

Date

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Applicable Criteria

- Methodology | Correlation Between Long-term & Short-term Rating Scales | Jul-23
- Methodology | Rating Modifiers | Apr-24
- Methodology | Corporate Rating | Jul-23

Related Research

- Sector Study | Spinning | Sep-23

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PACRA Maintains Entity Ratings of Kohat Textile Mills Limited

Rating Type	Entity	
	Current (26-Jun-24)	Previous (26-Jun-23)
Action	Maintain	Maintain
Long Term	A-	A-
Short Term	A2	A2
Outlook	Stable	Stable
Rating Watch	-	-

Pakistan's spinning sector, with an estimated size of ~PKR 775bln, has lately come under pressure due to heightened commodity prices and high cost of business emanating from increased cotton/fibre prices leading to significant working capital requirements. This has eroded the bottom-line margins for the spinning sector players. The recent hike in energy tariffs further elevated the challenges for the industry. Overall, the industry's cash flow and inturn liquidity remains stretched. This led the industry's overall outlook to be placed on a Watch.

Kohat Textile Mills Limited ("Kohat Textile" or "the Company") ratings incorporate affiliation with Saif Group ('the Group'), having a substantial presence across various sectors of the economy. Kohat Textile was the Group's first venture in the spinning sector. The Company is engaged in yarn production, and currently, operates with a capacity of 44,508 spindles. Over time, the Company has managed to show consistent performance. During FY23, revenues posted ~21% uptick, mainly supported by increase in yarn price. However, margins and inturn profitability has posted a declining trajectory due to substantial increase in raw material (fibre) cost along with high finance cost. Additionally, escalating energy prices and higher wages have significantly impacted the Company's manufacturing cost. Substantial CAPEX has been incurred to shift on solar energy (currently its 2.1MW). This is expected to reduce the operational expenses, going forward. Moreover, the management believes that further enhancement in solar capacity (expected another CAPEX of 3MW) may benefit the Company, going forward. On the financial risk front, the Company's is adequately leveraged. However, the working capital cycle is elongated and coverages are adequate. The Company requires a cautious approach to manage overall risk, along with sustaining its position in the industry.

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 revenue and/or coverages as a result of the protracted downturn, which will increase financial risk. Support from Saif Group remains imperative to the ratings.

About the Entity

Kohat Textile Mills ("Kohat Textile" or "the Company") commenced operations in 1970 as a public limited company. The Company manufactures yarns with a capacity of 44,508 spindles. The Company's ownership vests with Saif Holdings (~77.98%), followed by financial institutions (~10%), the general public (~10.12%), and directors (~0.87%). The Company's Board is chaired by Mr. Osman Saifullah Khan. While, Mr. Assad Saifullah Khan heads the Company as the CEO. He is supported by team of experienced professionals.

The primary function of PACRA is to evaluate the capacity and willingness of an entity to honor its obligations. Our ratings reflect an independent, professional and impartial assessment of the risks associated with a particular instrument or an entity. PACRA's comprehensive offerings include instrument and entity credit ratings, insurer financial strength ratings, fund ratings, asset manager ratings and real estate gradings. PACRA opinion is not a recommendation to purchase, sell or hold a security, in as much as it does not comment on the security's market price or suitability for a particular investor.