

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

RATING REPORT

Indus Dyeing & Manufacturing Limited

REPORT DATE:

January 30, 2017

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	January 26, 2017		May 04, 2015	
Rating Outlook	Stable		Stable	

COMPANY INFORMATION

Incorporated in 1955	External auditors: M/s Deloitte Yousuf Adil, Chartered Accountants
Public Limited Company	Chairman of the Board: Mr. Mian Mohammad Ahmed
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Shahzad Ahmed
Directors, CEO & Family – 88.4%	
Others – 11.6%	

APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporates (May 2016)*

<http://www.jcrvis.com.pk/docs/Corporate-Methodology-201605.pdf>

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Indus Dyeing & Manufacturing Company Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Indus Dyeing & Manufacturing Company Limited (IDMCL) was incorporated as a public limited company in Pakistan in 1955. IDMCL operates under the umbrella of Indus Group of Company. The core business activity of the company is to manufacture and sell yarn.</p>	<p>Group holding: Ratings draws support from IDMCL’s functioning under the Indus Group of Companies, which is engaged in spinning and ginning. Furthermore, the company manages four wholly owned subsidiaries operating in spinning, home textile and energy segments; a subsidiary is responsible for generating sales orders from USA as well. Through Indus Wind Energy Limited, IDMCL envisages venturing in energy sector by deploying a 50MW wind power plant.</p> <p>Market dynamics: Textile sector’s performance depicts a declining trend post China’s abandonment of its aggressive stock piling policy. The prevalent oversupply situation has contained cotton yarn prices on the lower side. However, uptick in prices has been witnessed in the ongoing year.</p>
<p>Profile of Chairman Mr. Mian Mohammad Ahmed started his textile business over 60 years ago with ginning and later ventured into spinning. He is responsible for strategic corporate planning.</p>	<p>Business Mix: IDMCL is an export oriented company and has three plants with the capacity to produce variety of specialized yarn. During FY16, company’s overall sales declined by 11% whereas exports sales reduced by 25%; exports accounted for a reduced 68% of sales, as compared to 75% in preceding year. The company made up for depressed international demand by garnering greater sales from local customers. Though sales declined, the company fared better than the industry owing to quality and brand name of IDMCL. Moreover, recent uptick witnessed in home textile may help to mitigate business risk.</p>
<p>Profile of CEO Mr. Mian Shahzad Ahmed spearheads the management team. He has obtained a degree in Marketing from USA.</p>	<p>Leverage: Over FY16, debt levels increased to Rs. 5.9b (FY15: Rs. 5.1b) mainly emanating from short term borrowing, which accounts for three-fourth of total debt. Therefore, leverage indicators were reported higher; gearing (FY16: Rs. 0.62x; FY15: 0.55x) and debt leverage (FY16: 0.78x; FY15: 0.68x). Though leverage indicators have depicted an increasing trend, the same remain manageable. Furthermore, indicators improved over 1QFY16 as short term borrowing was reduced.</p>
<p>Financial Snapshot</p> <p>Net Equity: 1QFY17 – Rs. 9.6b , FY16 – Rs. 9.4b,</p> <p>Net Profit: 1QFY17 – Rs. 221m, FY16 – Rs. 92m</p>	<p>Profitability: The company reported a reduced profit of Rs. 92b (FY15: 276m) over FY16. However, improved performance has been witnessed in 1QFY17; the company earned a profit of Rs. 221m owing to favorable cotton prices. Likewise, gross profit margins dipped in FY16 but recovered subsequently (1QFY17: 9.1%; FY16: 6.2%; FY15: 7.9%).</p> <p>Liquidity: Owing to lower profits and higher tax payments, Funds From Operations (FFO) declined to Rs. 674m (FY15: 928m) over FY16. Coupled with increased debt levels, FFO to total debt reduced (FY16: 0.11x; FY15: 0.18x). Despite weakened indicators, liquidity profile remained adequate. Moreover, indicators improved over three months ending September 2016 (1QFY17: FFO: Rs. 371m; FFO to debt: 0.31x).</p>
	<p>Outlook: The company has been in the industry for over 60 years and has successfully survived various business cycles. Development in home textile segments and prospective deployment of wind power plant, which is in very initial stage, will diversify operations. Furthermore, the announcement of recent textile package with benefits for export oriented companies is expected to positively affect the organization going forward. Incentives offered in textile policy include removal of taxes on import of cotton and duty drawback on entire exports in lieu of incremental exports.</p>

Indus Dyeing & Manufacturing Limited

Appendix I

FINANCIAL SUMMARY			
	<i>(amounts in PKR millions)</i>		
BALANCE SHEET	Jun-16	Jun-15	Jun-14
Fixed Assets	10,182.6	10,029.9	9,780.4
Investments	3,998.5	3,857.9	3,734.2
Stock-in-Trade	3,599.4	3,580.3	3,911.4
Trade Debts	1,424.5	1,193.9	1,525.8
Cash & Bank Balances	583.7	53.6	44.3
Total Assets	16,782.5	15,667.1	16,124.3
Trade and Other Payables	1,211.5	980.0	1,008.7
Long Term Debt (including current maturity)	1,497.2	1,899.8	2,296.3
Short Term Debt	4,377.1	3,234.5	3,261.9
Tier-1 Equity	9,418.0	9,330.9	9,325.3
Total Equity	9,418.0	9,330.9	9,325.3
INCOME STATEMENT			
Net Sales	18,103.8	20,285.0	18,616.7
Gross Profit	1,129.0	1,604.9	2,053.0
Profit from Operations	543.3	901.7	1,423.6
Profit After Tax	91.9	276.3	1,187.8
RATIO ANALYSIS			
Gross Margin (%)	6.2%	7.9%	11.0%
Net Working Capital	713.7	702.2	1,540.1
FFO	674.4	927.5	1,423.6
FFO to Total Debt (x)	0.11	0.18	0.26
FFO to Long Term Debt (x)	0.45	0.49	0.62
Debt Servicing Coverage Ratio (x)	1.10	1.54	3.10
Gearing (x)	0.62	0.55	0.60
Debt Leverage (x)	0.78	0.68	0.73
ROAA (%)	0.6%	1.7%	8.7%
ROAE (%)	1.0%	3.0%	13.4%

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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: JCR-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.jcrvis.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.jcrvis.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.

'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.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-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.

JCR-VIS Credit Rating Company Limited

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REGULATORY DISCLOSURES				Appendix III	
Name of Rated Entity	Indus Dyeing & Manufacturing Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	<u>RATING TYPE: ENTITY</u>				
	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	JCR-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.				
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