

## RATING REPORT

Indus Dyeing & Manufacturing Company  
Limited**REPORT DATE:**

April 29, 2020

**RATING ANALYST:**Muniba.Abdullah, CFA  
[muniba.khan@vis.com.pk](mailto:muniba.khan@vis.com.pk)

## RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A+	A-1	A+	A-1
Rating Date	Apr 29, 2020		May 9, 2019	
Rating Outlook	Rating Watch - Developing		Stable	

## COMPANY INFORMATION

Incorporated in 1957	External auditors: M/s Deloitte Yousuf Adil, Chartered Accountants
Public Listed Company	Chairman: Mr. Mian Mohammad Ahmed
Key Shareholders:	CEO: Mr. Shahzad Ahmed
CEO, Directors and Family- 88.4% Others- 11.6%	

## APPLICABLE METHODOLOGY(IES)

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

## Indus Dyeing &amp; Manufacturing Company Limited

OVERVIEW  
OF THE  
INSTITUTION

## RATING RATIONALE

*Indus Dyeing & Manufacturing Company Limited (IDMC) was incorporated as a public limited company in Pakistan in 1957. IDMC operates under the umbrella of Indus Group of Company. The core business activity of the company is to manufacture and sell yarn.*

**Profile of  
Chairman**

*Mr. Mian Mohammad Ahmed laid the foundation of the Indus group of companies by setting up cotton ginning factories and later on establishing textile spinning. He is responsible for strategic and corporate planning.*

**Profile of CEO**

*Mr. Shahzad Ahmed spearheads the management team. He has obtained a degree in Marketing from USA.*

Indus Dyeing and Manufacturing Company Limited's (IDMC) belongs to the Indus Group of Companies which has presence in cotton ginning, yarn manufacturing, grieger fabric manufacturing, home textiles and power sectors. IDMC operates through three manufacturing facilities located in Karachi, Hyderabad and Muzaffargarh. The spinning segment operates through 178,896 spindles and has continued to operate at high utilization levels. All units of the company are operating continuously on gas based power generators. Grid based power is an alternate stand-by energy source in case of gas shortage and load shedding.

IDMC has also has a long-term investment amounting to Rs. 3.7b at end-FY19. These include investment in wholly owned subsidiaries Indus Homes Limited and Indus Lyallpur Limited and investment in associate Sunrays Textile Mills Limited. Given that these companies are in growth phase, no dividends have been received from the same. The Company also plans to diversify operations through investment in a 50MW wind power plant.

**With supportive government policies for the textile sector, sales revenue has depicted an increase over the years; growth in sales has remained a function of higher average selling prices and volumetric growth. Business risk profile is also supported by expected elevated local demand in the backdrop of ongoing expansion in the value added segment.**

Sales revenue of the company increased to Rs. 24.9b (FY18: Rs. 22.1b) in FY19. Increase was a function of rise in price and volumes. Exports sales continue to dominate the sales mix with exports and local sales mix ratio remaining within the 60:40 range. Geographic concentration in exports is considered on the higher side with around three-fifth of total exports sales directed to Chinese trading houses. However client wise concentration is considered manageable with diversified local and international client base. During 1HFY20, the company recorded sales revenue of Rs. 14.9b vis-à-vis Rs. 12.1b in the corresponding period last year.

**Coronavirus to result in uncertainty in textile sector dynamics**

The revision in rating outlook reflects prevailing uncertainty in textile sector dynamics due to coronavirus outbreak, prolonged lockdown, overall contraction in demand, sharp fall in cotton prices 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, 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.

**Indus Dyeing & Manufacturing Company Limited**
**Appendix I**

<b>FINANCIAL SUMMARY</b>				
	<i>(amounts in PKR millions)</i>			
<b>BALANCE SHEET</b>				
	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>
Fixed Assets	6,429	6,215	6,311	6,678
Long term Investments	3,723	3,730	3,690	3,730
Stock-in-Trade	3,599	4,204	4,716	6,384
Trade Debts	1,425	1,286	3,534	4,480
Cash & Bank Balances	584	250	116	176
Total Assets	16,782	17,230	19,691	22,717
Trade and Other Payables	1,211	1,516	1,920	2,387
Long Term Debt	1,497	1,478	1,677	2,096
Short Term Debt	4,377	3,911	4,595	5,140
Total Debt	5,874	5,389	6,272	7,237
Paid up Capital	181	181	181	181
Total Equity	9,418	9,924	11,071	12,503
<b>INCOME STATEMENT</b>				
Net Sales	18,104	19,757	22,090	24,926
Gross Profit	1,129	1,724	2,335	2,702
Profit Before Tax	269	963	1,561	2,048
Profit After Tax	92	686	1,379	1,724
<b>RATIO ANALYSIS</b>				
Gross Margin (%)	6.2%	8.7%	10.6%	10.8%
Net Margin	0.5%	3.5%	6.2%	6.9%
FFO	674	1,271	2,243	2,244
FFO to Total Debt (%)	11%	24%	36%	31%
FFO to Long Term Debt (%)	45%	86%	134%	107%
Current Ratio (x)	1.1	1.2	1.4	1.6
Debt Servicing Coverage Ratio (x)	1.0	3.3	3.6	3.7
Gearing (x)	0.62	0.54	0.57	0.58
Leverage (x)	0.78	0.74	0.78	0.82
ROA (%)	1%	4%	7%	8%
ROE (%)	1%	7%	12%	14%

**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](http://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](http://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](http://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			
<b>Name of Rated Entity</b>	Indus Dyeing & Manufacturing Limited				
<b>Sector</b>	Textiles				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	4/29/2020	A+	A-1	Rating Watch-Developing	Maintained
	5/9/2019	A+	A-1	Stable	Reaffirmed
	7/31/2018	A+	A-1	Stable	Reaffirmed
	1/26/2017	A+	A-1	Stable	Reaffirmed
	5/4/2015	A+	A-1	Stable	Reaffirmed
<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.				
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2020 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
<b>Due Diligence Meetings Conducted</b>	None				