RATING REPORT

Kohinoor Mills Limited (KML)

REPORT DATE:
August 10, 2022

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	*August 10, 2022*		*April 27, 2020*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		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 (August 2021) ***https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf***

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). The Company is in the process of establishing its own garment stitching unit for which construction and civil works are underway.

Industry Overview:
Cotton production in Pakistan hit an all-time low and the shortage of stock caused prices to reach over Rs. 13,000 per maund during the year, however, favorable weather conditions during FY22 resulted in growth in production albeit prices still remain vulnerable to volatility going forward. Overall demand for textile products remained favorable during the year. Despite industry wide supply chain crisis, cotton and yarn price volatility and exponential increase in freight and energy costs, Pakistan's exports remained uninterrupted during FY21. The textile industry was also able to benefit with favorable raw material procurement which subsequently led to inventory gains. Going forward, ratings will remain vulnerable to commodity price fluctuations, exchange gain impact, local and international economic situation along with fears of global recession impacting the textile industry.

Segments:
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. At present the Company's weaving division operates under 260 high speed air jet looms, the Company has planned to replace 98 of its 800 RPM air jet looms with 1200 RPM air jet looms during the period. While routine BMR took place in the weaving segment, capacity utilization increased to 94% (FY20 81%). Entire CAPEX of approximately Rs.750m for loom replacement has been funded through Temporary Economic Refinance Facility (TERF) shipment is expected to arrive by the end of this fiscal year. Further capacity enhancement and routine BMR is expected to continue in the coming half.

Dyeing and Finishing Division: Having an installed capacity of 4 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. Overall capacity utilization levels of the division increased to (FY20 60%) during FY21 (FY19: 79%) but the same is expected to increase once the Company's garment segment is fully operational. This is expected to bring a shift in demand to Pakistan as pandemic bound restrictions gradually ease down. Going forward only routine BMR and capacity enhancement are planned in the Dyeing and Finished segment.

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. At present the Company's energy division operates on 9 different generators with 13% total capacity utilization during FY21 (FY20 12%), during the year the additional installation of two new 2.5 MW fuel-efficient gas engines was completed while going forward, another third engine will be installed by 1QFY23. The installation of additional capacities is expected to control the rising energy costs by a significant margin.

Rating Drivers:

Topline of the Company has witnessed improvement on the back of strong demand in international and domestic market during FY21 moreover capacity enhancement also continues to support the topline.

The Company's revenue increased to Rs. 13.24b during FY21 (FY20 12.0b) on the back of strong demand. Being an export oriented business, international sales continue to dominate; nevertheless, local sales registered a notable growth of 52% in FY21. Product mix comprises mainly of dyed cloth with dyeing segment constituting 65% of total revenues while weaving segment for greige fabric accounts for the remaining. During FY21, Asia and Europe were the prime international markets together contributing around 67% to the total sales mix.

Routine BMR and installation of additional capacities in the weaving segment have also supported increase in topline by over 30% during FY21. Going forward topline is expected to further improve on account of further capacity enhancement and planned BMR by the Company.

Topline is expected to further improve post completion of the Company's new garment segment which is expected to be fully operational in the coming half.

The Company has planned to diversify its product line as part of their vertical integration initiative by adding stitched garments to its product mix. KML has established a garment unit, for which building construction and civil works are underway. Previously the Company had hired a third party in Bangladesh to stitch and export its fabric to different countries. The new project is expected to come online by HFY23. The segment will have an initial installed capacity of producing 5,000-15,000 garments per day. The project's CAPEX is expected to cost around 1.2b, and will be funded through Temporary Economic Refinance Facility (TERF).

Gross margins have improved on account of exchange gain and reduction in cost of production.

During the year, the Company's gross margins witnessed improvement on the back of exchange gain caused by rupee devaluation impact. Improvement in margins is also attributable to constant capacity enhancement and efficiency in production coupled with reduction in energy cost from the company's in-house power plant. End-9MFY22 the Company's gross margins improved to 17.1% FY21 13.0%, FY20 15.6%) The Company reported a PAT of Rs. 737m (FY21 268m, FY20 365m) which improved net margin to 5.1% end-9MFY22 (FY21 2%, FY20 3%) Going forward, margins are expected to further improve due to overall reduction in stitching costs as the company's garment segment becomes operational, moreover, sustainability of the margins and contribution from the garment segment will remain important for the ratings going forward.

Liquidity metrics continue to remain under pressure, albeit depict an improving trend in 9MFY22

Liquidity metrics of the Company continued to remain under pressure with current ratio of the Company at 0.90x (FY20 0.92x) although showing slight improvement to0.96x at the end of 9MFY22. Fund Flow from Operations (FFO) slightly declined to 0.14x (FY20 0.15x) nevertheless the Company's debt servicing profile improved end-9MFY22 with FFO to Total Debt improving to 0.22x on account of higher profitability during 9MFY22. DSCR also depicts improvement. Going forward, improvement in in liquidity profile of the Company will remain important over the rating horizon.

Capitalization indicators expected to remain manageable

During 9MFY22 the Company's equity base grew to Rs. 3.9b (FY21 3.2b FY20 2.1b) on account of higher profitability. Albeit still remaining on the higher side, capitalization indicators appear to depict improvement on timeline basis. During FY21, leverage improved to 2.6x (FY20 2.96x) though the same slightly increased to 2.7x end-9MFY22 primarily due to increase in trade payables and short term borrowings. Gearing also depicts consistent improvement over the years, during FY21 gearing was reported to be 1.60x (FY20 1.77x) which further improved to 1.57x end-9MFY22. However, going forward, gearing and leverage may increase due to planned CAPEX for financing new garments unit although management expects it to remain manageable in the coming half on account of profit retention.

Adequate Corporate Governance

KML has an adequate corporate governance framework, professional management team, and internal controls. The senior management has shown longevity with unoccupied positions at top management level. KML is fully compliant with the code of ethics issued by International Federation of Accountants (IFAC).

BALANCE SHEET (PKR Millions)	FY18	FY19	FY20	FY21	9MFY22
Property, Plant & Equipment	4,930	4,884	5,028	7,027	7,507
Stock-in-Trade	1,154	1,816	1,950	2,915	4,619
Trade Debts	1,359	2,133	546	953	899
Advances, Deposits & Prepayments	141	339	422	266	494
Sales Tax Receivables	153	189	683	872	1,355
Cash & Bank Balances	95	427	766	660	773
Total Assets	8,865	10,868	10,166	13,574	16,733
Trade and Other Payables	1,055	1,927	2,075	2,883	4,235
Long Term Debt *(including current maturity)*	945	787	703	1516	1534
Short Term Debt	2,766	3,644	3,073	3,681	4,731
Other Liabilities	343	486	478	391	395
Tier-1 Equity	1,458	2,158	2,137	3,246	3,979
Total Equity	3,379	4,023	3,959	5,102	5,834
Paid-up Capital	509	509	509	509	509
INCOME STATEMENT	FY18	FY19	FY20	FY21	9MFY22
Net Sales	10,856	13,952	11,998	13,241	14,539
Gross Profit	1,303	2,014	1,867	1,720	2,492
Profit Before Tax	262	863	486	467	874
Profit After Tax	239	729	365	268	737
Funds from Operations	435	1,088	581	716	1,030
RATIO ANALYSIS	FY18	FY19	FY20	FY21	9MFY22
Gross Margin (%)	12.00%	14.43%	15.56%	12.99%	17.14%
Net Margins (%)	2.20%	5.22%	3.04%	2.02%	5.07%
Current Ratio (x)	0.93	0.98	0.92	0.90	0.96
Net Working Capital	-302	-113	-436	-709	-388
FFO to Total Debt (x)	0.12	0.25	0.15	0.14	0.22
FFO to Long Term Debt (x)	0.46	1.38	0.83	0.47	0.90
Debt Leverage (x)	3.51	3.17	2.96	2.61	2.74
Gearing (x)	2.55	2.05	1.77	1.60	1.57
DSCR (x)	1.47	2.35	1.75	2.24	2.01
ROAA (%)	3.10%	7.38%	3.47%	2.25%	6.49%
ROAE (%)	17.62%	40.30%	17.01%	9.94%	27.21%
(Stock in Trade + Trade Debt) to Short-Term Borrowing Ratio (x)	0.91	1.08	0.81	1.05	1.17

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				
10/08/2022	BBB+	A-2	Stable	Reaffirmed
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	12th May 2022
Mr. Kamran Shahid	CFO	