

RATING REPORT

Indus Home Limited

REPORT DATE:

April 29, 2020

RATING ANALYST:Muniba Abdullah, CFA
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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 Date	April 29, 2020		May 8, 2019	
Rating Outlook	Rating Watch-Developing		Stable	

COMPANY INFORMATION

Incorporated in 2006	External auditors: M/s EY Ford Rhodes Chartered Accountants
Public Unlisted Company	Chairman: Mr. Mian Mohammad Ahmed
Key Shareholder (s):	CEO: Mr. Irfan Ahmed
<i>Indus Dyeing and Manufacturing Company Limited – 99.99%</i>	

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 Home Limited

OVERVIEW
OF THE
INSTITUTION

RATING RATIONALE

Indus Home Limited (IHL), a wholly owned subsidiary of Indus Dyeing and Manufacturing Company Limited (IDMC), was incorporated in Pakistan as a Public Unlisted Company on May, 2006. IHL is involved in the business of griège, terry towel and other home textile products.

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. Irfan Ahmed is the CEO of the company; possess BSC Textile Engineering Degree from USA and a vast knowledge of Terry Towel Industry with ten years' experience. He is a director in IDMC and Sunrays Textile Mills Limited.

Group Profile

Indus Home Limited (IHL), incorporated in 2006, is a wholly owned subsidiary of Indus Dyeing and Manufacturing Company Limited (IDMC). The company is a part of Indus Group of Companies, which enjoys a reputable market position in textile business with an annual turnover of over US\$300m. Within textile sector, Indus Group has over five decades of experience and operates through five entities. The group is primarily engaged in the business of cotton ginning, yarn spinning, greige fabric manufacturing and home textiles (primarily towel business). Furthermore, the group is also investing in a 50MW wind power project.

Operations

IHL's core business operations include production and export of griège and finished terry cloth and other textile products. Head office of the company is based in Karachi and the towel manufacturing and finishing facility is located in Raiwind near Lahore. At present, the company's operations encompass weaving, dyeing and fabrication. IHL has an installed capacity of 120 air jet looms. Power requirement is met through a gas based captive power plant and national grid.

With supportive government policies for exports and devaluation of rupee dollar parity, sales revenue has depicted an increase over the years; growth in sales has remained a function of higher average selling prices and volumetric growth. USA and Europe remain core markets with clients comprising a mix of institutional brokers and direct clients.

IHL is primarily an export-oriented company with around 98% of total sales comprising exports. Sales have depicted a growth of 17% during FY19. Given the sizeable increase in average selling prices due to rupee depreciation, net sales were higher and stood at Rs. 7.0b (FY18: Rs. 6.0b) in FY19. Major export markets include US, UK and other European countries. Client base includes a mix of institutional brokers and direct clients. Client concentration risk is considered on higher side with top 10 clients contributing around four-fifth of total sales. However, comfort is drawn from lengthy association with major clients. In terms of product-wise sales mix, around 80% of the sales revenue emanates from bath towel followed by bathrobe. Other products include hand towel and body sheets. During HY20, the company recorded sales revenue of Rs. 3.9b.

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 Home Limited
Appendix I

FINANCIAL SUMMARY				
	<i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	FY16	FY17	FY18	FY19
Fixed Assets	2,673.7	2,553.3	2,752.2	3,397.1
Stock-in-Trade	1,224.8	1,502.0	1,867.8	1,683.2
Trade Debts	340.3	455.5	891.4	1,053.5
Cash & Bank Balances	21.9	25.4	141.2	569.7
Total Assets	2,528.6	2,935.9	3,452.1	7,635.7
Trade and Other Payables	376.9	441.3	630.7	784.0
Long Term Debt	180.5	141.4	438.1	997.2
Short Term Debt	1,285.4	1,117.1	967.0	1,095.0
Total Debt	1,466.0	1,258.4	1,405.1	2,092.3
Paid Up Capital	1,810.0	1,810.0	1,810.0	1,810.0
Total Equity	3,264.1	3,667.8	3,992.7	4,561.5
<u>INCOME STATEMENT</u>	FY16	FY17	FY18	FY19
Net Sales	5,206.6	5,529.1	6,025.5	7,037.1
Gross Profit	796.0	799.5	702.6	908.5
Profit Before Tax			362.6	605.7
Profit After Tax	379.9	410.2	330.7	573.3
<u>RATIO ANALYSIS</u>	FY16	FY17	FY18	FY19
Gross Margin (%)	15.3%	14.5%	11.7%	12.9%
Net Margin	7.3%	7.4%	5.5%	8.1%
FFO	670.6	734.6	657.3	972.2
FFO to Total Debt (%)	45.7%	58.4%	46.8%	46.5%
FFO to Long Term Debt (%)	371.5%	519.5%	150.0%	97.5%
Current Ratio (x)	1.48	1.85	2.11	2.15
Debt Servicing Coverage Ratio (x)	7.93	7.95	8.90	7.76
Gearing (x)	0.45	0.34	0.35	0.46
Leverage (x)	0.60	0.50	0.55	0.67
ROA (%)	7.7%	7.7%	5.7%	7.5%
ROE (%)	12.4%	11.8%	8.6%	12.6%

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 Home 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				
	4/29/2020	A-	A-2	Rating Watch - Developing	Maintained
	5/8/2019	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 Meetings Conducted	None				