RATING REPORT

Zaman Textile Mills (Private) Limited

REPORT DATE:
March 12, 2025

RATING ANALYSTS:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	**Short-term**	**Long-term**	**Short-term**
Entity	A-	A2	A-	A2
Rating Outlook/Watch	Stable		Stable	
Rating Action	Reaffirmed		Reaffirmed	
Rating Date	*Mar 12, 2025*		*Mar 14, 2024*	

COMPANY INFORMATION

Incorporated in 1969	**External auditors:** Yousuf Adil Chartered Accountants
Private Limited Company	**Chairman of the Board:** Mr. Ebrahim Qassim
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Muhammad Jamil Qassim
Mr. Ebrahim Qasim - 19%	Mrs. Kulsoom Banoo - 11%
Mr. Muhammad Jamil Qassim - 18%	Mrs. Zohra Banoo - 5%
Mr. Muhammad Haroon Qassim - 18%	Mrs. Saba Jamil Qassim - 5%
Mr. Muhammad Salman Qassim - 18%	Mrs. Wazira Parveen - 5%

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

Zaman Textile Mills (Private) Limited

OVERVIEW OF THE INSTITUTION

Zaman Textile Mills (Private) Limited (ZTML) *was incorporated in 1969 as a public company limited by shares. The Company changed its status to a private company in May 2016. Principal activity of the company includes manufacturing, processing and sales of yarn and fabric.*

RATING RATIONALE

Corporate Profile

Zaman Textile Mills (Private) Limited ('ZTML' or 'the Company') was incorporated in Pakistan in 1969 as a public limited company. The Company changed its status to a Private Company in 2016. The principal activity of ZTML is manufacturing, processing, dyeing, sale and trading of yarn and fabrics. The registered office of the Company is situated in Karachi.

Operational Performance

ZTML operates as a vertically integrated textile manufacturer, encompassing spinning, weaving, and processing operations. The yarn production facility is located in the Kotri Industrial Area, while fabric manufacturing and dyeing activities are carried out in the Landhi Industrial Area, Karachi.

In FY24, the Company expanded its spinning capacity by adding additional spindles. According to management, the expansion is aimed to address the previously higher internal yarn requirement for final product manufacturing, thereby optimizing in-house consumption. Despite challenging economic conditions during the year, management reports that demand for fabric remained sufficient to sustain stable utilization levels in the weaving segment, which also contributed to utilization levels in the spinning segment. Around 80% of yarn produced is internally consumed as per the management.

Table 1 Capacity and Production

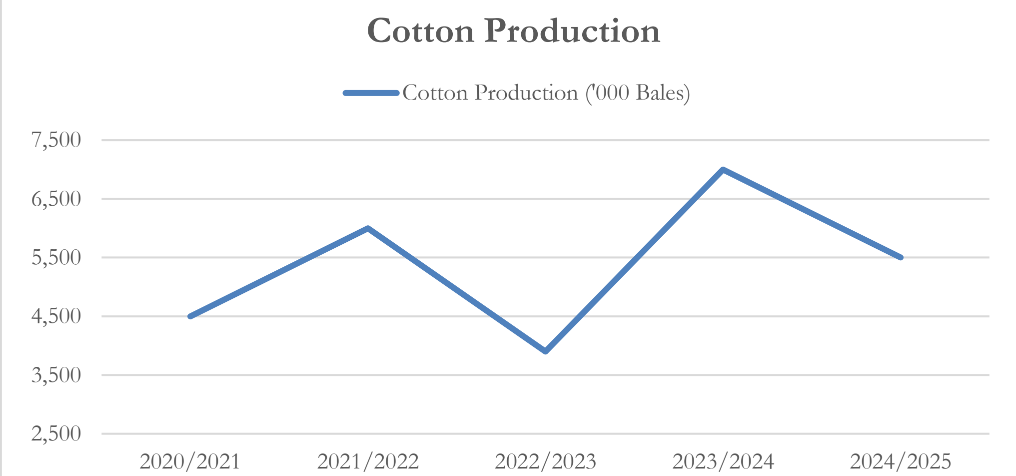
Production Capacity and Utilization	FY22	FY23	FY24
Spinning			
No. of Spindles Installed	97,248.00	115,008.00	143,568.00
No. of Spindles Worked	79,008.00	79,008.00	143,568.00
Installed Capacity (mln lbs.)	28.30	32.80	44.63
Actual Production (mln lbs.)	25.40	22.00	40.62
Utilization (%)	**89.75%**	**67.07%**	**91.03%**
Weaving			
No. of Looms Installed	545.00	545.00	580.00
No. of Looms Worked - (Excl. 3 looms as Backup)	542.00	542.00	577.00
Installed Capacity (mtr sq)	92.10	103.60	109.47
Actual Production	87.00	92.80	98.09
Utilization (%)	**94.46%**	**89.58%**	**89.60%**

Sector Update

The business risk profile of Pakistan's textile sector is highly influenced by economic cyclicality and intense competition. The sector's performance is closely tied to broader economic conditions, making it particularly vulnerable to demand fluctuations driven by these factors.

In FY23, the textile sector faced several challenges stemming from both economic and environmental factors. These included damage to the cotton crop due to flooding in the 1HFY23, escalating inflation, and import restrictions resulting from dwindling foreign exchange reserves. As a result, Pakistan's yarn production saw a substantial decline, primarily driven by the reduced availability of cotton caused by crop damage and import restrictions. The sector's profitability was further constrained by rising production costs, including higher raw material and energy expenses, which impacted profit margins.

In FY24, cotton production increased by 79% compared to FY23, but this surge was largely due to the low base of cotton production in FY23. When compared to FY22, cotton production in FY24 saw only a 17% increase. While global cotton production is expected to rebound in FY25 due to higher yields, Pakistan's cotton production was down 59.4% as at October'24 compared to the same period in 2023, with only 2.04 million bales produced. The USDA forecasts that Pakistan will produce 5.55 million bales of cotton in 2024/25. Further, the USDA Foreign Agricultural Service estimates that the cotton area in 2024/25 will be reduced to 2 million hectares, down from previous years. The country faces rising energy costs, the absence of subsidies for agricultural inputs, and a lack of an organized market system, which further complicates production. Additionally, climate change has severely impacted cotton crops, with extreme heat, heatwaves, torrential rains, and pest infestations, including whitefly, pink bollworm, and cotton leaf curl virus, contributing to decreased yields. Furthermore, the area under cultivation has been steadily shrinking, exacerbating these challenges.



Source: USDA

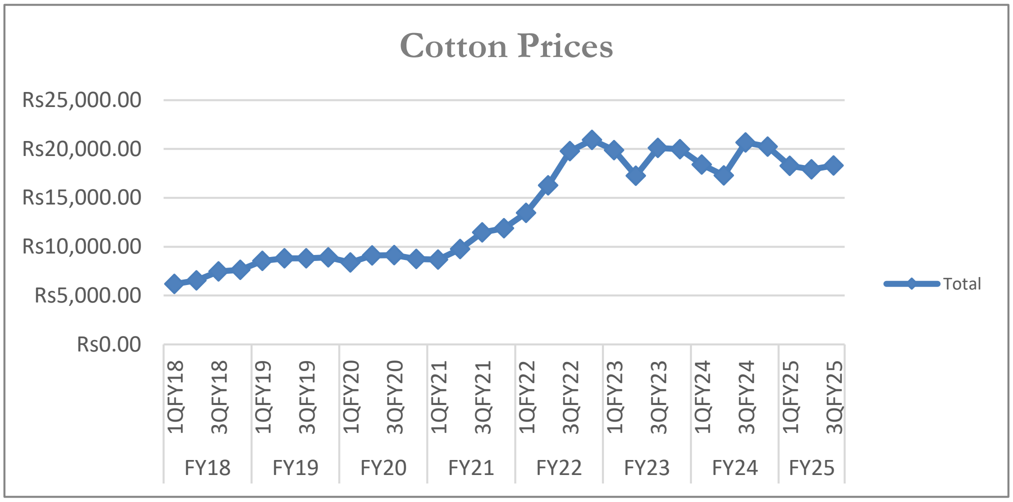


Figure 1: MoM Textile Exports (USD Million)

Despite the decline in local cotton production, Pakistan's textile exports have experienced growth in the 1QFY25 compared to the same period last year. This growth can be attributed to the reliance on imported cotton which is cheaper now a days compared to local cotton along with the increasing focus on value-added segment. While the global demand of textile is on a recovery phase, the global and local cotton market dynamics and local inflation including fuel and power prices along with FX risk in imported cotton pricing will play a crucial role in terms of profitability of the textile exporters.

Key Rating Drivers

Business Risk Profile

Industry Risk; High to Medium

The textile 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.

Sponsor Support

Ratings derive comfort from the demonstrated financial support provided by the sponsors during periods of liquidity constraints. In FY24, directors and shareholders extended support for working capital requirements.

Financial Risk Profile

In FY24, ZTML reported revenues growth of 14.77% driven by an expansion in production capacity following the commissioning of a new spinning unit in 1QFY24. This supported higher export sales, particularly in indirect fabric exports, while local sales also rose due to improved demand for yarn.

Despite the revenue growth, ZTML's gross margins declined to 15.9% (FY23: 20.5%), primarily due to elevated energy costs associated with a ~116% increase in power tariffs and the discontinuation of regionally competitive energy pricing regime. Additionally, challenging economic conditions, both in local and export markets, coupled with competitive pressures, constrained the sector's ability to fully pass on rising costs to end consumers, further compressing gross margins. In 1HFY25, gross margins recovered to 18.06%, supported by a recovery in both local and export markets. This recovery allowed manufacturers to adjust pricing structures, partially restoring profitability. Improved export market condition is substantiated by a 10% year-on-year increase in textile exports during 1HFY25, totaling USD 9.03 billion.

On the bottom-line, the Company's long-term debt portfolio, which includes LTFF and TERF facilities, continued to provide a cost advantage. The effective interest rate on these facilities declined to 6.28% in 1HFY25, (FY24: 13.44%, FY23: 11.07%), remaining below the prevailing market rates. During the same period, the average 6-Month KIBOR stood at 15.95% (FY24: 21.91%, FY23: 18.30%). As such, impact of an elevated interest rate environment was minimal on the Company's net margins, which were impacted mainly by lower gross and operating margins resulting in net margins of 2.16% (FY23: 5.17%) in FY24 before recovering to 5.37% in 1HFY25 as gross and operating margins recovered during the period.

Capitalization metrics indicated improvement during FY24, with the gearing ratio declining to 2.13x (FY23: 2.32x), while the leverage ratio decreased to 2.77x (FY23: 2.92x) supported by profit retention, timely long-term debt repayments and controlled short-term debt utilization. Gearing and leverage continued to improve to 1.94x and 2.63x, respectively, in 1HFY25.

The coverage profile weakened with the debt service coverage ratio (DSCR) reducing to 1.14x in FY24 from 1.48x in FY23, impacted by higher finance cost. A recovery was observed in 1HFY25, with DSCR increasing to 1.62x, supported by a decline in local interest rates.

Liquidity remains adequate despite the current ratio reducing to 1.01x (FY23: 1.04x) in FY24 as the Company diverted resources towards capital expenditure. However, the current ratio recovered slightly to 1.06x in 1HFY25.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Zaman Textile Mills (Pvt) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Instrument Structure	N/A

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
Rating Type: Entity				
12-03-2025	**A-**	**A2**	**Stable**	**Reaffirmed**
14-03-2024	A-	A2	Stable	Reaffirmed
07-03-2023	A-	A2	Stable	Reaffirmed
08-03-2022	A-	A2	Stable	Reaffirmed
25-01-2021	A-	A2	Stable	Maintained
24-04-2020	A-	A2	RW- Dev	Maintained
29-11-2019	A-	A2	Stable	Reaffirmed
22-11-2018	A-	A2	Stable	Initial

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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Muhammad Fayyaz	Commercial Director	February 18, 2024
Mr. Shakeel Dhanani	Chief Financial Officer	