

RATING REPORT

Akhtar Textile Industries (Private) Limited

REPORT DATE:

April 24, 2020

RATING ANALYSTS:

Narendar Shankar Lal
narendar.shankar@vis.com.pk

| Rating Category | Latest Rating | | Previous Rating | |
|-----------------------|-------------------------|------------|---------------------|------------|
| | Long-term | Short-term | Long-term | Short-term |
| Entity | A- | A-2 | A- | A-2 |
| <i>Rating Date</i> | <i>Apr 24, 2020</i> | | <i>Nov 27, 2019</i> | |
| Rating Outlook | Rating Watch - Negative | | Stable | |
| Rating Action | Maintained | | Reaffirm | |

COMPANY INFORMATION

Incorporated in 1985

External auditors: Munaf Yusuf & 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)

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

Akhtar Textile Industries (Private) Limited

| OVERVIEW OF THE INSTITUTION | RATING RATIONALE |
|---|---|
| <p>Akhtar Textile Industries (Private) Limited (ATIL) incorporated in 1985 is engaged in the business of manufacturing and exports of denim garments.</p> <p>Akhtar Group of companies includes Dairyland Private Limited, ACT Wind Private Limited, Indigo Textile Private Limited, and Akhtar & Sons.</p> <p>ATIL is fully compliant with International Social and Environmental & Quality standards as required by its client.</p> | <p>Akhtar Textile Industries (Private) Limited (ATIL) is a part of 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 interests in the dairy and power sectors.</p> <p>Production facilities</p> <p>ATIL’s production facilities are based in four units comprising step wise manufacturing of cut to pack denim garments with denim fabric primarily procured from an associated company - Indigo Textile Private Limited. At end-9MFY19, ATIL reported garments manufacturing capacity at 30,500 pieces/day (FY18: 28,500 pieces/day; FY17: 28,000 pieces/day). During 9MFY19, total production amounted to 6.87m pieces (FY18: 8.55m pieces; FY17: 8.16m pieces), translating into capacity utilization of 100% (FY18: 99%; FY17: 91%).</p> <p>Coronavirus to result in uncertainty in textile sector dynamics</p> <p>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. Aforementioned operating dynamics coupled with leveraged capital structure of the company warrant a ‘Rating Watch-Negative’ status. The ratings are dependent upon maintenance of overall sales, profit margins, debt service coverage, and gearing ratios at an adequate level, with outlook subject to be reviewed once the situation stabilizes.</p> |

Akhtar Textile Industries (Private) Limited
Appendix I

| FINANCIAL SUMMARY <i>(amounts in PKR millions)</i> | | | | |
|---|--------------|--------------|---------------|----------------|
| <u>BALANCE SHEET</u> | FY16 | FY17 | FY18 | 9M'FY19 |
| Fixed Assets | 3,891 | 4,731 | 4,811 | 4,851 |
| Stock-in-Trade | 1,150 | 1,565 | 1,817 | 2,338 |
| Trade Debts | 415 | 375 | 456 | 1,326 |
| Cash & Bank Balances | 123 | 16 | 75 | 201 |
| Total Assets | 7,258 | 9,157 | 10,740 | 12,311 |
| Trade and Other Payables | 1,354 | 1,338 | 1,952 | 2,282 |
| Long Term Debt | 548 | 479 | 391 | 318 |
| Short Term Debt | 1,728 | 2,669 | 3,403 | 3,948 |
| Total Debt | 2,276 | 3,148 | 3,794 | 4,266 |
| Paid up capital | 300 | 300 | 300 | 300 |
| Total Equity (excluding revaluation surplus) | 2,041 | 2,212 | 2,524 | 3,239 |
| <u>INCOME STATEMENT</u> | | | | |
| | FY16 | FY17 | FY18 | 9M'FY19 |
| Net Sales | 6,109 | 5,906 | 7,415 | 6,470 |
| Gross Profit | 837 | 594 | 919 | 1,141 |
| Operating Profit | 613 | 361 | 533 | 783 |
| Profit Before Tax | 469 | 275 | 421 | 783 |
| Profit After Tax | 451 | 259 | 360 | 715 |
| <u>RATIO ANALYSIS</u> | | | | |
| | FY16 | FY17 | FY18 | 9M'FY19 |
| Gross Margin (%) | 14% | 10% | 12% | 18% |
| Net Margin (%) | 7% | 4% | 5% | 11% |
| Gearing (x) | 1.1 | 1.4 | 1.5 | 1.3 |
| Leverage (x) | 1.9 | 2.2 | 2.5 | 2.2 |
| FFO | 640 | 419 | 580 | 699 |
| FFO to Long Term Debt (%) | 117% | 87% | 148% | 293% |
| FFO to Total Debt (%) | 28% | 13% | 15% | 22% |
| Debt Servicing Coverage Ratio (x) | 3.0 | 2.0 | 2.2 | 2.3 |
| ROAE (%) | 21% | 11% | 12% | 22% |
| ROAA (%) | 5% | 3% | 3% | 6% |
| Current Ratio (x) | 1.0 | 1.0 | 1.1 | 1.2 |
| (Stock in Trade + Trade Debts) / Short Term Borrowings | 0.91 | 0.73 | 0.67 | 0.93 |

ISSUE/ISSUER RATING SCALE & DEFINITION

Annexure I

VIS Credit Rating Company Limited

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 | | Annexure III | | | |
|---|---|----------------------------|--------------------|-------------------------|----------------------|
| Name of Rated Entity | Akhtar Textile Industries (Pvt.) Limited | | | | |
| Sector | Textile | | | | |
| Type of Relationship | Solicited | | | | |
| Purpose of Rating | Entity Rating | | | | |
| Rating History | Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
| | Apr 24, 2020 | A- | A-2 | Rating Watch - Negative | Maintained |
| | Nov 27, 2019 | A- | A-2 | Stable | Reaffirmed |
| | June 28, 2018 | A- | A-2 | 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. | | | | |
| Disclaimer | Information herein was obtained from sources believed to be accurate and reliable; however, 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. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. | | | | |
| | Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS. | | | | |
| Due Diligence Meetings Conducted | S.No | Name | Designation | Date | |
| | | | | | |