RATING REPORT

Kamal Limited

REPORT DATE:
April 07, 2023

RATING ANALYSTS:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-1	A	A-1
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Upgrade	
Rating Date	*April 07, 2023*		*April 28, 2022*	

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 ~65%	
Mr. Asad Kamal ~25%	
Mrs. Erum Ahmad ~10%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial 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, knitting, 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.

RATING RATIONALE

Corporate Profile

Kamal Limited, a family-owned enterprise, is an export-oriented and value-added textile unit with a 14-year operational history. The company has vertically integrated operations covering spinning, weaving, dyeing, printing, finishing, and stitching segments. Product range focuses on branded and non-branded fabrics, home textiles, garments, variety of yarns and other textile goods. 'So Kamal' is the retail brand used for selling ready-to-wear clothes, fabric, and bed linen in the local market. It has 28 outlets across the country, with 6 company-owned stores and the rest being franchise-based. Additionally, increased focus towards cost-effective franchise system and online sales led to the closure of a few owned stores.

At present, gas-powered generators fulfill over two-thirds of the 20MW average energy demand, while the remaining share is met by WAPDA with supplementary support from a 2MW solar power plant.

Capacity expansion project undertaken during the year and future plans

In FY22, the company expanded its spinning unit by installing 9,792 spindles and 6,000 routers. However, the installation of over 25K additional spindles that was planned for the year faced supply side issues causing delays. As per management, new anticipated timeline for delivery is Dec'23, and the installation process will be finalized by the end of FY24. This project aims to streamline the supply chain and meet raw material requirements of ~65% product line, from yarn to finished fabric. With the capacity expansion, average energy requirement is projected to rise to 25MW, which will be fulfilled by incorporating additional gas generators.

Operational Performance

Headquartered in Lahore, the company has three production units - Unit-I (spinning, weaving, dyeing & knitting) and Unit-II (dyeing, finishing, processing & stitching) are based in Faisalabad. Unit-III, exclusively used for the garment segment, is located in Lahore. In line with the expansion capex, annual capacity of spinning segment increased by ~86% whereas the capacities in other segments remained unchanged. Additionally, the company has also introduced a new knitting segment.

Table: Capacity & Production Data (Figures in millions)

	FY21	FY22
Spinning		
Spindles Installed	32,640	42,432
Router Installed	-	6,000
Capacity (Kgs)	11.1	20.7
Actual Production (Kgs)	10.6	15.8
Capacity Utilization	***95.7%***	***76.3%***
Weaving		
Looms Installed	264	264
Capacity (Meters)	140.0	140.0
Actual Production (Meters)	108.4	135.0
Capacity Utilization	***77.4%***	***96.4%***
Knitting		
Capacity (Kgs)	-	3.7

Actual Production (Kgs)	-	0.2
Dyeing		
Thermosol Dyeing Machine	5	5
Stenters Machines	10	10
Capacity (Meters)	31.2	31.2
Actual Fabric Processing (Meters)	24.8	30.8
Printing		
No. of Printing Machines	4	4
Capacity (Meters)	39.9	39.9
Actual Fabric Processing (Meters)	30.2	31.4
White Finished + Prepared For Garment Dyeing		
Capacity (Meters)	20.3	20.3
Actual Fabric Processing (Meters)	16.0	15.7
Digital Printing		
No. of Printing Machines	4	4
Capacity (Meters)	5.9	5.9
Actual Fabric Processing (Meters)	5.5	5.5

Management periodically evaluates the cost-benefit of using in-house yarn versus selling it in the local market, with the current ratio of 30:70. In-house yarn makes up about 40-45% of fabric production, with the rest mainly sourced locally and a smaller fraction from international suppliers. The weaving division meets entire fabric processing needs.

Key Rating Drivers

Business risk profile is constrained by current weak macroeconomic environment both globally and locally, demand slowdown, high interest rate situation, inflationary pressures and recent floods adversely affecting cotton crop while ongoing energy crisis in the country pose a challenge to margins sustainability and future growth.
Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally broke the threshold, coming in at USD 32.4b. Textile sector contributes nearly one-fourth to industrial value-added segment and 8.5% to the country's GDP, with an estimated market size of around Rs. 4.0tr. Barring seasonal and cyclical fluctuations, textiles sector has maintained an average share of about 60% in national exports.

Table: Pakistan Export Statistics (in USD millions)

	FY20	FY21	FY22		7M'FY22	7M'FY23
Pakistan Total Exports	22,536	25,639	32,450		17,285	16,882
Textile Exports	12,851	14,492	18,525		10,369	10,377
PKR/USD Average rate	158.0	160.0	177.5		170.0	224.7

Source: SBP

Export revenues from textile sector have noted sizeable growth over the years (FY22: $19.3b FY21: $15.4b; FY20: $12.5b; FY19: $13.6b). Knitwear, Readymade and Bed wear segments continue to contribute higher than other segments, with a cumulative contribution of more than 60% in textile exports. While the growth was primarily driven by volume (excluding knitwear and cotton yarn), higher prices also boosted exports.

Table: Textile Export Details (in USD millions)

	FY20	FY21	FY22		7M'FY22	7M'FY23
High Value-Added Segment	**9,669**	**12,427**	**15,605**		**8,853**	**8,326**

- Knitwear	2,794	3,815	5,121		2,888	2,803
- Readymade Garments	2,552	3,033	3,905		2,163	2,126
- Bed wear	2,151	2,772	3,293		1,924	1,639
- Towels	711	938	1,111		615	583
- Made-up Articles	591	756	849		491	435
- Art, Silk & Synthetic Textile	315	370	460		263	239
- Others	555	743	866		509	500
Low to medium Value-Added Segment	**2,858**	**2,972**	**3,717**		**2,080**	**1,714**
- Cotton Cloth	1,830	1,921	2,438		1,352	1,225
- Cotton Yarn	984	1,017	1,207		688	449
- Others	43	34	72		41	39
Total	**12,527**	**15,399**	**19,332**		**10,933**	**10,040**

Source: PBS

Cotton prices rose to a new 12-year high of ~Rs. 21,600/maund as of March'22, as a result of the shortage and higher input costs of fertilizer and energy. Cotton imports were also up 19.8%, in USD terms, for FY22 vis-à-vis preceding year.

Table: Cotton Prices Trend (In Rs.)

	FY19	FY20	FY21	FY22
Per Maund	8,770	8,860	13,000	17,380
YoY % Change	26%	1%	32%	34%

Floods in Sindh and Southern Punjab during recent monsoon season have caused significant damage to the cotton crop. According to industry estimates, ~45% of the crop has been washed, worth more than $2.5b, resulting in significant price increases. The government has announced facilitation for raw materials imports to compensate for domestic shortages. Nonetheless, in addition to affecting profit margins, higher raw material pricing is expected to increase the working capital requirements, which is likely to have a negative impact on the liquidity profile of textile operators, particularly spinners, weavers and dying companies.

Global and domestic challenges, such as slowdown in export demand (primarily from North America and the EU, which has begun to materialize in Pakistan's monthly export proceeds) due to recessionary trend, industrial gas load shedding expected in the country, and rising production costs due to inflation, will weigh on the business risk profile going forward. These factors may result in competitive market pricing for exporters.

5-Year (2020-25) textile policy continues to support the industry.

With an aim to double textile exports in five years, GoP through a five-year textile policy (2020-25) previously provided incentives in form of preferential energy rates, low interest rates financing schemes and timely payments of tax refunds which support liquidity constraints of local players. Initiatives were also undertaken to increase production and yield of cotton to support the industry. However, contractionary monetary policy and political uncertainties in the country are the present major business risk factors. In the long run, improvement in value addition, investment in technology and optimization of energy cost would define the future of textile exports.

Rupee depreciation in exports and volumetric increase in local sales drive revenue growth during the year; adequate client concentration supports business risk

With sizeable double-digit annual growth rate for five consecutive years, net sales have achieved a strong upward trend, reaching over Rs. 35b in FY22. The YoY increase of ~29%

was primarily fueled by rupee depreciation in exports, while local sales were driven by increased yarn/grey cloth capacities and higher prices. On average, proportionate share of exports to local sales has remained relatively stable at 70:30, with two-thirds of local sales being indirect exports. In value terms, both export and local sales experienced growth of ~17% and ~58%, respectively during the year.

Export sales mix exhibit fabric, home-textile and garment & yarn segment while local sales entail yarn and greige cloth. Home-textile represents bulk of export sales, albeit its share has declined lately with shift in focus towards fabric sales owing to improved margins in the segment. Product wise, made-ups constitute the majority of sales revenue followed by processed and greige fabric, garments, yarn sales and local brand retail sales.

Roughly half of exports are directed towards European markets (Germany, Spain Greece, UK, Netherland, Belgium & Italy are the major destinations), which have a broader customer base with better margins. The rest is shared by Asia, US, African, South America and Australia. Business risk is support by well-diversified clientele and adequate sales concentration, with no individual client accounting for more than 10% of total sales. This also compares favorably with peers.

Sales growth has remained sluggish in the ongoing fiscal year, with net sales amounting to Rs. 16.4b in 6M'FY23. This can be attributed to the recent slowdown in demand due to economic downturn in major world economies. As per management, orders are secured for the next four months.

Net margins have plunged to record lows in the current fiscal year due to sizeable increase in financial charges in line with higher benchmark rates and increased debt utilization.
Gross margins have contracted due to a surge in raw material, fuel, and power costs. Average cotton and yarn procurement costs have gone up by ~80% and ~56%, respectively over the review period. Adequate stocks have been maintained to fulfill confirmed sales orders for the next four months. The proportion of domestically sourced cotton has increased from 20% to 75% over the past 18 months, and yarn procurement mix remains unchanged, with ~90% being sourced locally.

Administrative overheads increased in line with business growth, and distribution expenses grew considerably due to higher freight expenses during the review period. Increased debt levels and higher benchmark rates led to a rise in financing charges, impacting net margins and the bottom line in absolute terms. Profitability profile is supported by profit on saving accounts and short-term investments.

Cash flows coverages have noted slight weakening while working capital days are slightly stretched. Healthy investments in TDRs and bank deposits support the liquidity risk profile.
Despite the decline in profitability, funds flow from operations (FFO) remained consistent with previous year, reaching Rs. 3.1b in FY22. However, significant increase in debt levels has resulted in weakening of cash flow coverages as reflected by FFO to total debt of 0.16x (FY21: 0.22x) and FFO to long-term debt of 0.35x (FY21: 0.44x) at end-FY22. Similarly, debt service coverage ratio dropped to 3.40x (FY21: 5.89x).

Current ratio is consistently reported above 1.2x for the last four fiscal years and coverage of short-term borrowings with trade debts and inventory remains sufficient. Working capital cycle has stretched due to increase in inventory holdings days during the ongoing year.

Liquidity risk profile draws comfort from sizeable liquid assets on the balance sheet, held in multiple bank TDRs and deposits in savings/current accounts. Aging profile of trade debts is sound, with ~98% outstanding within a 9-month period.

Retained profits supported capitalization; gearing ratio is elevated.
Net equity has more than doubled over the period of last four fiscal years, reaching to Rs. 10.2b in 6M'FY23, driven by adequate profitability, its all-out retention, issuance of ordinary shares, and increase in sponsor loan. The dividend payout is determined by sponsors, as there is no documented dividend policy in place; no payout has been made in recent years.

Debt profile is a mix of short-term and long-term debt with total interest bearing liabilities increasing to Rs. 19.4b (FY22: Rs. 19.5b; FY21: 14.0b) at end-6M'FY23; ~55% constituted short-term debt, with total Rs. 12.7b export refinance lines available from multiple commercial banks. With rise in debt levels, leverage and gearing ratios have trended upwards, and are currently on the higher side. Adjusting for sizeable liquid assets, net debt reduced to Rs. 15.0b, translating into gearing of 1.48x.

Kamal Limited **Appendix I**

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**1H'FY23**
Non-current Assets	10,580.8	11,450.4	22,039.0	21,545.9
Short Term Investment	1,066.3	1,516.8	2,411.4	2,838.9
Stock-in-Trade	5,508.1	6,910.5	8,482.5	9,180.3
Trade Debts	699.8	1,482.7	2,484.6	2,023.2
Cash & Bank Balances	701.3	1,537.3	1,925.5	1,520.8
Total Assets	**20,717.3**	**26,080.6**	**40,856.0**	**40,656.8**
Trade Payables	1,542.0	2,629.3	2,668.7	2,180.3
Long Term Debt *(incl. current maturity)*	5,525.1	6,979.9	8,823.4	8,705.5
Short-term Debt	6,115.4	7,060.0	10,655.1	10,683.3
Total Debt	11,640.5	14,039.9	19,478.6	19,388.8
Total Liabilities	**13,334.8**	**16,888.7**	**22,847.1**	**22,325.1**
Tier-1 Equity	**5,332.4**	**7,308.7**	**9,202.4**	**10,178.1**
INCOME STATEMENT				
Net Sales	17,682.0	27,503.6	35,366.2	16,415.5
Gross Profit	2,766.8	4,709.2	5,273.4	2,338.2
Profit/(Loss) Before Tax	**1,028.2**	**2,151.2**	**1,748.3**	**561.4**
Profit/(Loss) After Tax	**922.9**	**1,846.3**	**1,196.9**	**322.8**
RATIO ANALYSIS				
Gross Margin (%)	15.6%	17.1%	14.9%	14.2%
Net Margin (%)	5.2%	6.7%	3.4%	2.0%
FFO	1,648.0	3,105.3	3,091.6	1,455.8
FFO to Total Debt (x)	0.14	0.22	0.16	0.15*
FFO to Long-term Debt (x)	0.30	0.44	0.35	0.33*
Debt Leverage (x)	2.50	2.31	2.48	2.19
Gearing (x)	2.18	1.92	2.12	1.90
DSCR (x)	3.55	5.89	3.40	3.48*
Current Ratio (x)	1.28	1.41	1.31	1.35
Inventory plus Receivables/Short term Borrowings (x)	1.02	1.19	1.03	1.05
ROAA (%)	5.7%	8.8%	4.2%	1.7%*
ROAE (%)	14.4.%	24.3%	10.9%	4.1%*

**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				
07-04-2023	A	A-1	Stable	Reaffirmed
28-04-2022	A	A-1	Stable	Upgrade
12-04-2021	A-	A-2	Positive	Maintained
23-04-2020	A-	A-2	Rating Watch Developing	Maintained
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.
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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Nadeem Ahmed	Executive Director	March 07, 2023