RATING REPORT

Artistic Milliners (Private) Limited

REPORT DATE:
November 14, 2018

RATING ANALYSTS:

Talha Iqbal
talha.iqbal@jcrvis.com.pk

Asfia Aziz
asfia.aziz@jcrvis.com.pk

RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	AA-	A-1	AA-	A-1
Rating Date	*Nov 14, 2018*		*Dec 28, 2017*	
Rating Outlook	Stable		Stable	
Outlook Date	*Nov 14, 2018*		*Dec 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 **Managing Director (Spinning & Fabric):** Mr. Omer Ahmed **Managing Director (Garments):** Mr. Murtaza 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 the 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. The Company has been actively involved in CSR initiatives.

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 one of the leading denim fabric and garment manufacturers and exporters with vertically integrated operations in Pakistan. The company deals in manufacturing of yarn, denim fabric and garments and operates through around 15 facilities/units located at Korangi and Landhi in Karachi, Pakistan. Sponsors have over five decades of experience in the textile sector with extensive experience in denim fabric and garment segment. Over the years, the management has placed significant focus on sustainability initiatives. 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. Focus in this segment is planned to continue. AML's fabric units are ISO9000 certified matching international quality standards.

Spinning- Yarn produced is completely utilized in-house for manufacturing of denim fabric. AML plans to further increase its yarn production capacity by 42% in order to fully meet its yarn requirement. Additional spindles are expected to be operational by March'2019. Capacity utilization of the spinning segment remains on the higher side.

Denim Fabric- Fabric exports continues to contribute around two fifth to the total sales revenue of the company. Utilization levels of the weaving segment have increased in FY18 and remain on the higher side. During FY18, the company incurred sizeable capital expenditure for enhancement of its denim fabric production capacity by 24%. The enhanced capacity became operational in July'2018. Major markets for denim fabric include direct and indirect exports to Bangladesh and Pakistan, respectively.

Garments- During FY18, production of the garment division witnessed double digit increase consequently improving utilization levels. Garment segment contributes around three fifth to the total sales revenue of the company. Largest market in garment exports includes USA and Europe with clients comprising global top-tier brands. Concentration in sales is on the higher side; however the same is partly mitigated by lengthy association of most brands with AML. The company plans to enhance its garments manufacturing capacity by 21% which is projected to be operational by June'2019.

Diversification- AML through its wholly owned subsidiary 'Artistic Energy (Private) Limited' (AEL) has diversified in the wind power sector. The plant has an installed capacity of 50MW which has successfully commenced operations on 16th March'2018 with a capacity factor of 56.91% from March'2018 to date. Projected annual dividend income (expected in January'2019) will provide sizeable support to the company's profitability and diversify revenue streams. Going forward, the company plans to further diversify in the renewable energy segment. In this regard, the group has signed LOI for investment in Solar and Hydel power project.

Key Rating Drivers

Business risks

Business risk profile is supported by stable and growing demand for denim products. However, local and international expansion by major players is expected to keep pricing power and hence margins slightly under pressure. The company's operations are currently concentrated with exposure to the denim industry which might significantly impact business risk profile in case of change in demand patterns or any other industry specific factors. Therefore, keeping pace with rapid changes in fashion trends is considered important. JCR-VIS expects demand for denim products to remain stable over the medium term. Given the favorable policies & incentives of the government on enhancing exports and imposition of duties on Chinese exports to USA, there is significant opportunity for Denim players to enhance exports. In this regard, AML is well positioned to tap this opportunity given the ongoing and completed expansion in all three segments.

Sales and Profitability

Net sales of the company have grown at a CAGR of 10% over the past four years (FY15-FY18) with revenues almost entirely comprising export sales. During FY18, net sales witnessed a growth of 17% with both garment and denim fabric division recording double digit increase in revenues. Growth in garment division was a function of equal increase in volumes and average sales price. Increase in revenues from denim fabric segment was primarily a function of higher average selling price.

Gross margins of the company compare favorably to non-denim textile players and have witnessed improvement in FY18 on account of increase in average sales price, sales volume and efficient procurement of cotton. Net profitability of the company during the outgoing year was supported by rebate received by the Government. Going forward, management expects momentum in profitability growth to sustain post completion of expansion projects and dividend income from AEL.

Liquidity

Liquidity profile of the company is considered strong in view of healthy cash flows and strong debt servicing ability. During FY18, cash flow coverage of outstanding obligations declined as compared to preceding year on account of sizeable borrowings undertaken to fund expansion projects. JCR-VIS expects liquidity profile to further improve given the projected slowdown in capital expenditures post FY19. Resultantly, cash flow coverage of outstanding debt is projected to revert to historical levels.

Capitalization

Equity base of the company has grown at a CAGR of 25% over the last 4 years on account of healthy internal capital generation. However, leverage indicators have trended upwards on the back of higher debt levels to fund expansion. Going forward, with no further debt drawdown planned post completion of expansion and increase in equity base, leverage indicators are expected to improve. As an important rating driver, JCR-VIS will continue to track leverage indicators going forward.

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 I

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: 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 II

Name of Rated Entity	Artistic Milliners (Private) Limited
Sector	Textile Industry
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	see table below
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, JCR-VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. JCR-VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2018 JCR-VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to JCR-VIS.

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
November 14, 2018	AA-	A-1	Stable	Reaffirmed
December 28, 2017	AA-	A-1	Stable	Initial