# VIS
Credit Rating Company Limited

RATING REPORT

# SOHAIL TEXTILE MILLS LIMITED

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| RATING DETAILS | | | | |
|---|---|---|---|---|
| RATINGS CATEGORY | Latest Rating | | Previous Rating | |
| | Medium to Long-term | Short-term | Medium to Long-term | Short-term |
| ENTITY | **BBB-** | **A2** | BBB- | A2 |
| RATING OUTLOOK/WATCH | **Stable** | | Stable | |
| RATING ACTION | **Reaffirmed** | | Reaffirmed | |
| RATING DATE | **23-Dec-25** | | 2-Dec-24 | |

| Shareholding (5% or More) | Other Information |
|---|---|
| Najib Usman: 59.75% | Incorporated in 1981 |
| Tayyab Najib: 40.04% | Public Limited Company (Unlisted) |
| | Director: Tayyab Najib |
| | Chairman: Najib Usman |
| | External Auditor: Munaf Yusuf and 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

Assigned ratings reflect higher business risk encountered by textile exporters emanating from declining domestic cotton production, reliance on costly imports and persistent high energy costs, all having adverse impact on profit margins across the sector. Furthermore, inconsistent government policies have introduced additional pressures on demand of locally produced yarn. Moreover, global tariffs could further raise supply chain and cost-side challenges for textile companies in Pakistan.

STML's net sales moderated in FY25 due to softened demand while elevated utility costs simultaneously drove down the gross margin. Net profit remained low despite decrease in finance costs and taxes. Debt coverage weakened as a result of lower operating cash flows and debt repayments. Strain on liquidity was characterized by a prolonged cash conversion cycle and a marginally lower current ratio. However, the capital structure demonstrated resilience, through improved gearing and leverage.

The management has addressed utility cost inflation by initiating its renewable energy strategy, commissioning of 1 MW of solar power in 1QFY26, with an additional 1 MW slated for deployment by end-FY26. Management maintains a cautiously optimistic outlook with supply-side pressures to ease in the ongoing year and demand anticipated to improve in FY27. From a ratings perspective, the Company's ability to augment profitability, debt servicing metrics, and improve liquidity and capital structure would remain important.

## Company Profile

Sohail Textile Mills Limited ('STML' or 'the Company') is a public unlisted company, established in 1981. It is mainly involved in the business of manufacturing and marketing of yarn. The Company's registered office is situated in Karachi while the head office is in Lahore. STML's manufacturing facilities are located at Sargodha Road, District Sheikhupura, Punjab.

## Management and Governance

STML is part of Ayesha Group of Companies, which is a well-known industrial group that operates from Lahore, Pakistan. The Group started its textile operations with incorporation of Ayesha Spinning Mills in 1972. Since its inception, Ayesha Group has grown to four textile spinning mills comprising 110,000 spindles, a leather tannery, a leather shoe factory, shoe retail stores (brand - EPCOT), socks factory, an embroidery factory and a fashion retail setup (brand - Cross Stitch). The latest addition is the Agility Textile, a state-of-the-art garment stitching unit, specializing in knitted garment primarily for exports. The Group has also recently ventured into information technology under the name of Clikk Tech.

The synergy in raw material procurement by all four textile companies allows STML to secure essential input materials at competitive rates.

## Business Risk

### INDUSTRY

Pakistan's textile sector continues to face structural pressures amid declining domestic cotton availability and elevated cost structures. Cotton production fell sharply to 5.5 million bales in FY25 (FY24: 8.4 million bales), driven by climate shocks, water shortages, and rising input costs, thereby increasing reliance on imports, which currently provide both cost and quality advantages. Textile exports, however, grew by 7.9% YoY to USD 17.9 billion in FY25, supported by value-added segments, though profitability remained constrained by high energy tariffs and rising minimum wages. The relatively lower US tariffs on Pakistani textiles offers some relief. In addition, the exclusion of raw cotton, cotton yarn, and grey cloth from Pakistan's Export Facilitation Scheme (EFS) is an area of concern in the domestic textile industry along with the imposition of a 18% sales tax on these imports, which previously had a zero-rating, threatening companies across the value chain and reducing demand for local produce. Refund delays under the scheme also continue to strain exporter liquidity.

The performance in the ongoing year reflects a muted recovery in the sector, though it continues to face structural challenges such as energy costs and regional competition. The US, UK, Germany, and Netherlands remain major export destinations for Pakistani textiles. Textile shipments in 5MFY26 increased by 2.73% YoY to USD 7.81 billion, supported by volume growth in value-added segments, Readymade Garments (+14%) and Bedwear (+15%), improved demand in the US retail market, carryover orders from June, and tariff disadvantages for competing suppliers.

On the supply side, cotton production for FY26 is projected at 4.8 million bales, down 4% YoY, reflecting reduced cultivated area, weaker yields in Sindh, and significant flood-related damage in Punjab. Cotton consumption is expected to ease to 10.5 million bales, with rising cost pressures, while imports are projected at 5.6 million bales to bridge the supply gap. Looking ahead, the government's approval of hybrid seed imports is expected to support yield recovery over the medium term, offering partial mitigation against recurring structural challenges.

### OPERATIONAL UPDATE

Number of spindles remained unchanged during the review period as STM faces pressure on demand, cascading to declining utilization levels. Notable expenditure on capacity expansion is not expected during the rating horizon with the management chiefly focused on cost savings through installation of solar power.

| Operating metrics | FY23 | FY24 | FY25 |
|---|---|---|---|
| Number of spindles installed | 33,384 | 33,384 | 33,384 |
| Number of working days | 350 | 350 | 356 |
| Number of shifts per day | 2 | 2 | 2 |
| Production capacity - (converted into 20 KGs) | 9,862,000 | 9,862,000 | 9,862,000 |
| Actual production of yarn - KGs (converted into 20 KGs) | 9,465,282 | 9,088,757 | 8,266,454 |
| ***Utilization*** | ***96%*** | ***92%*** | ***84%*** |
| **Actual Production of yarn - KGs** | **5,474,725** | **5,651,402** | **5,657,662** |

STM's power requirement are met from dual-fuel captive generation and sanctioned grid load. The Company has recently added 1 MW of solar power in 1QFY26 and plans to add another 1 MW by end-FY26, for cost savings.

### SALES & PROFITABILITY

The imposition of an 18% sales tax on locally produced yarn, curtailed demand of yarn manufacturing companies. While STM's sales volume fell 11.1% year-on-year, the decline in net sales was limited to 4.2% in FY25 on the back of uptick in selling prices. Furthermore, the composition of the top 10 customers to total sales remained largely consistent. Similarly, both the customer sales mix and the product mix were unchanged, as yarn sales accounted for nearly the entire revenue. Gross margin continued to decrease primarily on account of rising utility costs in FY25. Operating margin also reduced in FY25, reflecting persistent inflationary challenge. Net profit increased marginally in FY25, primarily due to lower financial charges and incidence of taxation. In order to mitigate the impact for high cost, the Company recently installed a 1 MW solar power largely from internal sources. Furthermore, harnessing the space on its facility, the Company has secured a loan for an additional 1 MW solar installation, which is expected to provide further assistance in cost reduction.

## Financial Risk

### CAPITAL STRUCTURE

Over the years, the company has been retiring its long-term obligations while the working capital requirements are being financed through short-term credit lines. Moreover, the capital structure includes a Rs. 89.09m subordinated loan provided by its directors, which is commonly renewable on an annual basis. This debt is contractually placed lower in repayment priority, under a subordination agreement of directors with JS Bank and SAMBA Bank. The loan carries a floating rate calculated as the 3 months KIBOR plus 1.5%. Gearing and leverage improved to 0.73x (FY24: 0.93x) and 1.73x (FY24: 1.96x) respectively at end-FY25 due to lower debt and modestly higher equity base. According to the management, leverage ratios are expected to remain largely stagnant, as profit retention is expected to partially offset the borrowings mobilized for the solar power installation.

### DEBT COVERAGE & LIQUIDITY

FFO (funds flow from operations) decreased in FY25 mainly due to lower operating profit. As a result, DSCR (debt servicing coverage ratio) declined to 1.00x (FY24: 1.26x) while FFO to debt also weakened in FY25. Current ratio stood slightly lower at 1.03x at end-FY25, though broadly in line with the three-year average of 1.05x. STM maintained a very low trade debts to sales ratio while aging of trade debts remained sound, as tabulated below:

| Aging of receivables | FY23 | FY24 | FY25 |
|---|---|---|---|
| Not past due | 99% | 97% | 97% |

## FINANCIAL SUMMARY

| Balance Sheet (Rs Millions) | FY23A | FY24A | FY25A |
|---|---|---|---|
| Property, plant and equipment | 1,907 | 2,042 | 2,045 |
| Stock-in-trade | 247 | 384 | 357 |
| Trade debts | 83 | 39 | 38 |
| Cash & Bank Balances | 16 | 18 | 35 |
| Other Assets | 113 | 192 | 120 |
| **Total Assets** | **2,366** | **2,675** | **2,594** |
| Creditors | 75 | 53 | 94 |
| Long-term Debt (incl. current portion) | 315 | 275 | 208 |
| Short-Term Borrowings | 146 | 241 | 204 |
| **Total Debt** | **461** | **516** | **412** |
| Other Liabilities | 393 | 517 | 574 |
| **Total Liabilities** | **928** | **1,086** | **1,080** |
| Paid up Capital | 69 | 69 | 69 |
| Revenue Reserve | 470 | 486 | 509 |
| **Equity (excl. Revaluation Surplus)** | **539** | **555** | **578** |
| **Income Statement (Rs Millions)** | **FY23A** | **FY24A** | **FY25A** |
| Net Sales | 3,153 | 3,579 | 3,417 |
| Gross Profit | 220 | 213 | 153 |
| Operating Profit | 142 | 167 | 115 |
| Finance Costs | 91 | 85 | 65 |
| Profit Before Tax | 51 | 82 | 51 |
| **Profit After Tax** | **1** | **2** | **7** |
| **Ratio Analysis** | **FY23A** | **FY24A** | **FY25A** |
| Gross Margin | 6.96% | 5.96% | 4.49% |
| Operating Margin | 4.50% | 4.67% | 3.38% |
| Net Margin | 0.02% | 0.06% | 0.20% |
| Funds from Operation (FFO) (Rs Millions) | 79 | 102 | 40 |
| FFO to Total Debt | 17.19% | 19.83% | 9.53% |
| FFO to Long Term Debt | 25.13% | 37.22% | 18.50% |
| Gearing (x) | 0.86 | 0.93 | 0.73 |
| Leverage (x) | 1.72 | 1.96 | 1.73 |
| Debt Servicing Coverage Ratio (x) | 0.96 | 1.26 | 1.00 |
| Current Ratio (x) | 1.04 | 1.11 | 1.03 |
| (Stock in trade + trade debts) / STD (x) | 2.48 | 1.87 | 2.11 |
| Return on Average Assets | 0.02% | 0.09% | 0.26% |
| Return on Average Equity | 0.09% | 0.40% | 1.22% |
| Cash Conversion Cycle (days) | 39 | 34 | 37 |

**A - Audited Accounts**

| REGULATORY DISCLOSURES | Appendix I |
|---|---|
| **Name of Rated Entity** | Sohail Textile Mills Limited |
| **Sector** | Textiles |
| **Type of Relationship** | Solicited |
| **Purpose of Rating** | Entity Ratings |
| **Instrument Structure** | N/A |

**Rating History**

| Rating Date | Medium to Long Term | Short Term | Rating Outlook/Watch | Rating Action |
|---|---|---|---|---|
| RATING TYPE: ENTITY | | | | |
| **23-Dec-2025** | **BBB-** | **A2** | **Stable** | **Reaffirmed** |
| 02-Dec-2024 | BBB- | A2 | Stable | Reaffirmed |
| 04-Dec-2023 | BBB- | A2 | Stable | Reaffirmed |
| 19-Oct/2022 | BBB- | A2 | Stable | Reaffirmed |
| 09-Aug-2021 | 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**

| Name | Designation | Date |
|---|---|---|
| Salman Haider | Group CFO | 10-Dec-2025 |