

**Analysts:**

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**MAHMOOD TEXTILE MILLS LIMITED**

Chief Executive: Khawaja Muhammad Younus

**RATING DETAILS**

RATINGS CATEGORY	CURRENT RATING
	Short-term
INSTRUMENT	A1 (plim)
RATING ACTION	Preliminary
RATING DATE	July 02, 2025

**APPLICABLE METHODOLOGY(IES):**

Corporate Rating

(<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>)

Instrument Rating

(<https://backupsqvis.s3.us-west-2.amazonaws.com/Methodologies-2025/IRM-Apr-25.pdf>)

**Rating Scale:**

(<https://docs.vis.com.pk/docs/VISRatingScales.pdf>)

**RATING RATIONALE**

Mahmood Textile Mills Limited (MTML), the flagship entity of the Mahmood Group, has a longstanding presence in the textile export sector and has progressively evolved into a fully vertically integrated operation. The Company recently undertook capital expenditures to establish a modern apparel manufacturing unit featuring advanced production technologies and substantial automation.

The rating of the proposed short-term Sukuk captures the strength of the security structure, primarily from the Debt Payment Account (DPA) mechanism maintained under lien of the investment agent. The underlying instrument is to be secured by a ranking charge over the Company's current assets with a 25% margin. The DPA is to be funded 20 days prior to maturity, with the full issue amount ensured to be available in the DPA at least five working days before maturity. Rating also draws comfort from maintenance of sufficient cushion, equivalent to the size of the issue, in short term funded lines at all times during the tenor of the instrument.

During the nine months of FY25, MTML reported a decline in revenue (PKR 42.8 billion; 9MFY24: PKR 52.4 billion), largely attributed to a transition in product mix, from coarser to finer count yarn. Gross margins saw modest pressure due to increased minimum wage requirements and a rise in energy expenses during the period. Nonetheless, the easing of the policy rate contributed to reduced financing costs, supporting an improvement in net margins. To enhance its energy efficiency, MTML is actively investing in renewable energy projects.

The Company maintains an adequate financial risk profile, underpinned by gradual improvements in working capital management. It continues to operate with a high leveraged capital structure but retains sufficient coverage and cash flow levels.

The broader textile sector faces moderate to high business risks due to economic cyclicality, global competition, and structural inefficiencies. Key challenges include volatile cotton production, high reliance on imports, rising energy and input costs, and exposure to inflation and currency fluctuations. Policy changes, such as gas tariff hikes under IMF reforms and change in taxation structure, further pressure margins. While these factors strain competitiveness and profitability, the recent decline in policy rates offers some relief to the sector's financial outlook.

Rs. Million	FY23A	FY24A	3QFY25M
Net Sales	54,627.49	66,583.77	42,807.10
Profit Before Tax	1,924.65	1,371.13	1,195.63
Profit After Tax	1,201.97	249.53	553.52
Paid up Capital	300.00	300.00	300.00
Equity (excl. Revaluation Surplus)	11,364.82	11,716.99	12,459.98
Total Debt	28,559.88	26,992.27	32,988.56
Leverage (x)	3.31	3.21	3.46
Gearing (x)	2.51	2.30	2.65
Funds From Operations (FFO)	2,687.24	2,660.39	1,172.22
FFO/Total Debt (x)	0.09	0.10	0.05
Net Margin (%)	2%	0%	1%

\*Annualized, if required

A - Actual Accounts

## COMPANY PROFILE

Mahmood Textile Mills Limited ('the Company' or 'MTML' or 'MEHT') incorporated in 1970 as a public limited company and is listed on the Pakistan Stock Exchange Limited. It is a vertically integrated textile composite under the Mahmood Group (active since 1935). The company operates across the whole textile value chain of cotton ginning, spinning, weaving alongside power generation from its own power plants. MTML's registered office is situated in Multan whereas the mills are located at Muzaffargarh in Punjab.

## GROUP PROFILE

Mahmood Group is a diversified business conglomerate engaged primarily in manufacturing across multiple industries. The group's core operations include textile processing, apparel manufacturing, leather production, and food processing. Key companies within the group include Mahmood Textile Mills Limited, Masood Spinning Mills, Multan Fabrics, MG Apparel, and Khawaja Tanneries. Among these, Mahmood Textile Mills serves as the flagship entity within the textile division, overseeing major spinning and weaving operations. The group also has a presence in real estate, retail, and power generation through companies such as Roomi Enterprises and Masood Retail, further strengthening its industrial footprint.

## GOVERNANCE

Mahmood Textile Mills Limited is listed on the Pakistan Stock Exchange. The shareholding structure shows that the general public holds approximately 78.15 %, directors and their families hold around 17.17 %, and joint stock companies own about 4.41 % of the issued shares as of June 30, 2024.

The Board of Directors consists of seven members, including the CEO, Khawaja M. Younus, Chairman Khawaja M. Ilyas, female director Mrs. Farah Ilyas, and independent directors Abdul Rehman Qureshi and Muhammad Asghar.

The Company maintains several board-level committees: an Audit Committee chaired by Abdul Rehman Qureshi; a Human Resource Committee chaired by the same; and a Compensation Committee chaired by Qureshi. An Internal Audit function reports directly to the Audit Committee.

### Management Profile

#### Non-Executive Chairman: Khawaja Muhammad Ilyas

He has been serving as Chairman of Mahmood Textile Mills Limited. His association with the group spans over four decades, during which he has overseen expansion into textiles, ginning, and leather. He is also a member of both the Compensation and HR Committees.

#### Chief Executive Officer & Executive Director: Khawaja Muhammad Younus

Appointed as CEO and Director in July 2023, he brings considerable experience in project development, plant procurement, and sales. Other seasoned professionals with considerable industry experience also form part of the management team.

## SHORT-TERM SUKUK

Mahmood Textile Mills Limited (MTML) plans to issue a secured, privately placed short-term sukuk amounting up to PKR 3,000 million, inclusive of a green shoe option of PKR 1,000 million. The sukuk will have a tenor of up to six months from the issue date. Proceeds will be utilized to fund working capital requirements.

The sukuk will carry a bullet principal repayment at maturity, with profit payable alongside principal. The profit rate is defined as the six-month Karachi Interbank Offered Rate (KIBOR) plus 70 basis points, fixed on the last working day prior to the issue date and applicable for the entire tenor. The profit will be calculated on a 365/366-day year basis.

Security structure is as follows:

- Secured by a ranking charge on current assets of the company with a 25% margin.
- An undertaking by MTML to maintain sufficient current asset coverage and ensure availability of a short-term funded facility equivalent to the Sukuk size (PKR 3,000 million) throughout the Sukuk tenor.
- A dedicated Debt Payment Account (DPA) under lien is to be established for repayment under lien with Investment Agent, with the following buildup schedule:
  - 25% of the issue size to be funded 20 days before maturity
  - 50% to be funded 10 days before maturity
  - 100% to be funded 5 working days before maturity

The Issue Agent for this issue is Askari Bank Limited ("AKBL").

## INDUSTRY PROFILE & BUSINESS RISK

Pakistan's textile sector carries a moderate to high business risk profile, shaped by inherent economic cyclicity, 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

Plant Capacity and Production	FY21A	FY22A	FY23A	FY24A
<b>Yarn</b>				
Number of spindles installed	115,920.00	120,720.00	150,768.00	158,064.00
Number of spindles worked	108,610.65	115,702.99	139,672.35	154,482.58
Installed Production capacity at 20's count	45,022,045.00	46,843,532.00	58,503,194.00	65,192,474.00
Actual production converted into 20's count	39,953,018.00	43,590,338.00	56,476,349.00	63,822,963.00
Utilization (%)	88.74%	93.06%	96.54%	97.90%
<b>Cloth</b>				
Number of looms installed	196.00	196.00	228.00	228.00
Number of looms worked	195.46	195.64	204.63	228.00
Installed capacity at 60 picks (Meters)	36,747,990.00	45,284,160.00	55,391,208.00	58,325,450.00
Actual production in 60 picks (Meters)	36,595,469.00	41,472,944.00	49,497,953.00	52,435,753.00
Utilization (%)	99.58%	91.58%	89.36%	89.90%
<b>Apparel</b>				
Installed capacity (Pieces)	0.00	2,848,428.00	3,939,000.00	5,454,000.00
Actual production (Pieces)	0.00	1,035,679.00	1,957,058.00	3,456,697.00
Utilization (%)		36.36%	49.68%	63.38%
<b>Power</b>				
Number of generators installed	10.00	10.00	19.00	19.00
Generation capacity in Mega Watts	20.45	20.45	27.00	27.00
Actual generation in Mega Watts	8.70	8.70	14.00	14.00
Utilization (%)	42.54%	42.54%	51.85%	51.85%

The Company has historically maintained high utilization levels, supported by an export-oriented client base. In response to sustained volumetric demand and improvement in export orders, production capacity has been gradually expanded across the core segments of spinning (yarn) and weaving (cloth), despite prevailing economic challenges. In FY22, an apparels division was added, which has since recorded a gradual increase in both installed capacity and utilization. During the ongoing FY25, this division has been carved out as a wholly owned subsidiary under the name MG Apparel.

## FINANCIAL RISK

### Capital Structure

The Company's capitalization profile remains elevated, as indicated by gearing and leverage ratios of 2.65x (FY24: 2.30x; FY23: 2.51x) and 3.46x (FY24: 3.21x; FY23: 3.31x), respectively, as of 3QFY25. The elevated capital structure is attributable to sustained expansion over the past five years, which has been primarily financed through long-term borrowings. In parallel, the growth in operations has led to increased working capital

requirements, resulting in higher utilization of short-term debt. Going forward, the expansionary phase is expected to taper off, with long-term debt accumulation projected to moderate over time, in line with scheduled repayments.

### Profitability

Over the last five years, the Company has recorded a compounded annual growth rate (CAGR) of approximately 20% in revenue, primarily driven by consistent volumetric demand from export-oriented customers. The depreciation of the Pakistani Rupee (PKR) during the period further contributed to growth by enhancing the PKR value of the Company's dollar-denominated revenues.

Export sales account for approximately 75% of the Company's total revenue, with the remainder derived from domestic sales. Fluctuations in gross margins are attributed to a combination of factors, including PKR depreciation, rising utility costs, and broader domestic inflationary pressures.

The Company has historically maintained gross margins around 13.80%. In FY24, gross margin increased to 14.61% (FY23: 14.11%) but declined to 13.57% in 3QFY25. The reduction was primarily attributed to relatively stable exchange rates, lower selling prices, and higher utility costs. In response to cost pressures, management has undertaken cost efficiency initiatives, including the installation of energy-efficient production technologies and 13.5 MWh of solar capacity. An additional 3 MWh is under development, which, upon completion, is expected to meet approximately 30% of the Company's energy requirements.

Segment-wise Revenue Contribution		
	FY23	FY24
Yarn	69%	66%
Weaving	25%	24%
Apparel	6%	10%

Geographical Revenue Distribution		
	FY23	FY24
Others	53%	63%
Pakistan	19%	17%
China	18%	14%
Türkiye	6%	4%
United States	3%	3%

### Debt Coverage & Liquidity

The Company has historically maintained an adequate debt servicing profile, as reflected in a five-year average debt service coverage ratio (DSCR) of 1.21x. However, in during FY24, the DSCR declined due to an increase in the overall debt burden and a rise in benchmark interest rates. Despite this decline, coverage remained sufficient to meet financial obligations. With interest rates easing, coverages are expected to improve. Moreover, the Company has adequate working capital lines with further room to borrow against stock and receivables.



Financial Summary		Appendix I	
Balance Sheet (PKR Millions)	FY23A	FY24A	3QFY25M
Property, plant and equipment	17,648.96	22,214.64	22,611.30
Intangible Assets	10.54	37.93	58.98
Long-term Investments	5,538.76	2,073.75	2,206.49
Stock-in-trade	17,736.24	16,830.49	22,652.59
Trade debts	6,144.97	6,724.16	7,712.65
Short-term Investments	24.80	28.77	34.04
Cash & Bank Balances	34.61	31.96	62.00
Other Assets	4,232.06	7,091.43	5,706.33
Total Assets	51,370.94	55,033.13	61,044.38
Creditors	2,369.56	2,554.44	1,914.53
Long-term Debt (incl. current portion)	10,905.37	10,570.41	12,248.92
Short-Term Borrowings	17,654.51	16,421.86	20,739.64
Total Debt	28,559.88	26,992.27	32,988.56
Other Liabilities	6,686.83	8,081.31	8,182.66
Total Liabilities	37,616.27	37,628.02	43,085.75
Paid up Capital	300.00	300.00	300.00
Revenue Reserve	11,064.82	11,416.99	12,159.98
Equity (excl. Revaluation Surplus)	11,364.82	11,716.99	12,459.98
Income Statement (PKR Millions)	FY23A	FY24A	3QFY25M
Net Sales	54,627.49	66,583.77	42,807.10
Gross Profit	7,708.49	9,728.53	5,808.93
Operating Profit	5,877.61	7,002.51	4,023.52
Finance Costs	3,952.96	5,631.38	2,827.89
Profit Before Tax	1,924.65	1,371.13	1,195.63
Profit After Tax	1,201.97	249.53	553.52
Ratio Analysis	FY23A	FY24A	3QFY25M
Gross Margin (%)	14.11%	14.61%	13.57%
Operating Margin (%)	10.76%	10.52%	9.40%
Net Margin (%)	2.20%	0.37%	1.29%
Funds from Operation (FFO) (PKR Millions)	2,687.24	2,660.39	1,172.22
FFO to Total Debt* (%)	9.41%	9.86%	4.74%
FFO to Long Term Debt* (%)	24.64%	25.17%	12.76%
Gearing (x)	2.51	2.30	2.65
Leverage (x)	3.31	3.21	3.46
Debt Servicing Coverage Ratio* (x)	1.01	1.03	1.01
Current Ratio (x)	1.00	1.07	1.11
(Stock in trade + trade debts) / STD (x)	1.43	1.49	1.50
Return on Average Assets* (%)	2.64%	0.47%	1.27%
Return on Average Equity* (%)	11.19%	2.16%	6.11%
Cash Conversion Cycle (days)	142.76	130.42	175.70

\*Annualized, if required

A - Actual Accounts

P - Projected Accounts

M - Management Accounts

REGULATORY DISCLOSURES				Appendix II
Name of Rated Entity	Mahmood Textile Mills Limited			
Sector	Textile			
Type of Relationship	Solicited			
Purpose of Rating	Instrument Rating			
Rating History	Rating Date	Short Term	Rating Action	
	02-July-25	A1 (plim)	Preliminary	
Instrument Structure	<p>MTML plans to issue a privately placed, rated, secured short-term sukuk of up to PKR 3,000 million, including a green shoe option of PKR 1,000 million, with a tenor of up to six months. The sukuk will carry a bullet principal repayment at maturity, with profit payable on the redemption date, calculated on a 365/366-day basis. Pricing is based on the six-month KIBOR plus 70 bps. Security structure includes a ranking charge over current assets with a 25% margin and an undertaking to maintain sufficient current asset coverage and equivalent short-term funded facilities throughout the tenor. • A dedicated Debt Payment Account (DPA) under lien is to be established for repayment under lien with Investment Agent, with the following buildup schedule 25% of the issue size to be funded 20 days before maturity, 50% to be funded 10 days before maturity, 100% to be funded 5 working days before maturity. The Issue Agent for this issue is Askari Bank Limited (“AKBL”).</p>			
Statement by the Rating Team	<p>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.</p>			
Probability of Default	<p>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.</p>			
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Due Diligence Meeting Conducted	Name	Designation	Date	
	Yasir Ghaffar	Group CFO	July 02, 2025	
	Rashid Mahmood	GM Accounts		
	Arsalan Mahmood	Financial Analyst		