

## A. A. SPINNING MILLS LIMITED

### Analyst:

Husnain Ali  
(husnain.ali@vis.com.pk)

RATING DETAILS				
RATINGS CATEGORY	Latest Rating		Previous Rating	
	Medium to Long-term	Short-term	Medium to Long-term	Short-term
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	18-Mar-26		15-Jan-25	

Shareholding (5% or More)	Other Information
Mr. Asim Yaseen - 47.06%	Incorporated in 2003
Mr. Atif Yaseen - 47.06%	Unquoted Public Limited Company
Ms. Samina Yaseen - 5.88%	Chairman: Mr. Asim Yaseen
	Chief Executive Officer: Mr. Atif Yaseen
	External Auditor: RSM Avais Hyder Liaquat Nauman

### Applicable Rating Methodology

VIS Entity Rating Criteria Methodology - Corporates Ratings  
<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

### Rating Scale

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

### Rating Rationale

A. A. Spinning Mills Limited ('AASML' or 'the Company') was incorporated in 2003 and commenced its commercial operations in 2006. The principal business of the Company is manufacturing and sale of yarn from cotton and/or man-made fiber.

Assigned ratings incorporate the business risk profile of the domestic spinning sector, which continues to face challenges including high energy costs, local raw material availability constraints, and intense competition. Despite these challenges the Company has maintained steady performance. Net sales declined in FY25 due to lower volumes amid competition from cheaper imports but recovered in 1HFY26 on improved demand and pricing. The customer base remains moderately concentrated. Margins came under pressure in 1HFY26 from lower prices and higher operating costs, although net profitability improved due to reduced finance costs. Capitalization ratios increased owing to higher short-term borrowings before easing at end-1HFY26 with partial deleveraging. Cash flow generation weakened, affecting debt servicing capacity, while liquidity improved through higher cash balances and reduced reliance on short-term funding. Working capital needs rose due to inventory buildup and EFS policy changes though liquidity ratios improved in 1HFY26 with better receivables management and inventory turnover. Stabilization in the domestic market is expected to support topline growth in the ongoing year while the Company has secured long-term borrowings for machinery upgrades and renewable energy, expected to support improvement in margins, going forward. Ratings will remain sensitive to improvement in debt coverage and capitalization ratios.

## Company Profile

A. A. Spinning Mills Limited ('AASML' or 'the Company') was incorporated in 2003 and commenced its commercial operations in 2006. The principal business of the Company is manufacturing and sale of yarn from cotton and or man-made fiber. The registered office of the Company is in Lahore, Punjab while the manufacturing facilities are located at Faisalabad, Punjab. AASML is a sister concern of Ibrahim Fibres Limited ('IFL') and Allied Bank Limited ('ABL').

## Management and Governance

The Company's management is led by both the Chairman and CEO, both of whom are actively involved in the business. Mr. Asim Yaseen (Chairman) leads the production, sales and purchase functions and Mr. Atif Yaseen (CEO) oversees the finance, accounting and human resources divisions. The Board also includes their mother, Ms. Samina Yaseen. RSM Avais Hyder Liaquat Nauman are the auditors of the Company. The Auditor is rated A by the State Bank of Pakistan ('SBP') and appears on the QCR list of auditors. The auditor highlighted no major auditing matters in the financial statements for FY25. As per the auditor's assessment, the financial statements provide a true and fair view of the Company's financial position as of the conclusion of financial year and therefore maintains an unqualified opinion. Contingency planning is in place, as the Chairman's son joined the Company in 2025 and is currently leading a seven-member team to drive the Company's expansion plans. Furthermore, senior executives have been with the Company for decades, ensuring continuity and stability in governance.

## Business Risk

### INDUSTRY

The textile spinning sector's risk profile remains elevated, despite total textile exports for FY25 reaching USD 17.9bn (FY24: USD 16.7bn). This growth, driven by value-added exports, masks a widening profitability gap and intense pressure on upstream spinners in FY25-1QFY26. Sectoral vulnerability is driven by three core factors: non-competitive energy, acute local raw material constraints and adverse tax policies. Pakistan's industrial electricity tariff (~12.3 cents/kWh) is nearly double that of its direct competitor, India (~6.3 cents/kWh). This cost disparity is the primary structural impediment, severely inflating conversion costs and eroding margins. Domestic cotton output (~5.5mn bales) falls severely short of the annual demand (~12mn bales), necessitating heavy reliance on costlier imports. This shortage risk is compounded by a structural tax anomaly introduced in the FY25 budget. Previously, the Export Facilitation Scheme (EFS) allowed exporters to procure virtually zero-rated inputs for sales tax, preventing capital lock-up. The current budget, however, imposed 18% sales tax on imported cotton and yarn under the scheme. This immediate tax requirement forces firms to pay sales tax upfront, locking up capital with the FBR. The resulting dependence on the notoriously slow and inefficient sales tax refund mechanism severely elevates working capital risk, compels companies to secure more expensive financing to bridge the liquidity gap and ultimately increases the net cost of raw materials.

Market-related risks are compounding. Basic commodity cotton yarn exports suffered a severe contraction, declining by 28.8% to USD 680.7mn in FY25 (FY24: USD 955.5mn) as China utilized domestic cotton reserves. Concurrently, the entry of large, vertically integrated Chinese players under CPEC Phase II is expected to intensify domestic competition, placing local mills with older technology at a significant disadvantage. This challenging environment forces the sector to pivot entirely towards premium differentiation to compete with regional giants like Bangladesh.

Financial strain has intensified due to the historically high PKR/USD exchange rate and an elevated tax burden (~29% effective rate) following the transition from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR) and Super Tax. Under the FTR, export profits were subject to nominal fixed rates, whereas the NTR applies the full corporate tax rate of 29%, with Super Tax further increasing the liability, thereby compressing net margins and exerting additional pressure on cashflows across the export-oriented textile sector. While monetary easing (policy rate cut to 10.5% in 2026) offers incremental relief, it remains insufficient to offset deep-seated structural cost weaknesses. Sustained viability hinges critically on urgent energy cost rationalization and continuous modernization.

### PRODUCTION PROFILE

The Company specializes in PC (poly-cotton) yarn for global workwear exports and PV (poly-viscose) for the local market. They also produce high-count cotton for premium knitted garments. Spindle count remains unchanged though production of yarn decreased by 19% in FY25, due to subdued market conditions. The total number of spindles is expected to remain unchanged. However, AASML is in the process of replacing its existing binding and simplex machines, which is anticipated to enhance operational efficiency and support a reduction in direct costs.

The Company currently meets its 5.6MW power requirement through the WAPDA grid and 4.8MW solar power. To offset rising utility costs, the Company is expanding its existing solar capacity to 8MW. Having already secured the necessary funding, this expansion will further insulate the Company from energy price volatility and expected to reduce some 30% electricity charges.

Besides cotton, PSF and viscose fiber are the other raw materials required to produce various quality of yarn. By sourcing fiber from IFL, AASML ensures a consistent supply of high-grade raw material, reducing logistical hurdles. Cotton and viscose are also procured locally.

### SALES & PROFITABILITY

In FY25, net sales declined by 18%, primarily due to lower volumes amid an influx of cheaper imported yarn. In 1HFY26, sales rebounded, supported by a recovery in local demand and curbs placed on cheap imported yarn. The Company maintains a moderately concentrated customer base, with the top 10 customers contributing around one-third of total revenue. While the customer mix varies with market conditions, it mainly comprises a blend of export-oriented clients.

The Company has maintained gross margins at 15% and operating margins have remained at 11%. Gross margin decreased to 12.26% in 1HFY26 on account of lower selling prices while operating margins declined to 8.79% due to higher salaries and associated costs. Net margins improved to 1.23% (FY25: 0.59%, FY24: 1.15%) in 1HFY26 owing to lower finance costs.

Topline and margins are projected to recover in full year FY26, driven by market stabilization and cost efficiencies gained through machinery modernization and further solar energy integration.

## Financial Risk

### CAPITAL STRUCTURE

Gearing and leverage increased to 1.52x (end-FY24: 1.12x) and 1.78x (end-FY24: 1.41x), respectively, primarily due to higher short-term borrowings amid relatively modest growth in the equity base (end-FY25: PKR 3.25b; end-FY24: PKR 3.14b), before moderately improving in 1HFY26 on account of reduction in short-term borrowings. The Company has secured long-term borrowings to fund a strategic dual-track initiative of machinery modernization and further solar energy integration. While this will increase capitalization ratios, the investment is projected to reduce overhead and utility expenses.

## DEBT COVERAGE & LIQUIDITY

FFO (funds from operations) decreased by 36% in FY25 due to weakened profitability, resulting in deterioration of debt servicing coverage ratio (DSCR) and FFO to long-term debt. FFO remained subdued in 1HFY26 and is expected to recover due to rebound in margins in the ongoing year.

While the current ratio remained stable at 1.32x in FY25, it strengthened to 2.03x by end 1HFY26, driven by a buildup of cash reserves and a reduction in short-term borrowings. The cash conversion cycle (CCC) peaked at 274 days in FY25 due to inventory buildup and liquidity constraints from change in EFS (Export Finance Scheme). By 1HFY26, the CCC shortened to 226 days through improved receivable management and accelerated inventory turnover.

<b>FINANCIAL SUMMARY</b>				
<b>Balance Sheet (PKR Millions)</b>	<b>FY23A</b>	<b>FY24A</b>	<b>FY25A</b>	<b>6MFY26M</b>
Property, plant and equipment	1,863	1,829	1,720	2,097
Stock-in-trade	2,938	2,945	4,377	2,955
Trade debts	1,234	1,686	1,897	1,850
Cash & Bank Balances	78	48	78	129
Other Assets	791	1,063	957	1,147
<b>Total Assets</b>	<b>6,922</b>	<b>7,585</b>	<b>9,029</b>	<b>8,335</b>
Creditors	52	200	102	268
Long-term Debt (incl. current portion)	305	270	303	1,865
Short-Term Borrowings	2,818	3,259	4,648	2,406
<b>Total Debt</b>	<b>3,123</b>	<b>3,528</b>	<b>4,951</b>	<b>4,271</b>
Other Liabilities	713	713	726	488
<b>Total Liabilities</b>	<b>3,888</b>	<b>4,442</b>	<b>5,779</b>	<b>5,027</b>
Paid up Capital	1,700	1,700	1,700	1,700
Revenue Reserve	1,333	1,443	1,550	1,608
<b>Equity (excl. Revaluation Surplus)</b>	<b>3,033</b>	<b>3,143</b>	<b>3,250</b>	<b>3,308</b>
<b>Income Statement (PKR Millions)</b>	<b>FY23A</b>	<b>FY24A</b>	<b>FY25A</b>	<b>6MFY26M</b>
Net Sales	7,022	9,675	7,933	4,714
Gross Profit	1,021	1,435	1,254	578
Operating Profit	723	1,078	862	414
Finance Costs	563	815	738	298
Profit Before Tax	160	263	124	117
<b>Profit After Tax</b>	<b>218</b>	<b>111</b>	<b>47</b>	<b>58</b>
<b>Ratio Analysis</b>	<b>FY23A</b>	<b>FY24A</b>	<b>FY25A</b>	<b>6MFY26M</b>
Gross Margin	14.54%	14.83%	15.81%	12.26%
Operating Margin	10.29%	11.15%	10.86%	8.79%
Net Margin	3.11%	1.15%	0.59%	1.23%
Funds from Operation (FFO) (PKR Millions)	303	429	274	109
FFO to Total Debt*	9.69%	12.15%	5.53%	5.09%
FFO to Long Term Debt*	99.34%	158.93%	90.37%	11.66%
Gearing (x)	1.03	1.12	1.52	1.29
Leverage (x)	1.28	1.41	1.78	1.52
Debt Servicing Coverage Ratio* (x)	1.31	1.41	1.19	1.30
Current Ratio (x)	1.41	1.38	1.32	2.03
(Stock in trade + trade debts) / STD (x)	1.54	1.49	1.40	2.09
Return on Average Assets*	3.34%	1.53%	0.56%	1.34%
Return on Average Equity*	7.47%	3.59%	1.46%	3.54%
Cash Conversion Cycle (days)	212	180	274	226

\*Annualized, if required

A - Actual Accounts

M - Management Accounts

REGULATORY DISCLOSURES					Appendix I
Name of Rated Entity	A. A. Spinning Mills Limited				
Sector	Textile				
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				
	18-Mar-26	A-	A2	Stable	Reaffirmed
	15-Jan-25	A-	A2	Stable	Reaffirmed
	27-Dec-23	A-	A2	Stable	Reaffirmed
	15-Aug-22	A-	A2	Stable	Reaffirmed
	2-Jul-21	A-	A2	Stable	Reaffirmed
27-Apr-20	A-	A2	Rating Watch-Developing	Maintained	
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.				
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.				
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Due Diligence Meetings Conducted	Name		Designation		Date
	Mudassar Mukhtar		Chief Financial Officer		16-Mar-26
	Saad Khalid		Manager Finance		