RATING REPORT

Akhtar Textile Industries (Private) Limited

REPORT DATE:
July 30, 2024

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
Outlook/ Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*July 30, 2024*		*April 14, 2023*	

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 *https://docs.vis.com.pk/docs/CorporateMethodology.pdf*

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: ***https://docs.vis.com.pk/docs/VISRatingScales.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).

RATING RATIONALE

Corporate Profile

Akhtar Textile Industries (Private) Limited ('ATIL' or 'the Company') is 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 head office and factory units are located in Karachi.

Sector Update

The business risk profile of the textile sector in Pakistan is characterized by a high level of exposure to economic cyclicality and intense competition. This sector's performance is significantly influenced by the broader economic conditions in the country, making it inherently vulnerable to fluctuations in demand driven by economic factors. In FY23, the textile sector faced challenges due to various economic and environmental factors. These included damage to the cotton crop resulting from flooding in 1HFY23, escalating inflation, and import restrictions due to diminishing foreign exchange reserves.

During FY23, Pakistan's yarn production registered a substantial decline, primarily due to reduced availability of cotton, as a result of crop damage and import restrictions. The sector's profitability was constrained by factors such as higher production costs, increased raw material costs, and rising energy expenses, all of which constrained the sector's profit margin. The industry's performance is closely intertwined with the outlook of the cotton and textile industries, both of which were affected in FY23. Reduction in cotton supply, coupled with global economic slowdown and contractionary economic policies, led to a decrease in demand for textile products and, consequently, cotton yarn.

While the global outlook for cotton production is expected to rebound, local challenges persist. These challenges include high interest rates, increasing energy costs and inflationary pressures. Additionally, the sector's vulnerability to global market dynamics and the domestic economic landscape further contribute to its high business risk profile. However, there is optimism as an anticipated bigger cotton crop in FY24 is expected to alleviate some pressure on input costs and margins.

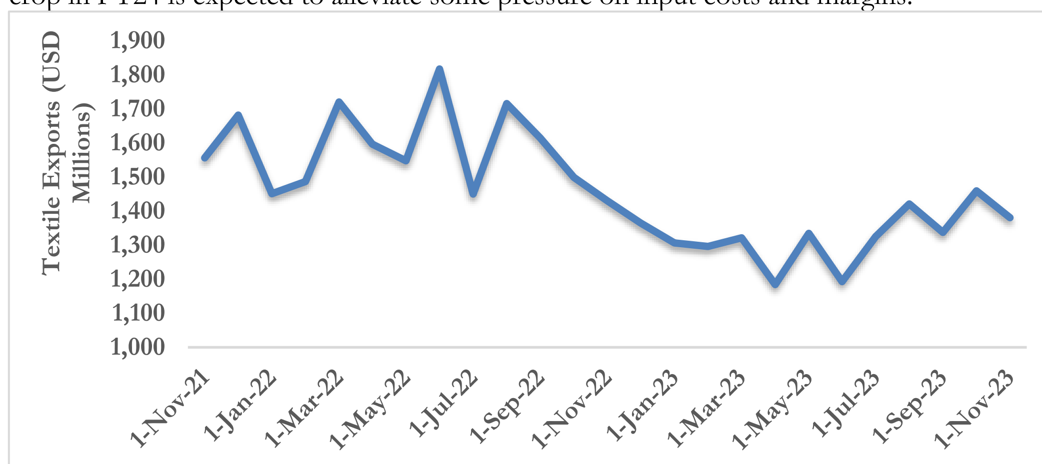

Figure 1: MoM Textile Exports (In USD' Millions) | Source: SBP

Operational Performance & Capacity Utilization:

Property, plant, and equipment increased to Rs. 13.9b (FY23: Rs. 13.5b; FY22: Rs. 12.0b) at the end of 1H'FY24. During FY23 and 1H'FY24, the Company added Rs. 1.7b and Rs. 394.6m respectively in PP&E, mainly pertaining to land (amounting to Rs. 1.4b in FY23). ATIL is in process of constructing

a new unit, for which the Company expects a total cost of Rs. 1.0b, out of which it has already incurred around Rs. 500.0m. Construction is expected to be completed in 1H'FY25, after which plant and machinery shall be imported. The Company also completed the installation of 392.04KW of solar for which it incurred Rs. 75.0m. During the review period, actual production witnessed a slight increase. With the completion of the new unit, total production capacity is expected to double.

Capacity Utilization	FY22	FY23	1H'FY24
Denim Garments			
Installed Capacity (Pieces)	10,804,000	11,680,000	5,949,500
Actual Production (Pieces)	10,304,403	10,564,221	5,424,623
Utilization	**95%**	**90%**	**91%**

Strong topline growth in FY23 with improved gross margins amid rupee depreciation; however, the same trended down to normal levels in 1H'FY24

Topline increased by 43.9% in FY23, with net sales recorded higher at Rs. 20.1b (FY22: Rs. 14.0b) due to higher selling prices amid rupee depreciation despite slightly lower volumetric sales. The Company mainly serves to Levi Strauss & Co. (LS&C), in different regions and also focusing on increasing clientele by introducing new customers thereby diluting client concentration risk; however, comfort is drawn from the fact that ATIL has long-withstanding relations with LS&C.

Despite higher procurement prices, gross profit surged to Rs. 4.4b (FY22: Rs. 2.4b), with gross margins improving to 21.7% (FY22: 16.9%) mainly due to better selling prices on the back of rupee depreciation. Operating expenses witnessed an increase, with distribution costs amounting to Rs. 932.1m (FY22: Rs. 495.2m) mainly due to higher export expenses and commission, while administrative expenses increased to Rs. 520m (FY22: Rs. 330.0m). Finance costs increased to Rs. 1.0b (FY22: Rs. 325.7m). This rise is primarily attributed to greater reliance on short-term financing coupled with higher markup rates. Share of profit from associated undertaking (i.e., Dairyland Pvt. Limited) was recorded lower at Rs. 113.6m (FY22: Rs. 192.7m). Despite higher operating expenses and finance costs, the bottom line recorded a profit of Rs. 1.6b vis-à-vis Rs. 1.1b in FY22, with net margins intact at 8.0% (FY22: 8.1%).

During 1H'FY24, net sales increased by approximately 27.5% vis-à-vis SPLY, amounting to Rs. 11.9b (1H'FY23: Rs. 9.3b). Increase in topline was due to higher selling prices coupled with marginally higher volumetric sales vis-à-vis SPLY. Despite higher selling prices, gross profit decreased to Rs. 1.7b (1H'FY23: Rs. 1.9b), with gross margins declining to 14.5% (1H'FY23: 20.3%) due to high manufacturing cost. Distribution costs were recorded at Rs. 237.6m (1H'FY23: Rs. 372.3m), while administrative costs increased to Rs. 278.9m (1H'FY23: Rs. 234.9m). Finance costs for 1H'FY24 increased significantly to Rs. 748.3m (1H'FY23: Rs. 397m), due to higher markup rates incurred on working capital financing. With a notable decrease in gross margins, coupled with elevated financial charges, the bottom line recorded a profit of Rs. 328m vis-à-vis Rs. 733m in 1H'FY23, with net margins under pressure.

In full year (FY24), the management expects net sales to clock in at Rs. 24b, however, net margins are expected to remain stressed in range of 2-3% during the rating horizon.

Liquidity, Cashflow and Debt Coverages profiles remained manageable

During FY23, funds from operations (FFO) were recorded higher at Rs. 2.4b in FY23 vis-à-vis Rs. 1.6b in FY22, mainly on the back of higher operating profit coupled with non-cash adjustments. FFO during 1H'FY24 stood at Rs. 805m. Cash flow coverages fluctuated during the review period. Although debt service coverage ratio (DSCR) deteriorated during 1H'FY24 due to lower FFO, it remained adequate at 1.74x (FY23: 2.20x; FY22: 1.96x). Current ratio marginally improved to 1.18x (FY23: 1.17x; FY22:

1.13x) primarily on account of buildup in receivables. While net operating cycle improved to 45 days (FY23: 59 days; FY22: 51 days) due to faster inventory turnover.

Equity growth driven by internal capital generation; long term debt continued to decline on a timeline basis.

Equity (adjusted for surpluses) amounted to Rs. 8.8b (FY23: Rs. 8.5b; FY22: Rs. 7.0b), on the back of higher retained earnings. During FY23, the Company issued 70.0m bonus shares @ Rs. 10/share, thereby increasing total paid up capital to Rs. 1.0b (FY23: Rs. 1.0b; FY22: Rs. 300.0m) by end-Dec'23. Hence Rs. 700.0m was converted from retained earnings to paid-up capital. Furthermore, in FY23, the Company paid cash dividend amounting to Rs. 195.0m. Total debt amounted to Rs. 6.2b (FY23: Rs. 6.9b; FY22: Rs. 7.1b) due to lower short-term borrowings at reporting date. Long-term loans are entirely subsidized, while the Company mobilizes around 80% short-term loan on Export Refinance rates. At end-Dec'23, gearing ratio marginally improved to 0.71x (FY23: 0.82x; FY22: 1.02x) while leverage stood at 1.35x (FY23: 1.24x; FY22: 1.52x) respectively. The Company is planning to double its production capacity in next year (FY25) for which ATIL has already purchased a land for Rs. 1.4b and developed an infrastructure for around Rs. 500m. Management expects to further incur cost in order to complete construction, subsequent to which plant and machinery shall be imported. Looking ahead, maintaining capitalization indicators is important from rating's perspective.

Akhtar Textile Industries (Private) Limited **Appendix I**

REGULATORY DISCLOSURES					Appendix I
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**
	July 30, 2024	A	A-2	Stable	Reaffirmed
	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.				
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Due Diligence Meeting Conducted	**Name**	**Designation**	**Date**		
	Mr. Nadeem Naz	Group CFO	June 03, 2024		