



The Pakistan Credit Rating Agency Limited

## Rating Report

### Maksons Textile (Pvt.) Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
18-Mar-2023	BBB-	A2	Stable	Maintain	-
18-Mar-2022	BBB-	A2	Stable	Maintain	-
18-Mar-2021	BBB-	A2	Stable	Upgrade	-
18-Mar-2020	BBB-	A3	Positive	Maintain	-
18-Sep-2019	BBB-	A3	Stable	Maintain	-
19-Mar-2019	BBB-	A3	Stable	Maintain	-
19-Sep-2018	BBB-	A3	Stable	Maintain	-
22-Mar-2018	BBB-	A3	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Maksons Textile (Private) Limited (Maksons) is a private limited company incorporated in May 2000. The assigned ratings incorporate a comprehensive operating track record with a modest presence in the textile sector. Maksons Textile (Pvt.) Limited is a venture of a group of four family members who are shareholders of Al-Tariq Group. Maksons Textile is a modern weaving unit that manufactures greige fabric used for home textiles and outsources the processing for the finished goods. The Company's sales mix is dominated by exports, where the topline clocked in at PKR 1.2bln in 1HFY23 (1HFY22: PKR 893mln). Net profitability declined to PKR 15mln in 1HFY23 (1HFY22: PKR 130mln) owing to high amounts of exchange loss and finance costs. Currently, the Company is operational at optimal capacity. The financial risk profile of the Company has displayed high leveraging and declining coverage. Going forward, improvement in the financial matrix remains essential. During 7MFY23, the textile exports were valued at \$10.08bln compared to \$10.93bln, reflecting an 8% decline YoY – the declining trend has been recorded in the last few months. The decline in exports is driven by attrition in the demand pattern of export avenues. The analysis of 5MFY23 reveals that among value-added items, bedwear has witnessed the largest decline of 19 (on an MoM basis), down to \$217 million. Knitwear remained on the downward path in October 2022 and declined by 10% to \$392 million. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve post-Jun-23.

The ratings are dependent upon the management's ability to operate at an optimal level and improve profitability, margins, and coverage, which are considered essential. The governance framework of the company has room for improvement. At the same time, prudent management of short-term liquidity remains vital.

#### Disclosure

<b>Name of Rated Entity</b>	Maksons Textile (Pvt.) Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jun-22),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology   Rating Modifiers(Jun-22)
<b>Related Research</b>	Sector Study   Weaving(Aug-22)
<b>Rating Analysts</b>	Sehar Fatima   sehar.fatima@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Maksons Textile (Private) Limited (Maksons) is a private limited company incorporated in May 2000.

**Background** Maksons is a venture of a group of four family members who are shareholders of Al-Tariq Group. Using the expertise of textile engineers and their own engineering knowledge and experience, the group decided to incorporate Maksons Textile.

**Operations** The Company is a modern weaving unit that manufactures greige fabric used for home textiles and outsources the processing for the finished goods. The Company has an installed capacity of 114 weaving looms including AIRJET & SULZER looms. The Company is also self-sufficient in power generation with a captive power plant capacity of 4MW.

## Ownership

**Ownership Structure** The shareholding of the Company is held by four individuals equally, while the profit-sharing ratio has been agreed to be distributed between five individuals. The fifth individual, Mr. Muhammad Khalid, is given a share of profits against management services.

**Stability** There is no formal succession plan which poses a threat to the stability of the Company. Documenting an understanding between the sponsors would improve the ownership structure of the Company.

**Business Acumen** In addition to textiles, the group has interests in energy, power, construction, and trading. The sponsors of the Company carry extensive industrial experience and are actively engaged in its daily operations.

**Financial Strength** Al-Tariq Group has a strong presence in the engineering sector. Furthermore, the sponsors have shown the willingness and ability to support the Company in the past. In addition to cash injection in the form of capital, the group supports the Company from time to time in the form of loans.

## Governance

**Board Structure** The Company's BoD comprises of four members, all are sponsors. The position of the Chairman is held by Mr. Abdul Qudoos whereas Mr. Khalid Majeed is the CEO of the Company. There are no independent directors on the board.

**Members' Profile** The board members have extensive knowledge and experience in the textile industry.

**Board Effectiveness** Board meetings are held regularly on a monthly basis in which discussion on various aspects is recorded in minutes and decision or action is referred to the Chairman. Meanwhile, no subcommittees are in place to assist the Board.

**Financial Transparency** Grant Thornton Anjum Asim Shahid Rehman & Co., Chartered Accountants are external auditors for the Company. The auditors have expressed an unqualified opinion on the financial statements of the Company for the year ended June 30, 2022. The auditors are QCR rated by the Institute of Chartered Accountants of Pakistan and are in the Category 'A' panel of auditors maintained by SBP.

## Management

**Organizational Structure** The Company has a lean organizational structure with managers of four functional departments reporting directly to the Director – Mr. Muhammad Khalid.

**Management Team** All operational activities including asset management and procurement are overseen by Mr. Muhammad Khalid – Director. He is assisted by a management team with extensive industrial experience and reasonably long association with the Company.

**Effectiveness** The Company constitutes of two committees, namely, i) Management Committee and ii) Finance Committee. The management committee, headed by the CEO, is the apex committee. The meetings are held on a weekly basis to pro actively address operational issues if any. Finance Committee also meets on a weekly basis to discuss and resolve all issues relating to Finance.

**MIS** The Company is using Oracle ERP from a web-based ERP solution. The transition is in process and it is expected that management will fully migrate to Oracle ERP in the short term, resulting in improved information flow.

**Control Environment** The management has established a strong control environment through the submission of weekly MIS reports on the liquidity and production position of the Company. The quality control department ensures the quality of its products throughout the production process. In addition, management has established an internal audit function, which regularly conducts audit programs and submits its monthly internal audit report to the top management.

## Business Risk

**Industry Dynamics** During 7MFY23, the textile exports were valued at \$10.08bln compared to \$10.93bln, reflecting an 8% decline YoY – the declining trend has been recorded in the last few months. The decline in exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand for yarn in international markets is also a challenge. The analysis of 5MFY23 reveals that among value-added items, bedwear has witnessed the largest decline of 19% (on an MoM basis), down to \$217 million. Knitwear remained on the downward path in October 2022 and declined by 10% to \$392 million. Among non-value-added items, cotton yarn has shown the largest decline of 35%. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve post-Jun-23.

**Relative Position** The company is relatively a small player in the organized mill sector, currently operating 114 total looms with an installed capacity of 18mln meters of fabric. The largest player in this market segment is Nishat Mills with 794 installed looms.

**Revenues** Maksons Textiles is engaged in the manufacture and sale of fabrics. During FY22, the Company's top line clocked in at PKR 1.8bln (FY21: PKR 1.3bln) reflecting an increase of 34.4%. Exports sales constituted 96% of total sales. The major export destinations in FY22 were European regions. The operating profit improved to PKR 105mln (FY21: PKR 82mln). During 1HFY23 topline was recorded at PKR 1.2bln.

**Margins** During FY22, the gross profit margin stood at 10.5% (FY21: 11.7%). Operating profit margins declined to 5.8% (FY21: 6.1%). Furthermore, the net profit margin clocked at 1.2% in FY22 (FY21: 2.7%), reporting a net income of PKR 22mln (FY21: PKR 37mln). Whereas in 1HFY23, gross margin and operating margin increased to 16.1% and 8.5% respectively. Net profit margin inched up to 1.3%.

**Sustainability** The Company is operating at optimal capacity utilization.

## Financial Risk

**Working Capital** At end-Jun'22, the cash cycle increased to 141 days (FY21: 122 days) as a result of an increase in inventory and receivable days to 78 and 85 respectively. Maksons' net trade assets stood at PKR 918mln which is higher than FY21 (PKR 549mln) and its room to borrow for FY22 was PKR 257mln (FY21: PKR 452mln) which shows adequate cushion for further borrowing to finance net trade assets. At end-Dec'22, the cash cycle decreased to 125 days attributable to a fall in receivable days. Whereas, net trade assets stood at PKR 965mln.

**Coverages** Free Cash Flows from Operations (FCFO) declined in FY22 and clocked in at PKR 91mln (FY21: PKR 132mln) due to lower profitability, finance cost, and taxes being higher as compared to FY21. As a result, the interest coverage ratio declined to 4.8x in FY22 from 10.8x in FY21 due to an increase in finance costs. Coverage remained largely at the same level in Dec'22.

**Capitalization** The capital structure of Maksons Textiles is highly leveraged, with leveraging at 79.6% at end-Jun'22 (FY21: 58.1%). The borrowings comprise 50% of short-term debt and 42.6% of long-term borrowings. At end-Jun'22, the equity base of the company stood at PKR 406mln (end-Jun'21: PKR 387mln). At end-Dec'22 leveraging inched down to 78%, whereas, equity of the company clocked in at PKR 423mln.



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Financial Summary

Maksos Textile (Pvt.) Limited Textile	Dec-22 6M	Jun-22 12M	Jun-21 12M	Jun-20 12M
<i>PKR mln</i>				
<b>A BALANCE SHEET</b>				
1 Non-Current Assets	1,211	1,224	441	461
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	1,207	1,162	723	592
<i>a Inventories</i>	741	551	222	271
<i>b Trade Receivables</i>	162	472	367	161
5 Total Assets	2,418	2,386	1,164	1,053
6 Current Liabilities	462	357	209	220
<i>a Trade Payables</i>	115	172	56	73
7 Borrowings	1,166	1,321	293	267
8 Related Party Exposure	325	263	244	188
9 Non-Current Liabilities	42	39	31	24
10 Net Assets	423	406	387	353
11 Shareholders' Equity	423	406	387	353
<b>B INCOME STATEMENT</b>				
1 Sales	1,219	1,797	1,337	1,406
<i>a Cost of Good Sold</i>	(1,023)	(1,609)	(1,181)	(1,206)
2 Gross Profit	196	188	156	200
<i>a Operating Expenses</i>	(92)	(83)	(74)	(74)
3 Operating Profit	104	105	82	126
<i>a Non Operating Income or (Expense)</i>	(47)	(31)	(5)	5
4 Profit or (Loss) before Interest and Tax	57	74	77	131
<i>a Total Finance Cost</i>	(41)	(30)	(20)	(40)
<i>b Taxation</i>	-	(22)	(21)	(23)
6 Net Income Or (Loss)	15	22	37	69
<b>C CASH FLOW STATEMENT</b>				
<i>a Free Cash Flows from Operations (FCFO)</i>	15	91	132	234
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	15	73	117	196
<i>c Changes in Working Capital</i>	-	(328)	(106)	37
1 Net Cash provided by Operating Activities	15	(255)	11	233
2 Net Cash (Used in) or Available From Investing Activities	-	(802)	(43)	(2)
3 Net Cash (Used in) or Available From Financing Activities	-	704	121	(341)
4 Net Cash generated or (Used) during the period	15	(353)	90	(110)
<b>D RATIO ANALYSIS</b>				
1 Performance				
<i>a Sales Growth (for the period)</i>	35.7%	34.4%	-4.9%	--
<i>b Gross Profit Margin</i>	16.1%	10.5%	11.7%	14.2%
<i>c Net Profit Margin</i>	1.3%	1.2%	2.7%	4.9%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	1.3%	-13.2%	1.9%	19.3%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]</i>	7.5%	5.5%	9.9%	19.4%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	147	164	139	112
<i>b Net Working Capital (Average Days)</i>	125	141	122	93
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.6	3.3	3.5	2.7
3 Coverages				
<i>a EBITDA / Finance Cost</i>	0.5	6.8	12.2	7.9
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.3	0.8	2.4	3.4
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	-28.9	12.8	3.7	2.1
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	77.9%	79.6%	58.1%	56.3%
<i>b Interest or Markup Payable (Days)</i>	123.2	231.8	61.6	29.4
<i>c Entity Average Borrowing Rate</i>	5.5%	2.3%	3.0%	7.0%

### 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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	<b>Very high credit risk.</b> Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
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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(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).

(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)

(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)

(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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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 | 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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