



The Pakistan Credit Rating Agency Limited

Rating Report

Masood Textile Mills Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
12-Jun-2024	A	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The assigned rating of Masood Textile Mills Limited (“the Company” or “MTM”) reflects the strapping profile of the Company in the textile industry of Pakistan. MTM is a full vertically integrated textile unit with high-end quality standards of manufacturing facility & production processes which primarily include Spinning, Knitting, Yarn and fabrics Dyeing, Laundry, Printing, Embroidery and Apparel Manufacturing. MTM preserve a unique sense of craftsmanship in creating, developing, and manufacturing knitted apparel products, from basic to highly fashioned garments designed for everyday life. The business strength of MTM lies in the customized production of high-value-added garments in multitudinous grade-wise product categories. At MTM, product innovation and quality assurance are a key to success. The business sustainability takes comfort from the MTM’s long-term association with well-established and stable international brands/entities as their top clientage, including key players like JCPenny, Polo Ralph Lauren, Hugo Boss, Zara, Marks & spencer, Adidas, Amazon, Shoeby, Tom Tailor, KIK Textilien, Sears, DC Shoes, etc. The company's top line has shown an annual growth rate of 11% and stood at PKR 60.1bln as of FY23 (FY22: PKR 54.1bln; 9MFY24: PKR 44.3bln). The growth is supplemented by the price impact of the export segment as volumetric sales decline mainly on the back of the global recession and consumption pattern trend. The Company gradually expects to induce incremental growth in dollar terms up to USD 100mln. The gross margins of the Company in 9MFY24 have shown improvement depicting the capacity of price transferability, however, the surge in operating expenses and magnifying finance cost has impacted the net margins. The Company is in the process of executing CAPEX for the installation of a solar power plant of ~12 megawatts in two phases and a biomass power generation project to manage escalating energy costs. The board of the Company is more of an advisory nature as all members are well-reputed and experienced professionals. The management of the Company consists of seasoned professionals with adequate delegation of authority matrix. The financial risk profile is considered adequate with stretched working capital management. The Company's working capital requirements are primarily met through short-term borrowings (STB) as it is a highly intensive working capital business. The Company is expected to inject further capital of PKR 2bln via the right issue of PKR 4bln. The Company has maintained a leveraged capital structure, however, over the years the leveraging of the Company has reduced. The coverages of MTM are considered moderate with stable cashflows.

The ratings are dependent upon a stable profitability matrix while expanding business volumes. The efficient management of inflated finance cost risk while fueling growth through STB remains critical. Adherence to the debt matrix while generating sufficient cashflows and maintaining coverages at an optimal level is a prerequisite for assigned ratings.

Disclosure

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

Profile

Legal Structure Masood Textile Mills Limited (“MTM” or “The Company”) is a public limited company incorporated in 1984 under the Companies Act, 1913 (now Companies Act, 2017) and listed on the Pakistan Stock Exchange (“PSX”) in 1988.

Background The Company was initially a spinning Company acquired from Mahmood Group in 1984. MTM after the inclusion of Chinese investors as strategic partners grew into a truly vertically integrated textile unit focusing on exports of value-added highly fashioned products.

Operations MTM is a truly vertically integrated apparel manufacturing company endeavoring to provide quality products to its customers, focusing on value-added products. MTM has in-house Spinning, Knitting, Fiber and Yarn dyeing, Fabric Dyeing & Processing, Laundry, Printing, Embroidery and Apparel Manufacturing facilities. The Company's operational success lies in a systematic approach to operation management and quality control. The quality checks at every stage of manufacturing starting from Raw Cotton, Yarn, Fabric, Processing, Cutting, Stitching and Packing. The Company's total energy requirement stood at ~17 M.W.

Ownership

Ownership Structure Ms Nazia Nazir w/o Mr Shahid Nazir Ahmad has an ownership stake of ~ 30.16%, Chinese investors cumulatively hold a 37.09% stake and the remaining shareholding mainly vests with National Bank (6.7%), NIT and ICP (3.29%) & general public (~9%).

Stability The key sponsors associated with the Company since its inception. Formal documented succession planning will provide comfort to the stability.

Business Acumen Mr. Shahid Nazir is considered a man of the last mile and the transition from a spinning unit to a fully vertically integrated textile unit was a reflection of his vision.

Financial Strength The financial strength of the Company primarily vests in a sponsor's single line of business. MTM established a strong footprint as a textile exporter and is working with leading brands in the world.

Governance

Board Structure MTM board comprises seven members including the CEO Mr. Shahid Nazir Ahmad, the Chairman of the board Mr. Naseer Ahmad Shah, two independent directors, two nominee directors from Shanghai Textile Company Limited and one from NIT.

Members' Profile Mr. Shahid Nazir is an MBA from London and has more than 3.5 decades of experience in the textile sector. Mr. Naseer Ahmad Shah the chairman of the board possesses 38 years of experience and has in-depth knowledge of the information technology sector.

Board Effectiveness Board meetings are done every quarter and board members ensure their commitment and availability, boding well for the board's effectiveness. Meanwhile, minutes are recorded properly. There are 4 sub-committees in place to assist the Board i.e., Risk Management Committee, HR & Remuneration Committee, Nomination Committee and Audit Committee.

Financial Transparency Riaz Ahmad & Company Chartered Accountants are the external auditors of the Company. The auditor is listed in Category “A” of the State Bank's panel of auditors. They have expressed an unqualified opinion on the financial statements of the Company for the year ending June 30th, 2023. The Company has an in-house internal audit function.

Management

Organizational Structure The Company has a well-defined organizational structure and all departmental heads are directly reportable to the CEO. The structure is divided into multiple functional departments including Marketing, Finance, Information Technology, Human Resources & Administration, Production, and Internal Audit.

Management Team The management team is headed by the CEO, Mr. Shahid Nazir Ahmad. He is supported by a highly trained, qualified and experienced team. Mr. Iftikhar Hussain is the COO of the Company responsible for the execution and implementation of MTM's corporate strategy. Mr. Shahid Naveed-Fellow Chartered Accountant from ICAP & (ICAEW) is the CFO of MTM and possesses 24 years of experience and plays a critical role in ensuring the financial health and stability of the Company.

Effectiveness The management meetings are held periodically with a prime focus on the status of projected targets and feedback on the development and implementation of business strategies.

MIS The Company has developed an in-house centralized database system- ERP (enterprise resource planning) for systems integration. The systems mainly categorized under the umbrella of ERP are Financial Accounting systems, Quality management systems, machine management systems, inventory management & production management systems etc.

Control Environment MTM produces each garment with a unique ID tracking number which is attached inside the garment, and it backtracks from cotton crop type, yarn, knitting, fabric processing, cutting, stitching operations & inspections to packaging and shipment. The Company has adopted Lean Manufacturing best practices in its production facility by using RFID (Radio Frequency Identification) technology in its production lines. This RFID technology helps real-time production activity and item tracking.

Business Risk

Industry Dynamics The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn ~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 The Company has established its footprints in the dedicated sportswear industry over a time of ~04 decades. The Company has produced ~5mln number of garments per month.

Revenues The Company topline is dominated by the exports segment. During FY23, the company's topline recorded PKR 60.1bln (FY22: PKR 54.1bln) & 9MFY24 at PKR 44.3bln. The sales from exports increased to PKR 52.7bln in FY23 (FY22: PKR 46.8bln) whereas the local segment remains stagnant. The value-added garments in the sportswear category are their prime selling product. The volume-driven export destination is the USA, followed by Canada, the UK, Germany etc.

Margins During FY23, the Company's gross margins stood at 13.5% (FY22: 12.1%) & improved to 20.9% in 9MFY24 mainly on the back of amelioration in the product pricing matrix as their income stream primarily parked in USD. The operating margin stood at 5.1% (FY22: 4.1%). The net margin stood at 4.4% (FY22: 4.2%) & 4.2% in 9MFY24.

Sustainability A biomass power generation and solar power plant project is under consideration to optimize energy costs. MTM has a research and development Centre in Humen, China strives to achieve rapid introduction of new and improved products by adopting a disciplined and customer-focused approach to product development.

Financial Risk

Working Capital The working capital management of the Company is considered stretched mainly on the back of elevated inventory levels coupled with an increase in trade receivable days as of 9MFY24 and beef up the working capital requirements, which impacted the short-term trade leverage ratio (9MFY24: 18.7%; FY23: 20.2%). During FY23, the Company's net working capital days increased to 133 days (FY22: 121 days) and 149 days in 9MFY24.

Coverages During FY23, the Company generated FCFO of PKR 7,400mln (9MFY24: 6,656mln; FY22: 5,203mln) as improved profitability supplemented the cashflows. Over the years, the consistent surge in finance costs has impacted the coverage of the Company. The EBITDA to Finance cost ratio stood at 2.2x as of 9MFY24 (FY23: 2.8x).

Capitalization The Company is expected to inject further capital of PKR 2bln via the right issue of PKR 4bln. During 9MFY24, the equity base of the Company stood at PKR 19.0bln (FY23: PKR 17.2bln). The Company has maintained a leveraged capital structure of 56.7% during 9MFY24 (FY23: 59.1%, FY22: 63.9%) and it is dominated by short-term borrowings of PKR 21.8bln to fuel working capital requirements.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Masood Textile Mills Limited Textile Composite and Garments	Mar-24 9M	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET				
1 Non-Current Assets	17,358	15,495	14,246	13,899
2 Investments	10	9	8	107
3 Related Party Exposure	-	-	-	-
4 Current Assets	40,307	39,738	34,199	26,402
<i>a Inventories</i>	15,865	12,703	13,252	11,284
<i>b Trade Receivables</i>	15,001	16,727	12,425	7,435
5 Total Assets	57,674	55,241	48,453	40,407
6 Current Liabilities	11,760	11,423	9,638	5,586
<i>a Trade Payables</i>	6,188	5,992	5,158	3,204
7 Borrowings	24,919	24,880	23,923	22,828
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	1,959	1,722	1,395	1,088
10 Net Assets	19,036	17,215	13,497	10,905
11 Shareholders' Equity	19,036	17,215	13,497	10,905
B INCOME STATEMENT				
1 Sales	44,329	60,106	54,147	37,089
<i>a Cost of Good Sold</i>	(35,048)	(52,018)	(47,605)	(31,782)
2 Gross Profit	9,281	8,088	6,542	5,307
<i>a Operating Expenses</i>	(2,896)	(5,049)	(4,348)	(3,117)
3 Operating Profit	6,385	3,039	2,194	2,190
<i>a Non Operating Income or (Expense)</i>	(195)	3,650	2,290	130
4 Profit or (Loss) before Interest and Tax	6,190	6,689	4,484	2,320
<i>a Total Finance Cost</i>	(3,636)	(3,199)	(1,473)	(1,282)
<i>b Taxation</i>	(683)	(839)	(735)	(398)
6 Net Income Or (Loss)	1,871	2,651	2,276	641
C CASH FLOW STATEMENT				
<i>a Free Cash Flows from Operations (FCFO)</i>	6,656	7,400	5,203	2,932
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	3,098	4,772	3,836	1,461
<i>c Changes in Working Capital</i>	(1,263)	(4,250)	(3,841)	(1,627)
1 Net Cash provided by Operating Activities	1,835	522	(5)	(166)
2 Net Cash (Used in) or Available From Investing Activities	(2,544)	(1,106)	(1,220)	(819)
3 Net Cash (Used in) or Available From Financing Activities	(91)	890	1,403	343
4 Net Cash generated or (Used) during the period	(800)	305	178	(642)
D RATIO ANALYSIS				
1 Performance				
<i>a Sales Growth (for the period)</i>	-1.7%	11.0%	46.0%	29.4%
<i>b Gross Profit Margin</i>	20.9%	13.5%	12.1%	14.3%
<i>c Net Profit Margin</i>	4.2%	4.4%	4.2%	1.7%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	12.2%	5.2%	2.5%	3.5%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	13.8%	17.3%	18.7%	5.9%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	186	167	150	184
<i>b Net Working Capital (Average Days)</i>	149	133	121	153
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	3.4	3.5	3.5	4.7
3 Coverages				
<i>a EBITDA / Finance Cost</i>	2.2	2.8	4.8	3.3
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.4	1.5	1.6	0.8
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	0.7	1.0	1.5	4.2
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	56.7%	59.1%	63.9%	67.7%
<i>b Interest or Markup Payable (Days)</i>	69.6	96.0	66.2	54.7
<i>c Entity Average Borrowing Rate</i>	18.4%	12.4%	5.3%	4.7%

Credit Rating

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

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB	
BBB-	
BB+	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB	
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	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)
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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 | Clause 11-(A)(p).
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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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