RATING REPORT

Al-Karam Textile Mills (Private) Limited

REPORT DATE:
April 15, 2025

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A2	A	A2
Rating Outlook /Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Maintained	
Rating Date	*April 15, 2025*		*April 4,2024*	
SUKUK 1	A		A	
Rating Outlook/Rating Watch	Stable		Stable	
Rating Action	Final		Preliminary	
Rating Date	*August 27, 2024*		*April 4,2024*	
SHORT TERM SUKUK 1			A1	
Rating Action			Preliminary	
Rating Date			*August 27, 2024*	

COMPANY INFORMATION

Incorporated in 1986	**External Auditors:** Kreston Hyder Bhimji & Co. Chartered Accountants
Private Limited Company	**CEO/MD:** Mr. Fawad Anwar
Key Shareholders (with stake 5% or more):	
Mr. Sajid Haroon ~34.4%	
Mr. Fawad Anwar ~26.7%	
Mr. Anwar Haji Karim ~22.8%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Al-Karam Textile Mills (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Al-Karam Textile Mills (Private) Limited was incorporated in 1986 as a (Private) Limited entity. Financial statements for the year FY24 were audited by Kreston Hyder Bhimji & Co. Chartered Accountants.

Profile of CEO/MD:

Mr. Fawad Anwar has been affiliated with the group for over 25 years and he continues to serve as managing director since 2010. He is serving as a Non-Executive Director, SBP Board, for Monetary Policy Committee. He also holds key positions on the board of several other companies including Dhabeji Aqua Foods, Indus Acre, Lakeside Energy. Mr. Fawad has an MBA degree from Drexel University, USA.

RATING RATIONALE

Corporate Profile

Al-Karam Textile Mills (Private) Limited ('AKTM' or 'the Company'), part of Al-Karam Group, is a vertically integrated textile setup with operational history of nearly four decades. In addition to core textile operations, the group has strategic investments in salt production and trading business, and has more recently diversified into fish and agriculture farming. Product portfolio includes a variety of yarns ranging from coarse to fine counts, fabric, home textiles, institutional textiles and garments. The Company has a global footprint, with showrooms and design offices in the US, UK, France, and Portugal. Alkaram Studio, the retail arm of the group, was founded in 2010 and has since become a prominent local brand, with total 61 retail outlets spread nationwide.

The Company's current power demand of 30 MW is primarily met through a combination of gas generators, supplemented by solar energy, with a backup grid connection from KE. As part of its strategic expansion into renewable energy, AKTM is planning to integrate wind power and a biomass plant to enhance sustainability and energy efficiency. With multiple export-standard and trade certifications, along with a workforce exceeding 10,000 employees.

Operating Performance

AKTM operates via four production units, all located within the premises in Landhi Industrial Area. The Company has also established a new spinning plant at Nooriabad which has become operational on 7th November, 2024 (during 1HFY25).

Figure: Capacity & Production Data

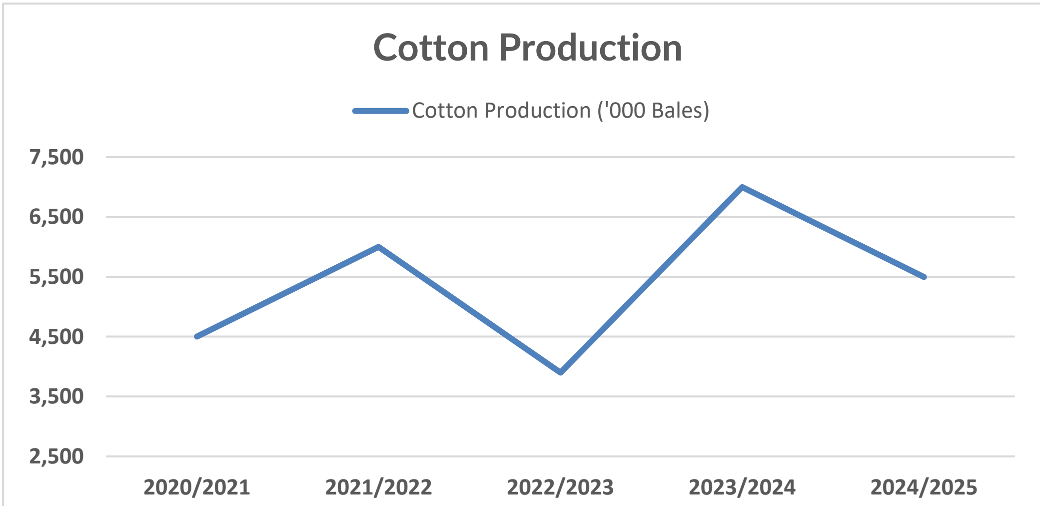
	FY21	FY22	FY23	FY24
Spinning				
No. of spindles installed	47,624	47,624	49,064	49,064
No. of rotors installed	5,720	5,720	4,880	4,880
No. of spindles worked	47,624	47,624	49,064	49,064
Installed capacity of yarn – Lbs. (millions)	57.2	57.2	64.3	59.7*
Actual production of yarn – Lbs. (millions)	48.6	46.9	39.2	36.5
Capacity Utilization	***85%***	***82%***	***61%***	***61%***
Weaving				
No. of looms installed	314	254	262	262
No. of looms worked	225	254	262	262
Installed capacity of fabric – Meters (millions)	33.8	33.8	33.8	33.8
Actual production of fabric – Meters (millions)	29.2	27.1	24.5	28.4
Capacity Utilization	***86%***	***80%***	***82%***	***84%***

**The decrease in installed spinning capacity is a result of replacing some spindles with melanges. While this upgrade improves production quality, it also slows down the process.*

Sector Update

The business risk profile of Pakistan's textile sector is shaped by economic cyclicality, intense competition and structural challenges. The sector is highly sensitive to domestic and international demand fluctuations, making it vulnerable to broader economic conditions.

In FY24, Pakistan's cotton production surged by 79% compared to FY23, though this increase was largely due to the low base in FY23. However, cotton production decreased by 59.4% YoY by October 2024, with a total of 2.04 million bales. While the USDA projects a rebound to 5.55 million bales in FY25 contingent upon overcoming several obstacles, including a shrinking area for cotton cultivation, rising energy costs and climatic challenges e.g. heatwaves, floods and pest infestations which have further strained yields.



Source: USDA

Despite the domestic cotton production challenges, textile exports in 1QFY25 have grown, largely driven by increased reliance on competitively priced imported cotton and a focus on the value-added segment of the industry. As global textile demand recovers, profitability for Pakistan's textile exporters will depend on cotton market dynamics, inflation and foreign exchange fluctuations. Rising fuel and power costs remain significant challenges to the sector's cost structures.

Figure 1: MoM Textile Exports (USD Million)
Source: SBP

A key issue is the 23% gas price hike for captive power plants, starting March 2025, as part of Pakistan's IMF agreement. Gas prices are set to rise to PKR 4,291 per mmBtu, reaching PKR 6,000 per mmBtu by August 2026. This increase combined with the shift from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR), will further pressure textile manufacturers' financial performance. Rising input costs and regulatory changes are creating a challenging environment for the sector.

<u>Key Rating Drivers</u>

Topline growth supported by both export and local sales
Net sales of the Company registered a growth of 32% Y/Y to clock in at Rs. 63.4b (FY23: 48.1b) in FY24, wherein both export and local sales contributed equally. The proportion of export to local sales of the Company stayed intact at 79:21 (FY23: 79:21) in FY24. Top-3 client concentration of the Company stands at around 50% of the net sales in FY24, which is considered high, however, comfort is drawn from long term relationships with these clients. On the geographic front, USA remained the major export destination with 65% (FY23: 61%) share, followed by Europe.

On the gross margin front, AKTM's gross margin has remained intact at 20.6% (FY23: 21.0%) in FY24. The higher inflation, which led to increased operating costs, along with a rise in finance costs to Rs. 4.3 billion in FY24 (up from Rs. 2.7 billion in FY23) due to elevated debt levels and higher interest rates, resulted in a net margin of 2.3%, down from 5.1% in FY23.

During 1HFY25, net sales of the Company came in at Rs. 29.5b wherein 1Q and 2Q net sales clocked in at Rs. 13.1b and Rs. 16.4b, respectively. Gross margin inched down to 19.8% in 1HFY25 compared to 20.6% in FY24. With the increase in administrative expenses during 1HFY25, operating margin decreased to 8.6% compared to 10.6% in FY24. Further, finance cost was recorded at Rs. 2.14b resulted in a thin net margin of 0.4% in 1HFY25.

Going forward, the management expects a topline to post a healthy growth through both export and local sales, wherein the company has healthy pipeline orders of exports while outlet retail sales are also expected to increase amid the upcoming eid season. Moreover, the topline growth is also expected to be supported by the newly started Nooriabad yarn sales and retail exports.

Cash flow coverages and liquidity Indicators remain adequate

Deterioration in profitability led to a decrease in funds flow from operations (FFO) in FY24. FFO clocked in at Rs. 4.7b during FY24 compared to Rs. 5.8b in FY23. Resultantly, coverage has also declined, whereby, FFO to total debt has marginally reduced from 0.24x in FY23 to 0.18x in FY24. Similarly, Debt Service Coverage Ratio (DSCR) has declined to 1.42x in FY24 (FY23: 2.02x, FY22: 1.94x). Going forward, with the increase in debt during the rating horizon along with increase in profitability, management has forecasted DSCR to remain at same levels.

Moreover, current ratio of AKTM remained intact during the review period at 1.04x while the same is forecasted to stay in the same range during the rating horizon. The Company's Cash Conversion Cycle (CCC) days have also reduced from 151 days in FY23 to 115 days in FY24. During 6M'FY25 the current ratio remained largely unchanged at 1.06x (FY24: 1.04x). Meanwhile, CCC has increased to 166 days (*annualized*) (FY24: 115 days) due to reduction in Payable days and seasonal build-up of inventory.

Capitalization metrics remains elevated despite slight improvement being noted
Equity base (excluding revaluation surplus) has grown at a CAGR of 18% during the last 4.5 years and has doubled, increasing from Rs. 6.1b at end-FY20 to Rs. 12.7b at end 1H-FY25, driven by healthy bottom-line enabling the Company to build strong capital base. Long-term debt of the Company has increased by Rs. 0.8b in FY24, totaling at Rs. 8.1b. Short-term debt of the Company increased to Rs. 17.8b as of Jun'24 (Jun'23: 16.8b) to meet the working capital requirements.

Debt profile is a mix of long term and short-term debt, with total interest-bearing liabilities increasing to Rs. 25.95b as at Jun'24 (Jun'23: 24.1b). Moreover, approximately 74% of the total debt is on subsidized rates, while the remaining is on Kibor based financing. Gearing position of the Company has shown marginal improvement from 2.19x in Jun'23 to 2.05x in Jun'24. Owing to growing net equity, leverage indicators have shown marginal improvement over the review period yet remains elevated.

However, at end of 6M'FY25, despite the rise in equity, Gearing ratio has surged to 2.49x (FY24: 2.05x) as the Company has primarily relied on short term borrowings to finance working capital and leverage ratio has increased to 3.82x (FY24: 3.75x) as a result of surge in short term borrowings.

The Company has projected to reduce utilization of short-term credit lines during FY25 through improvements in cash conversion cycle mainly. Going forward, management expects the gearing and leverage indicators to gradually improve during the rating horizon.

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Al-Karam Textile Mills (Pvt) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
Rating Type: Entity				
15-04-2025	A	A2	Stable	Reaffirmed
04-04-2024	A	A2	Stable	Maintained
30-05-2023	A	A2	Negative	Reaffirmed
30-05-2022	A	A2	Negative	Maintained
04-03-2021	A	A2	Stable	Maintained
24-04-2020	A	A2	Rating Watch - Negative	Maintained
28-03-2019	A	A2	Stable	Initial
Rating Type: SUKUK-I				
04-04-2024	A	-	Stable	Preliminary
27-08-2024	A	-	Stable	Final
Rating Type: SHORT-TERM SUKUK (STS-I)				
27-08-2024		A1	-	Preliminary

Instrument Structure	AKTM issued a short-term rated, partially secured, privately placed Sukuk to eligible investors amounting to Rs. 4b inclusive of a Green Shoe Option of Rs. 1.0b. The issue was utilized by AKTM to meet working capital requirements mainly of its newly established Nooriabad spinning plant. The instrument had a tenor of six months starting from the issue date. The first profit/rental payment was due at the end of the six-month period from the issue date. The instrument carried pricing of 6M KIBOR+1%. The Sukuk was covered against a pledge over GoP Ijara Sukuk or similar security covering up to 40% of the issue amount.
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
	N/A	