

RATING REPORT

Pak Kuwait Textiles Limited

REPORT DATE:

March 15, 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		Initial	
Rating Date	March 15, 2024		October 20, 2022	

COMPANY INFORMATION

Incorporated in 1981	External auditors: Rizwan & Company Chartered Accountants.
Public (unquoted) Limited Company	CEO/Chairman: Mr. Tariq Mehmood
Key Shareholders (with stake 5% or more):	
Mr. Raza Nasrullah – 15.64%	
Mr. Usman Khalid – 9.03%	
Mr. Saadullah Chaudry – 7.23%	
Mrs. Rubina Khalid – 7.10%	
Mr. Tariq Mehmood – 5.65%	
Mr. Adeel Mehmood – 5.33%	
Mrs. Neelum Raza – 5.02%	
Mrs. Farzana Javed – 3.79%	

APPLICABLE METHODOLOGY (IES)

Applicable Rating Criteria: Corporates (May 2023):<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

APPLICABLE RATING SCALE(S)

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

Pak Kuwait Textiles Limited

**OVERVIEW
OF THE
INSTITUTION**

Pak Kuwait Textiles Limited was incorporated as unquoted Public Limited Company in September 1981 under Companies Act 1913 (now Companies Act, 2017). The company is principally engaged in production and sale of cotton and polyester blended yarn. The registered office of the company is located at 29-Shadman II, Lahore.

**Profile of the
Chairman/
CEO**

Mr. Tariq Mehmood has around 45 years of experience of managing textile mills and is a fellow of the Institute of Chartered Accountant (England & Wales).

RATING RATIONALE

Company Profile:

Pak Kuwait Textiles Limited (PKTL or the ‘Company’) was incorporated in 1981 as a spinning unit comprising 26,000 spindles, which has been subsequently enhanced to 42,240 spindles over the years. Following the merger of Al Nasr Textiles Limited (ANTL) with the Company, the number of spindles of the Company increased and now stands at 87,024 spindles. The principal activity of the Company is manufacturing and sale of cotton yarn and polyester blended yarn, 100% carded and combed yarn. The Company commenced its operations in September 1981. The registered address of the Company is situated at 29-Shadman II, Lahore, Pakistan. The Company has two business units with the located in Hadali Town, Jauharabad, District Khushab while the other unit is located at 5-Km Raiwind Manga Road, District Kasur.

Key Rating Drivers

Business risk profile constrained by cyclicity and high competition in the sector.

The business risk profile of the spinning sector in Pakistan is characterized by a high level of exposure to economic cyclicity 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 spinning sector faced challenges due to various economic and environmental circumstances. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and diminishing foreign exchange reserves.

The spinning sector in Pakistan comprises ~407 spinning mills, which include both composite units and spinning units. This industry exhibits a competitive market structure with a large number of players producing a relatively homogenous product.

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. The 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 difficulties in obtaining letters of credit (LCs). These factors are likely to result in continued sluggish performance for the spinning sector in FY24.

Depressed demand amid weak macroeconomic environment has dented the Company’s topline. Profitability of the Company has taken a toll, shedding losses during FY23.

During FY23, topline of the Company was adversely impacted, recording a decrease of ~12%. The decline in revenue is primarily on account of the depressed economic conditions in the export markets, thereby dampening the demand from the export-oriented units. Additionally, the raw material cost also escalated as the Company faced constraints in procuring local cotton owing to a lack of availability due to floods that damaged major crops of the country. The decline in sales together with the elevated raw material costs has translated into a significant shrinkage in the gross and operating margins, which were reported at 3.4% (FY22: 20.9%) and 1.4% (FY22: 18.1%) respectively. However, the same witnessed a rebound in 1QFY24, reaching 5.1% and 3.6% respectively. Additionally, net margins were also eroded to negative to -2.0% in FY23 (FY22: 9.3%) despite lower finance charges vis-à-vis SPLY. Subsequently, the Company continued to report losses in 1QFY24, albeit they were lower.

While capitalization profile depicts weakening, it remains at adequate levels.

To highlight, the equity base of the Company saw an increase of ~179% during FY21 as result of the merger of PKTL with ANTL. Following an increase of ~26% in FY22 on the back of profit retention, the Company's equity base contracted by ~26% in FY23 owing to the losses incurred by the Company during the period.

Capitalization indicators comprising gearing and leverage ratios stood at 0.69x (FY22: 0.46x) and 1.08x (FY22: 0.87x) respectively. This uptick was on account of an increase in the short-term borrowings against the backdrop of a rise in the working capital requirements. However, the gearing and leverage indicators witnessed improvement in 1QFY24, standing at 0.58x and 1.02x respectively. This is attributable to the decline in total debt of the Company, mainly short-term borrowings, followed by reduction in long-term debt.

Coverage profile has worsened while liquidity profile remains adequate despite a slight weakening.

Funds From Operations (FFO) was constrained by the losses sustained by the Company. Consequently, the coverage profile has come under stress, with FFO to total debt and FFO to long-term debt recording a negative of 11.6% (FY22: 114.0%) and 55.9% (FY22: 291.0%) in FY23 respectively. Similarly, DSCR of the Company has come under stress, falling below 1.0x to 0.2x in FY23 (FY22: 3.5x). However, a recovery was observed in 1QFY24 with the improvement in FFO and resultantly in the FFO coverage. Similarly, the DSCR also depicted a notable recovery to above 1.0x mark at adequate levels, in the same period.

During 1QFY24, PKTL's liquidity profile was recorded at a comfortable level of 1.6x (FY23: 1.6x, FY22: 1.9x), while short-term borrowing coverage was recorded at a comfortable level of 2.3x (FY23: 2.0x, FY22: 3.6x).

Considerations for Future Review

Going forward, ratings will remain sensitive to the Company's ability to sustain the improvement in its profitability and coverage metrics as depicted in 1QFY24, to be commensurate with assigned ratings. Moreover, maintenance of capitalization indicators as well as the liquidity profile of the Company will also remain the key rating consideration.

Pak Kuwait Textiles Limited
Annexure I

FINANCIAL SUMMARY (PKR Millions)				
BALANCE SHEET	FY21	FY22	FY23	3MFY24
Property, plant and equipment	2,377.8	2,681.8	2,484.6	2,435.1
Stock in trade	1,569.8	2,709.3	2,995.3	2,598.0
Trade Debt	586.4	1,360.2	1,099.7	1,435.1
Cash and Bank Balance	364.1	382.7	177.9	212.0
Total Assets	5,908.1	7,605.3	7,863.4	7,596.2
Trade and Other Payables	666.1	941.2	927.1	1,015.3
Long-term Debt (incl. current portion and lease liability)	798.3	734.5	540.9	394.7
Short-Term Borrowings	666.5	1,141.1	2,075.6	1,779.7
Total Debt	1,464.8	1,875.5	2,616.5	2,174.3
Total Liabilities	2,691.3	3,548.8	4,078.6	3,841.0
Paid up Capital	375.0	375.0	2,125.0	2,125.0
Equity (excl. Revaluation Surplus)	3,216.8	4,056.5	3,784.8	3,755.2
INCOME STATEMENT	FY21	FY22	FY23	3MFY24
Net Sales	8,172.4	16,104.6	14,186.6	4,864.9
Gross Profit	1,592.8	3,364.0	483.8	248.2
Operating Profit	1,308.5	2,910.7	204.1	177.3
Finance Costs	184.0	434.6	408.4	150.4
Profit Before Tax	1,242.4	2,528.3	-196.4	27.7
Profit After Tax	960.5	1,502.8	-278.9	-29.6
RATIO ANALYSIS	FY21	FY22	FY23	3MFY24
Gross Margin (%)	19.5%	20.9%	3.4%	5.1%
Net Margin (%)	11.8%	9.3%	-2.0%	-0.6%
Funds from Operation (FFO)	1,026.0	2,137.5	-302.4	50.1
FFO to Total Debt* (%)	70.0%	114.0%	-11.6%	9.2%
FFO to Long Term Debt* (%)	128.5%	291.0%	-55.9%	50.8%
Gearing (x)	0.5	0.5	0.7	0.6
Leverage (x)	0.8	0.9	1.1	1.0
Debt Servicing Coverage Ratio* (x)	2.2	3.4	0.1	1.1
Current Ratio	2.0	1.9	1.6	1.6
(Stock in trade + trade debts) / STD (x)	3.2	3.6	2.0	2.3
Return on Average Assets* (%)	21.6%	22.2%	-3.6%	-1.6%
Return on Average Equity* (%)	44.0%	41.3%	-7.1%	-3.0%

*Annualized, if required

REGULATORY DISCLOSURES		Annexure II			
Name of Rated Entity	Pak Kuwait Textiles 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				
	15-Mar-24	A-	A-1	Stable	Reaffirmed
	20-Oct-22	A-	A-1	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.				
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Due Diligence Meetings Conducted	Name	Designation	Date		
	Mr. Adeel Mehmood	Executive Operations	February 27, 2024		
	Mr. Arshad Mehmood	Deputy CFO			