VIS
Credit Rating Company Limited

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)

RS. MILLION	FY22	FY23	FY24
Net Sales	35,366	30,785	46,188
PBT	1,748	1,128	2,591
PAT	1,197	700	1,902
Paid up call	739	1,000	1,000
Equity (incl. surplus on PPE)	18,009	28,864	30,934
Total Debt	19,300	20,635	26,509
Debt Leverage	2.48	2.36	2.18
Gearing	2.10	1.96	1.88
FFO	2,982	2,873	5,072
FFO/Total Debt (x)*	15.4%	13.9%	19.1%
NP Margin	3.4%	2.3%	4.1%

KAMAL LIMITED

Chairman & Chief Executive: Ahmad Kamal

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A	A1	A	A1
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	April 25, 2025		May 03, 2024	

RATING RATIONALE

The assigned ratings reflect KL's strong revenue growth, improved profitability and a stable financial risk profile. The Company's vertically integrated operations support cost efficiencies and margin stability, while continued export-led topline expansion has strengthened internal cashflows. Liquidity has improved on the back of better working capital management and shorter operating cycle, translating into adequate coverage of financial obligations. Although ongoing expansion is being supported through additional borrowings, overall capitalization and debt servicing capacity remain within manageable levels. The ratings also incorporate sector-level risks; however, KL's export-led model, operational scale and vertical integration ease external pressures and support overall credit strength.

COMPANY PROFILE

Kamal Limited ('KL' or 'the Company') was established as a family-owned enterprise with a vertically integrated manufacturing facility. The Company operates spinning, weaving, knitting, dyeing, finishing, printing and stitching and garment units.

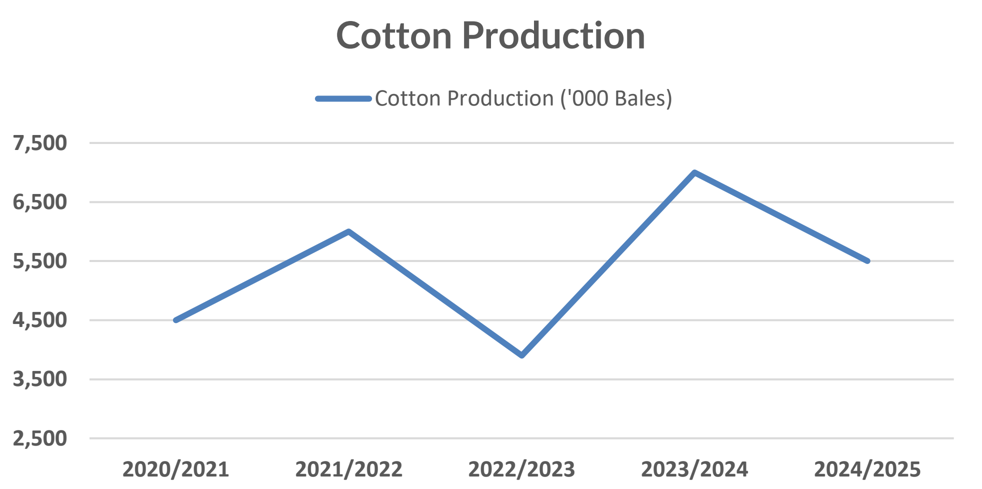
KL's product range includes fabric, home textiles, garments, yarn and branded fabric. The Company exports value-added products including garments and home textiles to Europe, Asia, United States (US), Africa and Australia. Additionally, the Company markets ready-to-wear clothing, women's apparel, fabric and bed linen locally under the 'So Kamal' brand which currently operates and sells its products online and through 20 franchise locations.

Facility	Location
Head office	Lahore
Spinning, weaving and knitting units	FIEDMC – Faisalabad
Dyeing, finishing, processing and stitching units	Khurrianwala – Faisalabad
Garment unit	Lahore
Retail outlets	Online and 20 franchise locations in Pakistan

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

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's profitability remains sensitive to cotton market volatility, inflationary pressures and exchange rate fluctuations, while elevated energy costs continue to impact cost structures.

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

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

KL operates a vertically integrated manufacturing facility, encompassing spinning, weaving, knitting, dyeing, printing and garment production. Capacity utilization levels continue to reflect high operational efficiency and scalability.

Spinning capacity expanded in 1HFY25 with the addition of 25,536 spindles, while utilization remained high at 93.8%. Weaving operations operated near full capacity, with utilization at 97%. Knitting utilization improved significantly, rising from 26.2% in FY23 to 52.8% in FY24 and further to 94.5% in 1HFY25.

Utilization in dyeing and conventional printing remained moderate to high, while digital printing continues to operate below optimal levels due to product mix realignment. PFGD operations saw partial recovery in 1HFY25 following a decline in FY24.

To strengthen vertical integration, KL has initiated a combined CAPEX of approximately PKR 7 billion for expansion across knitting, dyeing and garment segments. Additional CAPEX to the extent of approximately PKR 2.5 billion will be financed internally, with the remainder to be funded through borrowings. This includes the addition of 24 tons of capacity in knitting and dyeing, and a PKR 3.3 billion investment in a new garment unit comprising 2,300 stitching machines – expected to be operational by October/November 2025.

Following the completion of the expansion, the Company expects a shift in product mix towards garments, with projected contribution of 60% in revenues compared to 48% in FY24, while the share of home textiles is expected to decline from 52% to 40%.

Overall, KL's operational performance remains strong, underpinned by targeted capacity enhancements along with increasing production and a balanced funding strategy aligned with its long-term expansion plans.

	FY22	FY23	FY24	1HFY25
SPINNING				
Spindles Installed	42,432	42,432	42,432	67,968
Router installed	6,000	6,000	6,000	6,000
Capacity after converting into 20/1 count (million kgs)	20.7	24.0	24.0	19.0
Actual Production (million Kgs)	15.8	23.0	23.5	17.8
Capacity Utilization	76.3%	95.9%	97.8%	93.8%
Days Worked	320	365	366	184
WEAVING				
Looms installed	264	264	264	264
Capacity (million meters)	140.0	140.0	140.0	70.0
Actual Production (million meters)	135.0	130.8	133.9	67.8
Capacity Utilization	96.4%	93.4%	95.6%	96.9%
Days Worked	365	365	366	184
KNITTING				
Capacity (million kgs)	3.7	3.7	3.7	1.8
Actual Production (million kgs)	0.2	1.0	1.9	1.7
Capacity Utilization	5.8%	26.2%	52.8%	94.5%
Days Worked	150	296	301	162
DYEING				
Thermosol dyeing machine	4	4	4	4
Stenters machines	10	10	10	10
Capacity (million meters)	31.2	31.2	31.2	15.6
Actual processing of fabric (million meters)	30.8	23.6	24.7	12.3
Capacity Utilization	98.9%	75.6%	79.3%	79.1%
Days Worked	360	303	295	141
PRINTING				
Number of Printing Machines	4	4	4	4
Processing Capacity (million meters)	40	40	40	20
Actual processing of fabric (million meters)	31	17	26	13

Capacity Utilization	78.6%	42.8%	66.1%	64.2%
Days Worked	360	303	295	141
WHITE FINISHED + PREPARED FOR GARMENT DYEING (PFGD)				
Production Capacity (million meters)	20.3	20.3	20.3	10.1
Actual processing of fabric	15.7	15.3	9.2	6.3
Capacity Utilization	77.3%	75.6%	45.4%	61.8%
Days Worked	360	303	295	141
DIGITAL PRINTING				
No. of printing machines	4	4	4	4
Capacity (million meters)	6.0	6.0	6.0	3.0
Actual processing of fabric (million meters)	5.5	2.4	1.4	1.1
Capacity Utilization	92.9%	40.2%	23.6%	36.7%
Days Worked	360	303	295	141
Stitching & Garment Units				
The capacity of these units is indeterminable due to multi product plans involving varying processes of manufacturing and run length of order lots.				

FINANCIAL RISK

KL's financial risk profile remains moderate, underpinned by improved profitability, stronger internal cashflows and a stable capital structure. Despite an increase in debt to support expansion, gearing and leverage metrics have remained stable, reflecting improved earnings and equity growth. Liquidity has strengthened, aided by a shorter operating cycle and improved working capital management. Debt coverage indicators also remained adequate. While additional borrowings are planned to finance ongoing growth initiatives, financial risk is expected to remain manageable given the Company's stable margins, high operational efficiencies and adequate debt coverage metrics.

Capital Structure

Equity increased to PKR 14.1 billion at end-FY24 from PKR 10.6 billion in FY23, supported by higher profitability. Total debt rose to PKR 26.5 billion from PKR 20.6 billion over the same period, primarily due to increased working capital requirements and funding for expansion projects. Gearing improved modestly to 1.88x (FY23: 1.96x), while leverage also improved to 2.18x from 2.36x in FY23. The debt profile shifted slightly, with the ratio of short- to long-term borrowings moving to 60:40 as of end-FY24 (FY23: 66:33), reflecting greater reliance on long-term financing to support ongoing expansion initiatives.

Profitability

In FY24, the Company's revenues posted a strong YoY increase of 50%, reaching PKR 46.2 billion (FY23: PKR 30.8 billion), primarily driven by higher export sales in the home textile and fabric segments amid stronger international demand. Local sales, however, declined to PKR 8.8 billion (FY23: PKR 10.9 billion), largely due to low brand sales, followed by lower yarn and fabric volumes. Export growth was led by Europe, which contributed 51% of total sales in FY24 – up from 40% in FY23 – demonstrating an increasing share of the region in the Company's sales mix.

Increased revenues led to rise in gross profit to 17.8% from 15.8% in FY23. This was supported by the Company's vertically integrated manufacturing operations which enabled in-house execution, cost control and enhanced operational efficiency by reducing reliance on third-party logistics and packaging services.

Finance costs increased to PKR 2.3 billion (FY23: PKR 1.2 billion), owing to higher borrowings for expansion and working capital. Higher gross profit well absorbed all other costs leading to increase in net profit to PKR 1.9 billion (FY23: PKR 0.7 billion), with net margin improving to 4.1% from 2.3% in FY23, reflecting stronger operating performance.

In 1HFY25, sales further grew by 8.6% to PKR 26.4 billion (1HFY24: PKR 24.3 billion, FY24: PKR 46.2 billion). Gross profit also grew to PKR 4.8 billion (1HFY24: PKR 4.1 billion; FY24: PKR 8.2 billion), contributing to a gross margin increase to 18% (1HFY24: 16.9%; FY24: 17.8%). Net margin also slightly improved to 4.5% (1HFY24: 4%; FY24: 4.1%), despite higher finance costs and lower other income.

Going forward, revenue growth is expected to be driven by continued export demand, improved operational efficiencies and realignment of product mix. A higher contribution from stitched garment sales is also expected to support margins, which will remain a key focus area amid ongoing expansion and rising cost pressures.

Debt Coverage & Liquidity

KL's liquidity profile demonstrated steady improvement, with the current ratio strengthening to 1.30x in FY24 and further to 1.31x in 1HFY25. Operational efficiency gains were also evident, as the net operating cycle shortened by 23 days to 145 days in FY24 (FY23: 168 days), primarily due to improved receivables management. During 1HFY25, the cash cycle further reduced to 141 days, driven by better inventory turnover. Management expects this trend will continue, contributing to a more efficient working capital management.

In FY24, improved profitability led to an increase in Funds from Operations (FFO), which rose to PKR 5.1 billion from PKR 2.9 billion in FY23. This translated to stronger debt coverage metrics, with the Debt Service Coverage Ratio (DSCR) improving to 1.93x from 1.62x in FY23. During 1HFY25, annualized FFO stood at PKR 4.8 billion, marginally lower than FY24 levels. Consequently, DSCR saw a slight decline to 1.87x, albeit remaining at a comfortable level, indicating continued adequacy in debt servicing capacity. Going forward, though the Company's planned expansion will be partly debt-funded, overall financial risk however is expected to remain manageable given improving operational performance.

FINANCIAL SUMMARY (amount in PKR Million)				APPENDIX I
BALANCE SHEET	**FY22**	**FY23**	**FY24**	**1HFY25**
Property, Plant, & Equipment	21,933	31,676	34,349	34,391
Stock-in-Trade	8,482	11,052	14,899	14,663
Trade Debts	2,485	4,235	3,767	5,289
Cash & Bank Balances	1,926	725	2,655	2,384
Total Assets	40,856	53,801	61,761	63,551
Trade and Other Payables	2,428	2,637	2,936	2,270
Long Term Debt	8,645	8,182	10,585	10,043
Short Term Debt	10,655	12,452	15,924	17,972
Total Debt	19,300	20,635	26,509	28,015
Total Liabilities	22,847	24,937	30,827	31,419
Paid Up Capital	739	1,000	1,000	1,000
Tier 1 Equity	9,202	10,553	14,128	16,078
Total Equity	18,009	28,864	30,934	32,131
INCOME STATEMENT				
Net Sales	35,366	30,785	46,188	26,389
Gross Profit	5,273	4,866	8,200	4,752
Operating Profit	2,132	1,781	4,139	2,850
Profit Before Tax	1,748	1,128	2,591	1,634
Profit After Tax	1,197	700	1,902	1,197
RATIO ANALYSIS				
Gross Margin (%)	14.9%	15.8%	17.8%	18.0%
Operating Margin (%)	6.0%	5.8%	9.0%	10.8%
Net Margin (%)	3.4%	2.3%	4.1%	4.5%
Net Working Capital	4,416	4,973	6,200	6,780
Trade debts/Sales	7.0%	13.8%	8.2%	20.0%
FFO	2,982	2,873	5,072	2,376
FFO (Annualized)	2,982	2,873	5,072	4,752
FFO to Total Debt (%)	15.4%	13.9%	19.1%	17%
FFO to Long Term Debt (%)	34.5%	35.1%	47.9%	47.3%
Debt Servicing Coverage Ratio (x)	2.42	1.62	1.93	1.87
Current Ratio (x)	1.31	1.29	1.30	1.31
Stock + Trade Debts/STD	1.03	1.23	1.17	1.11
Gearing (x)	2.10	1.96	1.88	1.74
Leverage (x)	2.48	2.36	2.18	1.95
ROAA (%)	3.6%	1.5%	3.2%	3.9%
ROAE (%)	14.5%	7.1%	15.4%	15.9%
CCC	96	168	145	141

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Kamal 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
25-Apr-2025	A	A1	Stable	Reaffirmed
03-May-2024	A	A1	Stable	Reaffirmed
07-Apr-2023	A	A1	Stable	Reaffirmed
28-Apr-2022	A	A1	Stable	Upgrade
12-Apr-2021	A-	A2	Positive	Maintained
23-Apr-2020	A-	A2	Rating Watch – Developing	Maintained
31-Dec-2018	A-	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.
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Due Diligence Meetings Conducted

S.No.	Name	Designation	Date
1.	Nadeem Ahmed	Executive Director	10-Apr-2025
2.	Imran Aslam	Senior Manager Tax Accounts	