



Rating Action

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PACRA Maintains Entity Ratings of Fazal Cloth Mills

The Pakistan Credit Rating Agency Limited (PACRA) has maintained the long-term and short-term entity ratings of Fazal Cloth Mills Limited (Fazal Cloth) at 'A-' (Single A Minus) and 'A2' (Single A Two), respectively. These ratings denote a low expectation of credit risk emanating from a strong capacity for timely payment of financial commitments.

The ratings reflect established business profile emanating from sizeable revenue base and adequate margins. This has helped the entity to sustain its position despite suppressed textile dynamics exerting pressure on prices. With focused marketing efforts, the company has been able to capitalize on additional capacities thereby generating incremental volumes, mainly in spinning segment. Going forward, the management expects improved margins on account of (i) saving in power cost given regular supply of RLNG to industry players, and (ii) better production forecast of cotton crop in FY17. The management is contemplating a gradual entry into value-added segment - dyeing and finishing; once implemented, the decision is likely to further strengthen business risk profile of the entity. Fazal Cloth's financial risk assessment encompasses irrevocable and unconditional inter-corporate debt guarantee provided to wholly owned subsidiary - Fazal Weaving Mills Limited - with fall back on Fazal Cloth's cash flows. Nevertheless, overall financial profile is considered adequate. Although coverages are low, the company's designed financial strategy keeps sizeable cushion in short-term borrowing lines to meet shortfalls in operational cash flows in servicing debt obligations; this provides flexibility in management of financial affairs.

The ratings are dependent on the company's ability to sustain margins. Meanwhile, management of debt (current and planned), thereby impacting coverages, is considered important. Envisaged improvement in business and financial profile along with effective changes in governance framework would be rating positive.

About the Company

Fazal Cloth, a listed concern incorporated in 1966, is engaged in the manufacturing and marketing of yarn and fabric. The company operates with 190,392 spindles, 224 air jet looms, and 2,220 open-end rotors. The company is majority owned by Fazal Group and Fatima Group (~45% each). In addition to textile, Fazal group has interest in Fertilizer, Energy and Real Estate sectors.

The BoD comprises seven members with equal representation from both the shareholding groups, along with an independent director. The management control vests with Fazal Group. Involvement of Sheikh Naseem - the CEO, is limited as Mr. Rehman Naseem - the Chairman - primarily manages the company's affairs. Mr. Rehman is supported by an experienced management team.

Applicable Criteria and Related Research

- Textile Sector - Viewpoint | Sep-15
- Corporate Rating Methodology

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