

## SUNRAYS TEXTILE 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         |
| RATING OUTLOOK/ WATCH | Stable            |            | Stable           |            |
| RATING ACTION         | Reaffirmed        |            | Reaffirmed       |            |
| RATING DATE           | December 26, 2025 |            | October 25, 2024 |            |

**Shareholding (5% or More)**

CEO, Directors & Family - ~58%

Others - ~42%

**Other Information**

Incorporated in 1987

Public Limited Company (Listed)

Chief Executive: Mr. Kashif Riaz

External Auditor: Yousuf Adil Chartered Accountants

**Applicable Rating Methodology**

VIS Entity Rating Criteria Methodology – Corporates Ratings

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

**Rating Scale**

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

**Rating Rationale**

The assigned ratings consider stable revenues in FY25 and 1QFY26 despite a subdued outlook for the textile spinning sector. Profitability remained modest, with gross and operating margins remaining broadly stable year-on-year, though softening in 1QFY26 due to operational cost pressures. Capital structure remained moderately leveraged, with a slight increase in borrowings to fund working capital requirements, while the equity base strengthened on account of profit retention. Liquidity indicators remained adequate, with a stable current ratio; however, higher inventory levels and elevated receivables lengthened the operating cycle. Debt coverage metrics, though manageable in FY25, weakened to 1QFY26 on account of negative FFO.

Going forward, a rebound in profitability indicators, improvement in gearing levels, along with sustained stability in liquidity metrics, will remain critical to underpin the assigned ratings.

## Company Profile

Sunrays Textile Mills Limited ('SUTM' or 'the Company') incorporated in 1987 under the repealed Companies Ordinance, 1984 (now Companies Act, 2017) is a public limited company listed on the Pakistan Stock Exchange. The Company is engaged in manufacture, trade and sale of yarn. The registered office and manufacturing facilities are in Karachi and Muzaffargarh, respectively.

## 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 eleven members, comprising of the Chairman, Mr. Imran Ahmed; CEO, Mr. Kashif Riaz along with seven non-executive directors and one executive director reflecting a balance between management control and independent oversight.

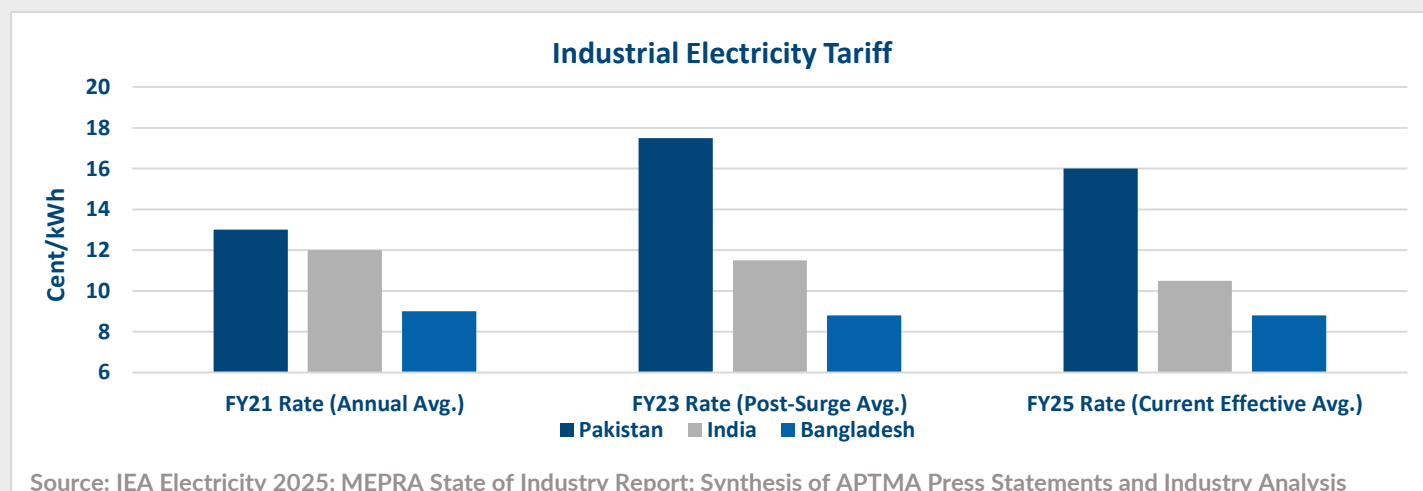
The Board has three committees comprising of Audit, Human Resource and Remuneration Committees, to ensure effective oversight of financial reporting, risk governance and human capital management. The committees are appropriately represented by the executive and independent board members. The management is spearheaded by Mr. Kashif Riaz, a seasoned professional along with experienced professionals in the management team ensuring oversight and strategic execution.

## Business Risk

### INDUSTRY UPDATE:

The textile spinning sector's risk profile remains elevated, despite total textile exports for FY25 reaching USD 17.9 billion (FY24: USD 16.7 billion). This growth, driven by value-added exports, masks a widening profitability gap and intense pressure on upstream spinners in FY25-1QFY26.

Sectoral vulnerability is driven by three core factors: non-competitive energy, acute raw material constraints and adverse tax policies. Pakistan's industrial electricity tariff (~12.3 cents/kWh) is nearly double that of its direct competitor, India (~6.3 cents/kWh). This cost disparity is the primary structural impediment, severely inflating conversion costs and eroding margins.



Domestic cotton output (~5.5 million bales) falls severely short of the annual demand (~12 million bales), necessitating heavy reliance on costlier imports. This shortage risk is compounded by a structural tax anomaly introduced in the FY25 budget. Previously, the Export Facilitation Scheme (EFS) allowed exporters to procure virtually zero-rated inputs for sales tax, preventing capital lock-up. The current budget, however, imposed 18% sales tax on imported cotton and yarn under the scheme. This immediate tax requirement forces firms to pay sales tax upfront, locking up capital with the FBR. The resulting dependence on the notoriously slow and inefficient sales tax refund mechanism severely elevates working capital risk, compels companies to secure more expensive financing to bridge the liquidity gap and ultimately increases the net cost of raw materials.

Market-related risks are compounding. Basic commodity cotton yarn exports suffered a severe contraction, declining by 28.8% to USD 680.7 million in FY25 (FY24: USD 955.5 million) as China utilized domestic cotton reserves. Concurrently, the entry of large, vertically integrated Chinese players under CPEC Phase II is expected to intensify domestic competition, placing local mills with older technology at a significant disadvantage. This challenging environment forces the sector to pivot entirely towards premium differentiation to compete with regional giants like Bangladesh.

Financial strain has intensified due to the historically high PKR/USD exchange rate and an elevated tax burden (~29% effective rate) following the transition from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR) and Super Tax. Under the FTR, export profits were subject to nominal fixed rates, whereas the NTR applies the full corporate tax rate of 29%, with Super Tax further increasing the liability, thereby compressing net margins and exerting additional pressure on cashflows across the export-oriented textile sector. While monetary easing (policy rate cut to 11% in 2025) offers incremental relief, it remains insufficient to offset deep-seated structural cost weaknesses. Sustained viability hinges critically on urgent energy cost rationalization and continuous modernization.

## OPERATIONAL PROFILE

| Capacity Utilization  | FY23       | FY24       | FY25       |
|---|------------|------------|------------|
| Number of spindles installed                                    | 34,896     | 34,896     | 34,896     |
| Number of spindles worked                                       | 33,882     | 34,550     | 32,550     |
| Number of rooters installed                                     | -          | 6,000      | 6,000      |
| Number of rooters worked  | -          | 5,355      | 5,951      |
| Number of shifts/day  | 3          | 3          | 3          |
| Installed capacity after conversion into 20/s count (Kg)        | 12         | 21         | 21         |
| Actual production of yarn after conversion into 20/s count (Kg) | 10         | 18         | 19         |
| <b>Capacity Utilization</b>                                     | <b>84%</b> | <b>87%</b> | <b>90%</b> |

The Company has not undertaken any capacity expansion in recent years apart from the installation of ten new rotor machines in FY24. During FY25, operational performance remained stable, with a marginal increase in actual production reflecting a marginally higher capacity utilization relative to FY24. Furthermore, the management has no expansion plans going forward.

Indus Group's total installed capacity stands at 65.9 MW, diversified across electricity, gas and solar energy sources. ILL's operations account for 6.3 MW of this capacity, with electricity from the national grid constituting the largest share (80%), supported by solar energy (20%) and minimal gas usage (0.3%), reflecting a focus on energy efficiency and sustainability.

## PROFITABILITY:

In FY25, revenue stood at PKR 19.3 billion (FY24: PKR 20.1 billion), reflecting lower average selling prices. The sales mix shifted to 14:86 between export and local sales in FY25 (FY24: 29:36:36 for export, local and indirect exports), primarily due to the withdrawal of the export-oriented tax regime under the Finance Act 2024. As a result, indirect export sales amounting to PKR 7.7 billion in FY24 were reclassified as local sales following the removal of related fiscal incentives.

Gross profit amounted to PKR 1.5 billion in FY25 (FY24: PKR 1.6 billion), with gross margin remaining stable at 7.8% (FY24: 8.0%). Operating profit stood at PKR 1.4 billion (FY24: PKR 1.5 billion), corresponding with an operating margin of 7.1% (FY24: 7.5%), supported by other income, including unrealized gains on securities and interest income. Net profit was recorded at PKR 77 million (FY24: 177 million), with net margin remaining thin at 0.4% (FY24: 0.9%), reflecting a modest increase in finance costs despite lower interest rates driven by higher short-term borrowings.

In 1QFY26, revenue continued to be stable at PKR 4.9 billion (1QFY25: PKR 4.8 billion) compared to the same period last year (SPLY). However, profitability indicators softened in the face of operational cost pressures including power and fuel costs. Gross profit declined to PKR 180

million (1QFY25: PKR 396 million), resulting in a gross margin of 3.7% (1QFY25: 8.2%), which in turn weighed on operating performance. Consequently, operating profit fell to PKR 234 million (1QFY25: PKR 303 million), with operating margin narrowing to 4.8% (1QFY25: 6.3%), despite support from unrealized gains on securities. Net profit stood at PKR 11 million (1QFY26: PKR 73 million) margin remained thin at 0.2% (1QFY25: 1.5%).

Looking ahead, management projects margins will remain at current low levels despite the removal of the export-oriented tax for listed companies under the Finance Act 2024.

## Financial Risk

### CAPITAL STRUCTURE:

At end-1QFY26, SUTM's capital structure remained moderately leveraged with tier 1 equity reaching PKR 6.9 billion (FY25: PKR 6.8 billion; FY24: 6.7 billion). Total debt increased due to higher short-term borrowings amounting to PKR 5.6 billion (FY25: PKR 5.5 billion; FY24: PKR 2.3 billion) to support working capital requirements amid continued negative operational cashflows. On the other hand, long-term debt marginally declined to PKR 2.4 billion (FY25: 2.5 billion; FY24: PKR 2.7 billion) due to ongoing maturities. Long-term facilities, including LTFF with a mark-up rate of SBP + 0.5%-1.25% along with Renewable Energy, Demand and Term Finance between 3M KIBOR +1.75% and 6M KIBOR +1%. Consequently, gearing and leverage rose to 1.24x (FY25: 1.23x; FY24: 0.78x) and 1.59x (FY25: 1.61x; FY24: 1.08x), respectively.

Looking ahead, with no new CAPEX planned, long-term borrowings are expected to decline in line with maturities, however, the Company's capital structure will remain sensitive to internal cash generation.

### DEBT COVERAGE & LIQUIDITY:

The Company's liquidity profile remained adequate in FY25, with a stable current ratio of 1.50x and short-term investments of PKR 748 million (FY24: 532 million), though short-term debt coverage moderated to 1.59x (FY24: 2.39x) due to higher short-term borrowings to fund elevated working capital requirements. The operating cycle lengthened to 147 days (FY24: 84 days), reflecting higher inventory and receivables amid a larger share of local sales. Despite a decline in Funds from Operations (FFO) attributable to higher financial charges and tax payments, the Debt Servicing Capacity Ratio (DSCR) remained at a manageable at 1.01x (FY24: 1.42x).

Early trends in 1QFY26 point to a modest moderation, with current ratio stable at 1.50x (1QFY25: 1.67x) and short-term debt coverage at 1.61x (1QFY25: 1.90x). The operating cycle elongated to 146 days (1QFY25: 119 days) compared to SPLY, while short-term investments increased to PKR 861 million. Debt coverage came under pressure as FFO turned negative despite reporting a net profit due to negative cashflows from operations. Resulting in DSCR declining sharply to 0.43x (1QFY25: 1.13x), highlighting the need for continued focus on cash flow generation and working capital management to sustain liquidity and debt servicing capacity going forward.

| Financial Summary                      |              |              |              | (PKR Million)  |
|--|--------------|--------------|--------------|----------------|
| <b>BALANCE SHEET</b>                   | <b>FY23A</b> | <b>FY24A</b> | <b>FY25A</b> | <b>1QFY26M</b> |
| Property, Plant, & Equipment           | 7,162        | 7,584        | 8,361        | 8,265          |
| Stock-in-Trade                         | 2,252        | 2,395        | 4,250        | 4,317          |
| Trade Debts                            | 1,181        | 3,068        | 4,442        | 4,753          |
| Short-term Investments                 | -            | 532          | 748          | 861            |
| Cash & Bank Balances                   | 45           | 84           | 79           | 46             |
| Total Assets                           | 12,401       | 15,415       | 20,109       | 20,007         |
| Trade and Other Payables               | 599          | 976          | 1,215        | 1,383          |
| Long Term Debt (Inc. Current Maturity) | 2,918        | 2,932        | 2,918        | 2,864          |
| Short Term Debt                        | 191          | 2,285        | 5,474        | 5,632          |
| Total Debt                             | 3,109        | 5,217        | 8,393        | 8,496          |
| Total Liabilities                      | 4,052        | 7,212        | 10,958       | 10,868         |
| Paid Up Capital                        | 207          | 207          | 207          | 207            |
| Tier 1 Equity                          | 6,366        | 6,666        | 6,812        | 6,852          |
| Total Equity                           | 8,349        | 8,203        | 9,152        | 9,162          |
|  |              |              |              |                |
| <b>INCOME STATEMENT</b>                |              |              |              |                |
| Net Sales                              | 9,459        | 20,149       | 19,257       | 4,859          |
| Gross Profit                           | 630          | 1,605        | 1,503        | 180            |
| Other Income                           | 349          | 465          | 464          | 183            |
| Operating Profit                       | 540          | 1,506        | 1,370        | 234            |
| Profit Before Tax                      | 416          | 483          | 310          | 41             |
| Profit After Tax                       | 288          | 177          | 77           | 11             |
|  |              |              |              |                |
| <b>RATIO ANALYSIS</b>                  |              |              |              |                |
| Gross Margin (%)                       | 6.7%         | 8.0%         | 7.8%         | 3.7%           |
| Operating Margin (%)                   | 5.7%         | 7.5%         | 7.1%         | 4.8%           |
| Net Margin (%)                         | 3.0%         | 0.9%         | 0.4%         | 0.2%           |
| Net Working Capital                    | 3,527        | 3,837        | 3,837        | 3,837          |
| Trade debts/Sales (%) *                | 12.5%        | 15.2%        | 23.1%        | 24.5%          |
| FFO                                    | 328          | 796          | 483          | (116)          |
| FFO (Annualized) *                     | 328          | 796          | 483          | (463)          |
| FFO to Total Debt (x)                  | 0.11         | 0.15         | 0.06         | (0.05)         |
| FFO to Long Term Debt (x)              | 0.11         | 0.27         | 0.17         | (0.16)         |
| Debt Servicing Coverage Ratio (x) *    | 1.85         | 1.42         | 1.01         | 0.43           |
| Current Ratio (x)                      | 3.80         | 1.88         | 1.50         | 1.50           |
| Stock + Trade Debts/STD                | 17.97        | 2.39         | 1.59         | 1.61           |
| Gearing (x)                            | 0.49         | 0.78         | 1.23         | 1.24           |
| Leverage (x)                           | 0.64         | 1.08         | 1.61         | 1.59           |
| ROAA (%) *                             | 2.6%         | 1.3%         | 0.4%         | 0.2%           |
| ROAE (%) *                             | 4.7%         | 2.7%         | 1.1%         | 0.6%           |
| Net Operating Cycle *                  | 114          | 84           | 147          | 146            |
| *Annualized, if required               |              |              |              |                |
| A - Actual Accounts                    |              |              |              |                |
| M - Management Accounts                |              |              |              |                |
| P - Projected Accounts                 |              |              |              |                |

## REGULATORY DISCLOSURES

## Appendix II

|                                  |   |                           |             |                           |               |
|----------------------------------|---|---------------------------|-------------|---------------------------|---------------|
| Name of Rated Entity             | Sunrays Textile Mills Limited   |                           |             |                           |               |
| Sector                           | Textile Spinning  |                           |             |                           |               |
| Type of Relationship             | Solicited   |                           |             |                           |               |
| Purpose of Rating                | Entity Ratings  |                           |             |                           |               |
| Rating History                   | Rating Date   | Medium to Long Term       | Short Term  | Rating Outlook            | Rating Action |
|                                  | RATING TYPE: ENTITY   |                           |             |                           |               |
|                                  | 26/12/2025  | A-                        | A1          | Stable                    | Reaffirmed    |
|                                  | 25/10/2024  | A-                        | A1          | Stable                    | Reaffirmed    |
|                                  | 29/09/2023  | A-                        | A1          | Stable                    | Reaffirmed    |
|                                  | 22/08/2022  | A-                        | A1          | Stable                    | Reaffirmed    |
|                                  | 08/06/2021  | A-                        | A1          | Stable                    | Maintained    |
|                                  | 22/04/2020  | A-                        | A1          | Rating Watch - Developing | Maintained    |
|                                  | 30/12/2019  | A-                        | A1          | 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.  |                           |             |                           |               |
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| Due Diligence Meetings Conducted |   | Name                      | Designation | Date                      |               |
|                                  |   | Mr. Sheikh Shafqat Masood | Director    | 12th November 2025        |               |
|                                  |   | Mr. Yasir Anwar           | Group CFO   |                           |               |