



The Pakistan Credit Rating Agency Limited

Rating Report

Al Barka Fabrics (Pvt.) Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jan-2024	BBB+	A2	Stable	Maintain	-
27-Jan-2023	BBB+	A2	Stable	Maintain	-
28-Jan-2022	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect the adequate positioning of Al Barka Fabrics Private. Limited (“Al Barka Fabrics” or “the Company”) in the home-textile and made-up industry. Being the flagship company of Al Barka Group, the Company has a long history of operations in the respective sector on a standalone basis. The Company is engaged in Textile Processing (Bleaching, Dying, Printing, and Stitching). A major chunk of the Company’s topline emanates from the export sales. The Company has established a stable customer base around the globe. The customers are spread across countries of Europe, South America, Africa, and the US. During the last few years, the Company’s revenue base exhibited a steady improvement. During FY23, the topline witnessed a surge (FY23: PKR 6.7bln; FY22: PKR 5.6bln) despite a suppressed demand pattern in the international market. The sales mix skewed towards the export sales clocking at PKR 5.7bln (FY22: PKR 4.9bln). This has benefitted the topline with attractive foreign exchange gain. A minimum portion of revenue is captured from the local sales. The Company registered a hike on the expense side, aligning with the industry dynamics. Despite this incline, the company was able to achieve a net profitability of PKR 398mln (FY22: PKR 414mln). The margins remained largely the same whereas the coverages remained in a moderate range. Going forward, the management of the working capital cycle remains essential. On a consolidated basis, the Company’s strategic investments in diverse sectors are expected to capture healthy gains, going forward. The sponsors have penetrated the international market, with an equity investment in Renevolt, UAE.

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(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Composite and Garments(Dec-23)
Rating Analysts	Uswa Sikandar uswa.sikandar@pacra.com +92-42-35869504

Profile

Legal Structure Al Barka Fabrics Private. Limited was incorporated as a private limited company on March 3rd, 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 a long association with the textile sector.

Operations The Company has an integrated network of fabric processing. The manufacturing facility comprises 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 (58.33%) in the Company. The rest of the shareholding rests with his wife, Mrs. Riffat Aslam and his son, 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 to expand its operations despite challenging market dynamics. Eventually, benefiting the company in effective decision-making

Financial Strength Al Barka Group is expanding its business group by diversifying into other industries through Al Barka Solar (Pvt). Limited, Al Barka Oil Refinery, IT Automation and Al Barka Construction. The company is operating in the international market through Renevolt. Being the flagship Company of the group, support is inevitable if needed.

Governance

Board Structure The Company's board comprises four members. All members are from the sponsoring family. The position of Chairman and CEO is vested 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 in the textile industry while his sons are involved in management of the other projects of the group.

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 Avais Hyder Liaquat Nauman Chartered Accountants are the external auditors of the company. They have expressed an unqualified opinion on the financial statements of the company for the period ended June 30th, 2023.

Management

Organizational Structure The organizational structure of the company is divided into various functional departments, mainly named 1) Production 2) Finance 3) Sales & Marketing, and 4) HR & Admin. All the departments report to the 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 hold the position of directors in the Company. Mr. Usman Saleem is the Chief Financial Officer of the company and brings with him an experience of several years 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.

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 integrating 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 FY23, the textile exports were valued at \$16.5 billion compared to \$19.33 billion, reflecting a dip of 15% YoY – the declining trend has been witnessed by the start of FY23. The exports tumbled attributable to high energy costs, shortage of cotton, and uncertainty in the foreign exchange rate. The suppressed demand pattern exhibited by export avenues was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments witnessed a decline of 13% YoY. The basic textiles including raw cotton, cotton yarn, and cotton cloth posted a drop of 21% YoY. During June 2023, cotton yarn exports increased by 7% MoM. The value-added exports reported a volumetric increase of 16% on a MoM basis. Knitwear and readymade garments witnessed an incline at 18% and 19% respectively. During July 2023, textile exports were valued at \$2 billion compared to \$2.3 billion, reflecting a slump of 12.6% on a MoM basis. Further analysis reveals an overall decline of 8.6% YoY.

Relative Position The Company enjoys an adequate market share in the competitive textile landscape through home textile and made-ups..

Revenues During FY23, the revenue base of the Company surged by 20% YoY to stand at PKR 6.7bln (FY22: PKR 5.6bln). Despite an increase in COGS, the company's gross profit increased to PKR 1bln (FY22: PKR 854mln). The Company's finance cost portrayed a hike standing at PKR 166mln (FY22: PKR 74mln) primarily attributable to the high policy rate. Consequently, the company was able to secure a net profitability of PKR 398mln (FY22: PKR 414mln). During 1HFY24, the revenue base of the company was recorded at PKR 3.8bln. The Company got a hit on the finance cost to stand at PKR 94mln. Hence, the Company achieved a net profitability of PKR 215mln.

Margins During FY23, the gross profit margin inched up to 15.6% (FY22: 15.2%) attributable to the improvement in the revenue base, following an increasing trend, the company's operating profit margin clocked at 9.6% (FY22: 8.6%). Due to a dip in the Company's bottom line YoY, the net profit margin inched down to 5.9% (FY22: 7.3%). During 1HFY24, the Company's gross margin and net profit margin were reported at 15.3% and 5.6% respectively.

Sustainability The Company has a long history in the textile industry where organic growth has been witnessed. The Group's diversification into various sectors of the economy has strengthened the Group's positioning on a consolidated basis. The Company has penetrated the international market through the establishment of Renevolt by Solar X in Ras Al-Khaimah, UAE with its headquarters in Dubai.

Financial Risk

Working Capital As of end-Jun23, the Company's net working capital cycle displayed an increase standing at 144 days (end-Jun22: 126 days) on account of a rise in the trade receivable days recorded at 93 days (end-Jun22: 71 days). The Company's trade assets increased by 37.8% to stand at PKR 5.1bln (At end-Jun22: PKR 3.7bln). As of end-Dec23, the Company's net working capital days exhibited a further increase at 154 days.

Coverages During FY23, the free cash flows from operations (FCFO) registered a sizeable increase on a YoY basis to stand at PKR 631mln (end-Jun22: PKR 487mln). However, the interest coverage of the Company declined to 4.2x (end-Jun22: 7.8x) owing to a hike in the finance cost. The core operating coverage illustrated the same trend and clocked at 3.6x (end-Jun22: 5.9x). At end-Dec23, the core operating coverage of the Company inched down to 2.6x.

Capitalization The Company has a moderately leveraged capital structure. As of end-Jun23, the Company's leveraging increased to 49.4% (end-Jun22: 45.6%). The total borrowings portrayed a further increase to stand at PKR 2.3bln (end-Jun22: PKR 1.7bln). Out of this, the short-term borrowings constitute 98% standing at PKR 2.3bln (end-Jun22: PKR 1.6bln). The equity base was enhanced to PKR 2.4bln (end-Jun22: PKR 2bln). At the end-Dec23, the Company's total leveraging remained largely the same at 48.9%.



The Pakistan Credit Rating Agency Limited

Al Barka Fabrics (Pvt.) Ltd
Textile | Composite

Dec-23

Jun-23

Jun-22

Jun-21

6M

12M

12M

12M

A BALANCE SHEET

1 Non-Current Assets	493	685	557	482
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	6,282	5,630	4,210	3,183
a Inventories	2,333	2,048	1,602	1,474
b Trade Receivables	2,385	2,094	1,360	831
5 Total Assets	6,775	6,316	4,766	3,665
6 Current Liabilities	1,478	1,384	916	874
a Trade Payables	1,239	1,127	653	712
7 Borrowings	2,471	2,392	1,721	1,051
8 Related Party Exposure	72	-	-	33
9 Non-Current Liabilities	93	93	78	64
10 Net Assets	2,661	2,448	2,052	1,644
11 Shareholders' Equity	2,661	2,448	2,052	1,644

B INCOME STATEMENT

1 Sales	3,844	6,766	5,636	4,344
a Cost of Good Sold	(3,257)	(5,709)	(4,781)	(3,708)
2 Gross Profit	587	1,057	854	636
a Operating Expenses	(234)	(407)	(368)	(283)
3 Operating Profit	353	650	486	353
a Non Operating Income or (Expense)	-	0	59	6
4 Profit or (Loss) before Interest and Tax	353	650	545	359
a Total Finance Cost	(94)	(166)	(74)	(37)
b Taxation	(44)	(86)	(58)	(37)
6 Net Income Or (Loss)	215	398	414	285

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	259	631	487	322
b Net Cash from Operating Activities before Working Capital Changes	259	495	424	322
c Changes in Working Capital	-	(1,030)	(938)	-
1 Net Cash provided by Operating Activities	259	(535)	(515)	322
2 Net Cash (Used in) or Available From Investing Activities	-	(177)	(56)	-
3 Net Cash (Used in) or Available From Financing Activities	-	671	629	-
4 Net Cash generated or (Used) during the period	259	(41)	59	322

D RATIO ANALYSIS

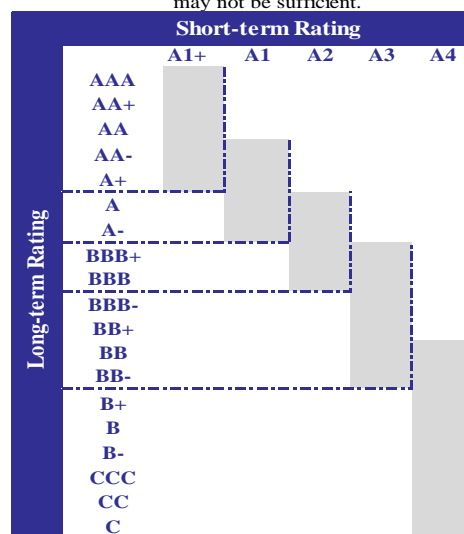
1 Performance				
a Sales Growth (for the period)	13.6%	20.0%	29.7%	81.1%
b Gross Profit Margin	15.3%	15.6%	15.2%	14.6%
c Net Profit Margin	5.6%	5.9%	7.3%	6.6%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	6.7%	-5.9%	-8.0%	7.4%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl	16.8%	17.7%	22.4%	19.0%
2 Working Capital Management				
a Gross Working Capital (Average Days)	210	192	171	169
b Net Working Capital (Average Days)	154	144	126	126
c Current Ratio (Current Assets / Current Liabilities)	4.2	4.1	4.6	3.6
3 Coverages				
a EBITDA / Finance Cost	3.0	4.7	8.8	11.5
b FCFO / Finance Cost+CMLTB+Excess STB	2.6	3.6	5.9	5.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.3	0.1	0.1	0.3
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	48.9%	49.4%	45.6%	39.7%
b Interest or Markup Payable (Days)	111.4	112.4	95.9	92.3
c Entity Average Borrowing Rate	7.6%	7.6%	4.2%	3.2%

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.



*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

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- 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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- (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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- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers’ associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (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)
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- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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