



The Pakistan Credit Rating Agency Limited

## Rating Report

### Roomi Fabrics 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
25-Jun-2022	A-	A2	Stable	Maintain	-
25-Jun-2021	A-	A2	Stable	Maintain	Yes
26-Jun-2020	A-	A2	Stable	Maintain	Yes
27-Dec-2019	A-	A2	Stable	Maintain	-
28-Jun-2019	A-	A2	Stable	Maintain	-
28-Dec-2018	A-	A2	Stable	Maintain	-
30-Jun-2018	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings reflect adequate business profile of Roomi Fabrics Limited (Roomi Fabrics' or 'The Company'). A change in shareholding of Roomi Fabrics is expected. Thereby, the shareholding of Mahmood Textile Mills shall dilute whereas shareholding of Masood Fabrics shall enhance. Topline of the Company inclined sizably and exports constituted 69% of the revenue. Margins of the Company witnessed substantial surge. Consequently, the Company reported bottom-line of PKR 1,105mln in 1HFY22 (1HFY21: 191mln). The financial matrix reveals high leveraged capital structure. However, coverages witnessed improvement on account of enhanced free cashflows. Working capital cycle reduced considerably driven by lower inventory days. The Company has built a significant investment portfolio that is managed at the group level which further enhanced during the period. Overall profitability of the Company remains a function of income from its sizable investment portfolio in shape of dividends and capital gains/losses. Although the Company is invested in blue-chip scrips, high market risk exposes the Company to volatile returns, this concern is magnified as the investments are partially financed through short-term borrowings. During 9MFY22 (Jul21-Mar22), Pakistan textile exports surged to \$14.2bln (recording growth of 25%) as compared to \$11.3bln in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of raw cotton, cotton (carded or combed) and cotton cloth recorded notable growth. However, month on month basis, textile exports have declined by 3.5%. Going forward, the textile sector's outlook is expected to stay good in the medium term where demand for textile products is expected to sustain.

The ratings are dependent on the Company's ability to sustain its operations. Meanwhile prudent working capital management and generating sustainable cashflows from core operations are important. Removal of 'Watch' represents decent financial performance and major portion insurance claim received for the fire incident.

#### Disclosure

<b>Name of Rated Entity</b>	Roomi Fabrics Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Composite and Garments(Dec-21)
<b>Rating Analysts</b>	Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Roomi Fabrics Limited was incorporated in Pakistan in 2002, as a Public Limited Company.

**Background** Roomi Fabrics Limited was a venture of Mahmood Group, which was originally established in 1935, initially entering the tannery business. Now the group has presence in complete textile chain (growing to finished products), tanneries, real estate and food.

**Operations** The Company is principally engaged in the manufacturing and sale of yarn and greige fabric, primarily catering to the home textile segment. Roomi Fabrics Limited operates 36,000 spindles, 228 looms, 10 Terry Looms, 50 Stitching Machines and 4 Quilting Machines. The Company has a total of 8 generators installed, which produce 16.1 MW of electricity.

## Ownership

**Ownership Structure** The Khawaja family directly owns 64% of shareholding, while 36% is held through Mahmood Textile Mills and Masood Fabrics Limited. Khawaja Jalal Uddin Roomi has highest share among individual shareholders, with 21% share in the company.

**Stability** Board comprises 3 directors i.e., Mr. Jalal ud Din Roomi and his two sons. Clear succession adds strength to the structure.

**Business Acumen** The CEO and his two sons form the core cabinet, which is the main decision making body for finalizing the future strategy of the group. The group's core functions are divided between each of the three directors.

**Financial Strength** Mr. Jalaluddin Roomi maintains strong financial profile. However, financial strength is weakened with an individual being the man of last mile.

## Governance

**Board Structure** The Company's board comprises three members, including the Chief Executive Officer (CEO) – Khawaja Jalaluddin Roomi and his two sons.

**Members' Profile** Mr. Roomi – CEO - has more than three decades of textile experience and has been at his current position for over 20 years. The other directors are foreign graduates and possess decent experience of 4 – 5 years.

**Board Effectiveness** Total number of meetings held during the year was four, which were attended by all the members. High attendance bodes well for board effectiveness. However, there is room for improvement in recording minutes and establishing best governance practices.

**Financial Transparency** M/s ShineWing Hameed Chaudry & Co. Chartered Accountants, classified in category B by the SBP's panel of auditors are the external auditors of the Company. The auditors issued an unqualified opinion on the Company's financial statements for year ended on 30th June, 2021.

## Management

**Organizational Structure** Top tier management functions are held at group level by the sponsors, where middle tier is taken care by a team of experienced professionals. The organisational structure of the Company is divided into various departments with reporting to both, CEO and BOD.

**Management Team** The top management is supported by a team of professionals working under various sub-divisions to ensure smooth reporting. Mr. Roomi – CEO - has more than three decades of textile experience and has been at his current position for over 20 years. Mr. Javed Anjum – Director Finance - is a qualified Chartered Accountant with an overall experience of more than 16 years. He also serves as the Company Secretary. Most of the senior management has been associated with the group for a considerable amount of time.

**Effectiveness** Board meetings are held formally. Meeting minutes are captured; however there is room for improvement.

**MIS** The Company's MIS is generated on a monthly and daily basis, for both the spinning and the weaving units separately. Various reports are collected and submitted to higher management regarding monthly operations, finished goods, cotton reconciliation report, yield report and raw material report.

**Control Environment** To effectively manage online reporting, the group has in place two teams, one for ERP and the other for IT support. In addition to this, the group has in place two committees, one for order management and the other for human resources.

## Business Risk

**Industry Dynamics** During 9MFY22 (Jul21-Mar22), Pakistan textile exports surged to \$14.2bln (recording growth of 25%) as compared to \$11.3bln in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of raw cotton, cotton (carded or combed) and cotton cloth recorded notable growth. However, month on month basis, textile exports have declined by 3.5%. Going forward, the textile sector's outlook is expected to stay good in the medium term where demand for textile products is expected to sustain.

**Relative Position** With 36,000 spindles and 228 looms, Roomi Fabrics is able to land in the middle tier of textile industry.

**Revenues** During 6MFY22, the Company's revenues increased by 48.6% period-on-period to PKR 10,812mln (6MFY21: PKR 7,277mln). Exports constituted 69%, while local sales formed 31% of the sales composition.

**Margins** Gross profit margin decreased to 20.2% (FY21: 11.1%). Operating profit margin was decrease to 14.7% (FY21: 7.3%). Consequently, Roomi Fabrics recorded a net profit of PKR 1,105mln during 6MFY22 (6MFY21: PKR 191mln), showing a rise of 4.8x.

**Sustainability** The Company plans to enhance towel production by installing new terry looms. Moreover, a change in ownership is expected to incur where Mahmood Textile's shareholding shall be diluted whereas the shareholding of Masood Fabrics shall enhance.

## Financial Risk

**Working Capital** Net working capital cycle slightly decreased to 131 days in 6MFY22 (FY21: 167 days) due to decrease in average inventory days to 101 (FY21: 133 days). Short-term borrowings of the Company decreased by 9.9% during FY21 and stood at PKR 10,583mln (FY21: PKR 11,744mln).

**Coverages** FCFO in 6MFY22 increased to PKR 1,509mln (6MFY21: PKR 476mln) on the back of higher EBITDA. Interest coverage ratio augmented to 3.1x during 6MFY22 (FY21: 1.5x). Debt coverage ratio improved to 1.7x (FY21: 0.9x), on the back of decreased short-term borrowing.

**Capitalization** Leveraging of the Company improved to 71.8% in 6MFY22 (FY21: 77%), as the total borrowings stood at PKR 14,541mln (FY21: PKR 15,473mln), indicating a decline of 6% to meet the Company's increased financing needs. Shareholder's equity increased by 24% to PKR 5,722mln (FY21: PKR 4,616mln).



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Roomi Fabrics Textile - Composite	Dec-21 6M	Jun-21 12M	Jun-20 12M	Jun-19 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	5,535	5,626	4,697	4,697
2 Investments	4,688	4,019	3,232	3,665
3 Related Party Exposure	199	262	227	173
4 Current Assets	12,058	12,255	10,104	6,680
a Inventories	6,135	5,849	5,936	4,472
b Trade Receivables	3,653	2,257	2,509	1,412
5 Total Assets	22,481	22,162	18,259	15,215
6 Current Liabilities	2,219	2,072	1,966	1,303
a Trade Payables	1,235	1,108	589	321
7 Borrowings	14,541	15,473	12,027	9,849
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	5,722	4,616	4,266	4,063
11 Shareholders' Equity	5,722	4,616	4,266	4,063
<b>B INCOME STATEMENT</b>				
1 Sales	10,812	16,194	13,315	13,248
a Cost of Good Sold	(8,628)	(14,238)	(11,445)	(11,231)
2 Gross Profit	2,183	1,956	1,870	2,017
a Operating Expenses	(599)	(766)	(706)	(530)
3 Operating Profit	1,584	1,189	1,164	1,488
a Non Operating Income or (Expense)	149	491	277	(346)
4 Profit or (Loss) before Interest and Tax	1,733	1,680	1,442	1,142
a Total Finance Cost	(518)	(1,067)	(1,136)	(1,006)
b Taxation	(109)	(261)	(102)	69
6 Net Income Or (Loss)	1,105	352	203	204
<b>C CASH FLOW STATEMENT</b>				
a Free Cash Flows from Operations (FCFO)	1,509	1,546	1,478	1,700
b Net Cash from Operating Activities before Working Capital Changes	968	531	308	781
c Changes in Working Capital	508	(1,883)	(2,699)	(115)
1 Net Cash provided by Operating Activities	1,477	(1,352)	(2,391)	666
2 Net Cash (Used in) or Available From Investing Activities	(546)	(2,095)	214	(953)
3 Net Cash (Used in) or Available From Financing Activities	(933)	3,383	2,173	384
4 Net Cash generated or (Used) during the period	(2)	(63)	(4)	97
<b>D RATIO ANALYSIS</b>				
1 Performance				
a Sales Growth (for the period)	33.5%	21.6%	0.5%	41.3%
b Gross Profit Margin	20.2%	12.1%	14.0%	15.2%
c Net Profit Margin	10.2%	2.2%	1.5%	1.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	18.7%	-2.1%	-9.2%	12.0%
e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Sh.	42.8%	7.9%	4.9%	5.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	151	187	196	157
b Net Working Capital (Average Days)	131	167	184	146
c Current Ratio (Current Assets / Current Liabilities)	5.4	5.9	5.1	5.1
3 Coverages				
a EBITDA / Finance Cost	3.4	1.7	1.5	2.1
b FCFO / Finance Cost+CMLTB+Excess STB	1.7	0.9	1.3	1.3
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	2.0	7.0	7.7	3.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	71.8%	77.0%	73.8%	70.8%
b Interest or Markup Payable (Days)	111.5	97.2	73.2	94.4
c Entity Average Borrowing Rate	6.8%	7.7%	10.1%	9.4%

**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.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<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.
AA-	
A+	
A	<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.
A-	
BBB+	
BBB	<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.
BBB-	
BB+	<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.
BB	
BB-	
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-	
CCC	
CC	<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.
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):

<p><b>Entities</b></p> <ul style="list-style-type: none"> <li>a) Broker Entity Rating</li> <li>b) Corporate Rating</li> <li>c) Financial Institution Rating</li> <li>d) Holding Company Rating</li> <li>e) Independent Power Producer Rating</li> <li>f) Microfinance Institution Rating</li> <li>g) Non-Banking Finance Companies (NBFCs) Rating</li> </ul>	<p><b>Instruments</b></p> <ul style="list-style-type: none"> <li>a) Basel III Compliant Debt Instrument Rating</li> <li>b) Debt Instrument Rating</li> <li>c) Sukuk Rating</li> </ul>
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------

**Disclaimer:** PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA shall owe no liability whatsoever to any loss or damage caused by or resulting from any error in such information. Contents of PACRA documents may be used, with due care and in the right context, with credit to PACRA. Our reports and ratings constitute opinions, not recommendations to buy or to sell.

### **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 | Clause 11-(A)(p).

(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**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent