VIS
Credit Rating Company Limited

RATING REPORT

Analysts:
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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates

Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

Rs. Million	FY23A	FY24A	3MFY25M
Net Sales	10,666.66	11,391.10	1,783.67
Profit Before Tax	-584.07	-894.81	-226.90
Profit After Tax	-569.29	-961.78	-58.04
Paid up Capital	212.67	212.67	212.67
Equity (ex. Reval)	2,475.10	1,514.80	1,460.72
Total Debt	2,805.53	2,973.07	3,009.42
Leverage (x)	1.84	3.19	3.34
Gearing (x)	1.13	1.96	2.06
FFO	-447.72	-797.97	-130.82
FFO/Total Debt (x)	-0.16	-0.27	-0.17
Net Margin (%)	-5%	-8%	-3%

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

NADEEM TEXTILE MILLS LIMITED

Chairperson/Chief Executive: Mrs. Naila Zahid/ Mr. Zahid Mazhar

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	BBB+	A3	A-	A2
RATING OUTLOOK/ WATCH	Negative		Stable	
RATING ACTION	Downgrade		Reaffirmed	
RATING DATE	April 11, 2025		January 30, 2024	

RATING RATIONALE

Ratings downgrade and negative outlook reflect weakening financial risk profile with significant stress noted on profitability, coverage and liquidity all the while capitalization metrics have also risen.

- **Eroding Equity:** Equity (excluding revaluation surplus) declined to Rs. 1,515 million in FY24 (FY23: Rs. 2,475 million) due to losses, further decreasing to Rs. 1,460.72 million in 1QFY25.
- **Weakening Capitalization:** Gearing rose to 1.96x in FY24 (FY23: 1.13x) and further to 2.06x in 1QFY25, while leverage increased to 3.19x in FY24 (FY23: 1.84x) and 3.34x in 1QFY25.
- **Margin Contraction:** Despite a 6.84% revenue growth in FY24, the gross margin declined to 0.58% (FY23: 4.78%) due to rising input costs and remained low at 0.87% in 1QFY25. Margins remained contracted due to competition from duty free imported yarn which constrained their pricing power.
- **Sustained Losses:** Net margin deteriorated to -8.44% in FY24 (FY23: -5.34%) and remained negative at -3.25% in 1QFY25, impacted by high financial costs.
- **Coverage Constraints:** DSCR remained weak, with operational cash flows insufficient to meet financial obligations, requiring reliance on sponsor support and short-term financing.
- **Liquidity Pressures:** The current ratio declined to 0.94x in FY24 (FY23: 1.23x) and further to 0.89x in 1QFY25, reflecting liquidity strain.

Going forward, the ratings and outlook will remain sensitive to improvement in the condition of the Company's financial risk profile particularly the ability of the company to improve its margins and improve its capital structure.

COMPANY PROFILE

Nadeem Textile Mills Limited ('NATM' or 'the Company') was incorporated in Pakistan on July 15, 1984, as a public limited company and its shares are listed on Pakistan Stock Exchange (PSX). The principal activity of the Company is manufacture and sale of yarn. NATM has a registered office in Karachi. It has two units of manufacturing facilities, one in Karachi and the other in District Jamshoro.

GOVERNANCE

NATM's Board of Directors comprises nine members, including six males and three females. The Board includes three independent directors—Mr. Noor Muhammad, Mr. Waqar Hassan Siddiqui, and Mr. Nadeem Ahmed—complying with the Companies Act, 2017. Executive roles are held by Mr. Zahid Mazhar (CEO), Mr. Omer Bin Zahid, and Mr. Hassan Bin Zahid. Non-executive directors are Mrs. Naila Zahid (Chairperson), Mrs. Anam Omer, and Mrs. Shafia Hassan. The Audit Committee, chaired by Mr. Waqar Hassan Siddiqui, includes Mrs. Anam Omer and Mrs. Shafia Hassan. The HR and Remuneration Committee, led by Mr. Nadeem Ahmed, also comprises Mrs. Anam Omer and Mrs. Shafia Hassan. The company has established a code of conduct and ensures its dissemination. The Board has developed a vision and mission statement, corporate strategy, and significant policies, maintaining records of approvals and updates.

INDUSTRY PROFILE & BUSINESS RISK

Assigned ratings incorporate the business risk profile of Pakistan's textile spinning sector is currently assessed as high to medium. This evaluation considers factors such as demand cyclicality, competitive pressures, regulatory challenges, and energy sensitivity.

The textile industry contributes approximately 8.5% to the national GDP and employs about 45% of the total labor force. Within this, the spinning sector serves as a key upstream segment, converting raw cotton into yarn for subsequent value-added processes. Performance remains closely linked to economic conditions, exposing the sector to demand fluctuations.

The 2024 cotton season was marked by production challenges, with cultivation reaching 80% of the national target, despite improvement from the previous year. FY23 was severely impacted by floods during the early half of the year, however, FY24 saw pest infestation which impacted cotton production during the period. The planted area stands at 2.367 million hectares (FY23: 1.97 million hectares), slightly up from the previous year. Production stood around 8.3 million bales (FY23: 4.9 million bales), remaining well below the domestic industry's requirement of ~12 million bales in 2024. Farmers continue to shift toward higher-margin crops, limiting any improvement in the shortfall.

In FY24, textile exports grew marginally by 0.93% to $16.7 billion (FY23: $16.6 billion). However, political instability and shifts in global procurement patterns resulted in the loss of approximately 40% of export orders, with buyers redirecting sourcing to competitors such as Vietnam.

Following the withdrawal of the Export Facilitation Scheme (EFS), indirect exporters now prefer duty-free and sales-tax-free imported yarn over domestically produced alternatives, which remain subject to an 18% sales tax. This trend has further pressured foreign exchange reserves and led to increased substitution of local yarn with imports, challenging the viability of the spinning sector amid rising costs. The transition from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR) has further strained financial performance.

Pakistan's spinning sector remains exposed to significant competitive pressures from India, China, and Bangladesh, where technological advancements and diversified product offerings provide an advantage. Limited product diversification has constrained Pakistan's ability to capture export orders redirected due to shifts in global supply chains.

Regulatory changes have added to operational and financial challenges. The withdrawal of regionally competitive energy tariffs and amendments in tax policies have increased cost pressures. The Federal Board of Revenue (FBR) doubled the advance tax rate for textile millers from 1% to 2%, alongside additional reporting requirements. Some industry participants have begun exploring relocation to jurisdictions with more favorable regulatory frameworks.

Energy sensitivity remains a key concern, with high energy costs increasing conversion expenses. In FY24, high power tariffs continued to adversely affect sector profitability. The energy costs in the country are around double those of regional export market competitors. Rising power costs and an increase in the minimum wage have also led to margin compression. Industrial power tariffs in Pakistan were approximately 17 cents per kilowatt-hour (kWh), significantly higher than those in competing economies such as India (6 cents/kWh), Bangladesh (8.6 cents/kWh), and Vietnam (7.2 cents/kWh) in 2024.

Going forward, sector performance will depend on global demand trends, domestic policy measures, and structural improvements. While recent monetary easing, including a reduction in the policy rate to 12% by February 2025, may ease financing costs, long-term competitiveness will require investments in technology, product diversification, and a stable regulatory environment.

Sponsor Commitment

Ratings are underpinned by the availability of sponsor backing, as indicated by the management. It has been communicated that, in the event of any financial requirement or funding gap, support from the directors would be made available to the Company.

Product Profile & Capacity

The company's capacity utilization has remained stable YoY; however, a return to historical levels has been hindered by competition from duty-free imported yarn. Following the withdrawal of the Export Facilitation Scheme (EFS), indirect exporters have shown a preference for these tax-exempt imports over domestically produced yarn. As such production remained constrained in FY24.

Production Capacity and Utilization	FY22A	FY23A	FY24A
Total Numbers of Spindles Installed	77,592.00	77,592.00	77,112.00
Average Numbers of Spindles Worked	75,316.00	51,924.00	49,612.00
Installed Capacity (in 20/s Count KGs)	28,304,329.00	28,304,329.00	28,132,972.00
Actual Production (in 20/s Count KGs)	27,373,635.00	19,449,602.00	19,833,585.00
Utilization (%)	96.71%	68.72%	70.50%

FINANCIAL RISK

Assigned ratings and outlook reflect weakening financial risk profile with significant stress noted on profitability, coverage and liquidity all the while capitalization metrics have also risen. The Company reported revenue growth during FY24. Nevertheless, heightened input costs, particularly energy and raw material expenses, alongside limited pricing flexibility due to heightened competition from imported yarn, have stressed gross margins. The impact of these cost pressures is exacerbated by higher financial expenses due to elevated domestic interest rates, resulting in a decline in net profitability. The company's capitalization profile has weakened significantly due to the erosion of equity, reflecting the impact of losses on retained earnings. Concurrently, gearing and leverage ratios have increased, indicating higher financial risk. The company's liquidity position is under strain, with debt coverage metrics weakening, highlighting challenges in meeting financial obligations.

Capital Structure

The company’s capitalization profile weakened significantly due to the erosion of equity, excluding the revaluation surplus, which declined to Rs. 1,515 million in FY24 (FY23: Rs. 2,475 million). This decline reflects the impact of losses on retained earnings. Concurrently, gearing increased to 1.96x in FY24 (FY23: 1.13x), and leverage rose to 3.19x (FY23: 1.84x). This trend continued in1QFY25 from continued losses, with gearing and leverage of 2.06x and 3.34x, respectively with equity without revaluation surplus further declining to Rs. 1460.72 million as total borrowings and total liabilities remained mostly unchanged.

Profitability

The Company's financial performance in FY24 was characterized by revenue growth amid increasing cost pressures, leading to a contraction in margins and continued stress on profitability. Revenue rose by 6.84% to Rs. 11.39 billion (FY23: Rs. 10.66 billion), primarily driven by price adjustments rather than volume growth as the quantity sold by the company increased marginally by 1.97% to 19,833,585 kgs (FY23: 19,449,602 Kgs). However, escalating input costs, particularly energy costs, by 125% in FY24 and raw material expenses, alongside limited pricing flexibility due to heightened competition from imported yarn, resulted in a stress in gross margins. The gross margin declined to 0.58% in FY24 (FY23: 4.78%) and remained constrained at 0.87% in 1QFY25. The impact of these cost pressures was exacerbated by higher financial expenses due to elevated domestic interest rates, resulting in a decline in net profitability. The net margin fell to -8.44% in FY24 (FY23: -5.34%) and remained negative at -3.25% in 1QFY25.

Going forward, profitability may receive some reprieve from an expected reduction in WAPDA's grid tariff and continued fall in interest rates. However, due to limited pricing power resulting from the availability of duty-free imported yarn, margins are expected to remain overall constrained.

Debt Coverage & Liquidity

Coverage metrics indicate pressure, with the debt service coverage ratio (DSCR) showing operational cash flows below the level required to meet financial obligations. To address this, the company relied on sponsor support and short-term financing. This use of short-term debt is evident in the liquidity profile, as the current ratio declined to 0.94x in FY24 (FY23: 1.23x) and further to 0.89x in 1QFY25.

Financial Summary

Balance Sheet (PKR Millions)	FY23A	FY24A	3MFY25M
Property, plant and equipment	3,646.54	3,579.78	3,500.50
Stock-in-trade	2,131.08	1,555.03	1,756.02
Trade debts	1,661.92	1,504.00	1,478.63
Short-term Investments	158.87	172.31	177.31
Cash & Bank Balances	150.11	182.24	81.26
Other Assets	482.29	536.53	524.73
Total Assets	8,230.81	7,529.89	7,518.45
Creditors	788.30	715.29	0.00
Long-term Debt (incl. current portion)	719.96	620.66	584.54
Short-Term Borrowings	2,085.57	2,352.41	2,424.88
Total Debt	2,805.53	2,973.07	3,009.42
Other Liabilities	963.22	1,141.99	1,867.57
Total Liabilities	4,557.05	4,830.35	4,876.99
Paid up Capital	212.67	212.67	212.67
Revenue Reserve	1,533.75	573.45	519.37
Other Equity (excl. Revaluation Surplus)	728.68	728.68	728.68
Sponsor Loan	340.00	340.00	340.00
Equity (excl. Revaluation Surplus)	2,475.10	1,514.80	1,460.72

Income Statement (PKR Millions)	FY23A	FY24A	3MFY25M
Net Sales	10,666.66	11,391.10	1,783.67
Gross Profit	510.01	65.63	15.49
Operating Profit	79.39	-218.31	-55.19
Finance Costs	663.46	676.50	171.71
Profit Before Tax	-584.07	-894.81	-226.90
Profit After Tax	-569.29	-961.78	-58.04

Ratio Analysis	FY23A	FY24A	3MFY25M
Gross Margin (%)	4.78%	0.58%	0.87%
Operating Margin (%)	0.74%	-1.92%	-3.09%
Net Margin (%)	-5.34%	-8.44%	-3.25%
Funds from Operation (FFO) (PKR Millions)	-447.72	-797.97	-130.82
FFO to Total Debt* (%)	-15.96%	-26.84%	-17.39%
FFO to Long Term Debt* (%)	-62.19%	-128.57%	-89.52%
Gearing (x)	1.13	1.96	2.06
Leverage (x)	1.84	3.19	3.34
Debt Servicing Coverage Ratio* (x)	0.04	-0.22	0.03
Current Ratio (x)	1.23	0.94	0.89
(Stock in trade + trade debts) / STD (x)	1.93	1.40	1.43
Return on Average Assets* (%)	-6.76%	-12.20%	-3.09%
Return on Average Equity* (%)	-22.00%	-48.21%	-15.60%
Cash Conversion Cycle (days)	113.78	85.89	143.27

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Nadeem Textile Mills Limited
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
RATING TYPE: ENTITY				
11/04/25	BBB+	A3	Negative	Downgrade
30/01/24	A-	A2	Stable	Reaffirmed
21/12/22	A-	A2	Stable	Reaffirmed
18/11/21	A-	A2	Stable	Upgrade
13/11/20	BBB+	A2	Stable	Maintained
24/04/20	BBB+	A2	Rating Watch - Negative	Maintained
09/03/20	BBB+	A2	Stable	Upgrade
18/12/18	BBB	A2	Stable	Upgrade
12/03/18	BBB-	A3	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	

Name	Designation	Date
Mr. Omar Bin Zahid	Director	4 April 2025
Mr. Abdul Amin	Company Secretary	