RATING REPORT

Indigo Textile (Private) Limited

REPORT DATE:
July 19, 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-1	A	A-1
Rating Outlook	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	July 19, 2024		May 24, 2023	

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
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

Indigo Textile (Private) Limited

RATING RATIONALE

Corporate Profile

Indigo Textile Private Limited ('ITPL' or 'the Company') 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. 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 also been installed.

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.

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

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).

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.

optimism as an anticipated bigger cotton crop in FY24 is expected to alleviate some pressure on input costs and margins.

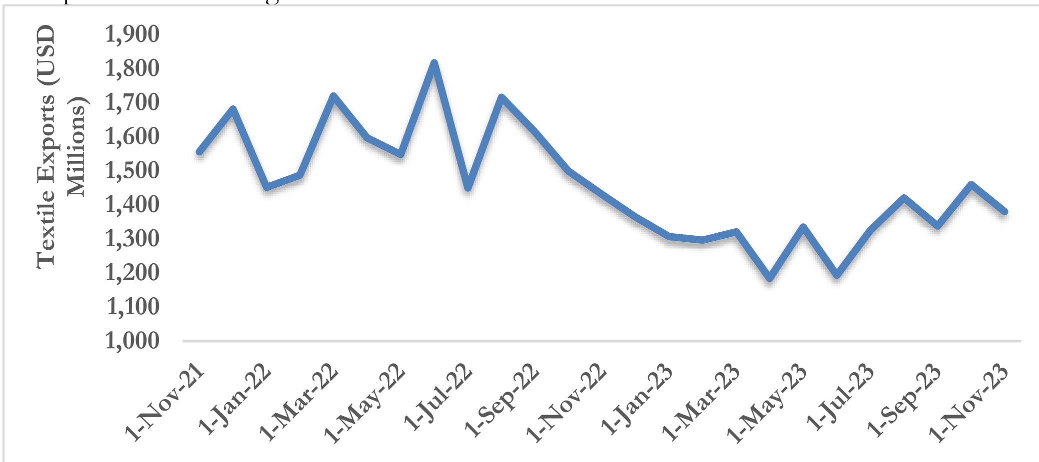

Figure 1: MoM Textile Exports (In USD' Millions) | Source: SBP

Operational Performance & Capacity Utilization:

The Company, headquartered in Karachi, has a manufacturing plant located in Deh Joreji Bin Qasim, Sindh, which can produce over 41.0m meters of denim fabric annually. During FY23, production level of the Company decreased by ~6% amid lower demand, however, with the increase in installed capacity levels (in terms of 52 pick meters), utilization levels have displayed a notable decline in FY23. As per the management, with the rebound in demand, production levels of the Company during the on-going year have increased wherein 9MFY24 production is roughly equal to full year production level of FY23. The Company is expected to produce around 38-39 million meters during the on-going year.

Table: Capacity & Production Data (Figures in millions)

	FY20	FY21	FY22	FY23
Number of looms installed	161	161	203	203
Installed Capacity (Meters)	30.6	30.6	35.5	39.0
Actual Production (Meters)	24.5	27.8	32.5	30.4
Capacity Utilization	***80.2%***	***91.0%***	***91.4%***	***78.0%***

Key Rating Drivers

FY23 topline growth attributed to rupee depreciation while higher volumes and increase in prices both supported the on-going year sales growth.

Net sales of the Company registered an increase of around 36% Y/Y to clock in at Rs. 22.1b (Rs. 16.3b) in FY23. The uptick in net sales was attributed by increase in effective prices amid rupee depreciation; however, the volumetric sales witnessed a marginal drop of 3% due to lower demand. 9MFY24 net sales came in at Rs. 22.6b on the back of both volumetric and price increase. The Company's sales consist of export and indirect export sales wherein export sales continued to inch upwards in overall sales composition during the last 3 fiscal years. The same has increased to 63% in 9MFY24 compared with 59% and 53% in FY23 and FY22, respectively. Client concentration of ITPL is considered moderate as top 5 clients contributed 38% of the revenue in FY23; however, the same has displayed an uptick to 45% in 9MFY24. It is pertinent to mention that, the top customer of ITPL is a group company which is Akhtar Textile, contributing around 38% and 45% in FY23 and 9MFY24. On the margins front, gross margins increased to 16.3% in FY23 (FY22: 11.6%) mainly due to rupee depreciation impact, however, the same normalized to 12.0% in 9M'FY24.

Major operating expenses including selling & distribution and administrative expenses increased in line with the inflationary trend in the economy wherein the changes in operating margins during FY23 & 9MFY24 remained in line with the gross margins trend. Finance cost of the Company has increased roughly two-folds in FY23, while the same has remained high in 9MFY24. Absolute increase in gross profit of the Company has absorbed the increase in operating expenses and finance cost resulting in net margins to follow the same trend as gross and operating margins during the review period (FY23 & 9MFY24). Nevertheless, net margins of ITPL increased to 6.5% in FY23 (FY22: 2.2%) and declined to 2.4% in 9MFY24.

Cashflow, Debt coverages and Liquidity indicators registered improvement.
FFO of the Company registered significant improvement in FY23 to Rs. 2.4b (FY22: 0.5b) mainly on the back of higher profitability. This resulted in improvement in cashflow and debt coverages wherein FFO/Total Debt, FFO/LT Debt and Debt Service Coverage Ratio (DSCR) have improved to 1.37x, 1.86x and 3.41x in FY23 (FY22: 0.19x, 0.33x and 1.25x). With the rationalization of profitability margins during on-going year (9MFY24), cashflow and debt coverage indicators also registered a drop, albeit, remained above FY22 levels.

With the improvement in net operating cycle of the Company, liquidity indicators including current ratio and short-term debt coverage also registered an improvement, however, the same is considered adequate from the given ratings perspective. Going forward, maintaining liquidity, cashflow and debt coverages will remain an important rating consideration.

Gearing & Leverage indicators have declined with lower debt utilization and growing equity base.
Equity base (excluding revaluation surplus) grew by 55% over the last 18 months, reaching Rs. 7.4b as at Mar'24 (Jun'23: Rs. 6.5b, Jun'22: Rs. 4.8b). The Company also paid a dividend of Rs. 0.25b in FY23. Debt profile is a mix of short term and long-term debt with total interest-bearing liabilities decreasing to Rs. 4.2b as at Mar'24 (Jun'23: 3.9b, Jun'22: Rs. 5.5b). ITPL did not mobilize any long-term debt on its balance sheet during the review period, resulting in long-term debt to register a consistent decline during the review period (FY23 & 9MFY24). However, short-term debt trend remained volatile as per liquidity needs. Going forward, ITPL is not planning to mobilize any new LT debt during the rating horizon, while the Company has plans for setting-up a spinning plant (backward integration) in the long run for which the land has already been acquired at Nooriabad, Karachi.

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				
July 19, 2024	A	A-1	Stable	Reaffirmed
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information.

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Nadeem Naz	Group CFO	June 03, 2024