

RATING REPORT

J.K Spinning Mills Limited (JKSM)

REPORT DATE:

April 24, 2020

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-1	A-	A-1
Rating Date	April 24, 2020		March 28, 2019	
Rating Outlook	Rating Watch- Developing		Stable	

COMPANY INFORMATION

Incorporated in 1987

External Auditors: Ernst & Young Ford Rhodes Sidat Hyder & Co. Chartered Accountants

Listed Public Limited Company

Chairman of the Board: Mr. Jawed Anwar

Key Shareholders (with stake 5% or more)

Chief Executive Officer: Mr. Faiq Jawed

Mr. Jawed Anwar – 39.51%

Mr. Faiq Jawed – 24.74%

Mr. Shaiq Jawed - 15.56%

Mrs. Farhat Jehan- 15.47%

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)

<https://www.vis.com.pk/kc-meth.aspx>

J.K Spinning Mills Limited

OVERVIEW OF THE INSTITUTION

J.K Spinning Mills Limited (KSSML) is a public limited company incorporated in Pakistan in January 1987, under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). Registered office of the company is situated in Faisalabad.

Profile of the Chairman

Mr. Jawed Anwar serves as chairman of the board. He has 60 years’ experience of running an export house and spinning industry. He served as the vice chairman of Faisalabad Chamber of Commerce and chairman of Pakistan Textile Exporters Association.

Profile of CEO

Mr. Faiq Jawed serves as CEO of the company and has 34 years’ experience of running export house and spinning industry. He served as the vice chairman of Faisalabad Chamber of Commerce and chairman of Pakistan Textile Exporters Association.

Financial Snapshot

Core Equity: end-1HFY20: Rs. 4.4b; end-FY19: Rs. 4.0b; end-FY18: Rs. 3.4b

Assets: end-1HFY20: Rs. 10.8b; end-FY19: Rs. 9.5b; end-FY18: Rs. 7.6b

Profit After Tax: 1HFY20: Rs. 507.0m; FY19: Rs. 716.4m; FY18: Rs. 337.9m

RATING RATIONALE

J.K Spinning Mills Limited (JKSM), a part of J.K Group, operates spinning, weaving and stitching divisions, with course yarn and home textile offered as its key products. Majority shareholding is vested within the sponsoring family which is actively involved in the operations of the company. Net sales comprises a mix of local and export sales, with yarn majorly sold in local markets, while sale of processed fabric and made-ups largely constituted export sales.

In 1975, J.K. Group commenced business by forming J.K. Brothers as an export house under a partnership. Later, in 1987, J.K. Spinning was incorporated as a public limited company which started commercial production in 1989 with 14,400 spindles. Subsequently in 1992, JK group established another mill named J K Fiber Mills ltd. In the same year, the group entity was segregated and J.K brothers’ was transferred to other partners. Following the segregation, J.K Sons Private Limited was incorporated in 1994 to commence fabric and home textile export. In 2011, J.K. Fiber Mills Limited and J.K. Sons (Private) Limited were merged into JKSM. Currently, J.K. Group owns 5 companies namely J.K. Power (Private) Limited, J.K. Agriculture Farms (Private) Limited, Fine Fabrics (Private) Limited and J.K. Tech (Private) Limited.

Product Portfolio:

Spinning

JKSM offers a broad range of ring spun yarn with counts ranging from 16/1 to 80/1. The coarser yarn mainly caters to denim and bottom weight fabrics, which are used for work wear and apparel towels. Fine compact yarn caters to higher thread count bed sheets and shirt fabric. The company also produces customized yarn as per customer requirements for work wear, technical fabrics, towels and knitted fabrics.

Fabric, Home Textile and Hospitality Supplies

The fabric and weaving division offers a wide variety of fabric. The division is involved in processed cloth production as well as made ups like bed sheets, table covers, curtains, pillow covers, comforter shells etc. The dyed and printed sheeting range comprises high density fabrics with widths up to 340 cm and yarn count range of (Ne) 20/1 – 100/1. This segment includes Percales up to 400 thread count per square inch and Sateens up to 500 thread count per square inch. Moreover, JKSM offers a wide range of dyes and finishes in accordance with customer requirements. The options for dyeing and printing include Pigment, Vat, Reactive and Disperse through outsourcing.

Capacity enhancements in spinning, weaving and made-ups division along with improvement in operating performance across all segments:

Presently JKSM has 136,152 spindles (FY18: 121,560 spindles), following the addition of 14,592 spindles during 3QFY19. Resultantly, plant capacity of spinning unit (converted to 20s count) increased to 41.5 million Kgs (FY18: 38.7 million Kgs) by end-FY19. In weaving division, 53 sulzur looms were added during 3QFY19, leading to increase in capacity (converted to 50 picks) to 18.0 million Kgs (FY18: 7.2 million Kgs) by endFY-19. Further, capacity utilization of both spinning unit and weaving unit improved to 89% and 66.8% (FY18: 82% and 59.7%) respectively, in FY19. Moreover, 70 stitching machines costing Rs. 5.7m were also added in made-up division, during FY19. The company has further added 10 sulzur looms during 1HFY20; weaving unit has presently 109 looms (FY18: 39 looms).

Healthy growth in topline mainly driven by higher yarn and fabric prices along with volumetric increase in made-ups sales: Topline increased by 38% to Rs. 13.7b (FY18: Rs. 9.9b) during FY19. Proportion of local and export sales largely remained same at 60:40 over the years. Net sales have grown at a CAGR of 18.0% over three business cycles. Rupee depreciation and higher yarn and made-ups prices in local and international markets have reflected positively on profitability leading to increase in gross margins to 14.0% (FY18: 10.6%) during FY19. The company reported net sales of Rs. 7.2b during 1HFY20. With further increase in yarn, made-ups and processed fabric prices and rationalization of overall cost of production gross margin increased to 17.8% during 1HFY20.

Around 95% (FY18: 90%) of the local sales pertained to yarn sale and 97% (FY18: 98%) of export sales constituted made-ups and processed fabric. Geographic concentration in export sales has largely remained the same, as around 74% (FY18: 74%) of export sales is attributed to Europe, 19% (FY18: 13%) to America and around 7% (FY18: 13%) of export revenue came from Asia, Africa and Australia during FY19. Whereas, client concentration is considered on lower side as top 10 clients accounted for 23% (FY18: 21%) of local sales during FY19.

Coronavirus to result in uncertainty in textile sector dynamics

The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand, sharp fall in cotton prices and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating Watch-Developing' status. Given the low leveraged capital structure, it is expected that ratings will remain stable post recovery of the ongoing situation; nevertheless, as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status.

J.K Spinning Mills Limited
Appendix I

BALANCE SHEET (PKR Millions)	FY17	FY18	FY19	1HFY20
Property, Plant & Equipment	2,784	3,529	4,322	4,262
Store, Spares and Loose Tools	73	95	87	81
Stock-in-Trade	1,926	2,461	3,747	4,760
Trade Debts	688	867	786	1,024
Advances, Deposits & Prepayments	54	91	42	95
Tax Refunds due from Government	317	340	304	369
Short-Term Investments	33	31	52	23
Cash & Bank Balances	89	28	74	78
Other Assets	121	152	82	101
Total Assets	6,085	7,594	9,496	10,793
Trade and Other Payables	402	470	662	780
Long Term Debt <i>(including current maturity)</i>	468	1,136	1,489	1,449
Short Term Debt	1,731	2,075	2,630	3,496
Other Liabilities	171	275	442	451
Tier-1 Equity	3,089	3,413	4,048	4,394
Total Equity	3,313	3,638	4,273	4,619
Paid-up Capital	731	731	731	731
INCOME STATEMENT				
Net Sales	9,050	9,900	13,678	7,179
Gross Profit	758	1,045	1,914	1,277
Profit Before Tax	152	430	894	629
Profit After Tax	83	338	716	507
Funds from Operations	342	611	1,212	783
RATIO ANALYSIS				
Gross Margin (%)	8.4	10.6	14.0	17.8
Net Margins (%)	0.9	3.4	5.2	7.1
Current Ratio (x)	1.41	1.41	1.40	1.37
Net Working Capital	947	1,168	1,460	1,767
FFO to Total Debt (x)	0.16	0.19	0.29	0.32*
FFO to Long Term Debt (x)	0.73	0.54	0.81	1.08*
Debt Leverage (x)	0.90	1.16	1.29	1.41
Gearing (x)	0.71	0.94	1.02	1.13
DSCR (x)	1.80	2.13	2.71	2.82
ROAA (%)	1.4	4.9	8.4	10.0*
ROAE (%)	2.8	10.4	19.2	24.0*
(Stock in Trade+Trade Debt) to Short-Term Borrowing Ratio (x)	1.51	1.60	1.72	1.65

**Annualized*

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

{blr} Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'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.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when 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		Appendix III			
Name of Rated Entity	J.K Spinning Mills Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	24/04/2020	A-	A-1	Rating Watch-Developing	Maintained
	28/03/2019	A-	A-1	Stable	Initial
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.				
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