VIS
Credit Rating Company Limited

RATING REPORT

SURAJ COTTON 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	July 22, 2026		May 7, 2025	

Shareholding (5% or More)	Other Information
Crescent Powertec Limited – 44.19%	Incorporated in 1984
Mrs. Humera Iqbal – 7.44%	Public Limited Company (Listed)
Mr. Adil Bashir – 7.18%	Chief Executive: Mr. Nadeem Maqbool
Mr. Ahsan Bashir – 6.10%	External Auditor: Riaz Ahmad & Co. 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

SURC benefits from its longstanding presence in the spinning and weaving segments of the local textile sector, supported by an established, albeit concentrated, customer base. The Company's financial risk profile is underpinned by increase in net margin, comfortable capitalization metrics, and a strong liquidity profile.

Although topline growth moderated amid challenging macroeconomic conditions, profitability remained broadly stable, supported in part by sizable other income from investments. Healthy cash flow generation continued to underpin strong debt coverages. Going forward, the Company's ability to maintain profitability and operational stability amid volatile sector dynamics will remain an important consideration for the ratings.

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Company Profile

Suraj Cotton Mills Limited ('SURC' or 'the Company') was incorporated in 1984 subsequently listed at the PSX and commenced commercial operations in 1985. The Company is principally engaged in the manufacture and sale of yarn and fabric mainly to local textile companies, with some direct exports.

The Company produces a wide range of yarns, primarily from natural fibers, including fine-count, knitting, and coarse yarns. It also manufactures wider-width greige fabric. These products are mainly supplied to the home textile segment, while a smaller portion caters to the apparel industry.

The registered office of the Company is located in Lahore, while its production facilities are situated in Karachi, Shahkot, and Raiwind. During FY25, the Company discontinued operations at one of its spinning plants (Karachi unit), pending replacement of the obsolete machinery.

Shareholding

The shareholding of the Company is predominantly concentrated within the Bashir family. Collectively, the sponsoring family, directors, and their spouses directly hold 30.27% of the Company's shares, while an additional 47.53% is held indirectly through associated companies, namely Crescent Powertec Limited and Premier Insurance Limited. The remaining shareholding is distributed among the general public (13.39%), corporate entities, insurance companies, and other investors.

Management and Governance

CHAIRMAN/CEO PROFILE

Khalid Bashir is the Chairman of the Company. He joined the Board in 1998 and also serves as the CEO of Shams Textile Mills Limited. In addition, he holds directorships in several other family businesses, including Crescent Powertec Limited, Crescent Textile Mills Limited, and Premier Insurance Limited.

Nadeem Maqbool serves as the CEO of the Company and has been associated with the Board since 1984. He is the nephew of Khalid Bashir and also serves as a director on the boards of Premier Insurance Limited, Premier Financial Services (Pvt) Ltd, and Crescent Steel & Allied Products Limited.

BOARD & SENIOR MANAGEMENT

The Board comprises eight directors, including three executive directors (including the CEO), three non-executive directors, and two independent directors. The Board is primarily represented by sponsor family members, including Khalid Bashir, his sons — Adil Bashir, Ahsan Bashir, and Asif Bashir — along with his nephew, Nadeem Maqbool. All, except Asif Bashir, are actively involved in the day-to-day operations of the Company.

The Board is supported by various committees, including the Audit Committee, Human Resource, Nomination & Remuneration Committee, and Risk Management Committee.

The financial accounts of the Company are audited by 'Riaz Ahmad & Co.' Chartered Accountants who appear of the category 'A' of the SBP list. The auditor has issued an unqualified opinion on the FY25 accounts.

Business Risk

INDUSTRY UPDATE

During FY25, Pakistan's textile spinning sector has undergone a structural contraction, with over 100 units ceasing operations in the preceding five years. The contraction reflects a combination of competitive, structural and cost-related pressures. Policy distortions under the Export Facilitation Scheme, which allowed duty-free imports, exposed local spinners to intense foreign competition and incentivized reliance on imported yarn. However, the exclusion of yarn and cotton from EFS in the start of FY26 has helped create a more level playing field for the local spinners.

Domestic cotton availability has also declined sharply, with production estimated at ~5.0 million bales in 2025/26 according to the United States Department of Agriculture (USDA), representing a 53% decline from the historical peak of 10.6 million bales in 2014/15 due to climate volatility and structural shift toward alternative crops. Meeting the total industry requirement of 10.6 million bales now requires importing 5.5-6.0 million bales annually, exposing mills to price volatility and supply-side risks. This exposure is further exacerbated by ongoing geopolitical tensions, contributing to shipment delays and supply chain disruptions in cotton imports.

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The weaving segment presents a mixed structural profile, comprising modern mill-based weaving units alongside a large base of conventional power looms. While integrated textile mills have increasingly adopted air-jet and rapier loom technologies to improve productivity and fabric quality, a substantial portion of the estimated loom base continues to consist of older shuttle looms operating with lower efficiency. Nonetheless, export demand for woven fabrics and cotton cloth has remained relatively stable, supported by Pakistan's established position in global textile supply chains. However, sector's growth is expected to remain measured rather than linear.

Operational Performance

As of FY25, the Company's spinning and weaving capacities have moderately declined as part of an ongoing balancing, modernization, and replacement (BMR) initiative, under which underperforming looms and spindles have been phased out. These are planned to be gradually replaced with more efficient machinery, with the Company earmarking approximately PKR 2.5 billion in capital expenditure for this purpose. New machinery for the spinning units has already been ordered and is expected to be installed during the early part of FY27.

During FY25, spinning production witnessed some moderation due to subdued demand and intensified competition from low-priced imports under the Export Facilitation Scheme (EFS), while weaving production recorded a slight improvement. However, overall capacity utilization levels remained healthy across both the segments.

Plant Capacity & Utilization	FY23	FY24	FY25
Spinning			
Installed Capacity (Kgs)	55,216	58,577	57,984
Actual Production (Kgs)	29,354	49,803	46,515
Utilization	**53%**	**85%**	**80%**
Weaving			
Installed Capacity (sq.mtr)	130,654	189,873	159,166
Actual Production (sq.mtr)	79,790	140,619	146,713
Utilization	**61%**	**74%**	**92%**

SURC continues to benefit from its integrated operational structure, whereby a significant portion of yarn produced in-house (approximately 60%–70%) is consumed internally for weaving operations. This provides operational support and partially mitigates the impact of challenging market conditions faced by standalone spinning businesses.

PROFITABILITY

SURC demonstrated moderate topline growth over the years, posting a 4 year CAGR of approximately 12%. In FY25, however, the Company reported revenue of PKR 27.4 billion (FY24: PKR 29.7 billion), reflecting a YoY decline amid challenging sector dynamics. The slowdown was primarily attributable to heightened competition from imported yarn under the Export Facilitation Scheme (EFS), which constrained growth in the spinning segment, while the weaving segment recorded marginal growth.

Client concentration remains relatively high, with the top five customers contributing approximately 51% of total sales in FY25 (FY24: 49%). The management has longstanding relationships with these customers, which ensures operational stability.

Gross margin edged up to 8.3% in FY25 (FY24: 8.1%), supported by higher average pricing. This translated into an improved net margin of 4.1% (FY24: 3.4%), further aided by a lower effective tax rate. Importantly, profitability remained significantly reliant on other income, accounting for ~58% of net profit (FY24: ~76%).

Performance improved during 9MFY26, with revenue reaching PKR 21.9 billion, supported by favorable sector dynamics following the exclusion of yarn and cotton from the EFS scheme, which aided the recovery in yarn sales. Gross margin expanded to 9.5%, driven by improved contribution margin and cost efficiencies from a favourable energy mix. During the period, the Company entered into a gas supply arrangement with a private party, resulting in lower energy costs. Other income contributed around 20% to the bottom line, while the effective tax rate also remained relatively low. Consequently, net margin improved to 5.1%.

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Going forward, management expects FY26 revenue to reach approximately PKR 29 billion, with margins likely to sustain around the current levels.

Financial Risk

CAPITAL STRUCTURE

Over the years, the Company has maintained a comfortable capitalization profile, with gearing and leverage standing at 0.32x and 0.82x, respectively, as of end-FY25. Total debt stood at PKR 4.2 billion, primarily comprising long-term concessional borrowings, which helped contain financing costs.

As of end-9MFY26, the Company had further repaid nearly PKR 1.5 billion in debt, reducing total borrowings to PKR 2.6 billion. Consequently, gearing and leverage improved further to 0.19x and 0.71x, respectively.

Going forward, the Company plans capex of approximately PKR 2.5 billion during FY27 for the replacement of old spindles with new machinery, to be partly funded by debt.

DEBT COVERAGE & LIQUIDITY

The Company's liquidity profile remains strong, with a current ratio of over 2.0x and a cash conversion cycle of 95 days as of FY25. Cash flow generation has also remained healthy amid broadly stable margins, with Funds from Operations (FFO) recorded at PKR 1.7 billion. Accordingly, FFO to total debt stood strong at 0.4x while DSCR was 2.43x.

During 9MFY26, FFO improved on the back of higher margins which, coupled with lower debt levels, further strengthened coverage metrics. The liquidity profile is also supported by a sizable investment portfolio, comprising long-term investments of PKR 1.7 billion and short-term investments of PKR 2.1 billion as at end-9MFY26.

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FINANCIAL SUMMARY *(amounts in PKR millions)* *Appendix I*

BALANCE SHEET	FY21 A	FY22 A	FY23 A	FY24 A	FY25 A	9MFY26 M
Property, Plant and Equipment	5,571	7,830	9,118	8,462	8,547	8,250
Long-term Investment	972	772	626	1,029	1,365	1,779
Stock-in-Trade	3,204	6,165	5,819	5,965	7,390	5,861
Trade debts	1,440	2,605	3,047	2,756	3,221	4,548
Short term Investments	3,211	1,623	602	2,095	1,239	2,160
Cash & bank balance	283	421	143	379	163	258
Total Assets	15,731	20,666	21,177	22,847	24,294	24,532
Long-term debt (inc. current portion)	2,964	3,851	4,055	3,625	3,063	2,627
Short term debt	429	726	1,226	977	1,165	34
Total Debt	3,393	4,577	5,281	4,602	4,228	2,661
Trade & Other payables	2,207	3,014	3,280	3,788	3,836	4,628
Total Liabilities	6,463	9,205	10,380	10,712	10,748	9,997
Paid-Up Capital	403	444	444	488	488	488
Reserves	8,865	11,017	10,354	11,647	13,058	14,047
Total Equity	9,268	11,460	10,797	12,135	13,546	14,536
Tier-1 Equity	9,258	11,645	11,056	12,057	13,122	14,084
INCOME STATEMENT	FY21 A	FY22 A	FY23 A	FY24 A	FY25 A	9MFY26 M
Net Sales	17,375	23,501	18,860	29,744	27,411	21,941
Gross Profit	3,447	4,685	458	2,396	2,287	2,081
Operating Profit	2,959	4,133	(12)	1,791	1,715	1,661
Finance Costs	165	214	320	407	190	104
Profit Before Tax	3,086	3,719	(115)	1,973	2,011	1,626
Profit After Tax	2,559	2,791	(412)	1,006	1,119	1,112
RATIO ANALYSIS	FY21 A	FY22 A	FY23 A	FY24 A	FY25 A	9MFY26 M
Gross Margin (%)	19.8%	19.9%	2.4%	8.1%	8.3%	9.5%
Operating Margin (%)	17.0%	17.6%	-0.1%	6.0%	6.3%	7.6%
Net Margin (%)	14.7%	11.9%	-2.2%	3.4%	4.1%	5.1%
Funds from Operation (FFO) (PKR Mn)	3,198	4,276	41	2,159	1,692	1,801
FFO to Total Debt (x)*	0.94	0.93	0.01	0.47	0.40	0.90
FFO to Long Term Debt (x)*	1.08	1.11	0.01	0.60	0.55	0.91
Gearing (x)	0.37	0.39	0.48	0.38	0.32	0.19
Leverage (x)	0.70	0.79	0.94	0.89	0.82	0.71
Debt Servicing Coverage Ratio (x)*	6.34	7.32	0.39	2.66	2.43	3.49
Current Ratio (x)	2.50	2.29	1.85	2.01	2.06	2.13
(Stock in trade + trade debts) / STD (x)	10.81	12.07	7.23	8.93	9.11	304.67
Return on Average Assets (%) *	16.3%	15.3%	-2.0%	4.6%	4.7%	6.1%
Return on Average Equity (%) *	27.6%	26.7%	-3.6%	8.7%	8.9%	10.9%
Cash Conversion Cycle (days)*	56	102	109	63	95	74

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

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REGULATORY DISCLOSURES						Appendix II
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	Outlook / Rating Watch	Rating Action	
	RATING TYPE: ENTITY					
	22-July 2026	A+	A1	Stable	Reaffirmed	
	7-May 2025	A+	A1	Stable	Reaffirmed	
	9-Feb 2024	A+	A1	Stable	Reaffirmed	
	29-Dec 2022	A+	A1	Stable	Reaffirmed	
	1-Dec 2021	A+	A1	Stable	Initial	
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	S.No.	Name	Designation	Date		
	1.	Naeem Sheikh	CFO	20-May-26		
	2.	Ansab Zafar	Manager Finance			

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