

RATING REPORT

Akram Cotton Mills Limited (ACML)

REPORT DATE:

June 17, 2022

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB	A-2	BBB	A-2
Rating Outlook	Stable		Stable	
Rating Date	June 17th, 2022		June 29th, 2021	

COMPANY INFORMATION

Incorporated in 1993	External auditors: EY Ford Rhodes Chartered Accountants
Public Limited Company (Unlisted)	Chairman of the Board: Mr. Ali Pervaiz
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Ali Pervaiz
Mr. Ali Pervaiz – 76.24%	
Mrs. Shaista Pervaiz – 21.96%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (August 2021)

<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

Akram Cotton Mills Limited (ACML)

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Akram Cotton Mills Limited is a spinning mill engaged in the production of 100% carded and combed cotton yarn. The Company commenced operations in 1993 as (unlisted) Public Limited Company. Registered office of the Company is in Lahore while manufacturing unit is located in Pattoki, Punjab.

Profile of Chairperson of the Board & CEO
Mr. Ali Pervaiz is the Chairman of board and CEO of the company. He has been working as the CEO of the company for the last seventeen years. Previously he was engaged in the banking sector. He has also served as the Chairman of APTMA Punjab.

Akram Cotton Mills Limited (ACML) is engaged in the business of manufacturing and sale of yarn. It specializes in the production of 100% carded and combed cotton yarn, with a count range of 20/1 to 30/1, for hosiery purposes. Recently, the Company has also introduced combed cotton yarn to its product line. The Company has been providing yarn variants under the brand name ‘Anmol’, ‘Super Anmol’ and ‘Mahnoor’ mainly to local customers. The main raw material cotton is procured from the local market. Shareholding of the Company is held with sponsoring family who is actively involved in the business operations.

Key Rating Drivers

Industry remains vulnerable to fluctuations in commodity prices

Cotton and yarn prices depicted volatility on account of disruption in market caused by supply chain crises and higher demand post ease in COVID led slowdown. Yarn prices recorded an increase of 60% during FY21 while pressure for further increase in prices still persists. Spinning sector was able to take advantage of this price hike on the back of inventories procured at lower costs, which was reflected in higher margins and profitability for the sector in FY21. Company continues to remain exposed to changes in commodity prices which continue to exhibit a volatile trend in the ongoing year.

Capex on BMR and product line enhancement bodes well for the Company

Since 2015, Company has initiated a BMR program whereby they have revamped ring department through replacing old frames along with addition of Reiters. During November 2021, a new Rieter combing section had been added in order to introduce combed yarn to the Company’s product line. Other enhancements have been made in carding section. Entire capex has been funded through a mix of internal cash generation and concessionary SBP TERF scheme.

Capacity utilization levels of the Company reverted to 98% in FY21.

	FY19	FY20	FY21
No. of spindles installed	23,220	23,220	23,220
No. of spindles operating	23, 220	23, 220	23,220
Production at normal capacity in 20s count based on 3 shifts per day – kgs (in millions)	9.95	10.20	10.21
Actual production converted to 20s count based on 3 shifts per day – kgs (in millions)	9.79	8.69	10.08
Capacity Utilization	98.3%	83.4%	98.7%

Profitability profile witnessed significant improvement on account of higher topline and uptick in margins

Company's profitability profile witnessed significant improvement on account of increase in local sales, post COVID led restrictions, pushing yarn prices upwards. The Company sold greater volumes as compared to the preceding year while increase in average selling price also contributed to the topline. Concentration risk remains low as top-10 clients account for 36% of revenues in FY21.

Akin to the spinning industry, Akram Cotton Mills Limited also recorded notable improvement in gross margin primarily resulting from inventory gains. While sustainability of the same in the ongoing year remains uncertain, management projects a higher margin on account of favorable inventory buying in the season. Half year financials as of Dec 2021 do reflect margins on the higher side relative to historical averages. Addition of combed yarn in the product line is also expected to contribute towards margin improvement. However, vulnerability of the sector to commodity prices remains a key risk factor.

As a result of increase in topline and higher margins, profitability metrics in FY21 remained strong.

Liquidity profile witnessed improvement on the back of improvement in profitability.

During the year, the company's liquidity profile improved backed by improvement in profitability during FY21. Fund Flow from Operations (FFO) was reported to be PKR 366m which was in negative in the preceding year, subsequently Debt Service Coverage Ratio (DCSR) also improved to 4.2x from 0.6x providing ample coverage for debt obligations.

While current ratio and working capital cycle improved for-FY21 we expect some liquidity pressure to build up going forward on account of increase in commodity prices, inflationary pressures and supply chain disruptions. In addition, we expect some push out of receivables given the current market conditions, however, as per management the same will remain manageable.

Capitalization indicators continue to remain on the higher side

As a result of higher profitability and cash generation, reliance on short term borrowings reduced, resulting in deleveraging of balance sheet. Gearing and leverage indicators were recorded at 0.37x (FY20 1.82x) & 0.73x (FY20 2.46x) respectively during FY21. However, at the end of HY22, capitalization indicators depict an upward trend driven by higher working capital requirements and debt drawdown against machinery payments. We expect pressure on gearing and leverage to continue on account of inflationary pressures and higher commodity prices. Maintaining capitalization indicators in line with the benchmarks for the assigned rating will remain important, going forward.

FINANCIAL SUMMARY					
	<i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	FY18	FY19	FY20	FY21	HFY22
Fixed Assets	524	527	478	439	667
Stock-in-Trade	356	382	793	467	1,720
Trade Debts	86	86	84	187	361
Cash & Bank Balances	8	11	23	25	25
Total Assets	1,086	1,135	1,485	1,262	3,115
Trade and Other Payables	19	25	145	157	383
Long Term Debt	181	206	180	228	363
Short Term Borrowings	317	289	600	45	1,417
Total Debt	498	495	779	273	1,781
Total Equity (excluding surplus)	422	529	429	731	828
<u>INCOME STATEMENT</u>	FY18	FY19	FY20	FY21	HFY22
Net Sales	2,073	2,518	2,184	3,331	2,075
Gross Profit	168	226	141	540	303
Operating Profit	104	154	63	417	230
Finance Cost	43	87	123	77	46
Profit (Loss) Before Tax	61	67	(60)	350	197
Profit (Loss) After Tax	37	106	(87)	303	131
<u>RATIO ANALYSIS</u>	FY18	FY19	FY20	FY21	HFY22
Gross Margin (%)	8.1%	9.0%	6.5%	16.2%	14.6%
Net Margin (%)	1.8%	4.2%	-4.0%	9.1%	6.3%
Net Working Capital	123	179	123	481	514
FFO	88	100	-24	366	167
FFO to Long Term Debt (%)	48.3%	48.7%	-13.4%	160.8%	92.2%
FFO to Total Debt (%)	17.6%	20.3%	-3.1%	134.1%	18.8%
Debt Servicing Coverage Ratio (x)	2.9	1.7	0.6	4.2	3.0
Gearing (x)	1.18	0.93	1.82	0.37	2.15
Leverage (x)	1.57	1.14	2.46	0.73	2.76
Current Ratio (x)	1.3	1.4	1.1	2.6	1.3
(Stock in Trade+ Trade Debts)/STD	1.39	1.62	1.46	14.39	1.47
ROAA (%)	3.9%	9.6%	-6.6%	22.1%	12.0%
ROAE (%)	9.2%	22.3%	-18.1%	52.2%	33.7%
<i>* Annualized numbers</i>					

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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	Akram Cotton Mills Limited				
Sector	Textiles				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	17 Jun, 2022	BBB	A-2	Stable	Reaffirmed
	29 Jun, 2021	BBB	A-2	Stable	Maintained
	Apr 24, 2020	BBB	A-2	Rating Watch-Negative	Maintained
	Dec 16, 2019	BBB	A-2	Stable	Upgrade
	Jul 03, 2019	BBB-	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	
	Mr. Javed Ilyas	Manager Accounts and Internal Controls		01-April-2022	