RATING REPORT

Kamal Limited

REPORT DATE:
April 28, 2022

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-1	A-	A-2
Rating Outlook	*Stable*		*Positive*	
Rating Action	Upgrade		Maintained	
Rating Date	*April 28, 2022*		*April 12, 2021*	

COMPANY INFORMATION	
Incorporated in 2009	External auditors: Kreston Hyder Bhimji & Co. Chartered Accountants
Public Limited Company – Unquoted	Chairman/CEO: Mr. Ahmad Kamal
Key Shareholders (with stake 5% or more):	
Mr. Ahmad Kamal – 64.998% Mr. Asad Kamal – 25.0% Ms. Erum Ahmad – 10.0%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (August 2021) ***https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf***

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/CEO

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-HY22: Rs. 8.27b; end-FY21: Rs. 7.31b; end-FY20: Rs. Rs. 5.33b.

Assets: end-HY22: Rs. 36.54b; end-FY21: Rs. 26.08b; end-FY20: Rs 20.72b.

Net Profit: HY22: Rs. 745m; FY21: Rs. 1.85b; FY20: Rs. 923m.

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 yarn, 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. The company has depicted healthy growth in revenue and profits over the review period mainly on account of increase in volumetric sales of key products including yarn, made-ups, and fabric, as well as improved prices. Profit margins have depicted some weakness during the ongoing year as the company has not been able to pass on the full impact of significant increase in average price of yarn and fabric. Liquidity profile of the company is considered adequate and is supported by internal cash flows generation, which has improved in line with the profits, resulting in adequate capacity to meet financial obligations. Gearing and leverage indicators are considered on the higher side on account of increased utilization of sizeable short-term borrowings for elevated working capital requirements, owing to increase in prices, and mobilization of new long-term loans to fund the capex. Going forward, leverage indicators are expected to remain around current levels as the impact of new long-term loans will be offset by accumulation of equity base.

Rating Drivers

Company Overview: The company is export-oriented value-added textile unit, having integrated operations including spinning, weaving, dyeing, printing, finishing, and stitching. Product portfolio of the company currently focuses on branded and non-branded fabric, home textiles and garments. The company also 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 31 outlets (FY21: 28 outlets) in the country out of which 11 outlets (FY21: 19 outlets) are operated by the company while remaining 20 outlets (FY20: 9 outlets) are operated on franchise basis, as the company has shifted its focus towards franchise-based model. KL is self-sufficient in power generation for its in-house power requirements. KL has installed 10 gas-fired power generators having a capacity of 15 MW along with 2 solar systems having total capacity of 2.15 MW. Peak requirement will increase to 11.5 MW when knitting unit becomes operational by end-FY22.

Production capacities: KL is an integrated textile unit having production capacities in spinning, weaving, dyeing, printing, finishing, and stitching. The company enhanced its yarn spinning capacity to 15.1m kgs per annum (FY21: 11.1m kgs per annum) by adding 9,792 new spindles during HY22, which led to decrease in capacity utilization to 75.1% (FY21: 95.7%). Installed capacity of weaving unit remained unchanged at 140m meters per annum (FY21: 140m meters per annum), while capacity utilization was recorded at 76.7% (FY21: 77.4%) during HY22. Dyeing and printing unit capacity also remained the same while respective utilization levels improved slightly to 92.0% (FY21: 79.4%) and 82.9% (FY21: 75.7%), respectively, during HY22. With no change in installed capacity, utilization of finishing unit remained largely stable at 78.5% (FY21: 79.0%) during HY22.

The company is further enhancing its spinning capacity by adding 6,000 routers having production capacity equivalent to 18,000 spindles, which are expected to become operational by end-FY22. The company is also in process of installing a new knitting unit having production capacity of 15 tons per month, which is expected to become operational by end-FY22. New phase of spinning unit extension with 25,536 spindles is also planned for an estimated capex of Rs. 4.5b, out of which Rs. 3.0b will be funded through long-term loan facility and Rs. 1.5b from internal capital generation; the same is expected to become operational by end-FY23.

Sales and profitability: Net sales of the company increased by 56% to Rs. 27.5b (FY20: Rs. 17.7b) during FY21. Growth in exports sales to Rs. 19.6b (FY20: Rs. 12.6b) was mainly led by increase in home textile sales to Rs. 12.8b (FY20: Rs. 8.3b), fabric sales to Rs. 4.4b (FY20: Rs. 3.1b), and garments sales to Rs. 2.3b (FY20: Rs. 1.5b) during FY21. Local sales increased to Rs. 8.0b (FY20: Rs. 4.9b) during FY21, driven largely by higher yarn sales of Rs. 2.3b (FY20: Rs. 923m), brand sales of Rs. 1.5b (FY20: Rs. 683m), and processed fabric sales of Rs. 3.1b (FY20: Rs. 2.2b).

Concentration risk is considered manageable as contribution of top-10 customers in overall sales mix remained largely stable at 36% (FY20: 36%) during FY21; comfort is drawn from longstanding business relations with international brands such as Sleepwel Inc., Phu Carbotex, El Corte Ingles S.A, Tex Idea Gmbh, and Qst Industries Inc. In terms of geographic mix, Europe remained the primary target market with revenue contribution of 48% (FY20: 47%), followed by Pakistan 29% (FY20: 29%), South America 7% (FY20: 7%), the U.S. 7% (FY20: 6%), and Asia 5% (FY20: 6%) during the year.

In line with the higher production levels, cost of sales increased to Rs. 22.8b (FY20: Rs. 14.9b) during FY21, with cotton, yarn & fabric accounting for two-third of overall cost mix, followed by dyes & chemicals 12% (FY20: 12%), packaging materials 5% (FY20: 4%), and fuel & power 7% (FY20: 8%). Majority of yarn and fabric required is procured from the local market whereas cotton is procured from both local and international markets depending on quality and local availability. Gross profit was reported higher at Rs. 4.7b (FY20: Rs. 2.8b) on account of combined impact of higher sales and improved margin of 17.1% (FY20: 15.6%) as the company was able to pass full impact of input cost escalation onto customers during the year.

Increase in distribution expenses to Rs. 1.4b (FY20: Rs. 819m) was mainly a function of higher selling commission of Rs. 486m (FY20: Rs. 213m) to support top-line growth and outward freight & distribution cost of Rs. 490m (FY20: Rs. 292m) owing to higher volumes and freight rates during FY21. Administrative expenses amounted to Rs. 614m (FY20: Rs. 559m) with increase mainly emanating from inflation adjustment in staff salaries & benefits. Increase in other expenses to Rs. 159m (FY20: Rs. 76m) was due to higher workers' profit participation fund expense. Other income amounted to Rs. 159m (FY20: Rs. 161m), mainly including profit of short-term investment and savings accounts. The company financial charges of Rs. 573m (FY20: Rs. 446m) on account of increased utilization of debt financing during FY21. Net profit was reported higher at Rs. 1.8b (FY20: Rs. 923m) which translated into improved net margin of 6.7% (FY20: 5.2%) during FY21.

The company is targeting revenue of Rs. 36.2b for the ongoing year, out of which Rs. 18.6b has already been realized during HY22. Growth in revenue will emanate higher yarn sales and processed fabric in the local market increase in volumetric sales of made-ups and garments in the export markets. Gross profit is projected at Rs. 5.2b, out of which Rs. 2.5b has been realized which resulted in a margin of 13.3% due to sizeable increase in average price of cotton and yarn in the local and internal markets during HY22. Gross margin is projected at 14.4% for the full year FY22. In line with the higher sales, operating expenses are projected at Rs. 3.0b during the ongoing year. Due to decrease in gross margin and higher burden of financial charges owing to notable increase in benchmark rate, net profit is projected at Rs. 1.2b translating into lower net margin of 3.4% during FY22.

Liquidity: Liquidity profile of the company is considered adequate and is supported by internal cash flows generation and short-term investment. In line with the higher profits, the company generated funds from operations (FFO) of Rs. 3.1b during FY21 and Rs. 1.5b during HY22. The company's capacity to meet its financial obligations is considered adequate as reflected in the debt service coverage ratio of 3.36x (FY21: 5.08x) and annualized FFO-to-total debt ratio of 0.19x (FY21: 0.22x) during HY22. Current ratio improved to 1.50x (FY21: 1.41x) by end-HY22, as the impact of increase in short-term borrowings was more than offset by decrease in trade & other payables and increase in inventory and trade receivables. Short-term borrowings coverage provided by inventory and receivables remained largely stable at 1.20x (FY21: 1.19x) at end-HY22.

Cash conversion cycle is considered satisfactory at 95 days (FY21: 88 days) during HY22. Receivable days were recorded 17 (FY21: 20 days) as majority of the sales are made on cash/advance basis. In the absolute terms, trade receivables amounted to Rs. 1.7b (FY21: 1.5b), out of which around three-fourth pertained to foreign customers and are secured by L/Cs. Inventory days have steadily declined to 94 (FY21: 111 days) on a timeline basis, as the company has shifted to imported cotton which is procured after every three months. In the absolute terms, stock in trade stood higher at Rs. 8.3b (FY21: Rs. 6.9b) on account of sizeable increase cotton and yarn prices during HY22. Trade payable days declined to 16 (FY21: 42 days) due to higher payments to suppliers. Liquidity of the company is supported by short-term investment of Rs. 1.6b (FY21: Rs. 1.5b) at end-HY22, mainly comprising term deposit receipts carrying markup rate of 6.65% to 7.30%, as well as cash & bank balance of Rs. 759m (FY21: Rs. 1.5b).

Capitalization: The company has a paid-up capital of Rs. 500m and share deposit money of Rs. 239m at end-HY22. Tier-1 equity has accumulated to Rs. 8.3b (FY21: Rs. 7.3b) with the retention and profits and is supported by interest-free sponsor loan of Rs. 122m (FY21: Rs. 122m). Revaluation surplus amounted to Rs. 10.0b (FY21: Rs. 1.9b) at end-HY22. Total liabilities mainly comprised trade payables and short-term and long-term loans. In line with the increased working capital requirements primarily due to sizeable increase in raw material prices, short-term borrowings stood higher at Rs. 8.3b (FY21: Rs. 7.1b) at end-HY22. Long-term loans, including current maturity, stood higher at Rs. 8.0b (FY21: Rs. 7.0b) due to mobilization of new long-term loan facilities of Rs. 1.3b (FY21: Rs. 1.6b) to fund the capex related to spinning and knitting units during HY22.

Resultantly, gearing and debt leverage ratios were recorded on the higher side at 1.98x (FY21: 1.92x) and 2.20x (FY21: 2.31x) at end-HY22. Meanwhile, gearing adjusted for short-term investment stood at 1.79x (FY21: 1.71x). Going forward, the company plans to mobilize additional long-term loan of Rs. 1.1b during the second half of FY22 and Rs. 3.0b during FY23 in order to fund the capex related to knitting unit and spinning unit extension, respectively. However, gearing ratio is projected at 1.75x (FY23: 1.76x) at end-FY22 on account of increase in equity base with the retention of profits and transfer of reserves.

Kamal Limited **Annexure I**

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**HY22**
Non-Current Assets	8,352	10,581	11,450	20,915
Stores, Spares, and Loose Tools	562	602	891	890
Stock-in-Trade	3,493	5,508	6,911	8,332
Trade Receivables	1,003	700	1,483	1,703
Advances, Deposits and Other Receivables	404	77	678	658
Tax Refund due from Govt.	745	1,179	1,003	1,139
Short-term Investments	761	1,066	1,517	1,551
Cash & Bank Balance	239	701	1,537	759
Total Assets	**16,261**	**20,717**	**26,081**	**36,536**
Trade and Other Payables	1,373	1,542	2,629	1,422
Short-Term Borrowings	4,698	6,115	7,060	8,335
Long-Term Borrowings *(Inc. current matur)*	3,593	5,525	6,980	8,020
Total Liabilities	9,779	13,335	16,889	18,220
Tier-1 Equity	**4,429**	**5,332**	**7,309**	**8,274**
Paid up Capital	**500**	**500**	**500**	**500**
INCOME STATEMENT	**FY19**	**FY20**	**FY21**	**HY22**
Net Sales	15,494	17,682	27,504	18,568
Gross Profit	2,696	2,767	4,709	2,473
Profit Before Tax	1,163	1,028	2,151	946
Profit After Tax	1,149	923	1,846	745
FFO	1,504	1,684	3,105	1,519
RATIO ANALYSIS	**FY19**	**FY20**	**FY21**	**HY22**
Gross Margin (%)	17.4	15.6	17.1	13.3
Net Margin (%)	7.4	5.2	6.7	4.0
Current Ratio	1.25	1.28	1.41	1.50
Net Working Capital	1,574	2,223	4,252	5,200
FFO to Long-Term Debt	0.42	0.30	0.44	0.38*
FFO to Total Debt	0.18	0.14	0.22	0.19*
Debt Servicing Coverage Ratio (x)	4.68	3.18	5.08	3.36
Gearing (x)	1.95	2.18	1.92	1.98
Debt Leverage (x)	2.30	2.50	2.31	2.20
Inventory + Receivable/Short-term Borrowings (x)	0.96	1.02	1.19	1.20

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Annexure 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	Annexure III
Name of Rated Entity	Kamal Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
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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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
28-04-2022	A	A-1	Stable	Upgrade
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

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Nadeem Ahmed	Executive Director	March 22, 2022