

NAVEENA INDUSTRIES 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
OUTLOOK/RATING WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	May 18, 2026		March 10, 2025	

Shareholding (5% or More)

Naveena Holdings Limited - ~99.9%

Other Information

Incorporated in 1966

Public Unlisted Company

Chief Executive: Mr. Shahzad Khalid

External Auditor: Ibrahim Shaikh & 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 NIL's established presence in the textile value chain, supported by stable operations and improved capacity utilization during FY25 driven by higher local demand for greige fabric. Despite operational stability, profitability remained constrained due to margin compression from lower selling prices and elevated energy costs, resulting in thin net margins.

The Company's capital structure came under pressure during FY25 owing to increased reliance on short-term borrowings to meet working capital requirements, which led to higher gearing and leverage. Scheduled loan repayments in 1HFY26 provided some relief, contributing to a modest improvement in capital structure indicators. Liquidity and debt coverage indicators remained adequate, though debt coverage weakened due to lower internal cash generation and higher tax outflows, partially offset by proceeds from non-core investments.

The ratings are supported by adequate liquidity, concessional long-term borrowings under LTFF scheme and its strategic shift towards higher value-added garments. This diversification is expected to support medium-term profitability. Going forward, the ratings remain sensitive to improvements in margins, disciplined working capital management and stable internal cash generation to strengthen financial flexibility.

Company Profile

Naveena Industries Limited ('NIL' or 'the Company') was incorporated in 1966 as a private limited company and was subsequently converted into a public unlisted company in 2011. The Company is engaged in the manufacture and export of fabric and home textile products. The Home Textile Division primarily produces bedding products for export markets, including the United States and the United Kingdom. The manufacturing facilities are located at Rahim Yar Khan and Karachi, with the registered office in Karachi.

Management and Governance

The Board of Directors comprises three members, including the Chairman, Mr. Iftikhar Ahmed Khalid, along with his two sons serving as CEO, Mr. Shahzad Khalid and Director, Mr. Faisal Khalid. The management is led by Mr. Shahzad Khalid and is supported by a team of experienced professionals, which provides oversight across key operational and strategic functions. The Company operates an internally developed ERPS, which integrates key functions including, sales, marketing and finance, thereby, supporting streamlined operations and information flow.

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

Installed Capacity	FY20	FY21	FY22	FY23	FY24	FY25
Weaving						
No. of Looms Installed	411	411	414	414	414	414
Installed Capacity (Million Meters)	45	45	45	45	45	45
Actual Production (Million Meters)	36	37	33	19	22	32
Capacity Utilization	80.3%	81.8%	74.2%	41.6%	48.6%	72.2%

The Company's installed capacity remained unchanged during FY25; however, improved demand for greige fabric in the local market led to higher production volumes, resulting in a notable increase in capacity utilization, approaching FY22 levels. The Company's total energy requirement stands at ~5.9 MW, with the majority attributable to Rahim Yar Khan unit (4.4 MW) and the remainder to the Karachi facility (1.5 MW). Energy needs are primarily met through grid electricity (85%), with the balance sourced from gas generators.

To partially mitigate energy cost pressures and improve cost efficiency, the Company has recently installed solar capacity of 3.9 MW (Rahim Yar Khan: 2.9 MW; Karachi: 0.9 MW). This is expected to provide some relief against volatility in power tariffs and support margins going forward.

The Company plans to expand into the garments segment through installation of ~150 stitching machines, targeting higher value-added export sales. Garments generally offer relatively higher margins than greige fabric, which is expected to support profitability over the medium term. The expansion will be financed through internal cash generation.

PROFITABILITY

NIL's revenue increased to PKR 11.9 billion in FY25 (FY24: PKR 8.3 billion), primarily driven by higher volumetric sales in the local market. The sales mix shifted towards local sales, which accounted for 43% of total revenue compared to 57% from exports (FY24: 81% and 19% respectively), reflecting subdued demand for greige fabrics in the international markets and a gradual shift towards processed fabric. However, customer concentration increased, with the top ten clients accounting for 57% of sales (FY24: 25%), indicating elevated risk.

Despite topline growth, profitability weakened during FY25. Gross margin declined to 11.7% (FY24: 16.4%) due to lower average selling prices and higher energy costs. Consequently, operating margin reduced to 8.4% (FY24: 11.8%). Net profit decreased to PKR 26 million (FY24: PKR 34 million), with net margin compressing to 0.2% (FY24: 0.4%), reflecting elevated finance costs and higher tax incidence, despite relief from lower benchmark interest rates.

During 1HFY26, revenue declined to PKR 5.1 billion (1HFY25: PKR 5.7 billion), amid continued weak export demand. Margins remained under pressure, with gross and operating margins reported at 11.9% and 8.2% (1HFY25: 13.3% and 9.5%), respectively. However, net profitability improved marginally, supported by one-off capital gains of PKR 41 million from divestment of long-term investments and relatively lower finance costs.

Going forward, profitability is expected to remain sensitive to demand dynamics in the greige fabric segment. Nonetheless, the Company's strategic shift towards value-added garments segment is expected to support margins, with pipeline orders of ~PKR 900 million during FY26, providing near-term revenue visibility.

Financial Risk

CAPITAL STRUCTURE

At end-FY25, the Company's capital structure came under pressure due to greater reliance on short-term borrowings to finance working capital needs. Consequently, total debt rose to PKR 7.5 billion (FY24: PKR 6.5 billion), largely driven by short-term facilities, while long-term borrowings declined marginally to PKR 1.6 billion (FY24: PKR 1.7 billion) on account of scheduled maturities. Equity remained broadly stable at PKR 3.2 billion (FY24: PKR 3.1 billion), supported by modest profitability.

As a result, gearing and leverage increased to 2.37x (FY24: 2.07x) and 2.85x (FY24: 2.47x), respectively. At end-1HFY26, gearing and leverage moderated to 2.21x and 2.61x, respectively, on account of debt repayments.

The debt profile is supported by a sizeable proportion of concessional long-term borrowings under LTFF, providing a buffer against interest rate volatility and supporting debt servicing stability. Going forward, improvement in capital structure will depend on disciplined working capital management and sustained internal cash generation to support gradual deleveraging.

DEBT COVERAGE & LIQUIDITY

NIL's liquidity profile remained adequate, with the current ratio marginally moderating to 1.06x at end-FY25 (FY24: 1.14x) and 1.03x at end-1HFY26, reflecting higher short-term borrowings. Correspondingly, short-term debt coverage declined to 0.99x (FY24: 1.13x). However, operational efficiency improved as the net operating cycle reduced to 151 days (FY24: 215 days), though it marginally increased to 160 days at end-1HFY26 due to higher inventory levels.

Debt servicing capacity came under pressure during FY25, with Debt Service Coverage Ratio (DSCR) declining to 0.88x (FY24: 1.03x) due to decrease in profitability and higher tax outflows. However, adjusted coverage remained broadly stable at 1.02x after factoring in proceeds from long-term investments, indicating manageable debt servicing ability.

At end-1HFY26, DSCR further dropped to 0.70x due to continued pressure on profitability and elevated tax payments. Nevertheless, liquidity was partially supported by one-off proceeds from divestment of long-term investments.

Going forward, liquidity and coverage indicators are expected to remain sensitive to working capital fluctuations and tax outflows. Sustained improvement in internal cash generation and prudent working capital management will remain important for maintaining stable coverage metrics.

FINANCIAL SUMMARY					(PKR Million)
BALANCE SHEET					
Property, Plant, & Equipment	FY22A	FY23A	FY24A	FY25A	1HFY26M
Property, Plant, & Equipment	4,829	4,705	4,469	4,531	4,833
Long-Term Investments	47	47	59	207	27
Stock-in-Trade	3,472	2,514	4,029	3,959	3,618
Trade Debts	709	841	1,255	1,851	1,555
Cash & Bank Balances	942	1,282	1,371	1,000	742
Total Assets	10,774	9,830	11,625	12,951	12,232
Trade and Other Payables	1,136	886	990	1,258	1,085
Long-Term Debt (Inc. CP)	2,080	2,026	1,785	1,619	1,493
Short-Term Debt	3,578	2,804	4,694	5,856	5,499
Total Debt	5,659	4,830	6,479	7,475	6,992
Total Liabilities	6,951	5,939	7,718	9,009	8,281
Paid Up Capital	200	200	200	200	200
Tier 1 Equity	3,042	3,109	3,125	3,160	3,170
Total Equity	3,823	3,891	3,907	3,941	3,951
INCOME STATEMENT					
Net Sales	8,610	8,269	8,310	11,886	5,054
Gross Profit	1,244	1,385	1,365	1,395	599
Operating Profit	744	1,011	983	995	416
Profit Before Tax	379	190	118	152	73
Profit After Tax	277	107	34	26	22
RATIO ANALYSIS					
Gross Margin (%)	14.4%	16.7%	16.4%	11.7%	11.9%
Operating Margin (%)	8.6%	12.2%	11.8%	8.4%	8.2%
Net Margin (%)	3.2%	1.3%	0.4%	0.2%	0.4%
Net Working Capital	865	922	863	481	227
Trade debts/Sales *	8.2%	10.2%	15.1%	15.6%	15.4%
FFO	539	541	359	194	9
FFO to Total Debt (x) *	0.10	0.11	0.06	0.03	0.00
FFO to Long Term Debt (x) *	0.26	0.27	0.20	0.12	0.01
Debt Servicing Coverage Ratio (x) *	1.62	1.20	1.03	0.88	0.70
Current Ratio (x)	1.17	1.22	1.14	1.06	1.03
Stock + Trade Debts/STD	1.17	1.20	1.13	0.99	0.94
Gearing (x)	1.86	1.55	2.07	2.37	2.21
Leverage (x)	2.29	1.91	2.47	2.85	2.61
ROAA (%) *	3.1%	1.0%	0.3%	0.2%	0.3%
ROAE (%) *	9.5%	3.5%	1.1%	0.8%	1.4%
Net Operating Cycle *	146	123	215	151	160
Inventory Days *	172	133	212	138	148
Receivable Days *	30	37	55	57	56
Payable Days *	56	47	52	44	44
*Annualized, if required A - Audited Accounts M - Management Accounts P - Projected Accounts					

REGULATORY DISCLOSURES Appendix II

Name of Rated Entity	Naveena Industries Limited				
Sector	Textile Weaving				
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				
	05/07/2026	A-	A2	Stable	Reaffirmed
	03/10/2025	A-	A2	Stable	Reaffirmed
	01/15/2024	A-	A2	Stable	Maintained
	12/30/2022	A-	A2	Negative	Maintained
	12/31/2021	A-	A2	Stable	Upgrade
11/20/2020	BBB+	A2	Stable	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. Muhammad Junaid		Group CFO		April 15, 2026
	Mr. Muhammad Ammar		Senior Manager Finance & Accounts		