



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-2024	A+	A1	Stable	Maintain	-
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	-

Rating Rationale and Key Rating Drivers

The ratings incorporate the established position of Fazal Holdings (Pvt.) Limited ('Fazal Holdings' or 'the Company') as a conglomerate with a diverse pool of investments across leading corporate sectors. The Company's investment portfolio comprises Strategic Investments (~54% of the total investment value) and Trading Portfolio (~46% of the total investment value). The Company has strategically invested in Fazal Group's flagship company 'Fazal Cloth Mill Limited' (FCML), which has the vision to establish a vertically integrated textile business that produces value-added products with a mid-tier production capacity amongst other players. FCML specializes in producing greige fabric and a variety of yarns which include; multi-count/multi-twist, double, zero-twist, Organic, Supima, Lycra, Giza, and USA cotton yarns. Moreover, FCML achieved its highest sales with trajectory growth of ~25% through efficient plant operations, resulting from high sales volume and gains earned through export. Fazal Holdings has designed a conservative investment policy in accordance with its equity, primarily investing the majority of its trading portfolio in blue-chip shares. The Holding Company's short-term investment portfolio shows a positive growth of ~65.3% as of FY24. The short-term portfolio has been aligned to match the economic conditions at play. The enhancement of the investment trading portfolio throughout FY24 is directly attributed to the market's regained momentum during the year. The short-term investment portfolio is regarded as highly liquid and concentrated in high-quality assets. However, the Company remains exposed to market risks stemming from fluctuations in the stock prices. Fazal Holdings derives its revenue mainly from dividend income through short-term portfolio and capital gains, along with a share of profit from associates. The businesses under Fazal Holding's umbrella have maintained a steadfast growth trajectory, demonstrating the strength of Fazal Group's strategic approach. The Company's substantial free cash flows have significantly improved its debt profile, resulting in a marked enhancement of its interest coverage ratio. The Company has strengthened its capital structure by decreasing short-term debt and optimizing working capital through better cash flow management. Investment decisions are mainly led by Mr. Rehman Naseem, with assistance from resources within Fazal Group's 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. 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 Rating Modifiers(Apr-24),Methodology Holding Company Rating(Jul-24),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-24)
Related Research	Sector Study Holding Companies(Aug-24)
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Profile

Background Fazal Holdings (Pvt) Ltd, established in April 1995 as Amir Fine Export (Pvt.) Limited, initially focused on trading yarn, cloth, and securities. Rebranded in 2016, it now serves as the holding Company for Fazal Group, managing strategic investments in affiliated companies and maintaining a trading portfolio of short-term investments in both quoted and unquoted securities.

Structural Analysis The Company's investment portfolio comprises Strategic Investments (~54%) and Trading Portfolio (~46%). The Company has strategically invested in Fazal Group's flagship Company 'Fazal Cloth Mill Limited' (FCML), which aims to establish a vertically integrated textile business that produces value-added products with a mid-tier production capacity amongst other players. Fazal Holdings has designed a conservative investment policy in accordance with its equity, primarily investing the majority of its trading portfolio in blue chip shares diversified across leading sectors.

Ownership

Ownership Structure Fazal Holdings is predominantly owned by the Fazal family, the founding sponsors of the Company. The largest share of ~47.25% is held by Mr. Rehman Naseem. The family of Mr. Aamir Naseem Sheikh also possesses a significant stake of ~47.25%, divided between his sons, Mr. Yousaf Aamir and Mr. Abdullah Aamir, ~22% each respectively. The remaining shares are held by Mr. Sheikh Naseem, with ~2.5%, and Mrs. Nighat Naseem ~3%.

Stability The Company's ownership is perceived as stable due to the significant stakes held by the founding sponsors, which guarantees a clear succession plan.

Business Acumen The sponsors bring decade of experience across the textile sector. Fazal Group 'renowned textile Group in Pakistan operates a diverse range of businesses, including its flagship Company, Fazal Cloth Mills Ltd and Fazal Farms (Pvt) Limited.

Financial Strength The sponsoring group holds a significant position within Pakistan's corporate sector, with diversified interests in textiles, fertilizers, energy, and trading. The group possesses considerable financial strength, demonstrating its capacity to support Fazal Holdings when necessary.

Governance

Board Structure The Company's Board of Directors is composed of three members from the sponsoring family, lacking independent directors on Board. This small Board size, combined with the dominance of family members and the absence of independent oversight, highlights potential areas for improvement in the Company's overall governance framework.

Members' Profile Mr. Rahman Naseem, a distinguished member of the Board of Directors, possesses over 20 years of extensive experience in the textile and fertilizer industries. Mr. Sheikh Naseem has 48 years of experience and holds the position of Chairman of the Board at Fazal Cloth Mills, while Mr. Aamir Naseem More than two decades of experience in textile industry and one decade experience in fertilizer industry.

Board Effectiveness There were 4 board meetings held during FY24, with all three members attending it. The minutes from these meetings were properly documented. However, considering the Company's investment portfolio, the lack of board sub-committees highlights an opportunity to enhance the governance framework.

Transparency The external auditor, M/s Shinewing Hameed Chaudhri & Co, have expressed unqualified opinion on the financial statements of FY24. The firm is QCR rated and is on SBP panel of auditor's category 'B'.

Management

Organizational Structure The Company has established a well-structured organizational framework. All divisional heads report directly to the CEO, who, in turn, reports to the Board of Directors. The operational functions encompass Accounts, Finance, Compliance, Management Information Systems (MIS), and Human Resources.

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 Currently the management has no committees in place; however, they generate daily, weekly, and monthly reports to effectively monitor the performance of the investment portfolio and support senior management. These reports play a crucial role in facilitating informed decision-making regarding the short-term trading portfolio.

Control Environment The internal audit function is organized at the Group level. Management oversees investment policy and risk management, with Director Mr. Rehman Naseem responsible for setting investment management procedures and formulating risk management policies. These practices highlight the need for improvements in the control environment of Fazal Holdings.

Investment Strategy

Investment Decision-Making The management team, consisting of the CEO, Director, and CFO, is responsible for making investment decisions for the Company. In addition, various brokerage firms primarily provide advisory services related to investments.

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 conservative 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 (~54% of the total investment value), 2) Trading Investments (~46% of the total investment value). The Company has only diversified its trading investment portfolio to mitigate risk. ~ 46.4% of the portfolio is invested in fertilizers, ~37.6% in commercial banking, ~12.4% in oil & gas, and the remaining ~4% in power, and chemical.

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 21bln as of FY24. The Company's major Strategic investment - Fazal Cloth Mills Limited ('FCML'), Fazal Group's flagship entity - witnessed a 2-fold increase in profitability and posted a PAT of PKR 1.7bln during FY24.

Income Assessment During FY24 the Company's total investment income witnessed significant increase and stood at PKR 5.2bln (FY23: (151)mln) mainly due to the increase in income from related parties to PKR 1,153mln (FY23: PKR 774mln) and unrealized gain on investment of PKR 3.4bln (FY23: PKR 962mln loss). The Company's dividend income witnessed a significant increase and stood at PKR 1.1bln during FY24 (FY23: PKR 630mln) resulting from trading portfolio.

Financial Risk

Coverages In FY24, the Company achieved an improved coverage ratio of 2.1x, up from 1.0x in FY23, driven by strong free cash flows resulting from enhanced profitability. This improvement underscores the Company's ability to meet its financial obligations more comfortably. Additionally, the consistent dividend stream contributes to alleviating liquidity concerns, providing shareholders with regular returns while maintaining financial stability

Capital Structure The Company showed low leveraged capital structure, utilizing short-term debt sourced from various banks to finance its investment costs. Total debt has reduced to PKR 2.3bln (FY23: PKR 3.6bln) indicating a deliberate effort to reduce leverage and enhance financial stability. Meanwhile, the equity base has seen significant growth, rising from PKR 11bln to PKR 15bln in FY24. As a result, the Company's leveraging ratio has improved dramatically, reducing to ~7.9% from ~20.7% reflecting a more favorable risk profile and greater financial resilience.

Consolidated Position The Company derives its financial strength from Fazal Group and associated companies. The Company's strategic investment of Fazal Cloth is its flagship investment with enhanced operations of Fazal Cloth Mills Limited from spinning to composite. At group level, Fazal Group has a considerable presence in the local textile industry.



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Fazal Holdings Holding Company	Jun-24 12M Management	Mar-24 9M Management	Jun-23 12M Audited	Jun-22 12M Audited
A BALANCE SHEET				
1 Investments	9,676	8,396	6,296	7,294
2 Related Party Investments	11,584	11,584	11,420	10,526
3 Non-Current Assets	0	0	1	1
4 Current Assets	278	381	247	101
5 Total Assets	21,539	20,362	17,964	17,921
6 Current Liabilities	613	447	382	212
7 Borrowings	1,297	2,412	3,012	3,097
8 Related Party Exposure	1,024	782	630	2,539
9 Non-Current Liabilities	3,515	3,178	2,398	1,877
10 Net Assets	15,090	13,543	11,541	10,196
11 Shareholders' Equity	15,090	13,543	11,541	10,196
B INCOME STATEMENT				
1 Total Investment Income	5,242	3,220	(151)	1,993
a Cost of Investments	(565)	(482)	(618)	(361)
2 Net Investment Income	4,676	2,738	(768)	1,632
a Other Income	-	-	-	-
b Operating Expenses	(11)	(9)	(130)	(9)
4 Profit or (Loss) before Interest and Tax	4,665	2,729	(898)	1,623
a Taxation	(1,246)	(856)	(554)	(680)
6 Net Income Or (Loss)	3,419	1,872	(1,453)	942
C CASH FLOW STATEMENT				
a Total Cash Flow	1,171	804	636	577
b Net Cash from Operating Activities before Working Capital Changes	505	289	103	249
c Changes in Working Capital	146	32	(25)	(196)
1 Net Cash provided by Operating Activities	652	320	78	53
2 Net Cash (Used in) or Available From Investing Activities	669	295	(86)	(703)
3 Net increase (decrease) in long term borrowings	-	-	-	(40)
4 Net Cash (Used in) or Available From Financing Activities	(1,322)	(449)	6	647
5 Net Cash generated or (Used) during the period	(2)	167	(2)	(3)
D RATIO ANALYSIS				
1 Performance				
a Asset Concentration (Market Value of Largest Investment / Market Value of	83.7%	38.0%	38.0%	37.1%
b Core Investments / Market Value of Equity Investments	2.0%	4.0%	4.0%	3.1%
c Marketable Investments / Total Investments at Market Value	49.8%	76.6%	54.8%	52.8%
2 Coverages				
a TCF / Finance Cost	2.1	1.7	1.0	1.6
b TCF / Finance Cost + CMLTB	2.1	1.7	1.0	1.6
c Loan to Value (Funding / Market Value of Equity Investments)	0.1	0.3	0.4	0.3
3 Capital Structure (Total Debt/Total Debt+Equity)				
a Leveraging [Funding / (Funding + Shareholders' Equity)]	7.9%	15.1%	20.7%	23.3%
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	8.6%	17.8%	26.1%	30.4%

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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Rating Team Statements

(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)

Conduct of Business

- (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).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
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- (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)
- (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 | 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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