RATING REPORT

Magna Processing Industries (Pvt.) Limited

REPORT DATE:

March 15, 2023

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Outlook	*Stable*	
Rating Action	Initial	
Rating Date	*March 15, '23*	

COMPANY INFORMATION	
Incorporated in 1993	External auditors: RSM Awais Hyder Liaqat Nauman Chartered Accountants and Co.
Private Limited Company	Chairman/ CEO Sheikh Saeed Ullah
Key Shareholders (with stake 5% or more):	
Mr. Sheikh Saeed Ullah – 25%	
Mr. Farhatullah Sheikh – 15%	
Mr. Zeeshan Javed – 15%	
Mr. Zulfiqar Ahmed – 15%	
Mr. Muhammad Abdullah – 15%	
Mr. Farhan Saeed – 15%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Corporates (August, 2021) https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Magna Processing Industries (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Magna Processing Industries (Pvt.) Limited was incorporated in 1965 under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017). The company is principally engaged in export of value-added fabrics and textile Madeups.

Profile of the Chairman /CEO

Mr. Saeed Ullah Sheikh is a business graduate and has over five decades of experience in textile industry.

Financial Snapshot

Tier-1 Equity: end-FY22: Rs. 3.7b; end-FY21: Rs. 3.0b; end-FY20: Rs. 2.3b

Assets:

End-FY22: Rs.7.6b; end-FY21: Rs. 5.8b; end-FY20: Rs 3.4b.

Profit After Tax: FY22: Rs. 697m; FY21: Rs. 628m; FY20: Rs. 640m.

RATING RATIONALE

Magna Processing Industries Limited (MPIL) is an export-oriented textile unit and primarily operates through three business segments, weaving, processing and home textile madeups. Shareholding of the company is vested with family members who have extensive experience in the textile industry. The weaving unit of the company comprised auto/rapier looms and waterjet looms while the company has expanded its weaving operations during the last two years. The ratings also derive comfort from the fact that the expansion was majorly financed through own sources.

Export sales of the company constituted home textile madeups and processed fabric while local sales emanate from fabric processing and conversion income. During FY22, the slower revenue growth vis-à-vis preceding year was majorly due to stagnant volumetric export sales caused by slowdown in global markets, particularly in Europe and United States. Meanwhile, average selling prices increased considerably due to competitive advantage to textile exporters in terms of pricing amidst weakening local currency. The company's financial risk profile is underpinned by healthy margins, adequate liquidity position in terms of cash flow coverages and working capital management, and maintenance of moderately leveraged capital structure on a timeline basis.

The ratings incorporate stable revenue growth posted by the company in 1HFY23 and projects to continue this trend in full year as well. However, given the current weak macroeconomic environment, the uncertainty of textile industry growth amidst the global slowdown further adds to the overall business risk profile. In addition, all time high inflation suppressing purchasing power of the masses, higher markup rates, unstable forex parity and depleting foreign exchange reserves will remain major challenges. The ratings will remain dependent on realization of projected sales and profitability while maintaining liquidity and capitalization profiles at comfortable levels.

Key Rating Drivers

Company's Introduction: MPIL is a part of 'Magna Group', primarily involved in the production and distribution of a wide range of textile products including home textile made-ups, fabrics and ethnic wear. The Magna Group is owned by the family of Sheikh Saeed Ullah, and was founded by Sheikh Muhammad Abdullah in 1965 with a textile printing and processing unit under the banner of Magna Processing. The same has since grown into a vertically integrated export-oriented textile unit. Sheikh Saeed Ullah joined the family business in 1975 and also runs a separate sole proprietorship, Abdullah Collections, now converted into Abdullah Collections (Pvt.) Ltd. (ACPL), which is involved in sale of fabrics in the local market. Magna Textile Industries (Pvt.) Ltd. (MTIL) is another group company, which is engaged in production and sale of printed and dyed fabric used for home textile made-ups along with providing printing, dyeing and other processing services to local textile mills; around 50% of MTIL's revenues emanated from export sales in FY22. MTIL has recently diversified into weaving operations for backward integration, with installation of 132 Picanol Airjet looms.

Integrated processing unit: The weaving unit at MPIL comprised 564 auto/rapier looms (FY21: 538 looms; FY21: 504 looms) and 272 waterjet looms (FY21: 172 looms; FY20: 122 looms) at end-FY22. The processing unit comprises four rotary printing machines with production capacity of 56.2m meters. Rapier looms are suitable for lower count plain and veined fabrics, multi-colored weft fabric along with production of dyed, double layer velvet fabric, terry fabric, silk and decorative fabrics. The output from auto/rapier looms is used in production of home-textile made-ups which are largely exported. The waterjet looms specifically use microfiber yarn, composed of man-made synthetic materials such as polyester, nylon polymer or wood pulp. Unlike their natural-fiber counterparts, materials made with microfiber are less prone to shrinking and wrinkling while still maintaining a soft and durable feel. The fabric produced from waterjet looms is relatively cheaper and primarily sold in rural and sub-urban areas. ACPL, the associated company, procures microfiber yarn and get it converted from MPIL at its waterjet looms and then the fabric is sent to MTIL for processing. As per management, Magna group is among few players who are involved in synthetic fabrics which are high in demand due to being less costly and durability.

MPIL has expanded its weaving operations over the years in line with the growth objectives. During FY22, the company has added 26 auto looms (FY21: 34; FY20: nil) and 100 (FY21: 50; FY20: 52) waterjet looms. The mill, is located at Tehsil Jaranwala District Faisalabad; however, the company also purchased 31 acres land in Allama Iqbal Industrial City (AIIC) near M-4 motorway to accommodate expansion in FY21. Capex pertaining to this expansion totaled at Rs. 724.6m, which was mainly related to weaving unit, construction of building and purchase of land during FY21. In FY22, the additions amounting Rs. 373.1m largely pertained to weaving machinery and building. Property, plant and equipment stood at Rs. 1.8b (FY21: Rs. 1.6b, FY20: Rs. 1.0b) at end-FY22. The annual production capacity of auto looms was reported higher at 12.0m meters (FY21: 11.4m meters; FY20: 8.5m meters) with capacity utilization of 77% (FY21: 81%, FY20: 90%) during FY22. The water jet looms' annual capacity increased by ~58% to 45.3K meters (FY21: 28.6 meters; FY20: 14.9 meters) while capacity utilization was reported at 75% (FY21: 75%, FY20: 82%). Processing unit installed capacity remained unchanged while capacity utilization improved to 94% (FY21: 82%, FY20: 82%). Installed and actual production along with capacity utilization of operating segments are tabulated below:

	Installed Capacity million meters			Actual Production million meters			Capacity Utilization		
Unit Name	**FY20**	**FY21**	**FY22**	**FY20**	**FY21**	**FY22**	**FY20**	**FY21**	**FY22**
Processing	56.2	56.2	56.2	45.8	45.8	52.7	82%	82%	94%
Weaving:									
Auto/Rapier Looms	8.5	11.4	12.0	7.6	9.2	9.2	90%	81%	77%
Water Jet Looms	14.9	28.6	45.3	12.2	21.6	34.1	82%	75%	75%

Furthermore, the company installed 36 used sulzer looms in the ongoing year with an expenditure of around Rs. 90m which were financed through own sources. The current power requirements of the company stand at 3.5MW. The company meets its power requirement through gas powered generators of 4 MW capacity and sanctioned load of 3.5 MW from national grid. The management also had a plan to install spinning unit comprising 50,000 spindles for backward integration; however, the same has currently been postponed owing to prevailing economic and political uncertainties. The management intends to pursue this project as soon as the macroeconomic conditions of the country stabilizes.

Growth in revenues led by increase in average selling price during FY22: During the outgoing year, MPIL generated Rs. 6.9b (FY21: Rs. 6.3b, FY20: Rs. 4.6b) in net sales, out of which exports accounted for 83% (FY21: 79.8%; FY20: 76.7%) of the revenue mix. Topline grew by ~36% in FY21 on the back of volumetric increase in sales along with average selling prices in line with positive demand dynamics emanating from covid-led boom in textile industry of Pakistan. Meanwhile, the growth momentum slowed down in FY22 with company's sales posting an increase of ~11% caused by a slowdown in global markets, particularly in Europe and United States. The company generates export revenue from home textile made-ups and processed fabric whereas local sales remained largely dominated with proceeds from fabric processing and conversion charges. During the outgoing year, the volumetric sales of the company remained largely subdued in exports. Export of home textile made-ups comprised 77.5% (FY21: 73.8%; FY20: 67.0%) of sales while processed fabric contributed 5.4% (FY21: 6.2%; FY20: 10.0%) in the revenue mix. On the other hand, average selling prices of exports increased by ~25% during FY22 vis-à-vis ~10% in the preceding year. Local currency devaluation against USD has been giving a competitive advantage to textile exporters in the international markets in terms of pricing. In local sales quantity sold of conversion income increased, which contributed around 6.4% (FY21: 3.2%; FY20: 3.1%) to the net sales whereas that of processed fabric declined to 9.6% (FY21: 16.5%; FY20: 19.5%). The conversion income majorly comprised sales to its associated concern, ACPL, gross value of which amounted to Rs.

570.5m (FY21: Rs. 199.7m; FY20: Nil). A detailed breakdown of sales and proportion of individual products in the net sales are presented below:

	Quantity Sold (million meters)			Average Price Rs./Unit			Net Sales (million Rs.)		
	FY20	FY21	FY22	FY20	FY21	FY22	FY20	FY21	FY22
Export Sales:									
Processed Fabric	0.7	0.5	0.4	673	729	905	451.8	388.6	375.6
Madeups	3.4	4.6	4.3	895	1,008	1,264	3,024.2	4,616.6	5,432.7
Local Sales									
Fabric Processing	28.4	27.2	16.9	31	38.0	40	879.8	1,033.9	674.3
Conversion, Embroidery & Sizing charges	8.8	14.6	30.0	16	14.0	15	140.8	204.0	450.3
Madeups	-	-	0.02	-	-	1,784	-	-	62.2

Around 47% (FY21: 45%; FY20: 44%) of the revenue originated from Belgium and USA, with nearly equal contribution from both countries in FY22. Export sales to other countries remained well diversified. Following is the geographical distribution of sales for FY22:

Primary Geographical market	Total (Millions)			% of Total Sales		
	FY20	FY21	FY22	FY20	FY21	FY22
Local	1,031	1,267	1,200	23%	20%	17%
Belgium	957	1,378	1,599	21%	22%	23%
France	537	774	898	12%	12%	13%
Germany	515	742	861	11%	12%	12%
USA	1,015	1,462	1,696	23%	23%	24%
Chilly	206	296	343	5%	5%	5%
Italy	132	190	220	3%	3%	3%
Lothinia	114	165	191	3%	3%	3%
Total	4,507	6,274	7,008	100%	100%	100%

The export sales of the company are directed towards a mix of wholesalers and retailers while top ten export customers constituted 82% of the total sales. Client concentration risk of MPIL is considered high, although management, perceives the risk to be manageable given the company has longstanding relationships with these clients underpinned by better quality and competitive pricing. Sales to top ten clients is tabulated below:

Sr. No	Customers Name	Percentage	Sales Amount (Millions)
1	U10, France	12.3%	854.2
2	Lefebvere Textile, France	6.6%	455.6
3	Auro House and Home Textile GmbH, Germany	7.0%	484.1
4	Gilania Srl, Italy	8.2%	569.5
5	Blue Moon Wohntextilien Handels GMBH	9.8%	683.4
6	Home Linen Collection USA-mpi	13.9%	968.1
7	Detexpol Tomasz	10.7%	740.3
8	Dunelm Ltd UK	8.2%	569.5
9	BrandMac APS	4.5%	313.2
10	Wallmart Chile SA	0.8%	56.9

Gross profits were recorded higher at Rs. 1.3b (FY21: Rs. 1.1b, FY20: Rs. 937m) during the outgoing year. Gross margins increased to 18.7% (FY21: 16.8%, FY20:20.4%) mainly on account of increase in average selling prices of all products along with the benefit of inventory purchased at favorable prices. Cost of sales were recorded higher at Rs. 5.6b (FY21: Rs. 5.2b, FY20: Rs.3.6b), where the increase was mainly manifested in increase in conversion costs, fuel and power cost and dyes and chemicals largely in line with inflationary pressure. Yarn comprised ~92% (FY21: 82%; FY21: 90%) of the raw material purchases, around three-fourth of which was imported during FY22. The company also imports specialized fabrics, which constituted 4.8% (FY21: 11.8%; FY20: 3.4%) while local fabric is purchased on need basis.

Administrative expenses amounted to Rs. 89.1m (FY21: Rs. 90.6m, FY20: Rs. 57.2m) in FY22. Distribution costs increased to Rs. 302.9m (FY21: Rs. 184.5m, FY20: Rs. 140.1m) mainly due to increase in freight charges to Rs. 236.1m (FY21: Rs. 114.8m, FY20: Rs. 82.5m). Other operating expenses decreased to Rs. 42.4m (FY21: Rs. 90.7m, FY20: Rs. 50.8m) and included only contributions made to employee related funds; meanwhile, in FY21, the company also recorded loss on machinery in transit amounting Rs. 38.4m. Other income was recorded lower at Rs. 30.5m (FY21: Rs. 72.7m, FY20: Rs. 17.5m) and mainly comprised dividend income on short-term investments; the decrease in other income was majorly due to the difference arising from an insurance claim received in the preceding year. Finance costs was recorded higher at Rs 116.5m (FY21: Rs. 48.7m, FY20: Rs. 9.2m) largely due to higher average short term borrowings and markup rates along with some increase in bank charges and commission expenses. Accounting for taxation, net profit was reported at Rs. 697.5m (FY21: 627.9m, FY20: Rs. 639.6m) while net margins remained at 10.0% (FY21: 10.0%; FY20: 13.9%).

During 1Q'23, MPIL recorded Rs. 2.3b in net revenue, out of which 88% of revenue emanated from export sales. Gross margins increased further to 23.3% as the company continued to reap the benefit of low-cost inventory. Net margins also improved notably in line with rationalized operating expenses. As per management, the company has generated ~Rs. 4b in net revenues in 1HFY23, meanwhile, full year sales are projected at around Rs. 8b. The outgoing year is considered to be an outlier marked by exceptionally high yarn prices and inventory gains whereas the correction in prices started since the start of Jul'22 and lasted till Dec'22. As per management, some recovery has been seen in export orders and average rates in Jan'23 in line with some uptick in demand. Nonetheless, higher markup rates, unstable forex parity and depleting foreign exchange reserves will remain major challenges faced by the country during the ongoing year.

Adequate liquidity in terms of cash flow coverages and working capital management: Funds from operations (FFO) increased to Rs. 887.8m in FY22 (FY21: Rs. 769.0m; FY20: Rs. 751.0m) largely in line with higher profitability in the outgoing year. Resultantly, despite increase in debt levels FFO to total debt ratio remained adequate at 0.39x (FY21: 0.45x, FY20: 4.09x). The debt service coverage ratio remained sizeable due to minimal long-term repayments.

Stock-in-trade increased to Rs. 2.3b (FY21: Rs. 917.6m, FY20: Rs. 549.1m), mainly due to an increase in raw materials inventory worth Rs. 2.2b (FY21: Rs. 884.7m, FY20: Rs. 500.4m) while finished goods remained largely at prior year's levels. Trade Debts increased to Rs. 1.4b (FY21: Rs. 1.3b, FY20: Rs. 765.5m), out of which more than three-fourth comprised secured foreign receivables. As percentage of net sales trade debts stood at 20.7% (FY21: 20.6%, FY20: 16.6%). Aging profile of trade debts is considered satisfactory as around 77% of trade debts were outstanding for less than three months, and 18% fall within 3-6 months credit bracket. Local sales are normally done on a cash/advance basis while export sales are executed through 180 days LCs. Loans and Advances stood higher at Rs. 631.0m (FY21: Rs. 484.5m, FY20: Rs. 279.9m) at end FY22. These mainly consisted of advances made to suppliers amounting Rs. 292.4m (FY21: Rs. 262.8m, FY20: Rs. 152.9m) along with loans made to associated undertaking amounting Rs. 197.0m (FY21: Rs. nil, FY20: Rs. nil). Tax refunds from Government almost doubled to Rs. 644.4m (FY21: Rs. 334.0m, FY20: Rs. 239.4m) predominantly due to increase in sales tax refunds.

The short-term investments decreased to Rs. 111.1m (FY21: Rs. 703.3m, FY20: Rs. 143.7m) to meet cash flows needs for expansion and working capital. The investments comprised liquid money market mutual funds. Cash and bank balances stood higher Rs. 285.8m (FY21: Rs. 149.1m, FY20: Rs. 177.7m). Trade and other payables increased to Rs. 1.5b (FY21: Rs. 961.2m, FY20: Rs. 758.6m) mainly on account of higher trade creditors of Rs. 923.0m (FY21: Rs. 647.8m, FY20: 491.7m) and advances from customers amounting Rs. 414.5m (FY21: Rs. 177.5m, FY20: Rs.146.6m). Local yarn is majorly procured on cash/advance basis whereas imported raw material is purchased via LC at sight. Coverage of short-term borrowings via stock in trade and trade debts remained adequate at 1.74x (FY21: 1.36x, FY20: 7.76x) on a timeline basis. Current ratio was also maintained at 1.57x (FY21: 1.58x, FY20: 2.44x) and remained adequate. Net operating cycle has been pushed up to 124 days (FY21: 94 days, FY20: 66 days) due to slower inventory turnover while remained somewhat comparable to the industry median.

Moderately leveraged capital structure: Tier-1 equity augmented to Rs. 3.7b (FY21: Rs. 3.0b. FY20: Rs. 2.3b) on the back of internal capital generation during the outgoing year. The debt profile of the company largely comprised short-term borrowings to meet its working capital requirements whereas reliance on long-term financing has remained limited. Short-term borrowings obtained by company stood higher at Rs. 2.1b (FY21: Rs. 1.6b, FY20: Rs.169.4m) which majorly comprised export finances. The aggregate unavailed short term borrowings facilities available to the company stand at Rs. 400.0m (FY21: Rs.1.0b, FY20: Rs. 178.0m). These facilities are secured against pari-passu charge over personal properties of the directors and current and future assets of the company. This facility is availed at SBP and KIBOR plus 0.5% to 1.5%.

Long term financing (including current portion) increased to Rs. 142.8m (FY21: Rs. 71.7m, FY20: Rs. nil) by the end of FY22. The loan is obtained under the ILTFF scheme with 20 installments with the 1st installment commencing from Sep 11, 2023 and ending on Jun 11, 2028. The long-term facilities are subject to markup of 1.5% per annum over SBP financing rate. Despite increase in borrowings, gearing and debt leverage remained quite manageable at to 0.62x (FY21: 0.57x; FY20: 0.08x) and 1.07x (FY21: 0.95x, FY20: 0.45x), respectively by end-FY22.

Corporate governance and internal controls: Being a private limited company corporate governance framework has sufficient room for improvement. The Board comprises six members who are shareholders of the company as well. In addition, the CEO also serves as the Chairman of the Board. MTIL has a separate internal audit function, consisting a team of four individuals. External audit was conducted by RSM Awais Hyder Liaqat Nauman Chartered Accountants, who are on the SBP panel of auditors in the 'A' category. The company uses customized ERP system to manage financials, reporting, manufacturing, payroll and supply chain operations.

Magna Processing Industries (Pvt.) Limited (MPIL) Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**Q1'FY23**
Property, Plant, and Equipment	965.9	1584.1	1766.3	1863.9
Stores, Spares. And Loose Tools	274.5	336.5	477.8	698.4
Stock-in-Trade	549.1	917.6	2,273.5	2,228.5
Trade Debts	765.5	1,289.9	1,436.0	1,651.4
Loan and Advances	280.0	484.5	631.0	664.6
Tax Refund Due from Government	239.4	334.0	644.4	644.4
Short term investments	143.7	703.3	111.1	111.1
Cash and Bank Balances	177.7	149.1	285.8	251.0
Other Assets	0.9	0.9	1.7	0.9
Total Assets	**3,396.6**	**5,799.9**	**7,627.8**	**8,115.1**
Trade and Other Payables	758.6	961.2	1,472.6	1,495.2
Short-Term Borrowings	169.4	1,622.4	2,129.0	2,129.0
Long-Term Borrowings *(Inc. current maturity)*	0.0	71.7	142.8	292.8
Deferred Liabilities (inc. current portion)	69.1	96.2	108.5	111.5
Other Liabilities	51.8	73.1	98.1	39.8
Total Liabilities	**1,048.9**	**2,824.6**	**3,951.0**	**4,068.4**
Paid-Up Capital	200.0	200.0	200.0	200.0
Tier-1/Total Equity	2,347.8	2,975.3	3,676.7	4,046.7
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**Q1'FY23**
Net Sales	4,600.1	6,269.1	6,944.8	2,269.9
Gross Profit	937.0	1,051.5	1,299.5	529.1
Finance Cost	9.2	48.7	116.5	29.1
Other Income	17.5	72.8	30.5	7.6
Profit Before Tax	697.2	709.7	779.1	395.4
Profit After Tax	639.6	627.9	697.5	374.6
FFO	751.0	769.0	887.8	328.2
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**Q1'FY23**
Gross Margin (%)	20.4%	16.8%	18.7%	23.3%
Net Margin (%)	13.9%	10.0%	10.0%	16.5%
Net Working Capital	1435.9	1542.7	2134.6	2560.0
Current Ratio (x)	2.44	1.58	1.57	1.69
FFO to Long-Term Debt (x)	53.0	8.8	5.3	4.1*
FFO to Total Debt (x)	4.1	0.4	0.4	0.5*
Debt Servicing Coverage Ratio (x)	84.18	18.87	9.61	12.3
ROAA (%)	18.8%	10.8%	19.0%	19.0%*
ROAE (%)	27.2%	21.1%	38.8%	38.8%*
Gearing (x)	0.08	0.57	0.62	0.60
Debt Leverage (x)	0.4	0.9	1.1	1.0
Inventory + Receivable/Short-term Borrowings (x)	7.8	1.4	1.7	1.8
Net Operating Cycle (Days)	66	94	124	129*

*Annualized

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES — Annexure III

Name of Rated Entity	Magna Processing Industries (Pvt.) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2023 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.
Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
03/15/2023	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

Name	Designation	Date
Muhammad Afzal	Chief Financial Officer	December 28, 2022