

## RATING REPORT

### Kamal Limited (KL)

**REPORT DATE:**

April 23, 2020

**RATING ANALYSTS:**

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Rating Category	RATING DETAILS			
	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Outlook	Rating Watch – Developing		Stable	
Rating Action	Maintained		Reaffirmed	
Rating Date	23 <sup>rd</sup> Apr'20		27 <sup>th</sup> Feb'20	

### COMPANY INFORMATION

Incorporated in 2009	<b>External auditors:</b> Riaz Ahmad & Company – Chartered Accountants
Public Limited Company (Un-listed)	<b>Chairman of the Board/CEO:</b> Mr. Ahmad Kamal
<b>Key Shareholders (with stake 5% or more):</b>	
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:**  
e1HFY20: Rs. 5.0b;  
FY19: Rs. 4.2b;  
FY18: Rs. 2.9b.

**Assets:**  
1HFY20: Rs. 16.7b;  
FY19: Rs. 16.3b;  
FY18: Rs. 11.9b.

**Profit After Tax:**  
1HFY20: Rs. 622m;  
FY19: Rs. 1.1b;  
FY18: Rs. 734m.

## RATING RATIONALE

Kamal Limited (KL) 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 up to 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 up to 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.

Net sales of the company increased by 39% to Rs. 16.2b (FY18: Rs. 11.6b) during FY19 which was a function of both higher volume & prices. The total export of amounted to Rs. 13.5b (FY18: Rs. 9.7b). Export of the fabric stood at Rs. 3.8b (FY18: Rs. 2.9b) and home textile at Rs. 8.3b (FY18: Rs. 5.8b) 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. 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). Growth in local sales was supported by higher retail fabric sales. Net profit increased to Rs. 1.1b (FY18: Rs. 734m) while higher net margin of 7.1%. Net sales amounted to Rs. 9.3b during 1HFY20 with net profit of Rs. 622m. Total debt remained stable at Rs. 8.3b at end-1HFY20 while gearing moderated to 1.7x (FY19: 2x) due to accumulation of equity.

The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand and challenging economic environment. It is expected that the entire value chain of the textile industry will be effected by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating Watch-Developing' status. Given that company has largely stable financial risk profile, it is expected that ratings will remain stable post-recovery of the ongoing situation; nevertheless as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status.

**Kamal Limited – Financial Statements**
**Appendix I**

<b>BALANCE SHEET (Rs. Millions)</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>1HFY20</b>
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
<b>Total Assets</b>	<b>7,862</b>	<b>11,904</b>	<b>16,261</b>	<b>16,719</b>
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
<b>Total Bank Borrowing</b>	<b>3,963</b>	<b>5,409</b>	<b>8,291</b>	<b>8,291</b>
Other Liabilities	46	88	115	97
<b>Total Liabilities</b>	<b>5,367</b>	<b>6,555</b>	<b>9,779</b>	<b>9,615</b>
Tier-1 Equity	2,129	2,921	4,249	4,959
Revaluation Reserves	365	2,428	2,233	2,145
<b>Total Equity</b>	<b>2,494</b>	<b>5,349</b>	<b>6,482</b>	<b>7,104</b>
Paid Up Capital	500	500	500	500
<b><u>INCOME STATEMENT</u></b>	<b><u>FY17</u></b>	<b><u>FY18</u></b>	<b><u>FY19</u></b>	<b><u>1HFY20</u></b>
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	1,725
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
<b><u>RATIO ANALYSIS</u></b>	<b><u>FY17</u></b>	<b><u>FY18</u></b>	<b><u>FY19</u></b>	<b><u>1HFY20</u></b>
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](http://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](http://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](http://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
<b>Name of Rated Entity</b>	Kamal 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>
	<b><u>RATING TYPE: ENTITY</u></b>				
	23-04-2020	A-	A-2	Rating Watch – Developing	Maintained
	27-02-2020	A-	A-2	Stable	Reaffirmed
	31-12-2018	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 Meetings Conducted</b>	<b>Name</b>		<b>Designation</b>	<b>Date</b>	
	1	Mr. Nadeem Ahmad	CFO	17 <sup>th</sup> Apr'20	