The Pakistan Credit Rating Agency Limited

Rating Report

Kohinoor Textile Mills Limited

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Jun-2019	A+	A1	Stable	Maintain	-
31-Dec-2018	A+	A1	Stable	Maintain	-
30-Jun-2017	A+	A1	Stable	Maintain	-
25-Nov-2016	A+	A1	Stable	Upgrade	-
26-Nov-2015	A	A1	Stable	Upgrade	-

Rating Rationale and Key Rating Drivers

The ratings reflect KTML's robust business profile emanating from the Company's presence in the broader value-chain of the textile sector. KTML has a well-organized management structure that allows all business segments to operate with autonomy, each having independent business approach as well as identifiable financial resources. Devaluation of the Pakistan Rupee coupled with volumetric growth in sales, helped in achieving higher revenues and profitability. The Company has a strong financial profile reflected in improved working capital management, low leveraging and strong coverages. The ratings take comfort from KTML's association with Kohinoor Maple Leaf Group. KTML's two subsidiaries (i) Maple Leaf Cement Factory Limited and (ii) Maple Leaf Capital Limited, represent ~81% of its total investment book. Dividend stream from Maple leaf Cement Limited has shown volatile pattern in recent years and is expected to remain suppressed.

The ratings are dependent on the Company's ability to improve its business margins through technological advancement and related efficiencies, while effectively managing its working capital. At the same time, stable non core income through dividend is considered important.

Disclosure

Name of Rated Entity	Kohinoor Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Ratings(Jun-18),Methodology | Criteria | Rating Modifier(Jun-18),Methodology | Correlation Between Long-Term And Short-Term Rating Scale(Jun-18)
Related Research	Sector Study | Textile(Oct-18)
Rating Analysts	Muhammad Hassan | muhammad.hassan@pacra.com | +92-42-35869504

Profile

Legal Structure Kohinoor Textile Mills Limited is a quoted Public Limited concern. The Company's head office is located in Lahore at Lawrence Road.

Background Kohinoor Textile Mills Limited is part of Kohinoor Maple Leaf Group. The Company commenced textile operations in 1953 as a private limited company and became a public limited company in 1968. The Company is engaged in textile manufacturing – spinning, weaving, dyeing, printing, stitching and trading business.

Operations The Company has expanded and strengthened its operational capacities and currently operates with 9 spinning units (5 units in Rawalpindi and 4 units in Gujjar Khan). Spinning segment's operational capacity currently comprises 1,848 rotors and 157,488 spindles. Weaving unit in Raiwind comprise 288 looms and there is a dyeing and stitching unit in Rawalpindi. The Company has energy requirement of 26.5 MWHs and recently 3MW solar power generation has been installed, reducing dependency on the national grid.

Ownership

Ownership Structure Kohinoor Maple Leaf Group holds majority (72%) stake in the Company through associated companies and Saigol family members. The remaining 28% is owned by banks, DFIs, mutual funds, joint stock companies and general public.

Stability Saigol group is one of the oldest and renowned groups of Pakistan. Third generation of the Saigol family has entered into the business. Although there is no formal succession plan, roles among the family are well defined.

Business Acumen The Sponsors of the Company are well experienced and seasoned businessmen. In the past Mr. Tariq Saigol held the position of Chairman of All Pakistan Textile Mills Association, Chairman of All Pakistan Cement Manufacturers Association, Member-Governors Board & Central Board at State Bank of Pakistan and President at Lahore Chamber of Commerce & Industry.

Financial Strength Kohinoor Textile Mills Limited is the flagship Company of Kohinoor Maple Leaf Group. The group companies include Maple Leaf Cement Factory Limited, Maple Leaf Power Limited and Maple Leaf Capital Limited. Collectively, the Group holds total assets worth of PKR ~84bln. The Sponsors can provide timely support to the entity in the time of need.

Governance

Board Structure The overall control of the Company vests in eight members out of which four are non-executive directors, three are executive directors and one is independent director. The Chairman of the Company is Mr. Tariq Sayeed Saigol.

Members' Profile Mr. Tariq Sayeed Saigol is the Chairman of Kohinoor Maple Leaf Group. He is a member of the reputed Saigol Family who pioneered textile manufacturing after the partition and later ventured into the financial sector, chemicals, synthetic fibres, sugar, edible oil refining, civil engineering, construction, cement and energy.

Board Effectiveness The Company has two committees – Audit, and Human Resource & Remuneration, – in place to assist the board on relevant matters. Attendance of the members remained strong during the year. The board meeting minutes have been formally recorded as well.

Financial Transparency M/s. Riaz Ahmad & Company are the external auditors of the Company. The auditors gave an unqualified opinion on the company's financial statements for the year ended June 30, 2018. They fall under Category "A" on the panel of auditors maintained by State Bank of Pakistan.

Management

Organizational Structure The Company operates from three geographical locations – Rawalpindi, Gujjar Khan, and Raiwind. All sites have separate teams and ultimately report to the CEO directly or through managing director.

Management Team Mr. Taufique Sayeed Saigol, brother of Mr. Tariq Sayeed Saigol is the CEO of Kohinoor Textile Mills Limited. Mr. Taufique is a graduate from Cornell University and is also on the board of 7 other Companies. He is supported by a team of seasoned professionals, supplementing his expertise.

Effectiveness The management is supported by five committees – (i) Project Management, (ii) Business Process Re-engineering (BPR), (iii) Energy Management, (iv) Total Quality Management (TQM), and (v) Standard Operating Procedure (SOP). Each committee has respective department heads as members and is headed by the executive directors.

MIS The Company's monthly MIS comprises segment wise performance and production reports. The reports mainly include, daily debtors' position, cotton payable position, yarn and fabric status, monthly operations' review, segment-wise production, overhead, and valuation reports along with the annual budget.

Control Environment The corporate structure of the Company is diverged into various departments each having an effective Internal Control System to ensure achievement of overall strategic goals and reliable financial reporting. The departments are layered into various cadres of management to define clear lines of responsibilities and authorization, accompanied by a robust technological infrastructure for all its manufacturing and support functions.

Business Risk

Industry Dynamics During 9MFY19, Pakistan's textile exports stagnated (~0.1% growth YoY). Even though major segments including cotton cloth, knitwear, garments and bedwear displayed strong volumetric growth, a unit price dip resulting from having to share currency devaluation benefits with customers curbed overall growth. Cotton yarn also displayed double-digit volumetric decline on account of the US-China trade war. Going forward, the withdrawal of zero-rated sales tax status from textile sector coupled with the increase in interest rate is expected to impact the transaction velocity and profitability of textile industry of Pakistan.

Relative Position Kohinoor Textile Mills Limited is one of the largest composite textile unit in Pakistan with considerable representation, throughout textile value chain.

Revenues The Company's revenues have depicted a steady growth pattern over the years. During 9MFY19, the Company's sales revenue clocked-in at PKR 15,536mln (9MFY18: PKR 13,168mln), portraying a growth of ~18%. The volumetric growth in sales was mainly on account of local sale of yarn. The export sales of finished cloth and made-ups increased the value of sales by taking in the effect of better pricing. Local sales contribute ~66% in revenues of the Company.

Margins Cost of sales of the Company increased by ~14.5% on the back of higher raw material prices. Gross profit margin during 9MFY19 increased to ~17% (9MFY18: 14.5%) because of proportionately higher increase in sales prices. Similarly, operating profit increased to 11.7% during the period (9MFY18: 8.8%). The Company in 9MFY19 was able to earn other income (mainly dividend income from Maple Leaf Cement Factory) worth of PKR ~475mln (9MFY18: PKR 1,117mln) due to lower dividend income received from its associated company. In addition, finance cost increased by ~13.5 % (9MFY19: PKR 310mln, 9MFY18: PKR 273mln). Consequently, the profitability of Kohinoor Textile Mills Limited diluted and the net margins came down to 9% (9MFY18: 10.2%).

Sustainability Regular Balancing, Modernization and Replacement (BMR) in spinning and weaving segments is expected in the near future as the Company is focusing more on efficiency gains. Going forward, inclusion of solar power will reduce energy cost and hence result in better margins. Successful completion of expansion project of Maple Leaf Cement Factory and its utilization will also support the Company's profitability, the same is translated into consistent dividend stream.

Financial Risk

Working Capital The Company's working capital requirements are a function of its inventory and receivables, for which it relies on a mix of internal cash generation and short term borrowings (STBs). Net working capital days of the Company increased to 73 9MFY19 (9MFY18: 62 days), on the back of higher raw material held days, (9MFY19: 34 days, 9MFY18: 21 days). During the period, the Company's net trade assets increased by ~43% as the Company purchased cotton in advance, foreseeing increase in prices.

Coverages FCFO of the Company during 9MFY19 increased to PKR 2,000mln (9MFY18: 1,375), registering an increase of ~45% on the back of increased sales revenue and profitability. Consequently, the interest coverages improved to 7x during 9MFY19 (9MFY18: 5.7x) and debt coverages improved to 3.3x (9MFY18: 1x).

Capitalization KTML has a low-leveraged capital structure and remained largely unchanged at 28% during the period under review. Short-term borrowings contribute ~72% in the total borrowings and that are majorly financed by SBP at concessional rates.

PKR mln

Kohinoor Textile Mills Limited Composite	Mar-19 9M	Jun-18 12M	Jun-17 12M	Jun-16 12M
A BALANCE SHEET				
1 Non-Current Assets	8,837	8,628	8,291	7,498
2 Investments	1,793	1,801	1,796	2,623
3 Related Party Exposure	7,938	7,735	5,367	3,867
4 Current Assets	8,173	6,708	5,291	5,168
a Inventories	*4,309*	*2,575*	*2,010*	*2,204*
b Trade Receivables	*1,772*	*1,699*	*1,299*	*1,040*
5 Total Assets	26,740	24,872	20,745	19,156
6 Current Liabilities	3,116	2,177	1,547	1,372
a Trade Payables	*1,180*	*860*	*735*	*573*
7 Borrowings	6,460	5,927	4,762	4,407
8 Related Party Exposure	-	432	32	-
9 Non-Current Liabilities	521	516	480	418
10 Net Assets	16,643	15,821	13,923	12,960
11 Shareholders' Equity	16,643	15,821	13,923	12,960
B INCOME STATEMENT				
1 Sales	15,536	17,834	17,405	16,088
a Cost of Good Sold	*(12,917)*	*(15,356)*	*(14,823)*	*(13,049)*
2 Gross Profit	2,619	2,478	2,581	3,039
a Operating Expenses	(806)	(990)	(999)	(975)
3 Operating Profit	1,813	1,488	1,582	2,064
a Non Operating Income	*346*	*1,029*	*1,588*	*901*
4 Profit or (Loss) before Interest and Tax	2,159	2,516	3,170	2,966
a Total Finance Cost	*(310)*	*(362)*	*(268)*	*(337)*
b Taxation	*(428)*	*(490)*	*(551)*	*(496)*
6 Net Income Or (Loss)	1,421	1,665	2,352	2,132
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	*2,001*	*1,875*	*1,467*	*1,989*
b Net Cash from Operating Activities before Working Capital Changes	*2,047*	*1,532*	*2,544*	*2,470*
c Changes in Working Capital	*(994)*	*(1,137)*	*(20)*	*(646)*
1 Net Cash provided by Operating Activities	1,054	395	2,523	1,824
2 Net Cash (Used in) or Available From Investing Activities	(577)	(2,203)	(1,548)	(1,069)
3 Net Cash (Used in) or Available From Financing Activities	(198)	1,815	(1,049)	(640)
4 Net Cash generated or (Used) during the period	279	7	(74)	114
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	16.2%	2.5%	8.2%	--
b Gross Profit Margin	16.9%	13.9%	14.8%	18.9%
c Net Profit Margin	9.1%	9.3%	13.5%	13.3%
d Cash Conversion Efficiency (EBITDA/Sales)	14.2%	11.4%	11.1%	14.5%
e Return on Equity (ROE)	11.7%	11.2%	17.5%	16.5%
2 Working Capital Management				
a Gross Working Capital (Average Days)	91	78	69	63
b Net Working Capital (Average Days)	73	61	55	49
c Current Ratio (Total Current Assets/Total Current Liabilities)	2.6	3.1	3.4	3.8
3 Coverages				
a EBITDA / Finance Cost	7.6	6.0	8.1	7.1
b FCFO / Finance Cost+CMLTB+Excess STB	3.3	2.6	2.8	3.9
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.8	1.4	1.3	0.6
4 Capital Structure (Total Debt/Total Debt+Equity)				
a Total Borrowings / Total Borrowings+Equity	28.0%	28.7%	25.6%	25.4%
b Interest or Markup Payable (Days)	0.7	0.7	0.7	0.8
c Average Borrowing Rate	6.0%	6.1%	5.2%	7.5%

Rating Scale | Corporate

2019

Credit Rating Scale & Definitions

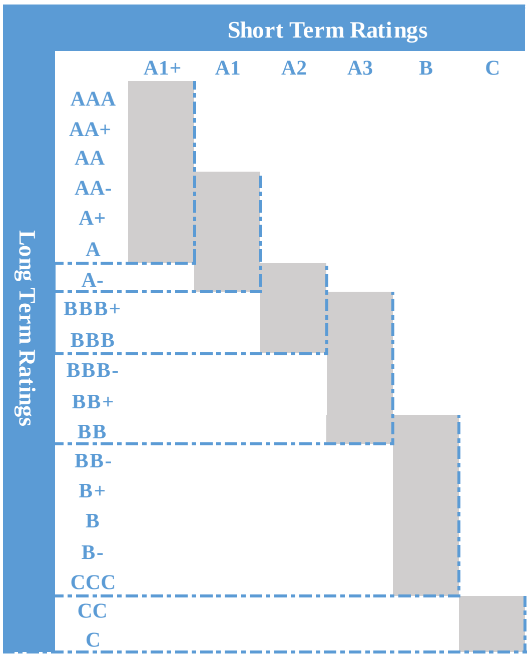
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long Term Ratings

AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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-	**Moderate risk.** Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
B+ B B-	**High 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	**Very high credit 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.



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'.

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. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

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, e) the entity/issuer defaults., or/and f) PACRA finds it impractical to surveill the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) **Conflict of Interest**
i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business
(6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
(7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report.
(8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
(9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
(10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
(11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

Independence & Conflict of interest
(12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA´s opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
(13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
(14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
(15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review
(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)
(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)
(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)
Probability of Default
(22) PACRA´s Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA´s transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA´s Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(f-VII)
Proprietary Information