RATING REPORT

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

REPORT DATE:
March 04, 2021

RATING ANALYST:
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RATING DETAILS				
	Latest Ratings		Previous Ratings	
Rating Category	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A	A-2
Rating Date	*March 04, 2021*		*April 24, 2020*	
Rating Action	Maintained		Maintained	
Rating Outlook	Stable		Rating Watch-Negative	

COMPANY INFORMATION	
Incorporated on January 22, 1986	**External auditors:** Kreston Hyder Bhimji & Co. Chartered Accountants
Private Limited Company	**Chief Executive Officer/ Managing Director:** Mr. Fawad Anwar
Key Shareholders (with stake 5% or more):	
Mr. Anwar Haji Karim – 25.74%	
Mr. Sajid Haroon – 8.96%	
Mr. Afzal Umer – 8.29%	
Mr. Fawad Anwar – 7.50%	
Mr. Yakoob Haji Karim – 6.37%	
Mr. Abid Umer - 5.31%	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (April 2019)
https://s3-us-west-2.amazonaws.com/backupsqlvis/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 FY20 were audited by Kreston Hyder Bhimji & Co. Chartered Accountants

Profile of CEO

Mr Fawad Anwar has been affiliated with AKTMPL for more than 25 years and continues to serve as the managing director since 2010. He holds MBA degree from Drexel University, USA.

Al-Karam Textile Mills (Private) Limited (AKTMPL) is a part of Al-Karam Group. The group owns several companies engaged in diversified businesses; these include Al-Karam Textile Mills (Pvt.) Ltd. (integrated composite textile mill), PSL Caps (plastic and crown cap producer), Dhabeji Salt (Salt producer) and 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

Yarn (from 7 Ne count to 100 Ne count)
- Ring Spun yarn
- Compact spund yarn
- Lycra yarn
- Novelty yarn

Fabric
- Greige Fabric
- Prints
- Plain dyed
- Dobby
- Jacquards
- Yarn Dyed Fabric

Finished Products
- Home Textiles
  - Quilt Covers/Comforters
  - Sheets
  - Curtains
  - Shower Curtains
  - Kitchen Linen
  - Pyjama suits
  - Fashion apparel
  - Bed in a bad
- Institutional Textiles
  - Healthcare Textiles
  - Hospitality Textiles
  - Workwear Textiles
- Garments
  - Fashion apparels
  - Pajama suits

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 and Capacity utilization

During FY20, the installed capacity of cloth remained same in comparison to the preceding year, while the installed capacity of yarn increased by 28% due to addition of new machines. Production volumes were higher in case of cloth and yarn in FY20 vis-à-vis FY19. Resultantly, capacity utilization for cloth stood slightly higher at 82% (FY19: 80%); however, capacity utilization of the yarn segment was reported lower at 81% (FY19: 99%) due to increase in installed capacity.

Rating Drivers

Recovery in industry wide exports post ease in COVID-19 lockdown measures support business risk profile of the company

Following the lifting of lockdowns globally after the first wave of COVID-19, Pakistan's textile sector witnessed considerable growth in exports (up by average 8% in 1HFY2021 vis-à-vis 1HFY2020), particularly within the home textiles segment. As the India and Bangladesh were more severely affected due to COVID-19, the supply chain disruptions experienced by both these countries resulted in rerouting of export orders to Pakistan, benefitting the local textile industry.

Moreover, with the objective of enhancing exports to support the economy, the Government of Pakistan (GoP), has provided incentives in the form of subsidized utility tariffs, low interest rates (EFS, LTFF and TERF) and sales tax refund to the textile industry. Furthermore, accommodative Monetary Policy with lower financing cost has also led to increase their production to meet additional demand.

The textile policy 2020-25 has laid emphasis on fixed electricity and gas tariff for the next 5 years till 2025 at US cents 7.5 per KWh and USD 6.5 per MMBTU, respectively. Moreover, the limits of subsidized (LTFF) financing have been enhanced under this policy to facilitate exporters. Initiatives are also being undertaken in order to increase production and yield of cotton. Pakistan's share is 1.6% in the global textile trade which is targeted to increase to increase to 3% over the next 5 years.

Exports			
USD mn	**1HFY21**	**1HFY20**	**% change**
Cotton Yarn	401	544	-26%
Cotton Cloth	935	935	-8%
Knitwear	1,850	1,587	17%
Bedwear	1,394	1,198	16%
Garments	1,490	1,412	6%
Total	**7,442**	**6,905**	8%

Topline of the company has registered healthy growth in FY20 on account of higher export sales; similar trend is expected to continue going forward given the healthy order book

Sales revenue was reported higher at Rs. 30.2b (FY19: Rs. 26.0b), thereby depicting a growth 16% on an annual basis. Increase in prices was the major contributor to increase in revenue base. Around 80% (FY: 72%) of sales revenue is generated from the export sales and the remaining 20% from local sales. During FY20, export sales of the company registered growth of 28.8%, while local sales decreased by 16% due to enforcement of lockdown on account of COVID-19.

Net sales of the company were reported at Rs. 8.7b (1QFY20: Rs. 8.8b) in 1QFY21. Despite healthy orders, the company registered slight decrease in sales in the first quarter as supply chains disruptions due to COVID-19 presented challenges to the company in procuring imported cotton. With resumption of global trade and encouraging development on vaccines, the management is projecting considerable growth in topline going forward. The company has booked healthy orders till September 2021.

Exchange losses contributed to decline in profitability during FY20; however, cost rationalization initiatives undertaken by the management have resulted in considerable improvement in profitability during 1QFY21

Both gross profit and gross margins have exhibited improvement to Rs. 4.5b (FY19: Rs. 3.6b) and 14.9% (FY19: 13.9%), respectively during FY20. Greater increase in prices in relation to costs resulted in improvement in gross margins. Despite improvement in gross profitability, net profit and net margins were reported lower at Rs. 380.4m (FY20: Rs. 1.1b) and 4.3% (FY19: 1.3%). Decline in net profitability was primarily a result of exchange losses incurred by the company. Finance cost of the company has also trended upwards due to increase in total borrowings. Net profitability of the company witnessed significant improvement in 1QFY21 as the net profit was reported higher at Rs. 601.1m (FY19: Rs. 186.8m). This improvement was primarily achieved on the back of reduction in distribution expenses on account of lower air freight charges. Going forward, the management opines that profitability will improve due to realization of export orders. Sustainability in margins in the given rating horizon would be an important rating determinant.

Leverage indicators remain elevated

Equity base (excluding revaluation surplus) increased to Rs. 6.7b (FY20: Rs. 6.1b; FY19: Rs. 5.8b) at end-1Q'FY21 on account of profit retention. Management continues to maintain no dividend payout policy. Total debt of the company was reported higher at Rs. 16.7b (FY20: Rs. 14.7b; FY19: 13.2b). Although short term debt comprises larger proportion of the total debt (1QFY21: 59.2%; FY20: 63.3%; FY19: 77.7%), the increase in total debt was manifested in long term borrowings. Management availed Rs. 1.1m borrowing facility offered under the Refinance Scheme for Payment of Wages and Salaries to Workers and Employees launched by the State Bank of Pakistan, which resulted in increase in long term borrowings. The company also acquired additional LTFF loan with the objective of improving product quality and catering to additional export orders. With greater increase in borrowings vis-à-vis equity, gearing and leverage ratio stood higher at 2.49x (FY20: 2.40x; FY19: 2.26x) and 4.0x (FY20: 4.24x; FY19: 3.97x; FY18: 3.92x), respectively as at end-1QFY21. Leverage indicators warrant improvement to reduce the sensitivity of the ratings at the assigned level.

Adequate liquidity profile

Overall liquidity profile of the company is considered adequate in view of sufficient cash flows in relation to outstanding obligations and satisfactory debt servicing ability. Current ratio has remained consistently above 1x within the company's financial performance timeline, thereby indicating adequate liquidity coverage. Stock in trade and trade debts as a proportion of short term borrowing provide adequate coverage in relation to short term borrowing (1QFY21: 176.6%; FY20: 181.9%; FY19: 178.8%).

Financial Summary (amounts in PKR millions)			Appendix I	
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**Sep-20**
Property, Plant and Equipment	10,131.3	10,857.7	13,608.7	14,261.0
Other Non-Current Assets	269.2	387.5	344.8	347.0
Stock in Trade	8,462.4	10,161.0	11,490.7	10,863.6
Trade Debts	5,224.7	8,125.1	5,396.9	6,613.1
Cash and Bank Balances	95.1	206.7	1,308.5	1,525.8
Total Assets	26,871.0	32,344.0	35,488.0	37,003.0
Trade and Other payables	6,214.9	8,974.4	10,164.8	9,068.8
Long Term Debt (*including current maturity)	2,542.3	2,935.1	3,602.2	5,036.2
Short Term Debt	9,125.5	10,229.3	9,284.2	9,893.9
Total Debt	11,667.8	13,164.4	12,886.5	14,930.2
Issued, subscribed and paid up capital	540.0	540.0	540.0	540.0
Total Equity (*excluding surplus revaluation)	4,770.1	5,815.9	6,112.5	6,713.6
INCOME STATEMENT				
Net Sales	21,228.6	26,045.5	30,194.0	8,699.4
Gross Profit	2,864.7	3,626.6	4,512.1	1,623.1
Operating Profit	1,215.3	1,961.7	1,644.2	923.9
Profit Before Tax	763.9	1410.4	728.0	701.1
Profit After Tax	554.4	1124.1	380.4	601.1
RATIO ANALYSIS				
Gross Margin (%)	13.5%	13.9%	14.9%	18.7%
Net Margin (%)	2.6%	4.3%	1.3%	6.9%
Net Working Capital	559.9	1,266.7	1,426.0	2,736.3
FFO	1,328.9	2,084.2	1,922.5	N/A
FFO to Total Debt (%)	11.4%	15.8%	14.9%	N/A
FFO to Long Term Debt (%)	52.3%	71.0%	50.1%	N/A
Gearing (x)	2.45	2.26	2.40	2.49
Leverage (x)	3.92	3.97	4.24	4.00
Debt Servicing Coverage Ratio (x)	2.10	2.70	1.9	N/A
ROAA (%)	2.3%	3.8%	1.1%	6.6%*
ROAE (%)	12.3%	21.2%	6.4%	37.5%*
(Stock in trade + Trade Debts)/ Short Term Borrowings	150.0%	178.8%	181.9%	176.6%
Current Ratio (x)	1.04	1.06	1.07	1.14

** Annualized*

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

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.

<table>
<tr><th>REGULATORY DISCLOSURES</th><th colspan="5">Appendix III</th></tr>
<tr><td>Name of Rated Entity</td><td colspan="5">Al-Karam Textile Mills (Private) Limited</td></tr>
<tr><td>Sector</td><td colspan="5">Textiles</td></tr>
<tr><td>Type of Relationship</td><td colspan="5">Solicited</td></tr>
<tr><td>Purpose of Rating</td><td colspan="5">Entity Rating</td></tr>
<tr><td rowspan="5">Rating History</td><td>Rating Date</td><td>Medium to Long Term</td><td>Short Term</td><td>Rating Outlook</td><td>Rating Action</td></tr>
<tr><td colspan="5">RATING TYPE: ENTITY</td></tr>
<tr><td>03/04/2021</td><td>A</td><td>A-2</td><td>Stable</td><td>Maintained</td></tr>
<tr><td>24/04/2020</td><td>A</td><td>A-2</td><td>Rating Watch - Negative</td><td>Maintained</td></tr>
<tr><td>28/03/2019</td><td>A</td><td>A-2</td><td>Stable</td><td>Initial</td></tr>
<tr><td>Instrument Structure</td><td colspan="5">N/A</td></tr>
<tr><td>Statement by the Rating Team</td><td colspan="5">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.</td></tr>
<tr><td>Probability of Default</td><td colspan="5">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.</td></tr>
<tr><td>Disclaimer</td><td colspan="5">Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile.
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<tr><td rowspan="2">Due Diligence Meetings Conducted</td><td>S.No.</td><td colspan="2">Name</td><td>Designation</td><td>Date</td></tr>
<tr><td>1.</td><td colspan="2">Jawed Isani</td><td>Company Secretary</td><td>February 12, 2021</td></tr>
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