



The Pakistan Credit Rating Agency Limited

## Rating Report

### Roomi Fabrics Limited

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-Jun-2024	A-	A2	Stable	Maintain	-
23-Jun-2023	A-	A2	Stable	Maintain	-
25-Jun-2022	A-	A2	Stable	Maintain	-
25-Jun-2021	A-	A2	Stable	Maintain	Yes
26-Jun-2020	A-	A2	Stable	Maintain	Yes
27-Dec-2019	A-	A2	Stable	Maintain	-
28-Jun-2019	A-	A2	Stable	Maintain	-
28-Dec-2018	A-	A2	Stable	Maintain	-
30-Jun-2018	A-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

The rating reflects the adequate presence of Roomi Fabric Limited ('the company' or "RFL) in the textile industry of Pakistan. The principal activity of the company is the manufacturing and sale of yarn, grey cloth, home textiles, and terry towels. The financial strength of the Company primarily divests into the six companies that operate under the umbrella of the Masood Roomi group which includes Roomi Fabrics Limited, Masood Fabrics Limited, Masood Apparels (Pvt.) Limited, Roomi Home (Pvt.) Limited, Masood Holdings (Pvt.) Limited, and Roomi Holdings (Pvt.) Limited. The board is dominated by the sponsoring family and acts more in an execution role as they possess considerable industry-specific exposure. The company has recently executed a CAPEX and added a production facility to enhance manufacturing capacity for terry towels. The Company has dependency on the procurement of imported raw cotton reflects inherent supply chain and foreign exchange risk for the price transferability matrix. The top customers of the Company are stable entities that provide comfort to the business sustainability. During 9MFY24, the Company generated a topline of PKR 17.9bln (FY23: PKR 24.9bln) mainly dominated by the export segment, with exporting countries in Asia, Europe, America, and Africa. In recent times, the Company's profitability matrix has been under stress on account of a consistent surge in raw cotton prices, and escalated energy tariffs coupled with magnifying finance costs. However, the non-operating income from long-term equity investment in blue chip companies has created a buffer in the Company's profitability and provided some support to the margins. The financial risk profile of the Company is adequate considering the leveraged capital structure and stretched working capital management. The cashflows and coverages of the Company are considered adequate and need improvement. The Pakistan textile industry size is estimated to be PKR 2.62Trn in LSM (Large Scale Manufacturing) ~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector has a contribution of ~ PKR 1.6Trn mainly dominated by knitwear, readymade garments, bedwear, and towels followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs & finance costs, PKR devaluation, and ensuring the availability of optimum quality raw materials are prime challenges specific to the industry to assess the international market and stay price-wise competitive

The ratings are dependent upon the Company's ability to prudent working capital management. Improvement in coverages, sustainability of margin, and sufficient generation of cash flows from core operations while expanding business volumes remains vital. Adherence to the debt matrix at an optimal level is a prerequisite for assigned ratings

#### Disclosure

<b>Name of Rated Entity</b>	Roomi Fabrics Limited
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-24)
<b>Related Research</b>	Sector Study   Composite and Garments(Dec-23)
<b>Rating Analysts</b>	Muhammad Harris Ghaffar   harris.ghaffar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Roomi Fabrics Limited was incorporated in Pakistan in 2002, as a Public Limited Company.

**Background** Roomi Fabrics Limited was formerly associated with the Mahmood Group, which was originally established in 1935, initially entering the tannery business. Now the group has a presence in the complete textile chain (growing to finished products), tanneries, real estate, and food

**Operations** The Company is principally engaged in the manufacturing and sale of yarn and greige fabric, primarily catering to the home textile and terry towel segment. Roomi Fabrics Limited operates 36,000 spindles, 258 weaving looms, 50 Terry Looms, 129 Stitching Machines, and 5 Quilting Machines. The Company has a total of 10 generators installed, which produce 23.4 MW of electricity.

## Ownership

**Ownership Structure** Mr. Khawaja Jalaluddin Roomi is the Chairperson. The ownership of the Company rests with the family of Mr. Roomi including his wife, sons and sisters. The major shareholding of the Company is owned by Mr. Khawaja Jalaluddin Roomi which is 26.96%

**Stability** A defined and streamlined shareholding pattern along with clear succession adds strength to the structure. However, documentation of the succession plan would bring clarity to the stability of ownership

**Business Acumen** Mr. Khawaja Jalaluddin Roomi - is a graduate with an overall experience of over 30 years. He has vast experience in leading different governments, semi-government, and public limited companies, developing credential expertise over time which provides sufficient business acumen, to sustain any upcoming challenges.

**Financial Strength** Roomi Fabric is a part of the Masood-Roomi Group. The sponsoring family has three other textile Companies; Masood Fabric Limited, Roomi Home, and Masood Apparels, and two holding Companies Masood Holding and Roomi Holding. This indicates sponsors' ability to provide support if the need arises

## Governance

**Board Structure** The Company's board comprises three members, including the Chairman – Khawaja Jalaluddin Roomi. The rest of the positions are vested with his two sons; the company's CEO Khawaja Najam-Ud-Din Roomi. and Khawaja Hassam-ud-Din Roomi.

**Members' Profile** The board has vast knowledge and experience in the textile industry. The CEO's expertise in various stages of the textile value chain leads to a good skill mix. Both sons have taken up executive positions in the company and are looking after strategic affairs

**Board Effectiveness** The total number of meetings held during the year was four, which were attended by all the members. High attendance bodes well for board effectiveness. However, there is room for improvement in recording minutes and establishing best governance practices.

**Financial Transparency** Yousuf Adil, Chartered Accountants, classified in category A by the SBP's panel of auditors are the external auditors of the Company. The auditors issued an unqualified opinion on the Company's financial statements for the year ended on 30th June, 2023

## Management

**Organizational Structure** Top-tier management functions are held at the group level by the sponsors, whereas the middle tier is taken care of by a team of experienced professionals. The organizational structure of the Company is divided into various departments reporting to CEO

**Management Team** The top management is supported by a team of professionals working under various sub-divisions to ensure smooth reporting. Mr. Roomi – chairman has more than three decades of textile experience and has been in his current position for over 20 years. Mr. Javed Anjum - Director of Finance - is a qualified Chartered Accountant with an overall experience of more than 15 years. He also serves as the Company Secretary. Most of the senior management has been associated for a considerable amount of time

**Effectiveness** There are management committees in place that are supervised by the board members which ensures the effectiveness of the structure.

**MIS** The Company's MIS is generated on a monthly and daily basis, for all units. Various reports are collected and submitted to higher management regarding monthly operations, finished goods, cotton reconciliation reports, yield reports, and raw material reports, cashflows, daily production etc.

**Control Environment** To effectively manage online reporting, the group has in place two teams, one for ERP and the other for IT support. In addition to this, the group has in place two committees, one for order management and the other for human resources.

## Business Risk

**Industry Dynamics** The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn in LSM (Large Scale Manufacturing) ~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector has a contribution of ~ PKR 1.6Trn mainly dominated by knitwear, readymade garments, bedwear and towels followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs & finance costs, PKR devaluation, and ensuring the availability of optimum quality raw materials are prime challenges specific to the industry to assess the international market and stay price-wise competitive.

**Relative Position** With 36,000 spindles and 308 looms installed, the Company can be classified as a middle-tier textile Company.

**Revenues** During FY23, the net sales enhanced to PKR 24.9bln (FY22: PKR 23.5bln). The sales mix remained tilted towards export. Further analysis reveals that within the export sales, the largest contribution is from the spinning and weaving segments with a sizable quantity. Hence, the net profitability decreased to PKR 756mln (FY22: PKR 1.1bln). As of Mar'24, the topline of the company stood at PKR 17.8bln.

**Margins** During FY23, the gross margin reflected a decline at 19.9% (FY22: 23.2%) followed by a hike in production cost. The operating margin also improved to 15.1% (FY22: 18.4%) The net profit of the company saw a sizeable decline to stand at PKR 1.36bln (FY22: PKR 2.1bln) Consequently, the net profit margin stood at 5.4% (FY22: 8.8%). As of Mar'24, the gross margin and net margin of the company stood at 18.9% and 0.8%.

**Sustainability** The Company plans to enhance towel production by installing new terry looms. The Company is finding new avenues of revenue generation with the help of capital investment in a new Dyeing unit, an increase in terry looms, and the installation of solar plates.

## Financial Risk

**Working Capital** The Company meets its working capital requirements through a mix of internal generation and short-term borrowings (STBs). At end-Jun23, the company's net working capital days remained stagnant at 166 days (end-Jun 22: 166 days) The inventory days were recorded at 141 days (end-Jun 22: 139 days). The company's short-term leverage stood at 2.6% (end-Jun22: 6.4%) due to an increase in trade assets recorded at PKR 14.7bln (end-Jun22: PKR 13.7bln). At end-Mar24, the net working capital days stood at 175 days.

**Coverages** At end-Jun23, the company's free cash flows from operations marginally increased to PKR 2.85bln (end-Jun22: PKR 2.81bln). The company's interest coverage ratio declined to 1.4x (end-Jun22: 2.3x). The company's debt payback extended to 8.0 years (end-Jun22: 2.8 years). At end-Mar24, the company's interest coverage and core operating coverage stood at 1.1x and 0.8x respectively.

**Capitalization** At end-Jun23, the company had a highly leveraged capital structure. The company's leveraging inched up to 73.3% (end-Jun22: 74.9%). During FY23, the company's equity base increased to PKR 6.7bln (end-Jun22: PKR 6bln). Total borrowings to stand at PKR 21.1bln (end-Jun22: PKR 18bln). At end-Mar24, the company's equity base stood at PKR 6.9bln. The company's leveraging clocked in at 75.7%



Roomi Fabrics Limited Textiles   Allied	Mar-24	Jun-23	Jun-22	Jun-21
	9M	12M	12M	12M

#### A BALANCE SHEET

1 Non-Current Assets	10,981	9,503	7,310	5,626
2 Investments	3,202	2,812	2,595	4,019
3 Related Party Exposure	1,740	1,709	1,362	262
4 Current Assets	16,361	17,135	16,083	12,255
<i>a Inventories</i>	9,945	10,492	8,771	5,849
<i>b Trade Receivables</i>	2,926	2,510	3,406	2,257
5 Total Assets	32,284	31,159	27,350	22,162
6 Current Liabilities	3,475	3,026	3,109	2,072
<i>a Trade Payables</i>	1,600	1,372	1,111	1,108
7 Borrowings	21,582	21,107	18,038	15,473
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	295	240	173	-
10 Net Assets	6,932	6,785	6,029	4,616
11 Shareholders' Equity	6,932	6,785	6,029	4,616

#### B INCOME STATEMENT

1 Sales	17,885	24,942	23,500	16,194
<i>a Cost of Good Sold</i>	(14,497)	(20,196)	(18,812)	(14,238)
2 Gross Profit	3,388	4,746	4,688	1,956
<i>a Operating Expenses</i>	(936)	(1,299)	(1,786)	(766)
3 Operating Profit	2,452	3,447	2,902	1,189
<i>a Non Operating Income or (Expense)</i>	342	(311)	33	491
4 Profit or (Loss) before Interest and Tax	2,794	3,137	2,935	1,680
<i>a Total Finance Cost</i>	(2,353)	(2,124)	(1,308)	(1,067)
<i>b Taxation</i>	(295)	(257)	(481)	(261)
6 Net Income Or (Loss)	147	756	1,147	352

#### C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	2,548	2,858	2,814	1,541
<i>b Net Cash from Operating Activities before Working Capital C</i>	307	1,052	1,604	530
<i>c Changes in Working Capital</i>	1,118	(2,396)	(2,969)	(1,883)
1 Net Cash provided by Operating Activities	1,425	(1,344)	(1,366)	(1,352)
2 Net Cash (Used in) or Available From Investing Activities	(1,906)	(1,838)	(777)	(2,095)
3 Net Cash (Used in) or Available From Financing Activities	371	3,229	2,196	3,383
4 Net Cash generated or (Used) during the period	(109)	47	54	(64)

#### D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	-4.4%	6.1%	45.1%	--
<i>b Gross Profit Margin</i>	18.9%	19.0%	19.9%	12.1%
<i>c Net Profit Margin</i>	0.8%	3.0%	4.9%	2.2%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Ca</i>	20.5%	1.9%	-0.7%	-2.1%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Toi</i>	2.9%	11.8%	21.5%	7.6%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	198	184	183	N/A
<i>b Net Working Capital (Average Days)</i>	175	166	166	26
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	4.7	5.7	5.2	5.9
3 Coverages				
<i>a EBITDA / Finance Cost</i>	1.3	1.5	2.4	1.7
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	0.8	1.0	1.4	0.9
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fin</i>	21.1	8.0	2.8	7.0
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity,</i>	75.7%	75.7%	74.9%	77.0%
<i>b Interest or Markup Payable (Days)</i>	96.8	123.0	107.9	97.2
<i>c Entity Average Borrowing Rate</i>	14.0%	10.9%	7.8%	6.5%

### 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.

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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- (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).
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- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
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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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- (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 | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)

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