RATING REPORT

Indus Dyeing & Manufacturing Company Limited

REPORT DATE:
September 28, 2023

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	*September 28, 2023*		*August 4, 2022*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	

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)

Applicable Rating Criteria: Corporates (May 2023):
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)

VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.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. 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.

RATING RATIONALE

IDMC Operations & Group Profile

Indus Dyeing and Manufacturing Company Limited's (IDMC) is the 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 197,448 spindles at end-June'22. 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 13% (FY22: 17%, FY21: 23%) of the total asset base at end-Mar'23. Long-term investments stood higher at Rs. 6.4b (FY22: Rs. 6.4b; FY21: Rs. 6.0b) at end-9M'FY23 on the back of increased investment in Indus Lyallpur Limited (ILL) with shareholding having grown to 100% (FY21: 75.82%). Baring Sunrays Textile Mills Limited (STML), which is an associate undertaking, all the remaining investments are wholly owned subsidiaries.

(Rs. in millions)	FY20	FY21	FY22	9MFY23
Sunrays Textile Mills Limited (STML)	13	13	13	13
Indus Home Limited (IHL)	2,491	2,491	2,491	2,491
Indus Lyallpur Limited (ILL)	1,185	1,185	1,635	1,635
Indus Wind Energy Limited (IWEL)	460	2,260	2,260	2,260
Total	**4,150**	**5,950**	**6,400**	**6,400**

At end-Mar'23, the company also holds a short-term investment portfolio to the tune of Rs. 35m (FY22: Rs. 77m) comprising exposure in listed equities (some key scrips include UBL, KEL, Sitara Chemical Industries Limited, and Bestway Cement) and mutual funds. With slowdown in overall macroeconomic environment, dividend income from the short-term investment portfolio has remained subdued with the same reported at Rs. 2.3m (FY22: Rs. 6m, FY21: Rs. 55m). With declining market index and challenging macroeconomic environment, stream of dividend income may continue to remain restrained over the rating horizon.

Enhancement in production capacities on the back of timely BMR.

During FY22 and 9MFY23, the Company has incurred a total capex of around Rs. 7.6b that involves various BMR activities along with additions in spindles. BMR activities included purchasing factory equipment and vehicles as well as installing solar panels to optimize its operational efficiency.

Moreover, the Company has successfully completed its expansion plan for its Korangi (Karachi) facility, installing 14000 additional spindles at a cost of Rs. 3.3b, financed entirely via LTFF. The project has been operational since July'23. The management plans to increase the total installed capacity to 198,000 spindles by 1HFY23, cost for which has already been incurred till June'23. Furthermore, the Company has constructed go-downs on the land acquired in Nooriabad during FY21. Total capacity available and utilization levels are given in the table below with levels remaining on the higher side.

	FY21	FY22	9MFY23*
Number of spindles installed	186,552	197,448	171,435
Number of spindles worked	182,974	195,864	165,260
Number of working days	365	365	274
Number of shifts per day	3	3	3
Installed capacity of yarn – Lbs (Avg. 20 Count)	134,055,108	133,412,892	95,854,448
Actual production of yarn - Lbs (Avg. 20 Count)	106,817,735	111,775,140	83,783,716
Capacity Utilization	79.8%	84.2%	87.5%

**The Capacity is for emd-Mar'23. For full year the capacity is around 186,000 spindles.*

<u>Key Rating Drivers</u>

Business risk profile is constrained by current weak macroeconomic environment both globally and locally as evident by demand slowdown, high interest rate situation, inflationary pressures and ongoing energy crisis. These factors pose a challenge to margins sustainability and future growth.

The local spinning sector is highly organized, comprising of 477 small and large-scale spinning mills, making the industry competitive. During FY23, the overall textile industry faced significant challenges arising from flash flooding which inundated about a third of the country under water, destroying vast amounts of crops particularly in the Sindh, Southern Punjab and Baluchistan regions. About 45% of the total cotton crop was damaged, resulting in a significant drop in output to 4.76m bales during 9MFY23, against an annual target of 9m bales. Combined with higher input costs of fertilizers and energy, prices increased sharply to a 12-year high of Rs. 21,600/maund during March'23. Timeline price changes can be seen below:

Table: Cotton Prices Trend (In Rs.)

	FY19	FY20	FY21	FY22	FY23	2M'FY24
Per Maund	8,770	8,860	13,000	17,380	18,500	19,200
YoY % Change	26%	1%	32%	34%	*6.4%*	*3.8%*

Moreover, quantum of raw cotton imports has decreased during FY23 due to import restrictions and severe currency devaluation, declining by about 13.2% YoY to 683,911 MT (FY22: 788,107 MT). Consequently, besides affecting profit margins, higher raw material prices increasing the working capital requirements have negatively affected the liquidity profile of the overall textile sector. Additionally, with supply and demand constraints, cotton yarn output has declined notably during FY23 by about 22.1% to 2.7m MT (FY22: 3.5m MT). Going forward, industry players expect cotton output to breach the 10m bales mark for FY24 due to favorable weather conditions, increase in minimum support price and governmental financial assistance to farmers for purchase of raw materials, particularly in Punjab. However, as per estimates, production is still projected to fall short of the annual target of 12.7m MT.

In terms of exports, textile proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally broke the threshold, coming in at USD 32.4b. Textile sector contributes nearly one-fourth to industrial value-added segment and 8.5% to the country's GDP, with an estimated market size of around Rs. 4.0tr. Barring seasonal and cyclical fluctuations, textiles sector has maintained an average share of about 60% in national exports.

Table: Pakistan Export Statistics (in USD millions)

	FY20	FY21	FY22	10M'FY22	10M'FY23
PAKISTAN TOTAL EXPORTS	22,536	25,639	32,450	26,858	23,211
TEXTILE EXPORTS	12,851	14,492	18,525	15,174	14,178
PKR/USD AVERAGE RATE	158.0	160.0	177.5	174.4	245.4

Source: SBP

Export revenues from textile sector have noted sizeable growth over the years (FY22: $19.3b FY21: $15.4b; FY20: $12.5b; FY19: $13.6b). Knitwear, Readymade and Bed wear segments continue to contribute higher than other segments, with a cumulative contribution of more than 60% in textile exports. While the growth was primarily driven by volume (excluding knitwear and cotton yarn), higher prices also boosted exports in FY22. However, current fiscal year has been significantly impacted due to challenging global and local macroeconomic environment and 10M export proceeds (in value terms) reflect a year-on-year (YoY) decline of ~14%.

Table: Textile Export Details (in USD millions)

	FY20	FY21	FY22	10M'FY22	10M'FY23
High Value-Added Segment	**9,669**	**12,427**	**15,605**	**12,908**	**11,337**
- Knitwear	2,794	3,815	5,121	4,218	3,712
- Readymade Garments	2,552	3,033	3,905	3,214	2,905
- Bed wear	2,151	2,772	3,293	2,727	2,250
- Towels	711	938	1,111	928	825
- Made-up Articles	591	756	849	710	585
- Art, Silk & Synthetic Textile	315	370	460	385	343
- Others	555	743	866	725	718
Low to medium Value-Added Segment	**2,858**	**2,972**	**3,717**	**3,074**	**2,372**
- Cotton Cloth	1,830	1,921	2,438	2,006	1,685
- Cotton Yarn	984	1,017	1,207	1,006	637
- Others	43	34	72	62	51
Total	**12,527**	**15,399**	**19,332**	**15,982**	**13,709**

Source: PBS

Global and domestic challenges, such as slowdown in export demand (primarily from North America and the EU, which has begun to materialize in Pakistan's monthly export proceeds) due to recessionary trend, industrial gas load shedding expected in the country, and rising production costs due to inflation, will weigh on the business risk profile going forward. These factors may result in competitive market pricing for exporters.

Double-Digit growth in topline during FY22 largely a function of higher average selling prices; however slowdown noticed in 9MFY23

- Revenue base of the company witnessed a jump of 50% and was reported higher at Rs. 49.5b in FY22 (FY21: Rs. 33.1b) driven by higher average selling prices of yarn.
- Sales mix predominantly comprised yarn which accounted for 96% (FY21: 84%) of net sales during FY22. Product mix also consists a small proportion (4%) of cotton, fibre and waste material sold.
- Export sales continue to account for a major proportion (around 84%) 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.
- During 9MFY23, revenue of the Company was recorded at Rs. 34.2b depicting a decline of 5.5% as compared to 9MFY23.
- Customer concentration in the Local sales category has increased over the review period with top 10 customers accounting for 34% of total local sales during 9MFY23 (FY22: 22%; FY21: 21%). However, as per management, client concentration risk is partially eliminated due to long-term association with the existing clientele.
- Going forward, management expects revenue base to gradually increase due to consistent demand of the product which can be catered through the incremental available capacity. Expected ease in LC constraints will also contribute positively to the upward trend in the top line.

Margins under pressure due to rising input costs and higher financial charges

- In absolute terms, gross profit of the Company increased to Rs. 10.4b (FY21: 4.9b; FY20: Rs. 2.3b) in FY22. Subsequently, gross margins increased to 20.9% (FY21: 15.0%; FY20: 8.3%) in the same period on account of strong revenue growth and inventory gains.
- The same was reported significantly lower at 8.0% in 9MFY23 due to lower annualized topline and higher input costs, particularly cotton and energy costs.
- Proportion of imported cotton comprised around 85% of the total raw material procurement during 9MFY23.
- Finance charges were reported higher at Rs. 882m (FY21: Rs. 591m; FY20: Rs. 408m) in FY22 mainly due to higher benchmark rates on higher borrowing levels in FY22 to finance expansion.
- Financial costs further escalated in 9MFY23 due to unavailability of LTFF and growth in the proportion of KIBOR based loans.
- Dividend income from the investment provide support to the bottom-line; however, the same depicted slowdown in the review period.
- Net margins of the Company plunged to 2.0% in 9MFY23 (FY22: 15.5%, FY21: 9.7%) on account of lower gross margins and elevated financial charges.
- Amidst a challenging macroeconomic environment, improving margins will be important from a ratings perspective.

Weakening in liquidity profile during 9MFY23

- Funds from Operation (FFO) of the Company increased to Rs. 8.8b (FY21: Rs.4.0b) in FY22 being a function of significant increase in quantum of profits in absolute terms. In line with the high profitability profile, cash flow coverages against outstanding obligations have also witnessed strengthening, despite elevated debt levels in FY22.
- FFO to Total Debt and FFO to Long-Term Debt inclined to 87% (FY21: 59%) and 170% (FY21: 108%) respectively during FY22.
- However, the same sharply declined to 8% and 20% respectively during 9MFY23, on account of low earning profile.
- Similarly, Debt Servicing ratio (DSCR) also steeply fell to 1.3x (FY22: 6.5x; FY21: 8.1x) during 9MFY23.
- Current ratio as of end-Mar'23 stood at 1.7x, which is comfortably above the minimum threshold level. Short-term borrowing coverage is also deemed adequate at 224% at end-Mar'23.
- Further, liquidity profile is supported by presence of liquid short-term investments on books in the stock exchange market and mutual funds. However, quantum of the same have declined during the review period.
- Aging profile of trade debts is considered manageable with 97% of outstanding trade receivables due within two months.
- Ratings remain dependent on improvement of the liquidity indicators as per the benchmarks for the assigned ratings.

Capitalisation profile of the Company is supported by a sizeable equity base; however, leverage indicators have grown at end-Mar'23 due to rise in debt levels

- Tier- I Equity base of the company increased to Rs. 23.9b (FY22: 23.3b; FY21: Rs. 15.9b) at end-Mar'23 through profit retention.
- The debt profile comprises a mix of long-term (37%) and short-term borrowings (63%) ay end-Mar'23. The outstanding balance of long-term borrowings, inclusive of current maturity, increased to Rs. 7.0b (FY22: Rs. 5.2b; FY21: Rs. 3.7b) at end-Mar'23 due to financing for expansion plans.
- Short-term borrowings increased to Rs. 11.8b (FY22: Rs. 4.9b; FY21: Rs. 3.1b) at end-9MFY23 to meet higher working capital requirements in lieu of rising raw materials costs.
- With growth in quantum of debt (9MFY23: Rs.18.8b; FY22: Rs. 10.1b; FY21: Rs. 6.8b) being greater than profit retention in the review period, gearing and debt leverage ratios have depicted an uptick at period ended-9MFY23. The same were reported at 0.78x (FY22: 0.43x; FY21: 0.43x) and 1.00x (FY22: 0.65x; FY21: 0.67x) respectively, at end-9MFY23.
- Given there are no sizable expansion plans in perspective, the leverage indicators are projected to remain within manageable levels during the rating horizon.
- However, given the challenging market dynamics and pressure on margins, maintaining the financial risk profile over the rating horizon will remain critical for ratings.

Indus Dyeing & Manufacturing Company Limited Appendix I

FINANCIAL SUMMARY *(amounts in PKR millions)*					
BALANCE SHEET	**FY19**	**FY20**	**FY21**	**FY22**	**9MFY23**
Fixed Assets	6,678	6,384	7,202	9,921	12,239
Long term Investments	3,730	4,150	5,950	6,400	6,400
Stock-in-Trade	6,384	6,637	7,394	11,160	17,253
Trade Debts	4,480	3,390	4,788	9,348	9,190
Cash & Bank Balances	176	116	173	310	338
Total Assets	22,717	21,861	26,496	38,358	47,830
Trade and Other Payables	2,387	1,850	2,380	3,558	3,526
Long Term Debt	2,096	2,169	3,717	5,188	6,955
Short Term Debt	5,140	3,696	3,062	4,914	11,803
Total Debt	7,237	5,865	6,779	10,102	18,758
Paid Up Capital	181	181	542	542	542
Total Equity	12,503	12,468	15,853	23,262	23,937
INCOME STATEMENT					
Net Sales	24,926	27,101	33,065	49,461	34,173
Gross Profit	2,702	2,256	4,956	10,360	2,750
Profit Before Tax	2,048	1,245	3,835	8,165	994
Profit After Tax	1,724	958	3,212	7,687	675
RATIO ANALYSIS					
Gross Margin (%)	10.8%	8.3%	15.0%	20.9%	8.0%
Net Margin	6.9%	3.5%	9.7%	15.5%	2.0%
Trade debts/Sales	18%	13%	14%	19%	20%
FFO	2,244	1,464	4,007	8,801	1,066
FFO to Total Debt (%)	31%	25%	59%	87%	8%
FFO to Long Term Debt (%)	107%	67%	108%	170%	20%
Current Ratio (x)	1.6	1.9	2.1	2.3	1.7
(Stock+Trade Debts)/ Short term borrowing	211%	271%	398%	417%	224%
Debt Servicing Coverage Ratio (x)	3.6	2.8	8.1	6.5	1.3
Gearing (x)	0.58	0.47	0.43	0.43	0.78
Leverage (x)	0.82	0.75	0.67	0.65	1.00
ROA (%)	8%	4%	13%	24%	2%
ROE (%)	15%	8%	23%	39%	4%

REGULATORY DISCLOSURES — Appendix II

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				
09/28/2023	A+	A-1	Stable	Reaffirmed
08/04/2022	A+	A-1	Stable	Reaffirmed
06/10/2021	A+	A-1	Stable	Maintained
04/29/2020	A+	A-1	Rating Watch-Developing	Maintained
05/09/2019	A+	A-1	Stable	Reaffirmed
07/31/2018	A+	A-1	Stable	Reaffirmed
01/26/2017	A+	A-1	Stable	Reaffirmed
05/04/2015	A+	A-1	Stable	Reaffirmed
12/31/2013	A+	A-1	Stable	Upgrade
02/10/2012	A	A-2	Stable	Reaffirmed
12/08/2010	A	A-2	Stable	Reaffirmed
08/28/2009	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
Shafqat Masood	Senior Vice President	25th August, 2023
Yasir Anwar	Chief Financial Officer	