

RATING REPORT

Indigo Textile (Private) Limited

REPORT DATE:

November 05, 2018

RATING ANALYSTS:

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RATING DETAILS

| Rating Category | Latest Rating | |
|-----------------|------------------|------------|
| | Long-term | Short-term |
| Entity | A- | A-2 |
| Rating Date | November 05'2018 | |
| Rating Outlook | Stable | |
| Outlook Date | November 05'2018 | |

COMPANY INFORMATION

| | |
|-------------------------|--|
| Incorporated in 2002 | External auditors: Munaf Yusuf & Co. Chartered Accountants |
| Private Limited Company | Chief Executive Officer: Amir Maqbool Board of Directors: <ul style="list-style-type: none"> - Rizwan Iqbal Umer - Harris Siddique - Shiraz Masood - Farooq Javed - Khurshid Akhtar - Zeeshan Mansoor |

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (May, 2016) <http://www.jcrvis.com.pk/kc-meth.aspx>

Indigo Textile (Private) Limited

OVERVIEW OF THE INSTITUTION

Indigo Textile (Private) Limited (ITPL) was established in 2006 as a JV between Akhtar Group and Haji Khuda Bux Amir Umar.

Haji Khuda Bux Amir Umar group is engaged in the ginning, export, import, indenting of raw cotton and merchandising of cotton, blended yarns and other textile made ups and has been involved in the cotton trade since 1932. Akhtar group specializes in the textile sector particularly denim fabric and garments but also has diversified in the dairy and power sectors.

ITPL belongs to the Akhtar Group of Companies which is a family owned group. Akhtar Group of companies includes Dairyland Private Limited, ACT Wind Private Limited, Akhtar Textile Industries Private Limited (ATIL), Akhtar & Sons and Rainbow Jordan.

RATING RATIONALE

Indigo Textile (Private) Limited (ITPL) was established in 2006 as a JV between Akhtar Group and Haji Khuda Bux Amir Umar. The Company is in the business of denim fabric manufacturing and operates through 161 looms with an annualized denim fabric manufacturing capacity of 30.6m meters per annum. ITPL has operated at high capacity utilization levels over the last few years. Going forward, the company plans to gradually increase its capacity by 37% till FY21. Addition of looms for increasing capacity will be funded through a mix of debt and internal capital generation.

Asset base of the company was reported at Rs. 9.1b (FY17: Rs. 8.4b) at end-Mar'2018. Investment in fixed assets represent more than two fifth of the total asset base. Stock in trade and trade debt represents other major components of the Company's asset base. Trade debts have increased on a timeline basis as a percentage of total assets which largely comprise receivables from related party- Akhtar Textile Industries (Private) Limited (ATIL).

Rating Rationale

Business risk

Business risk profile is supported by stable and growing demand for denim fabric. However, local and international expansion by major players is expected to keep pricing power and hence margins under pressure. Moreover, significant investment required by customers as part of sustainability initiative is expected to add to cost pressures for denim manufacturers. Other key business risk factors include volatility in yarn prices and limited ability to pass on the same.

Sales

Sales revenue of the company has grown at a CAGR of 4% over the past three years (FY14-FY17). Around three fourth of the total sales revenue comprise indirect exports to local players whereas the remaining portion comprise direct exports to other countries. Around one-half of the indirect sales are directed to associate company-ATIL. Business risk is on the higher side given the greater concentration (client and geographic) in sales. During FY18, sales revenue increased by 25% on account of higher sales volume along with rise in average selling prices.

Profitability

With increasing yarn prices during FY17, gross margins of the company witnessed a decrease to 15% (FY16: 20%). Going forward, gross margins and profitability are expected to come under pressure over the short to medium term on account of reduction on rebate on exports and pressure on prices due to competitive pressure on the back of significant capacities coming online. Overall profitability indicators in terms of ROAA and ROAE have room for improvement.

Liquidity

Liquidity profile of the company is considered adequate in view of sufficient cash flows in relation to outstanding obligations, satisfactory debt servicing ability and aging of trade debts which remain within manageable levels. However, the Company's working capital cycle is extended and necessitates utilization of short-term borrowings. Given the increasing trend in trade debts, short-term borrowings have continued to increase on a timeline basis. With current assets being greater than current liabilities, current ratio of ITPL was reported at 1.29(x) at end-Mar'2018.

Capitalization

Equity base of the company has grown at a CAGR of 18% over the past three years (FY14-FY17) on account of profit retention. Dividend payout ratio of the company was reported at 43% during FY17 and the management expects the same to remain at similar levels going forward. Debt carried on the balance sheet largely comprises short-term debt to fund working capital requirements. With increase in debt being higher than increase in equity base, leverage indicators have trended upwards since FY16

onwards. Gearing was reported at 1.21x (FY17: 1.12x) at end-March'2018.

Corporate Governance Framework

Corporate Governance framework is constrained with Board discussions limited to regulatory approvals and absence of a formal Internal Audit function. Board composition and oversight may be enhanced through inclusion of independent directors and greater discussion on future strategy and of internal control framework of the organization. While a formal internal audit function is absent, the company has separate Compliance and Quality Assurance departments at its manufacturing facilities. ITPL has deployed Sidat Hyder Financials for its IT related needs.

ISSUE/ISSUER RATING SCALE & DEFINITION

Appendix I

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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 II | | | |
|-------------------------------------|---|----------------------------|-------------------|-----------------------|----------------------|
| Name of Rated Entity | Indigo Textile (Private) Limited | | | | |
| Sector | Textile Industry | | | | |
| Type of Relationship | Solicited | | | | |
| Purpose of Rating | Entity Rating | | | | |
| Rating History | Rating Date | Medium to Long Term | Short Term | Rating Outlook | Rating Action |
| | <u>RATING TYPE: ENTITY</u> | | | | |
| | Nov 05, 2018 | A- | A-2 | Stable | Initial |
| Instrument Structure | N/A | | | | |
| Statement by the Rating Team | JCR-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 | JCR-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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