VIS
Credit Rating Company Limited

RATING REPORT

Analyst
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SHAHKAM INDUSTRIES (PRIVATE) LIMITED

Chief Executive: Mr. Shahid Kamil Butt

APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology –Corporates
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)

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

RATING DETAILS

RATINGS CATEGORY	LATEST RATING	
	Long-term	**Short-term**
ENTITY	A-	A2
RATING OUTLOOK/ WATCH	Stable	
RATING ACTION	Initial	
RATING DATE	April 18 2025	

RS. MILLION	FY22	FY23	FY24
Net Sales	11,134	10,017	15,599
PBT	375	224	572
PAT	114	145	364
Paid up capital	173	173	173
Equity (incl. surplus on PPE)	9,040	9,150	9,280
Total Debt	3,447	3,396	3,372
Debt Leverage	2.78	2.86	2.99
Gearing	2.07	1.91	1.77
FFO	537	480	731
FFO/Total Debt (x)*	0.16	0.14	0.22
NP Margin (%)	1.9	1.1	0.9

RATING RATIONALE

The assigned ratings reflect the Company's resilience in a challenging textile sector marked by high production costs, global trade issues, and intense regional competition. SIL has maintained customer retention through production upscaling and effective marketing.

The sponsors have also established Onelife Apparel, one of Pakistan's fastest growing retail clothing brands. SIL's operating performance showed improvement with increased capacity and utilization. Being a preferred vendor for a major textile conglomerate supports its business risk profile.

While equity growth reduced gearing in FY24, a significant rise in short-term debt for working capital needs in 1HFY25 temporarily increased gearing and debt leverage. Management expects short-term debt to return to historical levels by end-FY25. Net sales saw substantial growth in FY24, leading to improved gross margin. Despite slightly lower net margins, net profit increased in the outgoing year.

The Company's debt servicing strengthened during FY24 & 1HFY25. Current ratio, remained stable at around 1.0x while cash conversion cycle notably improved in FY24.

The ratings assigned are underpinned by growth in topline and net profit momentum, stronger debt servicing profile, and the sponsors' established experience. Management anticipates that with the absence of any significant capex, capitalization metrics will improve during the rating horizon.

COMPANY PROFILE

Shahkam Industries (Private) Limited was incorporated on March 29, 1992 as a private limited company. Headquartered in Lahore, Shahkam Industries (Private) Limited ('SIL' or 'the Company') is an export-oriented knitwear and ready-made garment (from basic to high-end fashion) manufacturing unit with an established operating track record of nearly three decades. Operations are carried out through knitting, dyeing/washing, printing/embroidery and garment finishing divisions. Product portfolio mainly comprises pullover hoodies, shirts, trousers, jackets and denim.

SHAREHOLDING AND SPONSOR PROFILE

Shareholding of the company is vested with Mr. Shahid Kamil Butt & family. The assigned ratings take into account experience of sponsors in the textile sector and established business relations with multinational clothing companies.

The up-scaling of production processes and an effective marketing strategy have played a critical role in customer retention despite increasing competition from local and regional competitors.

In addition to SIL, the family established Onelife Apparel (Private) Limited in 2016, which is one of the fastest growing clothing brands with 45 outlets across Pakistan.

Shareholding pattern:

S. No.	Description	Percentage
1	Mr. Shahid Kamil Butt	73.6%
2	Mrs. Sadia Kamil Butt	13.2%
3	Mrs. Saiqa Kamil Butt	13.2%
	Total	100.00%

GOVERNANCE

Management

Mr. Shahid Kamil Butt, the CEO, and his family members are actively involved in day-to-day operations of the Company. He oversees all the divisions of the Company that span various functions including HR, finance, audit, IT and quality. The marketing and supply chain functions are managed by Mrs. Saiqa Kamil Butt. Mrs. Sadia Kamil Butt, holding 13.2% of the ownership stake, is not involved in the Company's operations.

The Board of Directors comprised two members (CEO and MD). Informal Board meetings are held on ad hoc basis with no minutes being recorded. The audit division reports directly to the CEO and Managing Director. The senior management team comprises experienced resources from the textile sector and has largely depicted stability. Room for improvement exists in the corporate governance framework.

IT infrastructure

The IT infrastructure currently in place sufficiently supports the management information system. SIL is using Oracle based customizable fully integrated ERP platform, having modules including Accounting, Production, Finance, Human Capital Management, Apparel Management, and Machine Management System.

AUDITOR'S REPORT

The Company's external auditor, M. Almas and Co. Chartered Accountants, have a valid QCR rating and has been engaged with the Company since FY21, issued unqualified audit opinions for FY23 and FY24 indicating no significant issues with the Company's financial statements.

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.

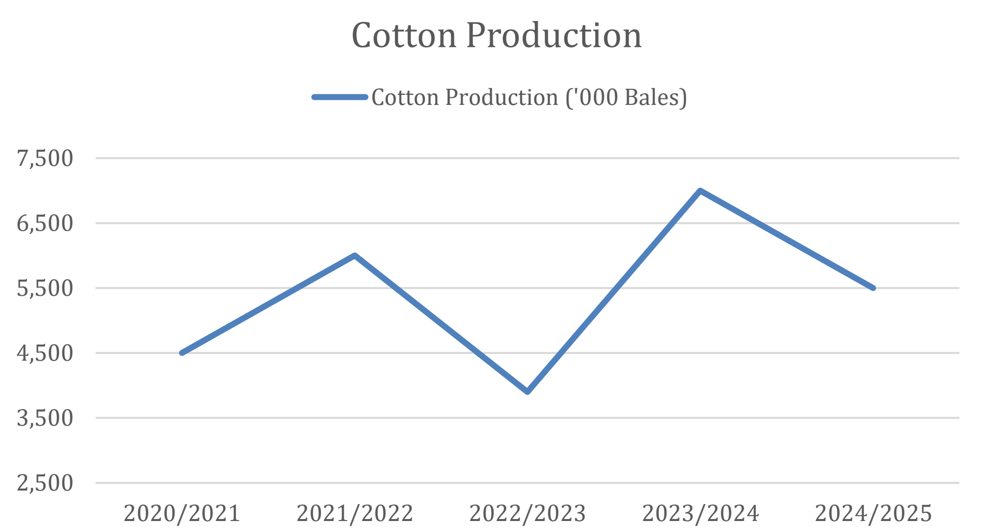

Figure 1:
Source: USDA

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 2: 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.

The upcoming global tariffs placed by the United States, may lead to a considerable impediment to global trade in the coming years. Pakistan specifically has been subjected to a 29% tariff on its exports.

Taking into account United States' positions as Pakistan's largest trade partner in textiles in terms of volumes (FY24: 24.6%, FY23: 25.0%) share, the impact of these tariffs may negatively impact textile exports, moving forward.

Operational Performance

		2023	2024
Knitting (KGs)	Production based on three daily shifts	28,000	28,000
	Actual production based on three daily shifts	24,000	27,500
	Capacity Utilization	***85.7%***	***98.2%***
Dyeing/Washing (KGs)	Production based on three daily shifts	31,500	32,000
	Actual production based on three daily shifts	24,000	31,240
	Capacity Utilization	***76.2%***	***97.6%***
Garments (pieces)	Production based on single shift per day	35,000	40,000
	Actual production based on single shift per day	27,200	39,470
	Capacity Utilization	***77.7%***	***98.7%***

The Company's manufacturing facility is located at Multan Road, Lahore. The production, storage and product delivery of garments is done largely in-house encompassing yarn storage, knitting processes, finishing, dyeing, stitching, cutting and warehousing prior to export. Driven by expansion in garment and dyeing lines, a significant increase in production capacity facilitated the Company to fulfill growing demand from customers.

FINANCIAL RISK

Capitalization

Equity increased to Rs. 2.2b (end-FY24: Rs. 1.9b, end-FY23: Rs. 1.8b, end-FY22: Rs. 1.7b) by end-1HFY25 on the back of profit retention. The increase in equity contributed to a decrease in gearing to 1.77x (end-FY23: 1.91x, end-FY22: 2.07x) by end-FY24. However, gearing increased to 3.15x due to sharp increase in short-term debt at end-1HFY25 on account of higher working capital requirement during the production season in the first half of every financial year. Short-term debt comprises 90-95% of the total debt. According to the management, short-term debt will revert to historical levels (~Rs. 3.2 to Rs. 3.3b) by end-FY25. Furthermore, debt leverage also increased, reaching 3.70x (end-FY24: 2.99x, end-FY23: 2.86x, end-FY22: 2.78x) by end-1HFY25 mainly due to notable increase in total debt. With capitalization metrics at elevated levels, the Company's ability to deleverage its balance sheet will be crucial from ratings perspective.

Profitability

Net sales increased by 55.7% to Rs. 15.6b in FY24 from Rs. 10.0b in FY23 (FY22: Rs. 11.1b) on account of growing customer base in addition to emerging as a preferred vendor for core customers, as per management. Almost all of the revenue comes from exports (FY24: 99%, FY23: 92%), primarily to Europe (FY24: 70%, FY23: 64%) and the USA (FY24: 28%, FY23: 27%). The Company's local sales are entirely to its associated company, Onelife Apparel (Private) Limited.

Concentration risk is considered high, as the top five customers account for roughly 50% of the Company's revenue. This risk is mitigated through its established relationships as majority of these customers are retail fashion and consumer brands within the Inditex, which is one of the world's largest fashion retail groups. These brands include Zara, Zara Kids (ZK), Pull & Bear and Bershka.

Top-5 Customer-wise sales mix is tabled as follows:

Customer name	Location	FY23	FY24
Pull & Bear	Europe	17%	17%
ZK	Europe	13%	14%
Walmart	USA	10%	10%
Primark	Europe	8%	8%
Bershka	Europe	3%	3%

Gross margin improved on a timeline basis to 13.7% (FY23: 12.9%, FY22: 9.6%) mainly due to process automation in the outgoing year. Operating expenses increased to Rs. 1.0b (FY23: Rs. 756.9m, FY22: Rs. 612.3m) in FY24 on account of higher salaries and wages, and forwarding charges. Other income reduced to Rs. 4.1m in FY24 from Rs. 168.2m in FY23 (FY22: Rs. 98.4m) owing to lower foreign exchange gain. Financial charges stood higher at Rs. 542.4m (FY23: Rs. 481.5m, FY22: Rs. 612.3m) amidst a higher average policy rate in FY24. Despite lower net margins (FY24: 0.9%, FY23:

1.1%, FY22: 1.9%), net profit increased to Rs. 145.5m, up 27.7% from Rs. 113.9m in FY23 mainly due to higher revenue.

Driven primarily by sound net sales of Rs. 10.2b and a stable gross margin (13.7%) in 1HFY25, net margin improved to 3.5%. The management anticipates topline to reach Rs. 18.5-19.0b in FY25.

Debt Coverage & Liquidity

The Company's debt servicing profile strengthened during FY24. FFO increased to Rs. 730.6m (FY23: Rs. 479.5m, FY22: Rs. 537.4m) in FY24 augmented primarily by increase in profit before tax. Higher FFO in conjunction with lower repayment of long-term borrowings led to a higher DSCR of 2.16x (FY23: 1.44x, FY22: 2.10x) in FY24. Short-term debt coverage stood lower at 0.87x (end-FY23: 1.16x, end-FY22: 1.02x) at end-FY24.

DSCR increased to 2.54x in 1HFY25 on account of stable profit generation and absence of principal repayment of long-term borrowings. Similarly, short-term debt coverage increased to 1.01x by end-1HFY25.

Current ratio hovered around 1.0x over the review period (end-1HFY25: 1.03x, end-FY24: 1.04x, end-FY23: 0.97x, end-FY22: 1.01x). However, in FY24, cash conversion cycle improved to 39 days (FY23: 84, FY22: 73) owing to lower days receivable and higher payables. Aging of receivables slightly deteriorated on account of relaxed terms with buyers. Aging profile is as tabulated below:

	FY23	FY24
Not yet due	97.1%	40.8%
1-30 days	0.2%	19.2%
31-120 days	2.7%	23.2%
121-365 days	0.0%	16.8%
More than 1 year	0.0%	0.0%

Reduction in the trade debts to sales ratio (FY24: 7.2%, FY23: 29.9%, FY22: 22.0%) was primarily attributable to the pronounced growth in sales. Trade debts increased significantly by end-1HFY25, leading to a slower cash conversion cycle of 61 days and higher trade debts to sales ratio of 29%, nevertheless the management anticipates timely recovery and some improvement to the Company's liquidity profile by end-FY25.

FINANCIAL SUMMARY							*(Rs in millions)*
BALANCE SHEET	**FY21(A)**	**FY22(A)**	**FY23(A)**	**FY24(A)**	**1HFY25(A)**	**FY25 (P)**	**FY26 (P)**
Property, plant and equipment	5,957.8	9,182.5	9,538.9	9,742.6	9,551.2	9,535.3	9,351.2
Stock in trade	990.0	840.4	774.4	1,594.3	1,236.1	1,044.0	1,148.4
Trade debts	1,669.4	2,454.4	2,995.0	1,129.1	5,769.1	696.7	766.4
Export rebate receivable	348.4	226.5	276.8	289.3	1.0	193.1	212.3
Cash and bank balances	37.1	383.2	56.882	10.0	18.7	11.0	12.1
Total assets	10,322.5	13,675.8	14,228.6	14,978.5	18,038.0	13,187.2	12,864.3
Trade payables	**559.4**	**1,042.7**	**1,368.8**	**1,701.0**	**1,134.0**	**1,641.0**	**1,496.4**
Deferred liabilities	45.4	118.5	175.7	504.0	-	767.9	614.3
Short term borrowings	3,243.0	3,243.0	3,262.3	3,116.2	6,962.2	318.6	315.0
Long term borrowings (incl. current portion)	221.0	204.1	133.6	255.8	178.5	578.1	473.5
Total borrowings	**3,464.0**	**3,447.1**	**3,396.0**	**3,372.0**	**7,140.7**	**896.7**	**788.5**
Total liabilities	**4,096.2**	**4,636.0**	**5,078.4**	**5,698.8**	**8,394.7**	**3,516.3**	**3,092.5**
Paid up capital	172.5	172.5	172.5	172.5	172.5	172.5	172.5
Unappropriated profit	1,282.0	1,493.4	1,603.8	1,733.3	2,097.0	1,924.4	2,225.5
Tier-1 equity	**1,454.5**	**1,665.9**	**1,776.3**	**1,905.8**	**2,269.5**	**2,296.9**	**2,398.0**
INCOME STATEMENT	**FY21(A)**	**FY22(A)**	**FY23(A)**	**FY24(A)**	**1HFY25(A)**	**FY25 (P)**	**FY26 (P)**
Net sales	6,820.8	11,134.4	10,017.4	15,598.6	10,293.0	18,654.9	20,520.4
Gross profit	666.2	1,069.2	1,293.9	2,139.5	1,409.5	2,331.8	2,581.3
Operating expenses	372.5	612.3	756.9	1,028.9	570.4	1,126.3	1,179.1
Finance cost	165.2	197.9	481.5	542.4	262.7	596.6	656.3
Profit before tax	131.0	357.5	223.7	572.3	596.2	608.9	745.9
Net profit	**64.3**	**213.1**	**113.9**	**145.5**	**363.7**	**375.7**	**489.4**
RATIO ANALYSIS	**FY21(A)**	**FY22(A)**	**FY23(A)**	**FY24(A)**	**1HFY25(A)**	**FY25 (P)**	**FY26 (P)**
Gross margin	9.8%	9.6%	12.9%	13.7%	13.7%	12.5%	12.6%
Net margin	0.9%	1.9%	1.1%	0.9%	3.5%	2.0%	2.4%
ROAA*	0.6%	1.8%	0.8%	1.0%	4.4%	2.4%	3.8%
ROAE*	4.5%	13.7%	6.6%	7.9%	34.8%	17.2%	21.8%
Current ratio (x)	1.09	1.01	0.97	1.04	1.03	1.51	1.63
Cash conversion cycle (days)*	138	72	83	39	61	58	3
Short-term debt coverage (x)	0.82	1.02	1.16	0.87	1.01	5.46	6.08
FFO	328.5	537.4	479.5	730.6	172.3	583.1	673.4
FFO to long-term debt (x)*	1.49	2.63	3.59	2.86	1.93	1.01	1.42
FFO to total debt (x)*	0.09	0.16	0.14	0.22	0.05	0.65	0.85
DSCR (x)*	1.56	2.40	1.55	2.12	2.54	1.68	1.67
Debt leverage (x)	2.82	2.78	2.86	2.99	3.70	1.68	1.29
Gearing (x)	2.38	2.07	1.91	1.77	3.15	0.43	0.33

*Annualized**
A: Actual
P: Management projections

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Shahkam Industries (Private) 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	Rating Outlook	Rating Action
18-Apr-2025	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.	Khawaja Naveed Javed	CFO	17-Mar-2025