

## RATING REPORT

## Indigo Textile (Private) Limited

**REPORT DATE:**

April 25, 2022

**RATING ANALYSTS:**

Sara Ahmed  
[sara.ahmed@vis.com.pk](mailto:sara.ahmed@vis.com.pk)

Syeda Aaminah Asim  
[aaminah.asim@vis.com.pk](mailto:aaminah.asim@vis.com.pk)

Rating Category	RATING DETAILS			
	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-1	A	A-1
Rating Date	Mar 11, 2022		Jun 21, 2021	
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Upgrade	

## COMPANY INFORMATION

Incorporated in 2002	<b>External auditors:</b> Ibrahim Shaikh & 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 (August, 2021)*  
<https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf>

## Indigo Textile (Private) Limited

OVERVIEW OF  
THE  
INSTITUTION

Indigo Textile (Private) Limited (ITPL) was established in 2002 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.

## RATING RATIONALE

**Corporate Profile:** Incorporated in 2002 as a private limited company with commencement of commercial production in 2006; Indigo Textile Private Limited is a Joint Venture between Akhtar Group and Haji Khuda Bux Amir Umar Group, and is primarily involved in the manufacturing and exports of denim fabric. Yarn is majorly procured from local sources, however dependence on imported yarn is increasing on a timeline basis. The Company is involved in both direct and indirect exports, which constitutes 42% (FY20: 40%) and 58% (FY20: 60%) of the total sales mix, respectively. Direct exports were concentrated in Bangladesh, Egypt, and Turkey in FY21, while major contributors of indirect exports includes Akhtar Textile Industries (Private) Limited and Cotton Web Limited during the outgoing year. Registered office of the Company is located in Clifton, Karachi, while manufacturing plant is situated in Deh Joreji Bin Qasim, Sindh.

During the year, dividend payout of the Company stood at 17% (FY20: Nil). There were no changes in the senior management in FY21, however there was a minor change in the shareholding pattern whereby shares of Mr. Saqib Siddique were transferred to his son upon his demise.

**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.

**Capital expenditure towards capacity additions and backward integration likely to support higher margins**

The Company is undergoing capacity addition initiatives during the ongoing year with installation of 61 looms by end-FY22, of which 42 looms commenced operations by end-H1'FY22 while remaining looms will be operational by end-FY22. The project is expected to increase production capacity by ~30%. Total project cost is more than ~ Rs. 1bn funded entirely through Temporary Export Refinance Facility (TERF). In a bid to boost margins, the Company is also planning to establish a spinning plant incorporating 27,000-30,000

spindles for in-house consumption which is expected to come online in FY24. Till date, Indigo Textile has purchased land in Nooriabad, Karachi, for the same and is in the process of establishing LC's for plant and machinery. Expected capex of the project is ~Rs. 6.7b of which ~Rs. 4.5b will be funded through long term debt, and the rest through internal cash generation.

### **Revenues maintained positive momentum; however gross margins remain under pressure**

Sales revenue of the Company increased to Rs. 11.6b (FY20: 8.3b) in FY21, recording a sizeable increase of 40% primarily on account of growth in volumes. Impact of persistent rupee devaluation during the outgoing year amounted to 6%. Composition of sales mix reflects increasing focus towards direct exports relative to indirect exports on a timeline basis, and the trend is expected to continue going forward as per management. Client concentration continues to remain on the higher side with top ten indirect export clients constituting 89% (FY20: 64%) of indirect exports during the outgoing year, while top ten direct export clients constituting 60% (FY20: 47%) of direct exports in FY21.

Gross Margins of the Company reduced to 14.0% (FY20: 15.7%) in FY21 owing to increase in cotton prices, and other raw material prices on account of rupee devaluation and inflationary pressures. Selling and administrative expenses however remained contained only increasing by 9% relative to revenue growth. Consequently, operating margins were maintained at 7.8% (FY20: 7.8%). Finance costs witnessed significant reduction in FY21 primarily owing to lower utilization of short term borrowings due to higher cash generation during the year. Other income streamlined in FY21 compared to a sizeable exchange gain and insurance claim recognized in FY20. Subsequently, net margins of the Company improved to 5.5% (FY20: 3.5%) in FY21. We expect margins to remain range bound at existing levels while volume growth to contribute towards higher profitability. Margin improvement over the rating horizon, however, will remain important in line with the assigned level of ratings.

### **Improvement in cash flow coverage indicators**

Funds from Operations (FFO) rose to Rs. 955m (FY20: Rs. 634m) in FY21 on the back of increased profitability and lower finance costs. As a result, cash flow coverage indicators depicted improvement during the outgoing year with FFO to Total Debt and FFO to Long term debt standing at 35.1% (FY20: 19.2%) and 102.2% (FY20: 79.4%) in FY21, respectively. Debt servicing also remained sound at 3.76x (FY20: 1.83x) in FY21.

Liquidity profile of the Company remains adequate with current ratio standing at 1.50x (FY20: 1.44x) and coverage for short term borrowings against stock and trade debt remain sound. Although cash conversion cycle has depicted improvement (FY21: 101 days, FY20: 166 days) in FY21 relative to previous period on account of lower receivable days outstanding and inventory days outstanding, it still remains stretched. Moreover, working

capital requirements are expected to increase with capacity additions going forward. Improvement in liquidity indicators will remain important for the assigned ratings.

**Capitalization indicators depict improvement on a timeline basis; however the same expected to increase going forward**

Post adjustment of revaluation surplus, equity base of the Company increased to Rs. 4.3b (FY20: Rs. 3.6b) in FY21 on account of higher profitability. Dividend payments in FY21 amounted to Rs. 105m (FY20: Nil). Debt profile encapsulates 17% increase in long term debt to fund capex, while short term debt reduced by 28% due to improvement in profitability and cash conversion cycle. Consequently, capitalization indicators depicted improvement with gearing and leverage at 0.63x (FY20: 0.92x) and 1.37x (FY20: 1.47x) in FY21 respectively. Going forward, capitalization indicators are expected to increase as the Company plans to increase utilization of long term debt to finance capex, albeit remaining within manageable levels with realization of projected profitability. Ratings remain dependent on maintenance of gearing and leverage levels.

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

<b>FINANCIAL SUMMARY</b>					
	<i>(amounts in PKR millions)</i>				
<b>BALANCE SHEET</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>H1'FY22</b>
Fixed Assets	3,937	4,021	5,637	5,550	6,148
Stock-in-Trade	2,209	2,565	2,608	2,505	3,995
Trade Debts	2,471	3,027	2,627	3,290	3,629
Cash & Bank Balances	21	22	38	442	77
<b>Total Assets</b>	<b>9,546</b>	<b>10,547</b>	<b>11,928</b>	<b>13,104</b>	<b>16,185</b>
Trade and Other Payables	1,407	1,826	1,689	2,914	2,875
Long Term Debt	592	636	799	934	1,380
Short Term Debt	2,874	3,095	2,500	1,789	3,965
<b>Total Debt</b>	<b>3,466</b>	<b>3,731</b>	<b>3,299</b>	<b>2,723</b>	<b>5,346</b>
Paid up Capital	300	300	300	300	300
Tier 1 Equity	2,831	3,193	3,581	4,317	4,860
<b>INCOME STATEMENT</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>H1'FY22</b>
Net Sales	6,189	7,482	8,280	11,552	7,511
Gross Profit	1,054	1,241	1,302	1,616	1,045
Operating Profit	517	666	644	897	631
Profit Before Tax	363	393	376	743	520
Profit After Tax	319	329	290	636	451
<b>RATIO ANALYSIS</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>H1'FY22</b>
Gross Margin (%)	17.0%	16.6%	15.7%	14.0%	13.9%
Operating Margin (%)	8.3%	8.9%	7.8%	7.8%	8.4%
Net Margin	5.2%	4.4%	3.5%	5.5%	6.0%
FFO	637	758	634	955	NA
FFO to Total Debt (%)*	18.4%	20.3%	19.2%	35.1%	NA
FFO to Long Term Debt (%)*	107.5%	119.0%	79.4%	102.2%	NA
Current Ratio (x)	1.24	1.26	1.44	1.50	1.42
Debt Servicing Coverage Ratio (x)*	2.06	2.27	1.83	3.76	NA
Gearing (x)	1.22	1.17	0.92	0.63	1.10
Leverage (x)	1.79	1.82	1.47	1.37	1.76
ROAA (%)*	3.6%	3.3%	2.6%	5.1%	6.2%
ROAE (%)*	12.0%	10.9%	8.6%	16.1%	19.7%
(Stock in Trade + Trade Debts) / Short Term Borrowings	163%	181%	209%	324%	192%

\*Annualized

**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](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.

**(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>
	Apr 25, 2022	A	A-1	Stable	Reaffirmed
	Jun 21, 2021	A	A-1	Stable	Upgrade
	April 24, 2020	A-	A-2	Rating Watch - Developing	Maintained
	Nov 27, 2019	A-	A-2	Stable	Reaffirmed
<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>		
	Mr. Nadeem Naz	Group CFO	March 01, 2022		