

RATING REPORT

Artistic Denim Mills Limited

REPORT DATE:

April 24, 2020

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
<i>Rating Date</i>	<i>April 24, 2020</i>		<i>August 26, 2019</i>	
Rating Outlook	Rating Watch - Developing		Stable	
<i>Outlook Date</i>	<i>April 24, 2020</i>		<i>August 26, 2019</i>	

COMPANY INFORMATION

Incorporated in 1992

External auditors: M/s EY Ford Rhodes Chartered Accountants

Public Limited Company
Shareholders holding more than 5%:

- Mr. Faisal Ahmed
- Mr. Muhammad Iqbal Ahmed
- Ms. Sadia Zain

Chairman of the Board: Mr. Muhammad Iqbal Ahmed

Chief Executive Officer: Mr. Faisal Ahmed

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Corporates (May, 2016) <https://www.vis.com.pk/kc-meth.aspx>

Artistic Denim Mills Limited

OVERVIEW OF
THE
INSTITUTION

Artistic Denim Mills Limited (ADML) was incorporated in 1992 as a Public Limited Company.

The operations of the company are housed at a composite unit in Korangi Industrial Area, Karachi, Pakistan.

As on June 30, 2018 shareholding pattern of the company demonstrates that it is a family owned business with major shareholding resting with Mr. Faisal Ahmed owning 60% of the shares of the company.

ADML is fully compliant with International Social and Environmental & Quality standards. It also has a liaison office in Bangladesh encompassing a showroom and a dedicated country manager to stay in proximity to the customers.

RATING RATIONALE

Artistic Denim Mills Limited (ADML) operates as a vertically integrated denim fabric and garment manufacturer. The revenues of the company comprise exports with sales generated through both denim fabric and denim garments division. The capacity of the two business segments is shown as follows:

Capacity & Production		
	FY18	FY19
Spinning		
Number of rotors installed	864	864
Number of spindles installed	20,448	20,448
Actual capacity of yarn (lbs)	18,232,500	18,232,500
Production of yarn	17,235,279	16,763,198
Utilization	95%	92%
Denim Fabric		
Number of looms installed	160	160
Installed capacity of fabric (meters)	19,970,250	20,426,250
Production of fabric (meters)	19,114,648	17,781,470
Utilization	96%	87%

The company's revenues are largely export centered, comprising more than three-fourth of the topline. The ratings incorporate the business risk profile of the denim sector, which is driven by the global demand and pricing dynamics. Assessment of financial risk profile incorporates the company's strong capitalization as reflected by moderately leveraged capital structure and sound liquidity indicators as evident from healthy cash flows in relation to outstanding obligations.

Coronavirus to result in uncertainty in textile sector dynamics

The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand, sharp fall in cotton prices and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating Watch-Developing' status. Given the low leveraged capital structure, it is expected that ratings will remain stable post recovery of the ongoing situation; nevertheless as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status.

Artistic Denim Mills Limited
Appendix I

FINANCIAL SUMMARY					
<i>(amounts in PKR millions)</i>					
BALANCE SHEET	FY17	FY18	FY19	1H'FY20	
Fixed Assets	5,458	5,305	5,907	5,879	
Stock-in-Trade	1,361	1,718	2,446	3,623	
Trade Debts	1,496	1,807	2,520	2,472	
Cash & Bank Balances	63	87	1,197	428	
Total Assets	9,470	10,100	12,998	13,559	
Trade and Other Payables	1,174	1,488	1,539	1,964	
Long Term Debt	852	899	1,550	1,636	
Short Term Debt	1,670	1,570	3,065	3,193	
Total Debt	2,522	2,469	4,615	4,830	
Paid-up Capital	840	840	840	840	
Total Equity	5,759	6,100	6,660	6,754	
INCOME STATEMENT	FY17	FY18	FY19	1H'FY19	1H'FY20
Net Sales	6,907	8,240	7,767	3,751	4,380
Cost of sales	(6,167)	(7,448)	(6,879)	(3,383)	(3,823)
Gross Profit	740	792	888	368	558
Operating Profit	534	693	1,067	352	294
Finance Cost	(88)	(92)	(112)	(41)	(74)
Profit Before Tax	446	600	955	310	220
Profit After Tax	429	517	867	272	158
RATIO ANALYSIS	FY17	FY18	FY19	1H'FY20	
Gross Margin (%)	10.7%	9.6%	11.4%	12.7%	
Net Margin (%)	6.2%	6.3%	11.2%	3.6%	
Net Working Capital	1,102	1,619	2,297	2,356	
Current Ratio	1.4	1.5	1.5	1.4	
FFO	627	998	1,364	398	
FFO to Total Debt (%)	25%	40%	30%	16%*	
FFO to Long Term Debt (%)	74%	111%	88%	49%*	
Debt Servicing Coverage Ratio (x)	8.1	8.4	6.0	5.3*	
Leverage (x)	0.6	0.7	0.9	1.0	
Gearing (x)	0.4	0.4	0.7	0.7	
ROAA (%)*	4.8%	5.3%	7.5%	2.4%*	
ROAE (%)*	7.6%	8.7%	13.6%	4.7%*	

*Annualized

ISSUE/ISSUER RATING SCALE & DEFINITION

Appendix II

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	Artistic Denim Mills Limited				
Sector	Textile Industry				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	24-Apr-2020	A-	A-1	Rating Watch - Developing	Maintained
	29-Aug-2019	A-	A-1	Stable	Reaffirmed
	07-May-2018	A-	A-1	Stable	Initial
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 Meetings	NA				