



## 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
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 and its association with Mahmood Group. The Company is principally engaged in the manufacturing of yarn and griegie fabric, primarily catering to the fashion market. The Company has built a significant investment portfolio that is managed at the group level. The Company witnessed growth in its topline and margins. Overall profitability of the Company remains a function of income from its large 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 and valuations. This concern is magnified as the investments are partially financed through short-term borrowings. Liquidating investments in a down market remains a concern. Free Cashflows have recently shown improvement resulting in better coverages. However, financial profile of the Company remains stretched given highly leveraged capital structure and limited borrowing capacity. Board's vast experience and association with Mahmood Group bodes well for the Company.

The ratings are dependent on the Company's ability to improve its financial profile by reducing leveraging through successfully divesting certain scrips. The management is working on this front and timely materialization of these initiatives is critical. Additionally, maintaining margins and improving profitability from core operations is important.

#### 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 Ratings(Jun-18),Methodology   Criteria   Rating Modifier(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
<b>Related Research</b>	Sector Study   Textile(Oct-18)
<b>Rating Analysts</b>	Muhammad Hassan   muhammad.hassan@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 is a venture of Mahmood Group, which was originally established in 1935, initially entering the tannery business. Now the group has presence in complete cotton chain (growing to finished products), tanneries, real estate and food. Cumulatively the group operates ~300,000 spindles and ~850 looms.

**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 and 228 looms. The Company has a total of 7 generators installed, which produce 12.8MW of electricity.

## Ownership

**Ownership Structure** The Khawaja family comprises of chairperson for all group companies Mr. Khawaja Muhammad Iqbal– the eldest son of late Mr. Khawaja Muhammad Masood, his three brothers and three sisters. Khawaja family directly owns 97% of the Company and the remaining 3% is indirectly owned through group companies.

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

**Business Acumen** The Chairman and his three brothers 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 four brothers.

**Financial Strength** Mahmood Group maintains very strong financial profile with a considerable equity base and substantial investments in equities and property. This indicates sponsors' ability to provide support if need arises.

## Governance

**Board Structure** The Company's board comprises of eight members, including the Chairman - Mr. Khawaja Muhammad Iqbal, and Chief Executive Officer (CEO) – Khawaja Jalaluddin Roomi. All board members are from the sponsor-family and there are no independent directors. After the Demise of Mr. Khawaja M. Masood, Mr. Iqbal has assumed role of Chairman however, no formal announcement has been made.

**Members' Profile** The board has vast knowledge and experience of entire textile chain. The directors' expertise of various stages of the textile value-chain leads to a good skill mix. Mr. Iqbal, chairperson of Mahmood group, has more than four decades of textile experience. He succeeded his late father Mr. Khawaja Muhammad Masood, who passed away earlier this year. Mr. Roomi, the CEO, has more than three decades of textile experience and has been at his current position for over more than 20 years.

**Board Effectiveness** Total number of meetings held during the year was four, which were attended by all of 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 and having a satisfactory QCR rating by ICAP, are the external auditors of the company. The auditors issued an unqualified opinion on the Company's financial statements for year ended on 30 June 2018.

## Management

**Organizational Structure** Top tier management functions are held at group level by the sponsors, where middle tier is taken care by an experienced management team. The organizational 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. Javed Anjum, the CFO of the company, 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 with the group for a considerable amount of time.

**Effectiveness** Board meetings are held formally and separately for all group companies and are chaired by Mr. Khawaja Muhammad Iqbal, the chairman. Meeting minutes are captured formally; 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** Pakistan's textile exports stagnated in 9MFY19 (~0.1% growth YoY). Even though major segments including cotton cloth, knitwear, garments and bed-wear displayed strong volumetric growth, a unit price dip resulting from sharing currency devaluation benefits with export clientele, curbed overall growth. Cotton yarn also displayed double-digit volumetric decline on account of the US-China trade war. Going forward, the withdrawal of zero-rated sales tax status from textile sector coupled with the increase in interest rate may impact liquidity and profitability of Pakistan's textile industry.

**Relative Position** With 36,000 spindles and 228 looms, Roomi Fabrics is able to land in the middle tier of textile industry. Overall as a group, Mahmood group has presence in complete cotton chain; cumulatively the group owns ~300,000 spindles and 850 looms and can qualify as one of the biggest textile manufacturing groups in Pakistan.

**Revenues** During 9MFY19, the Company's revenue grew by 39% to ~PKR 9.3bln (9MFY18: PKR 6.6bln). Despite Local sales witnessing a growth of 39%, exports accounted for 84% of total sales, more specifically the export of cloth/fabric which accounted for 65% of total exports. Local sales benefited from better yarn and fabric prices, while exports benefited from currency devaluation.

**Margins** The company's gross margin, improved to 16.3% in 9MFY19 (9MFY18: 11.2%) owing to currency devaluation and prudent inventory procurement. This translated in to an improved operating margin of 11.5% in 9MFY19 (9MFY18: 6.7%). However, Net margins dropped on the back of loss from short term investments.

**Sustainability** Sale volumes are expected to further improve as a result of recently completed BMR, which increased the numbers of spindles from 25,200 to 36,000 coupled with on-going BMR that includes up gradation of existing looms and spindles.

## Financial Risk

**Working Capital** The Company's Net Working Capital Cycle increased to 167 days in 9MFY19 from 147 days in 9MFY18. This was the result of average inventory days going up to 119 days (9MFY18: 108 days) due to higher inventory procurement. Consequently, short term borrowing also increased to PKR 7,801mln (9MFY18: PKR 6,875mln) however, remained well covered against total current assets.

**Coverages** During 9MFY19, the Company's FCFO increased significantly to 1,049mln (9MFY18: PKR 584mln), due to higher revenue. The increase in FCFO neutralized the impact of higher finance cost which led to interest coverage ratio remaining stagnant at 1.9x in 9MFY19 (9MFY18: 1.9x). Debt coverage ratio increased to 1.5x in 9MFY19 (9MFY18: 1.3x), indicating that the Company remains mostly unaffected by rising interest rates.

**Capitalization** The Company has a highly leveraged capital structure. During 9MFY19, the Company's leveraging stood at 72%. Majority of the debt comprises of STB which accounts for 72% of the total debt, most of it is used to fund working capital while the remainder is used to finance short term investments.



The Pakistan Credit Rating Agency Limited

Financial Summary

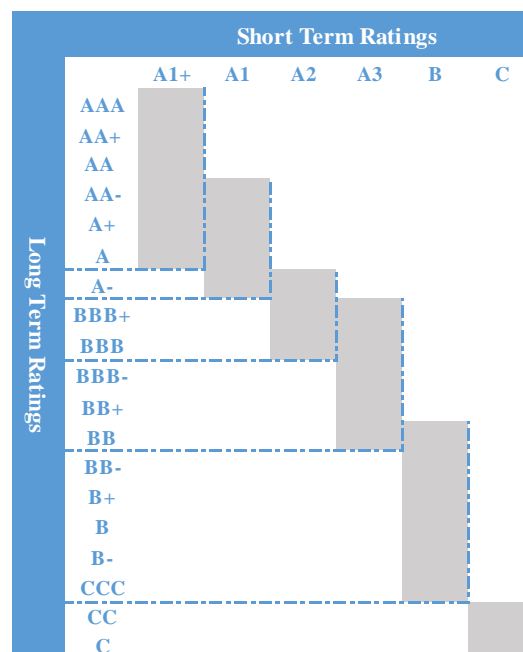
PKR mln

Roomi Fabrics Limited Textile	Mar-19 9M	Jun-18 12M	Jun-17 12M	Jun-16 12M
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	3,830	3,659	3,373	3,024
2 Investments	3,647	4,354	4,378	3,273
3 Related Party Exposure	-	62	-	-
4 Current Assets	8,321	6,249	3,013	3,028
<i>a Inventories</i>	4,786	3,291	1,878	1,350
<i>b Trade Receivables</i>	2,052	2,204	776	990
5 Total Assets	15,798	14,323	10,763	9,325
6 Current Liabilities	1,575	1,022	963	737
<i>a Trade Payables</i>	571	491	206	169
7 Borrowings	10,245	9,466	6,180	5,611
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	3,978	3,836	3,620	2,976
11 Shareholders' Equity	3,978	3,836	3,620	2,976
<b>B INCOME STATEMENT</b>				
1 Sales	9,258	9,377	7,198	6,916
<i>a Cost of Good Sold</i>	(7,752)	(8,346)	(6,751)	(6,327)
2 Gross Porfit	1,506	1,030	447	589
<i>a Operating Expenses</i>	(443)	(400)	(418)	(297)
3 Operating Profit	1,063	630	29	292
<i>a Non Operating Income</i>	(199)	112	1,165	46
4 Profit or (Loss) before Interest and Tax	864	742	1,194	338
<i>a Total Finance Cost</i>	(612)	(547)	(362)	(390)
<i>b Taxation</i>	(110)	20	(189)	(131)
6 Net Income Or (Loss)	142	215	644	(183)
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	1,049	1,176	215	496
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	437	792	(35)	251
<i>c Changes in Working Capital</i>	(770)	(2,566)	(230)	354
1 Net Cash provided by Operating Activities	(333)	(1,774)	(266)	605
2 Net Cash (Used in) or Available From Investing Activities	(386)	(1,502)	(533)	(550)
3 Net Cash (Used in) or Available From Financing Activities	779	3,283	569	188
4 Net Cash generated or (Used) during the period	60	7	(230)	243
<b>D RATIO ANALYSIS</b>				
1 Performance				
<i>a Sales Growth (for the period)</i>	31.6%	30.3%	4.1%	--
<i>b Gross Profit Margin</i>	16.3%	11.0%	6.2%	8.5%
<i>c Net Profit Margin</i>	1.5%	2.3%	8.9%	-2.6%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	12.5%	13.7%	4.2%	8.3%
<i>e Return on Equity (ROE)</i>	4.8%	5.8%	19.5%	-6.2%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	182	159	127	110
<i>b Net Working Capital (Average Days)</i>	167	145	117	101
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	5.3	6.1	3.1	4.1
3 Coverages				
<i>a EBITDA / Finance Cost</i>	2.1	2.6	0.9	1.6
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.5	1.7	0.4	0.8
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	4.4	2.5	-12.3	9.3
4 Capital Structure (Total Debt/Total Debt+Equity)				
<i>a Short-Term Borrowings / Total Borrowings</i>	72.0%	71.2%	63.1%	65.3%
<i>b Interest or Markup Payable (Days)</i>	0.7	0.8	0.8	0.8
<i>c Average Borrowing Rate</i>	7.6%	6.4%	5.5%	6.6%

## Credit Rating Scale & Definitions

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

Long Term Ratings		Short Term Ratings	
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
AA		A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
AA-		A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
A		C	An inadequate capacity to ensure timely repayment.
A-			
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			
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>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			
B-			
CCC	<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.		
CC			
C			
D	Obligations are currently in default.		



<b>Outlook (Stable, Positive, Negative, Developing)</b> 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'.	<b>Rating Watch</b> Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. 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 Outlook of the respective opinion.	<b>Suspension</b> 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.	<b>Withdrawn</b> A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) PACRA finds it impractical to surveil the opinion due to lack of requisite information.	<b>Harmonization</b> A change in rating due to revision in applicable methodology or underlying scale.
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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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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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- (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)

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(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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