

GADOON TEXTILE MILLS LIMITED

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RATING DETAILS				
RATINGS CATEGORY	Latest Rating		Previous Rating	
	Medium to Long-term	Short-term	Medium to Long-term	Short-term
ENTITY	A+	A1	A+	A1
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	16-Dec-25		9-Dec-24	

Shareholding (5% or More)	Other Information
YB Holdings (Private) Limited – 69.57%	Incorporated in 1988
General Public (local) – 19.87%	Public Listed Company
Banks, NBFCs and other Financial Institutions – 9.55%	Chief Executive: Muhammad Sohail Tabba
	Chairman: Muhammad Ali Tabba
	External Auditor: Yousuf Adil 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

The rating reaffirmation takes into account Company's diversified operations in yarn production, knitted bedding products, dyeing services, and milk and being part of the Yunus Brothers Group, a well-established conglomerate in Pakistan, and benefits from strong sponsor support and recurring dividend income from long-term investments in associated companies, which complement its profitability profile.

Despite challenges in the spinning segment, GADT has expanded its spindle capacity through Balancing Modernization and Replacement (BMR) initiatives and achieved higher production levels, supported by steady export demand for knitted bedding products. In FY25, the top line was slightly affected, primarily due to an increased share of CMT business and weaker domestic sales amid the influx of Chinese products. On the other hand, exports continued to grow, reflecting stable demand for bedding products. Gross margins improved through efficient procurement and disciplined cost control, aided by extensive investments in renewable energy, particularly solar power installations. These developments, combined with stable non-operating income and lower financial charges, contributed to a significant increase in net profit during FY25. Debt coverage ratios strengthened as a result of higher profitability; however, liquidity and capital structure remain under pressure due to increased reliance on short-term borrowings to meet rising capital requirements.

Credit Rating Company Limited

Looking ahead, management anticipates healthy topline growth driven by diversification in the knitted bedding segment and continued focus on cost management. The Company also demonstrates a strong record in meeting ESG standards, with ongoing investments to reduce carbon footprint, water conservation, and environmental compliance.

From a ratings perspective, the reaffirmation reflects the Company's strong sponsor profile, improved profitability, and enhanced debt coverage, while recognizing the continuing pressure on liquidity and capital structure. Sustained improvement in sales, margins, and financial metrics will remain critical for ratings stability.

Company Profile

Gadoon Textile Mills Limited ('GADT' or 'the Company') was established in 1988 and its core activities encompass the manufacturing and sale of yarn, knitted bedding products and dyeing services. Since FY20, the Company has diversified into production and sales of milk from a herd of more than 1,000 animals. The Company is headquartered in Karachi with manufacturing facilities in Karachi and Swabi. YB Holdings (Private) Limited, the primary shareholder, holds a substantial 69.57% stake in the Company. Koyal and Peach are the two leading brands of the Company marketed to local and international textile manufacturers.

Management and Governance

Ratings derive comfort from the association of the Company with Yunus Brothers Group (YBG), a reputable conglomerate with a strong financial foundation and a diverse portfolio spanning chemicals, food, energy, real estate, entertainment, coal, healthcare, automobiles, cement, textiles, and other industries. Founded in 1962 as a trading house, YBG has experienced significant growth over the decades. GADT engages in the procurement of raw materials and power, as well as the sale of textile products. Ratings also take into account benefits derived by the Company from strategic measures that include in-house power generation, diversified product base, global reach to international clients and robust internal control systems.

The management team is led by Muhammad Sohail Tabba (CEO) and Muhammad Ali Tabba (Chairman). Muhammad Ali Tabba has been associated with GADT since 2014 and assumed the position of Chairman of the Board in January 2023. Muhammad Sohail Tabba was appointed as the CEO of the Company in March 2016 and has been re-appointed for subsequent terms. Muhammad Ali Tabba is a prominent Pakistani business leader and philanthropist, holding key leadership positions within YBG. Muhammad Sohail Tabba is also a leading business magnate, serving in senior leadership roles across the YBG conglomerate, including Chairman of Lucky Cement Limited and Lucky Core Industries Limited.

ESG Initiatives

The Company has installed multiple RO (reverse osmosis) plants at both manufacturing premises as part of an integrated water resources management strategy aimed at optimizing water consumption. During FY25, the Company conserved 7.8 million gallons of water. To enhance energy efficiency and reduce the consumption of natural resources, particularly gas, the Company has installed a Waste Heat Recovery Steam Generator (WHRSG) at its Swabi plant. In addition, investments have been made in high-efficiency gas generators to reduce overall air pollution. The Company's current power requirement is 45 MW across both plants, which is met through a diversified energy mix comprising WAPDA grid, gas, furnace oil, and solar power. At present, solar energy accounts for 15% of the total power mix.

To further reduce its carbon footprint, the Company has invested in a 19.9 MW solar power plant, with an additional 24.32 MW currently under implementation. Furthermore, the WHRSG facility, the use of low-voltage LED lighting, and a uniquely designed manufacturing infrastructure have collectively resulted in savings of 15.3 million units of electricity during 2024. Through its Effluent Treatment Plant (ETP), the Company treated

over 230 million gallons of toxic wastewater from its dyeing plants during FY25 before safely discharging it in compliance with environmental standards.

Investments Portfolio

The Company holds investments in - Lucky Core Industries Limited, Lucky Holdings Limited and Yunus Energy Limited. The following table shows Company's investments in associates and subsequent income generated during FY25:

Entities	Ownership	Investment (PKR in millions)	Share of profit (PKR in millions)
Lucky Core Industries Limited (LCI)	7.21%	4,483.38	847.69
Lucky Holdings Limited (LHL)	1.00%	0.94	0.06
Yunus Energy Limited (YEL)	19.99%	2,034.66	369.53

These investments are categorized as associates due to the Company's substantial influence over their financial and operational strategies, facilitated by its representation on the respective Boards of Directors of these entities.

Business Risk

INDUSTRY

Pakistan's textile sector continues to face structural pressures amid declining domestic cotton availability and elevated cost structures. Cotton production fell sharply to 5.5 million bales in FY25 (FY24: 8.4 million bales), driven by climate shocks, water shortages, and rising input costs, thereby increasing reliance on imports, which currently provide both cost and quality advantages. Textile exports, however, grew 7.9% YoY to USD 17.9 billion in FY25, supported by value-added segments, though profitability remained constrained by high energy tariffs and rising minimum wages.

The recent reduction in US tariffs on Pakistani textiles offers some relief. The imposition of an 18% sales tax on imported cotton and yarn under the Export Facilitation Scheme is aimed at strengthening the local spinning industry. Nevertheless, refund delays under the scheme continue to strain exporter liquidity.

Export momentum carried into FY26, with textile shipments 1QFY26 rising 5.63% YoY to USD 4.77 billion, driven by improved demand in the US retail market, carryover orders from June, and tariff disadvantages for competing suppliers. Pakistan's total textile exports for October 2025 were recorded at approximately USD 1.62 billion reflecting nominal YoY decline. On the supply side, cotton production for FY26 is projected at 4.8 million bales, down 4% YoY, reflecting reduced cultivated area, weaker yields in Sindh, and significant flood-related damage in Punjab. Cotton consumption is expected to ease to 10.5 million bales, with rising cost pressures, while imports are projected at 5.6 million bales to bridge the supply gap.

Looking ahead, the government's approval of hybrid seed imports is expected to support yield recovery over the medium term, offering partial mitigation against recurring structural challenges.

OPERATIONAL UPDATE

GADT's primary revenue driver is the spinning segment wherein the Company has increased the number of spindles over the years to cater to existing demand and support product diversification in the knitted bedding products. Utilization levels improved, albeit marginally, in FY25, while efficiency levels (based on conversion) remained at optimum levels.

Overall production levels have increased during the period under review, attributable to demand stabilization. Operating metrics are tabled below:

	FY23	FY24	FY25
Spindles Installed	367,704	382,212	386,516
Shifts worked per day (Number)	3	3	3
Days worked (Number)	365	366	365
Shifts worked (Number)	1,095	1,098	1,095
Spindles worked (Number)	380,324,501	396,772,176	401,194,680
Installed capacity after conversion into 20's (Kgs)	164,519,384	171,479,125	172,936,313
Actual production (Kgs)	74,984,979	85,097,356	87,279,852
Actual production after conversion into 20's (Kgs)	155,400,312	162,123,440	163,930,501
Capacity Utilization	94.46%	94.54%	94.78%
Knitting machines installed (Number)	12	12	12
Installed capacity (Kgs)	1,485,000	1,485,000	1,485,000

*The knitting capacity has not been used during the year because the Company outsourced its knitting production in order to achieve lower cost of production.

The Company currently has an existing in-house knitting capacity of 1.485 million kgs per annum. During FY25, the Company sold approximately 10.0 million kgs of knitted products, which were largely met through outsourcing. To achieve vertical integration, the Company plans to establish a new in-house knitting facility to produce high-quality knitted fabric. This initiative involves a substantial capital expenditure, estimated at approximately PKR 800 million to PKR 900 million, of which PKR 600 million to PKR 650 million is allocated for the acquisition of machinery. Under this plan, the Company intends to install approximately 83 knitting machines with a total capacity of around 15.6 million kgs per annum. The entire investment will be financed through a combination of internal cash flows and the utilization of existing borrowing lines.

KEY AUDIT MATTER

The Company's financial statements for the year ended June 30, 2025 disclose a significant capital expenditure of PKR 5,721 million incurred during FY25, primarily relating to the installation of a solar power plant and the acquisition of technologically advanced machinery. The capital expenditure incurred during the year represents significant transactions and, therefore, requires appropriate accounting in accordance with the applicable financial reporting framework. In view of the above, the external auditors identified this matter as a Key Audit Matter.

The audit procedures performed in respect of capital expenditure and fixed assets confirmed that management's processes, recorded amounts, accounting treatment, asset existence, depreciation methods, and related disclosures were appropriately reviewed and found to be satisfactory.

SALES & PROFITABILITY

Net sales of Gadoon Textile Mills Limited declined modestly to PKR 70.98 billion in FY25 from PKR 72.72 billion in FY24, primarily due to increase in CMT business but weaker domestic demand in the spinning segment, where sales fell by 11.4%, reducing its revenue share to 78% from 86%. This was partly offset by strong growth in the knitted bedding, with revenues increasing by 48.1% and contribution rising to 17% (FY24: 11%).

Credit Rating Company Limited

The milk and dyeing services segment, despite a decline in absolute revenues, accounted for 5.1% of total sales, reflecting a gradual shift in the Company's revenue mix toward value-added segments.

Revenue composition	FY23	FY24	FY25
Spinning	89.0%	85.8%	77.5%
Knitting bedding products	10.0%	11.4%	17.3%
Milk and unallocated	0.9%	2.7%	5.1%

The reduction in domestic sales also affected customer concentration, as revenue from the top ten local customers fell to 55.3 percent of total sales from 60.2 percent in FY24. Export performance, however, remained resilient, with shipments rising by 5.2 percent on the back of strong demand for value-added products and diversification initiatives. As a result, exports accounted for 17.9 percent of total sales in FY25, up from 16.6 percent in FY24, though the overall sales mix remained skewed toward local customers at 81.4 percent. Gross margins improved to 8.9 percent in FY25 from 6.9 percent in FY24, supported by efficient procurement practices that reduced raw material costs and tighter control over energy expenses. Fuel and power costs rose by only 26 percent in FY25, a marked improvement compared to the steep 114.3 percent increase recorded in FY24. Operating expenses increased by 24.2 percent, mainly due to inflationary impact, but the impact was offset by stable non-operating income. Income from associates amounted to PKR 1.2 billion, while other income stood at PKR 485 million, driven by gains on short-term investments, livestock revaluation, and scrap sales.

Financial charges declined significantly, with finance costs reduced by 36.5 percent in FY25, reflecting repayment of long-term borrowings and the benefit of lower interest rates. The combined effect of stronger gross margins, stable ancillary income, and reduced financial charges lifted net profit to PKR 2.4 billion in FY25, compared to PKR 794.5 million in FY24. Looking ahead, management expects favorable demand in value-added segments to support topline growth of 15 to 18 percent, with profit margins projected to strengthen further through continued cost-saving measures and potential easing of interest rates.

Financial Risk

CAPITAL STRUCTURE

Tier-1 equity strengthened, reaching PKR 24.5b (end-FY25: PKR 23.9b, end-FY24: PKR 21.5b) at end-1QFY26, on the back of profit retention and minimal dividend payout. Despite this, gearing and leverage stood higher at 1.33x (end-FY25: 1.30x, end-FY24: 1.21x) and 2.00x (end-FY25: 1.97x, end-FY24: 1.88x) respectively by end-1QFY26, primarily on account of higher utilization of short-term borrowings.

Total short-term borrowings increased to PKR 28.3b at end-1QFY26, up from PKR 26.7b (end-FY24: PKR 19.5b). This was necessary to fund the higher production required for growth and also cover for unsold and slow-moving inventory, reflecting the impact of influx of cheaper, tax-advantaged yarn imports from China.

The Company made significant capex in the outgoing year for installation of in-house solar power facility and additions to existing capacities, while concurrently repaying debt obligations. Long-term borrowings stood at PKR 4.4b (end-FY25: PKR 4.4b, end-FY24: PKR 6.6b) at end-1QFY26. The Company's ability to manage its capitalization ratios remain important from the ratings perspective.

DEBT COVERAGE & LIQUIDITY

FFO (funds from operations) increased notably to PKR 4.4b (FY24: PKR 1.6b) in FY25 due to a combination of higher profits and lower finance cost payment. Consequently, DSCR (debt servicing coverage ratio) improved to 2.16x (FY24: 1.26x) in FY25. Similarly, FFO to total debt coverage and FFO to long-term debt coverage

strengthened to 0.14x (FY24: 0.06x) and 1.01x (FY24: 0.24x) in FY25. Debt coverage ratios was largely stable in 1QFY26 from comparable period last year.

Pressure on liquidity stems from slower inventory turnover as conversion cycle slightly extended to 89 days (FY25: 87, FY24: 81) in 1QFY26. Moreover, higher short-term borrowings, due to increased working capital requirements, led to a minor decline in current ratio (1QFY26: 0.86x; FY25: 0.88x; FY24: 0.94x). However, stock-in-trade and trade debts provided sufficient coverage against short-term borrowings. No significant overdue has been reported on local trade debts while foreign trade debts are secured against LCs and with long-term contracts with clients.

FINANCIAL SUMMARY				
BALANCE SHEET (PKR in mn)	FY23	FY24	FY25	1QFY26
Property, plant and equipment	21,242.8	24,563.6	27,619.9	28,839.8
Stock in trade	23,408.1	19,283.2	26,212.9	26,034.3
Trade debts	2,972.1	5,062.8	4,956.0	6,166.2
Cash and bank balances	265.2	1,401.0	83.3	554.3
Total Assets	59,239.2	61,758.4	71,118.5	73,384.9
Trade and other Payables	9,278.2	10,826.5	12,939.7	13,048.0
Long-term borrowings (incl. current portion and lease liability)	10,098.6	6,567.3	4,367.6	4,402.0
Short-term borrowings	15,462.4	19,522.3	26,688.1	28,230.5
Total Debt	25,561.0	26,089.6	31,055.7	32,632.5
Total Liabilities	38,548.0	40,260.1	47,207.6	48,912.7
Paid-up capital	280.3	280.3	280.3	280.3
Equity	20,691.2	21,498.3	23,910.9	24,472.2
INCOME STATEMENT (PKR in mn)	FY23	FY24	FY25	1QFY26
Net Sales	57,997.2	72,724.0	70,980.0	19,727.9
Gross Profit	6,167.8	5,017.4	6,326.1	1,481.4
Finance Cost	2,148.6	3,974.2	2,523.7	729.3
Profit Before Tax	4,782.3	1,388.9	3,599.2	681.6
Profit After Tax	3,291.9	794.5	2,391.9	561.3
RATIO ANALYSIS	FY23	FY24	FY25	1QFY26
Gross Margin	10.63%	6.90%	8.91%	7.50%
Net Margin	5.68%	1.09%	3.37%	2.80%
Funds from Operation (FFO) (PKR in mn)	4,237.2	1,584.5	4,423.7	885.3
FFO to Total Debt (x)*	0.42	0.06	0.14	0.11
FFO to Long Term Debt (x)*	0.17	0.24	1.01	0.80
Debt Servicing Coverage Ratio (x)*	1.95	1.26	2.16	1.72
Short-Term Debt Coverage (x)	1.71	1.25	1.17	1.14
Current Ratio (x)	1.19	0.94	0.88	0.86
Net Working Capital (PKR in m)	5,156.5	-2,078.9	-5,104.1	-6,115.6
Cash Conversion Cycle (days)*	101	81	87	89
Gearing (x)	1.24	1.21	1.30	1.33
Leverage (x)	1.86	1.88	1.97	2.00
ROAA*	6.6%	1.3%	3.6%	3.5%
ROAE*	17.0%	3.8%	10.5%	9.6%

*Annualized

REGULATORY DISCLOSURES					Appendix I
Name of Rated Entity					Gadoon Textile Mills Limited
Sector					Textiles
Type of Relationship					Solicited
Purpose of Rating					Entity Ratings
Rating History		Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch
		RATING TYPE: ENTITY			
		12/16/25	A+	A1	Stable
		12/9/24	A+	A1	Stable
		11/2/23	A+	A1	Stable
		11/30/22	A+	A1	Stable
		11/13/21	A+	A1	Stable
		4/24/20	A+	A1	RW - Developing
		12/13/19	A+	A1	Stable
		10/29/18	A+	A1	Stable
Instrument Structure					
Statement by the Rating Team					
Probability of Default					
Disclaimer					
Due Diligence Meetings Conducted					

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RATING REPORT