The Pakistan Credit Rating Agency Limited

Rating Report

KAM International

Report Contents

Rating History					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
27-Jan-2024	A-	A2	Stable	Maintain	-
27-Jan-2023	A-	A2	Stable	Maintain	-
27-Jan-2022	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

KAM International is a prominent textile venture of the Mekotex group. The group has a presence in the textile, energy, and water supply sectors through five established companies Mekotex, MekoDenim, Innovative Energy Solutions, Aquagen, & KAM International. It has been operational as a single-member company with a history of more than two decades. The Company is principally engaged in the manufacturing and export of home textiles (Bedding sets and a variety of napkins, towels, and table cloth). Broad product slate has assisted the company in strengthening its position over the years. The Company's management involves experienced professionals, aided by comprehensive reporting, looking after the operations with complete autonomy. Its established business profile emanates from a strong presence in the broader value chain; enabling the company to manage volatility in the textile industry. The sales mix, dominated by exports, steadily improved over the years. The Company enjoys an established customer base with several export destinations in European Countries (80%) and the United States of America (20%). The management plans further penetration in the USA/ Canada market in the upcoming years. The majority of the sales revenue for the Company comes from export sales, which account for 98% of total sales revenue. During FY23, the top line recorded at PKR 8.8bln (FY22: PKR 10.9bln). Despite grappling with inflationary pressures, the company managed to absorb and subsequently pass on these cost burdens. Consequently, there was a growth in margins. Going forward, given the export market depicting a recessionary trend, volumetric offtakes are forecasted to stay under pressure while the management expects the sales number to stay intact. The company is gradually integrating into Mekodenims, with a significant portion of sales having already shifted there during FY23. The completion of this process is anticipated in the near future. The liquidity profile of the company is considered adequate in relation to outstanding obligations.
During FY23, textile exports were valued at $16.5 billion as against $19.33 billion, reflecting a 15% year-on-year decline – a downward trend seen since the beginning of FY23. Exports declined due to higher energy prices, cotton shortages, and uncertainty in foreign exchange rates. Taming the demand represented by export routes was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments saw an annual decline of 13 percent. Basic textiles, including raw cotton, cotton yarn, and cotton fabrics, declined by 21 percent year-on-year. During the month of June 2023, cotton yarn exports increased by 7% MoM. Value-added exports reported volume growth of 16 percent on a month-on-month basis.

The ratings are dependent on sustaining the business profile of the Company by maintaining profitability and margins achieved from core textile operations. At the same time, sustainability of income and prudent management of the surplus funds are important.

Disclosure	
Name of Rated Entity	KAM International
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jul-23),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology | Rating Modifiers(Apr-23)
Related Research	Sector Study | Composite and Garments(Dec-23)
Rating Analysts	Iram Shahzadi | iram.shahzadi@pacra.com | +92-42-35869504

Profile

Legal Structure KAM International was incorporated on August 7, 1996 as a single-member company. The registered office of the Company is situated at Hub River Rd, Sindh Industrial Trading Estate, Karachi, Sindh.

Background KAM International is a prominent textile venture of Mekotex Group of Companies. The group has presence in textile, energy and water supply sectors through five established companies Mekotex, Meko Denim, Innovative Energy Solutions, Aquagen & KAM International. The foundation of the Mekotex group was laid by Mr. Abdul Majid Qasim (late) in 1979 and has since been evolving.

Operations KAM International is one of the largest home textile exporters from Pakistan, and a leading supplier to top importers & retailers, by providing a range of products to the end consumers. The Company is principally engaged in the manufacturing and export of home textiles (Bedding sets and a variety of napkins, towels, and table cloth).

Ownership

Ownership Structure KAM International is a single-member Company owned by Mr. Shoaib Majeed.

Stability There is absence of a shareholding agreement and formal succession plan due to the sole-proprietorship. This may have implications on the stability however more than two decades long history provides comfort.

Business Acumen Mekotex Group is one of the oldest business conglomerates in Pakistan with considerable interests in textile. The group has developed quite good expertise in textile garments sector, over the years, and enjoys long term association with several customers abroad. The group's presence has been limited to textile sector but sustained through volatility over the years.

Financial Strength Kam International is a part of Mekotex Group of Companies. The textile operations of the group are segregated into five businesses – Mekotex, Meko Denim, Innovative Energy Solutions, Aquagen & KAM International. The group has diversified itself into energy and water supply projects, generating a stable stream of income. Annual turnover of the group exceeds ~USD 250mln per annum.

Governance

Board Structure The Company has no board due to aforementioned structure. The position of CEO is vested with Mr. Rayyan Ahmed.

Members' Profile Mr. M. Shoaib Majeed is the owner of the Company. He was born on January 27, 1971. He was graduated in Business Administration in 1994 and joined the family business. His initial assignment was to manage and establish a home textile division named Kam International.

Board Effectiveness Due to the single-member company, there is no formal board. So on all operations, there is a great degree of centralized control of the CEO.

Financial Transparency M. Saleem Associates Chartered Accountants, the external auditors of the company, have a QCR rating by ICAP. They have expressed unqualified opinion on the financial statements of the company for the year ended June 30th, 2023.

Management

Organizational Structure The organizational structure of the company is divided into several functional departments, namely: (i) Finance & Commercial (F&C), (ii) Marketing, (iii) Technical, (iv) Production, (v) Information Technology, and (vi) HR, Admin and procurement functions. All departments have reporting to CEO.

Management Team Mr. Rayyan Ahmed Ashraf - the CEO - has 7 years of experience. He is Bachelor of Arts (Honors).

Effectiveness The management meetings are held on periodic basis with follow-up points to resolve or pro-actively address operational issues, if any, eventually ensuring smooth flow of operations. These meetings are headed by the CEO.

MIS The Company has deployed Oracle-based ERP. The IT system is fully integrated in the all major departments and ensures proper financial and operational control.

Control Environment KAM International utilizes management systems as their mechanism for ensuring control. There is clear evidence of these systems being audited and certified externally. Examples of this include ISO 14001:2004 Environmental Management System, STeP-OEKO TEX, GOTS – Global Organic Textile Standards, Made in Green – OEKO TEX & Better Cotton Index certifications.

Business Risk

Industry Dynamics During FY23, textile exports were valued at $16.5 billion as against $19.33 billion, reflecting a 15% year-on-year decline – a downward trend seen since the beginning of FY23. Exports declined due to higher energy prices, cotton shortages, and uncertainty in foreign exchange rates. Taming the demand represented by export routes was also a challenge. During FY23, value-added products such as knitwear, bedwear, towels, and ready-made garments saw an annual decline of 13 percent. Basic textiles, including raw cotton, cotton yarn, and cotton fabrics, declined by 21 percent year-on-year. During the month of June 2023, cotton yarn exports increased by 7% MoM. Value-added exports reported volume growth of 16 percent on a month-on-month basis.

Relative Position The Company secures a good position on a standalone basis and is considered a middle-tier player.

Revenues The majority of the sales revenue for the Company comes from export sales, which account for 98% of total sales revenue. During FY23, top line recorded at PKR 8.8bln (FY22: PKR 10.9bln). The Company enjoys established customer base with several export destinations in European Countries (80%) and United States of America (20%). Broad product slate has assisted the company in strengthening its position over the years. Gross profit remained Largely the same at PKR 2.4bln (FY22: PKR 2.3bln). Hence, the net profitability clocked in at PKR 1.7bln (FY22: PKR 1.6bln).

Margins The company, facing challenges from inflationary pressures, was able to absorb and pass on these cost pressures. Consequently, there was a growth in margins. During FY23, gross profit margin stood at 26.8% (FY22: 21.1%). The operating margin witnessed a marginal incline to 23.5% (FY22: 18.0%). Hence, the net profit margin also increased to 18.9% (FY22: 15.1%).

Sustainability The Company is planning to increase its penetration in USA market by attracting more orders from existing buyers and targeting some new buyers.

Financial Risk

Working Capital The Company meets its working capital requirements through a mix of internal generation and short-term borrowings (STBs). Short-term borrowing of the Company was down by 35% in FY23 and recorded at PKR 1.92bln (FY22: PKR 2.97bln). During FY23, the Company's net working capital cycle recorded a sizable increase to 164 days (FY22: 144 days) attributable to an increase in inventory days (FY23: 153 days, FY22: 140 days). The Company's net trade assets decreased by 6.4% to clock in at PKR 6,029mln (FY22: PKR 6,443mln) which reflects a good cushion in trade assets.

Coverages Free Cash Flows from Operations (FCFO) increased in FY23 and clocked in at PKR 1,707mln (FY22: PKR 1,647mln) on the back of lower EBITDA YoY (FY23: PKR 1,810mln; FY22: PKR 1,750mln). Hence, coverage is very strong.

Capitalization The financial matrix of the Company reflects a good position. The equity base of the Company is PKR 3,526mln. In contrast, the drawings of the Company stood at PKR 1,068mln. During FY23, leveraging moderately decreased to 35.3% (FY22: 50.3%). Short term borrowings comprise 100% (FY20: 100%) of the total borrowings.

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Financial Summary
PKR mln

KAM International Composite & Garments	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET			
1 Non-Current Assets	846	806	606
2 Investments	-	-	-
3 Related Party Exposure	-	-	192
4 Current Assets	6,183	6,663	6,393
a Inventories	*3,356*	*4,021*	*4,175*
b Trade Receivables	*1,713*	*1,794*	*1,057*
5 Total Assets	7,028	7,469	7,191
6 Current Liabilities	1,582	1,568	959
a Trade Payables	*1,486*	*1,485*	*921*
7 Borrowings	1,920	2,971	2,234
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	-	-	-
10 Net Assets	3,526	2,931	3,998
11 Shareholders' Equity	3,526	2,931	3,998
B INCOME STATEMENT			
1 Sales	8,785	10,687	10,363
a Cost of Good Sold	*(6,430)*	*(8,430)*	*(7,608)*
2 Gross Profit	2,355	2,257	2,754
a Operating Expenses	(287)	(339)	(772)
3 Operating Profit	2,068	1,918	1,983
a Non Operating Income or (Expense)	-	-	-
4 Profit or (Loss) before Interest and Tax	2,068	1,918	1,983
a Total Finance Cost	*(302)*	*(206)*	*(122)*
b Taxation	*(103)*	*(102)*	*(114)*
6 Net Income Or (Loss)	1,663	1,610	1,747
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*1,707*	*1,647*	*1,780*
b Net Cash from Operating Activities before Working Capital	*1,707*	*1,647*	*1,780*
c Changes in Working Capital	*(485)*	*1,068*	*(366)*
1 Net Cash provided by Operating Activities	1,222	2,715	1,414
2 Net Cash (Used in) or Available From Investing Activities	(83)	(45)	(39)
3 Net Cash (Used in) or Available From Financing Activities	(1,068)	(2,670)	(1,367)
4 Net Cash generated or (Used) during the period	71	(0)	8
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	-17.8%	3.1%	29.7%
b Gross Profit Margin	26.8%	21.1%	26.6%
c Net Profit Margin	18.9%	15.1%	16.9%
d Cash Conversion Efficiency (FCFO adjusted for Working C	13.9%	25.4%	13.6%
*e Return on Equity [Net Profit Margin * Asset Turnover * (T*	51.5%	46.5%	45.5%
2 Working Capital Management			
a Gross Working Capital (Average Days)	226	189	166
b Net Working Capital (Average Days)	164	148	127
c Current Ratio (Current Assets / Current Liabilities)	3.9	4.3	6.7
3 Coverages			
a EBITDA / Finance Cost	8.0	15.8	61.7
b FCFO / Finance Cost+CMLTB+Excess STB	7.5	14.8	58.0
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Fi	0.0	0.0	0.0
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equit	35.3%	50.3%	35.8%
b Interest or Markup Payable (Days)	0.0	0.0	0.0
c Entity Average Borrowing Rate	9.8%	4.5%	2.0%

Credit Rating

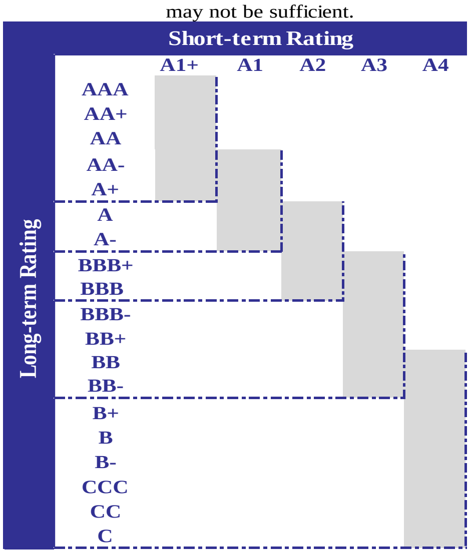
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
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 Rating

Scale	Definition
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
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



**The correlation shown is indicative and, in certain cases, may not hold.*

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 some material identifiable event with indeterminable rating implications. 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 rating 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) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) 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.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):

a) Broker Entity Rating
b) Corporate Rating
c) Debt Instrument Rating
d) Financial Institution Rating
e) Holding Company Rating
f) Independent Power Producer Rating
g) Microfinance Institution Rating
h) Non-Banking Finance Companies Rating

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 | Clause 11-(A)(p).
(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 | 17-(a)
(19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(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 | 17-(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 | 17-(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 | 14-3(f)(vii)
Proprietary Information