

## RATING REPORT

## Indus Lyallpur Limited

**REPORT DATE:**

October 25, 2024

**RATING ANALYST:**Saeb Muhammad Jafri  
[saeb.jafri@vis.com.pk](mailto:saeb.jafri@vis.com.pk)

Afifa Khalid

[afifa.khalid@vis.com.pk](mailto:afifa.khalid@vis.com.pk)

## 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/Watch	Stable		Stable	
Rating Date	October 25, 2024		September 28, 2023	
Rating Action	Reaffirmed		Reaffirmed	

## COMPANY INFORMATION

Incorporated in 1992	External auditors: M/s Yousuf Adil Chartered Accountants
Public Unlisted Company	CEO: Mr. Imran Ahmed
Key Shareholders:	
<i>Indus Dyeing &amp; Manufacturing Company- 100%</i>	

## APPLICABLE METHODOLOGY(IES)

*Applicable Rating Criteria: 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>

## Indus Lyallpur Limited

OVERVIEW  
OF THE  
INSTITUTION

## RATING RATIONALE

**Indus Lyallpur Limited** 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.

**Corporate Profile:**

Indus Lyallpur Limited ('ILL' or 'the Company') is a public unlisted company incorporated in Pakistan on April 25, 1992, under the Companies Ordinance, 1984 (now the Companies' Act 2017). The principal activity of the Company is manufacturing and sale of yarn. The Company is a wholly owned subsidiary of Indus Dyeing and Manufacturing Company Limited ('IDMCL' or 'the Holding Company'). The registered office and manufacturing facility of the Company is located at Karachi and Faisalabad, respectively.

**Group Profile:**

Indus Group ("the Group") has been present in Pakistan's textile sector for over five decades. The Group encompasses five companies, which operate four cotton ginning factories and five yarn spinning mills located in Karachi, Hyderabad, Muzaffargarh, and Faisalabad. In addition to its textile operations, the Group manages a terry towel production facility in Lahore, which ranks among the largest in the region. Expanding beyond textiles, the Group has also initiated a 50 MW wind power project in Jhampir, Thatta District, Sindh.

**Operational Performance:**

Capacity Utilization	FY21	FY22	FY23	FY24
Number of spindles installed	43,370	44,016	44,016	43,908
Number of spindles worked	39,539	43,379	42,844	43,478
Number of working days	365	365	365	365
Number of shifts per day	3	3	3	3
Installed capacity of yarn- KGs	13,713,770	13,917,993	13,917,993	13,902,815
Actual production of yarn - KGs	12,502,392	13,067,746	13,691,191	12,680,520
Capacity Utilization	91%	94%	98%	91%

In FY24, the Company decommissioned a portion of its older spindles following the installation of new machinery. This adjustment resulted in a minor decrease in the total number of spindles to 43,908 (FY23: 44,016) in FY24. Despite the reduction in total spindles, the number of effectively operating spindles increased to 43,478 (FY23: 42,884) in FY24. The installed capacity for yarn production experienced a slight decrease to 13,902,815 kgs (FY23: 13,917,993) kilograms in FY24. Actual yarn production declined to 12,680,520 kgs (FY23: 13,691,191 kgs) in FY24, leading to a lower capacity utilization rate of 91% (FY23: 98%).

**Key Rating Drivers**

**Business risk profile characterized by challenging local and global economic and geopolitical conditions, and intense competition on a global level as an export-oriented industry.**

Assigned ratings incorporate the medium to high business risk profile of the textile sector in Pakistan, marked by high exposure to economic cyclicality and intense competition. The sector's performance is influenced by broader economic conditions, rendering it susceptible to demand fluctuations driven by economic factors. Furthermore, as a substantial contributor to total exports, the textile industry faces exposure to global economic cyclicality, geopolitical challenges, and liquidity constraints due to government delays in sales tax refunds.

Moreover, the industry is also sensitive to supply-side risks, including local cotton crop production which impacts margins, and reliance on imported raw materials, exposing the sector to significant exchange rate risk and government import restrictions.

Despite these challenges, textile companies have demonstrated resilience by maintaining operational efficiency, consistent product quality, strategic raw material procurement, and better supply chain control, achieving economies of scale and managing risks associated with the volatile business environment.

**Topline supported by export sales, however, margins remained constrained by escalating input costs on account of higher energy and raw material costs.**

The Company's revenue streams consist of both local and export sales, contributing approximately 17.0% (FY23: 19.5%) and 82.8% (FY23: 78.9%) of total revenue, respectively. In FY24, the Company achieved a 26.8% increase in overall revenue, driven by a 33.1% rise in export sales, particularly in Asia and Europe. The uptick in export sales primarily resulted from increased orders from China, with expectations for further growth. Despite the sales increase, the Company experienced a decline in gross margin to 5.0% (FY23: 10.1%), mainly due to elevated costs of imported cotton and energy. Additionally, finance costs rose by 36.3%, impacting the bottom line and leading to a net loss. Consequently, the net margin turned negative in FY24.

Going forward, profitability is expected to improve, supported by a reduction in local policy rates, easing inflation, and normalization of raw material prices.

**Strained Coverage with lower operational margins and higher financial burden. Ratings supported by strong liquidity and short-term debt coverage metrics.**

The Company's coverage profile weakened in FY24, with the debt service coverage ratio (DSCR) declining to 0.7x (FY23: 1.1x). This decline was mainly due to a constrained funds flow from operations (FFO), with lower operational profitability and higher finance costs paid due to an elevated interest rate environment. Nevertheless, liquidity and short-term debt coverage remained strong with a current ratio of 1.5x (FY23: 1.5x, FY22: 1.8x) and short-term debt coverage ratio of 2.1x (FY23: 1.9x, FY22: 2.6x), respectively.

In conclusion, FFO remains constrained, although the availability of short-term credit lines supports the ability to meet immediate obligations. Improvement in FFO will be a key consideration moving forward. The recent reduction in local policy rates, alongside anticipated further adjustments, is expected to ease pressure on DSCR.

**Capitalization structure remains stable**

The Company's capital structure metrics remained stable in FY24. Gearing and leverage ratios were recorded at 1.3x (FY23: 1.4x) and 1.6x (FY23: 1.8x), respectively. The Company reduced its short-term debt utilization and managed its current assets and current liability to minimize working capital requirements.

REGULATORY DISCLOSURES						Appendix I
<b>Name of Rated Entity</b>	Indus Lyallpur Limited					
<b>Sector</b>	Textiles					
<b>Type of Relationship</b>	Solicited					
<b>Purpose of Rating</b>	Entity Ratings					
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook/Watch</b>	<b>Rating Action</b>	
	<b>RATING TYPE: ENTITY</b>					
	25-Oct-2024	A-	A-2	Stable	Reaffirmed	
	28-Sep-2023	A-	A-2	Stable	Reaffirmed	
	18-Aug-2022	A-	A-2	Stable	Upgrade	
	15-Jun-2021	BBB+	A-2	Positive	Maintained	
	22-Apr-2020	BBB+	A-2	Rating Watch – Developing	Maintained	
20-Sep-2019	BBB+	A-2	Stable	Initial		
<b>Instrument Structure</b>	N/A					
<b>Statement by the Rating Team</b>	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.					
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>		<b>Designation</b>		<b>Date</b>	
	Mr. Sheikh Shafqat Mahmood		Director		October 10 <sup>th</sup> , 2024	
	Mr. Yasir Anwar		Group Chief Financial Officer			