# RATING REPORT

## Indigo Textile (Private) Limited

**REPORT DATE:**
May 24, 2023

**RATING ANALYSTS:**
Muhammad Tabish
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**RATING DETAILS**

| Rating Category | Latest Rating | | Previous Rating | |
|---|---|---|---|---|
| | Long-term | Short-term | Long-term | Short-term |
| **Entity** | A | A-1 | A | A-1 |
| **Rating Outlook** | Stable | | Stable | |
| **Rating Action** | Reaffirmed | | Reaffirmed | |
| **Rating Date** | May 24, 2023 | | April 25, 2022 | |

**COMPANY INFORMATION**

| | |
|---|---|
| **Incorporated in 2002** | **External Auditors:** Ibrahim Shiekh and Co. Chartered Accountants |
| **Private Limited Company** | **CEO:** Mr. Amir Maqbool |
| **Key Shareholders (with stake 10% or more):** | |
| *Bilal Jahangir ~11%* | |
| *Farooq Javed ~11%* | |
| *Zeeshan Mansoor ~11%* | |
| *Khurshid Akhtar ~11%* | |
| *Other 17 individuals ~56%* | |

**APPLICABLE METHODOLOGY(IES)**

**VIS Entity Rating Criteria:** Industrial Corporates (May 2023)
*https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf*

**APPLICABLE RATING SCALE(S)**

***VIS Issue/Issuer Rating Scale:***
*https://docs.vis.com.pk/docs/VISRatingScales.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.*

*Since 1932, the Haji Khuda Bux Amir Umar group has been involved in the cotton trade and engages in ginning, export, import, indenting of raw cotton, and merchandising of textile products.*

*Akhtar Group specializes in textiles, mainly denim fabric and garments, and has expanded into dairy and power sectors. Other entities are Dairyland Private Limited, ACT Wind Private Limited, Akhtar Textile Industries Private Limited (ATIL), and Akhtar & Sons.*

**Profile of CEO**

*Mr. Amir Maqbool, currently serving as CEO, has been associated with the company since 2002. He completed his MBA from Institute of Business Administration.*

## RATING RATIONALE

**Corporate Profile**

Indigo Textile Private Limited (ITPL) is a joint-venture between Akhtar Group and Haji Khuda Bux Amir Umar Group, specializing in denim production and export for over two decades, with operations including rope-dyeing, weaving, and finishing. The company employs roughly 6,700 skilled workers and adheres to global quality standards in denim manufacturing. Energy needs are met by a mix of 5.9MW gas generators, 3.5MW diesel engines, and a 1MW backup from the national grid. In addition, solar power plant has recently been installed and now functioning.

**Environmental, Social, & Governance (ESG) Initiatives**

Since inception, environmental sustainability has been a core value of the company, which is evident from its various initiatives such as wastewater treatment plant that recycles ~80-85% of water per day on average, sourcing sustainable fibers, introducing sustainable orbit dying, tree plantation outside/inside the units and implementing a sustainable eco-drying facility. Apart from this, management also prioritizes promotion of education and professional skill development among employees and their children.

**Capacity expansion during the review period**

In FY22, the company increased production capacity by ~16% by installing 42 new looms out of 61 initially planned for the year. Supply issues from the vendor caused delays for the remaining 19 looms, now expected to be installed in June'23. As per management, project cost of Rs. 1b was funded through LTFF and TERF facilities.

**Operational Performance**

The company, headquartered in Karachi, has a manufacturing plant located in Deh Joreji Bin Qasim, Sindh, which can produce over 35m meters of denim fabric annually. Production levels have steadily increased over the years, leading to higher utilization rates.

**Table: Capacity & Production Data (Figures in millions)**

| | FY20 | FY21 | FY22 | 6M'FY23 |
|---|---|---|---|---|
| Number of looms installed | 161 | 161 | 203 | 203 |
| Installed Capacity (Meters) | 30.6 | 30.6 | 35.5 | 17.7 |
| Actual Production (Meters) | 24.5 | 27.8 | 32.5 | 16.1 |
| ***Capacity Utilization*** | ***80.2%*** | ***91.0%*** | ***91.4%*** | ***90.9%*** |

**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 | | 9M'FY22 | 9M'FY23 |
|---|---|---|---|---|---|---|
| **Pakistan Total Exports** | 22,536 | 25,639 | 32,450 | | 23,706 | 21,088 |
| **Textile Exports** | 12,851 | 14,492 | 18,525 | | 13,577 | 12,992 |
| **PKR/USD Average rate** | 158.0 | 160.0 | 177.5 | | 171.5 | 235.5 |

*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 | | 9M'FY22 | 9M'FY23 |
|---|---|---|---|---|---|---|
| **High Value-Added Segment** | **9,669** | **12,427** | **15,605** | | **11,482** | **10,318** |
| - Knitwear | 2,794 | 3,815 | 5,121 | | 3,730 | 3,390 |
| - Readymade Garments | 2,552 | 3,033 | 3,905 | | 2,864 | 2,657 |
| - Bed wear | 2,151 | 2,772 | 3,293 | | 2,449 | 2,032 |
| - Towels | 711 | 938 | 1,111 | | 820 | 745 |
| - Made-up Articles | 591 | 756 | 849 | | 627 | 535 |
| - Art, Silk & Synthetic Textile | 315 | 370 | 460 | | 344 | 309 |
| - Others | 555 | 743 | 866 | | 650 | 650 |
| **Low to medium Value-Added Segment** | **2,858** | **2,972** | **3,717** | | **2,760** | **2,158** |
| - Cotton Cloth | 1,830 | 1,921 | 2,438 | | 1,795 | 1,538 |
| - Cotton Yarn | 984 | 1,017 | 1,207 | | 908 | 573 |
| - Others | 43 | 34 | 72 | | 56 | 47 |
| **Total** | **12,527** | **15,399** | **19,332** | | **14,243** | **12,476** |

*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 | 9M'FY23 |
|---|---|---|---|---|---|
| Per Maund | 8,770 | 8,860 | 13,000 | 17,380 | 18,935 |
| 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 rupee depreciation and volumetric increase; sales volume remained stable in the current fiscal year. Client concentration risk remains elevated.**
Topline grew at a CAGR of ~21% over the period of last five fiscal years (FY18-22), while reaching a record high of Rs. 16.2b in FY22. The YoY increase of ~41% was largely driven by ~33% rupee devaluation impact and ~15% growth in export volumes. However, prices in dollar terms noted a decline of ~6% over the same period. In 6M'FY23, sales continued to grow, reaching Rs. 9.4b, up by ~26% vis-à-vis SPLY. Despite worldwide economic slowdown, sales volumes have remained sound with secured orders in hand for next 3 to 4 months, leading management to anticipate full-year sales between Rs.18b-20b.

Direct and indirect exports over the past two years had an average split of 57:43, with over two-thirds of direct exports concentrated in Bangladesh, Turkey, Hong Kong, and Egypt. The rest is spread across regions including Indonesia, Netherlands, Sri Lanka, Colombia, Spain, Mexico and others. High client concentration risk exists, with top ten clients generating three-fifth of direct exports and more than four-fifth of indirect exports, respectively while an associate company, Akhtar Textile (Private) Limited accounts for ~15% of total sales.

**Record low net margins in FY22 due to higher financial charges from increased debt utilization and benchmark rates, but current year shows improvement.**
Gross margins have noted a declining trend on a timeline, with significant contraction in FY22 due to rising costs of raw materials, labor, and power. Inventory levels are sufficient for a period of six months, while average cost of yarn procured has increased by ~58% in the past 18 months, with imports making up ~93%. Volumetric purchases grew by ~9% in line with increased production capacity.

Distribution and administrative overheads grew sizably reflecting inflation and business growth, while financial charges have almost doubled owing to higher benchmark rates and increased utilization of running finance facility during the year, impacting net margins and the bottom line in absolute terms. However, profitability margins (on both gross and net basis) recouped in the current fiscal year.

**Contrasting trend in cash flow coverages reflect recovery in profitability margins while reduced working capital days indicate improved liquidity profile.**
Funds from operations (FFO) declined in FY22 due to higher actual taxes paid but has rebounded this ongoing fiscal year, reflecting a recovery in profitability margins. As of end-6M'FY23, FFO amounted to Rs. 853.1m (FY22: Rs. 518.4m; FY21: Rs. 955.0m). Consequently, cash flow coverages also noted a contrasting trend as indicated by FFO to total debt of 0.38x (FY22: 0.09x; FY21: 0.35x) and FFO to long-term debt of 1.22x (FY22: 0.33x; FY21: 1.02x). Similarly, debt service coverage ratio was reported at 2.87x (FY22: 1.39x; FY21: 3.76x).

The strong and consistent current ratio along with adequate coverage of short-term borrowings in relation to trade debts and inventory suggest a healthy liquidity profile. Working capital days have improved considerably, reducing by more than half from 166 days in FY20 to 40 days in 6M'FY23. Aging of trade debts remains sound, with none outstanding beyond one year, and majority settled within six months.

**Retained profits supported capitalization; leverage ratios have improved in the ongoing year.**

Equity base (excluding revaluation surplus) grew by ~24% over the last 18 months, reaching Rs. 5.4b (FY22: Rs. 4.8b, FY21: Rs. 4.3b) at end-6M'FY23. While no dividend was paid out in FY22, the previous year's dividend stood at Rs. 105m, with a 17% payout ratio. Debt profile is a mix of short-term and long-term debt, with total interest-bearing liabilities decreasing to Rs. 4.5b (FY22: Rs. 5.5b; FY21: Rs. 2.7b) at end-6M'FY23; ~69% constituted short-term debt. Aggregated running finance lines amount roughly to Rs. 4b, with one-half being the ERF facility. Leverage ratios have noted improvement in the ongoing year in line with decrease in debt levels.

## Indigo Textile (Private) Limited — Appendix I

| FINANCIAL SUMMARY | *(amounts in PKR millions)* | | | |
|---|---|---|---|---|
| **BALANCE SHEET** | **FY20** | **FY21** | **FY22** | **6M'FY23** |
| Fixed Assets | 5,637 | 5,550 | 10,403 | 10,129 |
| Stock-in-Trade | 2,608 | 2,505 | 4,255 | 3,548 |
| Trade Debts | 2,627 | 3,290 | 4,067 | 3,662 |
| Cash & Bank Balances | 38 | 442 | 80 | 67 |
| **Total Assets** | **11,928** | **13,104** | **21,271** | **19,776** |
| Trade and Other Payables | 1,689 | 2,914 | 4,319 | 3,381 |
| Long Term Debt | 799 | 934 | 1,565 | 1,403 |
| Short Term Debt | 2,500 | 1,789 | 3,917 | 3,130 |
| **Total Debt** | **3,299** | **2,723** | **5,482** | **4,533** |
| **Tier 1 Equity** | **3,581** | **4,317** | **4,799** | **5,356** |
| | | | | |
| **INCOME STATEMENT** | | | | |
| Net Sales | 8,280 | 11,552 | 16,280 | 9,483 |
| Gross Profit | 1,302 | 1,616 | 1,886 | 1,319 |
| Operating Profit | 644 | 897 | 856 | 706 |
| **Profit Before Tax** | **376** | **743** | **563** | **431** |
| **Profit After Tax** | **290** | **636** | **356** | **333** |
| | | | | |
| **RATIO ANALYSIS** | | | | |
| Gross Margin (%) | 15.7% | 14.0% | 11.6% | 13.9% |
| Operating Margin (%) | 7.8% | 7.8% | 5.3% | 7.4% |
| Net Margin | 3.5% | 5.5% | 2.2% | 3.5% |
| FFO | 634 | 955 | 518 | 853 |
| FFO to Total Debt (%) | 0.19 | 0.35 | 0.09 | 0.38* |
| FFO to Long Term Debt (%) | 0.79 | 1.02 | 0.33 | 1.22* |
| Current Ratio (x) | 1.44 | 1.50 | 1.26 | 1.43 |
| Debt Servicing Coverage Ratio (x) | 1.83 | 3.76 | 1.39 | 2.87* |
| Gearing (x) | 0.92 | 0.63 | 1.14 | 0.85 |
| Leverage (x) | 1.47 | 1.37 | 2.13 | 1.57 |
| ROAA (%) | 2.6% | 5.1% | 2.1% | 3.2%* |
| ROAE (%) | 8.6% | 16.1% | 7.8% | 13.1%* |
| (Stock in Trade + Trade Debts) / Short Term Borrowings | 209% | 324% | 212% | 230% |

**Annualized*

## REGULATORY DISCLOSURES — Appendix II

| | |
|---|---|
| **Name of Rated Entity** | Indigo Textile (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 |
|---|---|---|---|---|
| **Rating Type: Entity** | | | | |
| **May 24, 2023** | A | A-1 | Stable | Reaffirmed |
| **April 25, 2022** | A | A-1 | Stable | Reaffirmed |
| **June 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 |
| **Nov 05, 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 Naz** | Group CFO | March 31, 2023 |
| **Mr. Tanveer Ahmed** | CFO - ITPL | |