VIS
Credit Rating Company Limited

RATING REPORT

PREMIUM TEXTILE MILLS LIMITED

Chief Executive: Mr. Abdul Kadir Adam

Analysts:
Saeb Muhammad Jafri
(saeb.jafri@vis.com.pk)

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

Rs. Million	FY23A	FY24A	9MFY25M
Net Sales	22,828.70	27,075.70	22,704.11
Profit Before Tax	1,394.33	-199.13	737.57
Profit After Tax	1,042.64	-441.29	353.96
Paid up Capital	61.63	61.63	61.63
Equity (excl. Revaluation Surplus)	7,857.01	7,346.44	7,786.30
Total Debt	14,926.49	17,304.10	18,841.96
Leverage (x)	2.40	3.00	2.93
Gearing (x)	1.90	2.36	2.42
Funds From Operations (FFO)	2,314.09	1,123.82	1,660.38
FFO/Total Debt (x)	0.16	0.06	0.12
Net Margin (%)	5%	-2%	2%

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

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	June 03, 2025		June 05, 2024	

RATING RATIONALE

The reaffirmation of entity ratings at 'A-/A2' with a stable outlook reflects sustained business and financial risk fundamentals. While capitalization has increased due to debt-funded investments in production and renewable energy initiatives, the financing is targeted toward operational efficiency. Liquidity and coverage profiles have remained adequate, despite temporary stress from elevated interest rates and working capital needs. The Company has maintained operational continuity across segments, with improved utilization levels and enhanced contribution from value-added products. Although profitability margins were affected by higher input and energy costs, partial cost offsets from internal efficiencies and renewable energy usage were noted. The ratings continue to incorporate the high to medium risk profile of the textile spinning sector, with ongoing challenges from regulatory changes, energy sensitivity, and external competition.

Going forward, ratings will remain sensitive to improvements in the Company's capitalization metrics.

COMPANY PROFILE

Premium Textile Mills Limited ('the Company' or 'PRET') was incorporated in Pakistan in 1987 as a public limited company and is listed on Pakistan Stock Exchange Limited. The principal activity of the Company is manufacturing and sale of socks, cotton and polyester yarn. The company's head office is located in Karachi while its manufacturing facility is located in Nooriabad.

GOVERNANCE

The Board of Directors is composed of seven members, including two female directors and two independent directors. Two committees operate under the oversight of the Board: The Board Audit Committee and the Human Resource and Remuneration Committee.

INDUSTRY PROFILE & BUSINESS RISK

Assigned ratings incorporate the business risk profile of Pakistan's textile spinning sector which 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 grew marginally by 0.93% to $16.7 billion (FY23: $16.6 billion). However, political instability and shifts in global procurement patterns resulted in the loss of approximately 40% of export orders, with buyers redirecting sourcing to competitors such as Vietnam.

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 the sector's 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 11% by May 2025, may ease financing costs, long-term competitiveness will require investments in technology, product diversification, and a stable regulatory environment.

Product Profile & Capacity

The sock division demonstrated a notable increase in operational scale in FY24, with production rising to 1,863,088 dozen socks, reflecting a capacity utilization rate of 81%, compared to 719,211 dozen socks or 33% utilization in FY23. The growth was driven by a rise in orders and the onboarding of larger customers. In line with increased internal demand from the sock division, capacity utilization in the yarn division also improved to 93% in FY24 (FY23: 88%).

To support gross margin sustainability, the Company intends to optimize its energy cost structure by reducing reliance on higher-cost gas generators. Emphasis remains on maximizing the use of solar energy, which currently contributes approximately 30% of daily energy needs. Production is scheduled to align with daytime hours to benefit from solar availability. The Company is also in the process of further expanding its renewable energy capacity. This is expected to impact PRET's capacity utilization levels going forward.

Production Capacity and Utilization	FY23	FY24
Number of Spindles Installed	91,455	93,471
Number of Spindles Worked	79,440	84,851
Installed Capacity after conversion 20/s count (Tons)	34,590,153	36,060,227
Actual Production after conversion 20/s count (Tons)	30,537,955	33,565,980
Utilization (%)	88%	93%
Number of Knitting Machines installed	208	264
Installed capacity of socks in Dozen	2,160,000	2,302,560
Actual production of socks in Dozen	719,221	1,863,088
Utilization (%)	33%	81%

FINANCIAL RISK

The overall financial profile of the company, while exhibiting negative trends in FY24, has shown measurable improvement in the first nine months of FY25. The Stable Outlook reflects expectations of continued metric recovery. Revenue growth in FY24 was driven by higher sock segment volumes, though gross margins contracted amid input cost pressures. In 3QFY25, margins stabilized via cost efficiencies from renewable energy adoption and supported by internal waste conversion. Net margin improved as monetary easing reduced financial charges, with further gains anticipated amid declining interest rates. Coverage ratios have also recovered because of the same while liquidity remains adequate, supported by operational cash flows. Equity growth through profit retention partially offset leverage, though capitalization metrics remain a sensitivity and will remain a key rating consideration going forward.

Capital Structure

During FY24, the capitalization profile was impacted by the Company's renewable energy and production expenditure projects, which resulted in higher debt utilization. This is reflected in the gearing and leverage ratios increasing to 2.36x (FY23: 1.90x) and 3.00x (FY23: 2.40x). In 3QFY25, PRET's reliance on short-term borrowing increased due to higher working capital requirement during the period, mostly attributed to elevated stock in trade with increased orders in hand, as per the management. Moreover, working capital requirements were also impacted by a reduction in trade and other payables. This is reflected in an increase in gearing ratio to 2.42x but a slight reduction in leverage ratio to 2.93x during 3QFY25 also supported by increase in the equity base with profit retention.

The Company's debt levels are considered to be elevated, exerting pressure on capitalization metrics and contributing to stress on the assigned ratings. Going forward, the ratings will remain underpinned on the Company's ability to improve its capitalization profile to be commensurate with assigned ratings. Continued weakness in this area may lead to adverse rating actions in future reviews.

Profitability

During FY24, PRET reported revenue of PKR 27,075 million (FY23: PKR 22,828 million), reflecting growth of 19%, primarily attributable to increased order volumes—particularly in the sock division—and higher average selling prices. Despite this topline growth, gross margins declined to 13.81% (FY23: 17.26%), reflecting cost-side pressures that were not fully offset by pricing gains. Nevertheless, the gross margin remains relatively healthy despite significant headwinds during the year.

The gross margin continued to benefit from the growing contribution of the high-margin sock segment, which accounted for 7% of the sales mix during FY24 (FY23: 2%). Cost efficiencies were further supported by a higher share of renewable energy in the Company's power mix and the internal conversion of textile waste into reusable cotton. This recycling capability not only ensures cotton availability during off-season periods but also provides cost savings. Additionally, the recycled cotton is selectively sold in external markets when it yields higher margins than internal use. In 3QFY25, the gross margin remained stable at 13.80%.

In FY24, net margin was mostly impacted by contraction of gross margin and further constrained by elevated financial burden from high debt in an elevated interest rate environment. However, in 3QFY25 the net margin turned positive as interest rates eased during this period, providing reprieve to the bottom-line.

Debt Coverage & Liquidity

The coverage profile of the Company was impacted by lower gross margins and elevated interest expense during FY24. This is reflected in the debt service coverage (DSCR), declining to 0.99x (FY23: 1.26x). However, as interest rates in 3QFY25 eased, the DSCR recovered to adequate levels of 1.29x. Going forward, despite the elevated debt profile, the coverage profile is expected to receive support from an easing interest rate environment.

The Company's liquidity profile has remained relatively healthy over the past four years, as reflected by an average current ratio of 1.37x. In FY24, the current ratio declined to 1.18x (FY23: 1.36x), primarily due to the utilization of internal liquidity sources to partially fund capital expenditure. As of 3QFY25, the current ratio has remained stable at 1.20x.

Financial Summary

Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A	9MFY25M
Property, plant and equipment	10,011.20	12,170.21	15,031.16	14,191.63
Intangible Assets	0.00	18.22	0.00	0.00
Stock-in-trade	5,689.60	8,973.80	6,419.11	8,248.96
Trade debts	4,466.96	4,606.62	7,275.87	7,367.39
Cash & Bank Balances	286.17	712.20	463.59	198.17
Other Assets	488.52	1,538.19	1,350.03	1,652.28
Total Assets	20,942.45	28,019.24	30,539.76	31,658.43
Creditors	215.54	1,240.03	1,197.68	1,663.50
Long-term Debt (incl. current portion)	5,438.52	6,789.61	8,225.07	7,626.22
Short-Term Borrowings	4,745.08	8,136.88	9,079.03	11,215.74
Total Debt	10,183.60	14,926.49	17,304.10	18,841.96
Other Liabilities	2,235.27	2,700.04	3,546.25	2,307.28
Total Liabilities	12,634.41	18,866.56	22,048.03	22,812.74
Paid up Capital	61.63	61.63	61.63	61.63
Revenue Reserve	7,000.29	7,795.38	7,284.81	7,724.67
Equity (excl. Revaluation Surplus)	7,061.92	7,857.01	7,346.44	7,786.30

Income Statement (PKR Millions)	FY22A	FY23A	FY24A	9MFY25M
Net Sales	19,976.81	22,828.70	27,075.70	22,704.11
Gross Profit	5,582.08	3,939.42	3,739.56	3,133.18
Operating Profit	4,956.16	3,113.04	2,735.65	2,319.16
Finance Costs	875.80	2,238.21	3,071.06	1,841.32
Profit Before Tax	4,609.50	1,394.33	-199.13	737.57
Profit After Tax	4,310.37	1,042.64	-441.29	353.96

Ratio Analysis	FY22A	FY23A	FY24A	9MFY25M
Gross Margin (%)	27.94%	17.26%	13.81%	13.80%
Operating Margin (%)	24.81%	13.64%	10.10%	10.21%
Net Margin (%)	21.58%	4.57%	-1.63%	1.56%
Funds from Operation (FFO) (PKR Millions)	5,320.38	2,314.09	1,123.82	1,660.38
FFO to Total Debt* (%)	52.24%	15.50%	6.49%	11.75%
FFO to Long Term Debt* (%)	97.83%	34.08%	13.66%	29.03%
Gearing (x)	1.44	1.90	2.36	2.42
Leverage (x)	1.79	2.40	3.00	2.93
Debt Servicing Coverage Ratio* (x)	3.82	1.26	0.99	1.29
Current Ratio (x)	1.60	1.36	1.18	1.20
(Stock in trade + trade debts) / STD (x)	2.18	1.74	1.59	1.46
Return on Average Assets* (%)	25.21%	4.26%	-1.51%	1.52%
Return on Average Equity* (%)	82.64%	13.98%	-5.81%	6.24%
Cash Conversion Cycle (days)	174.24	200.15	181.41	170.85

Annualized, if required

A - Actual Accounts

M - Management Accounts

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Premium 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/Watch	Rating Action
03-June-25	**A-**	**A2**	**Stable**	**Reaffirmed**
05-June-24	A-	A2	Stable	Reaffirmed
18- Aug-23	A-	A2	Stable	Reaffirmed
18-July-22	A-	A2	Stable	Reaffirmed
18-June-21	A-	A2	Stable	Maintained
21-April-20	A-	A2	RW-Negative	Maintained
24-Sept-19	A-	A2	Stable	Upgrade
19-July-18	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.
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2025 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Iqbal Chappra	Head of Finance	19 May 2025
Ms. Shenila Parekh CFO	CFO	