VIS
Credit Rating Company Limited

RATING REPORT

Analysts:
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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates

Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

Rs. Million	FY23A	FY24A	1HFY25M
Net Sales	3,913.17	3,612.16	884.83
PBT	80.53	-189.76	15.78
PAT	19.55	-193.33	4.72
Paid up Capital	190.00	100.00	100.00
Equity (ex. Reval)	1,845.72	1,937.45	1,947.19
Total Debt	2,426.82	2,441.14	2,500.98
Leverage (x)	2.30	2.07	2.02
Gearing (x)	1.31	1.26	1.28
FFO	201.47	-110.64	-59.53
FFO/Total Debt (x)	0.08	-0.05	-0.05
Net Margin (%)	0.50%	-5.35%	0.53%

**Annualized, if required*
A - Actual Accounts
M - Management Accounts

ARSHAD TEXTILE MILLS LIMITED

Chief Executive: Mr. Mohammad Arshad Sheikh

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	BBB-	A2	BBB-	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	April 15, 2025		March 06, 2024	

RATING RATIONALE

While the financial risk profile of the Company has shown significant weakness during the period under review, ATML's has continued to meet its financial obligation with support from its sponsors. As such, the assigned ratings reflect sponsors' firm commitment to the Company by way of financial support as and when required. Moreover, ratings derive comfort from the demand cushion through the Associate Company in times of demand constraint also provides comfort to assigned ratings.

Going forward, assigned ratings will remain sensitive to ATML's capacity to strengthen its financial risk profile through improvements in profitability, liquidity, and coverage metrics to levels aligned with the assigned ratings, while maintaining capitalization at an adequate level. Additionally, the ratings are dependent on the continued availability of sponsor support to address any potential shortfall in coverage.

COMPANY PROFILE

Arshad Textile Mills Limited ('ATML' or 'the Company') is a public unlisted company incorporated in Pakistan in 1984. Its registered office is situated in Lahore. The Company is engaged in the business of manufacturing and sale of cotton-blended yarn, along with the sale of fabric, utilizing own yarn weaved on others conversion/processing facilities.

GOVERNANCE

ATML is a family-owned business with majority of shares owned by Shehryar Arshad and Muhammad Arshad Sheikh. The board comprises three family members including the CEO. Overall board composition and oversight has room for improvement through inclusion of independent directors. Furthermore, setting up of audit and HR committees at the Board level in line with best practices will strengthen governance framework.

INDUSTRY PROFILE & BUSINESS RISK

Assigned ratings incorporate the business risk profile of Pakistan's textile spinning sector is currently assessed as high to medium. This evaluation considers factors such as demand cyclicality, competitive pressures, regulatory challenges, and energy sensitivity.

The textile industry contributes approximately 8.5% to the national GDP and employs about 45% of the total labor force. Within this, the spinning sector serves as a key upstream segment, converting raw cotton into yarn for subsequent value-added processes. Performance remains closely linked to economic conditions, exposing the sector to demand fluctuations.

The 2024 cotton season was marked by production challenges, with cultivation reaching 80% of the national target, despite improvement from the previous year. FY23 was severely impacted by floods during the early half of the year, however, FY24 saw pest infestation which impacted cotton production during the period. The planted area stands at 2.367 million hectares (FY23: 1.97 million hectares), slightly up from the previous year. Production stood around 8.3 million bales (FY23: 4.9 million bales), remaining well below the domestic industry's requirement of ~12 million bales in 2024. Farmers continue to shift toward higher-margin crops, limiting any improvement in the shortfall.

In FY24, textile exports grew marginally by 0.93% to $16.7 billion (FY23: $16.6 billion). However, political instability and shifts in global procurement patterns resulted in the loss of approximately 40% of export orders, with buyers redirecting sourcing to competitors such as Vietnam.

Following the withdrawal of the Export Facilitation Scheme (EFS), indirect exporters now prefer duty-free and sales-tax-free imported yarn over domestically produced alternatives, which remain subject to an 18% sales tax. This trend has further pressured foreign exchange reserves and led to increased substitution of local yarn with imports, challenging the viability of the spinning sector amid rising costs. The transition from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR) has further strained financial performance.

Pakistan's spinning sector remains exposed to significant competitive pressures from India, China, and Bangladesh, where technological advancements and diversified product offerings provide an advantage. Limited product diversification has constrained Pakistan's ability to capture export orders redirected due to shifts in global supply chains.

Regulatory changes have added to operational and financial challenges. The withdrawal of regionally competitive energy tariffs and amendments in tax policies have increased cost pressures. The Federal Board of Revenue (FBR) doubled the advance tax rate for textile millers from 1% to 2%, alongside additional reporting requirements. Some industry participants have begun exploring relocation to jurisdictions with more favorable regulatory frameworks.

Energy sensitivity remains a key concern, with high energy costs increasing conversion expenses. In FY24, high power tariffs continued to adversely affect sector profitability. The energy costs in the country are around double those of regional export market competitors. Rising power costs and an increase in the minimum wage have also led to margin compression. Industrial power tariffs in Pakistan were approximately 17 cents per kilowatt-hour (kWh), significantly higher than those in competing economies such as India (6 cents/kWh), Bangladesh (8.6 cents/kWh), and Vietnam (7.2 cents/kWh) in 2024.

Going forward, sector performance will depend on global demand trends, domestic policy measures, and structural improvements. While recent monetary easing, including a reduction in the policy rate to 12% by February 2025, may ease financing costs, long-term competitiveness will require investments in technology, product diversification, and a stable regulatory environment.

Sponsor Support

Ratings derive comfort from the strong sponsor support extended to the Company from time to time. In FY24, sponsors provided financial support of PKR 275 million as equity funds. During the same period sponsors also extended PKPR 685 million as interest free short-term loans payable on demand, as working capital support. Going forward, approximately PKR 400 million of this loan is expected to be reclassified as equity. The arrangement will be revised to be repayable at the convenience of the Company.

Product Profile & Capacity

The company's manufacturing facilities are situated in Tehsil Jaranwala, Faisalabad, Punjab. In FY24, operational constraints were observed due to subdued demand, particularly for blended cotton-polyester yarn, resulting in reduced order inflows. The decline in demand was driven by lower export orders from downstream sheet manufacturers and exporters. As a result, Unit 1 remained largely non-operational throughout the year, leading to lower production compared to the previous year.

Additionally, utilization levels were impacted by an increase in overall production capacity, which had been in the pipeline since 2022.

For FY25, an arrangement has been made to cater the requirements of the associate entity, Arshad Corporation. Under this arrangement, raw material is being supplied by Arshad Corporation, while the Company undertakes conversion into yarn and charges a processing fee. Subsequent to this arrangement, non-operational facilities have resumed production in recent months, with expectation to achieve higher production level in the current year.

	FY23	FY24
Installed capacity of yarn (kgs.)	9,004,157.0	12,730,603
Actual production of yarn (kgs.)	6,352,878.0	5,522,870
Capacity Utilization	***71%***	***43%***

FINANCIAL RISK

Assigned ratings also consider the financial risk profile of the company, reflecting declining revenues and profitability due to lower yarn sales and rising production costs. Gross margins contracted due to higher utility expenses and reduced fixed cost absorption following a decline in sales volumes. An arrangement with an associate company has contributed to some margin improvement in the ongoing fiscal period, but overall demand from non-related parties remains weak, impacting cash generation. Capitalization metrics remained stable, with some improvement supported by loans from directors classified as equity. Total debt levels remained largely unchanged, with repayments of long-term obligations offset by an increase in short-term borrowings. Liquidity and coverage constraints persisted, reflecting limited internal cash generation. Coverage indicators weakened further due to declining operational cash flows, however, financial support from sponsors enabled to meet coverage requirements.

Capital Structure

Capitalization metrics improved by end-FY24, with gearing declining to 1.26x (FY23: 1.31x) and leverage reducing to 2.07x (FY23: 2.30x), supported by loans from directors classified as equity. Total debt remained largely unchanged as long-term obligations were repaid on schedule, with a corresponding increase in short-term borrowings. As of 1HFY25, gearing and leverage remained stable at 1.28x and 2.02x, respectively. Going forward, reclassification of sponsor loans from short-term debt to quasi-equity may provide further support to the capitalization profile.

Profitability

In FY24, revenue declined by 7.7% to Rs. 3.61bn (FY23: Rs. 3.91bn), primarily driven by a 22.2% reduction in yarn sales to Rs. 3.18bn (FY23: Rs. 4.09bn) amid lower demand. The gross margin contracted to 8.9% (FY23: 11.4%) due to higher utility costs and lower contribution margin following a decline in sales volume.

In 1HFY25, the gross margin improved to 20.7%, supported by a collaboration with Arshad Corporation. Under this arrangement, the associate company supplies raw materials, with ATML processing the materials into yarn and earning a processing fee. Going forward, operational cash flows are expected to remain constrained in FY25 due to a decline in orders from non-related parties. While capacity utilization is expected to improve due to demand from the associate company, overall levels are projected to remain subdued, limiting cash generation.

Liquidity and Coverage

As of FY24, the company's current ratio stood at 0.84x (FY23: 0.88x), with a five-year average of 0.92x, indicating persistent liquidity constraints stemming from lower internal cash generation. Operational cash flow declined in FY24 due to a decline in profitability, further impacting liquidity. By the end of 1HFY25, the current ratio remained at 0.82x.

The coverage profile continued to reflect stressed operational cash flow, with the debt service coverage ratio (DSCR) declining to 0.39x in FY24 (FY23: 0.67x) and further reducing to 0.31x in 1HFY25. Coverage requirements have been met through financial support from sponsors. The ratings remain sensitive to the continued availability of sponsor support to address any further funding requirements.

Financial Summary

Balance Sheet (PKR Millions)	FY23A	FY24A	6MFY25M
Property, plant and equipment	3,816.07	3,805.05	3,737.33
Stock-in-trade	1,407.23	1,354.03	1,189.06
Trade debts	168.52	200.06	205.80
Short-term Investments	5.57	7.85	7.85
Cash & Bank Balances	20.42	5.09	13.41
Other Assets	1,243.46	1,104.72	1,251.19
Total Assets	6,661.27	6,476.80	6,404.64
Creditors	708.73	648.14	532.09
Long-term Debt (incl. current portion)	1,146.87	974.58	824.50
Short-Term Borrowings	1,279.95	1,466.56	1,676.48
Total Debt	2,426.82	2,441.14	2,500.98
Other Liabilities	1,116.99	916.45	895.77
Total Liabilities	4,252.54	4,005.73	3,928.84
Paid up Capital	100.00	100.00	100.00
Revenue Reserve	983.66	800.39	810.13
Other Equity (excl. Revaluation Surplus)	762.06	1,037.06	1,037.06
Sponsor Loan	650.00	925.00	925.00
Equity (excl. Revaluation Surplus)	1,845.72	1,937.45	1,947.19

Income Statement (PKR Millions)	FY23A	FY24A	6MFY25M
Net Sales	3,913.17	3,612.16	884.83
Gross Profit	445.37	322.81	182.79
Operating Profit	382.34	222.56	148.60
Finance Costs	301.81	412.32	132.82
Profit Before Tax	80.53	-189.76	15.78
Profit After Tax	19.55	-193.33	4.72

Ratio Analysis	FY23A	FY24A	6MFY25M
Gross Margin (%)	11.38%	8.94%	20.66%
Operating Margin (%)	9.77%	6.16%	16.79%
Net Margin (%)	0.50%	-5.35%	0.53%
Funds from Operation (FFO) (PKR Millions)	201.47	-110.64	-59.53
FFO to Total Debt* (%)	8.30%	-4.53%	-4.76%
FFO to Long Term Debt* (%)	17.57%	-11.35%	-14.44%
Gearing (x)	1.31	1.26	1.28
Leverage (x)	2.30	2.07	2.02
Debt Servicing Coverage Ratio* (x)	0.67	0.39	0.31
Current Ratio (x)	0.88	0.84	0.82
(Stock in trade + trade debts) / STD (x)	1.25	1.09	0.86
Return on Average Assets* (%)	0.31%	-2.94%	0.15%
Return on Average Equity* (%)	1.15%	-10.22%	0.49%
Cash Conversion Cycle (days)	82.41	96.54	219.00

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Arshad Textile Mills Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
Rating Type: Entity				
15-04-2025	**BBB-**	**A2**	**Stable**	**Reaffirmed**
06-03-2024	**BBB-**	**A2**	**Stable**	**Reaffirmed**
29-08-2022	**BBB-**	**A2**	**Stable**	**Upgrade**
27-08-2021	**BB+**	**A3**	**Positive**	**Maintained**
28-04-2020	**BB+**	**A3**	**Rating Watch-Negative**	**Maintained**
03-04-2019	**BB+**	**A3**	**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.
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Due Diligence Meeting Conducted

Name	Designation	Date
Mr. Amjad Iqbal	CFO	February 28, 2025