RATING REPORT

The Crescent Textile Mills Limited (CTML)

REPORT DATE:
January 12, 2022

RATING ANALYSTS:
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RATING DETAILS		
	Initial Rating	
Rating Category	Long-term	Short-term
Entity	A-	A-2
Rating Date	*31st Dec'2021*	
Rating Outlook	Stable	

COMPANY INFORMATION	
Incorporated in 1950	**External auditors:** Riaz Ahmad & Company Chartered Accountants
Public Listed Company	**Chairman of the Board:** Mr. Khalid Bashir
	Chief Executive Officer: Mr. Muhammad Anwar
Key Shareholders: (Above 5%)	
CS Capital (Pvt.) Limited - 7.41%	
Ahmad Shafi- 14.39%	

APPLICABLE METHODOLOGY
VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

The Crescent Textile Mills Limited

OVERVIEW OF THE INSTITUTION

The Crescent Textile Mills Limited (Crestex) was incorporated in 1950 as a private limited company and lateron listed on Pakistan Stock Exchange. The company is a composite unit consisting of spinning, weaving, processing, home textile and power generation.

Profile of Chief Executive Officer

Mr. Muhammad Anwar has been working in the capacity of CEO of CTML since 1972. He has rich experience in textile and sugar sectors and is also on the boards of Shams Textile Mills, and Shakarganj Limited. He is also a member of Board of Trustee of Faisalabad Dry Port Trust.

Profile of Chairman

Mr. Khalid Bashir joined the board in 1977, and was appointed as Chairman of the Board of CTML in October 2018. He has a vast experience of textile, sugar and insurance sector. He serves as CEO of Shams Textile Mills Limited, Chairman Board Suraj Cotton Mills Limited and Premier Insurance Limited.

Financial Snapshot

Tier-1Equity: end-1QFY22: Rs. 5.9b; end-FY21: Rs. 5.7b; end-FY20: Rs. 4.5b; end-FY19: Rs. 4.3b

Assets: end-1QFY22: 20.7b; end-FY21: Rs. 20.3b; end-FY20: Rs. 18.8b; end-FY19: Rs. 17.46b

Profit After Tax: 1QFY22: 245m; FY21: Rs. 516m; FY20: Rs. 34m; FY19: Rs. 239m;

RATING RATIONALE

The ratings assigned to The Crescent Textile Mills Limited (Crestex) take into account the company's association with Crescent Group; one of the oldest conglomerates in Pakistan with business interests in of textile, sugar, particle board, steel, and various financial services companies. The ratings incorporate diversification of revenue stream into spinning, weaving, processing and made-up segments; however, the reliance on spinning still remains significant. Therefore, ratings factor in high cyclicality and competitive intensity for spinning segment along with volatility in cotton prices which translate into moderate to high business risk profile. On the other hand, holistically business risk profile of the textile industry is supported by stable and growing demand prospects. Based upon projected capex in the next two fiscal years, the company has planned to reduced its reliance on procurement of fabric from open market on account of capacity enhancement of both weaving and stitching divisions. The ratings incorporate impact of currency fluctuations on imported raw material and any adverse changes in regulatory duties.

Assessment of financial risk profile incorporates the impact of Covid led boom in local textile sector translating into positive momentum in revenues, enhanced margins, healthy profitability indicators and augmentation of equity base. The ratings take comfort from additional equity injection made by the sponsors during the period under review. Further, owing to reduction in benchmark rates, the financing cost for the company has reduced, reflecting positively on the bottom line. The liquidity position is sound on account of sufficient cash flow generation in terms of outstanding liabilities coupled with support from sizable investments held by the company. The investments provide cushion for liquidity and can be easily liquidated in times of cash-flow crunch; however, the management does not foresee any event that can cause liquidity stress during the rating horizon. Further, the ratings factor in moderately leveraged capital structure. The ratings remain dependent on maintenance of margins, realization of projected targets, incremental cash flow generation and cost savings from recent capital expenditure and maintenance of leverage indicators.

Key Rating Drivers:

Local Textile Sector performance during COVID-19: The coronavirus pandemic led to 3% drop in global trade volumes in the 1QFY20 according to United Nations conference on Trade and Development forecasts. Industries whose operations were more globalized (particularly those who relied on Chinese inputs for production) were highly exposed to initial supply side disruptions. However, given most of the textile companies in Pakistan are heavily reliant on local cotton produce; the supply side risk was largely curtailed. In addition, the lockdown in China at the initial stage turned advantageous as the orders got shifted to Pakistan. Prior to onslaught of the pandemic, the European buyers were attracted by repetitive rupee weakening since 4QFY18, as unit prices fell only for Pakistan in 9MFY20 vis-à-vis its competitors. The price effect was further enforced by duty-free/quota free access under the GSP Plus agreement. Bangladesh and Pakistan have been able to increase their exports to the bloc as they enjoy preferential trade treatment within EU. Moreover, US-China trade war with USA applying additional tariffs on Chinese apparel imports since Sep'19 has aided low-cost suppliers including Pakistan in capturing the untapped share. So, after global onslaught of corona virus European and American retailers, the two main destination markets for this sector, cancelled their orders causing serious concerns in many sourcing countries. With only a few buyers honoring their import commitments with local manufactures, exports declined during April'20. Exports of readymade garments dipped by 69% in April'20 compared to same month in the preceding year.

The country's textile industry has scaled up production to pre-Covid level of full-capacity as a significant improvement in containment of the pandemic in the country led the world buyers to partially divert their orders to domestic manufacturers. The growth in production is backed by a big jump in the import of basic raw materials – cotton and man-made yarn – after the heavy rainfall and pest attack damaged notable portion of cotton crops in the fields to a multi-year low. Secondly, the industry recovered on a fast pace with the government's support in the shape of rationalizing energy price to a regional competitive level, the same included continued supply of raw material and subsidized financing for the expansion of production and setting up new units. Further, the textile exports have also largely recovered from the Covid-19 pandemic shocks and are still growing both in terms of their quantity and dollar value. The textile shipments have surged by 3.8% to $4.8 billion between July and October from $4.6bn in the corresponding period last year. The rise in the textile and clothing group has been slightly faster than the 0.6% growth in the overall export. The export recovery is most prominent in the knitwear, home textiles and denim segments.

Integrated Manufacturing Facility: Crestex, flagship company of the Crescent Group founded in 1950, is a vertically integrated composite textile unit, operating through five segments including spinning, weaving, processing, home textile and power generation. Head office and all production units are situated at Sargodha road, Faisalabad, except for the weaving unit, which is located at Industrial Estate, Hattar, Tehsil Khanpur, KPK. The company exports its products to the United States, Europe, Asia, Africa, and Australia.

Presently, the company has four spinning mills consisting of 100,272 spindles; the total spinning capacity is recorded at 34m Kgs/year based on 20s count with 3 shifts. There are dedicated areas, passages and procedures to process organic raw materials. Crestex manufactures all types of combed and carded yarns with varieties of raw material like cotton, polyester cotton, chief value cotton. Crestex also produces fancy yarns like lycra, duo core, slub, wool, Colima and flax productions. Besides Pakistani cotton and medium staple, long staple USA (Pima), Egyptian (Giza), and Greek cotton are also used for fine counts. The spinning machinery belongs to Reiter Swiss, Truitzschler Germany, Toyota/Murratec Japan and Chinese.

Weaving segment has 114 Air jet looms with total capacity of producing 10.8m linear meters per year; over and above its own weaving capacity, the company outsources approximately 50m square meters/year of griege fabric as per customer requirement. In line with growth in scale of operations amid better reception of company's products coupled with improved sector outlook, capacity utilization of spinning and weaving segments was recorded higher during FY21.The capacity utilization and related data of spinning and weaving segment is tabulated below:

(Figures in '000')	FY19	FY20	FY21
Spinning:			
Installed Spindles	100,272	100,272	100,272
Shifts Per Day	3	3	3
Production Capacity 20/S count (Kgs)	33,587	33,587	33,587
Actual Production 20/S count (Kgs)	29,168	27,886	29,768
Capacity Utilization	87%	83%	87%
Weaving:			

Installed Looms	112	112	112
Plant Capacity Converted to 50 Picks (Sq. Mtr.)	45,770	45,770	45,770
Actual production Converted to 50 Picks (Sq. Mtr.)	34,275	34,432	38,136
Capacity Utilization	75%	75%	83%

In the processing department, the company has continuous bleaching plant Goller and Kuster, continuous pad thermosol, pad steam, Reggiani and Zimmer Rotary printing machines, Monforts and Bruckner Stenters & Ramisch Calender. Crestex processing department has capability of printing designs up-to 16 colors with a workable width of 320cm. The company has the capability of dyeing & printing cotton, polyester, viscose, tencel, wool, silk and their blends. Crestex also has CAD stations and stork laser engraving machine in its design and engraving department. Yearly capacity of processing unit is as follows:

Processing Unit Sub-Division	Capacity per year
Finishing	36m meters
Printing	18m meters
Dyeing	8m meters
Bleaching	10m meters

The home textile division of the company manufactures a broad range of home textile and hospitality products, which include bed linen, table linen, kitchen linen, furnishing etc. Monthly capacity of home textile division comprising semi-automatic operations is as follows:

Home Textile Unit Sub-Division	Capacity per month
Open Line Bedding:	150,000 Pcs
Sheet Set	75,000 Sets
Duvet Set	215,000 Sets
Lined Curtains	30,000 Pairs
Table Linen:	20,000 Pcs
BIAB/Bed Spreads:	10,000 Packs
Institutional garments:	180,000 Pcs
Confection	50,000 Pcs

The power division generate power through gas and HFO engines. Generation capacity of gas engines is 16MW, while generation capacity of HFO engines is 9.6MW aggregating to 25.6MW. The company has also access to 2 FESCO lines of 10MW capacity. The power requirements are mainly met though in-house electricity generation, however, during overhauling of engines the same is met partly through WAPDA and partly through in-house generation.

Investment Mix: Long-term investments representing around one-third of the non-current asset base of the company, amounted to Rs. 3.9b (FY21: Rs. 3.8b; FY20: Rs. 3.7b) at end-1QFY22. Major equity investments in listed related-parties included 7.22% equity held in Shakarganj Limited and 9.40% equity held in Shams Textile Mills Limited. Other major quoted equity investments included 4.56% and 2.83% equity held in Crescent Cotton Mills Limited and Crescent Fibres Limited, respectively. Meanwhile, unquoted investments primarily included equity stake in Crescent Bahuman Limited (CBL) amounting to 3.1b at end-FY21; the same included 19.8% of common equity held amounting to Rs. 269.3m and 73.4% fully paid preference shares amounting to Rs. 2.9b. On the other hand, short-term investments include 11% equity held in Crescent Steel and Allied Products Limited (CSAP), amounting Rs. 190.7m at end-FY21 Other short-term equity investments included 1.22%

equity held in Samba Bank Limited amounting Rs. 37.4m; the same has been liquidated during 2QFY22. As per the management, the company does not plan on increasing its investment portfolio during the rating horizon. On the other hand, some scrips can be offloaded in case of liquidity requirement; however, the same remain contingent upon reasonable price quotation. On account of improved performance of scrips held, Crestex recorded surplus on re-measurement of investment at fair value through other comprehensive income amounting Rs. 406.9m *(after adjustment of related income tax)* (FY20: Rs. 154.0m) during FY21.

Sizable growth witnessed during FY21 on account of multiple factors: The company's topline registered an increase of around 34% to Rs. 17.8 b (FY20: Rs. 13.3b; FY19: Rs. 14.0b) during FY21; the same was a combined outcome of growth in both export and local sales. The export sales augmented to Rs 11.0b (FY20: Rs. 8.1b) primarily owing to volumetric increase in made ups registered to 24.7m mtrs (FY20: 17.5 m mtrs) during the outgoing year. Overall, the sales volume of processing & home textile segment, all contributing to exports, increased to 33m meters during FY21 as compared to 24m meters in the corresponding year. Processed fabric and made-ups production increased by 30% and 42% respectively in FY21 in comparison to last year. On the other hand, the average price per meter was recorded relatively lower at Rs. 365.8 during FY21 as opposed to Rs. 373.1 in the preceding year on account of management's focus on volumetric increase coupled with difference in specifications of articles sold. The increased demand of domestic products is underpinned by capitalizing of marketing gap as production units in competing countries are not operating at full potential owing to COVID-19 related lockdowns. In addition, the power subsidy announced by the government in Feb'20 for the sector made the prices even more competitive globally, therefore positively resulted in the offtake of local products. As per the management, Crestex improved its market penetration in exports through addition of certain renowned clients including Ralph Lauren, Zara Homes, Asda etc.

The company's made-ups division is associated with some of the well renowned brands including Turner Bianca PLC, Next Retail Ltd, J Rosenthal & Sons Ltd, Hanes Australia and Tchibo Gmbh. The company's client portfolio is dominated by wholesale distributors. Top 10 customers accounted for 47% (FY20: 46%) of the total sales during FY21. Geographic breakdown of sales shows that 50% of the sales (FY20: 51%) originated from Europe; Asia, Africa and Australia contributed 4% (FY20: 6%) to total sales, while around 7% (FY20: 4%) of export revenue was from US during FY21. Crestex was successful in tapping US bulk order market for geographical diversification; the same resulted in growth of the company's export portfolio during FY21.

Yarn sold by Crestex majorly constitutes cotton and PC yarn ranging from 20s- 80s count. The local sales were also recorded higher at Rs. 6.9b (FY21: Rs. 5.2b) during FY21 owing to enhanced demand of yarn on account of improved sector outlook as a whole coupled with addition of new product, knitted yarn, in the spinning segment product portfolio. As per the management, knitted yarn entailing better quality comprised around 20% of the spinning output. Total yarn sales increased to 12.8m kgs (FY20: 10.8m kgs) while the average rate reaped on spinning produce also improved to Rs. 484.2/kg (FY20: Rs. 413.75/kg) during FY21, better pricing of spinning division was on the back of price hike of cotton along with higher retail price of knitted yarn. Spinning division production (Converted 20s) increased by 6.7% during FY21 with production recorded at 18m Kgs of yarn, some of the spinning produce was utilized internally. Major reason for enhanced production was increase in plant efficiency and number of days worked.

Weaving department meets about 35% internal needs of the company while the rest of the fabric is outsourced from other weaving companies. Crestex's inhouse weaving facility produced 12m meters of fabric during FY21 which increased by 19% in comparison to last year, operational performance improved due better capacity utilization and increase in plant efficiency. During FY21, fabric purchase and fabric conversion from outside was 22m meters with 25% growth recorded in comparison to preceding year.

Improvement in gross margins on the back of better margins of spinning division along with increased contribution of exports segment: The company's margins improved to 13.8% (FY20: 11.7%) primarily owing enhancement of margins of spinning segment to 12.2% (FY20: 4.8%) during FY21. The margins of spinning segment were recorded higher on account of company procuring imported cotton at substantially lower rates that helped to post positive impact on bottom line of the segment. Moreover, the introduction of knitted yarn entailing higher margins than normal weaved yarn also resulted in augmentation of margins. On the other hand, the margins of home textile division declined to 11.3% (FY20: 13.3%) during FY21 on account of increase in yarn and fabric prices, exchange losses owing to PKR appreciation and increase in shipping freight rates. As per the management, value-added export market is categorized as highly competitive involving locking of sales price in advance, having third party distributors as major customers and high proportion of imported raw material in terms of total procurement (FY21: 41%; FY20: 48%).

Distribution cost increased to Rs. 769.1m (FY20: Rs. 573.5m) majorly due to increase in freight & shipment and commission to selling agents; the increase is in sync with enhanced scale of operations. Moreover, administrative expenses also increased to Rs. 447.3m (FY20: Rs. 391.8m) mainly as result of increase in salaries & benefits and higher repair & maintenance expenses incurred. Increase in all other administrative expenses is largely aligned with higher sales and general inflation. Further, other expenses stood higher at Rs. 106.1m (FY20: Rs. 43.5m) owing to increased contribution to workers' profit participation fund coupled with higher net exchange loss amounting to Rs. 65.9m (FY20: 21.9m) booked during FY21. On the other hand, other income increased to Rs. 131.4m (FY20: Rs. 116.8m) mainly on account of gain on remeasurement of GIDC liability amounting to Rs. 38.0m (FY20: nil) during FY21. Moreover, entire dividend income of Rs. 8.4m pertained to dividend from Samba Bank Limited In addition, the finance cost was rationalized to Rs. 452.2m (FY20: Rs. 480.9m) owing to sharp dip in benchmark interest rates despite increase in total borrowings of the company during the period under review. As a result of positive trajectory of revenues, improved margins and curtailment of interest expense, Crestex reported substantial profit of Rs. 515.7m (FY20: Rs. 33.6m) during FY21.

Going forward, the management projects to close FY22 with a topline of Rs. 18.5b, the company in on track of meeting the projected target as revenue of Rs. 4.7b was booked during 1QFY22. The increase in revenue is mainly attributable to 48% growth in local sales during the ongoing year. The gross margins further improved to 15.1% during 1QFY22 owing to better prices of final products reaped in the local market. The operating cost increased to Rs. 378.1m during 1QFY22 as opposed to Rs. 312.0 in the corresponding period last year owing to increase in distribution cost on account of high sea freight rates. Subsequently, in line with growth in scale of operations and improved margins, Crestex reported sizable profit of Rs.245.3m during 1QFY22. As per the management, the future prospects are encouraging due surge in company's products demand and full capacity utilization in all business segments.

Coverages have improved on a timeline basis: Liquidity position of the company has improved during the rating review period on account of adequate cash flows in relation to long-term outstanding obligations and sound debt service capacity. In line with increased scale of operations and improved margins, Funds from Operations (FFO) exhibited considerable improvement on a timeline basis to Rs. 372.9 (FY21: Rs. 993.2m, FY20: Rs. 287.2m) during

1QFY22. The liquidity profile has been fully rescued by end-1QFY22; the same even presents a positive impetus comparative to pre-COVID numbers. The extent can be assessed from the fact that the FFO for 1QFY22 is higher than the FFO of the entire FY20, the year marked by pandemic. Although, there has been a slight increase in total borrowings during the period under review, FFO in terms of outstanding obligations was sizable and showcased an improving trend. FFO to total debt was recorded higher at 0.19x (FY21: 0.13x; FY20: 0.04x) at end-1QFY22. Similarly, debt service coverage was also sound at 1.93 (FY21:2.49x; FY20: 1.06x) at end-1QFY22. Going forward, according to the management, cash flows are expected to improve on account of increase in sales supported by improvement in sector dynamics, capacity enhancement in weaving segment and higher contribution margin achieved in knitted yarn.

Further, stock in trade increased by end-1QFY22; the same includes raw material for meeting production orders received and finished goods. The import lead time for the company ranges between 90-120 days therefore the company keeps inventory at hand for four months to avoid production lags. Around 80% of the finished goods in hand include made to order export merchandise awaiting shipment. Around two-thirds of the raw material mix used by Crestex, constituted short staple cotton. The company uses both local and imported short staple cotton; the proportion of imported cotton constituted around three-fourths of the company's total cotton requirement during FY21 due to appreciation of rupee against dollar. Going forward, the management projects the raw material mix to constitute 60% imported cotton and 40% local cotton for FY22. Imported long staple cotton comprised around 17% of the total cotton requirement of the company for FY21. Locally, cotton is procured from June to December, while import of cotton is made on forward booking basis during the same period. Polyester (comprising 19% of the total raw material mix during FY21) is purchased throughout the year on a need basis, the proportion of local (from ICI Pakistan) and imported polyester was 70:30 during FY21. Majority of the local cotton purchases are made on cash and advance basis, while 90 days credit period is availed for polyester; import is made through banking lines.

Despite substantial increase in revenues, trade receivables increased only marginally in absolute terms to Rs. 2.8b (FY21: 2.7b; FY20: 2.4b); meanwhile in proportion to sales the same were recorded lower owing to higher proportion of cash received in advance prior to processing of orders. As per the management, in local sales Crestex normally offers a credit period ranging between 10-20 days while an extended period of two months is provided to export customers. Moreover, the payment for knitted yarn is made swifter as compared to weaved yarn and is mostly made in advance. The aging of receivables is considered satisfactory since three-fourths of the total receivables were not due at end-FY21. However, receivables amounting to Rs. 484.4m (FY20: Rs. 323.3m) constituting 18% were overdue for more than six months. Receivables due above six months' time period are fully secured, as according to management, a major chunk of these trade debts are against confirmed letters of credit export sales, whereas a smaller portion is due from a number of independent customers. Moreover, the outstanding receivables also carry a markup arrangement with late payment penalty locked in at Kibor plus 1%. Nevertheless, VIS will continue to closely monitor the aging profile of receivables as the same can inflict a minor dent on profitability of the company going forward. Further, allowance for expected credit losses stood at Rs. 46.0m at end-FY21.

Short-term loans and advances amounted Rs. 44.3m (FY21: Rs. 42.0m; FY20: Rs. 22.3m), majorly including increase in advances extended to suppliers; the same is in line with increase in scale of operations. Further, short-term deposits and pre-payments also stood higher at Rs. 146.1m (FY21: Rs. 130.7m; FY20: 84.1m) at end-1QFY22 due to higher margin deposits pertaining to 50% infrastructure duties paid to Sindh Government (remaining 50% has been provided in the form of bank guarantees). Other receivables also increased to Rs. 522.3m (FY21: Rs. 366.4m; FY20: Rs. 295.8) on account of higher sales tax & special excise duty refundable coupled with increased duty drawback. The liquidity of the company is slightly impacted due to sizable income tax refunds amounting to 786.3m (FY21: Rs. 737.0m; FY20: Rs. 777.8m) due from government at end-1QFY22; the company is unable to rectify the situation given it is an exogenous factor and inherent in the local textile industry.

On the other hand, trade and other payables largely remained range bound with only slight increase manifested amounting to Rs. 2.1b (FY21: Rs. 2.1b; FY20: 2.0b) by end-1QFY22; the same largely pertained to accrued liabilities and trade creditors. Accrued liabilities majorly comprised gas bill and GIDC payable, salaries and wages payable, commission and social security payable. With increase in cash & bank balances followed by stock in trade, current ratio of the company improved to 0.96x (FY21: 0.97x; FY20: 0.83x) on a timeline basis by end-1QFY22. Coverage of short-term borrowings via inventory and trade receivables has also increased to 1.09x (FY21: 1.05x; FY20: 0.90x) by end-1QFY22.

Moderately leveraged capital structure with adequate equity base: The equity base of Crestex augmented to Rs. 10.0b (FY21: Rs. 9.9b; FY20: Rs. 8.6b) at end-1QFY22 as a combined impact of internal capital generation along with equity injection aggregating to Rs. 400.0m by the sponsor through right issue during the period under review. The debt matrix of the company is largely tilted towards short term debt comprising around 83% of total debt. In line with increased working capital requirements owing to growth in scale of operations, the utilization of short-term borrowings increased to Rs. 6.4b (FY21: Rs. 6.1b; FY20: 6.2b) at end-1QFY22. Out of total short-term funding of Rs. 6.1b at end-FY21, around 55% amounting to Rs. 3.4b has been obtained as export refinance under SBP's refinance scheme on which concessionary charge at 3% per annum (FY20: 3.0%) is payable; the company had availed the entire limit at end-FY21. Moreover, Crestex has also obtained borrowing amounting to Rs. 716.8m (FY20: Rs. 333.6m) under short-term foreign currency financing with markup arrangement of Libor plus 1.25-2.0% per annum (FY20: Libor plus 1-3.6% per annum) at end-FY21. The unutilized limit under the aforementioned scheme was recorded at around Rs. 15m at end-FY21. In addition to this, short-term financing has been obtained from banks amounting to 2.1b at end-FY21 on mark-up ranging from KIBOR+1.5% to KIBOR+2.5% per annum and is secured by joint pari passu charge over fixed ad current assets of the company. On the other hand, long-term borrowings also increased during the rating review period as Crestex procured additional debt under SBP LTFF facility for payment of salaries to the employees of the company; the facility is payable in eight equal installments out of which three have already been made. All borrowings of the company are procured under SBP subsidized facilities therefore the interest cost is on the lower side. Moreover, for all existing long-term facilities in FY21 banks deferred the loan installments for the period of one year under SBP directive as a relief to the company during COVID-19 pandemic. Majority of these long-term financing facilities are secured against joint pari passu charge over fixed assets of the company. With growth in equity base, gearing and leverage indicators improved to 1.31x (FY21: 1.33x; FY20:1.65x) and 1.81x (FY21: 1.82x; FY20: 2.27x) by end-1QFY22; the leverage indicators are in line with the peer companies.

Long-Term Strategic Plan & Capex: The management plans to relocate the existing production facilities to Faisalabad Industrial Estate Development (FIEDMIC) in the next 3-5 years. The proposed relocation will be executed in two phases; entailing the relocation of processing unit in around 3 years period, followed by spinning unit relocation in around 5 years. For the said purpose, the company has acquired 50 Acres land in FIEDMIC. The company had started construction of leed certified building for its stitching operations at FIEDMC, the project will be completed by end-HY22. Moreover, expansion of stitching unit with addition of 50 new machines to reduce the outside reliance for stitching is currently being carried out. The total capex estimated for the expansion is estimated at Rs. 250m which will all be contributed internally; the project is estimated to come online by end-Feb'22 so some impact of the addition will be seen in ongoing year results. Moreover, for the installation of and procurement of 60 latest technology weaving machines, the company plans to procure additional debt of Rs. 800m with equity contribution of Rs. 400m; the equity portion has already been contributed through right issue. The financial close for the project is to be achieved by end-FY22; meanwhile the project is expected to come online by end-Aug'23. The project is likely to contribute to operational efficiencies through cost rationalization; moreover, the company would be able to target niche quality customers as fabric on the new machines can be prepared with higher specifications. Given the expansion plans in perspective, the leverage indicators are projected to decrease only slightly in the ongoing year. As per management, the existing plant area with an estimated market value of Rs. 9b can be disposed-off to retire long term borrowings; however, the timeline for the same has not been finalized yet.

The Crescent Textile Mills Limited Appendix I

BALANCE SHEET (in PKR millions)	FY18	FY19	FY20	FY21	1QFY22
Property, Plant & Equipment	6,328	6,727	7,402	7,376	7,416
Long-Term Investments	3,736	3,792	3,693	3,807	3,851
Store, Spares and Loose Tools	198	265	234	225	265
Stock-in-Trade	2,589	2,285	3,187	3,711	4,156
Trade Debts	2,346	2,648	2,419	2,695	2,815
Short-Term Loans and Advances	687	754	22	42	44
Deposits and Pre-Payments	61	71	84	131	146
Short-Term Investments	94	390	477	792	594
Other Receivables	1,416	291	296	366	522
Cash & Bank Balances	3	4	39	338	25
Total Assets	**17,612**	**17,371**	**18,795**	**20,264**	**20,673**
Trade and Other Payables	1,488	1,866	2,027	2,060	2,108
Long Term Debt *(*incl. current maturity)*	1,103	1,395	1,155	1,443	1,309
Short Term Debt	6,417	5,936	6,240	6,128	6,398
Total Equity	8,370	7,907	8,640	9,875	10,042
Surplus on Revaluation of Operating Fixed Assets	3,568	3,567	4,161	4,161	4,161
Tier-1 Equity	**4,803**	**4,339**	**4,479**	**5,714**	**5,881**
Paid-up Capital	800	800	800	800	1000
INCOME STATEMENT	FY18	FY19	FY20	FY21	1QFY22
Net Sales	11,314	13,946	13,264	17,817	4,713
Gross Profit	1,100	1,637	1,549	2,453	709
Operating Profit	337	614	584	1,237	351
Profit Before Tax	10	396	177	810	346
Profit After Tax	8	239	34	516	245
Funds from Operations	45	454	287	993	373
RATIO ANALYSIS	FY18	FY19	FY20	FY21	1QFY22
Gross Margin (%)	9.7	11.7	11.7	13.8	15.1
Net Margins	0.1	1.7	0.3	2.9	5.2
Current Ratio (x)	0.88	0.80	0.83	0.97	0.96
Net Working Capital	(1000)	(1,631)	(1,494)	(328)	(383)
FFO to Total Debt (x)	0.01	0.06	0.04	0.13	0.19
FFO to Long Term Debt (x)	0.05	0.40	0.25	0.69	1.14
Debt Leverage (x)	1.92	2.18	2.27	1.82	1.81
Gearing (x)	1.57	1.69	1.65	1.33	1.31
Debt Servicing Coverage Ratio (x)	0.82	1.27	1.06	2.49	1.93
ROAA (%)	0.0	1.4	0.2	2.6	4.8
ROAE (%)	0.2	5.2	0.8	10.1	16.9
(Stock in Trade+ Trade Debt) to Short-Term Borrowing Ratio	0.77	0.83	0.90	1.05	1.09

The Crescent Textile Mills Limited Appendix II

BALANCE SHEET Projections (in PKR millions)	FY22	FY23	FY24
Property, Plant & Equipment	8,112	7,835	7,589
Long-Term Investments	3,845	3,883	3,922
Stock-in-Trade	3,806	4,019	4,252
Trade Debts	3,010	3,075	3,136
Short-Term Loans and Advances	818	859	902
Deposits and Pre-Payments	142	149	156
Short-Term Investments	712	632	552
Cash & Bank Balances	4	5	5
Total Assets	21,203	21,230	21,314
Trade and Other Payables	2,004	2,054	2,080
Long Term Debt *(*incl. current maturity)*	1,883	1,525	1,115
Short Term Debt	6,386	6,060	5,837
Total Debt	8,269	7,585	6,952
Total Equity	10,587	11,252	11,948
Surplus on Revaluation of Operating Fixed Assets	4,161	4,161	4,161
Tier-1 Equity	6,427	7,091	7,788
Paid-up Capital	1,000	1,000	1,000
INCOME STATEMENT	**FY22**	**FY23**	**FY24**
Net Sales	18,506	18,918	19,315
Gross Profit	2,770	2,846	2,919
Operating Profit	1,339	1,348	1,346
Profit Before Tax	789	833	869
Profit After Tax	587	626	658
Funds from Operations	997	1,009	1,007
RATIO ANALYSIS	**FY22**	**FY23**	**FY24**
Gross Margin (%)	15.0	15.0	15.1
Net Margins	3.2	3.3	3.4
Current Ratio (x)	1.01	1.07	1.14
Net Working Capital	133	632	1,224
FFO to Total Debt (x)	0.12	0.13	0.14
FFO to Long Term Debt (x)	0.53	0.66	0.90
Debt Leverage (x)	1.65	1.41	1.20
Gearing (x)	1.29	1.07	0.89
(Stock in Trade+ Trade Debt) to Short-Term Borrowing Ratio	1.07	1.17	1.27

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	The Crescent Textile Mills Limited
Sector	Textiles
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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
		RATING TYPE: ENTITY		
31/12/21	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Asim Siddique	CFO	17-Dec-2021