VIS
Credit Rating Company Limited

RATING REPORT

AHMED ORIENTAL TEXTILE MILLS LIMITED

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RATING DETAILS				
RATINGS CATEGORY	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A-	A2	A-	A2
OUTLOOK/RATING WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Maintained	
RATING DATE	July 14, 2026		April 15, 2025	

Shareholding (5% or More)	Other Information
Naveena Holdings Limited - ~99.17%	Incorporated in 1989
	Public Unlisted Company
	Chief Executive: Mr. Faisal Khalid
	External Auditor: Ibrahim Shaikh & Co. Chartered Accountants

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology – Corporates Ratings
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

Rating Scale

https://vis.com.pk/docs/VISRatingScales.pdf

Rating Rationale

AOTML's ratings are reaffirmed, underpinned by its established presence in the textile spinning sector and consistent operational performance. This is reflected in steady production levels and capacity utilization, which have remained broadly stable despite prevailing industry pressures.

The Company's financial risk profile remains stretched, characterized by a leveraged capital structure and reliance on short-term borrowings to meet working capital requirements amid constrained internal cash generation. Nonetheless, gearing showed a marginal improvement in 1HFY26, supported by a reduction in borrowings and a marginal increase in equity base.

Liquidity and debt servicing indicators remained under pressure during FY25, as evidenced by a weak current ratio and DSCR. However, partial improvement was observed in 1HFY26 on the back of improved cashflows and working capital efficiency. Sponsor support also provided some temporary liquidity relief.

Going forward, the ratings will remain dependent on the Company's ability to sustain cash generation, manage working capital efficiently and improve profitability.

Company Profile

Ahmed Oriental Textile Mills Limited ('AOTML' or 'the Company') was incorporated in 1989 as a public limited company and was subsequently delisted from the Karachi Stock Exchange and the Lahore Stock Exchange in 2002 and 2003, respectively. The Company is engaged in the manufacture and sale of yarn in both domestic and export markets. Its manufacturing facilities areas located in Rahim Yar Khan, while the registered office is situated in Karachi.

Management and Governance

The Board of Directors comprises three members, including the Chairman, Mr. Iftikhar Ahmed Khalid, along with his two sons serving as CEO, Mr. Faisal Khalid and Director, Mr. Shahzad Khalid. The management is led by Mr. Faisal Khalid and is supported by a team of experienced professionals, which provides oversight across key operational and strategic functions. The Company operates an internally developed ERPS, which integrates key functions including, sales, marketing and finance, thereby, supporting streamlined operations and information flow.

Business Risk

INDUSTRY UPDATE

By early 2026, Pakistan's textile spinning sector has undergone a structural contraction, with over 100 units ceasing operations in the preceding five years. The contraction reflects a combination of competitive, structural and cost-related pressures. Policy distortions under the Export Facilitation Scheme, which allowed duty-free imports, exposed local spinners to intense foreign competition and incentivized reliance on imported yarn. In addition, the Finance Act 2024 withdrew the long-standing export-oriented Final Tax Regime (FTR), under which exporters paid a fixed tax of ~1% on export proceeds and were largely exempt from sales tax adjustments and complex documentation requirements. The shift to the Normal Tax Regime (NTR) subjected textile exporters to the standard corporate tax framework while also bringing them fully into the 18% sales tax regime on inputs and outputs. Although an 18% sales tax is now applied uniformly to both local and imported inputs, the change has altered the sector's liquidity dynamics. Under the NTR, exporters must first pay sales tax on inputs and subsequently claim refunds, resulting in capital being tied up within the refund cycle for ~6-10 months. For a standard 50,000 spindle unit, this necessitates additional commercial financing, increasing working capital interest costs by ~10-15% and placing pressure on debt servicing.

Rising energy and fuel costs have further strained production economics. Industrial electricity tariffs, which averaged 9 cents/kWh under previous policies according to the All-Pakistan Textile Mills Association (APTMA), peaked at 18-20 cents/kWh in late 2025 before moderating to ~12 cents/kWh in early 2026, still well above regional peers such as India (~6.3 cents/kWh) and Vietnam (~7.2 cents/kWh). Vertically integrated units and those that adopted more efficient and lower-cost energy solutions, including renewable sources, have retained operational viability, while units that did not modernize their energy infrastructure have faced comparatively greater operational and margin pressures.

Domestic cotton availability has also declined sharply, with production estimated at ~5.0 million bales in 2025/26 according to the United States Department of Agriculture (USDA), representing a 53% decline from the historical peak of 10.6 million bales in 2014/15 due to climate volatility and structural shift toward alternative crops. Meeting the total industry requirement of 10.6 million bales now requires importing 5.5-6.0 million bales annually, exposing mills to price volatility and supply-side risks. This exposure is further exacerbated by ongoing geopolitical tensions, contributing to shipment delays and supply chain disruptions in cotton imports. The domestic market has also been disrupted by low-cost yarn imports from China, which reached record monthly volumes in 2025 and undercut local producers by nearly ~20% according to reporting by Dawn News, forcing even efficient mills to sell at a loss to maintain market share. Outdated machinery and limited technology adaptability have further compounded the sector's challenges, intensified competitive pressures and contributed to the contraction in spinning units and the erosion of profitability margins among surviving operators.

OPERATIONAL PERFORMANCE

Installed Capacity	FY20	FY21	FY22	FY23	FY24	FY25
Spinning						
No. of Spindles Installed	39,100	67,900	67,900	67,900	67,900	67,900
Installed Capacity (Million Kgs)	22	25	36	36	36	36
Actual Production (Million Kgs)	19	25	36	29	34	30
Capacity Utilization	**83.7%**	**98.6%**	**99.5%**	**80.9%**	**92.5%**	**82.1%**

During FY25, the Company's production level marginally declined on account of subdued demand in export markets, which resulted in a reduction in capacity utilization. Nevertheless, capacity utilization remained broadly aligned with historical levels.

PROFITABILITY

AOTML's revenue declined to PKR 19.8 billion in FY25 (FY24: PKR 24.6 billion), primarily due to a decline in export sales, particularly indirect exports, following the withdrawal of the export-oriented tax regime under the Finance Act 2024 and weaker demand from China. Consequently, the sales mix shifted, with indirect exports, direct exports and local sales contributing 33%, 18% and 49% (FY24: 61%, 16% and 23%), respectively, reflecting increased reliance on the local market supported by higher volumes.

Profitability moderated, with gross margin declining to 6.2% (FY24: 7.5%), mainly due to lower average pricing, higher salary expenses, translating into an operating margin of 4.7% (FY24: 6.2%). Reduction in profitability further trickled down. Despite a reduction in finance costs owing to lower interest rates, net profit declined to PKR 28 million (FY24: PKR 43 million), with net margin remaining thin at 0.1% (FY24: 0.2%).

During 1HFY26, revenue declined marginally to PKR 10.2 billion (1HFY25: PKR 11.1 billion), reflecting continued subdued export demand. However, direct exports increased, driven by demand from a long-standing Chinese customer for coarse yarn, partially offsetting weakness in indirect exports, while local sales also improved. This resulted in a shift in sales mix, with indirect exports, direct exports and local sales contributing 7%, 37% and 56%, respectively (1HFY25: 47%, 9% and 44%). Profitability improved, with gross and operating margins increasing to 9.1% (1HFY25: 7.1%) and 6.4% (1HFY25: 4.7%), respectively, supported by favorable raw material pricing. Net margins also improved to 0.6% (1HFY25: 0.3%), though remained constrained by higher finance costs.

Going forward, profitability is expected to remain sensitive to export demand, however, the improved sales mix towards direct exports and local sales is expected to provide some support to margins over the medium term.

Financial Risk

CAPITAL STRUCTURE

At end-FY25, AOTML's capital structure remained leveraged, with continued reliance on short-term borrowings. Equity remained largely static at PKR 4.8 billion; however, while total debt rose to PKR 9.9 billion (FY24: PKR 9.2 billion), driven primarily by higher short-term borrowings to support BMR-related CAPEX and working capital requirements amid constrained internal cash generation. Long-term borrowings declined to PKR 3.0 billion (FY24: PKR 3.4 billion) due to scheduled repayments. As a result, gearing increased to 2.06x (FY24: 1.92x), while leverage rose to 2.43x (FY24: 2.26x).

At end-1HFY26, equity marginally increased to PKR 4.9 billion (FY25: PKR 4.8 billion) supported by modest profitability. Total debt declined to PKR 9.0 billion due to repayments in both short and long-term borrowings. Accordingly, gearing improved to 1.83x, while leverage remained broadly stable at 2.41x.

Going forward, the capital structure is expected to remain dependent on internal cash generation and efficient working capital management. Expansion plans are likely to remain limited in the near term, given prevailing dynamics in the textile spinning industry.

DEBT COVERAGE & LIQUIDITY

At end-FY25, the liquidity profile remained under pressure though manageable, with the current ratio declining to 0.86x (FY24: 0.98x) and further moderating to 0.83x at end-1HFY26, reflecting increased reliance on short-term borrowings in a challenging textile spinning sector. Short-term debt coverage also weakened to 0.80x (FY24: 1.17x), driven primarily by higher short-term borrowings and lower receivables, though it improved to 0.88x at end-1HFY26.

Working capital management remained relatively stable, with the net operating cycle improving to 79 days (FY24: 83 days) and further to 68 days at end-1HFY26, partly supported by extended payable days. Liquidity was additionally supported by a director loan of PKR 210 million at end-FY25, which was subsequently reclassified as an advance against future issue of shares at end-1HFY26, reflecting sponsor support.

Debt servicing capacity remained under pressure during FY25, with Debt Service Coverage Ratio (DSCR) declining to 0.57x (FY24: 0.80x) due to lower Funds from Operations (FFO) amid subdued profitability. However, adjusted DSCR provided limited relief at 0.72x, incorporating the sponsor support. At end-1HFY26, DSCR improved to 0.80x, supported by higher FFO generation following improved profitability.

Going forward, liquidity and debt coverage indicators are expected to remain sensitive to sector conditions, working capital requirements and the Company's ability to sustain internal cash generation.

FINANCIAL SUMMARY					(PKR Million)
BALANCE SHEET	**FY22A**	**FY23A**	**FY24A**	**FY25A**	**1HFY26M**
Property, Plant, & Equipment	7,804	9,980	10,070	10,694	10,757
Stock-in-Trade	1,123	2,827	2,959	3,243	3,126
Trade Debts	3,061	3,067	3,720	2,324	2,390
Cash & Bank Balances	462	304	40	15	16
Total Assets	14,489	17,429	17,848	18,760	18,902
Trade and Other Payables	1,080	807	1,200	1,393	1,835
Long-Term Debt (Inc. CP)	4,096	3,907	3,445	2,988	2,676
Short-Term Debt	3,163	5,305	5,721	6,939	6,282
Total Debt	7,259	9,212	9,166	9,928	8,958
Total Liabilities	8,587	10,439	10,815	11,698	11,777
Paid Up Capital	187	187	187	187	187
Tier 1 Equity	5,218	4,697	4,776	4,819	4,883
Total Equity	5,903	6,990	7,033	7,061	7,125
INCOME STATEMENT					
Net Sales	19,828	19,722	24,570	19,773	10,173
Gross Profit	3,030	1,416	1,835	1,233	927
Operating Profit	2,727	1,184	1,521	925	654
Profit Before Tax	1,870	(400)	187	171	125
Profit After Tax	1,631	(527)	43	28	64
RATIO ANALYSIS					
Gross Margin (%)	15.3%	7.2%	7.5%	6.2%	9.1%
Operating Margin (%)	13.8%	6.0%	6.2%	4.7%	6.4%
Net Margin (%)	8.2%	-2.7%	0.2%	0.1%	0.6%
Net Working Capital	1,761	388	(198)	(1,298)	(1,623)
Trade debts/Sales *	15.4%	15.6%	15.1%	11.8%	11.7%
FFO	1,820	(210)	213	(38)	82
FFO to Total Debt (x) *	0.25	(0.02)	0.02	(0.00)	0.02
FFO to Long Term Debt (x) *	0.44	(0.05)	0.06	(0.01)	0.06
Debt Servicing Coverage Ratio (x) *	2.07	0.53	0.80	0.57	0.80
Current Ratio (x)	1.36	1.06	0.98	0.86	0.83
Stock + Trade Debts/STD	1.32	1.11	1.17	0.80	0.88
Gearing (x)	1.39	1.96	1.92	2.06	1.83
Leverage (x)	1.65	2.22	2.26	2.43	2.41
ROAA (%) *	12.3%	-3.3%	0.2%	0.2%	0.7%
ROAE (%) *	36.8%	-10.6%	0.9%	0.6%	2.6%
Net Operating Cycle *	57	97	83	79	68
Inventory Days *	24	56	47	64	62
Receivable Days*	56	57	55	43	43
Payable Days *	23	16	19	27	36

*Annualized, if required
A - Audited Accounts
M - Management Accounts
P - Projected Accounts

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REGULATORY DISCLOSURES — Appendix II

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

Rating History

Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
07/14/2026	A-	A2	Stable	Reaffirmed
04/15/2025	A-	A2	Stable	Maintained
01/15/2024	A-	A2	Negative	Reaffirmed
12/30/2022	A-	A2	Negative	Maintained
12/31/2021	A-	A2	Stable	Upgrade
11/20/2020	BBB+	A2	Stable	Maintained

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 Meetings Conducted

Name	Designation	Date
Mr. Muhammad Junaid	Group CFO	April 15, 2026
Mr. Noman Zahoor	Senior Manager Finance & Accounts	