VIS

Credit Rating Company Limited

RATING REPORT

ARSHAD CORPORATION (PVT.) LIMITED

Chairman & Chief Executive: Mr. Shahzad Ahmed Sheikh

Analysts:

Muhammad Amin Hamdani

amin.hamdani@vis.com.pk

APPLICABLE METHODOLOGY(IES):

VIS Entity Rating Criteria Methodology – Industrial Corporates

https://docs.vis.com.pk/docs/CorporateMethodology.pdf

Rating Scale:

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

PKR. MILLION	FY23	FY24	1HFY25
Net Sales	17,750	18,263	11,207
PBT	1,206	616	482
PAT	1,025	428	366
Paid up capital	500	500	500
Equity (incl. surplus on PPE)	6,350	6,781	7,518
Total Debt	10,790	12,028	12,983
Leverage (x)	2.53	2.88	2.64
Gearing (x)	1.70	1.77	1.73
FFO	1,672	926	936
FFO/Total Debt (x)*	0.15	0.08	0.07
NP Margin	5.8%	2.3%	3.3%

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		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	May 09, 2025		March 06, 2024	

RATING RATIONALE

The assigned ratings reflect ACL's growing equity base, supported by internal cash generation and higher sponsor support along with the absence of long-term borrowings. While short-term borrowings increased due to working capital needs, capitalization indicators have remained within a similar range, though still on the higher side. Revenue increased over FY23, primarily driven by a sharp increase in local sales. Profitability in FY24 was impacted by elevated finance costs, however, improvement was observed in 1HFY25 with the easing of interest rates. Liquidity and debt coverage metrics remained adequate over the review period. Going forward, the ratings will remain sensitive to the Company's ability to manage working capital efficiently and sustain improvements in capitalization and liquidity.

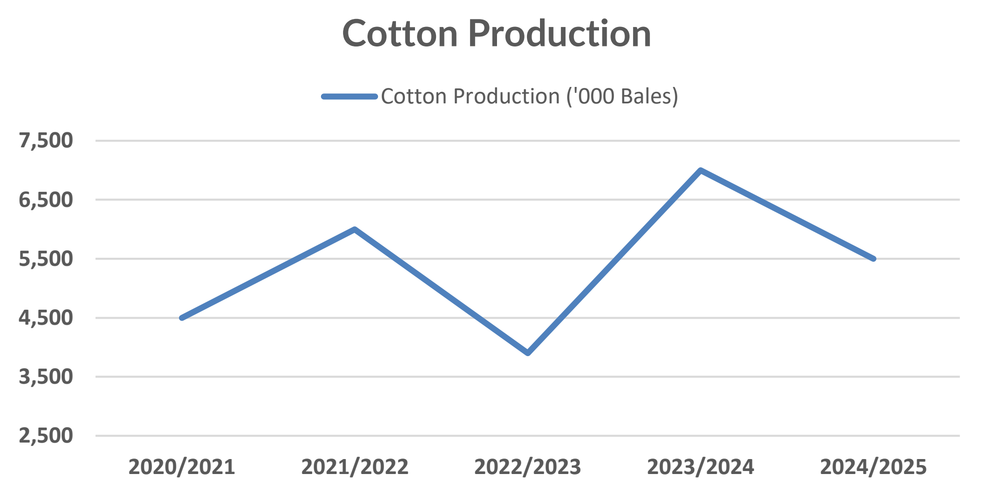
COMPANY PROFILE

Arshad Corporation (Private) Limited ('ACL' or 'the Company') was incorporated in Punjab, Pakistan as a private limited company in January 12, 1973. The registered office of the Company is situated on the 16th floor, Tricon Corporate Centre Main Jail Road, Gulberg 2, Lahore. The Company is principally engaged in the business of manufacturing and selling fabric and made-up.

INDUSTRY PROFILE BUSINESS RISK &

The business risk profile of Pakistan's textile sector is shaped by economic cyclicality, intense competition and structural challenges. The sector is highly sensitive to domestic and international demand fluctuations, making it vulnerable to broader economic conditions.

In FY24, Pakistan's cotton production surged by 79% compared to FY23, though this increase was largely due to the low base in FY23. However, cotton production decreased by 59.4% YoY by October 2024, with a total of 2.04 million bales. While the USDA projects a rebound to 5.55 million bales in FY25 contingent upon overcoming several obstacles, including a shrinking area for cotton cultivation, rising energy costs and climatic challenges e.g. heatwaves, floods and pest infestations which have further strained yields.



Source: USDA

Despite the domestic cotton production challenges, textile exports in 1QFY25 have grown, largely driven by increased reliance on competitively priced imported cotton and a focus on the value-added segment of the industry. As global textile demand recovers, profitability for Pakistan's textile exporters will depend on cotton market dynamics, inflation and foreign exchange fluctuations. Rising fuel and power costs remain significant challenges to the sector's cost structures.

Figure 1: MoM Textile Exports (USD Million)
Source: SBP

A key issue is the 23% gas price hike for captive power plants, starting March 2025, as part of Pakistan's IMF agreement. Gas prices are set to rise to PKR 4,291 per mmBtu, reaching PKR 6,000 per mmBtu by August 2026. This increase combined with the shift from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR), will further pressure textile manufacturers' financial performance. Rising input costs and regulatory changes are creating a challenging environment for the sector.

Product Profile & Capacity

The Company's manufacturing facilities are in Shahkot and two additional sites in Khurrianwala. Product profile of the Company includes Duvets, Gowns, Quilts, Bed sheets, Kitchen Accessories, Curtains and others.

Capacity and Production	FY20A	FY21A	FY22A	FY23A	FY24A
Processing Machine - Meters					
Installed Capacity per day	90,000	90,000	90,000	90,000	90,000
Actual Production per day	77,000	82,066	79,259	50,704	54,900
Capacity Utilization	*86%*	*91%*	*88%*	*56%*	*61%*
Stitching Unit I - Meters					
Installed Capacity per day	65,000	70,000	70,000	70,000	70,000
Actual Production per day	43,240	53,038	63,580	40,870	41,167
Capacity Utilization	*67%*	*76%*	*91%*	*58%*	*59%*
Printing Machines - Meters					
Installed Capacity per day	115,000	115,000	125,000	125,000	125,000
Actual Production per day	101,065	98,670	112,091	82,900	105,644

Capacity Utilization	*88%*	*86%*	*90%*	*66%*	*85%*
Weaving Machines - Meters					
Installed Capacity per day	51,600	51,600	51,600	75,000	75,000
Actual Production per day	41,354	42,630	50,958	70,000	69,998
Capacity Utilization	*80%*	*83%*	*99%*	*93%*	*93%*
Stitching Unit II - Kgs					
Installed Capacity per day	1,000	1,000	1,000	1,000	1,000
Actual Production per day	600	912	620	350	343
Capacity Utilization	*60%*	*91%*	*62%*	*35%*	*34%*
Garment Machines - Pieces					
Installed Capacity per day	2,700	5,572	5,572	5,668	5,600
Actual Production per day	1,641	4,179	3,588	3,511	3,859
Capacity Utilization	*61%*	*75%*	*64%*	*62%*	*69%*

FINANCIAL RISK

Capital Structure

Equity base of the Company continued to grow supported by internal cash generation and higher sponsor support. Equity base clocked in at Rs. 7.5b at end-Dec'24 (Jun'24: Rs. 6.8b, Jun'23: Rs. 6.3b). The Company did not mobilize any new long-term debt on its balance sheet during the review period, which resulted in long-term debt decreasing to Rs. 1.1b at end-Dec'25 (Jun'24: Rs. 1.2b, Jun'23: Rs. 1.3b).

However, on the other hand, with higher working capital requirements, short-term borrowings registered an increasing trend and stood at Rs. 11.8b at end-Dec'24 (Jun'24: Rs. 10.8b, Jun'23: Rs. 9.5b). Consequently, total debt stood at Rs. 13.0b at end-Dec'24 (Jun'24: Rs. 12.0b, Jun'23: Rs. 10.8b).

Capitalization ratios, including gearing and leverage, witnessed a decline at end-1st Half of FY25 compared to end-FY24, albeit remained marginally higher when compared to end-FY23 levels. Gearing and leverage ratios stood at 1.73x (Jun'24: 1.77x, Jun'23: 1.70x) and 2.64x (Jun'24: 2.88x, Jun'23: 2.53x), respectively, at end-Dec'24. Improvement in capitalizaion indicators is advised in order to sustain current rating.

Profitability

After witnessing a decline in FY23, net sales of the Company increased by 3% YoY to Rs. 18.3b in FY24. The increase in sales was attributed to a 90% jump in local sales; however, export sales registered a drop of 3% in FY24 (7% YoY in $ terms in FY24).

Export sales remained a major component of the Company; however, with lower demand on the export side in FY24, ACL increased its local sales in order to rationalize its fixed costs. Consequently, the ratio of export to local sales changed to 86:14 in FY24 (FY23: 92:8).

During 1HFY25, with a rebound in export sales, the Company registered net sales of Rs. 11.2b ($41.6 million in exports) (FY24: $67.1 million in exports). This has re-shifted the export to local sales ratio to 91:9 in 1HFY25.

Gross Sales (PKR Mn.)	FY23	FY24	1HFY25
Export	16,952	16,368	10,532
Local	1,410	2,674	1,080
	18,362	**19,041**	**11,612**

Top-10 client concentration of the Company remained moderate, with a minor decline in FY24 to 34% (FY23: 36%). On the geographic front, a major portion of sales consisted of Europe at 41% (FY23: 44.6%), followed by the USA at 31% (FY23: 29.5%) in FY24.

On the margins front, the gross margin of the Company witnessed a marginal increase to 24.2% in FY24 (FY23: 23.7%). Amid higher finance costs of Rs. 2.4b in FY24 due to elevated interest rates and high utilization of short-term debt, the net margin declined to 2.3% in FY24.

During 1HFY25, with a sharp increase in fuel and power costs, gross margins dropped to 20.3%. However, the decreased finance cost, driven by a reduction in interest rates, provided support to bottom-line profitability, with the net margin inching up to 3.3% in 1HFY25. Going forward, improvement in cost efficiency to maintain gross margins will remain important.

Debt Coverage & Liquidity

Overall liquidity and coverage profile of the Company remained adequate, wherein the current ratio stayed within the historical range and stood at 1.21x at end-Dec'24. The working capital cycle of the Company is longer than the peer average, albeit remained manageable, while short-term debt coverage from inventory and receivables remained adequate at 1.67x at end-Dec'25. However, the rising stock-in-trade, receivables and payables indicate increasing working capital intensity. Going forward, effective management of these will be important to sustain liquidity and ensuring stable cash flow.

On the coverages front, the annualized Debt Service Coverage Ratio (DSCR) stood at 1.39x at end-Dec'24, while the end-FY24 DSCR came in at 1.22x (end-FY23: 1.62x). Going forward, the maintenance and improvement of coverage metrics will be critical from a ratings perspective.

FINANCIAL SUMMARY				(amount in PKR Million)
BALANCE SHEET	**FY22**	**FY23**	**FY24**	**1HFY25**
Property, Plant, & Equipment	4,373	4,368	4,304	4,395
Other Non-Current Assets	145	141	248	137
Stock-in-Trade	7,588	8,547	12,301	12,911
Trade Debts	5,465	6,665	6,547	6,817
Other Current Assets	2,804	2,642	2,720	2,908
Cash & Bank Balances	134	56	196	190
Total Assets	20,508	22,420	26,316	27,359
Trade and Other Payables	4,229	4,869	6,994	6,409
LT Debt (Inc. Current Portion & Lease Liab.)	1,625	1,309	1,239	1,135
Short Term Debt	9,181	9,481	10,789	11,848
Total Debt	10,806	10,790	12,028	12,983
Other Liabilities	192	411	514	449
Total Liabilities	15,227	16,069	19,535	19,841
Paid Up Capital	500	500	500	500
Loan from Directors	735	780	783	1,154
Unappropriated Profit	4,045	5,070	5,498	5,864
Equity	5,281	6,350	6,781	7,518
INCOME STATEMENT	**FY22**	**FY23**	**FY24**	**1HFY25**
Net Sales	18,261	17,750	18,263	11,207
Gross Profit	3,107	4,207	4,415	2,276
Operating Profit	1,845	2,985	3,080	1,511
Profit Before Tax	957	1,206	616	482
Profit After Tax	722	1,025	428	366
RATIO ANALYSIS	-	-	-	-
Gross Margin (%)	17.0%	23.7%	24.2%	20.3%
Operating Margin (%)	10.1%	16.8%	16.9%	13.5%
Net Margin (%)	4.0%	5.8%	2.3%	3.3%
ROAA (%) *	4.0%	4.8%	1.8%	2.7%
ROAE (%) *	15.4%	17.6%	6.5%	10.2%
Current Ratio (x)	1.15	1.19	1.18	1.21
Stock + Trade Debts/STD (x)	1.42	1.60	1.75	1.67
Cash Conversion Cycle (Days)	190	236	271	244
Funds From Operations (FFO)*	981	1,672	926	936
FFO to Long Term Debt (x)*	0.60	1.28	0.75	0.82
FFO to Total Debt (x)*	0.09	0.15	0.08	0.07
Debt Servicing Coverage Ratio (x)*	1.28	1.62	1.22	1.39
Gearing (x)	2.05	1.70	1.77	1.73
Leverage (x)	2.88	2.53	2.88	2.64

*Annualized

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Arshad Corporation (Pvt.) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Type: Entity

Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
09-May-2025	A-	A2	Stable	Reaffirmed
06-Mar-2024	A-	A2	Stable	Reaffirmed
29-Dec-2022	A-	A2	Stable	Reaffirmed
27-Sep-2021	A-	A2	Stable	Upgrade
23-Apr-2020	BBB+	A2	Rating Watch - Negative	Maintained
4-Mar-2019	BBB+	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.
Disclaimer	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 2025 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meetings Conducted

S.No.	Name	Designation	Date
1.	Irfan Shahzad Rafiq	CFO	23-Apr-2025
2.	Zain ul-Abideen	Manager - Finance	