

RATING REPORT

Artistic Denim Mills Limited

REPORT DATE:

November 18, 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
Rating Date	November 18, 2020		April 24, 2020	
Rating Outlook	Stable		Rating Watch - Developing	
Outlook Date	November 18, 2020		April 24, 2020	

COMPANY INFORMATION

Incorporated in 1992
External auditors: M/s EY Ford Rhodes Chartered Accountants

Public Limited Company
Chairman of the Board: Mr. Muhammad Iqbal Ahmed

Shareholders holding more than 5%:
Chief Executive Officer: Mr. Faisal Ahmed

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

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		
	FY19	FY20
Spinning		
Actual capacity of yarn (Lbs.)	18,232,500	19,305,000
Production of yarn (Lbs.)	16,763,198	14,513,760
Utilization	92%	75%
Weaving		
Installed capacity of fabric (meters)	20,426,250	20,898,750
Production of fabric (meters)	17,781,470	13,729,859
Utilization	87%	65%
Garments		
Installed capacity of fabric (Pcs)	4,800,000	6,000,000
Production of fabric (Pcs)	2,821,681	3,043,079
Utilization	58%	50%

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.

Citing improvement in operating performance in Q1’FY21, the outlook assigned to ADML’s ratings has been revised to ‘Stable’

The impact of Covid-19-induced slowdown was noted Q4’FY20, which reflected on the annual performance of the sector. For ADML, we noted thinning in gross margins (FY20: 7.9%; FY19: 11.4%) and net margin contracting close to break-even (FY20: 1.4%; FY19: 11.2%). Nevertheless, ADML depicted resilience on the topline, which grew by 2% during FY20, comparing favorably to the sector.

Operating performance in Q1’FY21 has depicted improvement, with topline being 28% higher than SPLY, while gross margin has also notably improved (Q1’FY21: 12.8%; Q1’FY20: 11.9%). Given Covid-19 relief measures, the financing cost for the company has also reduced, reflecting positively on the bottom line. Even though concerns of a 2nd wave of Covid-19 remain elevated, we expect the order book for the industry to remain strong in the ongoing year, easing our business risk concerns.

Artistic Denim Mills Limited

Appendix I

FINANCIAL SUMMARY					<i>(amounts in PKR millions)</i>
BALANCE SHEET					
Fixed Assets	FY18	FY19	FY20	Q1'FY21	
Fixed Assets	5,318	5,958	6,097	6,240	
Stock-in-Trade	1,718	2,446	3,220	2,942	
Trade Debts	1,807	2,520	2,242	3,219	
Cash & Bank Balances	87	1,197	884	611	
Total Assets	10,100	12,998	14,680	15,529	
Trade and Other Payables	1,488	1,539	1,777	2,142	
Long Term Debt	899	1,550	1,917	2,000	
Short Term Debt	1,570	3,065	4,227	4,501	
Total Debt	2,469	4,615	6,143	6,501	
Paid-up Capital	840	840	840	840	
Total Equity	6,100	6,754	6,612	6,737	
INCOME STATEMENT					
Net Sales	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					
Gross Margin (%)	FY18	FY19	FY20	Q1'FY21	
Gross Margin (%)	9.6%	11.4%	7.9%	12.8%	
Net Margin (%)	6.3%	11.2%	1.4%	5.4%	
Net Margin (%)	6.3%	11.2%	1.4%	5.4%	
Net Working Capital	1,619	2,297	2,483	2,523	
Net Working Capital	1,619	2,297	2,483	2,523	
Current Ratio	1.5	1.5	1.4	1.4	
Current Ratio	1.5	1.5	1.4	1.4	
FFO	998	1,364	658	34	
FFO	998	1,364	658	34	
FFO to Total Debt (%)	40%	30%	11%	22%*	
FFO to Total Debt (%)	40%	30%	11%	22%*	
FFO to Long Term Debt (%)	111%	88%	34%	73%*	
FFO to Long Term Debt (%)	111%	88%	34%	73%*	
Debt Servicing Coverage Ratio (x)	8.4	8.0	3.1	5.0*	
Debt Servicing Coverage Ratio (x)	8.4	8.0	3.1	5.0*	
Leverage (x)	0.7	0.9	1.2	1.3	
Leverage (x)	0.7	0.9	1.2	1.3	
Gearing (x)	0.4	0.7	0.9	1.0	
Gearing (x)	0.4	0.7	0.9	1.0	
ROAA (%)*	5.3%	7.5%	0.8%	3.3%*	
ROAA (%)*	5.3%	7.5%	0.8%	3.3%*	
ROAE (%)*	8.7%	13.6%	1.7%	7.5%*	
ROAE (%)*	8.7%	13.6%	1.7%	7.5%*	

*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
	18-Nov-2020	A-	A-1	Stable	Maintained
	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				