RATING REPORT

Kamal Limited (KL)

REPORT DATE:
April 12, 2021

RATING ANALYST:
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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 Date	*12th Apr' 2021*		*23rd Apr' 2020*	
Rating Outlook	Positive		Rating Watch Developing	

COMPANY INFORMATION	
Incorporated in 2009	**External auditors:** Kreston Hyder Bhimji & CO – 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 %	
Ms. 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 in June 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 & 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 -I Equity:
HY21: Rs. 6.3b;
end-FY20: Rs. 5.3b;
end-FY19: Rs. 4.2b;
end-FY18: Rs. 2.9b.

Assets:
HY21: Rs.22.5b;
end-FY20: Rs. 20.7b;
end-FY19: Rs. 16.3b.
end-FY18: Rs. 11.9b.

Profit After Tax:
HY21: Rs. 867m;
FY20: Rs. 923m;
FY19: Rs. 1.15b.
FY18: Rs. 734m.

RATING RATIONALE

The ratings assigned to Kamal Limited (KL) take into account the company's predominant presence in export oriented value-added textile segment, market diversification with fair share in domestic market both in terms of branded and non-branded sales and product portfolio variety involving fabric, home textiles and garments. The in-house integrated facility gives the company a competitive advantage of complete control over the quality and the production process; lately the company has reduced its reliance on procurement of fabric from open market on account of capacity enhancement of both spinning and weaving divisions.

Further, the overall business risk profile of the textile industry is supported by stable and growing demand as US-China Trade disruption enhance sales given major buyers continue to diversify procurement. In addition, business dynamics for local textile export players have improved fairly as the competitors from the neighboring countries have been more adversely impacted by supply chain disruptions due to ongoing pandemic. Therefore, assessment of financial risk profile incorporates the impact of Covid led boom in local textile sector translating into sizable positive momentum in revenues, improvement in margins leading to healthy profitability indicators and sound debt coverages for KL. Further, owing to reduction in benchmark rates, the financing cost for the company has reduced, reflecting positively on the bottom line. The liquidity position is sound on account of sufficient cash flow generation in terms of outstanding liabilities coupled with support from investment in short-term income generating avenues. However, the ratings remain sensitive to moderately leveraged capital structure. Even though concerns of a successive waves of Covid-19 remain elevated, VIS expects the order book for the industry to remain strong in the ongoing year, subsiding business risk concerns. The ratings are dependent on maintenance of margins, realization of projected targets, incremental cash flow generation and cost savings from recent capital expenditure, exchange risk management, maintenance of leverage indicators coupled with evolution of sector dynamics post ongoing pandemic.

Local Textile Sector performance during COVID-19: The coronavirus pandemic led to 3% drop in global trade volumes in the 1QCY20 according to United Nations conference on Trade and Development forecasts. Industries whose operations were more globalized (particularly those who relied on Chinese inputs for production) were highly exposed to initial supply side disruptions. However, given most of the textile companies in Pakistan are heavily reliant on local cotton produce; the supply side risk were largely curtailed. In addition, the lockdown in China at the initial stage turned advantageous as the orders got shifted to Pakistan. Prior to onslaught of the pandemic, the European buyers were attracted by repetitive rupee weakening since 4QFY18, as unit prices fell only for Pakistan in 9MFY20 vis-à-vis its competitors. The price effect was further enforced by duty-free/quota free access under the GSP Plus agreement. Bangladesh and Pakistan have been able to increase their exports to the bloc as they enjoy preferential trade treatment within EU. Moreover, US-China trade war with USA applying additional tariffs on Chinese apparel imports since Sep'19 has aided low cost suppliers including Pakistan in capturing the untapped share. So after global onslaught of corona virus European and American retailers, the two main destination markets for this sector, cancelled their orders causing serious concerns in many sourcing countries. With only a few buyers honoring their import commitments with local manufactures, exports declined during April'20. Exports of readymade garments dipped by 69% in April'20 compared to same month ln the preceding year.

The country's textile industry has scaled up production to pre-Covid level of full-capacity as a significant improvement in containment of the pandemic in the country led the world buyers to partially divert their orders to domestic manufacturers. The growth in production is backed by a big jump in the import of basic raw materials – cotton and man-made yarn – after the recent heavy rainfall and pest attack damaged notable portion of cotton crops in the fields to a multi-year low. Secondly, the industry recovered on a fast pace with the government's support in the shape of rationalizing energy price to a regional competitive level, the same included continued supply of raw material and subsidized financing for the expansion of production and setting up new units. Further, the textile exports have also largely recovered from the Covid-19 pandemic shocks and are still growing both in terms of their quantity and dollar value. The textile shipments have surged by 3.8% to $4.8 billion between July and October from $4.6bn in the corresponding period last year. The rise in the textile and clothing group has been slightly faster than the 0.6% growth in the overall export. The export recovery is most prominent in the knitwear, home textiles and denim segments.

Further, presently the financial viability of the textile sector has improved owing to decrease in the conversion costs; comprising both labor and fuel expense. Conversion costs constitute around 70% of the operating costs and hence a major determinant in the profitability of the textile sector. Garments segment is labor intensive meanwhile spinning weaving is energy intensive. Given the onslaught of COVID-19, the fuel cost was reduced to 7.5c/unit in Feb'20 from 11.5c/unit which provided a level playing field for local producers in comparison to global competitors. Although, the same has been increased to 9c/unit in Sep'20, the same still provides cushion for absorption of costs.

Shareholding mainly vested with sponsoring family with adequate experience in textile sector: 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 four members including Mr. Ahmad Kamal (CEO), Mrs. Erum Ahmad (Executive Director), Mr. Nadeem Ahmad (Executive Director), and Asad Kamal (Executive Director). Board meetings are held on a quarterly basis. Shareholding details of the company at end-FY20 is tabulated below.

Kamal Limited	Shares	Shareholding %
Mr. Ahmad Kamal	37,498,975	74.998%
Mr. Asad Kamal	10,000,000	20.00%
Ms. Erum Ahmad	2,500,000	5.00%
Mr. Kamal Yousaf	925	0.002%
Mr. Nadeem Ahmad	100	0%
Total	**50,000,000**	**100%**

The company has its footprint in the local market through its brand 'So Kamal' for the sales of ready to wear clothes, fabric & bed linen. 'So Kamal' has 28 outlets in the country out of which 19 outlets are operated by the company while remaining 9 outlets are operated on franchise basis. 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 10.0 MW.

Augmentation of asset base owing to major CAPEX incurred leading to full

integration of supply chain: Total asset base of the company stood significantly higher at Rs. 20.7b (FY19: Rs. 16.3b; FY18: Rs. 11.9b) by end-FY20 in line sizable capex amounting to Rs. 2.8b incurred on capacity enhancements and operational efficiency improvements. The major capex of Rs. 1.4b was incurred in the spinning segment on installation of 11,424 spindles, carding machines, roving frames with automatic doffing, automatic roving bobbin transportation system and waste collection system. Further, capacity expansion was carried out in weaving division also with total investment of Rs. 973.5m during FY20. The additions included 72 airjet looms, sizing machine, direct warping machine and automatic waste and dust removal system. The processing capacity has been increased majorly due to addition of one digital printing machine; other additions in the segment included generator set of 1,500KW and eco dryer system. The total capex incurred on processing division amounted to Rs. 334.5m during FY20. The breakdown of capacities of different sub-segments of the company is presented below:

Capacity Analysis of Kamal Limited:

Capacity Analysis	FY19	FY20
Spinning Unit:		
Number of Spindles Installed	21,216	32,640
Installed Capacity (Million Kgs – 20/1 count)	7.3	11.1
Actual Production (Million Kgs – 20/1 count)	0.10	10.6
Capacity Utilization %	1.4	96
Weaving Unit:		
Number of Looms Installed	192	264
Installed Capacity (Million Sq. Yard)	104	140
Actual Production (Million Sq. Yard)	66.4	90.4
Capacity Utilization %	63.8	64.5
Dyeing:		
Number of Thermosol Dyeing Machines	4	4
Number of Stenter Machines	9	9
Installed Capacity (Million Sq. meter)	25.0	25.0
Actual Production (Million Sq. meter)	22.0	22.7
Capacity Utilization %	88.0	90.8
Printing:		
Number of Printing Machines	4	4
Installed Capacity (Million pieces per annum)	39.9	39.9
Actual Production (Million pieces per annum)	34.7	25.9
Capacity Utilization %	87.0	64.9
White Finished + PFGD		
Installed Capacity (Million pieces per annum)	20.3	20.3
Actual Production (Million pieces per annum)	17.4	17.1
Capacity Utilization %	85.7	84.2
Digital Printing		
Number of Digital Printing Machines	2	3
Installed Capacity (Million pieces per annum)	3.2	3.7

Actual Production (Million pieces per annum)	2.7	2.0
Capacity Utilization %	84.4	54.1

Topline has exhibited a positive momentum on a timeline basis; the same has picked significant pace during the ongoing year : Despite the onslaught of COVID-19 which lead to export order placement and processing lags the company was still able to maintain an upward trajectory in revenues owing to increased focus on domestic market along with incremental revenue generated from new installed spinning unit in FY19 that became fully operational during the outgoing year. The yarn sales were recorded at Rs. 1.1b (FY19:nil); meanwhile the cloth sales in the local market increased sizably to Rs. 3.0b (FY19: Rs. 1.1b) during FY20. On the other hand, the market reception of their local brand 'So Kamal' has remained dismal owing to significant competition posed by renowned mid-tier and luxury brands; the brand sales were stagnant at Rs. 0.8m (FY19: Rs. 0.7) during FY20. Further, export sales, albeit decline, still remain the major revenue driver constituting 68% (FY19: 82%) of the total gross revenue mix. The breakup of sales is presented in the table below:

Sales (Rs. in Millions)	FY19	FY20
Export Sales	12,853	12,641
Local Sales	1,812	4,901
Processing Income	615	879
Leftover sales	267	130
Gross sales	**15,547**	**18,551**
Less Sales Tax & Discount:	53.0	870
Total Sales	**15,494**	**17,682**

In exports, processing and made-ups including home textile constitute around 80% of the total export sales, followed by 12% of garments and the remaining 6% by fabric. The export sales remained largely stagnant owing to dip in revenue generation of made-ups division to Rs. 10.3b (FY19: Rs. 10.7b) despite favorable forex movement; the same was a factor of decline in quantum sales on account of ongoing pandemic which led to compromised sales to hospitality industry. On the contrary, the export of garment showcased slight improvement and increased to Rs. 1.5b (FY19: Rs. 1.4b) during FY20. In terms of geographical diversification, export sales to Europe increased to Rs. 8.3b (FY19: Rs. 8b) followed by South America of Rs. 1.2b (FY19: Rs. 0.8m) which is a new market for KL in FY20. Conversely, the proportion of sales to Asia and USA declined to 8% (FY19: 14%) and 8% (FY19: 16%) respectively during FY20. As per the management, the company hedges its export sales by entering into 6 months forward contracts. The customer concentration exhibited decline, as top ten customers accounted for 35% of net sales (FY19: 40%, FY18: 32%) during FY20. The major export customers include Sleepwell-UK, PHU Carbotex, Home Choice, El Corte Ingles, S.A, QST Industries, Tex Idea Gmbh, Maytex, KIK, Sleepwell Inc., OVS Spa etc. The global textile sector is mainly an order based industry; however the company has maintained long-term relationships with customers as it entails a mutual benefit for the company and the clients in avoiding the variability in quality and specifications of end-products. As per the management, KL's client retention rate is healthy around 80%.

The gross margins of the company declined to 15.6% (FY19: 17.4%) with all major segments reporting contraction of margins during FY20.The major factor contributing to dip in margins was sizable decline in margins of processing and made ups division to 8.7% (FY19: 15.2%); the same was an outcome of re-pricing or orders amidst ongoing pandemic to avoid order cancellation. Moreover, the increased tilt of the company's revenues towards local sales primarily weaving segment having lower margins compared to export sales, around 5%, also led to decline in KL's margins. In addition, lower rebate and duty drawback reaped during FY20 in line with decline in quantum of exports compared to preceding year also had an adverse impact on the company's margins. The distribution expenses increased slightly to Rs.818.6m (FY19: Rs. 789.3m) in the line with increase in scale of operations; the increase was mainly manifested in freight and distribution charges. Further, administrative expenses increased on a timeline basis owing to inflationary pressure, leading to annual salary adjustments. The other expenses stood higher at Rs. 76.2m (FY19: Rs. 24.8m) on account of higher contribution made to workers participation fund during the year. In the backdrop of increasing average benchmark interest rates coupled with higher procurement of borrowings, finance cost of the company increased to 446m (FY19:Rs. 311.8m) during FY20. On the other hand, other income increased to Rs 161.1m (FY19:Rs. 85.5m) owing to higher profit reaped on investment in short-term securities and saving accounts. However, with decline in margins along with increase in operating and financial expense, KL reported a bottom line of Rs. 922.9m as compared to Rs. 1.1b in the preceding year.

The declining trend in quantum sales was rescued during the ongoing year with the company's operations back at full capacity. KL's topline was recorded significantly higher at Rs. 12.4b during HY21 owing to a combined impact of increase in export quantum coupled with higher prices in line with positive momentum in demand of home textile products. The increased demand of domestic products is underpinned by capitalizing of marketing gap as production units in competing countries are not operating at full potential owing to COVID-19 related lockdowns. In addition, the power subsidy announced by the government for the sector has made the prices even more competitive globally, therefore positively resulted in the offtake of local products. However, the increase in power tariff from 7.5 US cent to 9 US cent with effect from 1st Sep'20 poses an eminent threat towards cost efficiency. In terms of sales breakup, 72% represented export sales while the remaining 28% accounted for local sales. Subsequently, with increase in retail prices, no major increase in input cost and higher contribution of exports in total revenue mix, the margins improved to 16.4% during HY21. Another contributing factor of increase in margins is that the company's composition of cotton procurement tilted heavily towards imports in HY21. The imported cotton, entailing better quality, became economically viable given prices of locally produced cotton soared on account of sizable decline in production, the same plunged down the projected output to 21 years' lowest for Pakistan. The quality of local cotton is also compromised due to excessive rain, substandard seeds and pesticides. The company imported 2.5m kgs (27%) of cotton from USA and Vietnam while the remaining 8.1m kgs (73%) was procured from local market during FY20. On the contrary, for the last seven months till Jan'21, the company imported 4.9m kgs (64%) of its cotton from USA, Singapore, Vietnam, Switzerland, Korea and Greece while only 2.5m (35%) was sourced locally. The company has also decreased its outside reliance of fabric procurement in supply chain by 50% with setup of spinning unit and capacity expansion of weaving unit; the same has also led to increase in margins.

The operating expenses were recorded higher at Rs. 933.4m during HY21 with increase largely manifested in distribution cost; however the same if annualized is largely in sync with increase in scale of operations. On the other hand, the finance cost was rationalized to Rs. 182.8m owing to sharp dip in benchmark interest rates despite increase in total borrowings of the company during the period under review. As a result of positive trajectory of revenues, improved margins and curtailment of interest expense, KL reported healthy profit of Rs. 866.9m during HY21. As per the management, the company reaped a revenue of around Rs.17.0b at end-Feb'21. Going forward, the management projects to close FY21 with a topline of Rs. 25.0b and a net profit of Rs. 1.3b. The company in on track of meeting the projected target with orders of USD $40m in the pipeline.

Liquidity position remained intact as evident from healthy cash flows in relation to outstanding obligations and sizable debt service ability: Liquidity profile of the company is considered sound in view of sizable cash flows in relation to long-term outstanding obligations and sound debt service capacity. In line with increased scale of operations and enhanced integration of operations, Funds from Operations (FFO) exhibited considerable improvement on a timeline basis to Rs. 1.4b (FY20: Rs. 1.7b, FY19: Rs. 1.5b) during HY21. FFOs are projected to be around Rs. 2.6b for FY21; the target seems realistic and achievable owing to fair export orders in hand. Although, there has been an increase in the long-term and short-term borrowings during the period under review, FFO in terms of outstanding obligations was sizable and showcased an improving trend. Similarly, debt service coverage also exhibited significant growth during HY21. Going forward, according to the management, cash flows are expected to improve on account of increase in sales supported by improvement in sector dynamics, capacity enhancement in spinning and weaving segment and cost saving from improving operational efficiencies from investment in spinning, printing and dyeing units.

Further, stock in trade increased by end-HY21; however the same largely pertained to raw material for meeting production orders received. The import lead time for the company ranges between 90-120 days therefore the company keeps inventory at hand for four months to avoid production lags. However, despite substantial increase in revenues, trade receivables have declined on a timeline basis owing to higher proportion of cash received in advance prior to processing of orders. The aging of receivables is considered satisfactory since more than 90% of the total receivables pertained to less than six months bracket. On the other hand, the management might be expected to book some provisioning in the coming year, as 8% of receivables amounting to Rs. 58.3m were due for more than two years. VIS will continue to closely monitor the aging profile of receivables as the same can inflict a minor dent on profitability of the company going forward. The trade payables were maintained at FY19's level despite significant growth in sales owing to set up of own spinning unit that meets around 50% of the company's yarn requirement. The current ratio is maintained well over at 1.0x over the last three years. KL' liquidity profile is sound as the company has short-term investments, term deposits, amounting to Rs. 1.2b at end-HY21.Given there is no liquidity stress, the management does not plan on liquidating the securities during the rating horizon.

Moderately leveraged capital structure with adequate equity base: The equity base of the company has strengthened on a timeline basis owing to internal capital generation. The equity includes loan extended by the chief executive to the tune of Rs. 144.9m (FY20: Rs. 144.9m; FY19: Rs. 155.4m) at end-HY21; it is an interest-free loan repayable at the discretion of the company. On the other hand, long-term borrowings also increased during the rating review period as KL procured additional debt under SBP LTFF facility to fund capex incurred during FY20; all borrowings of the company are under SBP subsidized facilities therefore the interest cost is on the lower side. However, for all existing long-term facilities banks have deferred the loan installments for the period of one year under SBP directive as a relief to the company during COVID-19 pandemic. The debt matrix of the company is slightly tilted towards short term debt comprising around 60% of total debt. In line with increased working capital requirements owing to growth in scale of operations, the utilization of short-term borrowings also peaked at end-HY21.The company currently has un-availed short-term credit lines of around Rs. 1.5b from different financial institutions. The leverage indicators, both gearing and debt leverage, exhibited volatility during the rating review period with increase in FY20; meanwhile the same subside slightly by end-HY21 owing to considerable growth in equity base. However, the leverage indicators are in line with the peer companies. Moreover, for the setup of knitting plant of total capacity of 15,000kgs capacity, the company plans to procure additional debt of Rs. 1.0b with equity contribution of Rs. 800m. The financial close for the project is to be achieved by end-Aug'21; meanwhile the project is expected to come online by end-FY22. Further, the management has also planned capacity expansion of spinning by 20, 000 spindles with total capex estimated at Rs. 2.0b. The timeline of the project is post completion of knitting unit so the procurement of funds for the aforementioned project is expected in FY23. The project is to be financed by an equity to debt ratio of 30:70. Given the expansion plans in perspective, the leverage indicators are projected to increase in the current year.

Adequate Audit Practices: Kreston Hyder Bhimji & Co. Chartered Accountants have been appointed as external auditors of the company for FY21. KL uses Oracle ERP 'R-12' platform comprising four major modules including Financials, Supply Chain, Order Management and Manufacturing (work in process). In addition, internal audit department, comprising 12 members, carries out regular audits and reports to the audit committee.

Kamal Limited – Financial Statements Appendix I

BALANCE SHEET *(Rs. Millions)*	June 30, 2018	June 30, 2019	June 30, 2020	Dec 31, 2020
Non-Current Assets	6,071	8,352	10,581	10,669
Stock-in-Trade	3,132	3,493	5,508	6,713
Stores & Spares	245	562	602	796
Trade Receivables	633	1,003	700	874
Advances, prepayments & other receivables	141	404	77	85
Tax Refund due from Government	570	745	1,179	739
Short Term Investments	647	761	1,066	1,243
Cash & Bank Balances	87	239	701	924
Total Assets	11,904	16,261	20,717	22,501
Trade and Other Payables	1,058	1,373	1,542	1,346
Short Term Borrowings	3,783	4,698	6,115	6,676
Long Term Borrowings	1,626	3,593	5,525	5,949
Total Debt	5,409	8,291	11,640	12,625
Total Liabilities	6,555	9,779	13,335	14,252
Paid Up Capital	500	500	500	500
Tier-1 Equity	2,921	4,249	5,332	6,288
Total Equity	5,349	6,482	7,382	8,249

INCOME STATEMENT	June 30, 2018	June 30, 2019	June 30, 2020	Dec 31, 2020
Net Sales	11,643	15,494	17,682	12,396
Gross Profit	2,014	2,696	2,767	2,031
Net Operating Profit	881	1,389	1,313	1,098
Finance Cost	195	312	446	183
Profit Before Tax	737	1,163	1,028	991
Profit After Tax	734	1,149	923	867
FFO	994	1,504	1,684	1,438

RATIO ANALYSIS	June 30, 2018	June 30, 2019	June 30, 2020	Dec 31, 2020
Gross Margin (%)	17.3	17.4	15.6	16.4
Net Profit Margin (%)	6.3	7.4	5.2	7.0
Current Ratio	1.17	1.25	1.28	1.41
Net Working Capital	850	1,574	2,223	3,439
FFO to Long Term Debt (x)	0.61	0.42	0.30	0.48
FFO to Total Debt (x)	0.18	0.18	0.14	0.23
Debt Servicing Coverage Ratio (x)	5.8	4.68	3.18	7.67
(Inventory + Receivables) / Short Term Debt	1.0	0.96	1.02	1.14
ROAA (%)	3.7	8.2	5.0	8.0*
ROAE (%)	9.4	19.4	13.3	22.2*
Debt Leverage (x)	2.24	2.30	2.50	2.27
Gearing (x)	1.85	1.95	2.18	2.01

Kamal Limited – Financial Projections Appendix II

BALANCE SHEET *(amounts in PKR millions)*	June 30, 2021	June 30, 2022	June 30, 2023
Non-Current Assets	12,735	12,047	11,412
Stock-in-Trade	6,370	6,675	7,264
Trade Debts	640	825	1,103
Advances, Prepayments & Other Receivables	116	160	168
Tax Receivables from Government	1,486	1,450	1,575
Short Term Investments	1,257	1,232	1,257
Cash & Bank Balances	959	968	1,043
Total Assets	24,781	24,677	25,186
Trade and Other Payables	1,571	1,461	1,413
Short Term Borrowings	6,688	5,457	5,027
Long Term Borrowings *(Inc. current maturity)*	7,377	7,164	6,623
Total Debt	14,065	12,620	11,650
Total Liabilities	16,060	14,509	13,498
Tier 1 Equity	6,829	8,420	10,079
Total Equity	8,721	10,168	11,688
INCOME STATEMENT	June 30, 2021	June 30, 2022	June 30, 2023
Net Sales	25,205	27,101	28,739
Gross Profit	3,970	4,268	4,526
Operating Profit	1,936	2,005	2,055
Net Profit	1,338	1,447	1,520
FFO	2,559	2,494	2,570
RATIO ANALYSIS	June 30, 2021	June 30, 2022	June 30, 2023
Gross Margin (%)	15.8	15.8	15.8
Net Profit Margin (%)	5.3	5.3	5.3
Current Ratio	1.4	1.6	1.9
FFO to Total Debt (x)	0.18	0.20	0.22
FFO to Long Term Debt (x)	0.35	0.35	0.39
Debt Servicing Coverage Ratio (x)	4.88	4.71	3.26
(Inventory + Receivables) / Short Term Debt	1.05	1.37	1.66
ROAA (%)	5.9	5.9	6.1
ROAE (%)	16.6	15.3	13.9
Debt Leverage (x)	2.35	1.72	1.34
Gearing (x)	2.06	1.50	1.16

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix III

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.

REGULATORY DISCLOSURES	Appendix IV
Name of Rated Entity	Kamal Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
12-04-2021	A-	A-2	Maintained	Positive
23-04-2020	A-	A-2	Maintained	Rating Watch Developing
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	Executive Director	05-Mar-2021