

Analysts:

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ARTISTIC DENIM MILLS LIMITED**Chairman & Chief Executive: M Iqbal Ahmed & M Faisal Ahmed****RATING DETAILS**

RATINGS 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	30-Apr-2025		29-March-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>

PKR MILLION	FY23	FY24	HY25
Net Sales	17,073	20,810	9,340
PBT	1,309	618	141
PAT	1,061	332	15
Paid up cap	840	840	840
Equity	8,093	8,099	8,031
Total Debt	11,393	10,399	12,246
Debt Leverage	1.83	1.82	2.01
Gearing	1.41	1.28	1.52
FFO	2,129	1,131	713
FFO/Total Debt (x)*	0.19	0.11	0.06
NP Margin	6.2%	1.6%	0.2%

RATING RATIONALE

The assigned ratings reflect medium business risk profile of the textile sector, characterized by economic cyclicalities and intense competition. Sector performance is closely tied to both domestic and global economic conditions, given its export-oriented nature, making it vulnerable to demand fluctuations.

The ratings are supported by ADML's sound financial risk profile, underpinned by a relatively strong equity base and sponsor backing. While profitability margins have weakened due to high energy costs, elevated interest rates and USD to PKR exchange rate stability during the year, the Company's liquidity and coverage metrics have remained adequate. The Company is also in process of expanding its solar power capacity by end of FY25, which is expected to improve profitability indicators, alongside falling interest rates.

Moving forward, improvement in profitability and capitalization indicators will remain important for the assigned ratings.

COMPANY PROFILE

Artistic Denim Mills Limited ('ADML' or 'the Company') operates as a vertically integrated denim fabric and garments manufacturer which includes four key sectors: spinning, weaving, garments and recycling. The principal activity of the Company is to manufacture and export of garments, rope dyed denim fabric, recycled fiber, yarn and value-added textile products.

ADML was incorporated in 1992 as a Public Limited Company (PSX: ADMM). Its registered office and factory premises are located in Korangi Industrial Area, Karachi.

INDUSTRY PROFILE & BUSINESS RISK

The growth of textile sector exports has remained largely constrained since FY23 due to energy shortages, elevated financing costs, and a slowdown in the global economy. In FY24, Pakistan's textile and clothing exports recorded a modest YoY growth of 0.9%, reaching USD 16.65Bn, a slight increase from USD 16.50Bn in FY23, as per data from the Pakistan Bureau of Statistics. This limited growth was primarily attributed to higher taxation measures and escalating energy costs, which also led to a decline in the import of textile machinery—an indication of reduced industry investment in expansion and modernization.

The beginning of FY25, however, has shown positive developments, with textile exports increasing by 4.86% during Jul-Sept compared to the same period last year. This growth has been largely attributed to the relocation of global textile orders to competing markets, including Pakistan, following political and economic instability due to the change of government in Bangladesh. According to industry sources, this shift has contributed approximately USD 100Mn in additional high-value-added textile exports since June 2024. However, the sustainability of this growth remains to be seen as Bangladesh stabilizes under the new set-up.

In USD Million	FY20	FY21	FY22	FY23	FY24
Textile Exports	12,527	15,399	19,330	16,502	16,656
Readymade Garments Exports	2,552	3,033	3,904	3,492	3,564

Source: PBS

Despite these improvements, the textile sector continues to face significant challenges, including increased taxation following the annual budget announced in June 2024 and rising energy costs due to recent changes in power tariffs.

Product Profile & Capacity

During FY24, the Company incurred PKR 895 Mn in Capex for value addition and enhancement of production capacity with increased installed capacity in spinning and weaving segments. Overall, the utilization levels have improved on the back of rebound in global demand leading to increase in volumetric sales by 31% YoY during the period.

In Millions	FY22	FY23	FY24
Spinning (Lbs)			
Capacity of yarn	22.4	24.3	32.0
Production	18.8	13.9	18.0
Utilization	84%	57%	56%
Weaving (meters)			
Capacity of fabric	21.1	17.6	20.3
Production	15.5	11.2	15.9
Utilization	73%	64%	78%
Garments (Pcs)			
Capacity	8.3	8.3	8.3
Production	7.5	5.1	6.7
Utilization	91%	61%	81%

However, utilization of spinning units remains significantly low despite increased capacity, as the Company is currently producing yarn solely for internal consumption given the prevailing market conditions. However, management plans to capitalize on any future recovery in local yarn demand by leveraging the excess capacity.

FINANCIAL RISK

Capital Structure

The Company's capital structure improved marginally with gearing ratio recording at 1.28x (FY23: 1.41x) at end-FY24, mainly due to repayment of long-term debt. However, utilization of short-term borrowings rose by 19% reaching PKR 7.09 Bn (FY23: PKR 5.97 Bn) on the back of higher working capital requirement resulting in leverage ratio remaining stable at 1.82x (FY23: 1.83x) as at end-FY24.

Equity base remained unchanged at PKR 8.09 Bn (FY23: PKR 8.09 Bn) following dividend payment of PKR 294 Mn during FY24. Additionally, with only a modest net profit, equity growth remained muted. Similarly, as at end-HY25, total equity reported at PKR 8.03 Bn net of dividend of PKR 84 Mn paid for year ended FY24.

Gearing and leverage ratio clocked in at 1.52x and 2.01x respectively, as of end-HY25 due to a 30% increase in short term borrowings reaching PKR 9.22 Bn, in line with a 34% rise in Company's inventory levels. Going forward, the Company has no plans to raise additional long-term debt on its balance sheet. However, considering ADML's historical dividend disbursements, capitalization ratios are projected to remain within the current range, with a gradual decline expected over time.

Profitability

The Company reported a topline growth of 22% YoY during FY24, with revenue coming in at PKR 20.8 Bn (FY23: PKR 17.0 Bn) on the back of 31% rise in volumetric sales. However, revenue growth also remained modest due to USD to PKR exchange rate stability as compared to prior years (foreign exchange gain FY23: PKR 1,462 Mn, FY24: PKR 129 Mn), given that 95% of ADML's revenue is export based. Gross margins fell from 17.1% to 11.7% due to increase in raw material prices, high energy costs and a rise in ocean freight rates as a result of disruptions in Red Sea. Bottomline faced constraints due to high borrowings amidst high interest rates, bringing net margin down to 1.6% from 6.2% in FY23.

However, given that major cost constraints arise due to high energy costs, Company is in process of installing an additional 2.7 MW solar capacity (to an existing 2.4 MW solar system) to counter escalating power costs, anticipated to be finalized by June'25. This will have a positive impact on the Company's profitability.

On the other hand, topline growth is expected to gain some support from ADML's newly introduced recover cotton segment. This initiative involves the use of recycled cotton fiber by converting textile waste into high-quality recycled cotton and fiber blends. This move aligns with evolving European market demands, which are increasingly geared toward denim containing at least 30% recycled cotton.

Product wise Volumetric Sales	2023	2024
Cotton Yarn (LBS)	16%	24%
Denim Fabric (Meter)	38%	25%
Garments (Pcs)	43%	41%
Processed Fabric (meter)	0.1%	2%
Recover Cotton (Kgs)	3%	8%

Revenue from sales to related parties remained high at approximately 34% of the total turnover in FY24 (FY23: 23%). Meanwhile top 10 client concentration in sales also reported slightly higher than last year, at 77% of the total sales in FY24 (FY23: 71%).

During the 1HFY25, the Company has reported a topline of PKR 9.34 Bn, reflecting a 13% decrease from 1HY24 sales of PKR 10.78 Bn. This reduction was owed to the economic slowdown and global inflationary pressures resulting in relatively depressed demand. Gross margins fell from 12.6% to 8.1%, driven by higher cost of production amidst escalating power expenses. Further pressure from finance costs suppressed net margin down to 0.2% from 2.5% in SPLY. The management anticipates full year FY25 to report similar results to 1HY-FY25 with weakened sales and subdued margins.

Debt Coverage & Liquidity

During FY24, the Company's liquidity profile weakened, albeit remaining sufficient with Funds from Operations (FFO) recording at PKR 1.13 Bn (FY23: 2.12 Bn) down by 47% YoY. As a result, DSCR clocked in at 1.43x (FY23: 1.96x). FFO to short term debt declined to 0.16x (FY23: 0.36x) while FFO to long term debt remained largely stable at 0.34x (FY23: 0.39x).

Cash conversion cycle shortened significantly from 143 days in FY23 to 98 days owing to better inventory management. However, current ratio reduced from 1.16x to 0.94x due to higher short-term borrowings and increased trade payables.

In HY25, FFO reported at PKR 356 Mn, substantially down from PKR 667 Mn due to lower profitability during the period. Owing to decrease in FFO, annualized DSCR lowered to 1.18x while FFO to short term and long-term debt recorded at 0.08x and 0.24x respectively.

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>					Appendix I
BALANCE SHEET	FY21	FY22	FY23	FY24	HY25
Property, Plant and Equipment	7,746	9,645	11,770	11,843	11,485
Stock-in-Trade	5,100	5,106	5,469	5,245	7,044
Trade debts	3,300	3,754	3,442	3,938	3,696
Cash & bank balance	371	629	1,174	692	340
Total Assets	17,546	20,080	22,894	22,834	24,202
Long-term debt (inc. current portion)	2,722	3,763	4,955	2,742	2,466
Trade & Other payables	2,179	2,315	2,794	3,776	3,398
Total Liabilities	10,819	12,840	14,800	14,735	16,171
Paid-Up Capital	840	840	840	840	840
Reserves	5,888	6,400	7,253	7,259	7,191
Total Equity	6,728	7,240	8,093	8,099	8,031
INCOME STATEMENT	FY21	FY22	FY23	FY24	HY25
Net Sales	9,813	16,353	17,073	20,810	9,340
Gross Profit	1,112	1,272	2,920	2,440	753
Profit Before Tax	456	883	1,309	618	141
Profit After Tax	354	654	1,061	332	15
FFO	952	1,340	2,129	1,131	713
RATIO ANALYSIS	FY21	FY22	FY23	FY24	HY25
Gross Margin (%)	11.3%	7.8%	17.1%	11.7%	8.1%
Net Margin (%)	3.6%	4.0%	6.2%	1.6%	0.2%
FFO to Long-Term Debt (x)*	0.32	0.33	0.39	0.34	0.24
FFO to Total Debt (x)*	0.11	0.13	0.19	0.11	0.06
Current Ratio (x)	1.23	1.17	1.16	0.94	0.95
Debt Servicing Coverage Ratio (x)*	2.63	2.48	1.96	1.43	1.18
Gearing (x)	1.25	1.42	1.41	1.28	1.52
Leverage (x)	1.61	1.77	1.83	1.82	2.01
ROAA (%) *	2.0%	3.5%	4.9%	1.5%	0.1%
ROAE (%) *	5.3%	9.4%	13.8%	4.1%	0.4%
Cash Conversion Cycle (days)*	245	151	143	98	150
*Annualized					

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Artistic Denim Mills Limited				
Sector	Textile Industry				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	Rating Type: Entity				
	30-Apr-2025	A-	A2	Stable	Reaffirmed
	29-Mar-2024	A-	A2	Stable	Reaffirmed
	09-Jan-2023	A-	A2	Stable	Reaffirmed
	31-Dec-2021	A-	A2	Stable	Downgrade
	18-Nov-2020	A-	A1	Stable	Maintained
	24-Apr-2020	A-	A1	Rating Watch - Developing	Maintained
	29-Aug-2019	A-	A1	Stable	Reaffirmed
	07-May-2018	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.				
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Due Diligence Meetings Conducted	S.No.	Name	Designation	Date	
	1.	Mr. Sagheer Ahmed	Chief Financial Officer	24-Apr, 2025	
	2.	Mr. Salman Arif	DGM - Finance		