VIS
Credit Rating Company Limited

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UMAR SPINNING MILLS (PRIVATE) LIMITED

Chief Executive: Mr. Mohammad Faisal Pervaiz

APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Industrial Corporates

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

Rs. Million	FY23A	FY24A	1HFY25M
Net Sales	9,293.26	11,249.21	5,764.48
PBT	82.58	-334.82	-254.99
PAT	-40.32	-425.31	-316.47
Paid up Capital	290.00	290.00	290.00
Equity (ex. Reval)	3,676.45	3,257.52	2,941.04
Total Debt	4,685.47	5,020.02	4,084.33
Leverage (x)	1.57	1.85	1.83
Gearing (x)	1.27	1.54	1.39
FFO	200.08	-38.12	-134.97
FFO/Total Debt (x)	0.04	-0.01	-0.07
Net Margin (%)	0%	-4%	-5%

**Annualized, if required*
A - Actual Accounts
M - Management Accounts

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	BBB+	A2	BBB+	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	April 22, 2025		February 13, 2024	

RATING RATIONALE

Umar Spinning Mills Private Limited's financial risk profile has remained constrained during the year, in line with industry-wide challenges observed in recent years. Ratings are supported by continued sponsor financial support in the form of interest free loans and quasi equity to assist the Company meet its financial needs.

Going forward, the ratings will remain sensitive to the company's ability to restore profitability and coverage metrics to levels aligned with the assigned ratings. Additionally, the continued availability of financial support from sponsors will remain a key factor in the rating assessment.

COMPANY PROFILE

Umar Spinning Mills Private Limited ('USMPL' or 'the Company') was incorporated in Pakistan as a private limited company in 1991. The registered office of the Company is located in Karachi while its manufacturing plant is in Lahore. USMPL is principally engaged in the manufacturing and sale of Yarn. Furthermore, the Company has recently setup a new salt processing plant at Korangi Industrial Area, Karachi, which is currently in the testing phase. USMPL is a part of The Pervaiz Group of Companies which is a diversified conglomerate in Pakistan with interests spanning textiles and clearing & forwarding services.

GOVERNANCE

USML is a family-owned business with majority of shares owned by Muhammad Faisal Pervaiz and Shaheena Pervaiz. Board comprises three family members including the CEO. Overall board composition and oversight has room for improvement through inclusion of independent directors. Furthermore, committees pertaining to audit and HR functions may also be established at Board level in line with best practices.

INDUSTRY PROFILE & BUSINESS RISK

Assigned ratings incorporate the business risk profile of Pakistan's textile spinning sector is currently assessed as high to medium. This evaluation considers factors such as demand cyclicality, competitive pressures, regulatory challenges, and energy sensitivity.

The textile industry contributes approximately 8.5% to the national GDP and employs about 45% of the total labor force. Within this, the spinning sector serves as a key upstream segment, converting raw cotton into yarn for subsequent value-added processes. Performance remains closely linked to economic conditions, exposing the sector to demand fluctuations.

The 2024 cotton season was marked by production challenges, with cultivation reaching 80% of the national target, despite improvement from the previous year. FY23 was severely impacted by floods during the early half of the year, however, FY24 saw pest infestation which impacted cotton production during the period. The planted area stands at 2.367 million hectares (FY23: 1.97 million hectares), slightly up from the previous year. Production stood around 8.3 million bales (FY23: 4.9 million bales), remaining well below the domestic industry's requirement of ~12 million bales in 2024. Farmers continue to shift toward higher-margin crops, limiting any improvement in the shortfall.

In FY24, textile exports grew marginally by 0.93% to $16.7 billion (FY23: $16.6 billion). However, political instability and shifts in global procurement patterns resulted in the loss of approximately 40% of export orders, with buyers redirecting sourcing to competitors such as Vietnam.

Following the withdrawal of the Export Facilitation Scheme (EFS), indirect exporters now prefer duty-free and sales-tax-free imported yarn over domestically produced alternatives, which remain subject to an 18% sales tax. This trend has further pressured foreign exchange reserves and led to increased substitution of local yarn with imports, challenging the viability of the spinning sector amid rising costs. The transition from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR) has further strained financial performance.

Pakistan's spinning sector remains exposed to significant competitive pressures from India, China, and Bangladesh, where technological advancements and diversified product offerings provide an advantage. Limited product diversification has constrained Pakistan's ability to capture export orders redirected due to shifts in global supply chains.

Regulatory changes have added to operational and financial challenges. The withdrawal of regionally competitive energy tariffs and amendments in tax policies have increased cost pressures. The Federal Board of Revenue (FBR) doubled the advance tax rate for textile millers from 1% to 2%, alongside additional reporting requirements. Some industry participants have begun exploring relocation to jurisdictions with more favorable regulatory frameworks.

Energy sensitivity remains a key concern, with high energy costs increasing conversion expenses. In FY24, high power tariffs continued to adversely affect sector profitability. The energy costs in the country are around double those of regional export market competitors. Rising power costs and an increase in the minimum wage have also led to margin compression. Industrial power tariffs in Pakistan were approximately 17 cents per kilowatt-hour (kWh), significantly higher than those in competing economies such as India (6 cents/kWh), Bangladesh (8.6 cents/kWh), and Vietnam (7.2 cents/kWh) in 2024.

Going forward, sector performance will depend on global demand trends, domestic policy measures, and structural improvements. While recent monetary easing, including a reduction in the policy rate to 12% by February 2025, may ease financing costs, long-term competitiveness will require investments in technology, product diversification, and a stable regulatory environment.

Group Support

The ratings reflect the sustained financial backing from the sponsors, demonstrated by the retention of sponsor loans classified as quasi-equity. Additionally, the continued provision of interest-free short-term loans further reinforces the sponsors' commitment to supporting USMPL's financial stability.

Client Concentration Risk

The Company's client concentration risk continues to remain high with top 10 customers accounting for 58% of total sales in FY24, slightly higher from 50% in FY23. The elevated client concentration is a characteristic of the textile spinning industry and is mitigated by the Company's long-standing relationships with its top clients.

Product Profile & Capacity

The Company saw an increase in production capacity and actual production on account of full-year operation of its auto-coro (open-end) rotors installed in early last year. Utilization levels remained consistent as the economic environment both internationally and locally improved amid rising demand. Approximately 51% of the Company's sales are derived from indirect export sales, 21% from direct export sales and 27% from local sales.

	FY21	FY22	FY23	FY24
Number of spindles installed	43,776	43,776	43,776	43,776
Auto Coro (Open-end) Rotors	-	-	1,512	1,512
Installed capacity of yarn (million kgs.)	9.4	9.4	10.6	12.2
Actual production of yarn (million kgs.)	8.6	8.6	9.8	11.5
Capacity Utilization	***91%***	***92%***	***93%***	***94%***

FINANCIAL RISK

Assigned ratings incorporate the Company's financial risk profile, reflecting revenue growth alongside persistent cost pressures, leading to margin contraction and falling profitability. Higher sales volumes contributed to revenue growth; however, elevated input costs, particularly energy and raw material expenses, alongside limited pricing flexibility due to heightened competition from imported yarn, resulted in a decline in gross margins. Net margins were further affected by increased finance costs. Capitalization metrics indicate higher leverage, primarily driven by reliance on short-term debt for working capital requirements, with a portion of borrowings sourced from directors and associates in the form of interest-free loans. Liquidity remains stable, supported by improvements in working capital management, including an optimized inventory turnover cycle and an extended payable cycle. However, debt coverage remains constrained due to reduced profitability and higher financial expenses, necessitating reliance on sponsor support to bridge shortfalls.

Profitability

The Company's financial performance in FY24 was characterized by revenue growth amid increasing cost pressures, leading to a contraction in margins and continued stress on profitability. Revenue rose by 21.04% to Rs. 11.25 billion (FY23: Rs. 9.29 billion), supported by a 19.12% increase in sales volume to 13.12 million kg (FY23: 11.02 million kg). However, escalating input costs, particularly energy and raw material expenses, alongside limited pricing flexibility due to heightened competition from imported yarn, resulted in stress in gross margins. The gross margin declined to 4.55% in FY24 (FY23: 7.39%) and further contracted to 1.71% in 1HFY25. The impact of these cost pressures was exacerbated by higher financial expenses due to elevated domestic interest rates, resulting in decline in net profitability. The net margin fell to -3.78% in FY24 (FY23: -0.43%) and weakened further to -5.49% in 1HFY25.

Going forward some improvement is expected with the reduction in WAPDA's grid tariff and the expansion of Company's solar power capacity. Additional efficiencies are expected through energy optimization measures such as energy storage system aimed at reducing reliance on high-cost grid consumption.

Capital Structure

Capitalization metrics reflected an increase in leverage as the Company relied on short-term debt to finance higher working capital needs in FY24. Gearing rose to 1.54x (FY23: 1.27x), while leverage increased to 1.85x (FY23: 1.57x). The Company sourced part of its short-term borrowings from directors and associates in the form of interest-free loans, which accounted for 20% of total short-term debt in FY24, up from 9% in FY23. In 1HFY25, sponsor interest-free short-term loans further increased to 32% of total short-term debt. This financial support provided liquidity relief, allowing the Company to manage its working capital requirements more effectively and reduce dependence on bank borrowing.

Debt Coverage & Liquidity

The debt coverage position remained under pressure due to lower profitability and increased interest costs. The debt service coverage ratio (DSCR) declined to 0.62x in FY24 (FY23: 0.77x) and further deteriorated to 0.35x in 1HFY25, highlighting challenges in meeting debt obligations from operational cash flows. The Company has relied on sponsor support in the form of interest-free short-term borrowings to bridge the shortfall, providing financial flexibility and stability. While this support mitigates immediate liquidity shortfalls, a sustained recovery in profitability along with improvement in debt service coverage will be important to sustain current ratings.

Nevertheless, despite challenges in profitability and debt coverage, the Company's liquidity position remained stable. The current ratio stood at 1.47x in 1HFY25 (FY24: 1.45x; FY23: 1.63x), reflecting relatively healthy liquidity profile. Improvements in inventory management contributed to reduction in the cash conversion cycle to 83 days in 1HFY25 from 94 days in FY24 (FY23: 114 days). Additionally, the payable cycle was extended to 12 days in 1HFY25 (FY24: 2 days; FY23: 3 days), further easing short-term liquidity constraints. However, ease in build up of payable will remain an important consideration going forward.

REGULATORY DISCLOSURES					Appendix I
Name of Rated Entity	Umar Spinning Mills (Pvt) Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Ratings				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	Rating Type: Entity				
	22-04-2025	**BBB+**	**A2**	**Stable**	**Reaffirmed**
	13-02-2024	BBB+	A2	Stable	Reaffirmed
	13-03-2023	BBB+	A2	Stable	Maintained
	06-07-2022	BBB+	A2	Positive	Maintained
	27-05-2021	BBB+	A2	Stable	Maintained
	29-04-2020	BBB+	A2	Rating Watch - Negative	Maintained
	16-03-2020	BBB+	A2	Stable	Reaffirmed
	13-02-2019	BBB+	A2	Stable	Initial
Instrument Structure	N/A				
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.				
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Due Diligence Meeting Conducted	Name	Designation	Date		
	Mashood Ahsan Askari	Group CFO	February 20, 2025		
	Muhammad Imran Latif	Manager Accounts	February 20, 2025		