



The Pakistan Credit Rating Agency Limited

Rating Report

Roomi Fabrics Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Jun-2023	A-	A2	Stable	Maintain	-
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 the business profile of Roomi Fabrics Limited (Roomi Fabrics' or 'The Company'). The change in shareholding of Roomi Fabrics is completed. Thereby, the shareholding of Mahmood Textile Mills is diluted whereas the shareholding of Masood Fabrics is enhanced. The top line of the Company inclined sizably over the last three years and exports constituted 88% of the revenue. The margins were largely maintained in 9MFY23. Consequently, the Company reported a bottom line of PKR 452mln in 1HFY23 (1HFY22: 1,105mln). The financial matrix reveals a highly leveraged capital structure. However, coverages inched down on account of declining free cashflows. The working capital cycle increased considerably driven by high inventory days. The Company has built a significant investment portfolio that is managed at the group level which was further enhanced during the period. The overall profitability is supplemented by income from its sizable investment portfolio in the 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.

Textile exports in 9MFY23 were valued at \$10.08bln, an 8% YoY decline. Lower demand, high cotton prices, and weak yarn demand contributed to the export decrease. Bedwear saw the largest decline of 19%, while knitwear dropped by 10%. Cotton yarn experienced a significant decline of 35%. Demand is expected to improve post-Jun-23 despite inflationary pressures

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

Disclosure

Name of Rated Entity	Roomi Fabrics 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 Roomi Fabrics Limited was incorporated in Pakistan in 2002, as a Public Limited Company.

Background Roomi Fabrics Limited was formerly associated with the Mahmood Group, which was originally established in 1935, initially entering the tannery business. Now the group has a presence in the 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 Khawaja Jalal Uddin Roomi has the highest share among individual shareholders, in the company.

Stability Defined and streamlined shareholding pattern along with clear succession adds strength to the structure. However, documentation of the succession plan would bring clarity to the stability of ownership.

Business Acumen The Company has a two-decade-long association with the textile sector which adds strength to the business acumen of sponsors.

Financial Strength Masood Roomi maintains a strong financial profile with a considerable equity base and substantial investments in equities and property. This indicates sponsors' ability to provide support if the case of any need.

Governance

Board Structure The Company's board comprises three members, including the Chief Executive Officer (CEO) – Khawaja Jalaluddin Roomi. The rest of the positions are vested with his two sons.

Members' Profile The board has vast knowledge and experience in the textile industry. The CEO's expertise in various stages of the textile value chain leads to a good skill mix. Both sons have taken up executive positions in the company and are looking after strategic affairs.

Board Effectiveness The 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 the year ended on 30th June, 2022.

Management

Organizational Structure Top-tier management functions are held at the group level by the sponsors, whereas the middle tier is taken care of by a team of experienced professionals. The organizational structure of the Company is divided into various departments reporting to CEO.

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 in his current position for over 20 years. Mr. Javed Anjum - Director of Finance - is a qualified Chartered Accountant with an overall experience of more than 15 years. He also serves as the Company Secretary. Most of the senior management has been associated for a considerable amount of time.

Effectiveness There are management committees in place that are supervised by the board members which is ensuring the effectiveness of the structure.

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 reports, yield reports, and raw material reports.

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 9MFY23, the textile exports were valued at \$10.08bln compared to \$10.93bln, reflecting an 8% decline YoY – the declining trend has been recorded in the last few months. The decline in exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand for yarn in international markets is also a challenge. The analysis of 5MFY23 reveals that 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 prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve post-Jun-23.

Relative Position With 36,000 spindles and 228 looms, Roomi Fabrics is securing a position in the middle tier of the textile industry.

Revenues In the last three years, the top line of the Company has been following a growing trend. During FY22, the net sales enhanced to PKR 23.5bln (FY21: PKR 16.1bln). During 6MFY23, the Company's revenues improved to PKR 11.4bln. The sales mix remained tilted towards export. Further analysis reveals that within the export sales, the largest contribution is from the spinning and weaving segments with sizable quantity.

Margins During 6MFY23, the gross profit margin remained largely the same at 18.7% (FY22: 19.9%). The same trend has been reflected in operating profit margins (6MFY23: 12.2%, FY22: 12.4%) attributable to controlled COGS and operating expenses. Consequently, Roomi Fabrics recorded a net profit of PKR 452mln during 6MFY23 (FY22: PKR 1.1bln).

Sustainability The Company plans to enhance towel production by installing new terry looms. The Company is finding new avenues of revenue generation with the help of capital investment in a new Dyeing unit, an increase in terry looms, and the installation of solar plates.

Financial Risk

Working Capital The net working capital cycle slightly increased to 162 days in 6MFY23 (FY22: 140 days) due to an increase in average inventory days to 134 (FY22: 114 days). Short-term borrowings of the Company remained largely the same at 13,035mln (FY22: 13,500mln). Out of the total borrowings, short term borrowings stand at 73.2% (FY22: 74.4%).

Coverages The free cash flow from operations in 6MFY23 decreased to PKR 1,229mln (FY22: PKR 2,814mln). The interest coverage ratio recorded attrition to 1.6x during 6MFY23 (FY22: 2.3x). However, the debt coverage ratio inched down to 1.1x (FY22: 1.4x).

Capitalization Leveraging reflected a slight decline to 73.3% in 6MFY23 (FY22: 75.1%), as the total borrowings stood at PKR 17,807mln (FY22: PKR 18,211mln). Shareholder's equity has improved, over the last few years, to PKR 6,481mln (FY22: PKR 6,029mln).



Roomi Fabrics Textile - Composite	Dec-22 6M	Jun-22 12M	Jun-21 12M
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A BALANCE SHEET

1 Non-Current Assets	8,538	7,310	5,626
2 Investments	2,794	2,595	4,019
3 Related Party Exposure	1,255	1,362	262
4 Current Assets	15,449	16,083	12,255
<i>a Inventories</i>	7,910	8,771	5,849
<i>b Trade Receivables</i>	4,191	3,406	2,257
5 Total Assets	28,036	27,350	22,162
6 Current Liabilities	3,592	3,109	2,072
<i>a Trade Payables</i>	2,968	1,111	1,108
7 Borrowings	17,807	18,211	15,473
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	156	-	-
10 Net Assets	6,481	6,029	4,616
11 Shareholders' Equity	6,481	6,029	4,616

B INCOME STATEMENT

1 Sales	11,402	23,500	16,194
<i>a Cost of Good Sold</i>	(9,267)	(18,812)	(14,238)
2 Gross Profit	2,135	4,688	1,956
<i>a Operating Expenses</i>	(743)	(1,786)	(766)
3 Operating Profit	1,392	2,902	1,189
<i>a Non Operating Income or (Expense)</i>	-	33	491
4 Profit or (Loss) before Interest and Tax	1,392	2,935	1,680
<i>a Total Finance Cost</i>	(807)	(1,308)	(1,067)
<i>b Taxation</i>	(133)	(481)	(261)
6 Net Income Or (Loss)	452	1,147	352

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	1,229	2,814	1,546
<i>b Net Cash from Operating Activities before Working Capital</i>	546	1,604	531
<i>c Changes in Working Capital</i>	1,544	(2,969)	(1,883)
1 Net Cash provided by Operating Activities	2,090	(1,366)	(1,352)
2 Net Cash (Used in) or Available From Investing Activities	(1,903)	(777)	(2,095)
3 Net Cash (Used in) or Available From Financing Activities	(232)	2,196	3,383
4 Net Cash generated or (Used) during the period	(44)	54	(63)

D RATIO ANALYSIS

1 Performance			
<i>a Sales Growth (for the period)</i>	-3.0%	45.1%	21.6%
<i>b Gross Profit Margin</i>	18.7%	19.9%	12.1%
<i>c Net Profit Margin</i>	4.0%	4.9%	2.2%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital)</i>	24.3%	-0.7%	-2.1%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets / Equity)]</i>	14.4%	21.5%	7.9%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	194	158	187
<i>b Net Working Capital (Average Days)</i>	162	140	167
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	4.3	5.2	5.9
3 Coverages			
<i>a EBITDA / Finance Cost</i>	2.1	2.4	1.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.1	1.4	0.9
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin Cost)</i>	5.1	3.0	7.0
4 Capital Structure			

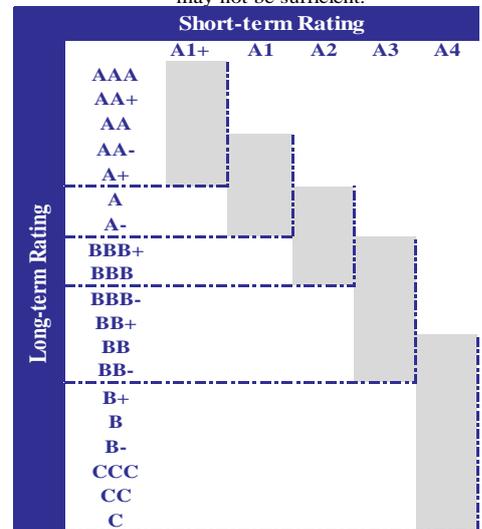
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity</i>	73.3%	75.1%	77.0%
<i>b Interest or Markup Payable (Days)</i>	0.0	107.9	97.2
<i>c Entity Average Borrowing Rate</i>	8.9%	7.8%	7.7%

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+	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	
BBB-	
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	
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	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.
CC	
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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(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

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(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)

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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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(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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