VIS
Credit Rating Company Limited

RATING REPORT

GOHAR TEXTILE MILLS (PVT.) LIMITED

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

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	March 19, 2026		April 15, 2025	

Shareholding (5% or More)	Other Information
Gauhar Mustafa - 33.65%	Incorporated in 1995
Aftab Gauhar - 31.01%	Private Limited Company
Liaquat Ali - 18.73%	Chief Executive: Mr. Liaqat Ali
Shahzad Gauhar - 14.46%	External Auditor: Baker Tilly Mehmood Idrees Qamar Chartered Accountants

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

GTML is an established export-oriented home textile unit producing duvet sets, sheet sets, pillows, and related bedding items, to key destinations including Australia, the United Kingdom, Ireland, and Spain. The assigned ratings reflect Gohar Textile Mills (Pvt.) Limited's strategy to balance the business risk of the sector by pursuing a conservative capital structure amid increasing stress on margins and thinning profitability. The company recognizes the need to generate sales volume and enter new markets and new products to protect and grow its bottom line. It is undertaking a phased expansion project to setup a spinning unit to be followed by terry towel production plant. Timely execution of these plans will be critical to maintain sound debt servicing ability of the company.

Business risk has elevated in the recent years with thinning margins due to high energy costs, while distribution costs for export-oriented units have increased dramatically with increasing geopolitical issues in the region leading to high freight charges. While customer concentration remains notable, long-standing relationships and consistent market presence mitigate this risk.

Company Profile

Gohar Textile Mills (Pvt.) Limited ("GTML" or "the Company") was incorporated in 1995. It is an export-oriented unit. The product portfolio comprises home textiles including bed linen and related made-ups, including bed sheets, duvet covers, comforters, quilts, curtains, and pillow products.

The Company maintains a vertically integrated manufacturing structure from spinning to finished made-ups, enabling quality and production control over key stages of the textile value chain. The registered office is located in Faisalabad. Production facilities, including spinning, weaving, processing, stitching, and quilting units, are situated in Tehsil Jhumra, District Faisalabad. Weaving operations are primarily carried out at Faisalabad, while the original weaving facility at Tehsil Gojra, District Toba Tek Singh, continues to operate as part of the Company's legacy infrastructure.

Management and Governance

CEO Profile

Mr. Liaquat Ali serves as the Chief Executive Officer of Gohar Textile Mills (Pvt.) Limited, where he directs the company's strategic and operational activities across the integrated textile manufacturing and export business. In this role, he oversees production alignment with export demand, operational efficiency, and delivery performance to global buyers, ensuring continuity in the Company's manufacturing processes from spinning through finished home textile made-ups.

Board & Senior Management

Gohar Textile Mills (Pvt.) Limited is a family-owned entity. The Board of Directors comprises three executive directors who are also the shareholders. An Audit Committee is present and comprises the same three members. There is no female representation on the Board. The formation of additional board committees, female representation, and the establishment of an independent audit function would strengthen the overall governance framework.

Industry Profile & Business Risk

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.

Operational Update

	FY21	FY22	FY23	FY24	FY25
Spinning					
Number of Spindles Installed	31,680	31,680	31,872	31,872	31,872
Installed Capacity (bags based on 31 pcs)	177,025	182,500	190,000	195,275	195,275
Actual Production (bags based on 31 pcs)	176,055	176,000	182,500	184,575	194,034
Capacity Utilization	**99%**	**96%**	**96%**	**95%**	**99%**
Weaving					
Number of Looms Installed	452	521	509	465	481
Installed Capacity (sq meters in millions)	89.07	104.93	122.22	104.16	117.81
Actual Production (sq meters in millions)	77.8	85.1	110.45	94.69	110.95
Capacity Utilization	**87%**	**81%**	**90%**	**91%**	**94%**
Processing					
Installed Capacity (sq meters in millions)	165.05	165.05	165.05	165.05	165.05
Actual Production (sq meters in millions)	121.17	123.24	122.09	126.72	147.62
Capacity Utilization	**73%**	**75%**	**74%**	**77%**	**89%**
Stitching					
Installed Capacity (sq meters in millions)	120.96	127.89	131.1	152	181
Actual Production (sq meters in millions)	113.25	121.07	118.5	137	166
Capacity Utilization	**94%**	**95%**	**90%**	**90%**	**92%**
Energy					
Installed Capacity (in megawatts)	10.92	10.92	10.92	19.51	23.85
Actual Production (in megawatts)	2.24	1.35	2.29	3.7	6.87
Capacity Utilization	**21%**	**12%**	**21%**	**19%**	**29%**

Operational performance in FY25 indicates that the company is operating at nearly full capacity utilization across the its vertically integrated operations. Although the number of installed spindles increased only marginally over the review period, installed capacity expanded, primarily due to productivity gains from machinery upgrades and higher spindle speeds, enabling higher yarn output per spindle. Slight increase in capacity was undertaken in both weaving and processing divisions. The company procures yarn to support approximately 65% of its weaving operations. However, fabric is all produced inhouse.

Energy generation capacity has increased in recent years following the installation of solar power and additional backup generation units. The Company's total power requirement stands at approximately 12 MW, with 6.87 MW net generation solar capacity, which has partially reduced reliance on grid electricity and contributed to lower energy costs.

The sponsors now want to set up a new terry towel production unit along with its back-end integration. As Phase 1, the Company is establishing a Rotor Spinning Unit at Allama Iqbal Industrial City, Sahianwala, Faisalabad for which 72.75-acre land has already been acquired. The project will comprise 4,896 rotors across six frames (Aurocoro 816), with an installed production capacity of

approximately 95,913 pounds per day, translating into annual yarn output of around 33.57 mn pounds at 95% utilization. The project will include solar power generation capacity to cover approx. 100% of its total requirement of 4 MW.
The total estimated project cost amounts to PKR 10.47 bn and will be financed through a mix of 47% long-term debt (PKR 4.95 bn) and 53% equity (PKR 5.51 bn). The long-term financing facility carries a tenor of six years, including a one-year grace period, and has been arranged through a consortium of commercial banks, including Faysal Bank, Bank of Punjab, HBL, Meezan Bank, and Habib Metro, under the LTFF scheme. Building construction for the spinning unit is currently 50% complete. The machinery procurement for the project is underway, with LCs opened in November 2025. Delivery of the machinery is expected by the end of March 2026, followed by installation in April and a two-month trial run, with commercial operations planned to commence from 1 July 2026.

Financial Risk

Capital Structure

Total equity has grown steadily, amounting to PKR 22.9 bn at the end of 6MFY26, supported by earnings retention though profitability has dropped considerably post-FY23. Paid up capital amounts to PKR 519 mn. Total borrowings increased to PKR 6.2 bn in FY25 and further to PKR 6.6 bn in 6MFY26, primarily comprising short-term borrowings utilized to finance working capital requirements. The increase mainly reflects higher raw material procurement against confirmed export orders and anticipated production schedules, leading to a temporary buildup in inventory. Long-term debt has continued to decline due to scheduled repayments under concessionary schemes (LTFF/IFRE), which were originally obtained for plant expansion and solar energy installations. Majority of STF is subsidized ERF lines while foreign currency finances comprise PKR 1.4 bn.
Gearing remains low as a result, though slightly increased to 0.28x at end of FY25 (FY24: 0.18x), while leverage rose to 0.56x (FY24: 0.49x), reflecting the higher reliance on short-term borrowings. In 6MFY26, gearing edged up slightly to 0.29x and leverage to 0.57x. In view of the expansion being undertaken by the company, we expect gearing to rise with additional long-term loans of PKR 4.9 bn while working capital financing of PKR 2.1 bn will be further needed for the project which will be finance through equity. Going forward, it will be important that the new facility comes online within expected time frame to ensure timely debt servicing for the new loans as there is limited room in current cashflows.

Profitability

The Company posted net sales of Rs. 41.5 bn in FY25, registering a 26% year-on-year increase, primarily driven by higher volumes amid comparatively softer average selling prices. The revenue base remains heavily export-led, at approximately 99%. During the year, the Company also expanded its distribution footprint by commencing sales through Amazon's online platform, targeting direct retail customers, which contributed approximately 5% to total sales. The product portfolio continues to be concentrated in the home textile segment, where Duvet Sets and Duvet Cover Sets (43%), Sheet Sets (27%), Pillows and related categories including Pillow Covers, Pillow Ticks and Bolsters (6%), and Mattress Protectors (6%) collectively accounted for 82% of total revenue. Geographically, exports remain focused, with Australia, the United Kingdom, Ireland, and Spain contributing around 73% of total sales. Customer concentration remains notable, as the top ten clients account for 67% of revenues; however, this risk is partly mitigated by established, long-term relationships with key buyers.
Gross margins have been on a declining trend, resulting in a contraction in net profitability. Gross margins declined to 14.8% in FY25 (FY24: 22.7%), primarily due to elevated raw material prices and higher wage expenses. During the year, the Company carried out maintenance and refurbishment of older machinery, leading to higher consumption of stores and spares, while power costs declined during the period due to the impact of solarization, partially offsetting the increase in production costs. Operating margins also contracted, as selling and distribution expenses increased on account of higher payroll costs and elevated sea freight charges. Finance costs also inched up, mainly due to a significant increase in bank charges and commission, while short-term financing costs recorded only a minor increase. As a result, overall profitability declined to Rs. 1.6 bn in FY25 (FY24: Rs. 3.04 bn),

with net margins compressing to 3.9%, indicating limited pass-through of cost increases and a strategic tilt toward sustaining volumes and market presence.

In 6MFY26, net sales amounted to Rs. 21.08 bn with increase in sales volume. Gross margin improved to 15.1%, despite higher power costs with low utilization of solar in the cloudy winter months, supported by lower stores and spares consumption. Operating and net margins were recorded at 8.4% and 4.3%, respectively, reflecting lower finance costs and improved overall profitability during the period. Going forward, the Company intends to pursue growth through the commissioning and operationalization of its new spinning facility, which is expected to enhance production capacity, strengthen vertical integration, and provide greater control over input costs, thereby supporting revenue expansion and margin stability.

Debt Coverage & Liquidity

In FY25, the Company's Funds from Operations (FFO) declined on the back of margin compression, translating into weaker coverage of both long-term and total borrowings, with FFO-to-total borrowings reducing to 0.34x (FY24: 1.34x) amid greater reliance on short-term funding. Liquidity metrics, nevertheless, remained sound, as reflected by a current ratio of 2.61x and adequate working capital coverage, with inventory and receivables providing 3.33x coverage of short-term borrowings. The net operating cycle improved to 147 days (FY24: 166), supported by lower inventory and receivable days, while DSCR stood at 2.58x, indicating sufficient headroom for debt servicing with an overall low level of long-term debt.

During 6MFY26, coverage indicators exhibited improvement, with FFO-to-total borrowings rising to 0.42x and DSCR strengthening to 4.23x, supported by improved interim cash flows and a reduction in finance costs, mainly attributable to lower banking charges. However, the operating cycle increased to 160 days in 6MFY26, reflecting relatively higher inventory levels compared to FY25. Going forward, margin improvement and timely commercial production of the expanded capacity, will be important to maintaining adequate coverage levels and supporting the ratings.

FINANCIAL SUMMARY					(PKR. in millions)
BALANCE SHEET	**FY22**	**FY23**	**FY24**	**FY25**	**6MFY26**
Property, plant and equipment	9,752	14,504	14,275	14,059	14,394
Stock-in-Trade	5,894	8,668	10,862	13,439	13,727
Trade Debts	4,069	4,970	4,753	5,479	5,871
Cash & Bank Balances	954	416	421	543	1,204
Total Assets	23,301	32,493	35,200	39,291	40,883
Trade Payables	1,169	1,873	2,050	2,604	2,818
Long Term Debt	1,392	1,028	821	525	406
Short Term Debt	6,180	3,877	2,880	5,686	6,212
Total Debt	7,573	4,905	3,701	6,211	6,618
Total Liabilities	9,658	8,121	9,840	12,326	13,095
Paid Up Capital	519	519	519	519	519
Total Equity	13,643	24,371	25,361	26,965	27,788
INCOME STATEMENT	**FY22**	**FY23**	**FY24**	**FY25**	**6MFY26**
Net Sales	23,798	29,760	32,919	41,474	21,084
Gross Profit	3,985	9,091	7,471	6,142	3,179
Operating Profit	2,375	6,945	5,003	3,129	1,762
Profit Before Tax	1,931	6,156	4,246	2,162	1,432
Profit After Tax	1,621	5,759	3,356	1,604	906
RATIO ANALYSIS	**FY22**	**FY23**	**FY24**	**FY25**	**6MFY26**
Gross Margin (%)	16.7%	30.5%	22.7%	14.8%	15.1%
Operating Margin (%)	10.0%	23.3%	15.2%	7.5%	8.4%
Net Margin (%)	6.8%	19.4%	10.2%	3.9%	4.3%
Funds from Operation (FFO)	2,710	6,942	4,959	2,119	1,400
FFO to Total Debt	0.36	1.42	1.34	0.34	0.42
FFO to Long Term Debt	1.95	6.75	6.04	4.04	6.90
Gearing (x)	0.74	0.30	0.18	0.28	0.29
Leverage (x)	0.94	0.50	0.49	0.56	0.57
Debt Servicing Coverage Ratio* (x)	3.52	6.79	5.31	2.58	4.23
Current Ratio (x)	1.55	2.41	3.20	2.61	2.52
(Stock in trade + trade debts) / STD (x)	1.61	3.52	5.42	3.33	3.15
Return on Average Assets* (%)	7.2%	20.6%	9.9%	4.3%	4.5%
Return on Average Equity* (%)	17.4%	43.4%	18.5%	7.6%	8.1%
Cash Conversion Cycle (days)	141	157	166	147	160

REGULATORY DISCLOSURES | Appendix II

Name of Rated Entity	Gohar Textile Mills (Pvt.) Limited
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
03-19-2026	A+	A1	Stable	Reaffirmed
04-15-2025	A+	A1	Stable	Reaffirmed
03-11-2024	A+	A1	Stable	Upgrade
06-06-2022	A	A1	Stable	Reaffirmed
05-26-2021	A	A1	Stable	Maintained
04-18-2020	A	A1	Rating Watch-Negative	Maintained
03-26-2019	A	A1	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 2026 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meeting Conducted

S.No.	Name	Designation	Date
1	Muhammad Asif	GM Finance	18th February 2026