RATING REPORT

Kamal Limited

REPORT DATE:
May 03, 2024

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-1
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*May 03, 2024*		*April 07, 2023*	

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: Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

VIS Rating scale
https://docs.vis.com.pk/docs/VISRatingScales.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

Kamal Limited, a family-owned enterprise, is an export-oriented and value-added textile unit with a 15-year operational history. The company has vertically integrated operations covering spinning, weaving, dyeing, printing, finishing, knitting 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 5 company-owned stores and the rest being franchise-based.

Sector Update

The business risk profile of the textile sector in Pakistan is characterized by a high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors. In FY23, the textile sector faced challenges due to various economic and environmental factors. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and import restrictions due to diminishing foreign exchange reserves.

During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, as a result of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Reduction in cotton supply, coupled with global economic slowdown and contractionary economic policies, led to a decrease in demand for textile products and, consequently, cotton yarn.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs and inflationary pressures. Additionally, the sector's vulnerability to global market dynamics and the domestic economic landscape further contribute to its high business risk profile. However, there is optimism as an anticipated bigger cotton crop in FY24 is expected to alleviate some pressure on input costs and margins.

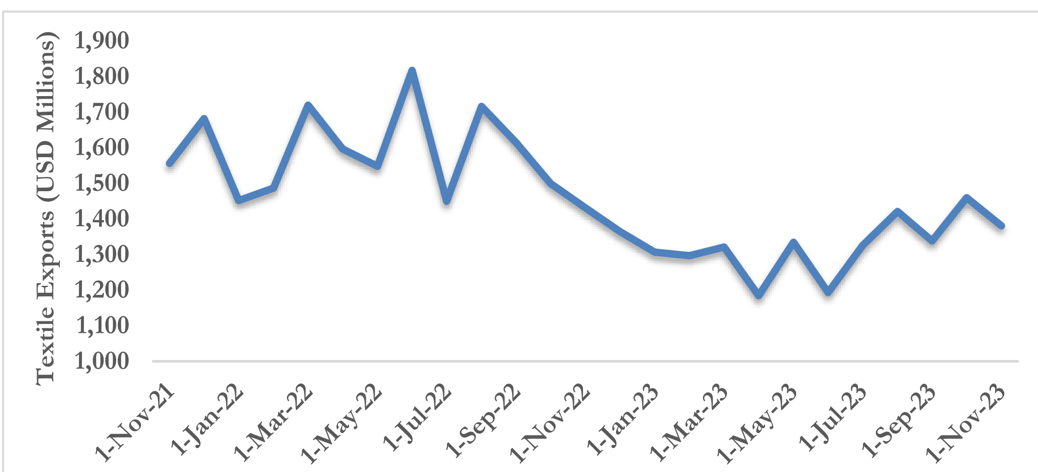

Figure 1: MoM Textile Exports (In USD' Millions) | Source: SBP

Operational Update:

Property, Plant and Equipment was recorded higher at Rs. 33.0b (FY23: Rs. 31.7b; FY22: Rs. 21.9b) by end-1H'FY24. The increase was mainly attributed to revaluation surplus recorded in FY23. During FY23 and 1HFY24, additions to the PP&E amounted to Rs. 1.3b and Rs. 319.3m respectively, mainly in plant and machinery coupled with building on freehold land, equipment, and vehicles. In FY23, additions mainly pertained to knitting and dyeing machines, which the Company added for overall process improvement and efficiency enhancement. In 1H'FY24 additions mainly pertain to 25,000 spindles which are expected to be operational by end-FY24. The total cost of addition of spindles is estimated around Rs. 3.5b, out of which Rs. 2.8b is financed through conventional debt, priced on KIBOR basis, while the remaining is financed through own sources. The spinning segment exhibited enhanced capacity utilization during the review period, reaching 98.5% in 1H'FY24 (FY23: 95.9%; FY22: 76.3%), while the weaving segment maintained satisfactory levels consistently. Additionally, the company operates an in-house knitting unit established in FY22, alongside a dyeing unit. Installed and actual capacity levels are given in the table below:

CAPACITY UTILIZATION				
SPINNING				
	FY21	**FY22**	**FY23**	**1H'FY24**
Spindles Installed	32,640	42,432	42,432	42,432
Router installed	-	6,000	6,000	6,000
Capacity after converting into 20/1 count (million kgs)	11.1	20.7	24	12
Actual Production (million Kgs)	10.6	15.8	23	11.8
Days worked	360	320	365	184
Capacity Utilization	95.70%	76.30%	95.90%	98.50%
WEAVING				
Looms installed	264	264	264	264
Capacity (million meters)	140	140	140	70
Actual Production (million meters)	108.4	135	130.8	66.9
days worked	365	365	365	184
Capacity utilization	77.40%	96.40%	93.40%	95.60%
KNITTING				
Capacity (million kgs)	-	3.7	3.7	1.8
Actual Production (million kgs)	-	0.2	1	0.8
Capacity Utilization		5.80%	26.20%	44.30%
Days Worked	-	150	296	150
DYEING				
Thermosol dyeing machine	5	5	5	5
Stenters machines	10	10	10	10
Capacity (million meters)	31.2	31.2	31.2	31.2
Actual processing of fabric (million meters)	24.8	30.8	23.6	13.1
Capacity Utilization	79.40%	98.90%	75.60%	41.90%
Days worked	360	360	303	184

Key Rating Drivers

Topline in FY23 experienced downturn; however, 1H'FY24 marked a turnaround in sales. Gross margins registered slight increase during the review period.

During FY23, KL's topline declined by 13%, resulting in net sales of Rs. 30.8b, down from Rs. 35.4b in FY22, due to volumetric sales declining by ~29%, despite better selling prices. Export sales constituted approximately ~65% of total sales, with home textiles making up nearly half of the export sales, while local sales were majorly contributed by yarn and fabric. During FY23, cost of sales increased primarily driven by higher procurement prices with prices of major raw materials like cotton increasing YoY by 24%, yarn (15%), and fabric (47%). Resultantly, gross profit decreased to Rs. 4.9b from Rs. 5.3b, yet gross margins improved to 15.8% from 14.9%, reflecting the impact of rupee depreciation. Despite lower distribution expenses reflected by lower sales, operating expenses remained around similar levels due to higher admin and other operating expenses. Finance costs doubled during the outgoing year to Rs. 1.2b (FY22: Rs. 633m), reflecting increased reliance on short-term borrowings coupled with higher markup rates. Other income grew to Rs. 571.8m (FY22: Rs. 249.6m), buoyed by profits on savings accounts and dividends from mutual fund investments. Despite higher other income, net profit declined by 41.5% to Rs. 700.4m, with net margins falling to 2.3% from 3.4%, largely due to higher financial charges during the year.

During the 1H'FY24, the Company witnessed a significant growth of 48% YoY in net sales, reaching Rs. 24.3b, up from Rs. 16.4b during SPLY, primarily fueled by a surge in export sales, notably in home textiles and fabric. This growth was accompanied by an improvement in gross margins to 16.9%, up from 14.2% in 1H'FY23, attributed to higher selling prices for exported products amid rupee depreciation. However, during the same period, operating expenses increased by 59% vis-à-vis SPLY. Additionally, finance costs remained elevated due to increased working capital needs amidst high mark-up rates. Despite the challenges of rising operating expenses and finance costs, net margins doubled to 4.0% (1H'FY23: 2.0%), underpinned by the robust growth in topline.

Adequate liquidity profile with improvement in cashflow coverages during the review period.

Despite lower operating profit during FY23 vis-à-vis SPLY, Funds from Operations (FFO) remained intact at Rs. 3.1b (FY22: Rs. 2.96b), on account of adjustment of non-cash expenses. FFO was recorded at Rs. 2.4b during 1H'FY24. FFO-to-long-term debt and FFO-to-total debt improved to 0.56x (FY23: 0.37x; FY22: 0.34x) and 0.19x (FY23: 0.15x; FY22: 0.15x) respectively, mainly due to augmentation in equity base on the back of internal capital generation. The debt service coverage ratio (DSCR) remained adequate on a timeline basis, and specifically improved to 2.41x (FY23: 2.01x; FY22: 2.86x) in 1H'FY24, mainly on the back of lower interest and loan repayments.

Current ratio remained adequate at 1.23x (FY23: 1.29x; FY22: 1.31x) by end-1H'FY24, primarily pertaining to higher inventory and trade receivables. Net operating cycle showed some improvement in 1H'FY24 standing at 117 days (FY23: 140 days; FY22: 82 days), although it still remained above FY22 levels. Increase was mainly due to higher inventory holding periods, reflected by higher working capital financing.

Augmentation in equity during the review period; however, leverage indicators remained elevated as borrowings outpaced equity growth.

Tier-1 equity (equity adjusted for surpluses) notably increased during the review period to Rs. 12.4b (FY23: 10.6b; FY22: Rs. 9.2b) as at Dec'23, primarily driven by retained earnings. Despite additional borrowing of Rs. 1.0b at KIBOR + 1-2%, long-term financing remained stable amounting to Rs. 8.4b (FY23: Rs. 8.2b; FY22: Rs. 8.6b) by end Dec'23, largely owing to the repayment of existing long-term loans. Being an export-oriented enterprise, KL relies heavily on discounted schemes for long-term financing, including subsidized financing for importing plant machinery and renewable energy projects, thereby lowering its cost of borrowing. Short-term borrowings remained elevated during the review period amounting to Rs. 16.4b (FY23: Rs. 12.5b; FY22: Rs. 10.65b) as at Dec'23, reflecting greater reliance on financing to support export activities. During Q3'FY24, KL converted Rs. 1.6b of foreign currency import finance (FCIF) loans to term finance loans. As per the management, the total loan amount to be converted stands at Rs. 2.6b, with full conversion expected by end-FY24. Despite improvement in core equity, gearing and leverage remained elevated at 2.02x (FY23: 1.97x; FY22: 2.12x) and 2.31x (FY23: 2.36x; FY22: 2.48x) respectively by end 1H'FY24, reflecting an uptick in borrowings which outpaced equity growth. In the medium to long term, the management does not intend to mobilize any long-term loans; however, regular BMR will continue which will be funded through internal capital generation. Looking ahead, improvement in leverage indicators to adequate levels is important from ratings perspective.

Kamal Limited **Appendix I**

Financial Summary (PKR *in Million)*

BALANCE SHEET	FY21	FY22	FY23	1H'FY24
Property, Plant & Equipment	11,371	21,933	31,676	33,000
Stock in Trade	6,911	8,482	11,052	11,207
Stores & Spares	891	966	1,007	809
Trade receivables	1,483	2,485	4,235	5,498
Advances, prepayments, and other receivables	678	993	1,357	1,900
Short term investments	1,517	2,411	2,105	2,218
Cash and Bank Balances	1,537	1,926	725	1,806
Other Assets	1,693	1,660	1,644	1,928
Total Assets	**26,081**	**40,856**	**53,801**	**58,365**
Long-term financing (Inc. Current Portion)	6,762	8,645	8,182	8,442
Liabilities subject to financial lease	217	178	122	143
Deferred Liabilities	130	455	852	711
Trade and other payables	2,629	2,669	2,705	1,810
Short term borrowings	7,060	10,655	12,452	16,429
Other Liabilities	89	245	624	990
Total Liabilities	**16,889**	**22,847**	**24,937**	**28,525**
Paid Up Capital	500	739	1,000	1,000
Tier-1 Equity	7,309	9,202	10,553	12,372
Total Equity (Including Surplus)	**9,192**	**18,009**	**28,864**	**29,840**

INCOME STATEMENT	FY21	FY22	FY23	1H'FY24
Net Sales	27,504	35,366	30,785	24,292
Gross Profit	4,709	5,273	4,866	4,111
Operating Profit	2,565	2,132	1,781	1,738
Profit Before Tax	2,151	1,748	1,128	1,331
Profit After Tax	1,846	1,197	700	976
FFO	3,105	2,961	3,097	2,384

RATIO ANALYSIS	FY21	FY22	FY23	1H'FY24
Gross Margin (%)	17.1%	14.9%	15.8%	16.9%
Net Margin (%)	6.7%	3.4%	2.3%	4.0%
FFO to Long-Term Debt	0.44	0.34	0.37	0.56*
FFO to Total Debt	0.22	0.15	0.15	0.19*
Debt Servicing Coverage Ratio (x)	4.86	2.86	2.01	2.41*
ROAA (%)	7.9%	3.6%	1.5%	3.5%*
ROAE (%)	22.3%	8.8%	3.0%	6.7%*
Gearing (x)	1.92	2.12	1.97	2.02
Debt Leverage (x)	2.31	2.48	2.36	2.31
Current Ratio	1.41	1.31	1.29	1.23
Net Operating Cycle	81	82	140	117
Inventory + Receivables/Short-term Borrowings	1.19	1.03	1.23	1.02

**Annualized*

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				
03-05-2024	A	A-1	Stable	Reaffirmed
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.
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 Meeting Conducted

Name	Designation	Date
Mr. Nadeem Ahmed	Executive Director	March 07, 2024