



The Pakistan Credit Rating Agency Limited

Rating Report

C.A Textile Mills (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Jun-2019	BB+	A3	Stable	Maintain	-
31-Dec-2018	BB+	A3	Stable	Maintain	-
30-Jun-2018	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect modest business profile of C.A. Textile Mills (Pvt.) Limited (C.A. Textile), which improved slightly in harmonization with textile industry. Revenues have started to pick up, benefiting from increase in local sales volumes on the back of recently completed expansion. However, the profitability of the company remains thin as it has lower margins compared to peers. The Company caters to the needs of local industry and has introduced new products including viscose yarn. The withdrawal of zero rated status of textile industry in Finance Bill 2020 coupled with increasing interest rates may put pressure on margins and liquidity across the industry. On standalone basis, the rupee devaluation and rising interest rates will put further pressure on the Company's margins, as C.A Textile is a net importer. The assigned rating is derived from a low leveraged capital structure and strong coverages.

The ratings are dependent on the Company's ability to improve its margins and maintain prudent working capital and financial profile. Any negative movement in margins affecting the profitability and cash flows will impact the ratings. Meanwhile, improvement in profitability and governance framework will be favorable for the ratings.

Disclosure

Name of Rated Entity	C.A Textile Mills (Pvt.) 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	Ateeb Riaz ateeb.riaz@pacra.com +92-42-35869504

Profile

Legal Structure C.A. Textile Mills (Pvt.) Limited was incorporated in 2002 as a private limited company.
Background Ch. Salamat Ali acquired Naveed Textile in 1999, later on the Company was renamed as C.A. Textile. The Company is involved in production and marketing of cotton yarn and viscose yarn.
Operations The Company's operational capacity comprises 40,560 Spindles. The total energy requirement of the Company clocks in at ~4.75MW which can be 100% met through captive plant. Furthermore, the Company has LESCO connection as backup.

Ownership

Ownership Structure C.A. Textile is a family owned venture. Shareholding is dominated by Ch. Salamat Ali with ~63% stake, while two other family members (Ali Wahid Cheema and Hassan Wahid Cheema) have ~5% shareholding. The remaining shares ~32% are owned by Ch. Muhammad Atique Ur Rehman.
Stability Considerable positions in C.A. Textile are held by Ch. Salamat Family. Second generation is already in business, serving at various capacities. However, the transfer of ownership to next generation is not documented.
Business Acumen C.A. Textile is the only textile Venture for Ch. Salamat Ali, formerly involved in Basmati Ghee business. However, he has developed expertise in spinning sector over time, providing requisite business acumen.
Financial Strength Apart from C.A. Textile, Ch. Salamat Ali owns multiple residential and business properties in Lahore. These are provided as collateral to procure short term financing for C.A. Textile, portraying enough financial strength to support business, if needed. Moreover, Ch. Muhammad Attique Ur Rehman, other major sponsor of C.A. Textile, is associated with Hino Motors Japan.

Governance

Board Structure The board constitutes of three members with Ch. Salamat Ali as Chairman. All board members are representative of same family. Sponsor's dominance and absence of independent oversight indicates room for improvement in the governance framework of the Company. Moreover, the Company's Chairman and the CEO is same person.
Members' Profile Ch. Salamat Ali – the Chairman, holds a bachelor's degree, and carries with him over a decade of experience in textile spinning. The board members have adequate know-how of the industry, which benefits the board in efficient decision making.
Board Effectiveness At present there is no board committee of C.A. Textile. However, informal meetings are carried on regular basis to discuss routine business matters but the minutes of these meeting are not formally recorded.
Financial Transparency C.A. Textile's auditors, Anwar Tariq & Co. Chartered Accountants, expressed an unqualified opinion on the Company's financial statements for year ending 30th June 2018. The State Bank of Pakistan categorizes the auditors in category 'C'.

Management

Organizational Structure Management control vests with Ch. Salamat Ali - CEO, with defined reporting line to ensure smooth operations and efficiency. Moreover, the Company have four functional departments, while all HOD's reports directly to CEO.
Management Team Ch. Salamat Ali has been associated with the Company since its incorporation. Meanwhile, Muhammad Nasarullah, Resident Director of C.A. Textile have experience of more than four decades in textile sector supplementing the capabilities and expertise of senior management.
Effectiveness The management meetings are held on need basis to resolve or pro-actively address operational issues, if any, eventually ensuring smooth flow of operations.
MIS The Company has in place Oracle based Enterprise Resource Planning (ERP) system that provides comprehensive MIS reporting.
Control Environment C.A. Textile is a member of Better Cotton Initiative (BCI). Different portals are used to facilitate common business needs. Data management and back-up policies are in place, to ensure smooth and sound operations.

Business Risk

Industry Dynamics During FY18, total textile exports of Pakistan stood at ~USD 13.5bln, a 9% YoY growth. The recent rounds of rupee devaluation in recent times provide breather to textile ventures with net exports. However, the withdrawal of zero rated status of textile industry in Finance Bill 2020 is expected to further squeeze the liquidity profile of the industry, which is already under pressure due to increase in input costs.
Relative Position C.A. Textile is small sized spinning entity, with minimal share in local spinning industry. However, the Company holds sizeable share in the viscose yarn market.
Revenues The Company derives its top line from sale of yarn in the local market. The top line of the Company has shown growth over the last couple of years. During 9MFY19, the Company's top line grew by ~6% (FY18: ~30%). This growth is mainly attributable to adding new product line, i.e. viscose yarn, coupled with improved local industry dynamics.
Margins The Company's gross margins declined slightly during the 9MFY19 to ~4.7% (FY18: ~5.2%), mainly due increase in input costs caused by significant depreciation of rupee in recent period as the Company is a net importer. This effect has been trickled down and also reflected in the operating margin, which declined to 3.4% during 9MFY19 (FY18: 3.8%). The Company's net margin stood at ~PKR 12mln during 9MFY19 (FY18: ~PKR 28mln), triggered by decrease in operating margin and significant increase in finance cost.
Sustainability Going forward, the main focus of the Company will be on widening the market share in the local market owing to capitalize on increasing demand. However, the rupee devaluation will put further pressure on the Company's margins, as C.A Textile is a net importer.

Financial Risk

Working Capital The Company meets its working capital requirements through a mix of internal cash generation and short term borrowings. The Company's reliance on short-term borrowings has increased and clocked in at ~PKR 500mln during 9MFY19 (FY18: 381mln), mainly due to cotton procurement season. Net trade assets of the Company stood at ~PKR 520mln during 9MFY19 (FY18: ~PKR 465mln), while room to borrow clocked in at PKR 20mln (FY18: PKR 83mln), portraying narrow cushion for further borrowings.
Coverages The FCFO of the Company has improved significantly over the last two years and stood at PKR 85mln during 9MFY19 (FY18: PKR 129mln), mainly due to improved profitability. However, the interest coverage and debt coverage ratios declined during 9MFY19 and stood at 2.5x and 2.5x, respectively (FY18: 4.4x and 4.4x, respectively), owing to increased finance cost during the period. Any further increase in benchmark rate may stretch the Company's coverages.
Capitalization C.A. Textile has a moderately leveraged capital structure ~35% during 9MFY19 (FY18: ~27%), wholly comprising short term borrowing and Directors' loan. Furthermore, in absence of any major capacity expansion in near future, the leveraging is expected to remain low.



C.A Textile Mills (Private) Limited Spinning	Mar-19	Jun-18	Jun-17	Jun-16
	9M	12M	12M	12M

A BALANCE SHEET

1 Non-Current Assets	1,080	1,027	1,037	1,085
2 Investments	25	41	33	33
3 Related Party Exposure	0	-	-	-
4 Current Assets	783	594	565	524
<i>a Inventories</i>	520	419	398	296
<i>b Trade Receivables</i>	20	43	37	100
5 Total Assets	1,888	1,662	1,635	1,643
6 Current Liabilities	150	122	84	126
<i>a Trade Payables</i>	72	34	37	50
7 Borrowings	500	381	430	353
8 Related Party Exposure	69	-	-	-
9 Non-Current Liabilities	123	124	118	154
10 Net Assets	1,046	1,035	1,003	1,009
11 Shareholders' Equity	1,046	1,035	1,003	1,010

B INCOME STATEMENT

1 Sales	2,152	2,700	2,079	2,272
<i>a Cost of Good Sold</i>	(2,052)	(2,560)	(2,037)	(2,206)
2 Gross Porfit	100	141	42	66
<i>a Operating Expenses</i>	(27)	(38)	(34)	(37)
3 Operating Profit	73	102	8	29
<i>a Non Operating Income</i>	3	(1)	3	3
4 Profit or (Loss) before Interest and Tax	76	102	12	32
<i>a Total Finance Cost</i>	(37)	(31)	(27)	(26)
<i>b Taxation</i>	(27)	(43)	9	(11)
6 Net Income Or (Loss)	12	28	(7)	(5)

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	85	129	30	67
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	48	98	2	41
<i>c Changes in Working Capital</i>	(106)	(0)	(97)	65
1 Net Cash provided by Operating Activities	(58)	97	(95)	106
2 Net Cash (Used in) or Available From Investing Activities	(58)	(47)	3	(47)
3 Net Cash (Used in) or Available From Financing Activities	103	(54)	77	(48)
4 Net Cash generated or (Used) during the period	(13)	(4)	(14)	11

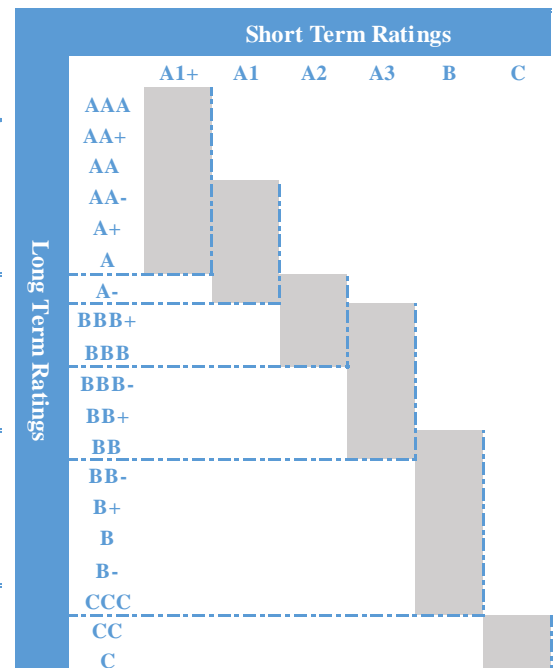
D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	6.3%	29.9%	-8.5%	-14.6%
<i>b Gross Profit Margin</i>	4.7%	5.2%	2.0%	2.9%
<i>c Net Profit Margin</i>	0.5%	1.0%	-0.3%	-0.2%
<i>d Cash Conversion Efficiency (EBITDA/Sales)</i>	5.2%	5.9%	3.0%	4.0%
<i>e Return on Equity (ROE)</i>	1.5%	2.7%	-0.7%	-0.4%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	64	61	73	98
<i>b Net Working Capital (Average Days)</i>	57	56	65	89
<i>c Current Ratio (Total Current Assets/Total Current Liabilities)</i>	5.2	4.9	6.7	4.2
3 Coverages				
<i>a EBITDA / Finance Cost</i>	3.2	5.5	2.5	3.8
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.5	4.4	1.2	2.8
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.0	0.0	0.0	0.0
4 Capital Structure (Total Debt/Total Debt+Equity)				
<i>a Short-Term Borrowings / Total Borrowings</i>	35.3%	26.9%	30.0%	25.9%
<i>b Interest or Markup Payable (Days)</i>	0.9	1.0	1.0	1.0
<i>c Average Borrowing Rate</i>	9.7%	7.2%	6.5%	6.4%

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		Short Term Ratings	
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments	A1+	The highest capacity for timely repayment.
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.	A1	A strong capacity for timely repayment.
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.	A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial 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.	A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
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	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions.
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.	C	An inadequate capacity to ensure timely repayment.
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.		



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 surveil the opinion due to lack of requisite information.

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

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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

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(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)

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(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.

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(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)

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(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)

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(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)

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(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)

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