



Composites & Garments

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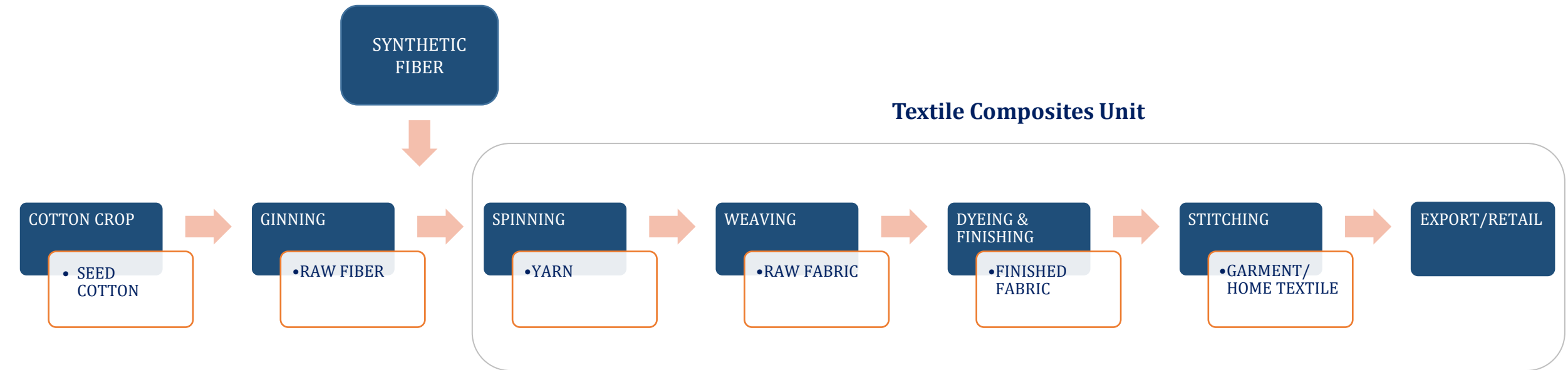
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Introduction | Textile Value Chain

- Textile value chain comprises all stakeholders and activities which provide or receive value from designing, developing, making, distributing and consuming a textile product, including the extraction and supply of raw materials. The value chain, therefore, covers all stages of a textile product's life, from supply of raw materials to disposal after use and also includes all stakeholders that can influence these activities. The following flow chart depicts the major processes along with the output of every process of the textile cluster's value chain.
- A Composites textile unit comprises two or more processes from the spinning of yarn till the production of finished goods.



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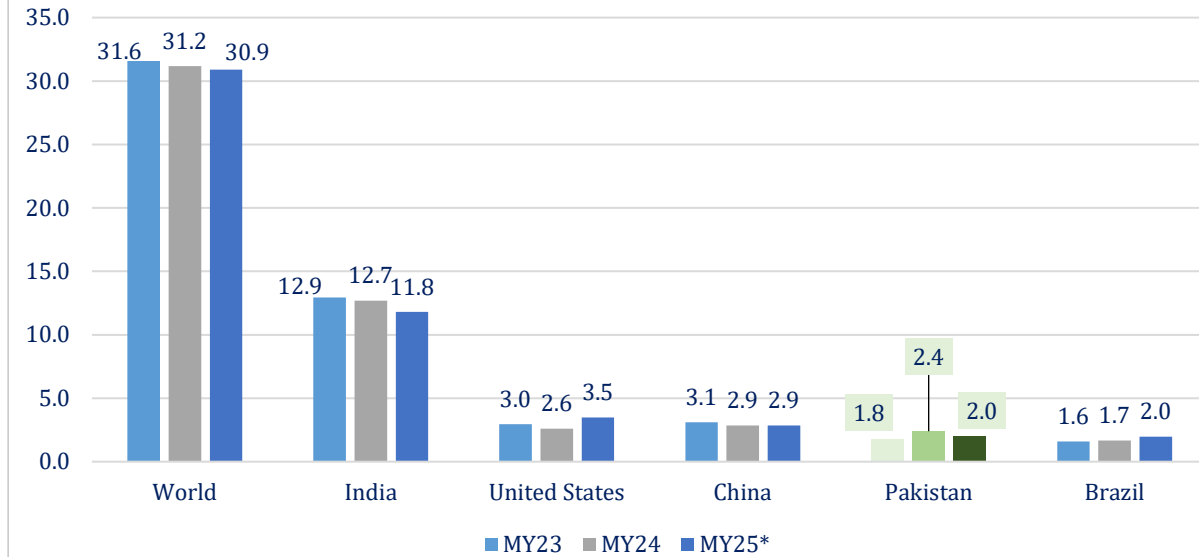
Global | Overview

- Size:** The market size of the global 'textile and apparel' industry was recorded at USD~656bln in CY23 and is expected to reach USD~703bln by Dec'24, representing a growth rate of ~7.1% YoY. The global market size is forecasted to grow to USD~918bln by end-CY28 at a CAGR (Compound Annual Growth Rate) of ~6.9%. An increase in the cotton crop yields is predicted in major cotton producing countries such as China, and Brazil in MY25. With cotton being the major input in the textile and apparel industry, the sector is going to be positively impacted by this increased crop. Global area under cultivation for cotton crop in MY25 is expected to be ~30.9mln Ha.
- Demand Drivers:** The decline in cotton production in MY24 was 2.9% (SPLY:~-3.7%). Additionally, due to the global economic slowdown, the industry grew at a slower rate than the last year's ~7.5%. However, online shopping and digital platforms are expected to help grow the textile and apparel industry as they increase the geographical outreach of the apparel market.
- Region Wise Textile Market:** The Western Europe has the largest share in the total market size of USD~703bln, followed by Asia-Pacific based on sales. The Asia-Pacific region includes countries such as China, India, and Pakistan which are amongst the top producers of cotton. Moreover, due to the availability of cheap labor, these countries along with Bangladesh have become large textile producing hubs. They cater to both growing local demand and export demand from other regions.
- China is the largest exporter of textile and apparel products followed by Bangladesh, Vietnam, and India. Meanwhile, the European Union and the United States are two of the largest importers of textile finished goods such as garments and apparel.
- Since Dec'20, the US has actively sought to ban cotton imports from China's Xinjiang region under the Uyghur Forced Labor Prevention Act. This ban is still in place. The enforcement comes in response to efforts to ban forced labor from the region. ~90% of China's cotton was grown in the Xinjiang region in China in MY24. Moreover, President-Elect Trump has announced to further impose tariffs on Chinese imports that has the potential to make Chinese cotton cheaper for Pakistan.
- As a result, significant importers, such as Vietnam and Bangladesh, have reduced their acquisitions owing to the heightened vulnerability of Chinese fabric containing cotton fiber sourced from the Xinjiang autonomous region.

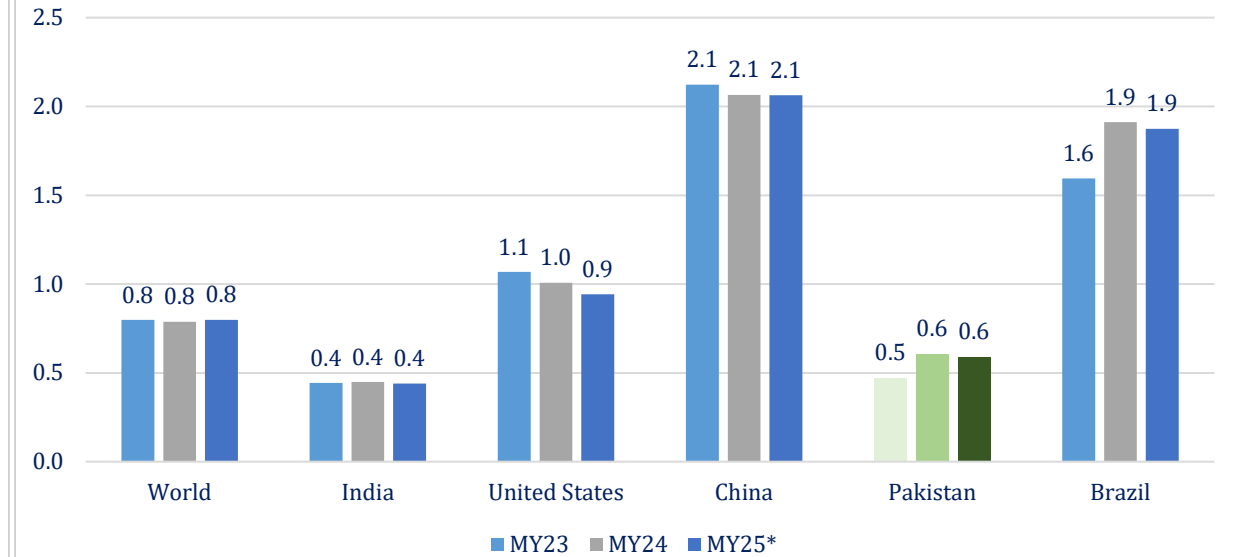
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Global | Cotton Dynamics

Country-wise | Area Under Cultivation (mln Ha)



Country-wise | Cotton Crop Yield (MT/Ha)



- The global area under cultivation for cotton crop is projected to be ~30.9mln Ha in MY25 (MY24:~31.2mln Ha). In MY25, India is expected to record the highest area under cultivation for cotton crop, followed by the United States with an expected area equivalent to ~3.5mln Ha (SPLY:~2.6mln/Ha).
- China is ranked the third in line in terms of area under cultivation. The forecast cotton yield for the country in MY25 is set at ~2.1 MT/Ha (MY24: ~2.1 MT/Ha). China’s crop production is expected to remain relatively stable at ~6.1mln MT (SPLY:~6.0mln MT).
- The production in India and Brazil is expected to stand next to China’s at ~5.4mln MT and ~3.7mln MT respectively (MY24: ~5.5mln MT and ~3.2mln MT).

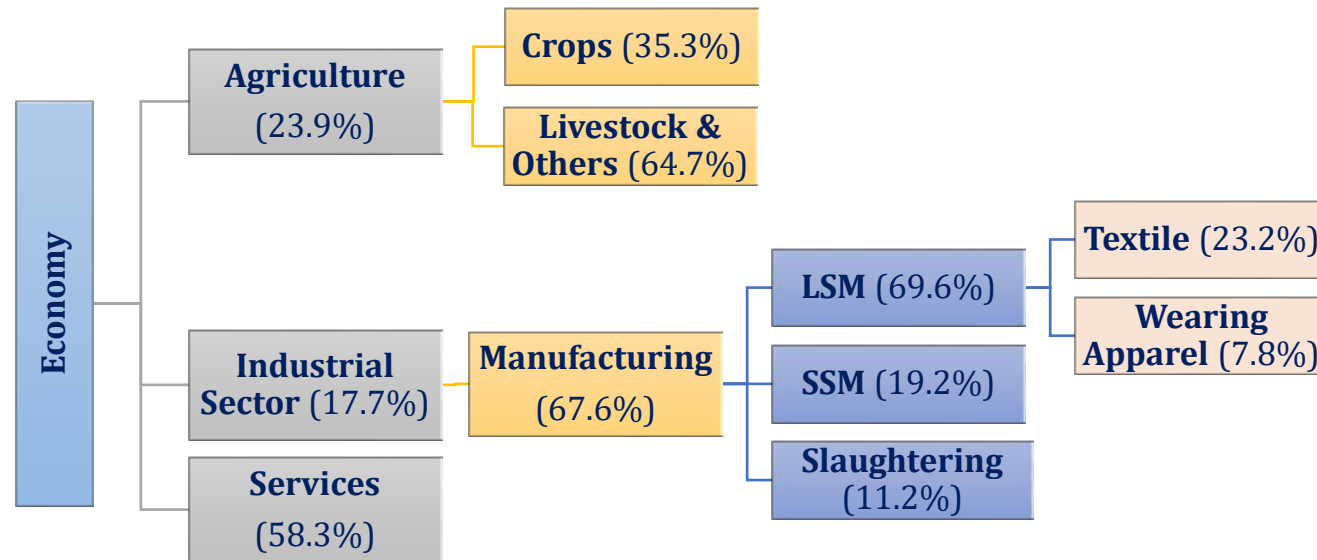
Note: Data in the graphs has been taken from USDA

**Dec'24 USDA projections.*

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Local | Overview

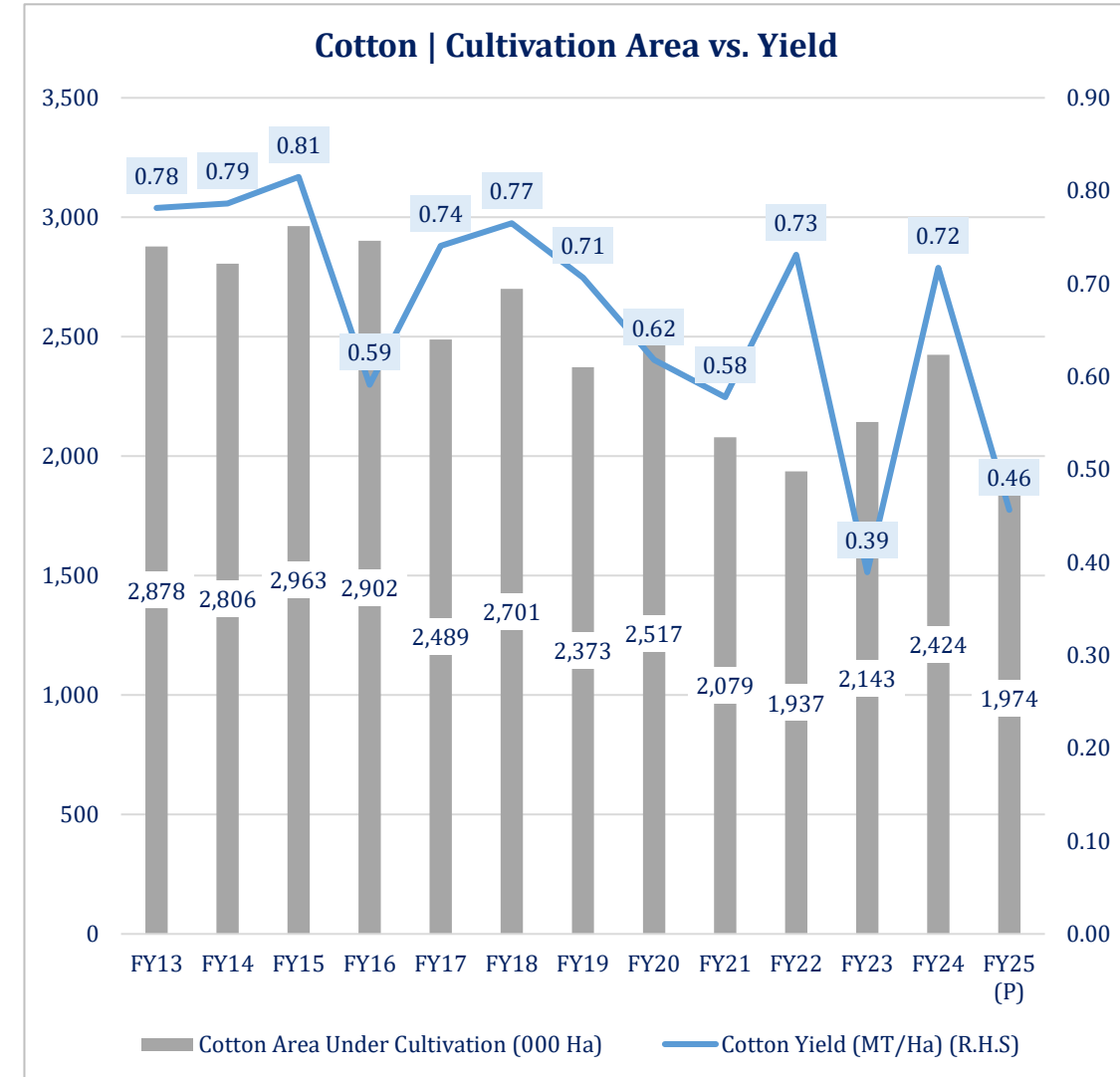
- In FY24, Pakistan’s GDP (nominal) stood at PKR~105.6trn (FY23:~83.9trn), growing, in real terms, by ~2.5% YoY (FY23: ~-0.22%). Industrial activities in FY24 held ~18% share in the GDP while manufacturing activities made up for ~68% of the industrial activities.
- Pakistan’s 1QFY25 GDP grew ~0.9% from the SPLY. The sectoral breakdown reveals that the industrial sector contracted by ~1.0%. The Large-Scale Manufacturing (LSM) in Pakistan is essential for the economic growth considering its linkages with other sectors, as it represents ~70% value of all manufacturing activities in FY24. The LSM rose by ~0.9% in FY24 (FY23: ~-10.3%) and declined by ~0.6% in the 4MFY25.
- The Textile cluster is classified as a Large-Scale Manufacturing (LSM) industrial component within the industrial sector. In FY24 and 4MFY25, the “textile and wearing apparel” sectors’ collective weight in the QIM has remained at ~31.0%. Individually, the textile and wearing apparel sectors contribute ~23.2% and ~7.8% to the LSM respectively.



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Cotton Dynamics

- During FY13-15, cotton cultivation and yield remained largely stable. The cultivation area has dropped ~25.5% between FY13-23, and ~27.7% from FY15 peak. The overall trend suggests that cotton farmers require strong government support and sustained investment in R&D. Area under cultivation has generally remained variable and it has declined in the long-term. Cottons Yield has been more volatile than cotton area under cultivation. Coefficient of variation for yield stands at ~19.1% and for area under cultivation stands at ~13.9%.
- For FY24, the targeted yield was set at ~0.6 MT/Ha, but the bumper crop registered a ~0.7 MT/Ha yield. Cotton Area under cultivation stood at ~2.4mln Ha during the same period.
- For FY25, the target yield is set at ~0.6 MT/Ha, with a target area of ~3mln Ha and a production of ~10.8mln bales. However, in December'24, the arrivals stood at ~5.3mln bales, i.e., 50% of the target of ~10.8mln bales. Cotton cultivated area has fallen by ~18.6% and stands at ~2.0mln Ha.
- Overall, the acreage of cotton has been shrinking compared to rice (FY24:~4mln Ha), and wheat (FY24: ~10mln Ha) crops due to non-profitability, with additional factors such as susceptibility to pests, poor agricultural practices, and lack of fertilizers contributing to the decline in cotton production.



Note: Coefficient of Variance = Standard Deviation of Sample/ Average of Sample. Higher the coefficient, higher the disruption around mean.

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Cotton Stock Movement

- Pakistan's cotton production burgeoned by ~108% YoY in FY24 owed to a better yield. Correspondingly, a ~70% decline in cotton imports was also witnessed during the same year.
- FY25 target for cotton production is set at ~10.8mln bales, of which ~50% has been met as of Dec'15, '24 (or ~5.3mln bales).
- Meanwhile, imports during 5MFY25 clocked in at ~1.06mln bales (SPLY: ~0.5mln bales). Two major reason for the increase in imported cotton is lower local cotton production, and lower quality of local cotton due to crop substitution and late sowing of the seed.
- To encourage cotton production ahead, the Punjab Government has begun seeking high-yielding cotton seeds and incentivizing farms to plant cotton early.

Pakistan's Cotton Supply ('000' Bales)						
Particulars	FY20	FY21	FY22	FY23	FY24	FY25*
Opening Stock	3,194	4,341	2,788	2,465	1,953	2,082
Production	9,148	7,064	8,329	4,910	10,223	5,300
Imports	3,154	5,043	4,567	4,022	1,205	4,741 ¹
Cotton Supply	15,496	16,449	15,684	11,396	13,381	12,571
Consumption	11,079	13,654	13,204	9,375	11,116	10,341 ²
Exports	76	6	16	68	183	0
Cotton Demand	11,155	13,660	13,220	9,443	11,299	10,341
Closing Stock	4,341	2,788	2,465	1,953	2,082	2,229

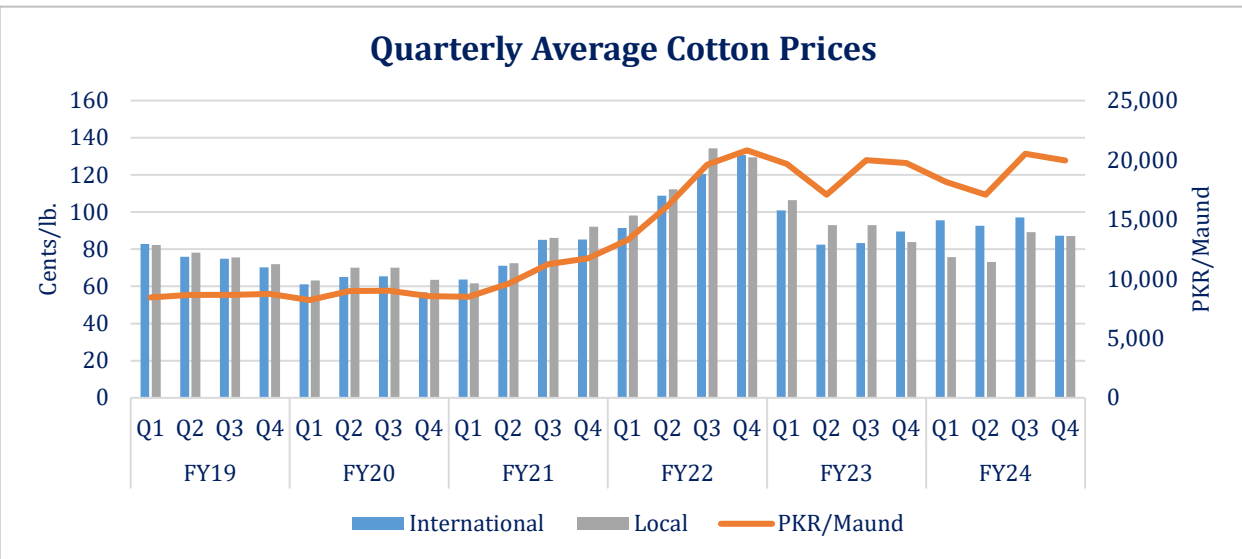
¹ Imports are estimated on FY23 Cotton Supply's Import Ratio.

² Consumption is a balancing figure.

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Prices

- The average International Cotton Prices have remained between 57-85 cents/lb. for FY19-FY21. In FY22, global economic recovery and textile demand increased the yearly average cotton price to ~114 cents/lb., 50.0% YoY.
- In FY23, World Cotton Production increased by ~1.3% (or by ~25.3mln MT), while World Cotton Consumption fell by ~3.7% (or by ~24.3mln MT). World Cotton Ending stocks increased by ~8.0% to close at ~17.5mln MT. To that end, international cotton prices fell by ~21.9% to ~89 cents/lb..
- In FY24, World Cotton Production fell by ~2.9% YoY, while world Cotton Consumption rose by ~1.2% YoY. However, active trade ensured that prices stayed relatively stable with a ~4.5% increase.
- In 5MFY25, the average international cotton price has come down by ~11.8% to ~82 cents/lb. due to higher production, greater carry-over stock, and relatively stable anticipated global demand. As per the USDA forecast, cotton prices are expected to further reduce to ~70- 75 cents/lb.. Lower international cotton prices would benefit the entire textile value chain.



Average Cotton Prices	FY20	FY21	FY22	FY23	FY24	5MFY25
International (cents/lb.)	62	76	114	89	93	82
Local (cents/lb.)	68	78	123	95	81	78
Local (PKR/maund)	8,742	10,290	13,476	18,916	18,940	17,906

Note: FY here means MY; Cotton Conversion Units - 1 Maund =37.3kg;1 Bale =170kg;1 Bale =4.6 Maund.

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Industry Snapshot

- In FY24, the textile cluster recorded a weight of ~2.6% in the country's GDP, which computes to a market size of PKR~2.8tn, up ~60.5% YoY.
- The sector is dominated by ~59 organized textile composite units, with ~34 listed on the PSX. These entities employ both forward and backward integration to enhance their efficiency.
- During FY24, the textile cluster exports were up ~0.9%, constituting ~54% of the country's total exports. Factors such as increased global demand, recovery from meager cotton crop following flash floods of Aug'22, high interest rates that made local production expensive, energy prices, and inflation impacted the overall Industry dynamics.
- Similarly, the textile cluster imports during FY24 declined by ~27.4%, attributable to lower production activity, especially in the spinning sector.
- The textile cluster exports have seen a rise of ~10.5% YoY in 5MFY25. The government has recently increased taxes on exporters' income, a move that has the potential to impact export figures in the coming months.
- The textile cluster imports have seen a ~35.0% YoY rise in 5MFY25. Raw Cotton makes up ~16.0% of 5MFY25 imports (SPLY:~16.0%).

Particulars	FY23	FY24
<i>Textile Industry Size based on LSMI weightage (PKR bln)</i>	1,722	2,763
% of GDP	2.05%	2.62%
<i>Cotton Crop + Ginning</i>	379	884
<i>Manufacturing* + Garments</i>	1,343	1,879
YoY Growth (%)	26%	61%
Textile Exports (USD mln)	16,501	16,656
Exchange Rate (USD/PKR)	248	283
Share in the Country's Total Exports (%)	59%	54%
Textile Imports (USD mln)	3,741	2,714
Share in the Country's Total Imports (%)	7%	5%
No. of PACRA-rated/Listed Players (All Segments)	~130	
Association	APTMA	

*includes production of knitwear, towels, bedwear, yarn, unprocessed fabric.

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Textile Production

Products	Units	FY19	FY20	FY21	FY22	FY23	FY24	4MFY25
Cotton Yarn (Spinning)	MT	3,431,390	3,059,942	3,441,585	3,458,740	2,694,760	2,477,233	879,870
Cloth (Weaving)	Th. SQ M	1,046,000	934,540	1,048,447	1,050,750	920,550	871,433	292,185
Jute Goods	MT	67,106	65,042	69,811	57,675	63,374	41,109	10,728
Terry towels & Bath robes	MT	190,856	172,902	213,150	221,488	195,106	222,719	75,349
Woolen blankets	Nos	68,553	27,809	71,479	92,443	42,961	42,738	14,039
Garments	Th. Dozen	55,664	48,588	37,247	55,657	69,987	75,753	27,335

- Cotton Yarn production has decreased by ~8.1% in FY24. Yarn production has been facing a gradual decline over the years.
- Cloth production has been relatively stable, with FY22 bringing a peak in the last six years. The production registered a ~5.3% drop in FY24.
- Jute Goods production saw a steep decline of ~35.1% YoY during FY24.
- Terry Towels & Bath Robes production grew by ~14.2% YoY during FY24 .
- During FY24, woolen blankets production has seen a minimal decrease to 42,738 units from 42,691 units in FY23.
- Garments production rose by ~8.2% YoY during FY24. The production registered the highest number in FY24 over the last six financial years.

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Segment-wise Textile Exports

<i>Figures in USD mln</i>	FY19		FY20		FY21		FY22		FY23		FY24		5MFY24		5MFY25	
Textile Segments	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Knitwear	2,900	21.8%	2,794	22.3%	3,815	24.8%	5,121	26.5%	4,437	26.9%	4,408	26.5%	1,836	26.7%	2,174	28.6%
Readymade Garments	2,653	19.9%	2,552	20.4%	3,033	19.7%	3,905	20.2%	3,492	21.2%	3,564	21.4%	1,371	19.9%	1,687	22.2%
Bedwear	2,262	17.0%	2,151	17.2%	2,772	18.0%	3,293	17.0%	2,692	16.3%	2,803	16.8%	1,151	16.7%	1,324	17.4%
Cotton Cloth	2,102	15.8%	1,830	14.6%	1,921	12.5%	2,438	12.6%	2,022	12.3%	1,866	11.2%	783	11.4%	816	10.7%
Cotton Yarn	1,125	8.4%	985	7.9%	1,017	6.6%	1,207	6.2%	844	5.1%	956	5.7%	493	7.2%	302	4.0%
Towels	786	5.9%	711	5.7%	938	6.1%	1,111	5.7%	1,000	6.1%	1,055	6.3%	413	6.0%	442	5.8%
Other Textile Items	1,500	11.3%	1,503	12.0%	1,904	12.4%	2,255	11.7%	2,014	12.2%	2,062	12.4%	877	12.7%	862	11.3%
Total Textile Exports	13,328	100%	12,527	100%	15,399	100%	19,330	100%	16,501	100%	16,656	100%	6,884	100%	7,607	100%
Growth			-6.0%		22.9%		25.5%		-14.6%		0.9%				10.5%	

- The textile cluster exports recorded a growth of ~10.5% during 5MFY25 to clock in at USD~7,607mln (5MFY24:~-6.5%; USD~6,884mln).
- Increased prices in the Knitwear, Readymade Garments, and Bedwear segments resulted in an increase in the export value. Knitwear volumetric growth was recorded at ~8.9% in 5MFY25, Readymade Garments increased by ~13.6%, and Bedwear registered at ~14.9% rise.
- During 5MFY25, the export receipts for raw cotton and cotton yarn dropped by ~100.0% and ~38.7% YoY, respectively. The decline in cotton production (~5.3mln bales) is expected to stifle raw cotton and cotton yarn exports.
- The United States accounts for approximately ~36% of Pakistan's textile export value, making it a crucial trade partner. The incoming President-Elect's stance on tariffs will be closely monitored, as his 'America First' agenda could negatively impact Pakistan's textile industry.

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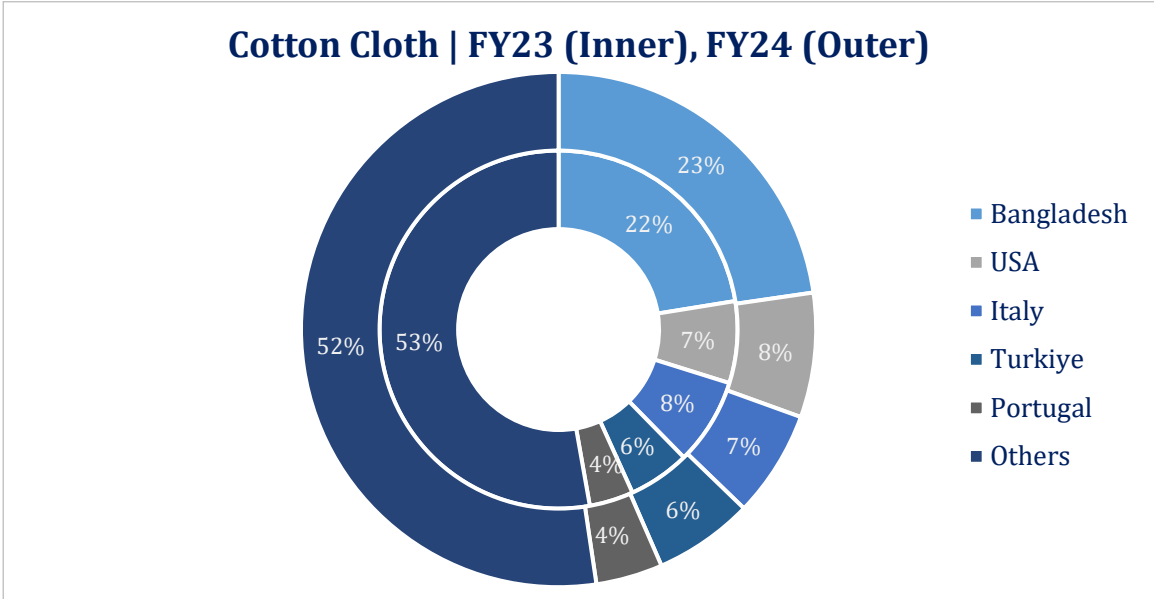
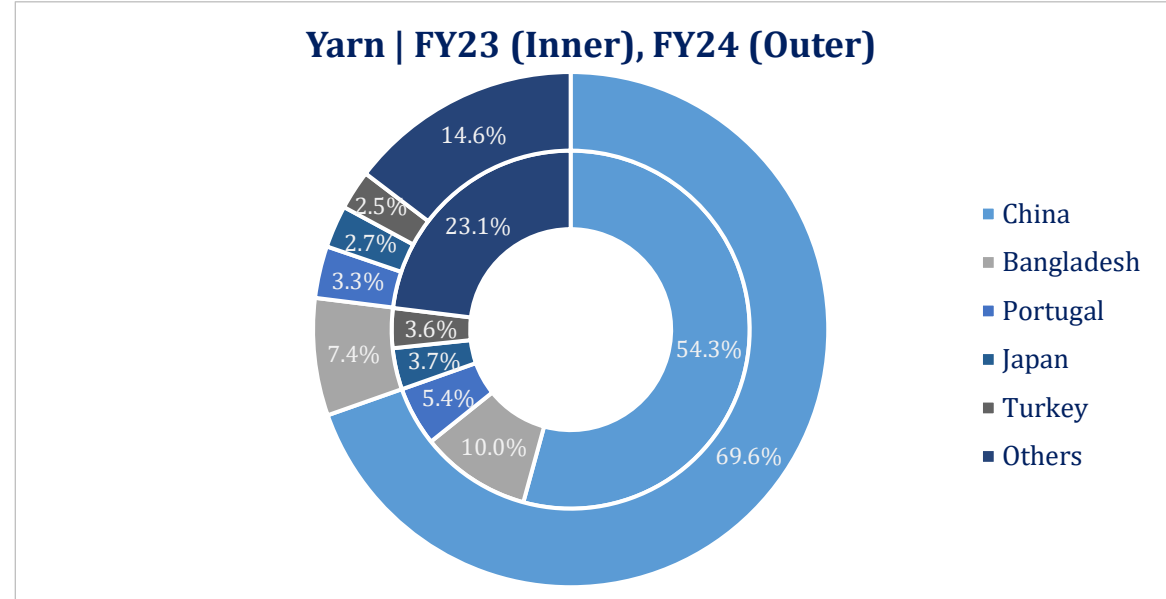
Segment-wise Textile Imports

Figures in USD mln	FY19		FY20		FY21		FY22		FY23		FY24		5MFY24		5MFY25	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Textile Segments																
Synthetic & Artificial Silk Yarn	690	21.4%	504	19.9%	656	17.0%	879	18.4%	583	15.6%	605	22.3%	259	23.5%	270	18.2%
Raw Cotton	768	23.8%	880	34.8%	1,480	38.3%	1,828	38.2%	1,679	44.9%	448	16.5%	176	16.0%	360	24.3%
Synthetic Fiber	585	18.2%	427	16.9%	629	16.3%	743	15.5%	485	13.0%	494	18.2%	207	18.8%	169	11.4%
Worn Clothing	181	5.6%	169	6.7%	310	8.0%	433	9.0%	371	9.9%	434	16.0%	178	16.2%	214	14.4%
Other Textile Items	998	31.0%	550	21.7%	792	20.5%	903	18.9%	623	16.7%	733	27.0%	280	25.4%	472	31.8%
Total Textile Imports	3,221	100%	2,529	100%	3,866	100%	4,787	100%	3,742	100%	2,714	100%	1,099	100%	1,485	100%
Growth			-21.5%		52.8%		23.8%		-21.8%		-27.5%				35.0%	

- The country's textile cluster imports declined by ~27.5% YoY during FY24. a significant volumetric dip was registered in the raw cotton import segment (~70.0% YoY). Meanwhile, the Synthetic & Artificial Silk Yarn volume imports rose by ~72.6%, synthetic fiber increased by ~48.7% YoY followed by worn clothing increase by ~32% YoY.
- During 5MFY25, the textile imports were up by ~35.0% (5MFY24:~-34.0%) YoY and can be associated with an increase in raw cotton imports of ~104.3%. The lower cotton production will likely increase cotton imports to FY23 levels (USD~1.7bln).
- In volumetric terms, a significant increase of ~134.9% was registered for raw cotton imports, recording at ~0.08mln MT in 5MFY25.
- In FY25, an anticipated shortfall in the cotton production is likely to swell the cotton import bill and augment overall textile cluster imports.

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Export Destinations | Yarn and Cotton Cloth

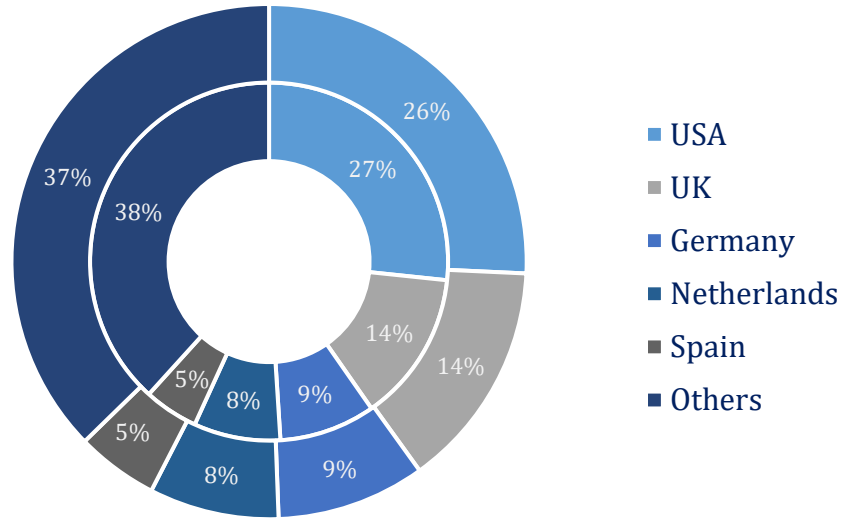


- During FY24, yarn exports accounted for ~5.8% of the total export receipts from the textile cluster, up ~26% YoY in volumetric terms and ~28.1% in value terms. China is the largest destination for Pakistan’s yarn exports (~69.6% share in FY24), followed by Bangladesh accounting for ~7.4% in FY24.
- Cotton cloth accounted for ~11.2% of the total export receipts of the textile cluster during FY24, up by ~5.8% YoY in value terms and ~6.5% in volumetric terms. With respect to cotton cloth exports, ~23% were concentrated towards Bangladesh in FY24, which is a significant player in the global textile finished goods market. Other export destinations for cotton cloth include the USA (~8%), the European countries such as Italy, (~7%), Turkiye (~6%), as well as the Portugal (~4%). Others include Germany, Spain, Japan and the UK, to name a few.

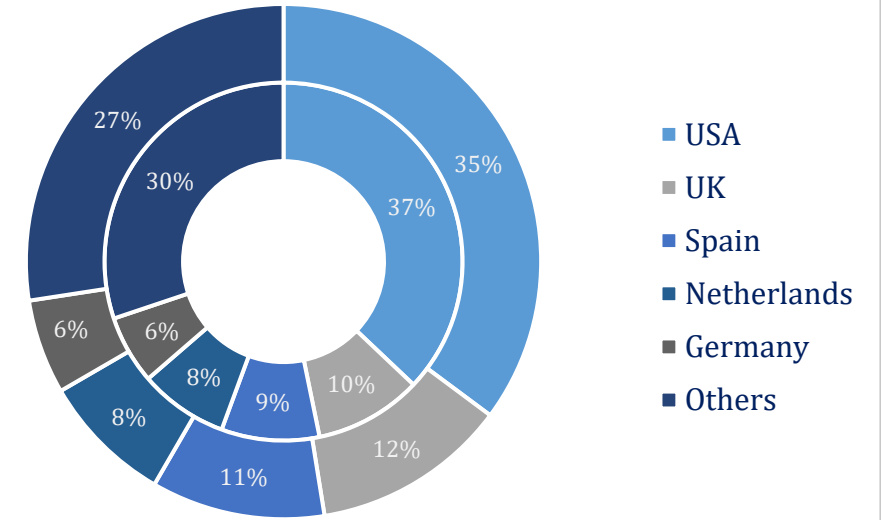
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Export Destinations | Bedwear & Knitwear

Bedwear | FY23 (Inner), FY24 (Outer)



Knitwear | FY23 (Inner), FY24 (Outer)



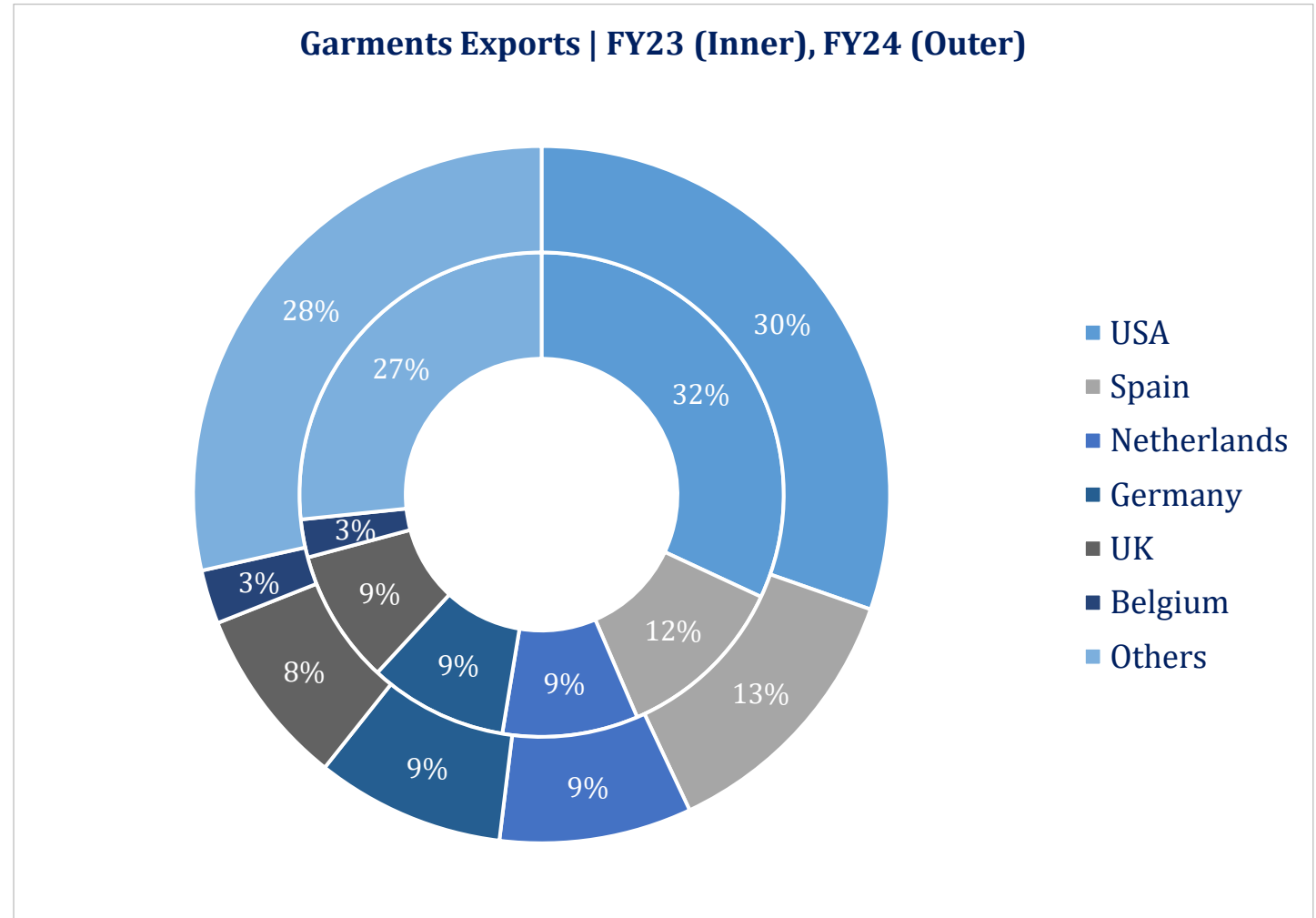
- During FY24, the USA (~26%) was Pakistan’s largest export destination of bedwear. The UK was the second largest country with ~14% of bedwear exported, followed by Germany (~9%) and the Netherlands (~8%). Other countries included the UAE, Australia, and Canada. Bedwear accounted for ~21.4% of the revenue generated from the textile cluster in FY24. The segment witnessed an increase of ~15.2% in volumetric terms and ~19.4% in value terms during the year.
- Knitted fabric orders from the USA generated ~35% of knitted fabrics export revenue while those to the UK generated ~12% during FY24. The third highest export revenue from the sale of knitted fabrics was generated from Spain (~11%). Other countries which served as destination points for knitted fabric exports included the Netherlands and Germany. Knitwear accounted for ~26.5% of the receipts from the total textile cluster exports in FY24, increasing by ~37.7% YoY in volumetric terms and by ~14.5% in value terms.

*Others in Bedwear include UAE, Australia, and Canada amongst others.
Others in Knitwear include Italy and Canada amongst others.*

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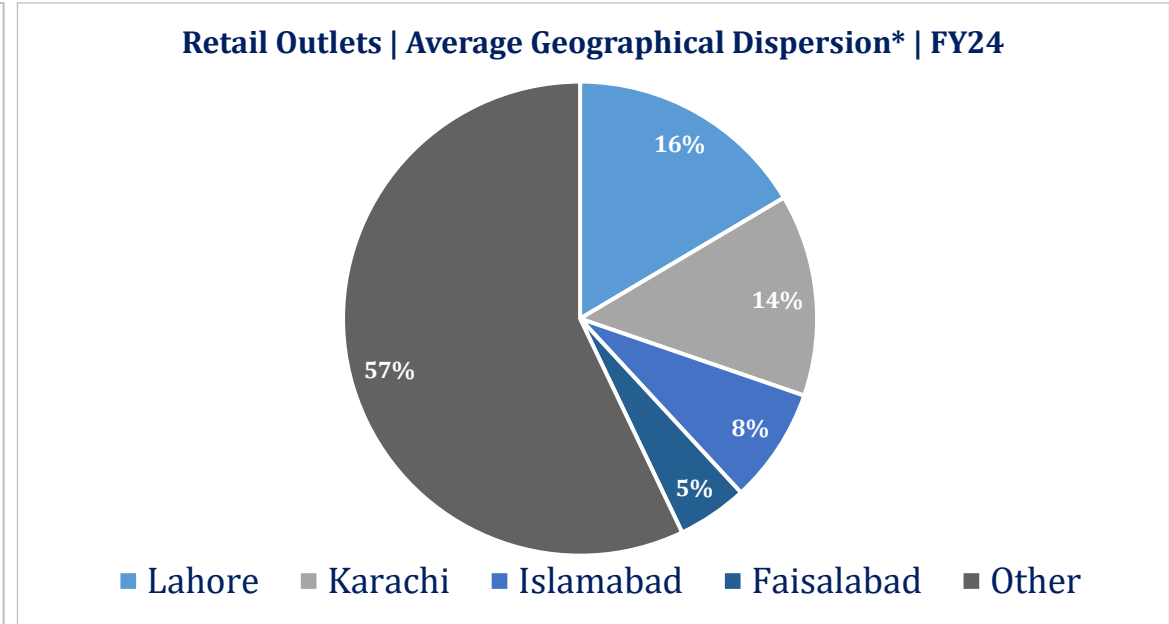
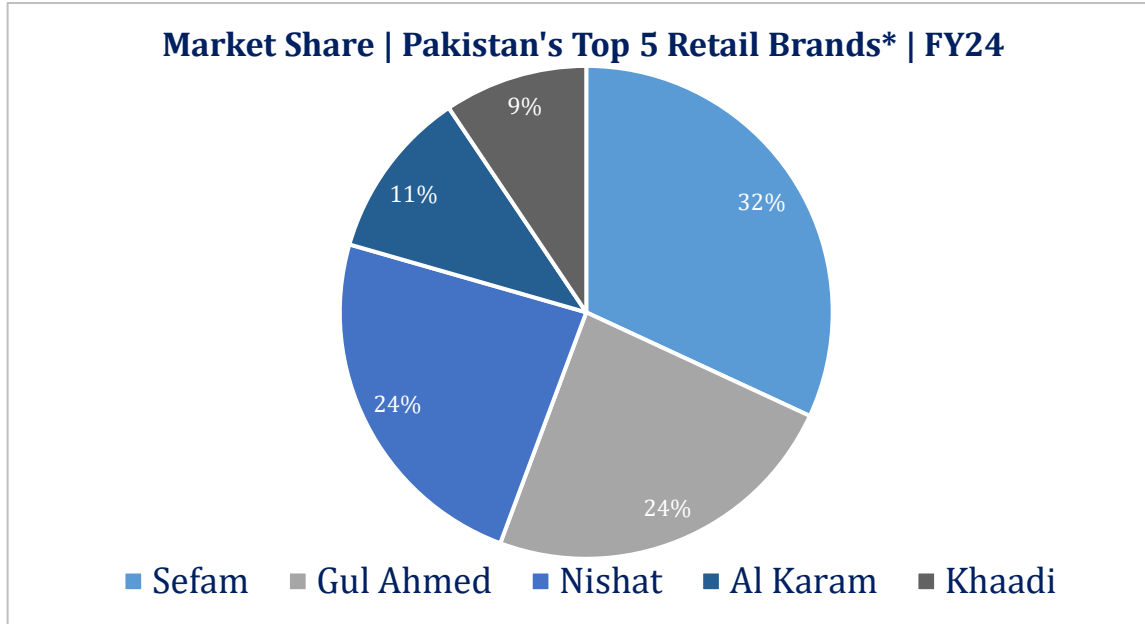
Export Destinations | Garments

- In FY24, ~30% of the garments export sales revenue was generated from the USA, Pakistan’s largest garments customer, and ~13% from Spain. Other major destinations included the Netherlands, Germany, the UK, and Belgium, accounting for ~9%, ~9%, ~8% and ~3% of export receipts from the garments segment, respectively.
- Other top destinations for garments exports in FY24 included France, Australia, Canada and Italy.
- During FY24, the garments segment generated ~21.4% of the total export receipts from the textile cluster (FY23: ~18.3%).
- Additionally, in FY24, despite an increase in the exports’ receipts of garments (~17.0%), there was a ~5.4% volumetric decline YoY. This is likely due to the inflationary impact increasing the revenue, despite a reduction in the volume exported.



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Garments and Retail



- The garments and retail segment is referred to as an ancillary textile industry with operations ranging from small to medium to large-scale. The contribution of readymade garments (or wearing apparel) to the Large-Scale Manufacturing (LSM) index was recorded at ~7.7% during FY24.
- In 4MFY25, the LSM index stood at 109.63, or a decline of ~0.6% YoY. The receding trend forecasts a slowdown of economic activity. Meanwhile, the contribution of the textile and wearing apparel industry stood at ~30.9% in 4MFY25.
- The Composites and Garments industry is highly diverse when it comes to operating structure and size. While the major brands operate via retail outlets and online platforms, the smaller brands majorly conduct their sales operations via the latter. A majority of these companies have a horizontally integrated value chain, also operating with spinning and weaving units.

*Average Geographical Dispersion estimated using number of outlets across Pakistan.
 Note: Market Share is estimated using number of outlets of top 5 retail brands in Pakistan.

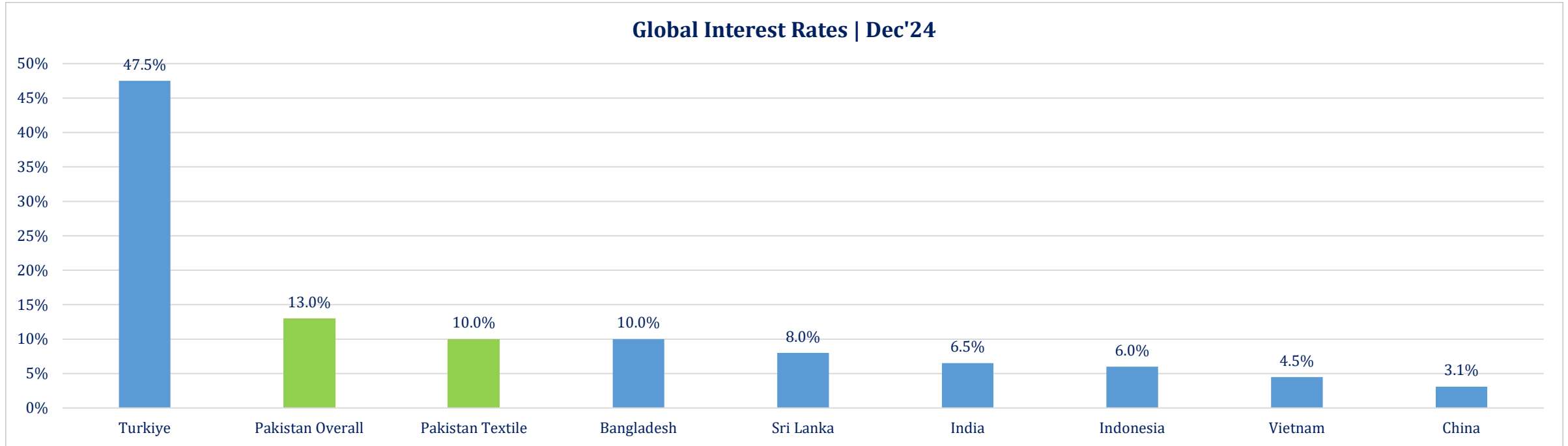
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Business Risk

Identified Risk Factors	Risk Meter	Description
Low Domestic Cotton Production	High	➤ Local production formed ~91% of total cotton supply in the country during FY24. In FY25, however, reduced cotton crop will exacerbate the imports.
Increasing Dependence on Imported Cotton	High	➤ Imports comprised ~9% of total cotton supply in the country during FY24 (SPLY: ~35%). Imports in FY24 declined ~69% from the average of past five years (FY19-23), while local production increased by ~30%. ➤ In FY25, Increasing imports will expose the Industry to exchange rate fluctuations.
Climate Change Impact	Medium	➤ In FY24, there were no considerable climate change challenges to cotton crop. However, abrupt change in temperature can affect the quality of fiber. ➤ The rise in 1°C temperature at the vegetative and flowering-fruiting stage reduces cotton yield by ~24.1%.
Reduction in Value Addition	Low	➤ In FY24, Net Textile Trade Balance grew ~9.3% to USD~13.9bln (FY23: USD~12.7bln) emanated from increasing reliance on imports. In 5MFY25, it has grown ~5.9% YoY to USD~6.1bln (5MFY24: USD~5.8bln).
High Input Energy Costs	High	➤ Since the removal of RCET in Mar'23, ~27.7% of the Industry spindles and ~33% of the Industry looms have remained idle. ➤ Power tariff for industrial consumers sits at ~14cents/kWh, up from ~9cents/kWh during FY20-22. ➤ W.e.f. Feb 01, 2024, the gas tariff were once again hiked to Rs 2,750/MMBtu for captive and Rs. 2,150/MMBtu for process gas usage.
Increasing Interest Rates	Low	➤ The policy rate has substantially come down from an average of ~21.9% in FY24 to the current ~13% in Dec'24. Moreover, the discount window of ~3% is available in the form of EFS/LTFF, with ~39.9% of the textile's total borrowings availed at discounted rates during Nov'24.
Removal of GSP+ Status	Low	➤ For Pakistan, the Scheme was extended in 2023 till 2027 but includes stringent conditions.

Composites and Garments

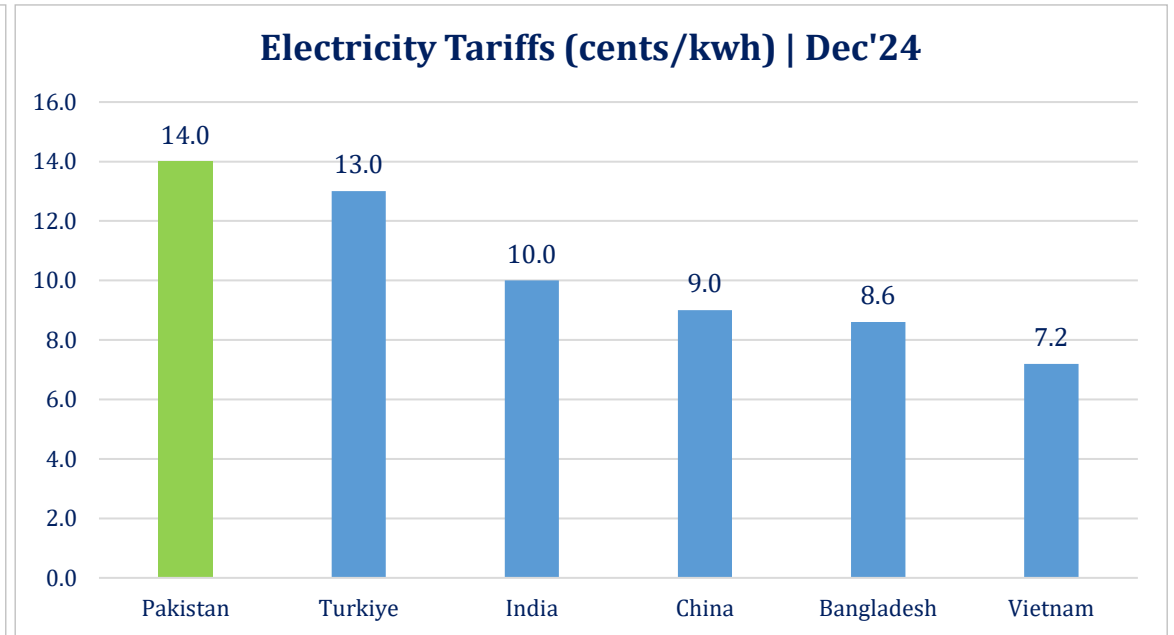
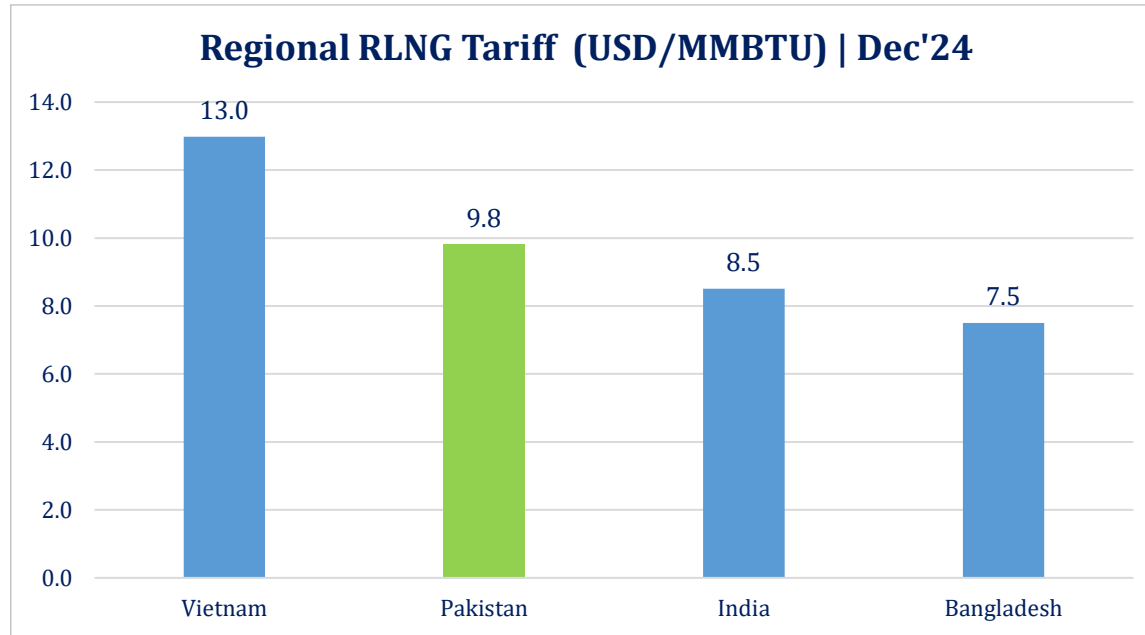
Business Risk | Interest Rates



- The current policy rate stands at 13.0% as of Dec'24 (Dec'23: 22.0%). Despite this, Pakistan has the second highest interest rate in the region. The forecast of lower MPR suggests that Composites and Garments industry can expect relief in its finance cost, especially given the decrease of ~9% from peak of ~22% in May'24 to ~13% in Dec'24.
- The textile cluster benefits from subsidized financing facilities in the form of short-term Export Finance Facility (EFS) and Long-Term Financing Facility (LTFF). In Dec'22, the SBP linked these rates to the policy rate such that the difference between the former two rates and the latter was reduced from 5.0% to 3.0%.

Composites and Garments

Business Risk | Electricity & Gas Tariffs

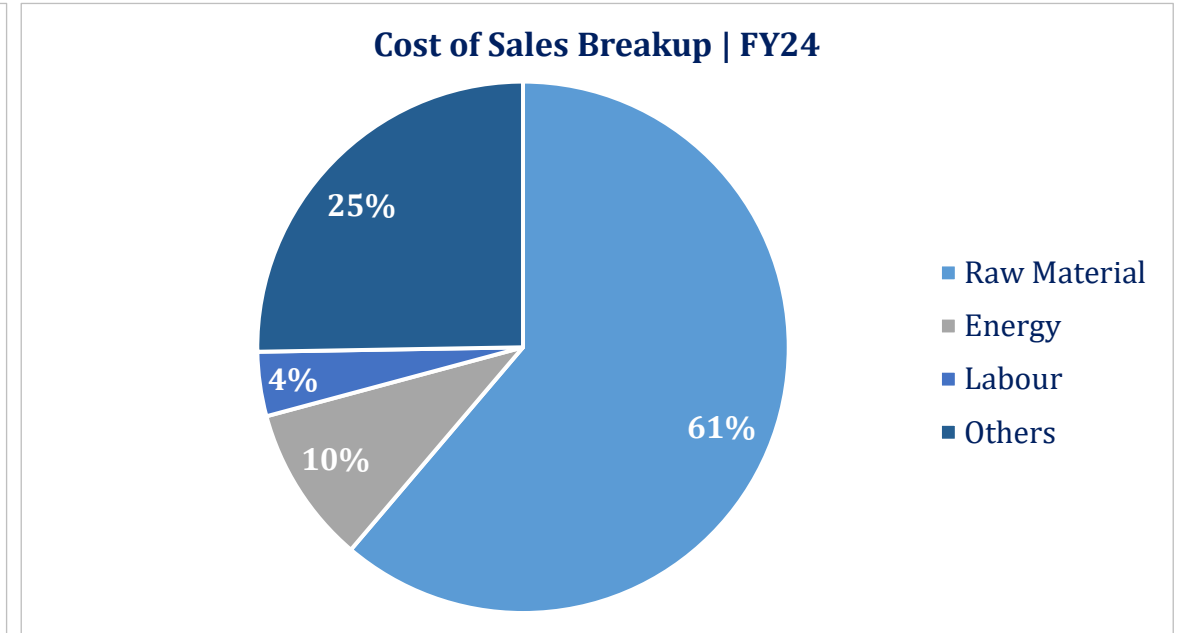
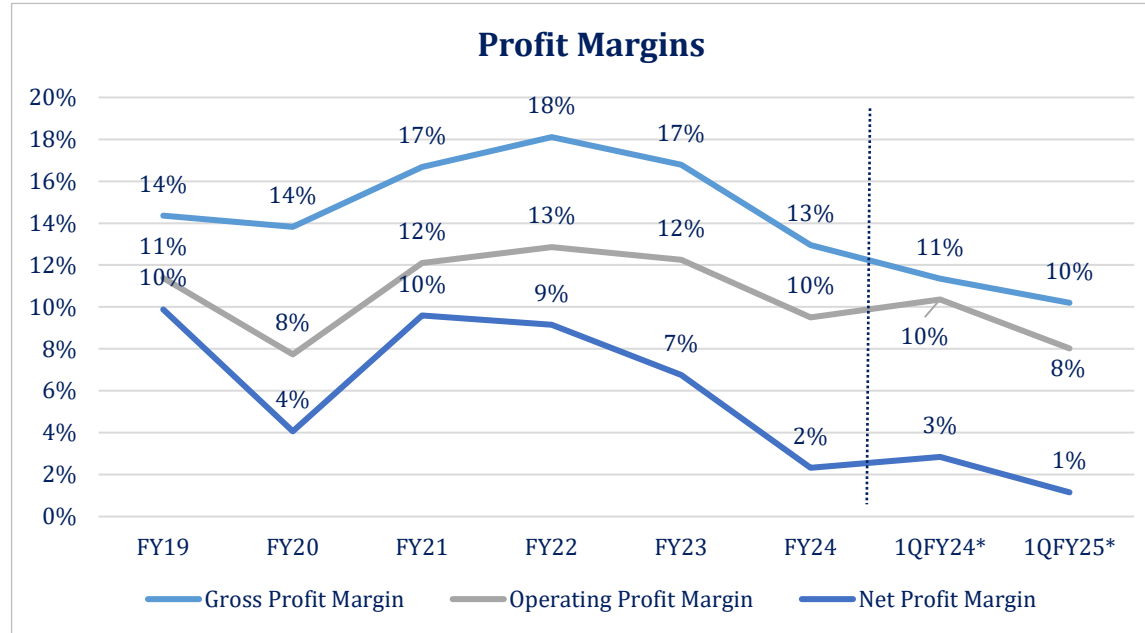


- Pakistan’s textile industry has the second highest gas tariff of USD~9.8/MMBTU as of Dec’24 amongst the regional competitors. Furthermore, the onset of winter implies gas curtailments for the textile cluster, further exacerbating input costs.
- Disruption in electricity supply from the national grid (loadshedding and fluctuations) due to obsolete infrastructure and disconnection makes it challenging to rely on these energy supply sources. Moreover, as a potential restriction on Captive Power Generation is on the cards, the problems would only double if it the step is materialized.

*Pakistan’s LNG Tariffs are the average of SNGPL and SSGC Tariffs.

Composites and Garments

Business Risk | Margins & Cost Structure

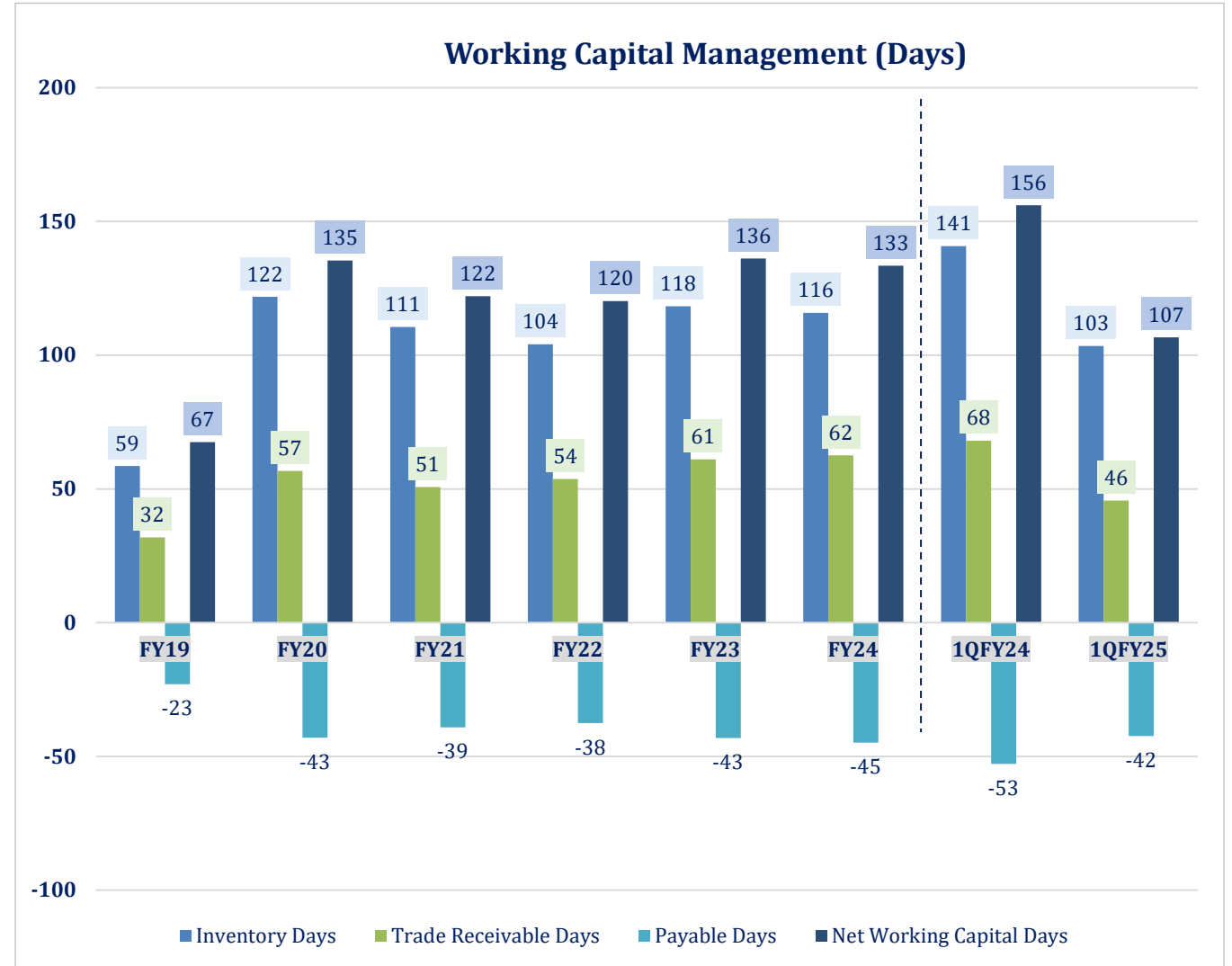


- During FY24, the gross profit margin declined to ~13%, failing to balance the rise in the cost of sales (~5.6%) with a minor corresponding increase in sales (~1.0%). Gross Margins fell to ~13.0% in FY24 (FY23: ~16.8%), owing up to an increase in energy costs that rose by ~27.5%. Operating margins declined to ~9.5% in FY24 (FY23: ~12.3%), owing a decrease in other incomes of ~20.3%. Similarly, net margins dipped to ~2.3% from ~6.8% in FY23, owing to higher finance costs which grew by ~29.0% YoY due to high policy rates during the year.
- During 1QFY25, the gross profit margin, operating profit margin and net profit margin stood at ~10.2%, ~8.0% and ~1.2% respectively. Gross margins declined by ~10.1% YoY due to a decrease in sales of ~2.6% and a less proportionate decrease in the cost of sales of ~1.3%. The primary driver behind the ~59.4% year-on-year decline in net margin was a substantial ~31.9% increase in finance costs, attributed to higher borrowing levels by companies. In Nov'24, Sector borrowings stand at PKR~2,480bln (Nov'23:PKR~2,077.) Raw material accounts for ~61.2% of cost of sales and this concentration highlights the susceptibility of margins to the input source. Energy Costs stood at second with ~9.6% share in FY24.

Composites and Garments

Financial Risk | Working Capital Management

- The sector’s working capital is largely a function of its inventory and trade receivables. Inventory is the most significant component and majorly includes raw material, while finished goods and work-in-process inventory hold smaller shares.
- The historical average working capital cycle for the industry (FY18-23) was recorded around ~190 days, a relatively larger period due to the fact that composite units encompass multiple processes within the textile value chain, with FY22 having the highest inventory days of ~216 days.
- The industry’s net working capital days in FY24 were lower by ~3 days compared to SPLY~136. In FY24, there was an excessive build-up of cotton inventory.
- Inventory days have been observed to be higher in the first quarters of each fiscal year and this is owed to the arrival of cotton into the warehouses of Spinning mills from the ginners and the build-up of inventory for resale in the warehouses of other segments of the value chain.
- Inventory days during 1QFY25 stood at ~103 days, while during 1QFY24, they were recorded at ~141 days. This shows that composites & garments players have begun investing into prudent inventory management to reduce handling costs.

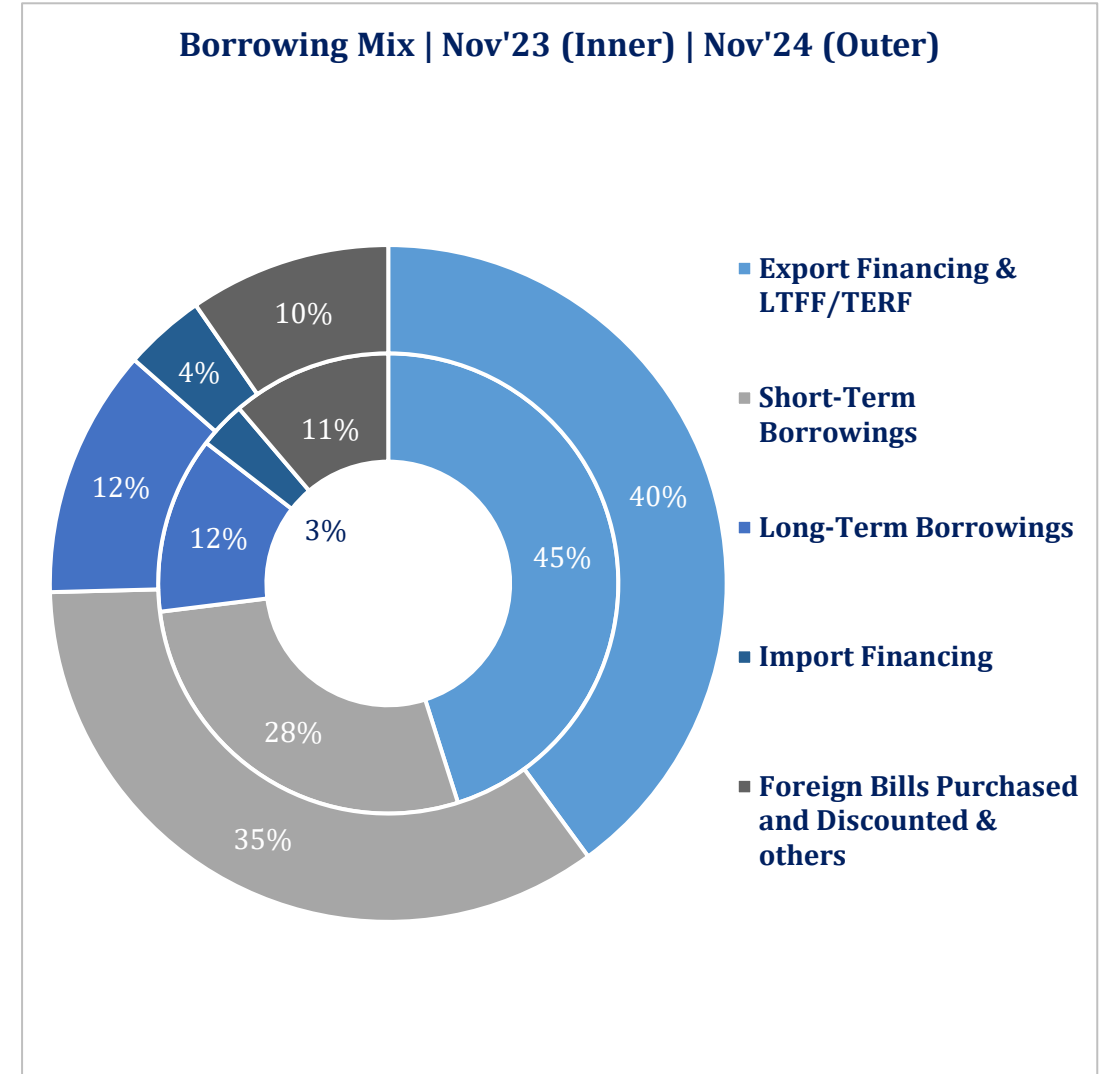


*Note: *Working capital for 1QFY24 and 1QFY25 reflects 53 Composites and Garments players.*

Composites and Garments

Financial Risk | Borrowing Mix

- The total borrowing for the textile cluster as at end-Nov'24 stood at PKR~2,480bln as compared to PKR~2,077bln in Nov'23, depicting a growth of ~19.4% YoY.
- In Nov'24, the largest component within the borrowing of textile cluster comprised discounted borrowings, amounting to ~40% of the total borrowings. This includes Export Finance Scheme (EFS) at a rate of 3% discount from the monetary policy rate, as well as Long-term Financing Facility (LTFF) and Temporary Economic Refinance Facility (TERF) also at a rate of 3% discount from the monetary policy rate.
- Total discounted borrowing amounted to PKR~991bln as at end-Nov'24 (EFS: PKR~705bln, LTFF/TERF: PKR~286bln).
- The cluster's short-term borrowings at normal rates accounted for ~35% of the total borrowings and stood at PKR~860bln as at end-Nov'24 (SPLY: PKR~580bln).
- As of end-June'24, the average debt leverage for the Composites & Garments Sector was recorded at a moderate ~47% (end-June'23: ~49%).
- As of end-Sep'24, the total non-performing loans (NPLs) of the textile cluster stood at PKR~172bln while the infection ratio was recorded around ~8.4% (end-Jun'24: ~9.0%). The textile NPLs have gradually reduced close to the average infection ratio of ~7.7% of the private sector banking credit. The NPLs were specifically higher in FY24 (i.e.,~9%) due to the delinquencies hampering the performance of the textile cluster, particularly the upstream sectors, i.e., Spinning & Weaving.



Composites and Garments

Financial Risk | Borrowing Mix

Textile Segments (PKR mln)	Total Borrowings		YoY Change (%)	Short-term Borrowing			Long-term Borrowing		Foreign Bills Discounted
	Nov'23	Nov'24		Import Financing	EFS	Other Short-term	LTFF	Other Long-term	
Cotton Yarn (Spinning)	649,208	656,158	1.1%	49,092	126,323	268,040	76,438	97,975	38,290
Cotton Cloth (Weaving)	392,706	459,154	16.9%	17,925	129,259	143,346	63,004	63,890	41,730
Towels	221,720	310,121	39.9%	2,615	114,867	94,566	33,840	27,899	36,334
Readymade Garments	155,799	162,574	4.4%	3,669	63,755	32,152	21,755	18,675	22,568
Knitwear	61,057	126,673	107.5%	1,108	51,144	57,372	4,747	6,434	5,868
Bedwear	58,349	65,682	12.6%	983	25,953	2,742	12,198	3,714	20,092
Others	538,134	700,395	30.2%	20,822	193,215	302,701	74,327	84,000	25,330
Industry	2,076,973	2,480,757	19.4%	96,214	704,516	900,919	286,309	302,587	190,212

- The knitwear segment has seen the largest YoY increase (~107.5%) in borrowings as of Nov'24, with towels and bedwear registering the second (~39.9%) and third (~12.6%) biggest percentage increases.

Composites and Garments

Regulatory Framework

- As per the Finance Act 2024, the tax regime for direct and indirect exporters has been revised. The ~1.0% tax collected from the exporters is now considered a minimum tax. Exporters must calculate their actual taxable income or loss based on the relevant provisions. If the ~1.0% withholding tax is less than the tax calculated on their taxable income, they will need to pay the difference.
- Additionally, exporters are now be subject to super tax, which was previously not applicable to their income due to it being under final tax.
- Furthermore, a new provision in the advance tax section mandates that specified withholding agents must collect a ~1.0% advance income tax from the exporters of goods (both direct and indirect) at the time of realizing export proceeds. (i.e. Withdrawal of Zero-Rating on Local Inputs for Export Manufacturing).
- Sales tax is enhanced to 18.0% from 15.0% on supplies of textiles and leathers in the Finance Act 2024. It is exempt for imported inputs and refundable for local inputs.
- In addition, sales tax of 18.0% is applicable on both the raw materials, i.e. yarn and finished goods, i.e. fabric.
- In response to the COVID-19 pandemic, the SBP introduced several measures intended to provide relief to the industries. These measures included loan extension and refinancing, expansion and BMR activities through the Temporary Economic Refinance Facility (TERF), which has now been discontinued.
- The policy rate in Pakistan was raised to ~22.0% w.e.f. Jun'23, followed by subsequent reductions in the rates (Jun'24 : ~20.5%; Jul'24: ~19.5%, Sep'24: ~17.5%, Nov'24:~15%, Dec'24:~13%). The textile cluster is a beneficiary of subsidized financing facilities from the SBP in the form of short-term Export Refinance Facility (ERF) and Long-term Financing Facility (LTFF). In Jul'22, the SBP announced that any subsequent revisions in the LTFF and EFS rates will be linked to policy rate revisions, such that the difference between the two rates and the MPR is ~3.0% as of Dec'22. Hence, LTFF and EFS rates stand at ~10% w.e.f. Dec 16, 2024.
- The duty structure of the cluster provides protection to the local players to an extent, as depicted in the duty structure table. All Pakistan Textile Mill Association (APTMA) is the national trade association of the textile cluster in the country.

Composites and Garments

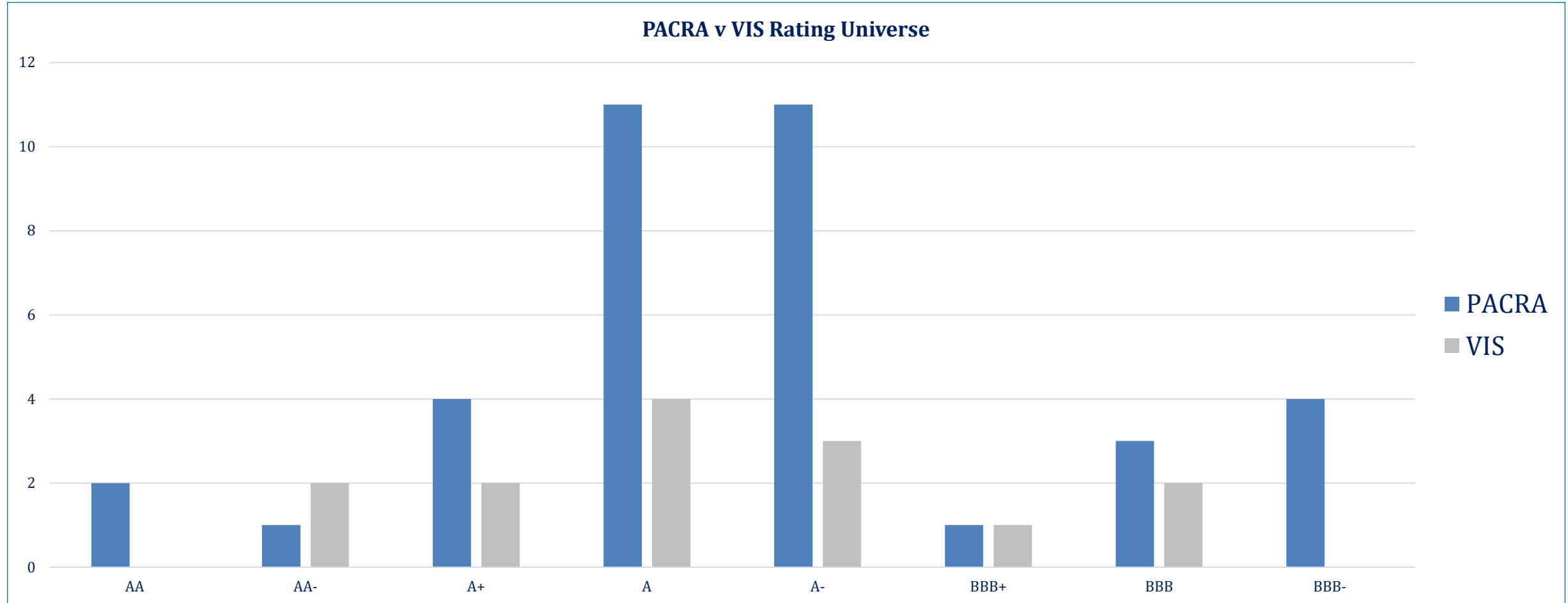
Duty Structure

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
52.01	Cotton, not carded or combed	0%	0%	2%	2%	0%	0%	2%	2%
52.03	Cotton, carded or combed	0%	0%	2%	2%	0%	0%	2%	2%
52.04	Cotton sewing thread, whether or not put up for retail sale	16%	16%-20%	4%	4%-6%	0%	0%	20%	20%-26%
52.05	Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale	11%	11%-16%	2%	2%-4%	0%	0%	13%	13%-20%
52.06	Cotton yarn (other than sewing thread), containing less than 85% by weight of cotton, not put up for retail sale	11%	11%	2%	2%	0%	0%	13%	13%
52.07	Cotton Yarn (other than sewing thread) put up for retail sale	11%	11%	2%	2%	0%	0%	13%	13%
52.08	Woven fabric of cotton, containing 85% or more by weight of cotton, weighing not more than 200g/m ²	11%	11%	2%	2%	0%	0%	13%	13%
52.09	Woven fabric of cotton, containing 85% or more by weight of cotton, weighing more than 200g/m ²	11%	11%	2%	2%	0%	0%	13%	13%
52.10	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibres, weighing not more than 200g/m ²	11%	11%	2%	2%	0%	0%	13%	13%
52.11	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibres, weighting more than 200g/m ²	11%	11%	2%	2%	0%	0%	13%	13%
52.12	Other woven fabrics of cotton	16%	16%	4%	4%	0%	0%	20%	20%
61.01-61.17	Knitted or crocheted clothing articles and accessories	20%	20%	6%	6%	10%	10%	36%	36%
62.01-62.17	Clothing articles and accessories (other than knitted and crocheted)	20%	20%	6%	6%	10%	10%	36%	36%
63.01-63.07	Other made-up articles (including blankets, bedsheets, towels etc.)	20%	20%	6%	6%	10%	10%	36%	36%

Composites and Garments

Rating Curve

PACRA rates 37 Composites and Garments players with a long-term rating bandwidth ranging from AA to BBB-.



Composites and Garments

SWOT Analysis

- Low-cost labor
- Mature and long-standing textile cluster
- Strong sector association resulting in high lobbying power

- Low Cotton Production
- Geographical export concentration
- Intense competition from regional players in the international market
- Strong bargaining power of buyers
- Withdrawal of tax credits for expansion and replacement has hindered new investments
- Declining/low quality local cotton production resulting from climate-induced natural disasters and pests.
- Rising borrowing costs (EFS, LTFF and KIBOR) as well as local and global inflation increase the cost of doing business.



- Imported machinery
- Low BMR resulting in technological obsolescence
- Dollar based input costs leads to thin margins as a result of inefficiencies
- Interdependency on demand from developed markets
- Exposure to economic cycle shifts

- Forward and horizontal integration can be used to produce value added and differentiated products
- Opportunity to increase efficiency through technological upgrade
- Special Economic Zones provide incentives to sector
- Isolation of Chinese manufacturers by US and European retailers and the pursuit of alternative regional sources to meet order demand.

Composites and Garments

Outlook | Stable

- Pakistan's economy posted a real GDP growth of ~2.5% in FY24 (FY23:~-0.2%). Large-scale manufacturing (LSM) recorded a modest year-on-year growth of ~0.9% during FY24 but exhibited a downward trend, contracting by ~0.6% in 4MFY25. Real GDP grew by ~0.9% in 1QFY25 (1QFY24: ~2.3%). The economic slowdown is likely due to the formal industrial sector reeling from the higher interest rates of two previous years. The average policy rate for FY24 stood at ~21.9% and for FY23 stood at ~17.2%. The "Textile and Apparel" sectors collectively contributed ~31.0% to the LSM value-addition in FY24.
- For the remaining FY25, with a lower policy rate (1HFY25:~17.5%) and reduced inflation levels (1HFY25:~7.3%), industrial activity is expected to revive gradually. The tax incentives, such as no tax on textile inputs are a positive factor for the industry. While no further tax relief or incentive is expected under the IMF Program, the industry will likely benefit from a lower policy rate.
- Up till Dec'24, local cotton production has registered ~5.3mln bales, following a bumper cotton production in FY24 (~10.2mln bales). The FY25 target of 10.8mln bales seems unachievable. Therefore, the country is expected to have an approximate 40%-50% shortfall in the cotton requirement.
- During 5MFY25, the textile cluster exports are up ~10.5% YoY, a vital positive exports trend. The major increase has come from the exports of value-added products, such as Knitwear, Readymade Garments, and Bedwear. These segments have each grown by ~18.4%, ~23.1%, and ~15.1% YoY, respectively.
- On the other hand, the textile imports are also up ~35.0% YoY in 5MFY25. The major increase has come from raw cotton imports that have stood at USD~360mln, up ~104.3% from 5MFY24. The raw cotton imports are expected to increase further as cotton imports are generally lagging behind local cotton production. An increase of ~5.9% in the textile trade balance is a positive indicator for the value-added production in Pakistan. Net Textile Trade Balance for 5MFY25 stood at USD~6,123mln as compared to USD~5,784mln in the previous corresponding period.
- In 1QFY25, the gross profit, operating profit, and net profit margins for Composites & Garments players stood at ~10.2%, ~8.0%, ~1.2%, respectively, against 1QFY24 of ~11.3%, ~10.4%, ~2.8%. The figures while suggesting an awry first quarter represent that Composites & Garments are much more capable of generating positive profits, especially due to their integrated production lines that have a strong ability to cover raw materials and energy costs.
- Going forward, if the gas supply to captive power plants is restricted under the IMF directives, it is likely to render exports expensive in the international market. However, with the government's focus on reducing power tariffs and global production increasing, no major hike in power tariffs or cotton prices is expected. Both components contribute ~71.0% to the cost of sales in FY24. The sector's cost structure will likely stay similar or, even, improve.
- The sector's margins are expected to remain rangebound, owing to higher imported cotton that is cheaper given the taxes during FY25, stable interest rates, and consistent demand, both locally as well as globally, with global economic activity expected to rebound (GDP forecast for CY25 by the IMF: ~3.2%).
- Lastly, the IMF expects the economies of the USA and UK, Pakistan's two biggest export destinations by value, to grow by ~2.2% and ~1.5% in CY25. The global textile market is expected to grow with a CAGR of ~6.9% till 2028. The growth in the USA, the UK, and the global textile market represents a stellar opportunity for Pakistan to capitalize.

Composites and Garments

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