



The Pakistan Credit Rating Agency Limited

Rating Report

C.A Textile Mills (Pvt.) Limited

Report Contents

1. Rating Analysis
2. Financial Information
3. Rating Scale
4. Regulatory and Supplementary Disclosure

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
21-May-2020	BB+	A3	Stable	Maintain	YES
27-Dec-2019	BB+	A3	Stable	Maintain	-
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 the modest business profile of C.A. Textile Mills (Pvt.) Limited (C.A. Textile), involved in the manufacturing of cotton and viscose yarn. The Company's revenues have shown growth over recent years, benefiting from increase in local sales volumes on the back of recently completed expansion. The Company caters to the needs of local industry and has introduced new products including viscose yarn. However, with the withdrawal of zero-rated status of the textile sector since Jul19, sales to unregistered customers have become a challenge. Amidst COVID-19 outbreak and subsequent lockdown, the Company had to face complete shutdown of their operations in line with the provincial Government's directive of lockdown. Thus, the Company's profitability is expected to suffer in current circumstances. The Company's financial risk is considered adequate characterized by moderate leveraging and coverages.

The Rating Watch indicates the prevailing uncertainty due to the outbreak of COVID-19 pandemic. This has impacted the entire textile chain as demand contracts due to shutdown in domestic and global markets and tough economic conditions. The Company's operations are expected to resume from the start of June, however, full resumption of operations and demand will remain important for the sustainability of the Company. PACRA is closely monitoring the situation and will take rating action accordingly.

The ratings are dependent on sustaining business performance amidst prevailing tough conditions. Full resumption of operations and maintaining strong financial profile amidst lower revenues is critical. Meanwhile, improvement in 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-19),Methodology Correlation Between Long-Term And Short-Term Rating Scale(Jun-19),Criteria Rating Modifier(Jun-19)
Related Research	Sector Study Spinning(Sep-19)
Rating Analysts	Bakhtawar Abid bakhtawar.abid@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.

Operations C.A. Textile is engaged in the production and marketing of cotton yarn and viscose yarn with an operational capacity of 40,560 spindles. The total energy requirement of the Company clocks in at ~4.75MW, met completely through captive power 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 the 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 of Directors comprises three members, with Ch. Salamat Ali as Chairman. All Board members are representative of the same family, reflecting sponsors' dominance and absence of independent oversight. Moreover, the positions of Chairman and CEO are occupied by the same person, indicating room for improvement in the governance framework of the Company

Members' Profile Ch. Salamat Ali – the Chairman – holds a Bachelors degree and carries with him over a decade of experience in textile spinning. The board members have adequate know-how of the industry, which aids the Board in efficient decision making.

Board Effectiveness At present, there are no Board committees to assist the Board. However, informal meetings are carried out on a regular basis to discuss routine business matters. However, these are not formally documented.

Financial Transparency The external auditor of the Company, Anwar Tariq & Co. Chartered Accountants, expressed an unqualified opinion on the Company's financial statements for the year ended 30th June 2018, while the audit for FY19 is in process. The auditor is QCR rated and placed in category 'C' on the SBP panel of auditors.

Management

Organizational Structure Management control vests with the CEO – Ch. Salamat Ali – with defined reporting line to ensure smooth operations and efficiency. Moreover, the Company has four functional departments, with all departmental heads reporting directly to the CEO.

Management Team Ch. Salamat Ali has been associated with the Company since its incorporation. Meanwhile, Muhammad Nasarullah, Resident Director of C.A. textile has experience of more than four decades in textile sector, supplementing the capabilities and expertise of senior management.

Effectiveness 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. Adequate data management and back-up policies are in place, to ensure smooth and sound operations.

Business Risk

Industry Dynamics During 9MFY20, textile exports increased by 5.30% period on period. The US-China trade war earlier in the year disrupted cotton prices across the globe. Considering that China accounts for more than 50% of Pakistan's cotton yarn exports, lesser demand from China negatively impacted the spinning industry. Additionally, the withdrawal of zero rated sales tax status from textile sector, coupled with the high interest rates, has impacted liquidity and profitability. The COVID-19 outbreak in early 2020 has affected the entire textile chain. Export orders have been postponed or cancelled as major export destinations remain in lockdown to contain the virus. Several domestic players have shutdown production or are partially operational. Recent government initiatives are expected to provide some relief. However, prevailing uncertainty due to global lockdown will have implications for the industry dynamics.

Relative Position C.A. Textile is small sized spinning entity, with minimal share in local spinning industry. However, the Company holds a sizable share in the viscose yarn market.

Revenues The Company's revenue emanates from the sale of yarn in the local market. The top line has shown growth over recent years, amounting to ~PKR 3,141mln in FY19, a ~16% increase YoY. The growth was mainly attributable to the addition of a new product line, i.e. viscose yarn. However, following the withdrawal of zero-rated status of the textile, many unregistered customers stopped purchase of viscose yarn. Consequently, the Company has once again shifted its product mix to include cotton yarn again as it can be sold to registered customers. Going forward, due to Covid-19 outbreak and lockdown, revenues are expected to suffer.

Margins The Company's gross margin remained stagnant at ~5% YoY during FY19, mainly due increase in input costs caused by significant depreciation of rupee in recent period as the Company is a net importer. This translated into the operating margin remaining stagnant at ~4%. Meanwhile, finance cost witnessed an increase of ~65% YoY, amounting to ~PKR 51mln, due to the spike in interest rates over the year. However, net profit for the year showed improvement, amounting to ~PKR 44mln (FY18: ~PKR 28mln), driven by revenue growth, while net margin remained stagnant at ~1%.

Sustainability Due to COVID-19 outbreak and subsequent lockdown, CA Textile has to shut down all of its operations as per government directive. The government has eased the lockdown from 11th May. However, full resumption of operations and recovery in sales of the Company remains unclear. The eventual easing and opening up of domestic and global lockdowns are important in this regard, although its timeline is not certain.

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 increased in FY19 due to the currency devaluation, increasing the cost of imported viscose and yarn. While net cash cycle showed a decline of 6 days to stand at ~50 days, the Company's borrowing cushion at trade assets level deteriorated significantly, portraying narrow cushion for further borrowing. The Company's inventory days are expected to increase due to slow offtake amidst lockdown which may lead to further deterioration in the Company's cushion for borrowing.

Coverages The FCFO of the Company improved ~10% YoY to stand at PKR 142mln for FY19, driven by improved profitability. However, both the interest coverage and debt coverage ratios declined to stand at 2.9x (FY18: 4.4x) owing to increased finance cost incurred over the period. Coverages may deteriorate due to strain on cashflows on the back of lockdown.

Capitalization C.A. Textile has a low leveraged capital structure with leveraging clocking-in at ~26% for FY19 (FY18: ~27%), wholly comprising short term borrowing and Directors' loan. Further, in absence of any major capacity expansion in near future, the leveraging is expected to remain low.



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

A BALANCE SHEET

1 Non-Current Assets	2,259	1,027	1,037
2 Investments	8	8	33
3 Related Party Exposure	33	33	-
4 Current Assets	667	594	565
a Inventories	486	419	398
b Trade Receivables	9	43	37
5 Total Assets	2,967	1,662	1,635
6 Current Liabilities	151	128	84
a Trade Payables	44	34	37
7 Borrowings	324	308	430
8 Related Party Exposure	49	67	-
9 Non-Current Liabilities	746	124	118
10 Net Assets	1,697	1,035	1,003
11 Shareholders' Equity	1,697	1,035	1,003

B INCOME STATEMENT

1 Sales	3,141	2,700	2,079
a Cost of Good Sold	(2,956)	(2,560)	(2,037)
2 Gross Porfit	186	141	42
a Operating Expenses	(38)	(38)	(34)
3 Operating Profit	147	102	8
a Non Operating Income	1	(1)	3
4 Profit or (Loss) before Interest and Tax	148	102	12
a Total Finance Cost	(50)	(31)	(27)
b Taxation	(384)	(43)	9
6 Net Income Or (Loss)	(286)	28	(7)

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	170	129	30
b Net Cash from Operating Activities before Working Capital Changes	122	98	2
c Changes in Working Capital	(9)	(0)	(97)
1 Net Cash provided by Operating Activities	113	97	(95)
2 Net Cash (Used in) or Available From Investing Activities	(54)	(47)	3
3 Net Cash (Used in) or Available From Financing Activities	(3)	(54)	77
4 Net Cash generated or (Used) during the period	56	(4)	(14)

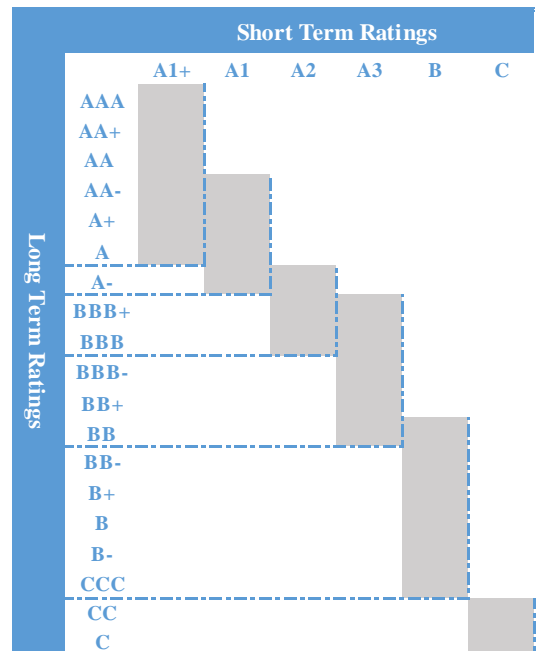
D RATIO ANALYSIS

1 Performance			
a Sales Growth (for the period)	16.3%	29.9%	-8.5%
b Gross Profit Margin	5.9%	5.2%	2.0%
c Net Profit Margin	-9.1%	1.0%	-0.3%
d Cash Conversion Efficiency (EBITDA/Sales)	6.6%	5.9%	3.0%
e Return on Equity (ROE)	-20.9%	2.7%	-0.7%
2 Working Capital Management			
a Gross Working Capital (Average Days)	56	61	73
b Net Working Capital (Average Days)	51	56	65
c Current Ratio (Total Current Assets/Total Current Liabilities)	4.4	4.7	6.7
3 Coverages			
a EBITDA / Finance Cost	4.5	5.5	2.5
b FCFO / Finance Cost+CMLTB+Excess STB	3.7	4.4	1.2
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.4	0.7	0.0
4 Capital Structure (Total Debt/Total Debt+Equity)			
a Short-Term Borrowings / Total Borrowings	18.0%	26.6%	30.0%
b Interest or Markup Payable (Days)	0.9	0.8	1.0
c Average Borrowing Rate	12.3%	7.2%	6.5%

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.

Disclaimer: PACRA's ratings are an assessment of the credit standing of entities/issue in Pakistan. They do not take into account the potential transfer / convertibility risk that may exist for foreign currency creditors. PACRA's opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.

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

(23) All information contained herein is considered proprietary by PACRA. Hence, none of the information in this document can be copied or, otherwise reproduced, stored or disseminated in whole or in part in any form or by any means whatsoever by any person without PACRA's prior written consent