

RATING REPORT

J.K Spinning Mills Limited

REPORT DATE:

August 08, 2024

RATING ANALYSTS:

Saeb Muhammad Jafri

saeb.jafri@vis.com.pk

Shaheryar Khan Mangan

shaheryar@vis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-1	A-	A-1
Rating Outlook/Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Maintained	
Rating Date	August 08, 2024		May 22, 2023	

COMPANY INFORMATION

Incorporated in 1987	External Auditors: Riaz Ahmad & Co. Chartered Accountants
Public Listed Company	CEO: Mr. Faiq Jawed
Key Shareholders (with stake 10% or more):	
Mr. Jawed Anwar ~33.31%	
Mr. Faiq Jawed ~24.24%	
Mr. Shaiq Jawed ~19.00%	
Mrs. Farhat Jehan ~12.94%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Methodology – Industrial Corporates

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

RATING SCALE(S)

VIS Issue/Issuer Rating Scale:

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

J.K Spinning Mills Limited

OVERVIEW OF THE INSTITUTION

J.K Spinning Mills Limited is a public listed company incorporated in Pakistan in January 1987, under the repealed Companies Ordinance, 1984 (now Companies Act, 2017). The company is a composite textile unit that operates in spinning, weaving and stitching divisions. The head office of the company is located in Faisalabad.

Profile of Chairman:

Mr. Jawed Anwar serves as the Chairman of the Board. He has over 6 decades of experience in the spinning industry. He served as the Vice-Chairman of Faisalabad Chamber of Commerce and Chairman of Pakistan Textile Export Association.

Profile of CEO:

Mr. Faiq Jawed serves as the CEO of the company and has over three decades of experience in the spinning industry. He has also served as the Vice Chairman of Faisalabad Chamber of Commerce and Chairman of Pakistan Textile Export Association.

RATING RATIONALE

Corporate Profile

J.K Spinning Mills Limited (‘JKSM’ or ‘the Company’), a composite textile unit of J.K Group, has been involved in the production of fine yarn, fabric and home textile made ups for over three decades with operation divisions including spinning, weaving, processing and stitching divisions. The majority shareholding is held by the sponsoring family, which is actively involved in day-to-day business affairs. The company has been awarded various global standard certifications and has a workforce of over 3,200 employees. The head office and the factory premises along with a godown are situated in Faisalabad.

Group Profile

The Company is a part of J.K group. The group has undergone several restructuring efforts over the years. In 2011, the operations of two textile mills were consolidated into JKSM. Apart from JKSM, the group currently owns four other companies: J.K Power Limited, J.K Agriculture Farms (Private) Limited, Fine Fabrics (Private) Limited, and J.K Tech (Private) Limited.

Operational Performance

During FY23, in the spinning division, a complete spinning unit of 52,896 spindles was incorporated and came online. Capacity utilization of the spinning division in FY23 depicted a decline mainly due to the installation of the new spinning unit from which the production was made for one month during the year. However, production in the spinning segment experienced an increase in absolute terms owing to the demand from its longstanding clients. Similarly, capacity utilization as well as the production in the weaving division witnessed an improvement in spite of the recession in the international market.

Table 1: Capacity & Production Data (Units in millions)

Production Capacity	FY20	FY21	FY22	FY23
Spinning – Kgs	44,501	45,365	45,666	64,255
Weaving – Sq. Mtr.	18,667	22,263	20,986	20,986
Actual Production				
Spinning - Kgs	37,051	44,501	40,287	42,107
Weaving - Sq. Mtr.	14,934	18,667	16,964	17,334
Capacity Utilization				
Spinning	83%	98%	88%	66%
Weaving	80%	84%	81%	83%

Key Rating Drivers

Business risk profile characterized by challenging local and global economic and geopolitical conditions, and intense competition on a global level as an export-oriented industry.

Assigned ratings incorporate the medium to high business risk profile of the textile sector in Pakistan, marked by high exposure to economic cyclicality and intense competition. The sector's performance is influenced by broader economic conditions, rendering it susceptible to demand fluctuations driven by economic factors. Furthermore, as a substantial contributor

to total exports, the textile industry faces exposure to global economic cyclicality, geopolitical challenges, and liquidity constraints due to government delays in sales tax refunds.

Moreover, the industry is also sensitive to supply-side risks, including local cotton crop production which impacts margins, and reliance on imported raw materials, exposing the sector to significant exchange rate risk and government import restrictions.

Despite these challenges, textile companies have demonstrated resilience by maintaining operational efficiency, consistent product quality, strategic raw material procurement, and better supply chain control, achieving economies of scale and managing risks associated with the volatile business environment.

Sustained topline growth in weak economic conditions, mainly on the back of higher selling prices and benefits from rupee devaluation on export sales.

In FY23, the Company's revenue base improved, with the topline increasing by approximately 32% to PKR 36,128 million (FY22: PKR 27,332 million) despite a slowdown in economic activity. This increase was primarily supported by the depreciation of the PKR, which enhanced the effective contribution from export sales to the Company's topline. Export sales as a percentage of total gross sales (PKR) improved to ~51% (FY22: ~41%) in FY23. Additionally, local sales also reported slight growth, largely due to price increases.

Escalation in input costs coupled with higher inflationary pressures as well as higher finance cost strained the margins of the Company

Despite increase in prices, and support from PKR devaluation on the topline, margins reported pressure with gross margin at 13.25% (FY22: 22.54%) on account of higher increase in input costs. The Company faced higher cotton costs with lower local production due to the ensuing floods in the 1HFY23. Moreover, high inflation and escalating gas and power tariffs further added to the strain. JKSM was unable to forward the entirety of these pressures onto the customers. Gross margins remained stressed at 12.93% in 9MFY24.

Net margins were further impacted by increased finance costs due to monetary tightening measures by the central bank and rising debt levels. Net margins declined to 5.04% in FY23 (FY22: 13.40%) and further to 2.13% in 9MFY24.

Weakening in capitalization profile on account of increase in long-term and short-term debt to finance CAPEX and working capital needs.

During FY23, the debt profile of the Company saw an increase of ~99%, which stood at PKR 11,911.85m (FY22: PKR 5,994m). Long-term borrowings witnessed an increase to finance its capital expenditure plans, i.e. a new spinning unit and a solar power project. Simultaneously, the short-term borrowings of JKSM also observed a surge as a result of higher inventory requirements and the impact of rupee devaluation on overall working capital needs. Consequently, the gearing and leverage ratios elevated to 1.00x (FY22: 0.58x) and 1.26x (FY22: 1.00x) respectively. The gearing and leverage indicators further increased to 1.08x and 1.37x in 9MFY24 owing to increasing working capital needs, although long-term debt decreased from regular repayments.

Contracting profitability margins together with higher current portion of debt has squeezed the coverage profile of the Company

During FY23, the decline in profitability coupled with higher financial charges paid by the Company dragged down the Funds from Operations (FFO). Resultantly, the debt service coverage ratio (DSCR) contracted to 1.30x (FY22: 5.11x) in FY23. The DSCR of the Company remained constrained in 9MFY24 as the lingering stress on profitability profile persisted during the period, coupled with a higher current portion of long-term debt.

Liquidity profile depicts weakening

The current ratio of the Company depicted a decline to 1.37x (FY22: 1.82x). Subsequently, the current ratio further declined to 1.34x in 9MFY24. This is attributed to a higher increase in current liabilities than a corresponding increase in current assets. Current liabilities surged on account of a spike in short-term debt drawdowns. Current assets in FY23 increased by ~31% and current liabilities surged by ~74%.

During FY23, the cash conversion cycle ('CCC') remained stable at 111 days (FY22: 114 days). Days to inventory improved to 80 days (FY22: 87 days), however, collection period increased to 36 days (FY22: 32 days). CCC remained mostly unchanged in 9MFY24.

Key rating consideration

Going forward, key business and financial risk indicators include the Company's ability to manage topline growth in the face of economic challenges, maintain margins, and effectively manage debt levels. The ratings also take into account the successful implementation of the Company's plans to improve operational efficiencies. Management's commitment to enhancing key financial ratios and improve the liquidity and coverage profiles will be important for the ratings, going forward, along with maintaining a stable capitalization profile and improving profitability and liquidity metrics.

J.K Spinning Mills Limited
Appendix I

Financial Summary				
Balance Sheet (PKR Millions)	FY21A	FY22A	FY23A	9MFY24M
Property, plant and equipment	5,418.92	7,170.94	11,664.61	11,364.33
Stock-in-trade	5,809.83	6,911.11	8,489.01	10,279.60
Trade debts	1,697.85	3,049.88	4,009.76	4,748.84
Cash & Bank Balances	105.11	137.36	372.24	428.26
Other Assets	855.32	1,948.22	2,977.97	3,514.34
Total Assets	13,887.03	19,217.51	27,513.59	30,335.37
Creditors	159.82	385.13	525.76	1,111.47
Long-term Debt (incl. current portion)	1,733.31	2,073.98	4,051.12	3,715.51
Short-Term Borrowings	3,816.83	3,919.86	7,860.72	9,912.71
Total Debt	5,550.14	5,993.84	11,911.84	13,628.22
Other Liabilities	1,013.51	1,965.52	2,587.50	2,427.85
Total Liabilities	6,723.47	8,344.49	15,025.10	17,167.54
Paid up Capital	1,023.18	1,023.17	1,023.18	1,023.18
Equity (excl. Revaluation Surplus)	6,767.55	10,275.58	11,891.05	12,570.41
Income Statement (PKR Millions)				
Net Sales	17,402.93	27,332.53	36,128.69	31,942.49
Gross Profit	3,331.96	6,160.69	4,786.30	4,131.46
Operating Profit	2,408.94	4,459.80	2,918.12	2,928.26
Finance Costs	266.54	371.89	955.98	1,833.62
Profit Before Tax	2,142.40	4,087.91	1,962.14	1,094.64
Profit After Tax	1,811.67	3,661.50	1,820.09	679.35
Ratio Analysis				
Gross Margin (%)	19.15%	22.54%	13.25%	12.93%
Operating Margin (%)	13.84%	16.32%	8.08%	9.17%
Net Margin (%)	10.41%	13.40%	5.04%	2.13%
Funds from Operation (FFO) (PKR Millions)	2,442.47	4,343.69	2,189.23	1,524.81
FFO to Total Debt* (%)	44.01%	72.47%	18.38%	14.92%
FFO to Long Term Debt* (%)	140.91%	209.44%	54.04%	54.72%
Gearing (x)	0.82	0.58	1.00	1.08
Leverage (x)	0.99	0.81	1.26	1.37
Debt Servicing Coverage Ratio* (x)	3.14	5.03	1.52	1.30
Current Ratio (x)	1.57	1.82	1.37	1.34
(Stock in trade + trade debts) / STD (x)	1.74	2.27	1.47	1.41
Return on Average Assets* (%)	14.41%	22.12%	7.79%	3.13%
Return on Average Equity* (%)	30.72%	42.97%	16.42%	7.41%
Cash Conversion Cycle (days)	138.77	114.26	110.62	112.69

*Annualized, if required

A - Actual Accounts

M - Management Accounts

REGULATORY DISCLOSURES						Appendix II
Name of Rated Entity	J.K Spinning Mills Limited					
Sector	Textile					
Type of Relationship	Solicited					
Purpose of Rating	Entity Ratings					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook/Rating Watch	Rating Action	
	Rating Type: Entity					
	08/08/2024	A-	A-1	Stable	Reaffirmed	
	22/05/2023	A-	A-1	Stable	Maintained	
	26/04/2022	A-	A-1	Positive	Maintained	
	28/04/2021	A-	A-1	Stable	Maintained	
	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.					
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. Copyright 2024 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.					
Due Diligence Meeting Conducted	Name	Designation		Date		
	Mr. Nadeem Abbas	CFO		July 12, 2024		
	Mr. Muhammad Ghulam	Director Finance				