VIS
Credit Rating Company Limited

FEROZE1888 MILLS LIMITED

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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology –Corporates
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)

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

RS. MILLION	FY23	FY24	9MFY25
Net Sales	57,051	69,757	47,329
PBT	9,777	1,549	517
PAT	8,971	574	14
Paid up capital	3,994	3,994	3,994
Equity (incl. surplus on PPE)	36,686	33,657	33,671
Total Debt	25,928	29,588	34,580
Debt Leverage	1.23	1.54	1.76
Gearing	0.77	0.97	1.13
FFO	12,621	3,455	1,247
FFO/Total Debt (x)*	0.49	0.12	0.05
NP Margin (%)	15.7%	0.8%	0.03%

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	AA-	A1	AA-	A1
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	May 19, 2025		February 27, 2024	

RATING RATIONALE

The assigned rating reflects Feroze1888 Mills Limited's (FML) position as a vertically integrated textile exporter with a broad product range and established presence in key international markets. The Company operates across the textile value chain and continues to implement environmental and sustainability initiatives in line with global standards.

Although sales increased in the previous fiscal year, profitability was impacted by higher energy costs, increased finance expenses, and competitive pressures from regional exporters. These factors have continued into the current fiscal year, leading to lower margins and reduced net income.

Liquidity indicators have weakened due to lower cash flows and increased reliance on short-term borrowings to support working capital. Capitalization indicators have also declined, reflecting a rise in debt and a slight reduction in equity levels. While there was some improvement in performance during the third quarter, future financial stability will depend on a recovery in demand, control over input costs, and improvements in debt coverage.

Improved margins, better working capital management, and stronger debt servicing capacity will be key factors for maintaining the rating.

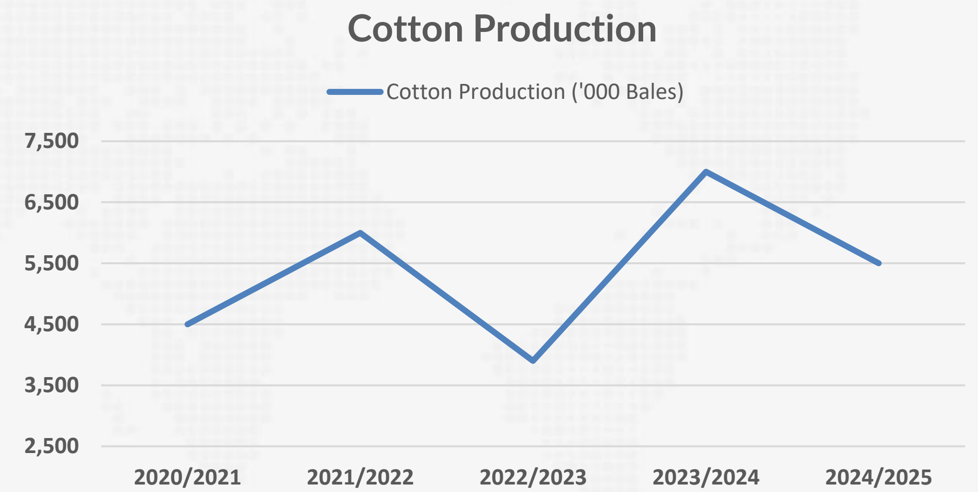
COMPANY PROFILE

Feroze1888 Mills Limited ('FML' or 'the Company'), established in 1972, is a vertically integrated textile manufacturer with in-house facilities for spinning, weaving, dyeing, printing, stitching, and product packaging. The Company specializes in the production and export of specialized yarn and other textile products, serving key markets, including the United States and Europe.

Its product range includes both terry and non-terry items in white, dyed, printed, dobby, and jacquard categories. The portfolio comprises hand towels, bath towels, bathrobes, kitchen towels, beach towels, blankets, baby t-shirts, and patient gowns, available in various sizes and specifications to meet diverse customer requirements.

INDUSTRY PROFILE & BUSINESS RISK

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



Source: USDA

Pakistan's textile exports in 3QFY25 demonstrated growth, primarily fueled by the value-added segment, despite challenges in domestic cotton production necessitating reliance on imported cotton. Exporter's profitability remains sensitive to cotton market volatility, inflationary pressures and exchange rate fluctuations, while elevated energy costs continue to impact cost structures.

Figure 1: MoM Textile Exports (USD Million)
Source: PBS

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.

Capacity & Production

	FY21	FY22	FY23	FY24
Spinning				
No. of Spindles installed	48,072	48,072	57,288	78,792
No. of Spindles worked	47,404	48,072	57,288	59,080
No. of rotors installed	2,116	2,116	3,312	3,312
No. of rotors worked	2,116	2,116	3,312	3,312
Installed Capacity – (lbs.)	75.4	75.4	76.1	98.77
Actual Production – (lbs.)	67.4	67.4	67.6	89.68
Capacity Utilization	***89%***	***89%***	***89%***	***91%***
Weaving				
No. of looms installed	371	447	447	451
No. of looms worked	366	402	414	432
Installed Capacity – (mtr)	154.1	177.7	177.7	177.7
Actual Production – (mtr)	150.6	142.5	148.0	169.8
Capacity Utilization	***98%***	***80%***	***83%***	***96%***

FML operates through various units at different locations, including Hub, SITE, and Landhi, which house spinning, weaving, dyeing, stitching, and packaging facilities. The Company has a strategic alliance with 1888 Mills USA, with approximately 8% of FML's sales directed to it. Spinning meets about 85% of the Company's yarn requirements, while the remainder is procured from the market. Utilization levels in the spinning and weaving segments remained strong during FY24.

FINANCIAL RISK

Capital Structure

The Company's overall debt exhibited an upward trend in FY24, primarily driven by an increase in short-term borrowings to meet higher working capital requirements for funding credit sales to foreign clients. Meanwhile, long-term debt continued its declining trend. As of 9MFY25, long-term debt stood at PKR 7.38 billion (FY24: PKR 8.85 billion; FY23: PKR 10.03 billion). In contrast, short-term borrowings rose significantly to PKR 27.19 billion as of 9MFY25 (FY24: PKR 20.74 billion; FY23: PKR 15.90 billion). Consequently, total debt increased to PKR 34.58 billion as of 9MFY25 (FY24: PKR 29.59 billion; FY23: PKR 25.93 billion).

Despite the rise in debt levels, capitalization ratios came under strain due to limited growth in the equity base. Net equity stood at PKR 33.68 billion in 9MFY25, showing marginal movement from PKR 33.66 billion in FY24 and a decline from PKR 36.69 billion in FY23. Consequently, the gearing ratio rose to 1.13x (FY24: 0.97x; FY23: 0.77x), and the leverage ratio climbed to 1.76x (FY24: 1.54x; FY23: 1.23x), reflecting heightened dependence on external financing.

Profitability

In FY24, sales grew by 22% to Rs. 69.76 billion, driven by both higher volumes and effective pricing. Export sales continued to constitute a significant portion of the sales mix, contributing approximately 97% in FY24 (FY23: 98%). The Company continued its efforts to reduce client concentration; however, it remained high, with the top two clients accounting for 52% of total sales in FY24 (FY23: 55%). %). Simultaneously, geographic concentration also remained high with USA remained a top export destination with 74.5% in FY24 (FY23: 75%). FML primarily operates in the Terry towel segment, which accounted for the majority of its overall sales in FY24.

In 9MFY25, net sales stood at Rs. 47.32 billion compared to Rs. 52.87 billion during the same period last year (SPLY), due to a revenue loss of PKR 5–6 billion caused by reduced orders from customers in the home category.

On the margins front, the gross margin declined to 16.96% in FY24 from 22.71% in FY23. This was primarily due to a sharp rise in production costs, particularly energy, which nearly doubled during the year. Fuel and power costs increased from PKR 3.64 billion to PKR 7.43 billion. Additionally, intensified competition in export markets, particularly from regional players, exerted pricing pressures. This limited the Company’s ability to fully pass on higher costs to customers, further squeezing profitability.

The net profit margin also declined, dropping from 15.72% in FY23 to 0.82% in FY24. A major contributor to this contraction was higher finance costs, which increased from PKR 1.99 billion to PKR 3.84 billion. This rise was driven by greater reliance on short-term borrowings to meet working capital needs and persistently high interest rates. Additionally, other income saw a significant decline, falling from PKR 4.72 billion to PKR 0.55 billion, as the Company did not benefit from the substantial exchange gains recorded in FY23.

During 9MFY25, the gross margin declined to 13.8%, down from 17.0% in FY24 and 22.7% in FY23, reflecting sustained pressure on profitability. This was mainly due to fixed cost absorption challenges amid lower topline revenue and rising fuel and power costs.

Given these challenges in sales and gross margins, other income of Rs. 723 million provided some relief. Although the Company reported a net loss of Rs. 375 million in 1HFY25, it was able to recover and report a positive bottom line of Rs. 13.7 million by the end of 9MFY25, due to improved sales performance in the third quarter of FY25. Overall profitability indicators were remained below same rated peers. Going forward, regional competition in the major terry towel segment, along with a high dependence on key customers and gas as the major energy source, will continue to pose significant challenges to future profitability. Improving profit margins is advised to sustain the given rating.

Debt Coverage & Liquidity

The Company's liquidity profile weakened in FY24, with the current ratio declining to 1.13x (FY23: 1.40x). Short-term borrowings increased to PKR 19.59 billion (FY23: PKR 15.90 billion), leading to a 23.3% rise in total current liabilities to PKR 38.88 billion, which contributed to the decline in the current ratio.

With reduced profitability, funds from operations (FFO) saw a significant decline to PKR 3.46 billion (FY23: PKR 12.62 billion). This was reflected in the FFO-to-total debt and FFO-to-long-term debt ratios, which dropped to

0.12x (FY23: 0.49x) and 0.39x (FY23: 1.26x), respectively. Similarly, the debt service coverage ratio (DSCR) weakened to 1.23x (FY23: 3.81x).

The liquidity profile deteriorated further in 9MFY25, with the current ratio declining to 1.09x. FFO for the period declined to PKR 1.24 billion, bringing the FFO-to-total debt ratio down to 0.05x and the FFO-to-long-term debt ratio to 0.23x. Meanwhile, the DSCR stood at 0.96x, indicating increased strain on debt repayment.

The net cash cycle extended to 163 days (FY24: 139 days), primarily due to higher inventory and receivable days, while payable days declined to 29 days (FY24: 42 days). Going forward, improvement in debt coverage metrics will remain critical from a ratings perspective.

Environmental, Social and Corporate Governance (ESG)

Feroze1888 Mills Limited (FML) is committed to environmental responsibility, holding certifications such as GOTS, GRS, FSC, OEKO-TEX STeP, and RCS-100. The Company adheres to ISO standards (14001, 45001, 50001) and utilizes the Higg Index for performance benchmarking.

- Energy: FML remained focused on energy efficiency, achieving total energy savings of 702,805.19 GJ in FY 2023-24. The share of renewable energy in the company's total energy mix increased by 16% compared to FY 2022-23.
- Emissions: The Company successfully reduced emissions by 20,624 MTCO2eq through various sustainability initiatives. Scope 1 and 2 emissions were further optimized, contributing to lower carbon intensity across operations.
- Water: Water conservation remained a priority, with 2.98 million gallons reclaimed daily through wastewater treatment in FY 2023-24, representing an 11% increase in total recycled water volume compared to FY 2022-23.
- Waste: Waste intensity improved by 6%, with enhanced recycling efforts for cotton, paper, and process waste. The use of recycled materials increased by 30% over the past three years.

- Biodiversity: Since 2020, FML has planted 130,000 trees, including 50,000 in 2023-24, and has conducted mangrove reforestation initiatives.

Corporate Governance

In compliance with the Companies Act, 2017, and the Code of Corporate Governance, the Board of Directors of Feroze1888 Mills Limited comprises three Independent Directors, seven Non-Executive Directors, and one Executive Director, ensuring female representation. All board members possess relevant knowledge and expertise.

The Board has two key committees: the Audit Committee and the Human Resource and Remuneration Committee (HRRC). The Audit Committee consists of four members, including its Chairman. Two members are Non-Executive Directors, while the Chairman and one member are Independent Directors, one of whom is a female director.

The HRRC comprises three members: two Independent Directors and one Non-Executive Director. The Committee is chaired by an Independent female director, demonstrating the Company's commitment to governance standards and diversity requirements.

Financial Summary					(in millions)
Balance Sheet	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25**
Property, Plant & Equipment	20,308	27,799	33,939	36,481	36,182
Stock in Trade	8,437	9,897	15,450	16,698	24,525
Trade Debts	10,116	8,767	14,389	15,967	15,839
Cash & Bank Balances	1,625	1,529	1,337	1,055	653
Total current assets	31,473	34,403	44,035	44,102	51,204
Total Assets	51,867	62,291	78,073	80,884	87,690
Trade Payables	2,959	-	5,420	7,863	12,254
Short Term Debt	11,750	14,400	15,900	20,736	27,196
Long-Term Debt	7,740	9,977	10,028	8,852	7,383
Deferred Liabilities	452	699	1,427	1,621	1,714
Total Liabilities	27,414	32,358	41,387	47,227	54,019
Issued, Subs, and Paid-Up Capital	3,768	3,994	3,994	3,994	3,994
Equity	24,453	29,933	36,686	33,657	33,671
Income Statement	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25**
Net Sales	42,575	49,018	57,051	69,757	47,329
Gross Profit	9,551	7,623	12,955	11,832	6,545
Operating Profit	5,348	4,786	11,768	5,384	2,887
Profit Before Tax	4,789	4,121	9,777	1,549	517
Profit After Tax	4,311	3,408	8,971	574	14
FFO	6,124	6,001	12,621	3,455	1,662
Ratio Analysis	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25**
Gross Margin (%)	22.4%	15.6%	22.7%	17.0%	13.8%
Net Margin (%)	10.1%	7.0%	15.7%	0.8%	0.0%
Current Ratio	1.61	1.57	1.40	1.13	1.09
FFO to Long-Term Debt*	0.79	0.60	1.26	0.39	0.23
FFO to Total Debt*	0.31	0.25	0.49	0.12	0.05
Debt Servicing Coverage Ratio (x)*	3.00	2.90	3.81	1.23	0.96
ROAA (%) *	9.08%	5.97%	12.78%	0.72%	0.02%
ROAE (%) *	20.23%	13.66%	29.61%	1.79%	0.06%
Gearing (x)	0.85	0.91	0.77	0.97	1.13
Leverage (x)	1.19	1.20	1.23	1.54	1.76
Inventory + Receivables/Short-term Borrowings	1.58	1.30	1.88	1.58	1.48

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Feroze1888 Mills Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				

Rating History

Rating Type: Entity				
Rating Date	**Medium to Long Term**	**Short Term**	**Rating Outlook**	**Rating Action**
05/19/2025	AA-	A1	Stable	Reaffirmed
02/27/2024	AA-	A1	Stable	Reaffirmed
01/13/2023	AA-	A1	Stable	Reaffirmed
01/07/2022	AA-	A1	Stable	Reaffirmed
12/07/2020	AA-	A1	Stable	Reaffirmed
11/13/2019	AA-	A1	Stable	Reaffirmed
11/12/2018	AA-	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.	Javeria Siddiqui	Chief Financial Officer	14th March, 2025