VIS
Credit Rating Company Limited

RATING REPORT

Analyst:
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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)

M.K. SONS (PRIVATE) LIMITED

Chairman & Chief Executive: Javed Akhtar

RATING DETAILS

RATINGS CATEGORY	LATEST RATING		PREVIOUS RATING	
	Medium To Long-Term	Short-Term	Medium To Long-Term	Short-Term
ENTITY	A-	A2	A-	A2
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Reaffirmed	
RATING DATE	July 11, 2025		June 14, 2024	

RATING RATIONALE

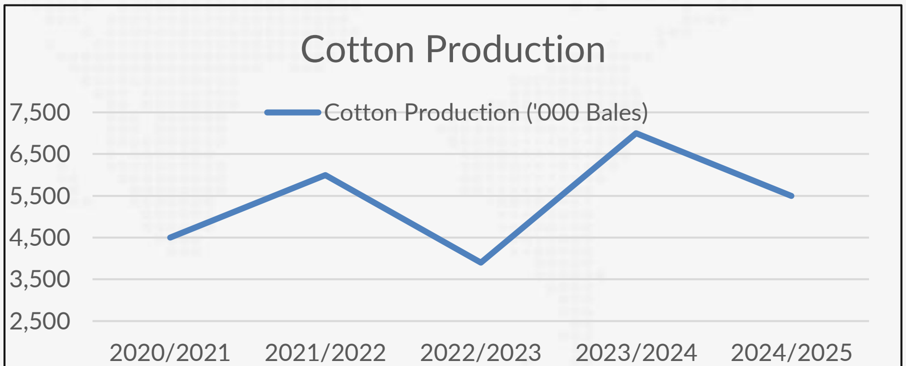
The textile sector is grappling with elevated business risks, stemming from high production costs, volatility in demand, ongoing inflationary challenges, and regional competition. M. K. Sons (Private) Limited ('MKS' or 'the Company'), involved in the exports of textile made-ups and denim garments, has demonstrated resilience, with a notable increase in net sales in FY24 and 10MFY25. Ratings take into account stability in profit margins during the review period. Gross margins have remained stable with favorable pricing adjustments offsetting higher production costs while net margin recovered during 10MFY25 after a slight dip in FY24. Despite growth in topline, cash flow coverages remained under stress. Liquidity ratios remained adequate from ratings perspective. Moreover, while gearing remained intact at manageable levels, leverage was elevated, due to higher trade payables. Looking ahead, the Company is expected to maintain positive sales trajectory, underpinned by a consistent demand for home textiles and made-ups from its customers. Sustained improvement in profit margins, recovery in cash flows and achieving projected improvement in capitalization ratios will be key rating drivers, moving forward.

COMPANY PROFILE

M.K. Sons (Private Limited ('MKS' or 'the Company') was incorporated on June 02, 1985 as a private limited company under the Companies Ordinance, 1984. The Company's core line of business includes manufacturing and sales of value-added fabrics, home textile products and denim garments. The Company's registered office and production facilities are located in 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. The USDA forecasts a rebound to 5.55 million bales in FY25, contingent on overcoming several challenges, including a declining area under cotton cultivation, rising energy costs, and adverse climatic conditions such as heatwaves, floods, and pest infestations that have further pressured 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 profitability remains vulnerable to cotton market volatility, inflationary pressures, and exchange rate fluctuations, while persistently high energy costs continue to strain overall cost structures. Furthermore, rising input costs and regulatory changes are creating a challenging environment for the sector.

Figure 1: MoM Textile Exports (USD Million)
Source: PBS

Product Profile & Capacity

The Company's production facilities are located at Khurrianwala, Faisalabad. Going forward, additional solar capacities are expected to come online, augmenting cost-optimization efforts of the Company. Focusing exclusively on profitable orders on the back of uptick in demand of home textiles, the Company reduced denim garments production, while processing capacity utilization increased in FY24. Operating performance is tabled below:

Operating metrics		FY23	FY24
Weaving *(square meters)*	Installed capacity	59,822,972	59,822,972
	Actual production	48,226,223	47,260,148
	Utilization	***80.6%***	***79.0%***
Processing *(meters)*	Installed capacity	56,400,000	56,400,000
	Actual production	41,905,261	46,248,000
	Utilization	***74.3%***	***82.0%***
Denim garments *(pieces)*	Installed capacity	3,000,000	3,000,000
	Actual production	2,219,693	1,350,000
	Utilization	***74.0%***	***45.0%***

FINANCIAL RISK

Capital Structure

Total borrowings increased at end-10MFY25. Out of these, 85% are short-term loans with the rest being long-term. In FY24, MKS obtained a long-term loan to finance installation of solar panel system at its production facilities. However, given absence of any other notable capital expenditures, long-term loans decreased at end-10MFY25. Short-term borrowings increased at end-10MFY25 on account of higher working capital requirements. Gearing held steady at 1.55x by end-10MFY25 (end-FY24: 1.59x, end-FY23: 1.55x), supported by growth in equity (excluding revaluation surplus). Leverage witnessed a slight increase to 2.37x (end-FY24: 2.20x, end-FY23: 2.20x) by end-10MFY25, due to significant increase in trade payables and short-term debt. Looking ahead, reaching projected improvement in capitalization metrics will be an important factor for sustaining assigned ratings.

Profitability

Net sales increased mainly on account of higher volumes. In FY24, processed fabric volumetric offtake increased by 16%, volumes of made-ups rose by 19%, and greige fabrics offtake were up by 11%, from FY23. However, sales volumes of denim garments declined by 53% from FY23 owing to pricing challenges leading the Company to mainly focus on orders with better margins. Product-wise sales mix varies in line with change in demand, as tabulated below:

Sales mix *(PKR in m)*	**FY23**	**FY24**	**10MFY25**
Processed fabric	18%	18%	18%
Made ups	53%	62%	67%
Garments	-	1%	-
Greige fabrics	5%	6%	2%
Denim garments	23%	12%	12%
Total	**100%**	**100%**	**100%**

Exports comprise approximately 85% of sales revenues while the rest comes from services to exporters (10%) and local sales (5%). In FY24, export sales were up 12%, services to exports rose by 21% and local sales improved by 22%, in terms of value.

Geographically, significant share of sales came from Europe (FY24: 69%, FY23: 57%) followed by North America (FY24: 15%, FY23: 11%). Though top 10 customers represented 33% of sales (FY23: 30%), this concentration risk is alleviated as no individual customer exceeded a 6% share of net sales in FY24. However, during 10MFY25, contribution of top 10 customers increased to 37% on account of lower sales of greige fabric. Gross margin improved, clocking in at 16.7% in FY24 (FY23: 16.6%, FY22: 15.7%), reflecting Company's ability to partially pass on increased raw material costs to customers. Finance costs escalated in FY24 due to increased utilization of short-term borrowings, and elevated policy rates. Despite healthy revenue growth, net profit slightly decreased in FY24, lowering net margin to 1.8% compared to 2.0% from FY23. During 10MFY25, net sales increased by 22% as the Company was able to meet improvement in demand. However, gross margin slightly declined to 15.5% (10MFY24: 16.6%) in 10MFY25 amidst stable sale prices. Net profit and net margin (10MFY25: 1.7%, 10MFY24: 2.1%) depicted modest improvement on the back of higher sales and decreasing finance cost. Management anticipates to close FY25 with 13% growth in net sales from FY24 while profit margins are expected to remain stable.

Debt Coverages & Liquidity

Despite consistent growth in net sales and profit before tax, Funds from Operations (FFO) slightly decreased in FY24, primarily due to higher financial charges. Debt Servicing Coverage Ratio (DSCR) consequently declined to 1.42x in FY24 (FY23: 1.62x) but improved to 1.50x by end-10MFY25 with recovery in profitability. FFO to total debt reduced to 0.10x (FY24: 0.13x, FY23: 0.16x) in 10MFY25. Improvement in debt servicing will be an important factor from ratings context. Short-term debt coverage strengthened to 1.52x (FY23 and FY24: 1.39x) by end-10MFY25 due to a consistent increase in trade debts on account of business growth. These trade debts are further secured by Letters of Credit (LCs) and factoring arrangements. Current ratio with steady improvement, reached 1.23x (end-FY24: 1.24x, end-FY23: 1.21x, end-FY22: 1.16x) by end-10MFY25. However, the cash conversion cycle extended in FY24, due to lower payable days, and further extended in 10MFY25. Overall liquidity and coverages profile is considered adequate from the assigned ratings perspective.

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	M. K. Sons (Private) Limited
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
Rating Type: Entity				
11-Jul-25	A-	A2	Stable	Reaffirmed
14-Jun-24	A-	A2	Stable	Reaffirmed
29-May-23	A-	A2	Stable	Reaffirmed
22-Apr-22	A-	A2	Stable	Reaffirmed
5-Mar-21	A-	A2	Stable	Maintained
27-Apr-20	A-	A2	Rating Watch - Negative	Maintained

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 Meetings Conducted

Name	Designation	Date
Asif Nadeem	CFO	17-June-2025
Usman Yaseen	DMG Finance	