RATING REPORT

Kamal Limited (KL)

REPORT DATE:
March 03, 2020

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Initial Rating	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	*27th Feb 2020*		*31st Dec 2018*	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION

Incorporated in 2009	**External auditors:** Riaz Ahmad & Company – Chartered Accountants
Public Limited Company (Un-listed)	**Chairman of the Board/CEO:** Mr. Ahmad Kamal
Key Shareholders (with stake 5% or more):	
Mr. Ahmad Kamal	74.998 %
Mr. Asad Kamal	20.00 %
Mrs. Erum Ahmad	5.00%

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (May 2019)

https://www.vis.com.pk/kc-meth.aspx

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 of Kamal Spinning Mills Limited in November 2009. The company is engaged in the textile business comprising spinning, weaving, dyeing, bleaching, printing, stitching, garments, home textile & fashion retailing.

Profile of the Chairman/Chief Executive Officer

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

Financial Snapshot

Tier 1 Equity: end-FY19: Rs. 4.2b; end-FY18: Rs. 2.9b; end-FY17: Rs. 2.1b.

Assets: end-FY19: Rs. 16.3b; end-FY18: Rs. 11.9b; end-FY17: Rs. 7.9b.

Profit After Tax: FY19: Rs. 1.1b; FY18: Rs. 734m; FY17: Rs. 234m.

RATING RATIONALE

The company is a composite unit engaged in the textile business comprising spinning, weaving, dyeing, bleaching, printing, stitching, garments, home textile & retailing. The four manufacturing units, three are located at Faisalabad and one at Lahore. The company has installed a spinning unit at Sahianwala, Faisalabad during FY19 having 21,216 spindles with a capacity to produce 7.284m Kgs of 20/1 count yarn. The spinning unit started operation during last quarter of FY19. The company also increased capacity of weaving unit to 192 Air Jet Looms by adding new 72 Toyota Air Jet Looms which increased weaving capacity from 70mln square yards of grey fabric to 104mln square yards converted into 50 picks. The company normally utilizes around 65-70% output of weaving unit for in-house consumption while remaining 30-35% output is sold in the local market / export.

The processing plant of the company process grey fabric into finished fabric for use in home textile segment, casual wear & institutional wear. The company can process fabric upto 88m square meters per annum. The home textile manufacturing unit manufactures bed sheets, duvet covers, comforters and curtains. The production capacity of these units is indeterminable having varying processes of manufacturing and time required for production. The garment unit also added 135 new stitching machines during FY19 which increased the number of stitching machines to 360 machines which can now process upto 3.0 million garments per annum.

The company has its footprint in the local market through a brand called "SO Kamal" for the sales of ready to wear clothes, fabric & bed linen. "SO Kamal' has 26 outlets in the country out of which 17 outlets are operated by the company while remaining 9 outlets are operated on franchise basis. In addition, sales of grey and processed fabric to local industry also contribute to the local sales of the company. KL is self-sufficient in power generation for its in-house power requirements. KL has installed 9 gas-fired power generators having a capacity of 12.5 MW along with 4 diesel generators of 2.8 MW against the maximum current power requirement of 8.5 MW.

Shareholding mainly vested with sponsoring family with adequate experience in textile sector

Shareholding structure of the company is vested with the sponsoring family holding virtually 100% shareholding of the company. Mr. Ahmad Kamal holds majority shares of the company while his son is second major shareholder in the company. The Board of Directors of KL comprises three members including Mr. Ahmad Kamal (CEO), Mrs. Erum Ahmad (Executive Director) & Mr. Nadeem Ahmad (Executive Director / CFO). Board meetings are held on a quarterly basis.

Sales increased mainly on account of higher export sales and better prices

Net sales of the company increased by 39% to Rs. 16.2b (FY18: Rs. 11.6b; FY17: Rs. 8b) during FY19 which was a function of both higher volume & prices. The total export of the company increased to Rs. 13.5b (FY18: Rs. 9.7b, FY17: Rs. 6.9b) during FY19. The export sales of the fabric stood at Rs. 3.8b (FY18: Rs. 2.9b) while home textile export increased to Rs. 8.3b (FY18: Rs. 5.8b) during the same period which is the largest contributor to export sales. The export of garment also showcased improvement and increased to Rs. 1.4b (FY18: Rs. 1b) during FY19. Moreover, the export sales also included value of export rebate & duty drawback of Rs. 693m (FY18: Rs. 481m, FY17: Rs. 92m) allowed by GOP on export of value added items. The total export sales to Europe increased to Rs. 8b (FY18: Rs. 6.1b) followed by USA of Rs. 2.1b (FY18: Rs. 1.5b). The local sales of the company increased to Rs. 2.7b (FY18: Rs. 2b, FY17: Rs. 1b) during FY19 which constituted "SO Kamal" outlets & fabric sales to local customers. The customer concentration increased, as top ten customers accounted for 40% of net sales (FY18: 32%, FY17: 27%) in FY19. The major customers include Sleepwell, KIK, EL Corte Ingles, JYSK Nordic, QST Industries, Tex Idea Gmbh, Maytex, etc.

The gross profit of the company increased to Rs. 2.7b (FY18: Rs. 2b, FY17: Rs. 1.3b) while gross margin decreased slightly to 16.7% (FY18: 17.3%, FY17: 16.6%). The main reason for decrease in gross profit margin is high depreciation charges owing to installation of spinning unit & new looms at the end of FY19 benefit of which will be realized during the coming years. Total operating expenses increased to Rs. 1.3b (FY18: Rs. 1.1b, FY17: Rs. 1b) during FY19 while operating expenses as a percentage of sales decreased to 8.1% (FY18: 9.7%, FY17: 12.5%). The distribution expenses increased to Rs. 789m (FY18: Rs. 683m, FY17: Rs. 605m) while administration expenses stood higher at Rs. 493m (FY18: Rs. 395m, FY17: Rs. 376m). Other income increased to Rs. 85.5m (FY18: Rs. 50.4m) mainly on the back of higher income from investment in TDRs; both the quantum and rate on TDRs increased during FY19. KL recorded a notable increase in finance cost to Rs. 312m (FY18: Rs. 195m, FY17: Rs. 114m) during FY19 on account of higher average utilization of short-term & long term borrowings and increase in financing rates. Net profit increased to Rs. 1.1b (FY18: Rs. 734m, FY17: Rs. 234m) while net profit margin stood higher at 7.1% (FY18: 6.3%, FY17: 2.9%) during FY19.

As per HY20 financials, the company reported sales of Rs.9.3b which is 15% increase on an annualized basis with net profit of Rs. 622m. As per management, the company is expected to generate sales of around Rs. 20b during FY20.

Total asset base enhanced on the back of major CAPEX and increase in current assets amid higher sales

Total asset base of the company stood higher at Rs. 16.3b (FY18: Rs. 11.9b; FY17: Rs. 7.9b) by end-FY19. The net fixed assets showcased enhancement and stood at Rs. 8.4b (FY18: Rs. 6.1b; FY17: Rs. 3.7b) at end-FY19 which constituted about 51% of total asset mix (FY18: 51%, FY17: 47%). The company carried out CAPEX of Rs. 2.7b (FY18: Rs. 554m, FY17: Rs. 1.8b) during FY19 as a spinning unit, air jet looms & stitching machines were added. The company installed a new spinning unit with capex of Rs. 1.96b during FY19. In addition, the company added land worth Rs. 179m in weaving unit and added Air Jet Looms worth Rs. 533m. Stitching machines, gas generator, air compressor, washing machines, dryer system & Seuding machines worth around Rs. 208m were also installed. Long-term investment included debt instrument of Rs. 65.8m, represented by sales tax refund bonds having maturity period of 3 years and effective rate of 9.14% per annum, issued by FBR Refund Settlement Company Limited against sales tax refund payment orders issued in favor of the company.

Stock in trade increased to Rs. 3.5b (FY18: Rs. 3.1b, FY17: Rs. 1.95b) with the same representing 21.6% (FY18: 26.9%; FY17: 24.5%) of net sales during FY19. The increase manifested in finished goods inventory which stood higher at Rs. 1.5b (FY18: Rs. 702m) while raw material inventory decreased to Rs. 1.4b (FY18: Rs. 1.6b) by end-FY19. However, inventory days decreased to 95 days (FY18: 119 days, FY17: 107 days). The trade debts increased to Rs. 1b (FY18: Rs. 633m, FY17: Rs. 357m) with major proportion of foreign receivables amounting Rs. 850m (FY18: Rs. 602m, FY17: Rs. 356m) secured against LCs. As per ageing schedule, 8% of receivables (FY18: 10%) are due more than 1 year against one foreign contract of $ 500k (Rs. 80m) against which company has filed a case in Russia. Advances, prepayments & other receivables increased to Rs. 404m (FY18: Rs. 141m, FY17: Rs. 314m) which mainly consisted of advances against LCs of Rs. 368m (FY18: Rs.60m). Short term investments of the company increased to Rs. 761m (FY18: Rs. 647m, FY17: Rs. 467m) which are placed as TDR's in different banks. Tax refund from government & balances with statutory authorities increased to Rs. 1.4b (FY18: Rs. 949m, FY17: Rs. 707m) which mainly consisted of export rebate & duty drawback claims of Rs. 698m (FY18: Rs. 374m) and income tax & sales tax refundable of Rs. 703m (FY18: Rs. 379m) from government. Cash & bank balances increased to Rs. 239m (FY18: Rs. 86m, FY17: Rs. 77m). Trade & other payables increased to Rs. 1.37b (FY18: Rs. 1.06m, FY17: Rs. 1.35b) which mainly consisted of trade payables of Rs. 1.13b (FY18: Rs. 800m) while payables days decreased to 37 days (FY18: 40 days). The company buys yarn on cash basis while other raw materials are purchased on credit basis upto 45 days.

Cash flows improved on the back of profitability though its impact on coverages remained muted due to increase in borrowings

The liquidity profile of the company improved during the year on account of increase in margins & profitability. Funds from Operations (FFO) exhibited considerable improvement on a timeline basis to Rs. 1.5b (FY18: Rs. 1b, FY17: Rs. 383m). FFO to long term debt however decreased to 0.42x (FY18: 0.62x, FY17: 0.26x) while FFO to total debt decreased slightly to 0.18x (FY18: 0.19x, FY17: 0.1x) during the same period on account of increase in total debt of the company. The debt service coverage ratio increased to 6.2x (FY18: 5.8x, FY17: 4.7x) and remained adequate. The current ratio increased to 1.25x (FY18: 1.17x, FY17: 1.06x). Inventory plus receivables to short term borrowing ratio remained at 0.96x (FY18: 1.0x, FY17: 0.93x).

Improved leverage indicators with adequate equity base

Paid up capital remained unchanged at Rs. 500m while share deposit money remained at Rs. 238.8m. Loan from Chief Executive, repayable at the discretion of the company, stood at Rs. 155.4m (FY18: Rs. 156.9m). The unappropriated profit increased to Rs. 3.4b (FY18: Rs. 2b, FY17: Rs. 1.2b) during FY19 which resulted in higher tier 1 equity of Rs. 4.2b (FY18: Rs. 2.9b, FY17: Rs. 2.1b). The debt matrix of the company is tilted towards short term debt comprising around 57% of total debt. Long term loan increased to Rs. 3.6b (FY18: Rs. 1.6b, FY17: Rs. 1.5b) during FY19 on account of new long term borrowings of Rs. 2.1b (FY18: Rs. 181m) availed by the company for the purpose of capital expenditure. Short term loan also increased to Rs. 4.7b (FY18: Rs. 3.8b, FY17: Rs. 2.5b) on account of increase in working capital requirements. Given higher borrowings at end-FY19 in comparison to last year, debt leverage and gearing increased to 2.30x (FY18: 2.24x, FY17: 2.52x) and 1.95x (FY18: 1.85x, FY17: Rs. 1.86x) respectively.

Kamal Limited – Financial Statements Appendix I

BALANCE SHEET *(Rs. Millions)*	June 30, 2017	June 30, 2018	June 30, 2019	Dec 31, 2019
Non-Current Assets	3,716	6,071	8,352	8,116
Stock-in-Trade	1,956	3,132	3,493	3,832
Trade Debts	357	633	1,003	1,221
Stores & Spares	268	245	562	582
Short Term Investments	467	647	761	771
Advances, prepayments & other receivables	314	141	404	420
Tax Refund / Statutory Reserves with Authorities	707	949	1,447	1,532
Cash & Bank Balances	77	86	239	245
Total Assets	7,862	11,904	16,261	16,719
Trade and Other Payables	1,358	1,058	1,373	1,226
Short Term Borrowings	2,500	3,783	4,698	4,785
Long-Term Borrowings *(Inc. current maturity)*	1,463	1,626	3,593	3,507
Total Bank Borrowing	3,963	5,409	8,291	8,291
Other Liabilities	46	88	115	97
Total Liabilities	5,367	6,555	9,779	9,615
Tier-1 Equity	2,129	2,921	4,249	4,959
Revaluation Reserves	365	2,428	2,233	2,145
Total Equity	2,494	5,349	6,482	7,104
Paid Up Capital	500	500	500	500
INCOME STATEMENT	**June 30, 2017**	**June 30, 2018**	**June 30, 2019**	**Dec 31, 2019**
Net Sales	7,986	11,643	16,186	9,302
Net Sales Growth %	18.1	45.8	39.0	15.0
Gross Profit	1,322	2,014	2,695	1725
Net Operating Profit	356	931	1,474	786
Finance Cost	114	195	312	164
Profit Before Tax	242	736	1,162	622
Net Profit	234	734	1,149	622
FFO	383	1,004	1,527	944
RATIO ANALYSIS	**June 30, 2017**	**June 30, 2018**	**June 30, 2019**	**Dec 31, 2019**
Gross Margin (%)	16.6	17.3	16.7	18.5
Net Profit Margin (%)	2.9	6.3	7.1	6.7
Current Ratio	1.06	1.17	1.25	1.42
Net Working Capital	243	850	1,574	2,546
FFO to Long Term Debt (x)	0.26	0.62	0.42	0.54*
FFO to Total Debt (x)	0.10	0.19	0.18	0.23*
Debt Servicing Coverage Ratio (x)	4.7	5.8	6.2	5.4
(Inventory + Receivables) / Short Term Debt	0.93	1.0	0.96	1.1
ROAA (%)	1.8	3.7	16.3	9.0*
ROAE (%)	5.0	9.4	29.1	21.8*
Debt Leverage (x)	2.52	2.24	2.30	1.94
Gearing (x)	1.86	1.85	1.95	1.67

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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	Kamal Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
			RATING TYPE: ENTITY		
	27-02-2020	A-	A-2	Stable	Reaffirmed
	31-12-2018	A-	A-2	Stable	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.				
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.				
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Due Diligence Meetings Conducted		Name	Designation	Date	
	1	Mr. Nadeem Ahmad	CFO	13-Feb-2020	