

## RATING REPORT

### Shadab Textile Mills Limited

**REPORT DATE:**

December 27, 2024

**RATING ANALYSTS:**

Saeb Muhammad Jafri

[saeb.jafri@vis.com.pk](mailto:saeb.jafri@vis.com.pk)

Muhammad Ahmed Alvi

[ahmed.alvi@vis.com.pk](mailto:ahmed.alvi@vis.com.pk)
**RATING DETAILS**

Rating Category	Latest Ratings		Previous Ratings	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A2	A-	A2
Rating Action	Maintained		Reaffirmed	
Rating Outlook/Watch	Stable		Negative	
Rating Date	December 27, 2024		January 08, 2024	

**COMPANY INFORMATION**

Incorporated in 1979	External Auditors: M/s. Fazal Mehmood & Company Chartered Accountants
Public Limited Company	Chairman: Mian Farrukh Naseem
<b>Key Shareholders (More than 5%):</b>	Chief Executive Officer: Mian Aamir Naseem
Mr. Farrukh Naseem – 6.33%	
Mr. Saad Naseem – 5.75%	
Mr. Ahmad Naseem – 5.69%	
Mr. Aamir Naseem – 17.01%	
Mrs. Fatima Aamir – 3.70%	
Mr. Yasir Naseem – 3.01%	
Mr. Hamza Naseem – 5.75%	

**APPLICABLE METHODOLOGY(IES)**
*Applicable Rating Criteria: Corporates:*
<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>

**Shadab Textile Mills Limited**

**OVERVIEW OF THE INSTITUTION**

Shadab Textile Mills Limited (STML) is engaged in the business of manufacturing, selling, buying and dealing in all types of yarn including different counts of blended yarn. The company was listed on the stock exchange in 1985.

**RATING RATIONALE**

**Corporate Profile**

Shadab Textile Mills Limited (“STML” or “the Company”) was incorporated as a public limited company in August 1979 and is listed on the Pakistan Stock Exchange (“PSX”). STML is engaged in the business of manufacturing, selling, buying and dealing in polyester yarn. The registered office of the Company is situated in Lahore while the manufacturing facilities of the Company are located in District Kasur and District Nankana Sahib.

**Operational Profile**

*Table 1: Capacity and Production*

Spinning	FY22	FY23	FY24
	<b>Total number of spindles installed</b>		
<b>Unit-I (Ring)</b>	33,600	36,480	36,480
<b>Unit-II (MVS)</b>	576	576	576
	<b>Total number of spindles worked</b>		
<b>Unit-I (Ring)</b>	33,120	36,000	34,080
<b>Unit-II (MVS)</b>	576	576	576
<b>Capacity (Kgs)</b>	23,347,354	22,693,249	22,570,339
<b>Actual production (Kgs)</b>	22,998,125	21,321,688	22,237,602
<b>Capacity Utilization on conversion (%)</b>	<b>98.5%</b>	<b>94.0%</b>	<b>98.5%</b>

During FY24, due to demand dynamics compared to FY23, the Company’s production improved to 22,237 tons (FY23: 21,322 tons). This resulted in improved utilization levels as well during the year, to 98.5% (FY23: 94.0%) during the period.

**Key Rating Drivers**

**Business Risk Profile**

**Industry Risk; High to Medium**

The textile spinning sector in Pakistan is currently assessed as having a High to Medium business risk profile. This evaluation is based on several factors, including fluctuating raw material availability, energy supply challenges, competitive pressures, and evolving regulatory policies.

In FY24, Pakistan's cotton production experienced a significant increase, with output reaching approximately 8.6 to 9.0 million bales, marking a 70% year-on-year growth. This surge was primarily due to favorable weather conditions. Consequently, the textile industry procured around 7.48 million bales, meeting approximately 70% of its raw cotton requirements domestically, thereby reducing reliance on imports.

Despite the increased cotton availability, the spinning sector faced challenges related to energy costs and supply. A reported 116% increase in power tariffs during the period under review adversely affected operational costs, impacting the sector's profitability.

The global textile market's competitive landscape also posed challenges. Pakistan's textile and apparel industry faces stiff competition from countries like India, China, and Bangladesh. Economic factors such as currency depreciation, elevated interest rates, and inflation further pressured the sector.

Regulatory changes, including the withdrawal of the Regionally Competitive Energy Tariffs (RCET) regime and zero-rating for export-oriented sectors, introduced uncertainties.

Looking ahead, while reducing local policy rates offers some relief, the spinning sector must navigate ongoing challenges related to energy costs and local and global competition.

### **Client Concentration Risk**

Assigned ratings take into consideration the heightened client concentration risk with the top 10 customers accounting for ~76% (FY23: ~18%) of total sales in FY24. Although high client concentration is characteristic of the textile spinning industry, the Company's exposure has risen to levels notably higher than industry peers, thereby increasing the associated risk. This heightened concentration could impact on revenue stability, particularly in the event of adverse developments affecting key customers. Going forward, ratings will remain sensitive to the Company's ability to address client concentration and implement measures to mitigate the associated risks effectively. However, the management believes it not to be a major constraint as it has a diverse customer base and has historically demonstrated its ability to maintain a stable topline with sales volumes up to their maximum production capacity.

### **Financial Risk Profile**

#### **Profitability Profile**

STML reported top-line growth of 22.1% in FY24, attributed to higher sales volumes and prices reflecting improved demand from the value-added textile sector, supported by economic recovery in export and local markets. Gross margins improved to 5.48% in FY24 (FY23: 3.08%), driven by stable exchange rates, which enhanced cost predictability for imported raw materials and facilitated more informed procurement decisions, as per the management.

During FY24, STML added 0.910 MW of solar power generation capacity, which contributed in mitigating rising energy costs. In 1QFY25, the Company further expanded its solar capacity by 0.840 MW, resulting in further improvement in gross margins to 7.45%. Enhanced gross margins in FY24 supported the recovery of the bottom line, enabling the Company to achieve positive net margins of 1.35% in FY24 and 1.85% in 1QFY25 (FY23: 1.35%, FY22: -1.81%). Management expects the recent reductions in local policy rates will further support net margins going forward.

#### **Capitalization Profile**

The Company has historically maintained a conservative capitalization with a 5-year average gearing and leverage ratios of 0.44x and 0.82x, respectively. In FY24, albeit remaining higher than the historical average, the capitalization metrics remained mostly stable at 0.51x (FY23: 0.51x) and 0.92x (FY23: 0.96x), respectively. Stability in the Company's capitalization profile, even during challenging periods, has been supported by consistent financial backing from sponsors. This support is primarily provided in the form of interest-free debt classified as quasi-equity, with repayment discretion retained by the Company, ensuring financial flexibility. Gearing and leverage further improved to 0.44x and 0.80x, respectively in 1QFY25, driven by profit retention and lower short-term debt utilization.

#### **Coverage profile**

The Company's coverage profile improved during the year, supported by higher gross and operating profits. Key metrics, including FFO to total debt, FFO to long-term debt, and debt service coverage ratios, were recorded at 42.92% (FY24: 24.43%, FY23: 0.78%), 114.20% (FY24: 77.73%, FY23: 1.84%), and 2.02x (FY24: 1.66x, FY23: 0.62x) in 1QFY25, respectively. A reduction in local policy rates, alongside further potential revisions driven by declining inflation, is projected to sustain the coverage profile going forward.

#### **Liquidity Profile**

The liquidity profile of the Company has remained stable, supported by sufficient internal cash generation to meet working capital needs in FY24 and 1QFY25, and sponsor support during financial difficulty in FY23. The current ratio was reported at 1.34x and 1.38x (FY23: 1.34x, FY22: 1.36x) in FY24 and 1QFY25 respectively. Also, with lower short-term debt utilization levels in 1QFY25, the short-term debt coverage ratio improved to 2.72x (FY24: 2.05x, FY23: 2.38x).

<b>Financial Summary</b>			Appendix I
<b>Balance Sheet (PKR Millions)</b>	<b>FY23A</b>	<b>FY24A</b>	<b>1QFY25M</b>
Property, plant and equipment	1,428.63	1,384.07	1,410.74
Right-of-use Assets	32.79	26.23	24.92
Stock-in-trade	577.80	796.77	724.10
Trade debts	373.94	322.81	381.08
Cash & Bank Balances	12.51	28.87	32.68
Other Assets	423.65	529.32	397.01
<b>Total Assets</b>	<b>2,849.32</b>	<b>3,089.06</b>	<b>2,971.48</b>
Creditors	118.50	168.90	168.19
Long-term Debt (incl. current portion)	352.89	283.06	272.33
Short-Term Borrowings	475.26	617.77	452.33
<b>Total Debt</b>	<b>828.15</b>	<b>900.83</b>	<b>724.66</b>
Other Liabilities	450.00	406.91	429.34
<b>Total Liabilities</b>	<b>1,396.65</b>	<b>1,476.64</b>	<b>1,322.19</b>
Paid up Capital	166.00	166.00	166.00
Revenue Reserve	709.56	808.02	843.40
Other Equity (excl. Revaluation Surplus)	577.10	638.37	639.87
Sponsor Loan	373.10	434.37	435.87
<b>Equity (excl. Revaluation Surplus)</b>	<b>1,452.66</b>	<b>1,612.39</b>	<b>1,649.27</b>

<b>Income Statement (PKR Millions)</b>	<b>FY23A</b>	<b>FY24A</b>	<b>1QFY25M</b>
Net Sales	5,962.78	7,280.77	1,912.51
Gross Profit	183.65	399.07	142.51
Operating Profit	44.47	248.82	98.33
Finance Costs	137.05	133.91	38.64
Profit Before Tax	-92.58	114.91	59.69
Profit After Tax	-107.75	98.47	35.36

<b>Ratio Analysis</b>	<b>FY23A</b>	<b>FY24A</b>	<b>1QFY25M</b>
Gross Margin (%)	3.08%	5.48%	7.45%
Operating Margin (%)	0.75%	3.42%	5.14%
Net Margin (%)	-1.81%	1.35%	1.85%
Funds from Operation (FFO) (PKR Millions)	6.50	220.03	77.75
FFO to Total Debt* (%)	0.78%	24.43%	42.92%
FFO to Long Term Debt* (%)	1.84%	77.73%	114.20%
Gearing (x)	0.57	0.56	0.44
Leverage (x)	0.96	0.92	0.80
Debt Servicing Coverage Ratio* (x)	0.62	1.66	2.02
Current Ratio (x)	1.36	1.34	1.38
(Stock in trade + trade debts) / STD (x)	2.38	2.05	2.72
Return on Average Assets* (%)	-3.70%	3.32%	4.67%
Return on Average Equity* (%)	-7.13%	6.43%	8.67%
Cash Conversion Cycle (days)	59.75	46.30	47.31

\*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES					Appendix II
<b>Name of Rated Entity</b>	Shadab Textile Mills Limited				
<b>Sector</b>	Textile				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook/Watch</b>	<b>Rating Action</b>
	<b>RATING TYPE: ENTITY</b>				
	27-Dec-2024	A-	A2	Stable	Maintained
	08-Jan-2024	A-	A2	Negative	Reaffirmed
	02-Dec-2022	A-	A2	Negative	Maintained
22-Nov-2021	A-	A2	Stable	Initial	
<b>Instrument Structure</b>	N/A				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>		<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1	Adeel Khan	CFO	19-Dec-2024	