The Pakistan Credit Rating Agency Limited

Rating Report

Maksons Textile (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
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

The assigned ratings incorporate Maksons Textile (Pvt.) Limited sound operating track record with a modest presence in the textile sector, depicted by its niche market operations and good margins. Same is due to long standing presence in the industry which has helped in establishing the strong trade relations with suppliers and customers. Maksons Textile (Pvt.) Limited is a venture of a group of four family members who are shareholders of Al-Tariq Group - specializing in engineering, presence in construction, trading, textile and power generation. Presence of senior management team that possesses considerable experience in the textile is positive. The Company's sales mix remain titled towards exports where topline clocked at PKR 893mln in 2QFY22 (2QFY21: PKR 678mln). Despite of higher cost of sales and finance cost, increased in revenue resulted in higher profitability. The financial risk is revealing moderate leveraging, improved gross coverage and minor increased in working capital cycle. During the period July-December FY21-22, textile exports of the country surged 26 percent YoY, fielding $9.39 billion in total export remittances, as compared to $7.44 billion in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of value-added textile items increased in both quantity and value in December 2021.

The ratings are dependent on Company's ability to sustain its business profile while maintaining margins. Meanwhile, maintaining a moderately leveraged capital structure and adequate coverages is vital. 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 Rating(Jun-21),Criteria | Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria | Rating Modifiers(Jun-21)
Related Research	Sector Study | Weaving(Aug-21)
Rating Analysts	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 The Company is a venture of a group of four family members who are shareholders of Al-Tariq Group. Sponsors decided to diversify their business in textile segment and incorporated textile arm.

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

Ownership

Ownership Structure Shareholding of the Company is vested with 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 is considered necessary for the stability of the Company. Documenting an understanding between sponsors would improve and simplify certain aspects for future.

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 growing their several companies in the respective sectors.

Financial Strength Al-Tariq Group has a strong presence in the engineering sector. Furthermore, sponsors have shown willingness and ability to support the Company historically. 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 Quddoos whereas Mr. Khalid Majeed is the CEO. 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, 2021. The auditors are QCR rated by the Institute of Chartered Accountants of Pakistan and are in 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 good 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 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 the period July-December FY21-22, textile exports surged 26 percent YoY, fielding $9.39 billion in total export remittances, as compared to $7.44 billion in the same period last year. This is attributable to increase in demand for textile products internationally and channeling of export orders towards Pakistani market. On a YoY basis, the exports of value-added textile items increased in both quantity and value in December 2021. Going forward, the textile sector's outlook is expected to stay positive in the medium term where the demand for textile products is expected to sustain. In the local market, the textile sector has recorded strong performance. The relief measures introduced by the State Bank of Pakistan such as deferment of loan payments for one year, low-interest rates, and salary refinance scheme also provided comfort to the sector. Many players have also availed the TERF scheme announced by the Central Bank. This will lead to overall leverage of the sector to increase; however, on relaxed financing rates. The sustainability of demand pattern for the current higher orders from Europe and USA remains essential for the feasible utilization of added capacity by textile players.

Relative Position The company is relatively a mid tier 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 segment is Nishat Mills with 794 installed looms.

Revenues The Company is engaged in the manufacturing and sale of fabric. Sales mix is majorly tilted towards exports - major export destinations in FY21 were European regions. Top line clocked in at PKR 1.3bln in FY21 after observing slight attrition compared with FY20 (PKR 1.4bln). Operating profits for FY21 recorded sizable dilution to PKR 82mln (FY20: PKR 126mln). However, decreased finance cost of PKR 20mln (FY20: PKR 40mln) assisted the bottom line. Net profitability for FY21 recorded at PKR 37mln (FY20: PKR 69mln). The Company's performance bounced back in 1HFY22 as topline improved to PKR 893mln (1HFY21: PKR 678mln). Net profitability of the Company improved to PKR 130mln (1HFY21: PKR 42mln).

Margins Gross profit margin stood at 25.2% for 1HFY22 (FY21: 11.7%) attributable to favorable international prices. Cost of goods sold was managed well which lead to improvement in operating profit margins to 19.8% (FY21: 6.1%). Hence, net profit margin observed sizable increase to 14.5% (FY21: 2.7%)

Sustainability Textile industry recorded resilient comeback after opening up of economy when restrictions were eased post COVID-19 pandemic. Many textile players have announced capacity expansions availing TERF offered by State Bank of Pakistan. The Company is also doing BMR and is in process of converting its old SULZER looms into AIRJET looms.

Financial Risk

Working Capital Net cash cycle has displayed notable improvement to stand at 95days (FY21: 122 days). This is attributable to decline in receivable days (1HFY22: 54days, FY21: 72days). Net trade assets stood at PKR 413mln in 1HFY22 which is higher than the FY21 (PKR 395mln). This is displaying adequate cushion available for the Company.

Coverages Free Cash Flows from Operations (FCFO) declined in FY21 to 149mln (FY20: PKR 252mln) - attributable to lower profitability in the year. However, interest coverage ratio improved to 10.8x (end-Jun20: 7.3x) due to reduced finance cost. Whereas, debt coverage ratio displayed marginal decline to 2.4x (FY20: 3.4x).

Capitalization The capital structure is moderately leveraged, with leveraging at 42.1% as at end-Dec21 (end-Jun21: 58.1%). Short term borrowings comprise of 18.2% of the total borrowings. However, during 1HFY22, short term borrowings recorded notable increase to stand at PKR 204mln (end-Jun21: PKR 98mln) while long term borrowings remained at PKR 151mln. Equity base of the company improved to PKR 517mln (end-Jun21: 387mln). Further strengthening of equity base over the years by re deployment of profitability will remain vital.

PKR mln

Rana Umer Farooq	Dec-21	Jun-21	Jun-20	Jun-19
Weaving	6M	12M	12M	12M
A BALANCE SHEET				
1 Non-Current Assets	604	441	461	529
2 Investments	-	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	641	723	592	614
a Inventories	*407*	*222*	*271*	*259*
b Trade Receivables	*159*	*367*	*161*	*248*
5 Total Assets	1,245	1,164	1,053	1,143
6 Current Liabilities	319	209	220	149
a Trade Payables	*169*	*56*	*73*	*70*
7 Borrowings	376	293	267	471
8 Related Party Exposure	-	244	188	217
9 Non-Current Liabilities	33	31	24	21
10 Net Assets	517	387	353	285
11 Shareholders' Equity	517	387	353	285
B INCOME STATEMENT				
1 Sales	893	1,337	1,406	1,271
a Cost of Good Sold	*(668)*	*(1,181)*	*(1,206)*	*(1,156)*
2 Gross Profit	225	156	200	115
a Operating Expenses	(49)	(74)	(74)	(91)
3 Operating Profit	176	82	126	24
a Non Operating Income or (Expense)	*(13)*	*(5)*	*5*	*158*
4 Profit or (Loss) before Interest and Tax	164	77	131	182
a Total Finance Cost	*(25)*	*(20)*	*(40)*	*(47)*
b Taxation	*(9)*	*(21)*	*(23)*	*(17)*
6 Net Income Or (Loss)	130	37	69	118
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*139*	*132*	*234*	*128*
b Net Cash from Operating Activities before Working Capital Changes	*139*	*117*	*196*	*79*
c Changes in Working Capital	-	*(106)*	*37*	*7*
1 Net Cash provided by Operating Activities	139	11	233	86
2 Net Cash (Used in) or Available From Investing Activities	-	(43)	(2)	(7)
3 Net Cash (Used in) or Available From Financing Activities	-	121	(341)	(77)
4 Net Cash generated or (Used) during the period	139	90	(110)	2
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	33.6%	-4.9%	10.6%	-19.8%
b Gross Profit Margin	25.2%	11.7%	14.2%	9.0%
c Net Profit Margin	14.5%	2.7%	4.9%	9.3%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	15.5%	1.9%	19.3%	10.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sl*	57.4%	9.9%	21.5%	52.2%
2 Working Capital Management				
a Gross Working Capital (Average Days)	118	139	122	142
b Net Working Capital (Average Days)	95	122	103	125
c Current Ratio (Current Assets / Current Liabilities)	2.0	3.5	2.7	4.1
3 Coverages				
a EBITDA / Finance Cost	6.3	12.2	7.9	3.7
b FCFO / Finance Cost+CMLTB+Excess STB	4.2	2.4	3.4	1.4
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.7	3.7	2.1	5.5
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	42.1%	58.1%	56.3%	70.8%
b Interest or Markup Payable (Days)	26.6	61.6	29.4	56.6
c Entity Average Borrowing Rate	11.4%	3.0%	5.7%	5.5%

Credit Rating

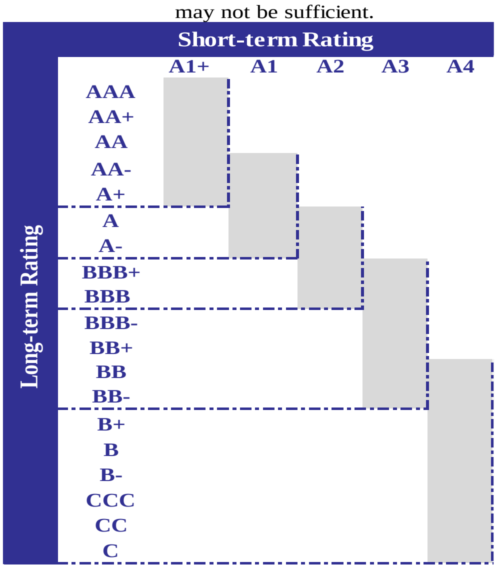
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
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.
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.
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+ 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.
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.

Short-term Rating

Scale	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
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 surveill 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):

Entities

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

Instruments

a) Basel III Compliant Debt Instrument Rating
b) Debt Instrument Rating
c) Sukuk Rating

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2) **Conflict of Interest**
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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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Conduct of Business
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(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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(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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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)
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