

## RATING REPORT

### The Crescent Textile Mills Limited (CTML)

#### REPORT DATE:

March 27, 2024

#### RATING ANALYSTS:

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#### RATING DETAILS

Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	March 27, 2024		February 16, 2023	
Rating Action	Maintained		Reaffirmed	
Rating Outlook	Negative		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. Ahmad Shafi
Key Shareholders: (Above 5%)	
Mr. Ahmad Shafi – 21.14%	
General Public – 44.48%	

#### APPLICABLE METHODOLOGY

**VIS Entity Rating Criteria:** *Industrial Corporates*  
<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

#### APPLICABLE RATING SCALE(S)

**VIS Issue/Issuer Rating Scale:** <https://docs.vis.com.pk/docs/VISRatingScales.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 later became a public limited company in 1958. The company is a composite unit consisting of spinning, weaving, processing, home textile and power generation.*

**Profile of Chief Executive Officer**

*Mr. Ahmad Shafi is now the CEO of CTML. He has been reelected as the director and the board unanimously agreed on his appointment. He is also a member of the HR committee.*

**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-1 Equity: end-1QFY24: Rs. 6.3b; end-FY23: Rs. 6.5b; end-FY22: Rs. 6.6b*

*Assets: end-1QFY24: 25.8b; end-FY23: Rs. 25.4b; end-FY22: Rs. 22.3b*

*Profit After Tax: 1QFY24: (214)m; FY23: Rs. 561m; FY22: Rs. 1.3b*

**RATING RATIONALE**

**Corporate Profile**

Established in 1950, Crescent Textile Mills Limited (‘Crestex’ or ‘the Company’) is a publicly listed entity specializing in yarn production, greige fabrics, processed fabric, home textiles, and institutional garments. Operating across three plants, two located in Faisalabad, Punjab, and one in Haripur, KPK, the Company is recognized for its textile expertise and export capabilities.

**Operational Performance**

Table 1: Production Data

Segment	FY22	FY23
<b>Spinning (20s count)</b>		
Maximum Capacity	32,453	32,453
Actual Production	28,095	23,507
<b>Capacity Utilization</b>	<b>86.6%</b>	<b>72.4%</b>
<b>Weaving (50 picks)</b>		
Maximum Capacity	40,932	40,932
Actual Production	34,689	31,771
<b>Capacity Utilization</b>	<b>84.7%</b>	<b>77.6%</b>

**Spinning:** The performance of the Spinning segment remained depressed in FY23 due to multiple challenges faced, including low product demand and significant increase on cost front. Recent import restrictions also reduced raw material availability, thereby affecting the actual production level. As a result, the capacity utilization declined to 72.4% (FY22: 86.7%).

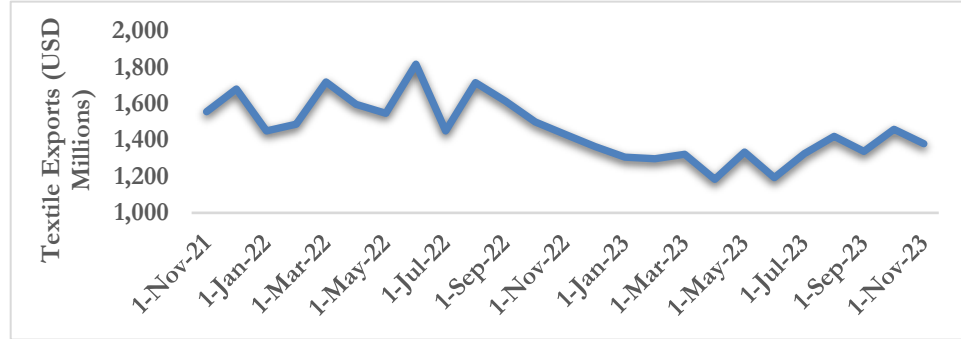
**Weaving:** Parallel to Spinning, the capacity utilization level of the Weaving segment has also decreased. The Company has planned installation and operation of a new weaving unit, comprising 80 wider width Air Jet Looms, slated for completion by Jan-24. This would enable the Company to produce a wider range of grieger cloth and cater the growing customer demand in the home textile sector.

**Sector Update**

In FY23, the performance of Pakistan's textile sector faced constraints due to the government's withdrawal of significant incentives previously enjoyed by the sector, such as RCET (Regionally Competitive Energy Tariff) and subsidized financing. The cost of production for the textile sector increased notably, with gas prices surging from Rs. 819 per MMBtu to Rs. 2,200 per MMBtu during FY23. This escalation was primarily attributed to depleting gas reserves in the country and a heightened dependence on RLNG.

The textile sector, being highly leveraged, encountered additional challenges with reduced support from the State Bank of Pakistan (SBP) and the government. The textile companies have had to borrow at a higher cost, amidst an elevated policy rate in the country. Consequently, due to recessionary trends in both local and international economies, the demand for textile products remained low throughout FY23.

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



Looking ahead, the demand outlook for the textile sector is anticipated to be constrained by prevailing economic uncertainties. Nevertheless, the depreciation of the rupee has rendered our exports slightly more competitive in international markets. Additionally, there is optimism as an anticipated good cotton crop in FY24 is expected to alleviate some pressure on input costs and margins.

**Increased raw material prices resulted in weak profitability and subdued margins in FY23. Going forward, overall profitability is forecasted to stay under pressure in FY24**

During the period under review, the net revenue decreased slightly to Rs. 19.9 bn (FY22: Rs. 20.3 bn), owing to notable volumetric decline of ~17% Y/Y; however, this reduction in net sales was limited due to a rise in effective prices amid rupee depreciation. The cost of sales increased owing to higher raw material prices, hike in fuel and energy cost, and other inflationary pressures, which resulted in gross margin to drop at 13.4% in FY23 (FY22: 17.4%). A significant drop was observed in the volumetric sales of yarn, constituting a substantial portion of the total sales value, as well as in Made-up sales, which represent a significant share of the overall sales. The Company encountered challenges in offsetting the effects of rising raw material and fuel costs, particularly in the local yarn sales during FY23.

The profitability pressure further cascaded downward as evident from the drop in operating profit to Rs. 1.8 bn (FY22 Rs. 2.3 bn). The rise in finance charges to Rs. 1.0 bn (FY22: Rs. 0.5 bn), amid elevated monetary policy rate, dented the bottom-line. Consequently, the profit after tax (PAT) was reported at Rs. 0.6 bn (FY22: Rs. 1.3 bn), while the net margin decreased to 2.8% (FY22: 6.6%).

Sales of the Company comprise of yarn, greige fabric, processed fabric, and home textiles. The Company’s topline primarily consists of export sales, contributing ~60.6% towards total revenue. The sales to top-10 clients constituted ~41.3% of total revenue (FY22: 36.4%). While this increase signals a strong relationship with key clients, diversification of the customer base remains a consideration for the management.

During 1QFY24, the net sales amounted to Rs. 5.6 bn, while the cost pressures continued to restrain the Company’s profitability profile wherein the gross margin further dropped to 10.3% in 1QFY24 (FY23: 13.4%). With rising finance cost pressure, the Company has posted a net loss of Rs. 214m in 1QFY24. Going forward, the profitability of the Company is forecasted to stay under pressure with negative bottom line in FY24, amid cost pressures and high finance cost.

**Cashflows deteriorate on account of decreased profitability. Liquidity profile of Crestex leaves room for improvement**

During FY23, the Funds from Operations decreased to Rs. 0.9 bn (FY22: Rs. 2.0 bn), owing to reduced profitability. This resulted in the Debt-Service-Coverage-Ratio dropped to 1.18x (FY22: 2.48x). However, maintaining the same above 1x is important from the ratings perspective. The cashflow coverages depicted similar trend as both FFO/Total Debt and FFO/Long-term Debt ratios declined to 0.10x and 0.58x (FY22: 0.24x and 1.57x). The liquidity profile of the Company leaves room for improvement as the current ratio decreased to 0.96x (FY22: 1.02x), while the cash conversion cycle increased to 113 days (FY22: 100 days).

During 1QFY24, the Funds from Operations turned negative, as the Company incurred a net loss, further straining the cashflow coverages. Going forward, improvement of liquidity profile and cashflow coverages will be a key factor from the ratings perspective.

**Capitalization metrics worsen on account of higher total debt in FY23**

The short-term borrowings increased to Rs. 7.2 bn as at Jun'23 (Jun'22: Rs. 6.9 bn), to meet higher working capital needs, which were influenced by rising raw material costs. The long-term debt rose to Rs. 1.6 bn as at Jun'23 (Jun'22: Rs. 1.3 bn) to finance the installation of a new weaving unit set to commence operations in Jan-24. Consequently, total debt stood at Rs. 8.8 bn as at Jun'23 (Jun'22: Rs. 8.2 bn), while both the gearing and leverage ratios deteriorated to 1.34x and 1.98x (FY22: 1.22x and 1.72x) respectively.

During 1QFY24, the capitalization metrics have continued to trend upwards as both gearing and leverage indicators have been reported at 1.44x and 2.14x (FY23: 1.34x and 1.98x) respectively. Going forward, improvement of the capitalization profile will be important from the ratings perspective.

**Environmental, Social and Corporate Governance (ESG)**

The Company has undertaken various initiatives to promote social and environmental responsibility, demonstrating its commitment to corporate social responsibility and the welfare of society. These initiatives encompass areas such as education, healthcare, environmental conservation, and sustainable growth. Notable efforts include:

- Engaging in a partnership with The Citizens Foundation to support education, currently funding three primary units with an annual donation of Rs. 7.8 million.
- Contributing Rs. 21.6 million towards healthcare for the underprivileged.
- Planting 27,000 trees to mitigate the effects of climate change.
- Collaborating with organizations like the World Wide Fund and ILO Pakistan to foster sustainable development within Pakistan's textile sector.

**Corporate Governance**

The Company's board of directors consists of seven members, with six male and one female director. Among them, there are two independent, two executive, and three non-executive directors. The audit and remuneration committees are chaired by the two independent directors. In FY23, the audit committee convened four meetings, while the remuneration committee held one. Moreover, the Company's auditor, Riaz Ahmad & Company, is on the

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State Bank of Pakistan's approved panel, holding 'A' category, signifying professional competence and credibility.

**The Crescent Textile Mills Limited**
**Appendix I**

<i>(amounts in PKR Millions)</i>				
<b>Financial Summary</b>				
<b><u>BALANCE SHEET</u></b>	<b>Jun'21</b>	<b>Jun'22</b>	<b>Jun'23</b>	<b>Sep'23</b>
Non-Current Assets	11,213	11,630	14,185	14,333
Stores, Spares. And Loose Tools	225	348	380	440
Stock-in-Trade	3,711	4,610	4,953	6,290
Trade Debts	2,695	3,755	3,835	2,702
Short term investments	792	446	255	299
Cash and Bank Balances	338	146	181	169
<b>Total Assets</b>	<b>20,264</b>	<b>22,301</b>	<b>25,494</b>	<b>25,820</b>
Trade and Other Payables	2,060	2,342	3,088	3,368
Short-Term Borrowings	6,128	6,892	7,248	7,656
Long-Term Borrowings (Inc. current maturity)	1,443	1,258	1,570	1,459
<b>Total Liabilities</b>	<b>10,390</b>	<b>11,466</b>	<b>12,997</b>	<b>13,549</b>
Tier-1 Equity	5,714	6,674	6,569	6,343
<b>Total Equity</b>	<b>9,875</b>	<b>10,835</b>	<b>12,497</b>	<b>12,271</b>
<b><u>INCOME STATEMENT</u></b>				
	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>1QFY24</b>
Net Sales	17,817	20,331	19,891	5,596
Gross Profit	2,453	3,541	2,665	574
Finance Cost	(452)	(498)	(1,025)	(388)
Other Income	131	377	623	15
Profit Before Tax	810	1,762	787	(142)
Profit After Tax	516	1,347	561	(214)
FFO	993	1,976	917	(228)
<b><u>RATIO ANALYSIS</u></b>				
	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>1QFY24</b>
Gross Margin (%)	13.8%	17.4%	13.4%	10.3%
Net Margin (%)	2.9%	6.6%	2.8%	-3.8%
ROAA (%)*	2.6%	6.3%	2.3%	-3.3%
ROAE (%)*	5.6%	13.0%	4.8%	-6.9%
Current Ratio (x)	0.97	1.02	0.96	0.92
FFO	993	1,976	917	(228)
FFO to Long-Term Debt*	0.69	1.57	0.58	-0.16
FFO to Total Debt*	0.13	0.24	0.10	-0.03
DSCR (x)*	3.01	2.48	1.18	0.50
Inventory + Receivable/Short-term Borrowings (x)	1.05	1.21	1.21	1.17
Gearing (x)	1.33	1.22	1.34	1.44
Leverage (x)	1.82	1.72	1.98	2.14

REGULATORY DISCLOSURES						Appendix IV
<b>Name of Rated Entity</b>	The Crescent Textile Mills Limited					
<b>Sector</b>	Textiles					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Entity Rating					
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>	
	<b>RATING TYPE: ENTITY</b>					
	27/03/24	A-	A-2	Negative	Maintained	
	16/02/23	A-	A-2	Stable	Reaffirmed	
31/12/21	A-	A-2	Stable	Initial		
<b>Instrument Structure</b>	N/A					
<b>Statement by the Rating Team</b>	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.					
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>		<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	1	Mr. Asim Siddique	CFO	22-Feb-2024		