RATING REPORT

Dynamic Sportswear (Private) Limited

REPORT DATE:
May 16, 2022

RATING ANALYSTS:
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RATING DETAILS		
Rating Category	**Initial Rating**	
	Long-term	**Short-term**
Entity	A-	A-2
Rating Date	*16th May 2022*	
Rating Outlook	Stable	
Rating Action	Initial	

COMPANY INFORMATION	
Incorporated in 1992	External Auditors: Ale Imran & Co.
Private Limited Company	Chairperson of the Board/CEO: Mr. Mobeen Ahmed
Key Shareholders (More than 5%):	
Mr. Fahad Mobeen Ahmad– 21.3%	
Mr. Saad Mobeen Ahmad– 21.3%	
Mr. Imran Khaled Niazi– 17.7%	
Mrs. Samra Mobeen Ahmad– 16.9%	
Mr. Mobeen Ahmad– 5.0%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria: Corporates (August 2021)
https://docs.vis.com.pk/docs/CorporateMethodology202108.pdf

Dynamic Sportswear (Pvt.) Limited

OVERVIEW OF THE INSTITUTION

Dynamic Sportswear (Pvt.) Limited (DSPL) is engaged in the business of manufacturing, selling, and dealing in different types of socks.

Profile of the Chairman/CEO

Mr. Mobeen Ahmed has been the Chief Executive since almost three decades. Prior to starting Dynamic Sportswear, he worked as a Technical Manager at ICI Pakistan Ltd. in their Polyester business unit and also worked at Dawood Hercules Chemicals Ltd. Mr. Ahmed has done B.S Chemical Engineering from University of Kansas, USA and M.S Chemical engineering from University of Michigan, USA.

Financial Snapshot

Total Equity: end-HY22: Rs. 3.3b; end-FY21: Rs. 2.9b; end-FY20: Rs. 2.4b; end-FY19: Rs. 2.2b

Assets: end-HY22: Rs. 5.4b; end-FY21: Rs. 5.3b; end-FY20: Rs. 3.7b; end-FY19: Rs. 3.4b

Profit After Tax: HY22: Rs. 395.7m; FY21: Rs. 305.1m; FY20: Rs. 206.0m; FY19: Rs. 205.4m

RATING RATIONALE

Rating Rationale

The ratings assigned to Dynamic Sportswear (Pvt.) Limited (DSPL) take into account the moderate risk profile of the company underpinned by its presence in the export oriented value-added textile segment, complete control on quality maintenance coupled with extensive sponsor experience and established operating track record of nearly three decades in knitting business. Ratings also reflect long-standing business relationships with leading international brands and growing demand of hosiery products. Further, the recent rupee devaluation positively impacted financial results for the review period. The ratings also incorporate management's focus on expanding the scale of operations with recent capex involving procurement and installation of 148 knitting machines. However, the ratings remain sensitive to any adverse changes in regulatory duties and lack of revenue diversification in terms of value-chain process and product mix. The main shareholding of the company is vested with the sponsoring family.

Assessment of financial risk profile encapsulates strong revenue growth in the outgoing year and onwards with subsequent translation of the same into profitability metrics. Revenues were relatively subdued in FY20 amid pandemic crisis leading to supply chain disruptions. However, sales picked momentum during the outgoing year with gradual recovery of international markets, capitalization of market gap by local players paved by the pandemic export-oriented policies introduced by the government. Subsequently, margins exhibited positively trajectory and were recorded higher than the pre-covid levels on account of the company entering the medicated socks market niche entailing higher margins than the existing product portfolio along with reaping of economies of scale. In line with higher scale of operations and margins, liquidity position improved and is considered strong on account of sufficient cash flow generation in terms of outstanding liabilities. Further, the ratings factor in conservative capital structure with limited reliance on long-term borrowings. On the other hand, leverage indicators have increased on account of higher borrowings to fund capital expenditure and increasing working capital requirements during the outgoing year. However, in line with sizable growth in equity base in the ongoing year, the increase has subsided with overall leverage indicators remaining on a lower side in comparison to industry averages. In addition, as DSPL primarily caters to exports majority of funding is obtained under SBP's concessionary schemes involving lower markup than commercial debt; the same translates into an improved bottom line of the company. The company plans to increase utilization of short-term financing going forward mainly for increased working capital requirements, albeit remaining conservative. The ratings remain dependent on maintenance of margins, realization of projected targets, incremental cash flow generation and cost savings from recent capital expenditure and maintenance of leverage indicators.

Local spinning segment during COVID-19: The country's textile industry has scaled up production to pre-Covid level of full-capacity as a significant improvement in containment of the pandemic in the country led the world buyers to partially divert their orders to domestic manufacturers. The growth in production is backed by a big jump in the import of basic raw materials – cotton and man-made yarn – after the heavy rainfall and pest attack damaged notable portion of cotton crops in the fields to a multi-year low. Secondly, the industry recovered on a fast pace with the government's support in the shape of rationalizing energy price to a regional competitive level, the same included continued supply of raw material and subsidized financing for the expansion of production and setting up new units. Further, the textile exports have also largely recovered from the Covid-19 pandemic shocks and are still growing both in terms of their quantity and dollar value. The textile shipments have surged by 3.8% to $4.8 billion between July and October 2021 from $4.6bn in the corresponding period last year. The rise in the textile and clothing group has been slightly faster than the 0.6% growth in the overall export. The export recovery is most prominent in the knitwear, home textiles and denim segments.

Outlook of the textile industry remains positive on account of recovery in international markets and export-oriented policies of the government. 4M'FY22 posted 27% upsurge in textile exports vis-à-vis SPLY primarily on account of strong growth in home textiles, towels, knitwear, and ready-made textile products. On the other hand, cotton and cotton cloth represented a lower portion in the overall textile exports thus indicating growth in the value added segment. Going forward, prospects remain strong on account of gradual establishment of international customer base alongside favorable incentives offered by the government. However, federal government's consideration to revise gas tariff for textile export units to $9 per mmbtu from $6.5 from November 15 2021 to March 31, 2022 remains a key risk which would detrimentally impact cost of sales. Nonetheless, the recent rupee devaluation is likely to offset possible increase in gas tariff.

Company & sponsor profile: DSPL has been in the business of manufacturing and exporting of socks from Pakistan since 1992. The company specializes in all types of sports, athletics and casual socks for men, ladies and children. The company is a fully integrated vertical unit with design capability that can manufacture all types of heel formats (i.e. y-heel, reciprocated / real, pouch, tube) using latest computerized Italian knitting machines, along with toe linking & over-locking, dyeing and finishing machines. The production unit is equipped with its own waste water treatment unit to meet international environmental standards. The company is one of the largest manufacturers and exporters of sport socks with 711 knitting machines having a production capacity of 10.0 million pairs/annum. The company has good geographical diversification with 50% of FY21's sale made to USA, 38% to Europe, 10% to Canada and the remaining 2% to UAE. The company' production and capacity utilization increased to 3.7m dozen (FY20: 2.3m dozen) and 63.5% (FY20: 45.2%) respectively in line with positive reception of local products globally coupled with recent capacity expansion incurred with installation of 148 new knitting machines during FY21.

The customer portfolio includes renowned brands including Levis, Dockers, CAT, Everlast, Dickies, Dr Scholl's and Departmental Store Chains of LIDL, ALDI, Target & Wal-Mart. DSPL's socks are also being sold at stores such as Sports Direct, Amazon etc. Various compliance audit companies such as SGS, Intertek, CSCC and BV annually monitor company's commitment not only to the customer but also to certification organization's code of conduct. The entire product range of the company is covered and approved by the OkeoTex Certification; DSPL is also WRAP, STEP & ISO 9001:2000 certified.

Group companies & related party transactions: Dynamic Spinning Mills (Pvt.) Ltd (DSML) started production in Dec'14; the company currently has 16,500 spindles operational. The production facility is equipped with the combination of imported machinery and equipment from Germany, China & India which enables it to produce 6 - 30 single count yarns. The company deals in 100% cotton and specialty yarns and has successfully positioned itself in the assured quality segment of the local yarn market. Moreover, DSML supplies yarn under its own cotton brand, "Dynamic" in the local market. Main customers of DSML include renowned names including Zephyr Textile, Masood Textile, Kamal Hosiery, Sunrays Textile, Mahmood Textile etc. DSPL procures around 20% of its total yarn purchase from is associate concern. In addition, the company has extended interest free loan amounting to Rs. 610.0m to DSML; the loan is expected to remain vested in the company during the medium-term while the same is projected to be changed into equity stake of DSPL in the long term. The same would therefore result in dividend income for the company.

Another associate concern, Dynamic Textile Mills (Pvt.) Limited (DTML), was previously involved in production of yarn; however, the operations of the company have now been seized. In respect to that, DSPL has purchased land & machinery from DTML against which long-term payable of Rs. 45.3m (FY21: Rs. 55.9m; FY20: Rs. 56.4m) was outstanding at end-HY22. As per the management, monthly payment against the same is being made with complete payment to be made by end-HY23.

Topline & profitability indicators picked pace during the outgoing year: The revenues of the company exhibited positive trajectory primarily on account of sizable growth of around 58% in volumetric sale during FY21; the sales quantity increased to 3.6m dozen (FY20: 2.3m dozen) during the outgoing year. On the other hand, the average selling price of the entire product portfolio only marked marginal improvement to Rs. 1,059/dozen during FY21 as opposed to Rs. 1,055/dozen in the preceding year. The increased demand of domestic products is underpinned by capitalizing of marketing gap as production units in competing countries were not operating at full potential owing to COVID-19 related lockdowns. The margins declined slightly to 24.3% (FY20: 25.9%) owing to increase in input cost of two major raw materials in aggregate constituting 63% of the total purchases for FY21; the cost of cotton yarn and polyester increased to Rs. 402/kg (FY20: Rs. 371/kg) and Rs. 315/kg (FY20: Rs. 280/kg) respectively during FY21. As per the management, cotton yarn is largely procured locally while polyester and acrylic are imported. DSPL maintains normal cotton yarn stock for around 2 months of projected production while owing to higher lead time of specialized yarn ranging between 40-60 days, buffer stock for at least three months of production is retained to avoid customer attrition.

The administrative & general expenses increased to Rs. 243.2m (FY20: Rs. 174.5m) mainly as a result of increase in employee related expenses in line with annual salary increments coupled with increase in headcount as average employees were reported higher at 1,750 (FY20: 1,079) during FY21. Increase in remuneration expense along with all other administrative expenses is largely aligned with higher scale of operations and general inflation. In addition, the research & development expenses stood higher at Rs. 33.2m (FY20: Rs. 13.9m) owing to exponential increase in product development sampling expense to Rs. 25.0m (FY20: Rs. 2.0m) on account of the company introducing new product line extension involving medicated socks. The production orders for the medicated line were serviced during the ongoing year. Further, distribution cost also increased to Rs. 242.7m (FY20: Rs. 136.3m) majorly due to increase in freight & shipment and commission to selling agents; the increase is in sync with enhanced scale of operations. Further, other expenses stood marginally higher at Rs. 16.5m (FY20: Rs. 15.6m) owing to increased contribution to workers' profit participation during FY21. On the contrary, despite significant increase in average borrowings, the finance cost was maintained at Rs. 65.7m (FY20: Rs. 65.7m) on account of sharp dip in benchmark interest rates during the period under review. As a result of positive momentum in revenues and curtailment of interest expense, DSPL reported substantial profit of Rs. 305.1m (FY20: Rs. 206.0m) during FY21

Going forward, the management projects to close FY22 with a topline of Rs. 5.0b, the company in on track of meeting the projected target as revenue of Rs. 2.4b was booked during 1HFY22. The increase in revenue is mainly attributable to positive outlook on sector and capacity enhancement with addition of 148 knitting machines leading to increase in volumetric sale to 2.5m dozen during 1HFY22. The uptick in sale volumes and revenues can be assessed from the fact that the volumetric sale for 1HFY22 was equivalent to full year sales volume of FY20. Further, significant improvement was witnessed in the gross margins with the same reported higher at 32.3% as an outcome of DSPL entering the medicated socks market niche involving higher margins than the existing product portfolio. The operating expenses increased to Rs. 319.3m during 1HFY22 owing to increase in distribution cost on account of high sea freight rates; the same is however in sync with increase in business operations. Subsequently, in line with growth in scale of operations and improved margins, DSPL reported sizable profit of Rs. 395.7m during 1HFY22. As per the management, the company booked revenue of Rs. 400.0m for the month of January'22 therefore the aggregate revenue was recorded at Rs. 2.8b by end-Jan'22. Moreover, the future prospects are encouraging due surge in company's products demand coupled with completion of capacity expansion involving installation of 148 knitting machines during the outgoing year.

Liquidity position exhibited improvement stemming from enhanced scale of operations & improved margins: Liquidity profile of the company has exhibited positive trajectory with significant improvement during the ongoing year in line with growth in scale of operations, margins and profitability indicators. Funds from Operations (FFO) were recorded sizable at Rs. 395.7m (FY21: Rs. 503.3m; FY20: Rs. 41.5m) during 1HFY22 owing to growth in scale of operations and enhancement of margins; the extent of improvement can be evidenced from doubling the FFO amount booked in 1HFY22 for full year assessment. As a result, FFO to total debt and FFO to long-term debt were recorded significantly higher at 0.49x (FY21: 0.30x; FY20: 0.34x) and 1.67x (FY21: 0.95x; FY20: 1.62x) respectively at end-1HFY22. The magnitude of improvement in cash coverages to outstanding obligations in aforementioned numbers on a timeline basis is downplayed as the major increase in FFO is offset with increase in utilization of borrowings. In addition, the debt service coverage improved and was sizable at 9.39x (FY21: 3.59x; FY20: 3.66x) in line with growth in FFO; the same depicts that the company is comfortably placed to meet its contractual obligations due in one year.

Stock in trade increased on a timeline basis to Rs. 1.3b (end-FY21: Rs. 1.1b; end-FY20: Rs. 744.4m) at end-HY22 owing to sizable raw material inventory held to meet forecasted demand; the same is linked with growth in scale of business operations. Further, trade debts also increased on a timeline owing to increase in revenues; the aging of receivables is considered sound as no receivable was overdue for more than six months while 85% of receivables pertained to one-month bracket. As per the management, no impairment allowance is necessary in respect of trade receivables as some receivables were recovered subsequent to year end and for remaining there are reasonable grounds to believe that the amounts will be recovered in short course of time. Advances, deposits & prepayments exhibited a volatile trend with increase to Rs. 578.1m (FY20: Rs. 297.1m) by end-FY21 on account of higher sales tax refundable and loan amounting to Rs. 53.2m (FY20: Rs. 20.0m) extended to director of the company. The same however declined to Rs. 328.m by end-1HFY22 in line with discontinuation of bank guarantee against cotton of its associate, DSML. The liquidity of the company is impacted due to sizable sales and income tax refunds aggregating to Rs. 219.7m (end-FY20: Rs. 141.2m) due from government at end-FY21; the company is unable to rectify the situation given it is an exogenous factor and inherent in the local textile industry.

On the other hand, trade and other payables were recorded higher at Rs. 547.9m (end-FY20: Rs. 223.1m) at end-FY21 with majority pertaining to trade creditors and advances from customers; the increase in trade creditors is a function of higher inventory kept to meet demand of growing business operations. Given increase in cash balances and stock in trade current ratio of the company improved during the outgoing year; moreover, the same was comfortably maintained over 1.0x at all times. Further, DSPL's cash conversion cycle improved slightly on a timeline basis to 121 days (FY21: 101 days; FY20: 133 days) at end-HY22 in line with improvement in inventory turnover on account of efficient order servicing post pandemic crisis. As per the management, the lead time for repeat orders is around 30 days while new orders requiring product sampling have higher lead time of approximately 60 days. In addition, the company also paid final cash dividend of Rs. 0.5/share for the year end-FY20 amounting to Rs. 35.3m (FY20: Rs. 35.3m) during FY21; the dividend payout practice has an inverse relationship with liquidity position and loss absorption capacity of the company.

Largely conservative capital structure with gearing levels expected to improve going further: The total equity base of DSPL augmented considerably to Rs. 3.3b (FY21: Rs. 2.9b; FY20: Rs. 2.4b) by end-1HFY22 on account of internal capital generation. The debt matrix of the company still has notable tilt towards short-term credit owing to limited reliance of the company on long-term borrowings; although the proportion of long-term funding has slightly increased post-FY20 in line with capex incurred for capacity expansion. With company's presence in value-added export-oriented textile segment around 90% of the short-term funding amounting to Rs. 1.0b pertained to concessionary scheme of SBP, Export Refinance Scheme-II (ERF-II). Under ERF-II, a revolving finance limit is sanctioned to the exporter equivalent to 50% of his export performance during the previous year on July -June basis; the company has to make shipments and realize export proceeds from the exports of eligible goods, at least equal to the twice of the amount of finance availed. As an incentive extended to boost exports, the ERF-II scheme is charged at SBP prevailing rate; the same positively impact the profitability indicators of the company as the rate is much lower than commercial bank borrowings. Short-term financing under ERF-II is secured against lien over EE statement duly authenticated by SBP, 1st pari passu charge of Rs. 1.2b on current assets of the company coupled with 1st pari passu charge of Rs. 1.2b over fixed assets of DSPL and DSML collectively.

The long-term borrowings increased to Rs. 529.8m (FY20: Rs. 227.9m) at end-FY21 as DSPL procured debt amounting to Rs. 300.0m under both SBP's Long Term Financing Facility (LTFF) and Temporary Economic Relief Facility (TERF) to fund the capex of Rs. 666.9m incurred on procurement of fixed assets during FY21. Out of the total aforementioned capex incurred, Rs. 485.5m was spent on procurement of 148 knitting machines out of which Rs. 270.9m was contributed from long-term funding obtained. The facilities are secured against specific registered charges on imported machinery. The major facility amounting to Rs. 252.8m (FY20: Rs. Rs. 119.2m) at end-FY21 comprises of 10 different loans; markup is currently charged at 5% for eight loans (LTFF), 3MK + 3% on one facility and 3MK + 2% on the last loan. The mark up is charged at quarterly basis for nine facilities while one loan interest is charged on monthly bases. Eight out of the ten loans are repayable in 20 quarterly installments, one loan is payable in 8 quarterly installments and one is payable in 60 monthly installments. The long-term facility amounting to Rs. 108.6m (FY20: nil) at end-FY21 procured under SBP's TERF is repayable in 20 equal instalments; the markup on the loan is charged at 3.5% on quarterly basis. On the other hand, long-term borrowings also increased during the rating review period as DSPL procured additional debt amounting to Rs. 45.0m (FY20: Rs. 40.0m) under SBP's LTFF facility for payment of salaries to the employees of the company; the facility is payable in eight equal installments out of which five have already been made. However, for all the other existing long-term facilities banks have deferred the loan installments for the period of one year under SBP directive as a relief to the company during COVID-19 pandemic. As a result of increase in total borrowings, gearing and leverage trended upwards to 0.85x (FY20: 0.65x) and 1.20x (FY20: 0.85x) respectively during FY21; however, owing to substantial growth in core equity during HY22 in line with sizable profit generation, gearing and leverage scale down to 0.69x and 0.90x respectively at end-HY22. Normal BMR to be carried out, long-term borrowings are projected to decrease post-FY22. On the other hand, short-term debt is expected to increase on a timeline basis in line with increase in working capital requirement with 148 new knitting machines coming online.

However, the increase in borrowings is projected to be offset with augmentation base so leverage indicators are expected to improve in the medium term.

Dynamic Sportswear (Private) Limited — Annexure II

Financial Summary *(Rs. in million)*				
BALANCE SHEET	**June 30, 2019**	**June 30, 2020**	**June 30, 2021**	**Dec 31,2021**
Fixed Assets	1,511.9	1,837.8	2,624.3	2,684.2
Long Term Loan to Associate	647.5	643.5	591.8	610.0
Stock-in-Trade including spares	715.6	744.4	1,122.0	1,270.4
Trade Debts	156.9	193.9	314.8	349.6
Trade deposits & prepayments	211.7	297.1	578.1	328.3
Cash & Bank Balances	173.2	67.1	33.5	180.8
Total Assets	**3,416.7**	**3,783.8**	**5,264.4**	**5,423.3**
Trade and Other Payables	176.4	223.1	547.9	368.3
Long Term Payable	-	56.4	55.9	45.3
Short Term Borrowings	885.3	868.9	1,135.6	1,145.2
Long Term Borrowings	119.6	227.9	529.8	473.5
Total Borrowings	1,004.9	1,096.8	1,665.4	1,145.2
Total Liabilities	1,216.7	1,433.6	2,350.1	2,113.3
Paid Up Capital	700.0	700.0	700.0	700.0
Core Equity	1,489.5	1,685.1	1,954.9	2,350.7
Total Equity	2,200.0	2,350.3	2,914.3	3,310.0
INCOME STATEMENT	**June 30, 2019**	**June 30, 2020**	**June 30, 2021**	**Dec 31,2021**
Net Sales	2,223.7	2,457.1	3,877.2	2,432.3
Gross Profit	588.0	636.6	944.1	786.5
Operating Profit	299.3	311.9	425.0	467.3
Profit Before Tax	227.8	230.5	343.5	420.1
Profit After Tax	205.4	206.0	305.1	395.7
FFO	349.5	369.1	503.3	395.7
RATIO ANALYSIS	**June 30, 2019**	**June 30, 2020**	**June 30, 2021**	**Dec 31,2021**
Gross Margin (%)	26.4%	25.9%	24.3%	32.3%
Net Margin (%)	9.2%	8.38%	7.9%	16.3%
Current Ratio (x)	1.13	0.71	1.80	1.30
FFO to Total Debt (x)	0.35	0.34	0.30	0.49
FFO to Long Term Debt (x)	2.92	1.62	0.95	1.67
Debt Service Coverage Ratio (x)	3.79	3.66	3.59	3.84
ROAA (%)	6.0%	5.7%	6.7%	14.8%
ROAE (%)	13.8%	13.0%	16.8%	36.8%
Gearing (x)	0.67	0.65	0.85	0.69
Debt Leverage (x)	0.82	0.85	1.20	0.90
Cash Conversion Cycle (days)	146.1	133.1	101.1	121.2
Stock+ Trade debts/ Short-term Borrowings (x)	0.99	1.08	1.27	1.41

Financial Projections *(Rs. in millions)*			
BALANCE SHEET	**June 30, 2022**	**June 30, 2023**	**Dec 31,2024**
Fixed Assets	2,709.6	2,838.5	2,818.0
Long Term Loan to Associate	615.2	640.2	645.2
Stock-in-Trade including spares	1,582.0	1,809.3	2,056.2
Trade Debts	409.2	501.5	551.7
Trade deposits & prepayments	549.2	571.6	600.6
Cash & Bank Balances	36.3	27.8	29.0
Total Assets	**5,901.5**	**6,388.9**	**6,700.7**
Trade and Other Payables	630.0	655.9	615.6
Short Term Borrowings	1,170.0	1,370.0	1,320.0
Long Term Borrowings	669.0	477.6	306.7
Total Borrowings	1839.0	1847.6	1626.7
Total Liabilities	2,596.7	2,615.5	2,340.5
Paid Up Capital	700.0	700.0	700.0
Core Equity	2,397.8	2,913.2	3,542.2
Total Equity	3,304.9	3,773.3	4,360.2
INCOME STATEMENT	**June 30, 2022**	**June 30, 2023**	**Dec 31,2024**
Net Sales	5,267.8	5,794.6	6,374.1
Gross Profit	1,347.3	1,539.4	1,735.9
Operating Profit	601.8	727.1	863.7
Profit Before Tax	466.8	578.5	715.8
Profit After Tax	414.1	520.5	652.1
FFO	664.6	778.4	905.4
RATIO ANALYSIS	**June 30, 2022**	**June 30, 2023**	**Dec 31,2024**
Gross Margin (%)	25.6%	26.6%	27.2%
Net Margin (%)	7.9%	9.0%	10.2%
Current Ratio (x)	1.29	1.32	1.55
FFO to Total Debt (x)	0.36	0.42	0.56
FFO to Long Term Debt (x)	0.99	1.63	2.95
ROAA (%)	7.0%	8.5%	10.0%
ROAE (%)	17.3%	19.6%	20.2%
Gearing (x)	0.77	0.63	0.46
Debt Leverage (x)	1.08	0.90	0.66
Cash Conversion Cycle (days)	117.0	130.5	145.0
Stock+ Trade debts/ Short-term Borrowings (x)	1.70	1.69	1.98

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	Dynamic Sportswear (Pvt.) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	
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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Rating History:

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
15-05-2022	A-	A-2	Stable	Initial

Due Diligence Meetings Conducted

	Name	Designation	Date
1	Mr. Rao M. Shahbaz Khan	Manager Finance & Corporate Affairs	07-Mar-2022
2	Mr. Yasir Shafeeq	Manager Accounts	07-Mar-2022