



The Pakistan Credit Rating Agency Limited

Rating Report

Kassim Textiles (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
30-Dec-2023	A-	A2	Stable	Maintain	-
31-Dec-2022	A-	A2	Stable	Maintain	-
31-Dec-2021	A-	A2	Stable	Maintain	-
31-Dec-2020	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Kassim Textiles (Private) Limited (Kassim Textile), the flagship company of the Machiyara group enjoys a long presence in the textile and allied industry along with several other sectors. The Company operates with 30,624 spindles, 3,304 rotors, and 364 looms. Revenue is mainly driven by the manufacturing and sale of yarn and fabric and having a portfolio of strategic investments in its subsidiary Kassim (Private) Limited. Revenue of the Company registered clocked at PKR 22.2bln in FY23 (FY22: PKR 22.1bln); reflecting the raise in price could only offset the challenge on the volume side. The primary source of revenue is denim cloth, with sales extending to various destinations. The Company maintains a stable customer base both locally, with a presence in Karachi and Lahore, and internationally, including exports to Turkey, Bangladesh, Cambodia, Greece, and other locations. Marketing and administrative expenses increased in tandem with current inflationary trends. The company, facing challenge from inflationary pressures, was unable to absorb in the price structure. Consequently, there was a decline in margins. This, in turn, impacted the company's profitability, which stood at PKR 391mln in FY23 (FY22: PKR 1.3bln). The liquidity and coverage profile depicts deterioration on account of the widening working capital gap, increased short-term debt utilization, and constrained cash generation. Going forward, with better efficiency and a specialized product profile, the management expects Kassim Textile's profitability and margins to improve. The Company supplies to many downstream export-oriented units in Pakistan which are anticipating a rebound in global demand. 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.

Disclosure

Name of Rated Entity	Kassim Textiles (Pvt.) Limited
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	Muhammad Harris Ghaffar harris.ghaffar@pacra.com +92-42-35869504

Profile

Legal Structure Kassim Textiles (Private) Limited (Kassim) was incorporated on August 27, 1991 as a private limited company. The register office is located on National Highway Landhi, Karachi.

Background Kassim Textiles (Private) Limited is a prominent business venture of Machiyara Group. Apart from Kassim Textiles, the Group has presence in the textile, construction and real estate development, mobile phones and trading etc.

Operations Kassim Textiles (Private) Limited is a modern weaving unit that manufactures Denim fabric used for local and branded garment industry. The Company operates with 30,624 spindles, 3,304 rotors, and 364 looms. Kassim Textile sells a variety of yarn from 6 counts to 16 counts.

Ownership

Ownership Structure Kassim Textile is a venture of six members of Haji Kassim's family. M. Ashraf owns 33.33%, Amanullah Kassim owns 33.33% directly and 0.01% indirectly through his wife. While M. Shabbir owns 32.14% directly and 0.01% indirectly through his wife. Arsal Shabbir has also the share of 1.18%.

Stability The major shareholding of the company is held by three individuals, who started the company in 1991. The stability of ownership may be improved by documenting understanding between sponsors in the form of shareholding agreement.

Business Acumen Kassim textile was setup by Machiyara Group, which has strong presence in several sector. This has helped the Company in expanding its operation's despite challenging market dynamics. Eventually, benefiting the company in effective decision making.

Financial Strength The sponsoring family has two other textile companies; Kassim (Private) Limited which is the subsidiary of Kassim Textiles and Fashion Knit Industries (Pvt.) Limited. Machiyara group consists of various business entities, including construction and real estate development, mobile phones and trading etc. This indicates sponsors' ability to provide support if need arises.

Governance

Board Structure Kassim Textile's Board comprises four members, all are sponsors. The position of Chairman and CEO of the company. Despite a private limited company, Sponsor domination on the board undermines the board's effectiveness.

Members' Profile The members of the board have 3 decades of knowledge and extensive experience in the textile industry. Currently, there are no independent directors on the board.

Board Effectiveness BoD meetings are held regularly in which discussion on various aspect are recorded in minutes and decision or action is referred to Chairman/CEO, Mr Muhammad Shabbir.

Financial Transparency Nasir Javaid Maqsood Imran (NJMI) Chartered Accountants, who are categorized in category ' B by the SBP and have a QCR rating by ICAP, are the external auditors of the company. They have expressed unqualified opinion on the financial statements of the company for the year ended June 30, 2023.

Management

Organizational Structure The organizational structure of the company is divided into various functional departments, namely: (i) Finance & Commercial (F&C), (ii) Marketing, (iii) Technical, (iv) Production, (v) Information Technology, and (vi) GM (F&C) is also looking after HR, Admin and procurement functions. All departments directly reports to the directors of the Company.

Management Team Mr Muhammad Shabbir is the CEO of the Company. He carries twenty-nine years of professional experience and holds Master's in Chemical Engineering. He has been working with this group since the beginning. Mr. Saleem Jangda, CFO of the Company, has been associated since year 2000.

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. The meeting is headed by the CEO.

MIS The Company has built an in-house ERP to cater the business needs. The senior management monitors the business performance through certain Key MIS reports. The system track business resources like cash, raw materials, production capacity and the status of business commitments, orders, purchase orders, and payroll. The applications that make up the system share data across various departments (manufacturing, purchasing, sales, accounting, etc.) that provide the data.

Control Environment Production is completely order-driven, there is a rigorous quality check done on the end product by the QC department. The Company has obtained ISO 9001 certification.

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 falls in mid-tier category; currently operating 3,304 rotors, 364 looms and 30,624 spindles with an installed capacity of 39mln meters of fabric. The company is planning to enhance its production capacity of spinning from 27M Lbs (270,000 Bags) to over 34.2M Lbs (342,000 Bags). Kassim is the exclusive producers of jacquard fabrics in denim industry.

Revenues Revenue of the Company registered a slight uptick and clocked in at PKR 22.2bln in FY23 (FY22: PKR 22.1bln), driven by higher prices as volumes registered a decline. The primary source of revenue is denim cloth, with sales extending to various destinations. The Company maintains a stable customer base both locally, with a presence in Karachi and Lahore, and internationally, including exports to Turkey, Bangladesh, Cambodia, Greece, and other locations. Marketing and administrative expenses increased in tandem with current inflationary trends. Notably, the uptick in financial charges clocked at PKR 863mln (FY22: PKR 238mln). Consequently, the profitability of the Company declined and stood at PKR 391mln in FY23 (FY22: PKR 1.3bln).

Margins The company, facing challenges from inflationary pressures, was unable to absorb and pass on these cost pressures. Consequently, there was a decline in margins. During FY23, the gross profit margin stood at 10.7% (FY22: 12.7%). Operating margin also declined to 6.1% (FY22: 8.1%). Hence, the net profit margin significantly dropped and clocked at 1.8% (FY22: 8.5%).

Sustainability Going forward, with better efficiency and a specialized product profile, the management expects Kassim Textile's margins to improve further. The Company supplies to many downstream export-oriented units in Pakistan which are anticipating strong rebound in global demand.

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 up by 27% in FY23 and recorded at PKR 6.4bln (FY22: PKR 5.01bln). During FY23, the Company's net working capital cycle days increased to 111days (FY22: 62days) on account of an increase in inventory days to 71 days (FY22: 40 days) and average receivable days to 79 days (FY22: 54days). Kassim Textiles's net trade assets showed a witnessed increase and stood at PKR 12.1bln (FY22: PKR 8.9bln) and its room to borrow for FY23 was 31% which shows an adequate cushion for further borrowing to finance net trade assets.

Coverages In FY23, Free Cash Flows from Operations (FCFO) significantly decreased and were recorded at PKR 2.8bln (FY22: PKR 3.2bln). Consequently, Interest coverage inclined (FY23: 4.2x, FY22: 18.0x). Furthermore, the debt coverage ratio stood at 1.9x in FY23 (FY22: 3.6x).

Capitalization The capital structure of Kassim Textiles is moderately leveraged, with leverage at 56.4% during FY23. Total borrowings witnessed an increase to PKR 11.1bln (FY22: PKR 10.1bln) to finance capacity expansion and increased working capital needs. Kassim Textile's borrowings comprise 57% short-term debt and 43% long-term borrowings during FY23.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

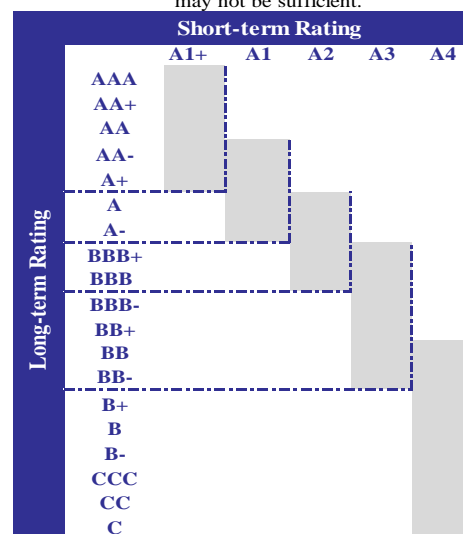
Kassim Textiles (Private) Limited Composite & Garments	Jun-23 12M	Jun-22 12M	Jun-21 12M
A BALANCE SHEET			
1 Total Assets	25,155	23,490	13,504
2 Net Assets	8,592	8,201	6,900
B INCOME STATEMENT			
1 Sales	22,219	22,111	15,751
C CASH FLOW STATEMENT			
1 Net Cash provided by Operating Activities	(1,184)	(844)	2,212
2 Net Cash (Used in) or Available From Investing Activities	693	(6,449)	(641)
3 Net Cash (Used in) or Available From Financing Activities	863	6,852	176
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	0.5%	40.4%	23.1%
b Net Profit Margin	1.8%	5.9%	6.8%
c Cash Conversion Efficiency (FCFO adjusted for Working Capital)	-2.1%	-2.8%	14.9%
d Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets / Equity)]	4.7%	17.2%	16.9%
2 Working Capital Management			
a Gross Working Capital (Average Days)	150	94	88
b Net Working Capital (Average Days)	111	62	60
c Current Ratio (Current Assets / Current Liabilities)	4.3	3.8	3.5
3 Coverages			
a EBITDA / Finance Cost	4.9	20.0	43.5
b FCFO / Finance Cost + CMLTB + Excess STB	1.9	3.6	3.3
c Debt Payback (Total Borrowings + Excess STB) / (FCFO - Finance Cost)	2.3	1.7	0.6
4 Capital Structure			
a Total Borrowings / (Total Borrowings + Shareholders' Equity)	56.4%	55.3%	32.2%
b Interest or Markup Payable (Days)	0.0	0.0	0.0
c Entity Average Borrowing Rate	6.0%	2.3%	1.8%

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.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
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.
AA-	
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.
A-	
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.
BBB-	
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.
BB-	
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.
B-	
CCC	
CC	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.
C	
D	Obligations are currently in default.

Scale	Short-term Rating 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 conditions.
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 surveil 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

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(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

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- (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)

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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)
- (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)
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- (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)

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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 | 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)

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