RATING REPORT

Indus Home Limited

REPORT DATE:
August 08, 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-2	A-	A-2
Rating Outlook/ Rating Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*August 08, 2024*		*July 24, 2023*	

COMPANY INFORMATION	
Incorporated in 2006	**External Auditors:** EY Ford Rhodes Chartered Accountants
Public unlisted company	**Chairman/ Director:** Mr. Kashif Riaz
Key Shareholders:	**CEO/Director:** Mr. Irfan Ahmed
Indus Dyeing and Manufacturing Company Limited ~99.99%	

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*

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. In the present, IHL is involved in production of griege, terry towel and other home textile products.

During the review period, the company underwent a transition in its leadership as they appointed a new Chairman.

Profile of Chairman

Mr. Kashif Riaz, with an MBA in Marketing from Faisalabad University, has over 20 years of experience in the Textile Industry. He currently serves as the CEO of Sunrays Textile Mills Limited and holds a director position at IDMC.

Profile of CEO

Mr. Irfan Ahmed is the CEO of the company; possess BSC Textile Engineering Degree from USA and a

Corporate Profile

Indus Home Limited ('IHL' or 'the Company'), a wholly owned subsidiary of Indus Dyeing and Manufacturing Company Limited and part of the Indus Group, specializes in production and export of terry cloth, terry garments, and other towel/terry products. Recently, it has ventured into local yarn sales market as well. With close to two decades of operational history, the Company is in diversified operations such as spinning, weaving, dyeing, fabrication, and processing. Production infrastructure is based in Raiwind near Lahore, while the head office is located at Lahore.

Indus Group has been involved in the textile industry for over 50 years. The group comprises five distinct companies, including four cotton ginning factories and five yarn spinning mills situated in Karachi, Hyderabad, Muzaffargarh, and Faisalabad. Additionally, they operate the largest terry towel factory in Lahore. The group also recently launched a 50 MW wind power project in Jhampir, Thatta District, Sindh, Pakistan.

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

vast knowledge of Terry Towel Industry with ten years' experience. He is a director in IDMC and Sunrays Textile Mills Limited

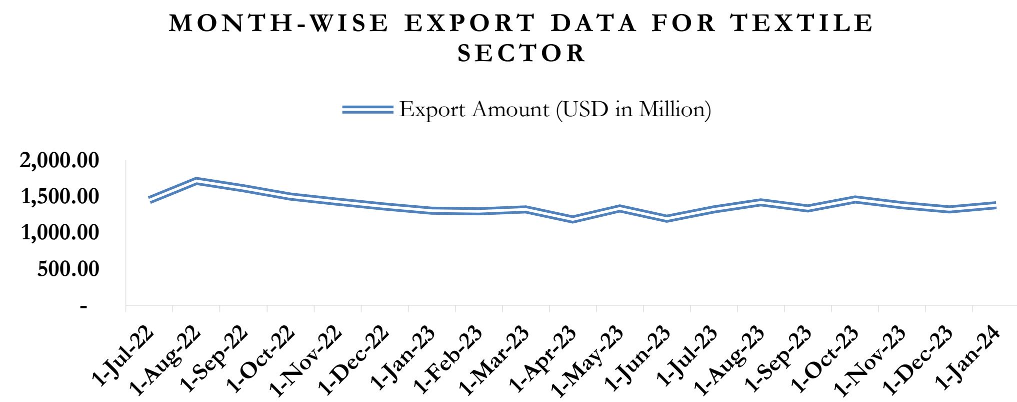

Figure 1: MoM Textile Exports (In USD' Millions) | Source: SBP

Operating Performance & Capacity Utilization:
As of 9M'FY24, Property, Plant, and Equipment (PP&E) stood at Rs. 7.5 billion, compared to Rs. 7.8 billion in FY23 and Rs. 8.0 billion in FY22. During FY23 and 9M'FY24, additions to PP&E were Rs. 564.3 million and Rs. 361.9 million, respectively, primarily for BMR activities of plant and machinery and power generators. Additionally, the Company has invested Rs. 1.9 billion in infrastructure and civil works (currently under Capital Work in Progress as of 9M'FY24) to develop a sportswear stitching segment. This segment involves procuring imported fabric and will provide cutting, stitching, and packing services to potential clients in the global market, with operations expected to commence in FY26.

The spinning segment's capacity was fully utilized during the review period, leading to higher actual production. However, the performance of the towel segment fell below FY22 levels in FY23 amid lower demand, though slight recovery was observed in 9M'FY24.

Table: Capacity & Production Data (Units in million)

	FY21	FY22	FY23	9M'FY24
	Spinning			
Installed Capacity (lbs)	-	3.3*	19.5	17.1
Actual Production (lbs)	-	2.7*	19.3	16.8
Capacity Utilization (%)	-	***82%****	***99%***	***99%***
	Towel			
Installed Capacity (lbs)	28.3	29.1	29.1	21.8
Actual Production (lbs)	24.9	24.5	20.1	16.5
Capacity Utilization (%)	***88%***	***84%***	***71%***	***76%***

**Spinning unit started operations in May'22*

The Company's power requirement is 5 MW, which is fulfilled through in-house gas generators, supplemented by electricity from LESCO and a one MW solar panel system.

<u>Key Rating Drivers</u>

Revenue and Profitability
During FY23, IHL's topline increased by 34%, reaching net sales of Rs. 17.8 billion, up from Rs. 13.3 billion in FY22. This growth was mainly attributed to the sale of 5.3 million LBS yarn sales from the newly commissioned spinning unit, generating Rs. 3.1 billion in the local market, and rupee depreciation of the currency. Due to reduced demand in the foreign market and commissioning of yarn sales locally, the Company's proportion of local sales rose from

11% in FY22 to 13% in FY23, and further to 25% in 9M'FY24. The remainder of sales were accounted for by export sales.

In terms of product-wise sales, the proportion of total sales from the Company's top product, Bath Robes, was 22% in FY22, 23% in FY23 which decreased to 13% in 9M'FY24 amid reduced global demand, while yarn sales increased from 7% in FY22 and FY23 to 19% in 9M'FY24.

Geographically, in FY22, Singapore was the top location, contributing 20% of net sales. By FY23, the UK had become the top location, accounting for 22% of total sales, while Singapore dropped to 9%, ranking fifth. During 9M'FY24, the UK continued to be the leading market with 20% of net sales, followed by Singapore in second place with 14% share in exports. The USA ranked third, contributing 9% of net sales. Going forward, IHL plans to focus on increasing its sales in the US market. Top-10 clients concentration for the Company is considered moderate, accounting for 46% of net sales in 9M'FY24, compared to 60% in FY23 and 64% in FY22.

In FY23, gross profit rose to Rs. 2.8 billion from Rs. 1.6 billion in FY22, and gross margins improved to 15.8% from 11.7%, due to cost savings from in-house yarn production and increased sales to premium strategic customers. Operating expenses grew in line with the inflationary trends in the economy. Finance costs increased by 2.5x in FY23, amounting to Rs. 664.7 million (FY22: Rs. 268.6 million), due to higher debt levels and increased markup rates. The net income more than doubled to Rs. 949.4 million (FY22: Rs. 408.8 million), while net margin rose to 5.3% from 3.1%.

In 9M'FY24, the Company experienced a 28% YoY growth in topline, reaching Rs. 15.2 billion, up from Rs. 11.8 billion during 9M'FY23, driven by higher yarn sales. However, this growth was accompanied by a slight decline in gross margins to 12.1% in 9M'FY24, down from 13.2% in 9M'FY23, due to higher sales in low-margin segments and reduced demand for value-added products. Additionally, finance costs remained high due to increased working capital requirements and elevated markup rates. Amid reduced gross margins and higher finance costs, net margins declined to 0.9% (9M'FY23: 2.4%).

For FY24, the Company's sales are expected to have reached a total of Rs. 20.7 billion, while net margins remained below FY23 levels, ranging close to 1.0% amid reduced gross margins and higher finance cost.

Moving forward, the planned sportswear segment is expected to drive revenue growth in the medium term.

Liquidity Profile

In line with the Company's profitability, the FFO of IHL clocked in at Rs. 1.8 billion (FY22: 0.82 billion) during FY23. Consequently, the Company's DSCR also improved from 1.6x in FY22 to 2.2x in FY23. The FFO to debt coverage metrics also showed improvement, with the FFO to Total Debt ratio rising from 0.08x in FY22 to 0.17x in FY23. Regarding liquidity, the Company maintained an adequate liquidity profile as of June 2023, with a current ratio of 1.3x, consistent with June 2022.

As of 9M'FY24, the Company's FFO was Rs. 494 million, which is 38% lower than the FFO of 9M'FY23. This decline is attributed to reduced net margins. As a result, the DSCR decreased to 1.1x in 9M'FY24. The FFO coverage metrics also weakened, with the FFO to

Total Debt ratio falling to 0.1x as at Mar'24 from 0.2x in Jun'23 and the FFO to Long-Term Debt ratio dropping to 0.2x as at Mar'24 from 0.5x in Jun'23.

Moving forward, improvement in DSCR and cash flow coverage indicators will remain important in order to sustain given ratings.

Capitalization

During the review period, the Company's equity grew by 15.8% as of Mar'24, compared to Jun'22, primarily due to profit retention. As of Mar'24, the Company's total debt increased compared to FY23 and FY22. This rise is attributed to an increase in long-term borrowings and higher short-term borrowings during the period. The Company's debt profile reveals that approximately 38.6% of its debt is long-term, while 61.4% is short-term.

As of March 2024, the gearing ratio stood at 1.7x, up from 1.6x in FY23. This slight weakening in the gearing ratio is attributed to a higher increase in debt levels relative to the growth in equity.

REGULATORY DISCLOSURES					Appendix I
Name of Rated Entity	Indus Home 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**
	08/08/2024	A-	A-2	Stable	Reaffirmed
	24/07/2023	A-	A-2	Stable	Reaffirmed
	08/01/2022	A-	A-2	Stable	Maintained
	05/25/2021	A-	A-2	Positive	Maintained
	04/29/2020	A-	A-2	Rating Watch – Developing	Maintained
	05/08/2019	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. Ahmad Fraz	CFO	July 11, 2024		