

RATING REPORT

Gohar Textile Mills (Pvt.) Limited

REPORT DATE:

April 15, 2025

RATING ANALYSTS:

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RATING DETAILS

Rating 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		Upgrade	
Rating Date	April 15, 2025		March 11, 2024	

COMPANY INFORMATION

Incorporated in 1995

External Auditors: Baker Tilly Mehmood Idrees Qamar Chartered Accountants

Private Limited Company

Chairman of the Board/CEO: Mr. Liaqat Ali

Key Shareholders (More than 5%):

Mr. Gauhar Mustafa – 33.7%

Mr. Aftab Gauhar – 31.1%

Mr. Liaqat Ali – 18.7%

Mr. Shahzad Gauhar – 14.5%

APPLICABLE METHODOLOGY

VIS Entity Rating Criteria: Corporates

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

VIS Rating Scale

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

Gohar Textile Mills (Pvt.) Limited
OVERVIEW OF THE INSTITUTION
RATING RATIONALE

Gohar Textile Mills Limited (GTML), founded in 1995 under the regulatory framework of the Securities and Exchange Commission of Pakistan (SECP), specializes in the manufacturing and export of high-quality home textiles.

Profile of the Chairman/CEO
Mr. Liaqat Ali holds the dual roles of Chairman of the Board and Chief Executive Officer, bringing over 35 years of extensive experience in the textile industry.

Corporate Profile:

Gohar Textile Mills (Pvt.) Limited ('GTML' or 'the Company'), established in 1995 under the authority of the Securities and Exchange Commission of Pakistan (SECP), is a prominent name in the home textile industry. The Company excels in producing and exporting a diverse range of home textile products, supported by a vertically integrated manufacturing setup that includes spinning, weaving, fabric processing, and textile made-ups.

Since inception, GTML has focused on delivering high-quality value-added fabrics and home textile products to international markets. The Company's registered office is located in Faisalabad, while its production facilities, including spinning, processing, stitching, and quilting units, are based in Tehsil Jhumra, District Faisalabad. While the weaving operations are carried out in Tehsil Gojra, District Toba Tek Singh.

Operational Performance

	FY21	FY22	FY23	FY24	1QFY25
Spinning					
Number of Spindles Installed	31,680	31,680	31,872	31,872	31,872
Installed Capacity (lbs. in millions)	17.70	18.25	19.00	19.53	4.88
Actual Production (lbs. in millions)	17.61	17.60	18.25	18.46	4.72
Capacity Utilization	99%	96%	96%	95%	97%
Weaving					
Number of Looms Installed	452	521	509	465	465
Installed Capacity (sq meters in millions)	89.07	104.93	122.22	104.16	26.04
Actual Production (sq meters in millions)	77.8	85.1	110.45	94.69	22.25
Capacity Utilization	87%	81%	90%	91%	85%
Processing					
Installed Capacity (sq meters in millions)	165.05	165.05	165.05	165.05	41.26
Actual Production (sq meters in millions)	121.17	123.24	122.09	126.72	32.18
Capacity Utilization	73%	75%	74%	77%	78%
Stitching					
Installed Capacity (sq meters in millions)	120.96	127.89	131.1	152	38
Actual Production (sq meters in millions)	113.25	121.07	118.5	137	35
Capacity Utilization	94%	95%	90%	90%	93%
Energy					
Installed Capacity (in megawatts)	10.92	10.92	10.92	19.51	22.13
Actual Production (in megawatts)	2.24	1.35	2.29	3.7	4.38
Capacity Utilization	21%	12%	21%	19%	20%

Gohar Textile operates across spinning, weaving, processing and stitching segments. In FY24, spinning capacity increased to 19.5 million lbs., with production at 18.46 million lbs. and utilization declining slightly to 95%. Weaving capacity and production fell to 104.16 million and 94.69 million sq. meters, respectively, following a reduction in installed looms to 465, with older looms marked for disposal.

The processing segment maintained a 165.05 million sq. meter capacity, with utilization improving to 77%. Stitching capacity and production rose to 152 million and 137 million sq. meters, respectively, with stable 90% utilization. The energy segment expanded capacity to 19.51 MW, with production improving to 3.7 MW.

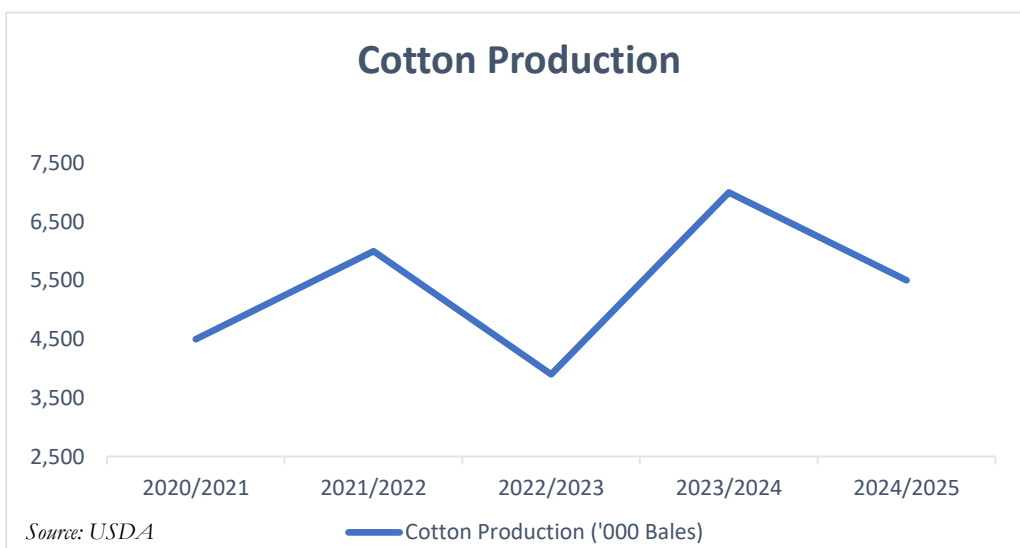
Overall, 1QFY25 reflected stable operations with consistent production levels across most segments. While weaving segment utilization saw a slight decline, processing and stitching maintained strong performance, and the energy segment continued its expansion, supporting overall operational efficiency.

Sector Update

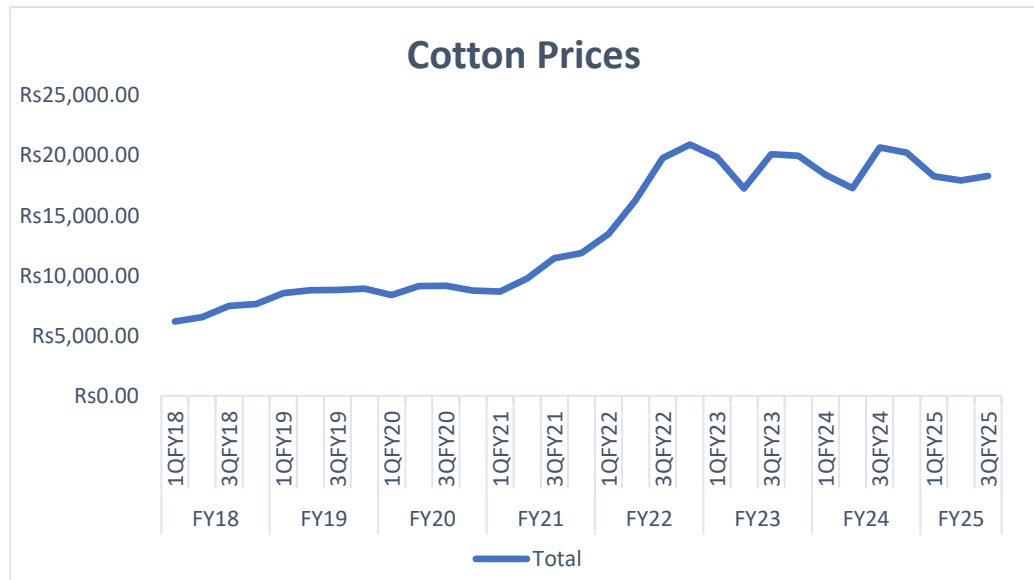
The business risk profile of Pakistan’s textile sector is highly influenced by economic cyclicality and intense competition. The sector’s performance is closely tied to broader economic conditions, making it particularly vulnerable to demand fluctuations driven by these factors.

In FY23, the textile sector faced several challenges stemming from both economic and environmental factors. These included damage to the cotton crop due to flooding in the 1HFY23, escalating inflation, and import restrictions resulting from dwindling foreign exchange reserves. As a result, Pakistan's yarn production saw a substantial decline, primarily driven by the reduced availability of cotton caused by crop damage and import restrictions. The sector’s profitability was further constrained by rising production costs, including higher raw material and energy expenses, which impacted profit margins.

In FY24, cotton production increased by 79% compared to FY23, but this surge was largely due to the low base of cotton production in FY23. When compared to FY22, cotton production in FY24 saw only a 17% increase. While global cotton production is expected to rebound in FY25 due to higher yields.



Pakistan's cotton production was down 59.4% as at October'24 compared to the same period in 2023, with only 2.04 million bales produced. The USDA forecasts that Pakistan will produce 5.55 million bales of cotton in 2024/25. Further, the USDA Foreign Agricultural Service estimates that the cotton area in 2024/25 will be reduced to 2 million hectares, down from previous years. The country faces rising energy costs, the absence of subsidies for agricultural inputs, and a lack of an organized market system, which further complicates production. Additionally, climate change has severely impacted cotton crops, with extreme heat, heatwaves, torrential rains, and pest infestations, including whitefly, pink



bollworm, and cotton leaf curl virus, contributing to decreased yields. Furthermore, the area under cultivation has been steadily shrinking, exacerbating these challenges.

Despite the decline in local cotton production, Pakistan’s textile exports have experienced growth in the 1QFY25 compared to the same period last year. This growth can be attributed to the reliance on imported cotton which is cheaper now a days compared to local cotton along with the increasing focus on value-added segment. While the global demand of textile is on a recovery phase, the global and local cotton market dynamics and local inflation including fuel and power prices along with FX risk in imported cotton pricing will play a crucial role in terms of profitability of the textile exporters.



Figure 1: MoM Textile Exports (USD Million)

Key Rating Drivers

Sales and Profitability

GTML's sales grew by 11% in FY24 to PKR 32.91 billion (FY23: PKR 29.76 billion), driven primarily by export sales of PKR 32.51 billion. Local sales increased to PKR 400 million (FY23: PKR 239 million). While revenue growth remained strong, it moderated from the 25% increase in FY23 due to the absence of currency-driven revenue gains. Client concentration remains high, with the top five customers contributing 70% of revenues, though long-standing relationships mitigate this risk.

Gross margins in FY24 normalized to 22.69% (FY23: 30.55%) as prior-year inventory gains and currency depreciation benefits faded. Operating and net margins declined to 15.20% (FY23: 23.34%) and 10.19% (FY23: 19.35%), respectively, reflecting the absence of extraordinary currency exchange gains.

Finance costs remained stable, however higher tax expenses weighed on net earnings. Despite margin contraction, profitability remained strong relative to pre-FY23 levels, maintaining GTML's competitive industry position.

In 1QFY25, net sales stood at PKR 9.99 billion, with export sales of PKR 9.91 billion and local sales of PKR 81 million. The gross margin remained strong at 20.83% though remaining slightly lower from the FY24 levels. Operating and net margins were recorded at 13.43% and 7.31%, respectively, reflecting higher tax expenses. and a competitive pricing environment.

	FY21	FY22	FY23	FY24	1QFY25
Sales (In PKR' Millions)	19,528	23,798	29,760	32,919	9,996
Export Sales	19,570.49	23,631.25	29,893.79	32,806.11	9,914.41
Local Sales	89.10	147.84	281.72	473.80	48.3
Gross Margin	13.78%	16.74%	30.55%	22.69%	20.83%
Operating Margin	8.37%	9.98%	23.34%	15.20%	13.43%
Net Margin	6.05%	6.81%	19.35%	10.19%	7.31%

Liquidity & Coverage profile continued to remain healthy

The Company's liquidity profile remains strong, with a four-year average current ratio of 2.15x. In FY24, the current ratio improved further to 3.2x (FY23: 2.41x, FY22: 1.55x), driven by higher stock-in-trade, which increased current assets. A reduction in current liabilities, supported by lower short-term debt utilization, also contributed to the improvement.

GTML has maintained a strong coverage profile, with a four-year average debt service coverage ratio (DSCR) of 4.63x. While FFO declined, coverage metrics remained high, with the DSCR moderating to 5.3x (FY23: 6.8x) and short-term debt coverage at 1.72x (FY23: 1.79x) in FY24.

In 1QFY25, the DSCR improved to 6.5x, supported by lower finance costs and higher FFO generation. However, short-term debt coverage declined to 1.42x due to increased utilization of Export Refinance and Foreign Currency Financing.

	FY21	FY22	FY23	FY24	1QFY25
Cash Conversion Cycle (Days)	155	147	176	196	172
Receivable Days (Days)	60	62	61	53	51
Inventory Days (Days)	146	118	166	186	176
Payable Days (Days)	51	34	51	43	55
Current ratio (x)	1.42	1.55	2.41	3.20	2.65
FFO (Rs. in m.) *	1,755.19	2,709.57	6,941.67	4,959.17	5,326.66
FFO/ Total Debt (x)*	0.25	0.38	1.52	1.47	1.25
FFO/Long Term Debt (x)*	2.19	2.81	10.06	10.09	10.31
DSCR (x)*	2.9	3.5	6.8	5.3	6.5

Conservative capitalization profile

Driven by strong operational cash flows, the Company reduced its short-term debt drawdown by approximately 25.7% in FY24. However, borrowings increased again in 1QFY25. To optimize finance costs, the Company repays Export Refinance when surplus funds are available and reborrows as needed, prioritizing this facility before seeking other financing options.

Simultaneously, GTML also reported significant equity expansion, supported by higher profitability in FY24 and 1QFY25. Consequently, the gearing and leverage ratios improved to 0.17x (FY23: 0.28x, FY22: 0.7x) and 0.49x (FY23: 0.50x, F22: 0.94x). In 1QFY25, gearing has increased to 0.20x and leverage to 0.60x due to increase in short term borrowings.

Rs. in M	FY21	FY22	FY23	FY24	1QFY25
Equity (ex-Revaluation surplus)	8,374	10,266	16,268	20,024	20,847
Paid-up Capital	519	519	519	519	519
Reserves	7855	9747	15749	19505	20328
Debt	6,930	7,146	4,567	3,371	4,257
Long Term	801	966	690	491	517
Short Term	6,129	6,180	3,877	2,880	3,741
Total Liabilities	9,919	9,658	8,121	9,840	12,452
Gearing (x)	0.83	0.70	0.28	0.17	0.20
Leverage (x)	1.18	0.94	0.50	0.49	0.60

Gohar Textile Mills (Pvt.) Limited
Annexure I

FINANCIAL SUMMARY					
	<i>(PKR Millions)</i>				
<u>BALANCE SHEET</u>	FY21A	FY22A	FY23A	FY24A	3MFY24M
Property, plant and equipment	8,825	9,752	14,504	14,275	14,291
Stock-in-trade	6,427	5,894	8,668	10,862	13,124
Trade debts	3,232	4,069	4,970	4,753	5,564
Cash & Bank Balances	385	954	416	421	356
Total Assets	21,941	23,301	32,493	35,200	38,544
Trade and Other Payables	435	655	1,008	961	1,171
Long-term Debt	801	966	690	491	517
Short-Term Borrowings	6,129	6,180	3,877	2,880	3,741
Total Debt	7,357	7,573	4,905	3,701	4,616
Total Liabilities	9,919	9,658	8,121	9,840	12,452
Paid up Capital	519	519	519	519	519
Equity (excl. Revaluation Surplus)	8,374	10,266	16,268	20,024	20,847
<u>INCOME STATEMENT</u>	FY21A	FY22A	FY23A	FY24A	3MFY24M
Net Sales	19,528	23,798	29,760	32,919	9,996
Gross Profit	2,691	3,985	9,091	7,471	2,082
Operating Profit	1,634	2,375	6,945	5,003	1,342
Finance Costs	272	443	789	757	144
Profit Before Tax	1,362	1,931	6,156	4,246	1,198
Profit After Tax	1,181	1,621	5,759	3,356	731
<u>RATIO ANALYSIS</u>	FY21A	FY22A	FY23A	FY24A	3MFY24M
Gross Margin (%)	13.78%	16.74%	30.55%	22.69%	20.83%
Net Margin (%)	6.05%	6.81%	19.35%	10.19%	7.31%
Funds from Operation (FFO)	1,755.19	2,709.57	6,941.67	4,959.17	5,326.66
FFO to Total Debt* (%)	0.24	0.36	1.42	1.34	1.15
FFO to Long Term Debt* (%)	1.43	1.95	6.75	6.04	6.08
Gearing (x)	0.88	0.74	0.30	0.18	0.22
Leverage (x)	1.18	0.94	0.50	0.49	0.60
Debt Servicing Coverage Ratio* (x)	2.88	3.52	6.79	5.31	6.49
Current Ratio	1.42	1.55	2.41	3.20	2.65
(Stock in trade + trade debts) / STD (x)	1.58	1.61	3.52	5.42	5.00
Return on Average Assets* (%)	5.38%	7.17%	20.64%	9.91%	7.93%
Return on Average Equity* (%)	14.10%	17.40%	43.41%	18.49%	14.31%

