THE CRESCENT TEXTILE 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)

PKR. MILLION	FY23	FY24	9MFY25
Net Sales	19,891	23,756	14,343
PBT	787	(1,643)	(217)
PAT	561	(1,750)	(394)
Paid up capital	1,000	1,000	1,000
Equity (incl. surplus on PPE)	12,497	11,394	11,252
Total Debt	8,818	8,827	9,175
Debt Leverage	1.92	2.28	2.45
Gearing	1.34	1.61	1.72
FFO	1,017	(1,610)	(221)
FFO/Total Debt (x)*	0.12	(0.18)	(0.02)
NP Margin (%)	2.8%	(7.4%)	(2.7%)

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/ WATCH	Negative		Negative	
RATING ACTION	Reaffirmed		Maintained	
RATING DATE	May 21, 2025		March 27, 2024	

RATING RATIONALE

The assigned rating reflects Crescent Textile Mills Limited's (CTM) established position in Pakistan's textile sector, supported by its vertically integrated operations across spinning, weaving, processing, printing, and stitching. Despite a diversified product range and a notable export market presence, the Company has faced significant challenges in recent years.

The business environment has been marked by rising inflation, increasing raw material costs, and heightened competition from imports, all of which have placed considerable pressure on profit margins. While the Company reported a rise in sales, this was largely offset by higher energy costs, increased processing expenses, and reduced demand in key segments. The Company's reliance on short-term borrowings has grown, reflecting difficulties in managing working capital effectively.

Looking ahead, while the Company's financial performance is expected to remain under pressure, management has shifted its focus toward margin improvement by lowering raw material costs, diversifying customer base and expanding solar power capacity to reduce energy costs. Also the Company is now looking to boost exports mainly to the European markets. Sucessful execution of these initiative would lead to financial turnaround and a sustained improvement in profitability.

COMPANY PROFILE

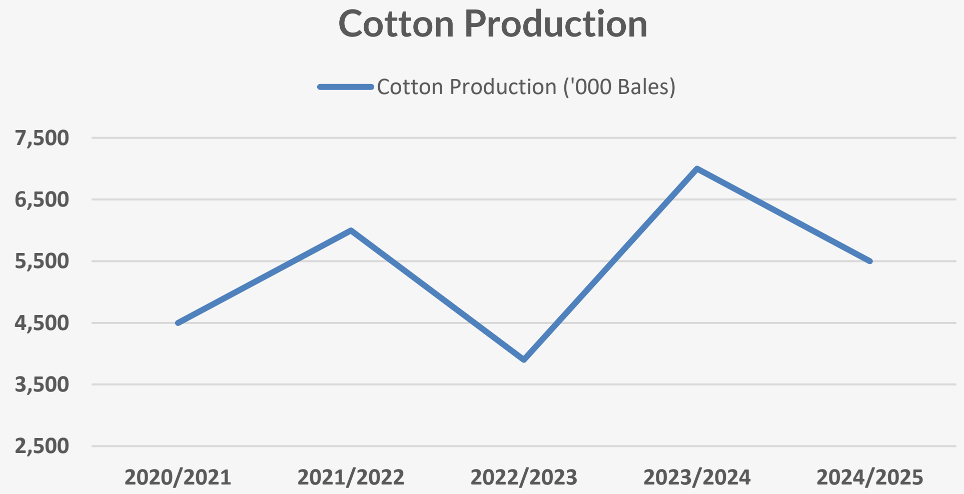
Crescent Textile Mills Limited (CTM) is a public listed company incorporated in 1950 and listed on the Pakistan Stock Exchange. Headquartered in Faisalabad, CTM operates a vertically integrated textile manufacturing setup covering spinning, weaving, processing, printing, and stitching. The Company's operations are structured across four primary segments: Yarn, Greige Fabric, Processed Fabric, and Home Textiles. Its production infrastructure includes ring spinning units, shuttle-less looms, dyeing and printing units (including rotary and digital printing), and stitching facilities. This integration enables CTM to process raw cotton into finished textile goods within a single operational chain. The Company supplies to both local and international markets, with a notable portion of sales revenue derived from exports to Europe, North America, and other regions. Customers include retail chains, wholesalers, and institutional buyers. CTM manages in-house design and product development functions to support order-specific requirements and maintain control over product specifications. Raw materials are procured from both domestic and foreign sources based on availability, pricing and quality standards.

GROUP AND SPONSOR PROFILE

The Crescent Group, a diversified industrial conglomerate, is the primary sponsor of Crescent Textile Mills Limited (CTM). Established in 1950, the group has a strong presence across multiple sectors, including textiles, sugar, steel, dairy, insurance, power generation, and information technology. With over 36 independent companies, both listed and unlisted, the group's portfolio includes notable entities such as Crescent Steel and Allied Products, Shams Textile Mills, and Premier Insurance Limited. The Crescent Group is led by key members of the sponsor family, who hold significant ownership in its various ventures, including CTM. The leadership of the group, with figures like Mr. Muhammad Anwar as CEO and Mr. Khalid Bashir as Chairman, has been instrumental in guiding its strategic direction and sustaining its operations over decades. The group's long-standing experience and diversified investments continue to support the growth and stability of its affiliated companies, including Crescent Textile Mills Limited.

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.

Portfolio and Capacity

Segment	2022	2023	2024
Spinning (20s count)			
Maximum Capacity	32,453	32,453	31,434
Actual Production	28,095	23,507	23,655
Capacity Utilization	**87%**	**72%**	**75%**
Weaving (50 picks)			
Maximum Capacity	40,932	40,932	66,248
Actual Production	34,689	31,771	52,724
Capacity Utilization	**85%**	**78%**	**80%**

Spinning: The Spinning segment operated under adverse macroeconomic and industry-specific challenges during FY2024. Capacity utilization increased slightly to 75%, though this remains below historical levels. The marginal improvement reflected some exchange rate stability and operational adjustments. However, sustained input cost pressures, particularly related to energy and financing cost, continued to impact profitability. Yarn demand remained weak due to a subdued downstream market, and duty-free yarn imports further reduced the competitiveness of local output. These factors limited operational scaling, and no material recovery in production volumes was observed.

Weaving: The Weaving segment recorded higher activity levels in FY2024 following the commissioning of a new weaving unit with 80 wider-width Air Jet Looms. This addition significantly increased installed capacity and allowed the Company to address demand for value-added home textile products. Utilization rose to 80%, driven by increased order inflows. The segment operated with a more varied product mix, particularly in wider-width fabric suited to export requirements. Despite elevated energy and outsourced processing costs, the segment maintained stable output levels, reflecting improved alignment with end-market requirements.

FINANCIAL RISK

Capital Structure

As of FY24, the Company's total debt stood at approximately PKR 8.8 billion, comprising PKR 7.5 billion in short-term borrowings and PKR 1.3 billion in long-term financing. The rise in short-term borrowings from the prior year reflected increased working capital requirements, largely driven by higher raw material and energy costs. Long-term financing remained elevated due to ongoing repayments related to the weaving unit expansion. Resultantly, the Company's gearing ratio rose to 1.61x, while the leverage ratio increased to 2.28x, both reflecting a stressed capitalization profile due to losses incurred during the year.

As of 9MFY25, the Company's total debt rose to PKR 9.1 billion, driven by an increase in short-term borrowings to PKR 8.1 billion, while long-term debt declined to PKR 1.1 billion due to scheduled repayments. Equity decreased slightly to PKR 11.25 billion (FY2024: PKR 11.39 billion) as bottom-line losses persisted. Consequently, the gearing ratio further deteriorated to 1.72x, and the leverage ratio increased to 2.45x, reflecting ongoing pressure on the capital structure.

Profitability

During FY24, The Crescent Textile Mills Limited (CTML) reported net sales of PKR 23.76 billion compared to PKR 19.89 billion in FY23, reflecting a growth of 19 percent. The increase was driven by a rise in effective selling prices amid rupee devaluation and continued focus on export markets. However, despite topline growth, the Company remained under considerable margin pressure due to elevated cost structures. The cost of sales grew significantly owing to higher energy tariffs, increased prices of imported raw materials, and rising conversion costs, particularly for outsourced weaving and processing. As a result, gross margin reduced to 5.7% compared to 13.4% in the preceding year.

Management undertook cost optimization measures, including operational restructuring and waste reduction, however these proved insufficient against prevailing macroeconomic pressures. Operating expenses remained relatively contained at PKR 1.49 billion. However, with reduced gross profit, operating profit turned negative during the year. Finance costs increased sharply to PKR 1.63 billion compared to PKR 1.03 billion in FY23, due to high benchmark interest rates and greater reliance on short-term borrowing to support working capital needs. Consequently, the Company posted a net loss of PKR 1.75 billion in FY24 compared to a net profit of PKR 561 million in FY23. Net margin declined from 2.8% in FY23 to negative 7.4% in FY24.

During 9MFY25, the Company reported net sales of PKR 14.34 billion compared to PKR 18.72 billion in 9MFY24. The contraction was mainly due to continued weakness in local demand and a decline in sales volumes, particularly in the yarn segment. However, there were signs of margin recovery during the period. Gross profit improved to PKR 1.35 billion, and gross margin rose to 9.4% from 8.7% in the corresponding period. Cost rationalization and improved control over waste and efficiency contributed to a rise in operating profit to PKR 717 million compared to PKR 513 million in 9MFY24. Despite this operational improvement, finance costs remained high at PKR 933 million, resulting in a net loss of PKR 394 million compared to PKR 775 million in the same period last year. Net margin stood at negative 2.7% (9MFY24: negative 4.1%).

Looking forward, the Company is focused on further reducing energy and fuel costs, primarily through scaling up solar power capacity, and improving raw material procurement to support margin recovery. It also aims to diversify its customer base. However, a recovery in profitability during FY25 appears challenging due to continued demand-side weaknesses and elevated borrowing and energy costs.

Debt Coverage & Liquidity

In FY24, The Crescent Textile Mills Limited reported negative Funds from Operations (FFO) of PKR (1.61) billion, a significant decline from PKR 1.02 billion in FY23. This drop was due to a net loss of PKR 1.75 billion driven by higher energy costs, imported input prices, and reliance on outsourced processing. The Company's ability to generate cash flow weakened further due to elevated finance costs of PKR 1.63 billion.

Key cash flow coverage indicators worsened in FY24, with FFO to Total Borrowings turning negative at -0.18x (FY23: 0.12x), and FFO to Long-term Borrowings at -1.19x (FY23: 0.65x). The Debt Service Coverage Ratio (DSCR) fell drastically to 0.02x, signaling limited capacity to meet debt obligations. The current ratio dropped to 0.79x, and net working capital remained negative at PKR (2.57) billion, indicating tight liquidity.

During 9MFY25, cash flow remained weak, with a negative FFO of PKR (221) million, despite improved gross margins and partial cost rationalization. Liquidity ratios stayed under pressure, with the current ratio at 0.81x and net working capital still negative at PKR (2.45) billion. Short-term borrowings rose to PKR 8.07 billion, indicating continued reliance on external funding.

Improving liquidity and cash flow is important, however weak coverage metrics and negative FFO will persist unless profitability improves supported by management's cost control and export-driven recovery efforts.

Environmental, Social and Corporate Governance (ESG)

The Company has continued to implement various initiatives aligned with its commitment to social responsibility and environmental sustainability. These efforts are concentrated in areas including education, healthcare, renewable energy, and environmental conservation. Noteworthy contributions during FY24 include:

- Education: Continued partnership with The Citizens Foundation to support three rural primary school units, with an annual contribution of PKR 7.8 million.
- Healthcare: Donations amounting to PKR 15.6 million were made to reputable institutions serving the healthcare needs of underprivileged communities.

- Environmental Conservation: The Company planted 29,000 trees, contributing to an estimated reduction of 580 tons of CO_2 emissions per year.
- Sustainability Collaboration: Formal agreements were maintained with WWF-Pakistan and ILO Pakistan to support water stewardship and sustainable development practices in the textile sector.
- Renewable Energy: Commissioning of a 3.5 MW solar energy plant at manufacturing facilities, generating 4.9 million units of renewable electricity annually.

Corporate Governance

As of FY24, the Board of Directors comprised seven members, including six male and one female director. The board structure included two independent directors, two executive directors, and three non-executive directors. During the year, one director resigned, prompting adjustments in committee roles. The Audit Committee was chaired by Mr. Amin Anjum Saleem, with Mr. Khalid Bashir and Mr. Khurram Mazhar Karim serving as members. The HR & Remuneration Committee was chaired by Mrs. Nazia Maqbool, with Mr. Ahmad Shafi and Mr. Khurram Mazhar Karim as members. In terms of activity, the Audit Committee held four meetings during the year, while the HR & Remuneration Committee convened once. The Company's statutory auditor, Riaz Ahmad & Company, retained its 'A' category status on the State Bank of Pakistan's approved panel and remains registered with the Audit Oversight Board. The auditors issued an unqualified opinion for FY2024, indicating compliance with applicable financial reporting and regulatory standards.

FINANCIAL SUMMARY					(Rs. in millions)
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25**
Property, plant and equipment	7,376	7,880	10,898	11,296	10,804
Stock-in-Trade	3,711	4,610	4,953	3,793	4,283
Trade Debts	2,695	3,755	3,835	3,007	3,018
Cash & Bank Balances	338	146	181	206	250
Total Assets	20,264	22,301	25,117	23,889	24,334
Trade Payables	1,040	940	1,664	1,718	1,975
Long Term Debt	1,850	1,603	1,570	1,355	1,102
Short Term Debt	6,128	6,892	7,248	7,473	8,073
Total Debt	7,978	8,495	8,818	8,827	9,175
Total Liabilities	10,390	11,466	12,620	12,496	13,082
Paid Up Capital	800	1,000	1,000	1,000	1,000
Total Equity	9,875	10,835	12,497	11,394	11,252
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25**
Net Sales	17,817	20,331	19,891	23,756	14,343
Gross Profit	2,453	3,541	2,665	1,361	1,352
Operating Profit	1,262	2,260	1,811	(11)	717
Profit Before Tax	810	1,762	787	(1,643)	(217)
Profit After Tax	516	1,347	561	(1,750)	(394)
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25**
Gross Margin (%)	13.8%	17.4%	13.4%	5.7%	9.4%
Net Margin (%)	2.9%	6.6%	2.8%	-7.4%	-2.7%
Net Working Capital	(328)	198	(600)	(2,566)	(2,445)
Trade debts/Sales	15.1%	18.5%	19.3%	12.7%	10.5%
FFO	993	2,087	1,017	(1,610)	(221)
FFO to Total Debt (%)	12%	25%	12%	-18%	-2%
FFO to Long Term Debt (%)	54%	130%	65%	-119%	-20%
Current Ratio (x)	0.97	1.02	0.95	0.79	0.81
Debt Servicing Coverage Ratio (x)	1.10	2.02	1.24	0.02	0.71
Gearing (x)	1.40	1.27	1.34	1.61	1.72
Leverage (x)	1.82	1.72	1.92	2.28	2.45
(Stock in Trade + Trade Debts)/STD	105%	121%	121%	91%	90%
ROAA (%)	2.6%	6.3%	2.4%	-7.1%	-2.1%
ROAE (%)	10%	22%	8%	-29%	-10%

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	The Crescent Textile Mills Limited
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Type: Entity				
Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
21-May-2025	A-	A2	Negative	Reaffirmed
27-Mar-2024	A-	A2	Negative	Maintained
16-Feb-2023	A-	A2	Stable	Reaffirmed
31-Dec-2021	A-	A2	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.	Naveed Amjad	CFO	May 05, 2025