GATRON (INDUSTRIES) 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	27,384	34,014	19,487
PBT	551	(94)	(1,605)
PAT	205	(204)	(1,850)
Paid up capital	767	1,087	1,087
Equity (incl. surplus on PPE)	7,860	13,287	11,466
Total Debt	17,386	13,283	13,597
Debt Leverage	3.78	1.60	1.87
Gearing	2.21	1.00	1.19
FFO	782.7	254.4	(575.2)
FFO/Total Debt (x)*	0.05	0.02	(0.04)
NP Margin (%)	0.7%	(0.6%)	(9.5%)

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	July 08, 2025		May 17, 2024	

RATING RATIONALE

The assigned ratings reflect Gatron (Industries) Limited's ("Gatron" or "the Company") established domestic market presence and vertically integrated operations across the polyester and packaging. The Company primarily caters to the local industry, with some presence in export markets, offering a product portfolio centered around polyester-based inputs, including filament yarn and PET preforms.

Revenue contracted during the review period due to reduced sales volumes and lower unit prices amid intensified dumping of imported yarn. Profitability was further impacted by low-capacity utilization and inventory losses due to decline trend of oil prices and associated pertro chemical raw material and product prices accordingly.

The ratings also take into account the sponsor's strength and commitment, reflected in an equity injection during FY24. A total of Rs. 5.60 billion was raised through a rights issue, comprising Rs. 320 million in paid-up capital and Rs. 5.28 billion in share premium. This capital support has considerably strengthened the Company's capitalization structure, resulting in a notable decline in debt levels and an improvement in the overall financial risk profile.

In terms of liquidity and coverage, the Company has experienced weakening due to reduced operating cash flows. As a result, the debt service coverage ratio fell below 1x. However, the Company maintains adequate current assets to meet its obligations, as reflected in the short-term debt coverage ratio of 2.42 at end-9MFY25.

To restore profitability and enhance operational resilience, Gatron's management has implemented several cost optimization and efficiency-driven initiatives. These include expanding solar energy capacity to reduce energy costs, increasing in-house manufacturing of critical components to minimize external dependencies, cost focused inventory management, and strategically focusing on higher value-added products. These measures are expected to support margin expansion and contribute to improved profitability, particularly from FY26 onward. The rating are dependent upon successful implementation of cost efficiency measures and their reflection on margins improvements, going ahead.

COMPANY PROFILE

Gatron (Industries) Limited is a publicly listed textile manufacturer specializing in polyester-based products. Incorporated in 1980, the Company is part of the Gani & Tayub Group (G&T). The product portfolio includes polyester filament yarn (PFY), PET preforms, polyester polymer/chips, and knitted fabrics. Its head office is located in Karachi, with manufacturing facilities situated in Hub, Balochistan.

GROUP PROFILE

Gani & Tayub Group (G&T) is a diversified industrial group with business interests across manufacturing and energy sectors. While the Group initially focused on polyester-based textile production, its operations have expanded to include PET resin, PET preforms, BOPET films, Electric Vehicles, Pharma and Retail businesses.

INDUSTRY PROFILE & BUSINESS RISK

The Polyester Filament Yarn (PFY) industry in Pakistan faces both domestic and external pressures, as it serves as a key input for the textile sector, particularly in polyester-based fabric production. Annual PFY demand is estimated at 350,000–360,000 metric tons, with local production meeting only 30 percent of this requirement in view of dumping. While installed capacity can cater to up to half the national demand, output remains constrained due to dumping. The remaining 70 percent is met through imports, primarily from China at dumped prices.

Gatron (Industries) Limited and Rupali Group are the key domestic producers, both operating vertically integrated manufacturing facilities. Competitive pressure remains elevated due to a steady influx of low-priced Chinese imports, which continue to suppress domestic prices and limit the ability of local producers to pass on rising input costs. Tariff distortions, particularly the inconsistent and ineffectively enforced anti-dumping duties, remain a major business risk that severely undermines the viability of domestic producers. Anti-dumping duties imposed in 2017 were terminated in November 2023 on technical grounds, leading to a sharp rise in imports. Although provisional duties ranging from 2.13% to 5.19% were reinstated in November 2024, their expiry in March 2025 and weak enforcement, evident from over PKR 16 billion in uncollected duties due to repeated legal stays, has rendered them largely ineffective.

The Company provided data and support to the National Tariff Commission for the on-site audits of over 25 Chinese exporters, which have been completed. Final anti-dumping duties on PFY notified by National tariff Commission of Pakistan in the range of 5.35% to 20.78% on dated 17th June, 2025, which is higher than the previous duties prevailing in 2023.

PFY production costs are largely driven by international prices of Purified Terephthalic Acid (PTA) and Monoethylene Glycol (MEG), both linked to global crude oil prices. PTA is sourced both locally and internationally, while MEG is entirely imported, exposing the sector to commodity price swings and exchange rate volatility. Although domestic PFY prices generally follow input cost trends, persistent import-driven price suppression restricts full pass through of costs.

Gatron's management is focusing on cost reduction through a combination of energy, procurement, and production-related initiatives. These include the installation of 5.72 MW of solar power, with an additional 3 MW under consideration, to reduce dependence on grid electricity and improve margins. The Company is also pursuing for cheaper source of energy from different soruces along with Solar energy. On the raw material side, Gatron is targeting 80 percent imported PTA versus the current 41 percent and has identified cost-effective alternatives for TiO_2 In-house production of POY and DTY tubes is being increased to reduce reliance on external suppliers. These steps are aimed at improving operational efficiency and supporting margin sustainability amidst ongoing market pressures.

Operational Update

Year	FY23	FY24	9MFY25
Polyester Filament Yarn			
Annual capacity (including 75 denier)	43,424	43,424	43,424
Annual capacity (including 150 denier)	86,280	86,280	86,280
Actual Production	54,594	52,517	35,846
Capacity Utilization (%) Based on 150 Denier (Annualized)	**63.3%**	**60.9%**	**55.3%**
Polyester P.E.T. Preforms			
Annual capacity (including 27 gms)	31,512	31,512	31,512
Actual Production	12,298	12,676	12,137
Capacity Utilization (%) – (Annualized)	**39.0%**	**40.2%**	**51.3%**
Knitted Fabrics			
Annual capacity	1,090	1,090	1,636
Actual Production	681	699	589
Capacity Utilization (%) – (Annualized)	**62.5%**	**64.1%**	**48%**

The Polyester Filament Yarn (PFY) segment which consist around 86% of sales, experienced a decline in capacity utilization, dropping from 63.3% in FY23 to 60.9% in FY24, and further decrease to 55.3% in 9MFY25. The decline is primarily attributable to persistent below-cost dumping of imported yarn, which continues to suppress domestic PFY demand and restricted optimal use of the Company's expanded production base. In the

Polyester P.E.T. Preforms segment, utilization inched up to 40.2% in FY24 (FY23: 39.0%), reflecting a modest recovery in orders, but subsequently raised to 51.3% in 9MFY25. Meanwhile, the Knitted Fabrics segment posted year-on-year growth in production volume; however, utilization decreased to 48% in 9MFY25, largely on account of recently added capacity.

FINANCIAL RISK

Capital Structure

During the year FY24, the Company issued right shares and raised around Rs. 5.60 billion by issuing 32 million shares, Rs. 320 million was added as paid-up capital at the par value of Rs. 10 per share, and Rs. 5.28 billion as share premium at a premium of Rs. 165 per share. This has supported the equity to grow from Rs. 7.86 billion at end-FY23 to Rs. 13.29 billion at end-FY24, despite a net loss of Rs. 204 million in FY24. With the raising of equity, the Company has decreased its short-term borrowings to Rs. 3.8 billion at end-FY24 (end-FY23: Rs. 8.5 billion). While on the other hand, long-term financing registered a net increase of Rs. 914 million in FY24 to close at Rs. 9.8 billion at end-FY24 (end-FY23: Rs. 8.9 billion). This increase was due to additions in PPE of the Company. At end-9MFY25, long-term borrowing has declined as per amid repayments while short-term borrowings depicted incresaing trend. Consequently, capitalizaion indicators witnesseded notable decline during the review period.

Management remains focused on energy efficiency and BMR initiatives, with funding plans based on internal cash and available credit lines with no major CAPEX planned during the rating horizon.

Profitability

The Company recorded a 24% year-on-year increase in net sales for FY24, reaching PKR 34.01 billion, supported by currency depreciation in the first half of the year and the commissioning of a new polymer line. However, sales declined by 28% YoY in 9MFY25 to PKR 19.49 billion, driven by lower volumes and prices of yarn. Revenue remained largely domestic-driven, with local sales accounting for 98% of total revenue, as export demand remained low. Yarn remained the principal revenue contributor at approximately 86% of total sales, followed by Preforms at around 9%, which recorded higher volumes but lower average selling prices. Top 10 client concentration increased to 35.73% in 9MFY25 (FY24: 33.44%), though it remained within an acceptable range.

Gross and net margins weakened in FY24 and 9MFY25, due to low capacity utilization, , and inventory losses on high-cost of raw materials. Selling and distribution expenses rose in 9MFY25, following a decline in FY24 that was largely attributable to lower handling, freight, and transportation costs. Finance costs rose sharply in FY24 due to higher working capital requirements and elevated policy rates. Despite a cut in the benchmark rate, finance costs remained high in 9MFY25, reflecting the impact of prevailing interest rates and a partial uptick in short-term borrowings after a notable reduction in FY24. The Company reported losses in both periods, reflecting continued pressure on overall financial performance.

Looking ahead, management remains focused on improving operational efficiency through tighter inventory control, solar capacity expansion, in-house component manufacturing, and a shift toward higher value-added products. These initiatives are expected to support cost savings and gradual margin recovery.

Debt Coverage & Liquidity

In 9MFY25, Gatron reported a decline in funds from operations (FFO), primarily driven by pressure on gross and net margins. The drop in earnings, along with an increase in short-term borrowings by period-end, resulted in weakened FFO coverage metrics, reflecting reduced internal cash generation relative to debt obligations. Consequently, the Debt Service Coverage Ratio (DSCR) declined to 0.31x in 9MFY25, indicating increased pressure on the Company’s ability to meet debt servicing requirements through operational cash flows. Coverage of short-term borrowings through inventory and receivables remained above 2x, supported by high stock-in-trade levels. The cash conversion cycle also lengthened due to high inventory days, pointing to slower working capital turnover. Sustaining adequate liquidity and improving coverage metrics will remain important from a ratings perspective.

Corporate Governance Profile

The corporate governance profile of Gatron (Industries) Limited reflects its status as a listed entity with a 10-member Board, comprising five non-executive directors and three independent directors. To ensure effective oversight, the Board has constituted two committees: the Audit Committee and the Human Resources & Remuneration Committee, both chaired by independent directors in line with best governance practices. The Board also includes one female director, supporting gender diversity. During FY24, the Board of Directors was actively engaged, holding seven meetings throughout the year. The Audit Committee and HR & Remuneration Committee convened four meetings each. The statutory auditors, M/s Kreston Hyder Bhimji & Co., Chartered Accountants, who retired during the year, have been recommended for reappointment for FY25 by the Audit Committee.

FINANCIAL SUMMARY					(Rs. in millions)
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25**
Property, plant and equipment	5,949	9,769	16,953	18,778	18,811
Stock-in-Trade	3,840	6,318	11,387	7,503	6,669
Trade Debts	2,897	4,323	3,976	3,516	4,037
Cash & Bank Balances	103	133	337	297	291
Total Assets	14,860	23,671	37,577	34,589	32,868
Trade & Other Payables	1,806	3,668	9,244	5,523	5,439
Long Term Debt	2,931	5,974	8,912	9,703	9,166
Short Term Debt	3,521	4,892	8,474	3,580	4,431
Total Debt	6,452	10,866	17,386	13,283	13,597
Total Liabilities	8,905	15,900	29,717	21,302	21,402
Paid Up Capital	384	384	767	1,087	1,087
Total Equity	5,955	7,771	7,860	13,287	11,466
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25**
Net Sales	16,558	23,960	27,384	34,014	19,487
Gross Profit	1,867	3,176	1,454	2,087	351
Operating Profit	1,316	2,646	553	1,393	(417)
Profit Before Tax	1,302	2,559	551	(94)	(1,605)
Profit After Tax	1,066	1,827	205	(204)	(1,850)
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25**
Gross Margin (%)	11.3%	13.3%	5.3%	6.1%	1.8%
Net Margin (%)	6.4%	7.6%	0.7%	-0.6%	-9.5%
Net Working Capital	2,711	3,958	119	3,483	990
Trade debts/Sales	17.5%	18.0%	14.5%	10.3%	10.4%
FFO	1,534	2,744	783	254	(575)
FFO to Total Debt (%)	24%	25%	5%	2%	-4%
FFO to Long Term Debt (%)	52%	46%	9%	3%	-6%
Current Ratio (x)	1.49	1.42	1.01	1.31	1.08
Debt Servicing Coverage Ratio (x)	7.70	4.90	0.65	0.77	0.31
Gearing (x)	1.08	1.40	2.21	1.00	1.19
Leverage (x)	1.50	2.05	3.78	1.60	1.87
(Stock in Trade + Trade Debts)/STD	1.91	2.18	1.81	3.08	2.42
ROAA (%)	8.5%	9.5%	0.7%	-0.6%	-7.3%
ROAE (%)	19%	27%	3%	-2%	-20%

REGULATORY DISCLOSURES	**Appendix II**
Name of Rated Entity	Gatron (Industries) Limited
Sector	Synthetic and Rayon
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**
08-July-2025	A-	A2	Stable	Reaffirmed
17-May-2024	A-	A2	Stable	Reaffirmed
15-Feb-2023	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.
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Due Diligence Meetings Conducted

S.No.	Name	Designation	Date
1.	Mr. Shabbir Diwan	CEO	June 11,2025
2.	Mr. Naeem	CFO	