SECTOR STUDY . SEPTEMBER 2024

Together. Creating Value.

Towels

Research Team

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Introduction

- Terry towels, commonly known as towels, are thick, absorbent cloths used for cleaning, wiping surfaces, bathing, and drying.
- They are made of pile loops on one or both sides of the fabric, covering the entire surface. The loops are often formed into strips, checks, or other decorative patterns. The loop length determines fluid absorption ability; therefore, longer loops absorb more water.
- Cotton is the most common fiber used for the production of towels due to its natural qualities, which include:
    - Absorbency
    - Wet Strength
    - Hypoallergenic
- Other fibers sometimes used in towel production include polyester, linen, nylon, flax, and bamboo.
- The most commonly used towels are beach, bath, hand, face, and kitchen towels, each available in multiple colors with borders, cross hems, and side hems.

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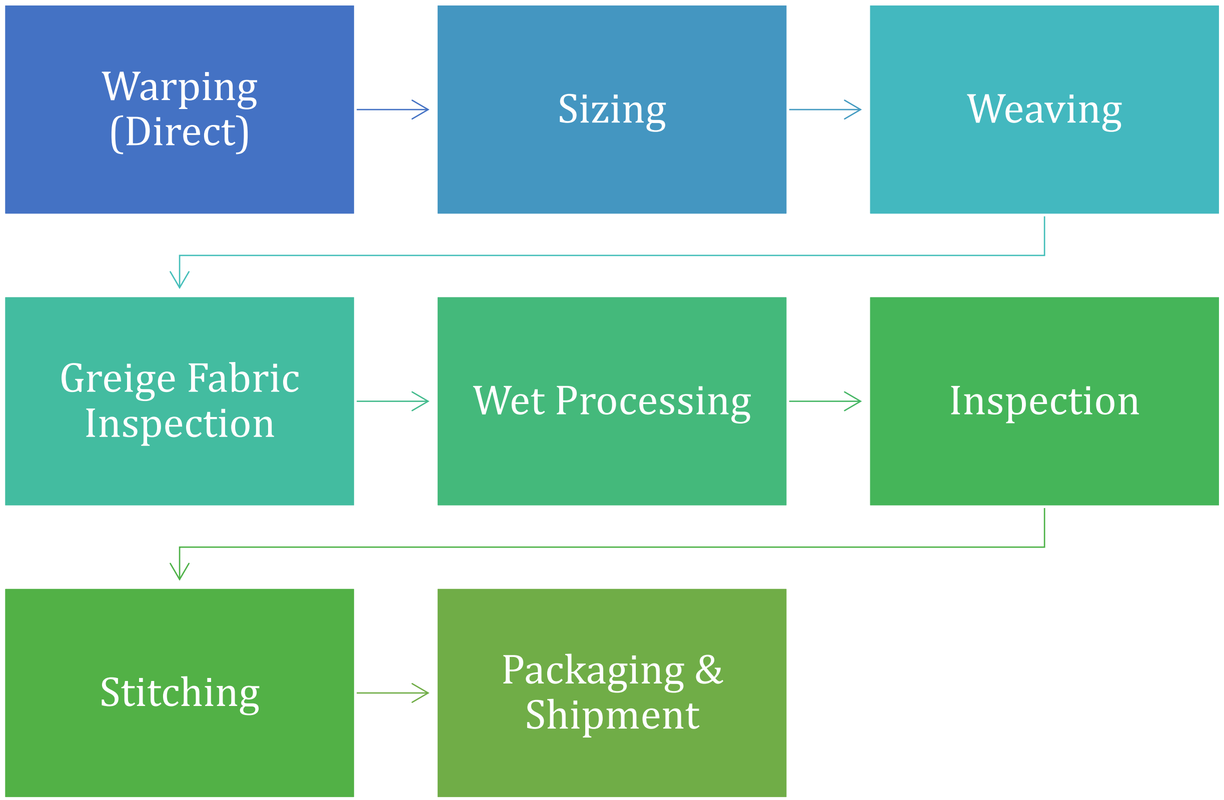
Manufacturing Process

- The adjacent flow chart shows various processes involved in producing towels.
- Towel is a type of woven fabric where two 2 beams are used to weave this fabric. One beam is for ground fabrication, and the other is for loop formation.
- Wet processing involves multiple stages, including scouring, bleaching, dying, and finishing.
- Finishing can be done through a chemical process, such as antimicrobial treatment, or a mechanical procedure, such as tumble drying, which increases softness.
- Terry loom formation ranges from "2 pick terry towel" to "7 pick terry towel". "3 pick terry" is the most popular and commercially used.



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Global | Overview

- The global cotton towel market size was valued at USD~4.3bln in CY23 and is projected to grow from USD~4.5bln in CY24 to USD~7.2bln by CY32, exhibiting a CAGR of ~6.2% during the forecast period. Asia Pacific dominated the cotton towel market with a market share of ~34.4% in CY23.
- The towel sector is segmented into household and commercial categories. The household sector is expected to lead the market in the coming years, driven by the growing demand for cotton towels. Cotton, being one of the most commonly used and versatile fabrics, is an ideal choice for household use.
- The growing necessity of towels from various end users such as hotels, fitness clubs, and hospitals is driving the demand for towel products. Rising construction of hotels and resorts in developing countries such as India, China, Brazil, and among others is also augmenting the market's demand. Furthermore, shifting preferences of the consumers towards stylish and fashionable accessories along with the availability of a wide range of attractive towels has the potential to accelerate consumers' spending on towels.
- A rise in the footfall of national and international tourists and an increase in government spending on developing tourist places will further increase the demand for the hospitality sector, while organizations such as the World Travel & Tourism Council (WTTC), the International Tourist Organization, The United Nations World Tourism Organization (UNWTO), and others are engaged in attracting large numbers of tourists worldwide.
- Moreover, consumers are increasingly focusing on their health and hygiene through the consumption of quality products which is expected to drive the market growth of cotton towel household. Meanwhile, commercial settings such as hotels, restaurants, and fitness centers are continuously concentrating on the hygiene of the consumers by using unique and high quality products. Hence, going forward, the growing demand of cotton material towels from residential and commercial sectors is set to drive the growth of global towels sector.
- On the risk side, higher cost of technology, raw materials and, by extension, production processes restricts the product demand worldwide. Moreover, laborers are involved throughout the supply chain, therefore, changes in the labor force due to unforeseen circumstances can also potentially drive prices up, impacting demand negatively.

Source: Fortune Business Insights

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Global | Trade

Top 5 Exporters | Towels (USD mln)					
Country	**CY19**	**CY20**	**CY21**	**CY22**	**CY23**
China	2,383.0	2,032.5	2,456.3	2,313.3	2,149.1
Pakistan	1,081.6	1,009.1	1,014.7	996.5	1,078.8
India	787.4	776.8	1,020.5	1,081.8	1,012.7
Turkiye	569.2	530.6	689.3	664.3	560.8
Viet Nam	267.4	208.8	234.4	287.9	316.2
ROW	1,307.6	1,187.7	1,470.3	1,502.7	1,295.7
Total	**6,396.6**	**5,745.7**	**6,885.5**	**6,846.5**	**6,413.3**

Top 5 Importers | Towels (USD mln)					
Country	**CY19**	**CY20**	**CY21**	**CY22**	**CY23**
USA	2,062.5	1,866.2	2,603.7	2,429.7	2,129.4
Japan	550.1	458.8	500.7	591.0	578.5
Germany	288.5	283.3	330.2	362.5	320.6
Kazakhstan	17.8	29.8	24.9	53.8	248.7
France	204.7	172.6	228.9	254.5	238.3
ROW	3,272.7	2,934.9	3,197.0	3,155.0	2,897.9
Total	**6,396.6**	**5,745.7**	**6,885.5**	**6,846.5**	**6,413.3**

- During CY19-23, the USA remained the largest importer of towels with imports amounting to USD~1.9bln in CY20. For CY23, global towels trade recorded at USD~6,413.3mln, down ~6.3% YoY. In terms of imports, USA's stood at USD~2.1bln, down ~12.4% YoY, while the top 5 importers comprised ~54.8% of total imports in CY23 (SPLY: ~53.9%).
- Similar to other textile segments, towel exports remain concentrated in the Asian continent. This is due to the easy access to raw material and cheap labor. Top exporters of Towels (during CY19-23) included China, Pakistan, India, Turkiye and Vietnam, with these cumulatively forming ~79.8% of total towel exports in CY23 (SPLY: ~78.1%).
- During CY23, Pakistan exported towels worth USD~1,078.8mln (CY22: USD~996.5mln) up ~8.3% YoY, while India recorded exports amounting to USD~1,012.7mln (CY22: USD~1,081.8mln), down ~6.4% YoY. Similarly, the USA and Japan (the top two importers of towels), imported towels worth USD~2,129.4mln (CY22: USD~2,429.7mln) and USD~578.5mln (CY22: USD~591.0mln), respectively, during CY23.

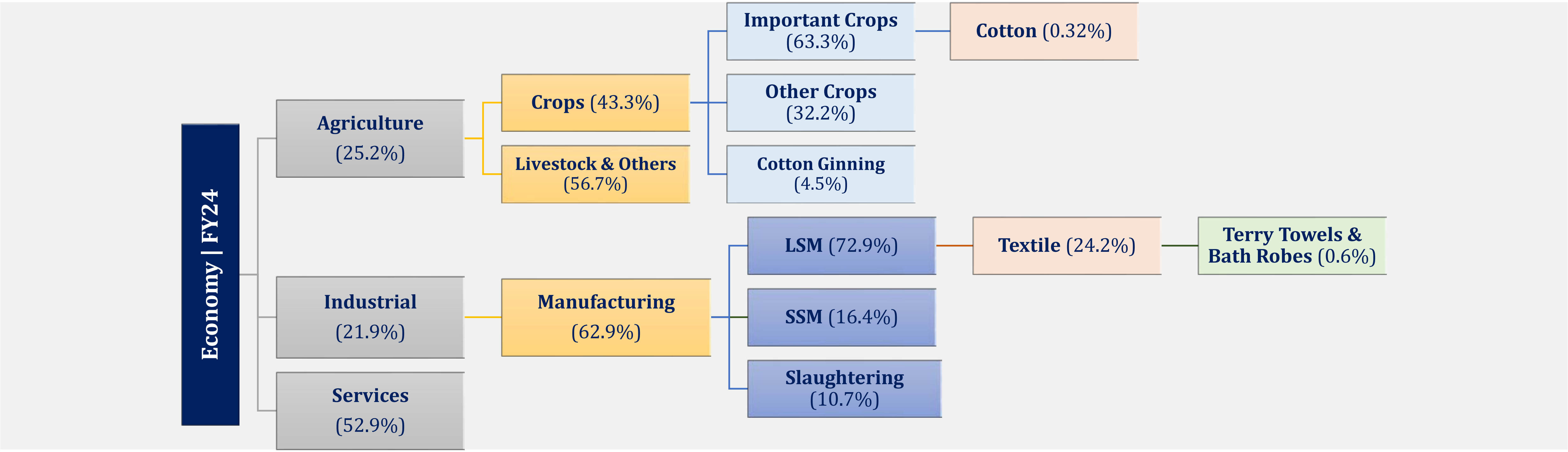
Note: *Data is reflective of HS Code 6302.60.*

Source: ITC

Towels

Local | Overview

- In FY24, Pakistan's GDP (nominal) stood at PKR~106.0trn (FY23: PKR~83.9trn), increasing, in real terms, by ~2.4% YoY (FY23: ~-0.21% growth). Industrial activities in FY24 held ~21.9% share in the GDP while the manufacturing activities made up ~62.9% of the value addition. In 3QFY24, Pakistan's GDP (nominal) stood at PKR~25.4trn (3QFY23: PKR~20.6trn), rising in real terms by ~2.1% YoY (2QFY24: ~1.8% YoY). Real GDP growth rate (~2.1%) for 3QFY24 signals a moderate improvement in the economic activity as compared to SPLY.
- Large Scale Manufacturing (LSM) in Pakistan is essential for the economic growth considering its linkages with other sectors, as it represented ~72.9% value of the manufacturing activities in FY24. The LSM fell by ~10.3% YoY in FY23 (FY22: ~11.7%), however, it inched up ~0.92% YoY in FY24.
- The textile sector is classified as a Large Scale Manufacturing (LSM) industrial component within the industrial sector. In FY24, the textile industry's weight in the QIM was recorded at ~24.2% while Terry Towels & Bath Robes recorded ~14.2% YoY increase during the year.



Note: *Sectoral shares are representative of GVA.*

Source: PBS

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Local | Snapshot

- In FY24, production of Terry towels and Robes was up ~14.2% YoY to record at ~222,700MT (~195,100MT in FY23). The key cities which are main centers of towel manufacturing are Karachi, Lahore, Faisalabad, Multan, Sialkot, Hyderabad, and Jhang
- In Pakistan, there are ~10,000 towel looms, including shuttle and shuttle-less looms operating in both organized and unorganized segments of the towel manufacturing sector.
- The towel sector is predominantly export-oriented. During FY24, exports clocked in at PKR~298bln (USD~1,052mln) as compared to PKR~248bln (USD~1,000mln) in FY23. The ~20.2% increase in FY24 export revenue (in PKR terms) was attributable mainly to a rise in export price, volumetric increase and exchange rate stability (covered later).
- Four players in the towels sector are listed on the Pakistan Stock Exchange and have a combined free market capitalization of PKR~32,892mln as of August 27, 2024.

Particulars	FY21	FY22	FY23	FY24
Market Size (PKR bln)*	200.8	231.2	285.9	352.5
Contribution to GDP	0.4%	0.4%	0.4%	0.4%
Terry Towels & Bath Robes Production (‘000’ MT)	213.2	221.5	195.1	222.7
Towel Exports (PKR bln)	149.8	197.8	248.1	298.3
Share in Total Textile Exports	6.1%	5.8%	6.1%	6.3%
Share in Country’s Total Exports	3.7%	3.5%	3.6%	3.4%
Towel Exports (‘000’ MT)	213.2	221.5	195.8	223.2
Listed Players (No.)	~4			
Associations	Towel Manufacturers Association (TMA); All Pakistan Textile Mills Association (APTMA)			

Estimated using market share of one listed player in the sector . **Note: Market size for FY24 has been prorated based on 9MFY24.*

Source: PBS, TDAP

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Local | Cotton Dynamics

- Pakistan's cotton production increased by ~108.2% YoY in FY24 (against the target of ~12.8mln bales) owing to an increase in the area under cultivation, a better quality of pest-resilient seeds, favorable weather conditions, and attractive fixation of the intervention price of cotton (*Phutti*) at PKR~8,500/40kg at the start of the sowing season.
- On the other hand, a ~70.0% YoY decline in cotton imports was also observed during the year (SPLY: ~13.2% YoY decline, owing to a better domestic output).
- For FY25, target for cotton production is set at ~10.9mln bales, of which ~4.0% has been met as of July 20, 2024 (or ~0.4mln bales). Of this, Punjab and Sindh comprised ~26.0% and ~74.1%, respectively, during the period.
- However, the ongoing monsoon rains of Aug-Sep'24 are expected to adversely affect the cotton crop nationwide, hence the cotton production target for FY25 have been revised down to ~7.5mln bales.

Local | Cotton Supply ('000' Bales)

Particulars	FY19	FY20	FY21	FY22	FY23	FY24
Opening Stock	**2,440**	**2,510**	**3,200**	**2,175**	**1,925**	**1,525**
Production	9,861	9,148	7,064	8,329	4,910	10,223
Imports	2,439	3,157	5,043	4,636	4,023	1,205
Total Supply	**14,740**	**15,658**	**15,664**	**15,004**	**11,335**	**12,953**
Local Consumption	12,156	11,540	13,129	13,199	9,265	11,146
Exports	75	75	3	16	68	183
Closing Stock	**2,510**	**3,200**	**2,175**	**1,925**	**1,525**	**1,625**

Source: PBS, PES, PCCC, USDA

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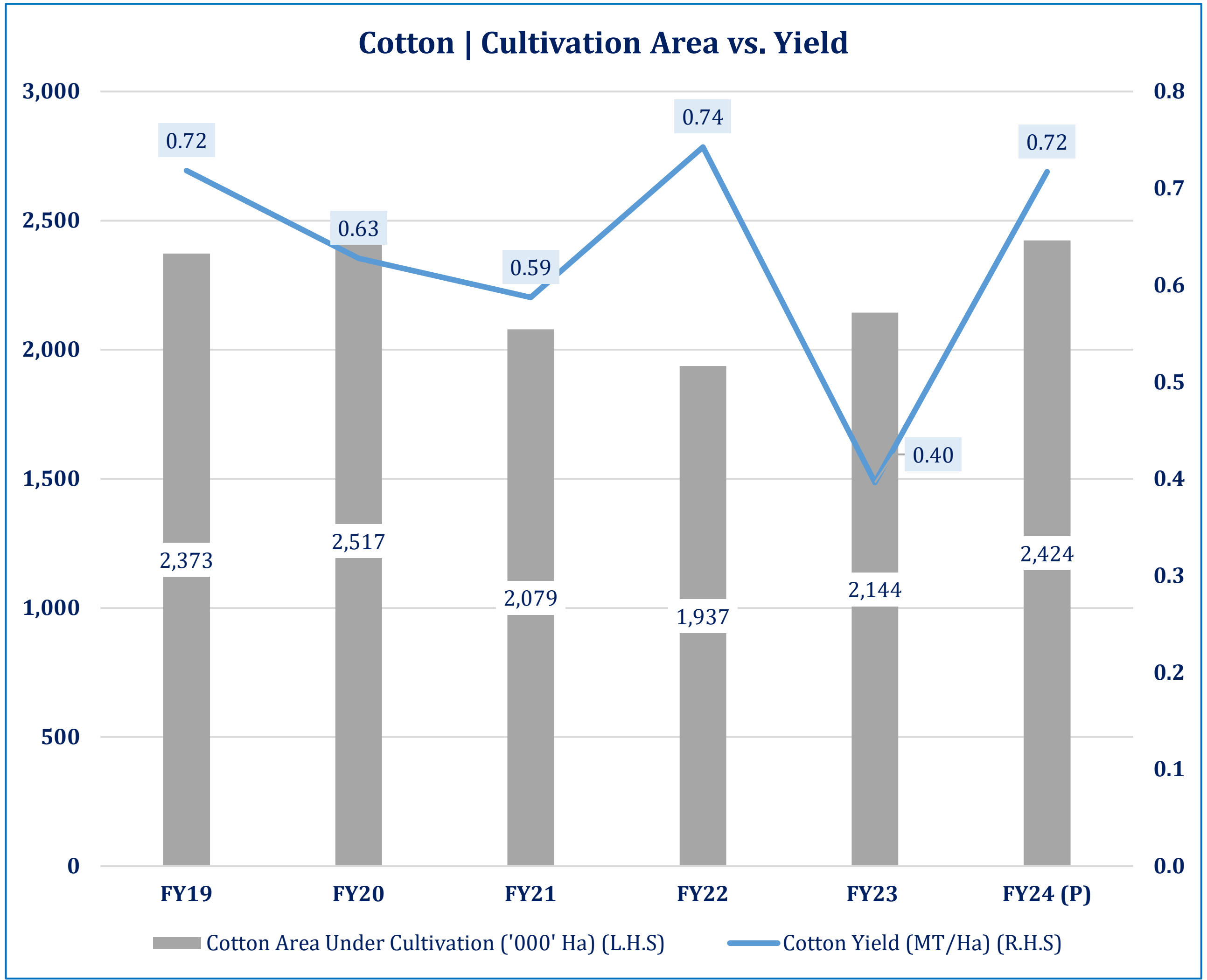
Local | Area under Cultivation vs. Yield

- The area under cultivation for the cotton crop increased by ~13.1% YoY to ~2.4mln Ha in FY24. Similarly, cotton crop yield also improved to ~0.7MT/Ha.
- Area under cultivation for rice grew by ~22.2%, while that for maize declined by ~4.5% YoY during FY24. Maize and Rice compete directly with cotton for area.
- For FY25, production target is set at ~10.9mln bales, with targeted yield set at ~622.0Kg/Ha. Meanwhile, the area under cultivation is expected to record at ~3.1mln Ha.
- However, the ongoing monsoon rains have caused pest infestations, particularly by the pink bollworm, causing severe damages to the cotton fields.
- Resultantly, as per USDA Aug'24 cotton report on Pakistan, the estimates for targeted yield and area under cultivation have been revised down to ~604.0Kg/Ha and ~2.0mln Ha, respectively.



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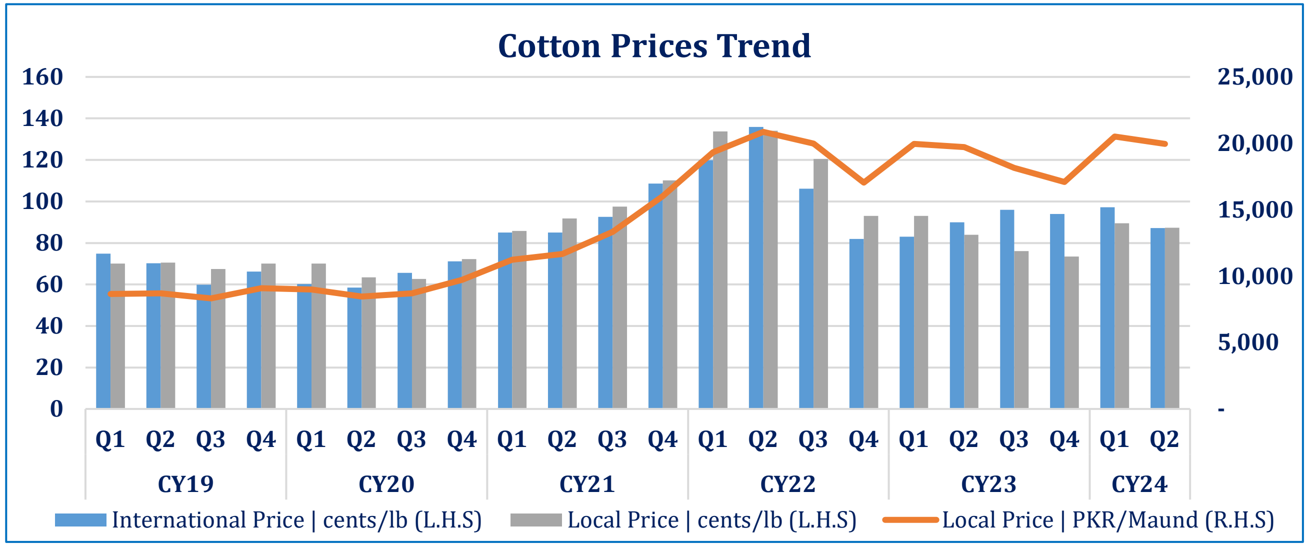
Local | Cotton Price

- Global cotton prices during CY16-20 fluctuated between ~60-80 cents/lb, influenced by supply-demand dynamics and unforeseen events. However, during 1QCY21-2QCY22, prices registered a peak of ~136 cents/lb due to a global economic uptick. In CY22, prices remained high until May'22, reaching the 11-year peak of ~136 cents/lb on the back of global economic recovery and increased textile demand.
- During CY16-20, the average delta between global and local cotton prices was recorded at ~2 cents/lb. Local cotton prices, in PKR/maund, exhibited little volatility during this time but grew steeply post-CY20, reaching PKR~2,200/maund in Sep'22.
- In CY23, average global cotton prices were recorded at ~91cents/lb, ~18.0% lower YoY. Local prices, in terms of cents/lb, were ~31.7% YoY lower, averaging at ~82 cents/lb (the PKR lost ~14.4% against the USD during the year). Local prices averaged ~18,730PKR/maund in CY23, ~3.0% lower YoY. In 4QCY23, these dipped to PKR~17,099/maund (SPLY: PKR~17,052/maund), owing to end of season of cotton crop.
- In 1QCY24, local prices recovered to PKR~20,511/maund, before declining to PKR~19,950/maund in 2QCY24. As of Jul'24, these have recorded at PKR~17,867/maund. Going forward during MY25, global cotton prices (cents/lb) are expected to moderate further below the price as of Jul'24 ~79 cents/lb owing to increased production.



Average Cotton Prices	FY20	FY21	FY22	FY23	FY24	Jul'24
International (cents/lb)	62	76	114	87	93	81
Local (cents/lb)	68	78	123	94	81	79
Local (PKR/maund)	8,742	10,290	13,476	19,108	18,917	17,867

Source: PACRA Database, MoF

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Local | Yarn Supply

Production of Yarn (MT)	FY20	FY21	FY22*	FY23*	FY24*
Synthetic/Blended	1,179,211	1,385,574	1,392,481	1,084,904	997,328
Medium	735,970	826,441	830,560	647,103	594,867
Coarse	707,732	792,771	796,723	620,739	570,632
Fine	350,824	350,824	352,573	274,695	252,521
Super Fine	75,891	85,975	86,404	67,318	61,884
Total	**3,049,628**	**3,441,585**	**3,458,740**	**2,694,760**	**2,477,233**

- Pakistan's annual production of yarn has remained relatively stable in the past few years with production of yarn being consistent from FY21-FY22, growing by only ~0.1%. During FY24, a total of ~2.5mln MT of yarn was produced (FY23: ~2.7mln MT), down ~8.1%.
- Synthetic or blended yarn, which includes Polyester-Viscose and Polyester-Cotton, has the largest share of total yarn production. Moreover, there is greater production of coarse and medium type yarn as compared to fine and super fine cotton yarn.

**Production figures for individual yarn categories is estimated using actual total production figures from FY21.*
***Note**: FY22, FY23 & FY24 are taken from PBS*

Source: PBS, TCO

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Local | Textile Exports

Pakistan Textile Exports (PKR bln)	FY20		FY21		FY22		FY23		FY24		Jul'24	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Knitwear (Th. Doz)	106,027	440	179,365	610	167,630	912	179,126	1,089	24,677	1,247	19,142	99
Readymade Garments (Th. Doz)	48,588	401	37,418	485	55,657	696	80,578	861	76,216	1,007	5,678	82
Bedwear (MT)	405,184	339	460,143	443	516,042	585	407,733	664	469,767	793	35,739	59
Cotton Cloth (MT)	391,610	288	428,225	307	444,537	434	339,260	499	361,344	528	26,301	39
Cotton Yarn (MT)	412,559	155	390,090	162	335,647	214	281,225	212	353,164	272	20,278	15
Towels (MT)	**172,903**	**112**	**212,163**	**150**	**221,489**	**198**	**196,313**	**248**	**223,227**	**298**	**14,768**	**19**
Raw Cotton (MT)	12,776	2.6	594	0.13	2,752	1.1	11,635	3	31,027	16	-	-
Other	-	234	-	304	-	400	-	496	-			
Total Textile Exports		1,972		2,461		3,439	-	4,072	-	4,712	-	353
Total Country Exports		3,370		4,042		5,663		6,862		8,675		642
Towel % of Textile Exports		**5.7%**		**6.1%**		**5.8%**		**6.1%**		**6.3%**		**5.4%**
Towel % of Total Country Exports		**3.3%**		**3.7%**		**3.5%**		**3.6%**		**3.4%**		**3.0%**

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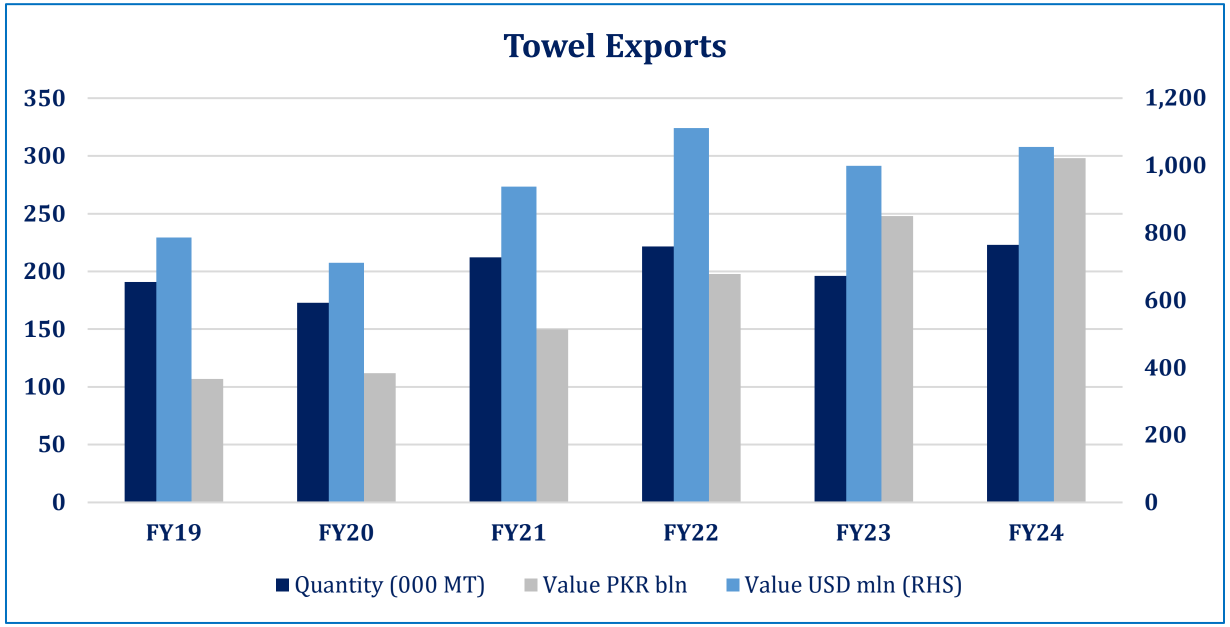
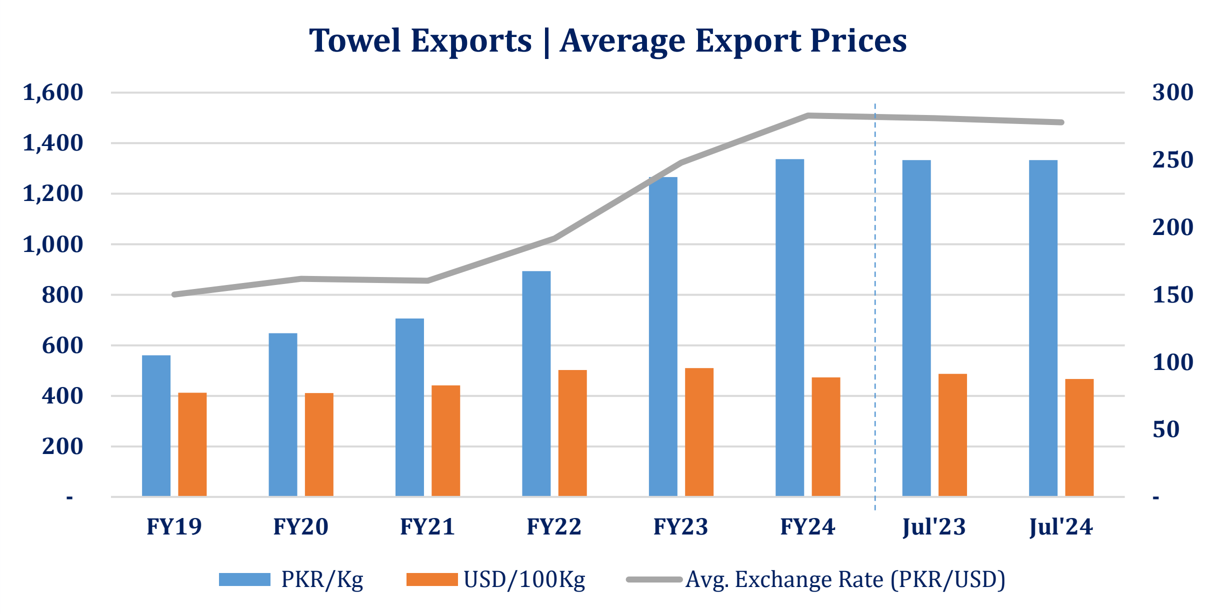
Local | Towel Exports

- Pakistan's towel exports increased from PKR~107bln in FY18 to PKR~298bln in FY24, exhibiting a CAGR of ~15.8% during the period. In FY24, towel exports grew by ~20.2% YoY to PKR~298bln. In dollar terms, these registered ~5.6% growth YoY, clocking in at USD~1,055mln.
- Exports for Jul'24 remained consistent at PKR~20.0bln (USD~70mln) compared with SPLY. Meanwhile, volumetrically, these stood at ~15,000MT, also in line with Jul'23 levels.
- The average export price of towels rose from PKR~1,265/Kg in FY23 to PKR~1,336/Kg in FY24, up ~5.6%. In USD terms, these recorded at USD~473/100Kg in FY24, compared with USD~510/100Kg in SPLY, down ~7.3% YoY. Meanwhile, the PKR depreciated by ~14.2% YoY against the USD in FY24, averaging at PKR~283.2/USD.
- In Jul'24, average export prices remained stable at PKR~1,333/Kg, while in dollar terms, these clocked in at USD~467/100Kg, down ~4.1% YoY. During the month, the PKR marginally depreciated ~0.1% YoY to PKR~278.7/USD.





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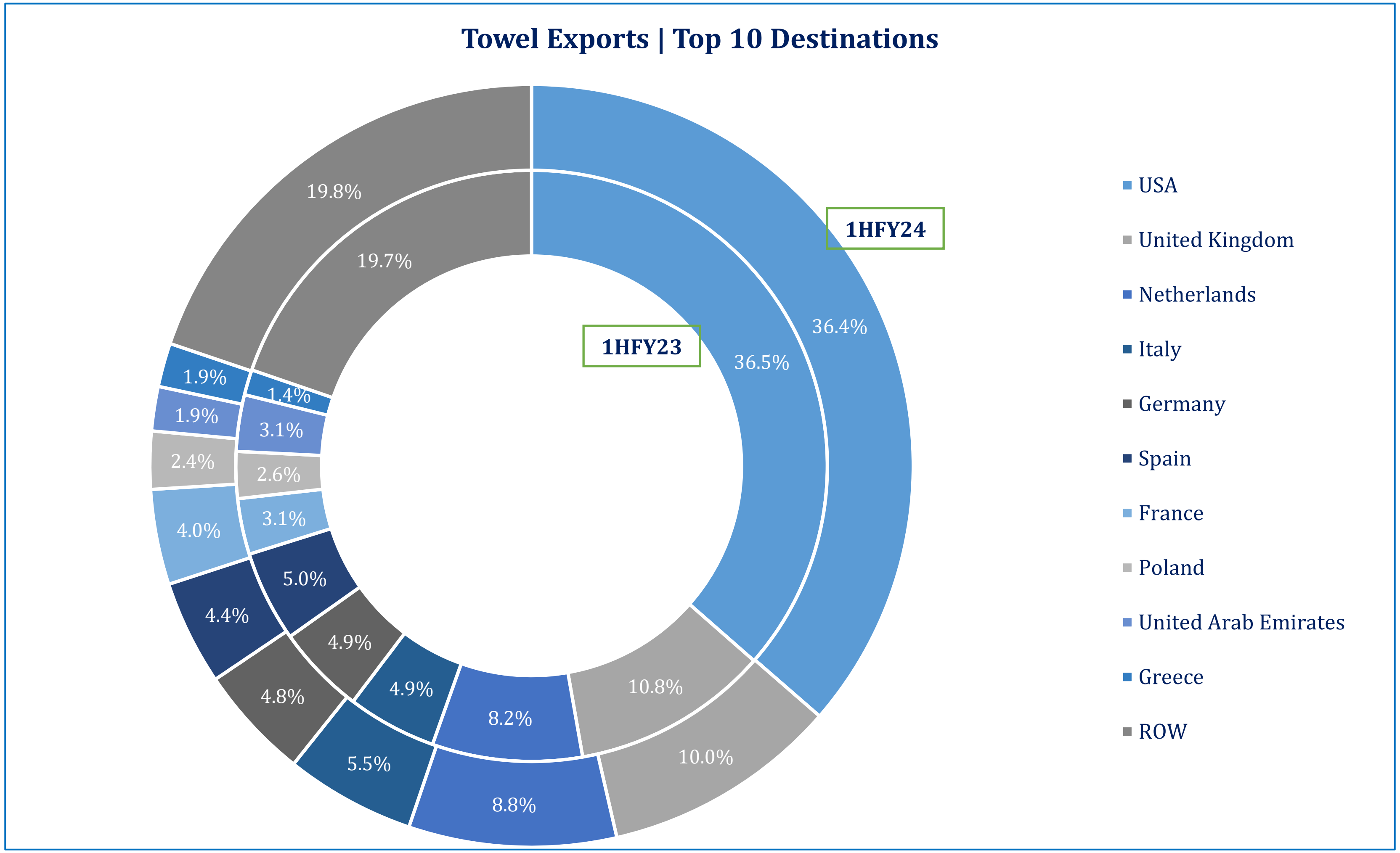
Local | Export Destinations

- During 1HFY24, ~36.4% of Pakistan's cotton cloth exports were concentrated towards the USA (SPLY: ~36.5%) and clocked in at USD~500mln (SPLY: USD~491mln). Meanwhile, the top 10 export destinations made up ~80.2% of the country's total towel exports during the period under review (SPLY: ~80.3%).
- In volumetric terms, towel exports in 1HFY24 were recorded at ~106,417MT, up ~13.1% YoY. Of these, the top 10 destinations comprised ~80.1% of the total exported volume (SPLY: ~80.8%).



Local | Business Risk

- **Varying Local Cotton Production** extreme climate changes pose a significant risk to the local textile sector as damage to local crop means more cotton will need to be imported and with the high PKR/USD exchange rate (~278.64 as at August 12, 2024:), sourcing raw material from overseas could likely dilute the bottom lines of industry players. Due to high cost of production, Pakistani textile exports are losing their competitiveness to other regional rivals.

- **Dependency on Cotton Imports:** The Aug'22 floods destroyed ~40% of cotton crop in FY23. This increased the dependency on imports; raw material constitutes ~71% of the sector's direct costs and thus the sector remains vulnerable to fluctuations in the price of the raw material which is at a low level. Profitability depends on sector players' ability to continue to pass on the increased price impact. During FY25, in light of damages caused by ongoing monsoon rains of Aug-Sep'24, and resulting low cotton production, cotton imports are expected to rise to ~4.0mln bales.

- **Low Value Addition:** Pakistan's textile exports are low-priced, and closely follow cotton price trends. Recent drops in USD/lb cotton prices will lead to farmers getting a lower price for cotton acting as a disincentive for growing cotton and instead shifting to other cash crops.

- **High Energy Costs:** The government no longer provides the textile industry with RLNG at a subsidized rate. Price of energy for Pakistan's industry stands above the regional average for countries such as India, Bangladesh and Vietnam which reduced the competitiveness of Pakistan's exports. Furthermore, the withdrawal of the RCET has forced smaller mill owners to close down businesses.

- **Disruption in Electricity and Gas Supply:** The towels sector depends on an uninterrupted supply of electricity and gas.

- **High Level of Regional Competition:** Pakistan's textile exporters have traditionally faced a high level of competition from regional players such as Bangladesh and Vietnam which has driven down the average export prices and margins in previous years. Although, many regional players were severely impacted by the COVID-19 pandemic, the regional competition continues post-pandemic.

Source: Center for Disaster Philanthropy, UN Comtrade, PTJ

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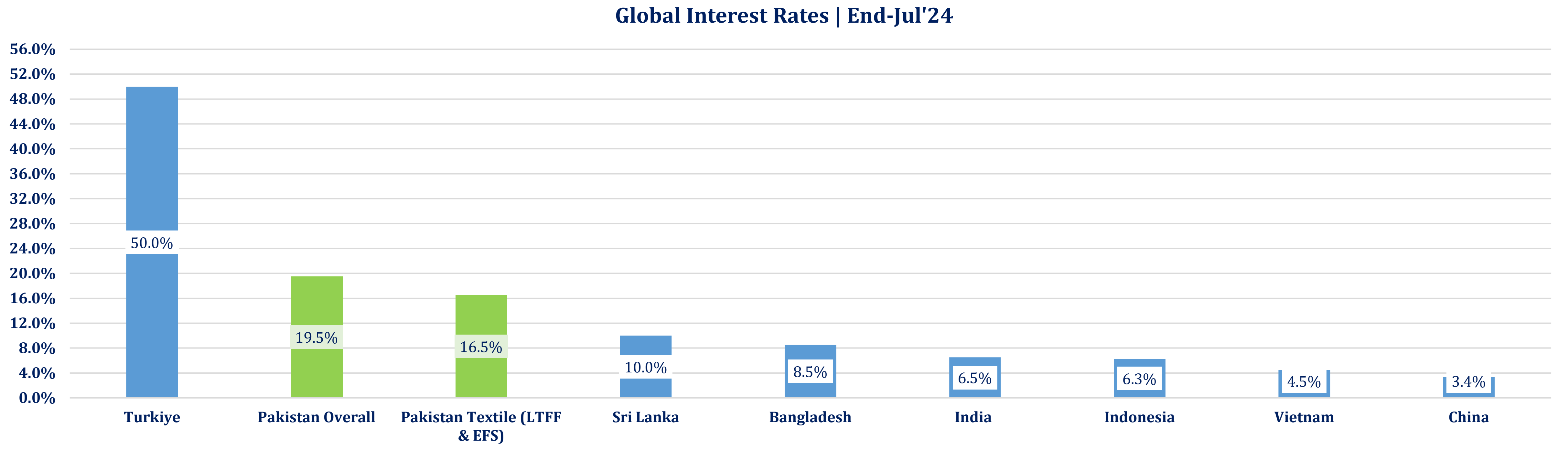
Interest Rates | Regional Comparison

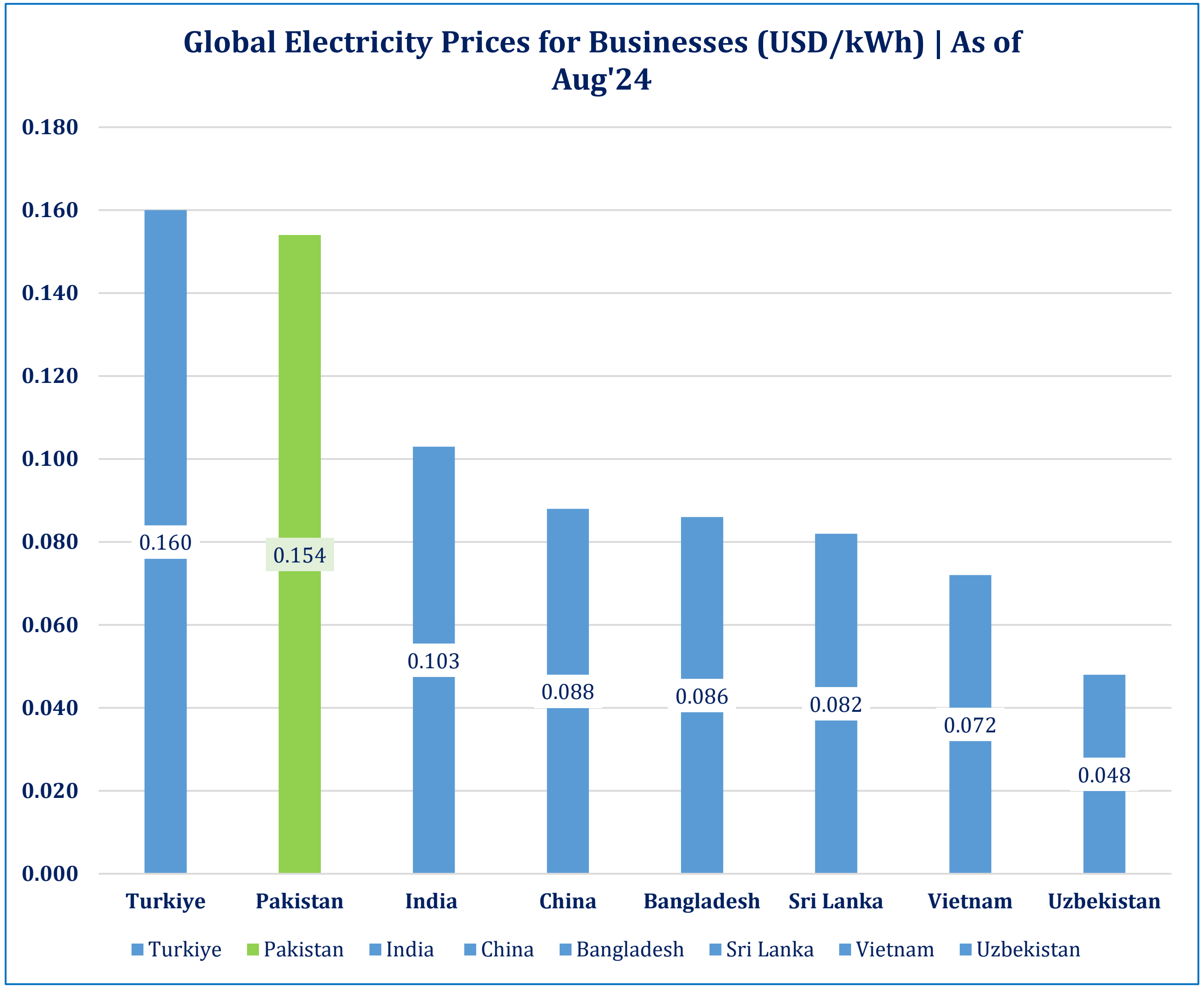


- The all-time high interest rate of ~22.0% as of Jun'23 was reduced to ~20.5% in Jun'24 and then further to ~19.5% in Jul'24. Pakistan still has the second-highest interest rate in the region, highest being the Turkiye (~50.0% w.e.f. Mar'24). The high cost of borrowing acts as a barrier to investments in various sectors. However, going forward, the SBP is expected to further reduce interest rate hikes in the backdrop of lower inflation (Jul'24 National CPI: ~11.1%, Jul'24 National CPI: ~28.3%).
- The textile sector 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 ~16.5% w.e.f. Jul'24.

Source: SBP

Electricity Prices | Regional Comparison

- Pakistan's export businesses face a competitive disadvantage when it comes to comparing national and regional electricity tariffs. Energy costs have a significant share in the final conversion costs of textile mills and these costs cannot be ignored for achieving a competitive edge.
- The government used to provide gas at internationally competitive prices or at regionally competitive energy tariffs (RCET) to the five export-oriented sectors of the economy including the textile cluster. However, this has now been discontinued since Mar'23.
- Disruptions in the supply of electricity from the national grid (loadshedding and fluctuations) due to obsolete infrastructure and disconnection of gas supply make it challenging to rely on these energy supply sources. Furthermore, in the winter season, gas provided to the sector is further curtailed.
- NEPRA provides electricity at a total cost of ~15.4 cents/kWh. All Pakistan Textile Mills Association (APTMA) is demanding a reduction in power tariffs to ~9.0 cents/kWh to increase international competitiveness of textile exports.
- Additionally, withdrawal of RCET of PKR~19.99/kWh and a gas tariff of USD~9.0/MMBTU for gas/RLNG has made the textile sector uncompetitive in the global market.



Source: globalpetrolprices.com, APTMA

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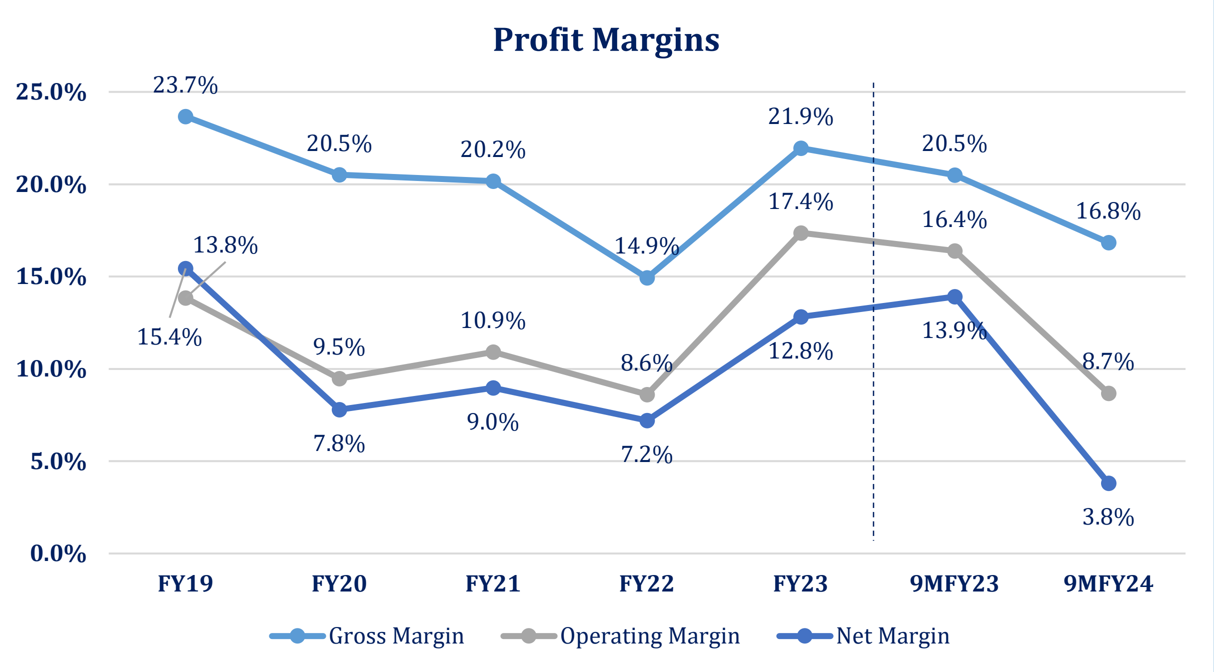
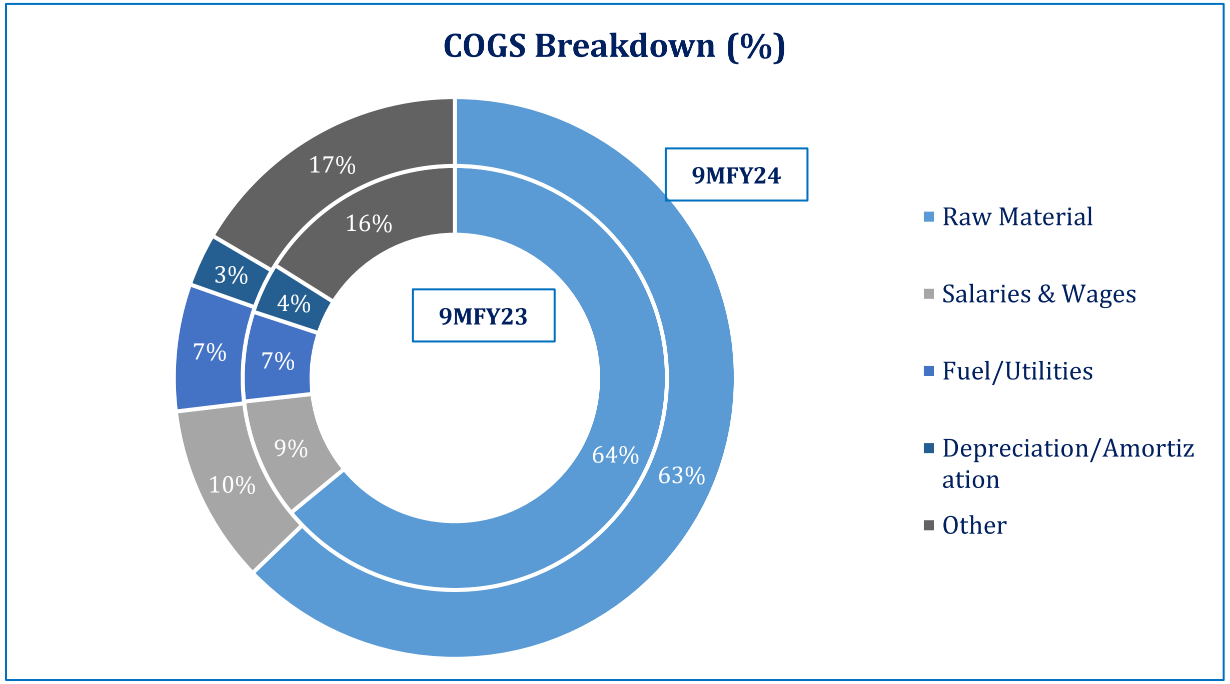
Local | Margins & Cost Structure

- During 9MFY24, average profit margin of the sector decreased compared to the SPLY. During the period, average gross margin of the sector declined to ~16.8% (9MFY23: ~20.5%), owing to ~30.0% YoY increase in cost of sales while sales rose by ~24.2% YoY, resultantly, negatively impacting the gross profit.
- Average operating margin during 9MFY24 clocked in at ~8.7% (9MFY23: ~16.4%), depicting a considerable decline on the back of higher operating expenses that caused operating profit to fall by ~34.2% YoY. Similarly, average net margin during 9MFY24 decreased to ~3.8% (9MFY23: ~13.9%), on the back of ~80.5% YoY increase in finance cost that decreased the net profit by ~66.1%.
- During 9MFY24, raw material constituted ~62.8% of total cost (9MFY23: ~64.2%), followed by salaries & wages ~10.3% (9MFY23: ~9.2%) and fuel and utilities ~7.3% (9MFY23: ~6.9%).





Note: Data is representative of ~6 PACRA-rated/listed players, while margins are revenue-weighted.

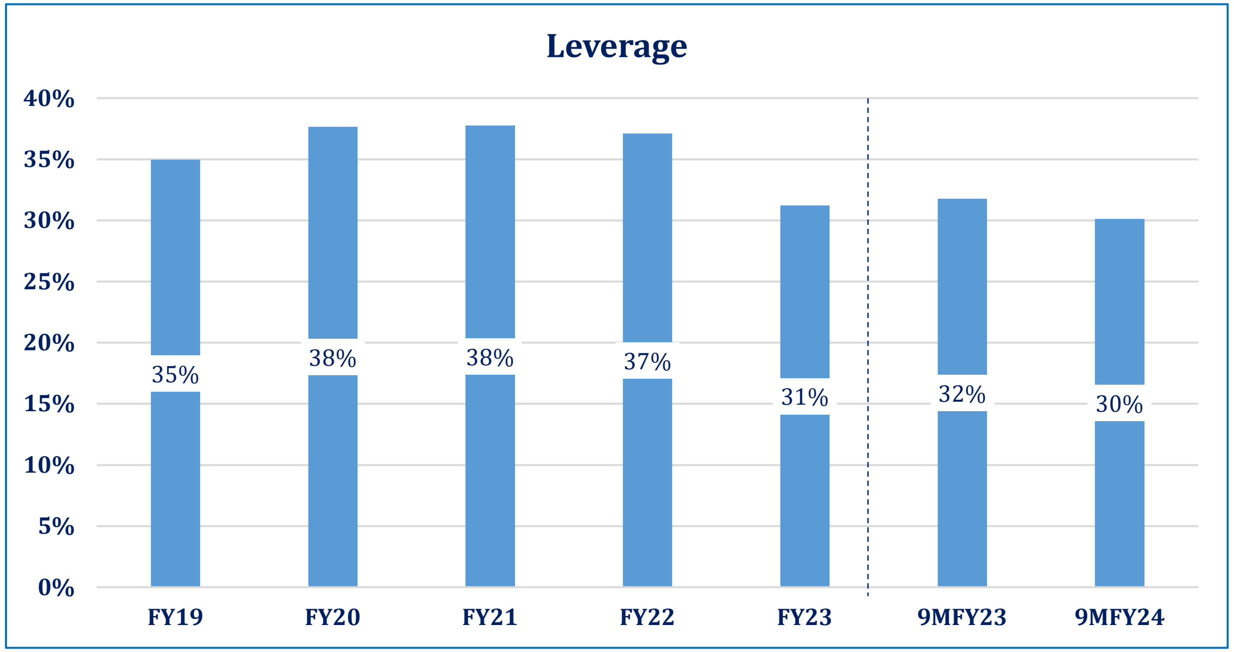
Source: PSX, PACRA Database

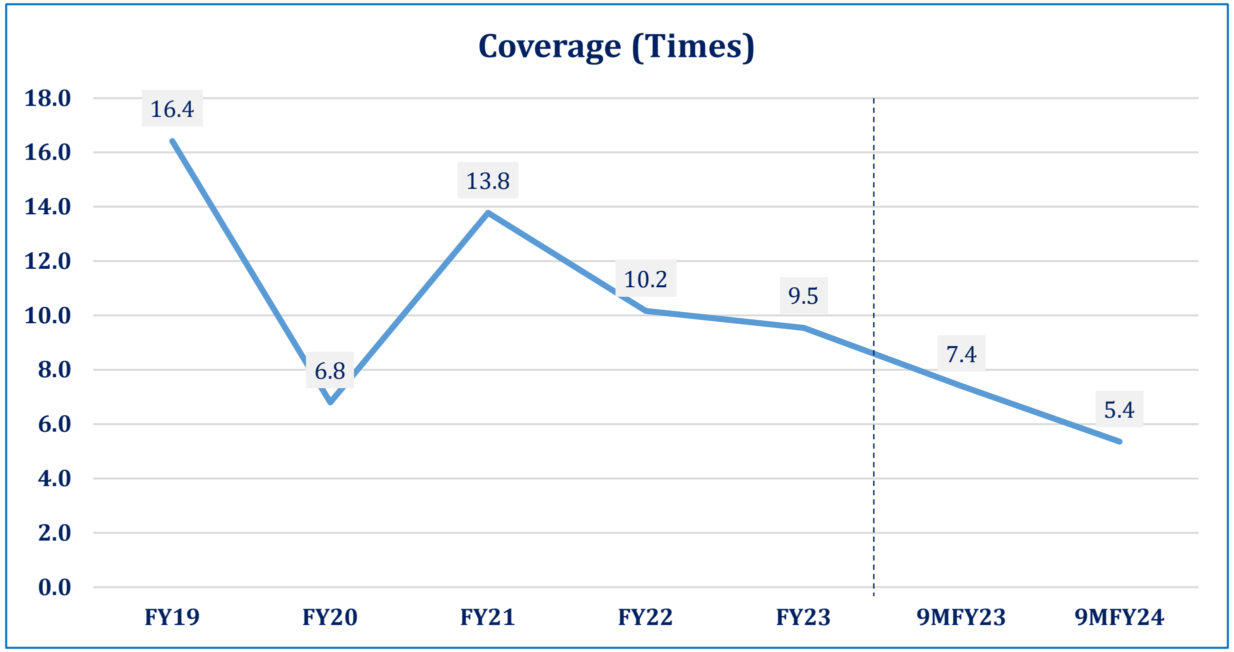
Towels

Local | Interest Coverage & Leverage

- During FY23, the segment's average leverage declined to ~31.2% (FY22: ~37.1%), owing to ~24.0% YoY increase in equity while borrowings only declined by ~1.5% YoY. Furthermore, the segment's average leverage declined to ~30.1% in 9MFY24 (9MFY23: ~31.8%), indicating that sector players maintain lower debt in relation to equity to fund their operations and investments. This reduction in leverage during 9MFY24 resulted from ~22.3% YoY lower long-term borrowings (LTBs).

- Although operating profit increased by ~112.6% YoY during FY23, finance costs rose by ~127.2% amid SBP hawkish interest rates regime (~22.0%). Resultantly, average interest coverage declined to ~9.5x in FY23 (SPLY: ~10.2x). In 9MFY24, both the increase in finance cost (~80.5%) and ~34.2% YoY decline in operating profit led to interest coverage to fall to ~5.4x (9MFY23: ~7.4x).





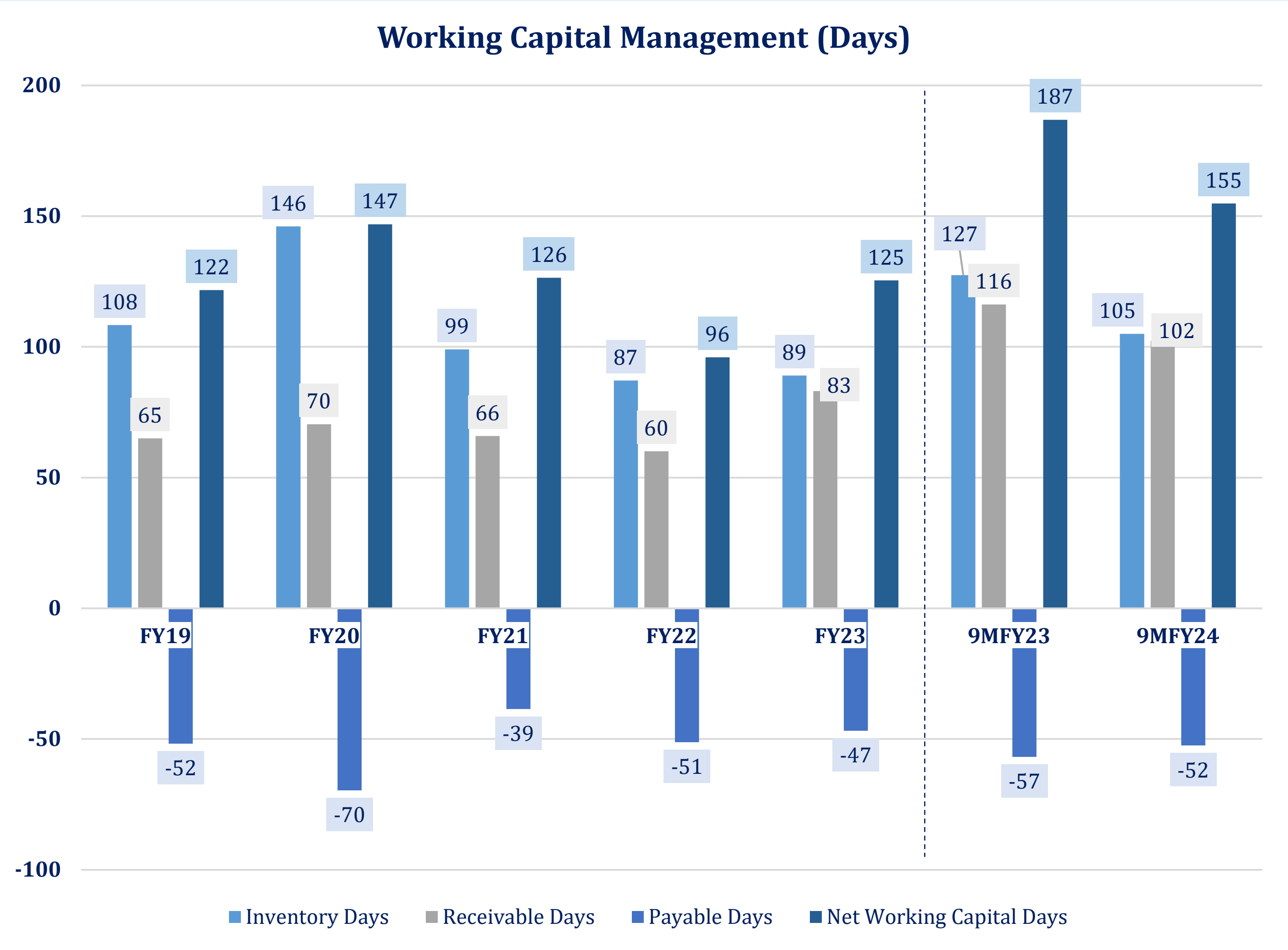
***Note**: Data is representative of ~6 PACRA-rated/ Listed players.*

Source: PSX, PACRA Database

Towels

Local | Working Capital Management

- The towel sector's average working capital cycle (FY18-22) stands at ~123 days. Both inventory and receivables are the largest contributor to working capital.
- During FY23, average net working capital increased to ~125 days (FY22: ~96 days). The increase in net working capital came mainly on the back of increase in receivable days equivalent to ~23 days YoY.
- During 9MFY24, the sector's average net working capital stood at ~155 days, SPLY (~187 days) on the back of lower inventory days and receivable days that declined by ~22 days and ~14 days, respectively.

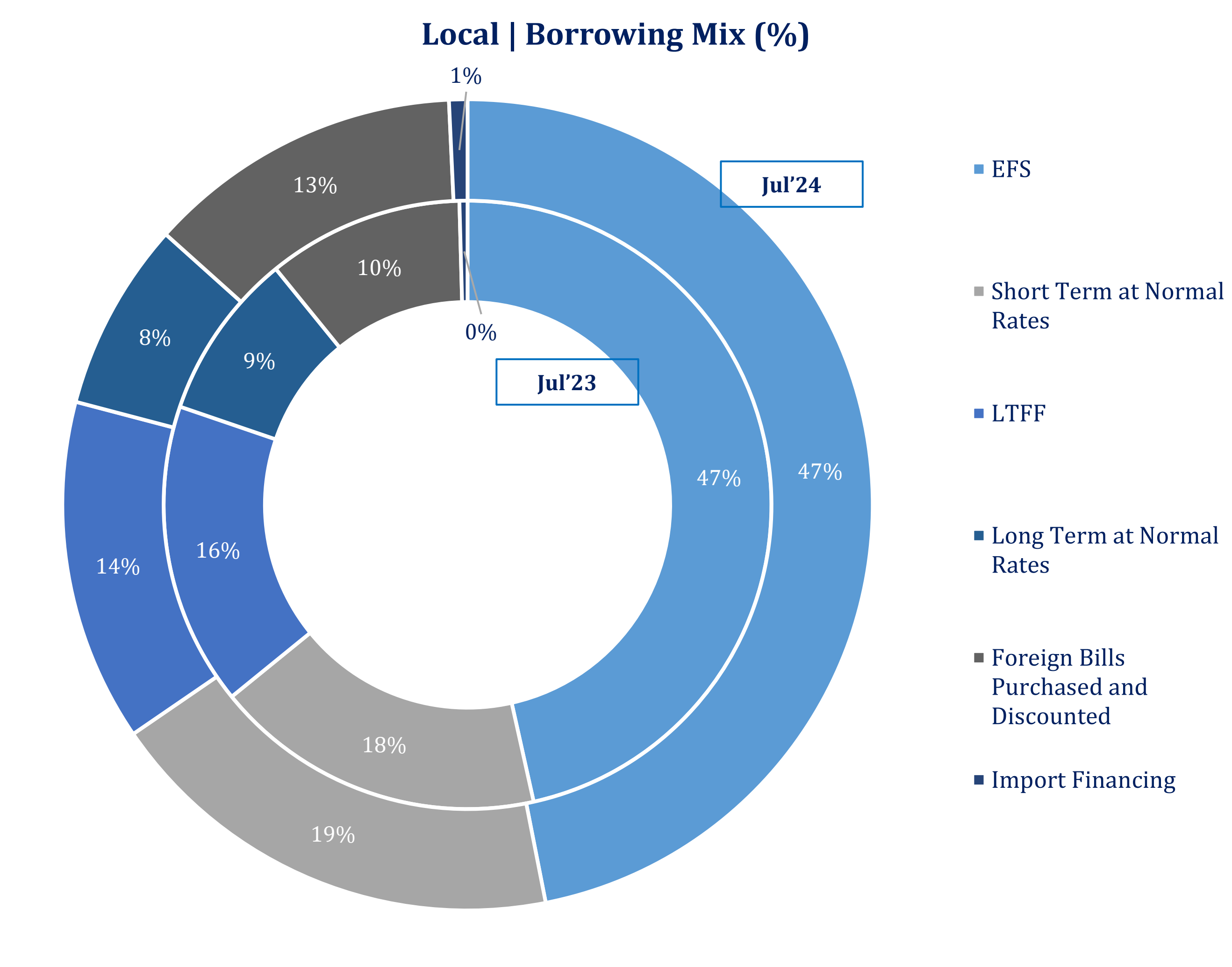


***Note**: Data is representative of ~6 PACRA-rated/listed players.*

Source: PSX, PACRA Database

Local | Borrowing Mix

- The sector's total borrowing as at End-Jul'24 stood at PKR~169.0bln, up ~2.0% YoY.
- Short-term discounted borrowings (EFS - Export Financing Scheme) stood at PKR~79.3bln (End-Jul'23: PKR~77.1bln), up ~2.8% YoY and comprised ~46.9% of the sector's borrowings (End-Jul'23: ~46.5%).
- Other short-term loans at normal rates, comprising ~18.5% of total borrowing (End-Jul'23: ~17.6%), were recorded at PKR~31.2bln (End-Jul'23: PKR~29.2bln), up ~7.2% YoY.
- Long-term discounted borrowing (LTFF) as at End-Jul'24 clocked in at PKR~23.1bln (End-Jul'23: PKR~26.7bln), down ~13.6% YoY and comprised ~13.6% of total borrowings (End-Jul'23: ~16.1%).
- The overall textile industry's infection ratio as at End-Mar'24 stood at ~9.2% (End-Mar'23: ~8.5%) , exhibiting higher credit risk from SPLY. Additionally, the infection ratio still remains elevated in comparison to overall banking credit NPL which stood at ~7.9% as of End-Mar'24.



Note: *Borrowing figures are representative of 'Manufacture of Other Made-up Textile Articles' as per SBP. NPLs data is latest available.*

Source: SBP

Local | 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 them will now be 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 will 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 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 enhanced to 18.0% from 15.0 % on supplies of textiles and leathers were imposed in Finance Act 2024.
- In addition, sales tax of 18.0% is applicable on both the raw material, i.e. yarn and finished goods, i.e. fabric.
- In response to the COVID-19 pandemic, 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 two subsequent reduction in rates (Jun'24 : ~20.5%; Jul'24: ~19.5%). The textile sector 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 ~16.5% w.e.f July 29, 2024.
- The Federal Board of Revenue (FBR) has abolished regulatory duties on a wide range of items including synthetic filament yarn of polyester and second hand clothing.
- Duty structure of the sector provides protection to the local sector, as depicted in duty structure table. All Pakistan Textile Mill Association (APTMA) acts as the national trade association of textile cluster in the country.

Source: SBP

Towels

Local | Duty Structure

PCT Code	Description	Additional Custom Duty		Custom Duty		Regulatory Duty		Total	
		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
52.05	Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale	2.0%	2.0%	11.0%	11.0%	0.0%	0.0%	**13.0%**	**13.0%**
52.06	Cotton yarn (other than sewing thread), containing less than 85% by weight of cotton, not put up for retail sale	2.0%	2.0%	11.0%	11.0%	0.0%	0.0%	**13.0%**	**13.0%**
52.07	Cotton Yarn (other than sewing thread) put up for retail sale	2.0%	2.0%	11.0%	11.0%	0.0%	0.0%	**13.0%**	**13.0%**
52.08	Woven fabric of cotton, cotaining 85% or more by weight of cotton, weighing not more than 200g/m2	2.0%	2.0%	11.0%	11.0%	0.0%	0.0%	**13.0%**	**13.0%**
52.09	Woven fabric of cotton, cotaining 85% or more by weight of cotton, weighing more than 200g/m2	2.0%	2.0%	11.0%	11.0%	0.0%	0.0%	**13.0%**	**13.0%**
52.10	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with mand-made fibres, weighting not more than 200g/m2	2.0%	2.0%	11.0%	11.0%	0.0%	0.0%	**13.0%**	**13.0%**
52.11	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with mand-made fibres, weighting more than 200g/m2	2.0%	2.0%	11.0%	11.0%	0.0%	0.0%	**13.0%**	**13.0%**
52.12	Other woven fabrics of cotton	4.0%	4.0%	16.0%	16.0%	0.0%	0.0%	**20.0%**	**20.0%**

Source: SBP

Towels

SWOT Analysis

Strengths

- Availability of raw material and cheap labor.
- Government support in the form of favorable duty structure.
- Strong sector association resulting in significant lobbying power.

Weaknesses

- Decline in local cotton production resulting in greater reliance on imports.
- Geographical export concentration towards the USA.

Threats

- Significant competition from regional players in export market.
- Exchange rate volatility.
- Fluctuations in raw material prices.
- High LTFF and EFS borrowing costs.
- Climate change posing a threat to the viability and quality of cotton crops.
- High Energy Tariffs.
- Removal of GSP Plus status.

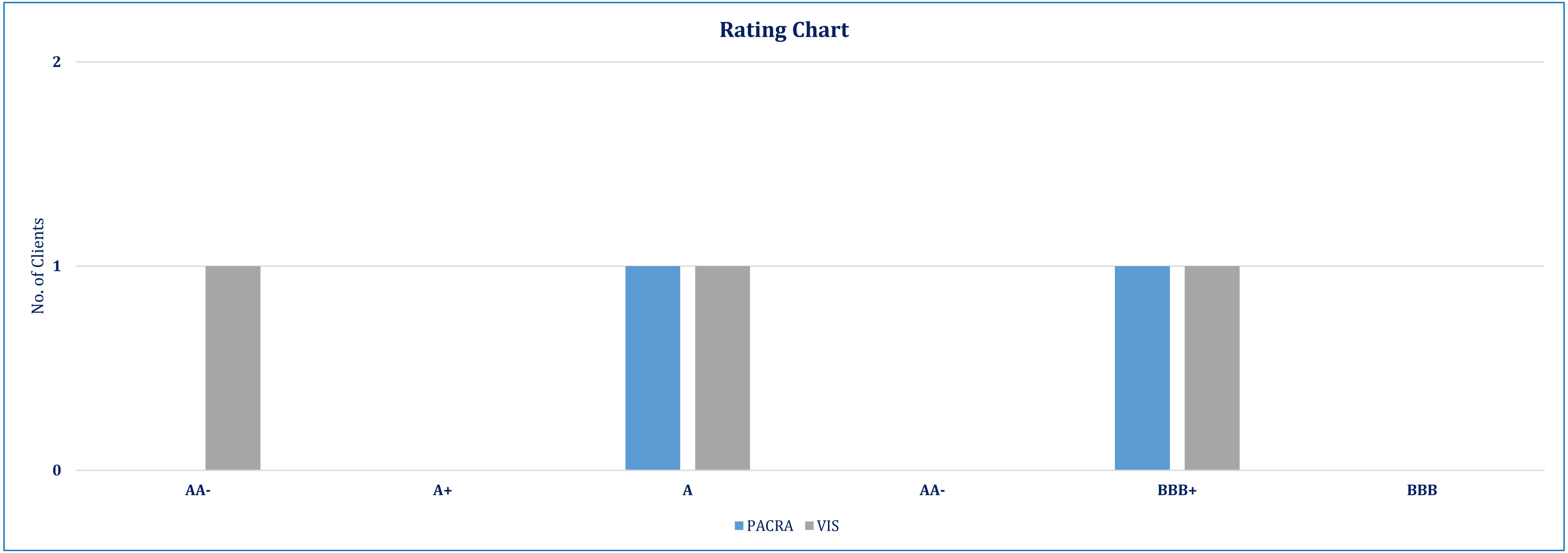
Opportunities

- Subsidized cost and financing structure provides competitive advantage.
- Special Economic Zones provide incentives to the sector.
- Opportunity to increase efficiency and improve quality through technological upgrade.

Towels

Rating Curve

- PACRA rates two players in the towel sector. The rating bandwidth of these ranges from AA- to BBB+.



Towels

Outlook: Stable

- In FY24, Pakistan's GDP (nominal) stood at PKR~106.0trn (FY23: PKR~83.9trn), increasing, in real terms, by ~2.4% YoY (FY23: ~-0.21% growth). Industrial activities in FY24 held ~21.9% share in the GDP while the manufacturing activities made up ~62.9% of the value addition. In 3QFY24, Pakistan's GDP (nominal) stood at PKR~25.4trn (3QFY23: PKR~20.6trn), rising in real terms by ~2.1% YoY (2QFY24: ~1.8% YoY). Real GDP growth rate (~2.1%) for 3QFY24 signals a moderate improvement in the economic activity as compared to SPLY.
- In FY24, textile exports contributed ~54.3% to the country exports (FY23: ~59.5%). Pakistan's towel exports increased from PKR~107bln in FY18 to PKR~298bln in FY24, exhibiting a CAGR of ~15.8% during the period. In FY24, towel exports grew by ~20.2% YoY to PKR~298bln. In dollar terms, these registered ~5.6% growth YoY, clocking in at USD~1,055mln, where the top 10 export destinations made up ~80.2% of the country's total towel exports during the period under review (SPLY: ~80.3%).
- The policy rate in Pakistan was raised to ~22.0% w.e.f. Jun'23, followed by two subsequent reduction in rates (Jun'24 : ~20.5%; Jul'24: ~19.5%). The textile sector is a beneficiary of subsidized financing facilities from the SBP in the form of 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 ~16.5% w.e.f. July 29, 2024.
- The government used to provide gas at internationally competitive prices or at regionally competitive energy tariffs (RCET) to the five export-oriented sectors of the economy including the textile cluster. However, this was discontinued as of Mar'23 making exports less competitive in the international market.
- Additionally, sales tax enhanced to 18.0% from 15.0% on supplies of textiles and leathers were imposed in Finance Act 2024. Furthermore, a new provision in the advance tax section mandates that specified withholding agents must collect a ~1.0% advance income tax from 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).
- During 9MFY24, average profit margin of the sector decreased compared to the SPLY. During the period, average gross margin of the sector declined to ~16.8% (9MFY23: ~20.5%), owing to ~30.0% YoY increase in cost of sales while sales rose by ~24.2% YoY, resultantly, negatively impacting the gross profit. Average operating margin during 9MFY24 clocked in at ~8.7% (9MFY23: ~16.4%), depicting a considerable decline on the back of higher operating expenses that caused operating profit to fall by ~34.2% YoY. Similarly, average net margin during 9MFY24 decreased to ~3.8% (9MFY23: ~13.9%), on the back of ~80.5% YoY increase in finance cost that decreased the net profit by ~66.1%.
- During 9MFY24, sector's average net working capital stood at ~155 days, SPLY (~187 days) on the back of lower inventory days and receivable days that declined by ~22 days and ~14 days, respectively. Sector's total borrowing as at End-Jul'24 stood at PKR~169.0bln, up ~2.0% YoY. Going forward, although, margins have declined during 9MFY24 and higher energy tariffs and export duties exist, the towel sector is expected to stay relatively stable, especially in the presence of sustained demand from the major export destinations.

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