



The Pakistan Credit Rating Agency Limited

Rating Report

Maqbool Textile Mills Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
	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 ratings reflect Maqbool Textile Mills Limited's (Maqbool Textile) track record and association with Maqbool Group, an established group with presence in textile and seed oil extraction industry. Despite challenging textile industry dynamics, Maqbool Textile managed to maintain its business profile. The commoditized nature of spinning products keeps margins in check due to strong competition in local and international markets. Sales volume remained in line with previous year but is expected to show improvement in near future on the back of recently completed BMR. Subsidized gas rates for textile industry has made the local textile industry cost competitive though withdrawal of zero rating status will affect liquidity of the industry. On standalone basis, recently completed BMR has slightly improved the Company's margins and expected to further improve in future. The Company's margins remain on the higher side when compared with peers, though remained low, resulting in relatively better profits. The Company has a moderately leveraged capital structure and adequate coverages. However, leveraging is expected to decrease after the repayment of long term loans due to recent conclusion of BMR. 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 managing 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	PACRA_Methodology_Corporate_FY19(Jun-19),PACRA_Criteria_LT ST Relationship_FY19(Jun-19),PACRA_Criteria_Rating Modifiers_FY19(Jun-19)
Related Research	Sector Study Textile(Oct-18)
Rating Analysts	Muhammad Hassan muhammad.hassan@pacra.com +92-42-35869504

Profile

Legal Structure Maqbool Textile Mills Limited (Maqbool Textile) was incorporated in 1989, as a public limited Company.
Background The Company was set up by Maqbool family, a well-reputed business family of industrialists in Multan. The Company is engaged in manufacturing and sale of yarn.
Operations Maqbool Textile operates with 79,440 spindles. To meet its energy requirement, the Company relies on MEPCO and hires generator in case of power failure. 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%), comprising of brothers and sisters of Mr. Tanvir Ahmed. The remaining shareholding rests with National investment Trust (9.9%), general public (16.7%) and NBP employees' pension fund (0.9%).
Stability Shareholding between different members of the family is clearly distributed. However, no formal succession plan has been documented.
Business Acumen Over the years, the sponsors have developed credible expertise in textile sector, providing sufficient business acumen to sustain through the competitive textile industry.
Financial Strength Maqbool Group has interests in textile, edible oil extraction and hospitality industries, portraying sufficient financial strength of the Group to support the Company, if needed.

Governance

Board Structure The board comprises of seven members, out of which, two directors are non-executive, three directors are executive and two are independent directors. Dominance of sponsors on board along with control over key management positions hampers the effective governance.
Members' Profile Mr. Mian Tanvir Ahmed Sheikh (MBA) is the Chairman of the Company. The board members have vast knowledge and extensive experience of the textile industry. The directors' expertise in textile industry benefits the board in efficient decision making.
Board Effectiveness Two committees: i) Audit and ii) Human Resource & Remuneration are in place to assist the board in relevant matters and ensure proper oversight. Attendance of board members in meetings remained Strong and meeting minutes were appropriately documented.
Financial Transparency M/s. Deloitte Yousaf Adil, Chartered Accountants is the external auditor of the Company. The auditors have expressed unqualified opinion on the financial reports for the year ended 30th June, 2018 and for the period ended December 31st 2018.

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; i) Sales and Marketing, ii) Procurement and Production and iii) Finance & Admin. Moreover, Sales & Marketing, Production and Procurement are headed by executive directors, while Finance & Admin is headed by the CFO.
Management Team Management team comprises of 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; however, key management members meet on regular basis to resolve and pro-actively address operational issues, if any, eventually ensuring smooth flow of operations.
MIS The Company has built an in-house ERP to cater to the business needs. The system for reporting has been designed as per the Company's requirement.
Control Environment The Company is compliant with quality assurance standard; ISO 9001:2008. Moreover, the Company has in place a rigorous quality control department.

Business Risk

Industry Dynamics During FY19, exports stagnated despite major segments including cotton cloth, knitwear, garments and bedwear displayed strong quantitative growth, industry players needed to share the benefit of the currency depreciation with their buyers which resulted in a unit price dip across all major categories, curbing overall growth. This, coupled with cotton yarn displaying double-digit quantitative decline on account of the US-China trade war as well as strong domestic demand for yarn, resulted in overall increase in exports of only ~0.1% YoY. Going forward, withdrawal of textile's zero rated status will impact industry's overall liquidity and margins.
Relative Position Association with Maqbool group strengthens Maqbool Textile's position. However, on a stand-alone basis, the Company's market share in the spinning sector is minimal.
Revenues During 9MFY19, the Company's revenue grew by 6.7% to PKR 4,233mln (9MFY18: PKR 3,964mln) due to installation of 9,450 new spindles to the production capacity and improved efficiency on back of up gradation of existing machinery. Local sales dominates overall revenue of the Company with 65% share.
Margins During 9MFY19, the Company's gross margin improved to 7.6% (9MFY18: 6.8%) and operating margin to 4.6% (9MFY18: 3.8%) due to improved production efficiency as a result of recently completed BMR. Impact of improvement in the Company's profitability on net profit margin was offset by increase in finance cost to PKR 117mln (9MFY18: PKR 95mln). During 9MFY19, the Company booked a net profit of PKR 41mln (9MFY18: PKR 20mln).
Sustainability In line with the improving business environment, the Company enhanced the capacity by another 9,450 spindles and up gradation of existing machinery which is expected to bring efficiency gains and improvement in margins.

Financial Risk

Working Capital During 9MFY19, the Company's short term borrowings decreased to PKR 1,469mln (9MFY18: PKR 1,604mln) and inventory to PKR 852mln (9MFY18: PKR 1,004mln), as a result of no major change in the production quantity. Net working capital cycle remained at the same level during 9MFY19 at 75days (9MFY18: 75days), as the effect of increase in average receivable days to 39 days during 9MFY19 (9MFY18: 25days) was offset by increase in average payable days to 11days (FY18: 7 days).
Coverages During 9MFY19, the Company's operating cash flow from operations (FCFO) improved to PKR 249mln (9MFY18: 181mln), largely led by better profitability. Meanwhile, despite increase in finance cost during 9MFY19, interest coverage ratio increased to 2.3x (9MFY18: 2x) and debt coverage to 1x (9MFY18: 0.7x) due to improvement in FCFO.
Capitalization Maqbool Textile had a moderately leveraged capital structure (~57%) at the end of 9MFY19 (9MFY18: 59.1%). Total debt stood at PKR 1,688mln, with a decrease of 4% (9MFY18: PKR 1,765mln). Short term borrowings made up 87% of the total borrowings at PKR 1,465mln (9MFY18: PKR 1,604mln). The Company also avails interest free loan from its directors worth PKR 62mln which will be completely repaid in full in FY20.



Maqbool Textile Mills Limited Textile and Allied	Mar-19 9M	Jun-18 12M	Mar-18 9M	Jun-17 12M	Jun-16 12M
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A BALANCE SHEET

1 Non-Current Assets	1,965	1,806	1,815	1,846	1,856
2 Investments	-	-	-	-	-
3 Related Party Exposure	-	-	-	-	-
4 Current Assets	1,794	1,626	1,810	1,261	1,302
<i>a Inventories</i>	852	607	1,004	674	787
<i>b Trade Receivables</i>	590	611	441	269	320
5 Total Assets	3,760	3,432	3,625	3,107	3,158
6 Current Liabilities	466	297	345	263	251
<i>a Trade Payables</i>	213	122	128	86	103
7 Borrowings	1,688	1,574	1,765	1,342	1,433
8 Related Party Exposure	62	51	50	47	56
9 Non-Current Liabilities	229	217	208	220	234
10 Net Assets	1,315	1,292	1,257	1,236	1,183
11 Shareholders' Equity	1,315	1,292	1,256	1,236	1,186

B INCOME STATEMENT

1 Sales	4,233	5,599	3,964	4,863	4,281
<i>a Cost of Good Sold</i>	(3,912)	(5,200)	(3,693)	(4,531)	(4,053)
2 Gross Profit	320	399	271	332	227
<i>a Operating Expenses</i>	(125)	(196)	(122)	(181)	(170)
3 Operating Profit	195	202	150	151	57
<i>a Non Operating Income</i>	25	34	15	16	8
4 Profit or (Loss) before Interest and Tax	220	237	164	167	65
<i>a Total Finance Cost</i>	(117)	(127)	(95)	(103)	(96)
<i>b Taxation</i>	(62)	(55)	(50)	(37)	(29)
6 Net Income Or (Loss)	41	55	20	26	(60)

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	249	264	181	206	113
<i>b Net Cash from Operating Activities before Working Capital Cha</i>	148	147	101	106	28
<i>c Changes in Working Capital</i>	(92)	(291)	(510)	80	(215)
1 Net Cash provided by Operating Activities	56	(144)	(409)	186	(186)
2 Net Cash (Used in) or Available From Investing Activities	(225)	(48)	(36)	(80)	(167)
3 Net Cash (Used in) or Available From Financing Activities	107	233	423	(91)	322
4 Net Cash generated or (Used) during the period	(61)	41	(22)	14	(31)

D RATIO ANALYSIS

1 Performance					
<i>a Sales Growth (for the period)</i>	0.8%	15.1%	8.7%	13.6%	--
<i>b Gross Profit Margin</i>	7.6%	7.1%	6.8%	6.8%	5.3%
<i>c Net Profit Margin</i>	1.0%	1.0%	0.5%	0.5%	-1.4%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	7.1%	6.1%	6.2%	5.6%	4.0%
<i>e Return on Equity (ROE)</i>	4.2%	4.3%	2.1%	2.1%	-5.1%
2 Working Capital Management					
<i>a Gross Working Capital (Average Days)</i>	86	70	82	77	70
<i>b Net Working Capital (Average Days)</i>	75	64	75	70	61
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	3.9	5.5	5.2	4.8	5.2
3 Coverages					
<i>a EBITDA / Finance Cost</i>	2.8	2.9	2.8	2.8	1.8
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.0	0.9	0.7	0.7	0.4
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Financ</i>	2.2	2.0	2.9	3.6	20.7
4 Capital Structure (Total Debt/Total Debt+Equity)					
<i>a Total Borrowings / Total Borrowings+Equity</i>	57.1%	55.7%	59.1%	52.9%	55.7%
<i>b Short-Term Borrowings / Total Borrowings</i>	0.8	0.9	0.9	0.8	0.8
<i>c Average Borrowing Rate</i>	8.5%	7.7%	7.4%	6.8%	6.2%

#	Notes
D5	The line includes Advances from Customers, amounting to PKR 2.5bln [FY17: PKR 2.2bln]
-	-
-	-
-	-
-	-

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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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.
- (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)

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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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