

RATING REPORT

Chakwal Textile Mills Limited (CTML)

REPORT DATE:

27 April, 2020

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	<i>Rating Watch Negative</i>		<i>Stable</i>	
Rating Date	<i>April 27, '20</i>		<i>June 19, '19</i>	

COMPANY INFORMATION

Incorporated in 1979	External auditors: Horwath Hussain Chaudhury & Co. Chartered Accountants
Public Limited Company (Unlisted)	Chairman of the Board: Mrs. Sadaf Jawed
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mrs. Sadaf Jawed
Mrs. Sadaf Jawed – 63.48%	
Mrs. Andleeb Kausar – 36.52%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates (April 2019)

<https://www.vis.com.pk/kc-meth.aspx>

Chakwal Textile Mills Limited (CTML)

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

Chakwal Textile Mills Limited was incorporated on September 16, 1979 under the Companies Act, 1913 (now Companies Act, 2017). Registered office of the company is in Lahore while manufacturing unit is located in Chakwal.

Profile of Chairperson of the Board & CEO

Mrs. Sadaf Jawed has over 14 years’ of experience in textile sector. She joined CTML as the CEO of the company in 2018 and is also serving as Chairperson on the Board of Directors.

Chakwal Textile Mills Limited (CTML) Public Limited (unlisted) Company primarily engaged in the business of textile spinning. The company produces different counts of polyester viscose yarn. The company has been providing PV yarn products mainly to local customers. The main raw material ‘Polyester’ is procured from the local market while the other raw material ‘viscose’ is imported mainly from SABIC in Saudi Arabia. The cumulative power requirement of the unit is 2.5 MW, which is met through WAPDA connection only. Shareholding is primarily vested with the sponsoring family who is actively involved in the day-to-day affairs of the company.

Key Rating Drivers:

Product Portfolio – focused on manufacturing of Coarse Count Polyester Viscose Yarn
CTML manufactures coarse count polyester viscose yarn of different ranges and is mainly used to produce wash & wear fabric for shalwar suits.

Spinning Products			
Yarn Type	Count Range	Composition	End Use
Coarse Count Polyester Viscose Yarn	26 PV	90% Polyester : 10% Viscose	Wash & Wear fabric
	36 PV	90% Polyester : 10% Viscose	
	45 PV	90% Polyester : 10% Viscose	
	65 PV	90% Polyester : 10% Viscose	
	18 PVB	80% Polyester : 20% Viscose	
	30 PVB	80% Polyester : 20% Viscose	
	20 MVS	65% Polyester : 35% Viscose	
	30 MVS	65% Polyester : 35% Viscose	

Operational Capabilities & Performance – increase in installed capacity on account of installation of MVS machine for coarse yarn production

CTML has 22,512 spindles with production capacity to produce 12.22m kg per annum of coarse count polyester viscose yarn at end-FY19. The company did not carry out any CAPEX during FY18 while routine capex of Rs. 9.5m was also undertaken during 9MFY19. The company follows the practice of keeping raw material inventory of polyester upto 15 days since it is readily available in the local market from customers like Ibrahim Fibers, Rupali Polyester, etc., while about 3 months inventory of viscose is carried by the company.

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. Aforementioned operating dynamics coupled with prevalent under-utilization of production facilities of the company warrant a ‘Rating Watch-Negative’ status. The ratings are dependent upon maintenance of overall sales, profit margins, debt service coverage, and gearing ratios at an adequate level, with outlook subject to be reviewed once the situation stabilizes.

Chakwal Textile Mills Limited
Appendix I

FINANCIAL SUMMARY				
	<i>(Amounts in PKR millions)</i>			
BALANCE SHEET	30-Jun-16	30-Jun-17	30-Jun-18	31-Mar-19
Non-Current Assets	404	392	353	347
Stock-in-Trade	89	38	37	30
Trade Debts	65	35	6	19
Advances and Deposits	60	57	86	53
Other Assets	35	49	44	56
Cash & Bank Balances	7	1	12	6
Total Assets	660	572	538	511
Trade and Other Payables	109	117	119	102
Short Term Borrowings	110	58	10	-
Long Term Liabilities subject to Financial Lease	76	47	28	-
Total Interest Bearing Debt	186	105	38	-
Other Liabilities	121	131	115	120
Total Liabilities	416	353	272	222
Sponsors Loan	65	57	77	71
Paid Up Capital	135	135	135	135
Tier 1 Equity (Inc. sponsors loan)	244	219	266	289
Revaluation Reserves	-	-	-	-
Total Equity including Revaluation Reserves	244	219	266	289
INCOME STATEMENT	30-Jun-16	30-Jun-17	30-Jun-18	31-Mar-19
Net Sales	1,342	1,432	1,574	1,447
Gross Profit	86	33	42	62
Finance Cost	16	15	4	-
Profit before Tax	37	(11)	10	44
Profit after Tax	48	(17)	27	29
RATIO ANALYSIS	30-Jun-16	30-Jun-17	30-Jun-18	31-Mar-19
Gross Margin (%)	6.4	2.3	2.7	4.3
Net Margin (%)	3.6	(1.2)	1.7	2.0
Current Ratio (x)	0.89	0.77	1.05	1.41
Net Working Capital	(33)	(55)	8	47
Debt Leverage (x)	1.70	1.61	1.03	0.77
Gearing (x)	0.76	0.48	0.14	-
FFO	48	9	27	37
FFO to Total Debt (x)	0.26	0.09	0.70	-
FFO to Long Term Debt (x)	0.64	0.19	0.96	-
Debt Servicing Coverage Ratio (x)	1.66	0.55	1.30	37
Inventory + Receivables/Short-term Borrowings (x)	1.49	1.44	5.04	-
ROAA (%)	7.3	(1.3)	2.4	2.8
ROAE (%)	19.6	(3.6)	5.6	5.3

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	Chakwal Textile 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
	RATING TYPE: ENTITY				
	27-April-20	BBB-	A-2	Rating Watch Negative	Maintained
	19-June-19	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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