



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
08-Nov-2023	A+	A1	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

Fazal Holdings (Pvt.) Limited ('Fazal Holdings' or 'the Company') principally acts as the holding company for Fazal Group (herein "Group means members of the family without reference to any law of Pakistan"), maintaining strategic investments in associated companies, and also holds short-term investments in quoted and unquoted securities (trading portfolio). The Holding Company's investment book's position, as at 9MFY23, is as follows: Trading Portfolio of PKR 5.7bln (~64% of the total investment value) and Strategic Investments of PKR 10.2bln (~36% of the total investment value) with majority of it being invested in Fazal Groups flagship company 'Fazal Cloth'. The Company has diversified its investment portfolio to mitigate risk. ~ 61% of the portfolio is invested in textile, ~15% in fertilizers, ~7% in commercial banking, ~5% in Oil & Gas, and ~9% in Power sector. The Company has designed a conservative investment policy in accordance with the Company's equity, and investments majority of its trading portfolio exclusively in blue chip shares. Fazal Holdings drives its revenue mainly from dividend income and capital gains, along with a share of profit from associates. The sponsoring Group has a prominent position in Pakistan's corporate sector, with interests in textile, fertilizer, energy, and trading. 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. The company's portfolio has been impacted by the overall capital market downturn and after experiencing volatility in the markets for the last few quarters. Fazal Holdings has shown improvement in the performance of its trading investment portfolio, during 1QFY24, as the overall KSE100 index regains momentum.

Ratings are dependent on the management's initiative to strengthen investment decision making process and performance monitoring mechanism of underlying portfolio. The rating is supported by group substantial financial strength, portraying its ability to support Fazal Holdings if needed. 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 Holding Company Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Holding Company(Aug-23)
Rating Analysts	Muhammad Zain Ayaz zain.ayaz@pacra.com +92-42-35869504



Profile

Background Fazal Holdings (Pvt) Ltd ('Fazal Holdings') is Private Limited Company. The Holding Company was established in April, 1995 in the name of Amir Fine Export (Pvt.) Limited and was engaged in the trading of yarn and cloth along with the listed and unlisted securities. In 2016, the Holding Company's name was changed to Fazal Holdings (Pvt.) Limited.

Structural Analysis Fazal Holdings principally acts as the holding company for Fazal Group (Herein "Group means members of the family without reference to any law of Pakistan"), maintaining strategic investments in associated companies, and also holds short-term investments in quoted and unquoted securities (trading portfolio). The Holding Company's investment book's position (as at 9MFY23) is as follows: Trading Portfolio of PKR 5.7bln and Strategic Investments of PKR 10.2bln

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 (47.25%). Mr. Aamir Naseem Sheikh's family owns a stake of 47.25%; 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 also incorporated in 1966. Fazal Group also operates Fazal Farms (Pvt) Limited, Ahmad Fine Textile Mills Limited, and Rehman Amir Fabrics Limited 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 Holding Company's Board of Directors comprises of three members from the Sponsoring family, with no independent members on the Board. Limited size of the board, dominance of sponsoring family, and absence of independent oversight indicates room for improvement in the overall governance framework of the Holding Company.

Members' Profile Mr. Rahman Naseem, member of the BoD, carries over two decades of experience in the textile and fertilizer sectors. He chairs the Board of Fazal Cloth and is the CEO of Ahmed Fine Textile Mills Limited, Fazal Cloth Mills Limited, and Rehman Amir Fabrics Limited.

Board Effectiveness There were 4 board meetings held during 9MFY23, with all three members attending it. The minutes of the BoD meetings were adequately 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 Shinewing Hameed Chaudhri & Co, have expressed unqualified opinion on the financial statements of FY22. The firm is QCR rated and is on SBP panel of auditor's category 'B'.

Management

Organizational Structure Fazal Holdings is headed by the CEO, Mr. Sheikh Naseem Ahmed. 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. Naseem Ahmed, CEO of Fazal Holdings, has over 5 decades of experience in textile and in fertilizer sector. He has the directorship of other Fazal group companies. Mr. Azam, CFO, is an FCA and FCMA with a long association of over two decades with the Fazal group of companies. He also heads the finance division of other group companies.

Management Effectiveness The management has no planned meeting. However, daily, weekly and monthly reports are generated to monitor the performance of the investment books and to facilitate the senior management. These reports form an informed decision making for the short-term trading portfolio.

Control Environment The internal audit function is placed at Group level. Investment policy and Risk management are handled by the management and Director, Mr. Rehman Naseem, sets investment management procedures and develop 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, Director, and CFO. Moreover, advisory services for investments are mainly provided by various brokerage firms.

Investment Policy Fazal Holdings strategy to diversify its investments over various sectors primarily blue-chip investments keeps market risk in check. 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 (~64% of the total investment value), 2) Trading Investments (~36% of the total investment value). The Company has diversified its investment portfolio to mitigate risk. ~ 61% of the portfolio is invested in textile, ~15% in fertilizers, ~7% in commercial banking, ~5% in Oil&Gas and ~9% 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 15.9bln as of 9MFY23. The Company's major investment - Fazal Cloth Mills Limited ('FCML'), Fazal Group's flagship entity - witnessed a significant decrease in profitability and posted a PAT of PKR 533mln during 9MFY23.

Income Assessment During 9MFY23 the Company's total investment income witnessed significant decrease and stood at PKR 197mln (9MFY22: 2107mln) mainly due to the fall in income from related parties to PKR 742mln (9MFY22: PKR 1448mln) and unrealized loss on investment of PKR 547mln (9MFY22: PKR 645mln profit). The Company's dividend income witnessed a significant increase and stood at PKR 611mln during 9MFY23 (9MFY22: PKR 271mln).

Financial Risk

Coverages In 9MFY23, coverage ratio deteriorated and stood at 1.6x (9MFY22:1.4x), due to significant increase in Total Operating Cash flows. Short term debt to Trading Portfolio stood at 58.6% in 9MFY23 (including Fatima Fertilizer Company Limited). The Company's consistent dividend stream helps mitigate liquidity concerns. Debt payback period stood at 0.7x in 9MFY23 (9MFY22: 1.7x).

Capital Structure The Company has moderately leveraged capital structure. Short-term debt is obtained from various banks to support the Company's cost of investments. The Company's total debt witnessed remained stagnant at PKR ~5.8bln (9FY22: ~5.8bln). In 9MFY23, the Company's leveraging ratio slightly lowered to 25.3% (9MFY22: 25.8%) owing to decrease in the Company's equity base from PKR ~10.8bln in 9MFY22 to PKR~ 9.8bln in 9MFY23. 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

FAZAL HOLDINGS (Pvt.) LIMITED
Holding Company

	Sep-23	Mar-23	Dec-22	Jun-22	Mar-22	Dec-21	Jun-21	Jun-20
	9M	9M	6M	12M	9M	6M	12M	12M
	Management	Management	Management	Audited	Management	Management	Audited	Management
A BALANCE SHEET								
1 Investments	6,811	6,475	6,692	7,109	6,829	6,231	5,425	4,368
2 Related Party Investments	11,822	11,063	10,973	10,710	11,470	10,691	9,817	6,573
3 Non-Current Assets	1	1	1	1	1	1	1	2
4 Current Assets	119	233	146	101	65	99	96	167
5 Total Assets	18,753	17,772	17,811	17,921	18,364	17,022	15,339	11,110
6 Current Liabilities	429	367	265	212	200	185	158	286
7 Borrowings	2,782	3,337	3,303	3,097	3,767	3,388	3,030	2,964
8 Related Party Exposure	2,743	2,473	2,543	2,539	2,050	2,039	1,959	1,675
9 Non-Current Liabilities	2,465	1,760	1,822	1,877	1,500	1,373	1,254	668
10 Net Assets	10,333	9,835	9,878	10,196	10,847	10,037	8,938	5,516
11 Shareholders' Equity	10,333	9,835	9,878	10,196	10,847	10,037	8,938	5,516
B INCOME STATEMENT								
1 Total Investment Income	1,021	197	13	1,945	2,107	1,229	2,232	(207)
a Cost of Investments	(175)	(436)	(274)	(361)	(238)	(139)	(254)	(374)
2 Net Investment Income	846	(239)	(261)	1,584	1,869	1,090	1,978	(581)
a Other Income	13	30	20	48	45	32	51	80
b Operating Expenses	(2)	(9)	(6)	(9)	(6)	(4)	(37)	(7)
4 Profit or (Loss) before Interest and Tax	857	(218)	(247)	1,623	1,908	1,118	1,992	(508)
a Taxation	(66)	(5)	11	(680)	(240)	(125)	(330)	(45)
6 Net Income Or (Loss)	791	(223)	(237)	942	1,668	993	1,663	(553)
C CASH FLOW STATEMENT								
a Total Cash Flow	857	707	236	577	329	210	460	233
b Net Cash from Operating Activities before Working Capital Changes	857	328	(15)	249	109	82	198	(128)
c Changes in Working Capital	-	(594)	14	(196)	213	(41)	(84)	(31)
1 Net Cash provided by Operating Activities	857	(266)	(1)	53	321	41	114	(159)
2 Net Cash (Used in) or Available From Investing Activities	-	91	18	(703)	(745)	(484)	(462)	(355)
3 Net increase (decrease) in long term borrowings	-	-	-	-	-	-	-	40
4 Net Cash (Used in) or Available From Financing Activities	-	173	210	687	829	438	350	497
5 Net Cash generated or (Used) during the period	857	(1)	227	37	405	(5)	2	(17)
D RATIO ANALYSIS								
1 Performance								
a Asset Concentration (Market Value of Largest Investment / Market Value of Equity)	N/A	37.1%	40.7%	37.1%	37.1%	32.2%	32.6%	40.1%
b Core Investments / Market Value of Equity Investments	N/A	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
c Marketable Investments / Total Investments at Market Value	411.2%	64.8%	62.1%	62.4%	59.1%	65.6%	56.9%	52.6%
2 Coverages								
a TCF / Finance Cost	4.9	1.6	0.9	1.6	1.4	1.5	1.8	0.6
b TCF / Finance Cost + CMLTB	4.9	1.6	0.9	1.6	1.3	1.2	1.7	0.6
c Loan to Value (Funding / Market Value of Equity Investments)	N/A	0.5	0.4	0.3	0.4	0.5	0.5	0.6
3 Capital Structure (Total Debt/Total Debt+Equity)								
a Leveraging [Funding / (Funding + Shareholders' Equity)]	21.2%	25.3%	25.1%	23.3%	25.8%	25.2%	25.3%	35.0%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	26.9%	33.9%	33.4%	30.4%	34.7%	33.8%	33.9%	53.7%

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+	
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

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

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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)

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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 | 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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