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APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

LUCKY KNITS (PRIVATE) LIMITED

Chief Executive: Sohail Tabba

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A-	A1	A-	A1
OUTLOOK/RATING WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	April 18, 2025		November 17, 2023	

RATING RATIONALE

The assigned ratings incorporate LKPL's robust sponsor profile, supported by the Yunus Brother Group, one of Pakistan's largest and diversified industrial conglomerates. While the Company's capital structure has been challenged by a decline in equity, a significant increase in debt, and negative cash flow in FY24, profitability was impacted by lower sales, higher costs, and operational inefficiencies. However, the Company is expected to experience a recovery driven by the acquisition of new clients and a prospective order pipeline. These factors are anticipated to bolster profitability, improve cash flow, and enhance overall financial stability.

COMPANY PROFILE

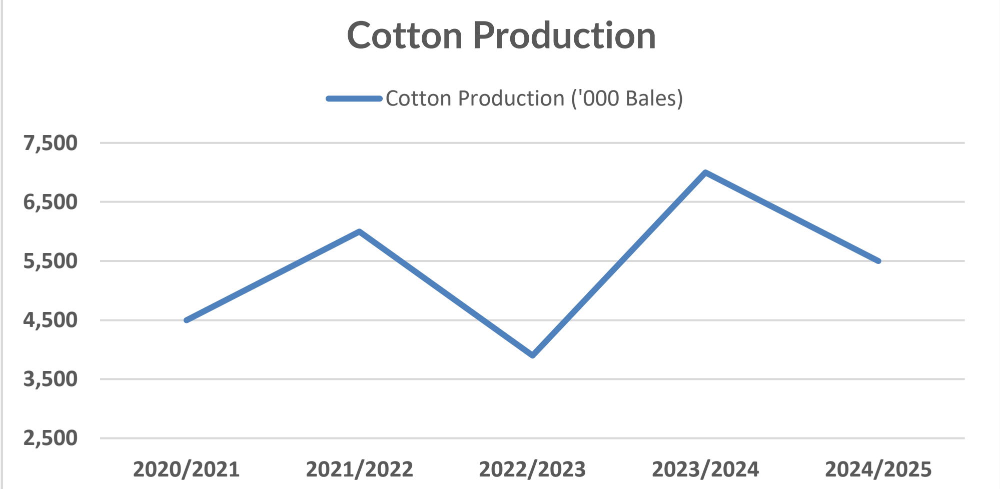
Lucky Knits (Private) Limited ('LKPL' or 'the Company') was established in 2004 as a partially vertically integrated manufacturing facility. Headquartered in Karachi, the Company operates a wide range of production units, including knitting, embroidery and stitching. LKPL specializes in the manufacturing and export of knitted apparel, offering a diverse product range such as T-shirts, polo shirts, hoodies and a variety of other garments. The Company's business is primarily export-oriented, with products being exported to two continents: United States (US) and Europe.

The Company's manufacturing operations are spread across multiple locations in Karachi. The knitting, printing, cutting, stitching and packing units are based in Kathore, while the cutting, stitching and packing units are also situated in the F.B. Area. Additionally, LKPL previously operated a dyeing unit in Landhi, which has since been disposed of to a sister concern, Gadoon Textile Mills Limited.

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 a rebound to 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

Despite the domestic cotton production challenges, textile exports in 1QFY25 have grown, largely driven by increased reliance on competitively priced imported cotton and a focus on the value-added segment of the industry. As global textile demand recovers, profitability for Pakistan's textile exporters will depend on cotton market dynamics, inflation and foreign exchange fluctuations. Rising fuel and power costs remain significant challenges to the sector's cost structures.

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

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), will further pressure textile manufacturers' financial performance. Rising input costs and regulatory changes are creating a challenging environment for the sector.

Capacity

The dyeing unit was operational for only 4 months during FY24 as operations were suspended for 8 months due to the relocation of the unit from Landhi to Kathore. During this period, the dyeing process was outsourced to Gadoon Textile Mills Limited, a sister concern, to ensure continuity in production. Looking ahead management has indicated that there are no major CAPEX plans for the next 2-3 years.

Sponsor Support

The Company is part of the Yunus Brother Group (YBG), with shareholding equally divided between the ultimate parent company, Y.B. Holdings (Private) Limited, and Mr. Syed Shahnawaz Akhtar. The group has a diversified presence across multiple sectors, including textiles, building materials, real estate, power generation, chemicals, pharmaceuticals, FMCG, philanthropy, automotive and mobile assembly. Sponsor support remains unchanged, with unsecured, non-interest-bearing loans from Lucky Energy (Private) Limited, an associate, and a director, repayable in 25 years.

FINANCIAL RISK

In FY24, LKPL faced financial setbacks due to the loss of a key client, leading to a decline in sales and a weakened capital structure. The Company struggled with liquidity and profitability, relying on short-term borrowings to meet operational needs. To navigate these challenges, LKPL negotiated revised payment terms with customers and suppliers, which helped ease liquidity constraints. With discussions underway for the return of the former client, along with the growth potential from new business, LKPL's management anticipates a return to profitability in the near future, strengthening its financial position.

Capital Structure

LKPL's capital structure weakened in FY24, with equity declining by 52%, while total debt surged by 74%, primarily driven by an increased reliance on short-term borrowings to finance working capital requirements. As a result, gearing and leverage ratios experienced a significant decline.

As of 1HFY25, LKPL's capital structure continued to weaken, with further increases in short-term borrowings to finance ongoing working capital needs, leading to a further deterioration in both gearing and leverage ratios. However, the Company's capital structure is projected to strengthen in FY26 as profitability improves and reliance on short-term debt is expected to reduce.

Profitability

In FY24, LKPL's sales contracted by 17%, primarily due to the loss of a key client, who scaled back orders in response to excess stock resulting from a slowdown in demand, further exacerbated by inflation. While local sales exhibited growth, they were insufficient to counterbalance the decline in export sales. The Company's exposure to the US market, which represented 94% of total sales in FY23, declined to 72% in FY24, while European sales increased notably, rising from 6% in FY23 to 27% in FY24. The aforementioned key client is no longer a customer in 1HFY5, LKPL has focused on securing new clientele, which are expected to contribute to future revenue growth.

In FY24, the cost of sales increased, primarily driven by higher dyeing and other processing charges as these processes were outsourced. Resultantly, these expenses rose by 194%. This increase was partially offset by a reduction in power, fuel and water expenses due to the outsourcing arrangement. As a result, LKPL reported a gross loss, with the gross profit margin declining.

The decrease in other income was primarily due to a lower exchange gain on export sales, compared to FY23, which had an exceptional exchange gain. Elevated finance costs, driven by a surge in interest rates and increased reliance on short-term borrowings to support working capital requirements, further pressured net margins.

Going forward, management expects topline growth supported by new customer acquisitions, including a mix of volume-based and higher margin clients. Additionally, value-added pipeline orders, currently at the sampling stage, could further boost sales, thereby, strengthening the Company's market position and supporting improved profitability.

Debt Coverage & Liquidity

In FY24, LKPL's liquidity position weakened as the current ratio declined reflecting the strain on working capital due to a decline in sales and an increase in short-term borrowing to meet operational needs. Additionally, the net operating cycle lengthened, primarily due to higher inventory days. However, during 1HFY25, the cycle improved, supported by reductions in receivables and inventory days, highlighting operational efficiency improvements.

LKPL's Funds from Operations (FFO) was negative in FY24 and continued into 1HFY25, reflecting the Company's operational loss and resulting in negative debt coverage indicators. Consequently, the Debt Service Coverage Ratio is not applicable due to the absence of positive operational cash flow, highlighting LKPL's current liquidity constraints. Despite this, management anticipates a return to profitability in FY26, which should significantly enhance cash flow generation and strengthen the Company's ability to meet short-term obligations, leading to a gradual improvement in its liquidity position.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Lucky Knits (Private) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Type: Entity

Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
18-Apr-2025	A-	A1	Stable	Reaffirmed
17-Nov-2023	A-	A1	Stable	Reaffirmed
04-Oct-2022	A-	A1	Stable	Reaffirmed
16-Aug-2021	A-	A1	Stable	Maintained
29-Apr-2020	A-	A1	Rating Watch - Developing	Maintained
18-Mar-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.
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Due Diligence Meetings Conducted

S.No.	Name	Designation	Date
1.	Abdul Muqeet	CFO	24-Mar-2025
2.	Danish Maniya	Manager Finance	