

## RATING REPORT

# Al-Karam Textile Mills (Private) Limited (AKTMPL)

**REPORT DATE:**

April 24, 2020

**RATING ANALYST:**

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## RATING DETAILS

Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A	A-2
Rating Date	April 24, 2020		March 28, 2019	
Rating Action	Maintained		Initial	
Rating Outlook	Rating Watch-Negative		Stable	

## COMPANY INFORMATION

Incorporated on 22 <sup>nd</sup> January 1986	External auditors: Kreston Hyder Bhimji & Co. Chartered Accountants
Private Limited Company	Chief Executive Officer/ Managing Director: Mr. Fawad Anwar
<b>Key Shareholders (with stake 5% or more):</b>	
Mr. Sajid Haroon - 5.1%	
Mr. Abid Umer - 5.0%	
Mr. Fawad Anwar - 5.6%	
Mr. Anwar Haji Karim - 6.8%	
M/s Amna Industries - 20.5%	
Mr. Anis Yakoob - 5.0%	
Mr. Noman Yakoob - 5.1%	

## APPLICABLE METHODOLOGY(IES)

**Applicable Rating Criteria: Industrial Corporates (April 2019)**

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

**Al-Karam Textile Mills (Private) Limited**

**OVERVIEW OF THE INSTITUTION RATING RATIONALE**

Al-Karam Textile Mills (Private) Limited was incorporated in 1986 as a (Private) Limited entity. Financial Statements of the company for FY18 were audited by Kreston Hyder Bhimji & Co. Chartered Accountants

**Profile of CEO**

Mr Fawad Anwar has been the managing director of AKTMPL since 2010. He is also on the board of six other companies.

Al-Karam Textile Mills (Private) Limited (AKTMPL) is a part of Al-Karam Group. The group has a presence in textile, beverage, salt, trading house and retail business.

Al-Karam Group	
Al-Karam Textile Mills Pvt. Ltd	Al-Karam is a vertically integrated composite textile mill. It creates everything from shower curtains to apparel for men and women.
Amna Industries	A completely integrated spinning and finishing mill specialized in knitted fabric.
PSL Caps	PSL Caps is engaged in production of plastic and crown caps for the beverage industry.
Dhabeji Salt	Producer of salt for chemical Industries and table salt
Satter Ltd.	Local trading house

AKTMPL's is principally engaged in manufacturing and sale of textile products. Product portfolio of the company includes a variety of yarns ranging from coarse to fine counts, fabric, home textiles, institutional textiles and garments.

**Figure 1: Product portfolio**



Head office of the company is based in Karachi and the vertically integrated production factory is located in Landhi Industrial Area. The power requirement of the production unit is met through internal generation.

#### **Production details**

During 2019, the installed capacity of both yarn and cloth remained at a similar level vis-à-vis the preceding year. With higher production in FY19 vis-à-vis the preceding year, capacity utilization in both cloth and yarn manufacturing was reported higher at 80.0% (FY18: 78.9%) and 98.9% (FY18: 81.4%), respectively. As per management, the difference between installed capacity and actual production persists due to production of specialized fabrics.

#### **Export sales has historically represented the major portion of sales mix**

Sales revenue of the company stood at Rs. 26.9b (FY18: Rs. 21.9b). Growth in topline was a function of both higher average selling prices due to currency devaluation and increase in volumetric sales. Around 72% (FY18: 76%) of the total sales revenue was contributed by exports in FY19 with the remaining emanating from local market. During 1HFY20, the company recorded sales revenue of Rs. 15.8b.

#### **Coronavirus to result in uncertainty in textile sector dynamics**

The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand, sharp fall in cotton prices and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted 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. Aforementioned operating dynamics coupled with leveraged capital structure of the company warrant a 'Rating Watch-Negative' status. The ratings are dependent upon maintenance of overall sales, profit margins, debt service coverage, and gearing ratios at an adequate level, with outlook subject to be reviewed once the situation stabilizes.

Financial Summary (amounts in PKR millions)	Appendix I			
	FY17	FY18	FY19	HY20
<b>BALANCE SHEET</b>				
Property, Plant and Equipment	6,629.2	10,131.3	10,857.7	11,038.1
Other Non-Current Assets	199.4	263.8	380.7	352.7
Stock in Trade	7,170.5	8,462.4	10,161.0	10,569.1
Trade Debts	4,286.2	5,224.7	8,125.1	7,902.7
Cash and Bank Balances	13.4	95.1	206.7	262.8
<b>Total Assets</b>	<b>20,741.8</b>	<b>26,871.1</b>	<b>32,344.0</b>	<b>34,055.9</b>
Trade and Other payables	4,779.7	6,214.9	8,974.4	9,935.9
Long Term Debt (*including current maturity)	2,815.5	2,542.3	2,935.1	3,026.0
Short Term Debt	8,267.8	9,125.5	10,229.3	10,647.5
<b>Total Debt</b>	<b>11,083.3</b>	<b>11,667.8</b>	<b>13,164.4</b>	<b>13,673.5</b>
Issued, subscribed and paid up capital	540.0	540.0	540.0	540.0
<b>Total Equity (*excluding revaluation surplus)</b>	<b>4,232.1</b>	<b>4,770.1</b>	<b>5,815.9</b>	<b>6,101.0</b>
<b>INCOME STATEMENT</b>				
Net Sales	17,996.5	21,228.6	26,045.5	15,809.2
Gross Profit	1,947.8	2,864.7	3,626.6	2,075.7
Operating Profit	693.2	1,215.3	1,961.7	825.7
Profit Before Tax	354.5	763.9	1,410.4	481.5
Profit After Tax	429.0	554.4	1,124.1	385.5
<b>RATIO ANALYSIS</b>				
Gross Margin (%)	10.8%	13.5%	13.9%	13.1%
Net Margin	2.4%	2.6%	4.3%	2.4%
Net Working Capital	354.8	559.9	1,266.7	1,407.9
Current Ratio	1.03	1.04	1.06	1.07
FFO	716.2	1,328.9	2,084.2	N/A
FFO to Total Debt (%)	6.5%	11.4%	15.8%	N/A
FFO to Long Term Debt (%)	25.4%	52.3%	71.0%	N/A
Gearing (x)	2.62	2.45	2.26	2.24
Leverage (x)	3.90	3.92	3.97	4.02
Debt Servicing Coverage Ratio (x)	1.7	2.1	2.7	N/A
ROAA (%)	2.3%	2.3%	3.8%	2.3%
ROAE (%)	10.6%	12.3%	21.2%	12.9%

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix II**

**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>	Al-Karam Textile Mills (Private) Limited				
<b>Sector</b>	Textiles				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<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>RATING TYPE: ENTITY</b>				
	24/04/2020	A	A-2	Rating Watch - Negative	Maintained
	28/03/2019	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>S.No.</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>	