RATING REPORT

Chakwal Textile Mills Limited (CTML)

REPORT DATE:
August 11, 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	*August 11, 2022*		*April 02, 2021*	

COMPANY INFORMATION

Incorporated in 1979	**External auditors:** Crowe 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: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Chakwal Textile Mills Limited (CTML)

OVERVIEW OF THE INSTITUTION

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.

RATING RATIONALE

Chakwal Textile Mills Limited (CTML) Public Limited (unlisted) Company is primarily engaged in the business of textile spinning through manufacturing 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 other raw material 'viscose' is imported mainly from SABIC in Saudi Arabia. Previously, the company met is power requirement through connection from WAPDA only. In the outgoing year the company has installed a 2.5 MW solar power unit costing Rs. 250m fully funded by UK Government which will meet 25% of the company's power requirement. Cost differential between solar and WAPDA cost is almost 50% with the former being cheaper. LOI for another solar unit of 4.5 MW has also been signed, currently undergoing necessary regulatory approvals. Wind wheeling is also in the pipeline to minimize fuel costs.

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

At end-FY21, CTML had 23,352 spindles with production capacity to produce 12.22m kg per annum of coarse count polyester viscose yarn. As per management, additional 96 spindles will be installed in the ongoing year which will be financed through TERF facility and will cost around Rs. 132m. The company's capacity utilization levels have been maintained at more than 90% in the review period after declining in FY20 due to COVID let production halts. The company incurred capital expenditure to the tune of Rs. 40m during FY21 in relation to BMR activities. Moreover, capex of around Rs. 200m was incurred during 9MFY22 to finance BMR of the spinning facility.

Recovery in industry wide exports post ease in COVID-19 lockdown measures support business risk profile of the company. However, risk of current macroeconomic and political situation on the overall industry remains.

- Subsequent to posting export contraction in FY20 - owing to the pandemic-induced slowdown experienced in H2'FY20 – Pakistan's export base grew by 14% in FY21, which is partly attributable to a low base effect. Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21). Therefore, the uptick is largely aligned with historical numbers and is not considered material.
- Share of textile exports in total exports has oscillated in the range of 54-59%, coming in at 57% during the past 2-years (FY20-21). In FY21, owing to the similar low-base effect, as discussed above, textile exports were up 13%.
- In USD' terms textile exports have grown at a CAGR of 4.4% during the past 3-year period (FY19-FY21), despite depreciation in average USD/PKR parity of 24%, 16%, and 1% in FY19, FY20 and FY21 respectively.
- In the textile sector, the highest exports were of Knitwear segment with a growth of 37% on a YoY basis. The Knitwear exports were $ 3.83 billion in FY21 compared to $ 2.80 billion in FY20. Whereas, Exports of Bed Wear and Readymade Garment's segments had substantial growth by 29% YoY and 19% YoY, respectively.
- Textile exports in Q1'FY22 were 37% higher than SPLY. Inclusive of textile exports for Oct'2021, the number for 4M'FY22 textile exports came in at USD 6b. With additional capacities coming online in January 2022, textile exports for FY22 are likely to exceed the annualized figure of USD 18b.
- The composition of textile exports has depicted improvement in the last 4-year period, with contribution from higher value added segment increasing from 72.9% in FY18 to 80.7% in FY21 of aggregate textile exports.
- Cotton production in Pakistan, on the other hand, was at its lowest level in decades for FY21. Cotton prices rose to a new 11-year high of ~Rs. 13,000/maund as a result of the production shortage, and cotton imports have climbed by 59.8% in quantity and 68.1% in USD terms, for FY21 vis-à-vis preceding year.
- Given favorable weather conditions, cotton production in Pakistan posted strong growth in FY22, with cotton crop for Jul-Nov'22 (Rabi) season being 81% higher than SPLY. Nevertheless, the upward momentum in cotton pricing continued in FY22, with prices as of November 2022 hovering at ~Rs. 16,000 per mound.
- The margins of textile operators have broadly depicted improvement despite the uptick in raw material costs, given that the same was offset by exchange rate movement. Nevertheless, higher raw material pricing has increased the working capital requirements for textile operators, which is likely to weigh on the liquidity of textile players.
- VIS expects the order book for the industry to remain adequate in the ongoing year easing our business risk concerns. However, risk of current macroeconomic and political situation on the overall industry remains.

Sales revenue of the company depicted 46% growth in FY21 largely on the back of higher average selling prices

Sales revenue increased to Rs. 2.1b (FY20: Rs. 1.5b) during FY21 largely provided by an increase in average selling prices in the outgoing year. Higher sale of raw materials (including viscose and polyester) amounting to Rs. 50.3m (FY20: Rs. 11.6m) also positively contributed to the topline in FY21. Sales mix entirely comprises local sales with a diversified customer base comprising agents. During 9MFY22, the company reported sales revenue to the tune of Rs. 1.9b contributed by higher prices and volumes both. Going forward, management expects revenue base to increase in view of enhanced capacity. However, current uncertain macroeconomic and political environment may cause some slow-down in sales revenue in the short-term.

Gross margins of the company depicted an uptick and were reported higher during FY21 largely due to inventory gains. With expected stabilization in polyester prices, margins may go down going forward; however some comfort is built from power savings through installation of solar power unit.

Gross margins of the company depicted an uptick and were reported higher at 7.6% (FY20: 3.9%) during FY21 largely due to inventory gains. Overall operating expenses increased due to elevated Worker's Participation Fund expense. Finance charges nearly doubled to Rs. 5.8m (FY20: Rs. 2.3m) in FY21 due to higher benchmark rates and elevated debt levels. Despite higher tax charge of Rs. 43.3m (FY20: Rs. 3.4m), net margins improved to 3.0% (FY20: 1.1%) during the same period. During 9MFY22, gross and net margins of the company further improved to 8.6% and 5.3%, respectively. The company follows the practice of keeping raw material inventory of polyester up to 15 days since it is readily available in the local market from suppliers like Ibrahim Fibers, Rupali Polyester, etc., while about 3 months inventory of viscose is carried by the company depicting exchange rate volatility risk.

With expected stabilization in polyester prices, margins may go down going forward; however some comfort is built from power savings through installation of solar power unit. Maintaining the same within manageable levels is considered important from a ratings perspective. Further higher interest charges may also cause a drag on the overall profitability profile.

Liquidity profile of the company is considered adequate with satisfactory cash flow coverage of outstanding obligations.

In absolute terms, Funds from Operations (FFO) amounted to Rs. 100.6m (FY20: Rs. 22.5m) depicting a sizeable increase on account of higher overall profitability during FY21. In line with improvement in profitability during FY21 and 9MFY22, Debt Service Coverage Ratio (DSCR), FFO/Long-Term Debt, and FFO/ Total Debt are considered adequate in view of sufficient cash flows in relation to outstanding obligations. Inventory and trade debts provide sufficient coverage for short-term debt obligations. Current ratio was reported at 1.4x at end-Mar'22. Working capital cycle was extended in FY21; maintaining the same and inventory days due to bulk buying of raw material will also be important from a liquidity perspective. Trade debts aging also remains comfortable with majority of receivables due within 30 days. In view of the aforementioned indicators, overall liquidity profile is considered sound.

Gearing levels increased due to elevated debt to finance BMR and extended working capital cycle. Given plans to further expand in the ongoing year, capitalization indicators are expected to trend upwards; however the same are projected to remain on the lower side.

On account of higher profit retention, net equity of the company was reported higher at Rs. 469.1m (FY21: Rs. 364.5m; FY20: Rs. 302.4m) at end-March'22. Equity base also includes sponsor support in the form of loan from directors which is gradually being paid in line with higher profit levels; although no timeline is set for the same. Total debt carried on balance sheet amounted to Rs. 147.1m at end-Mar'22; where 40% of the total debt is short-term in nature. With a gradually increasing debt base, gearing and debt leverage levels were reported higher at 0.31x (FY21: 0.06x; FY20: 0.05x) and 0.97x (FY21: 0.83x; FY20: 0.82x) at end-March'22, respectively. The incremental long-term debt was to finance BMR activities. Given plans to further expand in the ongoing year (capex to the tune of Rs. 132m), capitalization indicators are expected to trend upwards; however the same are projected to remain on the lower side.

Corporate Governance depicts room for improvement.

The Board of Directors of CTML comprises three members being representatives of the sponsoring family. The senior management team of the company comprises resources from the textile sector having relevant experience. Induction of infependent directors on the board and setting up an independent audit department may improve corporate governance framework. The company has Visual Basic based ERP system in place. "Crowe Hussian Chaudhury & Co." are the external auditors of the company which lie in Category A of the SBP Panel of Auditors.

Chakwal Textile Mills Limited **Appendix I**

FINANCIAL SUMMARY *(amounts in PKR millions)*					
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**9MFY22**
Fixed Assets	348.8	347.8	337.2	357.2	511.1
Stock-in-Trade	36.7	52.2	87.0	122.4	132.9
Trade Debts	6.4	35.9	6.5	23.9	83.5
Cash & Bank Balances	12.1	1.3	14.0	48.5	17.1
Total Assets	538.0	571.3	551.8	666.5	926.4
Trade and Other Payables	118.5	130.0	116.6	147.6	168.6
Long Term Debt	27.7	-	-	5.8	81.8
Short Term Debt	10.4	-	13.6	15.0	65.4
Total Debt	38.1	-	13.6	20.8	147.1
Total Equity (Including loan from sponsors)	265.6	299.2	302.4	364.5	469.1
Total Liabilities	272.3	272.1	249.4	301.9	457.3
Paid Up Capital	135.0	135.0	135.0	135.0	135.0
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**	**9MFY22**
Net Sales	1,574.1	2,019.2	1,460.0	2,131.6	1,954.3
Gross Profit	41.8	112.8	57.6	162.8	168.5
Operating Profit	14.1	68.5	21.3	114.1	134.8
Profit Before Tax	10.0	66.6	19.0	108.3	129.0
Profit After Tax	27.2	35.8	15.6	64.9	104.5
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**	**9MFY22**
Gross Margin (%)	2.7%	5.6%	3.9%	7.6%	8.6%
Net Margin (%)	1.7%	1.8%	1.1%	3.0%	5.3%
Net Working Capital	8.4	45.9	58.7	110.3	125.5
Trade debts/Sales	0.4%	1.8%	0.4%	1.1%	3.2%
FFO	26.7	93.0	22.5	100.6	119.9
FFO to Total Debt (%)	70.1%	-	165%	483.4%	108.6%
FFO to Long Term Debt (%)	96.4%	-	-	1744.7%	195.5%
Debt Servicing Coverage Ratio (x)	1.3	3.3	260.8	27.6	21.6
Current Ratio (x)	1.0	1.3	1.4	1.6	1.4
Stock+Trade Debts/STD	414.4%	-	687.2%	972.0%	331.2%
Gearing (x)	0.14	-	0.05	0.06	0.31
Leverage (x)	1.03	0.91	0.82	0.83	0.97
ROAA (%)	4.9%	6.5%	2.8%	10.7%	17.5%
ROAE (%)	11.2%	12.7%	5.2%	19.5%	33.4%

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix III

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 IIII
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		
	August-11-22	BBB-	A-2	Stable	Reaffirmed
	September-02-21	BBB-	A-2	Stable	Update
	August-10-21				Suspended
	April-02-21	BBB-	A-2	Stable	Maintained
	April-27-20	BBB-	A-2	Rating Watch-Negative	Maintained
	June-19-19	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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Due Diligence Meetings Conducted	**Name**	**Designation**	**Date**		
	Mr. Khawaja Aman	Managing Director	27-June-2022		
	Mr. Zahid Kiyani	CFO	27-June-2022		