VIS
Credit Rating Company Limited

SHEIKHUPURA 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		Upgrade	
RATING DATE	July 30, 2026		July 21, 2025	

Shareholding (5% or More)	Other Information
Asad Shafi – 33.9%	Incorporated in 1989
Muhammad Asif – 33.0%	Public Unlisted Company
Umar Shafi – 30.8%	Chief Executive Officer: Muhammad Asif
	External Auditor: Munaf Yousaf & 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

Sheikhupura Textile Mills Limited, historically a spinning and value-added embroidery unit has continued its evolution towards being a manufacturing to retail operation through its well-established brand, Cross Stitch and newly launched lines, Kiji Retail, and Home Warmth, with retail segment sales reaching almost 2/3 in 9M FY26 from just above half in FY24.

Ratings take into account adequate operational performance, with satisfactory utilization levels across both weaving and embroidery units, and increasing contribution from retail operations to the revenue base. Topline increased during FY25, supported by growth in retail and spinning sales, while gross margins improved on account of higher retail contribution which generates far superior margins in comparison with spinning.

However, profitability remained constrained amid rising operating expenses, primarily due to elevated salaries and retail-related overheads. Capitalization and coverage metrics weakened owing to increased borrowings and higher working capital requirements, particularly due to inventory buildup for retail operations. While the shift towards retail provides margin support, reliance on short-term borrowings to finance seasonal inventory exposes the Company to potential cash flow pressures.

Going forward, the ratings will hinge on sustained revenue growth, improved profitability, effective inventory management, and prudent execution of planned capex under the retail expansion strategy.

Company Profile

Sheikhupura Textile Mills Limited ("SHTML" or "the Company") is a public unlisted company incorporated in 1989. Historically operating as a spinning company, SHTML has diversified into value-added textile and retail operations, including dyed fabric, ready-made garments, and home-related products marketed through brands including Cross Stitch, Kiji Retail, and Home Warmth. The Company's registered office is located in Lahore, while manufacturing facilities are situated at Ferozepur Road, Lahore and Head Balloki Road, District Kasur.

Management and Governance

The Company operates with a three-member Board of Directors. Mr. Muhammad Asif serves as the Chief Executive Officer of the Company. Management is family-led and considered to have relevant experience in textile operations. The Company's external auditors are M/s Munaf Yusuf & Co., Chartered Accountants, a QCR-rated firm. The auditors issued an unmodified audit opinion, stating that the financial statements give a true and fair view of the Company's financial position and performance.

Business Risk

INDUSTRY

The business risk profile of Pakistan's textile and apparel retail sector remains moderate to elevated, given exposure to consumer demand cyclicality, inflationary pressures, energy costs, exchange rate movements and intense competition. Retail demand is supported by urbanization, demographic trends and increasing preference for branded ready-to-wear apparel and home textile products. However, purchasing power remains sensitive to macroeconomic conditions, with CPI inflation recorded at 11.1% YoY in June 2026 and clothing & footwear inflation at 9.3% YoY. Wholesale and retail trade showed improvement during FY26, growing by 4.46% in Q2FY26 and 4.13% in Q3FY26, supported by growth in agriculture and manufacturing output.

Textile retailers operate with sizeable fixed overheads and working capital requirements, including store rentals, salaries, marketing expenses and inventory financing. Demand remains seasonal, with higher sales generally witnessed around Eid, wedding season and summer collections. Further, the risk of obsolescence in unsold seasonal inventory also exists. Margins remain sensitive to wage adjustments, energy tariffs, imported inputs and the ability to pass on cost pressures to price-sensitive consumers. For players with spinning exposure, cotton availability and price volatility also remain important risk factors; during FY26, cotton area declined to 2.01m hectares (FY25: 2.04m hectares), while cotton production marginally declined to 7.05m bales (FY25: 7.08m bales).

Recent budgetary measures are expected to increase compliance and cost pressures for formal retail operators. Under Budget FY27, the minimum wage has been increased by 10% to Rs. 40,700 per month, while the definition of Tier-1 retailers has been expanded to include retailers with annual turnover exceeding Rs. 200m. Moreover, sales tax measures include expansion of the Third Schedule to ensure sales tax collection at consumer price, along with greater emphasis on electronic invoicing/integration. These measures may increase documentation and compliance requirements for organized retailers; however, integrated players with established brands, better inventory management and wider retail presence are expected to remain relatively better placed.

OPERATIONAL UPDATE

SHTML's operations comprise two units: consisting of spinning operations, and the Cross Stitch unit, which operates embroidery machines. During FY25, utilization of the spinning segment normalized from the elevated level recorded in FY24, while remaining on the higher side. At the Cross Stitch unit, capacity and production increased during the year, with utilization also slightly improving, supported by demand from the Company's retail operations.

Detailed capacity and utilization information is presented in the table below:

Particulars	FY25	FY24
No. of spindles	29,616	28,656
Production capacity — 20/s kgs	8,600,000	8,300,000
Actual production — 20/s kgs	8,152,050	9,088,757
Capacity utilization (%)	**94.79%**	**109.50%**
No. of embroidery machines	22	22
Actual capacity	950,000	600,000
Actual production	886,361	544,829
Capacity utilization (%)	**93.30%**	**90.80%**

By June 2026, number of outlets of Kiji Retail increased to 6 (June 2025: 2 outlets), while Cross Stitch outlets increased gradually to 35 by (June 2025: 34). Home Warmth Co does not currently have separate standalone outlets; its products are available through Cross Stitch outlets.

The spinning unit has a power requirement of around 2.5MW, met primarily through LESCO, with solar contributing around 7%. The Cross Stitch unit requires around 600–700 KW, with daily consumption met through LESCO and solar usage which provides some support to energy cost management.

Going forward, management plans to enhance in-house manufacturing capacity, primarily through addition of embroidery machines and related infrastructure to support Kiji Retail and Cross Stitch operations. The planned expansion is expected to reduce reliance on third-party outsourcing during peak season and support retail-led growth; however, execution and funding of planned capex will remain important rating considerations.

SALES & PROFITABILITY

Net sales increased by 10.9% during FY25 to Rs. 9.0b (FY24: Rs. 8.1b), mainly supported by higher prices of local yarn sales and embroidery segment. In FY25, volumetric sales of yarn bags increased by 1.26% while average prices of Cross Stich products increased by 13% from FY24. During 9MFY26, net sales increased slightly to Rs. 6.9b (9MFY25: Rs. 6.7b). The sales mix reflects the Company's gradual shift from conventional spinning towards retail and value-added operations, which has supported topline growth and margin improvement. Ready to stich suits for women comprise roughly 55% of revenue while ready to wear pret items contribute around 30% of revenue, reflecting the focus on women's apparel. The revenue was mainly derived from retail operations, followed by spinning, as presented in the table below:

Revenue Contribution	9MFY26	FY25	FY24
Spinning (%)	34.42%	42.17%	44.46%
Retail (%)	64.33%	56.89%	53.98%
Others (%)	1.26%	0.94%	1.56%

Gross margin improved to 24.0% in FY25 (FY24: 20.5%) and further to 25.8% during 9MFY26 (9MFY25: 22.8%), mainly due to favorable pricing and higher contribution from retail segment. However, the benefit of improved gross margins was partly offset by higher operating expenses, particularly salaries and retail-related overheads, resulting in operating margin declining slightly to 5.3% in FY25 (FY24: 5.6%) and 3.8% during 9MFY26 (9MFY25: 5.8%). Moreover, despite an increase in finance costs due to higher borrowings, lower income tax incidence led to a nominal increase in profit after tax to Rs. 129.7m in FY25 (FY24: Rs. 112.4m), while net margin remained modest at 1.44% (FY24: 1.38%). During 9MFY26, net margin declined to 1.33% as compared to 1.51% in 9MFY25 mainly on account of increased selling expenses.

Overall, profitability profile remains supported by healthy gross margins; however, improvement in net profitability will depend on effective cost control and scale benefits from the expanding retail operations. Moreover, segment-wise margins indicate that retail operations remain the key profitability driver, with gross margins significantly higher than the spinning segment. However, retail operating margin declined during FY25 and 9MFY26, reflecting rising operating cost pressures despite improvement at the gross level. Spinning margins remained thin, though slight improvement was witnessed during 9MFY26. Details of segment-wise margins are presented in the table below:

Segment Wise Margins			
(%)	9MFY26	FY25	FY24
Spinning			
Gross Margin	2.12%	1.52%	1.51%
Operating Margin	0.85%	0.50%	0.63%
Retail			
Gross Margin	38.54%	31.41%	34.09%
Operating Margin	5.56%	8.62%	7.63%

Going forward, topline growth is expected to be driven by expansion in retail operations and higher contribution from value-added segments. Amidst the ongoing transition from spinning to retail, the Company's ability to manage margins, leverage economies of scale, curb operating expenses, and prudently manage inherent risks of effective inventory management remain important factors.

Financial Risk

CAPITAL STRUCTURE

Equity base increased to Rs. 1.2b at end-FY25 (FY24: Rs. 996.5m) and further to Rs. 1.24b at end-9MFY26, supported by profit retention. However, capitalization indicators weakened on account of higher borrowings, with total debt increasing to Rs. 1.5b at end-FY25 (FY24: Rs. 884.3m) and further to Rs. 2.0b at end-9MFY26. The increase was mainly long-term debt primarily on addition of land for enhancement of stitching segment and addition of solar power system, while short-term borrowings also remained sizeable to support working capital requirements, particularly higher inventory levels associated with retail operations.

Consequently, gearing increased to 1.31x at end-FY25 (FY24: 0.89x) and further to 1.63x at end-9MFY26, while leverage remained elevated at 3.19x (FY24: 2.73x) and 3.18x, respectively. Going forward, management of capitalization structure will remain important, particularly in view of planned capex, elevated borrowing requirements driven by higher retail-related inventory levels.

DEBT COVERAGE & LIQUIDITY

Debt coverage indicators weakened during FY25 despite modest improvement in FFO to Rs. 441.9m (FY24: Rs. 369.7m). Resultantly, FFO to total debt declined to 29.3% (FY24: 41.8%), while DSCR reduced to 1.29x (FY24: 1.57x). During 9MFY26, coverage indicators weakened further, with FFO of Rs. 229.1m (9MFY25: 283.7m), FFO to total debt at 15.1% and DSCR at 1.05x, reflecting increased leverage and lower operating profitability at the nine-month stage.

Liquidity profile remained manageable, with current ratio maintained at 1.00x at end-FY25 (FY24: 1.00x) and improving to 1.16x at end-9MFY26. However, stock-in-trade increased sharply due to inventory buildup for retail operations, while cash conversion cycle stretched during 9MFY26 to 33 days (FY25: 20, FY24: 19). Aging of trade debts remained manageable. Going forward, debt servicing capacity and liquidity profile will remain dependent on rebound in operating cash flows, effective inventory management and prudent utilization of borrowings amid planned expansion. Additionally, managing the cash conversion cycle within manageable levels is important, along with augmenting cash flows should finance costs and debt repayment rise going forward.

Financial Summary

Balance Sheet (PKR Millions)	FY22A	FY23A	FY24A	FY25A	9MFY26M
Property, plant and equipment	2,475.50	2,960.89	3,053.03	3,262.71	3,489.89
Long-term Investments	0	0	0.5	0.5	0.5
Stock-in-trade	841.9	932.27	1,251.01	2,088.00	1,974.44
Trade debts	184.9	156.7	171.86	153.26	256.03
Short-term Investments	0	0	0	0	8.5
Cash & Bank Balances	104.89	108.6	127.96	106.47	129
Other Assets	257.4	380.66	363.4	439.91	561.72
Total Assets	3,864.59	4,539.12	4,967.76	6,050.85	6,420.08
Creditors	786.46	611.21	1,152.90	1,679.13	1,442.73
Long-term Debt (incl. current portion)	690.41	635.58	645.78	902.19	1,437.18
Short-Term Borrowings	384.15	395.66	238.56	605.87	590.56
Total Debt	1,074.56	1,031.24	884.34	1,508.06	2,027.74
Other Liabilities	316.03	759.99	681.88	485.38	479.79
Total Liabilities	2,177.05	2,402.44	2,719.12	3,672.57	3,950.26
Paid up Capital	70.5	70.5	70.5	70.5	70.5
Revenue Reserve	707.86	789.54	926.03	1,079.58	1,171.16
Equity (excl. Revaluation Surplus)	778.36	860.04	996.53	1,150.08	1,241.66

Income Statement (PKR Millions)	FY22A	FY23A	FY24A	FY25A	9MFY26M
Net Sales	5,742.43	6,233.53	8,130.47	9,018.18	6,897.53
Gross Profit	1,000.83	1,251.14	1,668.10	2,161.98	1,781.99
Operating Profit	375.06	353.85	456.88	476.85	263.04
Finance Costs	150.17	207.1	198.16	224.26	84.18
Profit Before Tax	224.89	146.75	258.72	252.59	178.86
Profit After Tax	141.39	64.47	112.37	129.67	91.57

Ratio Analysis	FY22A	FY23A	FY24A	FY25A	9MFY26M
Gross Margin (%)	17.43%	20.07%	20.52%	23.97%	25.84%
Operating Margin (%)	6.53%	5.68%	5.62%	5.29%	3.81%
Net Margin (%)	2.46%	1.03%	1.38%	1.44%	1.33%
Funds from Operation (FFO) (PKR Millions)	326.85	249.07	369.65	441.91	229.06
FFO to Total Debt* (%)	30.42%	24.15%	41.80%	29.30%	15.06%
FFO to Long Term Debt* (%)	47.34%	39.19%	57.24%	48.98%	21.25%
Gearing (x)	1.38	1.2	0.89	1.31	1.63
Leverage (x)	2.8	2.79	2.73	3.19	3.18
Debt Servicing Coverage Ratio* (x)	1.54	1.27	1.57	1.29	1.05
Current Ratio (x)	1.01	1	1	1	1.16
(Stock in trade + trade debts) / STD (x)	2.94	3.13	6.54	3.87	3.92
Return on Average Assets* (%)	3.97%	1.53%	2.36%	2.35%	1.96%
Return on Average Equity* (%)	20.24%	7.87%	12.11%	12.08%	10.21%
Cash Conversion Cycle (days)	18.16	23.79	19.21	20.07	33.29

REGULATORY DISCLOSURES — Appendix I

Name of Rated Entity	Sheikhupura Textile Mills 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				
30-Jul-26	**BBB+**	**A2**	**Stable**	**Reaffirmed**
21-Jul-25	BBB+	A2	Stable	Upgrade
24-Jul-24	BBB	A2	Positive	Maintained
12-Jul-23	BBB	A2	Stable	Reaffirmed
30-Jun-22	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 Meetings Conducted

Name	Designation	Date
Salman Haider	CFO	07-Jul-26