VIS
Credit Rating Company Limited

RATING REPORT

Analysts:
Saeb Muhammad Jafri
(saeb.jafri@vis.com.pk)

APPLICABLE METHODOLOGY(IES):
VIS Entity Rating Criteria Methodology – Corporate Rating
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)
Rating Scale:
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

Rs. Million	FY23A	FY24A	3QFY25M
Net Sales	2,960.89	3,053.03	3,093.77
Profit Before Tax	146.75	258.72	185.27
Profit After Tax	64.47	112.37	100.76
Paid up Capital	70.50	70.50	70.50
Equity (excl. Revaluation Surplus)	860.04	996.53	1,097.28
Total Debt	1,031.24	884.34	1,265.68
Leverage (x)	2.79	2.73	3.43
Gearing (x)	1.20	0.89	1.15
Funds From Operations (FFO)	249.07	369.65	283.73
FFO/Total Debt (x)	24.15%	41.80%	29.89%
Net Margin (%)	1.03%	1.38%	1.51%

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

SHEIKHUPURA TEXTILE MILLS LIMITED

Chief Executive: Mr. Muhammad Asif

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		Positive	
RATING ACTION	Upgrade		Maintained	
RATING DATE	July 21, 2025		July 24, 2024	

RATING RATIONALE

The entity ratings have been upgraded to 'BBB+/A2' with a 'Stable' outlook. Upgrade in ratings incorporate the Company's diversified revenue stream, with an increasing contribution from the value-added retail segment, which carries healthier margins compared to the spinning segment. Sustained operational performance, reflected through consistent capacity utilization across both spinning and retail operations despite economic headwinds, has also supported the assigned ratings.

Ratings are underpinned by the Company's strategic focus on expanding the retail segment and optimizing its product mix. Continued revenue growth from this segment, alongside healthy internal liquidity generation and retained profits, has supported operational resilience.

COMPANY PROFILE

Sheikhupura Textile Mills Limited ('the Company' or 'STML') was incorporated in Pakistan in 1989. The Company is primarily engaged in the manufacturing, sale, and trading of various types of yarn, including different counts of blended yarn. As part of its revenue diversification strategy, the Company has ventured into the retail segment through the sale of women's fashion apparel under the brand name 'Cross Stitch,' which operates 35 retail outlets across Pakistan. It has recently started western apparel brand named "Kiji" and has also broadened product range within the Cross Stitch brand.

The Company's head office is situated in the Gulberg area of Lahore, while its manufacturing facilities are located at Ferozepur Road, Lahore, and in District Kasur, Punjab.

GROUP PROFILE

STML forms part of the Ayesha Group, which entered the spinning industry in 1972 with the establishment of Ayesha Spinning Mills Limited. Over time, the Group has expanded its footprint to include four spinning units with a collective installed capacity exceeding 120,000 spindles. In addition to spinning operations, the Group's portfolio includes a leather tannery, a footwear manufacturing unit, a shoe retail chain operating under the brand 'EPCOT,' a socks manufacturing facility, and an embroidery unit.

GOVERNANCE

STML operates as a family-owned enterprise. The shareholding is primarily held by four members of the sponsoring family, with Asad Shafi, Mohammad Asif, and Umer Shafi holding 33.92%, 32.95%, and 30.77% of the shares, respectively, while Samina Asif holds 2.36%. The Board of Directors comprises three members and is chaired by Mohammad Asif, who also serves as the Chief Executive Officer.

INDUSTRY PROFILE & BUSINESS RISK

Pakistan's textile sector carries a moderate to high business risk profile, shaped by inherent economic cyclicality, fierce international competition, and longstanding structural challenges. The industry is highly exposed to shifts in global and domestic demand, making it particularly vulnerable to broader macroeconomic fluctuations. In FY24, cotton production saw a significant 79% increase over FY23—though largely due to a low base effect—yet output dropped by 59.4% year-on-year by October 2024, totaling just 2.04 million bales. For FY25, the USDA projects production at 5.55 million bales; however, this estimate is contingent on overcoming key constraints such as reduced cultivation area, soaring input and energy costs, and adverse weather conditions like heatwaves, floods, and pest infestations, which continue to limit yield potential.

Despite these agricultural challenges, the sector's export performance in 3QFY25 showed resilience, with growth primarily driven by the value-added segment. Nonetheless, domestic shortfalls in cotton production have necessitated increased reliance on imported cotton, exposing manufacturers to international price swings and currency volatility. The profitability of textile exporters remains sensitive to inflationary pressures, exchange rate fluctuations, and ongoing energy cost escalation.

A significant cost challenge stems from the government's decision—under IMF reform commitments—to raise gas prices for captive power plants by 23% from March 2025, with rates expected to reach PKR 6,000/MMBTU by August 2026. This, along with the transition from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR), is likely to exert additional pressure on manufacturers' margins. Rising input costs, policy shifts, and energy-related uncertainties continue to create a difficult operating environment for the sector, impacting competitiveness and financial sustainability. However, the decline in policy rates, is expected to provide a support the financial metrics of the industry.

Product Profile & Capacity

STML operates two manufacturing units: a spinning unit with 28,656 installed spindles and a cross-stitch unit with a monthly production capacity of 41,000 meters. In FY24, the spinning unit recorded a capacity utilization of 109.5% (FY23: 97.4%), reflecting an increase over the previous year. The production output continued to exceed the installed capacity, consistent with historical trends, despite ongoing macroeconomic challenges.

Capacity utilization in the cross-stitch segment was reported at 91% in FY24 (FY23: 96%), remaining relatively stable following recent capacity enhancements. For FY25, an improvement in utilization is projected, supported by the expansion of retail outlet reach and product range, addition to in-house stitching capacity, and the launch of the "Kiji" western apparel line aimed at maintaining throughput during the seasonal downturn of the cross-stitch segment.

Production Capacity and Utilization	FY23	FY24
Number of Spindles Installed	28,656	28,656
Installed Capacity after conversion 20/s count (Tons)	8,300,000	8,300,000
Actual Production after conversion 20/s count (Tons)	8,087,148	9,088,757
Utilization (%)	97.43%	109.49%
Number of Embroidery/Stitching Machines installed	22	22
Installed capacity	492,800	600,000
Actual production	473,080	544,829
Utilization (%)	96.00%	90.80%

FINANCIAL RISK

Profitability

In FY24, STML recorded a 30% increase in revenue, driven primarily by 49% growth in the retail segment. The increase in retail sales was supported by the addition of 10 new retail outlets and an increase in average retail prices. Gross margin remained stable at 20.5% (FY23: 20.0%), despite rising manufacturing and utility costs, reflecting a higher contribution from the retail segment, which carries relatively stronger margins. The revenue mix continued to shift toward value-added retail offerings, with the Cross Stitch and KIJI brands collectively accounting for approximately 56% of total sales. In 3QFY25, gross margin improvement was supported by ongoing price adjustments across both segments.

Revenue Contribution	FY22	FY23	FY24	3QFY25
Spinning (%)	64.18%	49.42%	43.98%	47.77%
Cross Stitch (%)	35.82%	50.58%	56.02%	52.23%

Going Forward, the management expects the topline to grow and profitability to improve further on account of planned expansion in the retail segment through continued outlet expansion and new brand initiatives.

Capital Structure

The capitalization structure indicates a shift in strategy in response to the prevailing interest rate environment. During FY24, the company reduced its use of interest-bearing short-term borrowings to finance working capital, substituting it with extended credit terms from suppliers. This adjustment was supplemented by equity base expansion through profit retention.

However, in 3QFY25, short-term debt levels increased due to an inventory buildup that typically occurs during the middle of the year. Management expects this position to normalize by the fiscal year-end, consistent with patterns observed in 3QFY24 and FY24.

Debt Coverage & Liquidity

Coverage metrics exhibited improvement in FY24, primarily supported by higher Funds from Operations (FFO) resulting from increased operational profits compared to FY23. As a result, the Debt Service Coverage Ratio (DSCR) rose to 1.57x (FY23: 1.27x) and was maintained at the same level during 3QFY25, despite an uptick in debt levels, supported by easing of interest rates.

The liquidity position also remained stable, with the current ratio maintained at approximately 1.00x over the past few years. The Company utilizes any excess internal liquidity generation for balancing, modernization, and replacement (BMR) initiatives and capital expenditure projects.

Financial Summary				Appendix I
Balance Sheet (PKR Millions)	FY23A	FY24A	3QFY24M	3QFY25M
Property, plant and equipment	2,960.89	3,053.03	2,884.18	3,093.77
Stock-in-trade	932.27	1,251.01	1,446.40	2,327.82
Trade debts	156.70	171.86	135.49	130.40
Cash & Bank Balances	108.60	127.96	176.85	156.56
Other Assets	380.66	363.40	391.79	407.96
Total Assets	4,539.12	4,967.76	5,034.71	6,117.01
Creditors	611.21	1,152.90	821.10	2,079.65
Long-term Debt (incl. current portion)	635.58	645.78	595.11	649.66
Short-Term Borrowings	395.66	238.56	578.73	616.02
Total Debt	1,031.24	884.34	1,173.84	1,265.68
Other Liabilities	759.99	681.88	842.48	422.28
Total Liabilities	2,402.44	2,719.12	2,837.42	3,767.61
Paid up Capital	70.50	70.50	70.50	70.50
Revenue Reserve	789.54	926.03	850.15	1,026.78
Equity (excl. Revaluation Surplus)	860.04	996.53	920.63	1,097.28

Income Statement (PKR Millions)	FY23A	FY24A	3QFY24M	3QFY25M
Net Sales	6,233.53	8,130.47	5,910.00	6,681.02
Gross Profit	1,251.14	1,668.10	1,264.51	1,524.87
Operating Profit	353.85	456.88	304.08	361.64
Finance Costs	207.10	198.16	169.75	176.37
Profit Before Tax	146.75	258.72	134.33	185.27
Profit After Tax	64.47	112.37	60.61	100.76

Ratio Analysis	FY23A	FY24A	3QFY24M	3QFY25M
Gross Margin (%)	20.07%	20.52%	21.40%	22.82%
Operating Margin (%)	5.68%	5.62%	5.15%	5.41%
Net Margin (%)	1.03%	1.38%	1.03%	1.51%
Funds from Operation (FFO) (PKR Millions)	249.07	369.65	223.33	283.73
FFO to Total Debt* (%)	24.15%	41.80%	25.37%	29.89%
FFO to Long Term Debt* (%)	39.19%	57.24%	50.04%	58.23%
Gearing (x)	1.20	0.89	1.28	1.15
Leverage (x)	2.79	2.73	3.08	3.43
Debt Servicing Coverage Ratio* (x)	1.27	1.57	1.43	1.57
Current Ratio (x)	1.00	1.00	1.03	1.00
(Stock in trade + trade debts) / STD (x)	3.13	6.54	2.28	4.15
Return on Average Assets* (%)	1.53%	2.36%	1.69%	2.42%
Return on Average Equity* (%)	7.87%	12.11%	9.08%	12.83%
Cash Conversion Cycle (days)	23.79	19.21	24.65	15.38

**Annualized, if required*

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Sheikhupura Textile Mills Limited
Sector	Textile
Type of Relationship	Solicited
Purpose of Rating	Entity Ratings
Rating History	see table below
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	see table below

Rating History

Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action
21-July-25	**BBB+**	**A2**	**Stable**	**Upgrade**
24 July, 24	BBB	A2	Positive	Maintained
12 July, 23	BBB	A2	Stable	Reaffirmed
30 June, 22	BBB	A2	Stable	Initial

Due Diligence Meeting Conducted

Name	Designation	Date
Salman Haider	Group CFO	9th July, 2025