The Pakistan Credit Rating Agency Limited

KOHINOOR TEXTILE MILLS LIMITED

RATING REPORT

	NEW [JUN-17]	PREVIOUS [NOV-16]
Entity		
Long Term	A+	A+
Short Term	A1	A1
Outlook	Stable	Stable

REPORT CONTENTS

JUNE 2017

Profile & Ownership

- Kohinoor Textile Mills Limited (KTML) - a Kohinoor Maple Leaf Group (KMLG) company - commenced operations in 1958. The company is engaged in manufacturing of yarn, fabric and home textile products.
- The management control lies with Saigol family, which, along with associates, holds majority stake in KTML.
- KMLG is one of the oldest business groups of Pakistan having interests mainly in textile, cement, and trading sectors.

Governance & Management

- KTML has an eight-member board of directors; five belong to Saigol family (three in executive roles including the CEO), two are group affiliates, and one is independent.
- CEO - Mr. Taufique Sayeed Saigol - associated with KTML since 1977, oversees company affairs, supported by an experienced management.

Operational Risk

- Adequate operational infrastructure; mainly Chinese technology.
- Oracle-based ERP solution; comprehensive MIS reporting.
- Captive power generation (capacity: ~34MW) to meet energy requirements.

Business Risk

- Sales mix dominated by Processing & Home textile (P&HT) segment (~42%), followed by spinning (~37%), and weaving (~21%) segments; balanced mix of exports and local sales.
- Revenue concentration in terms of customers for both local and export market is high, thus portraying concentration risk.
- During 9MFY17, revenue witnessed a ~6% increase YoY to ~PKR 13bln. Cost of sales increased more than proportionately, resulting in decreased business margins on YoY basis; gross (9MFY17: ~16%, 9MFY16: ~19%) and operating (9MFY17: ~10%, 9MFY16: ~13%).
- On the other hand, profit after tax rose to PKR 2,339mln (up ~30%) on the back of recurring stream of dividend income of PKR 1,337mln (up ~67% YoY) and a ~21% reduction in finance cost to PKR 199mln; thus, net margin improved (9MFY17: ~18%, 9MFY16: ~15%).
- Investments portfolio constitutes ~52% of equity base. During 9MFY17, the company increased its stake in one of its subsidiaries – Maple Leaf Capital Limited (MLCL) – from ~66% to ~83%. Book comprises strategic investment (PKR 5,367mln) followed by investment properties (PKR 1,784mln) and a trading portfolio (PKR 7mln).
- KTML intends to hold its business profile. Regular Balancing, Modernization and Replacement (BMR) is likely to maintain the performance going forward.

Financial Risk

- Working capital requirements, a function of its receivables and inventory, are met through a mix of internal generation and short term borrowings.
- Net cash cycle (9MFY17: 58days) has largely remained constant and lower than peers, mainly benefiting from better stock management.
- The company has a continued feature of excess STBs when compared with net trade assets; however, the quantum has reduced over the years. This poses short-term liquidity risk.
- Strong debt service coverage (end-Mar17: 2.8x); recent buildup of dividend inflows provides additional comfort to coverages (end-Mar17: 4.7x)
- Moderately low leveraged capital structure (end-Mar17: ~28%); expected to remain range bound.

RATING RATIONALE

The ratings reflect KTML's established business profile emanating from strong presence in the broader value-chain; enabling the company to manage volatility in textile business. The entity has achieved a sizable revenue base. The company's business strategy to operate in its niche market has helped to maintain healthy business margins over the years, though dipped recently. The management's plan to replace and modernize existing machinery should bring efficacies to maintain relative positioning. Lean inventory management system and related efficiencies continued to remain the competitive edge. This has resulted in a strong financial risk profile which is also supported by healthy coverages and capital structure. At the same time, a continued feature of excess short-term borrowing, though with reduced quantum over the years, poses short-term liquidity risk.

KTML, besides owning Maple Leaf Cement Factory (MLCF), has been focusing to strengthen its subsidiary Maple Leaf Capital Limited (MLCL) – a company formed to manage a diversified portfolio of investments – wherein all direct investments of KTML in stocks have been transferred to this subsidiary. Build-up of dividend stream from these investments has supported KTML's performance in recent years, contributing ~66% towards bottomline during 9MFY17; sustainability of the former is important.

KEY RATING DRIVERS

The ratings are dependent on the company's ability to sustain its business profile. At the same time, prudent management of short-term liquidity is considered important.

PKR mln

Kohinoor Textile Mills Limited

BALANCE SHEET	31-Mar-17	30-Jun-16	30-Jun-15	30-Jun-14
	9M	FY	FY	FY
Non-Current Assets	**8,187**	**7,498**	**6,625**	**5,966**
Investments (Incl. Associates/Subsidiaries)	**7,158**	**6,490**	**6,372**	**5,771**
Equity	5,374	4,706	4,589	3,016
Debt Securities	-	-	-	974
Investment Properties	1,784	1,784	1,783	1,781
Current Assets	**6,353**	**5,168**	**4,616**	**4,384**
Inventory	2,549	2,204	1,988	1,888
Trade Receivables	1,195	1,040	1,130	903
Others	2,608	1,925	1,499	1,593
Total Assets	**21,698**	**19,156**	**17,614**	**16,122**
Debt	**5,265**	**4,407**	**4,070**	**4,737**
Short-term Borrowings (STBs)	3,712	3,434	3,597	4,575
Long-term (Incl. Current Maturity of Long-Term Debt)	1,553	972	473	161
Other short-term liabilities	2,079	1,372	1,498	1,226
Other long-term liabilities	468	418	362	316
Shareholder's Equity	**13,887**	**12,960**	**11,684**	**9,843**
Total Liabilities & Equity	**21,698**	**19,156**	**17,614**	**16,122**

INCOME STATEMENT				
Turnover	**13,129**	**16,088**	**15,863**	**15,302**
Gross Profit	2,040	3,039	2,730	1,907
Net Other Income	1,240	901	1,154	837
Financial Charges	(199)	(337)	(491)	(565)
Net Income	**2,026**	**2,132**	**2,087**	**1,170**

Cashflow Statement				
Free Cashflow from Operations (FCFO)	1,128	1,989	1,770	1,206
Net Cash changes in Working Capital	(369)	(646)	61	(402)
Net Cash from Operating Activities	1,316	1,824	1,626	253
Net Cash from InvestingActivities	(1,354)	(1,069)	(630)	(253)
Net Cash from Financing Activities	(35)	(640)	(982)	(219)

Ratio Analysis				
Performance				
Turnover Growth (vs SPLY)	6%	1%	4%	7%
Gross Margin	16%	19%	17%	12%
Operating Margin	10%	13%	11%	7%
Net Margin	15%	13%	13%	8%
Coverages				
Interest Coverage (FCFO/Gross Interest)	5.7	5.9	3.6	2.1
Core: (FCFO/Gross Interest+CMLTD+Uncovered Total STB)	2.8	3.8	3.0	1.1
Total: (TCF) / (Gross Interest+CMLTD+Uncovered Total STB)	4.7	5.4	3.6	1.1
Debt Payback (Total LT Debt Including Uncovered Total STBs) / (FCFO - Gross Interest	1.3	0.6	0.4	0.9
Liquidity				
Net Cash Cycle (Inventory Days + Receivable Days - Payable Days)	58	58	54	54
Capital Structure (Total Debt / Total Debt+Equity)	27%	25%	26%	32%

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STANDARD RATING SCALE & DEFINITIONS

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

LONG TERM RATINGS

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA+ AA AA-	**Very high credit quality.** Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A+ A A-	**High credit quality.** Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
BBB+ BBB BBB-	**Good credit quality.** Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BB+ BB BB-	**Speculative.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**Highly speculative.** Significant credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
CCC CC C	**High default risk**. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
D	Obligations are currently in default.

SHORT TERM RATINGS

A1+: The highest capacity for timely repayment.

A1:. A strong capacity for timely repayment.

A2: A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.

A3: An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.

B: The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.

C: An inadequate capacity to ensure timely repayment.

Rating Watch
Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. Rating Watch may carry designation – Positive (rating may be raised, negative (lowered), or developing (direction is unclear). A watch should be resolved with in foreseeable future, but may continue if underlying circumstances are not settled.

Outlook (Stable, Positive, Negative, Developing)
Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Suspension
It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn
A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, c) the debt instrument is redeemed, d) the rating remains suspended for six months, or e) the entity/issuer defaults.

Name of Issuer	Kohinoor Textile Mills Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of the Rating	Independent Risk Assessment

Rating History

Dissemination Date	Long Term	Short Term	Outlook	Action
30-Jun-17	A+	A1	Stable	Maintain
25-Nov-16	A+	A1	Stable	Upgrade
26-Nov-15	A	A1	Stable	Upgrade
28-Jan-15	A-	A2	Stable	Maintain
14-May-14	A-	A2	Stable	Initial

Related Criteria and Research

Rating Methodology: Corporate Rating Methodology
Sector Research: Textile Sector Overview - 2016

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Rating Team Statement

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