SECTOR STUDY | 28th AUGUST 2026

Together. Creating Value.

WEAVING

Research Team

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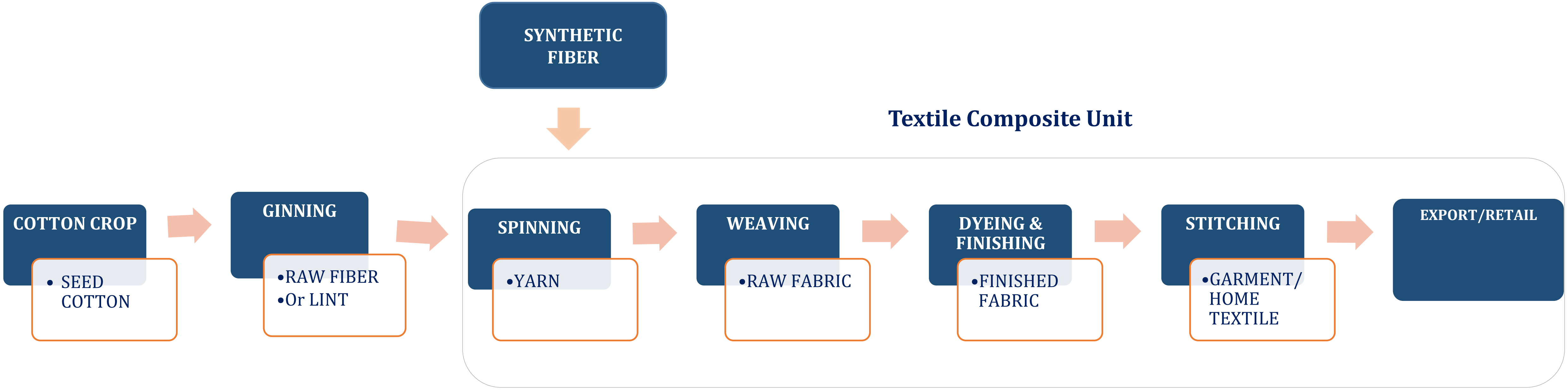
Introduction | Value Chain

- The Textile cluster has a relatively large value chain with multiple distinct Sectors. The following flow chart depicts the major processes along with the output of the textile value chain.
- The Weaving Sector, which processes yarn into fabric, falls early in the textile value chain, immediately following ginning and spinning. Once the raw fiber is converted into yarn, it is further processed into raw fabric at the Weaving stage. However, there is limited value addition in this segment.



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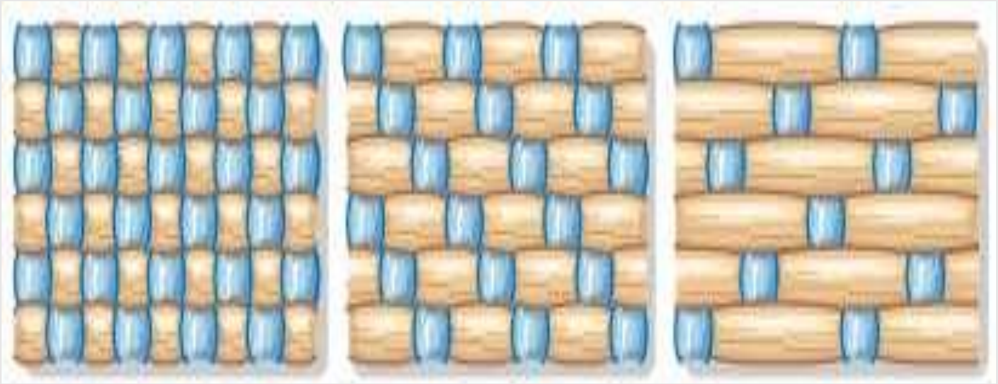
Production | Process & Types

- Weaving is the process of converting cotton yarn into raw fabric. It plays an instrumental role in the textile cluster. In basic Weaving, two distinct sets of yarns or threads are interlaced at right angles to form a fabric or cloth, commonly known as Grey Cloth.
- The yarn has to be processed for Weaving. There are four steps in the Weaving process;
  1. **Shedding**: Raising and lowering of warp yarns by the harness to form the shed, opening between warp yarns through which weft yarn passes.
  2. **Picking**: Inserting of weft yarn by the shuttle through the shed.
  3. **Battening**: compressing the weft yarn into the cloth to make it compact.
  4. **Taking Up**: Winding newly formed cloth onto the cloth beam.

- There are 3 basic types of weave -
  - **Plain weave**: A simple alternate interlacing of warp and filling yarns.
  - **Twill weave**: Made by interlacing the yarns in a manner producing diagonal ribs, ridges, or wales across the fabric.
  - **Satin weave**: Has a sheen produced by exposing more warps than fillings on the right side of the fabric. The exposed warps are called floats.
- Other types of weave, such as pile, jacquard, dobby, and leno are more technical and require special looms or attachments for their production.



Plain Weave **Twill Weave** **Satin Weave**

Weaving

Technology & Machines

- There are five main types of looms from a technological perspective:. Projectile Loom, Rapier Loom, Water-Jet Loom, Air-Jet Loom, and Shuttle Loom. Major manufacturers of looms and other textile machinery are based in Germany, Italy, Belgium, China, and Japan.
- Major manufacturing brands include Lindauer Dornier GmbH, Toyota, Itema Group, Tsudakoma, Picanol, Shandong Tongda Textile Machinery, among others.
- Advancement in technology over the years has transformed Weaving machines into highly automated systems that have more electronic control, better energy efficiency, and are more sustainable.
- Loom speed is measured in terms of Revolutions Per Minute (RPM). More advanced looms have higher RPM, resulting in higher efficiency. The RPM of latest looms from major manufacturers can reach up to ~850–1,300 RPM.
- The average cost of Weaving looms imported in Pakistan ranges from USD ~20,000-60,000, depending on the RPM, country, and brand. However, import and installation costs are also high and raise the overall cost for Weaving players. In addition, many players in Pakistan have adopted a strategy of mixing and matching machinery from different brands to achieve optimal efficiency at the lowest cost.
- In the organized mill segment in Pakistan, Shuttle-less/Jet looms are the most commonly used. Almost all machinery used in the Sector is imported from Europe and East Asian Countries. Further, the sector needs continuous technological Balancing, Modernization, and Replacement (BMR) to remain competitive in the international landscape.

Source: Manufacturers' Websites.

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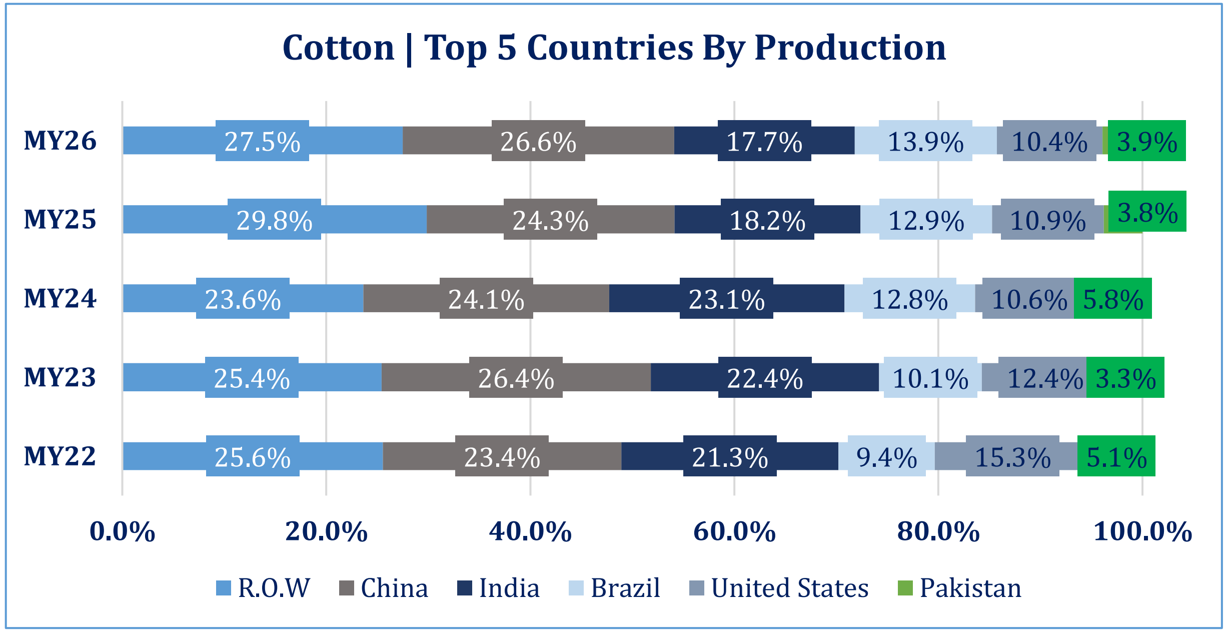
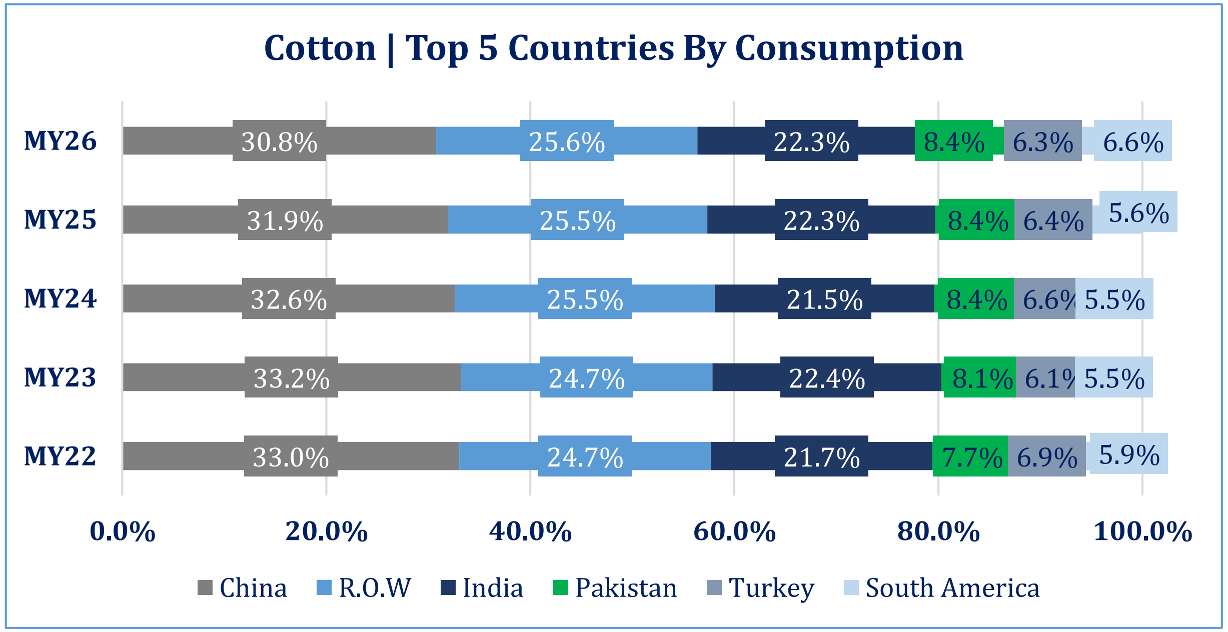
Global | Top Cotton Producers and Consumers

- Global cotton supply shifted as major producers saw notable gains in MY26. China increased its global production share to ~26.6% (up from 24.3% in MY25) following a 12% YoY output increase, fueled by a ~5% area expansion and peak yield conditions in Xinjiang region.
- Meanwhile, Brazil achieved a record crop with ~15% increase, driven by exceptional yields exceeding MY24 levels to command ~13.9% of global supply. Pakistan's market share ticked up to ~3.9% as output grew ~6% with acreage remaining flat. The growth was entirely yield-driven as the sector steadily recovers from the devastating MY23 floods.
- In terms of consumption, China remained the largest consumer at ~30.8% of global mill use even as its share eased from MY25, with overall global mill use down marginally YoY. Pakistan's share of global cotton consumption held steady at ~8.4% in MY26, as domestic mill use grew broadly in line with global consumption growth rather than reflecting stagnation on either side. Turkey’s consumption similarly softened on a smaller crop limiting supply. South America's consumption climbed to ~6.6% in MY26 (from ~5.6% in MY25), the largest YoY gain among consuming regions, as mill use expanded on the back of the region's own record crop.





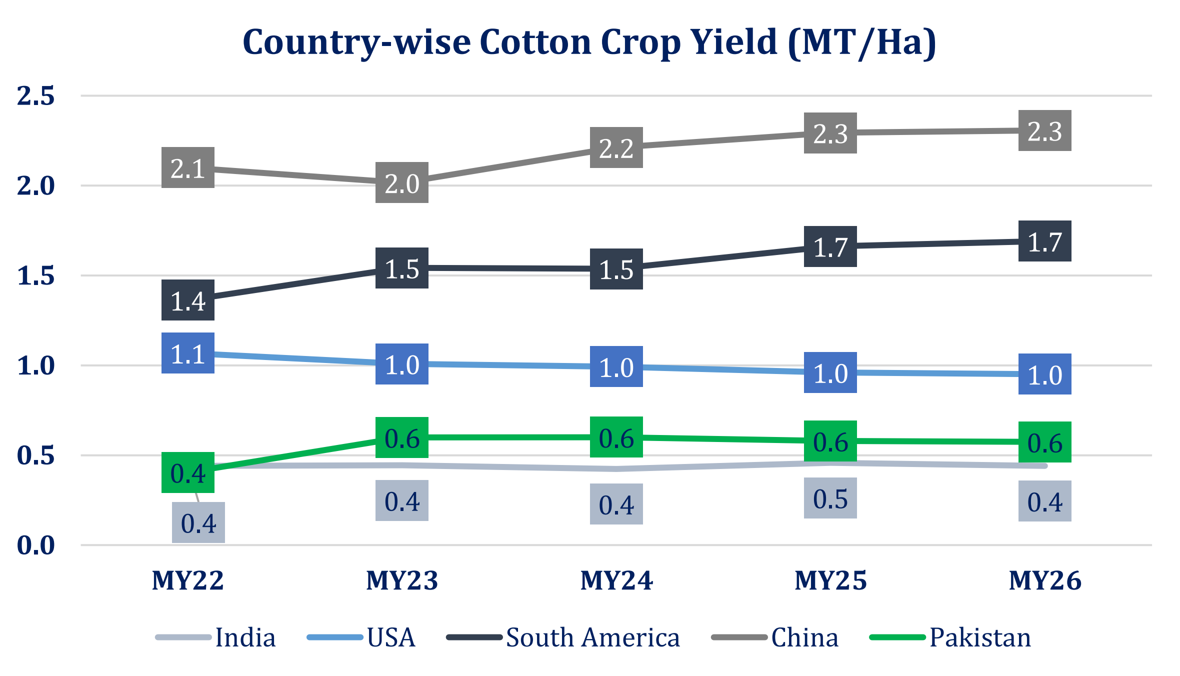
***Note:** MY for cotton is Aug- Jul.*

Source: OECD, FAO, Global Market Report 2026, USDA

Global | Area Under Cultivation and Cotton Yield

- Global cotton yields remained broadly flat in MY26. China sustained its top position with a record yield of ~2.3 MT/Ha, continuing the steady recovery driven by favorable growing-season weather. South America (led by Brazil) held steady at ~1.7 MT/Ha, maintaining its rank as the third-largest global producer, while the United States remained stable at ~1.0 MT/Ha.
- In contrast, yields in South Asia faced notable headwinds. Pakistan's yield remained low throughout at~0.6 MT/Ha in MY26, impacted annually by water shortages in Sindh, an early-crop heatwave, and persistent shortages of pest-resistant seed varieties. India's yields remained similarly low at ~0.4 MT/Ha as farmers shifted acreage towards more lucrative alternative crops like rice rather than re-investing in cotton productivity.
- Global cultivated area edged up ~0.3% YoY to ~30.6mn Ha as a 1.3% YoY expansion in the Rest of the World (8.0mn Ha) offset stagnation across major producing nations. Cultivation in key markets remained largely flat, led by India (~11.8mn Ha), the USA (~3.2mn Ha), China and South America (~2.9mn Ha each), and Pakistan (~1.9mn Ha).

Country-wise Area Under Cultivation (mn Ha)					
	MY22	MY23	MY24	MY25	MY26
India	13.0	12.5	11.8	11.8	11.8
USA	3.0	2.6	3.2	3.2	3.2
South America	2.3	2.4	2.8	2.9	2.9
China	3.0	2.8	2.9	2.9	2.9
Pakistan	2.1	2.4	2.0	1.9	1.9
ROW	8.6	8.7	8.0	7.9	8.0
World	31.9	31.3	30.7	30.5	30.6



Note: *MY for cotton is Aug- Jul.*

Source: OECD, FAO, Global Market Report 2026, USDA

Global | Key Takeaways

Global growth remains sluggish and cyclical demand unpredictable, yet South Asia continues to lead all other regions.

Demand & Fiber dynamics:

- Global cotton production held steady at estimated ~122.0mn bales in MY26. Looking ahead, MY27 output is expected to fall by around `~4.4% YoY to ~117.6mn bales.
- This drop is driven mainly by China, where output is expected to fall 6.4% as policy support for grain production shifts acreage away from cotton. For the USA, total cotton output is projected at ~13.6mn bales, down ~90,000 bales from the July estimate, as dry conditions reduce average yield to ~0.89 MT/Ha.
- Global cotton consumption stood at ~119.1mn bales in MY25 (SPLY: ~114.8mn bales). For MY26, a slight YoY decline to ~118.7mn bales is estimated.
- Asia remains the primary processing hub as competitive labour costs are pulling capacity toward Vietnam, Bangladesh, and India. Global cotton trade is projected to expand steadily at ~2.4% per annum, fueled by rising import demand in Asia, particularly in Bangladesh and Vietnam.

Price Outlook:

- CY26 annual average forecast for ICE second-month cotton futures from USc ~71.4/lb. to USc ~77.0/lb. a ~15.3% increase compared to the CY25 average of USc ~66.8/lb.
- Year-to-date prices have averaged USc ~72.8/lb, up ~8.9% on CY25. Prices are projected to end at USc ~80.3/lb. in 3QCY26 and USc ~82.5/lb in 4QCY26.
- Despite ongoing macroeconomic uncertainties and geopolitical tensions such as the US-Iran conflict, steady global economic expansion is expected to drive cotton demand upward. Consumption is projected to reach ~122.4mn bales in CY26 (up ~1.9% YoY) and ~123.2mn bales in CY27 (a ~0.7% increase).
- Key threats to the sector include a chance of prolonged US-Iran negotiations driving up input costs, and reduced demand from a global economic downturn.

Note: *MY for cotton is Aug- Jul.*

Source: BMI, OECD, USDA

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Local | 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, classified as a core component of Large-Scale Manufacturing (LSM), maintained a significant presence, accounting 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. When accounting for the downstream textile industry, cotton-related goods generate roughly 51% of Pakistan's foreign exchange earnings.

Pakistan Economy | FY26

Agriculture (23.5 %)
- Crops (32.8%)
- Livestock & Others (67.2%)

Industrial (18.1%)
- Manufacturing (65.3%)
  - LSM (67.5%)
    - Textile (18.6%)
      - **Yarn (8.88%)**
      - **Cloth (7.29%)**
      - **Garments (6.08%)**

Services (58.4%)
- Wholesale Retail & Trade (30.5%)
- Transportation & Storage (18.0%)
- Real Estate Activities (10.1%)
- Others (41.4%)

Source: PBS

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Local | Overview

- Pakistan's Weaving Sector operates across two distinct segments. Organized mills, which account for ~10.0% of national weaving capacity, and a dominant unorganized segment that falls outside formal data reporting. This structural divide represents an important scoping limitation regarding the study's overall market representativeness.
- The sector is highly mature, fragmented, and characterized by low product differentiation. As players offer relatively standardized fabric, individual pricing power is constrained. In terms of national economic footprint, weaving accounts for ~7.29% of Pakistan's total textile sector output.
- Pakistan's fabric exports are concentrated in Bangladesh, Sri Lanka, the US, and Italy, where they serve as inputs for finished-goods exports to Europe and North America, This exposes the sector indirectly to other factors (like tariffs) in those downstream markets, not just direct end-use demand. Bangladesh held the largest share of ~29.7% for Pakistan's cloth in FY26.
- Cotton serves as the sector's primary raw material input. Its availability and pricing directly shape the overall cost base for weaving mills. Domestic cotton production shortfalls increasingly force mills to rely on imports. This reliance is necessary to satisfy both quality standards and volume requirements. Consequently, the weaving sector's cost competitiveness remains closely tied to both local crop outcomes and international price trends.

Sector Snapshot	Unit	FY24	FY25	FY26
Weight of Weaving in Textiles Sector	7.29%			
Sector Players	~9 Organized Weaving Mills			
Cloth Production	**Mn Sq. M**	871	877	879
Fabric Export Value	**PKR bn**	528	505	469
Fabric Export Volume	**Mn Sq. M**	2,142	1,991	1,908
Association	All Pakistan Textile Mills Association (APTMA)			

***Note**: Sector Players refer to the 9 PACRA rated clients*
Sector Players refers to organized weaving capacity, including weaving segments of composite units where applicable

Source: SBP, PBS, TCO, PSX

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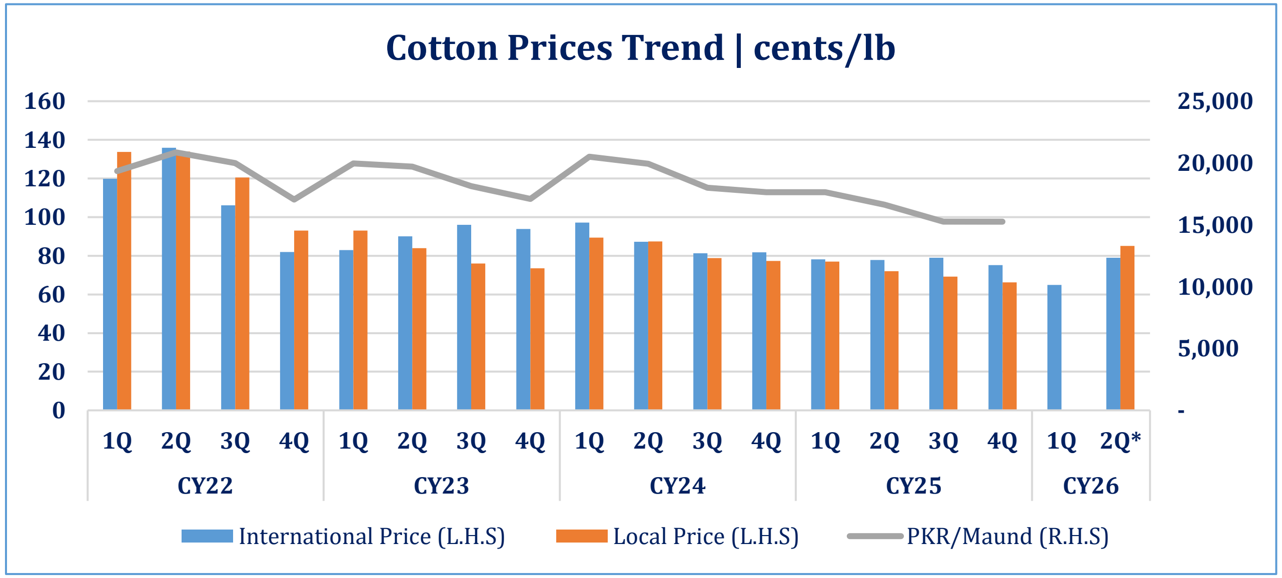
Cotton Dynamics | Prices

- Global cotton prices ticked up slightly to ~81 cents/lb (up ~1.3% YoY from 80 cents/lb in FY25), as projected CY26 world production lags behind mill demand and squeezes ending inventories. Domestic prices showed a divergence while local rates dropped ~11.7% YoY in USD terms (to ~68 cents/lb), they stayed nearly flat in rupee terms at PKR 17,355/maund (-0.8% YoY.
- The six-month pause on KCA's daily spot rate publishing forced local prices to mirror broad market tendencies instead of exact annual cotton sector metrics. Additionally, halting these daily rates continues to disturb domestic and global cotton trading operations for ginners and textile mills.
- Driven by expectations of a higher CY25 crop yield, international cotton prices dropped ~14.0% YoY to ~80 cents/lb in FY25 (FY24: ~93 cents/lb). The decline was particularly pronounced mid-year, as 2QCY25 spot rates plunged ~18.2% YoY to ~78.0 cents/lb compared to ~92.0 cents/lb in the same period last year. Local prices followed suit, dropping ~7.3% YoY to PKR 17,496/maund (FY24: PKR 18,883/maund).
- As of Aug 21, 2026, spot rate rose to PKR ~19,000/maund. A post-strike surge in mill demand initially drove prices up PKR 500–700 mid-week, before expanding phutti inflows pulled rates down. Firm global benchmarks (NY futures at ~88.4 cents/lb) and Pakistan's standing as the second-largest buyer of US cotton for MY27 reinforced tight domestic supply dynamics.



	FY21	FY22	FY23	FY24	FY25	FY26**
International (cents/lb)	76	113	89	93	80	81
Local (cents/lb)	78	118	94	81	77	68
Local (PKR/maund)	10,254	17,354	19,108	18,883	17,496	17,355

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. *2Q reflects June prices*

Source: PACRA Database, Ministry of Finance, USDA

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Local | Cotton Dynamics

- 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 crop faces continuous seasonal challenges, including declining acreage and severe climate-induced yield reductions.
- Production is expected to ease slightly 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 ~37.4% 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.
- As of Aug 15, 2026, ginning factories had received ~1.1mn bales for the new MY27 season, with Sindh driving the growth (~42% YoY to 734,000 bales) while Punjab rose more modestly (~3% YoY to 379,000 bales).

Local | 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**
Area under cultivation (000 hectares)	1,800	2,400	2,000	2,000	2,000

***Note:** MY25–MY27 sourced from USDA PS&D (New Post estimates), converted from 480 lb bales to 170 kg Pakistani bales, MY27 figures are USDA forecasts. .*

Source: PBS, PES, PCCC, USDA

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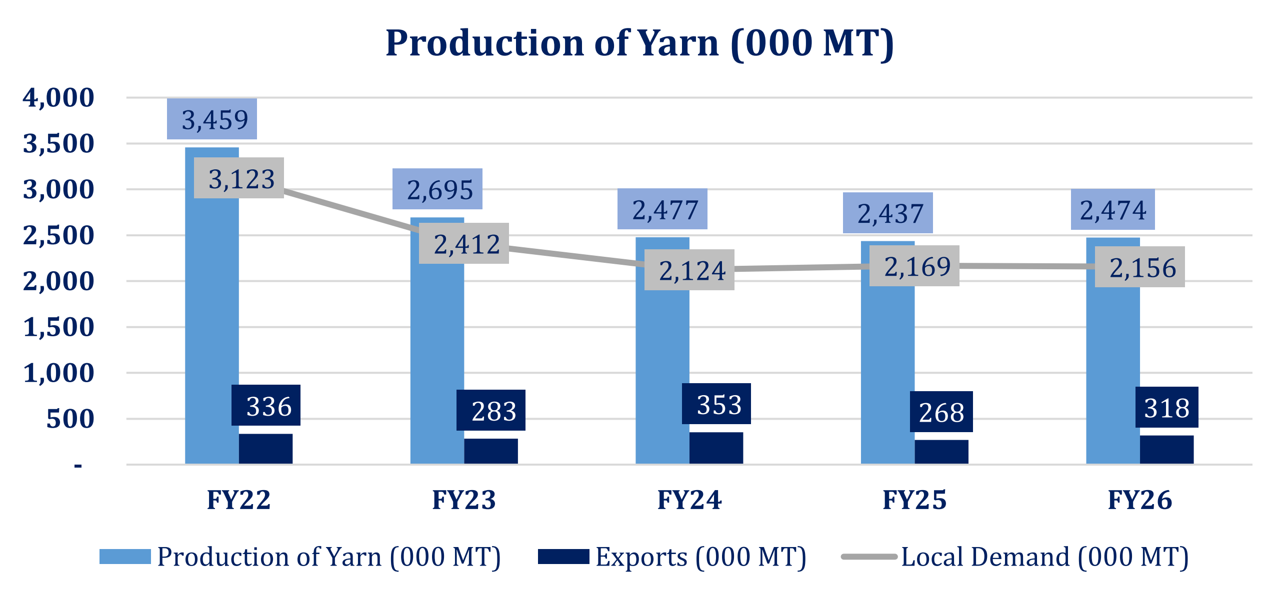
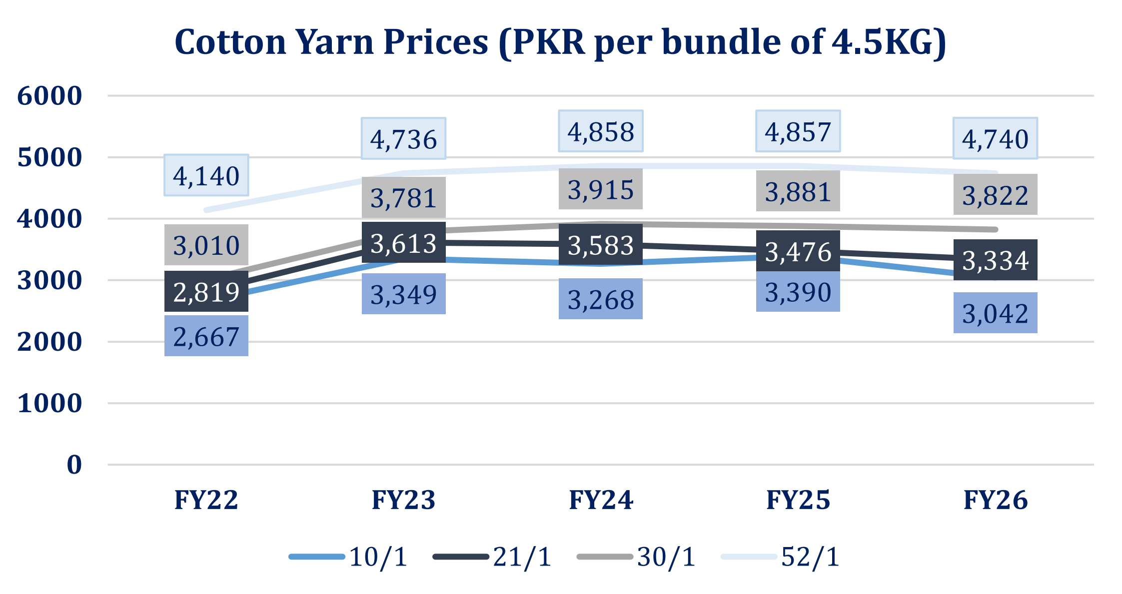
Local | Raw Material





- Yarn production effectively leveled off in FY26 at ~2.5mn MT, a small ~1.5% YoY increase compared to FY25. In contrast, total consumption as domestic consumption recorded at ~2.2mn MT with a dip of ~0.6% YoY.
- Flat FY26 production reflects a sector facing severe structural headwinds, as high power tariffs, heavy taxes, and cheap, under-invoiced regional imports have forced over 100 spinning mills and 400 ginning factories to close. The crisis is compounded by duty-free import allowances under the Export Facilitation Scheme that enables domestic dumping that undercuts local processors. Meanwhile, severe domestic crop shortfalls leave mills reliant on imports to cover nearly half of their raw cotton requirements.
- Yarn prices softened across all counts, with coarser varieties taking the hardest hit. This sharp decline particularly in 10/1 yarn, down ~10.3% YoY was driven by an influx of cheap, under-invoiced imports that undercut local spinning mills. Coarse counts face the most direct competition from these low-cost foreign substitutes.

Source: PBS, PCCC, PES, APTMA

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Local | Installed Capacity & Utilization

- As of FY25, ~9,084 looms remain installed in the organized Weaving Sector of which ~6,384 were utilized (SPLY: ~6,398 looms). Average capacity utilization stayed subdued at ~70.3% (SPLY: ~70.4%), essentially flat YoY indicating the sector remains structurally underutilized rather than improving or deteriorating sharply within FY25 itself.
- Installed capacity has been unchanged for five consecutive years as no new capacity entering the organized segment in this window, and utilization has actually declined from ~76.4% in FY21 to ~70.3% in FY25.
- Despite the marginal FY26 production uptick, many factories are reportedly facing severe operational constraints, with capacity utilization plummeting to just 30–50%. The downturn is driven by compounding structural pressures, including high energy tariffs, high interest rates and delayed tax refunds.

Organized Mill Segment	FY21	FY22	FY23	FY24	FY25
No of Looms Installed	9,084	9,084	9,084	9,084	9,084
No. of Looms Utilized	6,942	6,942	6,384	6,398	6,384

Note: *Latest available data as of FY25. per PES.*

Source: PES

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Local | Fabric Production

- Organized segment fabric production increased to ~878.8mn sq. meters in FY26, up ~0.2% (FY25: ~877.3mn sq. meters) while total fabric production remained stable in FY26 to ~7.9bn sq. meters (FY25: ~7.9bn sq. meters).
- Pakistan's fabric production remains overwhelmingly unorganized, with the segment holding a ~88.9% share compared to the organized mills, with the rest ~11.1% in FY26. This structural imbalance reflects the unorganized segment's low entry barriers, dispersed industrial clusters, and lower compliance costs compared to the capital-intensive, regulated organized mill segment.
- The unorganized segment predominantly targets price-sensitive domestic demand and low-margin export orders, therefore prioritizing cost efficiency over product standardization

(000 Sq. M)	FY22	FY23	FY24	FY25	FY26*
Blended	57,898	38,596	29,566	30,707	30,758
Bleached	127,420	98,347	77,944	78,960	79,092
Dyed & Printed	280,916	251,045	232,457	234,248	234,640
Grey	584,516	354,562	531,471	532,542	533,433
Total Organized Mill Production	1,050,750	920,550	871,438	877,334	878,802
Unorganized Mill Production	8,138,083	7,405,770	6,993,269	6,997,556	7,011,551
Total Fabric Production	9,188,833	8,326,320	7,864,707	7,874,890	7,890,353
YoY Growth (Organized Mill Production)	0.2%	-12.4%	-5.3%	0.7%	0.2%

*Note: Fabric production's growth rate was used as the benchmark for the entirety of FY26. *PACRA Estimates*

Source: TCO, PES , PBS

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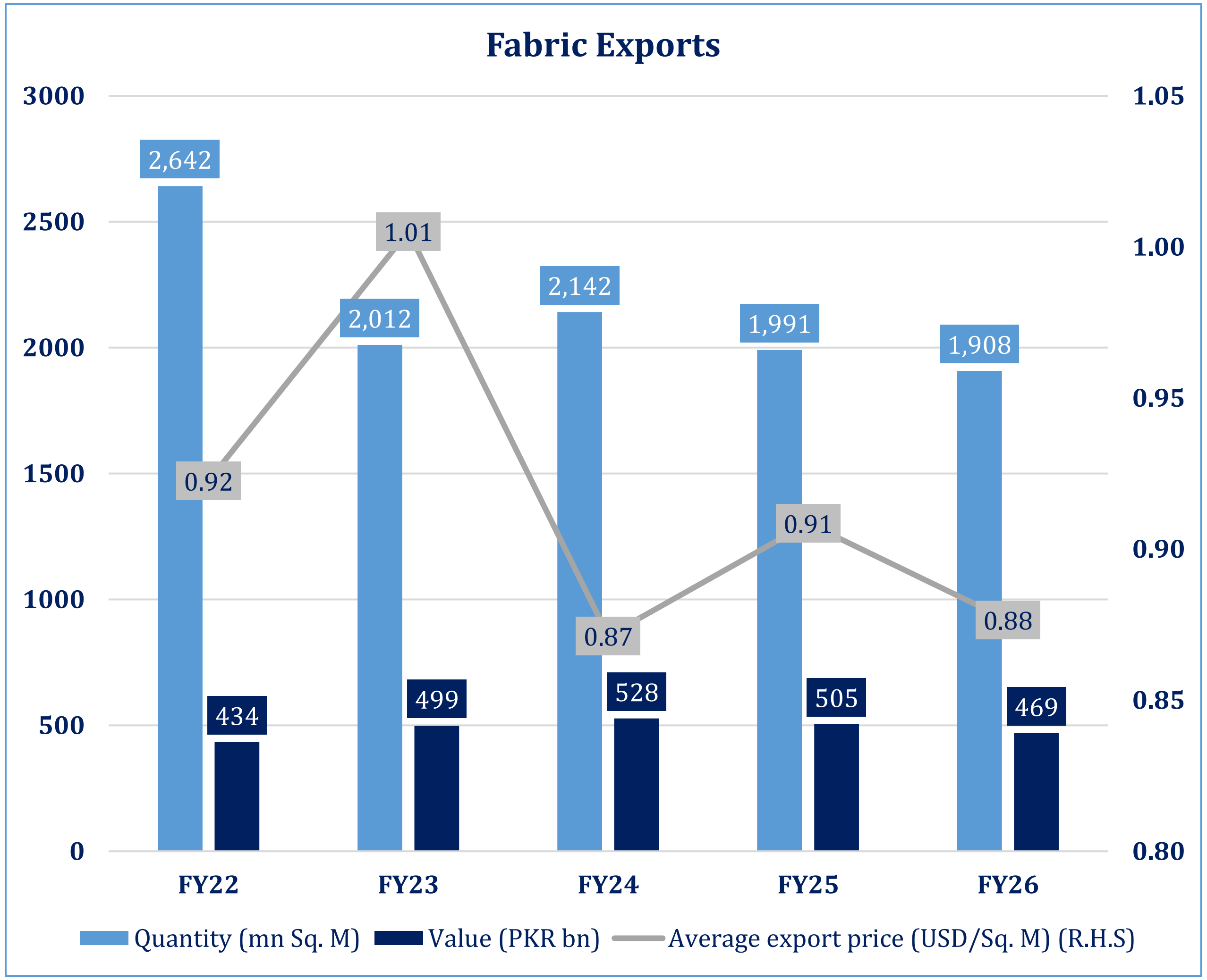
Local | Cotton Cloth Exports

- Cotton cloth exports continued their downward trend in FY26, falling ~4.2% YoY in volume to ~1,908mn sq. meters (~7.0% decline in FY25). Total export value dropped ~7.1% YoY to PKR ~469bn (FY25: PKR ~505bn), a steeper fall than volume due to average export prices slipping ~3.3% YoY to USD ~0.88/sq. meter (FY25: USD ~0.91/sq. meter). Unlike FY25, where higher average prices helped offset falling volumes, FY26 faced a simultaneous decline in both export volume and pricing.
- In FY25, exports had declined to ~1,991mn sq. meters, down ~7.0% YoY (FY24: ~2,142mn sq. meters). Average export price rose to USD ~0.91/sq. meter cushioning some of the value decline (-4.4%) in absolute terms.
- In FY26, exporters faced high energy tariffs, tax burdens and policy uncertainty which resulted in raising production costs and weakening competitiveness. This is consistent with why FY26 saw price and volume both decline, unlike FY25 where price partly offset volume weakness.
- While export potential remains intact, near-term performance is constrained by trade suspensions with Afghanistan and declining market share in the UAE, which serves as Pakistan's top Middle Eastern destination.



Source: PBS, PACRA Database

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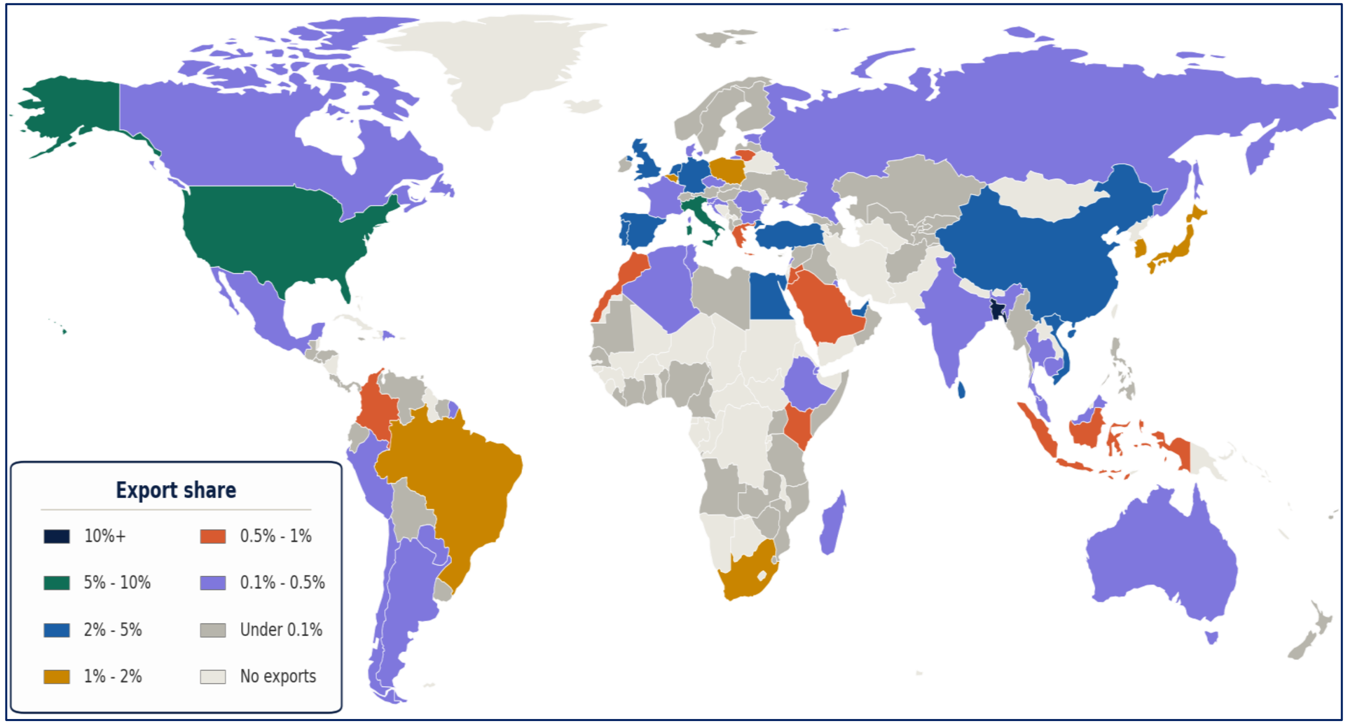
Local | Cotton Cloth Exports By Destinations



Value is in USD mn

Top 5 Export Destinations	FY25 (USD mn)	Share	FY26 (USD mn)	Share	YoY Change
Bangladesh	497.3	27.2%	502.5	29.7%	1.0%
USA	147.6	8.1%	147.2	8.7%	-0.2%
Italy	112.8	6.2%	103.5	6.1%	-8.2%
Portugal	81.0	4.4%	71.3	4.2%	-11.9%
Sri Lanka	91.0	5.0%	65.7	3.9%	-27.8%
ROW	896.4	49.1%	801.9	47.4%	-10.5%
Total Exports	1,826.1	100%	1,692.1	100%	-7.3%

- In FY26, Bangladesh consolidated its position as Pakistan's top cotton cloth export destination by value (~USD ~502.5mn) with a share of ~29.7% (FY25: ~27.2). Bangladesh was the only major destination to grow in both absolute value and share, while every other named market contracted in value terms with most sharp decline seen in Sri Lanka and Portugal ~27.8% and ~11.9% YoY, respectively.
- Bangladesh's resilience largely stems from its dominant position as a global garment processing hub, maintaining steady demand for raw woven cloth that remained sheltered from the broader export contractions seen elsewhere.
- In FY25, Export value was led by ROW at ~49.1% share (USD ~896.4mn), followed by Bangladesh at ~27.2% (USD ~497.3mn) generating over three-quarters of total cotton cloth export value. ROW's dominant share highlights that Pakistan maintains a broad, diversified global export footprint rather than relying solely on a few primary markets.

Note: *Data is stated based on export value i.e., USD mn and includes HS Codes 5208,09,10,11 &12.*

Source: SBP

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Local | Business Risk

- **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. Despite flat overall FY26 textile exports, performance varies markedly with garments and cotton yarn expanding in FY26, highlighting specific weakness in the weaving segment rather than a broad sector decline.

- **Dependency on Cotton Imports:** Domestic cotton production rebounded ~6.0% YoY in MY26 to ~6.79mn bales, but remains well below pre-flood, pre-MY23 levels, and MY27 production is projected to ease a further ~4.7% YoY. Imports of ~6.40mn bales covered nearly half (~48%) of total local consumption of MY26, underscoring the sector's structural reliance on imported cotton to meet mill requirements. As of August, 2026, ginning factories had received ~1.1mn bales for the new MY27 season.

- **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:** Since the withdrawal of the Regionally Competitive Energy Tariff (RCET) in March 2023, the textile industry no longer receives subsidized RLNG/gas or capped electricity. The price of energy for Pakistan's industry stands above the regional average for countries such as India, Bangladesh, and Vietnam which has reduced the competitiveness of Pakistan's exports. Despite similar US tariff treatment, Pakistan's industrial electricity tariffs (14 cents/kWh) remain markedly higher than Bangladesh's (10 cents/kWh), eroding cost competitiveness on the input side even where trade terms are comparable.. Furthermore, the withdrawal of the RCET has forced smaller mill owners to close down businesses.

- **High Level of Regional Competition & Tariff Position:** 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 in previous years. Pakistan (19%) holds rough parity with Bangladesh (19%) and a narrow edge over Vietnam (20%) on US tariffs.

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

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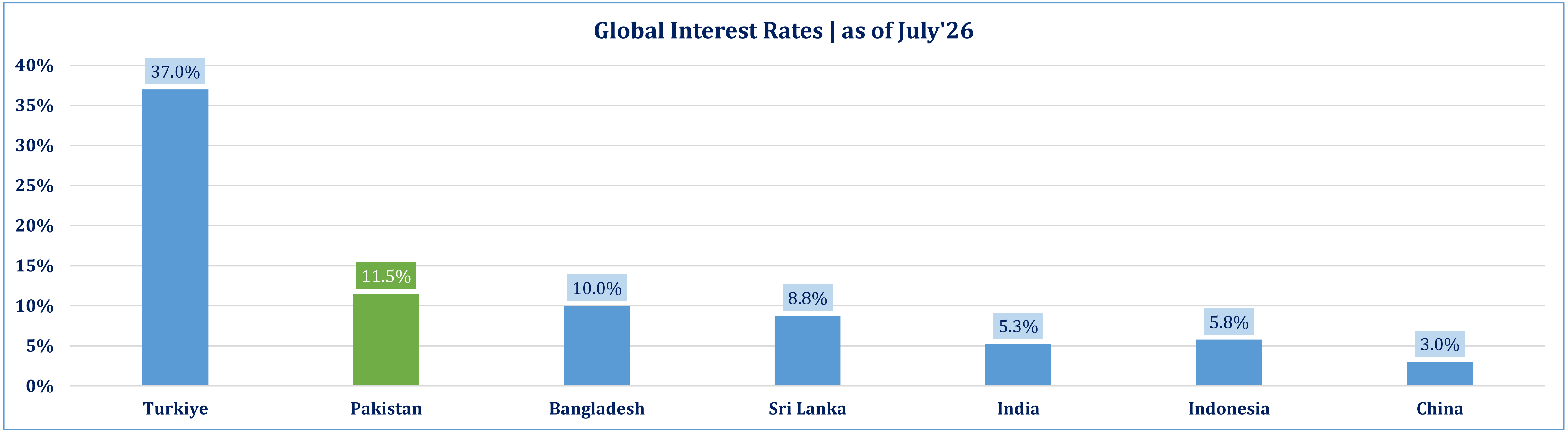
Interest Rates | Regional Comparison



- 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.
- The Textiles Sector benefits from subsidized financing via the SBP's Export Refinance Facility (ERF) and Long-Term Financing Facility (LTFF). As of Apr'26, LTFF end-user rates stand at a flat ~8.5% across all tenors (up to 3 years, 3–5 years, and 5–10 years). A separate, shorter-tenor Rupee-based discounting facility under EFS/IERS offers considerably lower end-user rates of ~2.0%–3.0% for export bill discounting up to 180 days.

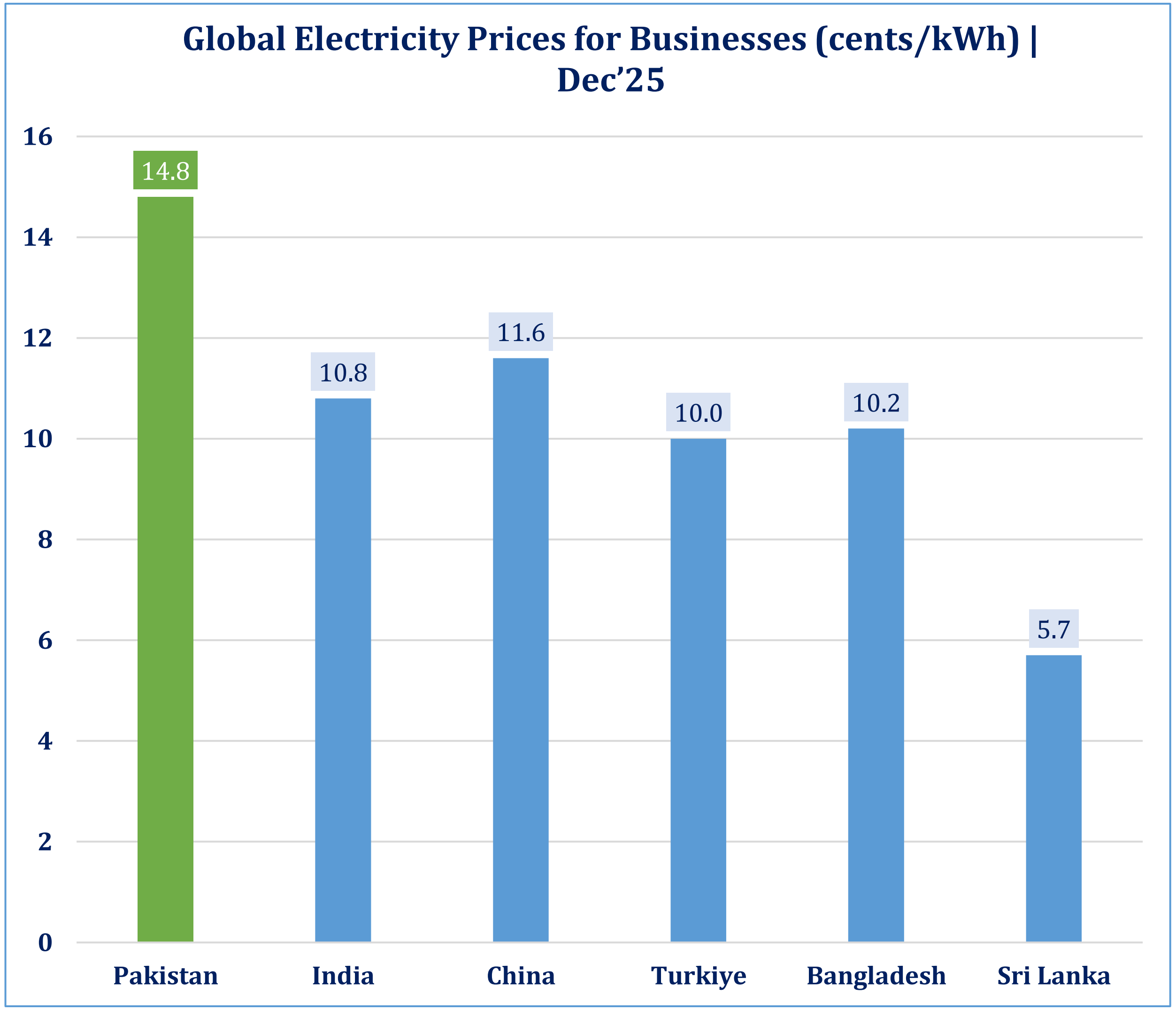
Note: *Interest rates taken from respective country's Central Bank website.*

Source: SBP

Weaving

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 weaving 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.



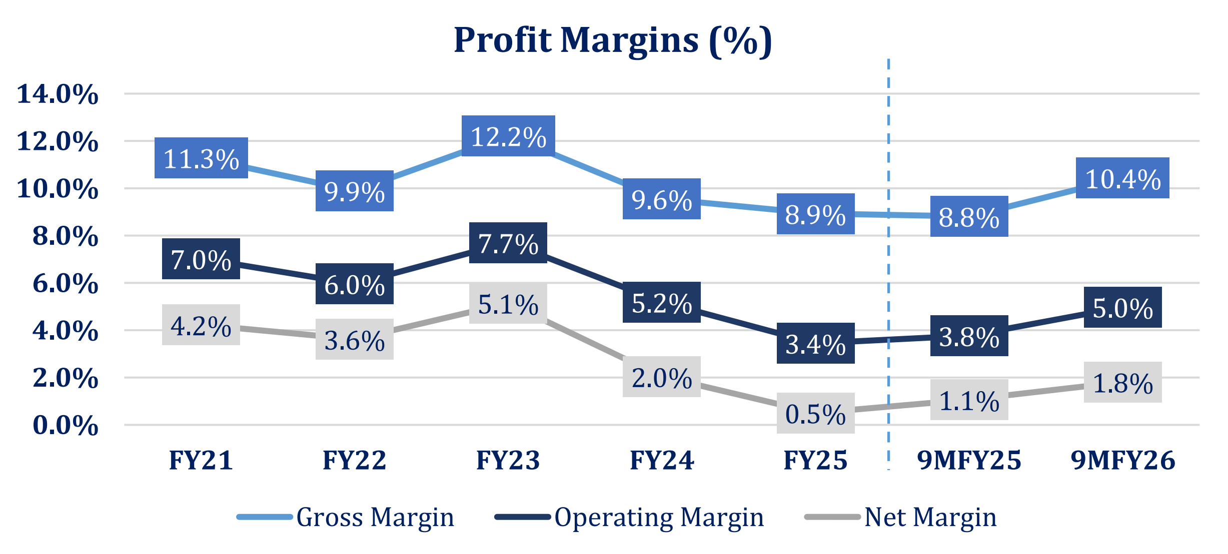
Note: *Global Electricity prices are representative of Dec'25. Prices have been converted using countries' official exchange rates*

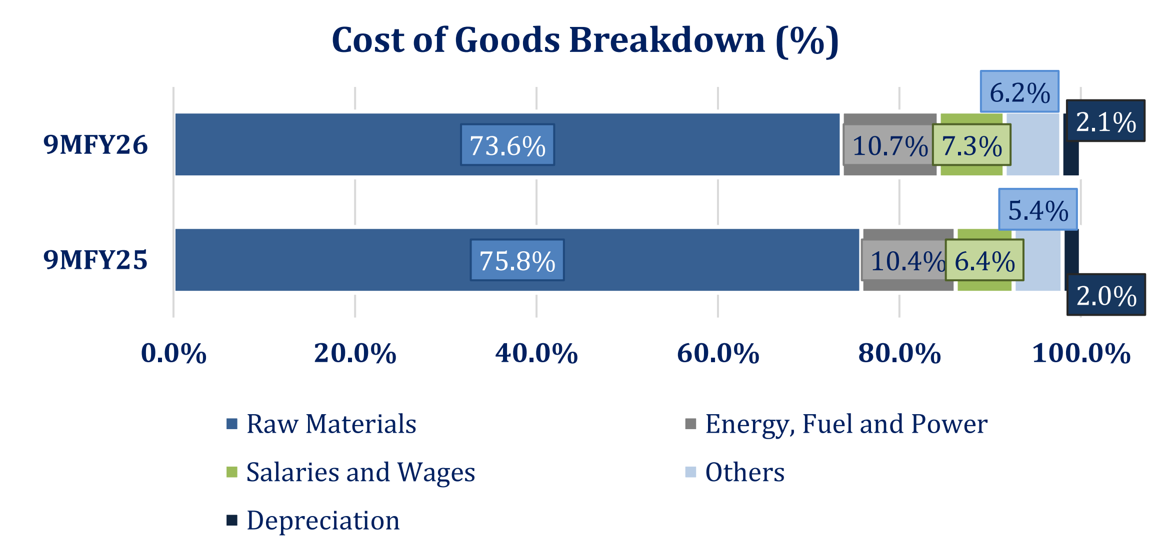
Source: globalpetrolprices.com, APTMA

Weaving

Local | Margins & Cost Structure

- Gross margin improved to ~10.4% in 9MFY26 (up from ~8.8% in 9MFY25), recovering from FY25 average of ~8.9%. This rebound was driven primarily by lower input costs, with cost of sales dropping ~7% YoY due to relatively cheaper raw materials. With raw material expenses accounting for the vast majority of COGS (~73.6% in 9MFY26), gross profitability remains heavily exposed to these cost fluctuations, amplifying the financial impact of recent price declines in both local and international cotton prices and yarn prices. As overall revenue fell ~6.5%, the expanded margin stems entirely from expense relief rather than stronger sales volumes.
- In 9MFY26, Operating margin improved to ~5.0% from ~3.8%, as operating expenses remained broadly in line with the recovery in gross profit. Net margin rose to ~1.8%. In addition to the gross-margin recovery, lower financing costs were a key driver, with finance costs falling ~29% YoY as a result of low interest rates through much of the period.
- FY25 marked the cyclical trough across all three key profitability metrics. As a result, the improvement seen in 9MFY26 represents an early-stage rebound from historically depressed levels.
- Raw material costs, which primarily consist of cotton yarn, share lowered to ~73.6% in 9MFY26 (SPLY: ~75.8%). As Energy, Fuel & Power's share edged up to ~10.7% from ~10.4%, this remains consistent with the industrial electricity tariff increases reported through FY25/FY26. Fuel and energy cost are expected to rise due to higher international prices. Similarly, cotton prices and shipping are expected to remain volatile due to the ongoing conflict,.





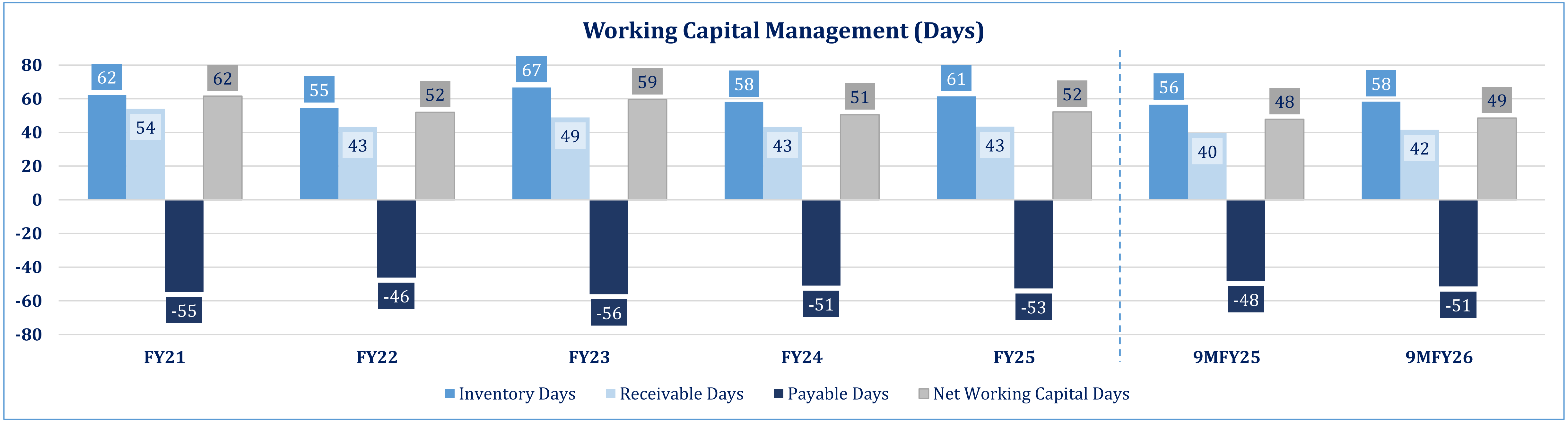
Note: *Data pertains to ~9 PACRA rated /listed clients*

Source: PACRA Database

Weaving

Local | Financial Risk

- The sector's working capital requirements are primarily driven by inventory, trade receivables, and trade payables, with inventory comprising raw materials and finished goods. The net working capital cycle remained broadly stable at ~49 days in 9MFY26 compared to ~48 days in 9MFY25. A modest increase in inventory and receivable days was largely offset by a further extension in payable days, keeping the overall cycle nearly unchanged.
- Inventory days grew to ~58 days as mills built higher stock buffers to hedge against raw material supply risks. This comes amid ongoing domestic cotton shortages across FY25–FY26, depressed national reserves, and trade disruptions in the region due to the conflict. Payable days slightly extended to ~51 days, partially offsetting higher inventory and receivable requirements and keeping the net working capital cycle broadly flat.
- The sector's extended working capital cycle highlights its fundamental dependency on short-term loans to fund the working capital. This financing requirement directly matches tools like the State Bank's Export Finance Scheme (EFS), a revolving facility capped at 180 days built specifically to fund the export cycle's cash gap, highlighting the sector's reliance on short-term, scheme-backed credit over long-term debt.



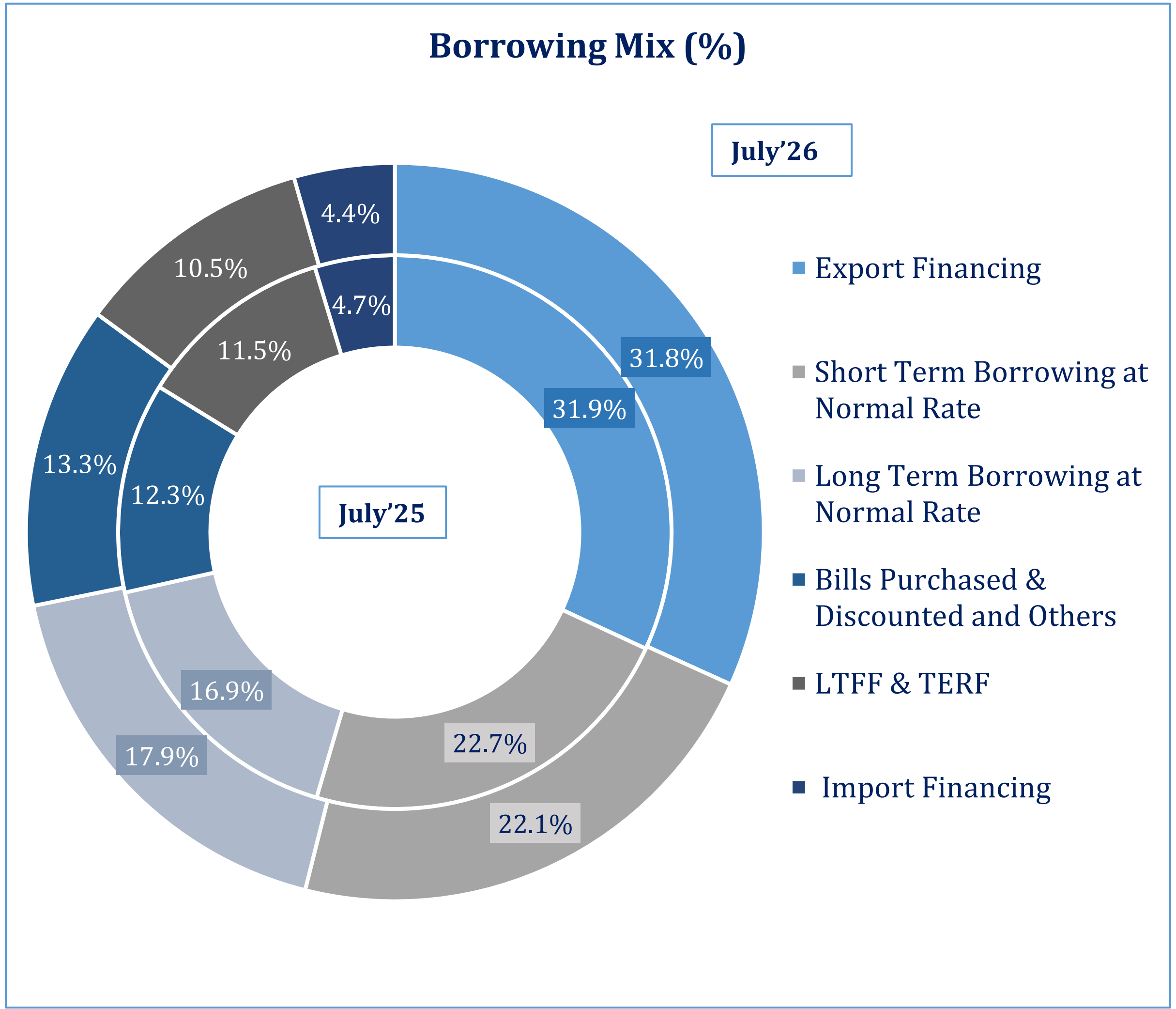
Note: *Working capital cycle is reflective of ~9 listed/rated Weaving players.*

Source: PSX, PACRA Database

Weaving

Local | Borrowing Mix

- Total outstanding sector borrowing fell to PKR ~414.6bn in July'26 from PKR ~436.2bn in July'25, a ~5.0% YoY decline, suggesting slightly reduced financing needs alongside softer input costs and a modestly smaller sales base over the period.
- As of July’26, Export Financing remains the dominant funding source at ~31.8%, the single largest borrowing category, reflecting the sector's export orientation.
- Short-Term Borrowing eased to ~22.1%, valued at PKR 91.8bn, together with Export Financing, these still account for ~54% of total borrowing, reinforcing the sector's reliance on short-term instruments over long-term debt.
- The share of LTFF and TERF fell to 10.5% (SPLY: ~11.5%), reflecting the phase-out of both long-term schemes. TERF (a pandemic-era facility) is winding down as existing loans are paid off, while exporters have largely avoided the floating-rate Export-LTFF to dodge interest rate volatility. To fill this gap, the Economic Coordination Committee (ECC) approved a new fixed-rate Long-Term Export Growth Financing Facility (LTEGFF) offering subsidized funding for up to 10 years to replace the E-LTFF.
- Import Financing declined to ~4.4%, tracking softer imported input costs (yarn/synthetic fiber) over the period.



***Note**: Data pertains to SBP Classification of “ Weaving of Textiles”*

Source: SBP, PACRA Database

Weaving

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 revert to exemption effective Tax Year 2027.
- 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 cotton.
- The policy rate has moved further since Mar'25 cut to ~11.0% by May'25, held through much of the year, then eased 50bps to ~10.5% at the Dec'25 MPC meeting. It was subsequently raised back to its current ~11.5% (as of Jul'26), where SBP has held it at its most recent policy decisions.
- The Textiles 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 (polyester) 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.
- Duty structure continues to provide tariff protection to the local sector, as depicted in the duty structure table. APTMA remains the national trade association representing the textile cluster.

Source: SBP, Finance Bill 2026-27

Weaving

Local | Duty Structure

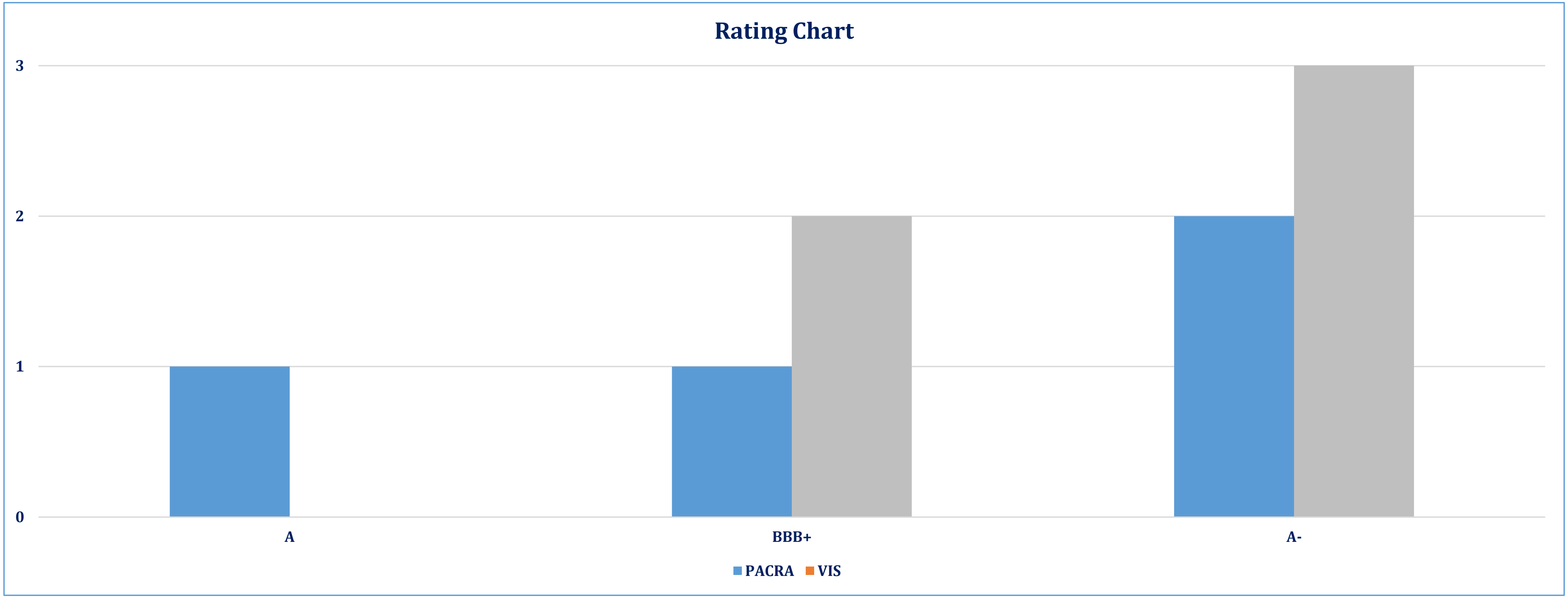
PCT Code	Description	Additional Custom Duty		Custom Duty		Regulatory Duty		Total	
		FY26	FY27	FY26	FY27	FY26	FY27	FY26	FY27
52.05	Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale	0.0%	0.0%	5.0%	5.0%	0.0%	0.0%	**5.0%**	**5.0%**
52.06	Cotton 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, cotaining 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, cotaining 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 mand-made fibers, weighting 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 mand-made fibers, weighting more than 200g/m2	0.0%	0.0%	15.0%	15.0%	0.0%	0.0%	**15.0%**	**15.0%**

Source: FBR

Weaving

Local | Rating Chart

- PACRA rates four entities in Weaving Sector, with a rating bandwidth ranging from A to BBB+.



Weaving

Local | SWOT Analysis

Strengths

- Strong government/SBP support
- Low labour cost
- Mature, long-standing sector
- Strong association, high lobbying power
- Duty-free import advantage removed, leveling field for local cotton

Weaknesses

- Reliance on imported machinery
- Low BMR, technological obsolescence
- Low value addition, commodity product
- Limited focus on man-made fibers
- Large unorganized segment (~90% of capacity)
- Weak product/brand differentiation

Threats

- Rising energy costs
- Intense regional competition
- Strong buyer bargaining power
- Climate change risk to cotton yields
- High borrowing rates, duties, taxation
- Domestic cotton production shortfall
- Under-invoiced/dumped yarn and fabric imports
- Afghanistan and Middle East trade disruption

Opportunities

- Forward/horizontal integration for value-added products
- Efficiency gains via tech upgrades
- Lower US tariffs vs. regional competitors
- Rising Bangladesh demand for Pakistani fabric
- Diversification into man-made/blended fibers

Weaving

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 to ~3.7% (FY25: ~3.1%), the fastest pace in four years, though still short of the ~4.2% target. Within LSM, textiles grew ~6.5% and wearing apparel ~9.8% (9MFY26), among the strongest-performing of the LSM sub-sectors posting positive growth.
- Afghanistan serves as a primary regional market for Pakistani grey and processed fabric (cotton cloth). The export collapse in early FY26 created direct volume losses for domestic weaving mills. With Afghanistan exports shrinking, exporters relied heavily on Bangladesh as the single growing destination for fabric exports, increasing reliance on a single regional market. The ongoing border situation with Afghanistan is likely to press export demand and trade between the two countries in FY27.
- 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 a structural decline now estimated to cost the economy USD ~3bn per year in additional cotton imports and lost export earnings.
- Driven by stronger top-line growth and lower COGS, mainly due to lower yarn prices, profit margins recovered in 9MFY26 compared to 9MFY25. With raw materials accounting for ~73.6% of costs in 9MFY26, weaving mills lack the operational cushion to cover fixed overheads during a sales downturn, leaving recent margin gains highly vulnerable to revenue declines.
- Due to the capital-intensive and inventory-heavy nature of cotton yarn manufacturing, the sector's heavy dependence on short-term debt to finance working capital continues. Although concessionary financing facilities (LTFF/TERF) have pushed the capital structure toward long-term debt, short-term working capital loans remain deeply dominant and are unlikely to decline significantly without lasting gains in capacity utilization and profitability.
- Early MY27 data shows a partial recovery as mid-August arrivals reached ~1.1mn bales (~25.5% YoY) across 268 active ginneries. However, full realization depends on favorable September weather for Punjab's late-maturing crop. Long-term raw cotton shortages and reliance on imported yarn will continue into MY28 unless key structural drivers such as certified seeds, water access, and competitive pricing are addressed.
- The ongoing conflict in Iran and shipment delays from the US/Brazil prompted Chinese buyers to divert orders towards India, tripling its yarn sales in ten months and expanding its market share in China to ~21% (~7% in SPLY). As India and Vietnam absorb this demand, Pakistan's export footprint has shrunk, making the recovery of lost market share a key determinant for FY27 textile performance once supply chains normalize.
- The newly launched 400-acre Port Qasim apparel zone creates potential demand for high-quality, higher-count fabrics rather than commodity grey cloth to support its target export value, but local capacity utilization will only benefit if domestic mills can match these quality and volume requirements instead of losing out to regional competitors.

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