

## RATING REPORT

## Sunrays Textile Mills Limited

**REPORT DATE:**

October 25, 2024

**RATING ANALYST:**Saeb Muhammad Jafri  
[saeb.jafri@vis.com.pk](mailto:saeb.jafri@vis.com.pk)

Rating Category	RATING DETAILS		Previous Ratings	
	Latest Ratings	Short-term	Long-term	Short-term
Entity	A-	A-1	A-	A-1
Rating Date	October 25, 2024		September 28, 2023	
Rating Action	Reaffirmed		Reaffirmed	
Rating Outlook/Watch	Stable		Stable	

## COMPANY INFORMATION

Incorporated in 1987

External auditors: M/s Yousuf Adil, Chartered Accountants

Public Limited Company

CEO: Mr. Kashif Riaz

## Key Shareholders:

Mr. Kashif Riaz- 20.65%

Ms. Fadia Kashif- 11.66%

Mr. Shahzad Ahmad -9.40%  
Mr. Irfan Ahmad- 8.51%

## 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>

## Sunrays Textile Mills Limited

OVERVIEW OF  
THE  
INSTITUTION

## RATING RATIONALE

***Sunrays Textile Mills Limited*** was incorporated in Pakistan on August 27, 1987, as a public limited company. The principal activity of the Company is manufacturing and sale of yarn. The manufacturing facilities of the Company are located in Dera Ghazi Khan, Punjab.

**Company Profile**

Sunrays Textile Mills Limited (SUTM' or 'the Company') is a part of the Indus Group of Companies which is a sizeable player in the country's textile business. Within the textile sector, Indus Group has over five decades of experience and operates through five entities. The group is primarily engaged in the business of cotton ginning, yarn spinning, and home textiles (primarily towel business). Furthermore, the group also has a presence in the power sector through exposure in wind power project of 50MW by the name of Indus Wind Energy Limited.

Principal activities of SUTM include trade, manufacture and sale of yarn. The head office of the Company is located in Karachi with the manufacturing facility located at Khanpur Shumali khewat no. 359, District Muzaffargarh, Dera Ghazi Khan Division, Punjab.

**Operations & Capacity Utilization**

Production Capacity and Utilization	FY22A	FY23A	FY24A
Number of Spindles Installed	34,896.00	34,896.00	34,896.00
Number of Spindles Worked	34,802.00	33,882.00	34,550.00
Number of Rooters Installed	-	-	6,000
Number of Rooters Worked	-	-	5,355
Installed Capacity - yarn Mln lbs. (Avg. 20 Count)	11.92	11.92	21.08
Actual Production - yarn Mln lbs. (Avg. 20 Count)	11.43	9.98	18.41
<b>Utilization (%)</b>	<b>95.92%</b>	<b>83.75%</b>	<b>87.33%</b>

In FY24, a marginal recovery in overall capacity utilization was observed. Despite the expansion in total capacity, the company achieved a higher utilization rate compared to the previous year. Consequently, actual production also registered an increase during the period. The Company added a new plant with ten new rotor machines starting operations in August 2023, resulting in an addition of 6,000 new rooters installed out of which 5,355 were worked during the year.

**Key Rating Drivers**

**Business risk profile characterized by challenging local and global economic and geopolitical conditions, and intense competition on a global level as an export-oriented industry.**

Assigned ratings incorporate the medium to high business risk profile of the textile sector in Pakistan, marked by high exposure to economic cyclicalities and intense competition. The sector's performance is influenced by broader economic conditions, rendering it susceptible to demand fluctuations driven by economic factors. Furthermore, as a substantial contributor to total exports, the textile industry faces exposure to global economic cyclicalities, geopolitical challenges, and liquidity constraints due to government delays in sales tax refunds.

Moreover, the industry is also sensitive to supply-side risks, including local cotton crop production which impacts margins, and reliance on imported raw materials, exposing the sector to significant exchange rate risk and government import restrictions.

Despite these challenges, textile companies have demonstrated resilience by maintaining operational efficiency, consistent product quality, strategic raw material procurement, and better supply chain control, achieving economies of scale and managing risks associated with the volatile business environment.

**Stable topline despite economic challenges. Margins remain strained by escalating energy costs during the period.**

In FY24, the Company reported sales of PKR 20,148 million (FY23: PKR 9,654 million), reflecting an increase of 108.70% year-over-year. This growth was primarily supported by a 126% rise in exports to PKR 13,869 million (FY23: PKR 6,135 million), with indirect exports showing a significant increase of 238%, while direct exports registered a comparatively lower rise of 60%. Gross local sales also demonstrated an improvement of 80% during the same period.

Gross margins stood at 7.96% (FY23: 6.66%), reflecting limited improvement despite higher sales and increased pricing, as input costs continued to rise. The increase in input costs was attributable to inflationary pressures and higher gas and power tariffs. While some efficiencies were realized from the installation of new machinery.

**Manageable capitalization profile**

The company's capitalization profile has historically remained conservative. However, in recent years, gearing and leverage ratios have increased, primarily due to ongoing BMR initiatives, capacity expansion projects, and higher working capital requirements driven by lower funds from operations, following a decline in operational profitability. In FY24, the gearing ratio increased to 0.78x (FY23: 0.49x, FY22: 0.19x), with leverage rising to 1.08x (FY23: 0.64x, FY22: 0.30x), largely as a result of higher short-term debt utilization. Despite these increases, the company's capitalization metrics remain comparatively conservative relative to industry peers.

**Constrained profitability margins together with an escalation of finance costs have squeezed the coverage profile of the Company, albeit remaining strong. Ratings are further supported by a healthy liquidity profile.**

During FY24, the Company's Funds from Operations (FFO) continued to face pressure due to strained operational profitability and an increased financial burden arising from higher borrowings under a high-interest rate environment. Consequently, the debt service coverage ratio (DSCR) stood at 1.55x, lower than the historical average of 7.91x but showed an improvement compared to 1.41x in the prior year. The coverage profile remains consistent with the assigned ratings.

The current ratio of the Company decreased to 1.88x in FY24 (FY23: 3.80x). Despite the reduction, the current ratio also remains consistent with the assigned ratings.

**Sunrays Textile Mills Limited**
**Appendix I**

<b>Financial Summary</b>			
<b>Balance Sheet (PKR Millions)</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24A</b>
Property, plant and equipment	4,224.02	7,336.40	7,583.55
Long-term Investments	190.85	190.85	190.85
Stock-in-trade	2,188.60	2,251.85	2,395.39
Trade debts	765.42	1,181.30	3,068.46
Short-term Investments	0.00	0.00	0.00
Cash & Bank Balances	96.65	50.40	83.99
Other Assets	2,455.27	1,390.62	2,093.13
<b>Total Assets</b>	<b>9,920.81</b>	<b>12,401.42</b>	<b>15,415.37</b>
Creditors	175.61	150.63	492.63
Long-term Debt (incl. current portion)	1,119.39	2,918.11	2,931.65
Short-Term Borrowings	0.00	191.10	2,285.39
<b>Total Debt</b>	<b>1,119.39</b>	<b>3,109.21</b>	<b>5,217.04</b>
Other Liabilities	522.97	792.32	1,502.27
<b>Total Liabilities</b>	<b>1,817.97</b>	<b>4,052.16</b>	<b>7,211.94</b>
Paid up Capital	207.00	207.00	207.00
Revenue Reserve	5,760.42	6,155.30	6,455.84
Other Equity (excl. Revaluation Surplus)	3.60	3.60	3.60
<b>Equity (excl. Revaluation Surplus)</b>	<b>5,971.02</b>	<b>6,365.90</b>	<b>6,666.44</b>
<b>Income Statement (PKR Millions)</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24A</b>
Net Sales	9,757.68	9,459.22	20,148.88
Gross Profit	2,600.51	629.84	1,604.62
Operating Profit	2,128.28	540.02	1,505.99
Finance Costs	65.91	124.13	1,023.05
Profit Before Tax	2,062.37	415.89	482.94
Profit After Tax	1,909.81	287.82	177.19
<b>Ratio Analysis</b>	<b>FY22A</b>	<b>FY23A</b>	<b>FY24A</b>
Gross Margin (%)	26.65%	6.66%	7.96%
Operating Margin (%)	21.81%	5.71%	7.47%
Net Margin (%)	19.57%	3.04%	0.88%
Funds from Operation (FFO) (PKR Millions)	2,128.67	307.74	794.48
FFO to Total Debt* (%)	190.16%	9.90%	15.23%
FFO to Long Term Debt* (%)	190.16%	10.55%	27.10%
Gearing (x)	0.19	0.49	0.78
Leverage (x)	0.30	0.64	1.08
Debt Servicing Coverage Ratio* (x)	10.79	1.41	1.55
Current Ratio (x)	6.41	3.80	1.88
(Stock in trade + trade debts) / STD (x)		18.54	2.50
Return on Average Assets* (%)	24.04%	2.58%	1.27%
Return on Average Equity* (%)	37.78%	4.67%	2.72%
Cash Conversion Cycle (days)	130.76	126.85	81.42

\*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES					Appendix II
<b>Name of Rated Entity</b>	Sunrays Textile Mills Limited				
<b>Sector</b>	Textiles				
<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</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	Oct-25-2024	A-	A-1	Stable	Reaffirmed
	Sep-28-2023	A-	A-1	Stable	Reaffirmed
	Aug-22-2022	A-	A-1	Stable	Reaffirmed
	June-08-2021	A-	A-1	Stable	Maintained
	Apr-22-2020	A-	A-1	Rating Watch-Developing	Maintained
Dec-30-2019	A-	A-1	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.				
<b>Disclaimer</b>	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 2024 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
<b>Due Diligence Meetings Conducted</b>	<b>Name</b>		<b>Designation</b>		<b>Date</b>
	Mr. Sheikh Shafqat Masood		Director		
	Mr. Yasir Anwar		Group Chief Financial Officer		10 Oct 2024