RATING REPORT

Kohinoor Mills Limited (KML)

REPORT DATE:
April 19, 2021

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 19, 2021*		*April 27, 2020*	
Rating Outlook	Stable		Rating Watch-Negative	
Rating Action	Maintained		Maintained	

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.

Financial Statements of the company for FY20 were audited by M/s. Riaz Ahmad & Company.

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-1QFY21: Rs. 2.2b; end-FY20: Rs. 2.1b; end-FY19: Rs. 2.2b

Assets: end-1QFY21: Rs. 10.4b; end-FY20: Rs. 10.3b; end-FY19: Rs. 10.9b

Profit After Tax: 1QFY21: Rs. 43.2m; FY20: Rs. 365.2m; FY19: Rs. 728.8m

RATING RATIONALE

Corporate Profile: Incorporated as a public limited company in 1987; Kohinoor Mills Limited (KML) is a vertically integrated company involving weaving, bleaching, dyeing, and finishing of grey, white, and dyed fabrics; driven by in-house Independent Power Producer (IPP). KML is also planning to establish a garment unit as part of their vertical integration initiative.

Being an export-dominated company, exports constituted 89% of the net sales during FY20 (FY19: 87%), and the rest were local sales. With more than half of the clientele concentrated in Asia, KML also exports to other regions including Europe, Canada, and the U.S.A.

Weaving Division: Known as the flagship division of the company with the annual capacity of producing 40mn meters of grey fabric; the weaving division supplies fabric to leading fashion brands and trading companies; with top ten clients constituting more than one-third of the divisional sales.

Historically operating under 258 looms, the weaving division functioned without 62 looms / 1 shed during FY20 and H1'FY21 as loom replacement and modernization program is underway, resulting in lower production and utilization levels (FY20: 81%; FY19: 100%). Lower textile demand and temporary shutdowns further accounted for lower production in FY20. However, the looms have commenced operations in 2H'FY21. Total CAPEX amounted to Rs. 450mn, primarily (80%) funded through concessionary rates of Long Term Financing Facility (LTFF), and remaining through internal resources. The efficiency enhancement program will continue till FY22, with additional CAPEX of Rs. 1.15bn financed through Temporary Economic Refinance Facility (TERF).

Dyeing and Finishing Division: Having the installed capacity of four million meters of white, dyed, and print fabric per month, the division is the key supplier for top-tier fashion brands including Levi's, Zara, American Eagle, and Ralph Lauren; with top ten clients constituting one-fourth of the divisional sales.

Utilization levels of the division fell to 60% during FY20 (FY19: 79%) due to lower demand and temporary lockdowns amid pandemic. However, production increased as demand recovered, and the management is hopeful to achieve pre-COVID levels by end-FY21.

Genertek Division: Commencing in 2003; and having an installed capacity of 30MW electricity and 30 ton/hr. steam; the division operates as an Independent Power Producer (IPP) to ensure constant energy supply. Electricity can be generated using various sources of fuel including furnace oil, gas, biomass, and coal depending of price and supply dynamics. The division has nine generators with a total capacity of 291, 445 MW hours. However, capacity utilization has historically remained on the lower side (FY20, FY19: 12%)

Rating Drivers

Ongoing efficiency enhancement program together with the recovery in the industry post COVID-19 lockdown lends support to the business risk of the company.

As the loom replacement and modernization program comes online, the company is expected to benefit from increased production and better margins. This is supported by the recovery in the textile sector posted in 2Q'FY21. Pakistan has been able to attract orders diverted from the closure in other regions. The Government has also been supportive of the textile industry with various measures. Exports remained stagnant in USD terms during Q1'FY21, however recovery started to materialize during Q2'FY21 as export proceeds were 4% higher than SPLY. The sector posted a cumulative growth of 6.7% during 8M'FY21 vis-à-vis SPLY.

Gross margin has been maintained; turnover is expected to improve going forward

- KML's gross sales revenue fell by 14% in FY20 on the back of 31% decline in export volumes amid pandemic, and 29% in local sales volume; partly offset by rupee devaluation of 16% during FY20.
- In value terms, breakdown of decline in the topline accounted for 12% exports, and 30%[1] domestic sales.
- However, KML was able to sustain its gross margin, being assisted by depreciation in local currency.
- Turnover has remained depressed in H1'FY21, despite an uptick in the industry in Q2'FY21 due to unavailability of about 25% production capacity, as the company was in the process of replacing 62 existing looms with high speed energy efficient looms.
- Going forward, topline is expected to recover and grow over the rating horizon, as the newly installed looms come online in Q4'FY21.
- The Net Margins at 3% in FY20 streamlined with historical levels as FY19 reflects a one off exchange gain which resulted in uptick in net margins for that year. (FY19: 5.2%)

	FY19	FY20	1HFY20	1HFY21
Sales	**13,952**	**11,998**	**7,132**	**5,858**
Gross Margin	**14.4%**	**15.6%**	**17.5%**	**14.2%**
- Weaving	8.4%	10.1%	11.7%	11.8%
- Dyeing & Finishing	14.6%	15.1%	16.8%	12.4%
Operating Margin	**6.9%**	**7.0%**	**9.2%**	**6.1%**
Net Margin	**5.2%**	**3.0%**	**4.8%**	**2.6%**

Cash flow coverage indicators have come under pressure, albeit remain adequate

- While current ratio slightly declined in FY20 to 0.94x, it reflects an improvement on a timeline basis (FY19: 0.98x, FY18: 0.85x). However, balance sheet mismatch continue to constraint ratings. Going forward, on the back of higher profitability, management expects current ratio to improve on a quarter by quarter basis with the same fully corrected by FY21-22. Management also intends to limit payouts to conserve cash for working capital purposes.
- Debt Utilization decreased by 15% during FY20 on account of lower working capital requirements amid the pandemic; and effective financing cost reduced by 16 bps.
- Cash Flow Coverage indicators, FFO to Long-term debt, FFO to Debt, and Debt Servicing Coverage, remained under pressure on account of lower profitability, although remain adequate. The same are expected to improve on timeline basis as replacement program proceeds and full capacity comes online.

	FY19	FY20
Cash Conversion Cycle (Days)	13	3
Days Inventory Outstanding(Days)	14	18
Days Sales Outstanding (Days)	14	4
Days Payable Outstanding (Days)	15	19
FFO	1088	581
FFO to Long Term Debt	0.25	0.15
FFO to Debt	2.00	1.52
DSCR (x)	2.35	1.75

[1] Export sales include sales to direct exporters

Improvement in Capitalization Indicators

- KML's gearing and leverage indicators depicted improvement on account of lower debt utilization in FY20. Going forward, short term borrowings are expected to increase to support working capital requirements on increasing textile demand.
- Expansion plans and undergoing Modernization Initiative would require long-term financing over the rating horizon, thus putting pressure on leverage indicators.
- The Dividend Payout Ratio remained nil in FY20 (FY19: 21%).

Fig in Rs. Million	FY19	FY20	HFY20	HFY21
Net Equity				
- Paid-up Capital	509	509	509	509
-				
- Tier 1 Equity	2,158	2,136	2,130	2,201
Debt				
- Long Term	536	571	422	649
- Short Term	3,644	3,073	3,156	3,225
Gearing (x)	**2.05**	**1.77**	**1.80**	**1.89**
Leverage(x)	**3.17**	**2.96**	**3.05**	**3.06**
Dividend Payout	**21%**	**-**	**-**	**-**

Adequate Corporate Governance

- KML has an adequate corporate governance infrastructure evident through satisfactory board oversight, professional management team, and internal controls.
- The senior management has shown longevity with no unoccupied positions at top management level.
- KML is fully compliant with the code of ethics issued by International Federation of Accountants (IFAC).
- The company has also been assigned a satisfactory rating under Quality Control Review Program of ICAP and Audit Oversight Board of Pakistan.

Kohinoor Mills Limited **Appendix I**

BALANCE SHEET (PKR Millions)	FY18	FY19	FY20	1H'FY20	1H'FY21
Property, Plant & Equipment	4,930	4,884	5,028	4,949	5,384
Store, Spares and Loose Tools	367	418	609	538	598
Stock-in-Trade	1,154	1,816	1,950	2,116	2,051
Trade Debts	1,359	2,133	546	817	533
Advances, Deposits & Prepayments	141	339	135	196	241
Sales Tax Receivables	153	189	683	813	620
Other Receivables	564	583	507	514	390
Cash & Bank Balances	95	427	766	434	941
Other Assets	102	80	69	72	66
Total Assets	8,865	10,868	10,292	10,450	10,833
Trade and Other Payables	1,055	1,927	2,075	2,222	2,062
Long Term Debt *(including current maturity)*	945	787	703	677	940
Short Term Debt	2,766	3,644	3,073	3,156	3,225
Other Liabilities	343	486	478	416	484
Tier-1 Equity	1,458	2,158	2,136	2,130	2,200
Total Equity	3,379	4,023	3,959	3,979	4,002
Paid-up Capital	509	509	509	509	509
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**1H'FY20**	**1H'FY21**
Net Sales	10,856	13,952	11,998	7,132	5,858
Gross Profit	1,303	2,014	1,867	1,245	833
Profit Before Tax	263	863	486	414	245
Profit After Tax	239	729	365	345	152
Funds from Operations	435	1088	581	481	315
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**1H'FY20**	**1H'FY21**
Gross Margin (%)	12.0%	14.4%	15.6%	17.5%	14.2%
Net Margins (%)	2.2%	5.2%	3.0%	4.8%	2.6%
Current Ratio (x)	0.85	0.98	0.94	0.93	0.93
Net Working Capital	(679)	(113)	(309)	(410)	(375)
FFO to Total Debt (x)	0.12	0.25	0.15	0.25*	0.15*
FFO to Long Term Debt (x)	0.46	1.38	0.83	1.42*	0.67*
Debt Leverage (x)	3.76	3.17	2.96	3.05	3.06
Gearing (x)	2.55	2.05	1.77	1.80	1.89
DSCR (x)	1.47	2.35	1.75	2.22	2.38
ROAA (%)	3.1%	7.4%	3.5%	6.5%*	2.9%*
ROAE (%)	17.6%	40.3%	17.00%	32.1%*	14.0%*
(Stock in Trade + Trade Debt) to Net Short term Borrowing Ratio (x)	0.94	1.23	1.08	1.08	1.13

**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	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
19/04/2021	BBB+	A-2	Stable	Maintained
24/04/2020	BBB+	A-2	Rating Watch-Negative	Maintained
11/03/2019	BBB+	A-2	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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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Bhatti	General Manager	March 02, 2021
Mr. Kamran Shahid	CFO	