RATING REPORT

Naveena Industries Limited

REPORT DATE:
March 10, 2025

RATING ANALYST:
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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A-	A2	A-	A2
Outlook/Rating Watch	Stable		Stable	
Rating Date	March 10, 2025		January 15, 2024	
Rating Action	*Reaffirmed*		*Maintained*	

COMPANY INFORMATION	
Incorporated in June 1989	**External auditors:** Ibrahim Shaikh & Co.
Public Unlisted Company	**Chairman:** Mr. Iftikhar Ahmed Khalid
Key Shareholders (with stake 5% or more):	**Chief Executive Officer:** Mr. Shazad Khalid
Naveena Holdings Limited (99.9%)	

APPLICABLE METHODOLOGY(IES)
Applicable Rating Criteria: Corporates: **https://docs.vis.com.pk/docs/CorporateMethodology.pdf**

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale: **https://docs.vis.com.pk/docs/VISRatingScales.pdf**

Naveena Industries Limited (NIL)

OVERVIEW OF THE INSTITUTION

Naveena Industries Limited (NIL) was incorporated as a Private Limited Company in March 1966. Later, in 2011 the company was converted to unquoted public limited company in March 2011. The principal business of the company is manufacturing and export of fabric. The registered office of the company is situated in Karachi.

RATING RATIONALE

Company Profile:

Naveena Industries Limited ("NIL" or "the Company"), incorporated in 1966, is primarily involved in the manufacturing and sale of fabric cloth. NIL's holding entity, Naveena Holdings (parent company), also owns a spinning unit by the name of Ahmed Oriental Textile Mills Limited, which is in the business of the manufacturing and sale of yarn in local and export markets. Ahmed Oriental Textile Mills also provides yarn to Naveena Industries. Such a vertically integrated structure helps the Company to benefit from economies of scale and ensure improved operational efficiency. Moreover, the Company has also recently established its Home Textile Division, for production of bedding products, mainly for exports to the US and UK markets.

Operating Performance

The fabric production has remained steady over time. In outgoing year, production registered an increase of around 17.8% YoY.

Table: Capacity & Production Data (Units in millions)

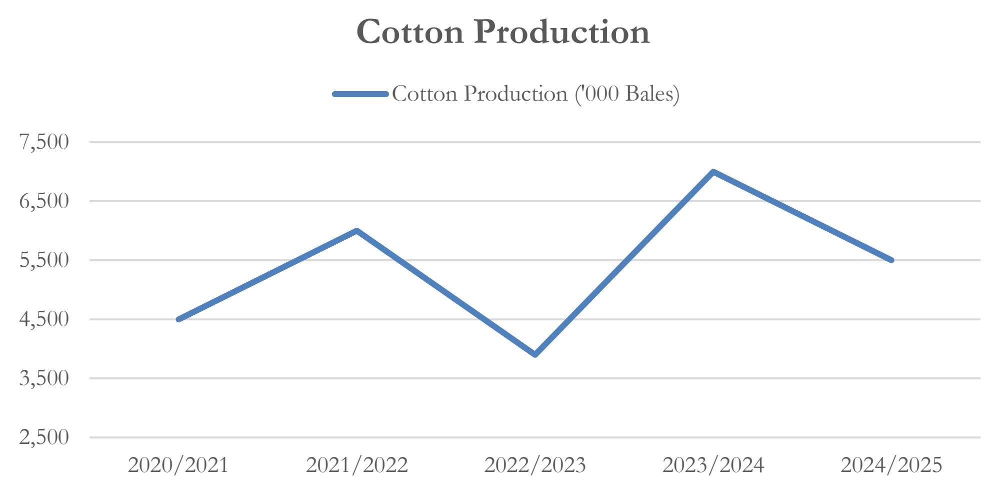
	FY23	FY24
No. of looms	414	414
Installed Capacity – Meters	45.0	45.0
Actual Production – Meters	18.57	21.87
Capacity Utilization	***41.58%***	***48.60%***

Sector Update

The business risk profile of Pakistan's textile sector is highly influenced by economic cyclicality and intense competition. The sector's performance is closely tied to broader economic conditions, making it particularly vulnerable to demand fluctuations driven by these factors.

In FY23, the textile sector faced several challenges stemming from both economic and environmental factors. These included damage to the cotton crop due to flooding in the 1HFY23, escalating inflation, and import restrictions resulting from dwindling foreign exchange reserves. As a result, Pakistan's yarn production saw a substantial decline, primarily driven by the reduced availability of cotton caused by crop damage and import restrictions. The sector's profitability was further constrained by rising production costs, including higher raw material and energy expenses, which impacted profit margins.

In FY24, cotton production increased by 79% compared to FY23, but this surge was largely due to the low base of cotton production in FY23. When compared to FY22, cotton production in FY24 saw only a 17% increase. While global cotton production is expected to rebound in FY25 due to higher yields, Pakistan's cotton production was down 59.4% as at October'24 compared to the same period in 2023, with only 2.04 million bales produced. The USDA forecasts that Pakistan will produce 5.55 million bales of cotton in 2024/25. Further, the USDA Foreign Agricultural Service estimates that the cotton area in 2024/25 will be reduced to 2 million hectares, down from previous years. The country faces rising energy costs, the absence of subsidies for agricultural inputs, and a lack of an organized market system, which further complicates production. Additionally, climate change has severely impacted cotton crops, with extreme heat, heatwaves, torrential rains, and pest infestations, including whitefly, pink bollworm, and cotton leaf curl virus, contributing to decreased yields. Furthermore, the area under cultivation has been steadily shrinking, exacerbating these challenges.



Source: USDA

Despite the decline in local cotton production, Pakistan's textile exports have experienced growth in the 1HY25 compared to the same period last year. This growth can be attributed to the reliance on imported cotton which is cheaper now a days compared to local cotton along with the increasing focus on value-added segment. While the global demand of textile is on a recovery phase, the global and local cotton market dynamics and local inflation including fuel and power prices along with FX risk in imported cotton pricing will play a crucial role in terms of profitability of the textile exporters.

Figure 1: MoM Textile Exports (USD Million)

Topline witnessed a negligible increase in FY24; 1HY25 net sales registered growth

The Company's sales revenue recorded a modest growth of 0.5% in FY24, supported by a 4% YoY increase in average effective prices. However, in volumetric terms, exports sales dropped by 8% YoY while local sales remained intact with a slight drop of 0.6%. The decline in export sales was due to subdued demand from customers, as the demand is now shifting towards processed fabric. Responding to such change, the Company has added Home Textiles in its product line. Currently, exports account for nearly 70% of net sales (FY23: 73.8%) with more than 90% exports directed towards the USA, UK, and European countries. Moreover, Company's client concentration risk is slightly high as sales to top 5 clients constitute 37% of the total Sales.

	2022	2023	2024
Home Textile Exports as % of Total Sales	1.18%	2.49%	9.59%

Gross margin slightly declined to 16.4% (FY23: 16.7%) in FY24, mainly due to higher energy cost, resulting in a gross profit of PKR 1,364.6 million (FY23: PKR 1,384.6 million). Operating costs increased marginally by 2% to PKR 381 million (FY23: PKR 373 million), while finance costs rose by 5.7% to PKR 877.0 million (FY23: PKR 830 million), driven by elevated interest rates and increased utilization of short-term facilities for working capital financing. Consequently, net margin declined to 0.4% (FY23: 1.3%) in FY24.

In 1HFY25, net sales registered a notable growth to stood at PKR 5,663 million. This was mainly due to the shift in Company's strategy to increase its volumetric sales in local market amid slowdown in exports. As per management, the local and export sales ratio is now stood at ~50:50 during 1HFY25 against ~68:32 in FY24 and ~74:26-in FY23. The gross margin contracted to 13.3% in 1HFY25 (FY24: 16.4%), primarily driven by elevated energy costs and a strategic shift towards local sales, which yield comparatively lower margins than exports. Pressure on profitability cascaded down to the operating margin which declined to 9.6% (FY24: 12.0%), reflecting the impact of the changing sales mix and higher energy cost. Consequently, net margin dropped to 0.2% (FY24: 0.4%) in 1HFY25.

Going forward, management expects growth in revenue and improvement in margins as a result of growth in home textile exports and reduction in energy costs owing to renewable energy initiatives undertaken by Company. Moreover, the Company's profitability will remain sensitive to PKR exchange rates against EUR and USD, as well as the economic health of key export destinations i.e. UK, USA and EU.

Capitalization profile came under stress amid Inventory Buildup. Meanwhile, the coverage profile also faced some strain.

In FY24, the Company's capitalization indicators weakened due to higher short-term borrowings to fund increased working capital requirements. This is reflected in the gearing and leverage ratios, which rose to 2.1x (FY23: 1.6x) and 2.5x (FY23: 1.9x), respectively. The higher reliance on short-term debt was primarily driven by accumulation of inventory, as international clients delayed order pickups due to subdued demand in their respective markets.

By the end of 1HFY25, the gearing ratio further weakened slightly to 2.2x (end FY24: 2.1x), while leverage ratio following the similar trend weakening to 2.6x (end FY24: 2.5x), mainly due to higher trade payables and short-term borrowings to support higher working capital needs. Going forward, management expects improvement in capitalization profile with pick-up of the orders by international clients.

Likewise, the Company's debt coverage profile came under stress in FY24 and continued to face pressure in 1HFY25 due to lower operating profitability and elevated finance costs amid elevated level of short-term debt utilization. As a result, the debt service coverage ratio (DSCR) declined to 0.9x (FY23: 1.2x) by the end of FY24 and remained at 0.9x (FY24: 0.9x) at end of 1HFY25. Going forward, the management expects improvement in coverage profile with reduction in short term debt as on hold export orders are dispatched. Recent decline in interest rates will also provide support to the margins.

Liquidity profile remains adequate and healthy cash reserves provide comfort to ratings.

The Company has maintained an adequate liquidity profile, though the current ratio declined slightly to 1.14x (FY23: 1.22x), primarily due to higher short-term borrowings and payables to fund working capital. The cash conversion cycle (CCC) extended significantly to 215 days (FY23: 123 days), driven by buildup of the export orders inventory. However, liquidity remains supported by a strong cash balance of PKR 1,371 million.

By the end of 1HY25, the current ratio remained stable at 1.13x (FY24: 1.14x), while the CCC improved to 165 days (FY24: 215 days), confirming pick up in the on-hold export orders, a positive development for the company's liquidity position. Going forward, the management expects improvement in liquidity profile amid significant changes in credit policies regarding local sales, which is expected to improve CCC and current ratio.

Financial Summary (Amounts in PKR millions)				Appendix I
BALANCE SHEET	**FY22**	**FY23**	**FY24**	**1HFY25**
Fixed Assets	4,875.3	4,752.0	4,528.0	4,448.0
Stock-in-Trade	3,471.6	2,514.0	4,029.0	4,307.0
Trade Debts	709.1	841.0	1,255.0	1,155.0
Cash & Bank Balances	941.9	1,282.0	1,371.0	1,062.0
Refunds Due from Government and Other Receivables	609.2	339.1	298.0	493.6
Total Assets	**10,774.4**	**9,830.3**	**11,625.0**	**12,007.6**
Trade and Other Payables	1,135.7	886.0	991.0	864.0
Long Term Debt (including current maturity)	2,080.1	2,026.0	1,785.0	1,754.0
Short Term Debt	3,578.4	2,804.0	4,694.0	5,234.0
Total Debt	5,658.5	4,830.0	6,479.0	6,988.0
Total Liabilities	6,951.2	5,939.0	7,718.0	8,085.0
Paid up Capital	199.6	199.6	199.6	199.6
Total Equity (without surplus on revaluation)	3,041.7	3,109.6	3,125.6	3,141.6
INCOME STATEMENT	**FY22**	**FY23**	**FY24**	**1HFY25**
Net Sales	8,610.0	8,269.0	8,310.0	5,663.0
Gross Profit	1,243.9	1,385.0	1,365.0	754.0
Profit Before Tax	378.8	190.5	118.0	70.2
Profit After Tax	277.4	107.3	34.0	13.2
RATIO ANALYSIS	**FY22**	**FY23**	**FY24**	**1HFY25**
Gross Margin (%)	14.4%	16.7%	16.4%	13.3%
Net Profit Margin	3.2%	1.3%	0.4%	0.2%
FFO	539.1	541.0	240.0	226.0
FFO to Total Debt (%)	9.5%	11.2%	3.7%	3.2%
FFO to Long Term Debt (%)	25.9%	26.7%	13.4%	12.9%
Debt Servicing Coverage Ratio (x)	1.6	1.2	0.9	0.9
ROAA (%)	3.1%	1.0%	0.3%	0.2%
ROAE (%)	7.5%	2.8%	0.9%	0.7%
Gearing (x)	1.86	1.55	2.1	2.2
Leverage (x)	2.29	1.91	2.5	2.6
Current Ratio (x)	1.17	1.22	1.1	1.1
Cash Conversion Cycle (CCC)	146	123	215	165
(Stock in trade + Trade Debts) / Short Term Borrowings (%)	116.8%	119.7%	112.6%	104.4%

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Naveena Industries Limited (NIL)				
Sector	Textiles				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Outlook/Rating Watch**	**Rating Action**
	RATING TYPE: ENTITY				
	10/03/2025	A-	A2	Stable	Reaffirmed
	15/01/2024	A-	A2	Stable	Maintained
	30/12/2022	A-	A2	Negative	Maintained
	31/12/2021	A-	A2	Stable	Upgrade
	20/11/2020	BBB+	A2	Stable	Maintained
	24/04/2020	BBB+	A2	Rating Watch - Negative	Maintained
	28/02/2020	BBB+	A2	Positive	Maintained
	31/12/2018	BBB+	A2	Stable	Initial
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	**S.No**	**Name**	**Designation**	**Date**	
	1	Mustafa Samad	GM Finance	12th Feb, 2025	
	2	Muhammad Junaid	CFO	12th Feb, 2025	