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SURAJ COTTON MILLS LIMITED

Chairman & Chief Executive: Khalid Bashir & Nadeem Maqbool

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	May 7, 2025		February 9, 2024	

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>)

RATING RATIONALE

Suraj Cotton Mills Limited ('SURC' or the 'Company') is a publicly listed company, engaged in production and sale of yarn and fabric for the local textile companies. Challenges in the domestic textile sector, mainly input costs and intense regional competition, contributed to elevated business risk. The Company capitalized on growing demand, fueling a notable increase in its net sales during the outgoing year. Hence, higher profitability led to improved cash flows, strengthening debt servicing coverage and reducing leverage ratios. Additionally, the Company's liquid assets provided a partial cover against liquidity risk. Going forward, maintaining stable profit margins, and debt coverages will be key factors from the ratings perspective.

COMPANY PROFILE

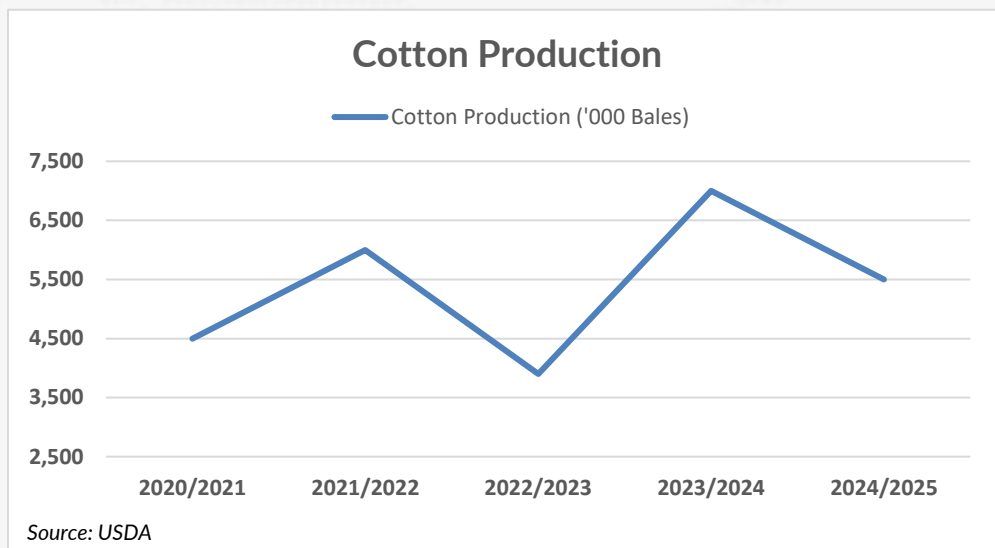
Suraj Cotton Mills Limited ('SURC' or the 'Company') was incorporated in 1984 and commenced its commercial operations in 1985. The principal business of the Company is manufacture and sale of yarn, cloth, as well as processing of fabric. The registered office of the Company is located at Gulberg II, Lahore.

INDUSTRY PROFILE & BUSINESS RISK

The business risk profile of Pakistan's textile sector is shaped by economic cyclicity, intense competition and structural challenges. The sector is highly sensitive to domestic and international demand fluctuations, making it vulnerable to broader economic conditions.

PKR MILLION	FY23	FY24	9MFY25
Net Sales	18,860	29,744	21,201
PBT	(115)	1,973	1,438
PAT	(412)	1,006	807
Paid up call	444	488	488
Equity (incl. surplus on PEE)	10,797	12,135	13,172
Total Debt	5,281	4,602	4,083
Debt Leverage (x)	0.94	0.89	0.80
Gearing (x)	0.48	0.38	0.32
FFO	(201)	1,845	1,212
FFO/Total Debt (x)*	-0.04	0.40	0.59
NP Margin	-2.2	3.4	3.8

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. While the USDA projects a rebound to 5.55 million bales in FY25 contingent upon overcoming several obstacles, including a shrinking area for cotton cultivation, rising energy costs and climatic challenges e.g. heatwaves, floods and pest infestations which have further strained yields.



Despite the domestic cotton production challenges, textile exports in 1QFY25 have grown, largely driven by increased reliance on competitively priced imported cotton and a focus on the value-added segment of the industry. As global textile demand recovers, profitability for Pakistan's textile exporters will depend on cotton market dynamics, inflation and foreign exchange fluctuations. Rising fuel and power costs remain significant challenges to the sector's cost structures.

A key issue is the 23% gas price hike for captive power plants, starting March 2025, as part of Pakistan's IMF agreement. Gas prices are set to rise to PKR 4,291 per mmBtu, reaching PKR 6,000 per mmBtu by August 2026. This increase combined with the shift from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR), will further pressure textile manufacturers' financial performance. Rising input costs and regulatory changes are creating a challenging environment for the sector.



Product Profile & Capacity

The Company currently has 123,546 spindles and 358 looms installed across three units in Nooriabad (Sindh), Raiwind and Shahkot (Punjab), with an annual cumulative capacity of 58.6m kgs of yarn and 189.9m Sq Mtr. of fabric, respectively.

During FY24, production figures depicted a notable growth compared to the previous year, attributed to the rebound in demand orders. Installed capacities, actual production and capacity utilization are tabulated below:

Table: Capacity & Production Data

Capacity (Figures in thousand)	FY22	FY23	FY24
Spinning Unit:			
Installed Capacity (kgs)	55,216	55,216	58,577
Actual Production (kgs)	52,392	29,354	49,803
Capacity Utilization %	95%	53%	85%
Weaving Unit:			
Installed Capacity (Sq. Mtr.)	130,654	130,654	189,873
Actual Production (Sq. Mtr)	104,755	79,790	140,619
Capacity Utilization %	80%	61%	74%

FINANCIAL RISK

Resurgence in demand led to a marked improvement in net sales in FY24, stabilizing in the ongoing period. Concurrently, enhanced profitability resulted in a surge in cash flows, enhancing debt service coverages. Moreover, capitalization ratios also improved in the review period. The current ratio stands at comfortable level, the Company's portfolio of liquid assets provides additional comfort. While the ratings take into account recovery in financial performance of the Company over the review period, positive momentum in volumetric offtake, stability in profit margins

and augmenting debt coverages, will be important factors from the ratings perspective.

Capital Structure

Tier-1 equity (excluding revaluation surplus) increased to PKR 12.7b (end-FY24: PKR 12.0b, end-FY23: PKR 11.0b) by end-9MFY25 due to profit retention. This increase in equity base combined with lower total borrowings resulted in improved capitalization ratios. Gearing and leverage decreased to 0.32x (end-FY24: 0.38x, end-FY23: 0.48x) and 0.80x (end-FY24: 0.89x, end-FY23: 0.94x) respectively by end-9MFY25. Furthermore, the Company's healthy liquid assets portfolio of cash and bank balances and short-term investments amounting to PKR 2.6b (Jun'24: PKR 2.2b, Jun'23: PKR 744.1m) as of Mar'25, provide ample support to servicing of working capital finance.

Profitability

SURC is primarily involved in sales of yarn and greige fabric to local textile companies and possesses strong, long-term relationships with its foreign and domestic suppliers. Local sales contribute around 97-98% to the topline including sales to well established textile companies such as Diamond Fabrics Limited, Kohinoor Textile Mills Limited, Sadaqat Limited and Gul Ahmed Textile Mills Limited. During FY24 and 9MFY25, sales mix has skewed slightly towards greige fabric due to growing demand for locally available fabric. Customer-wise sales mix was mostly similar from the preceding years. Top 5 customers contributed around 40% of sales (FY23: 20%, FY22: 22%).

The Company's volumetric sales recovered from the previous year increasing by 43.1% in FY24. Yarn sales rose 51.2%, while fabric sales increased by 43.0% in terms of volumes in FY24, reflecting recovery in demand. This growth in volumes resulted in a healthy increase of 62.5% in net revenue (FY24: PKR 29.2b, FY23: PKR 18.4b) in FY24.

Table: Segment wise performance

Operating segments sales			
(PKR in m)	FY23	FY24	9MFY25
Yarn	10,378.2	14,438.4	8,514.6
Greige fabric	8,462.9	15,305.9	12,686.1
Cotton	19.2	-	-

Gross margin improved to 8.1% (FY23: 2.4%) in FY24 on account of favorable pricing adjustments. Operating expenses increased to PKR 605.0m (FY23: PKR 470.4m) due to inflationary pressure, and financial charges rose to PKR 407.3m (FY23: PKR 319.9m) due to high policy rates in FY24. Taxation expense significantly increased to PKR 738.0m (FY23: PKR 18.8m) due to a preceding year deferred tax adjustment. Counterbalancing these, other income notably increased to PKR

769.1m (FY23: PKR 332.0m) driven by higher dividend income, profit on deposits, credit loss reversal, and investment gains. Profitability rebounded strongly with net profit of PKR 1.0b and net margin of 3.4% in FY24, from a net loss from the previous year, largely on account of recovery in topline and stronger gross margin.

In 9MFY25, topline decreased slightly taking on the impact of slower early season offtake while gross margin (9MFY25: 7.7%) was stable. Net profit decreased slightly to PKR 807.2m (9MFY24: PKR 952.3m) with marginal decline in net margin to 3.8% (1HFY24: 4.1%), attributable to higher taxation in 9MFY25. For the full FY25, the management anticipates topline to reach PKR 34b while profit margins are likely to remain unchanged.

Debt Coverage & Liquidity

Improved cash flows strengthened debt servicing in FY24. FFO (funds from operations) rose to PKR 2.0b compared to negative FFO reported in FY23. Resultantly, FFO to total debt strengthened to 0.40x, while DSCR (debt servicing coverage ratio) significantly improved to 2.34x (FY23: 0.09x) in FY24. Furthermore, decrease in FFO and higher repayment of long-term debt in 9MFY25, led to a lower DSCR of 1.47x. Short-term debt coverage increased to 8.93x (end-FY23: 7.23x) at end-FY24. Short-term debt coverage stood at 21.82x by end-9MFY25, reflecting decrease in short term debt with a corresponding increase in trade debts.

Current ratio increased to 2.12x (end-FY24: 2.01x, end-FY23: 1.85x) by end-9MFY25 on account of higher short-term investments and sustained reduction in short-term borrowings. The Company's cash conversion cycle remained intact at 67 days (FY24: 67, FY23: 109) in 9MFY25.

GOVERNANCE

As a publicly listed entity, SURC is governed by Corporate Governance regulations for listed companies. The Board of Directors (BoD) comprised 8 members, including the CEO, 2 independent directors and 3 non-executive directors. A female member is also present on the board as an independent director. The BoD is chaired by Mr. Khalid Bashir while the CEO is Mr. Nadeem Maqbool. Meetings are convened on a quarterly basis. The Board was elected in October 2022. Out of the 8 directors, 7 are exempt from Directors' training program. The Company has planned to arrange Directors' Training Program certification for remaining one director before 30 June 2025. For effective oversight, the board has formed three committees namely Audit Committee, HR Nomination & Remuneration Committee and Risk Management Committee comprising of three, four and three members, respectively. The Company continues to engage Riaz Ahmad & Co. Chartered Accountants as external auditors which is included in category 'A' of the approved list of auditors published by the State Bank of Pakistan (SBP).

FINANCIAL SUMMARY				(Rs in m)
BALANCE SHEET	FY22	FY23	FY24	9MFY25
Operating fixed assets	7,830.4	9,118.5	8,462.1	8,692.2
Long term investments	772.2	625.6	1,028.8	1,236.3
Stock in trade	6,164.6	5,819.1	5,964.7	5,828.3
Trade debts	2,604.8	3,046.7	2,756.2	3,564.0
Short term investments	1,623.0	601.5	1,870.3	1,547.1
Cash and bank balances	420.7	142.6	378.8	346.1
Total Assets	20,665.5	21,177.1	22,847.0	23,205.0
Long term borrowings	3,850.6	4,054.5	3,624.8	3,922.2
Short term borrowings	726.5	1,226.3	977.0	480.0
Total Borrowings	4,577.1	5,280.8	4,601.8	4,402.2
Trade and other payables	3,013.7	3,279.9	3,788.0	3,997.0
Total Liabilities	9,205.1	10,379.6	10,712.0	10,390.0
Paid up capital	443.7	443.7	488.1	488.1
Tier 1 Equity	11,645.2	11,055.6	12,028.0	12,704.4
INCOME STATEMENT	FY22	FY23	FY24	9MFY25
Net sales	23,500.7	18,860.3	29,744.3	21,200.8
Gross profit	4,684.6	458.0	2,396.2	1,634.5
Operating expenses	551.7	470.4	604.8	361.8
Finance cost	213.9	319.9	407.3	151.2
Profit before tax	3,719.0	(115.3)	1,973.5	1,438.0
Net profit	2,790.5	(412.3)	1,006.4	807.2
RATIO ANALYSIS	FY22	FY23	FY24	9MFY25
Gross margin	19.9%	2.4%	8.1%	7.7%
Net margin	11.9%	-2.2%	4.2%	3.8%
FFO	3,968.2	(201.0)	2,077.0	1,212.5
FFO to total debt (x)*	0.87	(0.04)	0.40	0.44
DSCR (x)*	6.82	0.09	2.34	1.47
Current ratio (x)	2.29	1.85	2.01	2.12
Cash conversion cycle (days)*	102	109	67	67
Short-term debt coverage (x)	12.07	7.23	8.93	21.82
Gearing (x)	0.39	0.48	0.38	0.32
Net gearing (x)	0.22	0.41	0.20	0.12
Leverage (x)	0.79	0.94	0.89	0.80
ROAA*	15.3%	-2.0%	4.6%	4.6%
ROAE*	27%	-3.6%	8.7%	8.5%
*Annualized				

REGULATORY DISCLOSURES					Appendix I
Name of Rated Entity	Suraj Cotton 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
	RATING TYPE: ENTITY				
	May 7, 2025	A+	A1	Stable	Reaffirmed
	February 9, 2024	A+	A1	Stable	Reaffirmed
	December 29, 2022	A+	A1	Stable	Reaffirmed
	December 1, 2021	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.				
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Due Diligence Meetings Conducted	Name	Designation		Date	
	Mr. Naeem Sheikh	CFO		09-Apr-2025	