# RATING REPORT

## Artistic Milliners (Private) Limited

**REPORT DATE:**
December 29, 2017

**RATING ANALYSTS:**

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| RATING DETAILS | |
|---|---|
| | **Latest Rating** |
| **Rating Category** | **Initial** |
| **Entity** | AA-/A-1 |
| ***Rating Date*** | *December 28, 2017* |
| **Rating Outlook** | Stable |
| ***Outlook Date*** | *December 28, 2017* |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in** 2006 | **External auditors:** EY Ford Rhodes Chartered Accountants |
| **Private Limited Company** | **Chairman of the Board and Chief Executive Officer:** Mr. Yaqoob Ahmed |

| APPLICABLE METHODOLOGY(IES) |
|---|
| ***Applicable Rating Criteria: Industrial Corporates (May, 2016) http://www.jcrvis.com.pk/kc-meth.aspx*** |

# Artistic Milliners (Private) Limited

## OVERVIEW OF THE INSTITUTION

Artistic Milliners (Private) Limited (AML) was incorporated as a Private Limited Company in 2006.

AML is a family owned business with major shareholding resting held by Mr. Yaqoob Ahmed who is also the Chief Executive Officer (CEO) of the company and Chairman of the Board. He possesses over 40 years of experience in the industry and has been responsible for the backward integration starting from Garments to Denim Weaving and Spinning.

AML owns Pakistan's first LEED (Leadership in Energy and Environmental Design) Certified Garment Factory which consumes 31% less energy, 50% less water and diverts 95% of waste away from landfills compared to conventional building. Its fabric units are ISO9000 certified matching international quality standards.

The Company has also established a Research and Innovation Centre in Dubai, to offer proximity to their customers and partners; the center comprises three departments: Showroom, Stitching and Laundry.

## RATING RATIONALE

Artistic Milliners (Private) Limited (AML) is the country's leading denim and garment manufacturer with vertically integrated operations. The company deals in manufacturing of yarn, denim fabric and garments and operates through 14 facilities/units located at Korangi and Landhi in Karachi, Pakistan. Sponsors have over 5 decades of experience in the textile sector with extensive experience in denim fabric and garment segment. The company's operations encompasses the following three divisions:

*Spinning:* Yarn produced is completely utilized in-house for manufacturing of denim fabric. The company uses state of the art machinery from Toyota for its spinning operations.

*Denim Fabric:* During FY17, production level of denim fabric reduced slightly due to increase in demand of full packaged sales. Resultantly, fabric exports which contribute around two fifth to the total sales revenue have declined in FY17.

*Garments:* Production of garments after witnessing a significant rise during FY16 declined slightly during FY17. However, capacity utilization has dropped on a timeline basis on account of rise in installed capacity. As per management, increased orders from existing clients will allow the company to achieve higher capacity utilization, going forward. Garment segment revenues in sales mix have witnessed a rising trend during FY17. Largest markets for AML's garment exports include USA and is a function of better selling prices vis-à-vis European markets. Clients in the garment division include top-tier brands. However, concentration in sales is on the higher side; the same is partly mitigated by lengthy association of most brands with AML.

*Expansion:* Over the last few years, the company has been continuously expanding its operating capacities in major segments. During FY17, expansion in the finishing division was completed. Furthermore, the company is also in the process of increasing capacity of its weaving and garments division.

*Diversification:* AML through its wholly owned subsidiary 'Artistic Energy (Private) Limited' (AEL) has diversified in the power sector. Total cost of the project in $100m with the Wind Power plant having an installed capacity of 50MW. AML has invested $25m in AEL as 100% equity contribution. Diversification in the power sector will continue through an additional 50MW wind power project. In addition, the group has LOI for 25MW Hybrid Solar project and 50MW Solar power project. Diversification into hydel power generation is also planned.

### Key Rating Drivers

**Business risks**
Business risk profile is supported by stable and growing demand for denim fabric and garments. This is also reflected by continuous growth in sales and largely stable margins which is in contrast to other textile players in the country. However, local and international expansion by major players is expected to keep pricing power and hence margins under pressure. The company's operations are also concentrated with exposure entirely to the denim industry which might significantly impact business risk profile in case of change in demand patterns or any other industry specific factors. JCR-VIS expects demand for denim products to remain stable over the medium term. Other key business risk factors include efficient procurement of cotton and weakening in law and order situation.

**Profitability and Liquidity**
Net sales of the Company almost entirely comprise export sales. Gross margins of the company compare favorably to non-denim textile operators but have witnessed a slight decline during FY17 on account of higher cotton prices, full provisioning of Gas Infrastructure Development Cess and increase in labor costs. Despite rupee depreciation during the ongoing year, JCR-VIS expects gross margins to remain under pressure as selling prices are expected to decline on account of increasing competition. However, growth in profitability during FY18 will be a function of double digit increase in sales post completion of expansion projects.

Liquidity profile of the company is considered strong in view of healthy cash flows in relation to outstanding obligations and profile of trade debts which remain within manageable levels. With current assets being greater than current liabilities, current ratio of AML was reported above 1 at end-FY17. Given the healthy cash flow from operations, debt servicing ability of the company is considered strong.

**Funding and Capitalization**

The company's historical stance of maintaining very low dividend payouts and funding its expansions through limited debt is reflective of a conservative financial policy. Capitalization levels have grown at a healthy pace over the last three years owing to profit retention. Moreover, leverage indicators have continued to be maintained on the lower side. Going forward, JCR-VIS expects leverage indicators to increase on the back of higher debt levels to fund expansion and increase in dividend payments. However, leverage indicators are expected to remain within benchmark for the assigned ratings.

**Corporate Governance**

Overall scope and functioning of internal audit and IT function are considered adequate. Given the company's shareholding structure and involvement of board of directors in management roles, board composition and oversight is currently constrained.

## ISSUE/ISSUER RATING SCALE & DEFINITION — Appendix II

**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.

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**Rating Watch:** JCR-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.jcrvis.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.jcrvis.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.

**'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.jcrvis.com.pk/images/policy_ratings.pdf

**'SD' Rating:** An 'SD' rating is assigned when JCR-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 Milliners (Private) Limited |
| **Sector** | Textile Industry |
| **Type of Relationship** | Solicited |
| **Purpose of Rating** | Entity Rating |
| **Rating History** | |
| **Instrument Structure** | N/A |
| **Statement by the Rating Team** | JCR-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** | JCR-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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Rating History:

| Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
|---|---|---|---|---|
| **RATING TYPE: ENTITY** | | | | |
| December 28, 2017 | AA- | A-1 | Stable | Initial |