

RATING REPORT

Kamal Limited (KL)

REPORT DATE:

January 03, 2019

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	A-	A-2
Rating Outlook	<i>Stable</i>	
Rating Action	Initial	
Rating Date	31 st Dec 2018	

COMPANY INFORMATION

Incorporated in 2009

External auditors: Kreston Hyder Bhimji & Co.

Public Limited Company (Un-listed)

Chairman of the Board/CEO: Ahmad Kamal

Key Shareholders (with stake 5% or more):

Ahmad Kamal 94.9966 %

Asad Kamal 5.00 %

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria: Industrial Corporates (May 2016)

<http://jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

Kamal Limited

OVERVIEW OF THE INSTITUTION

Kamal Limited (KL) was incorporated in Pakistan on June 9, 2009 as a Public Limited (Un-listed) company.

KL took over all Assets & Liabilities in November 2009 from Kamal Spinning Mills Limited. The company is engaged in the textile business comprising weaving, dyeing, bleaching, printing, stitching, garments, home textile & retailing.

Profile of the Chairman/CEO

Mr. Ahmad Kamal serves as the Chairman of the Board and Chief Executive Officer of the company. He has MBA degree from UK and over 30 years of experience in textile sector.

Financial Snapshot

Tier 1 Equity: end-FY18: Rs. 2.9b; end-FY17: Rs. 2.1b; end-FY16: Rs. 1.8b

Assets: end-FY18: Rs. 11.8b; end-FY17: Rs. 7.8b; end-FY16: Rs. 5.2b

Profit After Tax: end-FY18: Rs. 737m; end-FY17: Rs. 234m; end-FY16: Rs. 195m

RATING RATIONALE

Rating Rationale

KL is an export based composite unit primarily operates in four business segments, including fabric, home textile, garments and clothes sales through retail outlets. Shareholding of the company is mainly vested with the sponsoring family which is actively involved in the day to day affairs of the company. CAPEX in the last two years has resulted in increased sales and improved efficiency for the company. Moreover, KL's strategy of keeping the proportion of value added products in the revenue mix above 80% positively impacted margins and profitability which is expected to be maintained going forward as well. The ratings are mainly derived from diversified operations, augmenting sales, increasing margins & improving cash flows while leverage indicators stood at a relatively high level.

Maintaining focus on export sales & value added textile products

KL has been maintaining their focus on export sales which accounted for 82% of total sales during FY18 as compared to 86% in FY17. With recent devaluation of Pak rupee against dollar, sales & profitability are expected to improve further during FY19. In addition to that, the company is in process of increasing weaving & garment capacity and installation of new spinning unit during FY19 which would increase sales and profitability.

Home textiles, garment & fabric exports driving sales growth

KL registered a healthy sales growth of 40% in net sales during FY18 (FY17: 18%), mainly on account of higher home textile & garment sales which accounted for 58% of total sales. Fabric export also contributed 31% to net sales during FY18. Gross profit margins improved as increase in raw material costs was offset by higher prices along with benefit of DLTTL for export based companies. Going forward, overall profitability of the company is expected to improve on account of increase in capacity of spinning, weaving & garment unit along with recent rupee devaluation against dollars.

Improving cash flows and liquidity position

With profitability, funds flow from operations (FFO) increased to Rs. 1.0b during FY18 (FY17: Rs. 383m; FY16: Rs. 248m). Consequently, FFO to total debt improved to 0.19x by end-FY18 (FY17: 0.10x; FY16: 0.13x) despite increase in short term and long term borrowings. The debt service coverage ratio stood at 5.84x at end-FY18 (FY17: 4.70x; FY16: 3.22x). Going forward, the cash flows position is likely to be maintained.

Gearing remains unchanged regardless of higher borrowings

The equity base excluding revaluation reserves increased to Rs. 2.9b by end-FY18 (FY17: Rs. 2.1b, FY16: Rs. 1.8b) on the back of increase in retained earnings. Total debt also increased to Rs. 5.4b by end-FY18 (FY17: Rs. 3.9b; FY16: Rs. 1.9b), as short term debt increased by Rs. 1.2b. The overall long-term debt increased by Rs. 164m to finance CAPEX. Gearing indicator stood at 1.85x at end-FY18 (FY17: 1.86x; FY16: 1.06x), considered to be on a higher side.

Corporate Governance & IT Platform

The Board of Director of KL comprises three members including two family members including CEO & his wife. Most of the decisions are taken by CEO and there seems to be succession risk in the company. However, Mr. Asad Kamal (son of CEO) is now actively involved in the affairs of the company and is serving as COO of the company. Otherwise, the management team comprises experienced resources from textile sector and has largely depicted stability. KL uses Oracle ERP 'R-12' platform which comprises four major modules including Financials, Supply Chain, and Order Management & Manufacturing.

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Kamal Limited

Annexure I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
BALANCE SHEET	June 30, 2016	June 30, 2017	June 30, 2018
Non-Current Assets	2,188	3,715	6,070
Stock-in-Trade	1,232	1,956	3,132
Trade Debts	264	356	632
Stores & Spares	196	262	244
Short Term Investments	498	467	646
Tax Refund due from Government	522	600	570
Cash & Bank Balances	79	77	24
Other Assets	197	428	524
Total Assets	5,176	7,861	11,842
Trade and Other Payables	981	1,357	993
Short Term Borrowings	1,700	2,500	3,783
Long-Term Borrowings <i>(Inc. current matr.)</i>	240	1,463	1,627
Other Liabilities	25	47	88
Tier-1 Equity	1,839	2,129	2,922
Total Equity	2,229	2,494	5,351
INCOME STATEMENT	June 30, 2016	June 30, 2017	June 30, 2018
Net Sales	6,763	7,986	11,160
Net Sales Growth %	17%	18%	40%
Gross Profit	1,057	1,322	2,014
Operating Profit	282	356	933
Profit After Tax	195	234	737
FFO	248	383	1,004
RATIO ANALYSIS	June 30, 2016	June 30, 2017	June 30, 2018
Gross Margin (%)	15.6	16.6	18.0
Net Profit Margin (%)	2.9	2.9	6.6
Net Working Capital	2,479	3,959	6,923
FFO to Long-Term Debt	1.03	0.26	0.62
FFO to Total Debt	0.13	0.10	0.19
Debt Servicing Coverage Ratio (x)	3.22	4.71	5.84
ROAA (%)	3.8	1.8	3.7
ROAE (%)	8.7	5.0	9.4
Debt Leverage (x)	1.60	2.52	2.22
Gearing (x)	1.06	1.86	1.85

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure 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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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.

JCR-VIS Credit Rating Company Limited

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REGULATORY DISCLOSURES		Annexure III			
Name of Rated Entity	Kamal Limited				
Sector	Textile				
Type of Relationship	Initial				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	31/12/2018	A-	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	JCR-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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