Analysts:
M. Amin Hamdani
amin.hamdani@vis.com.pk

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)

RAJBY INDUSTRIES

Chairman: Mr. Nafees Sultan

Chief Executive: Mr. Mudassir Nafees

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		Positive	
RATING ACTION	Maintained		Maintained	
RATING DATE	August 06, 2025		July 15, 2024	

RATING RATIONALE

The assigned ratings reflect RI's strong market position in the export-oriented ready-to-wear (RTW) apparel sector, with a focus on denim garments. The Company's consistent revenue growth, satisfactory cashflow generation and healthy debt service coverage supports its credit profile. However, high client concentration and exposure to cost pressures, particularly in material costs and regional competition pose challenges. While RI has demonstrated operational efficiencies and margin improvements, the persistence of these pressures in 10MFY25 has moderated financial performance.

COMPANY PROFILE

Rajby Industries ('RI') is a partnership firm established in 1990, primarily engaged in the export-oriented manufacturing of Ready-to-Wear (RTW) apparel, with a specialization in denim garments. The Company's product portfolio includes jeans, trousers, shorts, jeggings, pants, jackets and shirts.

The majority (50%) ownership of RI is held by Mr. Nafees Sultan, with the remaining shares distributed among family members. The Company's manufacturing units and the registered office is located in the Korangi Industrial Area, Karachi. As part of its continued growth, RI plans to convert into a private limited company during 2025.

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.

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.

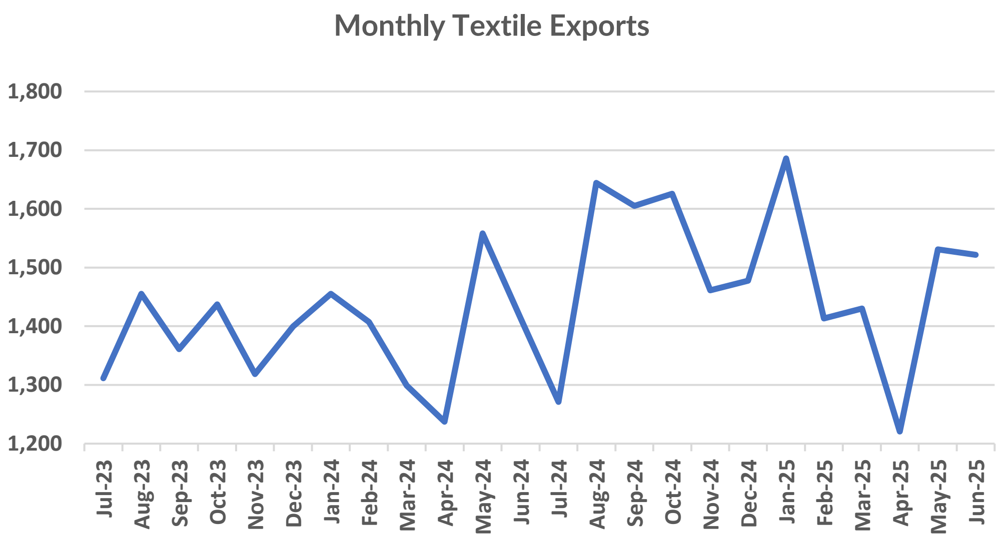

Figure 1: MoM Textile Exports (USD Million)
Source: PBS

Operational Update

Million Pieces	FY21	FY22	FY23	FY24	9MFY25
Installed Capacity	16.8	13.5	13.5	13.5	13.5
Actual Production	11.2	12.2	9.2	10.1	7.7
Capacity Utilization	**66.7%**	**90.4%**	**67.8%**	**74.8%**	**76.4%**

In FY24, RI witnessed increased capacity utilization amid higher demand but remained significantly below 2022 levels. To support future growth, the Company has purchased land for potential backward integration in the long run.

The Company's total power capacity is 4 MW, with operational capacity ranging between 2.5 MW and 3.5 MW. Previously, power needs were met primarily by gas generators; however, the Company now relies on K-Electric as the main power source, with an 800 KW solar power system serving as a supplementary source.

FINANCIAL RISK

Capital Structure

At end-FY24, partners' capital increased due to the retention of approximately 38% of profit after tax. Additionally, the loan from associate declined by PKR 268 million standing at PKR 368 million (end-FY23: PKR 636 million). As a result, equity registered a notable increase compared to the previous year.

During 10MFY25, the retention rate of partners' capital improved to 58% and the loan from the associate was fully settled. Instead, the Company secured funding through a loan from the sponsor(s). Overall equity continued to grow as of end-10MFY25.

Total debt witnessed an increase mainly due to bill discounting in short-term borrowings while long-term debt registered consistent decline in line with scheduled repayments. Gearing ratio remained in the same range standing at 1.14x at end-10MFY25 (FY24: 1.04x, FY23: 1.06x). However, leverage witnessed an increase to 2.34x as at 10MFY25 (FY24: 1.87x, FY23: 1.61x) mainly due to higher payables.

Profitability

In FY24, RI recorded a 24% YoY increase in revenue, rising from PKR 17.6 billion in FY23 to PKR 21.8 billion. This growth was driven by both higher prices and increased volumes. The primary revenue contributors were jeans, trousers and shorts, which together accounted for approximately 84% of total sales.

Europe remained the largest market, accounting for 74% of total sales in FY24 (FY23: 61%), while the US market share declined to 16% (FY23: 37%).

Client concentration remained high, with the top 10 customers representing approximately 84% of sales over 10MFY25 and the top 5 clients contributing around 55% (FY23: 52%).

Gross margin improved in FY24 YoY, reflecting operational efficiency and better cost control. This improvement in gross margins contributed to a notable rise in net profit, resulting in an improved net margin.

During 10MFY25, revenue stood at PKR 20.9 billion (FY24: PKR 21.8 billion), with sales impacted by price discounts extended to key clients due to heightened competition in regional markets. As a result, both gross and net margins declined.

For FY26, management expects revenue to reach PKR 28 billion. However, due to persistent cost pressures, margins are anticipated to remain at current levels. To drive growth despite these challenges, the Company will focus on increasing market share with existing clients.

Debt Coverage & Liquidity

The Company's liquidity position remained adequate in FY24, with a stable current ratio of 1.20x (FY23: 1.21x). However, the net operating cycle lengthened to 75 days (FY23: 63 days), primarily due to an increase in receivable days, which ranges from 60 to 90 days. This trend continued in 10MFY25, with the cycle further extending to 98 days, driven by higher receivable and inventory days.

Debt coverage metrics improved notably in FY24, as Funds from Operations (FFO) doubled to PKR 2.8 billion (FY23: 1.4 billion), driving the Debt Service Coverage Ratio (DSCR) of 6.96x (FY23: 3.41x). FFO to long-term debt also improved to 6.35x (FY23: 2.55x). However, during 10MFY25, FFO stood at PKR 665 million (FY24: PKR 2.8 billion), leading to a DSCR of 3.07x (FY24: 6.96x).

REGULATORY DISCLOSURES					Appendix I
Name of Rated Entity	Rajby Industries				
Sector	Textile				
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				
	06-08-2025	A-	A2	Stable	Maintained
	15-07-2024	A-	A2	Positive	Maintained
	22-06-2023	A-	A2	Stable	Reaffirmed
	07-06-2022	A-	A2	Stable	Maintained
	03-06-2021	A-	A2	Negative	Maintained
	23-04-2020	A-	A2	Rating Watch - Negative	Maintained
	29-11-2019	A-	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.				
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2025 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.				
Due Diligence Meeting Conducted	Name	Designation	Date		
	Mr. Muhammad Shahbaz	CFO	July 18, 2025		
	Mr. Tauseef Karim Siddiqui	Director Finance			
	Mr. Muhammad Ilyas Qaazi	General Manager Taxation & Internal Audit			