RATING REPORT

Kohinoor Mills Limited (KML)

REPORT DATE:
April 27, 2020

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	BBB+	A-2	BBB+	A-2
Rating Date	*April 27, 2020*		*March 11, 2019*	
Rating Outlook	Rating Watch-Negative		Stable	

COMPANY INFORMATION	
Incorporated in 1987	External Auditors: M/s Riaz Ahmad & Company Chartered Accountants
Listed Public Limited Company	Chairman of the Board: Mr. Rashid Ahmed Chief Executive Officer: Mr. Aamir Fayyaz Sheikh
Key Shareholders (with stake 5% or more):	
Mr. Aamir Fayyaz Sheikh – 22.8%	
Mr. Ali Fayyaz Sheikh – 17.6%	
Mr. Ismail Amir Fayyaz– 10.0%	
Mrs. Imrat Amir Fayyaz – 10.0%	
Mr. Ehsan Amir Fayyaz- 10.0%	
Mrs. Muneeza Asad Fayyaz-5.9%	
CDC-Trustee National Investment (Unit) Trust- 6.1%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (May 2019) **https://www.vis.com.pk/kc-meth.aspx**

OVERVIEW OF THE INSTITUTION

Kohinoor Mills Limited (KML) is a listed public limited company incorporated in December 1987 under the Companies Ordinance, 1984 (now Companies Act, 2017). The company is principally engaged in the business of textile manufacturing encompassing weaving, bleaching, and dyeing.

Profile of the Chairman

Mr. Rashid Ahmed is the Chairman of the Board. He is an MBA from IBA, Karachi. Mr. Ahmed has over 40 years of experience in banking and financial services industry. He is also a member of Board of Governors of Lahore University of Management Sciences.

Profile of the CEO

Mr. Aamir Fayyaz Sheikh is the Chief Executive Officer at KML. He has previously served as the Chairman of All Pakistan Textile Mills Association; playing a pivotal role in acquiring GSP plus status.

Financial Snapshot

Tier-1 Equity: end-1HFY20: Rs. 2.1b; end-FY19: Rs. 2.2b; end-FY18: Rs. 1.5b

Assets: end-1HFY20: Rs. 10.5b; end-FY19: Rs. 10.9b; end-FY18: Rs. 8.9b

Profit After Tax: 1HFY20: Rs. 345.2m; FY19: Rs. 728.8m; FY18: Rs. 239.1m

RATING RATIONALE

The ratings assigned to Kohinoor Mills Limited (KML) take into account its reasonable scale of integrated textile operations. The ratings incorporate moderate business risk profile; healthy growth in topline largely backed by higher product prices. The ratings incorporate KML as a key supplier to globally renowned brands while maintaining an adequate customer concentration. The ratings also draw comfort from the company's strong BoD profile, experienced management team and adequate corporate governance. The ratings also factor in improvement in cash flows and adequate coverages on back of higher profitability. Albeit gearing and leverage indicators showed some decrease on account of higher core equity, the same have remained higher vis-à-vis peers, exposing KML to relatively higher financial risk and act as a constraint to the ratings.

Rating Drivers

Integrated business unit: The company has three divisions, namely, Kohinoor Weaving, Kohinoor Dyeing and Kohinoor Genertek. The weaving division currently operates 258 air jet looms with a production capacity of 77.0 million meters per annum (FY18: 72.5 million meter per annum) at end-FY19. The dyeing division procures greige fabric from the weaving division as well as from outside and the production capacity increased to 48.0 million meter per annum (FY18: 43.2 million meters per annum). The increase in capacity in both divisions was due to enhanced efficiency from BMR during FY19. Kohinoor Genertek is the power generation center of the company with a generation capacity of 33.3MW. Capacity utilization of weaving division has remained around 100% (converted to 60 picks) over the years, while the same stood at 79% (FY18: 77%) for dyeing division (in linear meters). Generation capacity of power division remained lower at 12.3% (FY18: 16.8%); actual power generation is in accordance with demand from the weaving and dyeing division and some decrease was due to periodical scheduled and unscheduled maintenance of generators.

Weaving division product range includes various textures such as poplins, canvases, twills, drills, sateen and specialized designed fabrics with dobby and jacquard weaves. Dyeing division produces special finishes for its dyed fabrics such as 360 degrees stretch, fluorine free water repellent, stain and soil repellent, fire retardant, UV protection, anti-microbial, phase change, insect repellent, moisture management, pre-cure and past-cure. This has enabled the company to differentiate its product abroad and become key supplier for globally renowned brands such as Zara, Levi's, Ralph Lauren, American Eagle and Next. In order to meet power requirements of its weaving and dyeing divisions, KML established Kohinoor Genertek in 1995 as an independent power plant. The power division has a total of 9 generators; 3 Niigata generators running on heavy fuel oil (HFO), 3 CAT generators are running on gas, 1 Turbomach Gas Turbine and 2 CAT engines running on diesel.

Growth in topline mainly driven by higher product prices: KML registered 28.5% increase in topline during FY19. Export sales contribution remained largely stable at 77.6% (FY18: 77.4%) to net sales in FY19. Excluding intersegment sales, revenue from weaving division amounted to Rs. 4.2b (FY18: Rs. 3.03b) and accounted for around 30% (FY18: 28%) of net sales during FY19. Meanwhile, revenue from dyeing division increased to Rs. 9.8b (FY18: Rs. 7.8b), contributing 70% (FY18: 72%) to the topline during FY19. The company reported net sales of Rs. 7.1b during 1HFY20. The company's revenue from customers in FY19 by geographical distribution is tabulated below:

	Region	FY18	FY19
		% of Sales	
1	Asia	55.2%	52.0%
2	Pakistan	20.8%	21.4%
3	Europe	17.1%	15.8%
4	United States of America	4.0%	4.7%
5	Africa	2.0%	4.4%
6	Australia	0.9%	1.6%

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 and challenging economic environment. 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' status. With the demand compression emerging from ongoing global crisis and continued lockdown situation, which will virtually impact the entire textile value chain, ratings are being placed on 'Negative' outlook. Ratings remain dependent on maintaining cash flow coverages and prudent leverage indicators. VIS will closely monitor and will accordingly take action to resolve the outlook status.

Kohinoor Mills Limited Appendix I

BALANCE SHEET (PKR Millions)	FY17	FY18	FY19	1HFY20
Property, Plant & Equipment	3,603	4,930	4,884	4,949
Store, Spares and Loose Tools	404	367	418	538
Stock-in-Trade	909	1,154	1,816	2,116
Trade Debts	642	1,359	2,133	817
Advances, Deposits & Prepayments	74	141	339	196
Sales Tax Receivables	257	153	189	813
Other Receivables	487	564	583	514
Cash & Bank Balances	69	95	427	434
Other Assets	93	102	80	72
Total Assets	6,538	8,865	10,869	10,449
Trade and Other Payables	943	1,432	1,927	2,222
Long Term Debt *(including current maturity)*	727	945	787	677
Short Term Debt	2,133	2,766	3,644	3,156
Other Liabilities	381	343	486	416
Tier-1 Equity	1,255	1,458	2,158	2,130
Total Equity	2,354	3,379	4,023	3,979
Paid-up Capital	509	509	509	509
INCOME STATEMENT	**FY17**	**FY18**	**FY19**	**1HFY20**
Net Sales	10,656	10,856	13,952	7,132
Gross Profit	1,445	1,303	2,014	1,245
Profit Before Tax	234	263	863	414
Profit After Tax	134	239	729	345
Funds from Operations	388	435	1,088	481
RATIO ANALYSIS	**FY17**	**FY18**	**FY19**	**1HFY20**
Gross Margin (%)	13.6	12.0	14.4	17.5
Net Margins (%)	1.3	2.2	5.2	4.8
Current Ratio (x)	0.84	0.85	0.98	0.93
Net Working Capital	(534)	(679)	(113)	(378)
FFO to Total Debt (x)	0.14	0.12	0.25	0.25*
FFO to Long Term Debt (x)	0.96	0.89	2.0	1.94*
Debt Leverage (x)	3.33	3.76	3.17	3.04
Gearing (x)	2.28	2.55	2.05	1.80
DSCR (x)	1.24	1.47	2.35	1.80
ROAA (%)	2.1	3.1	7.4	6.5*
ROAE (%)	12.9	17.6	40.3	32.2*
(Stock in Trade+Trade Debt) to Short-Term Borrowing Ratio (x)	0.73	0.91	1.08	0.93

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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	Kohinoor Mills Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
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. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
27/04/2020	BBB+	A-2	Rating Watch-Negative	Maintained
11/03/2019	BBB+	A-2	Stable	Initial