RATING REPORT

The Crescent Textile Mills Limited (CTML)

REPORT DATE:

February 16, 2023

RATING ANALYSTS:

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RATING DETAILS				
	Latest Ratings		Previous Ratings	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	February 16, 2023		December 31, 2021	
Rating Action	Reaffirmed		Initial	
Rating Outlook	Stable		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%)	
Mr. Ahmad Shafi --15.96%	
CS Capital (Pvt.) Limited – 7.41%	
General Public – 47.23%	

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

OVERVIEW OF THE INSTITUTION

The Crescent Textile Mills Limited (Crestex) was incorporated in 1950 as a private limited company and later on 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-1QFY23: Rs. 6.9b; end-FY22: Rs. 6.7b; end-FY21: Rs. 5.7b

Assets: end-1QFY23: Rs. 22.3b; end-FY22: Rs. 22.3b; end-FY21: Rs. 20.3b

Profit After Tax: 1QFY23: 201.6m; FY22: Rs. 1.3b; FY21: Rs. 515.7m

RATING RATIONALE

The ratings assigned to The Crescent Textile Mills Limited (Crestex) take into account its association with 'Crescent Group'; one of the oldest conglomerates in Pakistan with business interests in textile, sugar, particle board, steel, and financial services. The ratings incorporate diversification of revenue stream into spinning, weaving, processing and made-up segments. Exports sales comprised processed fabric and home textile made-ups, which accounted for nearly half of the net sales during FY22. Local revenues largely emanate from yarn and greige fabric sale. During the outgoing year, the topline exhibited growth in line with higher average prices despite overall decrease in volumetric sales. Gross margins improved primarily on account of enhanced margins related to home textile and processing segment driven largely by higher product prices, better orders selection along with inventory gains emanated from timely procurement of raw materials at favorable prices. Net margins also improved with considerable exchange gain realized during FY22. Liquidity profile is underpinned by adequate debt service coverage and working capital management. The ratings factor in moderately leveraged capital structure. The company has mobilized additional long-term loan in FY22 and the ongoing year to finance expansion in its weaving segment which is expected to become operational in April'23.

The Rupee depreciation and favorable product prices continued to support the topline and gross margins during 1QFY23. Nonetheless, revenue growth and profitability are expected to remain under pressure amidst demand compression led by slowdown in global markets. Additionally, all time high inflation suppressing purchasing power of the masses, high markup rates, unstable forex parity and depleting foreign exchange reserves will remain major challenges. The ratings will remain sensitive to managing liquidity and debt service coverage while maintaining capitalization indicators at adequate levels.

Key Rating Drivers:

Production update: Crestex is a vertically integrated composite textile unit, operating through five segments including spinning, weaving, processing, home textile and power generation. Presently, the company has four spinning mills consisting of 100,272 spindles while the production capacity of spinning unit remained unchanged at 32.5m Kgs/year based on 20s count with 3 shifts per day. The capacity utilization was reported slightly lower at 87% (FY21: 92%) owing to some change in product mix entailing production of higher count yarn. Weaving segment has 114 Air jet looms with yearly total capacity of producing 40.9m Sq. Mtrs. (FY21: 40.6m Sq. Mtrs.) based on 50 picks and three shifts per day, where some marginal increase in installed capacity was due to efficiency enhancements through Balancing, Modernization and Replacement (BMR). Capacity utilization of weaving unit also decreased slightly to 85% (FY21: 95%) in line with some change in product mix

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. 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. The production capacities of dyeing, finishing and home textile divisions is indeterminable due to multi product plants involving varying processes of manufacturing and run length of order lots.

The power division generate power through gas and HFO engines. The cumulative capacity of both engines remained at 258 MWH. The company has also access to 2 FESCO lines of 10MW capacity. Actual power generation during the outgoing year was reported lower at 35.3% (FY21: 51%) as the company utilized electricity supplied by FESCO due to economical rates. Crestex has also signed power purchase agreement of 3.5 MW which provides solar energy solutions, energy storage, electric vehicle charging and digitization of energy assets to the industries. Out of the total, 0.5 MW was arranged at its weaving facility at Hattar in FY22 while 3.0 MW has recently been arranged at its facility in FIEDMC. In addition to contributing positively to the environment in reducing carbon footprints, the management contemplates a cost saving of around Rs. 36m per year.

The company's new stitching unit at FIEDMC, Sahianwala, started commercial operations by end-3Q'22. The capex has been executed with a sum of around Rs. 400m for 50 new machines, civil work on building, roads and other infrastructure, completely financed through own sources. The company has received allotment and possession letters of property of 50 Acres land located at FIEDMCIn addition, the company is in process of installation of new weaving unit comprising 80 Toyota Airjet looms at its existing production facility in Hattar. Total capex on this amounts to Rs. 1.6b out of which around two-third of the cost has been met through bank financing. Property, plant and equipment (PP&E) stood higher at Rs. 8.8b (FY22: Rs. 7.9b; FY21: 7.4b) mainly due to increase in CWIP to Rs. 1.5b (FY22: 483.9m; FY21: Rs. 187.5m) at end-1Q'23. This largely pertained to weaving unit machinery worth Rs. 1.1b (FY21: Rs. 272.2m; FY21: Rs. 190.3m) and building on leasehold land amounting Rs. 150.0m (FY22: Rs. 20.9m; FY21: Nil) along with the advance against purchase of FIEDMC land. The weaving unit is currently in installation phase and is expected to commence commercial operations in April'23. Through expansion in weaving operations, the company would be able to meet around 50% of its fabric requirements through in-house production. 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.

The management has long-term strategic plan to relocate the existing production facilities to Faisalabad Industrial Estate Development (FIEDMIC). As per management, the existing plant area can be disposed-off to retire long term borrowings; however, the timeline for the same has not been finalized yet.

Investment mix remained largely unchanged: Long-term investments representing around one-third of the non-current asset base of the company, amounted to Rs. 3.7b (FY22: Rs. 3.8b; FY21: Rs. 3.7b at end-1QFY23. 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-1QFY23; 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-1QFY23. Meanwhile, the company has liquidated some of equity stake in Samba Bank Limited to 0.91% (FY21: 1.11%) in FY22, which amounted to Rs. 27.7m (FY21: Rs. 33.8m). 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. As a result of lackluster stock market performance, the company has recorded deficit arising on remeasurement of investments at fair value through other comprehensive (FVTOCI) amounting Rs. 21.5m and Rs. 399.8m in 1QFY23 and FY22, respectively, as opposed to substantial gain of Rs. 429.4m in FY21.

Overall improvement in profitability profile during FY22 while the company expects some dip in revenue and profitability in the ongoing year amidst slowdown in local and global markets: During FY22, the company recorded net sales of Rs. 20.3b (FY21: Rs. 17.8b), posting a YoY growth of ~14%. Export revenues were reported lower at Rs. 24.1b (FY21: Rs. 30.9b). The share of export sales shrunk to 51.5% (FY21: 60.2%) owing to ~22% decline in volumetric sale of home textile madeups and processed fabric whereas average selling prices increased by ~25%. However, as per management, this was a deliberate decision as better export orders with competitive pricing were selected. On the other hand, local sales increased to Rs. 9.8b (FY21: 7.05b), posting YoY increase of 39% in FY22. The increase in local sales was largely manifested in yarn sales on the back of higher average rates despite ~13% decrease in quantity sold. Resultantly, contribution of yarn sales in the sales mix increased to 38.5% (FY21: 34.8%). Yarn sold by Crestex majorly constitutes cotton and PC yarn ranging from 20s- 80s count. Greige fabric sales, which accounted for 6.1% (FY21: 1.7%) of net sales in the outgoing year, were recorded higher at Rs. 1.3b (FY21: 307.6m) in line with higher average prices and quantity sold.

The company's client portfolio remained dominated by wholesale distributors. Top ten customers accounted for 42% (FY21: 42%) of the net sales while except for one client, all customers contributed less than 10% to the net sales. Furthermore, sales concentration risk is manageable due to long-standing relationship with major clients underpinned by better quality and pricing. Geographic breakdown shows that around 40% (FY21: 50%) of the sales originated from Europe, 8% of sales (FY21: 7%) were contributed by clients in America, followed by Asia, Africa and Australia which contributed 4% (FY21: 4%) to the net sales.

During FY22, the gross profits were reported significantly higher at Rs. 3.5b (FY21: Rs. 2.5b) with increase in gross margins to 17.4% (FY21: 13.8%) driven largely by enhanced profitability of processing and home textile segment as depicted by increase in the segment margins to 17.9% (FY21: 11.3%). The same was backed by higher product prices, better orders selection along with inventory gains emanated from timely procurement of raw materials at favorable prices. Given the output from home textile and processing segment is exported local currency devaluation against USD has been giving a competitive advantage to textile exporters in the international markets in terms of pricing. In addition, the spinning segment margins also improved slightly 13.5% (FY21: 12.2%). Similarly, weaving segment performance also improved slightly while around 85% (FY21: 96%) of the weaving division output was utilized as intersegment sales.

The company incurred Rs. 929.8m (FY21: Rs. 769.1m) in distribution cost during FY22. The increase was majorly due to higher commission paid to selling agents and increase in freight charges. Administrative expenses amounted to Rs. 490.4m (FY21: Rs. 447.3m). Other expenses increased to Rs. 238.4m (FY21: 106.0m) mainly due to allowance for expected credit losses of Rs. 143.1m (FY21: 0.1m); the allowance is booked against trade receivables as per accounting standards while the management expect to fully recover this amount. Other income increased to Rs. 377.3m (FY21: Rs. 131.4m) on account of net exchange gain of Rs. 315.9m booked during FY22 as opposed to net exchange loss of Rs. 65.9m in the preceding year. The company recorded dividend income from related party and other equity investments amounting to Rs. 7.7m (FY21: Rs. 8.4m). As per management, the company also expect to receive dividend from CBL in coming years which would support the bottomline, going forward. Accounting for taxation, net profits augmented to Rs. 1.3b (FY21: 515.7m) with increase in net margin to 6.6% (FY21: 2.9%) primarily on account of rationalized operating costs.

During 1QFY23, Crestex recorded Rs. 4.9b (1QFY22: 4.7b) with gross margins of 16.8% (FY21: 15.1%). Rupee depreciation against USD and favorable product prices continued to support profitability till end-Sep'23. As per management, half yearly sales are around Rs. 10b. Meanwhile, full year revenues are projected at around Rs. 17b. The gross margins are also projected to be lower in the ongoing year vis-à-vis FY22. The outgoing year is considered to be an outlier marked by exceptionally high yarn prices and inventory gains whereas the correction in prices started since the start of Jul'22 and lasted till Dec'22. As per management, some recovery has been seen in export orders and yarn prices in Jan'23 in line with some uptick in demand. Nonetheless, higher markup rates, depreciating local currency and depleting foreign reserves will remain major challenges faced by overall industrial sectors during the ongoing year.

Adequate liquidity in terms of cash flow coverages: Liquidity position of the company has improved during the review period as reflected by cash flow coverages in relation to outstanding obligations. Funds from operations (FFO) improved considerably to Rs. 2.0b (FY21: 993.2m) in line with higher profitability. Resultantly, despite some increase in borrowings FFO to total debt was reported higher at 0.24x (FY21: 0.13x) by end-FY22. Debt service coverage also remained sizeable (FY22: 2.57x; FY21: 2.49x) despite considerable increase in long-term repayments during FY22. Meanwhile, annualized cash flow coverages were reported lower in 1QFY23 due to decrease in FFO in line with decrease in net margins.

Stock in trade stood higher at Rs. 4.6b (FY21: Rs. 3.7b) at end-FY22 which included raw material inventory amounting Rs. 2.0b (FY21: Rs. 1.4b) and finished goods inventory worth Rs. 2.3b (FY21: Rs. 2.1b). Around 26% (FY21: 33%) of the finished goods inventory comprised stock in transit and stocks held with third parties. Stock in trade increased to Rs. 5.0b by end-1QFY23. The increase in inventory levels during FY22 was majorly owing to hike in raw material prices; average rates of local and imported raw materials increased in range of ~25-56%. The import lead time for the company ranges between 90-120 days therefore the company keeps inventory at hand for about four months to avoid production lags. Locally, cotton is procured from June to December, while import of cotton is made on forward booking basis during the same period. In raw material mix, cotton purchases accounted for 87% (FY21: 85%) out of which around two-third (FY21: 73%) of the cotton was imported during FY22. Polyester comprised 13% (FY21: 15%) of the raw material mix which included roughly equal proportion of local and imported. Yarn purchases accounted for 21% (FY21: 17%) of the total procurement and is entirely purchased from local textile mills. The proportion of fabric purchased decreased to 9% from 23% in the preceding year on account of lower made-up sales. Majority of the local cotton purchases are made on cash and advance basis while import is made through banking lines.

Trade receivables increased to Rs. 3.7b (FY21: Rs. 2.7b) at end-FY22 while as percentage of net sales stood at 18% (FY21: 15%). Around one-third of the trade debts were against confirmed letter of credit. 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 on documents against acceptance basis. Aging profile of trade debts is considered satisfactory as around 81% of the outstanding amount was not due as on Jun 30, 2022 while out of the remaining, majority falls under six months credit bracket. Trade receivables amounting Rs. 210.8m, from local clients, were past due for more than two years. The allowance for expected credit losses also increased to Rs. 188.6m (FY21: Rs. 46.0m) in line with incremental provision during FY22. Trade debts due from related party sales were nil (FY21: Rs. 17.1m) at end-FY22. Trade debts were recorded lower at Rs. 2.4b and as percentage of annualized net sales stood at 12% by end-1QFY23.

Short-term loans and advances amounted to Rs. 14.7m (FY22: Rs. 99.8m; FY21: 42.0m) which were majorly related to advances to suppliers/service providers. Short-term deposit and prepayments stood at Rs. 127.5m (FY22: Rs. 126.9m; FY21: Rs. 130.7m) and largely included margin deposits pertaining to infrastructure duties paid to Sindh Government. Other receivables enhanced to Rs. 635.2m (FY22: Rs. 378.2m; FY21: Rs. 381.0m) largely due to augmentation in sales tax and special excise duty receivables. As per management, it generally takes two to three months cycle to get these dues cleared by the government. In addition, the liquidity position of the company has also been impacted due to buildup of income tax receivables to Rs. 834.0m (FY22: Rs. 761.2m; FY21: Rs. 737.0m) by the end-1QFY23. As per management, this is an industry-wide issue and the company expects to get it adjusted against future income tax liabilities.

On the other hand, trade and other payables stood at Rs. 2.3b (FY22: 2.3b; FY21: Rs. 2.1b) at end-1QFY23; the same largely pertained to accrued liabilities and trade creditors. Accrued liabilities majorly comprised utility bills and GIDC payable, salaries and wages payable, commission and social security payable. Current ratio stood at 1.01x (FY22: 1.02x; FY21: 0.97x) by end-1QFY23. Coverage of short-term borrowings via stock in trade and trade debts also improved to 1.20x and 1.21x in 1QFY23 and FY22, respectively (FY21: 1.05x). During FY22, net operating cycle increased slightly, albeit remained somewhat comparable to the industry median.

Moderately leveraged capital structure with adequate equity base: The capitalization indicators of the company have improved over time on the back of strengthening equity base in line with internal capital generation. Core equity enhanced to Rs. 6.9b (FY22: Rs. 6.7b; FY21: Rs. 5.7b) at end-1QFY23 as a result of profit retention. During FY22, there was also an equity injection amounting Rs. 400m in form right shares issue. On the other hand, fair value reserve decreased in line with deficit arising on remeasurement of FVTPL securities. Total equity including revaluation surplus on PP&E stood higher at Rs. 11.0b (FY22: Rs. 10.8b; FY21: Rs. 9.9b).

The debt profile is largely tilted towards short-term borrowings which comprised more than three-fourth of the debt mix; the same amounted to Rs. 6.1b (FY22: Rs. 6.9b; FY21: 6.1b) at end-1QFY23. Out of the total working capital lines outstanding at end-FY22, Rs. 2.9b (FY21: Rs. 2.0b) were obtained under mark-up arrangements from banking companies and carry markup ranging from KIBOR plus 1.50 to 2.50% per annum (FY21: KIBOR plus 1.5 to 2.5%); the company has aggregate limit of Rs. 4.2b (FY21: 2.7b) under these facilities. Short-term loans amounting Rs. 3.8b (FY21: Rs. 3.4b) were obtained as export refinance under subsidized SBP refinance scheme carrying service charge of 3% (FY21: 3%) while the company had availed the entire limit at the year end. These also include short-term foreign currency of Rs. 196.1m (FY21: Rs. 716.8m) against available limit of Rs. 203m (FY21: 732m) priced at markup ranging from LIBOR plus 1.59 to 2.03 (FY21: LIBOR plus 1.2 to 2.0%) per annum.

Long-term borrowings including current portion stood higher at Rs. 1.8b (FY22: Rs. 1.3b; FY21: Rs. 1.4b) at end-1QFY23. The company mobilized additional loan of Rs. 724.3m and Rs. 293.8m in 1QFY23 and FY22, respectively to finance ongoing expansion in weaving unit. The financing is obtained under Long-Term Financing Facility (LTFF) charged at SBP rate for LTFF plus 2.50% during the ongoing year. Whereas the additional long-term borrowing obtained in FY22 were priced at 3M KIBOR plus 2% and diminishing musharaka loan of Rs. 38.5m charged at 12 months KIBOR plus 2% with floor of 8% and cap of 20%. An additional loan of around Rs. 100m has been obtained recently for this capex. Meanwhile, apart from this the management does not intend to obtained any significant long-term financing in the medium term. In line with growth in equity base, gearing and debt leverage decreased to 1.16x

(FY22: 1.22x; FY21: 1.33x) and 1.65x (FY22: 1.72x; FY21: 1.82x), respectively, by the end-1QFY23. Leverage indictors are expected to improve on account of scheduled repayments of long-term loans and expansion in equity base.

Environmental, Social and Governance (ESG) and corporate governance framework: Crestex has structured and follows its energy policy to create sustainable energy security through energy management system based on continual improvement and aims to be recognized among the textile sector as benchmark for its energy performance. Under this policy, the company has been striving to adopt energy efficient technologies to improve overall business processes. In this regard, the management has been pursuing various initiatives including:

- Increasing share of renewable energy in the energy mix;
- Drive energy conservation awareness at all levels within the organization;
- The company has signed an agreement with World Wide Fund (WWF- Pakistan) and International Labor Organization (ILO) and International Labor and Environmental Standards (ILES) for water stewardship;
- Construction of LEED (Leadership in energy and Environmental Design) certified building in FIEDMC;
- And efficient waste management system, among others.

Crestex holds numerous certifications in pursuit of following ESG standards including ISO 4001 Environment Management System, SA 8000 Social Accountability, ISO 50001 Energy Management, ISO 90001 Quality Management System. Under the corporate social responsibility commitment, the company has been partnering with the Citizen Foundation (TCF), a welfare organization, for promoting education in rural areas. And also, the company donates to various health and medical facilities for needy class of the society.

The Board of Directors (BoD) comprised two independent directors, including a female representation, three non-executive directors and two executive directors. Two Board level committees are in place including Audit Committee (AC) and Human Resource & Remuneration Committee (HR&R). During FY22, five BoD meeting and four AC meetings and one HR&R meetings were conducted while the attendance remained satisfactory. The Board has reappointed Riaz Ahmad & Co Chartered Accountants as its external auditors, who are on the SBP panel of auditors in the 'A' category.

FINANCIAL SUMMARY *(amounts in PKR millions)*

BALANCE SHEET	FY20	FY21	FY22	Q1'FY23
Non-Current Assets	11,253.8	11,213.1	11,630.5	12,565.0
Stores, Spares. And Loose Tools	233.5	224.7	348.4	368.4
Stock-in-Trade	3,186.6	3,711.5	4,609.5	5,010.8
Trade Debts	2,419.5	2,695.0	3,754.9	2,371.5
Other Receivables	295.8	381.0	378.2	635.2
Tax Refund Due from Government/Income Tax	777.8	737.0	761.2	834.0
Short term investments	476.9	791.5	445.7	388.2
Other Assets	112	172.8	226.6	142.4
Cash and Bank Balances	39.0	337.9	145.6	5.3
Total Assets	**18,794.9**	**20,264.5**	**22,300.6**	**22,320.8**
Trade and Other Payables	2,026.7	2,059.8	2,341.8	2,295.5
Short-Term Borrowings	6,239.7	6,127.5	6,892.4	6,129.4
Long-Term Borrowings *(Inc. current maturity)*	1,154.9	1,443.4	1,258.1	1,848.0
Deferred Liabilities	455.8	453.2	494.4	494.3
Other Liabilities	278.0	306.0	479.2	536.3
Total Liabilities	**10,155.2**	**10,389.9**	**11,465.9**	**11,303.5**
Paid-Up Capital	800.0	800.0	1,000.0	1,000.0
Tier-1 Equity	4,478.9	5,713.8	6,674.4	6,857.0
Total Equity	**8,639.7**	**9,874.5**	**10,834.7**	**11,017.3**
INCOME STATEMENT	**FY20**	**FY21**	**FY22**	**Q1'FY23**
Net Sales	13,264.0	17,817.3	20,331.5	4,902.2
Gross Profit	1,549.4	2,453.4	3,541.1	821.7
Finance Cost	480.9	452.2	498.2	197.2
Other Expenses	43	106	238	23
Other Income	116.8	131.4	377.3	70.1
Profit Before Tax	176.5	810.2	1,761.8	297.8
Profit After Tax	33.6	515.7	1,347.1	201.6
FFO	287.2	993.2	1,968.6	284.2
RATIO ANALYSIS	**FY20**	**FY21**	**FY22**	**Q1'FY23**
Gross Margin (%)	11.7%	13.8%	17.4%	16.8%
Net Margin (%)	0.3%	2.9%	6.6%	4.1%
Net Working Capital	(1493.8)	(328.1)	197.5	79.8
FFO to Long-Term Debt	0.2	0.7	1.6	0.2
FFO to Total Debt	0.0	0.1	0.2	0.0
Debt Servicing Coverage Ratio (x)	1.06	2.49	2.57	1.43
ROAA (%)	0.1%	1.7%	4.0%	0.6%
ROAE (%)	0.8%	10.1%	20.2%	3.0%
Gearing (x)	1.65	1.33	1.22	1.16
Debt Leverage (x)	2.3	1.8	1.7	1.6
Inventory + Receivable/Short-term Borrowings (x)	0.9	1.0	1.2	1.2

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	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
	RATING TYPE: ENTITY				
	16/02/2023	A-	A-2	Stable	Reaffirmed
	31/12/21	A-	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	
	1	Mr. Asim Siddique	CFO	26-Jan-2023	