



The Pakistan Credit Rating Agency Limited

**Rating Report**

<b>Crown Textile</b>	<b>Report Contents</b>
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<b>Rating History</b>					
Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
14-May-2024	BBB-	A2	Stable	Maintain	-
16-May-2023	BBB-	A2	Stable	Maintain	-
16-May-2022	BBB-	A2	Stable	Initial	-

**Rating Rationale and Key Rating Drivers**

The rating of Crown Textile (“Crown” or “the Company”) emanates from the adequate profile of the Company in the dedicated garments manufacturing industry of Pakistan. The Company is primarily engaged in the manufacturing and export of knitted garments to cater for all tiers of society including Men, Women and Kids. The Crown Textile is a vertically integrated value-added Company which procures yarn and converts it into final garments through absolute in-house processing which includes (knitting, dyeing, printing, embroidery, washing, cutting, stitching, and so on). The financial strength of the Company mainly divests into the textile and real estate business held by a sole sponsor. The Company has no formal board and all delegation of authority matrix lies with the CEO and sponsor. The Company has generated a topline of PKR 8.4bln during FY23 (FY22: PKR 12.2bln), 100% contributed by export segment sales. The global recession, international demand & consumption patterns are the set forth factors behind the dip in export sales. However, as per the Crown management presentation, the demand pattern is expected to regain its lost momentum in the upcoming quarters. The Company enjoys long-term associations with several esteemed brands abroad namely Lamour Sports Inc, Primark Group, Terramar Sports Inc., and many others. The business generated in terms of export destination constitutes more than 50% by USA and remaining in Europe. During a time of three years, the Company sustained its gross margins but net margins were mainly impacted by magnifying finance costs. The Company has expanded their production capacities through the commercialization of the Landi Dyeing and washing facility and diversified its revenue streams through the opening of a denim factory. The Company expected to further expand their operations in the Nooriabad Facility as per the Crown textile management presentation. The financial risk profile of the Company is considered adequate with a leverage capital structure and a slightly stretched working capital cycle depicting the industry norm. The inflated finance cost has impacted the coverages and cash flows of the Company. The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn (LSM)~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector contributes ~ PKR 1.6Trn mainly dominated by knitwear, readymade garments, bedwear and towels followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs & finance costs, PKR devaluation, and ensuring the availability of optimum quality raw materials are prime challenges specific to the industry to assess the international market and stay price-wise competitive.

The ratings are dependent on the Company's ability to sustain its growth in business volumes while generating sufficient cashflows and maintaining the profitability matrix at an optimal level. The sustainability of margins and improvement in coverages while expanding business volumes remain critical. The adherence to the debt matrix at an optimal level is a prerequisite for the assigned rating. Improvement in the governance framework is considered important.

<b>Disclosure</b>	
<b>Name of Rated Entity</b>	Crown Textile
<b>Type of Relationship</b>	Solicited
<b>Purpose of the Rating</b>	Entity Rating
<b>Applicable Criteria</b>	Methodology   Corporate Rating(Jul-23),Methodology   Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology   Rating Modifiers(Apr-23)
<b>Related Research</b>	Sector Study   Composite and Garments(Dec-23)
<b>Rating Analysts</b>	Muhammad Harris Ghaffar   harris.ghaffar@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Crown Textile ('Crown' or 'the Company') began as a very small business in the 2000 as a single member company. The register office of the Company is situated at F352/A Sindh Industrial Trading Estate, Karachi City, Sindh.

**Background** Crown began as a very small business in the 2000, and shipped its first export order in 2000. Crown's first era was slow and steady growth. During this period we cultivated distinction in assembly line production and created the right systems for apparel manufacturing. Apart from Crown, sponsoring family is engaged is involved in real estate.

**Operations** Crown is one of the largest manufacturer and exporter of Men's, Ladies and Children's knitted garments. At present, Kam International supplies directly to majority of private and famous retail brands of USA and Europe. Crown produce more than 4mln ready-made garments every month including 50,000kgs of knitted raw fabric per day also 50,000kgs of dyed fabric per day.

## Ownership

**Ownership Structure** The ownership of the Company rests with the family of Mr. Muhammad Nadeem. The major shareholding of the Company is owned by Mr. Muhammad Nadeem.

**Stability** The considerable positions in the Company are held by Mr. Nadeem. There is the absence of a shareholding agreement and formal succession plan due to the major stake of Mr. Nadeem. In the foreseeable future, after incorporating a few changes, the shareholding of the company will vest with Mr. Nadeem and his family.

**Business Acumen** Mr. Nadeem has an experience of more than 3 decades in the textile industry, developing credential expertise over time which provides sufficient business acumen, to sustain any upcoming challenges.

**Financial Strength** The sponsor family is engaged in multiple businesses with over more than 20 years. The holding group is currently engaged in real estate. This indicates sponsors' ability to provide support if the need arises.

## Governance

**Board Structure** The Company has no board. The position of CEO is vested with Mr M. Nadeem.

**Members' Profile** Mr. Muhammad Nadeem has the major shareholding in the Company. He was born on 04 November, 1967. He was Bachelor of Commerce. He was general manager in M/S. M.R Industries from 1990 to 1995. From 1995 to 2000 he owns sub contract factory & was working for exporters. In Jan 2000, he established Company M/S. Crown Textile in Jan 2000.

**Board Effectiveness** At Crown Textile, 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** Ale Imran & Co. Chartered Accountants are the Company's external auditors. They have expressed an 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 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 report to respective CEO.

**Management Team** Mr. Muhammad Nadeem is the CEO of the Company. He carries three decades of professional experience. He has been engaged with the company since 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. These meetings are headed by the CEO.

**MIS** Recognizing the need for quality information systems to control and maintain the efficiency of operations, the company has implemented an Oracle based ERP solution – Oracle E- business suite – version 6.1, (for Financial Reporting, Inventory, and Procurement from Head Office). The MIS reports are updated on a real-time basis to be available to CEO all the time. The reports are shared and discussed with the CEO regularly to ensure timely decision making and smooth flow of operations.

**Control Environment** Crown utilize management systems as their mechanism for ensuring control. There is clear evidence of these systems being audited and certified externally. Examples of this include WRAP, BSCI, SLCP, C-TPAT, Higg FEM, OEKO TEX, GOTS – Global Organic Textile Standards, Made in Green – GRS & Better Cotton Index certifications. This both provides assurance as well as drives continual improvement.

## Business Risk

**Industry Dynamics** The size of the textile industry in Pakistan is estimated to be PKR 2.62Trn ~3.0% of the total GDP as of FY23. The composite & garment segment in the textile sector has a contribution of ~ PKR 1.6Trn mainly dominated by knitwear, readymade garments, bedwear and towels followed by PKR 775bln from spinning and PKR 637bln from weaving. The escalation in energy tariffs & finance costs, PKR devaluation, and ensuring the availability of optimum quality raw materials are prime challenges specific to the industry to assess the international market and stay price-wise competitive.

**Relative Position** The Company has an adequate position on a standalone basis and is considered a middle-tier player in Pakistan's knitted garments industry.

**Revenues** The Company's top line has decreased to PKR 8.5bln (FY22: PKR 12.3bln). Exports comprised 100% of the top line over the years. Export sales are made through wholesalers and retailers. Sales are majorly concentrated in the US, while the company is also making efforts to expand its outreach in other regions. During FY23, the Company's gross profits reduced to PKR 1.9bln (FY22: PKR 2.6bln). This decrease is due to decrease in sales revenue while the cost of goods sold is decreased.

**Margins** In FY23, the margins of Crown Textile improved due to the decrease in operating expenses. The gross profit margin stood at 22.9% (FY22: 21.3%) Operating margin also improved to 6.4% in FY22 (FY22: 4.2%), mainly on the back of the decrease in freight charges to PKR 383mln (FY22: PKR 1.1bln). The net profit margin slightly declined to 2.4% (FY21: 2.8%) due to decrease in the net profit on the back of increased finance cost.

**Sustainability** The Company is planning CAPEX by about 250,000 metres per annum for next three years by attracting more orders from existing buyers and target some new buyers.

## Financial Risk

**Working Capital** The Company largely meets its working capital requirements through short-term borrowings, which have decreased to PKR 2.0bln in FY23 (FY22: PKR 2.3bln). During FY23, the Company's net working capital cycle days recorded an increase to 98 days (FY22: 70days) attributable to an increase in inventory days (FY23: 96 days, FY22: 66 days) & receivable days (FY23: 93days, FY22: 59 days). The Company's net trade assets slightly decreased and clock in at PKR 4.6bln during FY23 (FY22: PKR 4.8bln).

**Coverages** At end-Jun23, the Company's free cash flows from operations increased to PKR 537mln (end-Jun22: PKR 473mln) due to the decrease in taxes. At end-Jun23, the Company's interest coverage ratio inches down to 1.9x (end-Jun22: 4.1x). While the debt payback ratio also inches up 3.1x (FY22: 2.6x).

**Capitalization** The financial matrix of the Company is reflecting a strong position. Equity of the Company witnessed an increased and clocked at PKR 2.8bln during FY23 (FY22: PKR 2.5bln). The total borrowing of the Company stood at PKR 2.8bln (FY22: PKR 3.2bln). Short-term borrowings comprise 72% (FY22: 71%) of the total borrowings. During FY23, the leveraging decreased to 50.4% (FY22: 56.6%).



Crown Textile Composite & Garments	Jun-23 12M	Jun-22 12M	Jun-21 12M
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#### A BALANCE SHEET

1 Non-Current Assets	2,776	2,692	2,281
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	4,905	5,126	4,231
<i>a Inventories</i>	2,169	2,277	2,159
<i>b Trade Receivables</i>	2,069	2,225	1,738
<b>5 Total Assets</b>	<b>7,681</b>	<b>7,818</b>	<b>6,512</b>
6 Current Liabilities	2,127	2,149	1,573
<i>a Trade Payables</i>	2,094	2,122	1,556
7 Borrowings	2,801	3,209	3,188
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	-	-	-
<b>10 Net Assets</b>	<b>2,753</b>	<b>2,460</b>	<b>1,751</b>
<b>11 Shareholders' Equity</b>	<b>2,753</b>	<b>2,460</b>	<b>1,751</b>

#### B INCOME STATEMENT

1 Sales	8,453	12,250	6,860
<i>a Cost of Good Sold</i>	(6,521)	(9,636)	(5,332)
<b>2 Gross Profit</b>	<b>1,932</b>	<b>2,614</b>	<b>1,528</b>
<i>a Operating Expenses</i>	(1,393)	(2,094)	(1,060)
<b>3 Operating Profit</b>	<b>538</b>	<b>520</b>	<b>468</b>
<i>a Non Operating Income or (Expense)</i>	-	-	-
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>538</b>	<b>520</b>	<b>468</b>
<i>a Total Finance Cost</i>	(333)	(171)	(157)
<i>b Taxation</i>	(80)	(116)	(70)
<b>6 Net Income Or (Loss)</b>	<b>125</b>	<b>232</b>	<b>240</b>

#### C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	537	473	474
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	204	303	316
<i>c Changes in Working Capital</i>	192	(278)	(988)
<b>1 Net Cash provided by Operating Activities</b>	<b>397</b>	<b>24</b>	<b>(671)</b>
<b>2 Net Cash (Used in) or Available From Investing Activities</b>	<b>(171)</b>	<b>(491)</b>	<b>(612)</b>
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>(232)</b>	<b>507</b>	<b>1,002</b>
<b>4 Net Cash generated or (Used) during the period</b>	<b>(6)</b>	<b>40</b>	<b>(281)</b>

#### D RATIO ANALYSIS

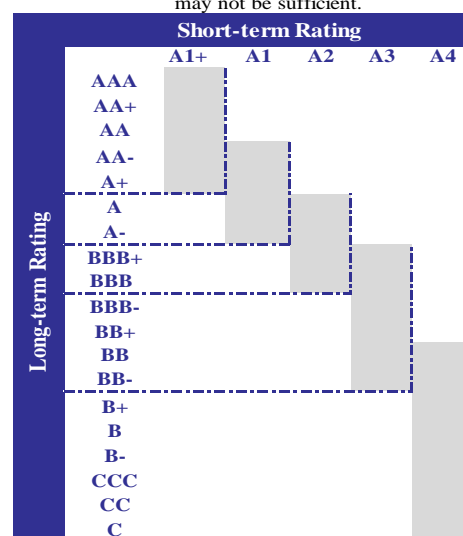
<b>1 Performance</b>			
<i>a Sales Growth (for the period)</i>	-31.0%	78.6%	55.0%
<i>b Gross Profit Margin</i>	22.9%	21.3%	22.3%
<i>c Net Profit Margin</i>	1.5%	1.9%	3.5%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital)</i>	8.6%	1.6%	-7.5%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets / Equity)]</i>	4.8%	11.0%	15.5%
<b>2 Working Capital Management</b>			
<i>a Gross Working Capital (Average Days)</i>	189	125	158
<i>b Net Working Capital (Average Days)</i>	98	70	97
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.3	2.4	2.7
<b>3 Coverages</b>			
<i>a EBITDA / Finance Cost</i>	2.2	5.2	4.9
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	1.9	4.1	4.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Financing)</i>	3.1	2.6	2.5
<b>4 Capital Structure</b>			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	50.4%	56.6%	64.5%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0
<i>c Entity Average Borrowing Rate</i>	9.6%	3.6%	4.1%

### 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	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> 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	<b>High credit quality.</b> 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	<b>Good credit quality.</b> 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	<b>Moderate risk.</b> 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	<b>High credit risk.</b> 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	<b>Very high credit risk.</b> 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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- (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)
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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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- (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)

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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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