RATING REPORT

Indus Dyeing & Manufacturing Company Limited (IDMC)

REPORT DATE:
July 31, 2018

RATING ANALYST:
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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	Long -term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Rating Date	*July 31st, 2018*		*January 26th, 2017*	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION	
Incorporated in 1955	**External auditors:** M/s Deloitte Yousuf Adil, Chartered Accountants
Public Listed Company	**Chairman:** Mr. Mian Mohammad Ahmed
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Shahzad Ahmed
CEO, Directors & Family – 88.4%	
Others – 11.6%	

APPLICABLE METHODOLOGY(IES)
JCR-VIS Entity Rating Criteria ***Industrial Corporates (May 2016)*** ***http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf***

Indus Dyeing and Manufacturing Company Limited

OVERVIEW OF THE INSTITUTION

Indus Dyeing & Manufacturing Company Limited (IDMC) was incorporated as a public limited company in Pakistan in 1955. IDMC operates under the umbrella of Indus Group of Company. The core business activity of the company is to manufacture and sell yarn.

Profile of Chairman

Mr. Mian Mohammad Ahmed laid the foundation of the Indus group of companies by setting up cotton ginning factories and later on establishing textile spinning. He is responsible for strategic and corporate planning.

Profile of CEO

Mr. Shahzad Ahmed spearheads the management team. He has obtained a degree in Marketing from USA.

Financial Snapshot

Net Equity: **9MFY18** – Rs. 10.5b, **FY17** – Rs. 9.9b.

Net Profit: **9MFY18** – Rs. 770.9m, **FY17** – Rs. 685.8m.

RATING RATIONALE

Indus Dyeing and Manufacturing Company Limited's (IDMC) core business is to manufacture and sell yarn. The company's production units comprise 6 manufacturing facilities (2 units located in Karachi, Hyderabad and Muzaffargarh each). The group has interests in greige fabric, home textile and manufacture and sale of yarn. IDMC also plans to set up a wind power plant with a capacity of 50MW which is expected to diversify income.

Rating Drivers

Industry: Industry dynamics and performance of the companies involved in the spinning sector are governed by the inherent volatility of yarn and cotton prices. Adverse changes in cotton and yarn prices may impact financial performance of companies in the sector. 2017 and 2018 has been a beneficial period for the spinning industry.

Sales: Although exports make up majority of the sales of the company, an increasing trend has been observed in local sales owing to better selling price from the same. In FY17, local sales mix accounted for 39.1% of the total sales (FY16: 33.6%) while export sales mix accounted for 61.2% of the total sales (FY16: 67.7%). Going forward, IDMC's sales mix may vary according to prices obtained through exports, after rupee devaluation.

Profitability: Gross margins in 9MFY18 improved to 10.2% (FY17: 8.7%). This increase can be attributed to both the increase in the sales price and cost price per unit of sales; however, as increase in sales price per unit was greater than the increase in cost price per unit gross margins have depicted improvement on a timeline basis. The same led to the net profit of IDMC for 9MFY18 to amount to Rs. 770.9m (FY17: Rs. 685.8m). Resultant net margins of the company measured at 4.7% for 9MFY18 (FY17: 3.5%).

Liquidity: Improvement in profitability in 9MFY18 led to healthier cash flows for IDMC for the same period. The increase in Funds From Operations (FFO) for 9MFY18A to Rs. 1,807.3m (FY17: Rs. 1,289.2m) led to an improvement in FFO/Long-term debt multiple which as at 9MFY18A measured at 106.9% (FY17: 87.3%). Similarly, FFO/Total debt multiple as at 9MFY18A increased to 27.1% (FY17: 23.9%), again exhibiting an improvement on a timeline basis. Additionally, Debt Service Coverage Ratio (DSCR) as at 9MFY18A decreased slightly to 3.22x (FY17: 3.34x) due to higher principal repayment.

Capitalization: The equity base of IDMC as at 9MFY18 increased to Rs. 10.5b (FY17: Rs 9.9b) on account of increase in the unappropriated profit to Rs. 3.3b as at 9MFY18 (FY17: Rs. 2.7b). IDMC's total debt increased to Rs. 6.7b at end 9MFY18 (FY17: Rs. 5.3b) owing to an increase in short-term borrowing in order to finance cotton procurement. Given the pattern of borrowing and equity profile of IDMC, gearing increased to 0.64x (FY17: 0.54x) while leverage increased to 0.85x as at 9MFY18 (FY17: 0.74x), respectively.

Outlook

IDMC's management has not undertaken capacity expansion initiatives for its production facilities. The management of IDMC has instead conducted a BMR activity to replace and upgrade spindle rings. The expansion will be entirely funded through internal capital generation. Going forward, the financial profile of IDMC is susceptible to industry risk whereby adverse changes in the yarn prices will directly impact the profitability margins.

Indus Dyeing & Manufacturing Limited — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**Mar-18 (A*)**	**Jun-17**	**Jun-16**	**Jun-15**
Fixed Assets	10,123.7	9,973.7	10,182.6	10,029.9
Investments	4,066.0	4,314.0	3,998.5	3,857.9
Stock-in-Trade	5,507.8	4,204.0	3,599.4	3,580.3
Trade Debts	2,118.0	1, 296.9	1,424.5	1,193.9
Cash & Bank Balances	231.7	250.0	583.7	53.6
Total Assets	19,361.6	17,229.9	16,782.5	15,667.1
Trade and Other Payables	1,689.1	1,522.4	1,211.5	980.0
Long Term Debt (including current maturity)	1,691.2	1,477.5	1,497.2	1,899.8
Short Term Debt	4,975.9	3.911.1	4,377.1	3,234.5
Tier-1 Equity	10,459.5	9,923.5	9,418.0	9,330.9
Total Equity	10,459.5	9,923.5	9,418.0	9,330.9
INCOME STATEMENT	**Mar-18 (A*)**	**Jun-17**	**Jun-16**	**Jun-15**
Net Sales	21,841.5	19,757.1	18,103.8	20,285.0
Gross Profit	2,217.5	1,723.7	1,129.0	1,604.9
Profit from Operations	1,564.4	1,140.4	520.7	848.5
Profit After Tax	1,027.9	685.8	91.9	276.3
RATIO ANALYSIS	**Mar-18 (A*)**	**Jun-17**	**Jun-16**	**Jun-15**
Gross Margin (%)	10.2%	8.7%	6.2%	7.9%
Net Margin (%)	4.7%	3.5%	0.5%	1.4%
FFO (A)	1,807.3	1,289.2	674.4	927.5
FFO to Total Debt (%) (A)	27.1%	23.9%	11.5%	18.1%
FFO to Long Term Debt (%) (A)	106.9%	87.3%	45.0%	48.8%
Debt Servicing Coverage Ratio (x) (A)	3.22	3.34	1.01	1.54
Gearing (x)	0.64	0.54	0.62	0.55
Leverage (x)	0.85	0.74	0.78	0.68
ROAA (%) (A)	5.6%	4.0%	0.6%	1.7%
ROAE (%) (A)	10.1%	7.1%	1.0%	3.0%

A* - Annualized

ISSUE/ISSUER RATING SCALE & DEFINITIONS — Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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	Indus Dyeing & Manufacturing Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	(see below)

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
7/31/2018	A+	A-1	Stable	Reaffirmed
1/26/2017	A+	A-1	Stable	Reaffirmed
5/4/2015	A+	A-1	Stable	Reaffirmed
12/31/2013	A+	A-1	Stable	Upgrade
2/10/2012	A	A-2	Stable	Reaffirmed
12/8/2010	A	A-2	Stable	Reaffirmed
8/28/2009	A	A-2	Stable	Reaffirmed

Instrument Structure	N/A
Statement by the Rating Team	JCR-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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