

## UNION FABRICS (PRIVATE) LIMITED

### Analyst:

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### 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		Rating Watch - Developing	
RATING ACTION	Maintained		Reaffirmed	
RATING DATE	April 20, 2026		March 20, 2025	

### Other Information

Incorporated in 1992

Private Limited Company

Chief Executive: Mr. M Asif Siddiq

External Auditor: Crowe Hussain Chaudhury & Co.

### 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

The assigned ratings reflect the business risk profile of the textile weaving and apparel sector, which faces structural challenges including declining domestic cotton production, high energy tariffs, and rising labor costs. While exports benefit from demand in value-added segments and relatively favorable tariff dynamics, the sector remains exposed to regional competition, policy changes, and input cost volatility, which constrain overall profitability and growth.

UFPL has an established presence across the textile value chain, with a diversified product portfolio spanning both domestic and export markets. The merger with its wholly owned subsidiary has strengthened the business profile by creating operational synergies, cost efficiencies, and an expanded asset base. Accordingly, the outlook on the assigned ratings has been revised to 'Stable', following its earlier placement on Rating Watch due to the planned merger. The company's strong relationships with international buyers and leading local retailers, along with steady demand in value-added segments, support revenue stability.

Meanwhile, the financial risk profile reflects a leveraged capital structure, modest profitability, and working capital-intensive operations. Margins have been under pressure due to higher depreciation, elevated energy costs, increased finance charges, and taxation. Nevertheless, liquidity indicators and debt service coverage remain adequate. Going forward, effective working capital management and continued focus on leverage reduction will be important to maintain the rating.

Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. For conducting this assignment, analyst did not deem necessary to contact external auditors or creditors given the unqualified nature of audited accounts and diversified creditor profile. Copyright 2026 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

## Company Profile

Union Fabrics (Pvt) Limited ('UFPL' or 'the Company') was incorporated in 1992 as a private limited company. The principal activity of the Company is manufacturing and exports of Textile bedding, Roll on Tube, mattress ticking and sizable portion of local apparel segment and provide other relative services. Company provides a diverse range of fabrics to various industries, including bedding, mattress ticking, and furnishing, available in greige (loom-state), bleached, and finished forms. Approximately 80% of these fabrics are further processed into finished goods such as sheets, pillows, shams, duvets, drapes, and kitchen linens, for both retail and institutional buyers.

The registered office of the Company is situated at S.I.T.E, Karachi.

### Merger

During FY25, Union Apparel (Pvt) Limited (UAPL), a wholly owned subsidiary of UFPL, was merged into the Company. Given the common control structure, the amalgamation entailed cancellation of intercompany investments, with no share issuance or change in shareholding. The net assets of UAPL were recognized as a merger reserve in UFPL.

UAPL was established in 2016 for the manufacturing and sale of fabric and finished goods, including printed and embroidered ready-to-stitch fabric in local market. The company operated as a one-window solution, overseeing the entire production process and delivering finished goods to leading brands in the local textile market under a 'make-to-order' model.

The consolidation is driven by the changes in Final tax regime for export-oriented companies, which will allow the combined entity to benefit from various incentives. These include a larger asset base, enhanced synergies, increased risk absorption capacity, reduced administrative costs, streamlined corporate and tax reporting, better leverage of assets, improved tax efficiencies, and optimized legal structure.

## Management and Governance

### CEO PROFILE

Mr. Asif Siddiq is the Founder and Chief Executive Officer (CEO) of the Company. He holds a bachelor's degree in Electrical and Electronics Engineering from University of Florida and an MBA degree in Finance and MIS from University of South Florida.

### BOARD & SENIOR MANAGEMENT

The Company's governance structure is characteristic of a private limited setup. Oversight and strategic direction are primarily exercised by the sponsoring family, comprising three brothers (namely Mr. Asif Siddiq, Mr. Arif Siddiq (Late) and Mr. Muhammad Amin) and their immediate family members.

Mr. Asif Siddiq leads the Company as the CEO and is actively involved in day-to-day operations. He is supported by Mr. Khurram Arif son of Mr. Arif Siddiq (Late), who serves as Chief Operating Officer and manages key operational functions along with Mr. Tufail Kasbati serving as the Director Finance/ Chief Financial Officer. Meanwhile, Mr. Muhammad Amin, remains a key shareholder with limited involvement in the Company's operational affairs.

The financial statements of the Company are audited by 'Crowe Hussain Chaudhury & Co. Chartered Accountants', which is rated 'A' by the State bank of Pakistan (SBP). The auditor has issued an unqualified opinion as of FY25.

## Business Risk

### INDUSTRY UPDATE

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.

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.

Meanwhile, the local retail clothing sector, which deals in ready-to-wear (RTW)/ Pret, home textiles and fashion apparel, is showing signs of structural normalization in early FY26 following the sharp inflationary shocks in FY23. Headline inflation peaked at 38% in May 2023 (Pakistan Bureau of Statistics), contributing to a 4.4% contraction in wholesale and retail trade during that fiscal year, according to the State Bank of Pakistan (SBP). The contraction weakened discretionary consumer demand and slowed inventory turnover, placing pressure on retail cashflows and working capital.

Retailers operate with relatively high fixed costs, including store rentals, marketing and inventory financing. Seasonal revenue concentration around festivals such as Eid, weddings and summer continue to shape cashflow patterns, while reliance on domestic manufacturers or third-party vendors limits cost flexibility during economic downturns.

Competitive dynamics are increasingly favorable to vertically integrated Tier-1 retailers. Under FBR regulations, a Tier-1 retailer is defined by operational thresholds, including shop size exceeding 1,000 sq ft, annual electricity consumption over PKR 1.2 million or operation within an air-conditioned mall. These entities are required to integrate POS systems within the FBR. They are also subject to a standardized 18% sales tax (GST), up from 15% in FY24, which has introduced a tax push on retail prices and is testing consumer price sensitivity in a market currently valued at ~USD 5.88 billion (Statista).

### Operational Performance

Following the merger with Union Apparel (Pvt) Ltd, UFPL now operates across multiple product segments in both local and export markets as of FY25. In the domestic market, the Company operates in denim, greige fabric, and ladies' apparel, while its export portfolio comprises bedding, roll-on-tube (ROT) fabric, mattress protectors and related products. Management also plans to commence denim exports from FY26 onward.

The Company is under process of consolidating all weaving operations at its Nooriabad facility, with an additional capital expenditure of approximately PKR 1.5 billion incurred for Denim segment. Moreover, the 6.5 MW wind power project is also installed at this facility and is now energized.

UFPL is further expanding its denim segment through the installation of dedicated units at the Nooriabad facility. Key machinery, including a slasher, has been procured and is expected to be operational by end-FY26, adding an estimated capacity of 800,000 meters per month. Previously, denim dyeing was mainly outsourced, however, post-commissioning, complete production will be undertaken in-house, supporting anticipated volumetric growth, primarily in the Export and local market.

The Company is also transitioning towards renewable energy to enhance cost efficiency and regional competitiveness in export markets. Currently, 2 MW of solar capacity is operational at the Nooriabad facility, with an additional 1.4 MW planned during the year. Furthermore, Reflex Battery Energy Storage System 7.5MW/ 15.04 MWH is procured, with delivery expected by Mid-May. Upon completion of these initiatives, majority of the facility's total energy requirement of Nooriabad is expected to be met through renewable sources.

### PROFITABILITY

During FY25, the Company's topline grew by 75% as a result of consolidation with its subsidiary. Export sales constituted the majority share at 59% of total revenue, with the remainder from the local sales. Exports are largely concentrated in Europe and the US markets. Due to this geographical concentration, Company's sales remain unimpacted by the current geopolitical tensions in the middle east, however potential imposition of war-related surcharges by shippers could increase costs. Export revenues are predominantly derived from the bedding segment, accounting for 59% (FY24: 57%) of export sales, while ROT and home furnishing segments have also exhibited steady growth.

On the domestic front, the Company's local segment, mainly comprising ladies apparel supplied to retail brands, registered strong growth, with revenues increasing by approximately 87% YoY.

Profitability indicators showed some moderation during the year. Gross margin reported at 14.6% , impacted by elevated energy costs, higher depreciation charges following recent capital expenditures on renewable energy and machinery, and a reduced benefit from currency depreciation relative to prior years.

Administrative cost savings from merger synergies helped keep the operating margin largely stable. However, net margin declined due to higher finance costs from increased borrowing and a higher effective tax rate.

In 1QFY26, the Company's topline remained steady. Net margin improved, supported by a relatively lower financing costs and a reduced effective tax rate.

Going forward, management expects FY26 revenue to remain broadly in line with FY25 at, given no major capacity additions and easing of commodity prices. Stronger growth is anticipated in FY27, with revenues projected at, driven by client diversification and the commencement of in-house denim production. However, amidst ongoing energy crisis, cost pressures could rise keeping margins constrained.

## Financial Risk

### CAPITAL STRUCTURE

Gearing and leverage ratios exhibit an increase to 2.03x and 2.82x, respectively as of FY25, on account of consolidation and higher working capital needs. Debt profile of the Company consists of 23% LTD, which increased in FY25 on account of capex.

During FY26, planned capex includes installation of an additional 1.8 MW solar capacity at the Nooriabad facility, BMR of aged looms, and establishment of an in-house knitting process for the mattress protector segment which is currently outsourced. The project will be partially funded through debt.

### DEBT COVERAGE & LIQUIDITY

UFPL maintains an adequate liquidity profile, with a current ratio of 1.0x and a cash conversion cycle of 147 days) as of FY25. Over the years, cash conversion cycle has gradually lengthened, reflecting working capital constraints arising from the shift from local to imported yarn, which has longer lead times, and occasional supply chain disruptions, necessitating higher inventory levels. Receivables collection slowed during the period.

Funds from Operations (FFO) for FY25 stood at comfortable levels. While FFO coverage remains modest, debt service coverage (DSCR) and short-term debt coverage were adequate at 1.60x and 1.35x, respectively. These metrics have remained stable as of end-1QFY26.

REGULATORY DISCLOSURES						Appendix II
Name of Rated Entity	Union Fabrics (Pvt) Limited					
Sector	Textile					
Type of Relationship	Solicited					
Purpose of Rating	Entity Ratings					
	Rating Date	Medium to Long Term	Short Term	Outlook / Rating Watch	Rating Action	
	<b>RATING TYPE: ENTITY</b>					
Rating History	20/04/2026	A-	A2	Stable	Maintained	
	20/03/2025	A-	A2	Rating Watch - Developing	Maintained	
	29/02/2024	A-	A2	Stable	Reaffirmed	
	18/01/2023	A-	A2	Stable	Reaffirmed	
	07/12/2021	A-	A2	Stable	Reaffirmed	
	06/01/2021	A-	A2	Stable	Maintained	
	24/04/2020	A-	A2	Rating Watch – Developing	Maintained	
	17/12/2019	A-	A2	Stable	Reaffirmed	
	26/12/2018	A-	A2	Stable	Reaffirmed	
	21/11/2017	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.					
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	<b>S.No.</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		
	1.	Mr. Tufail Kasbati	Director Finance/Chief Financial Officer			
	2.	Mr. Saim Sher Janjua	Head of Treasury	13-Mar-26		
	3.	Mr. Muhammad Fahim	Deputy Manager Treasury			