RATING REPORT

Indus Dyeing & Manufacturing Company Limited

REPORT DATE:
May 9, 2019

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	*May 9th, 2019*		*July 31st, 2018*	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION	
Incorporated in 1957	**External auditors:** M/s Deloitte Yousuf Adil, Chartered Accountants
Public Listed Company	**Chairman:** Mr. Mian Mohammad Ahmed
Key Shareholders:	**CEO:** Mr. Shahzad Ahmed
CEO, Directors and Family- 88.4% *Others- 11.6%*	

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

Indus Dyeing & Manufacturing Company Limited

OVERVIEW OF THE INSTITUTION

Indus Dyeing & Manufacturing Company Limited (IDMC) was incorporated as a public limited company in Pakistan in 1957. 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

RATING RATIONALE

Indus Dyeing and Manufacturing Company Limited's (IDMC) belongs to the Indus Group of Companies which has presence in cotton ginning, yarn manufacturing, griege fabric manufacturing, home textiles and power sectors. IDMC operates through three manufacturing facilities located in Karachi, Hyderabad and Muzaffargarh. The spinning segment operates through 178,896 spindles and has continued to operate at high utilization levels with capacity utilization reported at 87% (FY17: 90%; FY16: 93%; FY15: 88%) during FY18. Further expansion in installed capacity is planned through addition of over 8,000 new spindles which are projected to be operational by June'2019. All units of the company are operating continuously on gas based power generators. Grid based power is an alternate stand-by energy source in case of gas shortage and load shedding.

IDMC has also has a long-term investment amounting to Rs. 3.7b at end-FY18. These include investment in wholly owned subsidiaries Indus Homes Limited and Indus Lyallpur Limited and investment in associate Sunrays Textile Mills Limited. Given that these companies are in growth phase, no dividends have been received from the same. The Company also plans to diversify operations through investment in a 50MW wind power plant.

Rating Drivers

High cyclicality and competitiveness in spinning sector and country concentration in exports translates into high business risk profile. However, business risk profile is supported by favorable government policies for the textile sector and given expected elevated local demand in the backdrop of ongoing expansion in the value added segment.

Movement in cotton prices and cotton crop levels drives performance of spinning players in Pakistan. Given the sizeable deficit in local cotton production vis-à-vis demand, cotton prices have been increasing on a timeline basis. With cotton prices expected to remain elevated, risk of inventory losses is considered manageable. As with other local producers in the spinning sector, reliance on China as the major export market translates into some country concentration risk. However, business risk profile is supported by favorable government policies for the textile sector and given expected elevated local demand (with a number of players in the value added segment undergoing expansion).

Increase in topline in FY18 was a function of higher volumes and prices. Growth continued in the ongoing year primarily due to higher prices on the back of currency depreciation.

Sales revenue of the company witnessed an increase of 12% during FY18 and was reported at Rs. 22.1b (FY17: Rs. 19.8b). Increase was a function of rise in price and volumes. Exports sales continue to dominate the sales mix with its contribution increasing to 67% (FY17: 61%) during FY18. Exports and local sales mix ratio is projected at 60:40 which may vary with sales price fluctuations. Geographic concentration in exports is considered on the higher side with around three-fifth of total exports sales directed to Chinese trading houses. However client wise concentration is considered manageable with diversified local and international client base. During 1HFY19, the company recorded sales revenue of Rs. 12.1b (1HFY18: Rs. 10.8b) primarily being a function of higher average selling prices supported by sizeable currency devaluation during the period.

Higher margins on the back of inventory gains, rupee depreciation and exchange gains on foreign currency debtors have supported profitability indicators. Margins are expected to revert to normal

in Marketing from USA.	**levels in the absence of inventory gains and sizeable rupee depreciation.**

Gross margins (GMs) of the company have been increasing on a timeline basis with the same being reported at 14.4% (FY18: 10.6%, FY17: 8.7%) during 1HFY19. The upward trajectory is attributable to improving prices and inventory gains. Margins are expected to revert to normal levels in the absence of inventory gains and sizeable rupee depreciation. During FY18, overall profitability of the company was supported by other income generated through duty drawback on exports and gain on revaluation of foreign currency debtors. With abolishment of duty drawback incentive on yarn exports, other income witnessed a decline during 1HFY19. Furthermore, with improvement in GMs, net margins of the company stood at 8.6% (FY18: 6.2%, FY17: 3.5%) during 1HFY19.

Strong liquidity profile given healthy improvement in profitability

Liquidity profile of the company is considered strong with healthy cash flows in line with improving profitability. Funds from Operations increased to Rs. 2.2b (FY17: Rs. 1.3b) during FY18. With minimal increase in debt levels, FFO/Total Debt and FFO/Long Term Debt were reported greater at 36% (FY17: 24%) and 134% (FY17: 86%), respectively during FY18. Debt Service Coverage Ratio (DSCR) also remains strong at 3.6x (FY17: 3.3x) in FY18. Furthermore, aging profile of trade debts remain within manageable levels. Stock-in-trade and trade debts provide sufficient coverage to outstanding short term borrowings.

Healthy capitalization indicators

Equity base of the company has grown at a CAGR of 8% over the past two years (FY16-FY18) on account of profit retention. Dividend payout policy of the company has remained at conservative levels. Around three-fourth of the total debt of the company comprises short term borrowings to fund working capital requirements. Total debt amounted to Rs. 6.7b (FY18: Rs. 6.3b) at end-Decmber'18, increase in which is attributable to short term debt. Gearing and leverage indicators of IDMC were reported at 0.57x (FY18: 0.57x, FY17: 0.54x) and 0.80x (FY18: 0.78x, FY17: 0.74x), respectively at end-December'2018. With limited projected increase in debt levels for expansion and investment in wind power project (investment in new spindles will be funded through a Rs. 195m LTFF while equity investment in wind power will be funded through internal cash flows), leverage and gearing levels are expected to remain within manageable levels.

Indus Dyeing & Manufacturing Company Limited Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY16**	**FY17**	**FY18**	**1HFY19**
Fixed Assets	6,429	6,215	6,311	6,249
Long term Investments	3,723	3,730	3,690	3,690
Stock-in-Trade	3,599	4,204	4,716	7,301
Trade Debts	1,425	1,286	3,534	2,542
Cash & Bank Balances	584	250	116	132
Total Assets	16,782	17,230	19,691	21,262
Trade and Other Payables	1,211	1,516	1,920	2,164
Long Term Debt	1,497	1,478	1,677	1,579
Short Term Debt	4,377	3,911	4,595	5,135
Total Debt	5,874	5,389	6,272	6,714
Total Equity	9,418	9,924	11,071	11,822
INCOME STATEMENT				
Net Sales	18,104	19,757	22,090	12,135
Gross Profit	1,129	1,724	2,335	1,745
Profit After Tax	92	686	1,379	1,041
RATIO ANALYSIS				
Gross Margin (%)	6.2%	8.7%	10.6%	14.4%
Net Margin	0.5%	3.5%	6.2%	8.6%
Trade debts/Sales	8%	7%	16%	10%
FFO	674	1,271	2,243	1,551
FFO to Total Debt (%)	11%	24%	36%	46%
FFO to Long Term Debt (%)	45%	86%	134%	196%
Current Ratio (x)	1.1	1.2	1.4	1.5
(Stock+ Trade Debts)/ Short term borrowing	115%	140%	180%	192%
Debt Servicing Coverage Ratio (x)	1.0	3.3	3.6	5.3
Gearing (x)	0.62	0.54	0.57	0.57
Leverage (x)	0.78	0.74	0.78	0.80
Dividend Payout Ratio (%)	98%	47%	21%	0%
ROA (%)	1%	4%	7%	4.9%
ROE (%)	1%	7%	12%	8.8%

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	Indus Dyeing & Manufacturing Limited				
Sector	Textiles				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
			RATING TYPE: ENTITY		
	5/9/2019	A+	A-1	Stable	Reaffirmed
	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	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.				
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.				
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