

Analysts:

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SAPPHIRE TEXTILE MILLS LIMITED**Chairman: Mr. Mohammad Abdullah****Chief Executive: Mr. Nadeem Abdullah****RATING DETAILS**

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A+	A1	A+	A1
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	November 03, 2024		October 07, 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)

RATING RATIONALE

Sapphire Textile Mills Limited ('STML'), the flagship entity of one of Pakistan's most diversified conglomerates with a strong financial base and extensive industry experience, maintains a leading position in the textile sector. The assigned ratings reflect STML's market standing, underpinned by decades of export experience and established relationships with global clients. Its vertically integrated operations across spinning, weaving, finishing, and home textiles ensure cost efficiency, quality control, and margin stability. The Company's financial risk profile remains manageable, with gearing below 1x, stable leverage, and prudent debt management. Strong other income from the Group's equity portfolio and strategic investments continues to support profitability. STML is poised for expansion aimed at further diversification by setting up of Soda Ash manufacturing facility through its wholly owned subsidiary, which is expected to impact debt coverage indicators in the medium term, with gradual improvement projected over time.

COMPANY PROFILE

Sapphire Textile Mills Limited ('STML' or 'the Company') is a public limited company incorporated in 1969 under the Companies Act, 1913 (now the Companies Act, 2017). STML operates vertically integrated operations comprising of spinning, weaving, finishing, printing and dyeing with manufacturing facilities based in Punjab and Sindh with the registered office located in Karachi.

Sapphire Textile Mills Limited and its Subsidiaries (STML Group)

STML serves as the flagship and holding company of one of Pakistan's most diversified conglomerates. While the STML Group core operations remain centered around textile manufacturing, the structure also includes non-core segments such as retail (under the 'Sapphire' brand), renewable energy (Sapphire Wind and TriconBoston) and international trading entities including Sapphire International ApS.

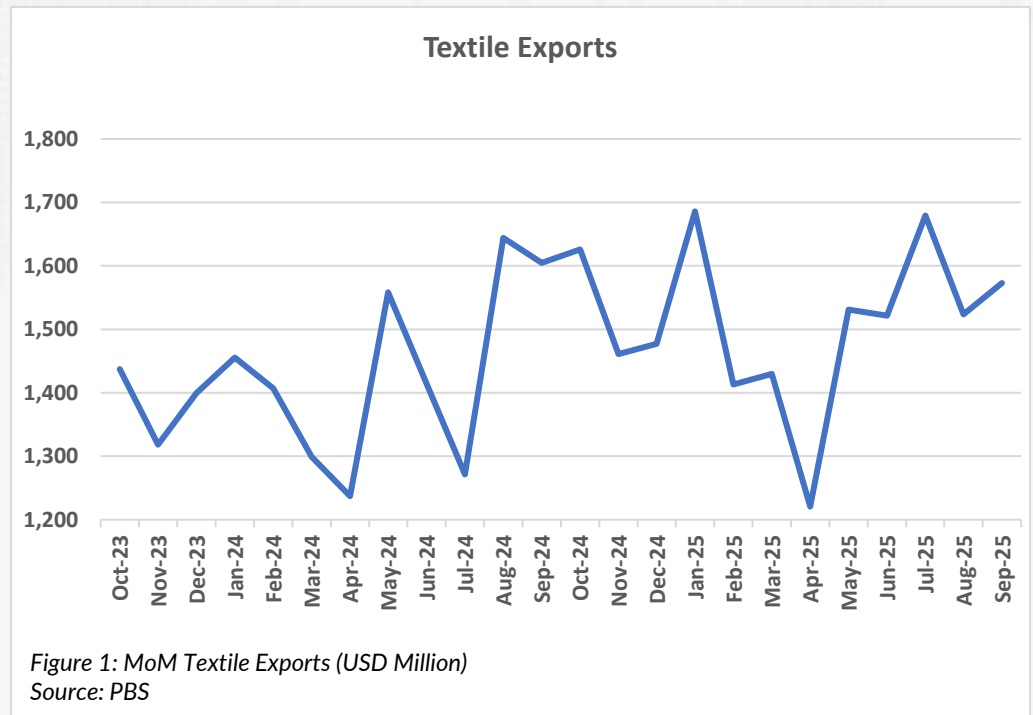
Investment Portfolio

At end FY25, long-term investments increased by 11%, rising to PKR 18.1 billion (FY24: PKR 16.2 billion), accounting for 75% of investments in subsidiaries and associates while remained vested in other equity investments. The growth was primarily led by a 26% increase in equity investments, which stood at PKR 4.5 billion (FY24: PKR 3.6 billion), largely attributed to higher exposure in MCB Bank Limited through both increased shareholding and revaluation gains, along with a new strategic investment in RTS Textiles Group Limited, an integrated workwear manufacturer headquartered in the UK. Investments in subsidiaries also rose by 8%, reaching PKR 13.1 billion (FY24: PKR 12.2 billion), supported by additional equity in Sapphire Chemicals and Sapphire Green Energy.

Short-term investments increased by 65% year-on-year to PKR 7.0 billion at end-FY25 (FY24: PKR 4.3 billion), reflecting portfolio expansion through revaluations and new placements. The portfolio represents a well-diversified mix of equity securities, offering a balanced blend of liquidity and stable returns.

INDUSTRY PROFILE & BUSINESS RISK

Pakistan's textile sector continues to face structural pressures amid declining domestic cotton availability and elevated cost structures. Cotton production fell sharply to 5.5 million bales in FY25 (FY24: 8.4 million bales), driven by climate shocks, water shortages, and rising input costs, thereby increasing reliance on imports, which currently provide both cost and quality advantages. Textile exports, however, grew 7.9% YoY to USD 17.9 billion in FY25, supported by value-added segments, though profitability remained constrained by high energy tariffs and rising minimum wages. The recent reduction in US tariffs on Pakistani textiles offers some relief. The imposition of an 18% sales tax on imported cotton and yarn under the Export Facilitation Scheme is aimed at strengthening the local spinning industry. Nevertheless, refund delays under the scheme continue to strain exporter liquidity.



Export momentum carried into FY26, with textile shipments in July 2025 rising 32.1% YoY to USD 1.68 billion, driven by strong demand in the US retail market, carryover orders from June, and tariff disadvantages for competing suppliers. On the supply side, cotton production for FY26 is projected at 4.8 million bales, down 4% YoY, reflecting reduced cultivated area, weaker yields in Sindh, and significant flood-related damage in Punjab. Cotton consumption is expected to ease to 10.5 million bales, with rising cost pressures, while imports are projected at 5.6 million bales to bridge the supply gap. Looking ahead, the government's approval of hybrid seed imports is expected to support yield recovery over the medium term, offering partial mitigation against recurring structural challenges.

Operational Update

STML's manufacturing facilities are spread across Kotri, Nooriabad, Kasur District, Sheikupura and Lahore. The Company maintained stable capacity utilization across its integrated process in FY25.

The current power requirement is around 30 MW, met primarily through grid power (WAPDA) with ~15% currently sourced via solar energy. Going forward, the management has plans to add 2-3 MW of solar capacity plus battery storage. This investment is aimed at actively minimizing reliance on grid power and mitigating the risk of energy cost volatility.

Capacity Utilization	FY22	FY23	FY24	FY25
Spinning				
Installed capacity after conversion into 20/s lbs (Million)	115	129	141	140
Actual production after conversion into 20/s lbs (Million)	104	119	138	135
Capacity utilization	90%	92%	98%	97%
Weaving				
Installed capacity (at 50 picks/inch of fabric square meters) Million	206	217	206	206
Actual production (at 50 picks/inch of fabric square meters) Million	172	169	168	176
Capacity utilization	83%	78%	82%	85%
Finishing and Printing				
Production capacity (Million meters)	46	54	70	70
Actual production (Million meters)	37	48	66	64
Capacity utilization	80%	89%	94%	92%
Yarn Dyeing				
Production capacity (Million KGs)	2.9	2.9	2.9	2.9
Actual production (Million KGs)	2.3	2.2	2.3	2.2
Capacity utilization	79%	76%	79%	77%
Home Textile and Stitching				
The capacity of this unit is undeterminable due to multi product involving varying processes of manufacturing and run length of order lots.				

FINANCIAL RISK

Capital Structure

STML maintained a balanced capital structure. The equity base strengthened on account of profitability and realized gain on sale of equity instrument, while total debt increased due to short-term borrowings to support working capital needs. Nonetheless, gearing remained unchanged to 0.91x, whereas leverage was maintained at 1.25x at end FY25, reflective of effective debt management. Going forward, the Company plans to inject ~PKR 14 billion into its wholly owned subsidiary, Sapphire Chemicals (Soda Ash) over the upcoming 2 years (FY26 and FY27) which will be funded through long-term borrowings at the parent level. While the planned expansion will increase consolidated leverage, management aims to preserve the capital structure within a manageable range, supported by sustained profitability and expected growth in equity.

Profitability

In FY25, STML's net sales increased by 13.2%, amounting to PKR 93.3 billion (FY24: PKR 82.4 billion), primarily driven by volumetric growth supplemented by improved average selling prices. A notable shift was observed in the export-to-local sales mix, which moved to 52:48 in FY25 from 84:16 in FY24. The change stems from the withdrawal of the export-oriented tax regime under the Finance Act 2024 whereby export-linked indirect sales are now classified as local sales for tax purposes following the removal of related fiscal incentives. Nevertheless, the underlying volume of export-linked deliveries remained strong.

Sales mix comprised of yarn (43%), fabric (30%) and home textiles (23%). Client concentration remained moderate to low, underpinned by a well-diversified customer base across product lines. Geographically, exports were predominantly directed towards the European market accounting for 41% (FY24: 34%) of sales. Gross margins remained stable at 13.7% (FY24: 13.4%), supported by better pricing in value-added products along with effective procurement and cost management strategies in raw material sourcing.

The operating profit margin declined to 12.2% (FY24: 16.1%), primarily due to lower other income, which, while still supportive of profitability, was notably below the prior year. The decline in other income was mainly attributed to reduced dividend inflows from subsidiaries and associates, particularly within the energy segment. Total dividend income from subsidiaries and associates stood at PKR 1.9 billion, compared to PKR 3.7 billion in FY24. Conversely, dividend income from equity investments increased modestly to PKR 1.0 billion (FY24: PKR 0.9 billion). The inherent volatility in non-core income streams contributed to the contraction in operating profitability.

Net profit margin contracted to 4.2% (FY24: 6.3%), despite continued support from other income. Although finance costs declined year-on-year due to lower interest rates, the benefit was offset by a higher effective tax rate following the transition from the export-oriented final tax regime to the normal tax regime, which increased the company's tax burden. The combined impact of reduced non-core income and elevated taxation weighed on overall profitability during the period. Looking ahead, management anticipates double-digit sales growth driven by sustained demand, while focusing on maintaining margin stability through operational efficiencies and a favorable product mix.

Debt Coverage & Liquidity

STML's liquidity position remains comfortable, underpinned by strong liquid reserves and a well-managed working capital cycle. At end-FY25, the Company held short-term investments of PKR 7.0 billion (FY24: PKR 4.3 billion) and cash balances of PKR 153 million (FY24: PKR 330 million), reflecting continued financial flexibility. The current ratio improved marginally to 1.46x (FY24: 1.43x), while the short-term debt coverage ratio moderated to 1.95x (FY24: 2.31x) amid higher short-term borrowings. The net operating cycle shortened slightly supported by improved receivable management.

Debt coverage indicators diluted during FY25, reflecting a decline in Funds from Operations. The contraction primarily stemmed from higher tax outflows and lower dividend income. Consequently, the Debt Service Coverage Ratio (DSCR) declined to 1.13x (FY24: 1.69x), while the FFO-to-Total Debt ratio contracted to 0.11x (FY24: 0.27x).

Despite this moderation, STML's debt-servicing capacity remains adequate, supported by sizeable cash buffers, unutilized bank lines, and stable operating cash flows. Management expects coverage metrics to strengthen going forward on the back of disciplined working capital management and improved profitability, which will remain important for rating.

FINANCIAL SUMMARY		(amounts in PKR millions)			
BALANCE SHEET		FY22	FY23	FY24	FY25
Fixed Assets		19,921	23,645	25,066	26,434
Long term Investments		13,504	14,430	16,201	18,059
Short-term investments		2,988	1,365	4,251	7,031
Stock-in-Trade		23,145	23,034	24,533	28,434
Trade Debts		5,656	6,614	8,939	9,722
Cash & Bank Balances		99	413	330	153
Total Assets		70,643	75,716	83,016	96,376
Trade and Other Payables		6,283	6,894	7,370	9,912
Long Term Debt (Inc. CP)		17,208	19,761	19,265	19,480
Short Term Debt		16,943	15,990	14,476	19,597
Total Debt		34,397	35,779	33,740	39,077
Paid Up Capital		217	217	217	217
Total Equity (Excluding Revaluation)		26,110	28,239	36,917	42,747
INCOME STATEMENT					
Net Sales		61,373	72,837	82,399	93,259
Gross Profit		11,859	10,369	11,063	12,734
Operating Profit		11,117	9,385	13,240	11,351
Profit Before Tax		8,458	4,701	6,845	6,684
Profit After Tax		7,016	3,291	5,174	3,951
Other Income		3,008	2,454	5,895	3,434
RATIO ANALYSIS					
Gross Margin (%)		19.3%	14.2%	13.4%	13.7%
Operating Margin (%)		18.1%	12.9%	16.1%	12.2%
Net Margin (%)		11.4%	4.5%	6.3%	4.2%
Net Working Capital		8,133	7,841	12,391	16,261
FFO		7,354	4,486	8,993	4,273
FFO to Total Debt (x)		0.21	0.13	0.27	0.11
FFO to Long Term Debt (x)		0.42	0.23	0.47	0.22
Debt Servicing Coverage Ratio (x)		1.91	1.20	1.69	1.13
Gearing (x)		1.32	1.27	0.91	0.91
Leverage (x)		1.71	1.68	1.25	1.25
Current Ratio (x)		1.28	1.27	1.43	1.46
STD Coverage (x)		1.70	1.85	2.31	1.95
ROAA (%)		11.5%	4.5%	6.5%	4.4%
ROAE (%)		29.8%	12.1%	15.9%	9.9%
Inventory Days		171	135	126	129
Receivable Days		34	33	40	38
Payable Days		46	40	38	45
Net Operating Cycle		158	127	127	122
* Annualized					

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Sapphire Textile Mills Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Watch/ Outlook	Rating Action
	Rating Type: Entity				
	03/11/2025	A+	A1	Stable	Reaffirmed
	07/10/2024	A+	A1	Stable	Reaffirmed
	13/09/2023	A+	A1	Stable	Reaffirmed
	04/07/2022	A+	A1	Stable	Reaffirmed
	21/06/2021	A+	A1	Stable	Maintained
	22/04/2020	A+	A1	Rating Watch-Developing	Maintained
	05/12/2019	A+	A1	Positive	Reaffirmed
	19/12/2018	A+	A1	Positive	Reaffirmed
	30/01/2018	A+	A1	Positive	Reaffirmed
	25/10/2016	A+	A1	Positive	Reaffirmed
	1/6/2015	A+	A1	Positive	Reaffirmed
	5/3/2014	A+	A1	Positive	Maintained
	1/4/2013	A+	A1	Stable	Upgrade
	1/2/2012	A	A2	Stable	Reaffirmed
	12/10/2010	A	A2	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 Meeting Conducted	Name		Designation		Date
	Mr. Atif Ahmad		GM Accounts		October 13 th 2025

Mr. Abdul Sattar Mr. Muhammad Imran	Group CFO CFO	October 14th 2025
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