RATING REPORT

Kohinoor Textile Mills Limited

REPORT DATE:
October 05, 2023

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 Action	*Reaffirmed*		*Reaffirmed*	
Rating Date	*October 05, 2023*		*July 22, 2022*	

COMPANY INFORMATION	
Incorporated in 1953	**External Auditors:** M/s Riaz Ahmad & Company Chartered Accountants
Public Limited Company	**Board Chairman:** Mr. Tariq Sayeed Saigol
Key Shareholders (with stake 10% or more):	**Chief Executive Officer:** Mr. Taufique Sayeed Saigol
Mr. Taufique Sayeed Saigol ~14.9%	
Mrs. Shehla Tariq Saigol – 10.5%	
Mercury Management Inc. ~24.5%	
Hutton Properties Limited ~18.5%	
General Public ~13.3%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (May 2023) *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*

Kohinoor Textile Mills Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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.

Corporate Profile
Kohinoor Textile Mills Limited (KTML), a part of the Kohinoor Maple Leaf Group, operates as a vertically-integrated entity, specializing in manufacturing yarn, greige, dyed and printed fabric, along with an extensive array of home textile products. With more than 70 years of experience, KTML manages the complete production cycle – spinning, weaving, processing, and stitching – supported by a workforce of 5,500+ employees. Production infrastructure is spread across Rawalpindi and Kasur, with the head office based in Lahore.

The core 28 MW energy demand relies primarily on the national grid (50%), with the rest supplied by: a 15 MW solar facility (30%) and gas-driven generators (20%), supported by diesel and furnace oil backups. Recent efforts involve a Rs. 1.2b investment in 12 MW solar project, aims to raise total solar capacity to 27 MW; completion is anticipated by Dec'23.

Environmental, Social, & Governance (ESG) Initiatives
Environmental sustainability is a core value for the company, reflected in its alignment with the UN's Sustainability Development Guidelines (SDGs). KTML has developed a wastewater treatment plant, reduced liquid discharge, set up a solar power plant, and integrated advanced effluent control measures. Additionally, the company actively participates in tree planting, various medical and social projects, rural development programs, and maintains an inclusive workplace. Adhering to regulations, fixed quota of workforce is allocated to disabled individuals. The company boasts numerous global standard certifications, including ISO, EU-Ecolabel, Global Recycle Standards, Social Accountability, STeP by Okeo-Tex, Global Organic Textile Standard, Organic Content Standard and others.

Group Profile
The Kohinoor Maple Leaf Group emerged from the division of Saigol Group of Companies. This conglomerate operates in diverse sectors: textiles, cement, power generation, and investment management. KTML acts as the holding company, overseeing the following subsidiaries:

- **Maple Leaf Cement Factory Limited (MLCF)**: With a significant 55% stake under KTML, the company was established back in 1960. Located strategically in Iskanderabad within District Mianwali, the factory has carved out a noteworthy position in the cement sector, securing its rank as the fourth-largest based on installed capacity. Its shares are traded on PSX.
- **Maple Leaf Power Limited:** As a direct subsidiary of MLCF, this entity runs a 40MW coal-based power plant, focusing on generating and delivering electric power specifically to the cement factory.
- **Maple Leaf Capital Limited**: Established in 2014, the company specializes in the acquisition, sale, and investment of various financial instruments. KTML owns ~83% of its shares.

Recent capacity enhancement initiative in spinning and weaving divisions
As part of capacity expansion efforts, the company incorporated an additional 22K ring spindles and 96 looms into their current spinning and weaving facilities. This move resulted

in ~16% and ~43% surge in the installed capacity for each respective division when compared to FY21 levels. The entire project, costing about Rs. 4b, was funded through LTFF.

Operational Performance

KTML houses two spinning units and a home textile division in Rawalpindi, alongside a weaving unit in Kasur. In the last 21 months, total capital investments surpassed Rs. 7b. Moving forward, management prioritizes operational efficiency over new capital projects. Despite global demand challenges, spinning and weaving operations have seen a consistent increase in production, while the processing division noted a decrease in output.

Table: Capacity & Production Data (Units in millions)

	FY21	FY22	9M'FY23
Spinning			
Total Spindles	158,544	158,928	180,528
Total Rotors	2,712	2,712	2,712
Installed Capacity – (kgs)	92.8	98.2	80.6
Actual Production – (kgs)	82.5	88.8	72.6
Capacity Utilization	***89%***	***90%***	***90%***
Weaving			
Total number of looms installed	288	288	384
Installed Capacity – (mtr sq)	116.5	116.5	124.9
Actual Production – (mtr sq)	98.3	109.5	104.9
Capacity Utilization	***84%***	***94%***	***84%***
Finishing & Printing			
Installed Capacity – (mtr)	42.0	42.0	31.5
Actual Production – (mtr)	17.5	15.2	10.8
Capacity Utilization	***42%***	***36%***	***34%***

About one-fourth of the produced yarn is utilized in-house, catering to roughly a third of total weaving needs. The rest of yarn is equally sourced from both local and global markets. Notably, home textile division relies entirely on the internally produced fabric. These proportions might shift due to market fluctuations and cost considerations.

Key Rating Drivers

Business risk profile is constrained by current weak macroeconomic environment both globally and locally, high-interest rates, inflationary pressures, rising raw material costs, ongoing energy crisis in the country, and a global slump in demand. All these factors pose a challenge to the sector over the medium term in terms of margins sustainability and future growth.

Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports broke the threshold, clocking in at USD 32.4b. Textile sector contributes nearly one-fourth to industrial value-added segment and provides employment to about 40% of the industrial labor force. Contributing around 8.5% to the country's GDP, with an estimated market size of around Rs. 4.0tr, textile sector has maintained an average share of about 60% in national exports over the years.

Table: Pakistan Export Statistics (in USD millions)

	FY20	FY21	FY22	FY23
Pakistan Total Exports	22,536	25,639	32,450	27,911
Textile Exports	12,851	14,492	18,525	16,710
PKR/USD Average rate	158.0	160.0	177.5	248.0

Source: SBP

The lingering effects of Covid-19 pandemic continue to shape the Pakistan's textile industry. Initially, as lockdowns lifted, the industry capitalized on opportunities, securing production contracts with Western countries. This redirection of substantial volumes to Pakistan, complemented by government import tax reductions and subsidized covid-related financing programs such TERF, spurred robust export growth during FY20-22. However, a subsequent phase presented new challenges. Global interest rate hikes aimed at curbing post-pandemic inflation, coupled with geopolitical unrest such as the Ukraine conflict, led to supply chain disruptions and energy crisis. These factors led to a global demand slowdown in major textile economies, reflected in a ~15% year-on-year decline in Pakistan's textile exports in FY23, totaling USD 16.5b (FY22: USD 19.3b). Knitwear, Readymade, and Bed wear segments remain key contributors, making up over 60% of the textile exports.

Table: Textile Export Details (in USD millions)

	FY20	FY21	FY22	FY23	YoY FY23
High Value-Added Segment	**9,669**	**12,427**	**15,611**	**13,576**	**-13%**
- Knitwear	2,794	3,815	5,121	4,437	-13%
- Readymade Garments	2,552	3,033	3,905	3,492	-11%
- Bed wear	2,151	2,772	3,293	2,692	-18%
- Towels	711	938	1,111	1,000	-10%
- Made-up Articles	591	756	849	693	-18%
- Art, Silk & Synthetic Textile	315	370	460	412	-10%
- Others	555	743	872	851	-2%
Low to medium Value-Added Segment	**2,858**	**2,972**	**3,719**	**2,926**	**-21%**
- Cotton Cloth	1,830	1,921	2,438	2,022	-17%
- Cotton Yarn	984	1,017	1,207	844	-30%
- Others	43	34	74	60	-20%
Total	**12,527**	**15,399**	**19,330**	**16,502**	**-15%**

Source: PBS

Flash floods in Sindh and Southern Punjab from last year's monsoon wreaked havoc on the cotton crop, washing away roughly 45% worth over USD 2.5b. This catastrophe led to a historic low yield of 4 million bales in 2022, compared to a 12 million bales annual demand. Local cotton prices subsequently reached a 12-year high of over Rs. 22,000 per 40kg during the year, and imports rose by ~20% in USD terms for FY22, vis-à-vis preceding year. This situation heightened working capital needs, adversely affecting profit margins and liquidity profile for textile entities, particularly spinners, weavers, and dyeing companies. On a positive note, the production target for the current season is set at 12.7 million bales, supported by favorable weather and timely government intervention.

Table: Cotton Prices Trend (In Rs.)

	June'19	June'20	June'21	June'22	June'23
Per Maund	8,770	8,860	13,000	17,380	17,735
YoY % Change	*26%*	*1%*	*32%*	*34%*	*2%*

The industry faces medium-term risks due to the current weak macroeconomic environment both globally and locally, high-interest rates, inflationary pressures, rising raw material costs, ongoing energy crisis in the country, and a global slump in demand, primarily from North America and Europe. Additionally, the potential expiration of Pakistan's GSP plus status in December 2023 could be impactful. This status, allowing duty-free access to the EU for over 6,300 tariff lines, fosters beneficial trade. Its loss could lead to reduced trade revenues and create market uncertainties.

Previously, the sector also enjoyed incentives provided by the government through a five-year textile policy (2020-25), including preferential energy rates, low-interest financing schemes, and timely payments of various refunds, easing liquidity constraints for local players. However, the prevailing economic instability led to the reduction or withdrawal of many of these supports. This along with contractionary monetary policy and political uncertainties in the country are the key present business risk factors. In the long run, improvement in value addition, investment in technology and optimization of energy cost would define the future prospects of textile exports.

Rupee devaluation has offset falling export volumes, upholding revenues in the outgoing year of FY23, complemented by a well-distributed geographic and client sales mix.
Over the 6-year span (FY17-22), topline of the company achieved a CAGR of ~18%. In FY22 alone, it surged by ~32%, reaching Rs. 39.6b (FY21: Rs. 29.9b). This significant increase was driven by a ~21% rise in per unit dollar prices and impact of ~13% rupee devaluation. However, sales volume dipped by ~2%. With a stronger domestic focus, the local-export sales ratio shifted from 60:40 to 70:30 over the review period. Half of the revenue comes from local high-quality yarn sales tailored for suiting fabric. Home textiles, such as bedding, quilting, and curtains, which are mainly exported, follow in revenue generation, with greige fabric sales split equally between local and international markets.

Geographically, Europe has become the main export destination, contributing to half of total exports, trailed by the USA & Canada, with smaller segments in Asia, Australia, and Africa. The top-ten longstanding clients consistently cover two-fifths of sales, with a policy ensuring no single client exceeds 10% to control concentration risk. Major clients encompass names like Indigo Home, Naeem Exports, Mekotex, Vipe-Trade, and Liberty Mills.

In the face of a global downturn affecting export volumes, 9M'FY23 sales sustained at Rs. 30.1b, supported by increasing share of local greige fabric sales and consistent rupee depreciation. Management anticipates future growth, banking on global demand recovery and increased spinning and weaving capacity.

After peaking in FY22, profitability margins have returned to historic levels.
FY22 had peak profits due to timely cotton purchases, increased efficiency, and rupee devaluation benefits. This year, however, margins fell back to historic levels, affected by dwindling yarn and greige fabric margins, global economic challenges, and surging power and raw material costs. Currently, ~30% of the overall raw materials are imported, but efforts are underway to reduce this. Management stated that ~70% of cotton for yarn production is sourced locally.

The uptick in administrative overheads aligns with inflation and sales trend, but distribution expenses were slightly trimmed this year. Financial charges have increased considerably due to higher benchmark rates and elevated working capital needs. Moreover, the review period also noted sizeable sales tax refund write-offs and worker fund expenses.

Contrasting cash flow trends weakened debt coverage, yet remains competitive in the industry. Adequate liquidity profile with slightly extended cash conversion cycle.
In the past two fiscal years, strong profitability performance spurred a growth in funds flow from operations (FFO). Yet, in 9M'FY23, varying cash flows caused a drop in cash-flow coverages. The debt service coverage ratio (DSCR) fell below 2.5x, but remains competitive within the industry.
Current ratio has improved significantly, and short-term debt coverage with trade debts and inventory is satisfactory. However, the cash conversion cycle has extended beyond 100 days due to higher inventory and reduced credit payable days. Payments are generally expected

within 30 to 90 days for local sales and 45 to 120 days for exports. About one-third of receivables are overdue, mostly settled within 30 days and all within 180 days.

High-retained profits supported capitalization keeping leverage metrics at low levels.
Excluding revaluation surplus, equity base surged by ~37% in the last 21 months, hitting Rs. 22.2b at end-9M'FY23, primarily driven by strong earnings and prudent profit retention. The company has a fixed dividend policy in place, with a history of pay-outs. The company maintains a fixed dividend policy and has a history of payouts. In FY22, a dividend of Rs. 299.3m was paid, with a payout ratio of 6% (FY21: 22%).

Debt profile is a blend of short-term and long-term debt, with total interest-bearing liabilities increasing to Rs. 14.6b (FY22: Rs. 10.7b) at end-9M'FY23; ~48% constituted short-term debt. Total running finance lines amount to Rs. 12b, of which about ~37% is ERF facility, and the rest are Kibor-based loans. Both gearing and leverage ratios continue to remain strong, staying below 1.0x.

Sound governance framework; room for improvement exists in terms of segregating ownership and management.
KTML employs a structured organizational setup with specialized departments, each led by its management team. The involvement of experienced sponsors and seasoned professionals in senior management ensures strong governance. Detailed public disclosures adds to governance standards. The company remains compliant with environmental, labor, corporate, and other legal regulations.

The 8-member board includes two independent directors and a female representative. Dedicated committees for Audit, HR & Remuneration, Nomination, and Risk Management, along with internal audit function, ensure effective oversight. However, ownership and managerial roles may be segregated for transparency. The 2022 audit report emphasized key matters like inventory existence and valuation, capital expenditures, and revenue recognition.

Kohinoor Textile Mills Limited **Appendix I**

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**9M'FY23**
Property Plant and Equipment	9,699.5	10,706.3	13,112.2	18,464.9
Other Fixed Asset	12,924.5	12,956.1	12,985.6	11,140.7
Stock-in-Trade	5,362.7	3,972.9	5,967.7	9,418.9
Trade Debts	2,360.1	3,266.7	4,414.0	3,724.2
Cash & Bank Balances	186.6	249.9	309.6	252.5
Total Assets	**32,703.8**	**34,134.3**	**39,922.5**	**46,472.4**
Trade and Other Payables	2,785.3	2,657.5	2,962.4	3,289.6
Long Term Debt *(including current maturity)*	2,968.3	4,473.2	5,483.8	7,519.0
Short Term Debt	7,479.1	5,558.5	5,234.8	7,054.8
Total Debt	10,447.4	10,031.7	10,718.6	14,573.8
Total Liabilities	**14,732.1**	**13,976.7**	**15,622.8**	**20,365.2**
Paid Up Capital	2,993.0	2,993.0	2,993.0	2,993.0
Total Equity *(without surplus revaluation)*	**14,128.1**	**16,285.8**	**20,427.9**	**22,245.5**
INCOME STATEMENT				
Net Sales	21,844.8	29,955.5	39,558.3	30,062.6
Gross Profit	3,990.2	6,132.6	10,169.3	5,290.9
Profit Before Tax	**1,878.2**	**3,397.7**	**6,575.6**	**2,625.9**
Profit After Tax	**1,528.0**	**2,756.3**	**4,740.7**	**1,807.5**
RATIO ANALYSIS				
Gross Margin (%)	18.3	20.5	25.7	17.6
Net Margin (%)	7.0	9.2	12.0	6.0
Current Ratio (x)	0.89	1.04	1.32	1.32
FFO	2,191.8	3,293.7	7,038.3	3,224.0
FFO to Total Debt (%)	21.0	32.8	65.7	29.4*
FFO to Long Term Debt (%)	73.8	73.6	128.3	57.0*
Debt Servicing Coverage Ratio (x)	2.63	4.53	3.80	2.42*
ROAA (%)	5.2	8.2	12.8	5.6*
ROAE (%)	11.2	18.1	25.8	11.3*
Gearing (x)	0.74	0.62	0.52	0.66*
Leverage (x)	1.04	0.86	0.76	0.92
(Stock in trade + Trade debt)/Short term Borrowing	0.35	0.24	0.26	0.44

**Annualized*

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Kohinoor Textile Mills Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
05-10-2023	A+	A-1	Stable	Reaffirmed
22-07-2022	A+	A-1	Stable	Reaffirmed
20-01-2021	A+	A-1	Stable	Maintained
17-06-2020	A+	A-1	Rating Watch-Developing	Initial

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Kashif Raza	DGM Finance	August 04, 2023
Mr. Munawar Munir	Treasury Analyst	