



The Pakistan Credit Rating Agency Limited

Rating Report

Kohat Textile Mills Limited

Report Contents

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
26-Jun-2023	A-	A2	Stable	Maintain	-
30-Jun-2022	A-	A2	Stable	Maintain	-
01-Jul-2021	A-	A2	Stable	Maintain	-
26-Jun-2020	A-	A2	Stable	Maintain	Yes
27-Dec-2019	A-	A2	Stable	Maintain	-
28-Jun-2019	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Kohat Textile Mills Limited (Kohat Textile) commenced operations in 1967 and was listed on Pakistan Stock Exchange in 1970. Kohat Textile is the first textile venture of the Saif Group. The Company's production facilities are located in Kohat, KPK. The assigned ratings are indicative of Kohat Textile Mills Limited's (Kohat Textile) modest business profile. The business offers specialized goods including polyester yarn, acrylic yarn, and viscose yarn to meet the needs of the regional industry. The Company's revenue is on a growing trajectory, during 9MFY23, sales inched up to PKR 4bln (9MFY22: PKR 3.3bln). The sales portfolio is dominated by local sales. Margins and net profitability recorded a dip attributable to high expenses. COGS increased sizably during 9MFY23 as compared to the respective quarter of the last year. Increased borrowing in the current year resulted in higher finance costs, which impacted negatively on profitability. During FY22, net profitability clocked in at PKR 292mln (FY21: PKR 312mln), whereas, during 9MFY23, net income decreased further to stand at PKR 27mln. The dilution in net income requires attention, going forward. The financial risk matrix suggests moderate leveraging and potential for coverage expansion. With scheduled principal repayments coming up, further core coverage expansion will give comfort. Due to limited profitability and cash maintained, the equity base increased moderately over the period. The Company has the support of the strong financial muscle of the Sponsors over the years. Going forward, it remains essential for cash flows to significantly increase in order to meet forthcoming debt obligations. During 9MFY23, the textile exports were valued at \$12.47bln compared to \$14.24bln, reflecting a 12% decline YoY - the declining trend has been recorded in the last two quarters. The Country's textile exports for the month of March clocked in at US\$1.26bln, up 7% MoM. The decline in the previous overall exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand in international markets is also a challenge. During the month of March, value-added textile exports increased by 6% MoM to US\$863mln mainly due to Readymade Garments and Knitwear increasing by 8% and 12% MoM respectively while towels decreased by 6% MoM. Basic textiles witnessed an increase of 8% MoM to US\$230mln in Mar-23. In volume terms, Knitwear, Readymade Garments, Bedwear, and Towels increased by 18%, 13%, 5%, and 2% MoM respectively. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve in the upcoming quarters.

The ratings are based on the Company's capacity to continue operating under the current circumstances. The ratings will be impacted if there is a significant decline in sales and/or debt coverages as a result of the protracted downturn, which will increase financial risk. The Company will continue to need the support of Saif Group.

Disclosure

Name of Rated Entity	Kohat Textile Mills Limited
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jun-22),Methodology Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology Rating Modifiers(Jun-22)
Related Research	Sector Study Spinning(Sep-22)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504

Profile

Legal Structure Kohat Textile Mills Limited (Kohat Textile) commenced operations in 1967 and was listed on Pakistan Stock Exchange in 1970.

Background Kohat Textile is the first textile venture of Saif Group, later on the Group expanded its presence in textile sector through Saif textile and Mediterranean Textile. The Company's production facilities are located in Kohat, KPK.

Operations Kohat Textile operates with a single spinning unit having a capacity of 44,800 spindles. The Company manufactures specialized yarn from polyester, viscose, and acrylic. The Company caters to its power needs via in-house production. Energy requirement includes a power mix of three sources; Captive (4.5MW), PESCO (4.2MW), and Solar (2.1MW).

Ownership

Ownership Structure Kohat Textile's majority stake (77.98%) is owned by Saif Group, through Saif Holdings. The remaining shareholding rests with financial institutions (10.01%), general public (10.65%), joint stock companies & others (1.06%) and directors (0.31%).

Stability The representation of Saif Group's textile ventures in Pakistan's spinning industry remains critical. The Group has a holding company in place, portraying a structured line of succession. However, the succession planning is not documented yet.

Business Acumen Saif Group is one of the oldest medium-sized business conglomerate in Pakistan with considerable interests in textile. The sponsors have a presence of five decades in local Spinning industry, eventually developing expertise. However, the Group's growth in textile sector was limited but it has sustained through the volatility of textile industry.

Financial Strength Saif Group is one of the prominent industrial and services conglomerates in Pakistan. The Group's interests lie in oil and gas exploration, power generation, textiles manufacturing, real estate development, and health care services, through 7 subsidiaries and 4 associated companies across different sectors. Saif Group has a strong financial muscle and Sponsors are willing to support Kohat Textile if needed.

Governance

Board Structure The board comprises seven members with a major concentration of Saif Family members, including the Chairman of BoD, Mr. Osman Saifullah Khan. The board constitutes five non-executive directors, one executive director, and one member is an independent director.

Members' Profile Mr. Osman Saifullah – Chairman – holds a post graduate degree in engineering from University of Oxford and post graduate degree in business administration from University of Stanford. Mr. Osman has overall experience of over two decades in textile industry and he is also a senator. The board members have vast knowledge and expertise of textile industry, though diversity in experiences exists as well, ensuring a requisite skill mix for strategic planning.

Board Effectiveness Control of the board vests with Saif Group which ensures smooth operational control. Moreover, Audit and HR Committees are in place to assist the board on relevant matters. Despite the presence on the board of other Group companies, their attendance has remained strong. Board meeting minutes were formally documented. Meanwhile, the company's overall strategy is discussed in the bi-annual meeting of Saif Group, whereas operational matters are discussed in board meetings.

Financial Transparency M/s Shinewing Hameed Chaudri & Co., Chartered Accountants is the Company's external auditor. The auditors have expressed an unqualified opinion on the financial reports for the periods ending June 2022.

Management

Organizational Structure Management control vests with Saif Group. Mr. Assad Saifullah – the CEO – With defined reporting line which ensures a smooth flow of operations. Furthermore, the Company has five functional departments and all HoDs report directly to CEO.

Management Team Mr. Assad Saifullah has been associated with the Company for a decade. He is supported by a team of seasoned professionals, most of them have been associated with the Company for a reasonably long period of time.

Effectiveness There is no formal management committee, however, the Company maintains an adequate IT infrastructure and related controls. Additionally, the delegation of power by sponsors to management is considered positive for management effectiveness. The Company's MIS can be classified into two categories on the basis of periodicity – daily and monthly. The daily and weekly reports are generated for top management with a main focus on production and liquidity position whereas P&L is discussed on a need basis in the meetings.

MIS Kohat Textile has in place Microsoft Dynamics-based Enterprise Resource Planning (ERP) system that provides comprehensive MIS reporting.

Control Environment Kohat Textile's plant is connected to the head office through VPN, thereby reporting on a real-time basis. Moreover, international certifications include ISO 9001:2015, 45001:2018, ISO 26000, ISO 14001, Better Cotton Initiative, OEKO-TEX, and Global Recycle Standard.

Business Risk

Industry Dynamics During 9MFY23, the textile exports were valued at \$12.47bln compared to \$14.24bln, reflecting a 12% decline YoY - the declining trend has been recorded in the last two quarters. The Country's textile exports for the month of March clocked in at US\$1.26bln, up 7% MoM. The decline in the previous overall exports is driven by attrition in the demand pattern of export avenues. The hike in cotton prices and low demand in international markets is also a challenge. During the month of March, value-added textile exports increased by 6% MoM to US\$863mln mainly due to Readymade Garments and Knitwear increasing by 8% and 12% MoM respectively while towels decreased by 6% MoM. Basic textiles witnessed an increase of 8% MoM to US\$230mln in Mar-23. In volume terms, Knitwear, Readymade Garments, Bedwear, and Towels increased by 18%, 13%, 5%, and 2% MoM respectively. Moreover, a slowdown is prevailing in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries. The demand pattern is expected to improve in the upcoming quarters.

Relative Position Kohat Textile is one of the pioneers of Pakistan's spinning industry; though it has sustained through market volatility and industry-driven crises over the period of five decades the growth in the textile segment was limited. However, on a standalone basis, Kohat Textile's share in the local spinning industry is minimal.

Revenues During FY22, the Company's revenues reflected growth, the top line improved by 39%, and net sales were recorded at PKR 5bln (FY21: PKR 3.6bln). The Company's revenues wholly comprise local yarn sales with adequate customer concentration. Despite an increase in the cost of goods sold, the company's gross profit improved to PKR 857mln (FY21: 745mln). While in 9MFY23, the net sales and gross profit clocked in at PKR 4bln and PKR 540mln respectively.

Margins During FY22, the Company's cost of sales reflected a general increase. Raw materials are 69% of the total cost of goods sold. Other than that, Fuel and Power costs also increased to PKR 405mln (FY21: PKR 286mln). Hence, the gross margins of the Company inched down to 17.4% in FY22 (FY21: 20.6%). A similar trend was witnessed in operating margins (FY22: 13.8%, FY21: 16.8%). Meanwhile, the net margins of the Company stood at 5.9% in FY22 (FY21: 8.6%). During 9MFY23, gross and operating margins further diluted to 13.4% and 9.1%.

Sustainability Going forward, the Company is planning to acquire debt to finance CAPEX. Material improvement in cash flows in line with upcoming debt obligations remains imperative.

Financial Risk

Working Capital During FY22, the Company's net working capital cycle reflected an increase (end-Jun22: 78 days, end-Jun21: 64 days) primarily due to an increase in inventory days. At end-Mar23, net working capital days further increased and stood at 119 days. Meanwhile, short-term trade leverage diminished significantly (end-Mar23: 1.8%, end-Jun22: 10.9%, end-Jun21: 19.6%); strengthening of which remains vital.

Coverages The Company's FCFO stood at PKR 726mln during FY22 showing an improvement as compared to PKR 654mln in FY21. Coverages were affected immensely. During 9MFY23, the interest coverage ratio declined to 1.6x (FY22: 3.8x, FY21: 6.1x) and operating coverage ratio to 1.0x (FY22: 1.7x, FY21: 1.9x).

Capitalization The leveraging ratio has reflected a slight decline (end-June'22: 38.7%, end-June'21: 41%). At the end-Mar23, leveraging moved to 44.3%. The equity base of the Company has remained largely the same over the years (end-Mar23: PKR 3.6bln, end-Jun22: 3.6bln, end-Jun21: PKR 1.9bln). The strengthening of the equity base in order to improve the risk absorption capacity remains essential.



The Pakistan Credit Rating Agency Limited

Financial Summary
PKR mln

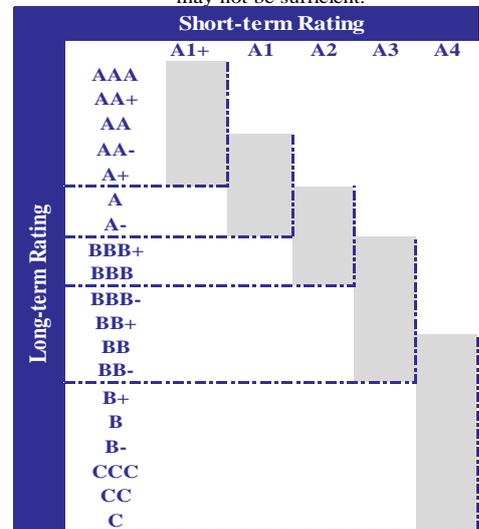
Kohat Textile Mills Limited Textile & Allied	Mar-23 9M	Jun-22 12M	Jun-21 12M	Jun-20 12M
A BALANCE SHEET				
1 Non-Current Assets	5,071	5,000	2,930	2,481
2 Investments	5	2	2	2
3 Related Party Exposure	-	-	-	-
4 Current Assets	2,572	2,290	1,300	1,129
a Inventories	1,477	1,157	714	399
b Trade Receivables	1,011	1,055	513	610
5 Total Assets	7,648	7,293	4,232	3,612
6 Current Liabilities	543	866	589	461
a Trade Payables	427	772	564	411
7 Borrowings	2,904	2,231	1,277	1,163
8 Related Party Exposure	4	62	82	103
9 Non-Current Liabilities	545	509	335	234
10 Net Assets	3,652	3,625	1,949	1,651
11 Shareholders' Equity	3,652	3,625	1,949	1,651
B INCOME STATEMENT				
1 Sales	4,021	4,931	3,620	2,591
a Cost of Good Sold	(3,481)	(4,073)	(2,875)	(2,378)
2 Gross Profit	540	857	745	213
a Operating Expenses	(173)	(179)	(137)	(108)
3 Operating Profit	367	678	607	105
a Non Operating Income or (Expense)	9	(27)	(29)	(1)
4 Profit or (Loss) before Interest and Tax	376	651	579	104
a Total Finance Cost	(328)	(200)	(112)	(181)
b Taxation	(21)	(159)	(154)	12
6 Net Income Or (Loss)	27	292	312	(65)
C CASH FLOW STATEMENT				
a Free Cash Flows from Operations (FCFO)	508	726	654	196
b Net Cash from Operating Activities before Working Capital Changes	223	571	527	28
c Changes in Working Capital	(621)	(788)	(78)	28
1 Net Cash provided by Operating Activities	(398)	(217)	449	56
2 Net Cash (Used in) or Available From Investing Activities	(186)	(729)	(539)	(207)
3 Net Cash (Used in) or Available From Financing Activities	659	944	83	157
4 Net Cash generated or (Used) during the period	75	(2)	(7)	6
D RATIO ANALYSIS				
1 Performance				
a Sales Growth (for the period)	8.7%	36.2%	39.7%	-12.7%
b Gross Profit Margin	13.4%	17.4%	20.6%	8.2%
c Net Profit Margin	0.7%	5.9%	8.6%	-2.5%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	-2.8%	-1.3%	15.9%	8.6%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	1.0%	10.5%	17.3%	-3.9%
2 Working Capital Management				
a Gross Working Capital (Average Days)	160	127	113	144
b Net Working Capital (Average Days)	119	78	64	91
c Current Ratio (Current Assets / Current Liabilities)	4.7	2.6	2.2	2.4
3 Coverages				
a EBITDA / Finance Cost	1.6	4.0	6.4	1.2
b FCFO / Finance Cost+CMLTB+Excess STB	1.0	1.7	1.9	0.8
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.5	2.0	1.7	34.9
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	44.3%	38.7%	41.0%	43.3%
b Interest or Markup Payable (Days)	88.5	113.8	77.3	84.1
c Entity Average Borrowing Rate	16.2%	9.8%	8.0%	14.6%

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+	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	
BBB-	
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	
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	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.
CC	
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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(5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

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(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)

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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)

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