# VIS
Credit Rating Company Limited

RATING REPORT

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**APPLICABLE METHODOLOGY(IES):**
VIS Entity Rating Criteria Methodology – Industrial Corporates
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)
**Rating Scale:**
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

| RS. MILLION | FY23 | FY24 | 9MFY25 |
|---|---|---|---|
| Net Sales | 67,629 | 88,880 | 67,394 |
| PBT | (87) | 1,244 | 1,604 |
| PAT | (999) | 692 | 747 |
| Paid up call | 2,401 | 2,401 | 2,401 |
| Equity (incl. surplus on PEE) | 20,708 | 21,400 | 21,906 |
| Total Debt | 42,626 | 40,394 | 42,598 |
| Debt Leverage | 2.37 | 2.22 | 2.29 |
| Gearing | 2.06 | 1.89 | 1.94 |
| FFO (Annualized) | 814 | 1,622 | 1,583 |
| FFO/Total Debt (x)* | 0.02 | 0.04 | 0.04 |
| NP Margin | -1.5% | 0.8% | 1.1% |

# NISHAT (CHUNIAN) LIMITED

**Chairman & Chief Executive: Shahzad Saleem & Zain Shahzad**

## 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 | | Stable | |
| RATING ACTION | Reaffirmed | | Reaffirmed | |
| RATING DATE | July 30, 2025 | | July 05, 2024 | |

## RATING RATIONALE

The assigned ratings incorporate the medium business risk profile of textile sector in Pakistan, shaped by economic cyclicality, intense competition and structural challenges. The sector is highly sensitive to domestic and international demand fluctuations, making it vulnerable to broader economic conditions.

Moreover, ratings take into account the financial risk profile of NCL driven by significant topline growth, recovery in margins and improvement in cash conversion cycle during the review period. However, elevated capitalization profile and weak coverages including lower than 1.0x DSCR, remain major concern from the ratings perspective.

Going forward, the Company plans to mobilize a PKR 3 Bn LTFF loan to finance CAPEX in energy and weaving segments. Despite the additional debt, capitalization and coverage metrics are expected to remain largely stable, underpinned by the anticipated gradual recovery in NCL's profitability—driven by lower finance costs and the management's continued focus on energy cost efficiencies.

## COMPANY PROFILE

Nishat (Chunian) Limited ('NCL' or 'the Company') is a Public Listed Company (PSX: NCL) incorporated in Pakistan in 1990 as a small spinning unit. NCL is now a major player in the country's textile sector, involved in spinning, weaving, dyeing, printing, stitching, and processing of yarns, fabrics, and made-ups from raw cotton, synthetic fibers, and cloth. The processes are integrated, and a captive power plant ensures an uninterrupted power supply to all units. In 2016, the group ventured into the local retail sector by launching The Linen Company, offering premium home-textile and bedding products through eight retail outlets in four major cities.

The Company holds multiple export standards and trade certifications and has a workforce of over 7,000 employees. The registered office of the Company is situated at Gulberg II, Lahore, with manufacturing units in Kasur and Raiwind.

### Change in shareholding

As of December 2024, the Company has undergone a major change in its ownership profile. All shares of NCL held by Nishat Mills Limited (NML) has been transferred to Mr. Shahzad Saleem, meanwhile in return and as consideration, corresponding part of Mr. Shahzad Saleem's shareholding in Nishat Chunian Power Limited (NCPL) has been transferred to NML. The swap ratio for this restructuring is 1.93 shares of NCPL for every 1 share of NCL.

| | Previous holding | | Current holding | |
|---|---|---|---|---|
| | **Mn Shares** | **%** | **Mn Shares** | **%** |
| Mr. Shahzad Saleem | 55.11 | 22.95% | 87.79 | 36.56% |
| Nishat Mills Limited | 32.68 | 13.61% | - | - |

## INDUSTRY PROFILE & BUSINESS RISK

The business risk profile of Pakistan's textile sector is shaped by economic cyclicality, intense competition and structural challenges. The sector is highly sensitive to domestic and international demand fluctuations, making it vulnerable to broader economic conditions. In FY24, Pakistan's cotton production surged by 79% compared to FY23, though this increase was largely due to the low base in FY23. However, cotton production decreased by 59.4% YoY by October 2024, with a total of 2.04 million bales. The USDA forecasts a rebound to 5.55 million bales in FY25, contingent on overcoming several challenges, including a declining area under cotton cultivation, rising energy costs, and adverse climatic conditions such as heatwaves, floods, and pest infestations that have further pressured yields.

Pakistan's textile exports in 3QFY25 demonstrated growth, primarily fueled by the value-added segment, despite challenges in domestic cotton production necessitating reliance on imported cotton. Exporter profitability remains vulnerable to cotton market volatility, inflationary pressures, and exchange rate fluctuations, while persistently high energy costs continue to strain overall cost structures. Furthermore, rising input costs and regulatory changes are creating a challenging environment for the sector.

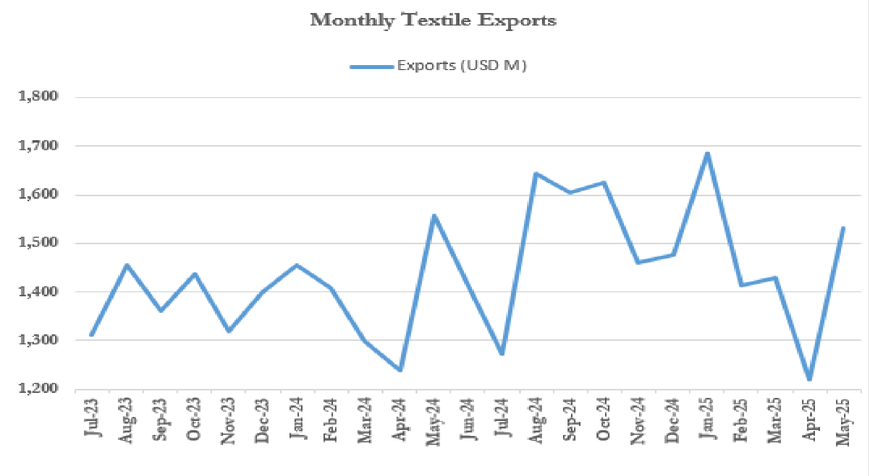

*Figure 1: MoM Textile Exports (USD Million)*
*Source: PBS*

## Product Profile & Capacity

The Company's core business continues to be the production and sale of yarn, with spinning segment operating at nearly full capacity. Significant growth was observed in export yarn during FY24, with its share in total export sales increasing from 54% to 64%. Other segments also reported high capacity utilization. Additionally, NCL produces excess energy through its power plant as a result of which the Company has made sale of electricity during FY24.

| Capacity Utilization | FY23 | FY24 | 9MFY25 |
|---|---|---|---|
| **Spinning** | | | |
| Number of Spindles installed | 223,428 | 223,428 | 223,428 |
| Number of Spindles Worked | 200,850 | 211,484 | 205,554 |
| Number of Rotors installed | 2,880 | 2,880 | 2,880 |
| Number of Rotors Worked | 2,566 | 2,839 | 2,789 |
| Capacity after conversion into 20s (Mn kgs) | 81.0 | 84.5 | 64.0 |
| Actual Production (Mn kgs) | 79.9 | 83.3 | 63.1 |
| **Capacity Utilization** | **99%** | **99%** | **99%** |
| **Weaving** | | | |
| Number of Looms Installed | 379 | 379 | 379 |
| Number of Looms Worked | 365 | 379 | 379 |
| Capacity After conversion into 50 picks-Sq. Yd (Mn) | 345.6 | 345.6 | 290.5 |
| Actual Production (Mn sq. yd) | 242.6 | 248.4 | 205.1 |
| **Capacity Utilization** | **84%** | **85%** | **86%** |
| **Power Plant** | | | |

| | | | |
|---|---|---|---|
| Number of Engines Installed | 19 | 19 | 14 |
| Number of Engines Worked | 19 | 19 | 14 |
| 46 MW Coal Power Plant Installed | 1 | 1 | 1 |
| 46 MW Coal Power Plant Worked | 1 | 1 | 1 |
| Solar Panel Installed | 1 | 1 | 1 |
| Solar Panel Worked | 1 | 1 | 1 |
| Generation Capacity (MWh) | 739,993 | 741,367 | 555,981 |
| Actual Generation (MWh) | 167,522 | 327,531 | 247,916 |
| **Capacity Utilization** | **23%** | **44%** | **45%** |
| **Dyeing** | | | |
| Number of Thermosol Dyeing Machines | 1 | 1 | 1 |
| Number of Stentor Machines | 5 | 5 | 5 |
| Capacity (Mn meters) | 43.2 | 43.2 | 43.2 |
| Actual Processing of Fabrics (Mn meters) | 26.2 | 34.4 | 38.6 |
| **Capacity Utilization** | **61%** | **80%** | **89%** |
| **Printing** | | | |
| Number of Printing Machines | 1 | 1 | 1 |
| Capacity (Mn meters) | 10.8 | 10.8 | 8.1 |
| Actual Processing (Mn meters) | 6.3 | 9.8 | 6.7 |
| **Capacity Utilization** | **58%** | **91%** | **83%** |
| **Digital Printing** | | | |
| Number of Printing Machines | 5 | 5 | 5 |
| Capacity (Mn meters) | 9.1 | 9.1 | 6.8 |
| Actual Processing of Fabrics (Mn meters) | 2.2 | 3.6 | 2.6 |
| **Capacity Utilization** | **25%** | **40%** | **38%** |
| **Stitching unit with undeterminable capacity** | | | |

# FINANCIAL RISK

## Capital Structure

By end-FY24, the Company reported some improvement in capitalization profile with gearing and leverage ratios decreasing to 1.89x and 2.22x (2.06x and 2.37x).

By end-9MFY25, gearing and leverage increased slightly to 1.94x and 2.29x as a result of higher short-term borrowings.

Looking ahead, the Company plans to mobilize a PKR 3 Bn LTFF loan to finance CAPEX in energy and weaving segments. Despite this additional debt, capitalization ratios are expected to remain largely stable, supported by the anticipated gradual recovery in NCL's profitability.

## Profitability

During FY24, NCL reported 31% YoY growth in topline post demand stabilization for local yarn. Meanwhile gross margin reported an uptick to 12% (FY23: 10%) due to relatively lower energy costs supported by the in-house production. Yarn remained main product segment with 60% volume and value wise contribution in sales. The main export destinations of yarn are China and Bangladesh.

The second highest contributing segment is the Made-ups, accounting for 18% value wise share which includes home textile products (bedding, duvets, pillows etc). This is a retail segment locally operating under the brand name 'The Linen Company'. It also includes exports sales through the US-based brand (Sweave Inc) under NCL's subsidiary 'Nishat Chunian USA Inc'.

NCL's top client has remained Nishat Mills Limited (NML), followed by Marks & Spencer. The concentration of revenue from the top 10 clients diluted slightly, standing at 27.7% in FY24 (FY23: 29.3%).

Net margin turned positive in FY24 to 0.8% (FY23: -1.5%) reflecting a recovery from last year's losses, which were driven by weak demand for local yarn, high energy and finance expenses.

The recovery trend continued into 9MFY25, with topline reaching PKR 67.3 Bn. Although gross margin contracted to 10.4%, operational cost efficiencies and lower finance costs, amid falling interest rates, supported the bottom line, resulting in a net margin of 1.1%.

***Table 1: Product Wise Sales***

| | FY23 | | FY24 | | 9MFY25 | |
|---|---|---|---|---|---|---|
| **Major product lines** | **Value** | **Qty** | **Value** | **Qty** | **Value** | **Qty** |
| Yarn (Lbs) | 60% | 62% | 60% | 60% | 57% | 58% |
| Grey cloth (Metres) | 12% | 22% | 13% | 23% | 15% | 24% |
| Process cloth (Metres) | 7% | 9% | 7% | 9% | 7% | 8% |
| Made ups | 19% | 2% | 18% | 3% | 21% | 3% |
| Electricity (kWh) | | | 0.0% | 0.4% | 0.2% | 2% |
| Waste (Kgs) | 2% | 5% | 2% | 5% | 1% | 4% |

Going forward, the expected suspension of duty exemption on yarn under EFS, is likely to support demand for locally produced yarn. However, the management anticipates that high taxation and wages will remain key challenges through FY26.

## Debt Coverage & Liquidity

The Company's current ratio has largely remained stable at around 1.2x, while cash conversion cycle improved to 137 days (FY23: 177 days). Depressed margins and profitability have kept Funds from Operations (FFO) low at PKR 1.6 Bn (FY23: PKR

814 Mn, FY22: PKR 9.1 Bn). Consequently, coverages remained weak with FFO to long-term and total debt standing at 0.12x and 0.04x (FY23: 0.06x and 0.02x). DSCR remained below 1x. (FY24: 0.88x, FY23: 0.71x).

During 9MFY25, current ratio stood at 1.17x due to higher short term debt utilization, while cash conversion cycle remained at 135 days. Annualized FFO clocked in at PKR 1.5 Bn, resultantly coverages remained stressed.

## FINANCIAL SUMMARY (*amounts in PKR millions*) *Appendix I*

| BALANCE SHEET | FY21 | FY22 | FY23 | FY24 | 9MFY25 |
|---|---|---|---|---|---|
| Fixed Assets | 17,224 | 22,596 | 23,673 | 23,922 | 23,157 |
| Long term Investments | 1,887 | 510 | 510 | 510 | 510 |
| Stock-in-Trade | 18,214 | 21,177 | 23,554 | 24,525 | 23,974 |
| Trade debts | 6,782 | 7,741 | 11,410 | 11,142 | 13,826 |
| Loans & Advances | 3,270 | 1,869 | 4,070 | 3,965 | 5,624 |
| Other receivables | 1,753 | 1,522 | 3,590 | 2,296 | 1,850 |
| Cash & bank balance | 273 | 209 | 279 | 61 | 285 |
| Total Assets | **51,770** | **59,436** | **69,846** | **68,803** | **72,125** |
| Long-term debt (inc. current portion) | 9,269 | 15,835 | 14,745 | 13,338 | 11,660 |
| Short-term debt | 18,898 | 12,944 | 27,882 | 27,056 | 30,937 |
| Total debt | 28,167 | 28,779 | 42,626 | 40,394 | 42,598 |
| Trade & Other payables | 4,094 | 4,554 | 4,223 | 5,076 | 6,528 |
| Total Liabilities | **32,774** | **34,892** | **49,138** | **47,404** | **50,219** |
| Paid-Up Capital | 2,401 | 2,401 | 2,401 | 2,401 | 2,401 |
| Reserves | 16,595 | 22,142 | 18,307 | 18,999 | 19,505 |
| Total Equity | **18,996** | **24,543** | **20,708** | **21,400** | **21,906** |
| | | | | | |
| INCOME STATEMENT | FY21 | FY22 | FY23 | FY24 | 9MFY25 |
| Net Sales | 49,284 | 61,988 | 67,629 | 88,880 | 67,394 |
| Gross Profit | 8,969 | 12,974 | 6,589 | 10,909 | 6,975 |
| Operating Profit | 7,497 | 10,752 | 4,474 | 8,272 | 5,147 |
| Finance Costs | (1,747) | (2,298) | (5,419) | (7,754) | (3,737) |
| Profit Before Tax | 6,273 | 8,348 | (87) | 1,244 | 1,604 |
| Profit After Tax | 5,599 | 7,468 | (999) | 692 | 747 |
| | | | | | |
| RATIO ANALYSIS | FY21 | FY22 | FY23 | FY24 | 9MFY25 |
| Gross Margin (%) | 18.2 | 20.9 | 9.7 | 12.3 | 10.4 |
| Operating Margin (%) | 15.2 | 17.3 | 6.6 | 9.3 | 7.6 |
| Net Margin (%) | 11.4 | 12.0 | -1.5 | 0.8 | 1.1 |
| Funds from Operation (FFO)* | 6,598 | 9,107 | 814 | 1,622 | 1,583 |
| FFO to Total Debt* (x) | 0.23 | 0.32 | 0.02 | 0.04 | 0.04 |
| FFO to Long Term Debt* (x) | 0.71 | 0.58 | 0.06 | 0.12 | 0.14 |
| Gearing (x) | 1.48 | 1.17 | 2.06 | 1.89 | 1.94 |
| Leverage (x) | 1.73 | 1.42 | 2.37 | 2.22 | 2.29 |
| Debt Servicing Coverage Ratio* (x) | 1.87 | 2.37 | 0.71 | 0.88 | 0.94 |
| Current Ratio (x) | 1.25 | 1.67 | 1.27 | 1.21 | 1.17 |
| (Stock in trade + trade debts) / STD (x) | 1.32 | 2.23 | 1.25 | 1.32 | 1.22 |
| Return on Average Assets* (%) | 10.8 | 13.4 | - | 1.0 | 1.4 |
| Return on Average Equity* (%) | 29.5 | 34.3 | - | 3.3 | 4.6 |
| Cash Conversion Cycle (days)* | 178 | 169 | 177 | 137 | 135 |
| * Annualized Figures | | | | | |

| REGULATORY DISCLOSURES | | | | | Appendix II |
|---|---|---|---|---|---|
| Name of Rated Entity | Nishat (Chunian) Limited | | | | |
| Sector | Textile | | | | |
| 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 | | | | |
| | 30-07-2025 | A- | A2 | Stable | Reaffirmed |
| | 05-07-2025 | A- | A2 | Stable | Reaffirmed |
| | 08-06-2023 | A- | A2 | Stable | Downgrade |
| | 02-06-2022 | A | A2 | Positive | Maintained |
| | 26-02-2021 | A | A2 | Stable | Initial |
| 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 | S.No. | Name | Designation | Date | |
| | 1. | Ms Faryal Riaz | CFO | 10-July, 2025 | |
| | 2. | Mr. Asad Khalid | Manager - Finance | | |
| | 3. | Mr. Umer Qureshi | Manager - Accounts | | |
| | 4. | Ms. Rameen Sarwar | Manager - Finance | | |