VIS
Credit Rating Company Limited

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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)

RS. MILLION	FY23	FY24	9MFY25
Net Sales	119,200	156,129	125,408
PBT	21,584	17,807	4,484
PAT	20,172	15,771	2,710
Paid up call	14,014	14,017	14,017
Equity (incl. surplus on PEE)	43,806	53,532	52,738
Total Debt	59,601	69,127	99,161
Leverage	1.86	1.83	2.43
Gearing	1.36	1.29	1.88
FFO*	27,108	22,627	9,483
FFO/Total Debt (x)*	0.45	0.33	0.10
NP Margin	16.9%	10.1%	2.2%

*Annualized

INTERLOOP LIMITED

Chairman & Chief Executive: Mr. Musadaq Zulqarnain & Mr. Navid Fazil

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	AA-	A1	AA-	A1
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Upgrade	
RATING DATE	August 04, 2025		July 18, 2024	

RATING RATIONALE

Interloop Limited (ILP) is a vertically integrated textile composite and one of the largest global hosiery manufacturers, supported by a well-diversified export base and long-standing relationships with major international retailers. The assigned rating reflects ILP's strong market position, integrated operations, and stable revenue scale. The Company is actively pursuing capacity expansion and product diversification, particularly in the denim and apparel segments. While the hosiery division continues to generate stable earnings, consolidated profitability has been impacted by margin compression in the apparel segment, which remains in its ramp-up phase. Ongoing capital expenditure has kept capitalization metrics constrained, although gradual improvements in gearing are evident. Liquidity remains adequate; however, cash flow-based coverage indicators have weakened due to reduced profitability.

The rating is supported by management's focus on operational efficiency, particularly in apparel segment, its commitment to capping debt levels, and long-term cost savings through sustainability initiatives, including the planned expansion of solar energy capacity. However, external risks persist, most notably the potential impact of fluctuations in global cotton prices and changes in U.S. tariff policies, will remain a key challenge.

COMPANY PROFILE

Interloop Limited ('ILP' or 'the Company') is a vertically integrated manufacturer specializing in hosiery, denim, knitted apparel, seamless activewear, and yarns, with globally recognized clients including Nike, Adidas, H&M, Puma, Levi's, Reebok, and Target.

ILP was established in April 1992 as a privately held entity. It transitioned to a public unlisted company in July 2008 before being listed on the Pakistan Stock Exchange (PSX: ILP) in April 2019. The Company's registered office is located at 15-A Peoples Colony No. 1, Faisalabad, with manufacturing facilities situated in Faisalabad and Lahore.

The Company employs 37,000+ individuals from 15 nationalities, operating across 6 countries. This includes an extensive industrial infrastructure base in Pakistan, an associate manufacturing facility in Sri Lanka, a manufacturing facility and sourcing office in China, and marketing services offices in USA, Europe and Japan.

In line with this, ILP has acquired a 64% stake in Top Circle Hosiery Mills Co., Inc. ("Top Circle") in the United States during FY24, with the aim of strengthening its global footprint. Top Circle is renowned for producing high-quality socks with a manufacturing facility in Pinghu, China. Its clientele includes prominent brands like, Calvin Klein, Nine west and Dockers.

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. The USDA forecasts a rebound to 5.55 million bales in FY25, contingent on overcoming several challenges, including a declining area under cotton cultivation, rising energy costs, and adverse climatic conditions such as heatwaves, floods, and pest infestations that have further pressured yields.

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 profitability remains vulnerable to cotton market volatility, inflationary pressures, and exchange rate fluctuations, while persistently high energy costs continue to strain overall cost structures. Furthermore, rising input costs and regulatory changes are creating a challenging environment for the sector.

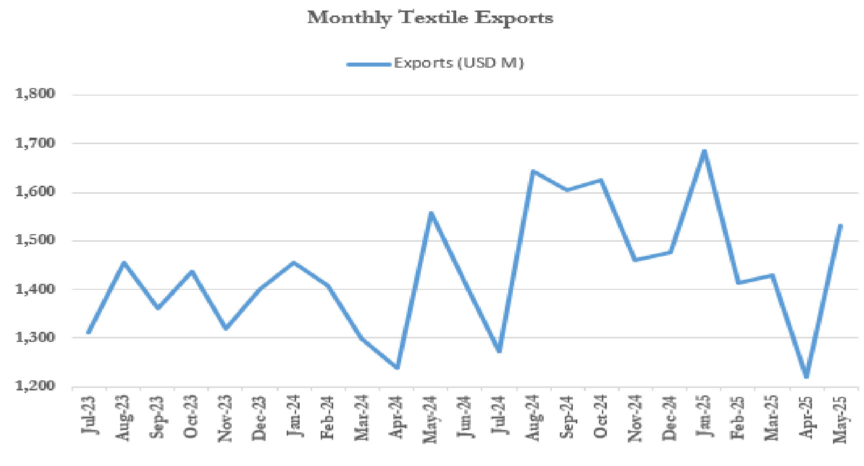

Figure 1: MoM Textile Exports (USD Million)
Source: PBS

Operational Update

The overall capacity and utilization across segments rose during FY24 due to demand stabilization. Given the high utilization rates, the management is planning further expansion in key segments mainly Hosiery, Yarn Dyeing and Denim.

Hosiery: During FY24, Hosiery Division 6 was approved, comprising 1,584 knitting machines, procurement and installation of which has started in FY25 and the project is expected to be completed by FY26.

Yarn Dyeing: A 20-ton spun dyeing facility is expected to be completed by FY26.

Denim: Few new lines have been added in FY25, which are now operational, resulting in increase in production capacity.

Apparel: The vertically integrated apparel plant has a capacity of 33 million garments.

Capacity & Utilization (in 000)	[UOM]	FY23	FY24	HY25
Hosiery				
Capacity - Knitting	[DZN]	71,819	72,724	37,113
Production - Knitting	[DZN]	50,067	59,958	27,653
Utilization		69.7%	82.4%	74.5%
Spinning				
Capacity after conversion into 20/s	[LBS]	31,377	31,377	15,689
Production after conversion into 20/s	[LBS]	25,756	28,729	13,212
Utilization		82.1%	91.6%	84.2%
Yarn Dyeing				
Capacity	[KGS]	6,284	6,407	3,257
Production	[KGS]	4,480	4,934	2,360

Utilization		71.3%	77.0%	72.5%
Denim				
Capacity	[Pcs]	6,000	6,975	4,685
Production	[Pcs]	4,233	6,116	4,115
Utilization		70.60%	87.7%	87.8%

FINANCIAL RISK

Capital Structure

On a timeline basis, Company's gearing and leverage indicators have shown a gradual improvement, primarily supported by enhanced profitability. However, despite this positive trend, the Company's overall capitalization metrics remain elevated. This is primarily attributable to capital expenditure activity undertaken by the Company over the last few years (capex spend 2021-2024 PKR 57.8 Bn), focused on capacity expansion—particularly in hosiery, denim, and apparel segments—and operational modernization initiatives. However, augmentation of revenue base and improvement in efficiencies will translate into margin expansion and equity growth over time. Moreover, Interloop has maintained a consistent dividend payout ratio averaging around 44%, limited internal capital retention, thereby impacting capitalization.

Management has articulated a strategic commitment to cap total debt, alongside a concerted focus on optimizing working capital. These measures are expected to support gradual deleveraging and improvement in the Company's overall financial risk profile.

Profitability

ILP reports a strong 5-year (FY19-FY24) sales CAGR of 33% supported by export market expansion and PKR depreciation. On a YoY basis, topline grew by 31% to PKR 156 Bn in FY24, amid demand stabilization and strong customer engagement. However, profitabilty margins normalized, with gross margin lowering at 28% due to stable exchange rate and costs pressure from Denim and apparel segments, compared to peak 33% in FY23, driven by unprecedented PKR devaluation. Margins in the Apparel segment have remained under pressure, primarily due to suboptimal capacity utilization, as the segment is still in its ramp-up phase. The Company is currently navigating a learning curve, expected to span 18 to 24 months, before operational efficiencies and cost optimization begin to materialize.

Segment wise performance

(PKR Bn)	Hosiery			Denim			Apparel		
	2023	2024	9MFY25	2023	2024	9MFY25	2023	2024	9MFY25
Net sales	90	118	86	13	16	15	7	13	15

GP Margin	41%	35%	30%	13%	6%	9%	5%	-19%	-26%

Although topline remained strong reporting at PKR 125 Bn, the cost pressures continued into 9MFY25, declining gross margin to 20%. Additionally, the implementation of normal tax regime on exporters as per FY25 annual budget, further compressed profitability. Effective tax rate rose to 40% (FY24: 11%) during the period consequently bringing net margin to 2.2%.

Looking ahead, management remains focused on optimizing operational efficiencies within the relatively underperforming Apparel segment, while sustaining healthy margin levels in the more mature Hosiery and Denim segments. In parallel, the Company is advancing its sustainability agenda, with expansion in solar power capacity from 12.6 MW last year to 16.6 MW during FY25, expected to yield long-term cost efficiencies. However, profitability remains vulnerable to external factors, most notably, fluctuations in cotton prices and potential changes in U.S. tariff policies, given that approximately 50% of Interloop's revenue is derived from the U.S. market.

Debt Coverage & Liquidity

Interloop Limited's liquidity position remained stable, with the current ratio maintained at 1.14x. The Company demonstrated improved working capital efficiency in FY24, as reflected in the improved cash conversion cycle over time.

Due to reduced profitability led by margin compression in FY24 and 9MFY25, Funds from Operations (FFO) declined, leading to a moderate weakening in debt service coverage indicators to FY24: 2.46x (FY23: 4.15x), 9MFY25: 1.60x, although it continues to remain comfortable. FFO to long-term debt and total debt declined to 1.18x and 0.33x, respectively (FY23: 1.55x and 0.45x). Short term borrowing coverage from stocks and receiveables remains relatively lower at 1.35x for FY24 (FY23: 1.28x) and 1.16x as of 9MFY25.

FINANCIAL SUMMARY (PKR Million)					Appendix I
BALANCE SHEET	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25**
Property, plant and equipment	26,193	34,730	58,651	67,805	80,863
Long term Investments	-	-	-	1,728	1,728
Stock-in-Trade	11,276	23,142	19,729	26,361	32,264
Trade Debts	15,053	28,604	34,139	41,194	45,633
Cash & Bank Balances	374	117	1,545	370	338
Total Assets	60,695	96,316	125,245	151,674	180,873
Trade and Other Payables	5,552	9,085	12,004	15,536	14,430
Long Term Debt	10,918	16,434	17,452	19,223	32,165
Short Term Debt	19,636	35,008	42,149	49,904	66,997
Total Debt	30,554	51,442	59,601	69,127	99,161
Total Liabilities	40,180	66,375	81,438	98,142	128,135
Paid Up Capital	8,722	8,984	14,014	14,017	14,017
Total Equity	20,515	29,940	43,806	53,532	52,738
INCOME STATEMENT	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25**
Net Sales	54,962	90,894	119,200	156,129	125,408
Gross Profit	14,212	26,066	39,872	43,544	24,593
Operating Profit	8,020	15,916	27,111	27,933	12,055
Finance Costs	1,147	2,493	5,528	10,125	7,572
Profit Before Tax	6,873	13,423	21,584	17,807	4,484
Profit After Tax	6,292	12,359	20,172	15,771	2,710
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**FY24**	**9MFY25**
Gross Margin (%)	25.9%	28.7%	33.4%	27.9%	19.6%
Operating Margin (%)	14.6%	17.5%	22.7%	17.9%	9.6%
Net Margin (%)	11.4%	13.6%	16.9%	10.1%	2.2%
Funds from Operation (FFO)*	9,615	18,276	27,108	22,627	9,483
FFO to Total Debt* (x)	0.31	0.36	0.45	0.33	0.10
FFO to Long Term Debt* (x)	0.88	1.11	1.55	1.18	0.29
Gearing (x)	1.49	1.72	1.36	1.29	1.88
Leverage (x)	1.96	2.22	1.86	1.83	2.43
Debt Servicing Coverage Ratio* (x)	2.90	4.56	4.15	2.46	1.60
Current Ratio (x)	1.22	1.30	1.14	1.14	1.13
(Stock in trade + trade debts) / STD (x)	1.34	1.48	1.28	1.35	1.16
Return on Average Assets* (%)	11.9%	15.7%	18.2%	11.4%	2.2%
Return on Average Equity* (%)	33.3%	49.0%	54.7%	32.4%	6.8%
Cash Conversion Cycle (days)*	151	194	140	131	148
* Annualized Figures					

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Interloop Limited				
Sector	Textile				
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				
	04-08-2025	AA-	A1	Stable	Reaffirmed
	18-07 -2024	AA-	A1	Stable	Upgrade
	10-05-2023	A+	A1	Stable	Reaffirmed
	03-06-2022	A+	A1	Stable	Reaffirmed
	20-04-2021	A+	A1	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.	Mr. Hamza Gillani	VP Accounts & Finance	08-July, 2025	
	2.	Mr. M Omer Masood	DGM Finance		