

## Indus Dyeing & Manufacturing Company Ltd.

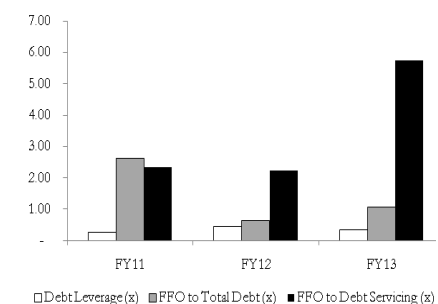
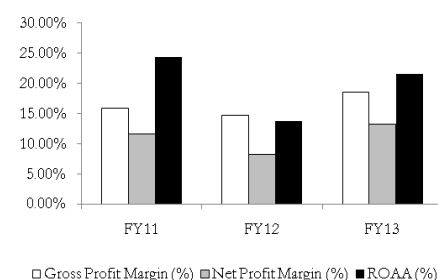
Chairman: Mian Mohammad Ahmed; Chief Executive: Mr. Shahzad Ahmed

January 22, 2014

**Analysts:** Sobia Maqbool, CFA  
Muniba Khan

Category	Latest	Previous
<b>Entity</b>	<b>A+ / A-1</b> Dec 31, '13	<b>A / A-2</b> Feb 10, '12
<b>Outlook</b>	<b>Stable</b> Dec 31, '13	<b>Stable</b> Feb 10, '12

### Key Financial Trends



(Rs. billion)	2011	2012	2013
<b>Net Sales</b>	18.25	15.09	17.61
<b>Net Profit</b>	2.13	1.25	2.33
<b>Tier-1 Equity</b>	6.26	7.06	8.42
<b>Debt Leverage</b>	0.3(x)	0.5(x)	0.3(x)
<b>Total Debt</b>	0.83	2.38	2.02
<b>Long Term Debt</b>	0.34	0.99	0.92
<b>FFO</b>	2.16	1.51	2.13
<b>FFO/Total Debt</b>	2.6(x)	0.6(x)	1.1(x)
<b>ROAE</b>	40.50%	18.89%	30.15%
<b>ROAA</b>	24.40%	13.78%	21.64%

### Rating Rationale

The upgrade of entity ratings of Indus Dyeing and Manufacturing Company Limited (IDMCL) takes into account the improvement in risk absorption capacity of the institution in recent years. Total equity stood at 8.9b at end September 2013. Strong internal capital generation has allowed the company to maintain a conservative capital structure, with most of the CAPEX in recent years also having been financed through internal sources. Over the last two years, the company has distributed cash dividend of Rs. 813.3m, representing 23% of the profit earned in this period. Cash flow position of the company depicts strong capacity to meet debt obligations. FFO to total debt was posted at 1.1(x) (FY12: 0.6(x)) for FY13. While FFO to total debt decreased to 0.6(x) in 1Q14, it continues to depict healthy debt servicing capacity.

The company posted healthy growth in revenues largely emanating from export sales. Moreover, gross margins improved notably on the back of better yarn prices and local currency depreciation. The spinning sector was able to take benefit of increased demand from China. While the margins achieved in FY13 may not recur in the on-going year, addition in spinning capacity may allow the company to post growth in revenues.

The company is in the process of enhancing production capacity of the Muzaffargarh unit by 24,000 spindles, expected to be completed by March 2014. The estimated project cost is Rs. 1.8b. The CAPEX has been partially funded through long term loans while the remaining portion is being met through internal sources. IDMCL had acquired Indus Lyallpur Limited (ILL) (previously MIMA Cotton Mills Limited) in FY12; investment in this company was enhanced in the out-going year. The subsidiary has started generating profits in FY13. Moreover, the company has acquired complete shareholding of Indus Home Limited (IHL) making it a wholly owned subsidiary; previously, IHL was a joint venture between IDMCL and an international towel manufacturer. Operations of IHL are proposed to be expanded, going forward. These initiatives are likely to strengthen the company's position in the textile sector.

Majority shareholding (88.5%) is vested with the family members. Key management positions pertaining to production and sales of individual units of IDMCL are also retained by the directors. An independent director had been appointed, during FY13, as a replacement for one of the executive directors at IDMCL. Further improvement in governance infrastructure, in line with best practices, may be considered. The company is implementing an ERP system which would provide a platform for integrated core operations. A contract has been executed with a third party vendor in this regard; the project is in its initial stages.

### Overview of the Institution

Incorporated in 1957, IDMCL is a public limited company and is listed on the Karachi Stock Exchange. It operates at a capacity of 146,112 spindles, primarily manufacturing and exporting cotton yarn. IDMCL belongs to Indus Group, which is engaged in ginning, spinning and towel businesses. The financial statements for FY13 have been audited by M/s. Yousuf Adil Saleem & Co. [\[JCR-VIS\]](#)