

## UMAR SPINNING MILLS (PRIVATE) LIMITED

### Analyst:

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### 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	June 30, 2026		April 22, 2025	

### Shareholding (5% or More)

Muhammad Faisal Pervaiz ~85%

Shaheena Pervaiz ~15%

### Other Information

Incorporated in 1991

Private Limited Company

Chief Executive: Mr. Muhammad Faisal Pervaiz

External Auditor: Reanda Haroon Zakaria & Co. 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 of Umar Spinning Mills Private Limited reflects its long operating track record, established manufacturing operations, diversified yarn product portfolio, and longstanding customer relationships. The Company has continued to invest in operational improvements and renewable energy initiatives, including the expansion of its solar power generation capacity and the installation of a new humidification plant. These initiatives are expected to reduce energy costs, improve yarn quality, enhance operational efficiency, and strengthen cost competitiveness over the medium term.

The rating remains constrained by pressure on profitability over the past two years, which has weakened capitalization metrics and cash flow generation. While the Company continues to maintain adequate liquidity and has reduced its debt burden, leverage indicators remain elevated relative to historical levels. Coverage metrics have shown improvement during the current period, supported by recovering operating cash flows on the back of reduction in losses and lower borrowings.

Going forward, the Company's ability to sustain the recent improvement in margins, restore profitability, and strengthen internal cash flow generation will remain important. The expected benefits from lower energy costs, enhanced operational efficiencies, and improved product quality are likely to support earnings over the medium term.

## 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 at Commerce Centre, Hasrat Mohani Road, Karachi, while its manufacturing facilities are situated at Raiwind, Lahore. The Company is principally engaged in the manufacturing and sale of cotton yarn.

USMPL operates a spinning facility and is primarily engaged in the production of carded, combed, compact, and value-added yarns catering to both knitting and weaving segments. The Company serves a diversified customer base in domestic and export markets and has established a presence in the textile value chain through its focus on quality yarn production.

## Management and Governance

### CEO Profile

Mr. Muhammad Faisal Pervaiz serves as the CEO of Umar Spinning Mills (Private) Limited and has been associated with the business for over 23 years. He possesses extensive experience in the textile industry and oversees the Company's strategic direction and operations. Mr. Faisal Pervaiz holds an MBA degree from the Institute of Business Administration (IBA), Karachi.

### Board & Senior Management

USML is a family-owned business, with majority shareholding held by Muhammad Faisal Pervaiz and Shaheena Pervaiz. The Board comprises three family members, including the CEO. Board composition and governance oversight have room for improvement through the inclusion of independent directors. Furthermore, dedicated Audit and Human Resource & Remuneration Committees may be established at the Board level in line with corporate governance best practices.

## Industry Profile & Business Risk

Pakistan's textile exports rose to USD 17.8bn in FY25, marking a 7.4% increase from FY24, with monthly peaks averaging around USD 1.6–1.7bn. FY26, while showing signs of stabilization, including a high of ~USD 1.74bn in January 2026, remains volatile, with recent months dipping to around USD 1.3bn. This uneven recovery reflects sensitivity to global demand, inventory adjustments in key markets, and pricing pressures. The sector continues to face challenges stemming from elevated energy and labor costs, tight liquidity conditions, and the absence of meaningful rupee depreciation.

Structurally, the industry is increasingly shifting toward higher value-added segments such as knitwear and garments, reducing reliance on lower-margin yarn and grey cloth exports and supporting margin improvement. However, the spinning segment remains under significant pressure and has undergone a structural contraction, with more than 100 spinning units reportedly ceasing operations over the past five years. The contraction reflects a combination of policy, cost, and competitive pressures, including increased imports under the Export Facilitation Scheme, the transition from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR), rising working capital requirements due to delayed sales tax refunds, elevated energy costs, and growing competition from lower-priced imported yarn. Domestic cotton shortages have further increased reliance on imported cotton, exposing manufacturers to global price volatility, supply-chain disruptions, and foreign exchange risks. Consequently, profitability and debt-servicing capacity within the spinning segment remain under pressure, particularly for standalone and less-efficient operators.

Sustainability has also emerged as a key competitive factor, with increasing investment in renewable energy, water recycling, and traceability systems to meet stringent international buyer requirements. Vertically integrated exporters and companies that have adopted cost-efficient energy solutions have generally demonstrated greater resilience amid challenging operating conditions. Meanwhile, the weaving segment presents a mixed profile, with modern integrated mills increasingly adopting advanced technologies while a substantial portion of conventional power looms continues to operate with lower efficiency levels. Overall, the industry outlook remains cautiously optimistic, supported by gradual recovery in international demand and continued strategic repositioning toward value-added and compliant exports. Nevertheless, growth is expected to remain measured rather than linear. Margins are likely to remain compressed amid elevated cost structures, intensified regional competition, the absence

of notable rupee depreciation, and the sector's transition to the normal tax regime. Moreover, following the recent 100bps increase in the policy rate, the possibility of further monetary tightening cannot be ruled out, which may place additional pressure on financing costs, liquidity, and profitability across the textile value chain.

## Operational Update

	FY21	FY22	FY23	FY24	FY25
Number of spindles installed	43,776	43,776	43,776	42,576	42,576
Auto Coro (Open-end) Rotors	-	-	1,512	1,512	1,512
Installed capacity of yarn (Kgs.)	9.4m	9.4m	10.6m	12.2m	12.2m
Actual production of yarn (Kgs.)	8.6m	8.6m	9.8m	11.5m	11.4m
Capacity Utilization	91%	92%	93%	94%	93%

The Company's production capacity remained largely unchanged during FY25, with operational performance maintained at satisfactory levels. Capacity utilization remained stable, reflecting efficient plant operations and steady demand conditions. Subsequent to FY25, the Company commissioned an additional 2.5MW solar power plant, increasing total installed solar generation capacity to over 5MW. The additional capacity is expected to reduce dependence on grid electricity and partially mitigate the impact of elevated energy costs on margins. The project is expected to reduce reliance on grid electricity, lower energy costs, and mitigate exposure to rise in power tariffs. In parallel, the Company has installed a new humidification plant incorporating modern technology, expected to commence operations in July 2026, which is aimed at improving yarn quality, reducing process waste, and further enhancing energy efficiency. These initiatives are expected to support operating margins over the medium term through lower energy costs and improved operating efficiency, partially mitigating the utility cost pressures experienced in FY25.

## Profitability

Net sales declined by 2.9% year-on-year to PKR 10.9 billion in FY25 (FY24: PKR 11.2 billion), primarily due to lower local sales volumes. The sales mix shifted in favor of exports, with the export-to-local sales ratio increasing to 76:24 from 73:27 in FY24, reflecting relatively stronger export demand and favorable pricing dynamics. The Company's top ten customers, with whom it maintains longstanding business relationships, accounted for approximately 76% of net sales during the year (FY24: 58%), indicating an increase in customer concentration. However, the associated risk is partially mitigated by established relationships and recurring orders from key customers.

Profitability came under pressure in FY25, with gross margin declining to 1.7% (FY24: 4.6%) owing to higher utility charges and increased employee-related expenses. Operating expenses also increased, driven by inflationary pressures, higher freight costs, and elevated brokerage and commission expenses associated with export sales. Nonetheless, lower borrowing levels and a declining interest rate environment reduced finance cost, providing partial support to earnings. However, the Company reported a net loss, with net margin deteriorating to negative 5.6% in FY25.

During 11MFY26, the Company reported net sales of PKR 10.06 billion. Following a change in the classification of indirect export sales, the contribution of local sales increased to approximately 80% of total revenue from 24% in FY25 on a reported basis. However, the change was primarily attributable to the revised classification methodology and did not reflect a material change in the Company's export exposure. Profitability indicators improved materially, with gross margin rising to 6.2%, supported by lower energy costs and improved operating efficiencies. Operating margin stood at 3.6%, while net profitability improved significantly, with the Company reaching a near break-even position, reporting a marginal net loss margin of 0.03%, compared

to a net loss margin of 5.6% in FY25. Management expects profitability to strengthen further over the remaining period of FY26, supported by anticipated utility cost savings and continued operational improvements, with the Company targeting a return to positive earnings by year-end.

## Financial Risk

### Capital Structure

The Company's capital structure remains constrained by the cumulative impact of losses incurred over the past two years, which have weakened its equity base despite ongoing debt reduction. The capital structure comprises paid-up capital of PKR 290 million and a subordinated sponsor loan of PKR 395 million, which is treated as equity. Total borrowings declined to PKR 4.3 billion at end-FY25 (FY24: PKR 5.0 billion), reflecting repayments of both long-term and short-term debt. Deleveraging continued during 11MFY26, with total borrowings further reducing to PKR 3.3 billion, primarily supported by lower working capital requirements and continued debt repayments.

Equity contracted to PKR 2.65 billion at end-FY25 (FY24: PKR 3.26 billion) due to the net loss reported during the year and remained broadly stable at PKR 2.64 billion by end-11MFY26, supported by a reduction in losses during the period. Consequently, capitalization metrics weakened at end-FY25, with gearing and leverage increasing to 1.64x (FY24: 1.54x) and 2.19x (FY24: 1.85x), respectively. During 11MFY26, the reduction in debt outpaced the decline in equity, resulting in an improvement in gearing to 1.25x. Leverage also improved to 2.09x, supported by the repayment of short-term borrowings from directors. Going forward, sustained profitability and internal capital generation will remain important for strengthening capitalization metrics.

### Debt Coverage & Liquidity

The Company's debt coverage metrics remained weak over FY24-FY25 amid pressured operating cash flow generation; however, these indicators improved during 11MFY26. Funds from operations (FFO) remained negative at PKR 378 million in FY25 (FY24: negative PKR 38 million), primarily due to elevated finance costs and tax payments. However, cash flow generation improved during 11MFY26, with FFO turning positive to PKR 281 million, supported by lower borrowings and cost rationalization measures. Improvement in FFO, coupled with lower debt levels, resulted in FFO-to-total debt improving to 0.09x from negative levels in FY25. Improvement in FFO coupled with lower debt levels resulted in an improvement in FFO-to-total debt to 0.09x from negative levels in FY25. Debt servicing capacity also strengthened, with DSCR improving to 1.06x in 11MFY26 (FY25: 0.08x; FY24: 0.62x) supported by positive operating cash flows and a reduced debt burden. Liquidity remained adequate, with the current ratio standing at 1.28x in FY25 and remaining stable at 1.29x in 11MFY26. Short-term debt coverage strengthened to 2.19x (FY25: 1.68x), reflecting lower reliance on short-term borrowings. Additionally, the cash conversion cycle improved to 139 days in 11MFY26, indicating more efficient working capital management and supporting the Company's liquidity profile.

**REGULATORY DISCLOSURES** **Appendix II**

<b>Name of Rated Entity</b>	Umar Spinning Mills (Pvt) Limited				
<b>Sector</b>	Textile				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<b>Rating History</b>	<b>RATING TYPE: ENTITY</b>				
	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	30-06-2026	BBB+	A2	Stable	Reaffirmed
	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	
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<b>Due Diligence Meeting Conducted</b>	<b>S.No.</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>	
	1	Ayaz Ali	Group CFO	4 <sup>th</sup> June 2026	
	2	Muhammad Umair	Assistant Manager Finance		