

RATING REPORT

Dynamic Sportswear (Private) Limited

REPORT DATE:

July 01, 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	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	July 01, 2024		May 25, 2023	

COMPANY INFORMATION

Incorporated in 1992	External Auditors: RSM Avais Hyder Liaquat Nauman Chartered Accountants. (2023)
Private Limited Company	Board Chairman/CEO: Mr. Mobeen Ahmed
Key Shareholders (with stake 5% or more):	
<i>Mr. Fabad Mobeen Ahmad ~24.8%</i>	
<i>Mr. Saad Mobeen Ahmad ~24.8%</i>	
<i>Mr. Imran Khaled Niazi ~17.7%</i>	
<i>Mrs. Samra Mobeen Ahmad ~16.9%</i>	
<i>Mrs. Zareen Niazi ~7.8%</i>	
<i>Mr. Absan Ghazanfar ~7.1%</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>

Dynamic Sportswear (Private) Limited

OVERVIEW OF THE INSTITUTION

RATING RATIONALE

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

Corporate Profile

Dynamic Sportswear (Private) Limited (DSW) or ‘the Company’ is a family-owned textile manufacturer with an operational history of more than three decades of producing and exporting sports, athletics, medical and casual socks for men, women, and children. It has a vertically-integrated unit that can produce various types of heel formats (y-heel, reciprocated/real, pouch, tube) using modern knitting, toe linking, over-locking, dyeing and finishing machines. The head office and factory of the company are located in Lahore.

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.

Profile of 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

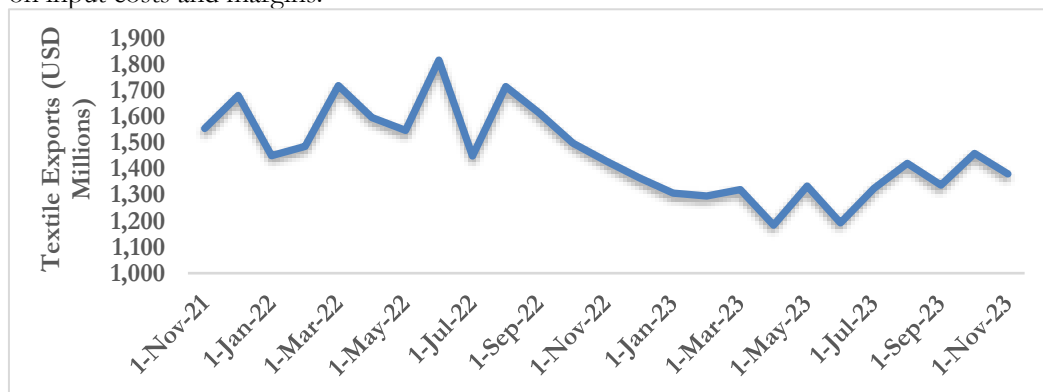


Figure 1: MoM Textile Exports (In USD Millions) | Source: SBP

Operating Performance & Capacity Utilization: During the review period, the Company added knitting machines. It also completed a 450KW solar installation project. Actual production during the review period, remained volatile on account of fluctuations in demand.

The Company has already acquired land for the construction of a new sock manufacturing unit and plans to begin construction as soon as the economic uncertainty shuts away. The new plant is expected to have a total of 1,000 knitting machines.

Key Rating Drivers

Sales decline in FY23 offset by improved margins; 9M'FY24 reflects demand growth.

Net sales of the Company registered a decline of around 2.8% Y/Y, clocking in at Rs. 5.02b (FY22: Rs. 5.17b) in FY23, due to lower volumetric sales despite higher selling prices on the back of rupee depreciation. For 9M'FY24, net sales reached Rs. 5.42b, supported by improvement in demand, while average selling prices remained below FY23 levels. USA and Europe account for more than 4/5th of the topline. The entire topline emanates from export sales. During FY23, top 10 clients accounted for more than 95% of the total net sales. Therefore, client concentration risk is considered high; however, comfort is drawn from long-withstanding relations with these customers. Gross margins improved to 33.4% in FY23 (FY22: 26.0%) mainly due to better selling prices amid rupee depreciation. However, for 9M'FY24, reported gross profit has not been accounted for depreciation charges. Major operating expenses including selling & distribution and administrative expenses increased, reflecting inflationary trends. Finance costs increased significantly, influenced by higher borrowing rates. Net margins slightly improved to 5.7% in FY23 (FY22: 5.3%). Going forward, in full year (FY24) the management expects to close topline at Rs. ~6.5b. Gross margins in FY24 are expected to remain intact while net margins are forecasted to inch up with lower other expenses during the year.

Liquidity profile registered improvement while cashflow and debt coverages remained manageable.

The cashflow coverage profile remained volatile during the review period, with funds from operations (FFO) recorded lower at Rs. 728.3m in FY23 vis-à-vis Rs. 846.5m in FY22, due to lower profitability. This impacted FFO to long-term debt, FFO to total debt, and debt service coverage ratio, which deteriorated to 1.49x, 0.39x, and 2.76x in FY23 from 1.65x, 0.48x, and 3.99x in FY22, respectively. Cashflow coverage ratios and DSCR are expected to remain at same levels at end-FY24. On the liquidity front, current ratio improved to 1.80x (FY23: 1.56x; FY22: 1.43x) as at Mar'24, on the back of higher inventory. Improvement in cash flow and debt coverages remains an important rating consideration, going forward.

Capitalization profile continued to improve gradually.

As at Jun'23, equity (adjusted for surpluses) of the Company grew to Rs. 2.6b (Jun'22: 2.3b), while the same is expected to increase to Rs. 3.2b as at Jun'24. Total debt of the Company increased to Rs. 1.9b (Jun'22: 1.8b) as at Jun'23 due to uptick in short term borrowings amid higher working capital requirements. DSW has mobilized around Rs. 70m long term debt for solar installation during the on-going year, however, net long-term debt reported on balance sheet (as at Mar'24) has registered a minor decline to Rs. 488m compared to Rs. 512m as at Jun'23 on the back of scheduled long term debt repayments. With the increase in equity, capitalization ratios including gearing and leverage marginally improved to 0.72x and 1.10x (Jun'22: 0.78x, 1.24x). The same trend is forecasted to continue at end-FY24, with further improvement in gearing and leverage ratios on the back of internal capital retention.

FINANCIAL SUMMARY				
<i>(amounts in PKR millions)</i>				
<u>BALANCE SHEET</u>	FY21	FY22	FY23	9M'FY24
Property, Plant and equipment	2,624.3	2,697.7	2,587.1	2,660.8
Stock-in-Trade including spares	1,122.0	1,823.1	2,147.2	2,252.8
Trade Debts	314.8	509.8	813.5	912.3
Advances, Trade deposit, prepayment and other receivables	578.1	766.4	706.5	922.1
Cash & Bank Balances	33.5	187.4	53.8	48.5
Other Assets	591.8	-	-	-
Total Assets	5,264.4	5,984.3	6,308.1	6,796.4
Long Term Borrowings (including current portion)	518.5	511.8	487.6	346.5
Lease Liabilities (including current portion)	67.2	49.2	-	-
Deferred Liability	80.9	120.5	160.4	160.4
Trade and Other Payables	547.9	883.6	812.4	814.6
Short Term Borrowings	1,135.6	1,247.5	1,392.2	1,447.9
Total Liabilities	2,350.1	2,812.6	2,852.7	2,769.5
Total Debt	1,654.1	1,759.2	1,879.8	1,794.4
Paid Up Capital	700.0	700.0	700.0	700.0
Tier-1 Equity	1,954.9	2,264.7	2,595.3	3,166.8
Total Equity	2,914.3	3,171.7	3,455.4	4,026.9
<u>INCOME STATEMENT</u>				
	FY21	FY22	FY23	9M'FY24
Net Sales	3,877.2	5,167.9	5,021.5	5,420.7
Gross Profit	944.1	1,344.1	1,675.6	2,032.8
Operating Profit	425.0	747.6	707.9	981.4
Profit Before Tax	343.5	324.6	337.1	637.5
Profit After Tax	305.1	272.6	287.8	583.3
<u>RATIO ANALYSIS</u>				
	FY21	FY22	FY23	9M'FY24
Gross Margin (%)	24.3%	26.0%	33.4%	37.5%
Net Margin (%)	7.9%	5.3%	5.7%	10.8%
Net Working Capital	215.5	988.9	1,337.7	1,837.9
FFO	503.3	846.5	728.3	583.3
FFO to Total Debt (x)	0.30	0.48	0.39	0.43*
FFO to Long Term Debt (x)	0.97	1.65	1.49	2.24*
Debt Servicing Coverage Ratio (x)	5.54	3.99	2.76	2.08*
Current Ratio (x)	1.12	1.43	1.56	1.80
Stock in Trade + Trade Debts/STD	1.3	1.9	2.1	2.2
Gearing (x)	0.85	0.78	0.72	0.57
Leverage (x)	1.20	1.24	1.10	0.87
ROAA (%)	6.7%	4.8%	4.7%	11.8%*
ROAE (%)	16.8%	12.9%	11.8%	27.0%*

*Annualized**

REGULATORY DISCLOSURES		Appendix III			
Name of Rated Entity	Dynamic Sportswear (Private) 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
	Rating Type: Entity				
	01-07-2024	A-	A-2	Stable	Reaffirmed
	25-05-2023	A-	A-2	Stable	Reaffirmed
16-05-2022	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. Rao M. Shahbaz Khan	Manager Finance		June 04, 2024	
	Mr. Yasir Shafeeq	Manager Accounts		June 04, 2024	