RATING REPORT

Kamal Textile Mills (Pvt.) Limited

REPORT DATE:
June 20, 2023

RATING ANALYSTS:
Muhammad Tabish
muhammad.tabish@vis.com.pk

Vernon Joseph Vellozo
vernon.joseph@vis.com.pk

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	Stable		Stable	
Rating Action	Reaffirmed		Initial	
Rating Date	*June 20, 2023*		*April 25, 2022*	

COMPANY INFORMATION

Incorporated in 2011	**External Auditors:** RSM Avais Hyder Liaquat Nauman Chartered Accountants.
Private Limited Company	**Chief Executive Officer:** Mr. Abid Kamal
Key Shareholders (with stake 10% or more):	
Mr. Abid Kamal ~92%	
Ms. Mehreen Abid ~8%	

APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Industrial Corporates (May 2023)
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*

Kamal Textile Mills (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Kamal Textile Mills (Pvt.) Limited was incorporated as private limited company on January 12, 2011 under the (repealed) Companies Ordinance 1984(now Companies Act, 2017). The company is principally engaged in manufacturing and export of all kind of fabrics, garments and textile made ups. Registered office and mills of the company are situated at 3.5 Km Jaranwala Road, Khurianwala, Faisalabad, Punjab.

Profile of the CEO

Mr. Abid Kamal has experience of around 13 years in the textile industry. He has done Masters in Business Administration from University of the Punjab. He is also a trustee and member of Faisalabad Development Trust and Young Entrepreneurs Organization.

RATING RATIONALE

Corporate Profile

Kamal Textile Mills (Pvt.) Limited (KTML), a family-owned company within the Kamal Group, has 13 years of experience in exporting home textile made-ups, garments, and processed fabrics. It comprises processing (bleaching, dyeing, printing, engraving, and design studio) and stitching operations, with an average workforce of over 2,800 employees.

Made-ups division offers home textile products dyed and printed fabric, bedsheets, duvet covers, pillows, curtains and kitchen textiles while garments/apparel division focuses on jackets, sweatshirts, polo shirts, t-shirts, trousers, and shorts. Average energy demand of 3.5MW is met through multiple sources, including a 4.2MW sanctioned load from national grid, 5.9MW from gas and diesel-powered generators, as well as coal and furnace oil boilers.

The company is jointly-owned by Mr. Abid Kamal as the major shareholder and his wife, Ms. Mehreen Abid. Both are actively involved in daily business affairs. Mr. Abid also holds ~80% stake in two other investments, including AAA Developers and B-Fit Fitness Studio, which operates as an AOP, and under its umbrella is the Boulevard Shopping Mall located in Faisalabad. Additionally, it also operates various restaurants offering oriental and national cuisine.

Group Profile

Kamal Group, with a history spanning over six decades, began its operations with Kamal Spinning Mills (KSML), founded by Mr. Kamal Yousaf in 1954. Over the years, it evolved into a vertical textile unit by late 1990s. Subsequently, KSML was split into Kamal Limited, Kamal Hosiery Mills (Pvt.) Limited, Kamal Fabrics (Pvt.) Limited and KTML.

Environmental, Social, & Governance (ESG) Initiatives

To promote environmental sustainability, the company has undertaken various measures, including the construction of a wastewater treatment plant for effective removal of heavy minerals before disposal, installation of a waste heat recovery system, and the implementation of tree plantation programs. Management also focuses on employee education and responsible energy usage to minimize energy consumption during office hours.

Operational Performance

The company's headquarter and manufacturing facilities are situated in Faisalabad. The company recently implemented an expansion in apparel division by adding garment knitting and dyeing operations while capacity in made-ups segment remains unchanged. Production levels have noted a decline during the review period due to global demand slowdown, leading to lower utilization ratios.

Table: Capacity & Production Data (Units in millions)

	FY21	FY22	9M'FY23
Made-ups division			
Processing Fabrics			
Installed Capacity (Meters)	72.5	72.5	72.5
Actual Production (Meters)	44.8	38.6	29.5
Capacity Utilization	***62%***	***53%***	***41%***

Stitching: Made Ups			
Installed Capacity (Meters)	37.7	37.7	37.7
Actual Production (Meters)	21.2	22.6	9.7
Capacity Utilization	***56%***	***60%***	***26%***
Apparel Division			
Dyeing Processing of the Knitted Fabric			
Installed Capacity - Kgs	-	2.7	2.7
Actual Production - Kgs	-	1.5	1.5
Capacity Utilization	***-***	***55%***	***53%***
Stitching: Garments			
Installed Capacity - Kgs	5.2	5.2	5.2
Actual Production - Kgs	0.6	1.8	0.6
Capacity Utilization	***12%***	***34%***	***12%***
Knitting Machines Capacity			
Installed Capacity - Kgs	-	1.9	1.9
Actual Production - Kgs	-	1.8	0.6
Capacity Utilization	***-***	***91%***	***31%***

To meet rising demand and attract new customers, an expansion project was initiated in the garments division during FY21, involving the installation of 60 knitting machines. To facilitate the same, a building was being constructed for a new unit, but it has been put on hold due to business slowdown and prevailing macroeconomic challenges. The incomplete building is currently used as a warehouse. Moreover, 35 out of 60 machines were already imported and 18 are currently installed in the existing unit, with remaining 17 to be installed in the current year. Management plans to resume the construction of new unit in the near future and also expressed an intention of setting up a spinning unit.

Key Rating Drivers

Business risk profile is constrained by current weak macroeconomic environment both globally and locally, demand slowdown, high interest rate situation, inflationary pressures and recent floods adversely affecting cotton crop while ongoing energy crisis in the country pose a challenge to margins sustainability and future growth.
Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally broke the threshold, coming in at USD 32.4b. Textile sector contributes nearly one-fourth to industrial value-added segment and 8.5% to the country's GDP, with an estimated market size of around Rs. 4.0tr. Barring seasonal and cyclical fluctuations, textiles sector has maintained an average share of about 60% in national exports.

Table: Pakistan Export Statistics (in USD millions)

	FY20	FY21	FY22		9M'FY22	9M'FY23
Pakistan Total Exports	22,536	25,639	32,450		23,706	21,088
Textile Exports	12,851	14,492	18,525		13,577	12,992
PKR/USD Average rate	158.0	160.0	177.5		171.5	235.5

Source: SBP

Export revenues from textile sector have noted sizeable growth over the years (FY22: $19.3b FY21: $15.4b; FY20: $12.5b; FY19: $13.6b). Knitwear, Readymade and Bed wear segments continue to contribute higher than other segments, with a cumulative contribution of more than 60% in textile exports. While the growth was primarily driven by volume (excluding knitwear and cotton yarn), higher prices also boosted exports.

Table: Textile Export Details (in USD millions)

	FY20	FY21	FY22		9M'FY22	9M'FY23
High Value-Added Segment	**9,669**	**12,427**	**15,605**		**11,482**	**10,318**
- Knitwear	2,794	3,815	5,121		3,730	3,390
- Readymade Garments	2,552	3,033	3,905		2,864	2,657
- Bed wear	2,151	2,772	3,293		2,449	2,032
- Towels	711	938	1,111		820	745
- Made-up Articles	591	756	849		627	535
- Art, Silk & Synthetic Textile	315	370	460		344	309
- Others	555	743	866		650	650
Low to medium Value-Added Segment	**2,858**	**2,972**	**3,717**		**2,760**	**2,158**
- Cotton Cloth	1,830	1,921	2,438		1,795	1,538
- Cotton Yarn	984	1,017	1,207		908	573
- Others	43	34	72		56	47
Total	**12,527**	**15,399**	**19,332**		**14,243**	**12,476**

Source: PBS

Cotton prices rose to a new 12-year high of ~Rs. 21,600/maund as of March'22, as a result of the shortage and higher input costs of fertilizer and energy. Cotton imports were also up 19.8%, in USD terms, for FY22 vis-à-vis preceding year.

Table: Cotton Prices Trend (In Rs.)

	FY19	FY20	FY21	FY22	9M'FY23
Per Maund	8,770	8,860	13,000	17,380	18,935
YoY % Change	26%	1%	32%	34%	*n/a*

Floods in Sindh and Southern Punjab during recent monsoon season have caused significant damage to the cotton crop. According to industry estimates, ~45% of the crop has been washed, worth more than $2.5b, resulting in significant price increases. The government has announced facilitation for raw materials imports to compensate for domestic shortages. Nonetheless, in addition to affecting profit margins, higher raw material pricing is expected to increase the working capital requirements, which is likely to have a negative impact on the liquidity profile of textile operators, particularly spinners, weavers and dying companies.

Global and domestic challenges, such as slowdown in export demand (primarily from North America and the EU, which has begun to materialize in Pakistan's monthly export proceeds) due to recessionary trend, industrial gas load shedding expected in the country, and rising production costs due to inflation, will weigh on the business risk profile going forward. These factors may result in competitive market pricing for exporters.

FY22 revenue growth was fueled by volumetric uptick, higher dollar prices, and rupee devaluation but the current year was significantly affected by demand slowdown.
Net sales achieved robust double-digit annual growth for three consecutive years, surpassing Rs. 13b mark in FY22. The YoY uptick of ~24% can be attributed primarily to two major factors – ~14% volumetric uptick combined with higher dollar prices and ~10% rupee devaluation impact. However, recent demand slowdown due to economic downturn in major world economies led to a sizeable dip in volumes in the current fiscal year, with revenues amounting to Rs. 8.7b in 9M'FY23. Management projects full year revenue for FY23 to decline to Rs. 11b, considering the prevailing price trend and waning volumes.

Almost entire revenue emanates from exports, with only wastages and left over cloths being sold locally. Product-wise, home textile made-ups drive the majority of revenues accounting for more than one-half of total exports, while fabrics and garments constitute the rest. Geographic-wise, management primarily targets the European markets, with a specific focus on France, Spain, UK, Romania, Poland, Ukraine and Greece. Other regions include Asia, Africa, Middle East and US. Additionally, the company has marketing offices in France and UK, with dedicated sales representatives deployed in Spain and US. Nearly one-third of client base comprises direct customers, while the rest includes retailers and wholesalers. Thus, resulting in high revenue granularity and manageable concentration risk. Top ten clients represent more than one-fourth of total sales, with a single client (U10, based in France) contributing ~15% of revenues.

Gross margins noted improvement in the current fiscal year but high financial charges and increased operating overheads led to a declining trend in net margins.
Despite lower revenues, gross margins improved in the current fiscal year due to factors like rupee devaluation and limited reliance on imported raw materials. Around 90% of raw materials, such as yarn and fabric, are locally sourced while the remaining materials, mostly polyester fabric, are imported. More than four-fifth of raw material procurement is yarn for toll manufacturing, while the rest is direct fabric purchases while ~60% of the sourced yarn is sent directly for conversion, resulting in low inventory levels.

Distribution overheads in FY22 nearly doubled due to higher freight charges, sales promotion, and salaries. Administrative costs rose with inflation, and financial charges surged due to higher benchmark rates and increased debt utilization. These factors caused a significant contraction in net margins, reducing by half compared to FY21 levels.

Declining cash flows led to a weakening in debt coverage metrics; elevated cash conversion cycle indicate room for improvement in liquidity.
Funds from operations (FFO) declined over the review period, aligning with the decrease in net profitability. Despite higher depreciation charges providing some support, shrinkage in cash flows resulted in a weakening of debt coverage metrics. Both the current ratio and coverage of short-term borrowings in relation to trade debts and inventory have also declined over time, yet both metrics remain satisfactory at above 1.4x.

In addition, timeline increase in average debtor and inventory holding days have stretched cash conversion cycle from 135 days in FY21 to 229 days in the current year, indicating a need for improvement in liquidity. High inventory days are a result of piling up of stock for over two months, but management expects a return to normal levels by next year. Aging of trade debts remains sound, with almost all settled within six months.

Higher utilization of short-term debt led to a considerable increase in leverage ratios.
Equity base (excluding revaluation surplus) grew by ~20% over the period of last 21 months, reaching to Rs. 5.1b at end-9M'FY23 driven by all-out profit retention. The company, with no prior dividend payment history, intends to distribute a dividend of Rs. 30m in FY23. Debt profile is a mix of short-term and long-term debt, with total interest-bearing liabilities increasing to Rs. 6.4b (FY22: Rs. 6.7b; FY21: Rs. 4.1b) at end-9M'FY23; ~92% constituted short-term debt. Aggregated running finance lines amount to nearly Rs.8b, with nearly two-fourth allocated to concessionary EFS/ERF scheme. Leverage ratios have increased considerably compared to FY21 levels.

Kamal Textile Mills (Pvt.) Limited — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**9M'FY23**
Fixed Assets	677.0	1,417.9	3,598.2	3,583.8
Stock-in-Trade	2,504.5	4,629.5	5,715.9	5,891.8
Trade Debts	1,102.2	1,544.6	2,770.0	2,371.6
Cash & Bank Balances	320.1	273.1	476.3	524.8
Total Assets	**5,829.4**	**10,186.8**	**15,687.2**	**15,641.6**
Trade and Other Payables	1,148.2	1,623.7	1,896.7	1,884.7
Long Term Debt	74.7	559.2	614.5	529.1
Short Term Debt	859.2	3,527.5	6,082.5	5,869.5
Total Debt	**934.0**	**4,086.7**	**6,697.0**	**6,398.5**
Paid-up Capital	500.0	950.0	950.0	950.0
Tier 1 Equity *(Incl. Directors Loan)*	**3,582.9**	**4,280.8**	**4,849.1**	**5,141.3**
INCOME STATEMENT				
Net Sales	6,810.5	10,574.3	13,138.9	8,674.5
Gross Profit	1,194.8	1,654.4	2,061.1	1,489.2
Operating Profit	725.0	979.2	923.4	836.9
Profit Before Tax	**727.5**	**916.6**	**664.5**	**395.9**
Profit After Tax	**662.5**	**721.4**	**516.6**	**292.2**
RATIO ANALYSIS				
Gross Margin (%)	17.5%	15.6%	15.7%	17.2%
Operating Margin (%)	10.6%	9.3%	7.0%	9.6%
Net Margin (%)	9.7%	6.8%	3.9%	3.4%
FFO	781.9	914.3	864.6	451.5
FFO to Total Debt (x)	0.84	0.22	0.13	0.09
FFO to Long Term Debt (x)	10.46	1.64	1.41	1.13
Current Ratio (x)	2.45	1.62	1.45	1.49
Debt Servicing Coverage Ratio (x)	21.57	11.67	3.11	1.57
Gearing (x)	0.26	0.95	1.38	1.24
Leverage (x)	0.63	1.38	1.84	1.67
ROAA (%)	13.0%	9.0%	4.0%	2.5%
ROAE (%)	20.5%	18.3%	11.3%	7.8%
(Stock in Trade + Trade Debts) / Short Term Borrowings (x)	4.20	1.75	1.40	1.41

**Annualized*

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Kamal Textile Mills (Pvt.) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2023 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
Rating Type: Entity				
June 20, 2023	A-	A-2	Stable	Reaffirmed
May 25, 2022	A-	A-2	Stable	Initial

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Amjad Iqbal	CFO	May 31, 2023
Mr. Zahid Saleem	GM Finance	