



The Pakistan Credit Rating Agency Limited

## Rating Report

### Maqbool Textile Mills Limited

#### Report Contents

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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 ratings reflect Maqbool Textile Mills Limited's (Maqbool Textile) long 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 increase its capacity to optimize operations and gain economies of scale. The Company added spindles to increase its capacity. The commoditized nature of spinning products keeps margins in check due to strong competition in local and international markets. Recent withdrawal of zero rated status and condition of CNIC has put pressure on the Company's margins; however, sales volume improved substantially on the back of recent increase in capacity. The financial profile of the company is constrained due to adequate working capital and coverages. The debt structure is skewed towards short-term borrowings, which may lead to the asset-liability mismatch. The Company has recently obtained long-term loan under SBP LTFF scheme to finance expansion.

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

<b>Name of Rated Entity</b>	Maqbool Textile Mills Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Ratings(Jun-19),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria   Rating Modifier(Jun-19)
<b>Related Research</b>	Sector Study   Spinning(Sep-19)
<b>Rating Analysts</b>	Fahad Iqbal   fahad.iqbal@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.

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

**Operations** The Company is engaged in manufacturing and sale of cotton and blended yarn. Presently, the Company operates with three spinning units with ~79,440 spindles (FY18: ~70,200 spindles).

## Ownership

**Ownership Structure** Maqbool Textile is primarily a family owned business with majority stake held by Maqbool Group directly owned through individuals. The shareholding is divided between four brothers (Mian Tanveer, Mian Anis, Mian Idrees, Mian Aziz), their sisters (Saima Munir, Qaiser Shamin, Nusrat Jamil) and their children of the family. Maqbool family holds ~72.5% shareholding in the Company, NIT holds ~9.9% stake and general public holds ~16.5 stake in the Company.

**Stability** The second generation of the family has already joined the Company. However, the succession planning is not documented yet.

**Business Acumen** Maqbool family has been in textile business since 1989. Beside textile they also have interest in seed oil extraction. Mian Tanvir Ahmed Sheikh (MBA) is the founder and Chairman of the Company and has been involved in the textile business for 37 years. Besides Maqbool Textile, he is the CEO of Allwasaya Textile & Finishing Mills Limited and Mehmooda Maqbool Mills (Pvt.) Ltd. (involved in seed oil extraction business).

**Financial Strength** Besides Maqbool Textile, Maqool Group has investments in i) Mehmooda Maqbool Mills (Pvt.) Limited, ii) Shah Shams Cotton Industries (Pvt.) Limited and iii) Allwasaya Textile and Finishing Mills Limited. In addition to the above mentioned companies, the group also has an investment in hospitality business in Multan. Sponsors of the Company have shown commitment to support Maqbool Textile, if need arises.

## Governance

**Board Structure** The overall control of the Company vests in seven-member board of director's including the CEO. Five board members are representatives of the Maqbool family, while one director is NIT nominee (Raza Abbas Jaffari) and one is independent director (Maj. Retd Javed Musarrat). Three of the family directors are executives, while two are non-executives

**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. The directors' expertise in textile industry benefits the board in efficient decision making

**Board Effectiveness** Board is supported by two committees, Audit committee and HR & Remuneration committee to assist on relevant matters. The board minutes are formally maintained, however lack details and reflect limited participation.

**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 period ending 30th June, 2019.

## 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 procurement lead take guidance from both CEO and Chairman.

**Management Team** The current CEO of the Company is Mian Anis Ahmed Sheikh, younger brother of Mian Tanver. He did his BBA from USA and also sits on the boards of Allwasaya Textile and Finishing Limited and Mehmooda Maqbool Mills. All members of the management have extensive experience in textile industry.

**Effectiveness** There is no management committee in place to assist the team.

**MIS** The Company's operating environment depends upon an IT Infrastructure supported by an in-house programmed ERP. The IT system is fully integrated in 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 the 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** Pakistan's textile exports picked up slightly in 1HFY20, displaying YoY growth of ~4% in dollar terms, led mainly by bedwear and garments. While prices largely showed YoY decline owing to the overall economic slowdown and a highly competitive market, growth has been led by strong volumes on the back of supportive government policies and influx of orders from buyers looking to diversify procurement from China (due to the US-China trade war). However, challenges remain, including higher interest rates and withdrawal of zero-rated status of the textile sector. This pose a challenge to the liquidity of industry players as refunds are not timely disbursed by the government. Similarly, domestic players selling to unregistered buyers face pressure on sales volume.

**Relative Position** Maqbool family has been associated with the textile business since 1958 and enjoys respectable position in the industry. However, as a group and on a stand-alone basis, their market share in the spinning sector is minimal.

**Revenues** The revenue is generated mainly from local market while some is exported mainly to China. Maqbool Textile's revenues have followed an upward trend due to installation of 9,024 new spindles to the production capacity in FY19. In FY19 topline grew by ~11% to ~PKR 6,235 (FY18: ~PKR 5,599) as revenues were dominated by local sales with 58% share. In 1QFY20, the Company's revenue grew by ~54% to ~PKR 1,594mln (1QFY19: ~PKR 1,036mln).

**Margins** During FY19, the Company's gross margin improved to 8.3% (FY18: 7.1%) and operating margin to 5% (FY18: 3.6%) due to increase in production capacity and better procurement of cotton at favorable price. Net profit increased to PKR ~73mln in FY19 (FY18: ~PKR 55mln) despite higher finance cost. Gross margin in 1QFY20 stood at ~8.5% (1QFY19: 8.8%) and operating margin in 1QFY20 stood at ~5.8% (1QFY19 ~5.1%). Net profit in 1QFY20 recorded at ~PKR 13mln.

**Sustainability** Recently, the prices for cotton yarn have gone up and the Company observed improved margins as a result of the inventory gains. In line with the improving business environment, the Company enhanced the capacity by ~9,240 spindles which is expected to bring in efficiency gains. Going forward, withdrawal of zero rated sales tax and condition of CNIC will impact Company's margins.

## Financial Risk

**Working Capital** During FY19, the Company's net working capital cycle increased slightly clocking in at 66 days (FY18: 64 days), mainly due to higher average receivable days to 37 days during FY19 (FY18: 29 days). This impact was cushioned by increase in average payable days to 18 days during FY19 (FY18: 7 days). Company's net working capital in 1QFY20 was 64 days (1QFY19: 64 days) and remained unchanged. During FY19, the Company's room to borrow stood at -8% (FY18: -6%) showing slight mismatch.

**Coverages** During FY19, the Company's cash flow from operations (FCFO) improved to PKR 361mln (FY18: 264mln), largely led by better profitability. FCFO in 1QFY20 clocked in at PKR 112mln (1QFY19: 89mln). Meanwhile, despite increase in finance cost during FY19, interest coverage remained stagnant at 2.3x (FY18: 2.3x) and debt coverage to 0.9x (FY18: 0.9x) due to improvement in FCFO. Both interest coverage and debt coverage in 1QFY20 stood at 1.1x, respectively.

**Capitalization** Maqbool Textile leveraging reduced to ~49% in FY19 (FY18: 56%) on the back of revaluation surplus despite increase in long term borrowings. Short term borrowings made up 84% of the total borrowings at PKR 1,491mln (FY18: PKR 1,429mln). Long term loans obtained under SBP LTFF scheme were ~PKR 189mln. Leveraging in 1QFY20 is ~47% (1QFY19: ~51%).

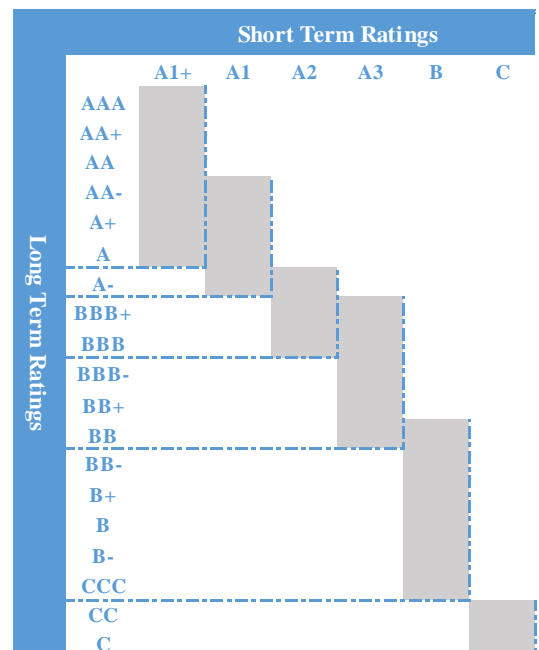


Maqbool Textile Mills Limited Textile and Allied	Sep-19 3M	Jun-19 12M	Jun-18 12M	Jun-17 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	2,729	2,742	1,806	1,846
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,865	2,044	1,626	1,261
<i>a Inventories</i>	871	995	607	674
<i>b Trade Receivables</i>	611	642	611	269
5 Total Assets	4,594	4,786	3,432	3,107
6 Current Liabilities	651	726	297	263
<i>a Trade Payables</i>	404	482	122	86
7 Borrowings	1,635	1,765	1,574	1,342
8 Related Party Exposure	66	64	51	47
9 Non-Current Liabilities	335	337	217	220
10 Net Assets	1,907	1,894	1,292	1,236
11 Shareholders' Equity	1,907	1,894	1,292	1,236
<b>B INCOME STATEMENT</b>				
1 Sales	1,595	6,235	5,599	4,863
<i>a Cost of Good Sold</i>	(1,459)	(5,718)	(5,200)	(4,531)
2 Gross Profit	136	517	399	332
<i>a Operating Expenses</i>	(44)	(208)	(196)	(181)
3 Operating Profit	92	309	202	151
<i>a Non Operating Income</i>	(7)	23	34	16
4 Profit or (Loss) before Interest and Tax	84	332	237	167
<i>a Total Finance Cost</i>	(53)	(172)	(127)	(103)
<i>b Taxation</i>	(19)	(87)	(55)	(37)
6 Net Income Or (Loss)	13	73	55	26
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	108	361	264	206
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	61	204	147	106
<i>c Changes in Working Capital</i>	72	(29)	(291)	80
1 Net Cash provided by Operating Activities	133	175	(144)	186
2 Net Cash (Used in) or Available From Investing Activities	(14)	(410)	(48)	(80)
3 Net Cash (Used in) or Available From Financing Activities	(129)	183	233	(91)
4 Net Cash generated or (Used) during the period	(10)	(52)	41	14
<b>D RATIO ANALYSIS</b>				
1 Performance				
<i>a Sales Growth (for the period)</i>	2.3%	11.4%	15.1%	13.6%
<i>b Gross Profit Margin</i>	8.5%	8.3%	7.1%	6.8%
<i>c Net Profit Margin</i>	0.8%	1.2%	1.0%	0.5%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	7.0%	7.4%	6.1%	5.6%
<i>e Return on Equity (ROE)</i>	2.7%	4.6%	4.3%	2.2%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	89	84	70	96
<i>b Net Working Capital (Average Days)</i>	64	66	64	89
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	2.9	2.8	5.5	4.8
3 Coverages				
<i>a EBITDA / Finance Cost</i>	2.3	2.9	2.9	2.8
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.1	0.9	0.9	0.7
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	2.1	2.5	2.0	3.6
4 Capital Structure (Total Debt/Total Debt+Equity)				
<i>a Total Borrowings / Total Borrowings+Equity</i>	47.2%	49.1%	55.7%	52.9%
<i>b Short-Term Borrowings / Total Borrowings</i>	0.8	0.8	0.9	0.8
<i>c Average Borrowing Rate</i>	10.9%	9.1%	7.7%	6.8%

## 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	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very high credit quality.</b> 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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<b>High credit quality.</b> 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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good credit quality.</b> 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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderate risk.</b> 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>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>B-</b>	<b>High credit risk.</b> 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>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very high credit risk.</b> 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.		
<b>D</b>	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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- (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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- (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)

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(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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