The Pakistan Credit Rating Agency Limited

Rating Report

Al Barka Fabrics (Pvt.) Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Jan-2022	BBB+	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned ratings of Al Barka Fabrics reflect adequate positioning of the company in the Processed fabrics, home-textile and made-ups industry. AL Barka Fabrics is flagship company of AL Barka Group. The group has long standing association with the textile sector. The group is eying diversification in other sectors in upcoming years. The Company has been operational as a private company principally engaged in Textile Processing (Bleaching, Dying, Printing, Stitching). Governance framework lacks independent oversight. The Company's management involves experienced professionals looking after operations of the Company. The business profile emanating from in the broader value-chain; enabling the company to manage volatility in the textile industry. Sales mix, dominated by exports, display steady improvement over the years. The Company enjoys established customer base with several export destinations in Europe, South America, Russia and UK. Revenues are majorly driven by exports where the company enjoys long association with customers abroad. During FY21, the Company's revenues increased to PKR 4.3bln (FY20: PKR 2.3bln), primarily exports. Operating profits and net profitability recorded sizable improvement in the recent year. Net profitability also witnessed improvement whilst margins remained strong. Management of receivables is essential. The Company continues to maintain moderately leveraged capital structure and good coverages.

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. 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.

The ratings are dependent upon the management's ability to capitalize on growth opportunities in a competitive landscape, operate at optimal level and sustain margins, going forward. The company is expected to adhere to conservative financial discipline, which would be crucial to ratings.

Disclosure

Name of Rated Entity	Al Barka Fabrics (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 | Composite and Garments(Dec-21)
Rating Analysts	Sehar Fatima | sehar.fatima@pacra.com | +92-42-35869504

Profile

Legal Structure Al Barka Fabrics was incorporated as a private limited company on March 3, 1998. The registered office of the Company is situated at 1-KM Jaranwala Road, Khurianwala, Faisalabad, Punjab

Background The foundation of Al Barka Fabrics was laid by Mr. Muhammad Aslam Sheikh in 1998. The Company has been growing since then and has evolved as prominent exporter in processed fabric. The group has more than three decades long association with the textile sector.

Operations The Company has an integrated network of fabrics processing. The manufacturing facility comprises of bleaching, dying & printing process.

Ownership

Ownership Structure The ownership structure lies within the family of Mr. Muhammad Aslam Sheikh. Mr. Aslam owns majority stake (50%) of the Company. The rest of shareholding is owned in equal proportion by Mr. Aslam's wife Mrs. Riffat Aslam and sons Mr. Muhammad Saad Sheikh & Mr. Muhammad Asad Sheikh.

Stability The stability of ownership structure may be improved by documenting understanding between sponsors in the form of a shareholding agreement.

Business Acumen The Company was setup by Mr. Muhammad Aslam, a seasoned professional of fabrics having the rich experience of thirty-six years in fabric business. He has enabled the Company in expanding its operations despite challenging market dynamics. Eventually, benefiting the company in effective decision making.

Financial Strength The sponsoring family of Mr. Sheikh is also expanding its business group by diversifying into other industries through Al Barka Solar, Al Barka Oil Refinery and Al Barka Construction. Being the flagship company of the group, the support is inevitable in case need arises.

Governance

Board Structure The Company's board comprises four members. All members are from the sponsoring family. The position of Chairman and CEO vests with Mr. Muhammad Aslam Sheikh.

Members' Profile The members of the board are a blend of seasoned and young professionals. Mr. Aslam has rich experience of three decades while his sons are young and looking after textile and other new projects.

Board Effectiveness The meetings are held regularly in which discussion on various aspect are recorded in minutes. The attendance of the members is also considered good.

Financial Transparency RSM Avais Hyder Liaquat Nauman Chartered Accountants, who are categorized in category' B by the SBP and have a QCR rating by ICAP, are the external auditors of the company. They have expressed unqualified opinion on the financial statements of the company for the year ended June 30, 2021.

Management

Organizational Structure The organizational structure of the company is divided into various functional departments, mainly named as : 1) Production 2) Finance 3) Sales and Marketing 4) H.R & Admin. All the departments report into CEO.

Management Team Overall management control is in the hands of the CEO - Mr. Muhammad Aslam Sheikh. His sons Mr. Muhammad Asad Sheikh and Mr. Muhmmad Saad Sheikh are also holding position of directors in the Company. Mr. Naeem Zia is the Chief Financial Officer of the company and holds long association with different companies in textile sector.

Effectiveness The management meetings are held on a periodic basis with follow-up points to resolve or pro-actively address operational issues, if any, eventually ensuring smooth flow of operations. The meeting is headed by the CEO.

MIS The Company has deployed in house Oracle based Enterprise Resource Planning (ERP) system that provides comprehensive MIS reporting. The Company has fully automated ERP in place as per the need to maintain the efficiency of operations.

Control Environment The Company is accredited with international certifications for compliance. Al Barka Fabrics has valid certificates for its products and facilities and is periodically audited by internationally recognized certification bodies. Moreover, IT systems cover integration of business processes, optimizing resources using synchronization and planning. The core software can manage from production to dispatch, as well as financial and procurement requirement.

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 enjoys adequate market share in the home-textile fabrics and made-ups industry.

Revenues The analysis of the last three years reveals that the Company's revenue base has been following an increasing trend. During FY21, revenue recorded sizable increase of 81% clocking in at PKR 4.34bln (FY20: PKR 2.4bln). Sales mix, dominated by exports, display steady improvement over the years. The Company enjoys established customer base with several export destinations in Europe, South America, Russia and UK. During FY21, the Company's gross profits increased to PKR 636mln (FY20: PKR 282mln). Hence, the net profitability clocked in at PKR 285mln (FY20: PKR 82mln). The increasing trend of profitability is expected to follow the same pattern in the future years as company is eying further penetration in several markets abroad.

Margins During FY21, gross profit margin increased to 14.6% (FY20: 11.8%). Attributable to the increased revenue base, the Company's operating profits and net profitability recorded improvement as well. Furthermore, net profit margin increased to 6.6% (FY20 3.4%).

Sustainability The Company has decades long history where organic growth has been witnessed. The planned diversification into other sectors will strengthen the group's presence in the relevant markets. The Company is also planning expansion in current installed capacity where backward integration may also be planned given the favorable scenario of relevant industry.

Financial Risk

Working Capital During FY21, net working capital cycle days decreased to 126 days (FY20: 199 days) on account of decrease in average receivable days 68 days (FY20: 103 days) and inventory days to 101days (FY20: 131 days). Al Barka Fabrics Ltd. net trade assets increased by 52% and stood at PKR 2,964mln (FY20: PKR 1,938mln) which reflects good cushion in trade assets.

Coverages Free cash flows (FCFO) recorded strong growth YoY to stand at PKR 370mln (FY20: PKR 167mln), owing to better profitability. In line with this, the Company's coverage increased, with interest coverage clocking in at 13.2x (FY20: 8.6x) while core coverage decreased to 6.3x (FY20: 6.9x).

Capitalization At end-June21, leveraging increased moderately to 39.7% (FY20: 34%). Total debt stood at PKR 1bln (FY20: PKR 664mln), comprising 90.7% (FY20: 93.7%) of short-term borrowings. The equity base of the company increased by 21% clocking in at PKR 1,644mln (FY20: PKR 1,355mln). The strengthening equity base, over future years, will remain vital in case of any increase in borrowings.

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Financial Summary
PKR mln

Al Barka Fabrics	Jun-21	Jun-20	Jun-19
Textile | Composite	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	482	322	286
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	3,183	2,216	1,728
a Inventories	*1,474*	*936*	*782*
b Trade Receivables	*831*	*780*	*577*
5 Total Assets	3,665	2,538	2,015
6 Current Liabilities	874	432	217
a Trade Payables	*712*	*320*	*146*
7 Borrowings	1,051	664	465
8 Related Party Exposure	33	33	30
9 Non-Current Liabilities	64	54	21
10 Net Assets	1,644	1,355	1,282
11 Shareholders' Equity	1,644	1,355	1,282
B INCOME STATEMENT			
1 Sales	4,344	2,399	1,829
a Cost of Good Sold	*(3,708)*	*(2,117)*	*(1,525)*
2 Gross Profit	636	282	304
a Operating Expenses	(283)	(136)	(104)
3 Operating Profit	353	146	200
a Non Operating Income or (Expense)	*6*	*0*	-
4 Profit or (Loss) before Interest and Tax	359	146	200
a Total Finance Cost	*(37)*	*(26)*	*(33)*
b Taxation	*(37)*	*(39)*	*(20)*
6 Net Income Or (Loss)	285	82	147
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*370*	*167*	*208*
b Net Cash from Operating Activities before Working Capital	*339*	*144*	*175*
c Changes in Working Capital	*(575)*	*(237)*	*(165)*
1 Net Cash provided by Operating Activities	(236)	(94)	10
2 Net Cash (Used in) or Available From Investing Activities	(139)	(58)	(51)
3 Net Cash (Used in) or Available From Financing Activities	323	204	55
4 Net Cash generated or (Used) during the period	(52)	52	13
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	81.1%	31.1%	3.9%
b Gross Profit Margin	14.6%	11.8%	16.6%
c Net Profit Margin	6.6%	3.4%	8.0%
d Cash Conversion Efficiency (FCFO adjusted for Working C	-4.7%	-2.9%	2.4%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	19.0%	6.2%	12.2%
2 Working Capital Management			
a Gross Working Capital (Average Days)	169	234	276
b Net Working Capital (Average Days)	126	199	250
c Current Ratio (Current Assets / Current Liabilities)	3.6	5.1	8.0
3 Coverages			
a EBITDA / Finance Cost	14.9	10.1	9.9
b FCFO / Finance Cost+CMLTB+Excess STB	6.3	6.9	9.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	0.3	0.3	0.2
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equit	39.7%	34.0%	27.9%
b Interest or Markup Payable (Days)	92.3	89.7	47.0
c Entity Average Borrowing Rate	3.2%	3.3%	5.0%

Credit Rating

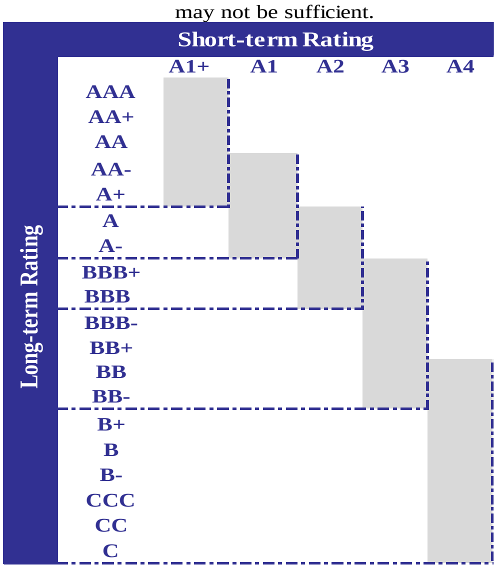
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

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

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.
(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