RATING REPORT

Kohinoor Textile Mills Limited

REPORT DATE:
October 23, 2024

RATING ANALYSTS:
Zunain Arif
zunain.arif@vis.com.pk

M. Amin Hamdani
amin.hamdani@vis.com.pk

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/Rating Watch	Stable		Stable	
Rating Action	*Reaffirmed*		*Reaffirmed*	
Rating Date	*October 23, 2024*		*October 05, 2023*	

COMPANY INFORMATION

Incorporated in 1953	**External Auditors:** M/s Riaz Ahmad & Company Chartered Accountants
Public Limited Company	**Board Chairman:** Mr. Tariq Sayeed Saigol
Key Shareholder (with stake 10% or more):	**Chief Executive Officer:** Mr. Taufique Sayeed Saigol
Mr. Taufique Sayeed Saigol ~14.9%	
Ms. Shehla Tariq Saigol – 10.5%	
Mercury Management Inc. ~24.5%	
Hutton Properties Limited ~18.5%	
General Public ~15.04%	

APPLICABLE METHODOLOGY(IES)

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

Kohinoor Textile Mills Limited

OVERVIEW OF THE INSTITUTION

Kohinoor Textile Mills Limited ("The Company") commenced Textile Operations in 1953 as a Private Limited Company and transited into a Public Limited Company in 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

Corporate Profile

Kohinoor Textile Mills Limited ("KTML" or "the Company"), a part of the Kohinoor Maple Leaf Group, operates as a vertically-integrated entity, specializing in manufacturing yarn, greige, dyed and printed fabrics, 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 around 5,900+ employees. Production infrastructure is spread across Rawalpindi and Kasur, with the head office based in Lahore.

Group Profile

The Kohinoor Maple Leaf Group (KMLG) structure comprises of two listed public limited companies i.e. Kohinoor Textile Mills Limited (KTML) and Maple Leaf Cement Factory Limited (MLCFL) and three unlisted public limited companies i.e. Maple Leaf Capital Limited (MLCL), Maple Leaf Power Limited (MLPL) and Maple Leaf Industries Limited (MLIL)

- **Kohinoor Textile Mills Limited (KTML)**: It the parent company of the other four below mentioned companies. It operates as a vertically-integrated entity, specializing in manufacturing yarn, greige, dyed and printed fabric, along with an extensive array of home textile products.
- **Maple Leaf Cement Factory Limited (MLCF)**: The Company is listed on Pakistan Stock Exchange. The cement factory is located at Iskanderabad District Mianwali in the province of Punjab. The principal activity of the Company is production and sale of cement. The Company is a subsidiary of Kohinoor Textile Mills Limited ("the Holding Company"
- **Maple Leaf Power Limited (MLPL)**: It is an unlisted Public Limited Company and has established a 40MW Coal fired Power Plant at Iskanderabad, District Mianwali which has successfully started its commercial production on 12th October 2017.
- **Maple Leaf Capital Limited (MLCL)**: Established in 2014, the principal object of MLCL is to buy, sell, hold or otherwise acquire or invest its capital in any sort of financial instruments.
- **Maple Leaf Industries Limited (MLIL)**: It was incorporated in 2022 as a Public Limited Company. MLIL's objective is to produce, manufacture, prepare, treat, process, refine, and deal in all kinds of cement and its allied products. The Registered Office of MLIL is located at 42-Lawrence Road, Lahore.

Recent capacity enhancement initiative in spinning and weaving divisions

Operational Update

KTML houses two spinning units and a home textile division in Rawalpindi, alongside a weaving unit in Kasur. 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.

During FY23, the Company has successfully completed the installation of 96 looms at its weaving unit and 21,600 ring spindles in spinning mill. Another 936 rotors of Autocoro have been installed at Rawalpindi site subsequent to the year-end which will further increase the production capacity of open-end yarn. KTML has also added another 384 MVS Spindles, which started yarn production in September 2023.

Table: Capacity & Production Data (Units in millions)

	FY21	FY22	FY23	9MFY24
Spinning				
Total Spindles	158,544	158,928	180,528	180.912
Total Rotors	2,712	2,712	2,712	3,648
Installed Capacity – (kgs)	92.8	98.2	107.49	86.07
Actual Production – (kgs)	82.5	88.8	96.8	77.5
Capacity Utilization	***89%***	***90%***	***90%***	***90%***
Weaving				
Total number of looms installed	288	288	384	384
Installed Capacity – (mtr sq)	116.5	116.5	135.8	125.1
Actual Production – (mtr sq)	98.3	109.5	121.7	110.5
Capacity Utilization	***84%***	***94%***	***90%***	***88%***
Processing and Stitching				
Installed Capacity – (mtr)	42.0	42.0	42.0	31.6
Actual Production – (mtr)	17.5	15.2	14.7	13.3
Capacity Utilization	***42%***	***36%***	***35%***	***42%***

Sector Update

The business risk profile of the textile sector in Pakistan is characterized by a high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors.

In FY23, the textile sector faced challenges due to various economic and environmental factors. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and import restrictions due to diminishing foreign exchange reserves.

During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, as a result of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Reduction in cotton supply, coupled with global economic slowdown and contractionary economic policies, led to a decrease in demand for textile products and, consequently, cotton yarn.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs and inflationary pressures. Additionally, the sector's vulnerability to global market dynamics and the domestic economic landscape further contribute to its high business risk profile. The worrying trend has continued during the first quarter of FY25 as the cotton production has declined by 48% during the first 15 days of FY25. Several factors have contributed to this downturn. Climate change has altered weather patterns, resulting in irregular rainfall and increased temperatures that have negatively affected crop yields. Additionally, pest infestations, especially by the pink bollworm, have devastated cotton fields. Rising costs of inputs such as fertilizers, pesticides, electricity, and quality seeds have made cotton cultivation less profitable.

Addressing the decline in cotton production requires a multifaceted approach. Improved pest management practices, such as integrated pest management (IPM), can help control infestations more effectively. Education and training for farmers on IPM techniques are crucial. They need access to the latest research and pest-resistant cotton varieties. Investment in agricultural research and development is also essential. Developing drought-resistant and high-yield cotton varieties can mitigate the impacts of climate change.

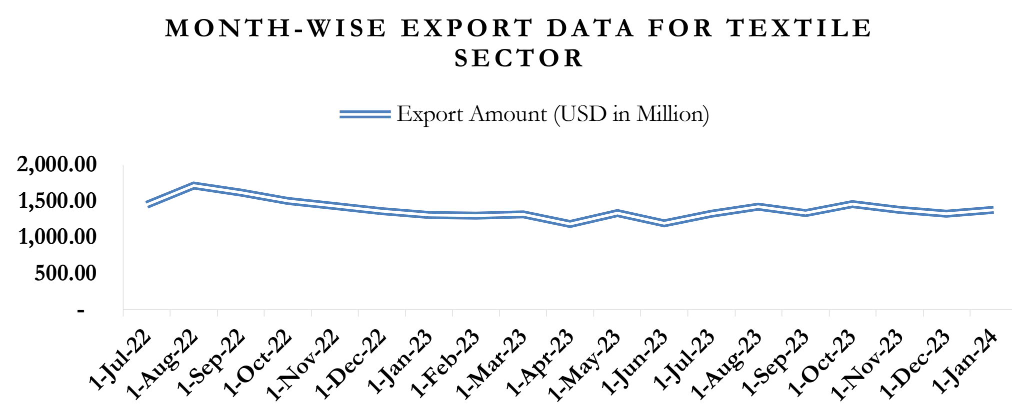

Figure 1: MoM Textile Exports (In USD' millions)
Source: SBP

Key Rating Drivers

Revenue growth continues, supported by price and volumetric increase and capacity expansion. Margins have been impacted owing to higher raw material costs, energy prices and finance costs

During FY23, the Company's topline registered an increase of 6.29% Y/Y to PKR 42.05b (FY22: PKR 39.56b) due to volumetric as well as price increase. The expansion in plant capacities also contributed to increased revenue. Sales during 9MFY24 clocked in at PKR 42.95 bn, while the management expects full year FY24 net sales to rise up to PKR ~61-62bn.

The Company's revenue is predominantly generated from yarn sales, which represented about 54% of the total revenue in FY23. In addition, greige fabric contributed 18.5% and home textiles accounted for 26.9% of the revenue during the same period.

The Company's topline mainly comprises of local sales contributing some 68% during FY23 (FY22: 63%). The export sales contributed 32% during FY23 (FY22:37%) with major export destinations being Europe, USA and Canada. During FY23, the Company's top 10 clients in the export market contributed around 50% of the total revenues with Indigo Home having the highest contribution of 19%.

The Company's Gross Profit registered a decline of 26% to PKR 7.48b in FY23 (FY22:10.2b) due to increased raw material prices and high energy costs resulting in decline of the Gross Margin to 18% (FY22: 26%) in FY23. The Gross Margin further declined to 17% in 9MFY24 as the raw material and energy costs continue to rise.

The Company's operating Margin has declined to 12% during FY23 (FY22: 19%) due to higher administrative expenses and lower other income. During FY23, the finance cost increased significantly to PKR 1.67b (FY22: 804m) due to the high interest rates prevalent in the country and end of subsidized financing regime for the textile sector. The higher production and operating costs led to decline of the net margin to 6% during FY23 (FY22: 12%), which further declined to 4% during 9MFY24 on account of the cost pressures.

FFO Coverage and liquidity indicators remain at adequate levels

The current ratio has remained adequate over the past few years, though it experienced a slight decline at the end of FY23 as well as at the end of 9MFY24. It stands low at 1.29 (end-FY22: 1.32) at the close of FY23 primarily due to increased short term borrowings secured to meet working capital requirements. More short-term borrowings in 9MFY24 further pushed the current ratio downwards to 1.17 at the end of 9MFY24.

The Company's short-term debt is sufficiently covered by trade receivables and inventory, providing coverage of 1.68x at the end of 9MFY24 (FY23: 1.93; FY22: 1.98). In FY23, Funds From Operations (FFO) decreased to PKR 4.2 billion from PKR 7.03 billion in FY22. This decline is attributed to higher finance costs, lower profitability, and reduced dividend income from the subsidiaries and the associated companies. Consequently, cashflow coverages including FFO to Total Debt and FFO to Long Term Debt dropped to 0.29x (FY22: 0.66x) and 0.55x (FY22: 1.28x), respectively.

The Company's cash conversion cycle remained relatively stable at around 70 days (FY22: 62 days; FY23: 78 days; 9MFY24: 68 days) during the period FY22 to 9MFY24, indicating effective management of the working capital. Moreover, the aging profile of trade debts reflects a healthy liquidity position, as 72% of these debts are not yet due, and 20% are only overdue by up to 30 days at the end of FY23.

The Debt Service Coverage Ratio (DSCR) has seen a decline during the period under review due to rising financial charges and lower FFO. DSCR was recorded at 1.2x at the end of FY24 (FY23: 1.9x; FY22: 3.78x). Going forward, improvement in debt service coverage will remain an important rating consideration.

High-retained profits supported capitalization keeping leverage metrics at manageable levels.

Excluding revaluation surplus, equity base surged by ~12% in the last 21 months, hitting PKR 22.83b at end-9M'FY24, primarily driven by higher profit retention. The Company did not issue any dividends during FY23 to release strain on cash flows due to high interest rates, increased raw material prices and a recent buyback of shares. During the period from March 2023 to August 29 2023 ,KTML bought back ~ 30 million Shares at the prevailing market price. The Company initiated the Share buyback to enhance the shareholder value, optimize the capital structure and to signal confidence to the investors.

The Company's Total Debt has increased by 58% in the last 21 months, to PKR16.97b at end-9MF'Y24 (end-FY23: PKR 14.64bn. end-FY22: PKR 10.72bn). The long term debt has increased due to additional financing obtained to fund the expansion and modernization of production facilities and installation of solar power plants. There has been an increase in the short term debt as well due to the high working capital requirement. With the increase in debt, gearing and leverage indicators deteriorated during the review period to stand at 0.74x (end-FY22: 0.52x: end- FY23: 0.65) and 1.07x (end-FY22: 0.76x: end-FY23: 0.95), respectively. Going forward, maintenance and improvement in capitalization indicators will remain important from the ratings perspective.

Kohinoor Textile Mills Limited Appendix I

Financial Summary (PKR in millions)						
Balance Sheet	FY19	FY20	FY21	FY22	FY23	9MFY24
PPE	8,908	9,699	10,706	13,112	19,218	20,980
Stock-in-Trade	3,814	5,363	3,973	5,968	8,864	9,127
Trade Debts	1,455	2,360	3,267	4,414	4,431	5,905
Cash & Bank Balances	216	187	250	310	643	244
Total Assets	25,547	32,704	34,134	39,923	47,886	51,200
Trade and Other Payables	2,133	2,785	2,657	2,962	4,331	4,685
Long Term Debt	1,947	2,968	4,473	5,484	7,747	8,027
Short Term Debt	3,142	7,479	5,559	5,235	6,895	8,943
Total Debt	5,088	10,447	10,032	10,719	14,642	16,971
Paid Up Capital	2,993	2,993	2,993	2,993	2,993	2,693
Total Equity(Excluding Surplus)	13,124	14,128	16,286	20,428	22,533	22,832
Income Statement						
Net Sales	21,220	21,845	29,956	39,558	42,047	42,947
Gross Profit	3,561	3,990	6,133	10,169	7,480	7,357
Operating Profit	2,692	2,681	4,061	7,380	5,131	5,157
Profit Before Tax	2,281	1,878	3,398	6,576	3,464	2,624
Profit after Tax	1,751	1,528	2,756	4,741	2,407	1,762
Ratio Analysis						
Gross Margin	16.8%	18.3%	20.5%	25.7%	17.8%	17.1%
Net Margin	8.2%	7.0%	9.2%	12.0%	5.7%	4.1%
Net Working Capital	583.31	(1,240.75)	378.88	3,383.45	3,961.03	2,814.22
Current Ratio	1.09	0.89	1.04	1.32	1.29	1.17
FFO*	2,888	2,192	3,294	7,038	4,229	4,155
FFO to Total Debt*	56.8%	21.0%	32.8%	65.7%	28.9%	24.5%
FFO to Long Term Debt*	148.3%	73.8%	73.6%	128.3%	54.6%	51.8%
Debt Servicing Coverage Ratio*	4.11	2.37	5.30	3.70	1.94	1.56
(Trade Debts + Inventory)/Short term Borrowings	1.68	1.03	1.30	1.98	1.93	1.68
Adjusted Gearing	0.39	0.74	0.62	0.52	0.65	0.74
Adjusted Leverage	0.65	1.04	0.86	0.76	0.95	1.07
ROAA*	6.9%	5.2%	8.2%	12.8%	5.5%	4.7%
ROAE*	8%	6%	9%	14%	6%	5%
Days Sales Outstanding	27.13	31.87	34.28	35.43	38.39	32.94
Days Inventory Outstanding	66.03	93.80	71.52	61.73	78.31	69.19
Days Payables Outstanding	40.63	50.28	41.70	34.90	38.51	34.68
CCC	52.53	75.40	64.10	62.27	78.19	67.45

**Annualized*

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Kohinoor Textile Mills Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
Instrument Structure	N/A
Statement by the Rating Team	VIS, the analysts involved in the rating process and membe 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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Contents may be used by news media with credit to VIS.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
23/10/2024	A+	A-1	Stable	Reaffirmed
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. Abbas	DGM Finance	September 26, 2024
Mr. Munawar Munir	Treasury Analyst	