VIS
Credit Rating Company Limited

MASTER TEXTILE MILLS LIMITED

Chief Executive Officer: Mr. Najeeb Malik

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		Upgrade	
RATING DATE	June 19, 2025		April 04, 2024	

RATING RATIONALE

The assigned ratings reflect Master Textile Mills Limited's ('MTML' or 'the Company') consistent revenue growth, underpinned by stable financial performance. The Company maintains a presence in both domestic and international markets, with a diversified product portfolio primarily comprising garments and dyed fabrics.

Despite growth in revenue, profitability indicators were under some pressure in 1HFY25 by elevated raw material costs, higher energy tariffs, and increased export-related expenses. These factors contributed to a contraction in both gross and net margins during the review period. Management anticipates an improvement in profitability, driven by cost-cutting initiatives focused on optimizing raw material sourcing and energy consumption.

The ratings also take into account the Company's overall financial risk profile. Borrowings remained at manageable levels, keeping a manageable gearing ratio. Liquidity and debt servicing capacity remained adequate, though FFO coverage ratios declined in line with profitability. The ratings will remain sensitive to sustained improvement in profitability indicators.

COMPANY PROFILE

MTML, incorporated in 1992, is a vertically integrated textile manufacturer engaged in the production and sale of yarn, greige fabric, dyed and finished fabrics, denim, and ready-made garments. The company's operations span the full textile value chain, with in-house facilities for spinning, weaving, dyeing, finishing, and garment stitching.

MTML supplies its products to both domestic and international markets, with part of its output exported to apparel brands and textile importers. The company's registered office and manufacturing facility are located at Dars Road, Off Raiwind Manga Mandi Road, District Kasur, Pakistan.

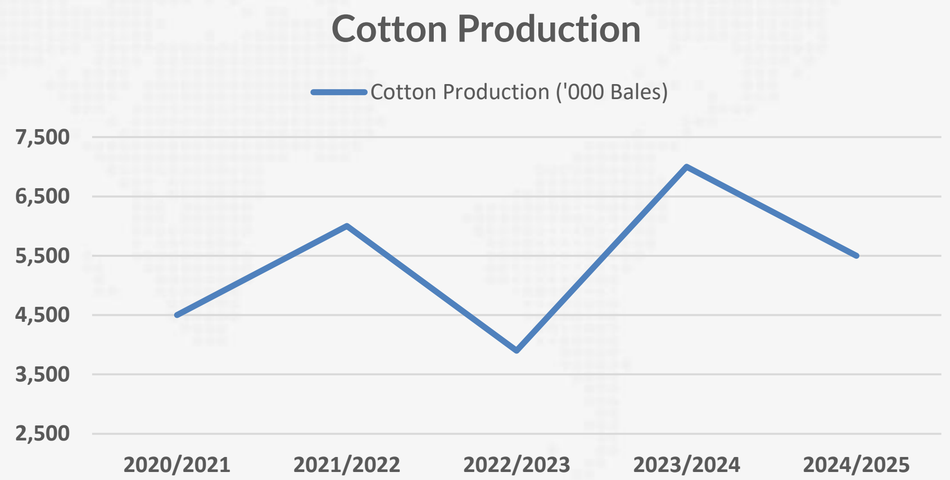
GROUP PROFILE

Master Group of Industries has a diversified business group involved primarily in manufacturing and trading across various sectors. The group's core operations include textile manufacturing, production of construction materials, and related industrial activities. Additionally, it engages in trading and supply chain management to support its manufacturing businesses.

The group oversees several companies, including MTML, which focuses on textile manufacturing. Other subsidiaries within the group operate in sectors such as construction materials, logistics, and trading, contributing to the overall portfolio of the group.

INDUSTRY PROFILE & BUSINESS RISK

The business risk profile of Pakistan's textile sector is shaped by economic cyclicality, intense competition and structural challenges. The sector is highly sensitive to domestic and international demand fluctuations, making it vulnerable to broader economic conditions. In FY24, Pakistan's cotton production surged by 79% compared to FY23, though this increase was largely due to the low base in FY23. However, cotton production decreased by 59.4% YoY by October 2024, with a total of 2.04 million bales. While the USDA projects 5.55 million bales in FY25 contingent upon overcoming several obstacles, including a shrinking area for cotton cultivation, rising energy costs and climatic challenges e.g. heatwaves, floods and pest infestations which have further strained yields.



Source: USDA

Pakistan's textile exports in 9MY25 demonstrated growth, primarily fueled by the value-added segment, despite challenges in domestic cotton production necessitating reliance on imported cotton. Exporter's profitability remains sensitive to cotton market volatility, inflationary pressures and exchange rate fluctuations, while elevated energy costs continue to impact cost structures.

Figure 1: MoM Textile Exports (USD Million)
Source: PBS

A key issue is the 23% gas price hike for captive power plants, starting March 2025, as part of Pakistan's IMF agreement. Gas prices are set to rise to PKR 4,291 per MMBTU, reaching PKR 6,000 per MMBTU by August 2026. This increase combined with the shift from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR), may put further pressure on textile manufacturers' financial performance. Rising input costs and regulatory changes are creating a challenging environment for the sector.

FINANCIAL RISK

Capital Structure

The Company's total debt increased significantly during the review period, driven by higher short-term borrowings to finance higher short-term investments and working capital requirements. According to the management, MTML's return on short-term investments was greater than the cost of short-term debt borrowed, resulting in an arbitrage profit, reflected by increase in other income. Long-term debt declined steadily in line with scheduled repayments.

The equity base expanded during the period, supported by retained earnings. As a result, the Company's adjusted gearing and leverage ratios (for net debt) decreased slightly by end-FY24 but increased marginally by end-1HFY25. Looking ahead, management anticipates reduction in the gearing ratio, supported by lower reliance on short-term borrowings. Meanwhile, long-term debt is projected to increase in line with the planned expansion of the production facility.

Profitability

The Company reported a 7% year-on-year increase in net sales for FY24, reaching Rs. 36.55 billion, while sales for 1HFY25 stood at Rs. 21.45 billion. Revenue remained primarily export-driven, though demand from the local market showed an upward trend. Garments and dyed fabrics continued to dominate the product mix, contributing approximately 80% of total sales. Client concentration remained moderate, with the top customers accounting for 37% of sales in 1HFY25 compared to 36% in FY24.

On the margins front, both gross and net margins improved in FY24 but declined in 1HFY25, despite topline growth. Additionally, distribution costs declined, and other income from mutual fund investments increased significantly. In 1HFY25, margin contraction was primarily due to elevated energy tariffs and higher raw material costs. Operating expenses also increased, largely due to higher export-related selling expenses. Finance costs increased from PKR 970 million in FY23 to PKR 1,130 million in FY24, and further to PKR 791 million in 1HFY25. However, this increase was partially offset by a significant surge in other income, which increased from PKR 620 million in FY23 to PKR 1,757 million in FY24, and PKR 1,800 million in 1HFY25, largely driven by returns on short-term investments. Looking ahead, the Company is prioritizing cost optimization initiatives, particularly in raw material sourcing and energy efficiency, to support future profitability.

Debt Coverage & Liquidity

In 1HFY25, MTML experienced a decline in funds from operations (FFO) due to higher energy and raw material costs, which adversely impacted profitability. The decline in profitability, coupled with an increase in borrowings, led to a reduction in FFO coverage metrics. Liquidity and Debt Service Coverage Ratio (DSCR) remained adequate during FY24 and 1HFY25. However, coverage of short-term borrowings through inventory and receivables fell below 1x due to an increase in short-term debt levels. Additionally, the Company's cash conversion cycle remained longer compared to industry peers, indicating relatively slower working capital turnover. This was accompanied by an increase in trade receivables and inventory levels as of 1HFY25, driven by higher export demand and a surge in orders anticipated in the latter half of the fiscal period. Going forward, maintaining an adequate liquidity profile and coverage metrics will remain critical from a ratings perspective.

FINANCIAL SUMMARY								(Rs. in millions)
RATIO ANALYSIS	**FY21**	**FY22**	**FY23**	**FY24**	**1HFY25**	**FY25E**	**FY26E**	**FY27E**
Gross Margin (%)	18.4%	22.0%	24.8%	27.3%	21.7%	25.3%	26.2%	27.0%
Net Margin (%)	6.7%	10.3%	13.2%	19.3%	13.4%	11.1%	11.9%	12.7%
Net Working Capital	3,213	4,221	8,165	13,463	16,126	18,980	21,676	25,080
Trade debts/Sales	17%	13%	19%	21%	27%	16%	16%	16%
FFO	1,584	3,178	5,588	7,653	1,664	5,678	6,322	7,008
FFO to Total Debt (%)	19%	26%	43%	59%	11%	34%	44%	60%
FFO to Long Term Debt (%)	77%	78%	151%	222%	105%	64%	75%	106%
Current Ratio (x)	1.36	1.35	1.60	1.80	1.50	2.52	2.81	3.29
Debt Servicing Coverage Ratio (x)	1.90	3.91	4.86	5.29	2.49	3.30	2.41	2.77
Adjusted Gearing (x)	1.06	1.19	0.73	0.26	0.45	0.28	0.13	0.00
Leverage (x)	1.36	1.53	1.14	0.90	1.41	0.79	0.60	0.43
(Stock in Trade + Trade Debts)/STD	135%	133%	154%	162%	86%	193%	263%	334%
ROAA (%)	7%	12%	16%	19%	11%	10%	10%	11%
ROAE (%)	16%	30%	36%	38%	25%	18%	17%	17%

REGULATORY DISCLOSURES						Appendix II
Name of Rated Entity	Master Textile Mills Limited					
Sector	Textiles					
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	
	19-June-2025	A+	A1	Stable	Reaffirmed	
	04-Apr-2024	A+	A1	Stable	Upgrade	
	04-Nov-2022	A	A1	Stable	Reaffirmed	
	01-Sep-2021	A	A1	Stable	Maintained	
	28-Apr-2020	A	A1	Rating Watch – Developing	Maintained	
	18-Apr-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 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. Masood Rehman	CFO	May 21, 2025		