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
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 ratings reflect Maqbool Textile's long track record and association with Maqbool Group, an established group with a presence in the textile and seed oil extraction industry. Maqbool textile is a family-owned public listed company with an installed spinning capacity of ~89,000 spindles with frequent BMR being done to replace relatively old spindles. The commoditized nature of spinning products keeps margins in check due to strong competition in local and international markets. During 1HFY21, the Company managed to marginally increase the topline where pandemic induced lockdowns around the world led to a deterioration in revenue as markets both; locally and internationally faced closures. However, due to higher finance cost, the coverages of the Company remained towards lower level. Reduction in policy rates and the moratorium relief by SBP provided respite to the whole sector. The Company took the SBP facility of deferment of the principal amount of the long-term loan. The financial profile of the company is constrained due to adequate working capital and coverages have room for improvement. The debt structure is skewed towards short-term borrowings, which may lead to the asset-liability mismatch. The Company has recently obtained a long-term loan under the SBP LTFF scheme to finance BMR.

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	Methodology | Corporate Ratings(Jun-20),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria | Rating Modifier(Jun-20)
Related Research	Sector Study | Spinning(Sep-20)
Rating Analysts	Muhammad 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 the Maqbool family, a well-reputed business family of industrialists in Multan.

Operations The Company is engaged in the manufacturing and sale of cotton and blended yarn. Presently, the Company operates with three spinning units with ~88,700 spindles in FY20 (FY19: ~79,440 spindles).

Ownership

Ownership Structure Maqbool Textile is primarily a family-owned business with a majority stake held by Maqbool Group directly owned by 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 the general public holds ~16.5 stakes in the Company.

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

Business Acumen Maqbool family has been in the textile business since 1989. Besides textile, they also have an 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 Allawsaya Textile & Finishing Mills Limited and Mehmooda Maqbool Mills (Pvt.) Ltd. (involved in seed oil extraction business).

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

Governance

Board Structure The overall control of the Company vests in the seven-member board of director's including the CEO. Five board members are representatives of the Maqbool family, while one director is an NIT nominee (Raza Abbas Jaffari) and one is the 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 in the textile industry. The directors' expertise in the textile industry benefits the board inefficient decision making

Board Effectiveness Board is supported by two committees, the Audit Committee, and the 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 2020 and 31st December 2020.

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 CEO and Chairman.

Management Team The current CEO of the Company is Mian Anis Ahmed Sheikh, younger brother of Mian Tanveer. He did his BBA from the USA and also sits on the boards of Allawasaya Textile and Finishing Limited and Mehmooda Maqbool Mills. All members of the management have extensive experience in the 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 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 Textile Sector has depicted an overall growth of approximately 8% (USD value terms) in the exports in the first six months of the fiscal year 2021 where knitwear, bed wear, and towels segments recorded the highest growth of 16.5%, 16.3%, and 17.4% respectively. Knitwear, readymade garments, bed wear, and cotton cloth segment combined have achieved almost 9% growth over the same period last year excluding cotton cloth which has experienced a decline. Towel and made-up articles both recorded growth of 17% each. In Pak Rupee terms, the overall growth by textile exports has been recorded at around 13%. Covid-19 pandemic and related lockdown imposed by the governments around the globe in FY20 had its ramifications however Pakistani textile exports have been seen rebounding in 1HFY20. Excluding knitwear and yarn, all other segments recorded an incline in prices (USD terms) which is positive. The export outlook is likely to remain stable in the medium term as textile units have been operating at optimized capacity levels.

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

Revenues During 1HFY21, the Company's revenue grew by 4.2% to PKR 3,413mln (1HFY20: PKR 3,275mln). The Company's local sales remained dominated as they were 82% of the total sales of the Company. Revenue in FY20 clocked in at PKR 5,842mln (FY19: PKR 6,235mln) despite the negative effect of COVID-19 in the first few months of 2020.

Margins During 1HFY21, the Company's gross margin slightly declined to 7.9% (1HFY20 10.3%) and operating margin to 4.7% (1HFY20: 7.1%) due to an increase in the cost. Net profit margin clocked it at 0.9% in 1HFY21 (1HFY20: 0.8%), remaining stagnant. Net profit of the Company also remained stagnant and clocked at PKR 31mln in 1HFY21 (1HFY20: PKR 26mln) due to lower finance cost, which clocked in at PKR 88mln in 1HFY21 (1HFY20: PKR 132mln).

Sustainability The textile sector has depicted an overall growth of approximately 8% in the exports first six months of the fiscal year 2021. The Company faced difficulties during the lockdown period but recovered well. The Company also availed the facility of deferment of the principal amount of long-term loan by SBP. The Company also availed the salary loan facility by SBP. As per the projections shared by the Company, the performance of the Company is showing an upfill trend with an increase in the revenue and profitability in coming years.

Financial Risk

Working Capital During 1HFY21, the Company's short-term borrowings increased to PKR 1,676mln (1HFY20: PKR 1,660mln), in line with the increase in total inventory at the end of 1HFY21 to PKR 1,200mln (1HFY20: PKR 1,155mln), as a result of a large increase in cotton procurement. Net working capital cycle increased slightly during 1HFY21 at 94days (1HFY20: 68days). During 1HFY21, the Company's room to borrow stood at 8%, which is higher than the same period last year (1HFY20: -8%).

Coverages During 1HFY21, the Company's operating cash flow from operations (FCFO) declined to PKR 158mln (1HFY20: PKR 220mln), due to lower profitability. Meanwhile, due to an increase in finance cost during 1HFY21, the interest coverage ratio decreased to 1.9x (1HFY20: 2.0x) meanwhile debt coverage ratio remained stagnant at 0.9x (1HFY20: 0.9x).

Capitalization Maqbool Textile had a moderately leveraged capital structure of 54.9% at the end of 1HFY21 (1HFY20: 53%). Total debt stood at PKR 2,283mln, with an increase of 11.2% (1HFY20: PKR 2,052mln). Short term borrowings made up 73.4% of the total borrowings at PKR 1,676mln in 1HFY21 (1HFY20: PKR 1,660mln). The Company's short-term borrowings are mostly used to meet working capital needs and peak during the cotton procurement season. The Company also avails interest-free loan from its directors worth PKR 58mln in 1HFY21 (1HFY20: PKR 67mln). The loan will be repaid by next year.

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Financial Summary
PKR mln

Maqbool Textile Mills Limited	Dec-20	Jun-20	Jun-19	Jun-18
Textile and Allied	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	2,860	2,796	2,742	1,806
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,355	2,440	2,044	1,626
a Inventories	*1,200*	*1,381*	*995*	*607*
b Trade Receivables	*683*	*599*	*642*	*611*
5 Total Assets	5,215	5,236	4,786	3,432
6 Current Liabilities	564	516	726	297
a Trade Payables	*183*	*169*	*482*	*122*
7 Borrowings	2,283	2,387	1,765	1,574
8 Related Party Exposure	58	55	64	51
9 Non-Current Liabilities	384	383	337	217
10 Net Assets	1,926	1,895	1,894	1,292
11 Shareholders' Equity	1,926	1,895	1,894	1,292
B INCOME STATEMENT				
1 Sales	3,413	5,842	6,235	5,599
a Cost of Good Sold	*(3,144)*	*(5,222)*	*(5,718)*	*(5,200)*
2 Gross Profit	269	620	517	399
a Operating Expenses	(109)	(211)	(208)	(196)
3 Operating Profit	160	409	309	202
a Non Operating Income or (Expense)	*0*	*(14)*	*23*	*34*
4 Profit or (Loss) before Interest and Tax	160	394	332	237
a Total Finance Cost	*(88)*	*(262)*	*(172)*	*(127)*
b Taxation	*(41)*	*(106)*	*(87)*	*(55)*
6 Net Income Or (Loss)	31	26	73	55
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*158*	*441*	*361*	*264*
b Net Cash from Operating Activities before Working Capital	*54*	*203*	*204*	*147*
c Changes in Working Capital	*218*	*(605)*	*(29)*	*(291)*
1 Net Cash provided by Operating Activities	272	(402)	175	(144)
2 Net Cash (Used in) or Available From Investing Activities	(128)	(168)	(410)	(48)
3 Net Cash (Used in) or Available From Financing Activities	(107)	586	183	233
4 Net Cash generated or (Used) during the period	36	15	(52)	41
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	16.9%	-6.3%	11.4%	15.1%
b Gross Profit Margin	7.9%	10.6%	8.3%	7.1%
c Net Profit Margin	0.9%	0.5%	1.2%	1.0%
d Cash Conversion Efficiency (FCFO adjusted for Working C	11.0%	-2.8%	5.3%	-0.5%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	3.2%	1.5%	4.5%	4.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	103	113	84	70
b Net Working Capital (Average Days)	94	93	66	64
c Current Ratio (Current Assets / Current Liabilities)	4.2	4.7	2.8	5.5
3 Coverages				
a EBITDA / Finance Cost	2.8	2.2	2.9	2.9
b FCFO / Finance Cost+CMLTB+Excess STB	0.9	1.1	0.9	0.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	4.5	2.7	2.5	2.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equit	54.9%	56.3%	49.1%	55.7%
b Interest or Markup Payable (Days)	83.1	83.3	93.1	87.2
c Entity Average Borrowing Rate	7.5%	12.1%	9.3%	7.4%

Credit Rating

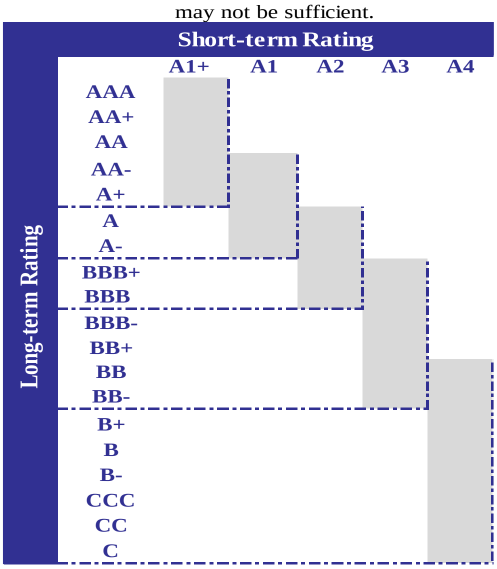
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

Entities

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

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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)

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 | 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)

Proprietary Information