



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-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

The ratings continue to reflect modest business profile of Maksons Textile (Private) Limited (the Company), depicted by its niche market operations and strong margins. The same is due to long standing presence in the industry which has helped in establishing strong trade relations with suppliers and customers. The ratings incorporate the Company's experienced management team along with effective control environment. Despite many economic challenges, the Company has managed to perform well and secured a topline of PKR 678mln in 1HFY21. The Company's financial risk profile has improved characterized by strong leveraging, coverages and working capital management. The leveraging decreased during 1HFY21 on account of lower short-term borrowings. The ratings account for financial strength of the Company's sponsors – ALTariq Group - having strong presence in engineering and trading segments. With planned BMR activities, the Company is expected to bring efficiencies and growth, going forward.

The ratings are dependent on improving margins, in turn, profitability and ensuing cash flows. Meanwhile, maintaining a moderately leveraged capital structure and adequate coverages is important. Any significant deterioration in profits and/or coverages will have a negative impact on ratings.

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-20),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-20),Criteria Rating Modifier(Jun-20)
Related Research	Sector Study Weaving(Sep-20)
Rating Analysts	Muhammad Fahad Iqbal fahad.iqbal@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.

Operations Maksons is a modern weaving unit that manufactures greige fabric used for home textile and outsources 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 a 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 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 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 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 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 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, 2020. The auditors are QCR rated by the Institute of Chartered Accountants of Pakistan and are on 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 Management has formed two committees, namely, i) Management Committee and ii) Finance Committee. The 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 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 in the Company 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 Textile Sector has depicted an overall growth of approximately 8% (USD value terms) in the exports in the first six months of the FY21 where knitwear, bed wear, and towels segments recorded the highest growth of 16.5%, 16.3%, and 17.4% respectively. Knitwear, readymade garments, bed wear, and cotton cloth segment combined have achieved almost 9% growth over the same period last year excluding cotton cloth which has experienced a decline. Towel and made-up articles both recorded growth of 17% each. In Pak Rupee terms, the overall growth by textile exports has been recorded at around 13%. COVID-19 pandemic and related lockdown imposed by the governments around the globe in FY20 had its ramifications however Pakistani textile exports have been seen rebounding in 1HFY20. Excluding knitwear and yarn, all other segments recorded incline in prices (USD terms) which is positive. The export outlook is likely to remain stable in the medium term as textile units have been operating at optimized capacity levels.

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 Company produced 15.3mln meters of cloth in FY20. 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. The Company derived most of its revenue through exports. The major export destinations in FY20 were Italy and South Korea. Company's top line clocked in at PKR 678mln in 1HFY21 which is lesser than 1HFY20 figure PKR 747bln due to COVID-19 impact all around the world. Also, Company focused entirely on exports in the last 6 months of 2020 and local sales were minimal.

Margins The gross profit margin stood at 13.5% for 1HFY21 (1HFY20: 14.4%). However, the Company has shown a better gross margin in FY20 (14.4%) than FY19 (9%) due to favourable impact of rupee depreciation on export sales. The management closely monitors operating expenses, translating into improving operating profit margins of 8.7% in 1HFY21 which is slightly lower than (1HFY20 9.1%). Furthermore, the net profit margin clocked at 6.2% in 1HFY21 (1HFY20: 5.5%) due to the lower finance cost of the Company.

Sustainability Due to the lockdown enforced by the Government, the production was impacted; however, the Company managed to overcome the tough phase of COVID-19 and now operating at optimum capacity. The Company is also doing BMR and is in process of converting its old SULZER looms into AIRJET looms.

Financial Risk

Working Capital The cash cycle has decreased slightly in 1HFY21 to 92 days from 1HFY20 (95 days). Maksons' net trade assets stood at PKR 395mln similar to 1HFY20 (PKR 394mln) and its room to borrow for 1HFY21 was PKR 381mln (1HFY20: PKR 305) which shows an adequate cushion for further borrowing to finance net trade assets.

Coverages Free Cash Flows from Operations (FCFO) improved in FY20 and clocked in at PKR 234mln due to higher profitability. FCFO showed a healthy increasing trend from previous years. The interest coverage ratio is significantly higher and clocked in at 7.3x in FY20 from 3.1x in FY19 due to a decrease in finance cost. Furthermore, the debt coverage ratio also improved to 3.4x in FY20 (FY19: 1.4x).

Capitalization The capital structure of Maksons Textiles is moderately leveraged, with leveraging at 45.5% during 1HFY21 (1HFY20: 62.1%). Makson's borrowings comprise 93.3% long-term debt and 6.7% short-term borrowings during 1HFY21. Risk absorption capacity has improved from previous years.



Maksons Textile (Private) Limited Weaving	Dec-20 6M	Jun-20 12M	Jun-19 12M	Jun-18 12M
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A BALANCE SHEET

1 Non-Current Assets	429	461	529	598
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	554	592	614	618
<i>a Inventories</i>	237	271	259	275
<i>b Trade Receivables</i>	174	161	248	206
5 Total Assets	982	1,053	1,143	1,216
6 Current Liabilities	232	220	149	118
<i>a Trade Payables</i>	85	73	70	47
7 Borrowings	209	267	471	693
8 Related Party Exposure	121	188	217	222
9 Non-Current Liabilities	25	24	21	16
10 Net Assets	395	353	285	167
11 Shareholders' Equity	395	353	285	167

B INCOME STATEMENT

1 Sales	678	1,406	1,271	1,586
<i>a Cost of Good Sold</i>	(586)	(1,206)	(1,156)	(1,504)
2 Gross Profit	91	200	115	82
<i>a Operating Expenses</i>	(33)	(74)	(91)	(74)
3 Operating Profit	59	126	24	8
<i>a Non Operating Income or (Expense)</i>	1	5	158	9
4 Profit or (Loss) before Interest and Tax	60	131	182	17
<i>a Total Finance Cost</i>	(7)	(40)	(47)	(46)
<i>b Taxation</i>	(11)	(23)	(17)	(18)
6 Net Income Or (Loss)	42	69	118	(46)

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	42	234	128	110
<i>b Net Cash from Operating Activities before Working Capital Cha</i>	36	196	79	66
<i>c Changes in Working Capital</i>	-	37	7	(163)
1 Net Cash provided by Operating Activities	36	233	86	(97)
2 Net Cash (Used in) or Available From Investing Activities	-	(2)	(7)	(69)
3 Net Cash (Used in) or Available From Financing Activities	(147)	(341)	(77)	166
4 Net Cash generated or (Used) during the period	(110)	(110)	2	0

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	-3.6%	10.6%	-19.8%	20.9%
<i>b Gross Profit Margin</i>	13.5%	14.2%	9.0%	5.2%
<i>c Net Profit Margin</i>	6.2%	4.9%	9.3%	-2.9%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capit</i>	6.1%	19.3%	10.6%	-3.3%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total</i>	20.6%	18.6%	40.1%	-30.0%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	114	122	142	95
<i>b Net Working Capital (Average Days)</i>	92	103	125	77
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.4	2.7	4.1	5.2
3 Coverages				
<i>a EBITDA / Finance Cost</i>	10.1	7.9	3.7	3.4
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.0	3.4	1.4	1.0
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Financ</i>	4.4	2.1	5.5	7.6
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	45.5%	56.3%	70.8%	84.6%
<i>b Interest or Markup Payable (Days)</i>	46.7	29.4	56.6	75.8
<i>c Entity Average Borrowing Rate</i>	2.2%	5.7%	5.3%	4.8%

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+	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	
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	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.
CC	
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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk 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)

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.
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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
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- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 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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