

## RATING REPORT

### Indigo Textile (Private) Limited

**REPORT DATE:**

April 24, 2020

**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 Date	April 24, 2020		November 27, 2019	
Rating Outlook	Rating Watch - Developing		Stable	
Rating Action	Maintained		Reaffirm	

**COMPANY INFORMATION**

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

**APPLICABLE METHODOLOGY(IES)**

*Applicable Rating Criteria: Industrial Corporates (May, 2016)*

<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

## 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), and Akhtar & Sons.

## 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 engaged in manufacturing and sale of denim fabric. ITPL operates through 161 looms with an annualized denim fabric manufacturing capacity of 30.6m meters. Capacity utilization has remained around 88% during the last three years. In line with projected increase in demand, the management plans to increase its capacity with installation of 30 new looms.

**Coronavirus to result in uncertainty in textile sector dynamics**

The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand, sharp fall in cotton prices and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating Watch-Developing' status. Given the moderately leveraged capital structure, it is expected that ratings will remain stable post recovery of the ongoing situation; nevertheless as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status.

**Indigo Textile (Private) Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>				
<i>(amounts in PKR millions)</i>				
<b><u>BALANCE SHEET</u></b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>9M<sup>FY19</sup></b>
Fixed Assets	3,687	4,055	3,947	4,009
Stock-in-Trade	1,079	1,475	2,209	2,312
Trade Debts	1,372	2,122	2,471	3,092
Cash & Bank Balances	7	4	21	26
<b>Total Assets</b>	<b>6,768</b>	<b>8,360</b>	<b>5,599</b>	<b>6,390</b>
Trade and Other Payables	884	1,163	1,407	1,581
Long Term Debt	791	750	592	615
Short Term Debt	1,338	2,042	2,874	3,259
<b>Total Debt</b>	<b>2,129</b>	<b>2,792</b>	<b>3,466</b>	<b>3,874</b>
Paid up capital	300	300	300	300
<b>Total Equity</b>	<b>2,305</b>	<b>2,486</b>	<b>2,831</b>	<b>3,150</b>
<b><u>INCOME STATEMENT</u></b>				
Net Sales	4,754	4,914	6,189	5,666
Gross Profit	951	746	1,054	856
Operating Profit	561	354	517	458
Profit Before Tax	437	221	363	272
Profit After Tax	437	208	319	237
<b><u>RATIO ANALYSIS</u></b>				
Gross Margin (%)	20%	15%	17%	15%
Net Margin	9.19%	4.22%	5%	4%
FFO	574	442	637	N/A
FFO to Total Debt (%)*	27%	16%	24%	N/A
FFO to Long Term Debt (%)*	73%	59%	143%	N/A
Current Ratio (x)	1.31	1.24	1.24	1.30
Debt Servicing Coverage Ratio (x)*	3.45	2.39	2.06	N/A
Gearing (x)	0.92	1.12	1.22	1.23
Leverage (x)	1.35	1.65	1.79	1.80
ROAA (%)*	7%	3%	4%	3%
ROAE (%)*	21%	9%	12%	11%
(Stock in Trade + Trade Debts) / Short Term Borrowings	1.77	1.59	1.83	1.76

**ISSUE/ISSUER RATING SCALE & DEFINITION**

**Annexure 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

**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](http://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](http://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.

**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.

**(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](http://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			
<b>Name of Rated Entity</b>	Indigo Textile (Private) Limited				
<b>Sector</b>	Textile				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	April 24, 2020	A-	A-2	Rating Watch - Developing	Maintained
	Nov 27, 2019	A-	A-2	Stable	Reaffirmed
	Nov 5, 2018	A-	A-2	Stable	Initial
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		