

RATING REPORT

Chakwal Textile Mills Limited (CTML)

REPORT DATE:

June 26, 2019

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Initial Rating	
	Long-term	Short-term
Entity	BBB-	A-2
Rating Outlook	Stable	
Rating Date	19 th June '19	

COMPANY INFORMATION

Incorporated in 1979	External auditors: Horwath Hussain Chaudhury & Co. Chartered Accountants
Public Limited Company (Unlisted)	Chairman of the Board: Mrs. Sadaf Jawed
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mrs. Sadaf Jawed
Mrs. Sadaf Jawed – 63.48%	
Mrs. Andleeb Kausar – 36.52%	

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates (May 2019)

<https://www.vis.com.pk/kc-meth.aspx>

Chakwal Textile Mills Limited (CTML)

OVERVIEW OF THE INSTITUTION

Chakwal Textile Mills Limited was incorporated on September 16, 1979 under the Companies Act, 1913 (now Companies Act, 2017). Registered office of the company is in Lahore while manufacturing unit is located in Chakwal.

Profile of Chairperson of the Board & CEO

Mrs. Sadaf Jawed has over 14 years' of experience in textile sector. She joined CTML as the CEO of the company in 2018 and is also serving as Chairperson on the Board of Directors.

RATING RATIONALE

Chakwal Textile Mills Limited (CTML) Public Limited (unlisted) Company primarily engaged in the business of textile spinning. The company produces different counts of polyester viscose yarn. The company has been providing PV yarn products mainly to local customers. The main raw material 'Polyester' is procured from the local market while other raw material 'viscose' is imported mainly from SABIC in Saudi Arabia. The cumulative power requirement of the unit is 2.5 MW which is met through WAPDA connection only.

Product Portfolio – focused on manufacturing of Coarse Count Polyester Viscose Yarn

CTML manufactures coarse count polyester viscose yarn of different ranges and is mainly used to produce wash & wear fabric for shalwar suits.

Spinning Products			
Yarn Type	Count Range	Composition	End Use
Coarse Count Polyester Viscose Yarn	26 PV	90% Polyester : 10% Viscose	Wash & Wear fabric
	36 PV	90% Polyester : 10% Viscose	
	45 PV	90% Polyester : 10% Viscose	
	65 PV	90% Polyester : 10% Viscose	
	18 PVB	80% Polyester : 20% Viscose	
	30 PVB	80% Polyester : 20% Viscose	
	20 MVS	65% Polyester : 35% Viscose	
	30 MVS	65% Polyester : 35% Viscose	

Operational Capabilities & Performance – increase in installed capacity on account of installation of MVS machine for coarse yarn production

CTML has 22,512 spindles with production capacity to produce 12.22m kg per annum of coarse count polyester viscose yarn at end-FY18. The company installed MVS machine during FY17 which helped to produce coarser yarn which increased the production capacity from 11.18m kg per annum to 12.22m kg per annum. Capacity utilization remained around 54% during last two year as tabulated below:

Spinning	FY17	FY18
Total Spindles (All operational)	22,512	22,512
Installed Capacity	11.18	12.22
Actual Production (m Kgs)	6.02	6.60
Capacity Utilization %	53.84%	54.01%

Sales growth emanating from increase in volumetric sales – Trade debts remains negligible on account of sales primarily on cash

During FY18, the company reported net sales of Rs. 1.57b (FY17: Rs. 1.43b; FY16: Rs. 1.34b), driven largely by increase in volumetric sales. Gross margins of the company improved slightly, though remained low, at 2.7% (FY17: 2.3%, FY16: 6.4%) during FY18 on account of lower fuel & power, stores & spares and repair & maintenance expenses albeit increase in cost of raw material. There was no major change in operating expenses which stood at Rs. 29m (FY17: Rs. 28m, FY16: Rs. 34m) in FY18. The finance cost of the company decreased to Rs. 4m (FY17: Rs. 15m, FY16: Rs. 16m) during FY18 on account of reduction in both short term & long term borrowings. The company was able to generate net profit of Rs. 27m (FY17: Rs. -17m, FY16: Rs. 48m) while net profit margin stood modest at 1.7% (FY17: -1.2%, FY16: 3.6%). Given better yarn prices, gross margins witnessed improvement in 9MFY19. Similarly, sales are projected to close to Rs. 2b during FY19.

The company did not carry out any CAPEX during FY18 while routine capex of Rs. 9.5m was also undertaken during 9MFY19. The company follows the practice of keeping raw material inventory of polyester upto 15 days since it is readily available in the local market from customers like Ibrahim Fibers, Rupali Polyester, etc., while about 3 months inventory of viscose is carried by the company. At end-FY18, CTML held inventory of worth Rs. 37m (FY17: Rs. 38m, FY16: Rs. 89m). Trade receivables of the company continues to remain modest at Rs. 6m (FY17: Rs. 35m, FY16: Rs. 65m) as PV is mostly sold on the cash basis. Advances & deposits increased to Rs. 86m (FY17: Rs. 57m, FY16: Rs. 60m) mainly on account of advances to suppliers and advance tax deducted at source. Sales tax refundable stood at Rs. 35m (FY17: Rs. 38m, FY16: Rs. 25m) at end-FY18.

Acceptable coverages and liquidity

Funds from operations (FFO) increased to Rs. 27m (FY17: Rs. 9m, FY16: Rs.48m) in line with improvement in profits during FY18. Overall borrowing declined to Rs. 38m (FY17: Rs. 105m, FY16: Rs. 186m) by end-FY18. Hence, FFO to total debt ratio improved to 0.70x (FY17: 0.09x, FY16: 0.26x) while FFO to long-term debt stood healthy at 0.96x (FY17: 0.19x, FY16: 0.64x). The debt service coverage ratio also improved to 1.30x (FY17: 0.55x, FY16: 1.66x). The current ratio stood higher 1.05x (FY17: 0.77x, FY16: 0.89x) with decrease in current liabilities mainly short term borrowings. Meanwhile, inventory plus trade receivables to short-term borrowings improved to 5.04x (FY17: 1.44x, FY16: 1.49x), which highlights adequate liquidity position of the company. The company completely retired its borrowings as at end-9MFY19 and projects to finance its working capital requirements from internal sources, going forward.

Adequate leverage indicators

Total equity base stood higher at Rs. 266m by end-FY18 (FY17: Rs. 219m; FY16: Rs. 244m) on the back of profit retention and increase in sponsors loan by 20m. The sponsor loan amounting to Rs. 77m at end-FY18 is payable at the discretion of the company and is interest free. The company was debt free at end-9MFY19.

Governance & Internal Audit

The Board of Directors of CTML comprises three members; representatives of the sponsoring family. The senior management team of the company comprises resources from the textile sector having relevant experience. The company has Visual Basic based ERP system in place. CTML has no internal audit department while “Horwath Hussian Chaudhury & Co.” are external auditors of the company.

Chakwal Textile Mills Limited
Appendix I

FINANCIAL SUMMARY		<i>(Amounts in PKR millions)</i>			
BALANCE SHEET	30-Jun-16	30-Jun-17	30-Jun-18	31-Mar-19	
Non-Current Assets	404	392	353	347	
Stock-in-Trade	89	38	37	30	
Trade Debts	65	35	6	19	
Advances and Deposits	60	57	86	53	
Other Assets	35	49	44	56	
Cash & Bank Balances	7	1	12	6	
Total Assets	660	572	538	511	
Trade and Other Payables	109	117	119	102	
Short Term Borrowings	110	58	10	-	
Long Term Liabilities subject to Financial Lease	76	47	28	-	
Total Interest Bearing Debt	186	105	38	-	
Other Liabilities	121	131	115	120	
Total Liabilities	416	353	272	222	
Sponsors Loan	65	57	77	71	
Tier 1 Equity (Inc. sponsors loan)	244	219	266	289	
Revaluation Reserves	-	-	-	-	
Total Equity including Revaluation Reserves	244	219	266	289	
INCOME STATEMENT	30-Jun-16	30-Jun-17	30-Jun-18	31-Mar-19	
Net Sales	1,342	1,432	1,574	1,447	
Gross Profit	86	33	42	62	
Finance Cost	16	15	4	-	
Profit after Tax	48	(17)	27	29	
RATIO ANALYSIS	30-Jun-16	30-Jun-17	30-Jun-18	31-Mar-19	
Gross Margin (%)	6.4	2.3	2.7	4.3	
Net Margin (%)	3.6	(1.2)	1.7	2.0	
Current Ratio (x)	0.89	0.77	1.05	1.41	
Net Working Capital	(33)	(55)	8	47	
Debt Leverage (x)	1.70	1.61	1.03	0.77	
Gearing (x)	0.76	0.48	0.14	-	
FFO	48	9	27	37	
FFO to Total Debt (x)	0.26	0.09	0.70	-	
FFO to Long Term Debt (x)	0.64	0.19	0.96	-	
Debt Servicing Coverage Ratio (x)	1.66	0.55	1.30	37	
Inventory + Receivables/Short-term Borrowings (x)	1.49	1.44	5.04	-	
ROAA (%)	7.3	(1.3)	2.4	2.8	
ROAE (%)	19.6	(3.6)	5.6	5.3	

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

VIS Credit Rating Company Limited

RATING SCALE & DEFINITIONS: ISSUES / ISSUERS

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

Rating Watch: VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.vis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.vis.com.pk/images/criteria_outlook.pdf

[SO] Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities and not on the basis of the credit quality of the issuing entity alone.

[blr] Rating: A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.vis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	Chakwal Textile Mills Limited				
Sector	Textiles				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	19-06-19	BBB-	A-2	Stable	Initial
Instrument Structure	N/A				
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.				
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