

## ARSHAD CORPORATION (PRIVATE) LIMITED

### Analyst:

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RATING DETAILS				
RATINGS CATEGORY	Latest Rating		Previous Rating	
	Medium to Long-term	Short-term	Medium to Long-term	Short-term
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/WATCH	Maintained		Stable	
RATING ACTION	Rating Watch - Developing		Reaffirmed	
RATING DATE	08-June-2026		09-May-2025	

Shareholding (5% or More)	Other Information
Shahzad Ahmed Sheikh – 66.77%	Established in 1973
	Private Limited Company
	Chief Executive Officer: Shahzad Ahmed Sheikh
	External Auditor: Zahid Jamil and Co.

### Applicable Rating Methodology

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

### Rating Scale

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

### Rating Rationale

The placement of the ratings on Rating Watch–Developing reflects the ongoing merger between ACL and its associated company Arshad Textiles (Private) Limited (ATPL), the financial and operational impact of which will be assessed post completion of the merger process. The ratings reflect the Company’s broadly stable financial profile, despite elevated leverage ratio. The ratings incorporate consistent revenue growth, supported by increasing demand in the garment and bedsheet segments, along with strategic initiatives such as solar power investments to offset rising utility costs. In FY25 and 1HFY26, the Company successfully recovered net profitability, driven by reduced financial charges and lower tax incidence, despite slight erosion in gross margins. Liquidity indicators remain adequate, with a modest improvement in the current ratio. However, debt coverage metrics have weakened due to increased borrowing for solar transition cost, product diversification, and BMR projects. Capitalization ratios remain stretched, with leverage and gearing levels reflecting the Company’s reliance on debt-funded growth. Going forward, the ratings remain sensitive to the realization of merger synergies, primarily in terms of profitability, cash flow generation and capitalization ratios.

## Company Profile

Arshad Corporation (Private) Limited ('ACL' or 'the Company') was incorporated in Pakistan as a private limited company in January 12, 1973. The registered office of the Company is situated in Lahore, while the production facilities are located at Faisalabad. The Company is principally engaged in the business of manufacturing and selling fabric, home textiles and made-up garments.

## Management and Governance

With over three decades of industry experience, CEO Shahzad Ahmed Sheikh continues to lead ACL as a focused family enterprise, guiding the organization following the passing of its long-serving Chairman, Muhammad Arshad Sheikh in 2025. The Company's FY25 financial statements were audited by Zahid Jamil and Co., a firm appearing in Category 'B' on the SBP's panel of auditors.

Arshad Textile (Private) Limited (ATPL), an associated company involved in spinning, located adjacent to ACL, is in the process of being merged into ACL to streamline operations and enhance vertical integration. As of report date, the transfer of ownership from the existing sponsors to the sponsors of ACL is expected to be initiated soon. Thereafter, the merger shall be executed on the basis of the audited financial statements of both entities as of June 30, 2026. Post-merger of the spinning segment, the management anticipates ~ PKR 1bn higher sales and some improvements in margins in FY27.

## Business Risk

### INDUSTRY

Pakistan's cotton sector remained under pressure in FY25, with area under cultivation declining by 15% YoY to 2.0 mln hectares and yield falling to 0.6 MT/ha (FY24: 0.7 MT/ha), resulting in a 30.7% YoY drop in production. Cotton arrivals stood at ~7.1 mln bales, well below the target of 10.8m bales, largely due to adverse weather conditions, alongside pest infestations. Additionally, the imposition of 18% sales tax on local cotton, compared to duty-free imported cotton, dampened early-season demand for domestic output. For FY26, while the production target is set at 10.2m bales, actual output is estimated at only 6.85m bales, as cultivation reached just 2.0mn hectares, about 11.5% below the target. The shortfall in domestic supply has been offset by a sharp increase in cotton imports, which rose ~234% YoY to meet industry demand. During FY25, Pakistan's textile exports grew by 7.4% YoY to USD 17.9bn, driven mainly by higher demand from North America and Europe for value-added products such as knitwear, bedwear, garments, and towels. In volumes, knitwear, bedwear, and garments posted mid-single-digit growth, while exports of traditional segments, yarn and cotton cloth, declined sharply due to higher domestic energy and manufacturing costs relative to regional peers. Textile imports surged by about 54% YoY to USD 4.2bn in FY25, primarily on account of a sharp rise in raw cotton imports amid a significant drop in domestic cotton production. During 9MFY26, with a cooling export sector and rising import bill, exports were down by 8% YoY as cotton imports surged by 7%.

### PRODUCTION PROFILE

Production capacity remains unchanged while capacity utilization shows gradual shift towards higher-margin garments and bedsheets.

The Company's total power requirement stands at 7MW, of which approximately 20% is currently met through solar energy. Management is actively expanding the solar component in the energy mix, with a target to increase this share to around 60% from 2QFY27 onwards. To support this transition, the Company has utilized

approximately PKR 350 million in commercial borrowings in FY26. The projected savings from utilities is expected to compensate the impact of increasing salaries and wages and elevated input costs.

Segment	Unit	2024			2025	
		Capacity	Production	Utilization	Production	Utilization
Processing machine	Meters	90,000	55,337	61%	60,000	67%
Stitching machines	Meters	70,000	44,120	63%	50,517	72%
Printing machines	Meters	125,000	105,645	85%	96,000	80%
Weaving machines	Meters	75,000	70,000	93%	62,000	83%
Stitching unit II	Kilo grams	1,000	343	34%	115	12%
Garment machines	Set	5,600	3,859	69%	5,396	78%

## SALES & PROFITABILITY

Net sales increased by 12.2% to PKR 20.5b (FY24: PKR 18.3b) in FY25. This was driven by higher revenue of both garments and bedsheets segments. In FY25, garments segment revenue increased by 30% YoY, supported by higher volumes, while bedsheets revenue rose by 29%, due to improved average selling prices. ACL recorded PKR 10.5b net sales in 1HFY26 (1HFY25: PKR 11.2b). Export to Europe maintained its lead at 35% of total revenue, however, exports to the USA surged by 25% in FY25 to represent 33% of net revenue share. This trajectory was fueled by sustained demand of uniforms, winter clothing and bedsheets. Long-standing partnerships with clients like East Rock Tex Inc., Medline Industries Inc., and Zainitex Inc supported the increase in revenue from the USA. The UK (7%) and local market (10%) segments remained stable contribution. In 1HFY26, top 10 customer concentration normalized to 33% from a high of 41% in FY25 (FY24: 34%).

While gross margin decreased to 20.9% during FY25 (FY24: 24.2%) due to elevated raw material costs, it stabilized at 19.6% (1HFY25: 20.0%) during 1HFY26. Net margin saw an improvement to 2.6% (FY24: 0.4%) during FY25, supported by reduced finance costs and a lower tax incidence. Net margins stood slightly higher at 2.9% in 1HFY26 on account of savings in utility costs, though a slightly lower than 3.2% in 1HFY25. While net sales experienced a minor dip in the ongoing year due to operational streamlining and market volatility, management expects a rebound in both revenue and profitability in FY27, supported by the merger of ATPL and the resulting cost efficiencies.

## Financial Risk

### CAPITAL STRUCTURE

Tier-1 equity stood at PKR 8.08b (end-FY25: PKR 7.45b, end-FY24: PKR 6.43b) on account of profit retention. Though largely stable, capitalization ratios were elevated with leverage at 2.68x (end-FY25: 2.77x; end-FY24: 3.09x) and gearing at 1.84x (end-FY25: 1.77x, end-FY24: 1.87x) at end-1HFY26. This reflects high borrowings related to capex on machinery and solar power investments, alongside higher working requirements stemming from diversification in product mix since FY23. Improvement in capitalization ratios will be important for the ratings.

### DEBT COVERAGE & LIQUIDITY

Debt coverage indicators have moderated from FY23 levels due to increase in borrowings. Debt coverage ratios are projected to steadily improve on the back of higher profitability, going forward. Short-term debt coverage, however, remained adequate at ~1.7x.

The current ratio improved slightly to 1.26x (end-FY25: 1.20x; end-FY24: 1.18x) at end-1HFY26, largely driven by higher inventory and cash balances alongside reduced trade payables. The cash conversion cycle (CCC)

continued to lengthen, reflecting the impact of shorter payables days. Despite higher trade debts mainly due to increasing volume of retail-focused clients, aging profile of trade debts remains manageable.

<b>FINANCIAL SUMMARY</b>				
<b>Balance Sheet (PKR Millions)</b>	<b>FY23A</b>	<b>FY24A</b>	<b>FY25A</b>	<b>6MFY26M</b>
Property, plant and equipment	4,368	4,304	4,725	4,761
Right-of-use Assets	79	136	117	35
Stock-in-trade	8,547	12,301	12,955	12,962
Trade debts	6,665	6,547	7,244	7,977
Cash & Bank Balances	56	196	209	869
Other Assets	2,679	2,810	2,808	3,115
<b>Total Assets</b>	<b>22,419</b>	<b>26,316</b>	<b>28,078</b>	<b>29,724</b>
Creditors	3,532	4,820	3,307	3,208
Long-term Debt (incl. current portion)	1,309	1,233	1,255	2,193
Short-Term Borrowings	9,481	10,789	11,951	12,704
<b>Total Debt</b>	<b>10,790</b>	<b>12,022</b>	<b>13,206</b>	<b>14,896</b>
Other Liabilities	1,748	3,041	4,115	3,539
<b>Total Liabilities</b>	<b>16,069</b>	<b>19,883</b>	<b>20,628</b>	<b>21,643</b>
Paid up Capital	500	500	500	500
Revenue Reserve	5,068	5,148	5,679	5,984
Sponsor Loan	780	783	1,271	1,596
<b>Equity (excl. Revaluation Surplus)</b>	<b>6,350</b>	<b>6,433</b>	<b>7,450</b>	<b>8,081</b>
<b>Income Statement (PKR Millions)</b>	<b>FY23A</b>	<b>FY24A</b>	<b>FY25A</b>	<b>6MFY26M</b>
Net Sales	17,750	18,263	20,489	10,534
Gross Profit	4,207	4,415	4,273	2,059
Operating Profit	2,878	3,043	2,774	1,289
Finance Costs	1,672	2,427	2,028	874
Profit Before Tax	1,206	616	747	414
<b>Profit After Tax</b>	<b>1,025</b>	<b>78</b>	<b>531</b>	<b>305</b>
<b>Ratio Analysis</b>	<b>FY23A</b>	<b>FY24A</b>	<b>FY25A</b>	<b>6MFY26M</b>
Gross Margin (%)	23.70%	24.17%	20.86%	19.55%
Operating Margin (%)	16.21%	16.66%	13.54%	12.24%
Net Margin (%)	5.77%	0.43%	2.59%	2.89%
Funds from Operation (FFO) (PKR Millions)	1,603	842	571	540
FFO to Total Debt* (%)	15%	7%	4%	7%
FFO to Long Term Debt* (%)	122%	68%	45%	49%
Gearing (x)	1.70	1.87	1.77	1.84
Leverage (x)	2.53	3.09	2.77	2.68
Debt Servicing Coverage Ratio* (x)	1.58	1.19	1.22	1.17
Current Ratio (x)	1.19	1.18	1.20	1.26
(Stock in trade + trade debts) / STD (x)	1.68	1.82	1.77	1.73
Return on Average Assets* (%)	5%	0%	2%	2%
Return on Average Equity* (%)	18%	1%	8%	8%
Cash Conversion Cycle (days)*	238	297	316	341

\*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES					Appendix I
Name of Rated Entity	Arshad Corporation (Pvt.) Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
	RATING TYPE: ENTITY				
	08-Jun-26	A-	A2	Rating Watch - Developing	Maintained
	09-May-25	A-	A2	Stable	Reaffirmed
	06-Mar-24	A-	A2	Stable	Reaffirmed
	29-Dec-22	A-	A2	Stable	Reaffirmed
	27-Sep-21	A-	A2	Stable	Upgrade
23-Apr-20	BBB+	A2	Rating Watch - Negative	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.				
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Due Diligence Meetings Conducted	Name		Designation		Date
	Irfan Shahzad Rafiq		CFO		12-May-26
	Zain ul-Abideen		Manager Finance		