



The Pakistan Credit Rating Agency Limited

Rating Report

Khas Textile Mills (Pvt.) Limited

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-Aug-2022	BBB-	A2	Stable	Upgrade	-
23-Aug-2021	BB+	A3	Stable	Maintain	-
28-Aug-2020	BB+	A3	Stable	Maintain	-
29-Aug-2019	BB+	A3	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The ratings reflect the small yet adequate business profile of Khas Textile Mills (Pvt.) Limited. Over the last two years, the Company's revenue base recorded a healthy increase. The company manufactures various types of the cotton ring and open-end yarn. The company is associated with Khas Group of Industries where the group has a presence in diverse sectors; including textile, aluminium, poultry, socks, knitwear, and import of building hardware. The Company's sales volume was enhanced due to an increase in local sales from last year and better yarn prices. The pattern of sales volume will remain correlated with demand patterns in the local market which in turn is connected with the demand trend of export destinations. Margins recorded improvement due to better yarn prices. Improved financial risk profile attributable to a declined leveraging and healthy increase in coverage. The debt structure is skewed towards long-term borrowings. Further, room to borrow displayed improvement along with sizably reduced debt payback. Going forward, upholding improved performance recorded in recent quarters along with sustaining the financial risk profile remains important. Efficient utilization of enhanced capacity is considered essential. During FY22, Pakistan's textile exports surged to \$19.3bln (recording a growth of 26%). Exports grew owing to increased volumetric growth of (16% YoY) in the value-added segment, a steep rise in global demand, and record high cotton prices. Under the value-added category, the knitwear segment remained the top performer by posting 34% YoY growth in exports to \$5.1 billion in FY22 due to a sharp rise in global demand, especially in the US and European countries. Other value-added segments such as ready-made garments, bed wear, and towel posted YoY growth of 29%, 19%, and 19% to \$3.9 billion, \$3.3 billion, and \$1.1 billion respectively. However, a slowdown is expected in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries.

Strengthening of governance practices will have a positive impact on the ratings. Any deterioration in debt coverages leading to higher financial risk or substantial losses will have a negative impact on ratings.

Disclosure

Name of Rated Entity	Khas Textile Mills (Pvt.) 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-21)
Rating Analysts	Sehar Fatima sehar.fatima@pacra.com +92-42-35869504

Profile

Legal Structure Khas Textile Mills (Pvt.) Limited (Khas Textile) was incorporated in 2001 as a private limited Company.

Background The Company is engaged in the manufacturing of yarn. In 2006, the Company went through a major transformation and started manufacturing cotton rings and open-end yarn. Since its incorporation, over the years, Khas Textile has sizably increased its production capacity.

Operations Khas Textile currently operates 19,680 spindles and 1344 rotors and has a purpose build manufacturing facility located in the industrial hub – Nooriabad. The Company has a captive electricity generation capacity of 3.5 Megawatt against the requirement of 3.2 Megawatt. The Company has a backup line connection with HESCO.

Ownership

Ownership Structure The Company is entirely owned by the Ashfaq family, which includes Mr. Haji Ashfaq Ahmed and his wife (20%), his two sons (i) Khurram Ashfaq (40%) and (ii) Noman Asahfaq (40%) individually and through their respective families.

Stability Shareholding between different members of the family is clearly distributed. However, no formal succession plan has been documented.

Business Acumen Mr. Ashfaq Ahmed, the chairman, has over 45 years of experience in diverse sectors including textile, aluminum, poultry, socks and knitwear, and import of building hardware. Mr. Khurram Ashfaq, managing director, of the Company, has over 23 years of experience in the textile sector. Apart from spinning, sponsors also have a socks manufacturing unit.

Financial Strength Khas Group of industries has five companies operating in different sectors. Apart from national level presence in diverse sectors; sponsors also have a joint venture, KAI-largest aluminum manufacturer, in Bangladesh. The Company's sponsors have a reasonable net worth and have demonstrated their commitment to supporting the Company in times of need.

Governance

Board Structure The Company has a five-member board. Three of the members are executive directors and two are non-executive directors. All directors have been affiliated with the Company since its inception.

Members' Profile Mr. Ashfaq Ahmed, Chairman of the board, has over 45 years of experience in diverse industries including Textile. Three board members are active members while the remaining two board members are inactive members.

Board Effectiveness The involvement of the directors in day to day running of the business bodes well with the effectiveness of strategic oversight. However, there are no committees formed by the board.

Financial Transparency Rahman, Sarfaraz, Raham, Iqbal, Rariq & Co. Chartered Accountants are the external auditors of the Company.

Management

Organizational Structure Khas Textile has a well-defined organizational structure. Overall the group management oversees all the operations of the Company. There are clearly delimited reporting lines as well as segregation of duties between top-tier management.

Management Team Mr. Khurram Ashfaq, managing director, is responsible for overseeing all matters related to Khas Textile. Other members of the Company's top-tier management are also comprised of seasoned professionals and have been associated with the Company for a considerable amount of time.

Effectiveness There are no formal management committees; however, key management members meet on regular basis to resolve and pro-actively address operational issues, if any, eventually ensuring a smooth flow of operations.

MIS The Company is currently operating SAP-B1-8.82 which has been customized by Abacus Consulting (Pvt.) Limited according to the Company's needs. Reports are generated and reviewed regularly by the top management.

Control Environment The Company has an updated technological infrastructure in all its manufacturing and support functions, to ensure quality and cost-effectiveness. The Company also has an internal audit department.

Business Risk

Industry Dynamics During FY22, Pakistan's textile exports surged to \$19.3bln (recording a growth of 26%). Exports grew owing to increased volumetric growth of (16% YoY) in the value-added segment, a steep rise in global demand, and record high cotton prices. Under the value-added category, the knitwear segment remained the top performer by posting 34% YoY growth in exports to \$5.1 billion in FY22 due to a sharp rise in global demand, especially in the US and European countries. Other value-added segments such as ready-made garments, bed wear, and towel posted YoY growth of 29%, 19%, and 19% to \$3.9 billion, \$3.3 billion, and \$1.1 billion respectively. However, a slowdown is expected in textile demand amid burgeoning inflationary pressures in the exporting destinations, especially in the US and European countries.

Relative Position With 19,680 spindles and 1,344 rotors, the Company's share in the spinning sector of the textile industry is small. In terms of margins, the Company falls in the lower tier of the spinning sector.

Revenues The majority of the Company's revenue comes from local sales; whereas a small part comes from the sale of waste material. A major portion of total revenue came from the sale of yarn in the local market whereas a small portion comes from exports. During FY22, the Company's revenue sizably improved to PKR 5bln (FY21: PKR 3.5bln) due to enhanced capacity utilization.

Margins The gross margin during FY22 increased to 16.7% (FY21: 9.9%). This is due to an increase in sales volume in the local market and good yarn prices. Similarly, an increase in gross profit margin has translated to significantly improved operating margins which clocked at 14.3% (FY21: 7.5%). The finance cost during FY22 increased to PKR 151mln (FY21: 114mln) due to an increase in long-term borrowings. The net profitability during FY22 inched up to 10% in FY22 (FY21: 1.1%).

Sustainability The Company's recently added capacity is operational and being translated into performance. The efficient utilization of the added capacity remains vital in the upcoming years.

Financial Risk

Working Capital During FY22, the Company's net working capital cycle improved to 109days (FY21: 128days) attributable to a decline in inventory days (FY22: 46 days, FY21: 69 days). During FY22, the Company's room to borrow significantly improved as compared to last year.

Coverages During FY22, the Company experienced a major increase in its Free Cash Flow from operations (FCFO) which clocked at PKR 575mln (FY21: PKR 292mln). The improvement in FCFO is due to an increase in profitability. Hence, interest coverage improved to 5.4x (FY21: 2.6x). Also, the debt coverage ratio slightly improved to 2.8x (FY21: 1.4x).

Capitalization During FY22, the Company's capital structure is moderately leveraged at 54% (FY21: 57.1%). Total borrowings during FY22 declined to PKR1,358mln from the same period last year. Long-term borrowings made up the majority of the total borrowings. Long-term borrowings are expected to decrease in the future since the Company does not plan on undertaking another BMR anytime soon. The equity base of the Company improved to PKR 2.0bln (end-Jun21: PKR 1.5bln) attributable to enhanced accumulated profitability.



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Khas Textile Mills Limited Textile	Jun-22 12M	Jun-21 12M	Jun-20 12M	Jun-19 12M
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A BALANCE SHEET

1 Non-Current Assets	2,503	2,254	1,781	1,890
2 Investments	46	1	8	8
3 Related Party Exposure	-	65	50	118
4 Current Assets	2,264	1,484	1,681	1,086
<i>a Inventories</i>	706	572	776	372
<i>b Trade Receivables</i>	1,204	704	667	466
5 Total Assets	4,813	3,804	3,519	3,102
6 Current Liabilities	292	142	187	291
<i>a Trade Payables</i>	-	88	122	240
7 Borrowings	1,358	1,018	1,395	999
8 Related Party Exposure	1,081	1,071	1,035	913
9 Non-Current Liabilities	3	1	1	1
10 Net Assets	2,079	1,572	901	899
11 Shareholders' Equity	2,079	1,572	901	899

B INCOME STATEMENT

1 Sales	5,053	3,581	2,548	3,319
<i>a Cost of Good Sold</i>	(4,207)	(3,228)	(2,336)	(3,136)
2 Gross Profit	845	354	212	183
<i>a Operating Expenses</i>	(121)	(85)	(48)	(56)
3 Operating Profit	724	269	164	127
<i>a Non Operating Income or (Expense)</i>	3	(63)	2	2
4 Profit or (Loss) before Interest and Tax	727	206	167	129
<i>a Total Finance Cost</i>	(151)	(114)	(136)	(115)
<i>b Taxation</i>	(68)	(52)	(28)	-
6 Net Income Or (Loss)	507	41	2	14

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	575	292	173	95
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	575	292	173	95
<i>c Changes in Working Capital</i>	-	114	(648)	688
1 Net Cash provided by Operating Activities	575	407	(474)	783
2 Net Cash (Used in) or Available From Investing Activities	-	(69)	(51)	(311)
3 Net Cash (Used in) or Available From Financing Activities	-	(330)	505	(427)
4 Net Cash generated or (Used) during the period	575	8	(21)	46

D RATIO ANALYSIS

1 Performance				
<i>a Sales Growth (for the period)</i>	41.1%	40.6%	-23.2%	18.9%
<i>b Gross Profit Margin</i>	16.7%	9.9%	8.3%	5.5%
<i>c Net Profit Margin</i>	10.0%	1.1%	0.1%	0.4%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	11.4%	11.4%	-18.6%	23.6%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/STB)]</i>	27.8%	3.3%	0.2%	1.7%
2 Working Capital Management				
<i>a Gross Working Capital (Average Days)</i>	115	139	163	101
<i>b Net Working Capital (Average Days)</i>	109	128	137	77
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	7.8	10.4	9.0	3.7
3 Coverages				
<i>a EBITDA / Finance Cost</i>	5.4	2.9	1.6	1.6
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.8	1.4	0.9	0.5
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	3.3	7.5	36.1	-84.4
4 Capital Structure				
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	54.0%	57.1%	73.0%	68.0%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0	164.1
<i>c Entity Average Borrowing Rate</i>	4.6%	4.9%	6.4%	5.3%

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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk 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

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)

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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)

(16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)

(17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

(18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 18-(a)

(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(b)

(20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 18-(c)

(21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 18-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e, probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past | Chapter III | 14-(F-VII)

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