RATING REPORT

Kohinoor Textile Mills Limited (KTML)

REPORT DATE:
June 17, 2020

RATING ANALYSTS:

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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A+	A-1
Rating Outlook	Rating Watch-Developing	
Rating Date	*June 17, 2020*	

COMPANY INFORMATION	
Public Limited Company since 1968	**External auditors:** M/s Riaz Ahmad & Company Chartered Accountants
Public Limited Company	**Chairman of the Board:** Mr. Tariq Sayeed Saigol
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Taufique Sayeed Saigol
Directors, CEO and their spouse – 29.028%	
General Public – 57.51%	
Modarabas, Leasing and Mutual Funds – 7.107%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Corporates (April, 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Kohinoor Textile Mills Limited (KTML)

OVERVIEW OF THE INSTITUTION

KTML was incorporated as a public limited company in Companies Act, 1913 (now the Companies Act, 2017) under the Companies Ordinance, 1984 and was subsequently converted into a public limited company in December, 1968.

Financial Statements of the company for FY19 were audited by M/s Riaz Ahmad & Company Chartered Accountants

Profile of Chairman

Mr. Tariq Sayeed Saigol is the Chairman of Kohinoor Maple Leaf Group. He is a leading and experienced industrialist with exposure to multiple sectors.

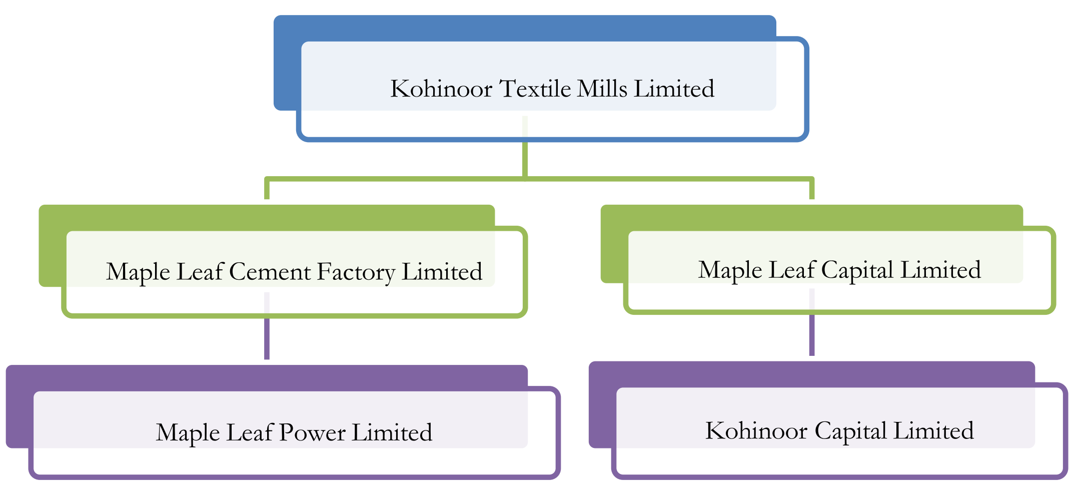
RATING RATIONALE

Kohinoor Textile Mills Limited (KTML) is part of Kohinoor Maple Leaf Group. The group has a presence in textile, cement, power generation and investment management.

KTML has a vertically integrated setup and is principally engaged in the manufacturing of yarn and cloth, processing & stitching the cloth and trade of textile products. Existing manufacturing facilities of KTML comprise two spinning units, one weaving unit and a home textile unit. The company's head office is situated in Lahore, while a regional office is based in Karachi. The Company has adequate power generation arrangement in place with generation sources including gas, furnace oil, solar and WAPDA. Generation mix is shifted depending on cost effectiveness of each fuel source.

Manufacturing units and office	Location
Head Office	Lahore
Regional Sales Office	Karachi
Spinning and Home Textile Units	Rawalpindi
Spinning Unit	Gujar Khan
Weaving Unit	Manga Raiwand, District Kasur

Product Portfolio
Yarn
Greige Fabric
Dyed and Printed Fabric
Home Textile Products (Bed Linen, Quilting, Embroidery, Curtains, etc)



Maple Leaf Cement Factory Limited (MLCF)

MLCF is principally engaged in production and sale of cement through a production factory is situated in Iskanderabad Distt: Mianwali. MLCF is one of the leading players in the cement sector. The company is the 4th largest player in terms of installed capacity and dispatches and recorded a market share of 8% during FY19. KTML holds 55.22% shares of the subsidiary company.

Maple Leaf Power Limited (MLPL)

MLPL is a wholly-owned subsidiary of MLCF; the company is principally engaged in generating, purchasing, transforming, distributing and supplying electric power to MLCF.

Maple Leaf Capital Limited (MLCL)

MLCL was incorporated in 2014 and is principally engaged in buying, selling and holding of financial instruments. KTML holds 82.92% shares of the subsidiary company.

Kohinoor Capital Limited (KCL)

KCL was incorporated in 2018, is a wholly-owned subsidiary of MLCL. The company is principally engaged in buying, selling and holding any financial instruments.

Capacity Utilization

Spinning

Capacity	FY17	FY18	FY19
Spinning (Rawalpindi Division)			
Spindles (average) installed/worked	85,680	85,680	85,680
100% plant capacity converted into 20s count based on 3 shift per day for 1,094 shift (2018: 1094) in millions kg	42.4	45.8	46.1
Actual production converted into 20s count based on 3 shift per day for 1,094 shift (2018: 1094) in millions kg	39.6	41.3	41.7
Rotor (average) installed/worked	1,848	1,848	1,848
100% plant capacity converted into 20s count based on 3 shift per day for 1,095 shift (2018: 1095) in millions kg	3.1	3.5	3.7
Actual production converted into 20s count based on 3 shift per day for 1,095 shift (2018: 1095) in millions kg	2.7	3.1	3.2
Spinning (Gujar Khan Division)			
Spindles (average) installed/worked	71,808.0	71,808.0	71,808.0
100% plant capacity converted into 20s count based on 3 shift per day for 1,094 shift (2018: 1094) kg	39.0	40.8	41.2
Actual production converted into 20s count based on 3 shift per day for 1,094 shift (2018: 1094) kg	34.8	36.6	37.0
Overall Spinning			
Total Spindles	157,488	157,488	157,488
Total Rotors	1,848	1,848	1,848
Total Capacity (in millions kg)	84.5	90.2	91.1
Actual Production (in millions kg)	77.1	81.0	81.9
Capacity Utilization	**91.2%**	**89.8%**	**89.9%**

The cumulative installed capacity of the spinning segment (combination of spindles and rotors) stands at around 91.1m kgs (FY18: 90.2 m kgs). Production count ranges 10s to 100s with production concentrated at around 60s to 80s. Over the past three years, capacity utilization of the spinning segment has hovered around 90%.

Weaving

Capacity	FY17	FY18	FY19	HY20
Total number of looms installed	288	288	288	288
Average number of looms worked	288	288	288	288
Number of shifts worked per day	3	3	3	3
Total days worked	365	365	365	184
Installed capacity at 60 picks per inch of fabric square meters in million	104.9	104.9	104.9	63.5
Actual production converted at 60 picks per inch of fabric square meters in million	93.8	95.7	96.4	62.6
Utilization	**89.4%**	**91.2%**	**91.8%**	**98.6%**

KTML's weaving segment is situated at Raiwind division, with a total installed capacity of 104.9m square meters of fabric. On a timeline basis, capacity utilization of the weaving segment has depicted an increasing trend depicting a volumetric growth.

Finishing and Printing

	FY17	FY18	FY19	HY20
Production capacity meters in millions	42.1	42.1	42.1	21.2
Actual production meters in millions	18.0	14.6	14.8	10.2
Utilization	**42.7%**	**34.7%**	**35.1%**	**48.0%**

KTML's finishing and printing segment is situated at Rawalpindi division, with a total installed capacity of 42.1 m meters and is only categorized for export sales. Over the last 3 years, the capacity utilization of this segment has remained on the lower end. This is attributable to margin-based policy pursued by the management in contrast to volumetric growth strategy pursued by most players.

Coronavirus to result in uncertainty in textile sector dynamics

The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand, sharp fall in cotton prices and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating Watch-Developing' status. Given the low leveraged capital structure, it is expected that ratings will remain stable post recovery of the ongoing situation; nevertheless as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status.

Financial Profile

Growth in revenue over the years has been a combination of an increase in average selling price along with volumetric growth. Going forward, revenues are expected to come under pressure due to impact of Covid-19.

Net Sales of the company grew by 19.0% during the outgoing year (FY19: Rs. 21.2b: FY18: Rs. 17.8b). The increase in net sales can be associated with an increase in average selling price along with volumetric growth. More than three-fifth of the total sales emanate from the domestic market. During FY19, growth in local sales outpaced exports. Concentration in terms of client wise sales is considered at manageable levels, as the top 5 clients accounted for 24.5% (FY19:

20.0%; FY18: 23.7%) of net sales in HY19. Sales from the fabric segment represent the major proportion of total revenues with the same representing 63.2% of total sales during 1HFY20.

Sales Break-up	FY18		FY19		1HY20	
	Rs. In Million	%	Rs. In Million	%	Rs. In Million	%
Local Fabric	3,533.1	19.8%	4,585.2	21.6%	2,199.6	18.4%
Local Yarn	7,776.3	43.6%	9,541.3	45.0%	4,395.6	36.8%
Total Local Sales	11,309.4	63.4%	14,126.5	66.6%	6,595.2	55.3%
Export Fabric	6,524.2	36.6%	7,093.6	33.4%	5,338.8	44.7%
Gross Sales	**17,833.5**	**100.0%**	**21,220.1**	**100.0%**	**11,934.0**	**100.0%**

Local sales of the company grew by 24.9% during the outgoing year. The growth in local sales was a combination of volumetric growth and an increase in average selling price. The company's product portfolio for the local market primarily includes yarn and fabric. The management operates all segments independently.

Export sales of the company grew by 8.7% during the outgoing year (FY19: Rs. 7.1b; FY18: Rs. 6.5b). The growth in export sales was primarily due to an increase in average selling price while sales volumes declined during the outgoing year. The company's product portfolio for the export market includes home textile products (Bed Linen, Quilting, Embroidery, Curtains, etc.). Largest export destination constituted around 34.0% (FY19: 53.0%; FY18: 48.0%) of net sales in HY20.

Gross margins have improved on the back of enhanced operational efficiencies, volumetric growth and currency devaluation.

On a timeline basis, gross profit margin of the company has trended upwards (9MFY20: 18.6%; FY19: 16.8%; FY18: 13.9%). Gross margins compare favorably to peer companies in the home textile segment. Improvement in gross margin can be attributed to volumetric growth, operational efficiencies and currency devaluation. Despite the sizeable increase in finance cost and taxes, overall profitability improved due to an increase in revenues and improvement in margins. While dividend income from MLCF has declined in FY19 and is expected to remain limited in FY20, the same has historically supported Company's profitability. In terms of segment wise profit, spinning segment contributes the most to bottom-line of the company followed by processing & home textile and weaving. Net profit of the company was reported at Rs. 1.5b (FY19: Rs. 1.8b; FY18: 1.7b) during 9MFY20.

Going forward, sluggish demand due to Covid-19 will put downward pressure on profitability. However, KTML's management expects some support to profitability from gradual opening of local and international markets and increased penetration in the hospital segment (bed sheets and masks).

Liquidity profile remains satisfactory due to healthy cash flow generation and strong debt servicing ability. Working capital cycle and short-term liquidity indicators have weakened in FY20.

Funds From Operations (FFO) during the outgoing year grew by 14.3% on the back of an increase in profitability. In absolute terms, FFO of the company amounted to Rs. 2.9b (FY18: Rs. 2.5b) in FY19 while FFO amounted to Rs. 2.1b in 9MFY20. Debt service obligation ratio (DSCR) is considered sound at 3.3x (FY19: 4.2x; FY18: 4.6x) during 9FY20. The working capital cycle has increased due to higher receivables and stock in trade levels. Stock in trade & trade debts as a proportion of short-term borrowing has weakened considerably on a timeline basis (9FY20: 1.04x; FY19: 1.10x; FY18: 1.68x).

Leverage indicators have increased on a timeline basis but remain within manageable levels.

Equity base (excluding revaluation) of the company has grown to Rs. 14.1b (FY19: Rs. 13.1b; FY18: Rs. 12.0b) at end-9MFY20 on the back of internal capital generation. Total debt of the company stood at Rs. 11.4b (FY19: Rs. 5.1b; FY18: Rs. 6.4b) at end-9FY20. A major proportion of total debt is attributable to short term borrowing which stood at Rs. 8.1b (FY19: Rs. 3.1; FY18: 4.6b) at end-9MFY20 to meet the working capital requirements. The remaining quantum of total debt is related to long-term debt which stood at Rs. 3.2b (FY19: Rs. 1.9b; FY18: Rs. 1.7b) at end-9MFY20 and has been mobilized to fund CAPEX. Gearing and leverage ratio stood at 0.8x (FY19: 0.4x; FY18: 0.5x) and 1.1x (FY19: 0.7x; FY18: 0.7x), respectively at end-9MFY20.

Going forward, leverage indicators are expected to increase further due to the impact of Covid-19 outbreak while the eventual recovery in leverage indicators to pre-Covid 19 levels is contingent on the duration and breadth of the pandemic.

Adequate governance framework

Board of Directors (BoD) at KTML comprises eight members including one independent director. The existing governance framework of the company is considered satisfactory as indicated by the presence of one independent director. Board Audit Committee (BAC) and Board Human Resource & Remuneration Committee (BHRRC) are also chaired by an independent director. In line with best practices, KTML should have the presence of at least one more independent director and one female director on Board. The Company has a well-defined organizational structure and adequate internal control framework.

Financial Summary (amounts in PKR millions)				Appendix I
	FY17	FY18	FY19	9MFY19
BALANCE SHEET				
Property Plant and Equipment	8,222.0	8,578.7	8,907.6	9,468.0
Other Fixed Asset	7,225.4	9,577.2	9,605.0	12,924.3
Stock-in-Trade	2,009.6	2,574.8	3,814.3	5,563.7
Trade Debts	1,299.0	1,699.0	1,455.1	2,907.7
Cash & Bank Balances	154.9	161.9	216.4	81.8
Total Assets	20,744.8	24,872.0	25,546.6	33,826.6
Trade and Other Payables	1,518.7	1,797.7	2,133.4	2,991.7
Long Term Debt (including current maturity)	1,574.42	1,723.40	1,946.72	3,242.32
Short Term Debt	3,187.9	4,635.4	3,141.5	8,139.8
Total Debt	4,762.3	6,358.8	5,088.2	11,382.1
Total Liabilities	6,822.0	9,051.3	8,579.8	15,914.7
Paid Up Capital	2,823.6	2,993.0	2,993.0	2,993.0
Total Equity (without surplus revaluation)	10,100.3	11,977.6	13,123.8	14,068.9
INCOME STATEMENT				
Net Sales	17,404.7	17,833.5	21,220.1	18,152.7
Gross Profit	2,581.3	2,477.8	3,561.1	3,370.7
Profit Before Tax	2,902.5	2,154.1	2,280.9	1,742.9
Profit After Tax	2,351.8	1,664.3	1,750.6	1,468.9
RATIO ANALYSIS				
Gross Margin (%)	14.8%	13.9%	16.8%	18.6%
Net Profit Margin	13.5%	9.3%	8.2%	8.1%
Current Ratio	1.05	0.93	1.09	0.91
Net Working Capital	251.4	(484.6)	583.3	(1,138.1)
FFO	2,531.3	2,527.0	2,887.8	2,750.9
FFO to Total Debt (%)	53.2%	39.7%	56.8%	24.2%
FFO to Long Term Debt (%)	160.8%	146.6%	148.3%	84.8%
Debt Servicing Coverage Ratio (x)	6.1	4.6	4.2	3.3
ROAA (%)	11.8%	7.3%	6.9%	6.6%
ROAE (%)	24.4%	15.1%	13.9%	14.4%
Gearing (x)	0.5	0.5	0.4	0.8
Leverage (x)	0.7	0.8	0.7	1.1

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

Medium to Long-Term

AAA
Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-
High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-
Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-
Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-
Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-
Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC
Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC
A high default risk

C
A very high default risk

D
Defaulted obligations

Short-Term

A-1+
Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1
High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2
Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3
Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B
Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C
Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details.www.vis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES	Appendix III
Name of Rated Entity	Kohinoor Textile Mills Limited
Sector	Textile
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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Due Diligence Meetings Conducted	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
17-June-20	A+	A-1	Rating Watch-Developing	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Bilal Hussain	General Manager - Finance	11/05/20
2	Mr. Hafeez-ur-Rehman	Manager Treasury	11/05/20