



## The Pakistan Credit Rating Agency Limited

### Rating Report

## Crown Textile

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#### Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
16-May-2022	BBB-	A2	Stable	Initial	-

#### Rating Rationale and Key Rating Drivers

Crown Textile's export-oriented textile unit is primarily involved in production and sale of Men's, Ladies and Children's knitted garments. Currently, Crown Textile is engaged with and supplying directly to majority of private and famous retail brands with several export destinations, 80% from US and 20% from UK and European countries. The Company enjoys long-term associations with several esteemed brands abroad namely KHQ Investment LLC, Puma, SportLife Brands LLC, Terramar Sports Inc. and many others. The ratings derive strength from robust growth in topline in the recent year largely emanating from higher volumetric sales. While gross margins decreased due to largely stagnant average selling prices amidst competitive export market, and increase in cost of sales. The Company has a good financial profile characterized by healthy coverages, moderately leveraged capital structure and improving working capital management. Going forward, Unit 3 of the Company will be operational in Jun22 which will bring in efficiency gains and improve margins. The affair of the Company are being overseen and manage directly by the owner of the Company.

The ratings are dependent on the management's ability to uphold the entity's performance trend. Meanwhile, maintaining strong margins and coverages to fulfill financial obligations will remain critical.

#### Disclosure

<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(Jun-21),Criteria   Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria   Rating Modifiers(Jun-21)
<b>Related Research</b>	Sector Study   Composite and Garments(Dec-21)
<b>Rating Analysts</b>	Iram Shahzadi   iram.shahzadi@pacra.com   +92-42-35869504

## Profile

**Legal Structure** Crown Textile (Crown) began as a very small business in the 2000 as a single member company. The register office of the Company is situated at F-352/A Sindh Industrial Trading Estate, Karachi, 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 in real estate.

**Operations** Crown is the manufacturer and exporter of Men's, Ladies and Children's knitted garments. Crown Textile is engaged with and supplying directly to majority of private and famous retail brands with several export destinations 80% from US and 20% from UK and European countries. Crown produces 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. Mr. Muhammad Nadeem holds the majority of the shareholding of the company (98%) while the rest is held by his wife Ms. Shaiza 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 - B-COM - 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. M. 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** Salahuddin & Co. Chartered Accountants, who are the external auditors of the company. They have expressed an unqualified opinion on the financial statements of the company for the year ended June 30th, 2021.

**Financial Transparency** 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 their respective CEO.

## 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** Textile exports of the country recorded an increase of 28.6% to stand at USD 2.9bln as compared to USD 2.3bln from July 21 to Aug 21 due to an increase in demand for textile products internationally, led by a good recovery around the globe post-pandemic. Going forward, the textile sector's outlook is expected to stay stable in the medium term where the demand for textile products is expected to increase. In the local market, the textile sector has recorded strong performance. The relief measures introduced by the State Bank of Pakistan such as deferral of loan payments for one year, low-interest rates, and salary refinance scheme also provided comfort to the sector in the last year. Many players have also availed the TERF scheme announced by the Central Bank. This will lead to overall leveraging of the sector to increase; however, on relaxed financing rates. The sustainability of demand pattern for the current higher orders from Europe and USA etc) textile sector remains essential for the feasible utilization of added capacity by textile players.

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

**Revenues** During FY21, the Company's top line has improved to PKR 6.9bln (FY20: PKR 4.4bln), up by 57% YoY mainly on the back of higher volumes while the average selling price remained largely unchanged. Exports comprised 100% of the topline over the years. Export sales are made through wholesalers and retailers. Sales are majorly concentrated in US (FY21: 80%; FY20: 80%) while the company is making efforts to expand its outreach in other regions as well. During FY21, the Company's gross profits enhanced to PKR 1.5bln (FY20: PKR 1.3bln). Hence, the net profitability clocked in at PKR 311mln (FY20: PKR 225mln). While 9MFY22, Company's topline stood at PKR 9.4bln, and net profit was reported at PKR 425mln.

**Margins** During FY21, gross profit margin decreased and was reported at 22.3% (FY20: 30.0%) owing to an increased cost of sales to PKR 5,332mln (FY20: PKR 3,097mln), representing a rise of 72%. Operating margin declined to 6.8% in FY21 (FY20: 8.3%), on the back of a 41.8% increase in freight charges to PKR 401mln (FY20: PKR 283mln). Hence, the net profit margin declined to 4.5% (FY20: 5.1%). In 9MFY22, the gross margin and operating margin of the Company remained stagnant and clocked at 22.4% and 6.8% respectively.

**Sustainability** The addition of a Unit with a constructed area of 1.2 million square feet. The total cost is PKR 600bln. Unit 3 of the Company will be operational in Jun22 which bring in efficiency gains and improve margins.

## Financial Risk

**Working Capital** The company largely meets its working capital requirements through short-term borrowings, which have witnessed a sharp increase to PKR 2.3bln (FY20: PKR 1.7bln) by end-FY21. During FY21, the Company's net working capital cycle recorded marginal decrease to 97days (FY20: 109days) attributable to increase in payable days (FY21: 62days, FY20: 48days). The Company's net trade assets increased by 35.1% to clock in at PKR 3,188mln (FY20: PKR 2,359mln) which reflects good cushion in trade assets. In 9MFY22, working capital of the Company stood at 66 days.

**Coverages** Free Cash Flows from Operations (FCFO) increased in FY21 and clocked in at PKR 474mln (FY20: PKR 384mln) on the back of increase in EBITDA. The interest coverage ratio inclined to 4.2x in FY21 from 3.3x in FY20 and debt payback ratio also slightly increase to 2.5x (FY20: 2.3x).

**Capitalization** The capital structure of the Company is strong. Equity of the Company is at PKR 1,751mln (FY20: PKR 1,344mln). The total borrowing of the Company stood at PKR 3.2bln (9MFY22: PKR 3.3bln; FY20: PKR 2.4bln). Short-term borrowings comprise 72% (FY20:74%) of the total borrowings. During FY21, the leveraging increased to 64.5% (FY20: 63.7%).



Crown Textile Composite	Jun-21 12M	Jun-20 12M	Jun-19 12M
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**A BALANCE SHEET**

1 Non-Current Assets	2,281	1,752	1,130
2 Investments	-	-	-
3 Related Party Exposure	-	-	-
4 Current Assets	4,231	2,724	2,290
<i>a Inventories</i>	2,159	1,282	889
<i>b Trade Receivables</i>	1,738	775	853
5 Total Assets	6,512	4,476	3,420
6 Current Liabilities	1,573	773	383
<i>a Trade Payables</i>	1,556	769	383
7 Borrowings	3,188	2,359	2,297
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	-	-	-
10 Net Assets	1,751	1,344	741
11 Shareholders' Equity	1,751	1,344	741

**B INCOME STATEMENT**

1 Sales	6,860	4,425	4,246
<i>a Cost of Good Sold</i>	(5,332)	(3,097)	(3,099)
2 Gross Profit	1,528	1,327	1,147
<i>a Operating Expenses</i>	(1,060)	(960)	(925)
3 Operating Profit	468	367	222
<i>a Non Operating Income or (Expense)</i>	-	-	-
4 Profit or (Loss) before Interest and Tax	468	367	222
<i>a Total Finance Cost</i>	(157)	(143)	(37)
<i>b Taxation</i>	-	-	-
6 Net Income Or (Loss)	311	225	185

**C CASH FLOW STATEMENT**

<i>a Free Cash Flows from Operations (FCFO)</i>	474	384	245
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	316	241	208
<i>c Changes in Working Capital</i>	(988)	(83)	(1,074)
1 Net Cash provided by Operating Activities	(671)	158	(865)
2 Net Cash (Used in) or Available From Investing Activities	(612)	(691)	(802)
3 Net Cash (Used in) or Available From Financing Activities	1,002	495	1,711
4 Net Cash generated or (Used) during the period	(281)	(39)	44

**D RATIO ANALYSIS**

1 Performance			
<i>a Sales Growth (for the period)</i>	55.0%	4.2%	19.3%
<i>b Gross Profit Margin</i>	22.3%	30.0%	27.0%
<i>c Net Profit Margin</i>	4.5%	5.1%	4.4%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	-7.5%	6.8%	-19.5%
<i>e Return on Equity [ Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity) ]</i>	20.1%	21.6%	25.0%
2 Working Capital Management			
<i>a Gross Working Capital (Average Days)</i>	158	157	150
<i>b Net Working Capital (Average Days)</i>	97	109	117
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	2.7	3.5	6.0
3 Coverages			
<i>a EBITDA / Finance Cost</i>	4.9	3.7	8.2
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	4.2	3.1	6.2
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	2.5	2.3	2.5
4 Capital Structure			
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	64.5%	63.7%	75.6%
<i>b Interest or Markup Payable (Days)</i>	0.0	0.0	0.0
<i>c Entity Average Borrowing Rate</i>	4.1%	5.1%	1.3%

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

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- 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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- (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.
- (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
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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 | 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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