



The Pakistan Credit Rating Agency Limited

Rating Report

Interwood Mobil (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
29-Dec-2023	A-	A2	Stable	Maintain	-
30-Dec-2022	A-	A2	Stable	Maintain	-
04-Aug-2022	A-	A2	Stable	Upgrade	-
04-Aug-2021	BBB+	A2	Stable	Maintain	-
07-Aug-2020	BBB+	A2	Stable	Maintain	-
09-Aug-2019	BBB+	A2	Stable	Maintain	-
12-Feb-2019	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Interwood Mobil (Private) Limited ('Interwood Mobil' or 'the Company') is engaged in the manufacturing & sale of complete range of home, offices, kitchens, doors, wardrobes, flooring, accessories and bespoke furniture. The ratings reflect Company's strong brand equity and long-established presence in the furniture & fixture industry of Pakistan. High competition subsists in the domestic market on back of unstructured & unregulated players. The organized segment of the industry consists mostly of players targeting high-end customers. Key opportunities are generically available to the manufacturers & dealers in terms of growing urbanization, rapid changes in furniture trends, disposable income of consumers, and robust online buying. Demand in the furniture market is intact, however raw material has been depleted over the years due to deforestation. Lately, reliance on alternative materials (MDF/chip boards, plastic/fiber and metal) has been increasing. Interwood Mobil procures safe and good quality imported wood to secure reliability and durability of its furniture. From wood seasoning and processing, to robotic painting, polishing, crafting and finishing, the Company's factory is a marvel of innovation & technology to achieve mass production capability, operational efficiency and reduce overheads. The Company has been successful in evolving its business portfolio and enjoys a healthy mix between retail and corporate sales. The assigned ratings take into account the Company's state-of-the-art facilities, national footprint, brand's value, and mega-scale projects. Further, it draws direct comfort from forecasted revenue, growth and margins as depicted in Company's financial projections. As at end Jun'23, the Company witnessed topline growth of ~15% owing to volumetric growth and better prices. Further, segment mix and diversified product line bode well for the Company to gain a competitive edge. Interwood Mobil enjoys upright margins on back of targeting mid-to-high end customers. Financial risk profile of the Company is considered adequate with steady coverages, working capital cycle and cash flows. The Company's capital structure is moderately leveraged; encompassed STBs. Further, implementation of good governance structure is required to ensure compliance at all levels and smooth running of operations.

The ratings are dependent on the Company's ability to maintain its leading position in the industry while improving revenue growth and margins amid changing business environment. Meanwhile, better financial profile through effective working capital management, maintaining strong coverages and sufficient cushion to borrow at trade level will be critical for ratings.

Disclosure

Name of Rated Entity	Interwood Mobil (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 Furniture & Fixtures(Feb-23)
Rating Analysts	Iqra Toqeer iqra.toqeer@pacra.com +92-42-35869504

Profile

Legal Structure Interwood Mobil (Private) Limited ('Interwood Mobil' or 'the Company') is a private limited company.

Background The Company was founded by Mr. Farooq Ahmed Malik and commenced operations in 1974 with a small workshop in Lahore. Over the years, the Company has been able to expand operations by investing in state-of-the-art machinery and automation of production lines. Initially, the Company's key area of focus had been accepting and executing contractual jobs. However, post 2002, the Company has developed its business profile by tapping the retail market.

Operations The Company is involved in the manufacture and sale of furniture & allied items. The Company's head office and production facility are consolidated in one location at Sultan Mehmood Road, Lahore. The Company has nine, company operated, retail outlets concentrated in Karachi (2), Lahore (2), Islamabad (2), Peshawar (1), Rawalpindi (1) and Gujranwala (1). Additionally, it has established presence in other major cities through dealer networks.

Ownership

Ownership Structure Major shareholding of the Company (~99.9%) lies with Farooq Family. Mr. Farooq Ahmed, the founder and his wife Ms. Ghazala Farooq own ~17% & ~16%, respectively. Meanwhile, their sons Mr. Omar Farooq and Mr. Ali Farooq own ~33% each. Remaining shareholding (~0.1%) is held by other close relatives of the family.

Stability Ownership structure of the Company is seen as stable as no changes are expected in the near future.

Business Acumen Sponsors are considered to have strong business acumen, giving consideration to industry knowledge of more than forty years with noteworthy positioning in the industry.

Financial Strength Since Interwood Mobil is a standalone company, financial strength is gauged by the financial profile of sponsors and their willingness to support the business, which is considered to be adequate.

Governance

Board Structure Board of Directors comprises four members which includes the Chairman and three executive directors. Moreover, it is completely dominated by the sponsoring family, indicating lack of independent oversight.

Members' Profile Members have strong profiles with technical expertise and specialize in production & retail, in addition to furniture manufacturing.

Board Effectiveness The Board has an Audit Committee in place which comprises four members and meets bi-annually.

Financial Transparency M/s Crowe Hussain Chaudhury & Co., Chartered Accountants, the external auditors of the Company hold QCR rating of ICAP and fall in category 'A' of SBP. The auditors have expressed an unqualified audit opinion on the Company's financial statements for the period ended June 30th, 2023.

Management

Organizational Structure Organizational structure of the Company is defined based on eight departments, including operations, sales and marketing, accounts and internal audit, among others. With the exception of the internal audit department, each departmental head reports to the Chief Executive Officer. Functions of supply chain, pre-production, production, plant maintenance and information technology come under the purview of general manager operations.

Management Team Management comprises of experienced individuals, representing a good skill mix. Mr. Omar Farooq, the Chief Executive Officer, holds a BSc in furniture design and manufacturing, he has been associated with the Company for the past 25 years. He is ably supported by a professional management team.

Effectiveness In order to ensure efficient operations, the Company has in place three management committees, namely, Procurement Committee, Supply Chain Committee and Human Resources Committee. All three committees are headed by the Chief Executive and comprise relevant department heads.

MIS The Company deployed SAP Business One as its Enterprise Resource and Planning system in 2017. The system improves the flow of information and facilitates the generation of reports required by management.

Control Environment The Company has a strong control environment in place through its internal audit department. The scope of the department entails carrying out various tests and activities for identifying vulnerabilities and rectifying them. Activities are conducted on a monthly basis at the Company's factory and showrooms spread across Pakistan.

Business Risk

Industry Dynamics The furniture industry of Pakistan is largely unstructured and comprises of a multitude of small to medium sized players. As a result, there is a high level of competition with unregulated players. The organized segment of the industry consists of players targeting high-end customers. They are Interwood Mobil, Habitt Furniture, National Furniture, Gourmet Furniture and Chenone. The industry reflects encouraging prospects on the back of growth in the urban middle class and increasing personal disposable income in major cities. This will slowly but steadily improve the consumption pattern relating to non-essential items and luxury goods. The industry mainly caters local market with small proportion of export sales.

Relative Position Interwood Mobil holds a strong position in the market due to its unparalleled production plant and manufacturing capability. Although it has no direct competition, it faces area and product specific competition from numerous small to medium sized players.

Revenues The Company earns its revenues from six main product categories, which include, office furniture, home furniture, kitchens, wardrobes, doors and others. The revenue stream is fairly concentrated with office and home furniture accounting for majority of sales. Over the years, home furniture sales have witnessed an increasing trend in revenue composition. During FY23, the Company's top-line clocked at PKR 4,818mln (FY22: 4,166mln). Increase of ~15.7% YoY basis on account of contract-based projects with provincial educational institutes and others.

Margins The Company has been consistent in maintaining its profitability over the years. During FY23, Interwood Mobil's gross margin increased and stood at 36.6% (FY22: ~36.3%) partly as a result of more sales, better prices and BMR activities occurred last year. In FY23, the Company's finance cost increased to PKR 734mln (FY22: PKR 477mln) on back of high interest rates. Therefore, the Company's net profit margin recorded at ~2.3% (FY22: 5.0%) while net profit clocked at PKR 110mln (FY22: PKR 210mln).

Sustainability The Company is focusing on spacious model of its retail outlet, in this regard two small retail outlets in Lahore have been closed and one sizeable outlet has been opened in Gujranwala with the area of 25,000 Square ft. Going forward, the Company will continue its planned capital expenditure in order to improve manufacturing efficiency. Moreover, the Company also intends to improve its e-commerce capabilities to cater to the growing online market.

Financial Risk

Working Capital The Company's working capital is predominantly a function of its inventories as sufficient stock levels of various products must be maintained to cater to customer demand. Company's inventory days increased in FY23 to 304 days (FY22: 293 days). Meanwhile, the Company benefits from advance payments from customers due to which trade receivable days stood at 52 days (FY22: 51 days). Therefore, gross working capital days stood at 355 days (FY22: 344 days). The Company's trade payable days stood at 58 days in FY23 (FY22: 53 days) and thus, net working capital days clocked at 297 days (FY22: 291 days). The Company's short term trade leverage declined to 12.8% (FY22: 13.8%), still showing adequate room to borrow against working capital requirements.

Coverages During FY23, the Company's FCFO clocked at PKR 1,215mln (FY22: PKR 1,094mln). Meanwhile, finance cost increased to PKR 734mln (FY22: PKR 477mln) on back of increase in borrowing cost. During FY23, the Company's interest coverage ratio reduced to 1.6x (FY22: 2.4x) and the debt coverage ratio slightly declined to 0.9x (FY22: 1.0x).

Capitalization During FY23, Interwood Mobil's leveraging stood at 33.3% (FY22: 46.4%), depicting a decrease in total borrowings (FY23: 3,728mln, FY22: PKR 4,206mln) on account of reduction in long-term borrowings. Meanwhile, short term borrowings constituted approx. 67% of total borrowings.



00-Jan-00 ##	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	11,204	7,304	7,467	7,455
2 Investments	-	-	-	-
3 Related Party Exposure	36	156	157	73
4 Current Assets	5,618	5,078	4,054	3,469
<i>a Inventories</i>	4,258	3,764	2,929	2,334
<i>b Trade Receivables</i>	714	645	511	406
5 Total Assets	16,857	12,538	11,677	10,996
6 Current Liabilities	2,339	1,782	1,348	1,224
<i>a Trade Payables</i>	945	590	627	521
7 Borrowings	3,728	4,206	3,886	3,244
8 Related Party Exposure	243	233	303	324
9 Non-Current Liabilities	2,481	1,192	1,105	1,033
10 Net Assets	8,066	5,125	5,035	5,172
11 Shareholders' Equity	8,066	5,125	5,035	5,172
B INCOME STATEMENT				
1 Sales	4,818	4,166	3,646	3,112
<i>a Cost of Good Sold</i>	(3,057)	(2,655)	(2,442)	(1,910)
2 Gross Profit	1,761	1,511	1,204	1,202
<i>a Operating Expenses</i>	(855)	(737)	(764)	(626)
3 Operating Profit	907	774	440	577
<i>a Non Operating Income or (Expense)</i>	69	9	(9)	20
4 Profit or (Loss) before Interest and Tax	976	783	430	597
<i>a Total Finance Cost</i>	(734)	(477)	(438)	(459)
<i>b Taxation</i>	(132)	(96)	(129)	159
6 Net Income Or (Loss)	110	210	(137)	296
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	1,215	1,094	981	848
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	557	651	629	485
<i>c Changes in Working Capital</i>	(7)	(692)	(636)	(1,035)
1 Net Cash provided by Operating Activities	549	(41)	(7)	(550)
2 Net Cash (Used in) or Available From Investing Activities	(131)	(253)	(384)	(56)
3 Net Cash (Used in) or Available From Financing Activities	(373)	288	448	582
4 Net Cash generated or (Used) during the period	45	(6)	57	(24)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	15.7%	14.3%	17.2%	1.6%
<i>b Gross Profit Margin</i>	36.6%	36.3%	33.0%	38.6%
<i>c Net Profit Margin</i>	2.3%	5.0%	-3.8%	9.5%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	25.1%	9.7%	9.5%	-6.0%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	1.7%	4.1%	-2.7%	7.7%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	355	344	309	300
<i>b Net Working Capital (Average Days)</i>	297	291	252	237
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.4	2.8	3.0	2.8
3 Coverages				
<i>a EBITDA / Finance Cost</i>	2.0	2.6	2.4	2.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.0	1.0	0.8	1.1
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	2.7	3.0	3.9	5.4
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	33.0%	46.4%	45.4%	40.8%
<i>b Interest or Markup Payable (Days)</i>	98.3	91.7	100.5	69.7
<i>c Entity Average Borrowing Rate</i>	16.5%	10.5%	10.5%	13.9%

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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(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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Conduct of Business

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- (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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- (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)
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- (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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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 | 17-(a)
- (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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