INDUS LYALLPUR LIMITED

Analyst:
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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	December 26, 2025		October 25, 2024	

Shareholding (5% or More)	Other Information
Indus Dyeing & Manufacturing – 100%	Incorporated in 1992
	Public Limited Company (Unlisted)
	Chief Executive: Mr. Imran Ahmed
	External Auditor: Yousuf Adil 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/do cs/VISRatingScales.pdf

Rating Rationale

The assigned ratings consider ILL's position within the Indus Group, supported by its long-standing presence in textile spinning and a geographically dispersed manufacturing base. During FY25, the Company's profitability improved following recovery in gross margins on account of lower procurement costs of imported cotton. Overall financial position, while manageable, is stressed by the increasing working capital requirements which led to an increase in gearing, however, the reduced interest rates have provided a breather for the Company in terms of lower finance costs when compared to last year. Going forward, in FY26, margins are expected to remain at FY25 levels, supported by energy cost efficiencies following the installation of solar power.

Company Profile

Indus Lyallpur ('ILL' or 'the Company') is a public limited (unlisted) company incorporated in 1992 under the Companies Act, 1984 (now Companies Act, 2017). The Company is a wholly owned subsidiary of Indus Dyeing & Manufacturing Company Limited. ILL is engaged in manufacturing and sale of yarn, primarily for the export market. The Company's registered office and manufacturing facility is located in Karachi and Faisalabad, respectively.

Group Profile

The Indus Group is a well-established industrial group with over six decades of operating history in textile industry. Indus Dyeing & Manufacturing Company Limited (IDMC) is the Group's flagship and holding company. Along with ILL, IDMC holds 100% shareholding in Indus Home Limited involved in the production and export of greige and finished terry products along with its US based marketing arm, Indus Home USA Inc. and Indus Wind Energy Limited operating a 50 MW wind power plant supplying electricity to the national grid. The Group also holds a minority stake in Sunrays Textile Mills Limited, classified as an associate due to common directorship.

Management and Governance

The Company's governance is overseen by a ten-member Board comprising the Chairman, Mr. Kashif Riaz, the CEO, Mr. Imran Ahmed, eight non-executive directors and one executive director. While the Company is not bound by the listed Companies (Code of Corporate Governance) Regulations, 2019.

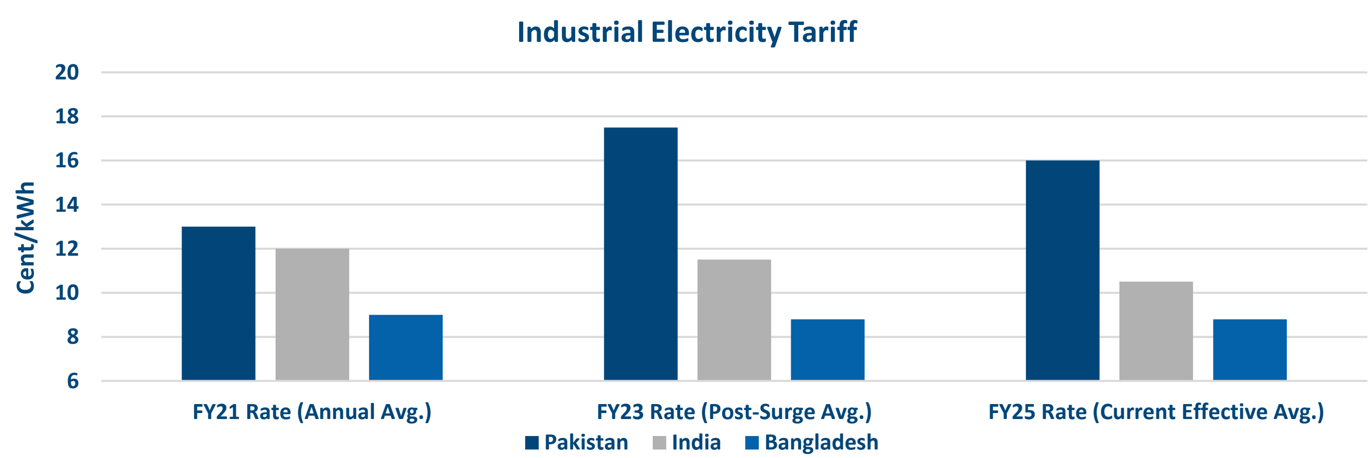
The Company has no Board committees and oversight of financial, operational and human resource matters are undertaken collectively by the Board. Day-to-day management is led by Mr. Imran Ahmed along with an experienced management team, ensuring operational control and effective implementation of strategic plans.

Business Risk

INDUSTRY UPDATE

The textile spinning sector's risk profile remains elevated, despite total textile exports for FY25 reaching USD 17.9 billion (FY24: USD 16.7 billion). This growth, driven by value-added exports, masks a widening profitability gap and intense pressure on upstream spinners in FY25-1QFY26.

Sectoral vulnerability is driven by three core factors: non-competitive energy, acute raw material constraints and adverse tax policies. Pakistan's industrial electricity tariff (~12.3 cents/kWh) is nearly double that of its direct competitor, India (~6.3 cents/kWh). This cost disparity is the primary structural impediment, severely inflating conversion costs and eroding margins.



Source: IEA Electricity 2025; MEPRA State of Industry Report; Synthesis of APTMA Press Statements and Industry Analysis

Domestic cotton output (~5.5 million bales) falls severely short of the annual demand (~12 million bales), necessitating heavy reliance on costlier imports. This shortage risk is compounded by a structural tax anomaly introduced in the FY25 budget. Previously, the Export Facilitation Scheme (EFS) allowed exporters to procure virtually zero-rated inputs for sales tax, preventing capital lock-up. The current budget, however, imposed 18% sales tax on imported cotton and yarn under the scheme. This immediate tax requirement forces firms to pay sales tax upfront, locking up capital with the FBR. The resulting dependence on the notoriously slow and inefficient sales tax refund mechanism severely elevates working capital risk, compels companies to secure more expensive financing to bridge the liquidity gap and ultimately increases the net cost of raw materials.

Market-related risks are compounding. Basic commodity cotton yarn exports suffered a severe contraction, declining by 28.8% to USD 680.7 million in FY25 (FY24: USD 955.5 million) as China utilized domestic cotton reserves. Concurrently, the entry of large, vertically integrated Chinese players under CPEC Phase II is expected to intensify domestic competition, placing local mills with older technology at a significant disadvantage. This challenging environment forces the sector to pivot entirely towards premium differentiation to compete with regional giants like Bangladesh.

Financial strain has intensified due to the historically high PKR/USD exchange rate and an elevated tax burden (~29% effective rate) following the transition from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR) and Super Tax. Under the FTR, export profits were subject to nominal fixed rates, whereas the NTR applies the full corporate tax rate of 29%, with Super Tax further increasing the liability, thereby compressing net margins and exerting additional pressure on cashflows across the export-oriented textile sector. While monetary easing (policy rate cut to 11% in 2025) offers incremental relief, it remains insufficient to offset deep-seated structural cost weaknesses. Sustained viability hinges critically on urgent energy cost rationalization and continuous modernization.

Operational Performance

Spinning Unit	FY23	FY24	FY25
Total no. of spindles Installed	44,016	43,968	45,168
Total no. of spindles worked p.a. (avg.)	42,844	43,580	43,400
No. of shifts worked per day	3	3	3
Installed capacity of yarn converted into 20 counts based on 365 days (M Lbs.)	31	31	31
Actual production of yarn converted into 20 counts based on 365 days (M Lbs.)	30	28	27
Capacity Utilization	**98%**	**91%**	**84%**

During FY25, operational performance remained stable, with a marginal contraction in output. No expansionary CAPEX was undertaken during the year; the last major investment cycle concluded in FY21, when the Company significantly enhanced its spindle base through a debt backed and rights issue supported expansion. Since then, the asset base has been maintained through regular BMR, which continues to support machine efficiency and steady operations. Management expects to follow the same BMR focus approach in FY26, with no sizeable capacity additions planned.

Indus Group's total installed power capacity stands at 65.9 MW, diversified across electricity, gas and solar energy sources. ILL's operations account for 4.4 MW of this capacity, with electricity from the national grid constituting the largest share (78%), supported by solar energy (19%) and minimal gas usage (3%), reflecting a focus on energy efficiency and sustainability.

PROFITABILITY

Revenue remained stable at PKR 17.0 billion (FY24: PKR 17.2 billion), with the export-to-local sales mix shifting to 34:66 (FY24: 46:17:49 for export, local and indirect exports). The change was influenced by the withdrawal of the export-oriented tax regime under the Finance Act 2024, which led to reclassification of indirect export sales (FY24: PKR 6.4 billion) as local sales following removal of related fiscal incentives. Geographically, China remained the largest export destination; however, customer concentration increased, with the top ten customers contributing 33% of sales (FY24: 14%). The higher concentration materialized as orders from existing and new clients were allocated to the Company when other group entities were operating at full capacity.

Gross profit increased to PKR 1.4 billion in FY25 (FY24: PKR 861 million), leading to a higher gross margin of 8.0% (FY24: 5.0%) as imported cotton was procured at a lower cost. The strengthening in gross profitability was the primary driver behind the improvement in operating margins, which rose to 6.1% (FY24: 3.2%). Net margins increased to 1.1% (FY24: -0.1%), supported not only by higher gross profitability but also by a decline in finance costs due to lower interest rates. Together, these factors enabled a turnaround from a net loss of PKR 19 million in FY24 to a net profit of PKR 186 million in FY25.

During 1QFY26, the Company reported net sales of PKR 4.7 billion, reflecting an increase from PKR 4.1 billion in 1QFY25. Gross profit improved to PKR 257 million (1QFY25: PKR 199 million), translating into a gross margin of 5.5% (1QFY25: 4.9%). The improvement in margin was primarily supported by energy cost efficiencies following the installation of solar power.

Operating profitability also strengthened, with the operating margin rising to 4.6% (1QFY25: 3.3%), aided by higher other income, including the impact of unrealized gain on FCEF. Despite the operational improvements, the Company recorded a net loss of PKR 10 million, compared to a profit of PKR 5 million in the same period last year (SPLY), leading to a net margin of -0.2% (1QFY25: 0.1%). The deterioration at the bottom line was primarily attributable to higher finance costs driven by increased short-term borrowings, along with a higher tax charge, whereas, 1QFY25 had benefited from deferred tax income, resulting in a comparatively lower tax burden. Looking ahead, management anticipates gross margins to remain in line with current levels, supported by continued energy efficiencies.

Financial Risk

CAPITAL STRUCTURE

At end-1QFY26, the Company's tier 1 equity stood at PKR 4.3 billion (FY25: PKR 4.3 billion; FY24: PKR 4.1 billion), reflecting a recovery from the prior year's net loss. Total debt increased due to higher short-term borrowings amounting to PKR 6.2 billion (FY25: PKR 5.2 billion; FY24: PKR 2.8 billion) to support increasing working capital requirements. Long-term debt declined nominally to PKR 1.9 billion (FY25: PKR 2.0 billion; FY24: PKR 2.1 billion) as the company replaced ongoing maturities with fresh borrowing. Subsidized borrowing (~24% of total borrowing) carried mark-up rates between 2.0% and 8.0% per annum, whereas conventional term finances were priced at 3M KIBOR +1.5% to 6M KIBOR +1.0%. Consequently, gearing and leverage increased to 1.97x (FY25: 1.76x; FY24: 1.29x) and 2.34x (FY25: 2.05x; FY24: 1.56x), respectively.

Looking ahead, the management has no significant CAPEX plans other than routine BMR activities forFY26. However, the pressure created by increased financing needs for working capital is a source of concern without a tandem increase in topline of the Company.

DEBT COVERAGE & LIQUIDITY

ILL's liquidity profile declined in FY25 due to higher working capital requirements, with the current ratio at 1.24x (FY24: 1.49x) and short-term debt coverage at 1.37x (FY24: 1.95x). The operating cycle extended to 148 days (FY24: 108 days) due to higher receivables and inventory. Although improved profitability supported a stronger Debt Servicing Coverage Ratio (DSCR) of 1.16x (FY24: 0.63x), part of the debt servicing was met through additional borrowings, given negative operational cashflows. During 1QFY26, liquidity indicators remained stable with the current ratio at 1.20x and short-term debt coverage of 1.34x, with the operating cycle at 151 days. Annualized Funds from Operations (FFO) at PKR 617 million, supported a DSCR of 1.27x. Going forward, effective management of working capital through improvement in receivables collection will be important to sustain liquidity and maintain debt servicing capacity.

REGULATORY DISCLOSURES — Appendix II

Name of Rated Entity	Indus Lyallpur Limited
Sector	Textile Spinning
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				
12/26/2025	A-	A2	Stable	Reaffirmed
10/25/2024	A-	A2	Stable	Reaffirmed
09/28/2023	A-	A2	Stable	Upgrade
08/18/2022	A-	A2	Stable	Maintained
06/15/2021	BBB+	A2	Positive	Maintained
04/22/2020	BBB+	A2	Rating Watch - Developing	Reaffirmed
09/20/2019	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 Meetings Conducted

Name	Designation	Date
Mr. Sheikh Shafqat Masood	Director	12th November 2025
Mr. Yasir Anwar	Group CFO	