins The gross margins improved slightly in FY18 to 7.4% (FY17: 6.8%), followed by improved operating margins FY18: 4% (FY17: 3%) due to cost control. The net margin of the company, though improving (FY18: 1%, FY17: 0.5%), when compared against the peers remain subdued low due to high effective tax rates.

Sustainability In line with the improving business environment, the company is planning to enhance the production capacity by another 9,000 spindles. This is expected to bring in efficiency gains and improved margins in the future. The total cost for the CAPEX has been estimated at PKR 400mln.

Financial Risk

Working Capital Working capital is a function of inventory and trade receivables and is mainly financed through short-term borrowings. At the end of FY18, short-term borrowings were slightly higher than the self-liquidating assets. The company needs to monitor its debt structure to eliminate this asset-liability mismatch in the future.

Coverages During FY18, the company's cash flows from operations, a factor of its profitability, increased significantly. As a result, the coverages improved as compared to FY17 and remain adequate. Generating commensuration cash flows to meet future financial obligations is critical.

Capitalization The company's leverage increased slightly during FY18 to 56% (FY17: 54%), due to increased short-term borrowings, mainly to finance working capital and expansion. Total debt stood at PKR 1.9bln, dominated by the short-term borrowings. Going forward, planned expansion will be financed through a term loan, this will stretch the leveraging which may put stress on the financial profile.

Maqbool Textile Mills Limited

BALANCE SHEET	30-Jun-18	30-Jun-17	30-Jun-16
	FY18	FY17	FY16
	Un-Audited	Audited	Audited
Non-Current Assets	**1,768**	**1,846**	**1,856**
Investments (Incl. Associates)	**-**	**-**	**-**
Equity	-	-	-
Debt Instruments	-	-	-
Current Assets	**1,612**	**1,261**	**1,305**
Inventory	726	674	787
Trade Receivables	426	269	320
Others	459	318	197
Total Assets	**3,379**	**3,107**	**3,161**
Debt	**1,547**	**1,342**	**1,433**
Short-Term	1,391	1,128	1,183
Long-Term (Incl. Current Maturity of Long-Term Debt)	156	214	250
Other short-term liabilities	267	263	251
Other long-term liabilities	273	267	291
Shareholders' Equity	**1,291**	**1,236**	**1,186**
Total Liabilities & Equity	**3,379**	**3,107**	**3,161**
INCOME STATEMENT			
Turnover	**5,408**	**4,863**	**4,281**
Gross Profit	398	332	227
Net Other Income	25	19	8
Financial Charges	(122)	(103)	(96)
Net Income	**55**	**26**	**(60)**
CASH FLOW STATEMENT			
Free Cashflow from Operations (FCFO)	292	206	113
Net Cash changes in Working Capital	(362)	80	(215)
Net Cash from Operating Activities	(179)	186	(186)
Net Cash from InvestingActivities	(51)	(80)	(167)
Net Cash from Financing Activities	205	(91)	322
RATIO ANALYSIS			
Performance			
Turnover Growth	11.2%	13.6%	158.5%
Gross Margin	7.4%	6.8%	5.3%
Net Margin	1.0%	0.5%	-1.4%
ROE	8.5%	2.1%	-5.6%
Coverages			
Interest Coverage (FCFO/Gross Interest)	2.4	2.0	1.2
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	1.4	1.2	0.4
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	1.4	1.2	0.4
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO- Gross Interest)	1.5	3.0	28.9
Liquidity			
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	60.9	65.6	60.1
Capital Structure (Total Debt/Total Debt+Equity)	56.1%	53.7%	56.6%

PKR Mln

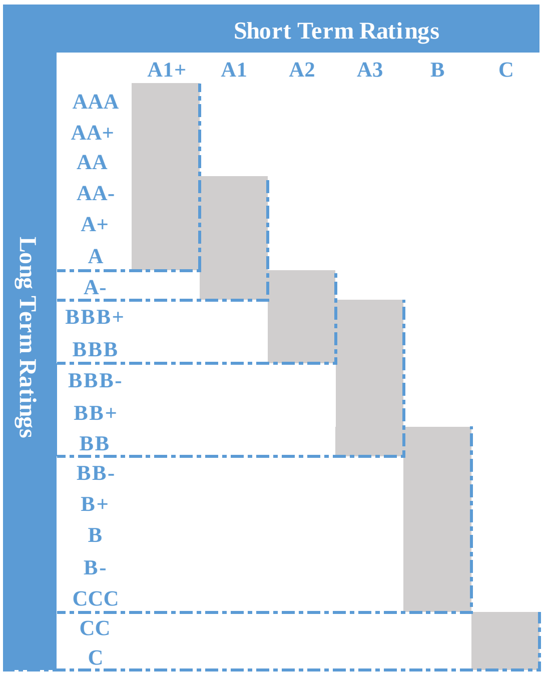
Rating Scale

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	
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 Ratings	
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.
B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
C	An inadequate capacity to ensure timely repayment.



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 surveill 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)

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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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(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

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(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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(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)
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(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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