

INDIGO TEXTILE PRIVATE LIMITED

Chief Executive Officer: Mr. Aamir Maqbool

Analysts:

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

M. Amin Hamdani
amin.hamdani@vis.com.pk

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		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	September 10, 2025		July 19, 2024	

RATING RATIONALE

The assigned ratings reflect Indigo Textile (Private) Limited's ("Indigo" or "the Company") established position in the denim fabric export market, supported by longstanding customer relationships, a diversified client base, and an emphasis on value-added product offerings. The Company caters to both direct and indirect export markets, with indirect exports forming the majority of sales. Revenue grew significantly in FY24, driven by higher effective selling prices on account of rupee depreciation and a partial recovery in demand from key export destinations, while sales momentum was sustained in 9MFY25 on the back of steady order flows from major clients. Profitability came under pressure from elevated input costs, particularly energy and imported raw materials, resulting in margin compression. Increased operating expenses and higher finance costs further weighed on bottom-line performance. The Company remains focused on sustaining export volumes and maintaining its client base.

The ratings also take into account Indigo's financial risk profile. The capital structure remains moderately leveraged, with gearing at manageable levels, supported by retained earnings. Liquidity and debt service coverage are

considered adequate, with short-term borrowings comfortably covered by inventory and receivables. Ratings remain sensitive to the Company's ability to restore profitability margins while maintaining overall financial risk profile.

COMPANY PROFILE

Indigo Textile Pvt Limited (Indigo) is a denim fabric manufacturer, established in 2006 and headquartered in Karachi, Pakistan. The Company operates a fully integrated manufacturing facility, covering all major stages of denim production including rope-dyeing, weaving, finishing, and quality control. Indigo's business is structured around the production of premium denim fabrics, catering to both core and fashion segments of the global market. The Company supplies its products to both domestic and international markets, its customer base includes leading fashion brands, retail chains, and garment manufacturers.

INDUSTRY PROFILE & BUSINESS RISK

Pakistan's textile sector continues to be a vital contributor to the economy, accounting for ~55% of total exports and 8.5% of GDP in 9MFY25. The industry's vertically integrated value chain is supported by local cotton cultivation. However, domestic cotton production fell to 5.5 million bales in FY25 (FY24: 8.4 million bales). This shortfall, caused by climate-related challenges, reduced cultivation area, water scarcity and rising input costs, has increased the sector's reliance on imports, however, the same is currently offering both cost and quality advantages.

Textile exports grew 7.9% YoY to USD 17.9 billion in FY25 (FY24: 16.7 billion) driven by value-added segments. Recent policy changes, such as the imposition of an 18% sales tax on imported cotton, yarn and greige fabric under the Export Facilitation Scheme, aim to support the local spinning industry by encouraging the use of domestic raw materials. This is expected to strengthen the textile value chain, boost local production and reduce dependence on imports. However, the policy also raises costs for exporters, potentially squeezing their margins. These pressures are compounded by external challenges, such as a 19% US tariff on Pakistani textiles, which

intensifies competitive pressures in an already high-cost production environment.

The industry faces significant challenges, including increased economic cyclicalities, rising cost structures and higher minimum wages all of which are expected to exert downward pressure on profitability. However, companies that have invested in renewable energy and other lower-cost power sources may mitigate the impact of elevated energy expenses to some extent. Additionally, the anticipated Pakistani Rupee depreciation is likely to offer some relief to exporters by enhancing their price competitiveness.

Monthly Textile Exports

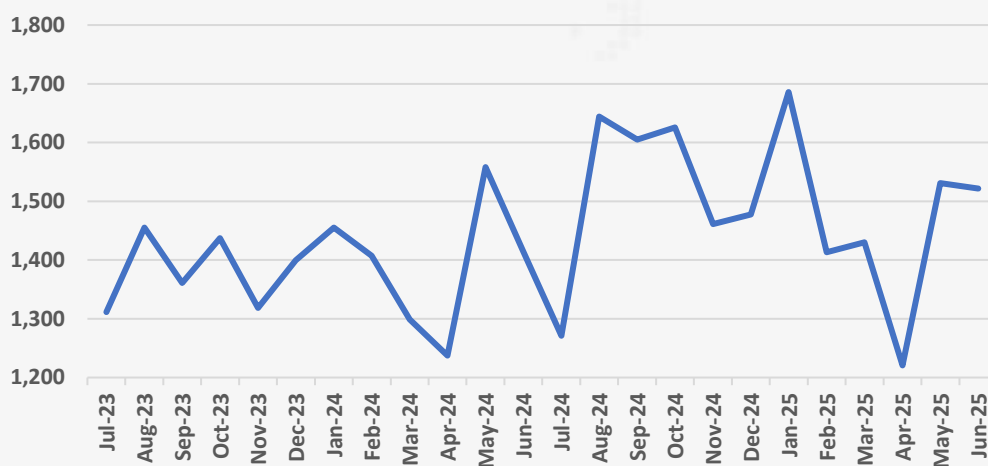


Figure 1: MoM Textile Exports (USD Million)

Source: PBS

Operational Update

Capacity Utilization	FY20	FY21	FY22	FY23	FY24
Number of looms installed	161	161	203	203	220
Number of looms worked	161	161	203	203	220
Number of shifts worked	3	3	3	3	3
Installed Capacity (Mtrs)	30,600,000	30,600,000	35,500,000	41,400,000	45,000,000
Actual Production (Mtrs)	24,539,393	27,831,750	32,457,027	30,363,086	39,620,621
Capacity Utilization	80.2%	91.0%	91.4%	73.3%	88.0%

The Company's local manufacturing plant has an annual production capacity of 45 million meters of denim fabric. In FY23, capacity utilization declined to 73.3%, down from 91.4% in the previous year, primarily due to reduced demand. In FY24, actual production increased to 39.62 million meters compared to 30.36 million meters in FY23 as demand from export markets rebounded. This resulted in capacity utilization rising to 88.0% up from 73.3% in the previous year despite the expansion of installed capacity from 41.4 million meters to 45.0 million meters.

FINANCIAL RISK

Capital Structure

The Company's total debt increased during the review period, primarily due to higher short-term borrowings to meet seasonal working capital requirements and finance inventory build-up. In contrast, long-term debt continued its declining trend on account of scheduled repayments. The equity base (excluding revaluation surplus) continued to strengthen, increasing by 9% over the last twelve months on the back of internal capital generation despite subdued margins, and stood at Rs. 8.1b as at Mar'25. During FY25, the Company also paid an interim cash dividend of Rs. 1.5 per share, amounting to Rs. 150 million. Overall gearing remained manageable at 0.65x, reflecting a moderately leveraged capital structure. Going forward, the Company is not expecting to mobilize any long-term debt over the rating horizon.

Profitability

Net sales of the Company registered an increase of around 40% Y/Y to clock in at Rs. 30.9b (Rs. 22.1b) in FY24. The uptick in net sales was largely driven by higher effective selling prices, coupled with a partial recovery in demand, particularly from export markets. 9MFY25 net sales stood at Rs. 27.3b, reflecting sustained sales momentum during the period. The Company's sales mix remains concentrated towards export and indirect export channels, with indirect exports accounting for approximately 66% of total sales in FY24 and increasing to 70% in 9MFY25. Customer concentration is considered moderate, with the top 10 export clients contributing 69% of total sales in both FY24 and 9MFY25.

On the margins front, gross margins normalized to 11.4% in FY24 (FY23: 16.3%) due to the impact of higher input costs, particularly energy and imported raw materials. The same further contracted to 8.0% in 9MFY25, as cost pressures persisted and price adjustments were unable to fully offset the escalation in production costs, specifically energy, which nearly doubled during the year. Major operating expenses, including selling & distribution and administrative expenses, increased in line with inflationary trends, with operating margins moving broadly in line with the gross margin trend. Finance costs remained elevated at Rs. 756m in FY24 and Rs. 421m in 9MFY25, on account of higher average short-term borrowings and elevated interest rates.

Despite an increase in gross profit, rising operating expenses and high finance costs compressed overall profitability, leading net margins to follow the same declining trend. Accordingly, net margins stood at 2.4% in FY24 (FY23: 6.5%) and further narrowed to 1.1% in 9MFY25.

Debt Coverage & Liquidity

Funds from operations (FFO) declined in FY24 and 9MFY25, primarily due to margin contraction despite strong sales growth. However, Debt Service Coverage Ratio (DSCR) remained healthy at 2.01x in 9MFY25, reflecting adequate internal cash generation to meet debt obligations. Coverage of short-term borrowings through inventory and receivables also remained

comfortable at 2.85x as of Mar'25, supported by elevated stock-in-trade levels. The current ratio stood at 1.56x, reflecting an adequate liquidity position. The Company's cash conversion cycle was maintained at 94 days in both FY24 and 9MFY25, as marginal changes in receivable and inventory days were offset by stable supplier payment terms. Going forward, sustaining adequate liquidity buffers and coverage metrics will remain critical from a ratings perspective.

REGULATORY DISCLOSURES					Appendix II
Name of Rated Entity	Indigo Textile (Pvt) Ltd				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Type: Entity				
	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	10-Sep-25	A	A1	Stable	Reaffirmed
	19-July-24	A	A1	Stable	Reaffirmed
	24-May-23	A	A1	Stable	Reaffirmed
	25-April-22	A	A1	Stable	Reaffirmed
	21-June-21	A	A1	Stable	Upgrade
	24-April-20	A-	A2	Rating Watch-Developing	Maintained
	27-Nov-19	A-	A2	Stable	Reaffirmed
	05-Nov-18	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.				
Probability of Default	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.				
Disclaimer	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 2025 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meetings Conducted	S.No.	Name	Designation	Date	
	1	Mr. Nadeem Naz	Group Director – Finance & Law	July 16, 2025	