

Press Release

VIS Reaffirms Entity Ratings of Faisal Spinning Mills Limited

Karachi, 6 February, 2025: VIS Credit Rating Company Limited (VIS) has reaffirmed entity ratings of Faisal Spinning Mills Limited (FSML) at 'A/A1' (Single A/A One). Medium to long-term rating of 'A' reflects good credit quality and adequate protection factors. Risk factors may vary with possible changes in the economy. Short-term rating of 'A1' Strong likelihood of timely repayment of short-term obligations with excellent liquidity factors. Outlook on the assigned ratings remains 'Stable'. Previous rating action was announced on September 26, 2023.

Ratings continue to underscore the company's 40-year legacy in yarn production, mainly for the export market geared towards denim manufacturing, as well as offerings in both greige & dyed fabrics and made-up articles. This standing is further supported by robust sponsor group strength and sustained client relations.

Ratings incorporate business risk arising from high-interest rate environment, inflationary pressures, volatility in raw material prices, ongoing energy crisis in the country and sensitivity of textile exports to economic health of key export destinations (USA, UK, EU & China). Moreover, all these factors pose a challenge to the sector over the medium term in terms of margin sustainability and future growth.

The assessment of the financial risk profile reflects growth in exports as it makes up over 77% of total revenue. The geographic mix features diversification, with close to 51% of exports directed towards USA, UK and China. The reaffirmed ratings also reflect strong revenue growth. However, margins were adversely impacted in FY24 on account of higher raw material costs, rising energy costs and costly financing together with relatively subdued export market demand. The liquidity profile remains adequate with improvement in cash conversion cycle, although debt coverage was strained. Management expects a rebound in second half of the fiscal year as raw material prices stabilize and transition towards renewable sources of energy together with fall in interest rates provide support to margins. Going forward, improvement in margins and profitability metrics will remain critical for assigned ratings.

For further information on this rating announcement, please contact at 021-35311861-64 or email at info@vis.com.pk

Applicable Rating Criteria: Industrial Corporates.

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

VIS Issue/Issuer Rating Scale.

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