

AL-KARAM TEXTILE MILLS (PRIVATE) LIMITED

Analyst:

Abdul Ahad Jamsa
ahad.jamsa@vis.com.pk

RATING DETAILS

Ratings Category	Preliminary Sukuk Rating
Short-term Sukuk	A1 (plim)
Rating Action	Preliminary
Rating Date	May 08, 2025

Shareholding (5% or More)

Mr. Sajid Haroon - 34.36%
Mr. Fawad Anwar - 31.45%
Mr. Anwar Haji Karim - 21.39%

Other Information

Incorporated in 1986
Private Limited Company
Chief Executive: Mr. Fawad Anwar
External Auditor: Kreston Hyder Bhimji & Co. Chartered Accountants

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology – Corporates Ratings - <https://docs.vis.com.pk/docs/CorporateMethodology.pdf>
Instrument Rating - <https://docs.vis.com.pk/Methodologies-2025/IRM-Apr-25.pdf>

Rating Scale

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

Rating Rationale

The rating of Al-Karam Textile Mills (Private) Limited (“AKTM” or the Company) reflects its position as a leading textile exporter with fully integrated operations, a diversified product base, longstanding customer relationships, and continued support from the Al-Karam Group. Recent capacity additions are expected to support medium-term growth and operational efficiency. The capital structure remains leveraged, driven by higher working capital requirements and expansion-related borrowing, resulting in continued reliance on short-term debt. Although some moderation has been observed recently, leverage indicators remain elevated. Debt coverage and the liquidity profile remain adequate.

Going forward, the Company’s profitability profile is expected to benefit from a strong pipeline of orders with better margins, together with improved sourcing efficiencies and a gradual shift towards renewable energy, which is likely to reduce energy costs and support margin stability over the medium term.

The rating of the proposed Short-Term Sukuk of Rs. 2 billion is underpinned by the security structure, including a ranking charge over current assets with a 25% margin, a lien on cash-equivalent security covering up to 10% of the issue amount, and the maintenance of a Debt Payment Account, to be funded from the 5th month of the Sukuk issuance date and fully funded 10 days before maturity.

Company Profile

Al-Karam Textile Mills (Private) Limited, part of the Alkaram Group, is a vertically integrated textile manufacturer with an operational track record spanning nearly four decades. The Company offers a diversified product portfolio comprising yarns (ranging from coarse to fine counts), greige and finished fabrics, home textiles, institutional textiles, and garments, catering to a broad range of domestic and international customers.

In addition to its core textile operations, the Group has undertaken measured diversification into sectors such as agriculture and aquaculture, while also maintaining interests in trading-related activities. Alkaram has established a strong international presence through design studios and marketing offices in key markets including the United States, United Kingdom, and Europe, supporting its export-oriented business model. On the domestic front, Alkaram Studio, the Group's retail arm launched in 2010, has evolved into a well-recognized lifestyle and fashion brand, offering a wide range of apparel and home products. The retail network has expanded to over 62 outlets across Pakistan, reinforcing the Company's position in the local consumer market.

Management and Governance

CEO Profile

Mr. Fawad Anwar has been associated with the Group for over 25 years and has been serving as the Managing Director since 2010. He is also a Non-Executive Director on the State Bank of Pakistan's Board and a member of its Monetary Policy Committee. Mr. Anwar holds an MBA degree from Drexel University, USA.

Board & Senior Management

Al-Karam Textile Mills (Private) Limited is a family-owned entity, with a seven-member Board of Directors comprising shareholder representatives. The Board is supported by key committees, including the Audit Committee, IT Steering Committee, and Remuneration Committee.

Sukuk Details

Al-Karam Textile Mills Limited intends to issue a rated, privately placed, short-Term Sukuk of up to PKR 2.0 billion, including a green shoe option of PKR 500 million, to support its working capital requirements. The instrument will have a tenor of up to six months from the date of issuance and will be redeemed through a single bullet repayment at maturity. The profit rate is proposed at 3-month KIBOR plus 100 basis points, with both profit and principal payable upon maturity. In terms of security, the Sukuk will be backed by a ranking charge over the Company's current assets with a 25% margin and a lien over cash and cash-equivalent assets covering up to 10% of the issue size. In addition, the Company will be required to maintain a dedicated Debt Payment Account (DPA) under the lien of the Investment Agent, which will be funded on a weekly basis starting from the fifth month after issuance, with the account required to be fully funded at least 10 days prior to maturity.

Industry Profile & Business Risk

Pakistan's textile exports rose to USD 17.8bn in FY25, marking a 7.4% increase from FY24, with monthly peaks averaging around USD 1.6–1.7bn. FY26, while showing signs of stabilization, including a high of ~USD 1.74bn in January 2026, remain volatile, with recent months dipping to around USD 1.3bn. This uneven recovery reflects sensitivity to global demand, inventory adjustments in key markets, and pricing pressures. The challenges of 2025, particularly high energy costs, tight liquidity amid high interest rates, and currency volatility, forced widespread efficiency gains, including greater reliance on renewable energy, operational rationalization, and stricter working capital discipline, resulting in a leaner and more resilient industry structure. Structurally, the sector continues to shift toward higher value-added segments such as knitwear and garments, reducing reliance on low-margin yarn and grey cloth exports and improving margin profiles. At the same time, sustainability has become a key competitive factor, with increased investment in renewable energy, water recycling, and traceability systems to meet stringent international buyer requirements. However, constraints persist in the form of high interest rates, energy cost pressures, reliance

on imported cotton, and freight volatility. Overall, the industry outlook remains cautiously optimistic, supported by gradual demand recovery and strategic repositioning toward value-added and compliant exports, though growth is expected to remain measured rather than linear.

Operational Update

	FY21	FY22	FY23	FY24	FY25	6MFY26
Spinning						
No. of spindles installed	47,624	47,624	49,064	49,064	49,064	49,064
No. of rotors installed	5,720	5,720	4,880	4,880	4,880	4,880
No. of spindles worked	47,624	47,624	49,064	49,064	49,064	49,064
Installed capacity of yarn – Lbs. (millions)	57.2	57.2	64.3	59.7	59.7	29.86
Actual production of yarn – Lbs. (millions)	48.6	46.9	39.2	36.5	29.1	15.42
Capacity Utilization	85%	82%	61%	61%	49%	52%
Weaving						
No. of looms installed	314	254	262	262	262	262
No. of looms worked	225	254	262	262	262	262
Installed capacity of fabric – Meters (millions)	33.8	33.8	33.8	33.8	40.2	16.8
Actual production of fabric – Meters (millions)	29.2	27.1	24.5	28.4	34.7	15.11
Capacity Utilization	86%	80%	82%	84%	86%	90%

AKTM continues to operate four production units within its Landhi Industrial Area premises, while the newly established spinning facility at Nooriabad became operational in November 2024, contributing to production during FY25. In the spinning segment, overall capacity utilization remained relatively moderate, mainly due to the gradual ramp-up of newly added capacity at the Nooriabad facility, along with a brief increase in reliance on imported yarn, which slightly limited in-house production levels. The Nooriabad facility demonstrated a strong operational trajectory post-commissioning, achieving capacity utilization levels of around 90% in FY25, which further improved to approximately 94% in 6MFY26. The weaving segment remained strong, with production increasing to 34.7 million meters and capacity utilization improving to 86% in FY25, supported by operational efficiencies. This trend continued into 6MFY26, with utilization rising to 90% alongside stable production of 15.1 million meters.

Profitability

Net sales of the Company grew by 3.6% year-on-year to Rs. 65.7bn in FY25 (FY24: Rs. 63.4bn), driven by improvement in both export and domestic segments. The export-to-local sales mix adjusted from 79:21 in FY24 to 75:25 in FY25, indicating relatively stronger growth in local revenues. Customer concentration remains notable, with the top three clients contributing approximately 49% of net sales; however, this risk is partly mitigated by long-standing relationships and consistent repeat business. Gross margins remained relatively stable at 19.6% in FY25 (FY24: 20.6%), reflecting the Company's strategic rationalization of low-margin business segments amid rising cost pressures. Operating expenses increased due to inflationary impacts on fuel, power, and salaries, while higher finance costs were partially offset by an increase in other income. Consequently, net margins moderated to 1.6% in FY25 from 2.3% in FY24.

During 6MFY26, net sales amounted to Rs. 32.80bn, with the export contribution declining to 61% (FY25: 75%), primarily impacted by lower demand following the imposition of tariffs in the US market, alongside a relatively higher share of domestic sales. Gross margin improved to 21.3%, supported by better sourcing of raw materials and a decline in energy costs, leading to overall cost efficiencies. Operating and net margins were recorded at 9.5% and 2.2%, respectively, supported by lower finance costs and power cost savings.

Going forward, management expects a notable boost in topline, driven by both export and domestic demand, underpinned by a robust order pipeline.

Financial Risk

Capital Structure

The Company's capital structure reflects a gradual strengthening of its equity base alongside a continued reliance on debt, particularly short-term borrowings, to support working capital and expansion needs. The equity base, excluding revaluation surplus, increased to Rs. 13.91bn in FY25 (FY24: Rs. 12.63bn), supported by sustained profitability. However, this internal capital generation has been outpaced by growth in borrowings. Long-term debt increased marginally to Rs. 8.27bn in FY25 and further to Rs. 9.86bn in 6MFY26 to support expansion. Short-term borrowings rose sharply to Rs. 24.16bn in FY25 (FY24: Rs. 17.84bn) due to higher working capital needs, before easing to Rs. 20.8bn in 6MFY26 following repayments. Consequently, total debt increased to Rs. 32.59bn in FY25 and moderated to Rs. 30.7bn in 6MFY26.

As a result, gearing deteriorated to 2.34x in FY25 (FY24: 2.05x) and leverage to 4.15x (FY24: 3.75x). Encouragingly, both indicators showed improvement in 6MFY26, with gearing declining to 2.09x and leverage to 3.63x, supported by partial deleveraging. The recent improvement in leverage metrics is noted positively, and continued deleveraging will remain important going forward.

Debt Coverage & Liquidity

The Company's debt coverage metrics moderated in line with higher leverage, though they remained at adequate levels. Funds from operations (FFO) increased to Rs. 5.14bn in FY25 (FY24: Rs. 4.74bn), primarily due to higher non-cash adjustments, however, a higher debt load resulted in FFO to total debt declining to 0.16x (FY24: 0.18x). The Debt Service Coverage Ratio (DSCR) also eased to 1.37x (FY24: 1.42x; FY23: 1.85x), though it continued to provide adequate headroom for debt servicing. During 6MFY26, FFO stood at Rs. 2.19bn, with coverage indicators remaining largely stable. Liquidity indicators also remained adequate, with the current ratio standing at 1.02x in FY25 and improving slightly to 1.04x in 6MFY26. Short-term debt coverage improved to 1.74x in 6MFY26 (FY25: 1.63x), supported by a reduction in short-term borrowings. Moreover, the cash conversion cycle improved to 130 days in 6MFY26, indicating some normalization in working capital management.

Financial Summary (amounts in PKR millions)			Appendix I		
BALANCE SHEET	FY22	FY23	FY24	FY25	6MFY26
Fixed Assets	19,779	24,212	26,882	29,717	30,441
Stock-in-Trade	16,627	17,976	19,570	25,275	24,954
Trade Debts	10,436	10,130	11,917	14,250	11,302
Cash & Bank Balances	588	600	642	763	645
Total Assets	51,190	58,389	65,842	78,009	74,236
Trade and Other Payables	10,630	10,203	13,135	17,675	15,395
Long Term Debt	8,166	7,334	8,112	8,278	9,856
Short Term Debt	15,031	16,759	17,838	24,318	20,815
Total Debt	23,197	24,093	25,950	32,596	30,671
Equity (Adjusted for Reval. Surplus)	8,555	10,992	12,636	13,912	14,649
Total Liabilities	39,549	41,634	47,444	57,759	53,249
Paid Up Capital	534	4,674	4,674	4,674	4,674
INCOME STATEMENT	FY22	FY23	FY24	FY25	6MFY26
Net Sales	44,202	49,170	63,437	65,701	32,805
Gross Profit	5,122	11,130	13,093	12,860	6,972
Operating Profit	3,802	6,310	6,742	7,028	3,112
Profit Before Tax	2,435	3,239	2,018	2,042	1,311
Profit After Tax	1,790	2,459	1,433	1,062	737
RATIO ANALYSIS	FY22	FY23	FY24	FY25	6MFY26
Gross Margin (%)	11.6%	22.6%	20.6%	19.6%	21.3%
Operating Margin (%)	8.6%	12.8%	10.6%	10.7%	9.5%
Net Margin (%)	4.1%	5.0%	2.3%	1.6%	2.2%
Net Working Capital	2,251.1	2,339.9	1,565.4	1,062.4	1,592.9
Funds from Operation (FFO)	3,890	5,752	4,744	5,137	2,189
FFO to Total Debt (%)	0.17	0.24	0.18	0.16	0.07
FFO to Long Term Debt (%)	0.48	0.78	0.58	0.62	0.22
Gearing (x)	2.71	2.19	2.05	2.34	2.09
Leverage (x)	4.62	3.79	3.75	4.15	3.63
Debt Servicing Coverage Ratio (x)	1.94	1.85	1.42	1.37	1.29
Current Ratio (x)	1.08	1.07	1.04	1.02	1.04
Stock + Trade Debts/STD	1.80	1.68	1.77	1.63	1.74
Return on Average Assets* (%)	3.8%	4.5%	2.3%	1.5%	1.0%
Return on Average Equity* (%)	23.8%	25.2%	12.1%	8.0%	5.2%
Cash Conversion Cycle (Days)	142	150	115	132	130

REGULATORY DISCLOSURES		Appendix II			
Name of Rated Entity	Al-Karam Textile Mills (Pvt) Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Short-term Sukuk Rating				
Rating History	Rating Type: Short Term Sukuk				
	Rating Date	Short Term Ratings		Rating Action	
	08-05-2026	A1 (plim)		Preliminary	
	Rating Type: Entity				
	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	08-05-2026	A	A2	Stable	Reaffirmed
	15-04-2025	A	A2	Stable	Reaffirmed
	04-04-2024	A	A2	Stable	Maintained
	30-05-2023	A	A2	Negative	Reaffirmed
	30-05-2022	A	A2	Negative	Maintained
04-03-2021	A	A2	Stable	Maintained	
24-04-2020	A	A2	Rating Watch - Negative	Maintained	
28-03-2019	A	A2	Stable	Initial	
Instrument Structure	<p>Al-Karam Textile Mills Limited intends to issue a rated, privately placed, short-Term Sukuk of up to PKR 2.0 billion, including a green shoe option of PKR 500 million, to support its working capital requirements. The instrument will have a tenor of up to six months from the date of issuance and will be redeemed through a single bullet repayment at maturity. The profit rate is proposed at 3-month KIBOR plus 100 basis points, with both profit and principal payable upon maturity. In terms of security, the Sukuk will be backed by a ranking charge over the Company's current assets with a 25% margin and a lien over cash and cash-equivalent assets covering up to 10% of the issue size. In addition, the Company will be required to maintain a dedicated Debt Payment Account (DPA) under the lien of the Investment Agent, which will be funded on a weekly basis starting from the fifth month after issuance, with the account required to be fully funded at least 10 days prior to maturity to be fully funded at least ten days prior to maturity.</p>				
Statement by the Rating Team	<p>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.</p>				
Probability of Default	<p>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.</p>				
Disclaimer	<p>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 2026 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.</p>				
Due Diligence Meeting Conducted	S.No.	Name	Designation	Date	
	1	Mobeen Alam	Group CFO	30 th April 2026	
	2	Mustafa Lakha	CFO		
	3	Qasim Ali	Group Director Treasury		