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# Towels

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# Towels

## Introduction

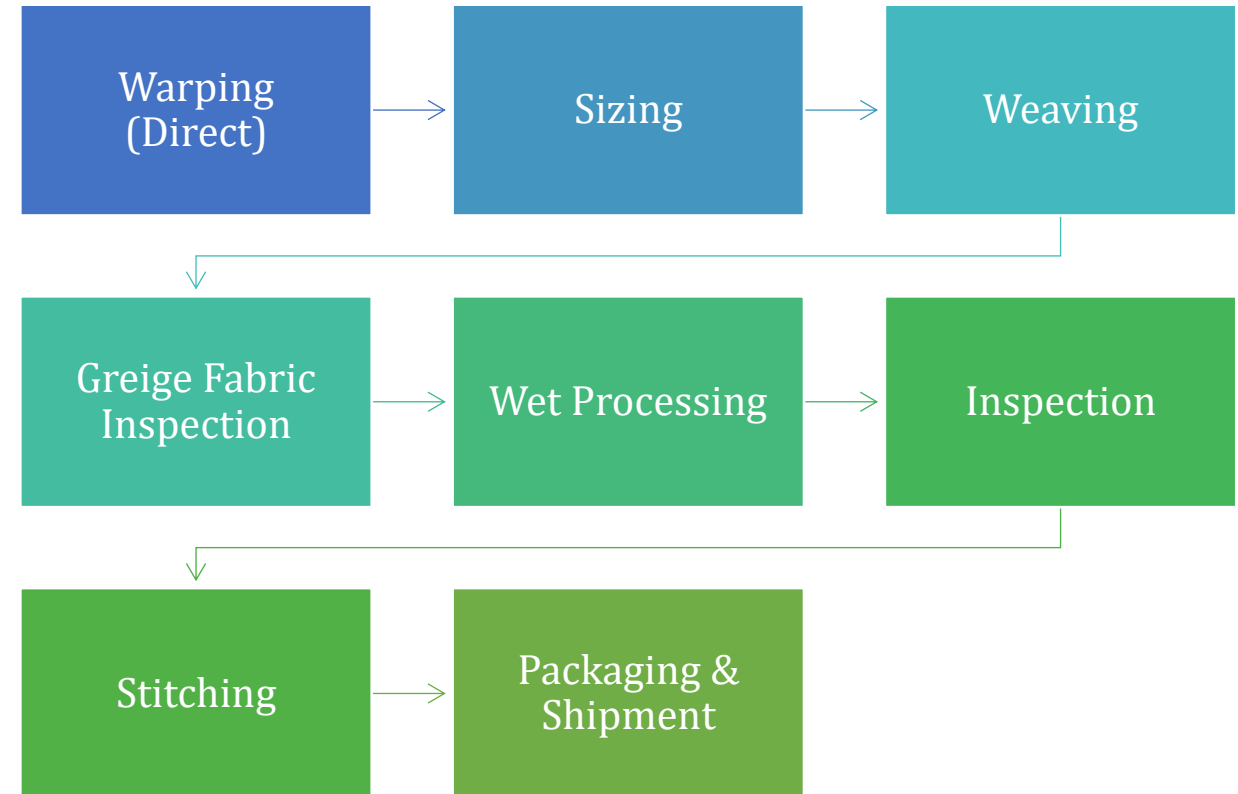
- Terry towels, commonly known as towels, are thick, absorbent cloths used for cleaning, wiping surfaces, bathing, and drying.
- They are made of pile loops on one or both sides of the fabric, covering the entire surface. The loops are often formed into strips, checks, or other decorative patterns. The 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.



# Towels

## 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, dyeing, 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.





# Towels

## Global | Overview

- The global cotton towel market size was valued at USD~4.5bln in CY24 (CY23: USD~4.3bln) and is projected to grow from USD~4.5bln in CY24 to USD~7.2bln by CY32, exhibiting a CAGR of ~6.3% during CY25-32. Asia Pacific dominated the cotton towel market with a market share of ~34.8% in CY24.
- 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. For instance, in Jun'21, OURA launched a new product, the Alta towel, that reduces bacteria and self-sterilizes.
- 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.

# Towels

## Global | Trade

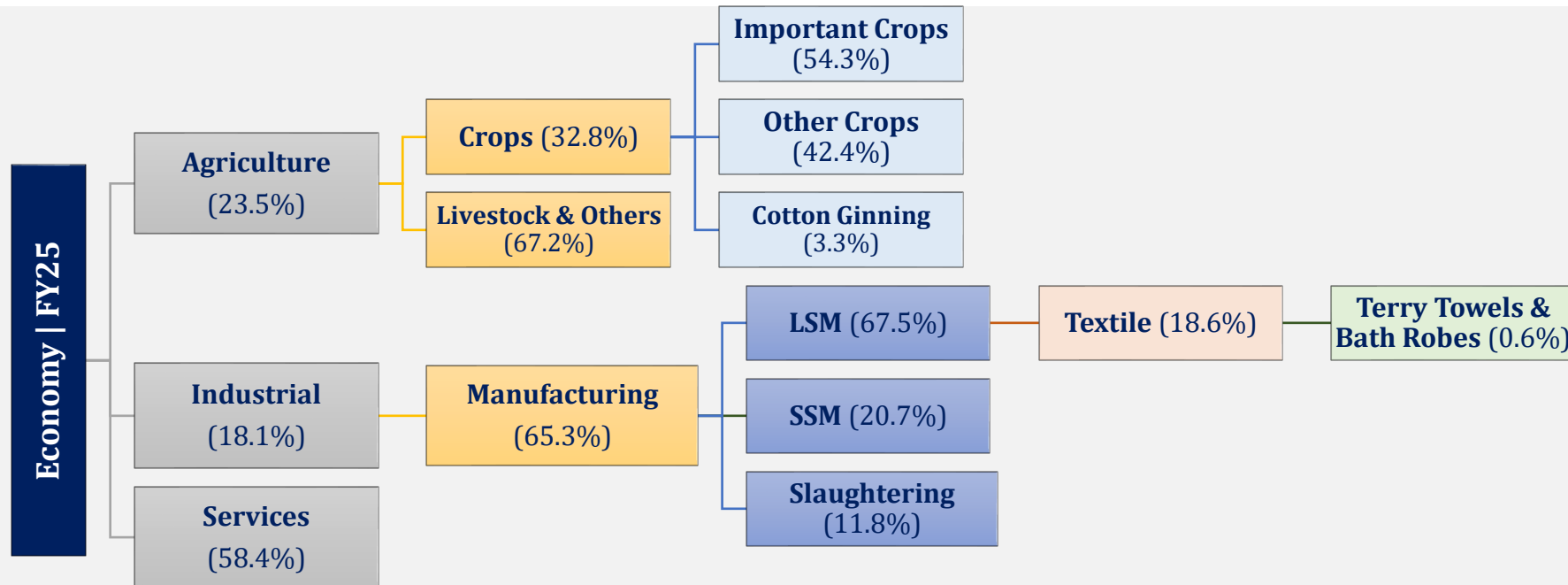
Top 5 Importers   Towels (USD mln)						Top 5 Exporters   Towels (USD mln)					
Country	CY20	CY21	CY22	CY23	CY24	Country	CY20	CY21	CY22	CY23	CY24
USA	1,866.2	2,603.7	2,429.7	2,129.4	2,121.5	China	2,032.5	2,456.3	2,313.3	2,149.1	1,921.4
Japan	458.8	500.7	591	578.5	538.1	Pakistan	1,009.1	1,014.7	996.5	1,078.8	1,169.6
Germany	283.3	330.2	362.5	320.6	333.3	India	776.8	1,020.5	1,081.8	1,012.7	1,085.4
Russia	78.7	88.8	187.4	228.1	242	Turkiye	530.6	689.3	664.3	560.8	567.9
France	172.6	228.9	254.5	238.3	233.3	Viet Nam	208.8	234.4	287.9	316.2	305.2
ROW	2,934.9	3,197.0	3,155.0	2,897.9	2,628.1	ROW	1,187.7	1,470.3	1,502.7	1,295.7	1,552.9
Total	5,745.7	6,885.5	6,846.5	6,413.3	6,096.3	Total	5,745.7	6,885.5	6,846.5	6,413.3	6,602.4

- During CY20-24, the USA remained the largest importer of towels. For CY24, global towels trade recorded at USD~6,096.0mln, down ~4.9% YoY. In terms of imports, USA stood at USD~2.1bln, while the top 5 importers collectively comprised ~56.9% of total imports in CY24 (CY23: ~54.5%).
- 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 CY20-24) included China, Pakistan, India, Turkiye, and Vietnam, with these cumulatively forming ~76.4% of total towel exports in CY24 (SPLY: ~79.8%).
- In CY25, the imposition of US tariffs could reduce merchandise trade by ~1.0% in volumetric terms, as reported by WTO. The US is the one of the largest export markets for Pakistan, China, and Vietnam, making these countries relatively more vulnerable. Assuming the current tariffs remain unchanged broadly, the effects are likely to be carried forward in CY26 as well, causing a decline in overall global trade.

# Towels

## Local | Overview

- In FY25, Pakistan's GDP (nominal) stood at PKR~114.7trn (FY24: PKR~105.1trn), increasing, in real terms, by ~2.7% YoY (FY24: ~2.5% growth). Industrial activities in FY25 held ~18.1% share in the GDP, while the manufacturing activities made up ~58.4% of the value addition.
- Large Scale Manufacturing (LSM) in Pakistan is essential for economic growth, considering its linkages with other sectors, as it represented ~67.5% of the value of the manufacturing activities in FY25. However, the LSM contracted by ~1.5% YoY in FY25 (FY24: ~0.9% YoY).
- The Textiles sector is classified as a Large-Scale Manufacturing (LSM) industrial component within the industrial sector. In FY25, the textile industry's weight in the QIM was recorded at ~18.6%. Meanwhile, Terry Towels & Bath Robes have ~0.6% share in the QIM.



# Towels

## Local | Snapshot

- In FY25, production of Terry towels and Robes was up ~1.6% YoY to record at ~226,300MT (~223,200MT in FY24). 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 FY25, exports clocked in at PKR~302.4bln (USD~1,082.6mln) as compared to PKR~298.3bln (USD~1,055.1mln) in FY24.

Particulars	FY21	FY22	FY23	FY24	FY25
<b>Terry Towels &amp; Bath Robes Production</b> (‘000’ MT)	213.2	221.5	195.1	222.7	226.2
<b>Towel Exports</b> (PKR bln)	149.8	197.8	248.1	298.3	302.4
<b>Share in Total Textile Exports</b>	6.1%	5.8%	6.1%	6.3%	6.1%
<b>Share in Country’s Total Exports</b>	3.7%	3.5%	3.6%	3.4%	3.4%
<b>Towel Exports</b> (‘000’ MT)	213.2	221.5	195.8	223.2	226.3
<b>Listed Players (No.)</b>	~4				
<b>Associations</b>	Towel Manufacturers Association (TMA); All Pakistan Textile Mills Association (APTMA)				



# Towels

## Local | Cotton Dynamics

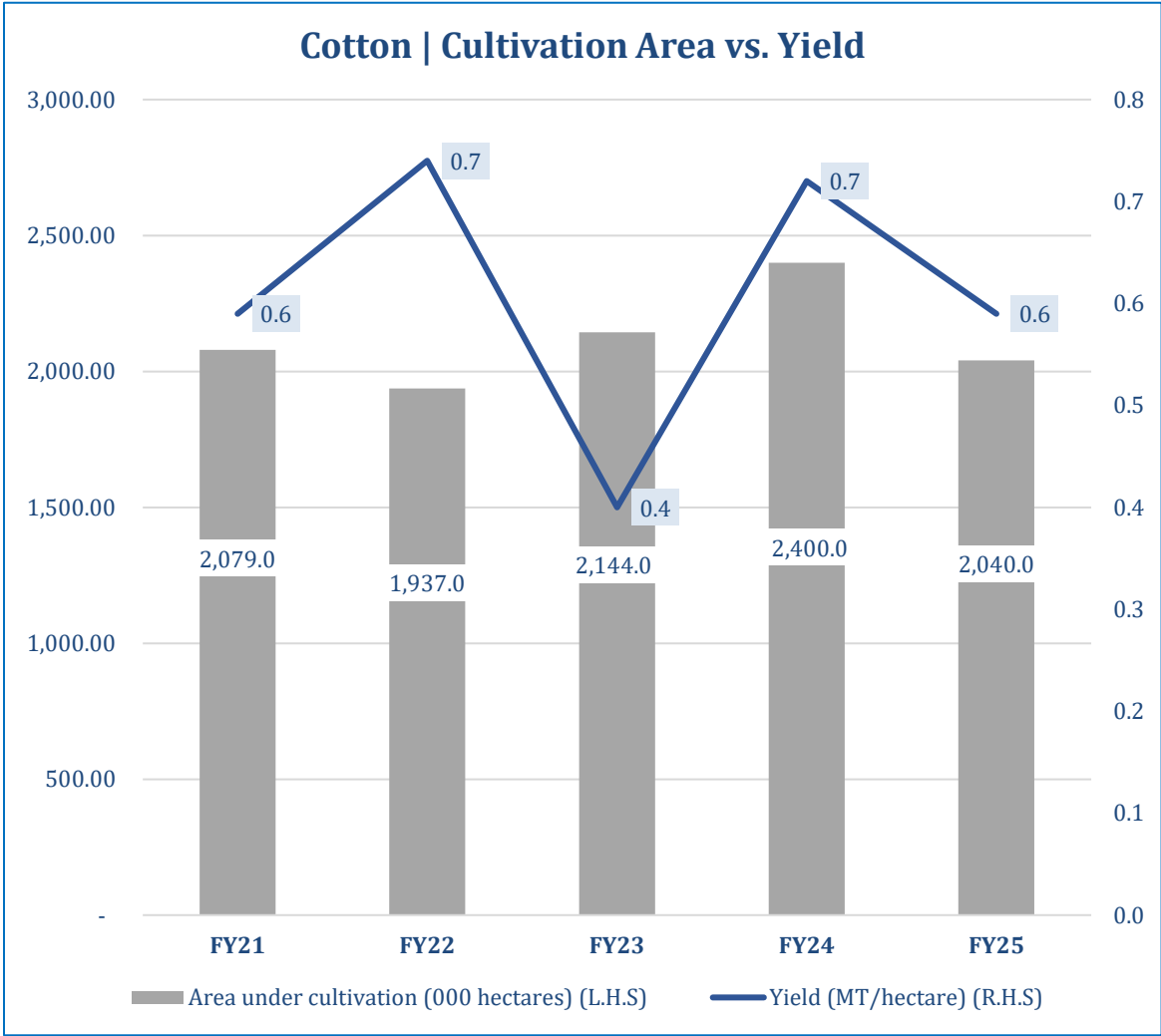
- Pakistan’s cotton production decreased by ~30.7% YoY in FY25, owing to a decrease in area under cultivation and lower yield, primarily due to unfavorable weather conditions. Extreme temperatures in Punjab hindered boll formation, reducing yield. Moreover, the ~18.0% sales tax on local cotton production as compared to the initially duty-free imported cotton, also reduced demand for local cotton during the early months of FY25.
- On the other hand, a ~234.0% YoY increase in cotton imports was observed during the same period to meet the domestic demand (FY24: ~70.0% YoY decline).
- Cotton arrivals for FY24-25 clocked in at ~5.5mln bales, against the production target of ~10.8mln bales. For FY26, the target for cotton production is set at ~10.9mln bales.
- However, the current climate change has adversely affected the agricultural crops including cotton nationwide. The ongoing monsoon rainfalls and floods have led to a ~17.5% YoY decline in cotton production by 15th August, 2025. Almost ~50.0% of the ginning factories remained inactive due to insufficient sales. If the current situation persists, Pakistan is unlikely to meet FY26 production targets as well.

Local   Cotton Supply ('000' Bales)					
Particulars	FY21	FY22	FY23	FY24	FY25
Opening Stock	3,200	2,175	1,925	1,525	1,625
Production	7,064	8,329	4,910	10,223	7,084
Imports	5,043	4,567	4,024	1,206	4,028
Total Supply	15,664	15,004	11,335	12,953	12,737
Local Consumption	13,486	12,518	9,309	10,394	10,170
Exports	3	16	68	183	3
Closing Stock	2,175	2,470	1,958	2,376	2,564

# Towels

## Local | Area under Cultivation vs. Yield

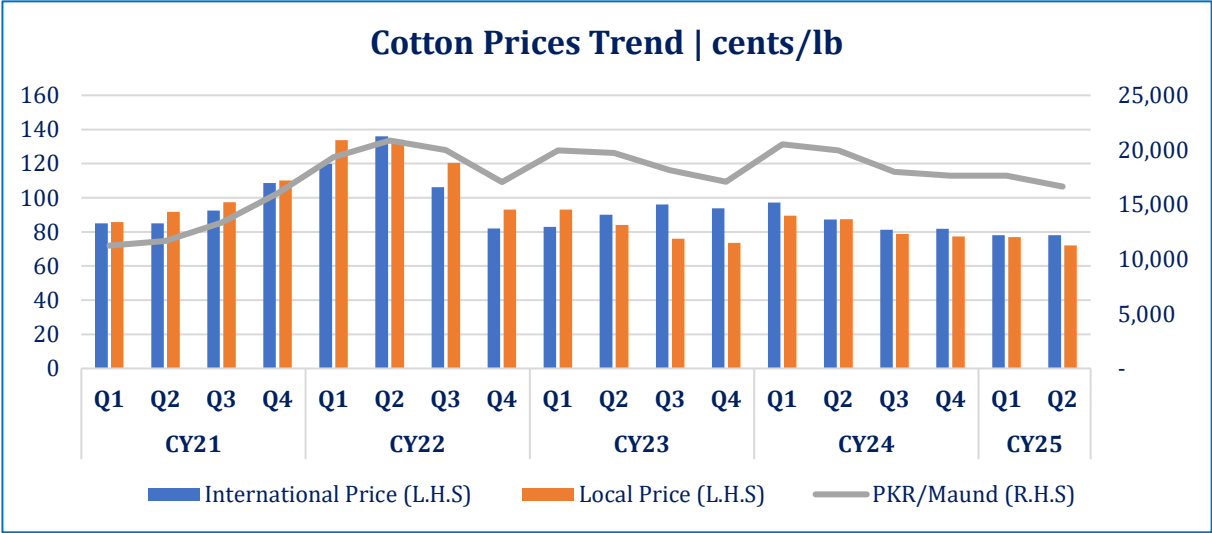
- Cotton is an important raw material used in the production of towels. The area under cultivation for the cotton crop decreased by ~15.0% YoY to ~2.0mln Ha in FY25 from ~2.4mln Ha in FY24. Similarly, cotton crop yield also reduced to ~0.6MT/Ha in FY25 from ~0.6MT/Ha in FY24.
- For FY25, production target 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 actual production is subject to the ongoing climatic challenges. If the floods and rainfall continue to damage important crops, it is likely that cotton production target remains unmet in the FY26 season as well.



# Towels

## Local | Cotton Price

- In 2QCY25, average global cotton prices recorded at ~78.0cents/lb (SPLY: ~92.0cents/lb ), down ~18.2% YoY. This decline reflects strong supply growth during the MY24-25 crop season, which saw a record ~6.2% increase in global production. At the same time, subdued demand has added downward pressure on global prices.
- The cotton production in CY26 is expected to decline by ~2.5% in the MY25-26 season, and consumption to increase by ~1.0%. The ending stock are forecasted to clock in at ~65.0%, down ~1.0% YoY (MY25:~66.0%). Therefore, the inventory levels are expected to remain bloated, putting a downwards pressure on prices.
- The average local price of cotton in FY25, was recorded at PKR~17,137/maund (SPLY: PKR~18,883/maund), down ~15.3% YoY. This is mainly attributed to ~18.0% sales tax imposed on domestic cotton production while the imported cotton remained duty free. This reduced the demand for locally produced cotton, ultimately reducing prices. However, this exemption was withdrawn in Finance Act 2025 to encourage local production and reduce import dependency. While the ~18.0% sales tax on domestic production is still in place, the import advantage for ginning and spinning industries is now eliminated. This is likely to increase demand for local cotton since price disparity is gone.



	FY21	FY22	FY23	FY24	FY25
International (cents/lb)	76	113	89	93	80
Local (cents/lb)	78	118	94	81	77
Local (PKR/maund)	10,254	17,354	19,108	18,883	17,496

# Towels

## Local | Yarn Supply

Production of Yarn (MT)	FY21	FY22*	FY23*	FY24*	FY25*
Synthetic/Blended	1,385,574	1,392,481	1,084,904	997,328	1,073,025
Medium	826,441	830,560	647,103	594,867	640,018
Coarse	792,771	796,723	620,739	570,632	613,943
Fine	350,824	352,573	274,695	252,521	271,687
Super Fine	85,975	86,404	67,318	61,884	66,581
Total	3,441,585	3,458,740	2,694,760	2,477,233	2,665,255

- 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 FY23-25, the average yarn production clocked in at ~2.6mln MT. In FY25, a total of ~2.7mln MT of yarn was produced (FY24: ~2.5mln MT), up ~7.6%.
- Synthetic or blended yarn, which includes Polyester-Viscose and Polyester-Cotton, has had the largest share of total yarn production. This is followed by medium/coarse type yarn which has a larger share in production as compared to fine and super fine cotton yarn.

# Towels

## Local | Textile Exports

Year	FY21		FY22		FY23		FY24		FY25	
Textile Segment (USD mln)	Value	%	Value	%	Value	%	Value	%	Value	%
Knitwear	3,815	24.8%	5,121	26.5%	4,437	26.9%	4,408	26.5%	5,010	28.0%
Readymade Garments	3,033	19.7%	3,905	20.2%	3,492	21.2%	3,564	21.4%	4,129	23.1%
Bedwear	2,772	18.0%	3,293	17.0%	2,692	16.3%	2,803	16.8%	3,113	17.4%
Cotton Cloth	1,921	12.5%	2,438	12.6%	2,022	12.3%	1,866	11.2%	1,809	10.1%
Cotton Yarn	1,017	6.6%	1,207	6.2%	844	5.1%	956	5.7%	681	3.8%
Towels	938	6.1%	1,111	5.7%	1,000	6.1%	1,055	6.3%	1,083	6.1%
Other	1,904	12.4%	2,255	11.7%	2,014	12.2%	2,062	12.4%	2,062	11.5%
Total Textile Exports	15,399	100.0%	19,330	100.0%	16,501	100.0%	16,656	100.0%	17,887	100.0%
Total Country's Exports	25,304		31,782		27,735		30,674		32,040	
Towels % in Textiles Exports	6.1%		5.7%		6.1%		6.3%		6.1%	
Towels % in Country's Exports	3.7%		3.5%		3.6%		3.4%		3.4%	
Towels Exports YoY	31.9%		18.4%		-10.0%		5.5%		2.7%	

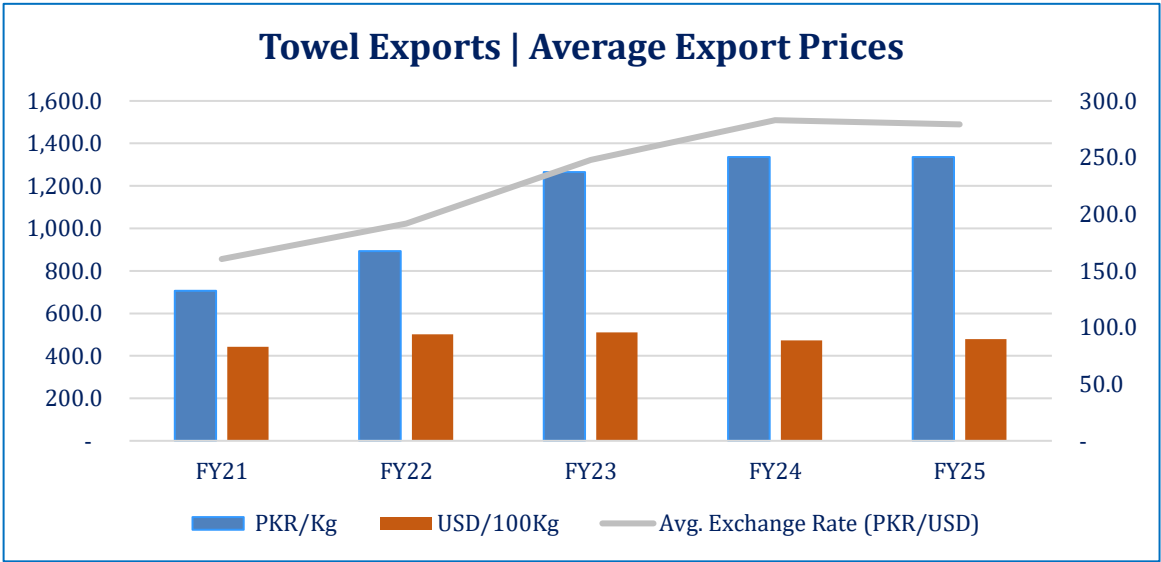
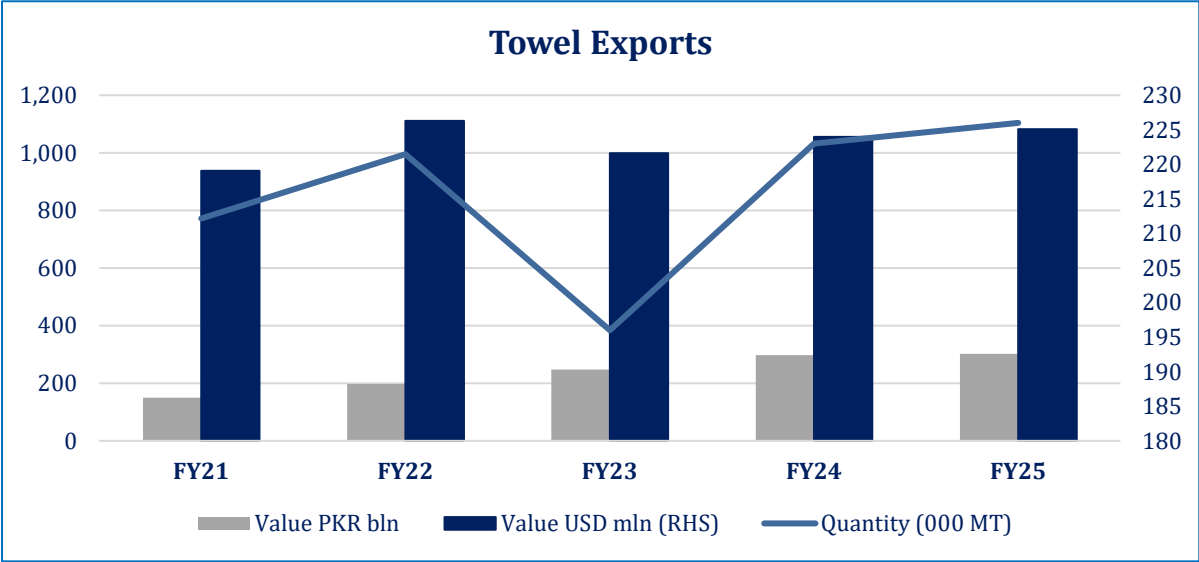
- In value terms, the Towels exports increased by ~2.7% YoY in FY25 (FY24: ~5.5%), and the share of towels in total Textiles exports has also reduced to ~6.1% as compared to ~6.3% in FY24. In volumetric terms, however, the Towels exports have increased to ~226,335 MT in FY25 from 222,720 MT in FY24. During FY21-25, the Towels exports grew at a CAGR of ~1.6% in volumetric terms.
- The decline in exports in value terms could be attributed to a depreciating average exchange rate. FY22 , however, remains an anomaly where the value of Towels exports increased to USD~1,111.0mln (FY24: USD~938.0mln). This could be attributed to the post-pandemic economic rebound and an increase in global demand.



# Towels

## Local | Towel Exports

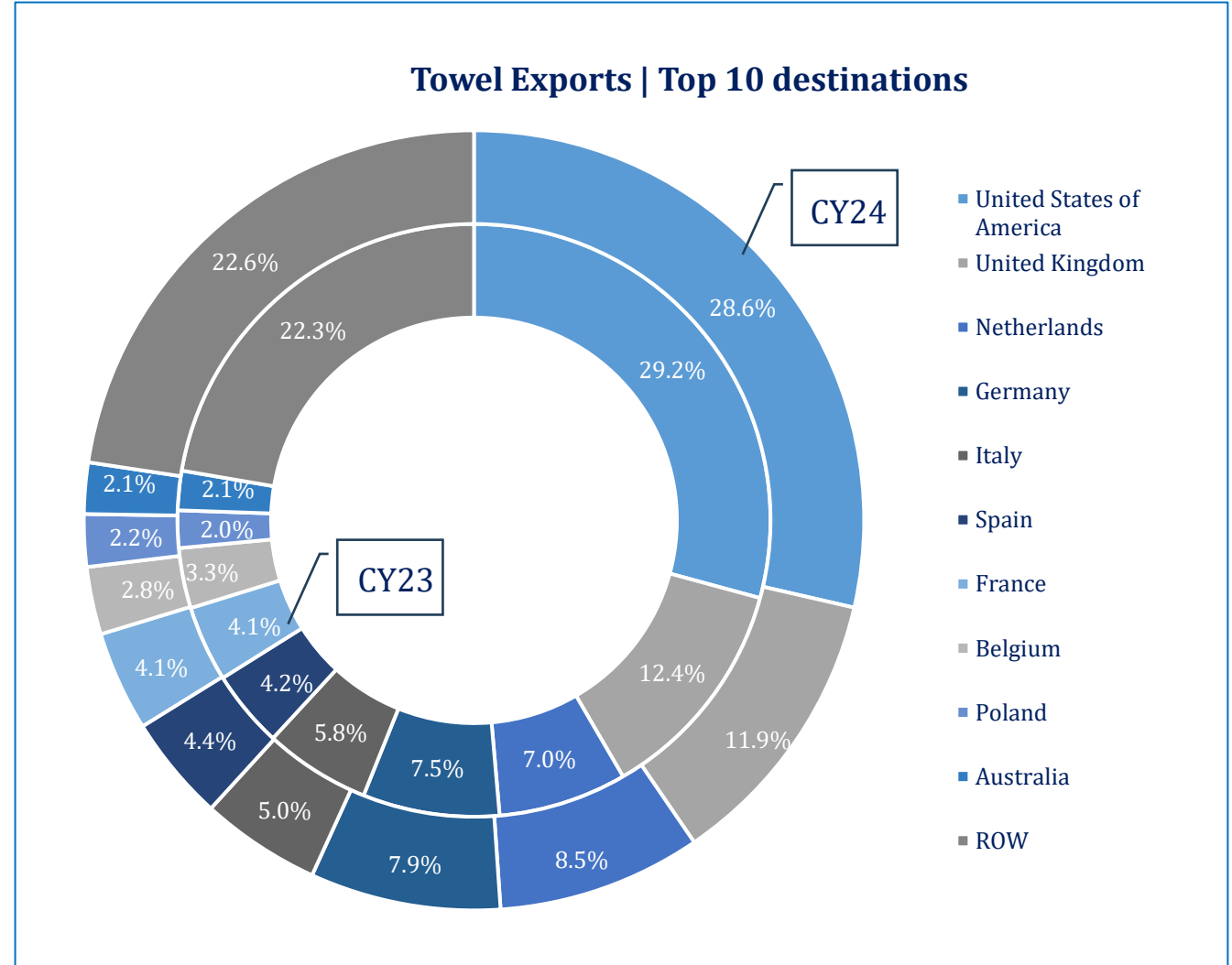
- Over the last five years, towel exports have largely remained stagnant in USD terms and hovered around USD 1.0-1.1bln. In FY25, towel exports grew by only ~1.3% YoY (FY24: ~20.2%) to PKR~302.4bln (FY24: PKR~298.3bln). In dollar terms, these registered ~2.6% growth YoY, clocking in at USD~1,082.6mln.
- Exports for Jul’25 were USD~93.8mln (SPLY: USD: ~70.1mln). Meanwhile, volumetrically, these stood at ~19,355.0MT (SPLY: ~14,570.0MT).
- The average export price of towels in FY25 remained unchanged as compared to FY24 and clocked in at PKR~1,336.3/Kg. In USD terms, these recorded at USD~478.8/100Kg in FY25, compared with USD~473.1/100Kg in SPLY, up ~1.7% YoY. Meanwhile, the PKR depreciated by ~1.9% YoY against the USD in FY25, averaging at PKR~279.3/USD.
- In Jul’25, average export prices remained stable at PKR~1,377.7/Kg (SPLY: PKR~1,333.0/Kg), while in dollar terms, these clocked in at USD~485.0/100Kg, up ~3.4% YoY. During the month, the average exchange rate stood at PKR~284.2/USD.



# Towels

## Local | Export Destinations

- During CY24 ~28.6% of Pakistan's Towels exports were concentrated towards the USA (CY23: ~29.2%) and clocked in at USD~1,578.9mln (CY23: USD~1,465.3mln).
- Meanwhile, the top 10 export destinations made up ~77.4% of the country's total towel exports during the period under review (CY23: ~77.7%).
- Currently, Pakistan faces a ~19.0% tariff (including baseline tariff) by the US, a major Textiles export destination for Pakistan. On the other hand, regional competitors like India, Bangladesh, and Viet Nam face a tariff of up to ~50.0%, ~20.0%, and ~20.0% respectively, as of Aug'25. This positions Pakistan more favourably than key regional competitors in the US textiles market. Heading in the last the quarter of CY25, Pakistan can benefit from this trade window of opportunity.

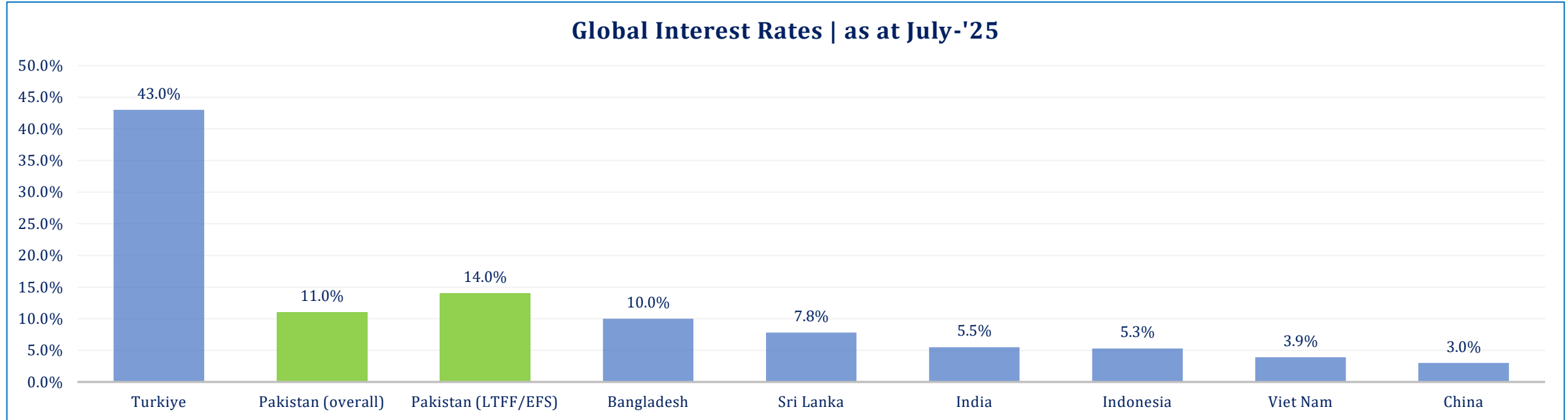


# Towels

## 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 (~281.8 as at September 1, 2025), 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 ongoing climate change situation has led to a ~17.5% YoY decline in cotton production by 15<sup>th</sup> August, 2025 . Almost ~50.0% of the ginning factories remained inactive due to insufficient sales. The textiles mills imported around ~4.5mln bales of cotton, and yarn equivalent to ~1.5mln bales, while local production remained at ~5.5mln bales.
- **Low Value Addition:** Although, the increased demand has increased the overall profitability of the sector, it remains a low value addition sector with historically narrow margins. 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 Pakistani 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 weaving 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.

## Interest Rates | Regional Comparison

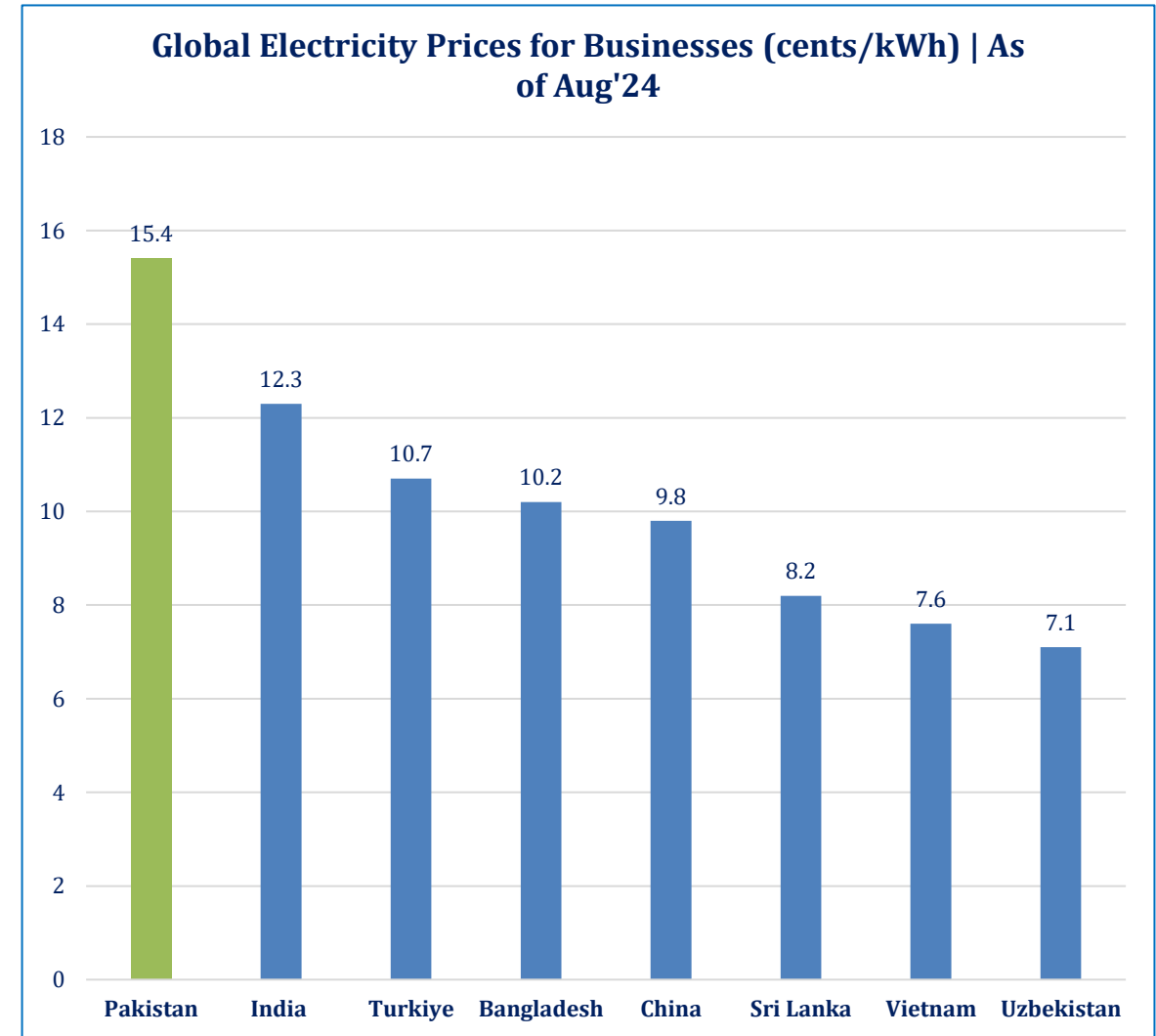


- Pakistan still has the second-highest interest rate in the region (~11.0%), highest being the Turkiye (~43.0%). As of Jul'25, the State Bank of Pakistan has kept the policy rate unchanged to ~11.0%. This is because even though the core inflation has reduced by ~3.2% YoY in Jun'25, the inflation outlook has worsened in the wake of energy tariffs and further compounded by recent floods and heavy rains in the country.
- The Textiles 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%. Hence, the current LTFF and EFS rates stand at ~8.0%.

# Towels

## Electricity Prices | Regional Comparison

- Pakistan's 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 as of 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.
- Power tariffs for industrial consumers are around 15.4 cents/kWh at present. 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 in Mar'23 has made textile sector uncompetitive in the global market.

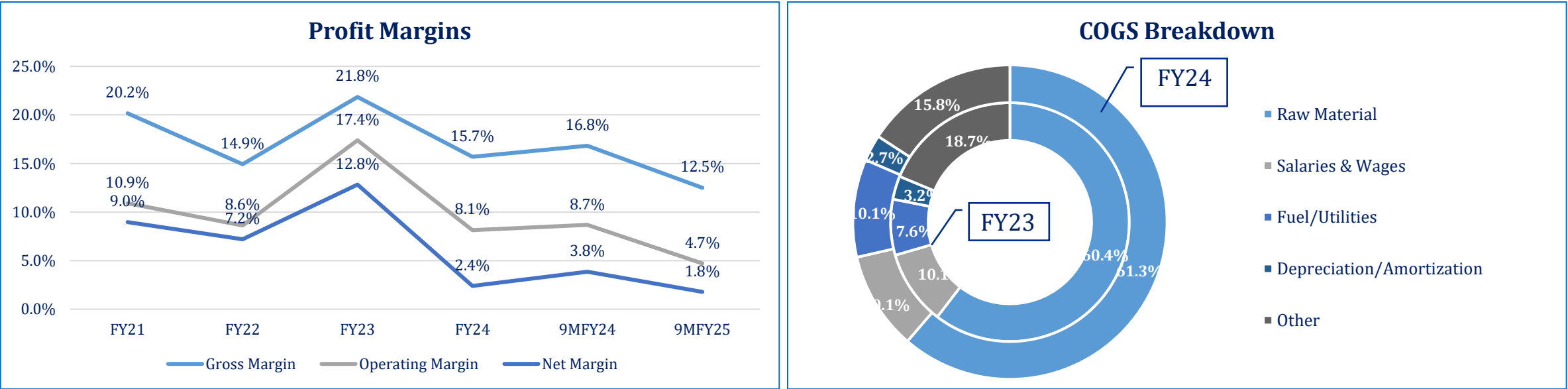




# Towels

## Local | Margins & Cost Structure

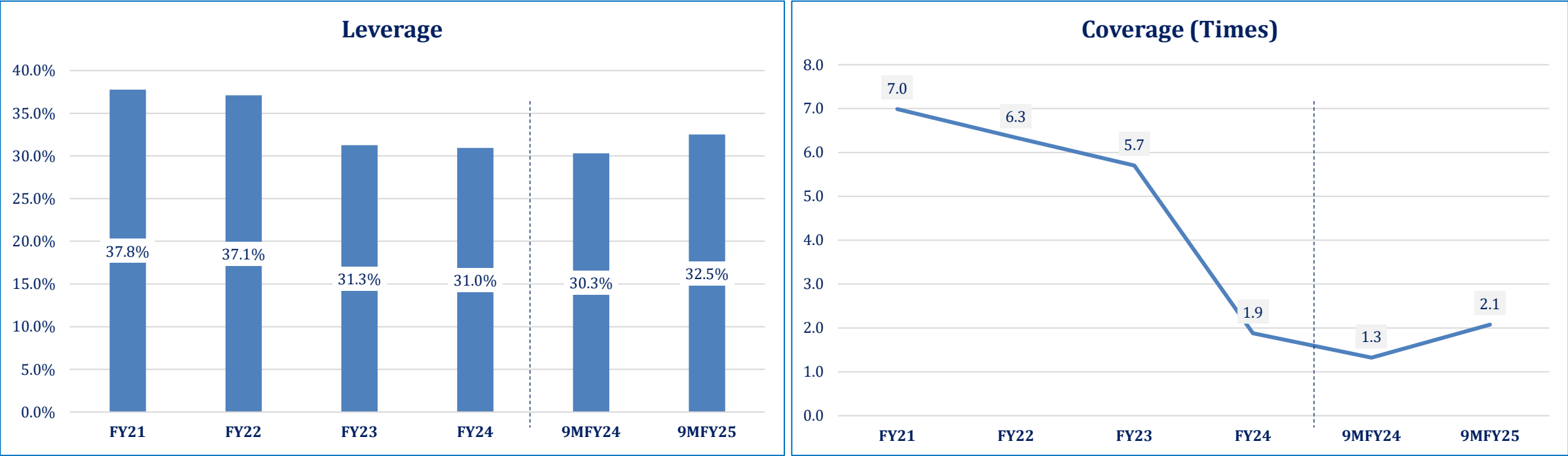
- During 9MFY25, average gross margin of the sector decreased to ~12.5% (9MFY24: ~16.8%), owing to ~4.6% YoY increase in cost of sales while sales revenue reduced by ~2.9% YoY, resultantly, negatively impacting the gross profit. The substantial increase in the cost of sales is primarily attributed to an increase in energy costs with natural gas rates hiked to RLNG rates and an additional gas levy bringing gas prices to USD~15.4/MMBTU.
- The average operating margin during 9MFY25 clocked in at ~4.7% (9MFY24: ~8.7%), depicting a considerable decline. Even though the sector has been able to contain its operating expenses and there has been no substantial increase, the impact of reduced gross profit has a ripple down effect on the sector’s operating profits as well. Moreover, the net profit margins have also reduced by ~2.0%.
- During FY24, raw material constituted ~60.4% of total cost (FY23: ~61.3%), followed by salaries & wages ~10.1% (FY23: ~10.1%) and fuel and utilities ~7.3% (FY23: ~6.9%).



# Towels

## Local | Interest Coverage & Leverage

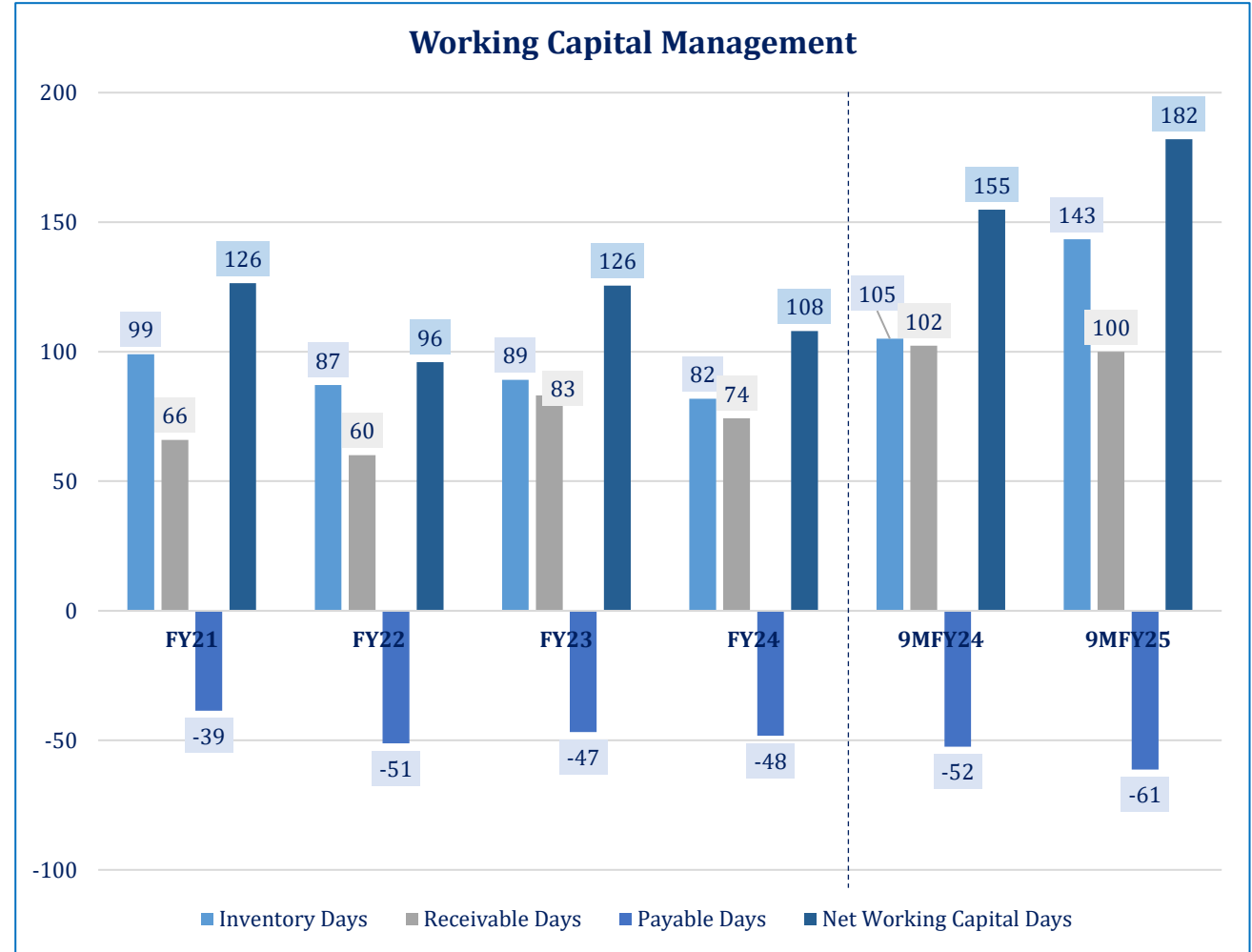
- The segment’s average leverage increased to ~32.5% in 9MFY25 (9MFY24: ~30.3%). Even though the ratio has marginally increased, it implies that the industry is less dependent on debt as compared to equity. This increase in leverage during 9MFY25, however, resulted from a ~21.2% YoY increase in short-term borrowings, while the equity only increased by ~2.3% YoY.
- The average interest coverage improved to ~2.1x during 9MFY25 (SPLY: ~1.3x), due to a reduction in Finance cost by ~17.0% YoY.



# Towels

## Local | Working Capital Management

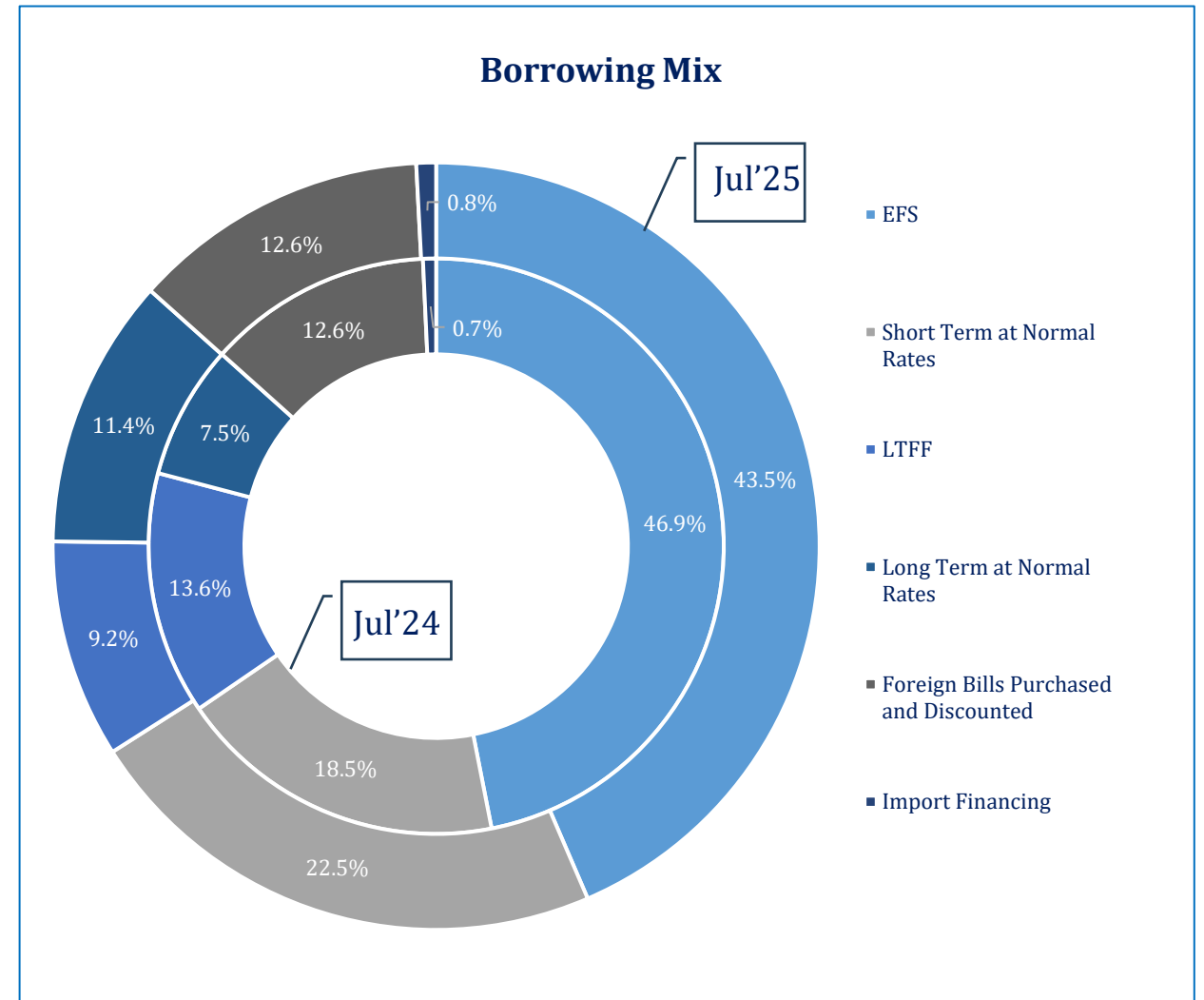
- During FY21-24, the average working capital days were recorded at ~114.0 days, with the highest number of days recorded at ~126.0 days in FY21 and FY23 and the lowest were recorded at ~96.0 days in FY22.
- The average inventory days and receivable days during FY21-24 stood at ~89.3 days and ~70.8 days respectively.
- In FY24, these clocked in at ~108.0 days. During 9MFY25, the sector's average net working capital stood at ~182.0 days, SPLY (~155.0 days) on the back of higher inventory days that increased by ~38.0 days and average payable days increased by ~9.0 days.



# Towels

## Local | Borrowing Mix

- The sector's total borrowing as at End-Jul'25 stood at PKR~203.9bln, up ~20.7% YoY.
- Short-term discounted borrowings (EFS - Export Financing Scheme) stood at PKR~88.8bln (End-Jul'24: PKR~79.3bln), up ~12.0% YoY and comprised ~43.5% of the sector's borrowings (End-Jul'24: ~46.9%).
- Other short-term loans at normal rates, comprising ~22.5% of total borrowing (End-Jul'24: ~18.5%), were recorded at PKR~45.8bln (End-Jul'24: PKR~31.3bln), up ~46.2% YoY.
- Long-term discounted borrowing (LTFF) as at End-Jul'25 clocked in at PKR~18.8bln (End-Jul'24: PKR~23.1bln), down ~18.6% YoY and comprised ~9.2% of total borrowings (End-Jul'24: ~13.6%).
- The overall infection ratio of the corporate sector clocked in at ~7.1% as at End-Mar'25. The Textiles sector infection ratio stood at ~7.2% (End-Mar'24: ~9.2%), exhibiting less credit risk as compared to SPly.



## 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. Importantly, the Finance Act 2025, has not introduced any amendments to this regime and treatment established in 2024 continues to apply.
- 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).
- The domestic cotton raw materials and yarn is subject to ~18.0% sales tax. As per the Finance Act 2025, the exemption on the import duty for cotton products has been withdrawn, and the imported cotton raw materials and yarn are now subject to ~18.0% sales tax as well. In July 2025, through SRO 1359(I)/2025, imported raw cotton, cotton yarn, and grey cloth were excluded from the Export Facilitation Scheme, making them subject to normal duties and 18% sales tax, with a 10-day grace period for shipments already in transit.
- 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%). In May'25, the policy rate was reduced to ~11.0% from ~12.0% in Mar'25. 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 ~8.0%.
- 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.



# Towels

## Local | Duty Structure

PCT Code	Description	Additional Custom Duty		Custom Duty		Regulatory Duty		Total	
		FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26
52.05	Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale	2.0%	0.0%	11.0%	5.0%	0.0%	0.0%	13.0%	5.0%
52.06	Cotton yarn (other than sewing thread), containing less than 85% by weight of cotton, not put up for retail sale	2.0%	0.0%	11.0%	5.0%	0.0%	0.0%	13.0%	5.0%
52.07	Cotton Yarn (other than sewing thread) put up for retail sale	2.0%	0.0%	11.0%	5.0%	0.0%	0.0%	13.0%	5.0%
52.08	Woven fabric of cotton, cotaining 85% or more by weight of cotton, weighing not more than 200g/m2	2.0%	0.0%	11.0%	10.0%	0.0%	0.0%	13.0%	10.0%
52.09	Woven fabric of cotton, cotaining 85% or more by weight of cotton, weighing more than 200g/m2	2.0%	0.0%	11.0%	10.0%	0.0%	0.0%	13.0%	10.0%
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%	0.0%	11.0%	10.0%	0.0%	0.0%	13.0%	10.0%
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%	0.0%	11.0%	10.0%	0.0%	0.0%	13.0%	10.0%
52.12	Other woven fabrics of cotton	4.0%	2.0%	16.0%	15.0%	0.0%	0.0%	20.0%	17.0%

# Towels

## SWOT Analysis

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

- 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.



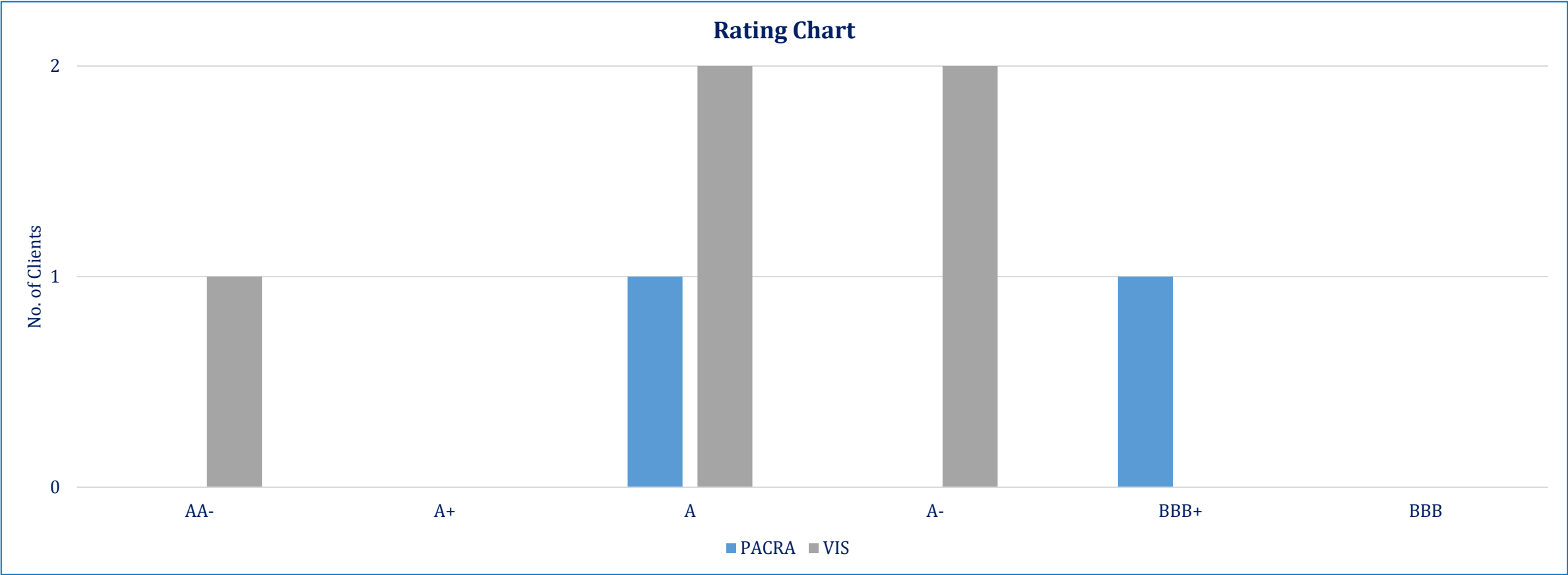
- Decline in local cotton production resulting in greater reliance on imports.
- Geographical export concentration towards the USA.

- 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 A to BBB+.



# Towels

## Outlook: Stable

- In FY25, Pakistan's GDP (nominal) stood at PKR~114trn (FY24: PKR~105trn), increasing, in real terms, by ~2.7% YoY (FY24: ~2.5% growth). Industrial activities held ~18.1% share in the GDP, while the manufacturing activities made up ~65.2% of the value addition. The Textiles sector is one of the most important industries of the economy, as Textiles exports contributed ~55.8% to the country's exports in FY25 (FY24: ~54.3%). In FY25, towel exports grew by ~1.4% YoY to PKR~304.2bln. In dollar terms, these registered ~2.6% growth YoY, clocking in at USD~1,082.6mln, where the top 10 export destinations made up ~77.4% of the country's total towel exports during the period under review (SPLY: ~80.2%).
- The sector bears high energy and input costs, due to raw material price volatility and input taxes. Earlier, the government provided gas at internationally competitive prices or at regionally competitive energy tariffs (RCET) to the five export-oriented sectors, including the Textiles sector. However, this has now been discontinued as of Mar'23, making exports less competitive in the international market.
- As per the Finance Act 2024, sales tax on supplies of textiles and leathers was enhanced to ~18.0% from ~15.0 %. This made the domestic production more expensive than imported substitutes. However, as per the Finance Act 2025, the exemption on the import duty for cotton products has been withdrawn. This is likely to facilitate local farmers and increase local production. This in turn will reduce dependency on imports of Raw Materials for towels production.
- Cotton arrivals during the MY25 season clocked in at ~5.5mln bales, significantly lower than the target production for the year, ~10.8mln bales. Over 100 spinning mills shut down, while others operated at below ~50.0% capacity. This is largely attributed to adverse weather conditions, including heavy rainfall in MY25. The impacts of climate change is likely to be carried forward, making it hard to achieve production targets in the next season as well.
- Even though the production of towels has increased by ~1.6% YoY, the current climatic changes are likely to negatively impact this in FY26. Cotton is the raw material for towels and, the cost of raw materials constitutes ~61.3% of total direct costs (as of FY24). The ongoing floods and heavy monsoon rainfalls have caused destruction of major crops including cotton. This is likely to cause supply shortages and drive prices up in the FY26 season. Moreover, the dependency on cotton imports is likely to increase as well, further increasing the cost of production.

# Towels

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