RATING REPORT

Indus Dyeing & Manufacturing Company Limited

REPORT DATE:
June 10, 2021

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-1	A+	A-1
Rating Date	*June 10, 2021*		*Apr 29, 2020*	
Rating Outlook	Stable		Rating Watch - Developing	

COMPANY INFORMATION

Incorporated in 1957	**External auditors:** M/s Deloitte Yousuf Adil, Chartered Accountants
Public Listed Company	**Chairman:** Mr. Naveed 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 (May 2019)*
https://s3-us-west-2.amazonaws.com/backupsqlvis/docs/Corporate-Methodology-201904.pdf

Indus Dyeing & Manufacturing Company Limited

OVERVIEW OF THE INSTITUTION

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.

RATING RATIONALE

Group Profile

Indus Dyeing and Manufacturing Company Limited's (IDMC) is a flagship company of 'Indus Group of Companies' which is one of the well-established textile groups in the country with an annual turnover of over US$300m. The group has an extensive experience of more than six decades and operates through five different entities. Alongside, the group has also invested in a wind power project of 50MW which is expected to come online in Jan'22.

IDMC Operations

Headquartered in Karachi, IDMC is primarily engaged in the production and sale of yarn with total installed capacity of 184K spindles while further addition of 4.5K new spindles is planned over the rating horizon. Production facilities comprise total 6 units located in Karachi, Hyderabad and Muzaffargarh. Historically, the company has been operating at high utilization levels, but remained under pressure in FY20 due to pandemic induced slow-down in demand. However, given subsequent economic recovery volumes along with capacity utilization have recovered in the ongoing year. All units are operating continuously on gas-based power generators. Grid based power is an alternate stand-by energy source in case of gas shortages.

IDMC Investments

Long-term investments stood higher at Rs. 5.9b at end-9M'FY21 on the back of increased investment in Indus Wind Energy Limited (IWEL). Baring Sunrays Textile Mills Limited (STML) which is an associate undertaking, remaining all the investments are wholly-owned subsidiaries.

Table 1: Long-Term Investments

(Rs. in millions)	FY19	FY20	9M'FY21
Sunrays Textile Mills Limited (STML)	13	13	13
Indus Home Limited (IHL)	2,491	2,491	2,491
Indus Lyallpur Limited (ILL)	1,185	1,185	1,185
Indus Wind Energy Limited (IWEL)	40	460	2,260
Total	**3,730**	**4,150**	**5,950**

Key Rating Drivers

Covid-19 hit textile industry has posted recovery and the outlook is favorable going forward.

In FY20, export revenues from textile segment dropped by ~6% to USD 12.8b (FY19: USD 13.6b) in the wake of Covid-19 induced lockdowns both domestically and globally. Negative trend was noted in all segments. However, following the ease in pandemic restrictions after the first wave along with the implementation of smart lockdown policy and given subsequent economic recovery, textile exports (as per PBS) rose to USD 12.7b in 10M'FY21 (vis-à-vis USD 10.8b SPLY), registering a sizeable growth of ~17%. This growth was mainly was driven from the value-added sector while growth in knitwear exports (both in terms of value and volume) outpaced the other segments. Meanwhile, the commodities that witnessed decline in trade included raw cotton, cotton yarn and cotton cloth.

Segments	Amount in USD (millions)		(%) Change
	10M'FY21	10M'FY20	
Knitwear products	$3,126	$2,392	31%
Readymade Garments	$2,512	$2,232	13%
Bed wear	$2,292	$1,838	25%
Towels	$777	$611	27%
Made-up Articles	$628	$513	22%
Art, silk and synthetic textile	$302	$273	11%
Tents, canvas and tarpaulin	$96	$78	23%
Yarn (other than cotton yarn)	$27	$22	23%

Going forward, sector dynamics are favorable as Pakistan continues to receive export orders from global economies as competing regional countries like India and Bangladesh remains hampered by the Covid-19 outbreak. Given the surge in demand, the industry is currently operating at full capacity and going through expansion and up-gradation to cater for additional demand.

With the aim to double textile exports in five years, GoP through five-year textile policy (2020-25) has provided incentives in form of preferential energy rates, low interest rates financing schemes (such as EFS, LTFF and TERF) and timely payments of DLTL which would support liquidity constraints of local players. Initiatives are also being undertaken in order to increase production and yield of cotton to support the industry. Nevertheless, downside risk, in the short-tern, remains elevated on account of third wave. In the long run, improvement in value addition, investment in technology and optimization of energy cost would be the key determinants of textile exports.

High cyclicality and competitiveness in spinning sector while country concentration in exports translates into high business risk profile. Nevertheless, the same is supported by favorable government policies and healthy demand (on both domestic and export fronts).

Movement in cotton prices and cotton crop levels drives performance of spinning players in Pakistan. Given sizeable deficit in local cotton production vis-à-vis demand in the recent years, cotton prices have remained elevated due to which inventory loss risk is considered limited. As with other domestic spinning players, reliance on China as major export market translates into high country concentration risk. However, business risk is supported by favorable government policies and healthy demand outlook.

Despite pandemic-induced slowdown, topline continues to witness a growth trend on account of higher yarn prices. In the ongoing year, sales are targeted to cross the Rs. 30b mark. Outlook assigned to ratings has been revised to 'Stable'.

Topline of the company posted a 5-Year CAGR of ~11% and amounted to Rs. 27.1b (FY19: Rs. 24.9b) in FY20. The year-on-year uptick of ~9% in sales was mainly attributable to significant improvement in yarn prices whereas pandemic-induced fall in demand (particularly in domestic market) led to a decline in volumetric growth. Subsequent to year-end, volumes have recovered upon diversion of export orders to Pakistan and improved economic indicators.

Exports continue to dominate the sales mix with its contribution increasing to 66% (FY19: 57%) in FY20 and the same trend is continued in the ongoing year. Geographic concentration in exports is on the higher side as major bulk of sales is directed to Chinese trading houses.

However client wise concentration is considered to be manageable with diversified local and international client base. In 9M'FY21, IDMC recorded sales of Rs. 23.9b, registering a jump of ~8% vis-à-vis SPLY. Going forward, sales revenue is targeted to cross the Rs. 30b mark by the year-end FY21 on the back of strong demand on both domestic and international fronts.

Sizeable jump in gross margins on the back of efficient cotton procurement has translated into considerable bottom-line improvement.
Gross margins swiftly bounced back in the ongoing year from the pandemic slump (9M'FY21: 14.5%; FY20: 8.2%; FY19: 10.8%) mainly on account of improved yarn prices and efficient procurement of cotton. Meanwhile, overall operating expenses witnessed an increasing trend primarily due to higher distribution cost while rising debt levels led to an increase in financial charges. Nevertheless, the same remains limited given that more than four-fifth of total borrowings is on concessionary rates. Overall profitability profile is also supported by other income which mainly included dividends from IHL and discounting of GIDC provision. With the improvement in gross margins and topline growth, the company posted profit after tax (PAT) of Rs. 2.2b (FY20: Rs. 958m; FY19: Rs. 1.7b) during 9M'FY21 with net margin of 9.2% (FY20: 3.5%, FY19: 6.9%).

Sound debt servicing ability and deferment of principal repayment for a period of one year supported overall liquidity profile. Strong profitability growth led to improvement in cash flow coverages.
Liquidity profile of the company is considered strong with healthy cash flows in line with improving profitability. Moreover, additional comfort was drawn from deferment of principal repayment for a period of one year under covid-19 debt relief package. In absolute terms, Funds from Operations (FFO) increased considerably to Rs. 2.8b (FY20: Rs. 1.5b) in 9M'FY21. Consequently, FFO to total debt and FFO to long-term debt, regardless of the increase in debt levels, were reported higher at 46.4% (FY20: 24.9%) and 98.8% (FY20: 67.1%), respectively. Similarly, Debt Service Coverage Ratio (DSCR) stood higher at 6.4x (FY20: 2.8x) in 9M'FY21. Current ratio of the company remains strong and over 1.5x, while trade debts and stock in trade are more than sufficient to cover short term borrowings. Aging profile of trade debts remain within manageable levels.

Gearing and leverage indicators have trended upwards in the ongoing year yet remains on the lower side.
Equity base remained stagnant in FY20 on account of higher dividend payout of 104% (FY19: 17%). However, in line with the improvement in profitability in the ongoing year, resource base registered a growth of ~16% (9M'FY21: Rs. 14.5b; FY20: Rs. 12.5b). Debt profile of the company comprises a mix of short-term and long-term debt with total interest bearing liabilities amounting to Rs. 7.9b (FY20: Rs. 5.9b; FY19: Rs. 7.2b) at end-9M'FY21; short-term debt (ERF) constituted around one-half of total debt. The increase in debt levels is attributable to mobilization of long-term financing of Rs. 1.8b (to fund equity investment in subsidiary, IWEL - wind power project) which the management has planned to fully repay in the ongoing year. As a result, gearing and leverage indicators have trended upwards and were reported at 0.55x (FY20: 0.47x, FY19: 0.58x) and 0.81x (FY20: 0.75x, FY19: 0.82x), respectively at end-9M'FY21. Going forward, leverage indicators are expected to improve given no further investment planned in subsidiary and significant debt repayment over the rating horizon.

Indus Dyeing & Manufacturing Company Limited — Appendix I

FINANCIAL SUMMARY						*(amounts in PKR millions)*
BALANCE SHEET	**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**9MFY21**
Fixed Assets	6,429.5	6,215.4	6,310.6	6,677.7	6,383.6	6,689.7
Long term Investments	3,722.7	3,729.7	3,689.7	3,729.7	4,149.7	5,950.0
Stock-in-Trade	3,599.4	4,204.0	4,716.0	6,384.2	6,636.9	7,804.0
Trade Debts	1,424.5	1,286.2	3,534.0	4,480.1	3,389.6	4,597.6
Cash & Bank Balances	583.7	250.0	116.3	175.5	116.4	163.6
Total Assets	16,782.5	17,229.9	19,691.5	22,717.0	21,850.6	26,222.5
Trade and Other Payables	1,211.5	1,516.0	1,920.2	2,387.2	2,844.0	2,427.7
Long Term Debt	1,497.2	1,477.5	1,677.1	2,096.1	2,180.7	3,754.1
Short Term Debt	4,377.1	3,911.1	4,594.8	5,140.5	3,695.7	4,196.1
Total Debt	5,874.3	5,388.7	6,271.9	7,236.6	5,876.4	7,950.2
Paid up Capital	180.7	180.7	180.7	180.7	180.7	180.7
Total Equity	9,418.0	9,923.5	11,070.7	12,503.1	12,467.5	14,497.8
INCOME STATEMENT						
Net Sales	18,103.8	19,757.1	22,090.4	24,926.3	27,076.3	23,904.7
Gross Profit	1,129.0	1,723.7	2,334.6	2,701.8	2,230.6	3,478.1
Profit Before Tax	268.9	962.9	1,561.6	2,047.7	1,245.0	2,719.5
Profit After Tax	91.9	685.8	1,378.6	1,724.3	957.9	2,211.0
RATIO ANALYSIS						
Gross Margin (%)	6.2%	8.7%	10.6%	10.8%	8.2%	14.5%
Net Margin	0.5%	3.5%	6.2%	6.9%	3.5%	9.2%
Trade debts/Sales	7.9%	6.5%	16.0%	18.0%	12.5%	14.4%
FFO	674.4	1,270.9	2,243.0	2,243.6	1,464.2	2,768.9
FFO to Total Debt (%)	11.5%	23.6%	35.8%	31.0%	24.9%	46.4%
FFO to Long Term Debt (%)	45.0%	86.0%	133.7%	107.0%	67.1%	98.3%
Current Ratio (x)	1.1	1.2	1.4	1.6	1.6	1.8
(Stock + Trade Debts)/ Short term borrowing	114.8%	140.4%	179.6%	211.3%	271.3%	295.6%
Debt Servicing Coverage Ratio (x)	1.01	3.30	3.62	3.64	2.81	6.42
Gearing (x)	0.62	0.54	0.57	0.58	0.47	0.55
Leverage (x)	0.78	0.74	0.78	0.82	0.75	0.81
Dividend Payout Ratio (%)	98.4%	47.4%	21.0%	16.8%	104.1%	8.2%
ROA (%)	0.5%	4.0%	7.0%	7.6%	4.4%	11.2%
ROE (%)	1.0%	6.9%	12.5%	13.8%	7.7%	20.3%

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	Indus Dyeing & Manufacturing 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				
06/10/2021	A+	A-1	Stable	Maintained
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
12/31/2013	A+	A-1	Stable	Upgrade
2/10/2012	A	A-2	Stable	Reaffirmed
12/8/2010	A	A-2	Stable	Reaffirmed
8/28/2009	A	A-2	Stable	Reaffirmed

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. Zahid Mahmood	Group CFO	May 27, 2021
Mr. Muhammad Adeel	Manager Financial Planning & Reporting.	