

RATING REPORT

Al-Karam Towel Industries (Pvt.) Limited

REPORT DATE:

April 23, 2020

RATING ANALYST:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A-2	A-	A-2
Rating Date	April 23, 2020		March 3, 2020	
Rating Outlook	Maintained		Stable	
Rating Action	Rating Watch-Developing		Reaffirmed	

COMPANY INFORMATION

Incorporated on April, 2004	External auditors: M/s. Rahman Safaraz Rahim Iqbal Rafiq Chartered Accountants
Private Limited Company	Chairperson & Chief Executive Officer (CEO): Mr. Mehtab Uddin Chawla
Key Shareholders (with stake 5% or more):	
<i>Mr. Mehtab Uddin Chawla (52.0%)</i>	
<i>Mr. Rehan Mehtab Chawla (10.0%)</i>	
<i>Mr. Farrukh Mehtab (10.0%)</i>	
<i>Mr. Kashif Mehtab (10.0%)</i>	
<i>Mr. Noman Mehtab (10.0%)</i>	
<i>Mr. Gbazala Mehtab (8.0%)</i>	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria Industrial Corporates (May 2016)

<http://www.vis.com.pk/docs/Corporate-Methodology-201605.pdf>

Al-Karam Towel Industries (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Al-Karam Towel Industries (Private) Limited (AKTI) was incorporated as a private limited company in April 2004, under the companies’ ordinance 1984 with its head office and production facilities based in Karachi, Pakistan.</p> <p>External auditors of the company are M/s. Rahman Safaraz Rahim Iqbal Rafiq Chartered Accountants. Auditors belong to category ‘A’ on the approved list of auditors published by the State Bank of Pakistan.</p> <p>Financial Snapshot Net Equity: Dec 2020: Rs. 4.8b, June 2019: Rs. 4.4b Net Revenue: HFY20: Rs. 6.0b, FY19: Rs. 11.2b</p>	<p>Al-Karam Towel Industries (Private) Limited (AKTI) is the second largest towel exporter in the country with an estimated market share of ~10% (as per export data) in the country’s towel exports. Client base primarily includes large international retail stores in USA and European countries (top five major export markets are UK, Germany, Denmark, Canada and Greece). AKTI is a family owned business with shareholding vested among six members of Mehtab family.</p> <p>Product Portfolio The company has a diversified product portfolio comprising terry towel, printed bath & beach towel, bathrobes, kitchen towel, wash cloth, hand towel, shower wrap and embroidered towel.</p> <p>Operations The company has total eight manufacturing units for carrying out business operations (spinning, weaving, bleaching, dyeing and stitching); five of these units are located in SITE Super Highway, Karachi while three units are in Nooriabad Sindh. At present, the company is equipped with a total 1320 rotors, 950 looms and 980 stitching machines along with dyeing machines. All of AKTI’s facilities operate at high capacity utilization levels and are powered by in-house gas based generators. Expansion in production capacity is also ongoing.</p> <p>USA and Europe remain core markets while client concentration is on the higher side. AKTI is an export-oriented company with around 98% of total sales catering to foreign markets. Of total exports, more than one-half is concentrated in USA and within very few large retail clients. The company has established long term relationships with these customers over the years ensuring repeat business. On the flip side, it results in client concentration in revenues.</p> <p>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, warranting a ‘Rating Watch-Developing’ status. Given the adequate financial profile, it is expected that ratings will remain stable post recovery of the ongoing situation; nevertheless as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status.</p>

Al-Karam Towel Industries (Private) Limited
Appendix I

FINANCIAL SUMMARY				
	<i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	HFY20	FY19	FY18	FY17
Fixed Assets (PP&E)	4,202.4	4,312.3	2,762.7	2,223.3
Long term Deposits	8.8	8.8	8.9	9.8
Stock-in-Trade	2,837.3	1,725.1	2,053.5	1,669.8
Trade Debts	993.2	1,584.3	606.2	586.4
Cash & Bank Balances	944.0	783.8	265.4	234.0
Total Assets	10,418.8	9,484.1	6,214.1	5,163.1
Trade and Other Payables	933.4	918.3	832.5	586.2
Long Term Debt	1,377.6	1,342.6	412.3	256.1
Short Term Debt	3,094.1	2,665.0	1,636.8	1,435.0
Total Debt	4,471.7	4,007.6	2,049.1	1,691.1
Paid Up Capital	346.2	346.2	346.2	346.2
Total Equity	4,835.8	4,384.4	3,219.7	2,795.8
<u>INCOME STATEMENT</u>	HFY20	FY19	FY18	FY17
Net Sales	6,005.1	11,220.7	8,358.5	6,600.6
Gross Profit	1,019.8	1,960.8	1,259.5	953.7
Operating Profit	579.5	1,115.5	543.3	456.2
Profit Before Tax	504.5	994.0	491.5	406.1
Profit After Tax	450.8	885.1	419.5	351.5
<u>RATIO ANALYSIS</u>	HFY20	FY19	FY18	FY17
Gross Margin (%)	17.0%	17.5%	15.1%	14.4%
Net Working Capital	1,996.3	1,400.0	907.3	864.0
Current Ratio	1.11	1.01	1.15	1.24
FFO to Total Debt (%)	34.5%	31.2%	33.6%	38.6%
FFO to Long Term Debt (%)	112.0%	93.1%	167.0%	254.9%
Debt Servicing Coverage Ratio (x)	NA	8.44	8.85	9.22
ROAA (%)	9.1%	11.3%	7.4%	7.3%
ROAE (%)	19.6%	23.3%	13.9%	13.4%
Gearing	0.92	0.91	0.64	0.60
Leverage	1.15	1.16	0.93	0.85

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	Al-Karam Towel Industries Private Limited					
Sector	Terry / Textiles					
Type of Relationship	Solicited					
Purpose of Rating	Entity Rating					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	
	<u>RATING TYPE: ENTITY</u>					
	4/23/2020	A-	A-2	Rating Watch - Developing	Maintained	
	3/3/2020	A-	A-2	Stable	Reaffirmed	
	12/17/2018	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 Meetings Conducted		Name	Designation	Date		
	1	Mr. Ashraf	CFO	11-Feb-2020		
	2	Mr. Zain Anwar	Head of Business & Product Development	11-Feb-2020		
	3	Mr. Waqar khan	Finance Manager	11-Feb-2020		