



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
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

The ratings reflect adequate business profile of Maksons Textile (Private) Limited (the Company), depicted by its strong gross margins and adequate but stable net margins. The ratings incorporate adequate governance framework and experienced management team along with effective control environment. 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 benefited the Company's top line of which exports constitute 95%. The 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. The Company's bottom line, though relatively small in size, has remained steady over the years. With planned BMR activities in the short-term, the Company is expected to bring efficiencies and growth, going forward. The company has a relatively stretched financial risk profile, characterized by high leveraging and adequate debt servicing ratio. The ratings account for financial strength of the Company's sponsors - AL-Tariq Group - having strong presence in engineering and trading segments.

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

Disclosure

Name of Rated Entity	Maksons Textile (Pvt.) Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Ratings(Jun-18),Methodology Criteria Rating Modifier(Jun-18),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study Textile(Oct-18)
Rating Analysts	Ateeb Riaz ateeb.riaz@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 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.

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 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 Al-Tariq 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 the Chairman is held by Mr. Abdul Quddoos whereas Mr. Khalid Majeed is the CEO of the company. There are no independent directors on the board.

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 the Chairman. Meanwhile, no subcommittees are in place to assist the Board.

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, 2018. The external auditor is neither QCR rated nor on SBP panel of auditors. This leaves significant room for improvement in company's financial transparency and quality of reporting structure.

Management

Organizational Structure The company has a lean organizational structure with the managers of four 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 Management has formed two committees, namely, i) Management Committee, and ii) Finance Committee. Management committee, headed by the CEO, is the apex committee and its 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 has recently shifted to Oracle ERP from 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 in the company through submission of weekly MIS reports on 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 The weaving segment of the textile industry constituted ~16% of Pakistan's textile exports in FY18 and its share has largely remained stagnant in recent years owing to lack of investment, higher input costs, declining cotton production and expensive imported raw material. While 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 (1HFY19: ~0.1%), the growth was mainly led by value added segment including knitwear, home textile and readymade garments. The devalued currency, recently announced relief in gas and electricity tariffs for zero-rated sectors and removal of duties on imported cotton and any other incentives recently offered by the government are expected to boost exports, going forward.

Relative Position Maksons has modest presence in textile industry with relatively low installed capacity. The 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.

Revenues Maksons is engaged in the manufacture and sale of fabrics, with most of its revenue derived through exports (FY18: ~95%, FY17: ~75%) majorly to Europe. Meanwhile, local sales are derived from two sources: sale of fabric and weaving conversion income. The company's top line has shown strong growth of ~24% during FY18 (FY17: 2.4%), clocking in at ~PKR 1,620mln driven by increase in export sales in absolute terms and benefiting from Rupee devaluation. For 1HFY19, Maksons' top line stood at ~PKR 661mln.

Margins The company's gross profit margin clocked in at ~12% for FY18 (FY17: ~14%). The company has maintained its gross profit margin in the range of ~12%-14% in the past. However, gross margin increased significantly in 1HFY19 to ~17% due to favourable impact of rupee depreciation on export sales. Close monitoring of operating expenses, translated into stable operating profit margins of ~5% in recent years. The net margin has also consistently remained at ~2%. The net profit for 1HFY19 stood at PKR 24mln while net margin increased to ~4%.

Sustainability Going forward, Maksons is planning to replace 48 old SULZER looms with modern AIRJET looms to increase the production capacity. Currently, all looms are operating at their full capacity. Going forward, it is expected that top line of the company will show steady growth and margins will remain around the current levels.

Financial Risk

Working Capital The cash cycle has increased significantly in FY18 to 75 days (FY17: 55 days), mainly due to increased working capital needs driven by higher cost of imported raw materials due to rupee devaluation. The cash cycle further increased in 1HFY19 to 100 days due to higher receivable days caused by amounts due from related parties. The company has an adequate borrowing cushion to finance future needs.

Coverages Free Cash Flows showed improvement in FY18 (~8%), though remained relatively small, reflecting low risk absorption capacity. The debt servicing ratio declined YoY to 4.2x in FY18 (FY17: 5.5x) due to increase in finance cost on long-term borrowings while debt coverage ratio was largely maintained at the same level of 1.4x in FY18 (FY17: 1.5x). Coverages showed improvement in 1HFY19 on account of stronger cash flows driven by higher profitability.

Capitalization Maksons' capital structure is highly leveraged, with leveraging at ~75% during FY18 (FY17: ~73%). The leveraging declined slightly in 1HFY19 due to repayment of current portion of long-term debt. The company's borrowing mix is balanced between short-term and long-term borrowings, with long-term debt largely comprising LTFF, providing respite in rising interest rate environment.



Maksons Textile (Private) Limited

Private Limited

BALANCE SHEET

	Dec-18 6M	Jun-18 12M	Dec-17 6M	Jun-17 12M	Jun-16 12M
a Non-Current Assets	574	612	579	617	398
b Investments (Incl. Associates)	-	-	-	-	-
Equity Instruments	-	-	-	-	-
Debt Instruments	-	-	-	-	-
c Current Assets	740	649	515	406	295
Inventory	333	324	236	288	144
Trade Receivables	229	203	164	85	73
Others	178	121	115	32	79
d Total Assets	1,314	1,260	1,094	1,022	694
e Debt/Borrowings	740	864	756	667	404
Short-Term	355	310	320	239	180
Long-Term (Incl. Current Maturity of Long-Term Debt)	385	554	436	427	224
Other Short-Term Liabilities	264	110	77	109	66
Other Long-Term Liabilities	-	-	1	1	2
f Shareholder's Equity	309	286	260	245	223
g Total Liabilities & Equity	1,314	1,260	1,094	1,022	694

INCOME STATEMENT

a Turnover	661	1,620	706	1,312	1,281
b Gross Profit	114	194	88	185	159
c Net Other Income	(1)	7	(1)	(2)	(3)
d Financial Charges	(20)	(43)	(11)	(26)	(28)
e Net Income	24	41	14	22	25

CASH FLOW STATEMENT

a Free Cash Flow from Operations (FCFO)	84	157	67	146	106
b Total Cashflows (TCF)	84	157	67	146	106
c Net Cash changes in Working Capital	65	(254)	(123)	(89)	34
d Net Cash from Operating Activities	129	(141)	(66)	30	112
e Net Cash from Investing Activities	(2)	(69)	(6)	(319)	(20)
f Net Cash from Financing Activities	(124)	208	71	286	(90)
g Net Cash generated during the period	3	(1)	(1)	(3)	3

RATIO ANALYSIS

a Performance					
Turnover Growth	-18%	24%	8%	2%	-5%
Gross Margin	17%	12%	12%	14%	12%
Net Margin	4%	3%	2%	2%	2%
ROE	16%	15%	11%	10%	12%
b Coverages					
Debt Service Coverage (X) (FCFO/Gross Interest+CMLTD+U:	5.5	1.4	1.5	1.5	1.6
Interest Coverage (X) (FCFO/Gross Interest)	5.5	4.2	6.3	5.5	3.8
Debt Payback (Years) (Total Debt (excluding Covered Short T	2.8	4.6	3.9	3.6	2.9
c Capital Structure (Total Debt/Total Debt+Equity)					
Net Cash Cycle (Inventory Days + Receivable Days - Payable D	100	75	73	55	72
d Capital Structure (Total Debt/Total Debt+Equity)	71%	75%	74%	73%	64%

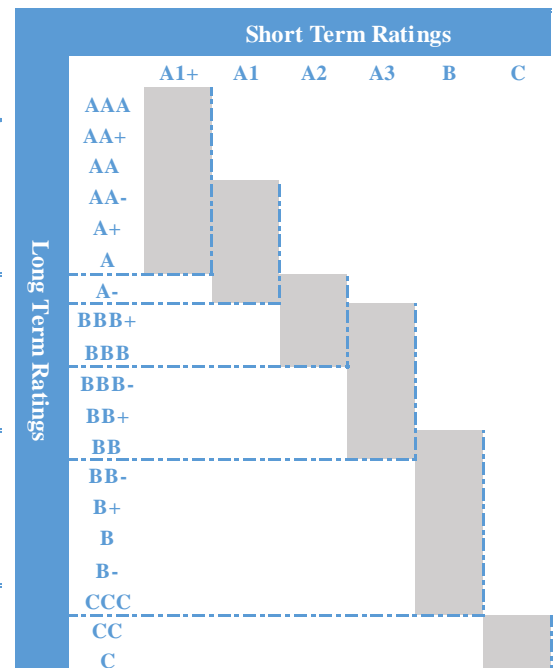
Maksons Textile (Private) Limited

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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	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
AA+ 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.	A1	A strong capacity for timely repayment.
A+ 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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
BBB+ 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
BB+ 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.	B	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
B+ 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.	C	An inadequate capacity to ensure timely repayment.
CCC CC C	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.		
D	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)

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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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