

ARTISTIC DENIM 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-	A2	A-	A2
RATING OUTLOOK/WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	June 17, 2026		February 6, 2025	

Shareholding (5% or More)

Mr. Muhammad Faisal Ahmed - 92.7%

Other Information

Incorporated in 1992

Public Listed Company

Chief Executive: Mr. Muhammad Faisal Ahmed

External Auditor: Reanda Haroon Zakaria Aamir Salman Rizwan & Company Chartered Accountants

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology - Corporates Ratings
<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

Rating Scale

<https://vis.com.pk/docs/VISRatingScales.pdf>

Rating Rationale

Assigned ratings incorporate the medium business risk profile of Pakistan's textile sector, characterized by exposure to economic cyclicality, intense competition, and global demand fluctuations. The sector continues to face challenges from elevated energy, salary, financing and freight costs, liquidity constraints arising from delayed sales tax refunds, reliance on imported raw materials, and the absence of significant rupee depreciation. Moreover, margins remain under pressure amid increasing regional competition, the shift toward the normal tax regime, and potential monetary tightening. Nevertheless, the sector may derive support from a gradual recovery in global demand, increasing focus on value-added products, and efforts to diversify customer bases through the acquisition of new clients, particularly in higher-margin and branded apparel segments.

The Company's topline declined during FY25, primarily driven by lower export garment sales amid reduced offtake from a key US-based customer. Profitability margins came under pressure due to intense pricing competition in international garment and denim markets, particularly from regional players with lower cost structures, alongside elevated energy and salary-related costs. Ratings are underpinned by the Company's several initiatives to support future performance, including efforts to diversify its customer base through addition of new clients, increased focus on value-added garments, installation of renewable energy capacity to reduce energy cost burden, and establishment of a fiber dyeing facility to create additional revenue streams. Management also expects gradual improvement in performance going forward, supported by addition of new customers, a better product mix with higher value-added garments, and operational efficiencies driven by cost optimization initiatives.

On the financial risk profile front, equity has declined due to accumulated losses, while borrowings have increased with a partial shift in funding mix following re-profiling of debt. Overall, the capitalization structure has weakened and indicators have moved upward. Liquidity and coverage indicators remain under pressure, reflecting stretched working capital cycle and constrained cash flow generation capacity. The ratings are supported by the expected improvement in profitability, strengthening liquidity profile, and prudent management of capitalization. However, failure to achieve the anticipated recovery in operations and financial performance may exert downward pressure on the ratings.

Company Profile

Artistic Denim Mills Limited ('ADML' or 'the Company') operates as a vertically integrated denim fabric and garments manufacturer which includes five key sectors: spinning, weaving, garments, fiber dyeing 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.

Management and Governance

The Company's governance framework is supported by a seven-member Board of Directors comprising two executive directors, three non-executive directors, and two independent directors, including one female member. During FY25, the Board convened four meetings, with attendance remaining satisfactory. To facilitate effective oversight, the Board operates through two committees, namely the Audit Committee and the Human Resource & Remuneration Committee.

The management team comprises experienced professionals, supported by a function-based organizational structure with clearly defined departmental responsibilities and reporting lines.

The Company's FY25 financial statements were audited by Reanda Haroon Zakaria Aamir Salman Rizwan & Co., a QCR-rated audit firm and categorized as 'B' on the State Bank of Pakistan's panel of auditors. The auditors expressed an unqualified opinion on the Company's FY25 financial statements.

Business Risk

INDUSTRY UPDATE

Pakistan's textile exports rose to USD 17.8bn in FY25, marking a 7.4% increase from FY24, with monthly peaks averaging around USD 1.6-1.7bn. FY26, while showing signs of stabilization, including a high of ~USD 1.74bn in January 2026, remain volatile, with recent months dipping to around USD 1.3bn. This uneven recovery reflects sensitivity to global demand, inventory adjustments in key markets, and pricing pressures. The challenges of 2025, particularly high energy and salary expenses, tight liquidity and absence of rupee depreciation. Structurally, the sector tries to shift more towards higher value-added segments such as knitwear and garments, reducing reliance on low-margin yarn and grey cloth exports and improving margin profiles. At the same time, sustainability has become a key competitive factor, with increased investment in renewable energy, water recycling, and traceability systems to meet stringent international buyer requirements. However, constraints persist in the form of high interest rates, energy cost pressures, reliance on imported cotton, and freight volatility. Overall, the industry outlook remains cautiously optimistic, supported by gradual demand recovery and strategic repositioning toward value-added and compliant exports, though growth is expected to remain measured rather than linear. However, margins are expected to remain compressed amid elevated cost structures, intensified regional competition, the absence of notable rupee depreciation, and the shift toward the normal tax regime. Moreover, following the recent 100bps increase in the policy rate, the possibility of further monetary tightening cannot be ruled out, which may place additional pressure on textile manufacturers' margins.

OPERATIONAL PERFORMANCE

Installed Capacity	FY22	FY23	FY24	FY25
Spinning (LBS)				
Capacity of yarn	22.4	24.3	32.0	32.0
Production	18.8	13.9	18.0	15.8
Utilization	84%	57%	56%	49%
Weaving (Meter)				
Capacity of fabric	21.1	17.6	20.3	20.2
Production	15.5	11.2	15.9	13.8
Utilization	73%	64%	78%	68%
Garments (Pieces Mn.)				
Capacity	8.3	8.3	8.3	8.3
Production	7.5	5.1	6.7	6.1
Utilization	91%	61%	81%	74%

During FY25, the Company's utilization levels moderated across segments amid increased inventory buildup and lower demand. In the spinning segment, utilization declined to 49% due to reduced production. Weaving utilization also dropped to 68%, while garments utilization moderated to 74% on the back of decreased demand. Overall, FY25 reflects pressure on operational efficiency, driven by weaker demand conditions and elevated inventory levels, resulting in reduced utilization levels.

PROFITABILITY

The Company's profitability profile remained under pressure during FY25, with topline declining by 12% YoY to PKR 18.4 Bn (FY24: PKR 20.8 Bn), primarily driven by a contraction in export garment sales. The decline in revenue was largely attributable to lower offtake from key US-based customer, which constitute around 17% (FY24: 25%) of the Company's total revenue. Exports sales came in lower at 92% of total sales during FY25 (FY24: 95%), while on the segment front, garments remained a major portion with 74% (FY24: 75%) of the sales.

Gross margins contracted significantly to 6.1% (FY24: 11.7%), reflecting pronounced pricing pressure in the international garment and denim markets. The primary driver of margin erosion was the decline in effective selling prices of garments amid intensified competition from regional players, particularly Bangladesh, which continue to operate at structurally lower cost bases. In order to sustain export volumes and retain market share, the Company had to absorb pricing pressure, which directly weighed on gross profitability. This was further compounded by elevated energy and higher salaries, which continued to exert structural pressure on cost of sales.

Operating profitability also weakened, with operating margin declining to 2.7% (FY24: 8.8%), reflecting lower gross contribution and sustained pressure from fixed operating costs. Finance costs declined to PKR 707 Mn (FY24: PKR 1,219 Mn) decreasing interest rates. However, the Company reported a net loss of PKR 451 Mn in FY25 (FY24: profit of PKR 332 Mn), translating into a negative net margin of 2.5%. Customer concentration remain elevated with top 3 customers consist of 44% (FY24: 50%) of the total sales. Geographically, USA remained the largest market contributing 29% (FY24: 35%) of total sales followed by Ireland and Spain at 14% (FY24: 14%) and 13% (FY24: 6%), respectively.

For 9MFY26, the Company reported sales of PKR 10.35 Bn compared to PKR 13.92 Bn in SPLY, reflecting continued weakness in demand, particularly in export markets. Gross margins improved slightly to 7.3% (9MFY25: 6.7%), indicating partial stabilization in cost pressures; however, pricing dynamics remain subdued. The Company reported a net loss of PKR 442 Mn during 9MFY26 (9MFY25: loss of PKR 222 Mn), while finance cost also registered an increase with increased debt usage.

The Company has recently added new customers to diversify its customer base and expand sales of value-added garments to improve profitability, while 5.161MW solar capacity has already been installed, with an additional 2.002MW currently under installation. Furthermore, the Company has established a fiber dyeing facility to cater to both internal requirements and external customers, thereby creating a new revenue stream.

Financial Risk

CAPITAL STRUCTURE

Overall capitalization of the Company has weakened during the period under review, wherein equity declined to Rs. 7.2b as at Mar'26 from Rs. 8.1b as at Jun'24, amid losses incurred in both FY25 and 9MFY26. The Company acquired long-term financing amounting to Rs. 2.3b during 9MFY26 while continuing to repay its existing long-term obligations as per schedule. Consequently, long-term debt increased and stood at Rs. 4.6b at end-Mar'26 (Jun'25: Rs. 2.7b; Jun'24: Rs. 3.3b). Through this long-term financing, the Company reduced its reliance on short-term borrowings, which declined to Rs. 8.9b as at Mar'26 from Rs. 10.3b as at Jun'25 (Jun'24: Rs. 7.1b). Gearing and leverage increased to 1.87x and 2.24x, respectively, as at Mar'26 (Jun'24: 1.28x and 1.82x). Going forward, maintaining capitalization at manageable levels, without any further material increase is critical from the ratings perspective.

DEBT COVERAGE & LIQUIDITY

The Company's liquidity and coverage profile remain under stress with working capital cycle stretched to 253 days (Jun'25: 174 days) as at Mar'26, amid increased inventory levels. With re-profiling of debt, the current ratio came in adequate at 1.09x as at Mar'26 which remained below 1x at 0.92x as at Jun'25. ST debt coverage through inventory and receivables stood at 1.25x (Jun'25: 1.14x) as at Mar'26 while Debt Service Coverage Ratio came in at 0.90x as at Mar'26 (Jun'25: 0.89x). Timely repayments of debt along with improvement of coverage ratios is important from a ratings perspective.

FINANCIAL SUMMARY						(Amounts in PKR Million)
BALANCE SHEET						
Property, Plant, & Equipment	FY22A	FY23A	FY24A	FY25A	9MFY26M	
Stock-in-Trade	9,645	11,770	11,843	11,262	10,732	
Trade Debts	5,106	5,469	5,245	7,313	7,667	
Cash & Bank Balances	3,754	3,442	3,938	4,438	3,470	
Total Assets	629	1,174	692	596	452	
Trade and Other Payables	20,080	22,894	22,834	24,485	23,419	
Long Term Debt (Inc. Current Maturity)	2,315	2,794	3,776	3,235	2,009	
Short Term Debt	4,051	5,420	3,307	2,732	4,621	
Total Debt	6,223	5,973	7,092	10,322	8,925	
Total Liabilities	10,274	11,393	10,399	13,054	13,546	
Paid Up Capital	12,840	14,800	14,735	16,816	16,181	
Total Equity	840	840	840	840	840	
	6,400	7,253	7,259	6,829	6,397	
INCOME STATEMENT						
Net Sales	16,353	17,073	20,810	18,407	10,353	
Gross Profit	1,272	2,920	2,440	1,119	751	
Operating Profit	1,296	2,290	1,837	498	278	
Profit Before Tax	883	1,309	618	(209)	(336)	
Profit After Tax	654	1,061	332	(451)	(442)	
RATIO ANALYSIS						
Gross Margin (%)	7.8%	17.1%	11.7%	6.1%	7.3%	
Operating Margin (%)	7.9%	13.4%	8.8%	2.7%	2.7%	
Net Margin (%)	4.0%	6.2%	1.6%	-2.5%	-4.3%	
Net Working Capital	1,500	1,512	(658)	(1,076)	1,012	
Trade debts/Sales	23.0%	20.2%	18.9%	24.1%	33.5%	
FFO	1,340	2,129	1,131	429	312	
FFO to Long Term Debt (%) *	0.33	0.39	0.34	0.16	0.07	
FFO to Total Debt (%) *	0.13	0.19	0.11	0.03	0.02	
Current Ratio (x)	1.17	1.16	0.94	0.92	1.09	
Debt Servicing Coverage Ratio (x) *	2.48	1.96	1.43	0.89	0.90	
Stock + Trade Debts/STD	1.42	1.49	1.29	1.14	1.25	
Gearing (x)	1.42	1.41	1.28	1.70	1.87	
Leverage (x)	1.77	1.83	1.82	2.19	2.24	
ROAA (%) *	3.5%	4.9%	1.5%	-1.9%	-0.2%	
ROAE (%) *	9.4%	13.8%	4.1%	-5.7%	-0.5%	
Net Operating Cycle *	151	143	98	174	253	
*Annualized, if required A - Audited Accounts M - Management Accounts P - Projected Accounts						

REGULATORY DISCLOSURES Appendix II

Name of Rated Entity	Artistic Denim Mills Limited				
Sector	Textile				
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				
	17-June-2026	A-	A2	Stable	Reaffirmed
	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	
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.				
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	Name		Designation	Date	
	Mr. Sagheer Ahmed		CFO	May 13, 2026	
	Mr. Salman Arif		DGM - Finance		