



The Pakistan Credit Rating Agency Limited

Rating Report

Al Barka Fabrics (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jan-2023	BBB+	A2	Stable	Maintain	-
28-Jan-2022	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned ratings of Al Barka Fabrics reflect the adequate positioning of the company in the Processed fabrics, home-textile, and made-up industry. Al Barka Fabrics is the flagship company of Al Barka Group. The group has a long-standing association with the textile sector. The group plans diversification in other sectors, going forward. The Company has been operational as a private company principally engaged in Textile Processing (Bleaching, Dying, Printing, and Stitching) and has been operating at an optimal level. The governance framework lacks independent oversight. The Company's management involves experienced professionals looking after the operations. The sales mix, dominated by exports, display steady improvement over the years. The Company enjoys an established customer base with several export destinations in Europe, South America, Africa, and the US. Revenues are majorly driven by exports where the company enjoys a long association with customers abroad. During FY22, the Company's revenues increased to PKR 5.6bln (FY21: PKR 4.3bln), primarily exports. Operating profits and net profitability recorded a good-sized improvement in the recent year. The net profitability also observed improvement whilst margins witnessed a similar trend as well. The import of raw materials has become a challenge to manage which is quite essential for continued operations. The management of the receivables is essential. The Company continues to maintain a moderately leveraged capital structure and good coverages. During 5MFY23, textile exports were valued at \$7.44bln compared to \$7.76bln, reflecting a 4% dip YoY – the declining trend recorded in the last two months. The fall in export value has mainly come from volumetric decline as prices of almost all categories have either increased or stayed flat. This has taken a fiscal year to date exports into negative with a 1.4% decline in the first four months (July – October) FY23. Among value-added items, bedwear has witnessed the largest decline of 19% (on an MoM basis), down to \$217 million. Knitwear remained on the downward path in October 2022 and declined by 10% to \$392 million. Among non-value-added items, the cotton yarn has shown the largest decline of 35%. Moreover, a slowdown is expected in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries.

The ratings are dependent upon the management's ability to capitalize on growth opportunities in a competitive landscape, operate at an optimal level, and sustain margins, going forward. The company is expected to adhere to conservative financial discipline, which would be crucial to ratings.

Disclosure

Name of Rated Entity	Al Barka Fabrics (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Composite and Garments(Dec-22)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504

Profile

Legal Structure Al Barka Fabrics was incorporated as a private limited company on March 3, 1998. The registered office of the Company is situated at 1-KM Jaranwala Road, Khurianwala, Faisalabad, Punjab.

Background The foundation of Al Barka Fabrics was laid by Mr. Muhammad Aslam Sheikh in 1998. The Company has been growing since then and has evolved as a prominent exporter of processed fabric. The group has more than three-decades-long association with the textile sector.

Operations The Company has an integrated network of fabric processing. The manufacturing facility comprises of bleaching, dying & printing process.

Ownership

Ownership Structure The ownership structure lies within the family of Mr. Muhammad Aslam Sheikh. Mr. Aslam owns a majority stake (50%) in the Company. The rest of the shareholding is owned in equal proportion by Mr. Aslam's wife Mrs. Riffat Aslam and sons Mr. Muhammad Saad Sheikh & Mr. Muhammad Asad Sheikh.

Stability The stability of the ownership structure may be improved by documenting understanding between sponsors in the form of a shareholding agreement.

Business Acumen The Company was set up by Mr. Muhammad Aslam, a seasoned professional in fabrics having rich experience of thirty-six years in the fabric business. He has enabled the Company in expanding its operations despite challenging market dynamics. Eventually, benefiting the company in effective decision making.

Financial Strength The sponsoring family of Mr. Sheikh is also expanding its business group by diversifying into other industries through Al Barka Solar, Al Barka Oil Refinery and Al Barka Construction. Being the flagship company of the group, support is inevitable in case the need arises.

Governance

Board Structure The Company's board comprises four members. All members are from the sponsoring family. The position of Chairman and CEO vests with Mr. Muhammad Aslam Sheikh.

Members' Profile The members of the board are a blend of seasoned and young professionals. Mr. Aslam has rich experience of three decades while his sons are young and looking after textiles and other new projects.

Board Effectiveness The meetings are held regularly in which discussions on various aspects are recorded in minutes. The attendance of the members is also considered good.

Financial Transparency RSM Avas Hyder Liaquat Nauman Chartered Accountants, who are categorized in category 'A' by the SBP and have a QCR rating by ICAP, are the external auditors of the company. They have expressed an unqualified opinion on the financial statements of the company for FY21; whereas the audit of financial statements for FY22 is underway.

Management

Organizational Structure The organizational structure of the company is divided into various functional departments, mainly named 1) Production 2) Finance 3) Sales and Marketing 4) H.R & Admin. All the departments report to CEO.

Management Team Overall management control is in the hands of the CEO - Mr. Muhammad Aslam Sheikh. His sons Mr. Muhammad Asad Sheikh and Mr. Muhammad Saad Sheikh are also holding the position of directors in the Company. Mr. Usman Saleem is the Chief Financial Officer of the company and holds a long association with different companies in the textile sector.

Effectiveness The management meetings are held periodically with follow-up points to resolve or proactively address operational issues, if any, eventually ensuring a smooth flow of operations. The meeting is headed by the CEO.

MIS The Company has deployed a house Oracle-based Enterprise Resource Planning (ERP) system that provides comprehensive MIS reporting. The Company has a fully automated ERP in place as per the need to maintain the efficiency of operations.

Control Environment The Company is accredited with international certifications for compliance. Al Barka Fabrics has valid certificates for its products and facilities and is periodically audited by internationally recognized certification bodies. Moreover, IT systems cover the integration of business processes and optimizing resources using synchronization and planning. The core software can manage from production to dispatch, as well as financial and procurement requirements.

Business Risk

Industry Dynamics During 5MFY23, textile exports were valued at \$7.44bln compared to \$7.76bln, reflecting a 4% dip YoY – the declining trend recorded in the last two months. The fall in export value has mainly come from volumetric decline as prices of almost all categories have either increased or stayed flat. This has taken a fiscal year to date exports into negative with a 1.4% decline in the first four months (July – October) FY23. Among value-added items, bedwear has witnessed the largest decline of 19% (on an MoM basis), down to \$217 million. Knitwear remained on the downward path in October 2022 and declined by 10% to \$392 million. Among non-value-added items, cotton yarn has shown the largest decline of 35%. Moreover, a slowdown is expected in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries.

Relative Position The Company enjoys adequate market share in the home-textile fabrics and made-ups industry.

Revenues The analysis of the last three years reveals that the company's revenue base has witnessed a growing trend. During FY22, the revenue of the company increased by 30% YoY to stand at PKR 5.6bln (FY21: PKR 4.34bln). Subsequently, the company's gross profit increased to PKR 854mln (FY21: PKR 636mln). Whereas, the finance cost of the company increased to PKR 74mln (FY21: PKR 37mln) mainly attributable to the increasing policy rate. However, the net profitability of the company increased to PKR 414mln (FY21: PKR 285mln) owing to a strong topline.

Margins During FY22, the gross profit margin increased to 15.2% (FY21: 14.6%) attributable to the increased revenue base, following an increasing trend, the company's operating profits recorded growth as well 8.6% (FY21: 8.1%). Furthermore, the net profit margin increased to 7.3% (FY21: 6.6%).

Sustainability The Company has decade long history where organic growth has been witnessed. The planned diversification into other sectors will strengthen the group's presence in the relevant markets. The Company is also planning expansion in the current installed capacity where backward integration may also be planned given the favorable scenario of the relevant industry.

Financial Risk

Working Capital At end-Jun22, the net working capital cycle days remained stagnant at 126 days (At end-Jun21: 126 days) on account of largely the same inventory days at 100 days (At end-Jun21: 101 days). The trade assets increased by 31% to stand at PKR 3,652mln (At end-Jun21: PKR 2,798mln). The increase in short-term borrowing led to a slight decline in the Short-Term trade leverage adequacy at 36% (At end-Jun21: 38%).

Coverages During FY22, Free cash flows (FCFO) recorded strong growth YoY to stand at PKR 487mln (FY21: PKR 370mln), owing to better profitability. However, the interest coverage of the company declined to 8.6x (FY21: 13.2x) owing to increasing finance costs, while core coverage remained stagnant at 6.3x (FY21: 6.3x).

Capitalization At end-Jun22, the company's leverage increased to 45.8% (At end-Jun21: 39.7%) as the total borrowings of the company increased by 59% to stand at PKR 1,721mln (At end-Jun21: PKR 1,084mln). The ST borrowings constitute 94% of total borrowings. The equity base climbed up to PKR 2,037mln (At end-Jun21: PKR 1,644mln). The strengthening equity base, over future years, will remain vital in case of any increase in borrowings.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Al Barka Fabrics Pvt. Ltd.

Textile | Composite

Jun-22	Jun-21	Jun-20	Jun-19
12M	12M	12M	12M

A BALANCE SHEET

1 Non-Current Assets	483	482	322	286
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	4,207	3,183	2,216	1,728
a Inventories	1,602	1,474	936	782
b Trade Receivables	1,360	831	780	577
5 Total Assets	4,690	3,665	2,538	2,015
6 Current Liabilities	855	874	432	217
a Trade Payables	662	712	320	146
7 Borrowings	1,666	1,051	664	465
8 Related Party Exposure	54	33	33	30
9 Non-Current Liabilities	77	64	54	21
10 Net Assets	2,037	1,644	1,355	1,282
11 Shareholders' Equity	2,037	1,644	1,355	1,282

B INCOME STATEMENT

1 Sales	5,636	4,344	2,399	1,829
a Cost of Good Sold	(4,781)	(3,708)	(2,117)	(1,525)
2 Gross Profit	854	636	282	304
a Operating Expenses	(368)	(283)	(136)	(104)
3 Operating Profit	486	353	146	200
a Non Operating Income or (Expense)	59	6	0	-
4 Profit or (Loss) before Interest and Tax	545	359	146	200
a Total Finance Cost	(74)	(37)	(26)	(33)
b Taxation	(58)	(37)	(39)	(20)
6 Net Income Or (Loss)	414	285	82	147

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	487	370	167	208
b Net Cash from Operating Activities before Working Capital Changes	424	339	144	175
c Changes in Working Capital	(938)	(575)	(237)	(165)
1 Net Cash provided by Operating Activities	(515)	(236)	(94)	10
2 Net Cash (Used in) or Available From Investing Activities	(56)	(139)	(58)	(51)
3 Net Cash (Used in) or Available From Financing Activities	629	323	204	55
4 Net Cash generated or (Used) during the period	59	(52)	52	13

D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	29.7%	81.1%	31.1%	3.9%
b Gross Profit Margin	15.2%	14.6%	11.8%	16.6%
c Net Profit Margin	7.3%	6.6%	3.4%	8.0%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-8.0%	-4.7%	-2.9%	2.4%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	22.5%	19.0%	6.2%	12.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	171	169	234	276
b Net Working Capital (Average Days)	126	126	199	250
c Current Ratio (Current Assets / Current Liabilities)	4.9	3.6	5.1	8.0
3 Coverages				
a EBITDA / Finance Cost	9.7	14.9	10.1	9.9
b FCFO / Finance Cost+CMLTB+Excess STB	6.3	6.3	6.9	9.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.2	0.3	0.3	0.2
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	45.8%	39.7%	34.0%	27.9%
b Interest or Markup Payable (Days)	105.6	92.3	89.7	47.0
c Entity Average Borrowing Rate	3.8%	3.2%	3.3%	5.0%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.

Long-term Rating	Short-term Rating
AAA	A1+
AA+	A1
AA	A2
AA-	A3
A+	A4
A	
A-	
BBB+	
BBB	
BBB-	
BB+	
BB	
BB-	
B+	
B	
B-	
CCC	
CC	
C	

**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 surveil 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

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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

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- (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).
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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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- (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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