

# RATING REPORT

## Comfort Knitwears (Pvt.) Limited

### REPORT DATE:

September 05, 2024

### 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-2	A-	A-2
Rating Outlook/ Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Initial	
Rating Date	September 05, 2024		July 12, 2023	

### COMPANY INFORMATION

<b>Incorporated in 1985</b>	<b>External Auditors:</b> Baker Tilly Mehmood Idrees Qamar Chartered Accountants.
<b>Private Limited Company</b>	<b>CEO:</b> Mr. Muhammad Asher Khurram
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chairman:</b> Mr. Muhammad Ismail Khurram
<i>Mr. Mubammad Asher Khurram ~35%</i>	
<i>Mr. Mubammad Imran Khurram ~35%</i>	
<i>Mr. Mubammad Ismail Khurram ~25%</i>	
<i>Mrs. Irsbad Begum ~5%</i>	

### 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>

**Comfort Knitwears (Pvt.) Limited**

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p><i>Comfort Knitwears (Pvt.) Limited was founded as a private limited company on September 22, 1985, under the former Companies Ordinance, 1984. This ordinance has since been replaced by the Companies Act, 2017. The company focuses on the production and distribution of yarn, knitwear, and garments. Its registered office is located at 45-Industrial Estate, Township, Kot Lakhpat, Lahore..</i></p>	<p><b>Corporate Profile</b></p> <p>Comfort Knitwears (Private) Limited (“CKPL” or “the Company”), part of the Comfort Group, functions as a vertically integrated knitwear apparel facility. This integration includes spinning, knitting, dyeing, and stitching units, allowing for comprehensive control over the production process and quality. With an operational history spanning over 30 years, CKPL excels in the production of dyed yarn and offers a diverse array of knitted garments. The Company is entirely owned by the sponsoring family, who play an active role in the day to day management and operations. CKPL’s production facilities are located in Lahore, supported by a dedicated workforce of over 2,600 (at end-June 2022: 3,000) employees.</p> <p>CKPL is distinguished by the ISO and other internationally recognized certifications, highlighting its dedication for upholding high-quality standards. The Company is committed to environmental sustainability, actively implementing initiatives such as effluent treatment, air emission control, and solid waste management. To meet its average energy demand of approximately 6 MW, CKPL efficiently utilizes a mix of gas generators, gas and coal based boilers, and the national grid, with diesel generators as a backup.</p> <p><b>Group Profile</b></p> <p>The Comfort Group is engaged in a diverse array of business ventures, primarily focusing on textiles, pharmaceuticals, and transportation, with all companies being family-owned. In the textile sector, the group includes Zulfiqar Knitting &amp; Processing Mills (Pvt.) Limited, a vertically integrated knitwear manufacturing unit with a strong emphasis on exports. Asher Imran Spinning Mills (Pvt.) Limited, a subsidiary of CKPL, specializes in the production of cotton and blended specialty yarns. Comfort Yarn Dyeing and Surgical Cotton Mills (Pvt.) Ltd focuses on yarn dyeing and processing. In the pharmaceutical sector, the group operates Frontier Dextrose Limited, which specializes in the manufacturing and sale of intravenous solutions, and Curatech Pharma (Pvt.) Limited, engaged in the production and sale of antibiotics. These diversified ventures underscore the group’s strategic focus on leveraging its expertise across various industries.</p> <p><b>Operational Performance</b></p> <p>CKPL operates three units focused on stitching and knitting, alongside facilities for spinning, yarn dyeing, and fabric dyeing, all located across three different sites within Lahore. The Company effectively leverages synergies with its affiliated group companies to optimize material procurement and meet processing requirements efficiently. This strategic collaboration enhances operational efficiency and supports CKPL’s commitment to delivering high-quality products.</p>

In FY23, CKPL experienced a decline in production levels, reflecting a broader slowdown in global demand. This trend is evident in the Company's reduced capacity utilization level. The spinning segment was particularly affected, with utilization dropping to 54%. This decline was primarily due to management's strategic decision to curtail operations to mitigate the risk of bad debts. Given the credit challenges in the textile sector, where financing difficulties have impacted receivables, any potential bad debt could significantly affect the Company's profitability.

The Company sells half of its manufactured yarn in the local market including some exports. The remaining half is utilized internally for knitting operations. 90% of garment production is supported by in-house yarn, while the remainder is sourced from local suppliers.

**Table 1: Capacity & Production Data (Units in millions)**

	FY21	FY22	FY23	1HFY24
<b>Spinning</b>				
Number of Spindles Installed	23,400	25,368	25,368	25,368
Installed Capacity (Kgs)	9.5	9.6	9.6	4.8
Actual Production (Kgs)	9.1	8.9	5.2	3.85
<b>Capacity Utilization</b>	<b>96%</b>	<b>92%</b>	<b>54%</b>	<b>80%</b>
<b>Knitting</b>				
Installed Capacity (Kgs)	1.1	1.1	1.1	0.6
Actual Production (Kgs)	1.0	1.0	1.0	0.5
<b>Capacity Utilization</b>	<b>92%</b>	<b>94%</b>	<b>91%</b>	<b>93%</b>
<b>Stitching</b>				
Installed Capacity (Pieces)	6	6	6	3
Actual Production (Pieces)	5.3	5.9	4.2	1.9
<b>Capacity Utilization</b>	<b>89%</b>	<b>98%</b>	<b>70%</b>	<b>63%</b>
<b>Dyeing</b>				
Installed Capacity (Kgs)	1.5	2.0	2.0	1.0
Actual Production (Kgs)	1.4	1.9	1.8	1.0
<b>Capacity Utilization</b>	<b>93%</b>	<b>93%</b>	<b>90%</b>	<b>97%</b>

### Sector Update

The business risk profile of Pakistan's textile sector is marked by a high degree of exposure to economic cyclicality and intense competition. The sector's performance is closely tied to the country's broader economic conditions, rendering it inherently vulnerable to demand fluctuations driven by economic factors. This cyclical nature means that the sector can experience significant volatility, impacting profitability and operational stability.

In FY23, the textile sector in Pakistan faced significant challenges due to a combination of economic and environmental factors. The first half of the fiscal year was marked by severe flooding that damaged the cotton crop, leading to a reduced availability of this crucial raw material. This situation was exacerbated by import restrictions driven by diminishing foreign exchange reserves, further constraining the supply of cotton. As a result, Pakistan's yarn production experienced a substantial decline.

The sector's profitability was under pressure from several fronts. Higher production costs increased raw material expenses, and rising energy prices all contributed to narrowing profit margins. The industry's performance remained closely linked to the broader outlook of the cotton and textile industries, both of which suffered setbacks during FY23. The reduction in cotton supply, coupled with a global economic slowdown and contractionary economic policies, led to decreased demand for textile products, including cotton yarn.

Global outlook for cotton production is expected to improve, local challenges persist. High interest rates, increasing energy costs, and inflationary pressures continue to pose significant hurdles. The sector's vulnerability to global market dynamics and the domestic economic landscape contributes to its elevated business risk profile. Nonetheless, there is a sense of optimism, as an anticipated larger cotton crop in FY24 is expected to ease some of the pressure on input costs and profit margins, potentially stabilizing the sector's performance.

**MONTH-WISE EXPORT DATA FOR TEXTILE SECTOR**

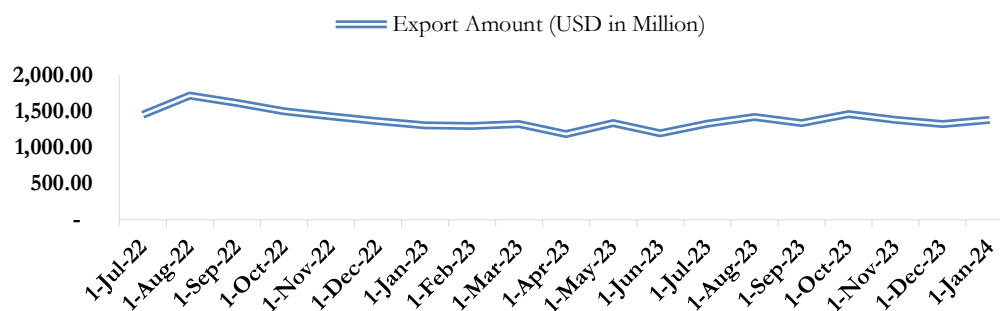


Figure 1: MoM Textile Exports (In USD' millions)  
Source: SBP

**Key Rating Drivers**

**Export revenue remained intact in FY23 despite volumetric decline. Local sales witnessed a dip amid decline in yarn and raw material sales due to production curtailments.**

In FY23, CKPL experienced a 19% decline in net sales, dropping to Rs. 7.82 billion from a record high of Rs. 9.6 billion in FY22, following two consecutive years of strong double-digit growth. This decline was driven by a significant reduction in local sales, which fell by 41.11% to Rs. 2.3 billion, compared to Rs. 4.0 billion in the previous year. The decrease in local sales was largely due to significant drop in raw material sales, which plummeted to Rs. 322 million from Rs. 1.5 billion, a result of surplus carryover stocks of raw material from FY22 available in the industry. Local yarn sales declined by 30.61% to Rs. 1.93 billion (FY22: Rs. 2.78 billion), attributed to production curtailments. Export sales of knitted garments remained intact which generated two-thirds of net revenues. The Company's exports are made mostly to European markets, including Norway, Denmark, the UK, Spain, and Germany, as well as the US. However, client concentration remains high, with the top ten clients consistently contributing over four-fifths of the Company's revenues. As per the management, there is long standing relationships with the clients which provides comfort to the assigned ratings.

In FY23, Fuel and Power component saw a year-on-year increase of 8.0%, contributing to a marginal decline in the gross profit margin to 16.5%, down from 16.7% in FY22. In absolute terms, gross profit decreased to Rs. 1.28 billion from Rs. 1.60 billion in the previous year. Administrative and selling overheads continued to rise, driven by increased freight costs, higher salaries, and depreciation expenses. The Company's finance costs surged, more than 100% from Rs. 219 million in FY22 to Rs. 430 million in FY23. This increase was due to elevated debt levels and high-interest-rates. Net Profit declined from Rs. 686 million to Rs. 284 million in FY23, resulting in a net profit margin of 3.6%, compared to 7.1% in FY22.

In 1H'FY24, CKPL reported net sales of Rs. 4.2 billion, with export sales accounting for 66.3% of the total at Rs. 2.8 billion, and local sales contributing Rs. 1.23 billion. Gross margin declined to 16.1%, primarily due to higher raw material and energy cost in FY23. Operating margin showed improvement, reaching 10.6%, driven by reduction in distribution costs. However, the net margin decreased to 2.9%, impacted by a significant drop in other income, which fell to Rs. 7.59 million from Rs. 65.98 million in FY23.

**Table 2: Sales & Margins**

	FY21	FY22	FY23	1H'FY24
<b>Sales (In PKR' Millions)</b>	6,541	9,609	7,818	4,223
<b>Export Sales</b>	56.6%	58.0%	69.6%	66.3%
<b>Local Sales</b>	43.4%	42.0%	30.4%	33.7%
<b>Gross Margin</b>	12.2%	16.7%	16.5%	16.1%
<b>Operating Margin</b>	7.6%	11.0%	10.4%	10.6%
<b>Net Margin</b>	2.9%	7.1%	3.6%	2.9%

**Debt coverage metrics have noted weakening; liquidity profile is adequate with increase in working capital days.**

In FY23, the Funds Flow from Operations (FFO) declined by 51.8% to Rs. 401.6 million, primarily due to a 23.1% drop in operating profit. This decline was compounded by a sharp 75.5% increase in finance cost paid, rising from Rs. 212 million to Rs. 372 million. Income tax paid increased to Rs. 102 million from Rs. 82 million, and Workers' Profit Participation Fund contributions rose significantly from Rs. 10 million to Rs. 42 million, further straining FFO. FFO to Long Term debt improved to 4.98 times from 4.07 times (FY22) as long-term debt reduced to Rs. 80.6 million from Rs. 205 million.

On the liquidity front, the current ratio rose to 1.45x and has consistently remained above 1.3x over the past two fiscal years. Short-term borrowings are adequately covered by trade debts and inventory, reflecting adequate liquidity profile. However, DSCR declined to 1.38 times from 2.52 times due to 38.3% decline in FFO and increase in finance cost.

Cash conversion cycle lengthened significantly to 135 days in FY23, up from 70 days in FY22. This increase is primarily attributable to extended inventory holding periods and longer receivable days. Local yarn sales are typically made on 15 to 30-day credit terms, whereas export sales require advance payment and letters of credit on sight. Yarn suppliers are usually paid within 30 to 60 days, while cotton procurement is predominantly done on an advance payment basis. The trade debt aging profile remains healthy, with nearly 90% of receivables being settled within 30 days, and no bad debts have been reported. In 1H'FY24, FFO has

further weakened mainly due to decline in other income which impacted profitability. The same is clocked in at Rs. 140.7 million. Current ratio improved to 1.51x as at Dec'23, due to higher trade receivables and a reduction in the current portion of long-term debt. The cash conversion cycle further increased to 154 days, driven by rising inventory days, with receivable days holding steady. Annualized FFO to long-term debt dropped to 3.93x as FFO declined, despite a reduction in long-term debt to Rs. 50 million, which is projected to be null in the upcoming two quarters according to management. The DSCR improved to 2.46x, driven by lower finance costs.

**Table 3: Liquidity & Cashflow Indicators**

	FY21	FY22	FY23	1H'FY24
<b>Cash Conversion Cycle (Days)</b>	82	70	135	154
- <b>Receivable Days (Days)</b>	41	35	59	59
- <b>Inventory Days (Days)</b>	71	64	119	129
- <b>Payable Days (Days)</b>	30	29	43	35
<b>Current ratio (x)</b>	1.32	1.37	1.45	1.51
<b>FFO (Rs. in m.)*</b>	262.2	833.4	401.6	281.3*
<b>FFO/ Total Debt (x)*</b>	0.15	0.35	0.13	0.09*
<b>FFO/Long Term Debt (x)*</b>	0.66	4.07	4.98	3.93*
<b>DSCR (x)*</b>	1.99	2.52	1.38	2.46*

\*Annualized

**Equity continued to grow amid 100% profit retention rate while capitalization indicators displayed volatility during review period albeit remained within manageable levels**

Supported by all-out profit retention, Equity base has increased by 13.6% in the last 18 months, reaching Rs. 3.4billion at end-1H'FY24. The Company has not paid dividends on a timeline basis.

Debt profile is a mix of short-term and long-term debt, with total interest-bearing liabilities increasing to Rs. 3.04b (FY22: Rs. 2.35b) at FY23; ~98.0% constituted short term debt and 2.0% Long term debt *solely from Pak Oman Investment Company*. Gearing and leverage ratios have increased with rising debt levels due to increase in short term borrowings.

By end1H'FY24, Gearing and leverage ratios improved, driven by an increase in equity base and a reduction in long-term debt.

**Table 4: Capitalization**

Rs. in M	June'21	June'22	June'23	Dec'23
<b>Net Equity</b>	<b>2,307</b>	<b>2,992</b>	<b>3,277</b>	<b>3,400</b>
- <b>Paid-up Capital</b>	100	100	100	100
- <b>Reserves</b>	2,207	2,892	3,177	3,300
<b>Debt</b>				
- <b>Long Term</b>	398	205	81	72
- <b>Short Term</b>	1,409	2,147	2,964	2,943
<b>Total Liabilities</b>	1,807	2,352	3,045	3,015
<b>Gearing (x)</b>	0.78	0.79	0.93	0.89
<b>Leverage (x)</b>	1.01	1.12	1.19	1.11

**Comfort Knitwears (Pvt.) Limited**
**Appendix I**

<b>FINANCIAL SUMMARY (Rs. in millions)</b>					
<b><u>BALANCE SHEET</u></b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>1HFY24</b>
Property, plant and equipment	1,181.0	1,422.0	1,451.2	1,398.0	1,357.5
Long term Investments	259.9	259.9	249.9	249.9	266.7
Stock-in-Trade	832.6	733.5	1,194.5	1,052.8	1,740.0
Trade Debts	812.7	653.1	1,177.2	1,344.9	1,390.4
Cash & Bank Balances	86.4	170.6	362.8	111.8	92.7
Total Assets	4,407.9	4,643.7	6,343.3	7,168.2	7,174.3
Trade and Other Payables	518.9	437.2	831.8	696.7	644.7
Long Term Debt	106.4	397.7	204.7	80.6	71.6
Short Term Debt	1,574.3	1,409.2	2,147.1	2,964.6	2,943.1
Total Debt	1,680.6	1,806.9	2,351.7	3,045.2	3,014.6
Total Liabilities	2,288.4	2,336.7	3,350.9	3,891.5	3,774.6
Paid Up Capital	100.0	100.0	100.0	100.0	100.0
Total Equity	2,119.5	2,307.0	2,992.4	3,276.7	3,399.7
<b><u>INCOME STATEMENT</u></b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>1HFY24</b>
Net Sales	3,865.8	6,541.5	9,609.1	7,818.2	4,223.2
Gross Profit	505.6	799.2	1,609.1	1,287.8	679.5
Operating Profit	303.1	497.2	1,058.1	813.7	449.3
Profit Before Tax	132.9	262.8	787.6	367.0	171.8
Profit After Tax	89.9	188.0	685.7	284.0	123.1
<b><u>RATIO ANALYSIS</u></b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>1HFY24</b>
Gross Margin (%)	13.1%	12.2%	16.7%	16.5%	16.1%
Net Margin (%)	2.3%	2.9%	7.1%	3.6%	2.9%
Net Working Capital	724.4	670.3	1,204.7	1,699.7	1,881.0
Trade debts/Sales	21.0%	10.0%	12.3%	17.2%	32.9%
FFO*	167.6	262.2	833.4	401.6	281.3
FFO to Total Debt (x)*	0.10	0.15	0.35	0.13	0.09
FFO to Long Term Debt (x)*	1.58	0.66	4.07	4.98	3.93
Current Ratio (x)	1.33	1.32	1.37	1.45	1.51
Debt Servicing Coverage Ratio (x) *	1.73	1.99	2.52	1.38	2.46
Gearing (x)	0.79	0.78	0.79	0.93	0.89
Leverage (x)	1.08	1.01	1.12	1.19	1.11
(Stock in Trade+Trade Debts)/STD	105%	98%	110%	81%	106%
ROAA (%)*	2.2%	4.2%	12.5%	4.2%	3.4%
ROAE (%) *	4.3%	8.5%	25.9%	9.1%	7.4%

\*Annualized

REGULATORY DISCLOSURES				Appendix II	
<b>Name of Rated Entity</b>	Comfort Knitwears (Pvt.) Limited				
<b>Sector</b>	Textile				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<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>
	05 Sep 2024	A-	A-2	Stable	Reaffirmed
	07 Jul, 2023	A-	A-2	Stable	Reaffirmed
	02 Jun, 2022	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 Meeting Conducted</b>	<b>Name</b>	<b>Designation</b>		<b>Date</b>	
	Mr. Saqib Naveed	Group CFO		16 August, 2024	
	Mr. Azam Saeed	Senior Manager Finance			
	Mr. Jamal Sikandar	Senior Manager Accounts			