RATING REPORT

Kohinoor Mills Limited

REPORT DATE:
November 08, 2024

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A2	BBB+	A2
Rating Outlook/Rating Watch	Stable		Positive	
Rating Action	Maintained		*Maintained*	
Rating Date	*November 08, 2024*		*August 30, 2023*	

COMPANY INFORMATION

Incorporated in 1987	**External Auditors:** M/S Riaz Ahmad & Company Chartered Accountants
Public Listed Company	**Board Chairman:** Mr. Rashid Ahmed
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Aamir Fayyaz Sheikh
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%	
General Public (Local) ~7.8%	

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

Kohinoor Mills Limited

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, dyeing and power generation.

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 the banking and financial services industry. He is also a member of the 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.

RATING RATIONALE

Corporate Profile

Kohinoor Mills Limited ('KML' or 'the Company') is a public limited company incorporated in 1987 under the Companies Ordinance, 1984 (Companies Act, 2017) and its shares are quoted on Pakistan Stock Exchange Limited. The Company is principally engaged in the business of textile manufacturing covering weaving, bleaching, dyeing of fabric. The Company is also in the business of trading in yarn, cloth and other goods made from raw cotton and synthetic fiber, as well as generation and supply of electricity.

Manufacturing units and registered office of the Company are situated at 8-K.M., Manga Raiwind Road, District Kasur while the marketing office is located in Karachi.

Environmental, Social, & Governance (ESG) Initiatives

As part of the 2021-25 Environment & Climate Roadmap, KML has undertaken several sustainability measures. These include installing 1.5MW solar panels, recycling water through an effluent treatment plant for the dyeing and finishing process, employing waste heat recovery boilers for electricity generation, and using agricultural biomass for steam generation. Additionally, plans are in place to plant over 100,000 trees in and around the manufacturing facility.

Operational Performance

In FY23, 36 looms were added to the weaving division resulting in increased production of 114.3 m sq.mtr (FY22: 81.6 m sq.mtr) in FY23. Another 6 looms were added in FY24 with further increase in production to 116.9 m sq.mtr. From the last 4-5 years, the company continued to replace its old looms with new technology faster looms. As at FY24, 100% of the old looms has been replaced. With these new looms which gives double the speed, the production capacity has enhanced with around 10% lower power consumption, as per the management. The dyeing division maintained a steady installed capacity, though its production marginally increased, leading to a 73% capacity utilization, which remained unchanged in FY24.

In the power generation division, the number of installed generators decreased to six reducing the generation capacity to 234,465 MWh in FY24, however, actual generation increased to meet demand for the additional machinery.

Going forward, the company is planning to start a garment unit for which the place is already available. The company will setup stitching machines with a capacity of 15,000 units per day per shift. In double shift, it will have a capacity of 30,000 units per day. The company has done a CAPEX of Rs. 600mn on building for stitching units from its internal cashflows, for stitching machines the company has financing approved of Rs. 1bn.

In order to convert 100% of inhouse fabric capacity, the company will have to make 100,000 units per day. This is a management's long-term plan for the next 6-7 years. The company's existing customer base are the garments customer which takes fabric from the company and give it to another industry players for value addition. Ultimately, the management wants to transform the company into a garment seller.

Table: Capacity & Production Data (Units in millions)

	FY21	FY22	FY23	FY24
Weaving Division				
Number of looms in operation	260	230	266	272
Installed Capacity (mtr sq)	78.5	81.6	114.3	116.9
Production (mtr sq)	73.2	80.1	94.1	103.9
Capacity Utilization (%)	***93%***	***98%***	***82%***	***89%***
Dyeing Division				
Installed Capacity (meters)	48	48	48	48
Production (meters)	30.8	33.3	34.9	34.8
Capacity Utilization (%)	***64%***	***69%***	***73%***	***73%***
Power Generation				
Number of generators installed	**9**	**7**	**7**	**6**
Installed Capacity (MWh)	317,375	288,029	288,029	234,465
Generation (MWh)	41,476	40,689	40,689	52,250
Capacity Utilization (%)	***13%***	***14%***	***14%***	***22%***

Sector Update

The business risk profile of the textile sector in Pakistan is characterized by a high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors. In FY23, the textile sector faced challenges due to various economic and environmental factors. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and import restrictions due to diminishing foreign exchange reserves.

During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, as a result of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Reduction in cotton supply, coupled with global economic slowdown and contractionary economic policies, led to a decrease in demand for textile products and, consequently, cotton yarn.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs and inflationary pressures. Additionally, the sector's vulnerability to global market dynamics and the domestic economic landscape further contribute to its high business risk profile. However, there is optimism as an anticipated bigger cotton crop in FY24 is expected to alleviate some pressure on input costs and margins.

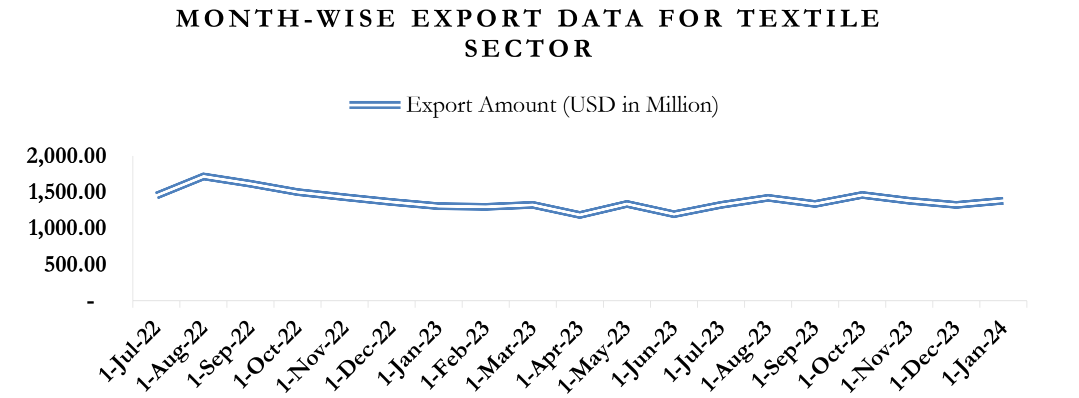

Figure 1: MoM Textile Exports (In USD' Millions) | Source: SBP

Key Rating Drivers

Despite falling export volumes, revenue growth continues, supported by higher local sales contribution. Profitability margins have taken a hit during FY24.

During FY24 sales revenues grew by ~6% to PKR 29.8b (FY23: PKR 28.2b), on the back of higher local sales volumes and rising prices. Greige cloth contributed 53.1% in sales revenue with dyed cloth making up 45.2% of the sales while yarn trading, processing income, and wastages constitute a small portion.

Products Sales Breakdown (PKR Millions)						
	FY22	%	FY23	%	FY24	%
Greige Cloth	7,328.61	34.2%	10,370.76	36.8%	15,846.39	53.1%
Dyed Cloth	13,722.87	64.0%	17,329.11	61.4%	13,484.78	45.2%
Processing Income	161.73	0.8%	210.87	0.7%	248.77	0.8%
Waste	121.75	0.6%	155.20	0.6%	220.27	0.7%
Yarn	117.89	0.5%	142.49	0.5%	54.03	0.2%
Total	**21,452.85**	**100.0%**	**28,208.45**	**100.0%**	**29,854.24**	**100.0%**

Though exports remain the primary source of revenue, local sales have seen a noticeable increase this year, standing at 43.2% (FY23: 33.8%; FY22: 22.1%) of total sales during FY24.

Sales	FY22	%	FY23	%	FY24	%
Exports	16,506.14	77.1%	18,430.23	65.5%	16,721.39	56.0%
Local	4,729.27	22.1%	9,507.89	33.8%	12,884.08	43.2%
Processing Income	161.73	0.8%	210.87	0.7%	248.77	0.8%
Total	**21,397.15**	**100.0%**	**28,148.99**	**100.0%**	**29,854.24**	**100.0%**

Geographically, most exports are destined to Asia, including Bangladesh, Vietnam, and Cambodia, followed by the European region, primarily Italy and Turkey, further extending to North America, Africa and Australia.

Geographic Sales Breakdown						
	FY22	%	FY23	%	FY24	%

Pakistan	4,891.00	22.8%	9,718.76	34.5%	13,132.86	44.0%
Asia	10,299.90	48.0%	9,636.53	34.2%	8,621.79	28.9%
Europe	4,968.22	23.2%	7,331.61	26.0%	6,301.27	21.1%
North America	608.67	2.8%	1,083.04	3.8%	1,359.34	4.6%
Africa	318.04	1.5%	322.13	1.1%	220.36	0.7%
Australia	282.94	1.3%	56.92	0.2%	169.50	0.6%
Export Rebate	54.32	0.3%	59.45	0.2%	49.12	0.2%
South America	28.37	0.1%	-	-	-	-
Duty Drawback	1.38	0.0%	-	-	-	-
Total	**21,452.85**	**100.0%**	**28,208.45**	**100.0%**	**29,854.24**	**100.0%**

Top five clients contributed ~25% to the total revenues, with none exceeding the 10% mark, which well limits the client concentration risk. Key revenue contributors include VF Kontoor, Levi's, Mango, H&M, American Eagle, Artistic Apparel, Gul Ahmed Textile and others.

Top 5 Customers		
	FY24	**%**
Kontoor Brands Inc.	2,164.26	7.2%
Levi Strauss Co.	1,692.06	5.7%
Ali Murtaza Associates (Pvt) Ltd.	1,362.42	4.6%
Mahmood Textile Mills Ltd.	1,129.23	3.8%
Artistic Apparels (Pvt) Ltd.	1,095.30	3.7%
Top 5 Customers	**7,443.27**	**24.9%**
Total Sales	**29,854.24**	**100.0%**

During FY24, gross and net margins declined to 14.2% (FY23: 20.8%; FY22: 16.1%) and -0.06% (FY23: 7.1%; FY22: 4.3%), respectively. This decrease is primarily attributed high contribution of greige fabric (weaving) sales which has lower margins, heightened inflationary pressures, leading to increased raw material and hike in energy costs. Additionally, finance costs rose significantly during the period to PKR 1.7b (FY23: PKR 1.2b; FY22: PKR 0.5b), further impacting the net margin. Going forward, management is expecting a sales growth of around ~32% in FY25 to Rs. 39b on the back of rebound in demand and additional revenue contribution of Rs. 1.7bn from the upcoming garment segment. Gross margins are expected to remain intact at around 15% (FY24: 14.2%) while conservatively net margins are forecasted to be at 2% (FY24: 0%, FY23: 7%) in FY25. Achievement of profitability metrics in FY25 will remain an important rating trigger.

A notable decline in cashflows has been observed in line with the declining profitability. Funds from operations (FFO) declined to PKR 585m (FY23: PKR 2.8b; FY22: PKR 1.4b) during FY24 in line with declining profitability and increase in finance cost paid during the year. As a result, coverage metrics dipped; with the debt service coverage ratio (DSCR) declining to 0.98x (FY23: 2.15x; FY22: 1.86x) in FY24. The current ratio remained at 1.01x (FY23: 1.05x; FY22: 0.95x) by the end of FY24. The cash conversion cycle increased to 60 days in FY24 (FY23: 42 days; FY22: 23 days), primarily driven by a rise in days receivables due to higher trade debts. An improvement in the coverage of short-term borrowings by trade debts and inventory was observed, with an increase in trade debts and a decline in short-term borrowings, reaching 1.70x (FY23: 1.27x; FY22: 1.04x) in FY24. Going forward, with the forecasted improvement in profitability, DSCR is expected to improve to 1.6x at end-FY25.

Capitalization profile remained largely intact with stability in equity base.

The equity base, including the revaluation surplus, grew by ~26% by end-FY24, reaching PKR 9.9b (end-FY23: PKR 7.9b). Excluding the revaluation surplus, tier-1 equity remained almost unchanged at PKR 5.3b (end-FY23: PKR 5.4b) given marginal loss during the period. The debt profile comprises a mix of short-term and long-term debt, with total interest-bearing liabilities amounting to PKR 8.0b (end-FY23: PKR 9.2b; end-FY22: PKR 6.8b) at the close of FY24, of which ~75% is short-term debt. With reduction in debt, gearing improved to 1.52x (end-FY23: 1.70x) while the leverage marginally deteriorated to 2.83x (end-FY23: 2.74x) owing to increase in payables, at the end of FY24. Going forward, the company has projected to mobilize a LT loan of Rs. 1bn for its garment unit machinery *(details mentioned above in operational update)* in FY25; however, the company will be paying a principal repayment of Rs. 553m. Moreover, the management has also forecasted to mobilize ST borrowings of Rs 1bn, in order to enhance operational efficiency in dyeing division by installing thermal biomass heater, for which LC is about to be open. Ultimately, with the said debt mobilization and increase in equity through internal cash generation, gearing and leverage ratios are expected to remain intact at same levels. Going forward, maintenance of capitalization profile will remain an important rating driver.

Kohinoor Mills Limited **Appendix 1**

FINANCIAL SUMMARY				(Amounts in PkR Mn.)
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**FY24**
Property, Plant & Equipment	7,027	7,913	9,067	11,764
Store, Spares and Loose Tools	568	768	905	885
Stock-in-Trade	2,915	4,052	5,545	5,372
Trade Debts	953	1,217	3,718	4,988
Advances, Deposits & Prepayments	266	450	217	231
Sales Tax Receivables	872	1,630	2,215	246
Other Receivables	185	44	40	67
Cash & Bank Balances	660	606	439	474
Total Assets	13,573	16,876	22,649	24,868
Trade and Other Payables	2,883	3,643	4,751	5,683
Long Term Debt *(including current maturity)*	1516	1736	1899	1904
Short Term Debt	3,681.2	5,082.3	7,280.7	6,095.5
Total Debt	5,196.7	6,817.9	9,179.3	7,999.4
Tier-1 Equity	2,473	3,440	5,396	5,272
Total Equity	5,102	6,004	7,889	9,952
Paid-up Capital	509	509	509	509
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**FY24**
Net Sales	13,241	21,453	28,208	29,854
Gross Profit	1,720	3,447	5,867	4,246
Profit Before Tax	467	1,222	2,450	428
Profit After Tax	268	928	2,002	(20)
Funds from Operations (FFO)	716	1,410	2,846	585
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**FY24**
Gross Margin (%)	13.0%	16.1%	20.8%	14.2%
Net Margins (%)	2.0%	4.3%	7.1%	-0.1%
Current Ratio (x)	0.90	0.95	1.05	1.01
Net Working Capital	-709	-503	629	146
FFO to Total Debt (x)	0.14	0.21	0.31	0.07
FFO to Long Term Debt (x)	0.47	0.81	1.50	0.31
Debt Leverage (x)	3.43	3.16	2.74	2.83
Gearing (x)	2.10	1.98	1.70	1.52
DSCR (x)	2.07	1.86	2.15	0.98
ROAA (%)	2.3%	6.1%	8.8%	-0.1%
ROAE (%)	11.5%	31.4%	37.1%	-0.4%
(Inv. + Rec)/Short-Term Borrowing Ratio (x)	1.05	1.04	1.27	1.70
Cash Conversion Cycle (Days)	19	23	42	60

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Kohinoor 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 Action
08/11/2024	BBB+	A2	Stable	Maintained
30/08/2023	BBB+	A2	Positive	Maintained
10/08/2022	BBB+	A2	Stable	Reaffirmed
19/04/2021	BBB+	A2	Stable	Maintained
24/04/2020	BBB+	A2	Rating watch-Negative	Maintained
11/03/2019	BBB+	A2	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 Meeting Conducted

Name	Designation	Date
Mr. Kamran Shahid	CFO	Sept 04, 2024
Mr. Bhatti	General Manager	