VIS
Credit Rating Company Limited

ZEPHYR TEXTILES LIMITED

Analyst:
Husnain Ali
(husnain.ali@vis.com.pk)

RATING DETAILS				
RATINGS CATEGORY	Latest Rating		Previous Rating	
	Medium to Long-term	Short-term	Medium to Long-term	Short-term
ENTITY	**BBB+**	**A2**	BBB+	A2
RATING OUTLOOK/ WATCH	**Stable**		Stable	
RATING ACTION	**Reaffirmed**		Maintained	
RATING DATE	**5-Jan-26**		11-Dec-24	

Shareholding (5% or More)	Other Information
Mussaid Hanif: 36.35%	**Incorporated in 1999**
Sabah Burhan: 20.13%	**Public Listed Company**
Arbab Muhammad Khan: 8.90%	**Chief Executive:** Mussaid Hanif
Tehniyat Mussaid: 6.77%	**Chairperson:** Tehniyat Mussaid
Banks, NBFCs and other FIs: 7.42%	**External Auditor:** BDO Ebrahim & Co. Chartered Accountants

Applicable Rating Methodology

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

Rating Scale

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

Rating Rationale

Zephyr Textiles Limited ('ZTL' or 'the Company') is a publicly listed company that operates a greige fabric and towel weaving unit, a towel dyeing and processing unit and is also involved in garment processing. The Company's headquarters are located in Lahore with the weaving unit and power plant situated in Bhai Pheru and the towel unit located in the Kasur District.

Assigned ratings reflect higher business risk encountered by textile exporters emanating from declining domestic cotton production, reliance on costly imports and persistent high energy costs, all having adverse impact on profit margins across the sector. Furthermore, inconsistent government policies have introduced additional pressures on demand of locally produced yarn. Moreover, global tariffs could further raise supply chain and cost-side challenges for textile companies in Pakistan.

ZTL is optimizing its portfolio by phasing out low-margin fabric production to prioritize value-added exports. This strategic pivot stabilized net sales during FY25, as export momentum effectively offset weakened domestic demand and shifted the sales mix toward lucrative international markets. Despite these efforts, gross margins declined slightly in FY25, prompting the Company to expand its solar power capacity and divest underutilized looms to mitigate rising direct costs. Net profit also decreased in FY25, pressured by lower gross margins, reduced other income, and high finance costs. Liquidity remains a concern, as the current ratio dipped while the net operating cycle extended. Furthermore, although short-term borrowing drove an increase in gearing and leverage in FY25, the debt service coverage ratio (DSCR) showed recovery. In 1QFY26, financial metrics indicated mild improvements, supported by cost savings from solar energy and reduced finance costs following debt repayments.

Sale of a piece of land has been finalized with a substantial advance payment already received. This transaction could optimize the cash cycle for reinvestment as well as debt repayments, strengthening the capital structure and overall cash flow. Going forward, the successful execution of vertical integration and the expansion of the solar power footprint and improvements in financial metrics will remain crucial from ratings perspective.

Company Profile

Zephyr Textiles Limited was incorporated in 1999 as a private limited company, later on went public in 2004. The Company is involved in the production and sale of greige and finished fabric, towels and made ups. The company is listed on Pakistan stock Exchange. Registered office of the Company is in Lahore while weaving unit is situated at Balloki Bhai Pheru Road and towel unit at district Kasur.

Management and Governance

The seven-member Board consists of three Executive Directors (including the CEO) and four Non-Executive Directors. This latter group consists of the Chairperson, two non-management Directors, and two crucial Independent Directors. ZTL demonstrates strong compliance with the Securities and Exchange Commission of Pakistan's (SECP) requirements for the Directors' Training Program (DTP): six out of the seven directors have obtained the required DTP certificate, and the remaining director, the Chief Executive Officer (CEO) Mr. Mussaid Hanif, meets the DTP's exemption requirement, ensuring all members of the board are compliant with the mandatory training criteria. Mr. Hanif holds a significant ownership stake in the Company at 36.35%. His educational background includes an MBA from Lahore University of Management Sciences (LUMS), and he possesses over twenty years of sales and management experience in the textile industry. He previously served as the Chairman of Zephyr Textiles Limited until 2020.

Business Risk

INDUSTRY

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 by 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 relatively lower US tariffs on Pakistani textiles offers some relief. In addition, the exclusion of raw cotton, cotton yarn, and grey cloth from Pakistan's Export Facilitation Scheme (EFS) is an area of concern in the domestic textile industry along with the imposition of a 18% sales tax on these imports, which previously had a zero-rating, threatening companies across the value chain and reducing demand for local produce. Refund delays under the scheme also continue to strain exporter liquidity.

The performance in the ongoing year reflects a muted recovery in the sector, though it continues to face structural challenges such as energy costs and regional competition. The US, UK, Germany, and Netherlands remain major export destinations for Pakistani textiles. Textile shipments in 5MFY26 increased by 2.73% YoY to USD 7.81 billion, supported by volume growth in value-added segments, Readymade Garments (+14%) and Bedwear (+15%), improved 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 floodrelated 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

The total power requirement is 4 MW, with approximately 30% met by solar energy. The Company intends to expand its solar capacity during the rating horizon, having already purchased land from the sponsors to accommodate both capacity expansion and the addition of solar power. Present capacity consists of 52 looms dedicated to producing towels. In FY25, 12 fabric production looms were sold, resulting in the current count of 80 fabric production looms. The number of looms is expected to remain unchanged, with no new purchases planned. Operating metrics are tabulated below:

Capacity	FY22	FY23	FY24	FY25
Fabric Weaving Unit				
Installed Capacity (Square Meters in Millions)	84.60	81.94	49.10	42.70
Actual Production (Square Meters in Millions)	69.79	58.85	36.63	25.03
Capacity Utilization %	***83%***	***72%***	***75%***	***59%***
Towel Weaving Unit				
Installed Capacity (Tons)	4,835	4,835	5,362	5,362
Actual Production (Tons)	3,953	3,992	4,397	4,703
Capacity Utilization %	***82%***	***83%***	***82%***	***88%***
Towel Dyeing and Processing Unit				
Installed Capacity (Tons)	6,372	6,372	6,799	6,799
Actual Production (Tons)	4,783	4,393	5,339	5,894
Capacity Utilization %	***75%***	***69%***	***79%***	***87%***

Although weak local demand led to a contraction in fabric production, the Company countered this challenge by increasing towel output, to maintain topline performance. While knitting is presently outsourced, the Company plans a vertical integration with the future addition of three knitting machines. This capacity expansion will be key to a pivot toward lucrative export markets for knitted goods, such as tracksuits, suede shirts, hoodies, and men's innerwear.

SALES & PROFITABILITY

The Company is currently transitioning its core operations from domestic woven fabrics toward higher-margin, value-added knitted products tailored for global markets. This shift is reflected in the FY25 performance. Export volumes increased by 15.0% aiding in mitigating the impact of a 21.5% reduction in local sales. This translated to an uptick of 6.1% growth in export revenue countering a substantial 17.9% contraction in the local sales, thereby stabilizing net sales in FY25. Consequently, the ZTL's sales composition now heavily skews towards exports as tabulated below:

	Export revenue	Local revenue
FY22	*50%*	*50%*
FY23	*64%*	*36%*
FY24	*68%*	*32%*
FY25	*73%*	*27%*

Although towel exports remain the dominant revenue stream (FY25: 84.1%, FY24: 90.2%), revenue from exports of value-added knitted increased to 14.1% (FY24: 8.4%) in FY25 replacing lower-margin greige fabric sales. Moreover, the sales mix in terms of customers changed mainly due to higher revenue from clients in the USA, Sri Lanka and Portugal. Concentration exists at top 10 customers constituted 47% (FY24: 53%) of net sales in FY25. However, 40% of these customers have been retained since 2014, highlighting strong customer retention. Similarly, ZTL maintains relationships of 50% of its suppliers since 2015.

Gross margin declined slightly to 9.85% in FY25 (FY24: 10.68%), though it remained broadly within the historical range following the abnormally high (15.08%) recorded in FY23. Other income decreased due to significantly lower gains from the sale of fixed assets (FY25: Rs. 4.3m; FY24: Rs. 101.6m). The Company's net profit fell sharply to Rs. 1.8m in FY25 (FY24: Rs. 45.7m), primarily due to pressure on gross margins, reduced other income and elevated, but declining finance costs (FY25: Rs. 261.3m; FY24: Rs. 293.0m). ZTL would have reported a net loss in FY25 had it not deferred a portion of its income tax.

Weakened local demand caused net sales to decrease by 9.9% in 1QFY26 compared to the SPLY. However, gross margin and operating margin improved on account of cost-savings from solar power and reduction in sales and marketing expenses, leading to a net profit of Rs. 9.4m in 1QFY26 compared to a net loss in the corresponding period.

Management expects net sales to grow by 8-9% in FY26, driven by higher garment exports to the U.S. and Europe, while margin improvement anticipated from by export growth and lower finance costs.

Financial Risk

CAPITAL STRUCTURE

Tier-1 equity increased due to profit retention, the recognition of a net revaluation surplus within equity (net of deferred tax and depreciation adjustments), and a loan from a director to fund working capital requirements and long-term investments. The loan is interest free and repayable at the Company's discretion, therefore classified as core equity. Despite this, significant increase in short-term borrowings pushed gearing to 0.94x (end-FY24: 0.69x) and leverage to 1.97x (end-FY24: 1.50x) by end-FY25. Gearing (0.72x) leverage (1.90x) improved slightly by end-1QFY26 on the back of decrease in short-term borrowing and equity growth.

Management expects capitalization ratios to remain stable this year, as BMR of Rs. 215m is planned which will be funded from borrowings, though the impact on capitalization ratios will be moderated by anticipated higher profit retention. Sale of a piece of land, which was classified as a non-current asset held for sale, has been finalized at Rs. 32.5m and the transaction is expected to strengthen the equity base through a Rs. 2.2m gain over the book value of Rs. 30.3m. This gain will marginally increase retained earnings, slightly complementing the capitalization structure.

DEBT COVERAGE & LIQUIDITY

The Company's funds flow from operations (FFO) increased due to lower to finance costs and gratuity payments. Resultantly, debt servicing coverage ratio (DSCR) improved and FFO to total debt strengthened in FY25 and 1QFY26. The total anticipated inflow of Rs. 32.5m from land sales, represents a substantial injection into the Company's cash cycle. These funds allow for strategic reinvestment as well as nominal debt repayments.

ZTL simultaneously faced a liquidity crunch, exacerbated by increased competition from China and adverse changes to the Export Finance Scheme, causing an increase in short-term debt utilization. This caused a dip in current ratio while cash conversion cycle (CCC) extended throughout FY25 into 1QFY26. Aging of trade debts was sound with 98% recovered within 60 days during FY24 and FY25.

The conversion of this non-core asset into cash, supporting liquidity by shifting value from a long-term fixed asset to current assets. Management confirms that a 50% advance payment (approximately Rs. 15.14m) has already been received, providing an immediate boost to the cash ratio and the ability to meet urgent operational obligations

FINANCIAL SUMMARY

BALANCE SHEET (Rs in m)	FY23	FY24	FY25	1QFY26
Property Plant and Equipment	2,421	2,675	2,889	2,886
Stock-in-Trade	1,457	1,539	1,942	2,087
Trade Debts	557	558	962	655
Cash & Bank Balances	156	58	27	68
Total Assets	**5,875**	**5,700**	**6,773**	**6,674**
Trade and Other Payables	1,603	1,413	1,867	2,075
Long Term Debt (including current maturity)	120	87	55	53
Short Term Debt	1,313	1,371	1,973	1,521
Total Debt	**1,432**	**1,458**	**2,028**	**1,575**
Total Liabilities	**3,345**	**3,125**	**4,243**	**4,134**
Paid Up Capital	594	594	594	594
Interest-free Sponsor Loan	-	-	39	39
Total Equity (without surplus revaluation)	**1,956**	**2,088**	**2,157**	**2,173**
INCOME STATEMENT (Rs in m)	**FY23**	**FY24**	**FY25**	**1QFY26**
Net Sales	8,103	8,394	8,280	1,962
Gross Profit	1,222	897	815	234
Operating Profit	560	444	342	85
Profit Before Tax	371	151	80	31
Profit After Tax	**238**	**46**	**2**	**9**
RATIO ANALYSIS	**FY23**	**FY24**	**FY25**	**1QFY26**
Gross Margin	15.08%	10.68%	9.85%	11.91%
Operating Margin	4.90%	2.29%	2.97%	3.93%
Net Margin	2.94%	0.54%	0.02%	0.48%
Current Ratio (x)	1.07	1.00	0.97	0.98
Net Working Capital (Rs in m)	211	-6	-108	-58
Net Operating Cycle (days)	27	24	38	40
Short-term Debt Coverage (x)	1.53	1.53	1.47	1.80
FFO (Rs in m)	679	33	142	82
FFO to Total Debt (x)*	0.49	0.02	0.07	0.21
FFO to Long Term Debt (x)*	9.09	0.51	2.56	6.12
Debt Servicing Coverage Ratio (x)*	3.85	0.99	1.33	2.11
ROAA*	4.3%	0.8%	0.0%	0.6%
ROAE*	10.3%	1.8%	0.1%	1.5%
Gearing (x)	0.71	0.69	0.94	0.72
Leverage (x)	1.71	1.50	1.97	1.90

*Annualized, as required

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<tr><td>Instrument Structure</td><td>N/A</td></tr>
<tr><td>Statement by the Rating Team</td><td>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.</td></tr>
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<tr><td>Due Diligence Meetings Conducted</td><td>
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<tr><th>Name</th><th>Designation</th><th>Date</th></tr>
<tr><td>Naveed Aleem</td><td>CFO</td><td>9-Dec-2025</td></tr>
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