

## RATING REPORT

### Akhtar Textile Industries (Private) Limited

**REPORT DATE:**

July 04, 2018

**RATING ANALYSTS:**

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#### RATING DETAILS

| Rating Category     | Latest Rating        |            |
|---------------------|----------------------|------------|
|                     | Long-term            | Short-term |
| Entity              | A-                   | A-2        |
| <i>Rating Date</i>  | <i>June 28, 2018</i> |            |
| Rating Outlook      | Stable               |            |
| <i>Outlook Date</i> | <i>June 28, 2018</i> |            |

#### COMPANY INFORMATION

Incorporated in 1985

External auditors: Munaf Yusuf &amp; Co. Chartered Accountants

Private Limited Company

Chief Executive Officer: Abdullah Akhtar

Board of Directors:

- Perwaiz Akhtar
- Javed Akhtar
- Mansoor Akhtar
- Jahangir Akhtar

#### APPLICABLE METHODOLOGY(IES)

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

## Akhtar Textile Industries (Private) Limited

OVERVIEW OF  
THE  
INSTITUTION

Akhtar Textile Industries (Private) Limited (ATIL) incorporated in 1985 is engaged in the business of manufacturing and exports of denim garments.

Akhtar Group of companies includes Dairyland Private Limited, ACT Wind Private Limited, Indigo Textile Private Limited, and Akhtar & Sons.

ATIL is fully compliant with International Social and Environmental & Quality standards as required by its client.

## RATING RATIONALE

ATIL belongs to the Akhtar Group of Companies which is a family owned group. The group specializes in the textile sector particularly denim fabric and garments but also has diversified in the dairy and power sectors. ATIL's operations are housed at four units comprising step wise manufacturing of cut to pack denim garments with denim fabric procured from an associated company- Indigo Textile Private Limited.

The company has consistently expanded its production capacity over time. During FY17, despite an increase in production capacity, dip in capacity utilization was noted which is attributable to restructuring of production facilities. Going forward, ATIL plans to further increase its capacity which will be entirely financed by SBP's Long Term Finance Facility.

Investment in fixed assets represent more than two fifth of the total asset base. Around one fourth of asset base comprises loans and advances and investments in related parties. Most of these investments are at a nascent stage and no dividends are reported/ expected from the same. Funding requirements of these related concerns may vary depending on their expansion plans.

**Stable demand prospects; however, sizeable capacities coming online may result in competitive pressures**

Business risk profile is supported by stable and growing demand for denim garments. However, local and international expansion by major players is expected to keep pricing power and hence margins under pressure. Moreover, significant investment required by customers as part of sustainability initiative is expected to add to cost pressures for denim manufacturers. Other key business risk factors include volatility in fabric prices and limited ability to pass on the same given that prices are decided on an annual basis.

**Topline on a growing trajectory; however business risk is on the higher side given sizeable concentration in sales**

Sales revenue of the company has grown at a CAGR of 8% over the past three years (FY15-FY17). Net sales declined during FY17 on account of lower capacity utilization levels and average sales prices. However, net sales increased during 9MFY18 on account of higher sales volume. Sales mix of the company largely comprises direct exports to clients in the US. The company has significant client concentration with sales largely catered to LEVI'S. Business risk is on the higher side given the greater concentration (client and geographic) in sales. Comfort is drawn from the length of association of the largest client with ATIL.

**Profitability declined during FY17 owing to pressure on margins; recovery noted in the ongoing year**

Gross Margins (GMs) of the company declined during FY17 due to lower sales volume, sales prices and increase in cost of denim fabric procured. However, during 9MFY18, GMs posted an increase on account of increase in sales volumes and efficient procurement of raw material. Going forward, gross margins are expected to remain under pressure over the short to medium term on account of pressure on prices (due to significant capacities coming online).

**Adequate liquidity profile in view of sufficient cash flows in relation to outstanding long-term obligations but mismatch on balance sheet with short-term loans being used to fund long-term investments**

Liquidity profile of the company is considered adequate in view of sufficient cash flows in relation to outstanding obligations, satisfactory debt servicing ability and adequate aging profile of trade debts. With current assets being greater than current liabilities, current ratio of ATIL was reported greater than 1 at end-Mar'2018. Stock-in-trade and trade debt does not provide sufficient coverage to short term borrowings.

**Leverage indicators projected to increase slightly but are expected to remain within manageable levels**

Equity base of the company has grown at a CAGR of 35% over the past three years (FY15-FY17) on account of profit retention. The management expects dividend payout to remain at similar levels. Debt carried on the balance sheet largely comprises short-term debt to fund long term loans and advances and working capital requirements. With increase in debt being higher than increase in equity base, leverage indicators have trended upwards. Gearing reduced at end Mar'2018 due to debt repayment.

**Room for further improvement in Corporate Governance Framework**

Corporate Governance framework is constrained with Board discussions limited to regulatory approvals and absence of a formal Internal Audit function. Board composition and oversight may be enhanced through inclusion of independent directors and greater discussion on future strategy and improvisation of internal control framework of the organization. While a formal internal audit function is absent, the company has separate Compliance and Quality Assurance departments at its manufacturing facilities.

**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

**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](http://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](http://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

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.

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](http://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.

## JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

| REGULATORY DISCLOSURES              |   | Appendix II                |                   |                       |                      |
|-------------------------------------|---|----------------------------|-------------------|-----------------------|----------------------|
| <b>Name of Rated Entity</b>         | Akhtar Textile Industries (Private) Limited   |                            |                   |                       |                      |
| <b>Sector</b>                       | Textile Industry  |                            |                   |                       |                      |
| <b>Type of Relationship</b>         | Solicited   |                            |                   |                       |                      |
| <b>Purpose of Rating</b>            | Entity Rating   |                            |                   |                       |                      |
| <b>Rating History</b>               | <b>Rating Date</b>  | <b>Medium to Long Term</b> | <b>Short Term</b> | <b>Rating Outlook</b> | <b>Rating Action</b> |
|                                     | <b><u>RATING TYPE: ENTITY</u></b>   |                            |                   |                       |                      |
|                                     | June 28, 2018   | A-                         | A-2               | Stable                | Initial              |
| <b>Instrument Structure</b>         | N/A   |                            |                   |                       |                      |
| <b>Statement by the Rating Team</b> | 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.  |                            |                   |                       |                      |
| <b>Probability of Default</b>       | 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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