RATING REPORT

Akhtar Textile Industries (Private) Limited

REPORT DATE:

May 09, 2022

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	*April 03, 2022*		*Jun 21, 2021*	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Upgrade	

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 (August, 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Akhtar Textile Industries (Private) Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

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.

Corporate Profile: Akhtar Textile Industries (Private) Limited is part of the family-owned Akhtar Group of Companies which has diversified presence in textile (particularly in denim segment), dairy, and power industries. Incorporated in 1985 as a private limited company, the Company is principally involved in step wise manufacturing and exports of denim garments. United States continues to remain the major export market constituting 89% of total exports while remaining markets includes Germany, Czech Republic, Australia, and Japan. Going forward, the management plans to reduce concentration in the United States and is exploring new markets including Turkey, and other European countries. The Company procures denim fabric majorly from an associated concern – Indigo Textile Private Limited which is further processed through cut-to-pack processes in four manufacturing units located in Korangi Industrial Area, Karachi. Product portfolio encompasses denim pants, denim shorts, and denim skirts with denim pants being the star product. Registered office of the Company is situated in Clifton, Karachi.

Akhtar Textile Industries (Private) Limited holds long term investments in associated concern, Dairyland (Private) Limited (DPL), which increased to Rs. 1,023m (FY20: Rs. 765m) in FY21, constituting 49% (FY20: 46%) shareholding through paid-up-capital. Alongside, the Company has also extended long term and short term loans to DPL amounting to Rs. 1,841m (FY20: Rs. 1,341m) and Rs. 963m (FY20: 1,881m) in FY21 respectively; whereby long term loan is subordinated, interest-free and repayable at DPL's discretion while short term loan is interest bearing. Furthermore, during the year the Company wrote off its long term investment in Novelty Enterprises (Pvt.) Limited (NEL) as the company was wound up. A dividend payment of Rs 131m was received by the Company as the final payout from NEL.

During the year, the e Company maintained a stable dividend payout of 15% (FY20: 19%). Several initiatives were launched to strengthen internal controls including establishment of separate internal audit department.

Rating Drivers

Positive momentum in exports of value-added segment of the textile industry

Outlook of the textile industry in Pakistan remains positive with growing export demand led by shift of regional business and export-oriented policies of the government amid pandemic. Textile industry has posted 26% (H1'FY21: 23%) growth in H1'FY22 vis-à-vis previous period primarily on account of strong growth in exports of readymade garments, knitwear, bed-wear, and towels. Exports of cotton cloth and raw cotton has also depicted growth in H1'FY22, however the proportion of low-value added exports are low thus indicating gradual shift towards value-added exports. Prospects of textile industry remains strong going forward, however rising cotton prices remains a key risk detrimentally impacting cost of sales which is partially offset by the ability of exporters' to pass on costs to consumers to an extent.

Continuous increase in production capacity expected to yield operational efficiencies

In order to cater to increasing demand, the Company has been undergoing capacity addition projects of existing denim manufacturing units on a timeline basis. During FY21, Akhtar Textile Industries increased its capacity by 1.3 million pieces per annum to 10.5 million pieces (FY20: 9.2 million pieces per annum) with capex amounting to Rs. 673m which was financed through long term debt. Furthermore, the Company has acquired land during the ongoing year to further enhance production capacities going forward. The new capacities are expected to come online in FY23. Expected capex for FY22 amounts to ~ Rs. 1.2b which is entirely being financed through long term debt.

Strong growth in topline and profitability indicators

In FY21, sales revenues of the Company recorded strong growth of 18% to Rs. 11.5b (FY20: 9.8b) on account of both price and volume increase. Composition of product mix continues to be dominated by denim pants and denim shorts constituting 89% (FY20: 92%) and 11% (FY20: 7%) of the total sales respectively. However, client concentration remains high with Levis' being the leading customer.

Gross margins of the Company reduced to 15.9% (FY20: 16.9%) in FY21 owing to increase in raw material prices. Selling and administrative expenses witnessed 6% decline on account of lower travelling and export related expenses, while other operating expenses increased by 69% due to loss incurred on sale of investment and employee benefits. Consequently, operating margins were maintained at 10.3% (FY20: 10.2%) in FY21. Other income recorded an uptick on the back of dividend received upon liquidation of Novelty Enterprises amounting to Rs. 131m. On the other hand, finance costs reduced by 21% during the outgoing year despite increase in the quantum of total debt owing to lower interest rates offered by the government amid pandemic. As a result, net margins increased to 8.6% (FY20: 6.4%) in FY21. Margins are expected to remain under pressure on account of higher raw material costs in the ongoing year coupled with inflationary pressures. Maintaining top line growth along with margins will remain important for the assigned ratings. .

Satisfactory cash flow coverage

Funds from Operations (FFO) increased to Rs. 1.4b (FY20: Rs. 1.0b) in FY21 on account of higher profitability and lower finance costs. As a result, cash flow coverage indicators remained satisfactory despite increase in total debt with FFO to Total Debt and FFO to

Long term debt standing at 23.3% (FY20: 18.8%) and 81.4% (FY20: 99.8%) respectively in FY21. Debt servicing levels also remained sound at 3.70x (FY20: 3.01x) during the outgoing year.

Adequate liquidity profile

Liquidity profile of the Company is adequate largely supported by a relatively lower cash conversion cycle and remains aligned with the short-term ratings assigned to the Company with current ratio standing at 1.08x (FY20: 1.02x). However, cash conversion cycle depicts an increase to 40 days (FY20: 16 days) in FY21 primarily due to reduction in payable days mostly outstanding against associated concern – Indigo Textile Private Limited. In addition, cash support to related party Dairyland increased during the year through extension of additional long term loans of Rs. 486m which has also impacted liquidity.

Capitalization indicators remain within manageable levels

Post adjustment for revaluation surplus, equity base of the Company increased to Rs. 5.1b (FY20: Rs. 4.2b) in FY21 on account of profitability. Dividend payments during the outgoing year amounted to Rs. 150m. Debt profile in FY21 encapsulates 84% increase in long term debt to finance capex, while short term borrowings reduced by 7%. Capitalization indicators witnessed slight improvement in FY21 on the back of improved profitability with gearing and leverage levels standing at 1.15x (FY20: 1.27x) and 1.70x (FY20: 1.88x) respectively. Going forward, leverage and gearing levels are expected to increase as the Company plans to finance expansion projects entirely through long term financing. However projected profitability is anticipated to keep gearing and leverage levels within manageable levels.

Akhtar Textile Industries (Private) Limited — Appendix I

FINANCIAL SUMMARY			*(amounts in PKR millions)*		
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**FY21**	**H1'FY22**
Fixed Assets	4,432	4,610	6,728	6,994	7,017
Stock-in-Trade	1,817	2,190	2,346	2,535	2,928
Trade Debts	456	559	343	822	1,560
Cash & Bank Balances	75	197	110	186	280
Total Assets	10,740	12,533	15,788	17,323	18,268
Trade and Other Payables	1,952	2,868	1,985	2,086	2,189
Long Term Debt	391	279	1,005	1,849	1,661
Short Term Debt	3,403	3,823	4,340	4,017	4,508
Total Debt	3,794	4,102	5,344	5,866	6,168
Total Liabilities	6,196	7,508	7,945	8,687	9,170
Paid up Capital	300	300	300	300	300
Total Equity	2,524	3,176	4,216	5,118	5,549
INCOME STATEMENT	**FY18**	**FY19**	**FY20**	**FY21**	**H1'FY22**
Net Sales	7,415	8,959	9,789	11,514	6,121
Gross Profit	919	1,381	1,653	1,835	963
Operating Profit	507	775	999	1,180	631
Profit After Tax	360	631	625	986	431
RATIO ANALYSIS	**FY18**	**FY19**	**FY20**	**FY21**	**H1'FY22**
Gross Margin (%)	12.4%	15.4%	16.9%	15.9%	15.7%
Operating Margin (%)	6.8%	8.6%	10.2%	10.3%	10.3%
Net Margin (%)	4.9%	7.0%	6.4%	8.6%	7.0%
Gearing (x)	1.50	1.29	1.27	1.15	1.11
Leverage (x)	2.45	2.36	1.88	1.70	1.65
FFO	580	790	1,003	1,398	NA
FFO to Long Term Debt (%)	148.3%	283.1%	99.8%	81.4%	NA
FFO to Total Debt (%)	15.3%	19.3%	18.8%	23.3%	NA
Debt Servicing Coverage Ratio (x)	2.22	2.37	3.01	3.70	NA
ROAE (%)	15.2%	22.1%	16.9%	21.1%	16.2%
ROAA (%)	3.6%	5.4%	4.4%	6.0%	4.8%
Current Ratio (x)	1.06	1.08	1.02	1.08	1.19
Stock in trade+Trade debts/ST borrowings (x)	0.67	0.72	0.62	0.84	1.00

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	
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	

Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
May 09, 2022	A	A-2	Stable	Reaffirmed
Jun 21, 2021	A	A-2	Stable	Upgrade
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

Due Diligence Meetings Conducted:

Name	Designation	Date
Mr. Nadeem Naz	Group CFO	Feb 17, 2022