

RATING REPORT

Indus Dyeing & Manufacturing Company Limited

REPORT DATE:

October 25, 2024

RATING ANALYSTS:Saeb Muhammad Jafri
saeb.jafri@vis.com.pk**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	October 25, 2024		September 28, 2023	
Rating Outlook/Watch	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 (10% and above):	CEO: Mr. Shahzad Ahmed
<i>CEO, Directors and Family - 72.6%</i> <i>Others - 27.4%</i>	

APPLICABLE METHODOLOGY(IES)*Applicable Rating Criteria: Corporates:*<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
RATING RATIONALE

Indus Dyeing & Manufacturing Company Limited 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.

Company Profile

Indus Dyeing and Manufacturing Company Limited's ('IDMC' or 'the Company') is the flagship company of 'Indus Group of Companies', which is one of the well-established textile groups in the country. The group has 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. Production facilities are located in Karachi, Hyderabad and Muzaffargarh. All units are operating continuously on gas-based power generators. Grid based and solar based powers are alternate stand-by energy sources in case of gas and electricity shortages.

IDMC Investments Portfolio

The company's total investment portfolio accounted for 14.6% of the total asset base at FY24 (FY23: 14.1%). Long-term investments stood at PKR 6.40 billion at FY24 (FY23: PKR 6.40 billion; FY22: PKR 6.40 billion). With the exception of Sunrays Textile Mills Limited (STML), which is classified as an associate undertaking, all remaining investments are wholly owned subsidiaries.

Long-term Investments (PKR mln)	FY21	FY22	FY23	FY24
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	1,635	1,635	1,635
Indus Wind Energy Limited (IWEL)	2,260	2,260	2,260	2,260
Total	5,950	6,400	6,400	6,400

Operational Profile

In FY24 the Company increased the number of spindles to 208,684 (FY23: 193,493 spindles), while effectively operating 197,878 spindles (166,333 spindles) during this period. As such, installed capacity for yarn (average 20 count) increased to 150.07 million lbs (FY23: 132.421 million lbs), while actual production increased to 138.13 million lbs (FY23: 105.55 million lbs). Capacity utilization improved to 92.05% (FY23: 79.71%). The growth in utilization and production is primarily attributed to a significant increase in exports to China.

Production Capacity and Utilization	FY22A	FY23A	FY24A
Number of spindles installed	197,448	193,493	208,684.00
Number of spindles worked	195,864	166,333	197,878.00
Installed capacity - Lbs (Avg. 20 Count)	133,412,892	132,421,772	150,066,463
Actual production - Lbs (Avg. 20 Count)	111,775,140	105,552,620	138,129,594
Utilization	83.78%	79.71%	92.05%

Key Rating Drivers

Business risk profile characterized by challenging local and global economic and geopolitical conditions, and intense competition on a global level as an export-oriented industry.

Assigned ratings incorporate the medium to high business risk profile of the textile sector in Pakistan, marked by high exposure to economic cyclicality and intense competition. The sector's performance is influenced by broader economic conditions, rendering it susceptible to demand fluctuations driven by economic factors. Furthermore, as a substantial contributor to total exports, the textile industry faces exposure to global economic cyclicality, geopolitical challenges, and liquidity constraints due to government delays in sales tax refunds.

Moreover, the industry is also sensitive to supply-side risks, including local cotton crop production which impacts margins, and reliance on imported raw materials, exposing the sector to significant exchange rate risk and government import restrictions.

Despite these challenges, textile companies have demonstrated resilience by maintaining operational efficiency, consistent product quality, strategic raw material procurement, and better supply chain control, achieving economies of scale and managing risks associated with the volatile business environment.

Improving topline despite economic challenges. However, margins remain constrained.

In FY24, the Company's revenue increased to PKR 67,707.78 million (FY23: PKR 49,318.53 million), primarily supported by a 36% year-on-year (YoY) growth in exports, which rose to PKR 44,062 million (FY23: PKR 30,234 million). Local sales increased to PKR 28,141.18 million (FY23: PKR 22,564 million) due to improved pricing. Exports contributed 65.07% of total revenue (FY23: 61.31%), driven by a 134.11% YoY increase in exports to China. IDMC's exports to China surged to PKR 22,640 mln from PKR 9,563 mln in the previous year.

Despite an increase in prices, gross margins remained under pressure, recorded at 6.02% (FY23: 7.46%), due to higher input costs. Cost pressures during the period were primarily attributed to elevated inflation, along with rising gas and power tariffs. The Company was unable to pass on the full extent of these cost increases to customers.

Conservative capitalization profile

The Company's capitalization profile has remained stable, with gearing and leverage ratios consistently below 1.00x. The reduction in long-term debt, previously drawn for BMR and capacity expansion projects, along with lower short-term debt utilization due to improved internal cash generation, has contributed to a further improvement in the capitalization profile. Consequently, gearing and leverage ratios stood at 0.61x (FY23: 0.73x) and 0.84x (FY23: 0.91x) respectively in FY24.

Coverage under pressure. Healthy liquidity metrics provide comfort to ratings.

In FY24, an increase in financial charges, coupled with a one-time additional tax payment, contributed to a decline in Funds from Operations (FFO), leading to a

contraction in the debt service coverage ratio (DSCR) to 0.76x (FY23: 1.07x). Despite a gradual reduction over previous periods, the liquidity profile remained stable, with the current ratio recorded at 1.74x in FY24 (FY23: 1.78x, FY22: 2.29x). Short-term debt coverage continued to reflect sound levels, standing at 2.80x in FY24 (FY23: 2.55x, FY22: 4.27x).

On a consolidated basis, IDMC's DSCR, despite the contraction, remains sufficient to meet near-term obligations, maintaining at 1.0x (FY23: 1.6x).

In conclusion, FFO remains constrained, although the availability of short-term credit lines supports the ability to meet immediate obligations. Improvement in FFO will be a key consideration moving forward. The recent reduction in local policy rates, alongside anticipated further adjustments, is expected to ease pressure on DSCR. Additionally, the coverage was impacted by a substantial one-time tax payment, which is not expected to recur.

Indus Dyeing & Manufacturing Company Limited
Appendix I

Financial Summary			
Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A
Property, plant and equipment	9,876.89	12,777.39	12,952.75
Long-term Investments	6,399.98	6,399.99	6,399.99
Stock-in-trade	11,159.68	14,180.10	11,164.03
Trade debts	9,348.19	10,239.28	10,528.72
Short-term Investments	0.00	0.00	0.00
Cash & Bank Balances	309.88	287.56	184.87
Other Assets	1,263.76	1,577.19	2,630.07
Total Assets	38,358.38	45,461.51	43,860.43
Creditors	533.99	627.03	893.99
Long-term Debt (incl. current portion)	5,719.01	7,558.76	6,436.10
Short-Term Borrowings	4,914.09	9,823.28	8,054.58
Total Debt	10,633.10	17,382.04	14,490.68
Other Liabilities	3,929.65	3,620.23	4,626.58
Total Liabilities	15,096.74	21,629.30	20,011.25
Paid up Capital	542.21	542.21	542.21
Revenue Reserve	22,697.00	8,289.99	17,284.54
Other Equity (excl. Revaluation Surplus)	22.43	15,000.00	6,022.43
Equity (excl. Revaluation Surplus)	23,261.64	23,832.20	23,849.18
Income Statement (PKR Millions)	FY22A	FY23A	FY24A
Net Sales	49,461.11	49,318.54	67,707.79
Gross Profit	10,360.45	3,679.33	4,076.84
Operating Profit	9,046.46	2,756.82	3,002.66
Finance Costs	881.84	1,567.85	2,563.52
Profit Before Tax	8,164.62	1,188.97	439.14
Profit After Tax	7,687.31	707.95	73.00
Ratio Analysis	FY22A	FY23A	FY24A
Gross Margin (%)	20.95%	7.46%	6.02%
Operating Margin (%)	18.29%	5.59%	4.43%
Net Margin (%)	15.54%	1.44%	0.11%
Funds from Operation (FFO) (PKR Millions)	8,806.94	1,122.59	452.66
FFO to Total Debt* (%)	82.83%	6.46%	3.12%
FFO to Long Term Debt* (%)	153.99%	14.85%	7.03%
Gearing (x)	0.46	0.73	0.61
Leverage (x)	0.65	0.91	0.84
Debt Servicing Coverage Ratio* (x)	6.60	1.06	0.73
Current Ratio (x)	2.29	1.78	1.74
(Stock in trade + trade debts) / STD (x)	4.27	2.55	2.80
Return on Average Assets* (%)	23.81%	1.69%	0.16%
Return on Average Equity* (%)	39.58%	3.01%	0.31%
Cash Conversion Cycle (days)	137.53	173.50	128.50

*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

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 Watch	Rating Action	
	<u>RATING TYPE: ENTITY</u>					
	10/25/2024	A+	A-1	Stable	Reaffirmed	
	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.					
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Due Diligence Meeting Conducted	Name	Designation		Date		
	Mr. Sheikh Shafqat Masood	Director		10 Oct 2024		
	Mr. Yasir Anwar	Group Chief Financial Officer				