RATING REPORT

Kohinoor Textile Mills Limited (KTML)

REPORT DATE:
July 22, 2022

RATING ANALYSTS:

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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Rating Outlook	Stable		Stable	
Rating Date	*July 22, 2022*		*January 20, 2021*	
Rating Action	*Re-affirmed*		*Maintained*	

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
CEO– 14.51%	
Mrs. Shehla Tariq Saigol – 10.15%	

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

Kohinoor Textile Mills Limited (KTML)

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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.

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. As of FY21, Group's consolidated revenues were reported to be Rs. 65.5b (FY20 Rs. 50.8b). KTML's subsidiaries include:

- **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 in the industry.

- **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.

Key Rating Drivers:

Strong growth recorded in revenues and margins during FY21 and the ongoing year. Sustainability of the same remains important.

The Company performed notably well in FY21 and ongoing year despite supply chain disruptions and exponential rise in global freights. KTML's sales increased by 37% to Rs. 29.9b (FY20: Rs. 21.8b) during FY21 and Rs 29b during the first six months of FY22. Management expects growth momentum to continue with turnovers projected above Rs. 37b in FY22. The uptick in revenues was led by both volumetric growth as well as commodity price increase, with price increase contributing largely.

Higher yarn prices resulted in inventory gains, which coupled with favorable exchange movement resulted in Company's gross margins to increase to 27.2% during-9MFY22 (FY21 20.5%, FY20 18.3%) also. Sustainability of the same over the rating horizon remains important for rating purposes.

KTML's local sales quantum has increased over time with local sales constituting 59% of total sales in FY21. Spinning segment continued to dominate the sales mix with 48% contribution. Home textiles accounted for 34% of total sales while remaining constitutes of weaving. Performance of the spinning segment remained robust in FY21 and 9MFY22, however, home textiles segment remained subdued on account of slowdown witnessed in North American and European economies as well as rising costs. Nevertheless, overall revenues of the Company continued to maintain the growth momentum during 9MFY22. Client concentration is considered manageable with top 5 clients constituting 27% of total sales.

Capacity additions expected to contribute towards margin improvement

The Company continued to invest in expansion and modernization of production facilities, which as per management contributed about 20-25% to topline.

Spinning:
The Company has total 158, 544 spindles located in Rawalpindi and Gujar Khan Site. Overall, spinning capacity utilization was reported to be 84% during FY21 (FY20: 87%). Capacity expansion at both sites is underway, with Gujjar Khan expansion becoming operational by Q1FY23 and Rawalpindi division coming online by Q2FY23.

Weaving:
Significant capacity expansion in weaving segment is also in the pipeline and expected to be completed by Dec 2023. At present, the Company has 288 looms installed operating at 94% capacity utilization. The planned expansion is expected to bring diversity to the product lines.

Processing:
KTML's finishing and printing segment is situated at Rawalpindi division. Processing capacity recorded utilization of 42% (FY20: 44%). Processing contributed 33% to total sales during FY21.

The company's current requirement for electricity in between, 20MW-25MW. During FY21, the Company has invested in a new solar energy project which will bring the total solar power capacity to 11MW, while further expansion is in pipeline. Moreover, the company continues to diversify its product line and invest in enhancing its spinning technologies for producing a much finer count of synthetic fiber to reduce dependence on cotton.

Liquidity metrics remain adequate

Liquidity profile of the Company has remained adequate, albeit improving in FY21 on the back of higher profitability. Current ratio improved to 1.04x at the end of FY21 and 1.28x at end -9MFY22 (FY20 0.89x). Short term borrowing coverage depicts some improvement where asset base provides over 190% coverage for short-term obligations at ed-9MFY22 (FY21 130%, FY19 103%) Working capital cycle increased to 85 days end-9MFY22 (FY21 60 days) due to higher inventory buildup in the wake of new capacities coming online.

Funds from operations (FFO) increased as a result of higher profitability which consequently improved FFO to Total Debt coverage vis-à-vis previous years. Debt Servicing also stands higher. Improvement in liquidity indicators over time will remain important for ratings

Capitalization indicators remain sound in support of assigned ratings

The Company's equity base has grown to Rs.20b end-9MFY22 on the back of higher profitability subsequently improving gearing and leverage. Improved cash generation during the year led to lower short-term debt utilization. However long term debt increased to Rs. 4.5b (FY20 Rs. 2.9b) in order to fund capital expenditure. Nevertheless, gearing and leverage reduced to 0.54x (FY21 0.62x, FY19 0.74) and 0.8x (FY20 0.86x, FY19 1.04x) respectively on the back higher profit retention.

All industrial expansion and capacity enhancements have been funded by LTFF. As a result of this capex funding, as well as, corresponding higher working capital requirements, gearing and leverage levels may go up, However, higher projected profitability is expected to keep capitalization indicators manageable.

Adequate governance and control framework

The Company is adequately represented by eight members in the Board of Directors (BoD) including one independent director. The Company has a Board Audit Committee (BAC) and Board Human Resource & Remuneration Committee (BHRRC) chaired by an independent director.

The Company consistently makes investments in green technology and IT to update its human capital. As of FY21, the Company remains compliant to all environmental, labor, corporate and other relevant legal laws.

Financial Summary (amounts in PKR millions)						Appendix I
	FY17	FY18	FY19	FY20	FY21	9MFY22
BALANCE SHEET						
Property Plant and Equipment	8,222.0	8,578.7	8,907.6	9,699.5	10,706.3	11,791.5
Long Term Investments	5,367	7,735	7,760	11,079	11,079	11,079
Other Fixed Asset	7,225.4	9,577.2	9,605.0	12,924.5	12,956.1	12,957.6
Stock-in-Trade	2,009.6	2,574.8	3,814.3	5,362.7	3,972.9	6,917.2
Trade Debts	1,299.0	1,699.0	1,455.1	2,360.1	3,266.7	4,433.8
Cash & Bank Balances	154.9	161.9	216.4	186.6	249.9	176.1
Total Assets	20,744.8	24,872.0	25,546.6	32,703.8	34,134.3	40,112.7
Trade and Other Payables	1,518.7	1,797.7	2,133.4	2,785.3	2,657.5	3,645.4
Long Term Debt (including current maturity)	1,574.4	1,723.4	1,946.7	2,968.3	4,473.2	4,794.2
Short Term Debt	3,187.9	4,635.4	3,141.5	7,479.1	5,558.5	5,974.8
Total Debt	4,762.3	6,358.8	5,088.2	10,447.4	10,031.7	10,769.0
Total Liabilities	6,822.0	9,051.3	8,579.8	14,732.1	13,976.7	16,242.9
Paid Up Capital	2,823.6	2,993.0	2,993.0	2,993.0	2,993.0	2,993.0
Total Equity (without surplus revaluation)	10,100.3	11,977.6	13,123.8	14,128.1	16,285.8	19,998.1
INCOME STATEMENT						
Net Sales	17,404.7	17,833.5	21,220.1	21,844.8	29,955.5	28,934.6
Gross Profit	2,581.3	2,477.8	3,561.1	3,990.2	6,132.6	7,876.8
Profit Before Tax	2,902.5	2,154.1	2,280.9	1,878.2	3,397.7	5,436.0
Profit After Tax	2,351.8	1,664.3	1,750.6	1,528.0	2,756.3	4,310.9
RATIO ANALYSIS						
Gross Margin (%)	14.8%	13.9%	16.8%	18.3%	20.5%	27.2%
Net Profit Margin	13.5%	9.3%	8.2%	7.0%	9.2%	14.9%
Current Ratio	1.05	0.93	1.09	0.89	1.04	1.28
Net Working Capital	251.37	-484.59	583.31	-1240.75	378.88	3339.66
FFO	2531.27	2527.02	2887.84	2191.80	3080.28	7206.61
FFO to Total Debt (%)	53.2%	39.7%	56.8%	21.0%	30.7%	66.9%
FFO to Long Term Debt (%)	160.8%	146.6%	148.3%	73.8%	68.9%	150.3%
Debt Servicing Coverage Ratio (x)	6.11	4.62	4.17	2.63	4.29	3.92
Short-term Debt Coverage (%)	104%	92%	168%	103%	130%	190%
ROAA (%)	47.1%	53.1%	38.8%	73.9%	61.6%	53.9%
ROAE (%)	610.8%	461.7%	416.8%	263.1%	429.4%	392.3%
Gearing (x)	0.47	0.53	0.39	0.74	0.62	0.54
Leverage (x)	0.68	0.76	0.65	1.04	0.86	0.81

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)

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
22-July-22	A+	A-1	Stable	Reaffirmed
20-January-21	A+	A-1	Stable	Maintained
17-June-20	A+	A-1	Rating Watch-Developing	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.
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Due Diligence Meetings Conducted

	Name	Designation	Date
1.	Kashif Raza	Deputy General Manager - Finance	03/06/22