

RATING REPORT

M.K. Sons (Pvt.) Limited

REPORT DATE:

April 27, 2020

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-2	A-	A-2
Rating Outlook	Rating Watch Negative		Stable	
Rating Date	27 April '20		30 th Dec'19	

COMPANY INFORMATION

Incorporated in 1987	External Auditors: Kreston Hyder Bhimji & Co.
Private Limited Company	Chairman of the Board/CEO: Mr. Javed Akhtar

Key Shareholders (More than 5%):

Mr. Javed Akhtar – 34.0%
Mr. Mohammad Babar – 30.0%
Ms. Fareeha Javed – 16.0%
Mr. Mohamad Erkan – 10.0%
Mr. Mohamad Aneeq – 10.0%

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)

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

M.K. Sons (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

M.K. Sons (Pvt.) Limited (MKSL) was established in 1987 as a trading base export house. The company is involved in the weaving, processing and finishing fabric along with sale of textile madeups’.

Profile of the Chairman/CEO

Mr. Javed Akhtar serves as the Chairman of the Board and Chief Executive Officer. He has over 30 years of experience in the textile industry.

Financial Snapshot

Total Equity: end-FY19: Rs.2.3b; end-FY18: Rs. 2.0b; end-FY17: Rs.1.8b

Assets: end-FY19: Rs. 7.6b; end-FY18: Rs. 6.4b; end-FY17: Rs.6.0b

Profit After Tax: FY19: Rs. 323.6m; FY18: Rs. 182.3m; FY17: Rs. 170.7m

Rating Rationale

The ratings assigned to M.K. Sons (Pvt.) Limited (MKSL) take into account the company’s presence in export oriented value-added textile segment, positive momentum in profitability on a timeline basis, sound liquidity and reasonable experience of management team in the relevant industry. Ratings also incorporate sound financial risk profile as manifested in sustenance of healthy margins and comfortable debt service coverages. M.K. Sons operates as a family owned business with the shareholding vested among individuals of the same family. The ratings remain constrained by overall high business risk related to inherent volatility in the textile sector coupled with relatively high leverage indicators. The ratings remain dependent on maintenance of margins, realization of projected targets, product diversification and incremental cash flow generation from recent capital expenditure coupled with evolution of sector dynamics.

Performance lifted by exports: Product portfolio primarily includes home textile, processed fabric, garments and grey fabric. Textile made ups including home textile products sets is the main revenue driver for the company constituting around 57% of the export sales. The breakdown of revenue mix in export sales in terms of product portfolio is presented in the table below:

Products	FY17	FY18	FY19
Processed Fabric	35.8%	36.0%	33.7%
Made Ups	59.6%	56.0%	57.0%
Garments	1.3%	1.7%	1.9%
Greige fabric	3.3%	6.3%	7.4%
Total	100%	100%	100%

The customers of the company include renowned international brands. Despite dealing with prominent wholesale clients, the client concentration was manageable during FY19. The company has long standing business relations with majority of customers; however the contracts are largely done on order basis. Europe is the main export market for MKSL constituting major share of the total export revenues followed by North America. However, company has its market share in different regions including Africa, Australia & New Zealand, Middle East & Asia.

The company has different payments terms with different buyers Exports are made on four different bases of payments including Letter Of Credit Sight (LCS), Letter Of Credit Usance (LCU) Cash against Documents (CAD) and Documents against Acceptance (DA). Credit period under LCU varies from 60-120days & under DA from 45-90days. DA portfolio has only a marginal share in receivables portfolio. For DA customers company has its policy to cover the risk either through factoring agreement or export credit insurance. On the other hand, yarn procurement from local market is done on cash while payment period for imported raw materials ranges between 10-90 days. The company’s follows a lean supply chain management strategy whereby stock for three months is procured; hence working capital requirements remain within manageable limits leading to moderate operational costs. MKSL annual power requirement is around 41.9MW; the same has been arranged through various sources including 3.7MW from Water and Power Development Authority (WAPDA) and 38.2MW from the company’s captive power.

Coronavirus to result in uncertainty in textile sector dynamics: With the advent of global corona virus pandemic, the demand outlook for textile products in general and especially value added export oriented units looks weak. 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, warranting a 'Rating-Watch' status. With the demand compression emerging from ongoing global crisis and continued lockdown situation coupled with leveraged capital structure of the company, ratings are being placed on 'Negative' outlook. The ratings are dependent upon maintenance of overall sales, market share in exports, profit margin, debt service coverage, and gearing ratios at an adequate level, with outlook subject to be reviewed once the situation stabilizes.

M.K. Sons (Pvt.) Limited			Annexure I
BALANCE SHEET	June 30, 2017	June 30, 2018	June 30, 2019
Non-Current Assets	2,583.1	2,485.9	2,627.1
Stock-in-Trade	1,991.6	2,262.6	2,835.0
Trade Debts	471.2	587.3	975.3
Cash & Bank Balances	66.0	72.0	120.4
Total Assets	6,012.6	6,414.2	7,613.2
Trade and Other Payables	742.1	894.3	1,105.2
Short Term Borrowings	2,483.5	2,662.0	3,447.0
Long Term Borrowings	921.1	747.8	610.5
Total Liabilities	4,200.8	4,414.0	5,285.5
Paid Up Capital	100.0	100.0	500.0
Core Equity/Total Equity	1,811.7	2,000.3	2,327.7
INCOME STATEMENT			
	June 30, 2017	June 30, 2018	June 30, 2019
Net Sales	6,646.0	7,112.5	9,746.9
Gross Profit	827.6	915.4	1,333.8
Operating Profit	332.3	431.9	745.1
Profit Before Tax	170.7	215.8	443.2
Profit After Tax	170.7	182.3	323.6
FFO	333.0	429.8	687.9
RATIO ANALYSIS			
	June 30, 2017	June 30, 2018	June 30, 2019
Gross Margin (%)	12.5	12.9	13.7
Net Working Capital	(10.7)	86.5	167.2
Current Ratio (x)	1.00	1.02	1.03
FFO to Total Debt (x)	0.10	0.13	0.17
FFO to Long Term Debt (x)	0.36	0.57	1.13
Debt Service Coverage Ratio (x)	2.99	1.50	1.91
ROAA (%)	2.9	2.9	4.6
ROAE (%)	9.9	9.6	15.0
Gearing (x)	1.85	1.63	1.70
Debt Leverage (x)	2.32	2.21	2.27

M.K. Sons (Pvt.) Limited	(Projections)		Annexure II
BALANCE SHEET	June 30, 2020	June 30, 2021	June 30, 2022
Non-Current Assets	3,024.0	3,202.0	3,333.0
Stock-in-Trade	3,460.6	3,790.0	4,178.8
Trade Debts	1,172.9	1,410.7	1,603.1
Cash & Bank Balances	144.4	180.5	225.7
Total Assets	9,274.9	10,359.3	11,100.9
Trade and Other Payables	1,453.0	1,575.5	1,733.7
Short Term Borrowings	4,150.9	4,317.0	4,257.3
Long Term Borrowings	818.4	971.4	852.2
Total Liabilities	6,550.7	7,012.4	6,979.7
Core Equity/Total Equity	2,724.2	3,347.0	4,121.1
INCOME STATEMENT	June 30, 2020	June 30, 2021	June 30, 2022
Net Sales	11,948.3	14,107.2	15,825.1
Gross Profit	1,529.7	1,951.7	2,156.3
Operating Profit	821.7	1,108.5	1,185.4
Profit Before Tax	519.2	767.1	935.7
Profit After Tax	396.5	622.7	774.2
FFO	731.1	985.7	1,083.0
RATIO ANALYSIS	June 30, 2020	June 30, 2021	June 30, 2022
Gross Margin (%)	12.8	13.8	13.6
Net Working Capital	397.1	1,081.0	1,799.8
Current Ratio (x)	1.07	1.18	1.29
FFO to Total Debt (x)	0.15	0.19	0.21
FFO to Long Term Debt (x)	0.89	1.01	1.27
ROAA (%)	4.7	6.3	7.2
ROAE (%)	15.7	20.5	20.7
Gearing (x)	1.80	1.59	1.24
Debt Leverage (x)	2.40	2.10	1.69

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Annexure II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

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: 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.vis.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.vis.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.

(blr) Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

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

'SD' Rating: An 'SD' rating is assigned when 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	M.K. Sons (Pvt.) Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History		Medium to			
	Rating Date	Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	27-04-2020	A-	A-2	Rating Watch Negative	Maintained
30-12-2019	A-	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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