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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/doc

KHALID SHAFIQUE SPINNING LIMITED

Chief Executive: Ch. Khalid Shafique

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		Maintained	
RATING DATE	May 22, 2025		June 03, 2024	

RATING RATIONALE

The entity ratings of Khalid Shafique Spinning Limited have been reaffirmed at ‘BBB+/A2’ with a Stable Outlook. Despite sector-wide profitability pressures, the Company’s liquidity profile has remained sufficient to manage near-term obligations. Moreover, the ratings take into account the management’s view of sponsor support for liquidity management as required by the Company. Coverage metrics have shown partial recovery on the back of improved profitability and declining finance costs, while capitalization indicators remain within manageable thresholds. Ratings also reflect the high to medium risk of textile spinning sector, characterized by cyclicality in demand, elevated input costs, and regulatory changes.

Going forward, ratings will remain sensitive to trends in global demand, sector-specific regulatory developments, and the Company's ability to sustain operational performance. Key sensitivities include maintenance of adequate liquidity buffers, stabilization of coverage metrics, and sponsor support in the event of cash flow shortfalls.

COMPANY PROFILE

Khalid Shafique Spinning Mills Limited ('KSSML' or 'the Company') is an Unlisted Public Limited Company incorporated on April 23, 1992. The registered office of the Company in Lahore, Punjab. The manufacturing unit of the Company is located in District Kasur, Punjab. The principal activity of the Company is manufacture and sale of yarn.

GOVERNANCE

The majority shareholding of KSSML is held by Ch. Khalid Shafique and his family. Ch. Khalid Shafique serves as both the Chairman of the Board and Chief Executive Officer. He is a qualified Chartered Accountant from the Institute of Chartered Accountants of Pakistan and possesses over 30 years of experience in the textile sector. There are two executive and two non- executive directors with one female representation on the board.

INDUSTRY PROFILE & BUSINESS RISK

Assigned ratings incorporate the business risk profile of Pakistan's textile spinning sector which 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), direct 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 the sector's 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 11% by May 2025, may ease financing costs, long-term competitiveness will require investments in technology, product diversification, and a stable regulatory environment.

Product Profile & Capacity

In FY24, the operational performance was adversely affected by a fire incident in November 2023, which resulted in the loss of approximately four months' inventory of cotton. Consequently, manufacturing operations faced intermittent halts, leading to a decline in capacity utilization to 68% (FY23: 95%). According to management, operations in the ongoing FY25 remained constrained until October 2024, primarily due to challenges in cotton procurement arising from the availability of low-quality crop during the early part of the year. Capacity utilization is expected to remain around current levels by year end FY25. However, management has indicated that utilization has recovered to 95% in recent months.

Production Capacity and Utilization	**FY23**	**FY24**
Number of Spindles Installed	33,744	33,744
Number of Spindles Worked	33,744	33,744
Installed Capacity after conversion 20/s count – kgs	12,548,000	12,548,000
Actual Production after conversion 20/s count -kgs	11,901,000	8,546,000
Utilization (%)	**95%**	**68%**

FINANCIAL RISK

Assigned ratings also take into account the financial risk profile of the Company. Profitability remained constrained during FY24 due to a decline in volumes linked to the unavailability of sufficient raw materials following a fire incident, leading to margin compression amid low-capacity utilization. Margins recovered in the ongoing period due to changes in inventory levels and production cost adjustments. The capitalization profile remained within manageable thresholds despite fluctuations, with leverage metrics showing temporary improvement due to insurance proceeds and low stock levels FY24. A subsequent increase in borrowings to procure fresh inventory led to normalized gearing and leverage levels in 3QFY25. Liquidity remained adequate overall, although coverage metrics remained under pressure due to elevated financing costs and reduced cash flows. Improvement in coverage in the ongoing period was supported by lower interest rates and partial recovery in profitability, although internal liquidity had to be utilized to meet coverage requirements. The Company has historically relied on balance sheet liquidity to address shortfalls.

Profitability

In FY24, revenue declined by 13% to PKR 4,666 million (FY23: PKR 5,369 million), primarily due to a 23% reduction in sales volumes, despite an average price increase of 12%. The decrease in volumes was linked to the unavailability of raw material inventory following a fire incident. As a result, gross margin remained constrained at 3.10% (FY23: 3.06%), as fixed costs per unit increased due to lower capacity utilization. The Company recovered the majority of the lost inventory value through insurance proceeds, with only a minor portion recognized as a loss.

In 3QFY25, gross margin improved to 5.52%, largely driven by a rise in closing inventory, which subdued accrued costs. This offset the increasing cost of manufacturing, while selling prices remained under pressure due to a competitive pricing environment and subdued demand conditions.

Capitalization

The capitalization profile has remained within manageable levels, though notable fluctuations were observed across the review period. At end-FY24, capitalization indicators reached their lowest levels historically, primarily due to minimal inventory holdings following damage to a significant portion of stock. This led to reduced reliance on short-term borrowings, supported by inventory sales and receipt of insurance proceeds. Consequently, gearing and leverage ratios declined to 0.14x and 0.24x, respectively (FY23: 0.71x and 0.99x).

By 3QFY25, with the procurement of fresh cotton, utilization of short-term borrowings increased, resulting in normalized gearing and leverage ratios of 0.78x and 1.35x, respectively. Despite the increase, capitalization metrics remained within manageable thresholds.

Debt Coverage & Liquidity

Coverage metrics remained under pressure in FY24, primarily due to elevated finance costs stemming from higher interest rates and a reduction in funds from operations (FFO) on account of lower profitability. As a result, the debt service coverage ratio (DSCR) declined to 0.28x (FY23: 0.35x). The shortfall was met through cash generated from changes in working capital during the year. In 3QFY25, DSCR improved to 0.72x, supported by a decline in interest rates and partial recovery in profitability, which led to higher FFO. However, a coverage gap persisted and was met through available balance sheet liquidity. The ratings also take into account the management's view of sponsor support for liquidity management as required by the Company.

The Company has historically maintained a sound liquidity profile, as reflected in strong current and short-term debt coverage ratios. However, in the ongoing FY25, the utilization of internal liquidity to bridge coverage shortfalls has resulted in a decline in the current ratio to 1.38x (FY24: 4.95x; FY23: 1.77x). Despite this, the short-term debt coverage ratio improved to 2.31x (FY24: 1.45x; FY23: 2.13x), indicating that liquidity remains adequate to support the financial risk profile.

REGULATORY DISCLOSURES	Annexure II
Name of Rated Entity	Khalid Shafique Spinning 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
23/05/25	BBB+	A2	Stable	Reaffirmed
03-06-2024	BBB+	A2	Stable	Maintained
20-06-2023	BBB+	A2	Negative	Maintained
29-06-2022	BBB+	A2	Stable	Upgrade
11-06-2021	BBB	A2	Stable	Maintained
14-04-2020	BBB	A2	Rating Watch-Negative	Maintained
18-02-2019	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.
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Due Diligence Meeting

Name	Designation	Date
Mr. Muhammad Ashraf	. General Manager - Finance	14 May, 2025