

RATING REPORT

Indus Lyallpur Limited

REPORT DATE:

April 22, 2020

RATING ANALYST:Talha Iqbal
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RATING DETAILS				
Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	BBB+	A-2	BBB+	A-2
<i>Rating Date</i>	<i>April 22, 2020</i>		<i>September 20, 2019</i>	
Rating Action	Maintained		Initial	
Rating Outlook	Rating Watch-Developing		Stable	

COMPANY INFORMATION

Incorporated in 1992

External auditors: M/s Deloitte Yousuf Adil,
Chartered Accountants

Public Unlisted Company

CEO: Mr. Naveed Ahmed

Key Shareholders:

Indus Dyeing & Manufacturing Company- 99.9%

APPLICABLE METHODOLOGY(IES)

Applicable Rating Criteria: Industrial Corporates (April 2019)<https://s3-us-west-2.amazonaws.com/backupsqvis/docs/Corporate-Methodology-201904.pdf>

Indus Lyallpur Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Indus Lyallpur Company Limited (ILCL) was incorporated in Pakistan on April 25, 1992 as a public limited company (unlisted). The principal activity of the Company is manufacturing and sale of yarn. The manufacturing facilities of the Company are located in Faisalabad.</p>	<p>Indus Lyallpur Company Limited (ILCL), incorporated in 1992, is a wholly owned subsidiary of Indus Dyeing and Manufacturing Company Limited (IDMC). Head office of the company is located in Karachi with the manufacturing facility located in Faisalabad, Pakistan. IDMC purchased ILCL's manufacturing facility from MIMA Group in 2012.</p> <p>ILCL is a part of Indus Group of Companies which is a sizeable player in the country's textile business with an annual turnover of over US\$300m. Within textile sector, Indus Group has over five decades of experience and operates through five entities. The group is primarily engaged in the business of cotton ginning, yarn spinning, greige fabric manufacturing and home textiles (primarily towel business). Furthermore, the group is also investing in a 50MW wind power project. IDMC is the flagship company in the group.</p> <p>Operations</p> <p>ILCL's core business relates to manufacturing of yarn from a mix of imported and local cotton. ILCL has an installed spinning capacity of 17.9m lbs of yarn with 24,960 spindles. Over the last 2 years, the company has been operating at high capacity utilization levels. Moreover, addition of 14,500 European ring frames is in process. Around one half of the yarn is produced on courser counts for Chinese denim manufacturers. The remaining half is produced on finer counts for local hosiery and knitwear manufacturers. All units of the company are operating continuously on gas and diesel based power generators. Grid based power is an alternate stand-by energy source in case of gas shortage and load shedding.</p> <p>Coronavirus to result in uncertainty in textile sector dynamics</p> <p>The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand and challenging economic environment. It is expected that the entire value chain of the textile industry will be impacted by these developments. Status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating Watch-Developing' status. Given the low leveraged capital structure and strong sponsor profile, it is expected that ratings will remain stable post recovery of the ongoing situation; nevertheless as scenario is evolving rapidly, VIS will closely monitor and will accordingly take action to resolve the outlook status.</p>

Indus Lyallpur Limited
Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	FY17	FY18	9MFY19
Fixed Assets	1,032	1,062	1,037
Long term Investments	-	-	-
Stock-in-Trade	844	801	1,144
Trade Debts	293	807	727
Cash & Bank Balances	8	15	26
Total Assets	2,349	2,875	3,160
Trade and Other Payables	180	202	227
Long Term Debt	23	93	87
Short Term Debt	663	980	1,149
Total Debt	687	1,072	1,235
Paid Up Capital	1,410	1,410	1,410
Total Equity (Without Surplus on revaluation)	1,378	1,457	1,519
<u>INCOME STATEMENT</u>			
Net Sales	2,719	3,196	2,776
Gross Profit	159	242	254
Profit Before Tax	15	94	98
Profit After Tax	15	81	62
<u>RATIO ANALYSIS</u>			
Gross Margin (%)	5.8%	7.6%	9.1%
Net Margin	0.6%	2.5%	2.2%
Trade debts/Sales	11%	25%	20%
FFO	98	208	168
FFO to Total Debt (%)	14%	19%	18%
FFO to Long Term Debt (%)	419%	225%	258%
Current Ratio (x)	1.5	1.5	1.5
(Stock+Trade Debts)/ Short term borrowing	171%	164%	163%
Debt Servicing Coverage Ratio (x)	5.6	6.6	3.4
Gearing (x)	0.50	0.74	0.81
Leverage (x)	0.65	0.90	1.01
ROAA (%)	1%	3%	3%
ROAE (%)	1%	6%	6%

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 Lyallpur Limited				
Sector	Textiles				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	22/04/2020	BBB+	A-2	Rating Watch-Developing	Maintained
	20/09/2019	BBB+	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 Meetings Conducted	Name		Designation		Date
	1	NA	NA	NA	NA