# RATING REPORT

# Faisal Spinning Mills Limited

**REPORT DATE:**
February 6, 2025

**RATING ANALYSTS:**
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| RATING DETAILS | | | | |
|---|---|---|---|---|
| **Rating Category** | **Latest Rating** | | **Previous Rating** | |
| | **Long-term** | **Short-term** | **Long-term** | **Short-term** |
| **Entity** | A | A1 | A | A1 |
| **Rating Outlook** | Stable | | Stable | |
| **Rating Action** | Reaffirmed | | Reaffirmed | |
| **Rating Date** | *Feb 6, 2025* | | *Sept 26, 2023* | |

| COMPANY INFORMATION | |
|---|---|
| **Incorporated in 1985** | **External Auditors:** M/s Mushtaq & Co. Chartered Accountants |
| **Public Listed Company** | **Chairman:** Mr. Mohammad Salim |
| **Key Shareholders (with stake 5% or more):** | **Chief Executive Officer:** Mr. Bilal Sharif |
| *Admiral (Pvt) Ltd. ~12.8%* | |
| *Ms. Samia Bilal ~5.3%* | |
| *Mr. Muhammad Qasim ~ 6.24%* | |

| APPLICABLE METHODOLOGY(IES) |
|---|
| **VIS Entity Rating Criteria:** Industrial Corporates (May 2023) *https://docs.vis.com.pk/docs/CorporateMethodology.pdf* |

| APPLICABLE RATING SCALE(S) |
|---|
| **VIS Issue/Issuer Rating Scale:** *https://docs.vis.com.pk/docs/VISRatingScales.pdf* |

# Faisal Spinning Mills Limited

## OVERVIEW OF THE INSTITUTION

*Faisal Spinning Mills Limited (FSML), part of Umer Group of Companies, was incorporated as a public limited company in 1985, under the Companies Ordinance, 1984. FSML is listed on Pakistan Stock Exchange (PSX) and registered office of the company is based in Karachi.*

**Profile of Chairman:** *Mr. Mohammad Salim, serving as Board Chairman, was awarded certification from the Institute of Chartered Accountants of Pakistan on completion of Director Training program in April'16. Besides, commercial endeavors he actively participates in several social and welfare activities.*

**Profile of CEO:** *Mr. Bilal Sharif has been serving as CEO since 2011. He completed bachelors in business administration from The American College, London. He is exempted from the mandatory requirement for attaining Director Training Program.*

## RATING RATIONALE

**Group profile**

Founded in 1980, Umer Group of Companies stands as a prominent textile conglomerate in Pakistan, with an annual turnover of over USD 390m. Apart from its stronghold in textiles, the group has diversified into power generation, footwear, leather, dairy, and construction.

With over 45 years in the textile industry, Umer Group operates 3 textile entities, collectively running 7 spinning mills, 3 weaving mills, and 1 finishing unit. Every unit has its own dedicated power generation, totaling over 35 MW, and ensuring consistent power supply. The group over the years has gained a significant market share on both domestic and export fronts. Major export destinations include USA, China, Italy, Japan, Turkey, Belgium, and other European nations.

**Table: Key Indicators – Umer Group (In PKR millions)**

| | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 |
|---|---|---|---|---|---|---|
| **Total no. of Spindles** | 186,956 | 186,956 | 186,956 | 186,956 | 224,400 | 224,400 |
| **Total no. of Looms** | 567 | 567 | 567 | 567 | 577 | 577 |
| **Sales Revenue** | 41,036 | 41,921 | 50,493 | 71,358 | 80,373 | 109,907 |
| - *Exports* | *49%* | *52%* | *50%* | *62%* | *67.23%* | *75.41%* |
| - *Locals* | *51%* | *48%* | *50%* | *38%* | *32.77%* | *24.60%* |
| **Yarn Sales** | 21,970 | 21,894 | 28,555 | 29,085 | 47,676 | 70,194 |
| **Fabric Sales** | 13,752 | 14,283 | 15,083 | 40,571 | 28,768 | 33,684 |

The collective average energy demand of all three group textile companies exceeds 35 MW, met through mix of wind, solar and gas-based generators. While, the remaining is drawn from National grid.

**Corporate Profile**

Faisal Spinning Mills Limited ("FSML" or "the Company"), with a 40-years operational history, specializes in yarn production, primarily catering to the export market for utilization in denim manufacture, and offers made-up articles and fabrics (both greige & dyed). While production infrastructure is based in Sindh and Punjab, integrated structure and in-house power plants ensure uninterrupted operations. The sponsors actively manage daily business affairs, with an experienced senior management team in place while total staff strength (including labors) stands at over 2,100 employees. The Company also holds numerous export standards and trade certifications, reflecting quality commitment.

**Operating Performance**

Spinning capacity, weaving capacity and capacity of finishing division has remained steady over time. Despite varying yarn and weaving production trends. The finishing division has seen a stable rise in both capacity and production. In outgoing year, production increased on back of higher export orders from China, UK and USA.

**Table: Capacity & Production Data (Units in millions)**

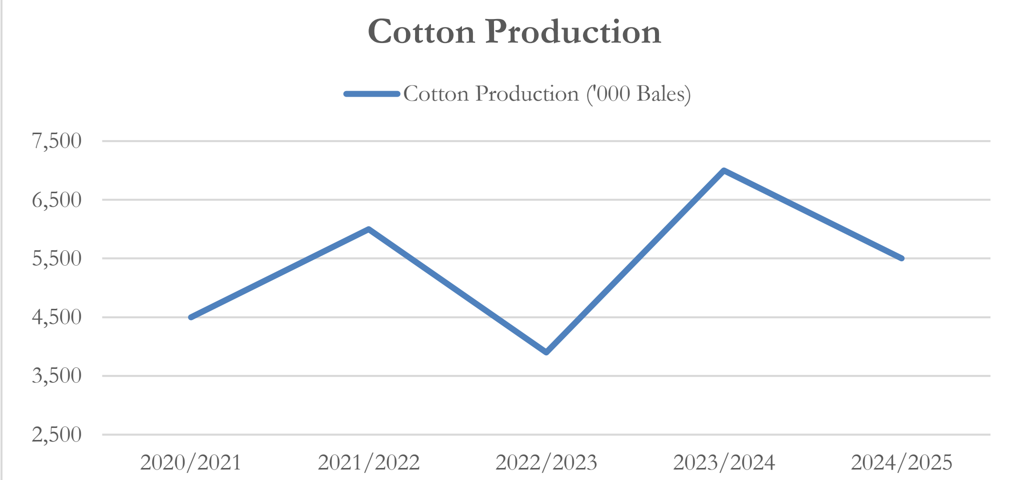
| | FY21 | FY22 | FY23 | FY24 |
|---|---|---|---|---|
| **Spinning** | | | | |
| No. of spindles | 38,208 | 38,208 | 38,208 | 38,208 |
| Installed Capacity – Kgs (in Mn) | 23.2 | 23.2 | 23.2 | 23.2 |
| Actual Production – Kgs (in Mn) | 19.9 | 22.8 | 20.1 | 22.3 |
| ***Capacity Utilization*** | ***86%*** | ***99%*** | ***87%*** | ***96%*** |
| **Weaving** | | | | |
| No. of looms | 265 | 265 | 265 | 265 |
| Installed Capacity – Meters | 64.3 | 67.6 | 68.4 | 68.4 |
| Actual Production – Meters | 40.2 | 41.2 | 38.21 | 39.70 |
| ***Capacity Utilization*** | ***63%*** | ***61%*** | ***56%*** | ***58%*** |
| **Finishing & Stitching** | | | | |
| Installed Capacity – Meters | 26.8 | 28.0 | 33.0 | 33.0 |
| Actual Production – Meters | 4.4 | 28.7 | 34.8 | 35.15 |
| ***Capacity Utilization*** | ***99%*** | ***102%*** | ***105%*** | ***106.51%*** |

**<u>Sector Update</u>**

The business risk profile of Pakistan's textile sector is highly influenced by economic cyclicality and intense competition. The sector's performance is closely tied to broader economic conditions, making it particularly vulnerable to demand fluctuations driven by these factors.

In FY23, the textile sector faced several challenges stemming from both economic and environmental factors. These included damage to the cotton crop due to flooding in the 1HFY23, escalating inflation, and import restrictions resulting from dwindling foreign exchange reserves. As a result, Pakistan's yarn production saw a substantial decline, primarily driven by the reduced availability of cotton caused by crop damage and import restrictions. The sector's profitability was further constrained by rising production costs, including higher raw material and energy expenses, which impacted profit margins.

In FY24, cotton production increased by 79% compared to FY23, but this surge was largely due to the low base of cotton production in FY23. When compared to FY22, cotton production in FY24 saw only a 17% increase. While global cotton production is expected to rebound in FY25 due to higher yields, Pakistan's cotton production was down 59.4% as at October'24 compared to the same period in 2023, with only 2.04 million bales produced. The USDA forecasts that Pakistan will produce 5.55 million bales of cotton in 2024/25. Further, the USDA Foreign Agricultural Service estimates that the cotton area in 2024/25 will be reduced to 2 million hectares, down from previous years. The country faces rising energy costs, the absence of subsidies for agricultural inputs, and a lack of an organized market system, which further complicates production. Additionally, climate change has severely impacted cotton crops, with extreme heat, heatwaves, torrential rains, and pest infestations, including whitefly, pink bollworm, and cotton leaf curl virus, contributing to decreased yields. Furthermore, the area under cultivation has been steadily shrinking, exacerbating these challenges.




*Source: USDA*

Despite the decline in local cotton production, Pakistan's textile exports have experienced growth in the 1QFY25 compared to the same period last year. This growth can be attributed to the reliance on imported cotton which is cheaper now a days compared to local cotton along with the increasing focus on value-added segment. While the global demand of textile is on a recovery phase, the global and local cotton market dynamics and local inflation including fuel and power prices along with FX risk in imported cotton pricing will play a crucial role in terms of profitability of the textile exporters.


*Figure 1: MoM Textile Exports (USD Million)*
*Source: SBP*

## Key Rating Drivers

**Revenue Growth Driven by Export Orders; Profitability Impacted by Higher Costs& Inflationary Pressures**

In FY24, the Company achieved record net sales of Rs. 45.1 billion, a 19.53% YoY increase (FY23: Rs. 37.67 billion), mainly driven by strong export orders. Exports accounted for 73% of total revenue, with key export destinations being China, the USA, and the UK, which collectively contributed 55% of export sales. Domestic sales remained largely stable.
However, gross margins declined to 6.09% (FY23: 12.11%), mainly due to raw material procured at higher prices which were not passed on to the customers, along with higher energy prices and stable PKR/USD parity.

As a result, gross profit fell by 40% YoY to Rs. 2.74 billion (FY23: Rs. 4.56 billion). Despite, a 5% YoY reduction in operating costs due to effective cost management and lower commissions. Whereas, finance costs surged by 26.9% YoY, reflecting elevated interest rates and higher applicable rates under SBP's Refinance Scheme. These factors culminated in a net loss of Rs. 1.38 billion (FY23: net profit of Rs. 1.49 billion).

Revenue in Q1 FY25 remained flat compared to the same period last year. However, gross margins further inched down to 5.11% (Q1 FY24: 10.94%), reflecting higher energy costs and weaker pricing amid intense competition. Operating costs were slightly lower by 2.63% YoY, despite persistent inflation, due to stringent cost controls. Finance costs decreased by 35.1% YoY, following a reduction in SBP policy rates. Nevertheless, elevated financing costs resulted in a net loss of Rs. 406 million in Q1 FY25 (Q1 FY24: net profit of Rs. 81 million).

As per the management, the main cause of a depressed profitability was procurement of raw material at higher cost which has declined sharply afterwards, leading to a notable drop in the Company's profitability during the review period. With the clearance of higher priced inventory, management expects a rebound in profitability indicators mainly during the 2HFY25.

Going Forward, the Company's performance is expected to remain influenced by external factors, including any changes to Pakistan's GSP+ status given the current political situation and potential economic slowdown in key export markets (China,USA, EU, and UK) as more than 50%, of exports are to these countries. Moreover, high energy costs and persistent competition may continue to pressure profitability in the near term.

**Liquidity Position Remains Satisfactory; While Debt Service Coverage Posted Decline;**

The Company's liquidity profile remains satisfactory, as reflected in a current ratio of 1.27x at end-Sep'24 (end-FY24: 1.35x, end-FY23: 1.43x). While the ratio has slightly declined due to an increase in trade payables, driven by higher working capital requirements, it continues to indicate a stable liquidity position.
Short-term debt coverage, supported by inventory and receivables, remains strong at 1.90x at end-Sep'24 (end-FY24: 1.78, end-FY23: 1.85x). The cash conversion cycle, influenced by extended inventory periods, has improved to 119 days (FY23: 182 days; 3-year average: 131

days), slightly lower than the historical 3-year average. Overall, the Company's liquidity metrics continue to support its operational needs effectively.

During FY24, the Company's debt coverage metrics weakened, reflecting the challenges posed by decrease in profitability. Debt Service Coverage Ratio (DSCR) fell notably to 0.55x in FY24 (FY23: 1.63x) amid decrease in profitability led to negative Funds from Operations (FFO). however, some comfort has drawn from the available cash balances and other liquid assets on balance sheet.

**Capitalization profile remained largely intact despite the decrease in equity base amid negative bottom line**

The Company's equity witnessed a decline to Rs. 12.5b at end-FY24 and further dropped to Rs. 12.1b at end-1QFY25 (end-FY24: 12.49 b) due to a negative bottom line during the period under review. On the other hand, total debt declined to Rs. 13.50b at end-1QFY25 (end-FY24: 13.55b) as a result of Inventory drawdown. Resultantly, gearing ratio inched upto 1.12x at end-1QFY25 (end-FY24: 1.09x). Simultaneously, leverage ratio also registered a slight increase to 1.79x at end-1QFY25 (end-FY24: 1.54x).

The long-term debt mix (continues to be dominated by SBP-subsidized facilities (95% of long term debt) followed by commercial variable-rate short- and long-term financing.

## Faisal Spinning Mills Limited — Appendix I

### Financial Summary (*Amount in Million)*

| BALANCE SHEET | FY22 | FY23 | FY24 | 3MFY25 |
|---|---|---|---|---|
| Property, Plant & Equipment | 10,256 | 10,118 | 10,073 | 10,117 |
| Long-term Investments | 1,684 | 1,812 | 1,474 | 1,438 |
| Trade Debts | 3,259 | 3,694 | 4,089 | 4,212 |
| Short-term Advances | 189 | 183 | 154 | 116 |
| Cash & Bank Balances | 4,443 | 580 | 575 | 473 |
| Other Assets | 7,422 | 18,359 | 15,325 | 17,325 |
| **Total Assets** | **27,253** | **34,746** | **31,690** | **33,681** |
| Trade and Other Payables | 3,756 | 4,520 | 4,609 | 7,044 |
| Short Term Borrowings | 4,872 | 10,261 | 9,245 | 9,343 |
| Long-Term Borrowings *(Inc. current matur)* | 5,247 | 4,746 | 4,308 | 4,161 |
| Deferred Liabilities | 381 | 373 | 298 | 286 |
| Other Liabilities | 355 | 829 | 746 | 770 |
| **Total Liabilities** | **14,611** | **20,729** | **19,206** | **21,604** |
| Issued, Subs, and Paid Up Capital | 100 | 100 | 100 | 100 |
| Equity | **12,641** | **14,017** | **12,485** | **12,078** |
| **INCOME STATEMENT** | **FY22** | **FY23** | **FY24** | **3MFY25** |
| Net Sales | 32,074 | 37,673 | 45,030 | 12,157 |
| Gross Profit | 6,372 | 4,562 | 2,741 | 622 |
| Operating Profit | 5,133 | 3,040 | 527 | 73 |
| Profit Before Tax | 4,725 | 1,773 | (1,081) | (269) |
| Profit After Tax | 4,098 | 1,489 | (1,384) | (407) |
| FFO | 4,632 | 2,334 | (492) | (177) |
| **RATIO ANALYSIS** | **FY22** | **FY23** | **FY24** | **3MFY25** |
| Gross Margin (%) | 19.9% | 12.1% | 6.1% | 5.1% |
| Net Margin (%) | 12.8% | 4.0% | -3.1% | -3.3% |
| FFO to Long-Term Debt* | 0.88 | 0.49 | (0.11) | (0.17) |
| FFO to Total Debt* | 0.46 | 0.16 | (0.04) | -0.05 |
| Debt Servicing Coverage Ratio (x)* | 4.91 | 1.63 | 0.55 | 0.32 |
| Adjusted DSCR* | 9.26 | 1.92 | 0.79 | 0.54 |
| ROAA (%)* | 18.1% | 4.8% | -4.2% | -4.8% |
| ROAE (%)* | 32.4% | 10.6% | -11.1% | -12.6% |
| Gearing (x) | 0.80 | 1.07 | 1.09 | 1.12 |
| Debt Leverage (x) | 1.16 | 1.48 | 1.54 | 1.79 |
| Current Ratio | 1.64 | 1.43 | 1.35 | 1.27 |
| Inventory + Receivables/Short-term Borrowings | 1.81 | 1.85 | 1.78 | 1.90 |
| Cash Conversion Cycle | 92 | 182 | 119 | 119 |

**Annualized*

| REGULATORY DISCLOSURES | Appendix II |
|---|---|
| **Name of Rated Entity** | Faisal Spinning 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** | | | | |
| 06/02/2025 | A | A1 | Stable | Reaffirmed |
| 26/09/2023 | A | A1 | Stable | Reaffirmed |
| 11/08/2022 | A | A1 | Stable | Reaffirmed |
| 27/05/2021 | A | A1 | Stable | Maintained |
| 22/04/2020 | A | A1 | Rating Watch-Developing | Maintained |
| 21/02/2019 | A | A2 | Stable | Reaffirmed |
| 30/03/2018 | A | A1 | 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 Meeting Conducted**

| Name | Designation | Date |
|---|---|---|
| **M. Salim** | Chairman | 9-Dec-24 |