SECTOR STUDY | 8th SEPTEMBER 2026

Towels

Research Team

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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:
    1. Absorbency
    2. Wet Strength
    3. Hypoallergenic

- Other fibers sometimes used in Towel production include polyester, linen, nylon, flax, and bamboo.
- From an industry perspective, Towels constitute an important segment of the broader home textiles industry. This includes products used for household furnishing, comfort, hygiene, and utility purposes.
- The home textiles Sector generally encompasses products such as bed linen, Towels, bathrobes, kitchen linen, curtains, upholstery fabrics, and other textile articles.

Source: PACRA Database

Manufacturing Process

- The adjacent flow chart shows various processes involved in producing Towels.
- Towel is a type of woven fabric where two 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.

1 Warping (Direct) → 2 Sizing → 3 Weaving → 4 Greige Fabric Inspection → 5 Wet Processing → 6 Inspection → 7 Stitching → 8 Packaging & Shipment

Source: PACRA Database

Global | Trade

- Global Towel trade eased further in CY25, with imports at USD ~6338.0mn (-4.0% YoY) and exports at USD ~6,338.4mn (-4.0% YoY). USA remained the largest importer at USD ~2,015.4mn (-5.0% YoY), while the top 5 importers' share held broadly steady at ~52.6% in CY25 (CY24: ~52.0%).
- Pakistan's Towel exports slipped to USD ~1,146.2mn in CY25 (-2.0% YoY), as the top 5 exporters' (China, Pakistan, India, Turkiye, Vietnam) combined share moderated to ~74.7% (CY24: ~76.4%), pointing to modest diversification in global sourcing.
- Import demand also remains concentrated, with the USA, Japan, and Germany together accounting for ~46.1% of global Towel imports in CY25 (~45.3% in CY21), implying Pakistan's export base is exposed to a narrow band of end markets even as ROW imports have grown their share.
- China's continued lead in Towel exports (~26.4% share in CY25) is underpinned by its fully integrated textile value chain, from cotton/fiber processing to weaving, dyeing, and finishing under one roof. This cannot be matched by smaller exporters like Pakistan and Vietnam, despite China's declining share over CY21-25.

Top 5 Importers | Towels (USD mn)

Country	CY21	CY22	CY23	CY24	CY25
USA	2,603.7	2,429.7	2,129.4	2,121.5	2,015.4
Japan	500.7	591.0	578.5	538.1	522.0
Germany	330.2	362.5	320.6	333.3	383.3
Russia	88.8	187.4	228.1	242.0	174.2
France	228.9	254.5	238.3	233.3	238.0
ROW	3,133.2	3,021.4	2,918.4	3,134.2	3,005.5
Total	**6,885.5**	**6,846.5**	**6,413.3**	**6,602.4**	**6,338.4**

Top 5 Exporters | Towels (USD mn)

Country	CY21	CY22	CY23	CY24	CY25
China	2,456.3	2,313.3	2,149.1	1,921.4	1,671.6
Pakistan	1,014.7	996.5	1,078.8	1,169.6	1,146.2
India	1,020.5	1,081.8	1,012.7	1,085.4	1,074.5
Turkiye	689.3	664.3	560.8	567.9	550.9
Viet Nam	234.4	287.9	316.2	305.2	293.0
ROW	1,470.3	1,502.7	1,295.7	1,552.9	1,602.2
Total	**6,885.5**	**6,846.5**	**6,413.3**	**6,602.4**	**6,338.4**

Note: Data is reflective of HS Code 6302.60.

Source: ITC, WTO

Global | Key Takeaways

Together. Creating Value.

Global Towel Market Set for Steady Growth as US Trade Policy Levels the Playing Field

Market Size & Growth

- The global Towel market is estimated at USD ~17.8bn in CY25, projected to reach USD ~28.7bn by CY34 at a 5.4% CAGR.
- Bath towel sub-segment estimated at USD ~11.8bn in CY25, projected to grow at a 5.8% CAGR, reaching USD ~20.8bn by CY35.
- Cotton bath towels remains the dominant material within the towel segment, generating USD ~9.5bn of CY25 bath-towel revenue (~80% of the sub-segment). It is projected to grow at a ~5.1% CAGR from CY26 to CY35 due to its qualities of superior absorbency, premium feel, and lasting durability.
- Europe represents approximately ~27% of global bath Towel demand (USD ~3.18 billion in CY25), while North America accounts for ~23% (~2.72 billion in CY25). The Asia-Pacific region is tracking as the fastest-growing market, driven by rapid hospitality expansion.

Input Costs & Raw Material Outlook

- Sector performance remains vulnerable to escalating input costs from geopolitical friction (such as prolonged US-Iran negotiations) and potential demand destruction if macro uncertainties lead to a broader economic downturn.
- After holding steady at ~122.0mn bales in MY26, global cotton output is projected to drop ~3.6% YoY to ~117.6mn bales in MY27, largely driven by China reallocating acreage to grain production (-6.4%) and dry weather reducing U.S. yields (~13.6mn bales).
- ICE cotton futures are forecasted to average USc ~71.4–77.0/lb in CY26 (a ~15.3% increase over CY25's USc ~66.8/lb baseline). Cotton futures are already trading at USc ~82.5/lb in Sep 2026.

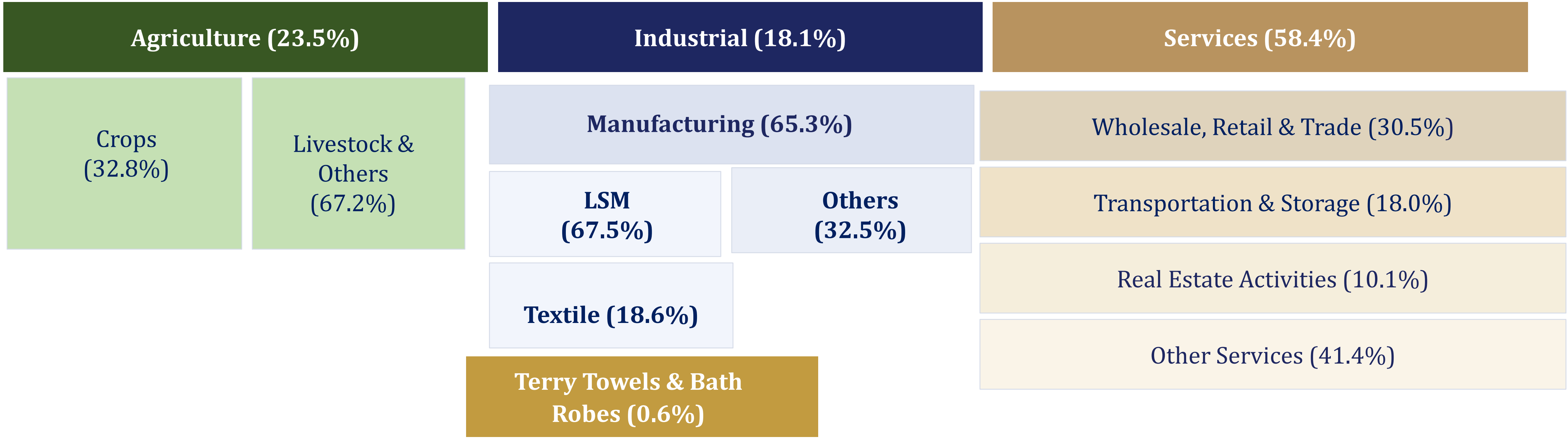
Note: MY for cotton is Aug-Jul.

Source: Global Market Insights, BMI, OECD, USDA

Local Economy and Textile | An Overview

- Pakistan's nominal GDP expanded to PKR ~126.9 trillion in FY26, reflecting an 11.3% YoY increase, a noticeable acceleration from the ~8.3% growth recorded in FY25. The services Sector remained the primary driver of the economy, contributing ~58.4% to total GDP, whereas industrial activities accounted for ~18.1%, down from ~20.2% in FY25.
- Within the industrial domain, manufacturing constituted the largest portion, making up ~65.3% of all industrial output. The textile industry, a core component of Large-Scale Manufacturing (LSM), accounted for an ~18.6% weight in the Quantum Index of Manufacturing (QIM) for FY26.
- Although cotton contributes a modest ~0.8% directly to national GDP, its overall economic impact is far-reaching, accounting for the downstream textile industry, cotton-related goods generate roughly 51% of Pakistan's foreign exchange earnings.

Pakistan Economy | FY26



Source: PBS

Local | Snapshot

Together. Creating Value.

- As a core pillar of Pakistan's value-added textile Sector, the Towel industry remains a key export driver, contributing roughly USD ~1.1bn annually and representing about 5.9% of the country's total textile export revenue.
- Anchored by major manufacturing hubs in Karachi and supported by an extensive network of over 10,000 looms, the Sector relies heavily on domestic cotton to deliver high-margin products to global markets.
- Terry Towel and Robe production eased to ~219,200 MT in FY26, down ~3.1% from FY25's record ~226,200 MT, a pullback after two consecutive years of growth.
- Towel exports softened in tandem, valued at PKR~297.8bn in FY26 compared to PKR~302.4bn in FY25 (down ~1.5%), with export quantity also down ~3.1% to ~219,200 MT.
- Flatlining textile exports stem from uneven taxation, where local cotton carries an 18% sales tax while imported alternatives remain duty-free. This structural cost imbalance has taken a heavy toll on the supply chain, causing 800 ginning factories and 120 spinning mills to close operations.

Particulars	FY24	FY25	FY26
Terry Towels & Bath Robes Production ('000 MT)	222.7	226.2	219.2
Towel Exports ('000 MT)	223.2	226.2	219.2
Towel Exports (USD mn)	1,055	1,083	1,062
Textile Exports (USD mn)	16,656	17,887	17,933
Share in Total Textile Exports	6.3%	6.1%	5.9%
Share in Country's Total Exports	3.4%	3.4%	3.3%
Players (No.)	~195		
Associations	Towel Manufacturers Association of Pakistan All Pakistan Textile Mills Association (APTMA)		

Source: PBS, TDAP

Local | Cotton Dynamics

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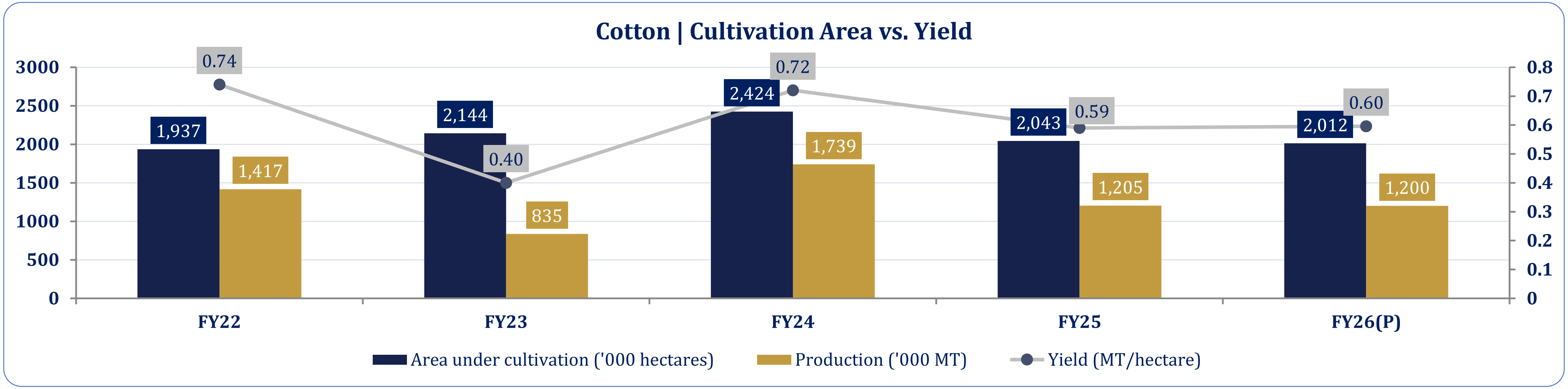
Cotton Supply ('000 Bales)

Particulars	MY23	MY24	MY25	MY26	MY27(P)
Opening Stock	2,465	1,953	2,369	2,946	2,882
Production	4,995	8,965	6,404	6,788	6,468
Imports	5,763	4,098	7,812	6,404	6,660
Total Supply	13,222	15,016	16,585	16,138	16,010
Local Consumption	11,142	12,432	13,576	13,192	13,063
Exports	128	224	64	64	64
Closing Stock	1,953	2,369	2,946	2,882	2,882

- As the critical backbone of Pakistan's textile industry, cotton is the raw material used by the spinning, weaving, and garment Sectors that generate most of the country's export revenues. However, the cotton crop faces continuous challenges, including declining acreage, severe climate-induced yield reductions and poor quality. This has resulted in larger quantities of Cotton imports in Pakistan.
- Production is expected to reduce to ~6.5mn bales (-4.7% YoY), with imports projected to rise modestly in MY27. Total supply and local consumption are both expected to hold broadly steady, down ~0.8% and ~1.0% YoY respectively.
- Pakistan’s cotton production decreased by ~28.6% YoY in MY25, owing to a decrease in area under cultivation and a surge in duty-free imports of cotton and yarn, which disrupted domestic markets.
- Punjab, which accounts for the vast majority of national cotton area, fell 18% short of its provincial target by planting only 2.6mn acres against the targeted ~3.2mn acres. This 586,000-acre shortfall highlights a deeper structural contraction in the crop base rather than a temporary seasonal dip

Source: PBS, PES, PCCC, USDA

Local | Area under Cultivation vs. Yield



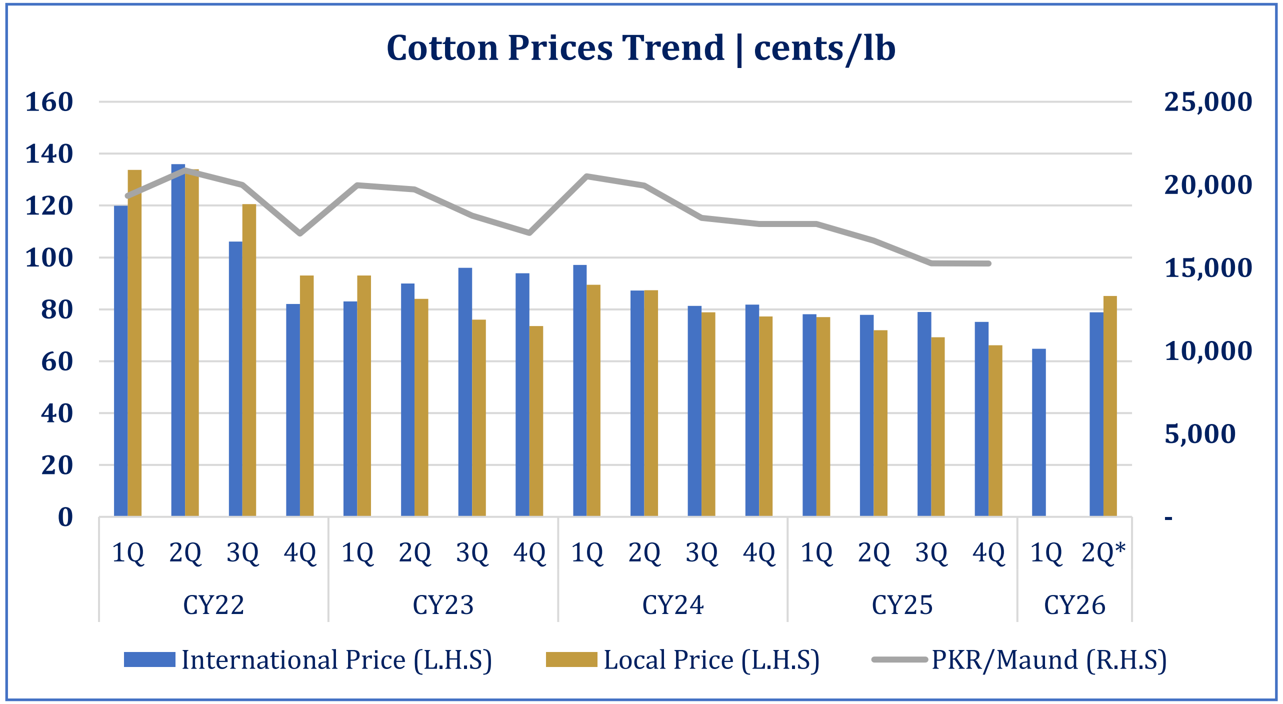
- Area under cotton cultivation declined by ~1.5% YoY, dropping from ~2.04mn hectares in FY25 to ~2.0mn hectares in FY26. With yield expected to remain steady at around 0.6 MT per hectare, overall production dropped marginally to 1.200mn MT (FY25: ~1.205mn).
- This ongoing shrinkage in acreage stems from growers consistently transitioning to higher-margin alternative crops such as sugarcane, rice, and maize due to superior market returns and stronger value chains. Additionally, farmer motivation has been severely dampened by recurring losses caused by poor-quality seed supplies and weak regulatory enforcement.
- Low yields in Pakistan are mainly due to climate pattern changes including excessive heat, erratic rainfall, and monsoon flooding in primary growing zones. As a result, crop productivity remains significantly below regional and global standards, where top producers achieve yields several times higher.
- As of Sept 4, 2026, nationwide cotton arrivals were recorded at ~1.7mn bales (SPLY: 1.3mn bales) for the new MY27 season. Sindh led with ~1.1mn bales (~31% YoY), with Sanghar district alone accounts for roughly two-thirds of Sindh's total arrivals.

Note: P stands for Provisional

Source: PES, PCCC, USDA

Cotton Dynamics | Prices

- Global cotton prices eased to ~72 cents/lb in 2QCY26, down ~7.7% from CY25 (~78 cents/lb). Domestic prices moved in the opposite direction, rising to ~85 cents/lb (PKR 19,447/maund), up ~19.7% and ~20.0% respectively from CY25 (71 cents/lb; PKR 16,200/maund). This indicates as tighter local supply outweighed rupee depreciation, pointing to firmer domestic demand relative to the international market.
- The six-month pause on KCA's daily spot rate publishing forced local prices to mirror broad market tendencies rather than exact annual cotton Sector metrics, continuing to disturb domestic and global cotton trading operations for ginners and textile mills.
- Driven by expectations of a higher CY25 crop yield, international prices had dropped ~10.8% YoY to ~78 cents/lb in CY25 (CY24: ~83 cents/lb), with the decline most pronounced mid-year. As of Sept 3, 2026, spot rate rose to PKR ~19,000/maund, as firm global benchmarks (NY futures at ~86.5 cents/lb) and Pakistan's standing as the second-largest buyer of US cotton for MY26/27 reinforced tight domestic supply.



	CY22	CY23	CY24	CY25	2QCY26*
International (cents/lb)	111	91	87	78	72
Local (cents/lb)	120	82	83	71	85
Local (PKR/maund)	19,312	18,730	19,027	16,200	19,447

As of Sept 3 2026

PKR ~19,000/maund

Spot rate, driven by a post-strike surge in mill demand and firm global benchmarks (NY futures ~86.5 cents/lb).

Note: Cotton Conversion Units — 1 Maund = 37.3kg; 1 Bale = 170kg; 1 Bale = 4.6 Maund.
**KCA daily spot rate suspended Dec–Jun 6, 2026.*

Local | Yarn Supply

PACRA
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Production of Yarn (MT)

	FY22	FY23	FY24	FY25	FY26
Synthetic/Blended	1,392,481	1,084,904	997,328	1,073,025	1,083,748
Medium	830,560	647,103	594,867	640,018	646,413
Coarse	796,723	620,739	570,632	613,943	620,078
Fine	352,573	274,695	252,521	271,687	274,402
Super Fine	86,404	67,318	61,884	66,581	67,247
Total	**3,458,740**	**2,694,760**	**2,477,233**	**2,665,255**	**2,691,888**

- Following a volatile stretch, local yarn production has stabilized into a more predictable range. After falling sharply in FY24 (dropping to ~2.48mn MT from FY22's peak of 3.46mn MT), volume rebounded to ~2.67mn MT in FY25 before ticking up slightly to ~2.69mn MT in FY26, a marginal ~1.0% YoY rise. While the industry isn't seeing rapid expansion, total output seems to have successfully bottomed out.

- Synthetic and blended yarns remain the anchor of total output, maintaining a dominant ~40% share (~1.1mn MT in FY26) following a temporary dip in FY25. Both coarse and medium cotton yarns saw modest (~1.0%) growth over the last year, whereas fine and super-fine counts continue to make up a negligible portion of total volume. Overall, the structural breakdown of cotton-based yarn production has stayed largely unchanged despite past volume fluctuations.

Note: Production figures for individual yarn categories is estimated using actual total production figures from FY21.
Total Yarn production for FY22, FY23, FY24 & FY25 are taken from PBS.

Source: PBS, TCO

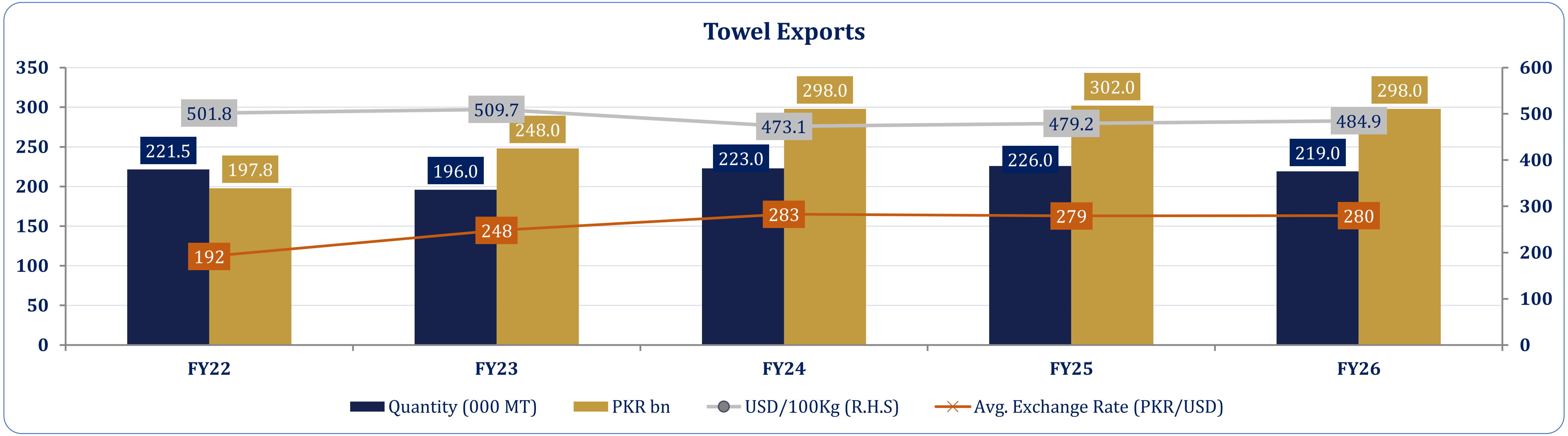
Local | Textile Exports

Textile Segment (USD mn)	FY22		FY23		FY24		FY25		FY26	
	Value	%	Value	%	Value	%	Value	%	Value	%
Knitwear	5,121	26.5%	4,437	26.9%	4,408	26.5%	5,010	28.0%	4,966	27.7%
Readymade Garments	3,905	20.2%	3,492	21.2%	3,564	21.4%	4,129	23.1%	4,288	23.9%
Bedwear	3,293	17.0%	2,692	16.3%	2,803	16.8%	3,113	17.4%	3,113	17.4%
Cotton Cloth	2,438	12.6%	2,022	12.3%	1,866	11.2%	1,809	10.1%	1,672	9.3%
Cotton Yarn	1,207	6.2%	844	5.1%	956	5.7%	681	3.8%	765	4.3%
Towels	1,111	5.7%	1,000	6.1%	1,055	6.3%	1,083	6.1%	1,062	5.9%
Other	2,255	11.7%	2,014	12.2%	2,062	12.4%	2,062	11.5%	2,067	11.5%
Total Textile Exports	19,330	100.0%	16,501	100.0%	16,656	100.0%	17,887	100.0%	17,933	100.0%
Total Country's Exports	32,493		27,876		30,980		32,343		30,821	
Towels % in Textiles Exports	5.7%		6.1%		6.3%		6.1%		5.9%	
Towels % in Country's Exports	3.4%		3.6%		3.4%		3.4%		3.3%	
Towels Production YoY	18.4%		-10.0%		5.5%		2.7%		-1.9%	

- Towel exports declined marginally to USD ~1,062mn in FY26 (FY25: USD 1,083mn), down ~1.9% in value and ~3.1% in volume terms. This sharper volume contraction relative to value points to some price support cushioning the decline. Share in total textile exports also eased to ~5.9% (FY25: 6.1%). Towel export revenues have maintained a consistent baseline of roughly USD ~1bn in the last five years.
- The decline mirrors a broader FY26 trend across traditional textile categories, as both cotton cloth (-7.6%) and knitwear (-0.9%) experienced reductions. In contrast, value-added and labor-intensive product lines such as readymade garments (+3.9%) and cotton yarn (+12.4%) demonstrated stronger performance, highlighting an ongoing compositional shift within Pakistan's export basket.
- Exporters in price-sensitive lines like Towels struggled throughout FY26 due to the dual pressures of weak global demand and crippling local costs. With Pakistan's energy tariffs which are substantially higher and financing costs remaining elevated, local manufacturers were unable to compete effectively on price against their regional rivals.

Source: PBS

Local | Towel Exports

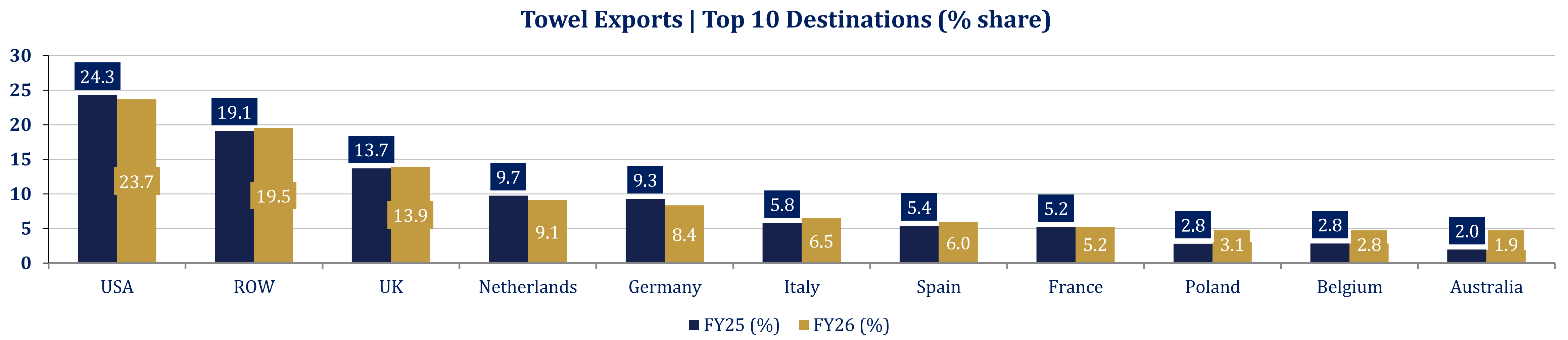


- In FY26, Towel exports contracted ~1.3% YoY to PKR 298.0bn, dragged down primarily by a 3.1% YoY reduction in export volumes to 219,000 MT (FY25: 226,000 MT). Although higher average export unit prices (~1.8% YoY to PKR 1,360.7/kg) helped cushion overall revenue loss, the segment softened alongside knitwear (-0.9% YoY) and cotton cloth (-7.6% YoY), acting as a drag on Pakistan's broader textile export growth.

- Towel exports have grown at a ~10.8% CAGR in PKR terms, from PKR~197.8bn in FY22 to PKR~298.0bn in FY26, even as volumes stayed largely range-bound between ~196,000 to 226,000 MT over the period. USD/100kg unit prices actually declined slightly over the same period (from ~501.8 in FY22 to ~484.9 in FY26), indicating that PKR-denominated export growth has been driven predominantly by rupee depreciation, rather than real price gains or volumetric expansion.

Source: PBS, SBP

Local | Export Destinations



- The USA remained Pakistan's top Towel export destination in FY26, though its share eased slightly to ~23.7% from ~24.3% in FY25. The UK held onto second place, also ticking down marginally to ~13.9% (FY25: ~13.7%).
- Netherlands's share slipped to ~9.1% in FY26 from ~9.7% in FY25, while the Italy's rose to ~6.5% (FY25: ~5.8%), pointing to a modest shift within the EU market even as the overall top-5 ranking held steady.
- The top 10 destinations together continue to account for the bulk of Pakistan's Towel exports, with the mix largely unchanged YoY, a sign that Pakistan's core buyer base has stayed fairly concentrated and stable through FY26.
- On tariffs, Pakistan continues to face a ~19% US rate versus steeper rates on regional competitors. This shows a relative edge that should keep supporting US-bound volumes into FY27, provided the current tariff structure holds.
- Accounting for ~41.0% of Pakistan's towel exports in FY26, the EU collectively outranks the US as a single market, highlighting the strategic necessity of maintaining GSP+ status. Pakistan's Towel exports to the EU rely on GSP+ zero-duty status tied to 27 international conventions, making regulatory compliance during the post-2026 review period a critical factor for maintaining EU-bound volumes in FY27–28.

Note: Data is reflective of HS Code 6302.60.

Source: SBP

Local | Business Risk

Dependency on Cotton Imports

- Domestic cotton production rebounded ~6.0% YoY in MY26 to ~6.8mn bales. Short-staple cotton's higher absorption capacity makes it well-suited for towel and hosiery manufacturing, unlike apparel-grade segments that depend more heavily on imports.
- MY27 production is projected to rise a further ~4.7% YoY, supporting raw material availability specifically for towel exporters.

Low Value Addition

- Despite improved sector profitability, towel manufacturing retains historically narrow margins versus higher value-added apparel segments.
- Pakistan’s towel exports are low-priced and track cotton price trends closely; recent USD/lb price softness disincentivizes upgrading, favoring continued reliance on cotton as the primary input.

High Energy Costs

- Withdrawal of the Regionally Competitive Energy Tariff (RCET) in March 2023, the textile industry no longer receives subsidized RLNG/gas or capped electricity.
- Energy costs for Pakistan’s industry stand above the regional average (India, Bangladesh, Vietnam), reducing export competitiveness

Varying Local Cotton Production

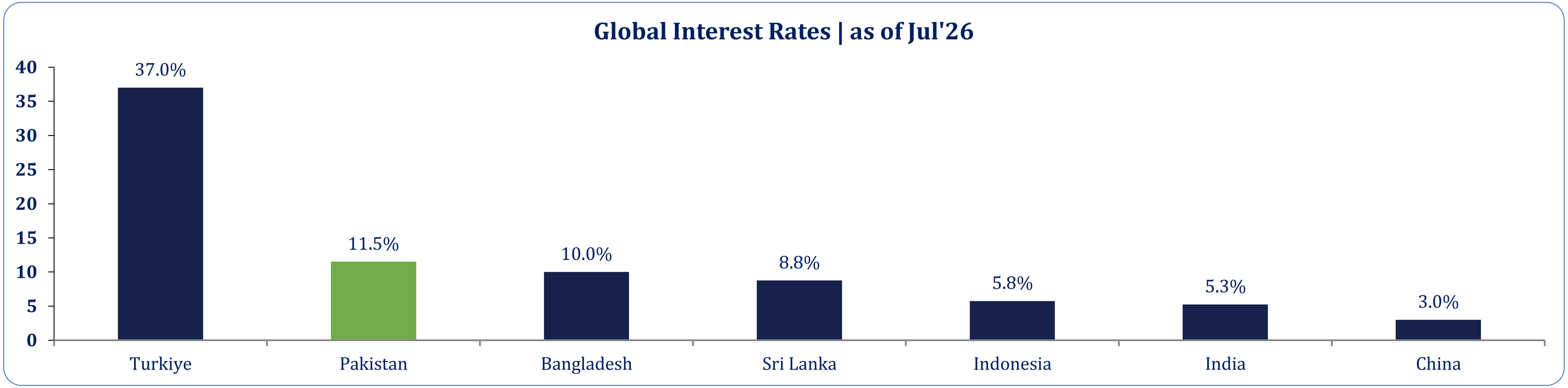
- Climate-driven fluctuations in domestic cotton production have pushed Pakistan's import dependency to ~48% of MY26 consumption.
- With local spot prices (Rs 19,000/maund) trailing foreign landed costs inflated by freight, duties, and exchange rate pressures (PKR/USD ~277.6), millers face elevated raw material costs.

High Level of Regional Competition

- Pakistan's towel exporters face high competition from regional players such as Bangladesh and Vietnam, which has driven down average export prices and margins.

Source: Center for Disaster Philanthropy, UN Comtrade, PTJ, PCGA

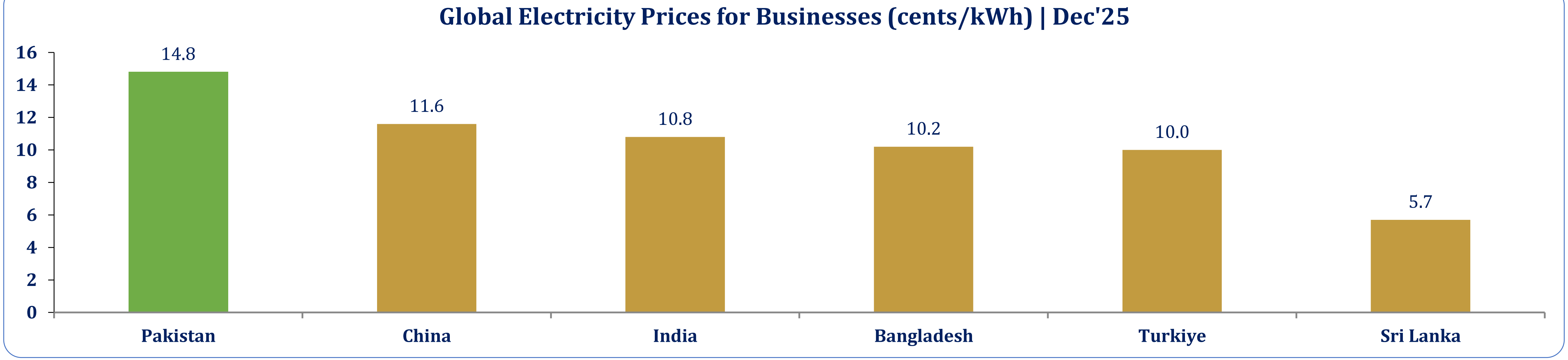
Interest Rates | Regional Comparison



- As of Jul'26, Pakistan carries the second-highest policy interest rate in the region at ~11.5%, behind Turkiye (~37.0%) and ahead of Bangladesh (~10.0%), Sri Lanka (~8.8%), Indonesia (~5.8%), India (~5.3%), and China (~3.0%). This positions Pakistan's borrowing environment as structurally more expensive than most regional textile-exporting competitors, weighing on working capital and expansion financing costs for weaving mills. Maintaining an elevated interest rate reflects the State Bank of Pakistan's prudent stance as it balances easing core inflation against higher energy tariffs, ultimately slowing the pace of monetary easing.
- Towel exporters and the broader textiles sector benefit from subsidized financing via the SBP's Export Finance Scheme (EFS/ERF) at an effective end-user rate of ~5.5% (an 8.5% base rate as of April 2026, minus a 3% voluntary bank discount), providing a substantial cost advantage over the ~11.5% policy rate. Additionally, the Long-Term Financing Facility (LTFF) supports capex at a flat ~8.5% across all tenors, while short-term export bill discounting under IERS offers rates as low as ~2.0%–3.0% for up to 180 days.

Note: Interest rates taken from respective country's Central Bank website
**Included within the textile industry, towel exporters qualify for subsidized SBP financing under EFS/ERF.*

Electricity Prices | Regional Comparison

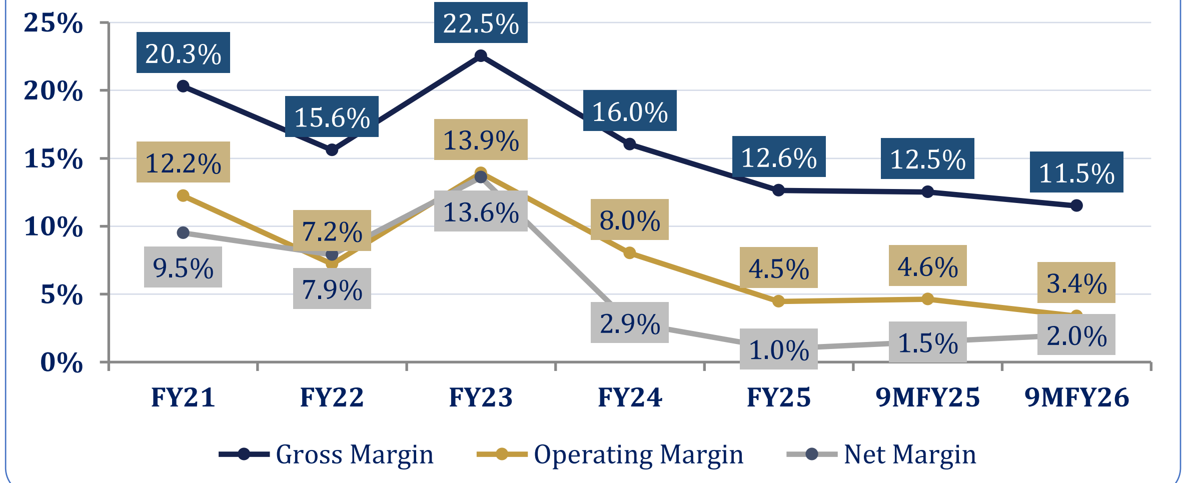


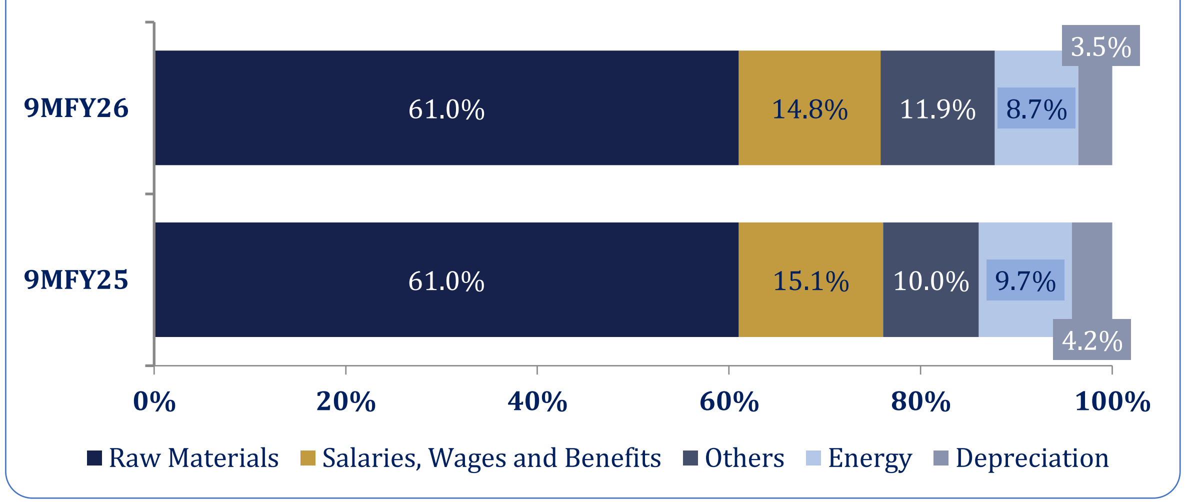
- At ~14.8 cents/kWh, Pakistan has the most expensive industrial electricity in the region, far exceeding regional peers such as China (~11.6 cents), India (~10.8 cents), Bangladesh (~10.2 cents), and Turkiye (~10.0 cents), while reaching more than double Sri Lanka's market-low ~5.7 cents/kWh. Because power constitutes a major portion of total Towel conversion expenses, this price disparity leaves Pakistani textile producers at a persistent cost disadvantage against foreign competitors.
- This cost disadvantage stems from a policy shift rather than an inherent structural deficit. The government previously supported five key export Sectors including textiles with Regionally Competitive Energy Tariffs (RCET) and internationally competitive gas pricing. However, the withdrawal of these subsidies in March 2023 removed the financial buffer.
- A primary driver of today's cost disparity was the March 2023 termination of concessional energy tariffs. Under this framework, export manufacturers benefited from capped electricity rates of PKR ~19.99/kWh alongside gas/RLNG tariffs of USD ~9.0/MMBTU. Designed to maintain international competitiveness for the textile industry, the withdrawal of these competitive benchmarks immediately exposed domestic mills to higher baseline energy prices.

Note: Global Electricity prices are representative of Dec'25. Prices have been converted using countries' official exchange rates

Source: globalpetrolprices.com, APTMA

Local | Margins & Cost Structure



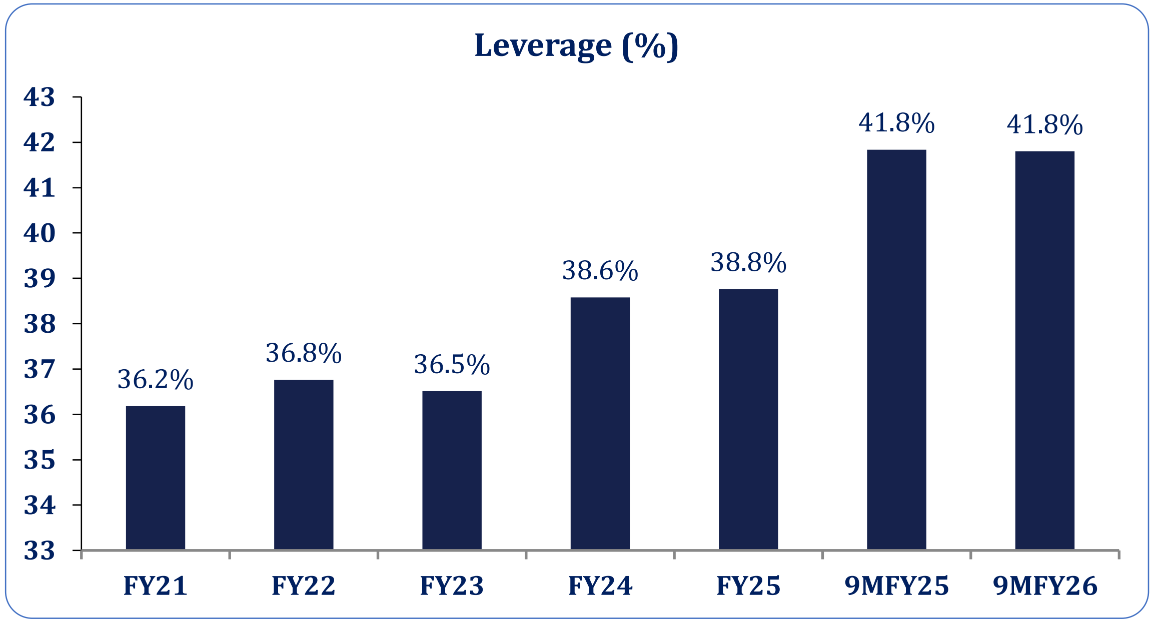


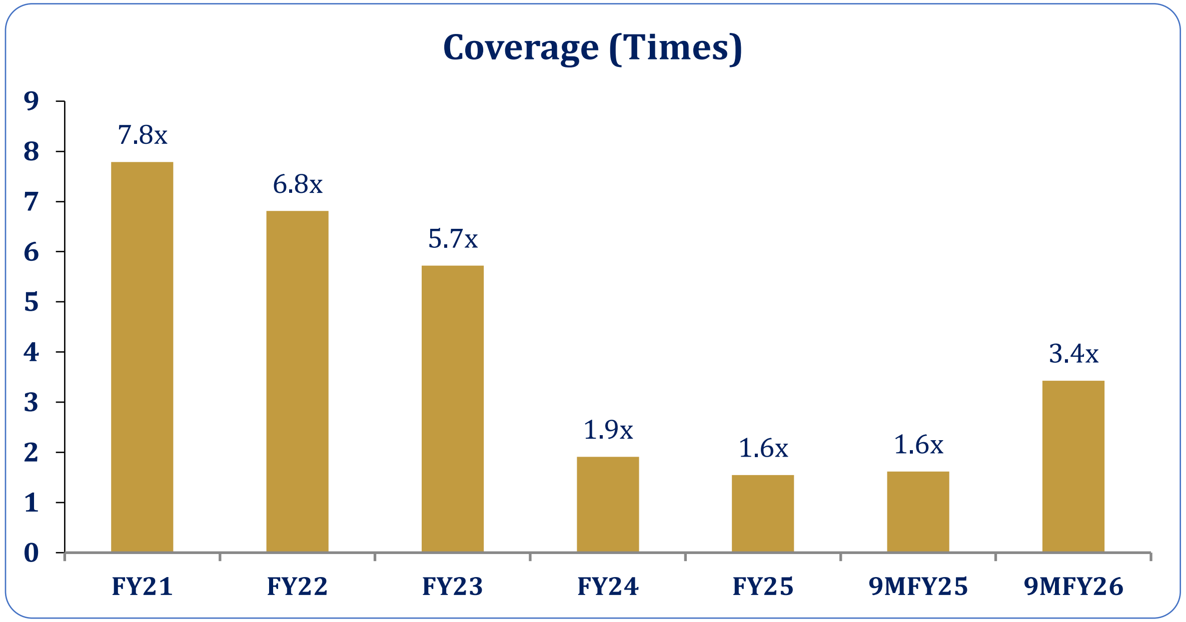
- The Towel manufacturing sub-Sector derives the vast majority of its revenues from international exports, with the United States and Europe serving as the primary destination markets. During 9MFY26, top-line revenue across major market players showed a small ~0.4% YoY increase.
- During 9MFY26, gross margins declined to ~11.5%, down from ~12.5% in 9MFY25, as higher production and input costs weighed on realized prices. The operating margin for the period stood at ~3.4% (~4.6% in SPLY), pointing to higher overhead expenditures.
- Net margin rose slightly to ~2.0% in 9MFY26 (9MFY25: ~1.5%) despite the lower gross and operating margins, aided by other income, primarily profit from mutual funds and other investments.
- FY25 margins declined versus FY24 across the board, gross margin fell to ~12.6% (FY24: ~16.0%) reflecting a combination of weaker sales and persistently high cost of goods sold during the year. This reflects elevated cotton yarn input costs, driven by fluctuating cotton prices and rising spot rates, compounded by the sector's high energy costs.
- Raw material expenses continued to dominate total production costs, holding steady at ~61.0% of COGS in both 9MFY26 and 9MFY25. This reflects the sector's heavy reliance on cotton and cotton yarn as primary inputs for towel manufacturing,

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

Source: PSX, PACRA Database

Local | Interest Coverage & Leverage



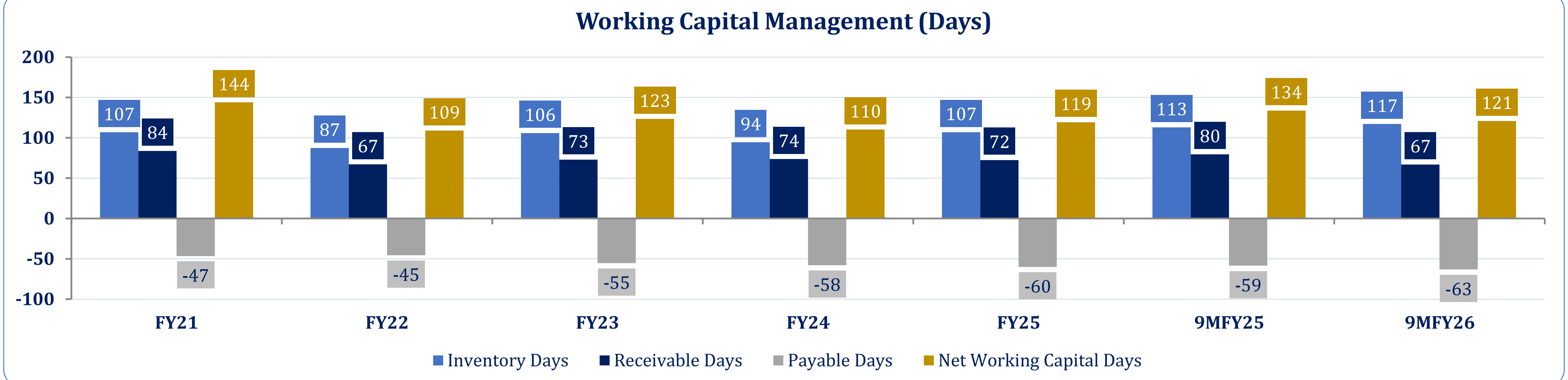


- The Sector depends heavily on short-term borrowing to meet working capital needs, leveraging its flexibility to align with seasonal raw material procurement and collection cycles rather than locking up capital in long-term debt meant for expansion. Leverage held steady at ~41.8% in 9MFY26 (9MFY25: ~41.8%), as short-term borrowings and equity grew at a broadly similar pace, keeping the debt-to-equity mix unchanged YoY despite higher absolute borrowing levels.
- Leverage stood at ~38.8% in FY25 (FY24: ~38.6%), broadly stable YoY after the sharper increase seen in FY24 (FY23: ~36.5%), suggesting the pace of leverage buildup moderated following the prior year's jump.
- Interest coverage strengthened to ~3.4x in 9MFY26 (9MFY25: ~1.6x), driven primarily by a ~30.4% YoY drop in finance costs rather than operational recovery, as underlying profitability remained constrained.

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

Source: PSX, PACRA Database

Local | Working Capital Management

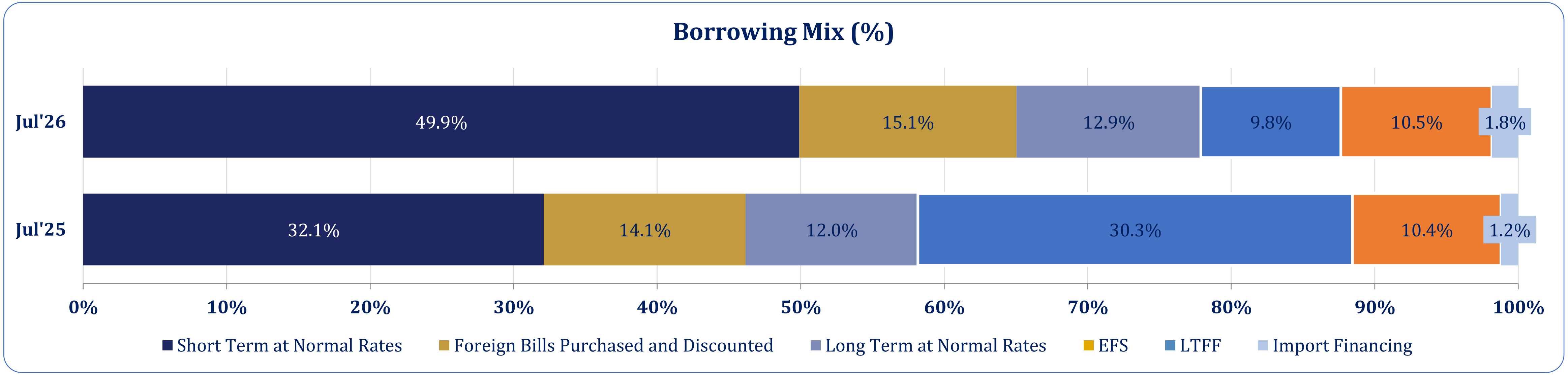


- During 9MFY26, the Sector's average net working capital days declined to ~121 days, compared to ~134 days in 9MFY25. Average inventory days increased marginally to ~117.0 days in 9MFY26 (~113.0 days in 9MFY25), while average payable days extended to ~63.0 days, partly offsetting the receivable-driven improvement in net working capital.
- On a full-year basis, FY25 net working capital days stood at ~119 days (FY24: ~110.0 days), with average inventory days at ~107 days and receivable days at ~72 days.
- High inventory days are a structural feature of the Sector, primarily driven by the seasonal cotton harvest and inventory accumulation. This requires mills to bulk-purchase raw cotton for year-round production and multi-stage vertical integration that ties up capital across processing phases from yarn to finished Towels.
- The sustained high net working capital days (exceeding ~120 days) lead to reliance on short-term borrowings, including running finance and export refinance facilities, to bridge the gap.

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

Source: PSX, PACRA Database

Local | Borrowing Mix



- Total borrowing rose ~15.7% YoY to PKR ~317.6bn in Jul'26 (Jul'25: PKR 274.5bn), with the mix shifting sharply toward short-term conventional financing and away from Export Financing Schemes (EFS).
- Short Term financing at Normal Rates nearly doubled to PKR ~158.5bn (~79.9% YoY), increasing its share to ~49.9% of total borrowing (Jul'25: 32.1%), making it the dominant financing line.
- EFS utilization fell ~62.7% YoY to PKR 31.0bn with its share reducing to ~9.8% (Jul'25: ~30.3%), reflecting reduced reliance on the scheme.
- Foreign Bills Purchased and Discounted grew ~24.5% YoY to PKR 48.0bn, holding a stable ~15% share. Long Term at Normal Rates increased ~23.9% YoY to PKR 40.8bn, share up to ~12.9% (Jul'25: 12.0%).
- Import Financing remains the smallest component but grew fastest in relative terms, up ~76.4% YoY to PKR ~5.8bn.
- The borrowing mix of PACRA-rated clients mirrors this Sector-wide pattern, with short-term borrowing continuing to dominate the capital structure of players in the Sector.

Note: Borrowing figures are representative of 'Manufacture of Other Made-up Textile Articles' as per SBP.

Source: SBP

Local | Regulatory Framework

- As per Finance Act 2026, effective 1-Jul-26, the ~1.0% withholding tax on direct and indirect exporters' proceeds and the separate ~1.0% advance tax were consolidated into a single ~1.25% minimum tax under Section 154, with the advance tax provision (Section 147(6C)) abolished.
- Finance Act 2026 abolished super tax for companies deriving more than ~80.0% of revenue from exports, reversing the Finance Act 2024 provision that had first brought exporters under its ambit given the shift to minimum-tax status. Large textile manufacturers revert to exemption effective Tax Year 2027. The Super Tax exemption for manufacturers generating over 80% export revenue eliminates a key cost burden, directly enhancing bottom-line retention and net margins for large exporters, whereas smaller or domestic producers gain no direct tax relief and remain strained by the ~18.0% cotton/yarn sales tax and an ~11.5% policy rate.
- Domestic cotton raw material and yarn remain subject to ~18.0% sales tax. Under Finance Act 2025, the import duty exemption on cotton was withdrawn, so imported cotton raw material and yarn are now also subject to ~18.0% sales tax removing imports' prior cost advantage over domestic production.
- The policy rate came down to 10.5% by Dec’25. It was subsequently raised back to ~11.5% (as of Jul'26), where SBP has held it at this level in its most recent policy decisions. The rate increase was in anticipation of higher inflation due to US-Iran conflict and its impact on Pakistan in the shape of elevated energy prices.
- The Textile Sector benefits from SBP's Export Refinance Facility (ERF) and Long-Term Financing Facility (LTFF). Since the Jul'22 SBP circular, LTFF/EFS rate revisions are linked to policy rate changes, maintaining a fixed ~3.0% spread below the MPR. Per the most recent SBP rate schedule (w.e.f. 28-Apr-26), LTFF end-user rates stand at a flat ~8.5% across all tenors.
- FBR has abolished regulatory duties on a wide range of items, including synthetic filament yarn and second-hand clothing. Finance Bill 2025 broadens this relief, eliminating RDs on goods across 554 PCT codes and slashing the maximum RD cap from ~90.0% to ~50.0% across affected product lines.

Source: SBP, Finance Bill 2026-27

Local | Duty Structure

PCT Code	Description	Custom Duty FY26	Custom Duty FY27	Custom Duty FY26	Custom Duty FY27	Regulatory Duty FY26	Regulatory Duty FY27	Total FY26	Total FY27
52.05	Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale	0.0%	0.0%	5.0%	5.0%	0.0%	0.0%	5.0%	5.0%
52.06	Cotton yarn (other than sewing thread), containing less than 85% by weight of cotton, not put up for retail sale	0.0%	0.0%	5.0%	5.0%	0.0%	0.0%	5.0%	5.0%
52.07	Cotton Yarn (other than sewing thread) put up for retail sale	0.0%	0.0%	5.0%	5.0%	0.0%	0.0%	5.0%	5.0%
52.08	Woven fabric of cotton, containing 85% or more by weight of cotton, weighing not more than 200g/m2	0.0%	0.0%	10.0%	10.0%	0.0%	0.0%	10.0%	10.0%
52.09	Woven fabric of cotton, containing 85% or more by weight of cotton, weighing more than 200g/m2	0.0%	0.0%	10.0%	10.0%	0.0%	0.0%	10.0%	10.0%
52.11	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibers, weighing not more than 200g/m2	0.0%	0.0%	10.0%	10.0%	0.0%	0.0%	10.0%	10.0%
52.12	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibers, weighing more than 200g/m2	0.0%	0.0%	15.0%	15.0%	0.0%	0.0%	15.0%	15.0%

Source: FBR

Local | SWOT Analysis

Strengths

- Availability of raw material and cheap labor.
- Government support in the form of favorable duty structure.
- Strong reputation for cotton-based terry products in international markets.

Weaknesses

- High dependence on a few export markets, particularly the US and Europe.
- Low product diversification and limited value-added/branded products.
- Working-capital constraints and delayed tax refunds, affecting liquidity.

Opportunities

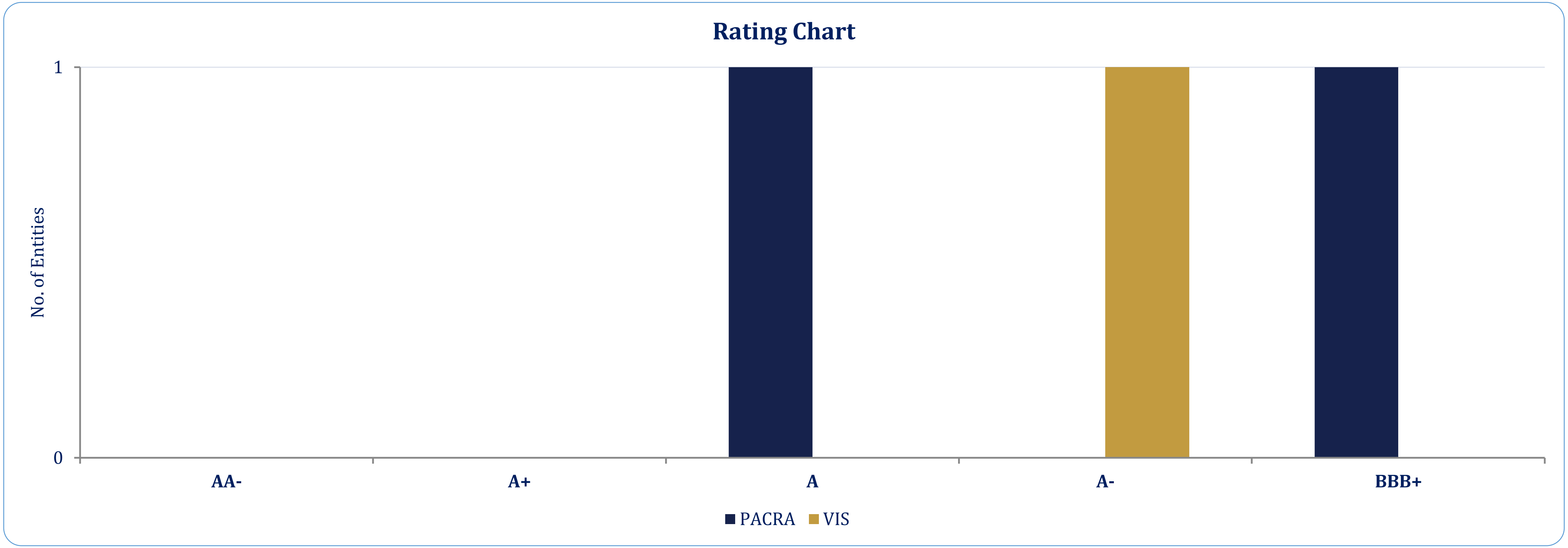
- Subsidized cost and financing structure provides competitive advantage.
- Special Economic Zones provide incentives to the Sector.
- Opportunity to increase efficiency and improve quality through technological upgrade.
- Market diversification into non-traditional destinations such as Latin America, Middle East and East Asian markets
- Expansion of hospitality and institutional segments, particularly hotel, healthcare.

Threats

- Significant competition from regional players in export market.
- Exchange rate volatility.
- Fluctuations in raw material prices.
- High energy tariffs and unreliable infrastructure.
- US/EU market concentration and changing trade/tariff policies.
- Withdrawal/revision of fiscal incentives and EFS-related policies.

Rating Chart

PACRA rates two players in the Towel Sector. The rating bandwidth of these ranges from A to BBB+.



Outlook: Stable

- Pakistan's GDP at current market prices rose to PKR ~126.9Tn in FY26 (FY25: PKR ~114.0Tn), a nominal increase of ~11.3%, while real GDP growth accelerated by ~3.7% (FY25: ~3.1%), the fastest pace in four years, though still short of the ~4.2% target. Within LSM, textile sector grew by ~6.5% (9MFY26), among the strongest-performing of the LSM sub-Sectors posting positive growth.
- Local cotton production was estimated at ~6.8mn bales in MY26, falling far short of the government's initial goal of ~10mn bales. Production has since fallen further, now estimated at ~6.5mn bales in MY27. This shows continued structural decline now estimated to cost the economy USD ~3bn per year in additional cotton imports.
- The Textile Sector is an important component of the economy, as Textile exports contributed ~58.2% to the country's exports in FY26 (FY25: ~55.8%). In FY26, Towel exports fell by ~1.5% YoY to PKR ~297.8bn (FY25: PKR~304.2bn). In dollar terms, these remained stable and accounted for USD~1.1bn, where the top 10 export destinations made up ~80% of the country's total Towel exports during FY26.
- High raw material price volatility and input taxes subject the Sector to elevated energy and operational costs. The government previously subsidized energy for five major export-oriented industries including textile through Regionally Competitive Energy Tariffs (RCET) and internationally competitive gas pricing. Since the withdrawal of this support in March 2023, exporters have faced diminished competitiveness in global markets.
- The production of Towels has decreased to ~219,200 MT in FY26, down ~3.1%. The current climatic changes are likely to negatively impact this more in FY27. Cotton is the raw material for Towels and, the cost of raw materials constitutes ~61.0% of total direct costs (as of FY26). Early MY27 data shows a partial recovery as mid-August cotton arrivals reached ~1.1mn bales (~25.5% YoY) across 268 active ginneries. Long-term raw cotton shortages will continue into MY28 unless key structural drivers such as certified seeds, water access, and competitive pricing are addressed.
- Local cotton prices have also increased, with the KCA spot rate reaching PKR ~19,500/maund as of September, 2, 2026 (up PKR ~700 WoW), adding near-term pressure to raw material costs.
- Pakistan's export competitiveness faces compounding headwinds through FY27–28 from regulatory uncertainty, rising shipping costs, and US tariff adjustments. EU GSP+ zero-duty access expires at end-2026, entering a transition phase through 2028 with renewal contingent on ongoing compliance reviews. Simultaneously, elevated freight rates are driving up landed export costs. Following the US Supreme Court's February 2026 ruling that struck down the ~29% IEEPA reciprocal tariff, Pakistani exporters have since July 24, 2026 faced an additional 10% Section 301 tariff, applied on top of standard MFN duty rates.

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