RATING REPORT

Indus Dyeing & Manufacturing Company Limited

REPORT DATE:
August 4, 2022

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Rating Date	*August 4, 2022*		*June 10, 2021*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Maintained	

COMPANY INFORMATION	
Incorporated in 1957	**External auditors:** M/s Yousuf Adil Chartered Accountants
Public Listed Company	**Chairman:** Mr. Naveed Ahmed
Key Shareholders:	**CEO:** Mr. Shahzad Ahmed
CEO, Directors and Family - 72.6% *Others - 27.4%*	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria Methodology – Industrial Corporates (August 2021) https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Indus Dyeing & Manufacturing Company Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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. Naveed Ahmed graduated in Accounting from USA, after which he started his business career in Pakistan. He is responsible for yarn sales for the group and corporate activities of Indus Dyeing & Manufacturing Company Limited.

Profile of CEO

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

IDMC Operations & Group Profile

Indus Dyeing and Manufacturing Company Limited's (IDMC) is a flagship company of 'Indus Group of Companies', which is one of the well-established textile groups in the country with an annual turnover of over US$300m. The group has an extensive experience of more than six decades and operates through five different entities. Alongside, the group also has presence in the power sector through exposure in wind power project of 50MW by the name of Indus Wind Energy Limited.

Headquartered in Karachi, IDMC is primarily engaged in the production and sale of yarn with total installed capacity of 186,552 spindles at end-June'21 while further additions planned over the rating horizon. Production facilities are located in Karachi, Hyderabad and Muzaffargarh. All units are operating continuously on gas-based power generators. Grid based power is an alternate stand-by energy source in case of gas shortages.

IDMC Investments Portfolio

Total investment portfolio of the company comprises 17% (FY21: 23%, FY20: 20%) of the total asset base. Long-term investments stood higher at Rs. 6.2b (FY21: Rs. 5.95b) at end-9M'FY22 on the back of increased investment in Indus Lyallpur Limited (ILL) with shareholding at 89.24% (FY20: 75.82%). In FY23, IDMC will further invest in ILL and own 100% shares of the company. Baring Sunrays Textile Mills Limited (STML), which is an associate undertaking, remaining all the investments are wholly owned subsidiaries. Investment in IWEL also increased in FY21.

Table 1: Long-Term Investments

(Rs. in millions)	FY20	FY21	9MFY22
Sunrays Textile Mills Limited (STML)	13	13	13
Indus Home Limited (IHL)	2,491	2,491	2,491
Indus Lyallpur Limited (ILL)	1,185	1,185	1,435
Indus Wind Energy Limited (IWEL)	460	2,260	2,260
Total	**4,150**	**5,950**	**6,200**

The company also holds a short-term investment portfolio to the tune of Rs. 236m comprising exposure in listed equities (some key scrips include UBL, KEL, Sitara Chemical Industries Limited, and Bestway Cement) and mutual funds. Dividend income from the same increased in FY21 to Rs. 55m (FY20: Rs. 5.3m). With declining market index and challenging macroeconomic environment, stream of dividend income may be impacted over the rating horizon.

Ongoing BMR activities will help to enhance production capacity.

The company is currently working on an expansion plan at its Korangi (Karachi) facility. As part of that, 14,000 additional spindles will be installed at a total cost of Rs. 3.3b, which will entirely be financed via LTFF. The project is expected to commence operations by end-Dec'22. Furthermore, a piece of land worth Rs. 837m was purchased in Nooriabad during FY21, on which 10 go-downs are to be built. As of May'22, the construction work was 90% complete. Total capacity available and utilization levels for the last two years are given in the table below with utilization levels remaining on the higher side above 95%.

	FY20	FY21
Number of spindles installed	184,050	186,552
Number of spindles worked	175,150	182,974
Number of working days	365	365
Number of shifts per day	3	3
Installed capacity of yarn – Lbs (Avg. 20 Count)	130,903,511	134,055,108
Actual production of yarn - Lbs (Avg. 20 Count)	104,245,482	106,817,735

Key Rating Drivers

Business risk profile is supported by industry wide growth in exports over the last year

Surge in textile exports has continued in FY22 as COVID-19 related restriction are lifted across the globe. In the period July-April 2022, businesses in Pakistan earned $16.0b from the export of textile and apparel products, an increase of 26% year-on-year. Category wise, knitwear was the commodity that contributed the most, followed by ready-made garments and bed wear. With an investment plan of $3.5b in place for the sector, exports are projected to reach a figure of $21b for FY22, which will be a 40% increase over the last year.

The margins of textile companies have broadly depicted improvement despite the uptick in raw material costs, given that the same was offset by exchange rate movement. Nevertheless, higher raw material pricing has increased the working capital requirements for the companies in the sector, which is likely to weigh on the liquidity of textile players. Spinning players enjoyed inventory gains and benefits of rising yarn prices in the international market. Due to relatively high demand in comparison to the supply, cotton prices in Pakistan depicted a rise of around 80% in the first 11 months of FY22; however, a sharp decline has been observed since then. The order book for the industry is expected to remain adequate in the ongoing year easing our business risk concerns.

Double-Digit growth in topline being largely a function of higher average selling prices coupled with volumetric growth.

Revenue base of the company increased by 22% in FY21 to Rs. 32.9b (FY20: Rs. 27.1b) contributed by a 15% increase in ASP and 7% volumetric growth. For 9MFY22 the same was reported higher contributed by both elements. Export sales continue to account for a major proportion (more than 65%) of revenue, with China being the main export destination. Although geographic concentration is on the higher side, comfort is drawn from the fact that the entity has diversified client base in export and local markets. This enables the company to sustain the growth in topline even if there is a fall in demand from some clients. Going forward, over the rating horizon, although prices are expected to stabilize, management targets revenue base to improve in light of the expansion plan in pipeline.

Inventory gains and rising yarn prices yielded higher Gross Margins. Overall profitability profile also supported by higher other income.

A noticeable improvement has been observed in the gross margin of IDMC over the last two years. For 9MFY22, it was reported at 20.7% (FY21: 15.3%, FY20: 8.3%) contributed by rising yarn prices and inventory gains as the company procures inventory in advance. However, gross margins going forward are expected to decline and stabilize. Operating expenses of the company inclined in line with revenue base. Overall profitability profile of the company was supported by higher other income to the tune of Rs. 476.6m (FY20: Rs. 195.9m) in FY21 emanating from discounting of GIDC, exchange gain, and higher dividend income. However, with declining market index and challenging macroeconomic environment, stream of dividend income may be impacted over the rating horizon. With higher profit levels, WPPF expenses increased in FY21. Furthermore, with elevated debt levels and rising interest rates rendered higher finance costs on the books in FY21 and 9MFY22. The impact of rising interest rates on current and projected incremental debt is targeted to be off-set by higher sales revenue, as per management.

Liquidity profile has strengthened on the back of a substantial rise in profits.

Funds from Operations (FFO) of the company depicted a significant increase during FY21 and 9MFY22, mainly due to higher profitability. Consequently, enhancement in cash flow coverages and debt servicing ability was observed. At end-9MFY22, FFO to Total Debt, FFO to Long Term Debt, and Debt Servicing Coverage were reported at 68.8% (FY21: 60.5%, FY20: 25.0%), 185.2% (FY21: 110.3%, FY20: 67.5%), and 5.3x (FY21: 5.9x, FY20: 2.8), respectively. Stock in trade and trade debts provide sufficient coverage against short-term borrowings, while current ratio remained at a reasonable level as well. Liquidity profile is further bolstered by presence of liquid short-term investments on books in the stock exchange and mutual funds. Aging of trade debts profile is also considered manageable with a major portion (84%) of the outstanding amount not being due at end-FY21.

Capitalization indicators trended upwards in 9MFY22 largely to finance working capital requirements. Going forward, the same are expected to go up to finance expansion plan, however they are expected to remain below 1.00x.

Due to a noticeable uptick in profits earned during FY21 and 9MFY22, equity base of the company expanded. The company issued 200% bonus shares in FY21 against dividend payment as evident from increase in paid-up-capital. Growth in equity base helped to mitigate the impact of the rise in the quantum of debt over the period. Consequently, at end-9MFY22, leverage ratio and gearing ratio although increased but were reported at satisfactory levels of 0.83x (FY21: 0.68x, FY20: 0.75x) and 0.59x (FY21: 0.44x, FY20: 0.47x), respectively. Going forward, further drawdown of long-term debt to the tune of Rs. 3.3b is projected to finance the ongoing capacity expansion project with additional working capital requirement of Rs. 400m. Although gearing

	levels expected to increase, the same are expected to remain below 1.00x through the major retention of projected consistent growth in profits.

Indus Dyeing & Manufacturing Company Limited Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*				
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**9MFY22**
Fixed Assets	6,678	6,384	7,202	9,202
Long term Investments	3,730	4,150	5,950	6,200
Stock-in-Trade	6,384	6,637	7,123	12,988
Trade Debts	4,480	3,390	4,788	7,946
Cash & Bank Balances	176	116	177	189
Total Assets	22,717	21,861	26,225	37,913
Trade and Other Payables	2,387	1,850	2,380	3,393
Long Term Debt	7,237	2,169	3,717	4,518
Short Term Debt	5,140	3,696	3,062	7,634
Total Debt	12,377	5,865	6,779	12,152
Paid Up Capital	181	181	542	542
Total Equity	12,503	12,468	15,582	20,729
INCOME STATEMENT				
Net Sales	24,926	27,101	32,907	36,001
Gross Profit	2,702	2,256	5,042	7,448
Profit Before Tax	2,048	1,245	3,927	5,774
Profit After Tax	1,724	958	3,304	5,419
RATIO ANALYSIS				
Gross Margin (%)	10.8%	8.3%	15.3%	20.7%
Net Margin	6.9%	3.5%	10.0%	15.1%
Trade debts/Sales	18%	13%	11%	17%
FFO	2,244	1,464	4,100	6,290
FFO to Total Debt (%)	18%	25.0%	60.5%	68.8%
FFO to Long Term Debt (%)	31%	67.5%	110.3%	185.2%
Current Ratio (x)	1.6	1.9	2.1	1.9
(Stock+Trade Debts)/ Short term borrowing	211%	271%	389%	274%
Debt Servicing Coverage Ratio (x)	3.6	2.8	5.9	5.3
Gearing (x)	0.99	0.47	0.44	0.59
Leverage (x)	0.82	0.75	0.68	0.83
Dividend Payout (%)		17%	49%	5%
ROA (%)	8%	4%	17%	19%
ROE (%)	14%	8%	28%	35%

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				
8/4/2022	A+	A-1	Stable	Reaffirmed
6/10/2021	A+	A-1	Stable	Maintained
4/29/2020	A+	A-1	Rating Watch-Developing	Maintained
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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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Zahid Mahmood	Group CFO	June 23, 2022
Mr. Muhammad Adeel	Manager Financial Planning & Reporting.	
Yaseen Hamidia	Chief Internal Auditor	
Malik Abdul Momin	Marketing Manager	