

Analysts:

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**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>**NAVEENA EXPORTS LIMITED****Chairman & Chief Executive: Mr. Asif Riaz & Mr. Masood Riaz****RATING DETAILS**

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Medium to Long-term	Short-term	Medium to Long-term	Short-term
ENTITY	A	A1	A	A1
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	July 21, 2025		June 4, 2024	

RATING RATIONALE

Naveena Exports Limited ('NEL' or 'the Company'), established in 1989, is primarily engaged in the export of yarn and denim fabric. Ratings take into account sponsor's experience in textile sector while the Company has also established its presence internationally.

Business risk remains high in textile sector due to increased production costs and strong regional competition. Although FY24 witnessed record sales on the back of favorable pricing, profit margins declined due to higher fuel costs and financial charges. Given lower profitability, cash flows declined and debt service ratios came under some stress. Liquidity factors and capitalization metrics remained adequate and largely intact.

Rebound in profit margins, improvement debt coverage, and maintenance of conservative capitalization profile, will remain important, from the ratings perspective.

COMPANY PROFILE

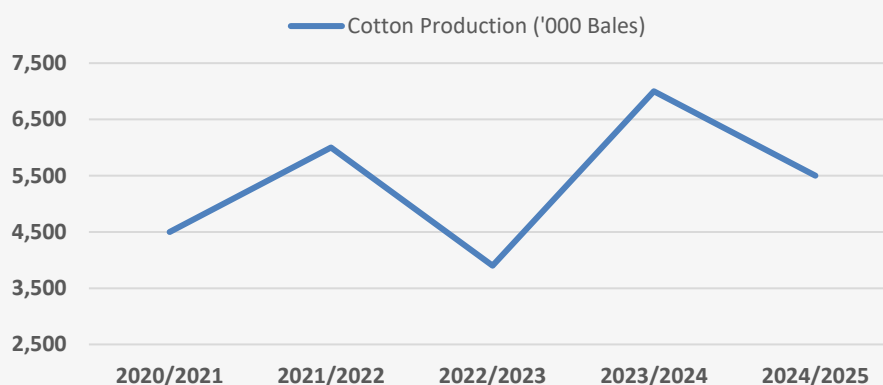
NEL possesses more than three decades of experience, specializing in producing and selling yarn and denim fabric. The Company was incorporated in 1989 as a private limited company and was converted into a public listed company (unlisted) in 2006. The Company operates globally, with an office in Bangladesh and sales representatives in the US, South America, Europe, and Turkey. NEL prioritizes adherence to international standards for social responsibility, environmental sustainability, and product quality, and it employs over 2,700 workers as of end-June 2024.

Naveena group, operating in Pakistan for more than three decades, is operating in textiles, steel, energy, and development of real estate. The Company's headquarters are situated in Karachi, with manufacturing facilities in Karachi and Lahore - Naveena Denim Karachi, and Naveena Denim and Naveena Spinning Units in Lahore. In the recent years, NEL has injected funds towards two associated companies - Naveena Steel Mills (Private) Limited and Lakeside Energy Limited, through advance against shares.

INDUSTRY PROFILE & BUSINESS RISK

The business risk profile of Pakistan's textile sector is shaped by economic cyclicity, 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. The USDA forecasts a rebound to 5.55 million bales in FY25, contingent on overcoming several challenges, including a declining area under cotton cultivation, rising energy costs, and adverse climatic conditions such as heatwaves, floods, and pest infestations that have further pressured yields.

Cotton Production



Source: USDA

Pakistan's textile exports in 3QFY25 demonstrated growth, primarily fueled by the value-added segment, despite challenges in domestic cotton production necessitating reliance on imported cotton. Exporter profitability remains vulnerable to cotton market volatility, inflationary pressures, and exchange rate fluctuations, while persistently high energy costs continue to strain overall cost structures. Furthermore, rising input costs and regulatory changes are creating a challenging environment for the sector.



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

Product Profile & Capacity

The Company's production facilities are located in Korangi Industrial Area, Karachi and Raiwind Road, Lahore. Power requirement is around 3MW, met through K-Electric's and WAPDA's dedicated sources. Solar power comprises ~5% of the power requirement.

Production capacity of both fabric and denim fabric units remained largely the same. While production of both fabric and denim yarn divisions increased in FY24, it remained below the optimal level. Operating performance is as tabulated:

(values in thousands)	FY22	FY23	FY24
DENIM FABRIC DIVISION			
Installed Capacity (meters)	37.8	37.3	36.9
Actual Production (meters)	35.9	19.3	23.0
Capacity Utilization	95%	52%	62%
YARN DIVISION			
Installed Capacity (kgs)	22.6	21.5	21.3
Actual Production (kgs)	21.2	16.5	17.1
Capacity Utilization	94%	77%	80%

FINANCIAL RISK

Capital Structure

Total equity strengthened on the back of profit retention, leading to a further decrease in gearing ratio (end-FY24: 0.49x, end-FY23: 0.57x) and debt leverage (end-FY24: 0.70x, end-FY23: 0.80x). Higher working capital requirement at the operating cycle's outset led to an increase in short-term borrowings, resulting in some increase gearing ratio and debt leverage to 0.61x and 0.83x respectively by end-1HFY25. However, the capitalization ratios are considered manageable from

the ratings perspective. Management anticipates that there will be an increase in long-term borrowings by end-FY25 and in FY26, with the funds allocated to upgrading existing machinery and solar power capacities. However, capitalization indicators are expected to remain largely unchanged, in the coming years.

Profitability

NEL recorded a modest growth of 9.3% in net sales in FY24, attributable to favorable pricing and stable demand. Exports dominated, contributing ~96% of net sales in FY23 and FY24. In terms of value, direct export sales increased by 8.8%, indirect export increased by 9.4% while local sales improved by 19.6% in FY24. Majority of exports customers belong Bangladesh and Turkey.

Gross margin decreased slightly (FY24: 23.1%, FY23: 24.4%) mainly due to a surge in fuel and power costs. Operating expenses increased owing to higher marketing expenses while financial charges also stood higher in FY24. Resultantly, a decrease in net profit, led lower net margin of 7.1% (FY23: 9.2%) in FY24.

Topline decreased and gross margin contracted to 18.1% (1H FY24: 20.8%) in 1H FY25. In order to improve margins, the Company is developing strategies to optimize fuel consumption, such as increasing biomass consumption and installation of solar energy. Net profit decreased in 1H FY25 mainly owing to a lower sales and margins.

While the growth in sales is anticipated to continue, the decreasing trend in profitability and margins over the last three years needs to be arrested in order to uphold the assigned ratings. Moreover, the management does not expect notable improvement in margins during the rating horizon.

Debt Coverages & Liquidity

The decrease in FFO (funds from operations) in FY24 led to lower DSCR (debt servicing coverage ratio) (FY24: 1.88x, FY23: 2.00x) and FFO to total debt ratio (FY24: 0.31x, FY23: 0.34x). DSCR further decreased to 1.56x due to lower cash flows in 1H FY25. Cash flows and DSCR are projected to deteriorate and this declining trend over the years needs to be arrested from the ratings perspective.

Current ratio increased slightly to 1.67x (end-FY23: 1.56x) at end-FY24 mainly reflecting the impact of higher trade debts. Short-term debt coverage also increased slightly to 2.04x (end-FY23: 1.98x) by end-FY24. These ratios remain at adequate levels subsequently. Given higher levels of inventory and trade debt vis-à-vis trade payables, cash conversion cycle remained elevated.

External Auditor's Opinion

The Company's external auditor, Ibrahim Shaikh & Co., having a valid QCR rating, engaged with the Company since FY18 and issued unqualified audit opinions for FY23 and FY24 indicating no significant issues with the Company's financial statements.

ESG Initiatives

NEL is actively committed to ESG (Environmental, Social, and Governance) stewardship, demonstrating efforts across several key areas:

Wastewater Management: Operating an Effluent Treatment Plant (ETP) with a daily capacity of 946 m3 per day for wastewater treatment.

Energy Efficiency & Renewable Energy: Significant investment in LED lighting, with over 3,000 LED tube lights installed and 50 400-watt HPIT lights replaced with 200-watt LED floodlights. A 716 KW power solar panel system is installed on the roof of Karachi denim production plant. Variable Frequency Drives (VFDs) are in place on all heavy motors, and a new 250 KW Variable Speed Drive (VSD) air compressor has been purchased, both aimed at optimizing energy use. Actively implementing energy-efficient technologies and practices in manufacturing to reduce greenhouse gas emissions.

Biomass contribution to energy mix and its impact on the energy cost-2,500-3,000 tons from steam helps in saving Rs. 7m to 8m per month. However, if 5,500 tons is maintained through biomass, the management expects cost-savings to hover between Rs. 10-11m per month.

Waste Management: Hazardous waste is responsibly handled through a SEPA-approved third-party vendor, and they are implementing waste reduction strategies and recycling programs.

Water Conservation: Engaged in deploying water-saving technologies and practices to reduce water usage in fabric manufacturing.

Carbon Footprint Reduction: Targets are being set to reduce carbon footprint through renewable energy investments and optimized transportation logistics.

Employee Engagement: Fostering a culture of sustainability through training and awareness programs for employees on climate action and their role in these efforts.

REGULATORY DISCLOSURES					Appendix I
Name of Rated Entity	Naveena Exports Limited				
Sector	Textiles				
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				
	21-Jul-25	A	A1	Stable	Reaffirmed
	4-Jun-24	A	A1	Stable	Reaffirmed
	12-Apr-23	A	A1	Stable	Maintained
	25-Feb-22	A	A1	Positive	Maintained
	23-Feb-21	A	A1	Stable	Maintained
	22-Apr-20	A	A1	Rating Watch-Developing	Maintained
	31-Jan-20	A	A1	Stable	Upgrade
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
	Mr. Omer Nabeel	CFO – Naveena Exports Limited			June 3, 2025
	Ms. Zareen Abbasi	Manager Treasury – Naveena Group			