

## RATING REPORT

## Akram Cotton Mills Limited

**REPORT DATE:**

December 06, 2024

**RATING ANALYSTS:**Saeb Muhammad Jafri  
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Rating Category	Current Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB	A2	BBB	A2
Rating Outlook/Watch	Stable		Stable	
Rating Action	Reaffirmed		Initial	
Rating Date	December 06, 2024		February 27, 2024	

## COMPANY INFORMATION

Incorporated in 1993	External auditors: Yousuf Adil 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(IES)

**VIS Entity Rating Criteria** *Industrial Corporates*  
<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>

## Akram Cotton Mills Limited

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. The registered office of the Company is in Lahore while manufacturing unit is located in Pattoki, Punjab.

**Corporate Profile**

Akram Cotton Mills Limited (“ACML” or “the Company”) 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, mainly for hosiery industry. The Company has also introduced combed cotton yarn to its product line.

Its Head Office is located in Lahore and the operational mill is situated in Pattoki, Punjab, at a distance of 90-km from Lahore on the Lahore-Multan National Highway. ACML has been providing yarn variants, under the brand name ‘Anmol’, ‘Super Anmol’ and ‘Mahnoor,’ mainly to local customers. The main raw material, cotton, is produced from the local market. Shareholding of the Company is held with the sponsoring family, which is actively involved in the business operations.

**Operational Profile**

Production Capacity and Utilization	FY23	FY24
No. of Spindles Installed	23,220.00	23,220.00
No. of Spindles Worked	23,220.00	23,220.00
Installed Capacity converted into 20s' count Thousand Tonnes	10.29	10.29
Actual Production converted into 20s' count in Thousand Tonnes	5.89	10.10
<b>Utilization (%)</b>	<b>57.24%</b>	<b>98.17%</b>

In FY23, the mill experienced operational challenges stemming from subdued demand and raw material shortages due to the impact of floods and import restrictions. These factors led to a shutdown of the mills for a period of 100 days, adversely affecting actual production levels. As a result, capacity utilization declined to 57.24%. In FY24, with improvement in raw cotton availability, capacity utilization recovered to 98.17%.

**Sector Update**

In the fiscal year 2023-24 (FY24), Pakistan's textile sector experienced a marginal increase in exports, recording a 0.93% rise to \$16.65 billion from \$16.50 billion in the previous year. This modest growth was achieved despite a challenging economic environment characterized by elevated interest rates and stringent fiscal measures.

Throughout FY24, the State Bank of Pakistan maintained a high policy rate, peaking at 22% to combat inflationary pressures. This monetary stance resulted in increased borrowing costs for textile manufacturers.

In June 2024, the central bank initiated a series of rate cuts, reducing the policy rate by 150 basis points to 20.5%. Subsequent reductions brought the rate down to 17.5% by September 2024. These adjustments are anticipated to alleviate financing costs for textile enterprises, potentially fostering increased investment and production capacity in the forthcoming fiscal year.

Going forward, the textile sector's performance will likely be influenced by the trajectory of domestic interest rates, global demand dynamics, and the implementation of supportive

fiscal policies. The recent monetary easing measures may provide a more conducive environment for growth; however, sustained attention to structural challenges and competitiveness remains essential for long-term sectoral stability.

### **Key Rating Drivers**

#### **Business Risk Profile**

##### **Industry Risk; High to Medium**

The textile spinning sector in Pakistan is currently assessed as having a High to Medium business risk profile. This evaluation is based on several factors, including fluctuating raw material availability, energy supply challenges, competitive pressures, and evolving regulatory policies.

In FY24, Pakistan's cotton production experienced a significant increase, with output reaching approximately 8.6 to 9.0 million bales, marking a 70% year-on-year growth. This surge was primarily due to favorable weather conditions. Consequently, the textile industry procured around 7.48 million bales, meeting approximately 70% of its raw cotton requirements domestically, thereby reducing reliance on imports.

Despite the increased cotton availability, the spinning sector faced challenges related to energy costs and supply. A reported 116% increase in power tariffs during the period under review adversely affected operational costs, impacting the sector's profitability.

The global textile market's competitive landscape also posed challenges. Pakistan's textile and apparel industry faces stiff competition from countries like India, China, and Bangladesh. Economic factors such as currency depreciation, elevated interest rates, and inflation further pressured the sector.

Regulatory changes, including the withdrawal of the Regionally Competitive Energy Tariffs (RCET) regime and zero-rating for export-oriented sectors, introduced uncertainties.

Looking ahead, while reducing local policy rates offers some relief, the spinning sector must navigate ongoing challenges related to energy costs and local and global competition.

##### **Client Concentration Risk**

Customer concentration remains a characteristic of the industry, driven by the highly fragmented nature of the market and intense competition. The concentration of revenue among key clients increased to 41% in FY24 (FY23: 35%), reflecting an elevated level of client concentration risk. The Company actively manages relationships with key clients, leveraging long-standing associations to mitigate risks associated with revenue concentration.

#### **Financial Risk Profile**

##### **Profitability Profile**

During FY24, net revenue increased by 89.26%, driven mainly by a rise in sales volumes of approximately 72%. Gross margins, however, were impacted by the high cost of carryover inventory of raw cotton from the prior year and escalating energy costs during the period. The gross margin stood at 5.80% (FY23: 5.88%) in FY24. Net margins, while remaining negative, reflected an improvement due to higher other income during the period. Net margins were recorded at -0.90% (FY23: -2.21%). Management expects margins to improve as inventory costing normalizes, and the bottom line turns positive with the anticipated reduction in interest rates.

**Capitalization Profile**

The Company has historically demonstrated a conservative capitalization profile, supported by relatively low debt levels. However, in FY23, an increase in short-term borrowings was observed, reflecting efforts to address working capital requirements amidst raw cotton inventory buildup. Nevertheless, as operations normalized in FY24, the Company marginally reduced its short-term debt drawdowns resulting in a slight improvement in the capitalization metrics during the period. Capitalization profile is considered to be manageable with gearing and leverage ratios of 0.70x (FY23: 0.90x) and 1.10x (FY23: 1.21x), respectively in FY24.

**Coverage Profile**

The Company's profitability remained under strain between FY23 and FY24, which exerted pressure on its coverage metrics during the period. Some recovery was observed in FY24 as operations normalized; however, coverage metrics remained constrained. The Company's funds from operations (FFO) to total debt, FFO to long-term debt, and debt service coverage ratio (DSCR) were reported at -2.13% (FY23: -9.75%), -7.32% (FY23: -33.64%), and 0.69x (FY23: 0.25x), respectively. Management anticipates that with a reduction in interest rates and the expected normalization of profitability, coverage metrics will recover to adequate levels in the near term.

**Liquidity Profile**

The Company's liquidity profile remains adequate despite some contractions in recent years. The current ratio declined slightly to 1.40x in FY24 (FY23: 1.52x). The cash conversion cycle (CCC) demonstrated improvement during the period, primarily due to the reduced inventory buildup compared to the prior year. The CCC decreased to 58 days in FY24 (FY23: 107 days).

<u>Financial Summary</u>		Appendix I		
<b>Balance Sheet (PKR Millions)</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24A</b>	
Property, plant and equipment	649.33	637.20	612.20	
Right-of-use Assets	6.30	4.30	2.37	
Intangible Assets	0.18	0.24	0.16	
Stock-in-trade	568.21	772.42	494.93	
Trade debts	287.06	289.15	371.88	
Cash & Bank Balances	27.50	20.72	47.20	
Other Assets	118.28	161.36	157.70	
<b>Total Assets</b>	<b>1,656.86</b>	<b>1,885.39</b>	<b>1,686.44</b>	
Creditors	181.30	46.47	146.09	
Long-term Debt (incl. current portion)	315.67	225.67	164.54	
Short-Term Borrowings	82.61	545.34	401.26	
<b>Total Debt</b>	<b>398.28</b>	<b>771.01</b>	<b>565.80</b>	
Other Liabilities	141.90	213.57	171.32	
<b>Total Liabilities</b>	<b>721.48</b>	<b>1,031.05</b>	<b>883.21</b>	
Paid up Capital	139.34	139.34	139.34	
Revenue Reserve	796.05	715.03	663.92	
Equity (excl. Revaluation Surplus)	935.39	854.37	803.26	
<b>Income Statement (PKR Millions)</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24A</b>	
Net Sales	4,444.76	2,998.90	5,675.71	
Gross Profit	642.93	176.29	329.03	
Operating Profit	479.04	78.49	228.72	
Finance Costs	114.58	190.47	213.45	
Profit Before Tax	364.46	-111.98	15.27	
Profit After Tax	238.60	-66.36	-51.10	
<b>Ratio Analysis</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24A</b>	
Gross Margin (%)	14.46%	5.88%	5.80%	
Operating Margin (%)	10.78%	2.62%	4.03%	
Net Margin (%)	5.37%	-2.21%	-0.90%	
Funds from Operation (FFO) (PKR Millions)	383.10	-75.91	-12.05	
Gearing (x)	0.43	0.90	0.70	
Leverage (x)	0.77	1.21	1.10	
Debt Servicing Coverage Ratio* (x)	2.26	0.25	0.69	
Current Ratio (x)	2.63	1.52	1.40	
(Stock in trade + trade debts) / STD (x)	10.77	2.01	2.31	
Cash Conversion Cycle (days)	51.30	107.02	57.94	

\*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES		Appendix II			
<b>Name of Rated Entity</b>	Akram Cotton Mills Limited				
<b>Sector</b>	Textiles				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook/Watch</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	06 Dec, 2024	BBB	A2	Stable	Reaffirmed
	27 Feb, 2024	BBB	A2	Stable	Initial
	05 Jul, 2023	-	-	-	Withdrawn
	17 Jun, 2022	BBB	A2	Stable	Reaffirmed
	29 Jun, 2021	BBB	A2	Stable	Maintained
	Apr 24, 2020	BBB	A2	Rating Watch-Negative	Maintained
	Dec 16, 2019	BBB	A2	Stable	Upgrade
	Jul 03, 2019	BBB-	A2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	Mr. Javed Ilyas	Chief Financial Officer	20-Nov-24		