

Indus Dyeing & Manufacturing Company Ltd.

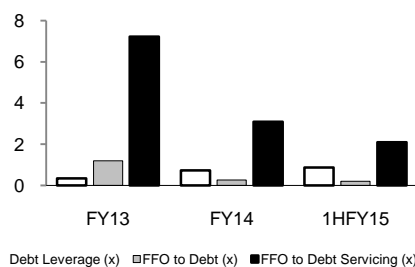
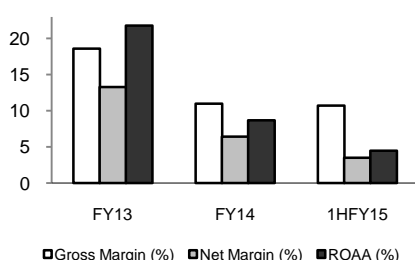
Chairman: Mian Mohammad Ahmed; Chief Executive: Mr. Shahzad Ahmed

May 6, 2015

Analysts: Talha Iqbal
Birjees Rahat

Category	Latest	Previous
Entity	A+ / A-1 May 4, '15	A+ / A-1 Dec 31, '13
Outlook	Stable May 4, '15	Stable Dec 31, '13

Key Financial Trends



(Rs. billion)	FY13	FY14	1HFY15
Net Sales	17.61	18.62	11.03
Net Profit	2.35	1.19	0.38
Tier-1 Equity	8.42	9.33	9.62
Debt Leverage	0.3(x)	0.7(x)	0.9(x)
Total Debt	2.02	5.56	6.71
Long Term Debt	0.92	2.30	2.07
FFO	2.41	1.42	0.68
FFO/Total Debt	1.2(x)	0.3(x)	0.2(x)
ROAE	30.33%	13.39%	8.06%
ROAA	21.77%	8.66%	4.48%

Rating Rationale

The assigned ratings reflect Indus Dyeing & Manufacturing Company Limited's (IDMCL) position as one of the leading players in the domestic spinning sector. The ratings also reflect healthy capitalization levels and adequate liquidity profile & coverage ratios. While leverage indicators and liquidity & coverage ratios have shown some weakness, they are still commensurate with the current outstanding ratings. Despite reduced cash flows, debt servicing coverage has remained over 1x. Ratings are constrained by weak spinning sector fundamentals in the backdrop of roll-back of China's aggressive procurement policy resulting in pressure on margins and profitability.

Local textile players, particularly yarn manufacturers, benefitted significantly from the Chinese cotton stockpiling policy during 2011-2013 resulting in sizeable jump in profitability. Given the roll-back of China's aggressive procurement policy, yarn prices have witnessed a significant decline, resulting in pressure on margins. The shift in textile paradigm from aggressive demand to competitive phase would challenge the business dynamics of spinning sector players. Inventory planning and margin management alongwith forward marketing would be key driver for business stability and growth. With significant growth in cotton production in India, Pakistan and USA, along with limited demand from China, cotton prices are expected to remain low, going forward.

Revenues of the company witnessed healthy growth during 1HFY15 on the back of enhancement in spinning capacity during FY14 to 172,712 spindles (FY13: 146,112). Around four-fifth of the total sales comprise export sales with China being the largest export destination. Concentration in sales continues to be on the higher side with top ten customers generating over one-third of total sales. In line with industry trend, gross margins witnessed a decline to 10.7% (FY14: 11%; FY13: 18.6%) in 1HFY15 due to appreciation in PKR, decline in yarn prices and expensive raw material in beginning stock. Going forward, profitability of the company is expected to be favorably impacted by growth in turnover, decline in power related cost and lower financing cost due to decline in interest rates.

Leverage indicators have trended upwards in order to finance expansion and higher inventory carried on balance sheet. However, gearing is still under 1x. With decline in profitability, funds flow from operations (FFO) has declined. However, FFO is still sufficient to meet current maturity of long-term borrowings as also to finance capex planned for FY15.

IDMCL has been in operations for over 5 decades. Majority shareholding (88.5%) is vested with the family members. Key management positions pertaining to finance, production and sales are also retained by the directors. During FY14, IDMCL completed acquisition of remaining shareholding of an associated company, Indus Homes Limited, making it a wholly owned subsidiary, while additional investment was also made in Indus Lyallpur Limited. Both these companies were profitable in FY14 and 1HFY15.

Overview of the Institution

Incorporated in 1957, IDMCL is a public limited company and is listed on the Karachi Stock Exchange. It operates at a capacity of 172,712 spindles, primarily manufacturing and exporting cotton yarn. IDMCL belongs to Indus Group, which is engaged in ginning, spinning and towel businesses. The financial statements for FY14 have been audited by M/s. Yousuf Adil Saleem & Co. [JCR-VIS]