



The Pakistan Credit Rating Agency Limited

Rating Report

Fazal Holdings (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
10-Nov-2022	A+	A1	Stable	Upgrade	-
22-Nov-2021	A	A1	Stable	Maintain	-
24-Nov-2020	A	A1	Stable	Maintain	-
25-Nov-2019	A	A1	Stable	Maintain	-
28-May-2019	A	A1	Stable	Maintain	-
26-Nov-2018	A	A1	Stable	Maintain	-
07-May-2018	A	A1	Stable	Maintain	-
31-Aug-2017	A	A1	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Fazal Holdings (Pvt.) Limited ('Fazal Holdings' or 'the Company') is a holding company for Fazal Group. Herein "Group means members of the family without reference to any law of Pakistan". Its investment portfolio comprises a combination of strategic investments (long-term investments in subsidiaries and associates) and a trading portfolio (with short to medium-term time horizon). The ratings reflect the diverse nature and profitability of the strategic portfolio and strong support from sponsors. Trading portfolio comprises listed scrips spread across diverse sectors of the economy. Fazal Holdings drives its revenue mainly from dividend income and capital gains, along with a share of profit from associates. The dividend stream witnessed a dip during FY22 owing to current economic challenges. However, the share of profit from associates posted an improved trajectory supported by their strong financial performance. This led the Company to increase its stake in some of its related companies. The marketability/liquidity element of the portfolio constitutes majorly of trading investments with a market value of PKR 6bln, providing a cushion to generate liquidity. The Company has designed a conservative investment policy in accordance with the Company's equity. This helps the Company to absorb the effects of volatility in the stock market to an extent and keep financial risk manageable. Investment decisions are mainly led by Mr. Rehman Naseem with assistance from resources within Fazal Group and certain research/brokerage houses. Herein, the institutionalization of investment policies would be beneficial. Continued sponsor support remains a key rating factor.

Ratings are dependent on the management's initiative to strengthen investment decision making process and performance monitoring mechanism of underlying portfolio. This would facilitate Fazal Holdings assimilation into an effective holding company. At the same time, adhering to agreed financial matrix and keeping debt coverages at adequate level remains critical.

Disclosure

Name of Rated Entity	Fazal Holdings (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22),Methodology Holding Company Rating(Jun-22)
Related Research	Sector Study Holding Company(Aug-22)
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Profile

Background Fazal Holdings (Pvt.) Limited ("Fazal Holdings" or "the Company") is a private limited company incorporated in Pakistan on April 23, 1995, under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). After incorporation in 1995, the Company was named Amir Fine Exports (Pvt.) Limited. It was engaged in the trading of yarn and cloth along with listed investments and unlisted securities. In 2016, the Company's name was changed to Fazal Holdings (Pvt.) Limited. The registered office of the Company is in Multan.

Structural Analysis Fazal Holdings principally acts as the holding company for Fazal Group, maintains strategic investments in associated companies, and also holds short-term investments in quoted and unquoted securities (trading portfolio). The Company's investment portfolio consists of long-term investments (~63% of total investments) mainly encompass strategic investments in associated Companies, core investments, and investment property; Short-term investments (~33% of total investments) mainly encompass trading investments in listed scrips, and investment property (~4%).

Ownership

Ownership Structure Fazal Holdings is owned by the members of the sponsoring family i.e. Fazal family. Majority of shares reside with Mr. Rehman Naseem (~47.3%). Mr. Aamir Naseem Sheikh's family owns a stake of ~47.3%; through his sons, Mr. Yousaf Aamir and Mr. Abdullah Aamir, owning ~22% each, in the Company. While remaining shareholding resides with Mr. Sheikh Naseem (~2.5%) and Mrs. Nighat Naseem (~3%).

Stability Ownership of the business is seen as stable as the major ownership vests with the sponsors with clear succession.

Business Acumen Fazal Group was incorporated in 1966 and is a renowned textile Group in Pakistan. Fazal Cloth Mills Ltd. – the flagship Company of the Group, was incorporated in 1966 and had set up its first spinning unit in 1972 in Muzaffargarh. Fazal Group also operates Ahmed Fine Textile Mills, among many others businesses.

Financial Strength The sponsoring Group has a prominent position in Pakistan's corporate sector, with interests in textile, fertilizer, energy, and trading. The Group has substantial financial strength, portraying its ability to support Fazal Holdings if needed.

Governance

Board Structure The BoD comprises three members; two Directors and the CEO of the Company. The limited size of the Board and dominance of sponsoring family indicates room for improvement in the overall governance framework.

Members' Profile Mr. Rehman Naseem, Director, is a Columbia University graduate. He is the CEO of Ahmed Fine Textile Mills Limited, Rehman Amir Fabrics Ltd, and Fazal Cloth Mills. The BoD member's experience is mostly concentrated in the textile and fertilizer industry.

Board Effectiveness Four board meetings were held during 9MFY22, with majority attendance. Minutes of these meetings are formally documented. Keeping in view the investment book of the Company, the absence of Board sub-committees indicates room for improvement in governance framework

Transparency The external auditor, M/s Shინewing Hameed Chaudhri & Co, have expressed unqualified opinion on the financial statements of FY21. The firm is QCR rated and is on SBP panel of auditors category 'B'.

Management

Organizational Structure The Company operates through two main functions, Finance and MIS, headed by the Company's CFO. He reports to the CEO. Company Secretary looks after compliance related matters and reports to CEO & CFO, both.

Management Team Mr. Sheikh Naseem Ahmed, CEO, has an overall experience of above 5 decades in textile and in fertilizer sector. He is also on the Board of other Fazal Group Companies. Mr. Azam, Group CFO, is an FCA and FCMA. He has been associated with Fazal Group for more than two decade.

Management Effectiveness There are no management committees in place. However, to facilitate the senior management, various reports are generated on daily, weekly and monthly basis highlighting the performance of the investment portfolio.

Control Environment The internal audit function is placed at the Group level. Investment policy and Risk management are handled by the management and Director, Mr. Rehman Naseem, who sets investment management procedures and develops risk management policies. These practices suggest a need for improvement in the control environment of Fazal Holdings.

Investment Strategy

Investment Decision-Making The Company's investment decisions are taken at the management level by the CEO, Mr. Rehman Naseem. Moreover, advisory services for investments are mainly provided by various brokerage firms.

Investment Policy The Company has a prudent investment strategy as it focuses on investing in the listed scrips mostly. These include commercial banks, mutual funds, and fertilizer companies. The Company preserves liquidity through its sufficient dividend income and by holding short-term listed securities

Investment Committee Effectiveness The Company lacks a formal investment committee, however, management meetings to take investments decisions are conducted on a need-basis for making investment decisions of the Company

Business Risk

Diversification The Company's investment portfolio comprises 1) Strategic Investments (~63% of the total investment value), 2) Trading Investments (~33% of the total investment value), and 3) Investment property (~4% of the total investment value). The Company has diversified its investment portfolio to mitigate risk. ~ 62% of the total investment portfolio is invested in textile, ~18% in fertilizers, ~10% in commercial banking, ~5% in Oil&Gas and ~3% in Power sector.

Portfolio Assessment The Company's long-term investments comprise of listed and unlisted related parties (strategic portfolio). Total value of the Company's investments stood at PKR 17bln as of 9MFY22. The Company's major investment - Fazal Cloth Mills Limited ('FCMZ'), Fazal Group's flagship entity - witnessed a significant increase in profitability and posted a turnover of PKR 47bln during 9MFY22.

Income Assessment During 9MFY22 the Company's total investment income witnessed significant increase and stood at PKR 2,107mln (9MFY21: 1,171mln) mainly due to the profitability of Fazal Cloth. The Company benefited from the share of profit from associates (9MFY22: PKR 1,282mln, 9MFY21: PKR 59mln) and unrealized gains of PKR 613mln. The Company posted strong net income of PKR 1,668mln (9MFY21: PKR 820mln). The Company's dividend income witnessed an increase of ~20% and stood at PKR 271mln during 9MFY22 (9MFY21: PKR 201mln).

Financial Risk

Coverages In 9MFY22, coverage ratio deteriorated and stood at 1.4x (9MFY21:2.3x), due to significant increase in finance cost. Short term debt to Trading Portfolio stood at 87% in 9MFY22 (including Fatima Fertilizer Company Limited). This has reduced the cushion but short-term investments remain in liquid scrips. The Company's consistent dividend stream helps mitigate liquidity concerns. Debt payback stood at 5x in 9MFY2 (9MFY21: 3.6x).

Capital Structure The Company has moderately leveraged capital structure. Long-term debt of the Company consists of interest free loan provided by the Directors. Short-term debt is obtained from a consortium of banks to support the Company's cost of investments. The Company's total debt witnessed slight increase and stood at PKR ~5.8bln (9MFY21: ~4.8bln). As at 9MFY22, the Company's leveraging ratio stood at 25.8% (9MFY21: 32.1%) owing to increase in the Company's equity base. Equity base mainly represents profits accumulated over the years.

Consolidated Position The Company derives its financial strength from Fazal Group and associated companies.



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

Fazal Holdings (Pvt.) Ltd.
Holding Company

	Mar-22	Dec-21	Jun-21	Mar-21	Dec-20	Jun-20	Dec-19	Jun-19
	9M	6M	12M	9M	6M	12M	6M	12M
	Management	Management	Audited	Management	Management	Audited	Management	Audited
A BALANCE SHEET								
1 Investments	6,829	6,231	5,425	4,967	4,957	4,368	3,350	3,179
2 Related Party Investments	11,470	10,691	9,817	7,043	6,701	6,573	7,699	7,751
3 Non-Current Assets	1	1	1	1	1	2	2	2
4 Current Assets	65	99	96	185	156	167	220	147
5 Total Assets	18,364	17,022	15,339	12,196	11,815	11,110	11,271	11,079
6 Current Liabilities	200	185	158	128	136	286	168	105
7 Borrowings	3,767	3,388	3,030	3,004	2,967	2,964	2,556	2,705
8 Related Party Exposure	2,050	2,039	1,959	1,853	1,848	1,675	1,672	1,438
9 Non-Current Liabilities	1,500	1,373	1,254	863	837	668	685	685
10 Net Assets	10,847	10,037	8,938	6,348	6,027	5,516	6,190	6,147
11 Shareholders' Equity	10,847	10,037	8,938	6,348	6,027	5,516	6,190	6,147
B INCOME STATEMENT								
1 Total Investment Income	2,107	1,229	2,232	1,171	748	(207)	261	85
a Cost of Investments	(238)	(139)	(254)	(192)	(127)	(374)	(192)	(252)
2 Net Investment Income	1,869	1,090	1,978	979	620	(581)	69	(166)
a Other Income	45	32	51	52	38	80	41	41
b Operating Expenses	(6)	(4)	(37)	(4)	(3)	(7)	(3)	(9)
4 Profit or (Loss) before Interest and Tax	1,908	1,118	1,992	1,027	656	(508)	107	(134)
a Taxation	(240)	(125)	(330)	(207)	(171)	(45)	(26)	(12)
6 Net Income Or (Loss)	1,668	993	1,663	820	485	(553)	81	(146)
C CASH FLOW STATEMENT								
a Total Cash Flow	330	210	460	441	211	233	124	243
b Net Cash from Operating Activities before Working Capital Changes	110	82	198	249	83	(128)	(68)	23
c Changes in Working Capital	213	(41)	(64)	(93)	(71)	(31)	(67)	(156)
1 Net Cash (Used in) or Available From Investing Activities	323	41	114	157	12	(159)	(135)	(133)
2 Net Increase (decrease) in long term borrowings	(1,157)	(484)	(462)	(338)	(168)	(355)	97	(572)
3 Net Cash (Used in) or Available From Financing Activities	829	438	350	218	176	497	86	714
4 Net Cash generated or (Used) during the period	(6)	(5)	2	36	20	(17)	48	9
D RATIO ANALYSIS								
1 Performance								
a Asset Concentration (Market Value of Largest Investment / Market Value of Equity Investments)	37.2%	32.2%	32.6%	39.1%	39.5%	40.1%	40.2%	40.0%
b Core Investments / Market Value of Equity Investments	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
c Marketable Investments / Total Investments at Market Value	59.2%	65.7%	56.9%	59.7%	60.2%	52.6%	37.8%	35.9%
2 Coverages								
a TCF / Finance Cost	1.4	1.5	1.8	2.3	1.7	0.6	0.6	1.0
b TCF / Finance Cost + CMLTB	1.2	1.3	1.6	2.3	1.7	0.6	0.6	1.0
c Loan to Value (Funding / Market Value of Equity Investments)	0.4	0.5	0.5	0.5	0.5	0.6	0.5	0.5
3 Capital Structure (Total Debt/Total Debt+Equity)								
a Leveraging [Funding/(Funding + Shareholders' Equity)]	25.8%	25.2%	25.3%	32.1%	33.0%	35.0%	29.2%	30.6%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	34.7%	33.8%	33.9%	47.3%	49.2%	53.7%	41.3%	44.0%

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+	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	
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):

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