The Pakistan Credit Rating Agency Limited

Rating Report

Maqbool Textile Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
18-Feb-2023	BBB+	A2	Stable	Maintain	Yes
19-Feb-2022	BBB+	A2	Stable	Maintain	-
20-Feb-2021	BBB+	A2	Stable	Maintain	-
21-Feb-2020	BBB+	A2	Stable	Maintain	-
23-Aug-2019	BBB+	A2	Stable	Maintain	-
21-Feb-2019	BBB+	A2	Stable	Maintain	-
31-Aug-2018	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect Maqbool Textile’s long track record and association with Maqbool Group, a group with a presence in the textile and seed oil extraction industry. Maqbool textile is a public listed company. During FY22, the company added a newly erected MVS spinning unit with 576 MVS spindles to increase its production capacity equivalent to 12,000 conventional ring spindles. The company’s top line displayed a sizeable improvement at PKR 10.3bln (FY21: PKR 7.3bln). The contribution to local sales improved YoY where the exports also recorded an uptick. The expenses illustrated a higher trend. The net profitability displayed a good increase YoY at PKR 269mln (FY21: PKR 156mln) attributable to higher demand for textile products. The margins and coverages demonstrated a slight improvement. The leveraging inched up attributable to the enhanced equity base recorded at PKR 2.8bln. During 1HFY23, the company’s operating profit witnessed a dip YoY on the back of higher expenses. The finance cost increased manifold and the company recorded net losses of 200mln due to a low demand pattern. The debt structure is skewed towards short-term borrowings. The rating watch has been incorporated attributable to incurred losses and the aforementioned parameters. During 7MFY23, the textile exports were valued at $10.08bln compared to $10.93bln, reflecting an 8% decline YoY – the declining trend has been recorded in the last few months. The decline in exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand for yarn in international markets is also a challenge. The analysis of 5MFY23 reveals that among value-added items, bedwear has witnessed the largest decline of 19% (on an MoM basis), down to $217 million. Knitwear remained on the downward path in October 2022 and declined by 10% to $392 million. Among non-value-added items, the cotton yarn has shown the largest decline of 35%. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve post-Jun-23.

The ratings are dependent upon the management's ability to improve margins, profitability, and financial profile of the company. This includes avoiding any asset-liability mismatch that may arise and effectively managing its position in a competitive segment. Any deterioration in debt coverages leading to higher financial risk or subdued profitability will have a negative impact on ratings.

Disclosure

Name of Rated Entity	Maqbool Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Spinning(Sep-22)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Legal Structure Maqbool Textile Mills Limited ('Maqbool Textile' or 'The Company') – the flagship company of Maqbool Group – commenced operations in 1989 and is listed on the Pakistan Stock Exchange. With its head office based in Multan, the Company is engaged in cotton ginning, manufacturing, and sale of cotton and polyester yarn.

Background Maqbool Group started operations in 1958, with the incorporation of a yarn spinning unit – Allawasaya Textiles & Finishing Limited. At present, the group has main interests in textile and seed oil extraction businesses. It was set up by the Maqbool family, a well-reputed business family of industrialists in Multan.

Operations Presently, the company operates four spinning units installed at Muzaffargarh (Unit I, II, and IV), and Tobatek Singh (Unit III), having a total capacity of 82,224 spindles (Unit I, II & III) and 576 MVS spindles (Unit IV), which are equivalent to 12000 conventional ring spindles.

Ownership

Ownership Structure Maqbool Textile is a public listed company with a majority stake held by Maqbool Group directly owned by individuals. Maqbool family holds a 75.22% stake in the company while the remaining 24.78% stake is held by the others.

Stability The second generation of the family has already joined the company and is actively engaged in managing affairs.

Business Acumen Maqbool family has been in the textile business since 1989. Besides textiles, the sponsors also have an interest in seed oil extraction.

Financial Strength Besides this company, Maqbool Group has invested in Mehmooda Maqbool Mills Limited. The sponsors of the Company have shown commitment to support Maqbool Textile, in case of need.

Governance

Board Structure The board comprises ten members. Out of this, four directors are non-executive, three directors occupy executive roles, and three directors are independent. Seven members of the board represent the Maqbool family.

Members' Profile Mr. Mian Tanvir Ahmed Sheikh is the Chief Executive Officer, while Mrs. Romana Tanvir Sheikh is the Chairperson of the company. The board members have vast knowledge and extensive experience in the textile industry. The directors' expertise in the textile industry benefits the board's efficient decision-making.

Board Effectiveness The board is supported by two committees i) Audit Committee and ii) HR & Remuneration committee to assist on relevant matters. The board meetings are conducted regularly and the meeting minutes are formally maintained.

Financial Transparency M/s. Yousaf Adil & Co. Chartered Accountants are the external auditors of the Company. The auditors have issued an unqualified opinion on the Company's financial statements for the period ending June 30th, 2022.

Management

Organizational Structure The organizational structure of the Company is divided into five main functions namely i) Sales & Marketing, ii) Procurement, iii) Admin & Finance, iv) Production, v) IT. All operational departments report directly to the CEO and the procurement lead takes guidance from both the CEO and Chairperson.

Management Team The current CEO of the Company, Mr. Mian Tanvir Ahmed Sheikh has been associated with the company since its inception. All members of the management have extensive experience in the textile industry.

Effectiveness The company has management committees in place for taking proactive decisions regarding routine affairs.

MIS The Company's operating environment depends upon an IT Infrastructure supported by an in-house programmed ERP. The IT system is fully integrated into all major departments and ensures proper financial and operational control. Daily reports include cash and bank position, stock consumption, per spindle cost, receivables, and inventory status while monthly production accounts are also maintained.

Control Environment Production is completely order-driven to avoid stock pile-ups. There is a quality control department in place to audit the quality of the output. HSE infrastructure seems appropriate and is emphasized. The Company has adequate relevant quality control standards to meet export requirements.

Business Risk

Industry Dynamics During 7MFY23, the textile exports were valued at $10.08bln compared to $10.93bln, reflecting an 8% decline YoY – the declining trend has been recorded in the last few months. The decline in exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand for yarn in international markets is also a challenge. The analysis of 5MFY23 reveals that among value-added items, bedwear has witnessed the largest decline of 19% (on an MoM basis), down to $217 million. Knitwear remained on the downward path in October 2022 and declined by 10% to $392 million. Among non-value-added items, the cotton yarn has shown the largest decline of 35%. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve post-Jun-23.

Relative Position The Maqbool family has been associated with the textile business since 1958. However, as a group and on a stand-alone basis their market share in the spinning sector is minimal.

Revenues The company generates a major portion of its revenue from local sales. The company's revenue base witnessed a robust increase in FY22 to stand at PKR 10.3bln (FY21: PKR 7.3bln) majorly comprising the sale of yarn. During FY22, the operating expenses increased to PKR 175mln (FY21: PKR 378mln). Despite an increase in the finance cost, the net profitability of the company stood at PKR 269mln (FY21: PKR 156mln). During 1HFY23, the revenue base of the company stood at PKR 4.6bln. The export sales reflected a slight decrease to stand at PKR 3.8bln. The gross profit witnessed a sizeable decline recorded at PKR 272mln. Due to higher interest rates, the company's finance cost increased manifold to stand at PKR 268mln. Hence, the company recorded losses of PKR 200mln.

Margins During FY22, the gross margin improved to 11% (FY21: PKR 9.8%) due to a sizeable improvement in revenues. The company's operating profit during the period inched up to 7.4% (FY21: 6.4%). The company's finance cost also increased to PKR 292mln (FY21: PKR 186mln). The net margin inched up to 2.6% (FY21: 2.1%). During 1HFY23, the company's gross margin stood at 5.8% attributable to higher expenses. The operating margin of the company declined to 2.1%.

Sustainability The company has been carrying out regular BMR to upgrade its old machinery with a new ones. Further, the company is adding back process and winding sections to the profile. This has resulted in improved efficiency and related strengthening of performance.

Financial Risk

Working Capital The company's net cash cycle days improved to 63 days at end-Jun'22 (end-Jun'21: 78 days). The inventory days also improved standing at 37 days (FY21: 50 days). The short-term trade leverage of the company declined to 2.9% (end-Jun'21: 10%). At end-Dec'22, the company's net cash cycle days increased to 91 days owing to an increase in the inventory days recorded at 70 days. At end-Dec'22, the trade assets of the company witnessed a decrease to stand at PKR 2.7bln. Due to this decrease, the company's short-term trade leverage was recorded at 1%.

Coverages At end-Jun'22, the free cash flows from operations witnessed a sizeable improvement to stand at PKR 861mln (end-Jun'21: PKR 473mln). The company's debt payback improved to 1.5 years (end-Jun'21: PKR 3.4 years). However, at end-Dec'22, the free cashflows from operations witnessed a decline. This decline is also reflected in a decrease in interest coverage and core debt coverage during the period. At end-Dec'22, the company's debt payback increased manifold reflecting that the company's profitability has declined.

Capitalization The company has a moderately leveraged capital structure. At end-Jun'22, the leveraging of the company increased to 54.2% (end-Jun'21: 53.1%). The equity base enhanced to PKR 2.8bln (end-Jun'21: PKR 2.1bln). At end-Dec'22, the leveraging further increased to 59.7%. The company's equity base stood at PKR 2.7bln. The company's total borrowings increased to PKR 3.9bln. Out of which short-term borrowings constitute 80.4% standing at PKR 3.2bln.

PKR mln

Maqbool Textile Mills Limited Textile and Allied	Dec-22 6M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	4,394	4,406	3,462	2,796
2 Investments	10	-	-	-
3 Related Party Exposure	-	-	-	-
4 Current Assets	4,176	3,604	2,016	2,440
a Inventories	*2,130*	*1,464*	*628*	*1,381*
b Trade Receivables	*1,282*	*1,210*	*852*	*599*
5 Total Assets	8,581	8,010	5,478	5,236
6 Current Liabilities	1,268	1,030	569	516
a Trade Payables	*1,009*	*425*	*149*	*169*
7 Borrowings	3,988	3,414	2,387	2,387
8 Related Party Exposure	-	-	-	55
9 Non-Current Liabilities	636	683	410	383
10 Net Assets	2,689	2,883	2,112	1,895
11 Shareholders' Equity	2,689	2,883	2,111	1,895
B INCOME STATEMENT				
1 Sales	4,667	10,381	7,352	5,842
a Cost of Good Sold	*(4,395)*	*(9,232)*	*(6,631)*	*(5,222)*
2 Gross Profit	272	1,149	721	620
a Operating Expenses	(175)	(378)	(251)	(211)
3 Operating Profit	97	770	470	409
a Non Operating Income or (Expense)	*4*	*27*	*(11)*	*(14)*
4 Profit or (Loss) before Interest and Tax	100	797	459	394
a Total Finance Cost	*(268)*	*(292)*	*(186)*	*(262)*
b Taxation	*(32)*	*(236)*	*(116)*	*(106)*
6 Net Income Or (Loss)	(199)	269	156	26
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*(167)*	*861*	*473*	*441*
b Net Cash from Operating Activities before Working Capital Changes	*(167)*	*609*	*282*	*203*
c Changes in Working Capital	-	*(1,221)*	*479*	*(605)*
1 Net Cash provided by Operating Activities	(167)	(613)	761	(402)
2 Net Cash (Used in) or Available From Investing Activities	-	(353)	(778)	(168)
3 Net Cash (Used in) or Available From Financing Activities	-	990	(13)	586
4 Net Cash generated or (Used) during the period	(167)	23	(29)	15
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	-10.1%	41.2%	25.8%	-6.3%
b Gross Profit Margin	5.8%	11.1%	9.8%	10.6%
c Net Profit Margin	-4.3%	2.6%	2.1%	0.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-3.6%	-3.5%	13.0%	-2.8%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	-14.3%	10.8%	7.8%	1.4%
2 Working Capital Management				
a Gross Working Capital (Average Days)	119	73	86	113
b Net Working Capital (Average Days)	91	63	78	93
c Current Ratio (Current Assets / Current Liabilities)	3.3	3.5	3.5	4.7
3 Coverages				
a EBITDA / Finance Cost	-0.6	3.5	3.4	2.2
b FCFO / Finance Cost+CMLTB+Excess STB	-0.4	2.0	1.2	1.1
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	-1.3	1.5	3.4	2.7
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	59.7%	54.2%	53.1%	56.3%
b Interest or Markup Payable (Days)	100.3	99.3	74.1	83.3
c Entity Average Borrowing Rate	13.9%	8.6%	7.8%	12.1%

Credit Rating

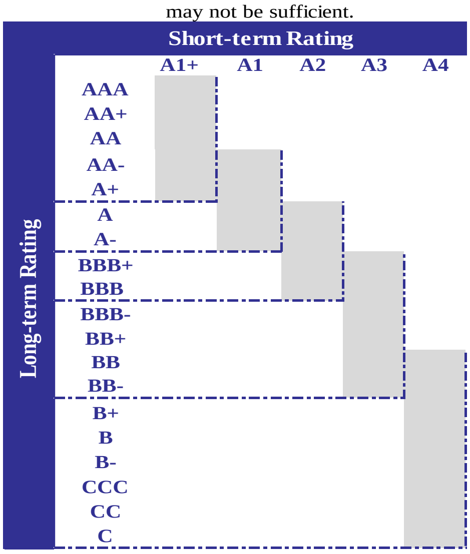
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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):

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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

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 | Clause 11-(A)(p).
(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