RATING REPORT

Kamal Textile Mills (Pvt.) Limited

REPORT DATE:
July 03, 2024

RATING ANALYSTS:
Hannan Athar
hannan.athar@vis.com.pk

Amin Hamdani
amin.hamdani@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		Reaffirmed	
Rating Date	*July 03, 2024*		*June 20, 2023*	

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:
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 Limited was incorporated as private limited company on January 12, 2011 under the (repealed) Companies Ordinance 1984(now Companies Act, 2017).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

Kamal Textile Mills (Pvt.) Limited (KTML or 'the Company') is a family-owned company within the Kamal Group, with more than 13 years of experience in exporting home textile made-ups, garments, and processed fabrics. Total energy requirement of the Company is 3.5MW, which is currently being met with a mix of gas generators, coal oil boilers and electricity supply from FESCO. The head office and factory of KTML are located in Faisalabad.

Sector Update:

The business risk profile of the textile sector in Pakistan is characterized by a high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors. In FY23, the textile sector faced challenges due to various economic and environmental factors. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and import restrictions due to diminishing foreign exchange reserves.

During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, as a result of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin.

The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Reduction in cotton supply, coupled with global economic slowdown and contractionary economic policies, led to a decrease in demand for textile products and, consequently, cotton yarn.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs and inflationary pressures. Additionally, the sector's vulnerability to global market dynamics and the domestic economic landscape further contribute to its high business risk profile. However, there is optimism as an anticipated bigger cotton crop in FY24 is expected to alleviate some pressure on input costs and margins.

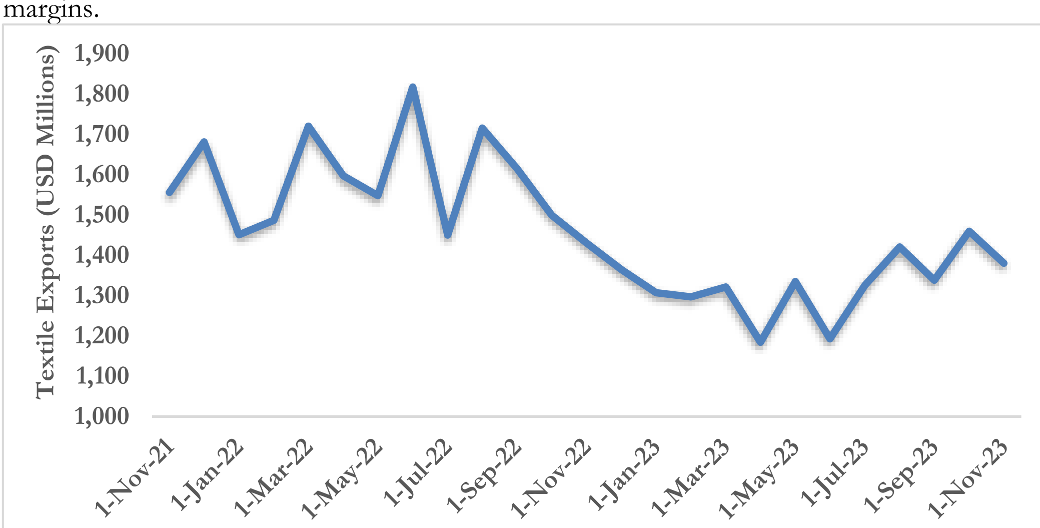

Figure 1: MoM Textile Exports (In USD' Millions) | Source: SBP

Operational Performance & Capacity Utilization:
During FY23 the Company bought land amounting to Rs. 41.7m for the purpose of building a knitting unit, which will ultimately contribute to the expansion of the garments segment. Furthermore, during the review period (i.e., FY23 and 9M'FY24), KTML also imported plant and machinery including circular knitting machine and sewing machines. The construction for the knitting unit is currently halted due to the economic situation and is expected to start, once the local economic atmosphere improves. In the Made-ups division, both the processing fabrics and stitching segment witnessed a decline in capacity utilization and production levels in FY23 with a rebound in stitching segment in 9M'FY24. In the Apparel division, the dyeing and processing of knitted fabric depicted a positive trend with increased utilization levels.

	FY22	FY23	9M'FY24
Made-ups division			
Processing Fabrics			
Installed Capacity (Meters)	72.5	72.5	54.4
Actual Production (Meters)	38.6	36.3	25.3
Capacity Utilization	***53%***	***50%***	***47%***
Stitching: Made Ups			
Installed Capacity (Meters)	37.7	37.7	28.3
Actual Production (Meters)	22.6	12.9	13.2
Capacity Utilization	***60%***	***34%***	***47%***
Apparel Division			
Dyeing and Processing of the Knitted Fabric			
Installed Capacity - Kgs	2.7	2.7	2.1
Actual Production - Kgs	1.5	2.1	1.6
Capacity Utilization	***56%***	***76%***	***78%***
Stitching: Garments			
Installed Capacity - Kgs	5.2	5.2	3.9
Actual Production - Kgs	1.8	1.6	1.8
Capacity Utilization	***35%***	***31%***	***46%***
Knitting Machines Capacity			
Installed Capacity - Kgs	1.9	2.9	2.3
Actual Production - Kgs	1.8	0.8	1.0
Capacity Utilization	***95%***	***28%***	***44%***

**Installed and Actual production in million*

Key Rating Drivers

Sales decline in FY23 offset by improved margins; 9M'FY24 reflects some recovery in demand growth.
Net sales of the Company registered a decline of around 15.2% Y/Y to clock in at Rs. 11.1b (FY22: Rs. 13.1b) in FY23, with ~50% of the topline emanating from sale of made-ups. The movement in net sales was attributed to ~20% decline in volumetric sales due to suppressed demand despite higher selling prices amid rupee depreciation. For 9M'FY24, net sales reached Rs. 11.7b, supported by a slight recovery in volumetric sales. Almost 92.7% (FY23: 90.7%; FY22: 95.7%) of the sales emanated from export clientele. Client concentration is considered moderate with the top 10 clients contributing ~36-40% of the revenue on a timeline basis; however, comfort is drawn from the fact that the company has long withstanding relations with these clients. Regional sales are mostly made to Europe, encompassing more than $4/5^{th}$ of the net sales.

Despite higher raw material procurement prices, gross margins improved to 16.4% in FY23 (FY22: 15.7%) mainly due to exchange rate gains coupled with some support from commercial orders fabric processing, in which the Company earned better margins. Gross margins normalized to 15.1% in 9M'FY24. Distribution expenses decreased in FY23 on account of lower freight charges, while administrative expenses increased due to adjustments in salaries and benefits amid inflationary pressures. Changes in operating margins during FY23 & 9M'FY24 aligned with the gross margins trend. Finance costs during the review period remained elevated due to higher reliance on short-term borrowings coupled with higher markup rates. Meanwhile net margins followed the trend of gross and operating margins and came into 1.0% in FY23 (FY22: 3.9%) while adjusting to 1.8% in 9M'FY24.

In full year (FY24), the management contemplates a topline of Rs. 15.4b, while margins are expected to remain at comparable levels to 9M'FY24.

FFO registered improvement in 9M'FY24 after dip in FY23, while debt service coverage remained manageable.

Funds from operations (FFO) decreased to Rs. 612.5m as compared to Rs. 864.6m in FY22, primarily due to lower profitability. During 9M'FY24, FFO was recorded at Rs. 460.9m. FFO to total debt and FFO to long-term debt were recorded at 0.09x (FY23:0.09x; FY22: 0.13x) and 1.53x (FY23: 1.18x; FY22: 1.41x) respectively. Although Debt service coverage ratio (DSCR) witnessed deterioration on a timeline basis, mainly due to higher financial charges paid, it remained adequate at 1.44x as at Mar'24. (FY23: 1.41x; FY22: 2.73x).

Despite higher short-term borrowings as of reported date, i.e., end-Mar'24, current ratio improved to 1.52x (FY23: 1.47x; FY22: 1.45x), mainly on the back of higher inventory and trade debtors. Although net operating cycle fluctuated during the review period, it remained elevated due to slower inventory turnover. Going forward, liquidity and cashflow coverage indicators will remain an important rating driver.

Capitalization indicators depicted improvement during the review period.

Equity (adjusted for surpluses) increased by 12.1% during the last 1.5 years to Rs. 5.4b as at Mar'24 compared to Rs. 4.8b as at Jun'22. The Company received share deposit money amounting to Rs. 170m in FY23. At end-Mar'24, total debt of the Company increased due to elevated short-term borrowing levels, despite the absence of any new long-term debt mobilization on the balance sheet. The average borrowing cost of short-term borrowings stood at 12%, while the average borrowing cost of long-term borrowings is approximately 4.2%, since long-term loans are mainly mobilized on subsidized rates. Gearing and leverage improved to 1.25x (FY23: 1.31x; FY22: 1.38x) and 1.63x (FY23: 1.75x; FY22: 1.84x) respectively, on the back of equity growth which surpassed growth in overall debt levels. Looking ahead, further improvement in capitalization indicators is important from ratings perspective.

Kamal Textile Mills (Pvt.) Limited — Appendix I

FINANCIAL SUMMARY	*(amounts in PKR millions)*			
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**9M'FY24**
Property, Plant and Equipment	1,418	3,588	3,392	3,163
Stores, spares and loose tools	524	729	807	789
Stock-in-Trade	4,629	5,716	6,162	5,970
Trade Receivables	1,545	2,770	2,413	2,956
Loan, advances, deposits and prepayments	505	912	946	1,007
Cash & Bank Balances	273	476	438	388
Other Assets	1,292	1,496	1,664	1,697
Total Assets	10,187	15,687	15,821	15,969
Long Term Borrowings (including current portion)	559	615	517	400
Trade and Other Payables	1,624	1,897	1,758	1,553
Short Term Borrowings	3,528	6,082	6,173	6,414
Total Debt	4,087	6,697	6,690	6,815
Provision for Taxation	108	167	174	182
Other Liabilities	88	167	322	329
Total Liabilities	5,906	8,927	8,944	8,878
Paid-up Capital	950	950	2,250	2,250
Tier-1 Equity	4,281	4,849	5,114	5,437
Total Equity	4,281	6,760	6,877	7,091
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**9M'FY24**
Net Sales	10,574	13,139	11,138	11,665
Gross Profit	1,654	2,061	1,827	1,764
Operating Profit	979	923	957	948
Profit Before Tax	917	665	284	348
Profit After Tax	721	517	113	214
FFO	914	865	613	461
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**9M'FY24**
Gross Margin (%)	15.6%	15.7%	16.4%	15.1%
Net Margin (%)	6.8%	3.9%	1.0%	1.8%
Gearing (x)	0.95	1.38	1.31	1.25
Leverage (x)	1.38	1.84	1.75	1.63
FFO to Long Term Debt	1.64	1.41	1.18	1.53*
FFO to Total Debt	0.22	0.13	0.09	0.09*
Debt Servicing Coverage Ratio (x)	9.51	2.73	1.41	1.44*
ROAE (%)	18.3%	11.3%	2.3%	5.4%*
ROAA (%)	9.0%	4.0%	0.7%	1.8%*
Current Ratio (x)	1.62	1.45	1.47	1.52
Net Operating Cycle	135	172	246	185
Stock in trade+Trade debts/ST borrowings (x)	1.75	1.40	1.39	1.39

**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.
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Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
Rating Type: Entity				
July 03, 2024	A-	A-2	Stable	Reaffirmed
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	June 26, 2024
Mr. Zahid Saleem	GM Finance	