VIS
Credit Rating Company Limited

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AHMED ORIENTAL TEXTILE MILLS LIMITED

Chief Executive: Mr. Faisal Khalid

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/ WATCH	Stable		Negative	
RATING ACTION	Maintained		Reaffirmed	
RATING DATE	April 15, 2025		January 15, 2024	

APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates

Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

Rs. Million	FY23A	FY24A	6MFY25M
Net Sales	19,722.19	24,570.32	11,098.21
Profit Before Tax	-400.10	186.54	97.92
Profit After Tax	-526.88	43.09	30.80
Paid up Capital	187.13	187.13	187.13
Equity (excl. Reval Surplus)	4,696.67	4,775.94	4,950.20
Total Debt	9,211.85	9,166.27	9,339.73
Leverage (x)	2.22	2.26	2.18
Gearing (x)	1.96	1.92	1.89
FFO	-210.49	213.07	-127.35
FFO/Total Debt (x)	-0.02	0.02	-0.03
Net Margin (%)	-3%	0%	0%

**Annualized, if required*
A - Actual Accounts
M - Management Accounts

RATING RATIONALE

The maintenance of the A-/A2 ratings reflects AOTML's continued revenue growth, stable gross margins, and the implicit support derived from its association with the Naveena Group. Despite sector-wide challenges, including regulatory pressures and sensitivity to energy costs, the Company's focus on coarse yarn and a diversified customer base contributed to relative operational stability, supporting the revision in outlook. Furthermore, the decline in benchmark interest rates is expected to ease pressure on profitability, coverage and liquidity metrics, providing additional support to the revised outlook.

COMPANY PROFILE

Ahmed Oriental Textile Mills Limited (AOTML) was incorporated in November 1989 as a public limited company and was listed on Karachi Stock Exchange (KSE and Lahore Stock Exchange (LSE). Following the request of the directors, AOTML was delisted from KSE in November 2002 and LSE in April 2003. The principal business of the Company is the manufacture and sale of yarn in local and export markets. The registered office of AOTML is located in Karachi and mills at Rahim Yar Khan (RYK).

GOVERNANCE

AOTML is an unlisted Public Limited Company with ~99% shares held by Naveena Holdings Limited. The board comprises of three directors including the CEO. Overall board composition and oversight has room for improvement through inclusion of independent directors. Furthermore, committees pertaining to audit and HR functions may also be established at Board level in line with best practices.

INDUSTRY PROFILE & BUSINESS RISK

Assigned ratings incorporate the business risk profile of Pakistan's textile spinning sector is currently assessed as high to medium. This evaluation considers factors such as demand cyclicality, competitive pressures, regulatory challenges, and energy sensitivity.

The textile industry contributes approximately 8.5% to the national GDP and employs about 45% of the total labor force. Within this, the spinning sector serves as a key upstream segment, converting raw cotton into yarn for subsequent value-added processes. Performance remains closely linked to economic conditions, exposing the sector to demand fluctuations.

The 2024 cotton season was marked by production challenges, with cultivation reaching 80% of the national target, despite improvement from the previous year. FY23 was severely impacted by floods during the early half of the year, however, FY24 saw pest infestation which impacted cotton production during the period. The planted area stands at 2.367 million hectares (FY23: 1.97 million hectares), slightly up from the previous year. Production stood around 8.3 million bales (FY23: 4.9 million bales), remaining well below the domestic industry's requirement of ~12 million bales in 2024. Farmers continue to shift toward higher-margin crops, limiting any improvement in the shortfall.

In FY24, textile exports recorded a marginal increase of 0.93%, reaching USD 16.7 billion (FY23: USD 16.6 billion). Despite this growth, political uncertainty and changes in global procurement preferences led to the diversion of approximately 40% of export orders to competing markets, including Vietnam. According to management, the decline primarily affected products based on fine yarn, such as bed sheets, whereas demand for coarse yarn-based products remained largely unaffected. As a result, the Company's sales were not materially impacted.

Following the withdrawal of the Export Facilitation Scheme (EFS), indirect exporters now prefer duty-free and sales-tax-free imported yarn over domestically produced alternatives, which remain subject to an 18% sales tax. This trend has further pressured foreign exchange reserves and led to increased substitution of local yarn with imports, challenging the viability of the spinning sector amid rising costs. The transition from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR) has further strained financial performance.

Pakistan's spinning sector remains exposed to significant competitive pressures from India, China, and Bangladesh, where technological advancements and diversified product offerings provide an advantage. Limited product diversification has constrained Pakistan's ability to capture export orders redirected due to shifts in global supply chains.

Regulatory changes have added to operational and financial challenges. The withdrawal of regionally competitive energy tariffs and amendments in tax policies have increased cost pressures. The Federal Board of Revenue (FBR) doubled the advance tax rate for textile millers from 1% to 2%, alongside additional reporting requirements. Some industry participants have begun exploring relocation to jurisdictions with more favorable regulatory frameworks.

Energy sensitivity remains a key concern, with high energy costs increasing conversion expenses. In FY24, high power tariffs continued to adversely affect sector profitability. The energy costs in the country are around double those of regional export market competitors. Rising power costs and an increase in the minimum wage have also led to margin compression. Industrial power tariffs in Pakistan were approximately 17 cents per kilowatt-hour (kWh), significantly higher than those in competing economies such as India (6 cents/kWh), Bangladesh (8.6 cents/kWh), and Vietnam (7.2 cents/kWh) in 2024.

Going forward, sector performance will depend on global demand trends, domestic policy measures, and structural improvements. While recent monetary easing, including a reduction in the policy rate to 12% by February 2025, may ease financing costs, long-term competitiveness will require investments in technology, product diversification, and a stable regulatory environment.

Sponsor Profile

The assigned ratings incorporate the Company's association with the Naveena Group, a diversified business conglomerate with a sustained financial profile. This affiliation is viewed as a source of implicit support, contributing to the Company's financial flexibility and access to group-level resources, despite the absence of explicit financial commitments. Ratings are supported by the operational scale and established market presence of the Naveena Group.

Product Profile & Capacity

In FY24, actual production increased to 33.55m Kgs (FY23: 29.35m Kgs), supported by growth in volumetric sales. The increase in sales volume was driven by demand from the denim and towel segments, where the company maintains a stable customer base and established relationships with key exporters. As a result, capacity utilization improved to 92.46% (FY23: 80.89%).

	FY23	FY24
Number of Spindles Installed	67,900	67,900
Number of Spindles Worked	67,900	67,900
Installed capacity of yarn (kgs.)	36,287,762	36,287,762
Actual production of yarn (kgs.)	29,352,662	33,552,148
Capacity Utilization	***80.89%***	***92.46%***

FINANCIAL RISK

Assigned ratings also consider the financial risk profile of the Company. Revenue growth has been supported by increased volumes across direct exports, indirect exports, and local sales. Indirect exports remain the largest revenue contributor. Gross margins remained stable, aided by the use of lower-cost raw materials suited to coarse yarn production. Capitalization indicators remained elevated, with marginal improvement observed in the ongoing period. While regular debt repayments and retained earnings supported capital structure, increased reliance on short-term borrowing offset any significant improvement in gearing and leverage levels. Liquidity has remained constrained, with a decline in the current ratio and continued reliance on short-term borrowings. Coverage indicators remained under pressure due to elevated interest costs, though a reduction in benchmark rates is expected to ease financing pressure going forward.

Profitability

In FY24, revenue increased by 24.58% primarily supported by growth in direct exports, indirect exports, and local sales. Direct export sales increased by 61.7%, indirect export sales rose by 22.2%, while local sales grew by 12.4%. Indirect exports continued to represent the largest share of total revenue, accounting for over 61%. Growth was supported by increased volumes which were underpinned by customers operating in the denim and towel sectors.

Gross margins remained stable, particularly in comparison to industry peers, as the Company utilized lower-cost raw material of comparatively lower quality. According to management, cotton quality is not a critical determinant in the production of coarse yarn, this enabled the Company to benefit from cost efficiencies without a significant impact on product suitability.

Capital Structure

The Company's capitalization indicators remain at elevated levels, with gearing and leverage ratios recorded at 1.92x (FY23: 1.96x) and 2.26x (FY23: 2.22x), respectively. Although regular long-term debt repayments and equity accretion through profit retention have been observed, the impact on capitalization metrics has been offset by a proportionate increase in short-term debt utilization. As of

1HFY25, a marginal improvement in capitalization was noted, with gearing and leverage ratios recorded at 1.89x and 2.18x, respectively.

Liquidity and Coverage

Amid elevated interest rates, elevated financial burden contributed to a continued shortfall in coverage metrics during 1HFY25 and FY24, with the debt service coverage ratio (DSCR) recorded at 0.52x and 0.80x, respectively (FY23: 0.53x). The resulting financing gap was bridged through increased reliance on short-term borrowings. This, in turn, impacted on the Company's liquidity profile, as indicated by a decline in the current ratio to 0.96x in 1HFY25, from 0.98x in FY24 (FY23: 1.06x).

The financing gap is expected to moderate going forward, supported by a significant reduction in benchmark interest rates to 12% from approximately 24% in the preceding year. Moreover, despite prevailing demand-side pressures in the broader industry, AOTML has remained largely insulated from these challenges thus operational profitability is also expected to remain stable.

Financial Summary

Balance Sheet (PKR Millions)	FY23A	FY24A	6MFY25M
Property, plant and equipment	9,979.70	10,069.54	10,139.01
Long-term Investments	5.06	25.06	25.06
Stock-in-trade	2,827.07	2,958.63	2,912.39
Trade debts	3,067.21	3,719.52	2,871.38
Cash & Bank Balances	304.04	40.16	146.72
Other Assets	1,246.26	1,035.14	1,882.21
Total Assets	17,429.34	17,848.05	17,976.77
Creditors	503.17	774.43	1,134.35
Long-term Debt (incl. current portion)	3,906.74	3,445.37	3,242.27
Short-Term Borrowings	5,305.11	5,720.90	6,097.46
Total Debt	9,211.85	9,166.27	9,339.73
Other Liabilities	724.12	874.06	295.16
Total Liabilities	10,439.14	10,814.76	10,769.24
Paid up Capital	187.13	187.13	187.13
Revenue Reserve	4,509.54	4,588.81	4,763.07
Equity (excl. Revaluation Surplus)	4,696.67	4,775.94	4,950.20

Income Statement (PKR Millions)	FY23A	FY24A	6MFY25M
Net Sales	19,722.19	24,570.32	11,098.21
Gross Profit	1,415.71	1,834.92	789.81
Operating Profit	1,189.07	1,522.90	523.02
Finance Costs	1,589.17	1,336.36	425.10
Profit Before Tax	-400.10	186.54	97.92
Profit After Tax	-526.88	43.09	30.80

Ratio Analysis	FY23A	FY24A	6MFY25M
Gross Margin (%)	7.18%	7.47%	7.12%
Operating Margin (%)	6.03%	6.20%	4.71%
Net Margin (%)	-2.67%	0.18%	0.28%
Funds from Operation (FFO) (PKR Millions)	-210.49	213.07	-127.35
FFO to Total Debt* (%)	-2.28%	2.32%	-2.73%
FFO to Long Term Debt* (%)	-5.39%	6.18%	-7.86%
Gearing (x)	1.96	1.92	1.89
Leverage (x)	2.22	2.26	2.18
Debt Servicing Coverage Ratio* (x)	0.53	0.80	0.52
Current Ratio (x)	1.06	0.98	0.96
(Stock in trade + trade debts) / STD (x)	1.12	1.18	0.97
Return on Average Assets* (%)	-3.30%	0.24%	0.34%
Return on Average Equity* (%)	-10.63%	0.91%	1.27%
Cash Conversion Cycle (days)	84.30	86.60	89.26

**Annualized, if required*

A - Actual Accounts
P - Projected Accounts
M - Management Accounts

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Ahmed Oriental Textile Mills Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
Rating Type: Entity				
15-04-2025	**A-**	**A2**	**Stable**	**Maintained**
15-01-2024	A-	A2	Negative	Reaffirmed
30-12-2022	A-	A2	Negative	Maintained
31-12-2021	A-	A2	Stable	Upgrade
20-11-2020	BBB+	A2	Stable	Maintained
24-04-2020	BBB+	A2	Rating Watch-Negative	Maintained
17-01-2020	BBB+	A2	Stable	Reaffirmed
25-10-2018	BBB+	A2	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.
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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Muhammad Mustafa	General Manager Accounts and Finance	March 12, 2025