RATING REPORT

Indus Home Limited

REPORT DATE:
May 25, 2021

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	*May 25, 2021*		*April 29, 2020*	
Rating Outlook	Positive		Rating Watch-Developing	

COMPANY INFORMATION	
Incorporated in 2006	**External auditors:** M/s EY Ford Rhodes Chartered Accountants
Public Unlisted Company	**Chairman:** Mr. Mian Mohammad Ahmed
Key Shareholder (s):	**CEO:** Mr. Irfan Ahmed
Indus Dyeing and Manufacturing Company Limited ~ 99.99%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria *Industrial Corporates (May 2019)*
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Indus Home Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE

Indus Home Limited (IHL), a wholly owned subsidiary of Indus Dyeing and Manufacturing Company Limited (IDMC), was incorporated in Pakistan as a Public Unlisted Company on may, 2006. IHL is involved in the business of griege, terry towel and other home textile products.

Profile of Chairman

Mr. Mian Mohammad Ahmed laid the foundation of the Indus group of companies by setting up cotton ginning factories and later on establishing textile spinning. He is responsible for strategic and corporate planning.

Profile of CEO

Mr. Irfan Ahmed is the CEO of the company; possess BSC Textile Engineering Degree from USA and a vast knowledge of Terry Towel Industry with ten years' experience. He is a director in IDMC and Sunrays Textile Mills Limited.

Sponsor Profile

Indus Home Limited (IHL), a wholly-owned subsidiary of Indus Dyeing and Manufacturing Company Limited (IDMC), is a part of Indus Group of Companies which is one of the well-established textile groups in the country with an annual turnover of over US$300m. The group has an extensive experience of more than six decades and operates through five different entities. Alongside, the group has also invested in a wind power project of 50MW. IDMC is the flagship company in the group.

IHL Operations

Headquartered in Karachi, IHL is primarily engaged in the production and export of griege and finished terry cloth and other textile products. At present, the company's operations encompass weaving, dyeing and fabrication which are carried out through a towel manufacturing and finishing facility, located in Raiwind near Lahore. All production facilities are operating at high capacity utilization levels. Power requirement of 4.5MW is met through two sources; national grid and a gas-based captive power plant.

Continued BMR activities has enhanced plant's operational efficiency. Going forward, backward integration of operations would lower the cost of production and improve margins in the medium term.

With regards to efficiency enhancement initiatives, the management continues to replace existing Donier looms with energy efficient Picanol looms in a phase-wise manner. Further, 12 new looms were added in weaving segment in the outgoing year; totaling 132 operational looms at present. Other additions in the machinery include Eton system (overhead conveyor) and heat exchange. Moreover, capacity of printing segment has also been enhanced from 10m to 16m tons per annum.

During the period under review, IHL acquired land adjacent to its existing manufacturing facility in order to set up a spinning unit for backward integration of operations. Total estimated cost of the project is Rs. 1.8b; of which one-third will be funded by internal capital generation for acquiring land and building. Remaining two-third cost is planned to be financed through a 10-year long term financing facility (LTFF) at concessionary rates to import plant and machinery. The new spinning unit is expected to have an annual capacity of 14.4m lbs whereby around four-fifth of total production will have an in-house utilization. The plant will be powered through an additional connection load of 3.1MW after the new grid station becomes operational in 2-3 months. The project is expected to come online in FY22. Going forward, the expansion is projected to result in reduced cost of production and improved margins in the medium term.

<u>Key Rating Drivers</u>

Covid-19 hit textile industry is gradually recovering and the outlook is favorable going forward.

In FY20, export revenues from textile segment dropped by ~6% to USD 12.8b (FY19: USD 13.6b) in the wake of Covid-19 induced lockdowns both domestically and globally. Negative trend was noted in all segments. However, following the ease in pandemic restrictions after the first wave along with the implementation of smart lockdown policy and given subsequent economic recovery, textile exports (as per PBS) rose to USD 12.7b in 10M'FY21 (vis-à-vis USD 10.8b SPLY), registering a sizeable growth of ~17%. This growth was mainly was driven from the value-added sector while growth in knitwear exports (both in terms of value and volume) outpaced the other segments. Meanwhile, the commodities that witnessed negative growth in trade included raw cotton, cotton yarn and cotton cloth.

Segments	Amount in USD (millions)		(%) Change
	10M'FY21	10M'FY20	
Knitwear products	$3,126	$2,392	31%
Readymade Garments	$2,512	$2,232	13%
Bed wear	$2,292	$1,838	25%
Towels	$777	$611	27%
Made-up Articles	$628	$513	22%
Art, silk and synthetic textile	$302	$273	11%
Tents, canvas and tarpaulin	$96	$78	23%
Yarn (other than cotton yarn)	$27	$22	23%

Going forward, sector dynamics are favorable as Pakistan continues to receive export orders from global economies as competing regional countries like India and Bangladesh remains hampered by the Covid-19 outbreak. Given the surge in demand, the industry is currently operating at full capacity and going through expansion and up-gradation to cater for additional demand.

Moreover, GoP's approval of five-year textile policy (with the aim to double textile exports in five years) which mainly includes preferential energy rates and timely payments of DLTL would support the liquidity constraints of local players and overall sector's dynamics. In the long run, improvement in value addition, investment in technology and optimization of energy cost would be the key determinants of textile exports.

Healthy recovery posted in sales revenue in the ongoing year on account of volumetric growth. Outlook assigned to ratings has been revised to 'Positive'.
Topline of the company remained stagnant in the outgoing fiscal year (FY20: Rs. 7.1b; FY19: Rs. 7.0b; FY18: Rs. 6.0b) on account of Covid-19 pandemic though the same has witnessed a healthy recovery in HFY21, increasing by ~21% SPLY. The growth in the ongoing year is primarily attributable to higher volumetric sales made to US and UK; the duo alone constitutes around one-half of total exports. In terms of product-wise sales mix, around four-fifth of revenue is generated from bath towel which is followed by bathrobe and body sheet. Other major products include hand towel, wash cloth and tub mat.

Revenues of the company almost entirely emanates from export sales (direct and indirect). Client base includes a mix of institutional brokers and direct clients. Since last review, the management enhanced focused towards exploring new international markets and contracts with 13 new territories were initiated which constituted ~24% of total exports in FY20. Client concentration risk is considered on higher side with top 10 clients contributing around four-fifth of total sales. However, comfort is drawn from strong business relations established with major clients over the years which ensure repeat business.

Sizeable jump in gross margins; however, the same has not translated in to bottom-line profitability. Amidst recent rupee appreciation situation, gross margins are expected to normalize in the ongoing fiscal year.

Gross margins witnessed a considerable jump in FY20 and have sustained in the ongoing year largely owing to efficient procurement (both cotton and yarn), higher quantum of value added products and cost reduction initiatives which primarily includes replacement of looms. Additionally, the decrease in cost of revenue was also supported by declining raw material prices, subsidy release for RLNG and its billing at $6.5 MMBtu and receipt of DLTL claims.

Despite considerable jump in gross margins, bottom-line profitability has declined ~8% in the outgoing fiscal year mainly due to compensation cost incurred against license agreement and absence of a significant chunk of exchange gain from rupee depreciation. Financial charges have also increased on account of increased debt utilization in FY20. However, the same remains limited given almost entire borrowings are on concessionary rates.

Cash flow coverages and debt servicing ability remains sound while deferment of principal repayment for a period of one year provides support to overall liquidity profile.

IHL's liquidity profile is considered manageable with adequate fund flow to support its outstanding financial obligations. However, increased debt utilization in the ongoing year has resulted in reduction in cash flow coverage multiples. FFO to total debt and FFO to long-term debt were reported at 20.7% (FY20: 29.3%; FY19: 46.5%) and 60.9% (FY20: 62.8%; FY19: 97.5%), respectively in HFY21. Debt Service Coverage Ratio (DSCR) stood higher at 6.94x (FY20: 5.05x; FY19: 7.76x) on account of principal deferment for one year under Covid-19 related debt relief scheme by SBP. Furthermore, trade debts have witnessed a jump as a result of increase in credit terms from 90 to 120 days and shift of a few major customers from advance to deferred payment terms; however, no receivable is outstanding for more than 180 days. Current ratio of the company remains over 1.0x, while trade debts and stock in trade are more than sufficient to cover short term borrowings.

Liquid assets comprise cash & bank balances and short term investments which collectively were reported at Rs. 1.6b at end-HFY21. Short term investments comprise exposure in T-Bills and TDRs.

Gearing and leverage indicators may trend upwards but are expected to remain within manageable levels.

IHL's equity base has witnessed a growing trend on a timeline basis on account of profit retention and no dividend payout policy. Debt profile of the company comprises a mix of short term and long term debt while total interest bearing liabilities have increased to Rs. 5.1b (FY20: Rs. 2.9b; FY19: Rs. 2.1b) as at end-HFY21. As a result, gearing and leverage indicators have weakened and were reported at 0.93x (FY20: 0.58x, FY19: 0.46x) and 1.10x (FY20: 0.76x, FY19: 0.67x), respectively at end-HFY21. While leverage indicators are expected to increase further given the planned debt draw down for setting up the spinning unit, same are likely to remain within manageable levels over the rating horizon.

Corporate governance framework

Board of Directors (BoD) includes seven members with extensive experience in textile sector. However, inclusion of independent directors with relevant experience and formation of board level committees is required to enhance board level governance.

Indus Home Limited Appendix I

FINANCIAL SUMMARY				*(amounts in PKR millions)*
BALANCE SHEET	**FY18**	**FY19**	**FY20**	**HFY21**
Fixed Assets	2,752.2	3,397.1	3,708.7	3,386
Stock-in-Trade	1,867.8	1,683.2	2,062.2	3,196.7
Trade Debts	891.4	1,053.5	706.3	986.5
Cash & Bank Balances	141.2	569.7	382.1	563.4
Total Assets	6,187.3	7,635.7	8,927.2	11,450.0
Trade and Other Payables	630.7	754.6	716.2	703.7
Long Term Debt	438.1	997.3	1,362.4	1,723.4
Short Term Debt	967.0	1,095.0	1,560.0	3,350.0
Total Debt	1,405.1	2,092.3	2,922.4	5,073.4
Paid-up capital	1,500.0	1,500.0	1,500.0	1,500.0
Total Equity	3,992.7	4,561.5	5,076.8	5,461.1
INCOME STATEMENT				
Net Sales	6,025.5	7,037.1	7,064.4	4,772.6
Gross Profit	702.6	908.5	1,247.3	821.9
Profit Before Tax	362.6	605.7	608.1	492.8
Profit After Tax	330.7	573.3	527.8	434.3
RATIO ANALYSIS				
Gross Margin (%)	11.7%	12.9%	17.7%	17.2%
Net Margin	5.5%	8.0%	7.0%	9.0%
Trade debts/Sales	14.8%	15.0%	10.0%	10.3%
FFO	657.3	972.2	855.9	524.6
FFO to Total Debt (%)	46.8%	46.5%	29.3%	20.7%
FFO to Long Term Debt (%)	150.0%	97.5%	62.8%	60.9%
Current Ratio (x)	2.1	2.2	2.2	1.6
(Stock+ Trade Debts)/ Short term borrowing	285.3%	249.9%	177.5%	124.9%
Debt Servicing Coverage Ratio (x)	8.90	7.76	5.05	6.94
Gearing (x)	0.35	0.46	0.58	0.93
Leverage (x)	0.55	0.67	0.76	1.10
ROA (%)	5.7%	8.3%	6.4%	8.5%
ROE (%)	8.6%	13.4%	11.0%	16.5%

ISSUE/ISSUER RATING SCALE &DEFINITIONS Appendix 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

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

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

(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

'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 — Appendix III

Name of Rated Entity	Indus Home Limited
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Instrument Structure	N/A

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
5/25/2021	A-	A-2	Positive	Maintained
4/29/2020	A-	A-2	Rating Watch - Developing	Maintained
5/8/2019	A-	A-2	Stable	Initial

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.
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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Ahmed Fraz	Company Secretary	April 16, 2021