

MEHMOOD TEXTILE MILLS LIMITED

Analyst:

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RATING DETAILS

RATINGS CATEGORY	PRELIMINARY SUKUK RATING
SHORT-TERM SUKUK (STS-8)	A1 (Plim)
RATING ACTION	Preliminary
RATING DATE	OCTOBER 23, 2026

Shareholding (5% or More)

Directors, Chief Executive Officer, their Spouses and Minor Children – 29.10%

General Public (local) – 71.90%

Other Information

Incorporated in 1970

Public Listed Company

Chief Executive Officer: Muhammad Anees Khawaja

External Auditor: Crowe Hussain Chaudhary & Co. Chartered Accountants

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology – Corporates Rating

<https://docs.vis.com.pk/Methodologies-2026/Corporate-Rating-2026.pdf>

Instrument Rating

<https://docs.vis.com.pk/Methodologies-2026/IRM-2026.pdf>

Rating Scale

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

Rating Rationale

Mehmood Textile Mills Limited (MTML), the flagship company of the Mahmood Group, has a longstanding presence in the textile export sector and operates as a fully vertically integrated manufacturer. The broader textile sector continues to face elevated pressures from global competition, energy cost escalation, and policy-related challenges. Assigned rating considers the Company's largely stable financial profile, despite these pressures. Gross margins have historically averaged at 14%, absolute net profitability improved slightly in FY26 though net margins reduced due to lower operating margins and higher taxation. The Company is enhancing efficiency through energy initiatives, including solar capacity expected to mitigate utility cost pressures. Financial risk remains adequate, supported by better working capital management and sufficient cash flows. Although leverage is elevated, planned divestment of power assets by end of 2026, is expected to support deleveraging. The ratings are dependent upon materialization of the management targets for improved financial performance in FY27.

MTML is planning to raise a privately placed, secured Short-Term Sukuk 8 (STS-8) of PKR 4,000 million (inclusive of PKR 500 million green shoe option) with 6 months tenure, to finance working capital needs. The Sukuk carries a single bullet repayment of principal at maturity. The profit rate is defined as 3M KIBOR + 1.50%, with the base rate set immediately preceding working day before the first Drawdown.

Assigned rating derives comfort from security structure in place with includes ranking charge with 25% margin on current assets, a Sukuk payment mechanism wherein the Company shall establishment and maintain a Sukuk Payment Account (SPA), under lien is established for repayment under lien with Investment Agent, to be built up in the last 30 days of instrument maturity with 25% to be fulfilled before 20 working days, 25% before 14 days working days and remaining

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50% funding to be arranged 7 working days before maturity date. In addition to this, MTML shall, all times, until the Payment Obligations have been fully satisfied and discharged, ensure that the limits of the short-term funded finance facilities sanctioned from banks/financial institutions, remain unutilized by the Issuer up to the Sukuk Issue Amount and MTML shall provide evidence of such sanctioned limits mentioned above (to the Investment Agent in form and substance acceptable to the Investment Agent. As of August 2026, the Company maintains short-term liquidity headroom with PKR 15.3b in unutilized working capital limits.

Company Profile

MTML, the flagship entity of the Mahmood Group, is a public listed, vertically integrated textile composite engaged across the whole textile value chain of cotton ginning, spinning and weaving. Recent business updates include a demerger of one of its units. The Board of Directors approved the demerger of the Apparel unit from the Company as well as some leasehold immovable property in Multan Industrial Estate into MG Apparel Limited, a wholly owned subsidiary of the MTML. The demerger was done with aims to enhance export earnings, operational efficiency, improve the division's performance visibility, and enable it to benefit from value-added incentives provided by statutory authorities.

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 Limited 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.

Proposed Short Term Sukuk 8

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As of August 2026, the Company maintains short-term liquidity headroom in unutilized working capital limits.

Management and Governance

Mehmood Textile Mills Limited is listed on the Pakistan Stock Exchange. The shareholding structure shows that the general public holds approximately 70.72%, directors and their families and joint stock companies own the rest of the issued shares as of June 30, 2026. The Board of Directors consists of eight members, including the Chairman Khawaja M. Ilyas, Director Khawaja M. Younus, CEO Muhammad Anees Khawaja, Mr. Muhammad Mehr Ali, Khawaja Muhammad Muzaffar Iqbal and independent directors Mr. Farid Khan, Muhammad Asghar and female director Mrs. Filza Mumtaz. The Company maintains several board level committees: an Audit Committee chaired by Mr. Farid Khan; a Human Resource Committee chaired by the same; and a Compensation Committee chaired by Ms. Filza. An Internal Audit function reports directly to the Audit Committee.

Management Profile

Chairman: Khawaja Muhammad Ilyas

He has been serving as Chairman of Mehmood 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: Muhammad Anees

Appointed as CEO on November 6th 2025, he brings considerable experience in project development, plant procurement, and sales. He led the MG Apparel Project, which achieved LEED Platinum certification, making it a benchmark for sustainable textile production in South Punjab. Other seasoned professionals with considerable industry experience also form part of the management team.

Business Risk

INDUSTRY

Pakistan's textile sector continued to face structural pressures from weak domestic cotton availability, elevated production costs and liquidity constraints. Cotton arrivals reached 5.61m bales in FY26 (FY25: 5.52m), reflecting modest growth of 1.5% but remaining around 45% below the official target. Textile exports remained broadly stagnant at USD 17.93b in FY26 (FY25: USD 17.89b), increasing by only 0.26%, as growth in readymade garments and cotton yarn was offset by lower exports of cotton cloth, knitwear and towels. Policy support included a PKR 4.04/unit reduction in industrial electricity tariffs and a reduction in the export refinance rate to 4.5%; nevertheless, energy, financing and taxation costs continue to constrain competitiveness. Raw cotton, cotton yarn and grey cloth remain excluded from the Export Facilitation Scheme and subject to 18% sales tax at the import stage, while pending tax refunds and rebates continue to strain exporters' liquidity. Export momentum improved at the outset of FY27, with textile shipments rising by 9.0% YoY to USD 1.83b in July 2026 (July 2025: USD 1.68b). The U.S. trade regime has also shifted, with a 10% additional Section 301 tariff directed on Pakistani goods in July 2026, although the effective impact on textile exports will depend on applicable product exemptions and base duties. On the supply side, USDA's August 2026 outlook projects Pakistan's 2026/27 cotton production at 5.1m 480-pound bales, against domestic consumption of 10.2m bales and imports of 5.0m bales, underscoring continued reliance on imported fiber.

PRODUCTION PROFILE

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.

Yarn production increased by 5% and clothing (weaving) segment posted roughly 7% higher actual production in FY26 from SPLY. Similarly, with the increase in installed capacity to 8,124,480 pieces (FY25: 5,454,000) in FY26, actual production also rose by 47%.

SALES & PROFITABILITY

Net sales increased to PKR 69.7b (FY25: PKR 57.1b) in FY26 driven by higher volumes offsetting the impact of PKR appreciation. In FY26, revenue across both spinning and apparel segment increased as demand picked up, though there was a minor downtick in weaving segment revenue due to subdued market conditions

The Company's gross margins have been on a declining trend (FY26: 12.71%, FY25: 13.95%, FY24: 14.61%) primarily owing to relatively stable exchange rates, lower selling prices, and higher utility costs. Absolute net profitability has improved consistently due to higher revenue but net margin reduced in FY26 to 1.51% (FY25: 1.71%, FY24: 0.37%) on account of lower operating margin and slightly higher tax incidence.

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 by end-CY26, is expected to meet approximately 30% of the Company's energy requirements.

Management anticipates demand to sustain and support topline expansion in yarn and apparel segments. However, margins are under stress and the effective implementation of cost-saving measures, along with uptick in volumes of value-added segments, are important for sustained enhancement in profit margins.

Financial Risk

CAPITAL STRUCTURE

The increase in long-term borrowings has been associated with the Company's expansion over the past years. Additionally, higher working capital requirements have led to increased reliance on short-term borrowings. Consequently, the Company's capitalization profile remains elevated. Modest improvement was observed in leverage (end-FY26: 2.8x, end-FY25: 3.0x; end-FY24: 3.2x) on account of growth in equity due to healthy profit retention. Gearing has remained elevated, close to 2.2x over FY24-FY26 period. Tier-1 equity expansion to PKR 14.3b (end-FY25: PKR 13.0b) was supported by sustained profit retention amid absence of dividend payouts.

The Company remains committed to the sale its remaining share (PKR 1,797.85m) in Orient Power Company (Private) Limited (OPCL) by end of CY26, with the proceeds to be utilized for further deleveraging the balance sheet, and remaining critical factor for rating. The Company has entered into agreement with M/s Roomi Enterprises (Private) Limited, a related party, on May 25, 2026 for sale of remaining shares. Such transaction will be executed subsequent to year end.

DEBT COVERAGE & LIQUIDITY

MTML has historically maintained a liquidity profile, though debt coverage has weakened on account of higher borrowings and uptick in finance costs. Despite an increase in FFO to PKR 3.06b (FY25: Rs. 2.04b) in FY26, DSCR remained below 1x in FY25 and FY26. Cash conversion cycle shortened to 132 days in FY26 (FY25: 156 days) due to improved inventory turnover. Current ratio remained intact at 1.07x (end-FY25: 1.02x, end-FY24: 0.95x).

Going forward, the planned deleveraging of the balance sheet is expected to provide further improvement in debt coverage metrics.

FINANCIAL SUMMARY			
Balance Sheet (PKR in m)	FY24A	FY25A	FY26A
PPE	22,215	22,980	22,549
LT investment	2,074	2,394	2,631
Stock in trade	16,831	18,801	16,957
Trade debts	6,724	6,174	9,111
Tax refunds	1,068	2,488	2,661
Cash and bank balances	32	98	198
Other current assets (includes assets classified as held for sale)	2,418	2,252	3,414
Total assets	55,033	57,347	59,740
Long-term debt (inc. current portion)	10,570	11,673	12,277
Short-term debt	16,242	18,020	18,284
Total debt	26,812	29,694	30,562
Trade creditors	2,554	2,153	3,119
Other liabilities	7,456	6,307	5,822
Total liabilities	37,628	38,894	40,231
Paid up capital	300	300	300
Revenue reserve	11,417	12,718	14,001
Core equity	11,717	13,018	14,301
Income Statement (PKR in m)	FY24A	FY25A	FY26A
Net sales	66,583.8	57,071.4	69,731.2
Gross profit	9,728.5	7,963.5	8,864.5
Operating profit	6,845.9	5,226.5	5,809.9
Finance costs	5,631.4	4,110.5	4,028.8
Profit before tax	1,371.1	1,529.0	2,033.5
Net profit	249.5	978.1	1,056.0
Ratio Analysis	FY24A	FY25A	FY26A
Gross margin	14.61%	13.95%	12.71%
Operating margin	10.28%	9.16%	8.33%
Net margin	0.37%	1.71%	1.51%
FFO (PKR in m)	2,727.0	2,044.0	3,063.0
FFO to total debt	10.17%	6.88%	10.02%
FFO to long-term debt	25.80%	17.51%	24.95%
DSCR (x)	1.06	0.93	0.95
Current ratio (x)	0.95	1.02	1.07
CCC (days)	129	156	132
ST debt coverage (x)	1.45	1.39	1.43
Gearing (x)	2.29	2.28	2.14
Leverage (x)	3.21	2.99	2.81
ROAA	0.5%	1.7%	1.8%
ROAE	1.4%	5.5%	5.6%

A: Audited accounts

REGULATORY DISCLOSURES

Appendix I

Name of Rated Entity	Mehmood Textile Mills Limited			
Sector	Textile			
Type of Relationship	Solicited			
Purpose of Rating	Sukuk Ratings			
Rating History		Rating Date	Short Term	Rating Action
		Rating Type: Short-term Sukuk 8 (STS-8)		
		October 23, 2026	A1 (plim)	Preliminary
		Rating Type: Short-term Sukuk 7 (STS-7)		
		September 10, 2026	A1	Final
		July 17, 2026	A1 (plim)	Preliminary
		Rating Type: Short-term Sukuk 6 (STS-6)		
		June 30, 2026	A1	Final
		June 04, 2026	A1 (plim)	Preliminary
		Rating Type: Short-term Sukuk 5 (STS-5)		
June 30, 2026	A1	Final		
April 20, 2026	A1 (plim)	Preliminary		
Instrument Structure	Instrument Name:	Details		
	Nature of Instrument	STS-8		
	Tenure of Instrument	6 months		
	Size of the Issue	PKR 4 Bn (PKR 500mn green shoe option)		
	Principle Redemption Schedule	In bullet payments at maturity		
	Profit Redemption Schedule	At time of maturity		
	Nature of Security/Credit Enhancement	1. ranking charge with 25% margin on current assets. 2. a Sukuk payment mechanism wherein the Company shall establishment and maintain a Sukuk Payment Account (SPA), under lien is established for repayment under lien with Investment Agent, to be built up in the last 30 days of instrument maturity with 25% to be fulfilled before 20 working days, 25% before 14 days working days and remaining 50% funding to be arranged 7 working days before maturity date. 3. MTML shall, all times, until the Payment Obligations have been fully satisfied and discharged, ensure that the limits of the short-term funded finance facilities sanctioned from banks/financial institutions, remain unutilized by the Issuer up to the Sukuk Issue Amount and MTML shall provide evidence of such sanctioned limits mentioned above (to the Investment Agent in form and substance acceptable to the Investment Agent.		
	Rate	3M KIBOR + 1.50%		
	Lead Arranger Bank	Bank Alfalah AMC		
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.			
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Due Diligence Meetings Conducted		Name	Designation	Date
		Rashid Mahmood	CFO	8 October 2026
		Zeeshan Haider	Head of Banking Relations	