VIS
Credit Rating Company Limited

RATING REPORT

SAPPHIRE TEXTILE MILLS LIMITED

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RATING DETAILS				
RATINGS CATEGORY	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A+	A1	A+	A1
OUTLOOK/RATING WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	03 November 2026		03 November 2025	

Shareholding (5% or More)	Other Information
ATMZ Company (Private) Limited - ~9.84%	Incorporated in 1969
Channel Holdings (Private) Limited - ~9.78%	Public Listed Company
Synergy Holdings (Pvt) Limited – 9.75%	Chief Executive: Mr. Nadeem Abdullah
Resource Corporation (Pvt) Limited - ~9.71%	External Auditor: Shinewing Hameed Chaudhri & Co., Chartered Accountants
Glitter (Private) Limited - ~9.37%	
Acrylic (Private) Limited- ~9.34%	
Glory (Private) Limited – ~9.31%	
Lavendar (Private) Limited - ~9.25%	

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology – Corporates Ratings
https://docs.vis.com.pk/Methodologies-2026/Corporate-Rating-2026.pdf

Rating Scale

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

Rating Rationale

The assigned ratings reflect the Company's established position in the textile sector, supported by vertically integrated operations, longstanding export relationships and a diversified customer base. During FY26, STML rationalized spinning capacity at its Kotri unit by discontinuing production from uneconomic spindles in line with its continued shift towards value-added segments. Furthermore, challenging sector conditions weighed on textile operating performance, while the Company's material investment portfolio provided recurring dividend income, supporting overall profitability. The financial risk profile strengthened during the year, underpinned by an enhanced equity base, broadly stable debt levels, comfortable liquidity and improved debt servicing capacity. Going forward, the continued focus on value-added textiles and recurring dividend income is expected to support the Company's business and financial profiles. Planned investments in subsidiaries, namely, Sapphire Chemicals (Private) Limited, are expected to be financed through a combination of internal resources and debt, with the overall impact on the Company's financial risk profile expected to remain moderate.

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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 spinning, weaving, dyeing, printing, finishing and stitching, along with home textiles, with manufacturing facilities based in Punjab and Sindh with the registered office located in Karachi.

Manufacturing Facilities	Location
Spinning Units	Kotri, Nooriabad, District Kasur, Sheikhupura
Weaving, Yarn Dyeing, Printing & Processing, Home Textile and Stitching Unit	Sheikhupura
Stitching Unit	Lahore

GROUP PROFILE

STML serves as the flagship and holding company of the Sapphire Group, overseeing a diversified portfolio of businesses spanning textile manufacturing, renewable energy, chemicals, real estate and international trading. The Group's textile business encompasses both manufacturing operations and retail activities, including Sapphire Retail Limited, which operates under the 'Sapphire' brand and has an international retail presence in the US, UK and UAE. The Group's renewable energy portfolio includes Sapphire Wind Power Company Limited and Tricon Boston Consulting Corporation (Private) Limited. In the chemicals sector, Sapphire Chemicals (Private) Limited is developing a soda ash manufacturing facility. The Group also undertakes international trading activities through Sapphire International ApS.

Management and Governance

The composition of the Board complies with the Listed Companies (Code of Corporate Governance) Regulations, 2019. The Company's governance is overseen by ten members, comprising the Chairman; Mr Mohammad Abdullah, CEO; Mr. Nadeem Abdullah, two executive directors, three non-executive directors and three independent directors. The Board convenes at least quarterly with five meetings held during FY26.

The Board has formed two committees, namely Audit Committee and HR & Remuneration Committee, appropriately represented by Board members. The management is spearheaded by Mr. Nadeem Abdullah, a seasoned professional, supported by a management team of experienced professionals ensuring effective strategic execution and operational oversight.

AUDITOR

The FY26 annual financial statements were audited by Shinewing Hameed Chaudhri & Co. Chartered Accountants, a QCR-rated audit firm. The auditors expressed an unqualified opinion.

IT INFRASTRUCTURE

The Company utilizes Oracle's integrated ERP system across financial and manufacturing functions, supporting the integration of key business processes. The system facilitates financial reporting, production planning and operational monitoring, supporting information flow and management oversight across the Company's operations.

Business Risk

INDUSTRY UPDATE

Pakistan's textile sector continues to undergo a structural shift, with profitability increasingly favouring value-added manufacturing over conventional spinning operations. Textile exports remained largely stagnant at USD 17.93 billion (FY25: USD 17.89 billion) in FY26, reflecting limited overall growth amid persistent cost pressures and subdued external demand. While export performance varied across product categories, readymade garments remained a key growth contributor, whereas cotton cloth, knitwear and towels recorded declines. The divergence in segment performance highlights the growing importance of product mix, operational efficiency and the ability to cater to higher-value export markets.

The spinning segment remains particularly vulnerable due to its commodity-driven business model, limited pricing power and relatively thin margins. Historically, gross margins in spinning have remained around 7-8%, compared with ~12% in garments, making upstream operations more susceptible to fluctuations in raw material, energy and financing costs. Limited domestic cotton availability increases reliance on imported

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raw material, adding to input cost pressures for spinning mills. These challenges have contributed to the closure of spinning units and are prompting manufacturers to reassess the viability of conventional yarn production. Consequently, investment and business strategies are increasingly oriented towards value-added segments, including hosiery, denim, apparel and workwear, where greater product differentiation and customer relationships offer comparatively stronger margin potential. However, the transition also entails higher investment requirements and greater emphasis on product development, quality standards and efficient order fulfilment.

Cost pressures have moderated following the decline in financing costs; however, energy remains a key determinant of the sector's competitiveness. Manufacturers are increasingly adopting alternative energy solutions to manage operating costs and reduce dependence on grid electricity. Meanwhile, textile exports increased by 5.26% to USD 5.03 billion in 1QFY27, supported by growth in readymade garments, knitwear, cotton yarn and towels. Nevertheless, the improvement follows a largely stagnant FY26 and remains insufficient to establish a broad-based recovery. The sector continues to face risks from weak demand in key export markets, elevated production costs and uncertain trade conditions. Overall, the outlook remains cautious, with the shift towards value-added manufacturing expected to support comparatively stronger earnings prospects, while conventional spinning operations remain exposed to margin pressure, capacity rationalization and operating inefficiencies.

INVESTMENT PORTFOLIO

Long-term Investments

Long-term investments increased to PKR 24.6 billion (FY25: PKR 18.1 billion), reflecting additional investments in subsidiaries, including Sapphire Chemicals (Private) Limited and Sapphire Green Energy (Private) Limited, alongside a new investment in Sapphire Retail US Corporation, which will operate retail operations in the US. Investments in these entities accounted for 25% of the portfolio, while equity investments, include MCB Bank Limited, Habib Bank Limited and RTS Textiles Group Limited, represented a further 28%.

Short-term Investments

Short-term investments increased by 26% year-on-year (YoY) to PKR 8.9 billion at end-FY26 (FY25: PKR 7.0 billion), primarily driven by fair value remeasurement gains and additional placements. The portfolio comprises established listed companies, providing exposure to relatively well-established market participants while contributing to the Company's investment income and financial flexibility.

OPERATIONAL UPDATE

Capacity Utilization	FY23	FY24	FY25	FY26
Spinning				
Installed capacity after conversion into 20/s lbs (Million)	129	141	140	111
Actual production after conversion into 20/s lbs (Million)	119	138	135	99
Capacity utilization	**92%**	**98%**	**97%**	**89%**
Weaving				
Installed capacity (at 50 picks/inch of fabric square meters) Million	217	206	206	206
Actual production (at 50 picks/inch of fabric square meters) Million	169	168	176	175
Capacity utilization	**78%**	**82%**	**85%**	**85%**
Finishing and Printing				
Production capacity (Million meters)	54	70	70	69
Actual production (Million meters)	48	66	64	63
Capacity utilization	**89%**	**94%**	**92%**	**91%**
Yarn dyeing				
Production capacity (Million KGs)	2.9	2.9	2.9	2.9
Actual production (Million KGs)	2.2	2.3	2.2	2.2
Capacity utilization	**76%**	**79%**	**77%**	**75%**
Home Textile Product				
The capacity of this unit is undeterminable due to multi product involving varying processes of manufacturing and run length of order lots.				

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Spinning capacity declined during FY26 as STML discontinued production from uneconomic spindles that were no longer strategically aligned with its value-added business segments, reflecting the Company's continued shift towards higher value-added textile operations. The Company retains ownership of the facility and intends to lease it out. Accordingly, spinning capacity utilization moderated to 89% (FY25: 97%). Capacity utilization across the remaining segments remained broadly stable, reflecting sustained operational activity.

In line with the Company's focus on value-added products, garment operations previously undertaken through related party Designtex (SMC-Private) Limited are expected to transition to STML in FY27. This transition will strengthen the Company's presence in value-added textiles.

In terms of energy sourcing, ~30% of the Company's total power requirements are met through solar generation, while the remaining 70% is sourced from the grid and third-party gas suppliers. During FY26, the Company also installed a 25 MW battery storage system for solar power, which is now operational.

PROFITABILITY

During FY26, the Company's revenue declined to PKR 81.2 billion (FY25: PKR 93.3 billion), primarily due to lower volumetric yarn sales in the domestic market following the rationalization of spinning capacity at its Kotri unit by discontinuing production from uneconomic spindles, as the Company continues to shift its focus towards value-added segments. The impact was partially offset by improved domestic fabric sales and stronger export sales of home textiles. Accordingly, the export share of total revenue increased to 56% (FY25: 52%), while the domestic market contributed 44% (FY25: 48%). The Company's customer base remains diversified, with low concentration among the top ten clients.

Segments	FY24	FY25	FY26
Yarn	45%	43%	34%
Fabric	31%	30%	34%
Home Textiles	18%	23%	28%
Processing Income/Printing & Finishing	5%	4%	4%

Profitability from textile operations moderated during FY26, with gross margin easing to 12.7% (FY25: 13.7%) and operating margin to 6.5% (FY25: 8.5%). Despite lower raw material purchases, primarily due to reduced cotton procurement, margins moderated amid lower average selling prices across key product segments and a change in sales mix. In contrast, net profit increased to PKR 6.8 billion (FY25: PKR 4.0 billion), with net margin improving to 8.4% (FY25: 4.2%). The improvement was primarily driven by higher other income of PKR 7.5 billion (FY25: PKR 3.4 billion), including PKR 2.5 billion in one-off dividend income received. The Company's investment portfolio continued to support overall profitability, offsetting the moderation in margins from textile operations.

Going forward, management expects the garment operations currently undertaken by related party Designtex (SMC-Private) Limited to transition to STML in FY27, further strengthening the Company's presence in the value-added segment. Meanwhile, dividend income is expected to normalize following the one-off dividend received during FY26, while continuing to provide recurring support to overall earnings.

Financial Risk

CAPITAL STRUCTURE

At end-FY26, the Company's capitalization profile strengthened, with gearing improving to 0.74x (FY25: 0.92x). This was primarily driven by expansion in equity base to PKR 53.2 billion (FY25: PKR 42.7 billion), supported by higher profitability and unrealized gains on equity investments, while total debt remained broadly stable at PKR 39.1 billion (FY25: PKR 39.2 billion). Within the debt profile, lower short-term borrowings, supported by improved internal cash generation, offset an increase in long-term borrowings to PKR 21.2 billion (FY25: PKR 19.5 billion). The increase in long-term borrowings was primarily utilized to finance capital expenditure, including solar battery storage installation, as well as routine BMR requirements.

Going forward, the Company is expected to continue investing in its subsidiaries alongside routine BMR requirements. The funding of these investments and their impact on capitalization metrics will remain key considerations from a rating perspective.

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DEBT COVERAGE & LIQUIDITY

At end-FY26, the Company's liquidity remained comfortable, supported by a stable current ratio of 1.48x (FY25: 1.46x) and an increase in cash and cash equivalents to PKR 10.5 billion (FY25: PKR 7.2 billion). The net operating cycle shortened marginally, reflecting lower trade receivables and inventory levels alongside an extension in payable days. The resulting changes in working capital supported a notable improvement in operating cash flow during the year.

Debt servicing capacity strengthened during FY26, with the Debt Servicing Coverage Ratio (DSCR) rising to 1.44x (FY25: 1.13x), reflecting lower financing requirements amid reduced short-term borrowings and lower policy rates. Higher Funds from Operations (FFO), supported by increased dividend income, further enhanced the Company's ability to meet its financial obligations. Consequently, FFO-based coverage indicators also improved, with FFO to long-term debt increasing to 0.30x (FY25: 0.22x) and FFO to total debt at 0.16x (FY25: 0.11x).

Going forward, liquidity and debt coverage are expected to remain supported by internal cash generation and recurring dividend income, although the normalization of dividend receipts following the one-off income in FY26 may moderate FFO.

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FINANCIAL SUMMARY				(amounts in PKR millions)
BALANCE SHEET	**FY23**	**FY24**	**FY25**	**FY26**
Fixed Assets	23,645	25,066	26,434	31,008
Long term Investments	14,430	16,201	18,059	24,555
Short-term investments	1,365	4,251	7,031	8,867
Stock-in-Trade	23,034	24,533	28,434	25,952
Trade Debts	6,614	8,939	9,722	7,994
Cash & Bank Balances	413	330	153	1,661
Total Assets	75,716	83,016	96,376	109,794
Trade and Other Payables	2,838	3,798	4,056	6,355
Long Term Debt & Lease Liabilities (Inc. CP)	20,799	20,302	19,621	21,181
Short Term Debt	15,990	14,476	19,597	17,915
Total Debt	36,789	34,778	39,217	39,096
Paid Up Capital	217	217	217	217
Total Equity	28,239	36,917	42,747	53,171
INCOME STATEMENT				
Net Sales	72,837	82,399	93,259	81,181
Gross Profit	10,369	11,063	12,734	10,290
Other Income	2,454	5,895	3,434	7,483
Operating Profit	9,385	13,240	11,351	12,787
Finance Cost	4,684	6,395	4,667	3,452
Profit Before Tax	4,701	6,845	6,684	9,335
Profit After Tax	3,291	5,174	3,951	6,821
RATIO ANALYSIS				
Gross Margin (%)	14.2%	13.4%	13.7%	12.7%
Operating Margin (%)	12.9%	16.1%	12.2%	15.8%
Net Margin (%)	4.5%	6.3%	4.2%	8.4%
Net Working Capital	7,840	12,391	16,261	17,366
FFO *	4,486	8,993	4,273	6,292
FFO to Total Debt (x) *	0.12	0.26	0.11	0.16
FFO to Long Term Debt (x) *	0.22	0.44	0.22	0.30
Debt Servicing Coverage Ratio (x) *	1.05	1.53	1.13	1.44
Gearing (x)	1.30	0.94	0.92	0.74
Leverage (x)	1.68	1.25	1.25	1.06
Current Ratio (x)	1.27	1.43	1.46	1.48
STD Coverage (x)	1.85	2.31	1.95	1.89
ROAA (%) *	4.5%	6.5%	4.4%	6.6%
ROAE (%) *	12.1%	15.9%	9.9%	14.2%
Net Operating Cycle *	151	146	149	137

* Annualized, if required
A - Audited Accounts
M - Management Accounts
P - Projected Accounts

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REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Sapphire Textile Mills Limited
Sector	Textile Composite
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
RATING TYPE: ENTITY				
03/11//2026	A+	A1	Stable	Reaffirmed
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	Reaffirmed
22/04/2020	A+	A1	Rating Watch - Developing	Maintained

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. Muhammad Imran	CFO	October 16, 2026
Mr. Atif Ahmad	GM Accounts	

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