



The Pakistan Credit Rating Agency Limited

## Rating Report

### Maksons Textile (Pvt.) Limited

#### Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
19-Sep-2018	BBB-	A3	Stable	Maintain	-
22-Mar-2018	BBB-	A3	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The ratings account for financial strength of the company's sponsors - AL-Tariq Group; having expertise in textile engineering. This provides cushion to relatively stretched financial risk profile of Maksons, characterized by high leveraging and adequate debt servicing ratio. Free cashflows, though small in size, demonstrated stable and rising trend. The country's textile exports improved by ~9% in FY18 on the back of bailout package from the government and recent devaluation of rupee. This benefitted the company's topline of which exports constitute 95%. Company caters to niche market in textile industry providing textile solutions in the form of semi-finished and finished fabrics; reflecting well in gross margins. Company's bottomline, though small in size, has remained stable over years. With latest BMR activities, the company is expected to bring efficiencies and growth, going forward.

The ratings are dependent on rationalization of top ten client concentration, with anticipated growth in topline. Risk absorption capacity would improve with scheduled repayments easing out leveraged capital structure. Maintaining adequate debt services coverage remains critical.

#### 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 Ratings(Jun-18),Methodology   Criteria   Rating Modifier(Jun-18),Methodology   Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
<b>Related Research</b>	Sector Study   Textile(Oct-17)
<b>Rating Analysts</b>	Muhammad Hassan   muhammad.hassan@pacra.com   +92-42-35869504

## Profile

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

**Background** Maksons is a venture of a group of five individuals who are shareholders of Al-Tariq Group (ATL). Using the expertise of textile engineers and their own engineering knowledge and experience, the group decided to incorporate Maksons.

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

## Ownership

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

**Stability** Given the personal relationship between the sponsors, 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 textile, the group has interests in energy, power, construction and trading. The sponsors of the company carry extensive industrial experience and are actively involved in its daily operations.

**Financial Strength** ATL Group has strong presence in engineering sector. Furthermore, the sponsors have shown 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 four members, all are sponsors. The position of chairman is held by Mr. Abdul Quddoos whereas Mr. Khalid Majeed is the CEO of the company. Addition of independent director to the board would bring quality to the governance profile.

**Members' Profile** Board members have extensive knowledge and experience of the textile industry.

**Board Effectiveness** Board meetings are held regularly on monthly basis in which discussion on various aspects is recorded in minutes and decision or action is referred to Chairman, Mr. Abdul Quddoos.

**Financial Transparency** Rahim Jan & Company are the external auditors of Maksons. They have expressed unqualified opinion on the financial statements of the company for year ended June 30th, 2017. The external auditor is not QCR listed nor on SBP panel of auditors which weakens financial transparency and the quality of reporting structure.

## Management

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

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

**Effectiveness** While there is no formal management committee, monthly MIS reports are presented to sponsors relating to technical and financial developments while weekly cash report is shared with CEO.

**MIS** Web-based ERP solution is deployed as a single, end-to-end solution for timely and comprehensive reporting.

**Control Environment** Despite absence of Audit Committee, interdepartmental audit function exists and internal audit is conducted monthly, with audit report being presented to BoD.

## Business Risk

**Industry Dynamics** Devaluation of the rupee, bailout package from the government and GSP plus scheme of the EU led to YoY growth in the country's textile exports of ~9% during FY18 when total textile exports were recorded at ~\$13.5 bln. This growth was mainly led by value added segment including knitwear, home textile and readymade garments. Recent re-imposition of custom duty & sales tax on cotton imports in FY19 Budget, coupled with exclusion of tax rebate on yarn and greige fabric may put pressure on industry margins.

**Relative Position** Maksons has weak presence in textile industry with a share of less than 0.1% of the country's textile exports. In terms of profitability, however, it is well placed with strong gross margins due to strong demand arising from global home textile industry.

**Revenues** The company's topline for 9MFY18 amounted to ~PKR1.1 bln. Export revenue accounted for ~95% of sales majorly to Belgium (~35%), followed by Italy (~29%) and Korea (27%). Customer concentration remained significantly high with 39% of export revenue being generated from a single customer while Al-Tariq Traders, sister company of Maksons, accounted for ~77% of local sales.

**Margins** Gross margins remained stable at 12%. Close monitoring of operating expenses resulted in sustained operating margins of 5%, same as the previous three years. Net profit for the period 9MFY18 amounted to ~PKR17 mln (FY17: ~PKR22 mln).

**Sustainability** Going forward, capex of ~PKR130 mln has been planned in the medium term for acquisition of machinery for a sizing unit as well as BMR for replacement of 48 old looms.

## Financial Risk

**Working Capital** Company's inventory days increased during 9MFY18. Receivable days remained largely at same level. Net cash cycle amounted to 82 days. Maksons largely meets its inventory management needs through short-term borrowing which stood at ~PKR321 mln at 9MFY18 (FY17: ~PKR290 mln) which is approximately 80% of inventory and receivables.

**Coverages** FCFO clocked in at ~PKR74 mln at end 9MFY18. This is sufficient to make debt servicing of PKR40 mln (CMLTD: PKR18 mln, Interest: PKR22 mln). Size of FCFO, however, remains small reflecting low risk absorption capacity. Debt coverage in 9MFY18 improved slightly to 1.7x (FY17: 1.5x).

**Capitalization** Maksons' borrowings at end 9MFY18 increased to ~PKR742 mln (end-Jun17: PKR636 mln) mainly due to availing LTFF for acquisition of machinery. Total debt comprises 57% long Term Debt (LTD) and 43% Short Term Borrowing (STB). Leveraging ratio remained at 72% which is considerably high, further reducing risk absorption capacity and depressing the financial risk profile.



**Maksons Textile (Pvt.) Limited**

BALANCE SHEET	31-Mar-18 9MFY18	30-Jun-17 Annual	30-Jun-16 Annual	30-Jun-15 Annual
<b>Non-Current Assets</b>	<b>639</b>	<b>617</b>	<b>398</b>	<b>431</b>
<b>Current Assets</b>	<b>604</b>	<b>457</b>	<b>295</b>	<b>334</b>
Inventory	290	258	144	151
Trade Receivables	113	85	73	107
Others	200	114	79	76
<b>Total Assets</b>	<b>1,242</b>	<b>1,074</b>	<b>694</b>	<b>766</b>
<b>Debt</b>	<b>671</b>	<b>636</b>	<b>310</b>	<b>375</b>
Short-term Borrowings (STBs)	321	290	180	205
Long-term (Incl. Current Maturity of Long-Term Debt)	350	346	130	170
Other short-term liabilities	238	110	66	74
Other long-term liabilities	72	83	95	119
<b>Shareholder's Equity</b>	<b>262</b>	<b>245</b>	<b>223</b>	<b>197</b>
<b>Total Liabilities &amp; Equity</b>	<b>1,242</b>	<b>1,074</b>	<b>693</b>	<b>766</b>

**INCOME STATEMENT**

<b>Turnover</b>	<b>1,112</b>	<b>1,312</b>	<b>1,281</b>	<b>1,353</b>
Gross Profit	128	185	159	159
Net operating and other expense	(79)	(123)	(93)	(104)
Financial Charges	(22)	(26)	(28)	(14)
<b>Net Income</b>	<b>17</b>	<b>22</b>	<b>25</b>	<b>27</b>

**Cashflow Statement**

Free Cashflow from Operations (FCFO)	119	146	106	100
Net Cash changes in Working Capital	(64)	(89)	34	(113)
Net Cash from Operating Activities	34	30	112	(28)
Net Cash from Investing Activities	(57)	(319)	(20)	(288)
Net Cash from Financing Activities	23	286	(90)	316

**Ratio Analysis**

<b>Performance</b>				
Gross Margin	12%	14%	12%	12%
Operating Margin	5%	5%	5%	4%
Net Margin	1%	2%	2%	2%
<b>Coverages</b>				
Interest Coverage (FCFO/Gross Interest)	5.4	5.5	3.8	6.9
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total)	1.7	1.5	1.6	1.8
Debt Payback (Total LT Debt Including Uncovered Total)	4.7	4.3	4.1	4.8
<b>Liquidity</b>				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	82	74	48	54
<b>Capital Structure</b> (Total Debt / Total Debt+Equity)	72%	72%	58%	66%

## Credit Rating Scale & Definitions

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.

Long Term Ratings		Short Term Ratings	
<b>AAA</b>	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	<b>A1+</b>	The highest capacity for timely repayment.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<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.	<b>A1</b>	A strong capacity for timely repayment.
<b>A+</b> <b>A</b> <b>A-</b>	<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.	<b>A2</b>	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<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.	<b>A3</b>	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<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.	<b>B</b>	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
<b>B+</b> <b>B</b> <b>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>C</b>	An inadequate capacity to ensure timely repayment.
<b>CCC</b> <b>CC</b> <b>C</b>	<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.		
<b>D</b>	Obligations are currently in default.		



**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, a) some material identifiable event and/or b) deviation from expected trend. 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 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) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, e) the entity/issuer defaults, or/and f) 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.

**Disclaimer:** PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

### **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

### **Restrictions**

- (3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
- (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.
- (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)

### **Independence & Conflict of interest**

- (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)

### **Proprietary Information**

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA’s prior written consent