RATING REPORT

Akhtar Textile Industries (Private) Limited

REPORT DATE:
April 14, 2023

RATING ANALYSTS:
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RATING DETAILS				
Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A	A-2
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*April 14, 2023*		*May 09, 2022*	

COMPANY INFORMATION	
Incorporated in 1985	**External Auditors:** Ibrahim, Shaikh & Co. Chartered Accountants
Private Limited Company	**CEO:** Mr. Farooq Javed
Key Shareholders:	
- *Family-owned Enterprise*	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Industrial Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.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.

The company belongs to the Akhtar Group of Companies, which has investments in Dairyland Private Limited, ACT Wind Private Limited, Indigo Textile Private Limited (ATIL), and Akhtar & Sons.

Ibrahim, Shaikh & Co. Chartered Accountants were appointed as the new external auditors during the review period.

RATING RATIONALE

Corporate Profile

Akhtar Textile Industries (Private) Limited (ATIL) is a part of Akhtar Group of Companies, which has presence in various sectors including textile (with primary focus on denim), dairy, and power. With nearly four decades of operational history, ATIL specializes in exporting denim products such as shorts, pants, and skirts. The company holds several export standard and compliance certifications and employs over 6,500 workers.

Long-term Investments

Long-term investment portfolio, representing ~8% of total asset base, includes ~49% ownership in an associate company called Dairyland (Private) Limited. The portfolio size grew to Rs. 2.1b (FY21: 1.0b) at end-FY22 on account of share of other comprehensive income from associate.

Operational Performance & Future Expansion Plan

Headquartered in Karachi, the company operates through four manufacturing units located in Korangi Industrial Area for cut-to-pack processes. Management stated that installed capacity can fluctuate based on worker efficiency and performance while overall capacity utilization has remained stable over the years.

Table: Capacity & Production Data - Denim Garments

	FY21	FY22	6M'FY23
Installed Capacity (Pcs)	10,512,000	10,804,000	5,775,000
Actual Production (Pcs)	9,901,411	10,304,403	5,505,155
Capacity Utilization	***94%***	***95%***	***95%***
Installed Capacity (Pcs/day)	36,000	36,013	36,700
No. of days	292	300	150

To address the rising long-term demand and attract new customers, management plans to enhance production capacities in the near future. This involves setting up a new unit adjacent to their current facilities on the same premises. To facilitate the same, two-acre piece of land for Rs. 1.4b was acquired during the year, which was funded by an equal mix of debt and equity. Construction is anticipated to commence in the FY24.

Key Rating Drivers

Business risk profile is constrained by current weak macroeconomic environment both globally and locally, demand slowdown, high interest rate situation, inflationary pressures and recent floods adversely affecting cotton crop while ongoing energy crisis in the country pose a challenge to margins sustainability and future growth.

Pakistan's export proceeds have oscillated in the range of USD 22-25b during the past decade (FY11-FY21), however, in FY22 exports finally broke the threshold, coming in at USD 32.4b. Textile sector contributes nearly one-fourth to industrial value-added segment and 8.5% to the country's GDP, with an estimated market size of around Rs. 4.0tr. Barring seasonal and cyclical fluctuations, textiles sector has maintained an average share of about 60% in national exports.

Table: Pakistan Export Statistics (in USD millions)

	FY20	FY21	FY22		7M'FY22	7M'FY23
Pakistan Total Exports	22,536	25,639	32,450		17,285	16,882
Textile Exports	12,851	14,492	18,525		10,369	10,377
PKR/USD Average Rate	158.0	160.0	177.5		170.0	224.7

Source: SBP

Export revenues from textile sector have noted sizeable growth over the years (FY22: $19.3b FY21: $15.4b; FY20: $12.5b; FY19: $13.6b). Knitwear, Readymade and Bed wear segments continue to contribute higher than other segments, with a cumulative contribution of more than 60% in textile exports. While the growth was primarily driven by volume (excluding knitwear and cotton yarn), higher prices also boosted exports.

Table : Textile Export Details (in USD millions)

	FY20	FY21	FY22		7M'FY22	7M'FY23
High Value-Added Segment	**9,669**	**12,427**	**15,605**		**8,853**	**8,326**
- Knitwear	2,794	3,815	5,121		2,888	2,803
- Readymade Garments	2,552	3,033	3,905		2,163	2,126
- Bed wear	2,151	2,772	3,293		1,924	1,639
- Towels	711	938	1,111		615	583
- Made-up Articles	591	756	849		491	435
- Art, Silk & Synthetic Textile	315	370	460		263	239
- Others	555	743	866		509	500
Low to medium Value-Added Segment	**2,858**	**2,972**	**3,717**		**2,080**	**1,714**
- Cotton Cloth	1,830	1,921	2,438		1,352	1,225
- Cotton Yarn	984	1,017	1,207		688	449
- Others	43	34	72		41	39
Total	**12,527**	**15,399**	**19,332**		**10,933**	**10,040**

Source: PBS

Cotton prices rose to a new 12-year high of ~Rs. 21,600/maund as of March'22, as a result of the shortage and higher input costs of fertilizer and energy. Cotton imports were also up 19.8%, in USD terms, for FY22 vis-à-vis preceding year.

Table: Cotton Prices Trend (In Rs.)

	FY19	FY20	FY21	FY22	7M'FY23
Per Maund	8,770	8,860	13,000	17,380	20,735
YoY % Change	26%	1%	32%	34%	n/a

Floods in Sindh and Southern Punjab during recent monsoon season have caused significant damage to the cotton crop. According to industry estimates, ~45% of the crop has been washed, worth more than $2.5b, resulting in significant price increases. The government has announced facilitation for raw materials imports to compensate for domestic shortages. Nonetheless, in addition to affecting profit margins, higher raw material pricing is expected to increase the working capital requirements, which is likely to have a negative impact on the liquidity profile of textile operators, particularly spinners, weavers and dying companies.

Global and domestic challenges, such as slowdown in export demand (primarily from North America and the EU, which has begun to materialize in Pakistan's monthly export proceeds) due to recessionary trend, industrial gas load shedding expected in the country, and rising production costs due to inflation, will weigh on the business risk profile going forward. These factors may result in competitive market pricing for exporters.

Revenue growth driven by higher prices, volumetric uptick and rupee devaluation impact; client concentration risk is high. Volumetric off-take remains healthy in the current fiscal year.

In FY22, sales revenue exhibited a healthy double-digit annual growth rate for the second year in a row, reaching almost Rs. 14b. The YoY increase of ~21% was primarily fueled by higher prices in dollar terms followed by volumetric uptick and rupee devaluation impact. This positive revenue trend has continued in 6M'FY23, with sales amounting to Rs. 9.3b, up by ~52% vis-à-vis SPLY.

Almost entire revenue comes from exports, with only wastages being sold locally. Product wise, denim pants make up ~82% of sales on average, with the rest attributed to denim shorts. During the review period, there was a notable increase in orders for kids and women's clothing. Client concentration risk is high as Levis is the major customer while majority sales are directed towards US, followed by Mexico, Canada, Germany, Australia and others. Nonetheless, management is adding new customers in the portfolio to diversify concentration risk.

Shift towards higher-margin products, coupled with consistent staffing to drive efficiency, resulted in significant improvement in margins.

Following a slight contraction, gross margins recouped in FY22 and increased further to a record high of over 20% in the current fiscal year, despite rising raw material and labor costs. The significant margin increase is due to strong business growth achieved with a consistent staff size of 6.5-7K workers, focused on maximizing output while shift in sales towards higher-margin product categories also contributed. Over the last 12 months, cost of procuring fabric on average has increased by ~42%; however, volumetric purchases stood lower due to a shift in sales mix. Indigo Textile Private Limited, an associate company, supplies almost half of the required fabric, while remaining is sourced from various local suppliers, with a small portion being imported.

Administrative and distribution overheads increased in tandem with business growth, and financing charges also increased in line with higher benchmark rates and increased utilization of running finance facility during the year. Nevertheless, strong revenue growth and higher gross margins led to a healthy uptick in bottom-line.

Cash flows generation remains healthy on a timeline basis. Liquidity profile is adequate.

Funds flow from operations (FFO) have noted a consistent growth trend over the last six fiscal years, reaching Rs. 1.6b (FY21: Rs. 1.3b; FY20: Rs.1.0b) at end-FY22. The healthy cash flow generation and limited debt levels have resulted in sound cash flow coverages as reflected by FFO to total debt of 0.36x (FY22: 0.23x) and FFO to long-term debt of 2.60x (FY22: 1.37x) at end-6M'FY23. Similarly, debt service coverage ratio was reported at 2.64x (FY22: 2.01x).

Current ratio remains stable at above 1.0x; however, coverage of short-term borrowings in relation to trade debts and inventory indicates room for improvement. Cash conversion cycle, while still healthy, increased to 56 days in FY22, up from 16 days in FY20. Trade debts aging profile remains strong as all receivables are settled within 90 days.

Retained profits supported capitalization; leverage ratios have improved over the review period.

Equity base (excluding revaluation surplus) grew by ~51% over the period of last 18 months, reaching to Rs. 7.7b at end-6M'FY23, driven by improved profitability. With consistent dividend of Rs. 150m, pay-out ratio was reported at 13% (FY21: 15%) in FY22. Debt portfolio predominantly comprises short-term debt (entirely ERF facility), with total interest-bearing liabilities amounting to Rs. 6.6b (FY22: Rs. 7.1b; FY21: Rs. 5.6b) at end-6M'FY23. Gearing and leverage ratios have depicted improvement during the review period.

Akhtar Textile Industries (Private) Limited Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY20**	**FY21**	**FY22**	**6M'FY23**
Non-current Assets	6,728.1	6,993.6	12,175.2	13,455
Stock-in-Trade	2,345.9	2,535.0	3,503.7	3,343
Trade Debts	343	822	1,112	1,772
Cash & Bank Balances	110	186	521	768
Total Assets	**15,788**	**17,323**	**26,209**	**26,964**
Trade Payables	1,985	2,086	2,337	2,616
Long Term Debt *(incl. current maturity)*	678	1,559	1,164	914
Short-term Debt	4,340	4,017	5,882	5,674
Total Debt	5,018	5,576	7,046	6,587
Total Liabilities	**7,945**	**8,687**	**10,579**	**10,601**
Paid up Capital	300	300	300	300
Total Equity	**4,216**	**5,118**	**6,975**	**7,708**
INCOME STATEMENT				
Net Sales	9,789	11,514	13,983	9,325
Gross Profit	1,653	1,835	2,363	1,892
Operating Profit	999	1,180	1,441	1,223
Profit Before Tax	**729**	**1,121**	**1,333**	**828**
Profit After Tax	**625**	**986**	**1,134**	**733**
RATIO ANALYSIS				
Gross Margin (%)	16.9%	15.9%	16.9%	20.3%
Net Margin (%)	6.4%	8.6%	8.1%	7.9%
FFO	1,003	1,398	1,600	1,187
FFO to Total Debt (x)	19.9%	25.1%	22.7%	36.0%*
FFO to Long-term Debt (x)	147.9%	89.7%	137.5%	259.8%*
Debt Leverage (x)	1.88	1.70	1.52	1.38
Gearing (x)	1.19	1.09	1.01	0.85
DSCR (x)	3.01	3.70	2.01	2.64*
Current Ratio (x)	1.02	1.08	1.13	1.16
Inventory plus Receivables/Short term Borrowings (x)	0.62	0.84	0.78	0.90
ROAA (%)	4.4%	5.0%	5.2%	6.2%*
ROAE (%)	16.9%	18.1%	18.8%	21.7%*

**Annualized*

ISSUE/ISSUER RATING SCALE & DEFINITIONS Appendix II

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 — Appendix III

Name of Rated Entity	Akhtar Textile Industries (Private) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
April 14, 2023	A	A-2	Stable	Reaffirmed
May 09, 2022	A	A-2	Stable	Reaffirmed
June 21, 2021	A	A-2	Stable	Upgrade
April 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.
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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Nadeem Naaz	Group CFO	March 17, 2023
Mr. Tariq Iqbal	CFO/ Internal Auditor	