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)

Rs. Million	FY23A	FY24A	1HFY25M
Net Sales	7,268.52	7,300.15	3,217.46
Profit Before Tax	339.23	251.93	93.30
Profit After Tax	213.01	122.93	53.08
Paid up Capital	650.00	650.00	650.00
Equity (excl. Revaluation Surplus)	2,007.39	2,132.69	2,185.77
Total Debt	1,150.59	1,138.32	906.04
Leverage (x)	0.93	0.87	0.62
Gearing (x)	0.57	0.53	0.41
Funds From Operations (FFO)	405.34	320.01	214.35
FFO/Total Debt (x)	0.35	0.28	0.47
Net Margin (%)	3%	2%	2%

**Annualized, if required*
A - Actual Accounts
M - Management Accounts

Z.A. CORPORATION (PVT.) LIMITED

Chief Executive: Sheikh Danish Ali

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	April 28, 2025		May 08, 2024	

RATING RATIONALE

The reaffirmation of the entity's ratings at 'BBB+/A2' with a Stable Outlook reflects the maintenance of an adequate debt coverage profile, conservative capitalization, and an improving liquidity position, despite sustained pressure on profitability. Capitalization has remained conservative, supported by lower dependence on external borrowings and improved internal cash flow generation. Liquidity has strengthened due to tighter working capital management, reduced reliance on short-term liabilities, and limited capital expenditure. While profitability margins remain under pressure owing to elevated input costs and competitive dynamics, the adverse impact has been partially mitigated by lower finance costs. The ratings also continue to factor in high to medium business risk profile of the textile spinning sector, which remains subject to structural inefficiencies and external vulnerabilities.

Going forward, ratings will remain sensitive to the sector's cost structure, energy pricing, regulatory developments, and changes in global demand dynamics. Improved profitability under competitive pressure, continued improvement in capitalization metrics, and maintenance of liquidity and coverage ratios will be key factors. The ability of the Company to manage input cost escalations, maintain margins, and ensure timely debt servicing will remain important.

COMPANY PROFILE

Z.A. Corporation (Pvt.) Limited ('ZAC' or 'the Company') is a medium-sized spinning unit located in Faisalabad. Shareholding of the Company is vested with Sheikh Danish Ali. The principal activity of the Company is the production and sale of yarn. Registered office and mills of the Company is located in District Faisalabad, Punjab.

GOVERNANCE

ZAC operates under a corporate governance framework characterized by concentrated ownership and centralized decision-making. The Company is wholly owned and led by Sheikh Danish Ali, who concurrently serves as the Chief Executive Officer as well and is actively involved in daily operations.

INDUSTRY PROFILE & BUSINESS RISK

Assigned ratings incorporate the business risk profile of Pakistan's textile spinning sector 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), indirect 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 sector 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 12% by February 2025, may ease financing costs, long-term competitiveness will require investments in technology, product diversification, and a stable regulatory environment.

Product Profile & Capacity

ZAC produces a wide range of coarse and fine counts yarn, from 16/s to 80/s. The Company can produce yarn of 100% cotton, blended and synthetic, and polyester/cotton blended yarn, however, the sales mix depends on the customer orders. In FY24, operational performance was affected by continued subdued demand, particularly for blended cotton-polyester yarn, resulting in a decline in order volumes. The reduction in demand was primarily attributed to lower export orders from downstream-sheet manufacturers and textile exporters. Availability of low cost imported yarn also contributed to subdued demand for locally produced yarn. Despite these challenges, the Company maintained utilization levels in FY24, although they remained below historical averages of over 90%, reflecting ongoing economic constraints. Management has indicated that the demand environment is expected to remain under pressure due to prevailing adverse market conditions in FY25.

Capacity and Actual Production	2023	2024
Number of spindles installed	67,584	67,584
Number of spindles worked	67,584	67,584
Installed capacity 20/s count (Kgs)	25,175,931	25,175,931
Actual production of yarn 20/s count (Kgs)	21,117,463	21,272,560
Capacity Utilization (%)	**84%**	**84%**

FINANCIAL RISK

Assigned ratings also consider the financial risk profile of the Company. Profitability metrics showed contraction in margins, primarily owing to rising input and energy costs, with limited ability to transfer these increases to buyers due to competitive pressures. While revenue remained stable, the gross margin continued to decline. Net margins were supported by a conservative capital structure, which limited exposure to financial costs. Capitalization indicators improved due to scheduled repayments and profit retention, with no addition of new debt. Liquidity remained supported by improved working capital management, resulting in higher current ratio levels. Coverage metrics showed a decline in debt service capacity during the review period, though remained aligned with the assigned ratings.

Profitability

In FY24, revenue remained stable, supported by consistent sales volumes and marginal price adjustments. However, the gross margin contracted to 7.56% (FY23: 8.36%), primarily due to elevated utility costs that could not be fully passed on to customers, given the competitive pressures. Strain on margins continued into FY25, with further escalation in input costs—particularly energy and raw material—amid limited pricing flexibility due to increased competition from imported yarn. As a result, gross margin further declined to 6.20% in 1HFY25. Despite this contraction, net margins remained positive during the review period, supported by the Company's conservative capital structure, which mitigated the impact of high interest rates and kept the finance costs impact low. The current gross margin level remains below the Company’s historical average of approximately 11%.

Going forward, net margins are expected to be supported by reduced interest rates in the country. Nevertheless, market conditions are also likely to remain uncertain in the short to medium term, posing a challenge for the Company.

Capital Structure

The Company maintained an adequate capitalization profile during FY20-FY23, with an average gearing and leverage ratio of 0.94x and 1.20x, respectively. In FY23, a shift towards a more conservative financing approach was undertaken, wherein reliance on external debt was reduced. Internal cash flows were utilized to support balancing, modernization, and replacement (BMR) activities, while working capital requirements were managed through improved inventory controls.

In FY24, gearing and leverage ratios were recorded at 0.53x (FY23: 0.57x) and 0.87x (FY23: 0.93x), respectively. Further improvement was noted in 1HFY25, with gearing and leverage declining to 0.41x and 0.62x, respectively. The improvement was supported by scheduled repayments of long-term debt and equity enhancement through profit retention, without recourse to additional borrowings.

Debt Coverage & Liquidity

The Company’s coverage profile continued to contract in FY24, due to constrained operating margins, coupled with higher financial charges paid due to a surge in local interest rates during the year. The debt service coverage ratio (DSCR) depicted weakening to 1.44x (FY23: 1.91x), albeit still considered to be commensurate with assigned ratings. In 1HFY25, DCSR remained stable at 1.46x despite continued stress on operating margins.

ZAC's liquidity profile has historically remained adequate, as indicated by an average current ratio of 1.34x during FY19–FY24. In recent periods, internal cash flows have been increasingly allocated towards working capital requirements, resulting in reduced dependence on both debt and non-debt external funding. Capital expenditure has remained limited to essential BMR activities. This shift contributed to a greater reduction in current liabilities compared to current assets. Consequently, the current ratio improved to 1.72x in 1HFY25 (FY24: 1.54x; FY23: 1.54x).

Financial Summary *Appendix I*

Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A	1HFY25M
Property, plant and equipment	2,080.81	1,911.79	1,850.57	1,767.86
Stock-in-trade	1,984.19	1,514.74	1,234.46	1,081.53
Trade debts	3.67	3.03	481.31	289.16
Cash & Bank Balances	65.23	10.22	30.63	28.07
Other Assets	404.57	435.65	393.01	377.34
Total Assets	4,538.47	3,875.43	3,989.98	3,543.96
Creditors	465.40	54.93	96.86	13.82
Long-term Debt (incl. current portion)	631.11	533.11	395.11	257.11
Short-Term Borrowings	1,358.61	617.48	743.21	648.93
Total Debt	1,989.72	1,150.59	1,138.32	906.04
Other Liabilities	290.46	662.53	622.12	438.34
Total Liabilities	2,745.58	1,868.05	1,857.30	1,358.20
Paid up Capital	650.00	650.00	650.00	650.00
Revenue Reserve	813.80	1,028.29	1,153.59	1,206.67
Sponsor Loan	329.10	329.10	329.10	329.10
Equity (excl. Revaluation Surplus)	1,792.90	2,007.39	2,132.69	2,185.77

Income Statement (PKR Millions)	FY22A	FY23A	FY24A	1HFY25M
Net Sales	6,466.60	7,268.52	7,300.15	3,217.46
Gross Profit	628.79	607.75	552.16	199.64
Operating Profit	552.01	519.38	460.15	157.99
Finance Costs	168.69	180.15	208.22	64.69
Profit Before Tax	383.32	339.23	251.93	93.30
Profit After Tax	309.71	213.01	122.93	53.08

Ratio Analysis	FY22A	FY23A	FY24A	1HFY25M
Gross Margin (%)	9.72%	8.36%	7.56%	6.20%
Operating Margin (%)	8.54%	7.15%	6.30%	4.91%
Net Margin (%)	4.79%	2.93%	1.68%	1.65%
Funds from Operation (FFO) (PKR Millions)	493.13	405.34	320.01	214.35
FFO to Total Debt* (%)	24.78%	35.23%	28.11%	47.32%
FFO to Long Term Debt* (%)	78.14%	76.03%	80.99%	166.74%
Gearing (x)	1.11	0.57	0.53	0.41
Leverage (x)	1.53	0.93	0.87	0.62
Debt Servicing Coverage Ratio* (x)	2.44	1.91	1.44	1.46
Current Ratio (x)	1.20	1.54	1.54	1.72
(Stock in trade + trade debts) / STD (x)	1.51	2.59	2.46	2.25
Return on Average Assets* (%)	7.70%	5.06%	3.13%	2.82%
Return on Average Equity* (%)	18.53%	11.21%	5.94%	4.92%
Cash Conversion Cycle (days)	87.87	81.78	82.36	88.53

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES — Annexure II

Name of Rated Entity	Z.A. Corporation (Pvt.) Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	

Rating Date	Medium to Long Term	Short Term	Rating Outlook/ Watch	Rating Action
RATING TYPE: ENTITY				
28-04-2025	**BBB+**	**A2**	**Stable**	**Reaffirmed**
08-05-2024	BBB+	A2	Stable	Reaffirmed
03-04-2023	BBB+	A2	Stable	Reaffirmed
08-03-2022	BBB+	A2	Stable	Reaffirmed
26-02-2021	BBB+	A2	Stable	Upgrade
28-04-2020	BBB	A2	Rating Watch-Negative	Maintained
31-10-2019	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 Conducted	Name	Designation	Date
	Mr. Aziz-ur-Rehman	CFO	April 28, 2025