RATING REPORT

Akhtar Textile Industries (Private) Limited

REPORT DATE:

Jun 21, 2021

RATING ANALYSTS:

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RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A	A-2	A-	A-2
Rating Date	*Jun 21, 2021*		*Apr 24, 2020*	
Rating Outlook	Stable		Rating Watch - Negative	
Rating Action	Upgrade		Maintained	

COMPANY INFORMATION	
Incorporated in 1985	**External auditors:** Munaf Yusuf & Co. Chartered Accountants
Private Limited Company	**Chief Executive Officer:** Perwaiz Akhtar **Board of Directors:** - Perwaiz Akhtar - Javed Akhtar - Mansoor Akhtar - Jahangir Akhtar

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Industrial Corporates (May, 2019) **https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf**

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

Akhtar Textile Industries (Private) Limited ('ATIL' or 'the Company') 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. ATIL's production facilities are based in 4 units comprising step wise manufacturing of cut to pack denim garments with denim fabric primarily procured from an associated company - Indigo Textile Private Limited.

The Company is engaged in the business of selling 3 products, which are denim pants, denim shorts and denim skirts. In the outgoing year, denim pants remained the star product of the company, comprising 92% of the sales, with the remaining amost entirely constituting denim shorts and sales from denim skirts are very low at less than 1%.

Sector Update

- Textile exports comprised 57.1% of Pakistan's total exports as reported in FY20. Following a dip in overall exports of the country, which dropped by 7% in FY20, textile exports also fell by 6% in USD terms.
- The contraction in exports can partly be attributed to significant currency depreciation, with average effective rate for USD being 16% higher in FY20 vis-à-vis FY19.
- Furthermore, some of the contraction emanated from the slowdown in orders in the latter half of FY20, owing to the novel coronavirus outbreak and the ensuing lockdowns across the globe. As a result, textile exports depicted contraction, in quantitative terms, in all categories, except two.
- In the ongoing fiscal year, textile exports have started to post recovery. Even though exports remained sluggish in USD terms, at least in Q1'FY21, the recovery has particularly started to materialize in Q2'FY21, when export proceeds were 4% higher than SPLY.
- During 8MFY21, the overall exports of textile (in terms of USD) remain intact as compared to last year with a marginal drop of 1% Y/Y.
- The top advancers categories during 8MFY21 were Tents canvas & tarpaulin (↑47%), Towels (↑14%), Bed wear (↑9%), Other materials (↑6%).
- On the other hand, mainly cotton related products dented the overall textile contribution as 8MFY21 top decliners include Raw cotton (↓91%), Cotton carded or combed (↓76%), Other yarns (↓44%) and Cotton yarn (↓35%).
- Interviews conducted with senior management of leading textile corporates are indicative of a strong order book in the upcoming period. However, the third wave ensuing lockdown mostly in Europe countries could restrict the textile exports in the on-going period while there is also a prevailing risk of a slower than expected recovery in consumer indices of North America & Europe.

	FY19	FY20	Q1'FY20	Q1'FY21	Q2'FY20	Q2'FY21	8M'FY20	8M'FY21
PAKISTAN EXPORTS (IN USD' MILLIONS)	24,257	22,505	5,832	5,255	6,102	6,160	16,439	16,066
TEXTILE (IN USD' MILLIONS)	13,659	12,851	3,411	3,070	3,408	3,550	9,100	9,007
PKR/USD RATE (AVERAGE)	136.3	158.2	124.4	166.9	134.3	160.8	156.2	161.9
SOURCE: SBP								

Operations & Business Update

- During FY20, annualized installed capacity increased to 9.2m pieces/annum from 9m pieces /annum pieces. Given a strong order book, capacity utilization remained intact in FY20 coming in at 93% (FY19: 94%). The utilization level remained intact at 94% during H1'FY21.

- Going forward, the management plans to increase its capacity by ~20% which will be available by Dec'21.

P&L (Extract)	FY18	FY19	FY20	H1'FY21
Sales	7,415	8,959	9,789	5,801
Gross Margin	*12.4%*	*15.4%*	*16.9%*	*14.8%*
EBIT Margin	*7.2%*	*10.2%*	*10.8%*	*10.0%*
Net Margin	*4.9%*	*7.0%*	*6.4%*	*6.4%*

- Topline of the company increased to Rs. 9.8b (FY19: 9.0b) in FY20, depicting a growth of 9%, lagging the previous 2-year average growth of 23%. In the ongoing year, offtake has been strong; as per management, the company's topline in 10M'FY21 stood at ~9b and full year topline for FY21 is expected to be ~7% higher than FY20.

- The lower growth was mainly on account of the pandemic-induced slowdown, as a result of quantitative offtake depicted a decrease of 5% YoY. Conversely, the 14% uptick in pricing, was the main contributor for the growth in topline.

- Gross margins of the company broadly remains intact with marginal volatility, reflecting the Company's ability pass on cost pressures in customers.

Key Rating Drivers

Assigned rating incorporates business risk profile of the denim sector, and ATIL's market positioning within the sector

- The assigned rating incorporates business risk profile of the denim sector, wherein gross margins of sector participants are exposed to volatility in cotton yarn prices. During FY20, the industry has undergone a slowdown, as global consumer spending on garments was affected by pandemic-induced lockdowns globally.
- There is certainly pressure on gross margin, given historical drop in cotton production in Pakistan and projections of subdued growth over the next two years. The price volatility in cotton yarn pricing affects the risk profile of denim sector players. Recent price volatility is provided in the table below.
- Overall textile industry off take has benefited in H1'FY21 from lower impact of Covid-19 on textile operations, vis-à-vis regional counterparts. However, positive momentum is likely to fade off once capacity of regional counterparts comes back online.

Local Cotton Prices	FY18	FY19	FY20	8MFY21
Per Maund (Rs.)	6,953	8,770	8,860	9,643
% Change	6%	26%	1%	9%

**Prices based on daily average*

- ATIL's business risk, as reflected by the topline strength and gross margins, depicts a distinction from other industry denim sector participants, which experienced a slowdown in FY20. However, the envisaged capacity enhancement is likely to translate in superior growth vis-à-vis peers. Ceteris paribus, the changes in other metrics, the envisaged growth is viewed positively from a rating perspective.

- Export concentration stayed intact at 97% in the overall sales during FY20 wherein, around 85% of the total exports sales emanated from USA in FY20 (83% in H1'FY21). This depicts the higher geographic concentration of the company to US market.

Cash flow coverage indicators have depicted improvement

- Given consistent growth in topline and sticky margins, FFO has posted consistent improvement.

Liquidity Analysis	FY18	FY19	FY20	H1FY21
FFO (Mn.)	580	790	1,003	NA
FFO/Total Debt (%)	15.3%	19.3%	18.8%	NA
FFO/LTD (%)	148.3%	283.1%	99.8%	NA
DSCR (x)	2.22	2.37	3.01	NA
Current Ratio (x)	1.06	1.08	1.02	1.20
Cash Conversion Cycle (days)	34	7	16	39

- Debt Service Coverage Ratio was reported at 3.0x, which is considered to be adequately high for the assigned rating.

- Given a buildup in trade debts, the Company's cash conversion cycle stood higher as of Dec'20. However, by Mar'21, the same had reduced to Rs. 770m from a high of Rs. 1.3b.

- Current ratio of the company stood at all-time high at 1.2x as at Dec'20. which is aligned with the short term rating assigned to ATIL.

Despite increase in debt, capitalization metrics remain intact on the back of strong internal capital generation

- Equity base (excluding revaluation on surplus) of the company has improved on account of internal capital generation, growing at a CAGR of 20% during the last 4.5 years. (FY16-H1'FY21). This is mainly a result of stable bottom line and consistent dividend payout policy, wherein payout has averaged 19% during the past 2-years.

Balance Sheet (Extract)	FY18	FY19	FY20	H1'FY21
Total Assets	10,740	12,533	15,788	16,754
Total Liabilities	6,196	7,508	7,945	8,543
Equity (Exc. Surplus on reval.)	2,524	3,176	4,216	4,584
ST Debt	3,403	3,823	4,340	4,289
LT Debt	391	279	1,005	1,719
Total Debt	3,794	4,102	5,344	6,007
Gearing (x)	1.50	1.29	1.27	1.31
Leverage (x)	2.45	2.36	1.88	1.86

- During FY20, the company has taken long term financing from 2 new lines under SBP's concessionary LTFF scheme.

- Despite of the increase in total debt to Rs. 5.3b at Jun'20 from Rs.4.10b at Jun'19, gearing ratio of the company stayed intact at 1.27x as at Jun'20 (Jun'19: 1.29x). At the same time, leverage ratio has declined.

- Going forward, given capacity enhancement related growth in debt, the Company's leveraging gearing is expected to trend up albeit remained aligned with the peer median.

Akhtar Textile Industries (Private) Limited — Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**H1'FY21**
Fixed Assets	4,811	5,154	9,082	9,081
Stock-in-Trade	1,817	2,190	2,346	2,252
Trade Debts	456	559	343	1,345
Cash & Bank Balances	75	197	110	282
Total Assets	10,740	12,533	15,788	16,754
Trade and Other Payables	1,952	2,868	1,985	1,891
Long Term Debt	391	279	1,005	1,719
Short Term Debt	3,403	3,823	4,340	4,289
Total Debt	3,794	4,102	5,344	6,007
Paid up capital	300	300	300	300
Total Equity	2,524	3,176	4,216	4,584
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**H1'FY21**
Net Sales	7,415	8,959	9,789	5,801
Gross Profit	919	1,381	1,653	859
Operating Profit	533	913	1,054	578
Profit Before Tax	421	721	729	424
Profit After Tax	360	631	625	369
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**H1'FY21**
Gross Margin (%)	12.4%	15.4%	16.9%	14.8%
Net Margin (%)	4.9%	7.0%	6.4%	6.4%
Gearing (x)	1.50	1.29	1.27	1.31
Leverage (x)	2.45	2.36	1.88	1.86
FFO	580	790	1,003	NA
FFO to Long Term Debt (%)	148.3%	283.1%	99.8%	NA
FFO to Total Debt (%)	15.3%	19.3%	18.8%	NA
Debt Servicing Coverage Ratio (x)	2.22	2.37	3.01	NA
ROAE (%)	15.2%	22.1%	16.9%	16.8%*
ROAA (%)	3.6%	5.4%	4.4%	4.5%*
Current Ratio (x)	1.06	1.08	1.02	1.20
Stock in trade + Trade debts/ST borrowings.	0.67	0.72	0.62	0.84

*** Annualized**

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
Jun 21, 2021	A	A-2	Stable	Upgrade
Apr 24, 2020	A-	A-2	Stable	Reaffirmed
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.
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Due Diligence Meetings Conducted

Name	Designation	Date
Mr. Nadeem Naz	Group CFO	May 25, 2021