VIS
Credit Rating Company Limited

RATING REPORT

Analysts:
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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)

PKR MILLION	CY23	CY24	1QCY25
Net Sales	10,479	11,185	2,814
L/PBT	138	(117)	90
L/PAT	(38)	(361)	60
Paid up capital	5	5	5
Equity (incl. surplus on PPE)	3,490	3,044	3,103
Total Debt	1,960	1,745	1,798
Leverage (x)	1.44	1.86	1.77
Gearing (x)	0.56	0.57	0.58
FFO	779	134	111
FFO/Total Debt (x)	0.40	0.07	0.25
NP Margin	-0.4%	-3.2%	2.1%

SHAHBAZ GARMENTS (PRIVATE) LIMITED

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	June 18, 2025		April 16, 2024	

RATING RATIONALE

The assigned ratings reflect SGL's well-established brand, 'Midas Safety', its international presence and the backing of a strong sponsor. Operating profitability was impacted in CY24 primarily due to non-recurring one off expenses, which are expected to streamline in CY25 and as reflected in Q1CY25. Moreover, due to higher interest rates, profitability was further dampened. However, with the easing of interest rates and improved operating profitability, margins and coverage are expected to improve going forward. Liquidity profile remains adequate. Ratings remain sensitive to improvement in profitability profile and maintenance of capitalization metrics.

COMPANY PROFILE

Shahbaz Garments (Private) Limited ('SGL' or 'the Company'), incorporated in 1972, is engaged in the manufacturing and sale of safety gloves, yarn and fabric. The Company is currently undergoing a rebranding process and will operate under the name 'Midas Safety Pakistan'. SGL employs approximately 1,600 personnel.

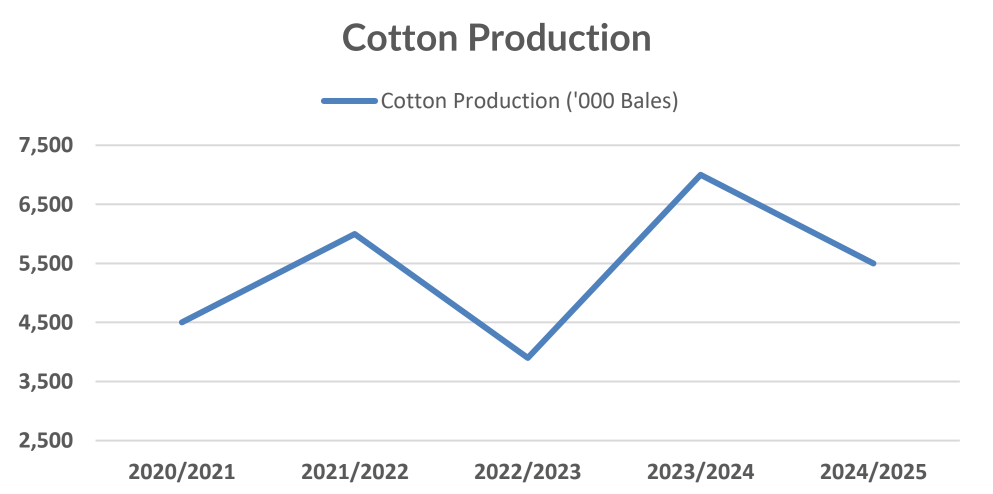
SGL is part of a group led by its ultimate parent, Pangea Limited, based in Jersey. The group comprises of five entities based in Pakistan operating across the industrial safety sector. Prime Safety Limited (PSL), Beltexco Limited (BEL) and SGL manufacture gloves whereas, Midas Clothing Limited (MCL) and Industrial Clothing Limited (ICL) manufacture industrial and safety clothing. The group benefits from vertically integrated operations, product diversification and a global market presence, which collectively support SGL's operational stability and business profile.

Business Unit	Geographical Location
Head Office	Clifton, Karachi
Knitting Unit	S.I.T.E Area, Karachi
Gloves Unit	Faisalabad
Spinning Unit	Faisalabad

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

Pakistan's textile exports in 3QFY25 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), will further pressure textile manufacturers' financial performance. Rising input costs and regulatory changes are creating a challenging environment for the sector.

FINANCIAL RISK

Capital Structure

SGL's capital structure remained moderately leveraged in CY24. Total debt declined to PKR 1.75 billion from PKR 1.96 billion in CY23, supported by reduced reliance on both short and long-term borrowings. Despite this, gearing remained stable at 0.57x, as the equity base remained subdued due to a net loss. Leverage rose to 1.86x (CY23; 1.44x), primarily driven by an increase in non-interest-bearing liabilities, reflecting a higher dependence on trade and other payables to support operations. At the end of 1QCY25, capitalization registered improvement, with reductions in both gearing and leverage ratios. Going forward, maintenance of capitalization indicators at manageable levels will remain important from the rating perspective.

Profitability

In CY24, SGL's net sales increased to PKR 11.2 billion (CY23: PKR 10.5 billion), driven primarily by higher glove volumes. Gloves remained the leading revenue contributor, accounting for 42% of total sales, followed by yarn (39%) and fabric (19%). Related-party transactions accounted for 22% of total sales (CY23: 25%), while export-to-local sales mix remained steady at 55:45 (CY23: 54:46). Regionally, Pakistan accounted for 57% of sales, with the remainder distributed across Asia (13%), Europe (13%), America (10%) and other markets.

However, gross profit margin contracted to 20.8% (CY23: 22.1%), mainly due to higher gas prices and rising labor costs. Operating expenses increased, with selling expenses rising to 4.9% of sales (historical average: 3.9%), primarily driven by higher international freight and handling costs, along with increased salary expenses. Administrative expenses also increased to 15.5% of sales (historical average: 11.4%), primarily due to the conclusion of non-recurring salaries and consultancy expense, which had been phased in from CY23 to 6MCY24. A notable rise in donations further contributed to the increase. Additionally, other income fell by 35%, largely due to lower returns on savings accounts, constraining profitability.

Net profit was further pressured by rising finance costs and increased taxation, resulting in a net loss for CY24. However, in 1QCY25, profitability improved, with the Company reporting a profit.

Going forward, profitability is expected to improve, supported by confirmed pipeline orders of USD 13.6 million, lower fuel and power costs and a reduction in operating expenses following the completion of group-level restructuring costs. Additionally, easing interest rates are anticipated to reduce finance costs. As a result, net margin is expected to improve to 1.0% in CY25, with further gains projected in CY26.

Debt Coverage & Liquidity

In CY24, SGL's liquidity position weakened, as indicated by a decline in the current ratio to 1.10x (CY23: 1.39x), and an approximately 50% reduction in cash balances. Short-term debt coverage, however, improved to 3.07x (CY23: 2.04x), supported by higher receivables and the absence of additional short-term borrowings.

The net operating cycle lengthened marginally, driven by a notable rise in receivable days, partially offset by a moderate increase in payable days. Funds from Operations (FFO) declined due to lower profitability, resulting in a deterioration in the Debt Service Coverage Ratio (DSCR). However, excluding the current portion of related-party loans, the DSCR would reflect a strong debt-servicing position.

In 1QCY25, liquidity improved, though the net operating cycle lengthened significantly, primarily driven by a reduction in payable days. Going forward, improved profitability and sustained liquidity will be key considerations from a rating perspective.

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Shahbaz Garments (Pvt) 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
18-06-2025	A-	A2	Stable	Reaffirmed
16-04-2024	A-	A2	Stable	Reaffirmed
06-09-2022	A-	A2	Stable	Reaffirmed
26-07-2021	A-	A2	Stable	Upgrade
30-04-2020	BBB+	A2	Rating Watch - Negative	Maintained
02-05-2019	BBB+	A2	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.	Arslan Majeed	Head of Finance	08-May-2025
2.	Muhammad Usman Gul	Head of Operations	