

FAISAL SPINNING MILLS LIMITED

Analyst:

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RATING DETAILS

RATINGS CATEGORY	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A	A1	A	A1
OUTLOOK/RATING WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	May 20, 2026		February 6, 2025	

Shareholding (5% or More)

Admiral (Pvt) Ltd - ~15.0%

Mr. Muhammad Qasim - ~6.2%

Mrs. Samia Bilal - ~5.3%

General Public - ~7.0%

Other Information

Incorporated in 1985

Public Limited Company

Chief Executive: Mr. Bilal Sharif

External Auditor: M/s Mushtaq and 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

The assigned ratings reflect the Company's established presence in the textile spinning, weaving and value-added segment, though the credit profile remains constrained by thin margins and weak cashflow generation in a competitive operating environment.

The ratings are supported by weak but improving profitability following FY24 losses, elevated leverage driven by reliance on short-term borrowings for working capital and CAPEX requirements and debt coverage indicators that remain weak but have shown some improvement from prior year levels.

These pressures are partly offset by improved operating margins, recent capacity expansion in the value-added segment and ongoing energy cost optimization initiatives, however, cashflow generation remains limited.

Going forward, maintaining the assigned ratings will depend on improvement in internal cash generation and sustain recovery in profitability amid a challenging operating environment.

Company Profile

Faisal Spinning Mills Limited ('FSML' or 'the Company'), listed on the Pakistan Stock Exchange was incorporated in 1985 as a public limited company and is one of the three textile companies of the Umer Group. The Company is primarily engaged in the manufacturing and sale of yarn, greige and dyed fabrics, as well as home textile products for the export market. FSML's spinning operations are in Nooriabad, while its weaving, finishing and home textile divisions are based in Sheikhpura. The Company's registered office is in Karachi.

Management and Governance

The composition of the Board is in compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019. The Company's governance is overseen by ten members, comprising the Chairman, Mr. Mohammad Salim; CEO, Mr. Bilal Sharif; one executive director, six non-executive directors and three independent directors. The Board convenes quarterly and minutes were duly maintained. The Board has two committees, namely Audit and HR & Remuneration Committee, appropriately represented by Board members. The management is spearheaded by Mr. Bilal Sharif, a seasoned professional, supported by a management team of experienced professionals ensuring effective strategic execution and operational oversight.

The Company operates a fully integrated updated Oracle-based IT infrastructure, implemented since 2011. The system supports real-time production data and covers key functional areas including exports, storage, inventory management and finance, while HR functions are managed separately.

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.

The weaving segment presents a mixed structural profile, comprising modern mill-based weaving units alongside a large base of conventional power looms. While integrated textile mills have increasingly adopted air-jet and rapier loom technologies to improve productivity and fabric quality, a substantial portion of the estimated loom base continues to consist of older shuttle looms operating with lower efficiency. Nonetheless, export demand for woven fabrics and cotton cloth has remained relatively stable, supported by Pakistan's established position in global textile supply chains.

OPERATIONAL PERFORMANCE

Installed Capacity	FY20	FY21	FY22	FY23	FY24	FY25
Spinning						
No. of Spindles Installed	38,208	38,208	38,208	38,208	38,208	38,208
Installed capacity converted into 20/1 (Million Kgs)	23	23	23	23	23	23
Actual Production of Yarn (Million Kgs)	21	20	23	20	22	22
Capacity Utilization	87.8%	86.0%	98.6%	86.8%	96.4%	96.0%
Weaving						
No. of Looms Installed	265	265	265	265	265	265
Installed capacity after conversion into 50 picks (Million Meters)	64	64	68	68	68	68
Actual Production of Fabric (Million Meters)	44	40	41	38	40	43
Capacity Utilization	68.1%	62.6%	60.9%	55.9%	58.0%	63.3%
Finishing/Processing Unit						
Production capacity (Million Meters)	-	27	28	33	33	33
Actual production (Million Meters)	-	7	29	34	35	39
Capacity Utilization	N/A	26.6%	102.4%	104.1%	106.5%	119.7%
Home Textile/Stitching						
* Home Textile/Stitching: capacity indeterminable due to multi product plans involving varying processes of manufacturing and run length of order lots.						

The company has not undertaken expansion in the past three years in the spinning and weaving units. Spinning unit operates at a high capacity utilization, however, there is ample free capacity available in the weaving unit. Furthermore, the management highlighted that the actual machine utilization remains high and the reported utilization primarily reflects changes in the product mix.

The company's focus is to gradually expand value-added segment and reduce power costs as cashflows allow. The high capacity utilization in the finishing division prompted the Company to undertake capacity expansion through Unit III in Punjab at a cost of PKR 1.4 billion, adding ~7.2 million meters of capacity. The unit commenced commercial operations in 3QFY26.

During FY25, a 2.5 MW solar project was completed, while a 4.80 MW wind power project at Unit I became operational in April 2025. An additional 4.41 MW solar project, with an estimated cost of PKR 350 million and is expected to be installed over the next six months.

PROFITABILITY

In FY25, revenue increased marginally to PKR 46.2 billion (FY24: PKR 45.0 billion), primarily driven by improved sales volumes of fabric and processed fabric from the finishing unit in the local market. Direct export sales constituted 72% of total sales (FY24: 79%). The Company's key export markets include China, US and the UK, collectively contributing 38% of total revenue (FY24: 43%), reflecting a slight decline in concentration across key export destinations. Following the withdrawal of the export-oriented tax regime under the Finance Act 2024, sales previously routed through local exporters and treated as indirect exports were reclassified as local sales (FY24: 8%). In terms of product mix, made ups remains the dominant revenue contributor at 67.7% (FY24: 69.4), followed by processed fabric at 32.0% (FY24: 30.2%), while yarn contributed negligibly to revenue.

Gross margin improved to 8.0% (FY24: 6.1%) in FY25, translating into an operating margin of 4.0% (FY24: 1.2%). The company benefitted from the reduction in interest rates despite significant increase in working capital financing. However, any improvement was eroded by the high

quantum of levies; representing minimum tax on turnover, which increased in line with higher sales and the company reported a net loss of PKR 269 million (FY24: net loss of PKR 1.4 billion).

During 1HFY26, revenue remained nearly stable on an annualized basis, however, gross margins have dipped to 7.7% compared to FY25 despite respite in power costs. The Company reported a net loss of PKR 358 million.

Going forward, management expects improved profitability supported by lower cotton prices and improved yarn pricing dynamics. Operating at such thin margins, the level of leverage continues to exert pressure on the bottom line.

Financial Risk

CAPITAL STRUCTURE

The Company's capital structure has come under substantial stress in the past two years due to thinning margins and consequently increasing gearing to support working capital as well as CAPEX requirements. At end-FY25, total debt increased significantly to PKR 21.4 billion (FY24: PKR 13.5 billion), driven primarily by higher short-term borrowings of PKR 16.2 billion (FY24: PKR 9.2 billion) to support working capital requirements. Long-term borrowings increased to PKR 5.3 billion (FY24: PKR 4.3 billion), mainly to finance a windmill project at Unit 1 and expansion of production capacity at Unit 3. Equity declined to PKR 12.2 billion (FY24: PKR 12.5 billion) due to the reported loss during the year. As a result, gearing and leverage increased significantly to 1.76x (FY24: 1.08x) and 2.26x (FY24: 1.54x), respectively, reflecting a higher reliance on external borrowings.

In terms of debt mix, long-term borrowings predominantly comprise concessional debt around 63%, while floating-rate debt increased to 37% (FY24: 5%) due to long term finance facilities obtained to fund the windmill project and capacity expansion.

At end-1HFY26, short term debt reduced with lower inventory levels, however, equity contracted due to the net loss resulting in gearing improving slightly to 1.55x, while leverage remained broadly stable at 2.22x.

DEBT COVERAGE & LIQUIDITY

Current ratio has maintained above 1.0x, albeit slight reduction with increasing maturity of long term debt. The net operating cycle improved to 110 days at end-1HFY26 (FY25: 136 days; FY24: 100 days), mainly driven by higher payable days.

Debt servicing capacity remains weak without appreciable improvement in cashflows from operations, with Debt Servicing Capacity Ratio (DSCR) below 1.0x while FFO to Long term debt continues to decline to 0.01x in 1HFY26.

FINANCIAL SUMMARY						(Amounts in PKR Million)
BALANCE SHEET						
Property, Plant, & Equipment	10,256	10,118	10,073	11,828	12,124	
Stock-in-Trade	5,538	15,327	12,340	17,084	15,912	
Trade Debts	3,259	3,693	4,089	3,937	4,809	
Cash & Bank Balances	4,443	580	575	349	292	
Total Assets	27,253	34,747	31,690	39,737	41,074	
Trade and Other Payables	3,756	4,520	4,609	4,899	7,314	
Long Term Debt (Inc. Current Maturity)	5,220	4,719	4,283	5,257	5,909	
Short Term Debt	4,872	10,261	9,244	16,171	14,819	
Total Debt	10,092	14,979	13,528	21,428	20,729	
Total Liabilities	14,612	20,730	19,205	27,566	29,261	
Paid Up Capital	100	100	100	100	100	
Total Equity	12,641	14,017	12,485	12,171	11,813	
INCOME STATEMENT						
Net Sales	32,074	37,673	45,030	46,204	23,326	
Gross Profit	6,372	4,562	2,741	3,674	1,793	
Operating Profit	5,133	3,040	528	1,825	780	
Profit Before Tax	4,725	1,773	(1,080)	312	(85)	
Profit After Tax	4,098	1,488	(1,384)	(269)	(358)	
RATIO ANALYSIS						
Gross Margin (%)	19.9%	12.1%	6.1%	8.0%	7.7%	
Operating Margin (%)	16.0%	8.1%	1.2%	4.0%	3.3%	
Net Margin (%)	12.8%	3.9%	-3.1%	-0.6%	-1.5%	
Net Working Capital	5,966	6,844	5,241	4,247	3,806	
Trade debts/Sales	10.2%	9.8%	9.1%	8.5%	10.3%	
FFO	4,592	2,294	(512)	496	18	
FFO to Total Debt (%)	0.46	0.15	(0.04)	0.02	0.00	
FFO to Long Term Debt (%)	0.88	0.49	(0.12)	0.09	0.01	
Debt Servicing Coverage Ratio (x) *	5.01	1.63	0.55	0.85	0.72	
Current Ratio (x)	1.64	1.43	1.35	1.19	1.16	
Stock + Trade Debts/STD	1.81	1.85	1.78	1.30	1.40	
Gearing (x)	0.80	1.07	1.08	1.76	1.75	
Leverage (x)	1.16	1.48	1.54	2.26	2.48	
ROAA (%) *	18.1%	4.8%	-4.2%	-0.8%	-1.8%	
ROAE (%) *	38.6%	11.2%	-10.4%	-2.2%	-6.0%	
Net Operating Cycle *	62	155	100	136	110	
*Annualized, if required A - Audited Accounts M - Management Accounts P - Projected Accounts						

REGULATORY DISCLOSURES Appendix II

Name of Rated Entity	Faisal Spinning Mills Limited				
Sector	Textile Composite				
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				
	05/20/2026	A	A1	Stable	Reaffirmed
	02/06/2025	A	A1	Stable	Reaffirmed
	09/26/2023	A	A1	Stable	Reaffirmed
	08/11/2022	A	A1	Stable	Reaffirmed
	05/27/2021	A	A1	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.				
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 Meetings Conducted	Name		Designation	Date	
	Mr. Muhammad Salim		Chairman	April 06, 2026	
	Mr. Anwar Hussain		CFO		