

BHANERO TEXTILE MILLS LIMITED

Analyst:

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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	May 20, 2026		January 30, 2025	

Shareholding (5% or More)

Admiral (Pvt) Ltd - ~16.5%

Mrs. Samia Bilal - ~11.1%

Mr. Muhammad Qasim - ~8.7%

Mrs. Fatima Amin - ~5.7%

Other Information

Incorporated in 1980

Public Limited Company

Chief Executive: Mr. Khurram Salim

External Auditor: Mushtaq & Co. Chartered Accountants

Applicable Rating Methodology

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

Rating Scale

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

Rating Rationale

The assigned ratings reflect the well-established operating presence of BHAT in the textile spinning and weaving segment, as part of Umer Group of Companies, though emerging pressures on operating performance and financial metrics are evident and are expected to persist in the near term. Margin compression due to limited pricing flexibility in a commoditized industry and rising input costs continues to weigh on profitability and debt coverage indicators.

Leverage has shown a mild upward trend, driven by increased reliance on short-term borrowings amid subdued export demand and working capital requirements. However, these pressures are partially mitigated by a favourable interest rate environment and access to concessional financing lines.

Liquidity remains adequate, though coverage indicators have weakened, with cashflows sufficient for debt servicing but providing limited cushion against further stress. The Company also remains exposed to interest rate and input cost volatility.

Management's initiatives in renewable energy expansion and value-added diversification are expected to support efficiency over time, though their impact will be gradual. Going forward, the ratings remain sensitive to sustained pressure on margins and cashflows, further build-up in leverage and any adverse movements in interest rates or demand conditions.

Company Profile

Bhanero Textile Mills Limited ('BHAT' or 'the Company'), a public limited company listed on the Pakistan Stock Exchange, was incorporated in 1980. The Company is one of three textile entities operating under the Umer Group and is engaged in the manufacture and sale of yarn and fabric. BHAT operates one spinning unit in Kotri District Dadu, Sindh and two spinning units along with one weaving unit in Sheikhpura, Punjab. The registered office is located in Karachi.

Management and Governance

The composition of the Board is in compliance with the Listed Companies (Code of Corporate Governance) Regulations, 2019. The Company's governance is overseen by ten members, comprising the Chairman, Mr. Muhammad Shaheen; CEO, Mr. Khurram Salim; one executive director, four non-executive directors and three independent directors. The Board convenes quarterly, with full attendance observed in all three and minutes duly maintained. The Board has formed two committees, namely Audit Committee and the HR & Remuneration Committee, appropriately represented by Board members. The management is spearheaded by Mr. Khurram Salim, a seasoned professional, supported by a management team of experienced professionals ensuring effective strategic execution and operational oversight.

The Company operates a fully integrated Oracle-based IT infrastructure, implemented since 2011 and regularly updated to the latest version. The system supports real-time production data and covers key functional areas including exports, storage, inventory management and finance, while HR functions are managed separately.

Business Risk

INDUSTRY UPDATE

By early 2026, Pakistan's textile spinning sector has undergone a structural contraction, with over 100 units ceasing operations in the preceding five years. The contraction reflects a combination of competitive, structural and cost-related pressures. Policy distortions under the Export Facilitation Scheme, which allowed duty-free imports, exposed local spinners to intense foreign competition and incentivized reliance on imported yarn. In addition, the Finance Act 2024 withdrew the long-standing export-oriented Final Tax Regime (FTR), under which exporters paid a fixed tax of ~1% on export proceeds and were largely exempt from sales tax adjustments and complex documentation requirements. The shift to the Normal Tax Regime (NTR) subjected textile exporters to the standard corporate tax framework while also bringing them fully into the 18% sales tax regime on inputs and outputs. Although an 18% sales tax is now applied uniformly to both local and imported inputs, the change has altered the sector's liquidity dynamics. Under the NTR, exporters must first pay sales tax on inputs and subsequently claim refunds, resulting in capital being tied up within the refund cycle for ~6-10 months. For a standard 50,000 spindle unit, this necessitates additional commercial financing, increasing working capital interest costs by ~10-15% and placing pressure on debt servicing.

Rising energy and fuel costs have further strained production economics. Industrial electricity tariffs, which averaged 9 cents/kWh under previous policies according to the All Pakistan Textile Mills Association (APTMA), peaked at 18-20 cents/kWh in late 2025 before moderating to ~12 cents/kWh in early 2026, still well above regional peers such as India (~6.3 cents/kWh) and Vietnam (~7.2 cents/kWh). Vertically integrated units and those that adopted more efficient and lower-cost energy solutions, including renewable sources, have retained operational viability, while units that did not modernize their energy infrastructure have faced comparatively greater operational and margin pressures.

Domestic cotton availability has also declined sharply, with production estimated at ~5.0 million bales in 2025/26 according to the United States Department of Agriculture (USDA), representing a 53% decline from the historical peak of 10.6 million bales in 2014/15 due to climate volatility and structural shift toward alternative crops. Meeting the total industry requirement of 10.6 million bales now requires importing 5.5-6.0 million bales annually, exposing mills to price volatility and supply-side risks. This exposure is further exacerbated by ongoing geopolitical tensions, contributing to shipment delays and supply chain disruptions in cotton imports. The domestic market has also been disrupted by low-cost yarn imports from China, which reached record monthly volumes in 2025 and undercut local producers by nearly ~20% according to reporting by Dawn News, forcing even efficient mills to sell at a loss to maintain market share. Outdated machinery and limited technology adaptability have further compounded the sector's challenges, intensified competitive pressures and contributed to the contraction in spinning units and the erosion of profitability margins among surviving operators.

The weaving segment presents a mixed structural profile, comprising modern mill-based weaving units alongside a large base of conventional power looms. While integrated textile mills have increasingly adopted air-jet and rapier loom technologies to improve productivity and fabric quality, a substantial portion of the estimated loom base continues to consist of older shuttle looms operating with lower efficiency. Nonetheless, export demand for woven fabrics and cotton cloth has remained relatively stable, supported by Pakistan's established position in global textile supply chains.

OPERATIONAL PERFORMANCE

Capacity Utilization	FY20	FY21	FY22	FY23	FY24	FY25
Spinning						
No. of Spindles Installed	80,112	80,112	80,112	99,696	99,696	99,696
Installed Capacity of Yarn Converted in 20/1 (Million Kgs)	15	15	15	22	36	36
Actual Production of Yarn (Million Kgs)	11	12	13	13	26	27
Capacity Utilization	72.4%	82.5%	87.8%	60.5%	72.6%	75.5%
Weaving						
No. of Looms Installed	162	162	162	162	162	162
Installed Capacity of Fabric Based on 50 picks (Million Meters)	27	27	34	34	35	35
Actual Production of Fabric (Million Meters)	17	21	24	22	23	24
Capacity Utilization	65.4%	79.5%	70.6%	65.7%	64.2%	68.5%

In last five years, the Company undertook expansion in its spinning unit in FY23 and is currently operating at 75% utilization. Capacity utilization of the weaving unit has ranged between 65-70% in the past four years. However, management highlighted that actual machine utilization remains high and the reported utilization primarily reflects changes in product mix. The management does not envisage need for expansion in the weaving unit in near future.

The Company's current power requirement stands at 12.7 MW, which is met through a combination of 6.98 MW from generators, 4.38 MW from WAPDA supply and 1.02 MW from solar energy. Looking ahead, savings in energy costs is anticipated in FY27 following the completion of an additional 3.85 MW solar installation amounting to ~PKR 300 million, which is expected to enhance the share of renewable energy in the overall power mix.

PROFITABILITY

During FY25, BHAT's topline remained largely stable at PKR 32.9 billion (FY24: PKR 33.1 billion). Local sales increased to 52% (FY24: 26%), while direct exports declined to 46% (FY24: 72%). The classification of indirect export sales is discontinued in the textile sector following the withdrawal of the export-oriented tax regime under the Finance Act 2024. Export sales remained under pressure amid subdued global demand, particularly impacting yarn volumes and pricing, while fabric sales experienced a comparatively smaller decline.

Overall, in FY25, yarn remained the dominant revenue contributor at 69% (FY24: 74%), while fabric accounted for 29% (FY24: 24%). Within the local segment, sales were primarily driven by yarn (38% of revenue), followed by fabric (14%). In the export segment, yarn remained dominant at 31%, with fabric contributing 15%, although both segments declined on year-on-year (YoY) basis.

Gross margins have been steadily declining since FY22 to 7.9% in FY25 (FY24: 9.2%) amid limited pricing power in a commodity market with increasing cost pressures, especially related to power costs. Further pressure came from lower average selling prices in the yarn segment and reduced export volumes.

Despite the deterioration in core margins, the Company reported a net profit of PKR 114 million (FY24: net loss of PKR 132 million), primarily supported by significant reduction in finance costs to PKR 1.2 billion (FY24: PKR 1.9 billion). This decline is attributable to lower benchmark interest rates, with the average borrowing rate easing to 9.9% (FY24: 16.1%) on a debt base of PKR 11.6 billion (FY24: PKR 11.7 billion).

Overall, the improvement in bottom-line profitability is largely non-operational in nature, while core earnings remain under pressure due to weak export demand and margin compression, which continues to constrain the Company's credit profile.

During 1HFY26, revenue amounted to PKR 15.9 billion, with pick up in exports to 51% of total revenue. Revenue from local fabric declined, while export sales of both yarn and fabric showed improvement compared to the prior year. Gross margin improved slightly to 8.9% along with operating margin at 5.5%. but operating margins contracted to 6.4% (1HFY25: 7.4%) due to higher administrative expenses. Net profit stood at PKR 41 million with a net margin of 0.3%. Going forward into FY26, management anticipates an improvement in profitability contingent on favorable cotton and yarn pricing.

Financial Risk

CAPITAL STRUCTURE

BHAT's capital structure remains moderately leveraged, supported by a stable equity base and incremental increase in debt. Equity stood at PKR 10.9 billion at end-FY25 and increased marginally to PKR 11.0 billion at end-1HFY26, underpinned by marginal profit generation.

Total debt increased from PKR 11.6 billion at end-FY25 to PKR 12.6 billion at end-1HFY26, with short-term borrowings dominating the profile (PKR 7.9 billion and PKR 8.3 billion, respectively), primarily to support working capital requirements. Long-term debt rose from PKR 3.7 billion to PKR 4.4 billion over the same period, largely comprising concessional borrowings under the LTFF scheme, which provide some cushioning against interest rate pressures. Nonetheless, the share of floating rate debt increased to 22% (FY24: 17%), highlighting some exposure to interest rates.

Gearing remained moderate at 1.06x at end-FY25 and 1.15x at end-1HFY26, while leverage increased to 1.5x at end-1HFY26 from 1.46x at end-FY25. The upward trend in debt levels and reliance on short-term debt, combined with pressure on core profitability, indicates increasing pressure on the Company's financial risk profile. Going forward, the financial risk profile will depend on effective management of rising debt levels, particularly short-term borrowings, alongside improvement in profitability to support internal cashflow generation.

DEBT COVERAGE & LIQUIDITY

Overall, liquidity remains adequate, with the current ratio at 1.50x at end-FY25 (FY24: 1.54x) and 1.47x at end-1HFY26. The slight decline reflects higher trade payables and increased reliance on short-term borrowings. The net operating cycle improved to 147 days (FY24: 153 days), primarily due to extended creditor days.

The Debt Service Coverage Ratio (DSCR) has remained around 1.0x since FY24 (FY:25: 1.08x 1HY26: 0.93x), as operating profits declined and financial charges increased with leverage, albeit still taking the benefit of falling interest rates in the economy.

Overall, debt servicing indicators remain within acceptable levels; however, the declining trend in coverage metrics, alongside increased reliance on short-term borrowings, indicates emerging pressure on the Company's credit profile. The FFO to total debt coverage has remained below 0.1x since FY24 highlighting the pressure on capital structure as well as vulnerability to any adverse change in interest rates.

FINANCIAL SUMMARY						(Amounts in PKR Million)
BALANCE SHEET						
Property, Plant, & Equipment	6,777	9,171	9,051	8,857	9,019	
Stock-in-Trade	5,102	12,298	11,747	12,016	11,088	
Trade Debts	1,884	2,520	3,595	3,635	3,766	
Cash & Bank Balances	641	349	736	172	803	
Total Assets	15,545	26,224	26,665	26,925	28,031	
Trade and Other Payables	1,865	2,045	2,463	3,118	3,327	
Long Term Debt (Inc. Current Maturity)	3,011	4,064	3,968	3,708	4,369	
Short Term Debt	-	7,322	7,771	7,908	8,276	
Total Debt	3,011	11,386	11,739	11,616	12,646	
Total Liabilities	6,045	15,121	15,802	15,963	17,028	
Paid Up Capital	30	30	30	30	30	
Total Equity	9,500	11,103	10,863	10,962	11,003	
INCOME STATEMENT						
Net Sales	17,253	18,545	33,057	32,908	15,960	
Gross Profit	4,074	2,990	3,034	2,588	1,415	
Operating Profit	3,321	2,527	2,036	1,684	885	
Profit Before Tax	3,183	1,781	170	523	249	
Profit After Tax	2,758	1,581	(132)	114	41	
RATIO ANALYSIS						
Gross Margin (%)	23.6%	16.1%	9.2%	7.9%	8.9%	
Operating Margin (%)	19.2%	13.6%	6.2%	5.1%	5.5%	
Net Margin (%)	16.0%	8.5%	-0.4%	0.3%	0.3%	
Net Working Capital	6,418	6,691	6,121	6,000	5,930	
Trade debts/Sales	10.9%	13.6%	10.9%	11.0%	11.8%	
FFO	3,280	2,062	694	617	430	
FFO (Annualized)	3,280	2,062	694	617	859	
FFO to Total Debt (%)	1.09	0.18	0.06	0.05	0.07	
FFO to Long Term Debt (%)	1.09	0.51	0.17	0.17	0.20	
Debt Servicing Coverage Ratio (x) *	10.24	2.11	0.99	1.08	0.93	
Current Ratio (x)	3.78	1.65	1.54	1.50	1.47	
Stock + Trade Debts/STD	N/A	2.02	1.97	1.98	1.79	
Gearing (x)	0.32	1.03	1.08	1.06	1.15	
Leverage (x)	0.64	1.36	1.45	1.46	1.55	
ROAA (%) *	22.0%	7.6%	-0.5%	0.4%	0.3%	
ROAE (%) *	33.9%	15.4%	-1.2%	1.0%	0.7%	
Net Operating Cycle *	129	290	153	147	140	
*Annualized, if required A - Audited Accounts M - Management Accounts P - Projected Accounts						

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Bhanero 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				
	05/20/2026	A+	A1	Stable	Reaffirmed
	01/30/2025	A+	A1	Stable	Reaffirmed
	09/26/2023	A+	A1	Stable	Reaffirmed
	08/15/2022	A+	A1	Stable	Reaffirmed
	05/27/2021	A+	A1	Stable	Maintained
	04/22/2020	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. Mohammad Salim		Executive Director		April 06, 2026