



## Composites & Garments

### Research Analysts

Aiza Khalid | Supervising Senior  
Durr E Sameen Shahid | Research Analyst



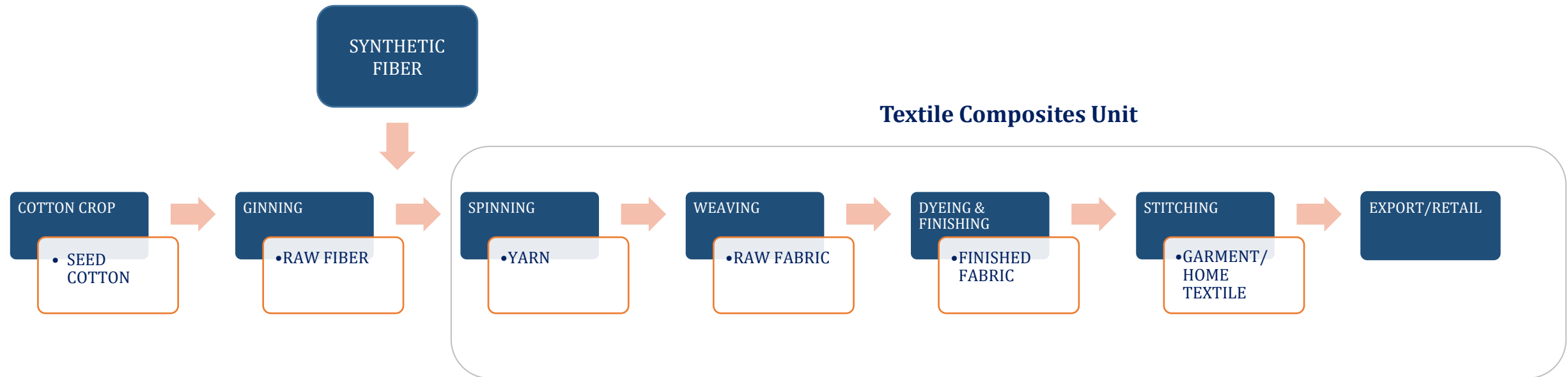
# CONTENTS

Contents	Pg.	Contents	Pg.	Contents	Pg.
Introduction   Textile value Chain	1	Export Destinations   Cotton Cloth and Yarn	12	Financial Risk   Working Capital Management	20
Global   Overview	2	Export Destinations   Bedwear and Knitted Fabrics	13	Financial Risk   Borrowing Mix	21
Global   Cotton Dynamics	3	Export Destinations   Garments	14	Financial Risk   Borrowing Mix	22
Local   Overview	4	Garments & Retail	15	Regulatory Framework	23
Cotton Dynamics	5	Business Risk	16	Duty Structure	24
Cotton Stock Movement	6	Business Risk   Interest Rates	17	Rating Curve	25
Prices	7	Business Risk   Electricity and Gas Tariffs	18	SWOT	26
Industry Snapshot	8	Business Risk   Margins & Cost Structure	19	Outlook	27
Production	9			Bibliography	28
Segment-Wise Textile Exports	10				
Segment-Wise Textile Imports	11				

# Composites and Garments

## Introduction | Textile Value Chain

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



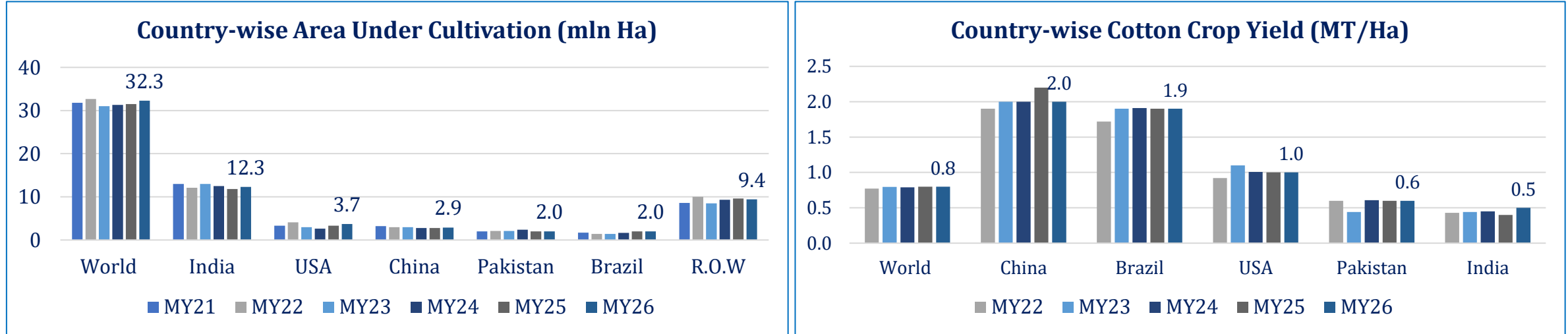
# Composites and Garments

## Global | Overview

- Global Market Size and Demand Drivers:** The global ‘textile and apparel’ industry was valued at USD~1.5trn in CY24 and is estimated to reach USD~1.8trn in CY25. During CY26-33, it is projected to grow at a CAGR of ~5.2% to ~2.3trn by CY33. Growth is being driven by higher apparel demand in emerging markets, US and European countries, rapid expansion of fast fashion and online retail, and rising demand for man-made fibers due to their cost efficiency and versatility. In parallel, investment in sustainable textiles, and supply-chain automation is enabling the industry to scale despite cost pressures, geopolitical disruptions, and environmental regulations.
- Region Wise Textile Market:** The global textile and apparel market continues to be dominated by the Asia-Pacific region, driven by its strong manufacturing base, abundant cotton production, cost-efficient labor, and integrated supply chains. Key countries including China, India, Pakistan, Bangladesh, and Vietnam serve as major production hubs, catering to both growing domestic demand and export markets, particularly the United States and the Europe. Europe and North America, are significant markets, which contribute through premium, high-value, and sustainable textile segments, and have a strong demand for technical and specialty textiles. The current regional distribution underscores Asia-Pacific’s significance in global textile production, while Europe and North America retain importance as high-value consumption markets.
- Trade:** China is the largest exporter of textile and apparel products followed by Bangladesh, Vietnam, and India. Meanwhile, the European Union and the United States are two of the largest importers of textile finished goods such as garments and apparel.
- Since Dec’20, the U.S. has actively enforced the Uyghur Forced Labor Prevention Act (UFLPA), effectively banning cotton and cotton-containing textile products originating from China’s Xinjiang region, which accounts for majority of the country’s cotton production. The enforcement still remains in place, with an expanded list of companies under the UFLP, creating compliance challenges for global importers. As a result, major buyers, such as Vietnam and Bangladesh, have reduced their reliance on Chinese cotton, diversifying sources toward countries like the U.S. to mitigate supply chain risk. Chinese cotton and textile exports continue to face heightened scrutiny. Concurrently, the imposition of significantly higher U.S. tariffs on imported textiles and apparel in CY25 had pronounced effects across global supply chains. As of Dec’25, China remains subject to a high effective tariff burden of more than ~30%, despite a bilateral arrangement that reduced earlier peaks, keeping Chinese textile and apparel exports at a disadvantage in the U.S. market. India faces a similarly elevated tariff exposure, with effective duties of up to ~50% (reciprocal tariff: ~25%), reflecting the cumulative impact of reciprocal and additional levies. In contrast, Bangladesh and Pakistan benefit from relatively lower reciprocal tariffs of ~20% and ~19%, respectively, supporting their continued role as competitive garment sourcing hubs. Vietnam, which earlier faced one of the steepest tariff rates, has seen its duties reduced to ~20% following mid-CY25 adjustments. Overall, the prevailing tariff structure incentivizes U.S. buyers to diversify sourcing away from China and India and towards lower-tariff Asian suppliers.

# Composites and Garments

## Global | Cotton Dynamics



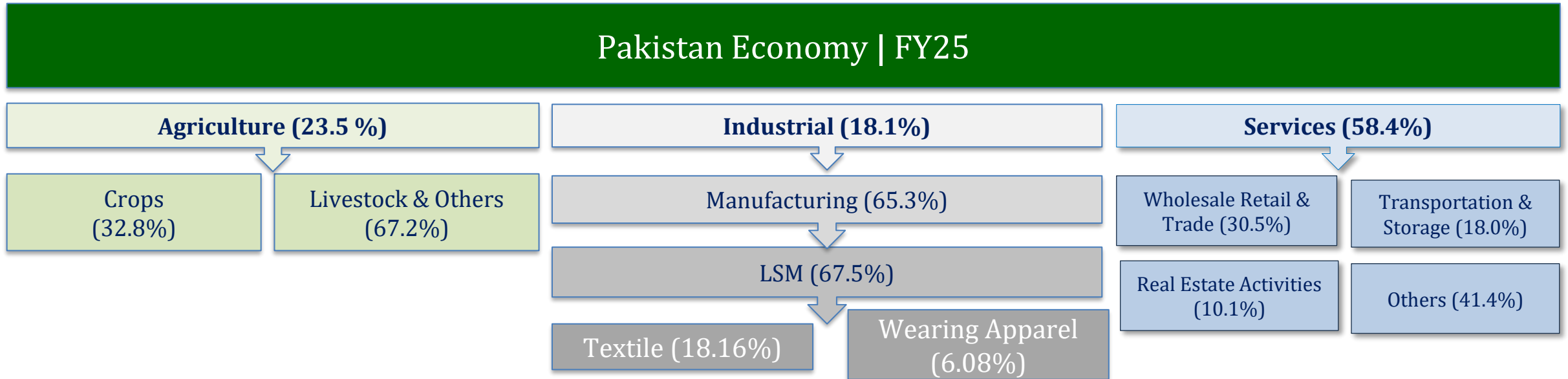
- During MY25, China retained its position as the world's largest cotton-producing country. Chinese cotton is produced at the world's highest yield, which is more than double the world's average. During MY25, China's yield increased to ~2.2MT/Ha, slightly above its previous year's record level ~2.0MT/Ha. Next to China, Brazil achieved a cotton yield at ~1.9MT/Ha in MY25 (MY24: ~1.9MT/Ha). In MY26, China is set to retain its position as the largest cotton producer with world leading yield of ~2.0MT/Ha.
- While China remains the top producer with the highest yield, the cultivation area has not significantly increased and is expected to remain the same, going forward. Nevertheless, cotton production will remain stable during MY25-34 due to better yields. The cultivation area for MY26 is almost the same at ~2.9mln Ha.
- India, on the other hand, has the highest cultivation area among the top ~5 producers of ~11.8mln Ha in MY25 (MY24: ~12.5mln Ha), because of favorable geography and availability of land for cotton production. China, however, has higher yields despite a lower cultivation area due to technological advancements. India's area under cultivation is expected to grow to ~12.3mln Ha in MY26. The production in India is expected to grow by ~2.0% over the next decade.
- Overall, the global cotton production during MY25 increased by ~2.3% YoY to ~26.1mln MT. By end of MY26, it is expected to reach ~26.5mln MT.



# Composites and Garments

## Local | Overview

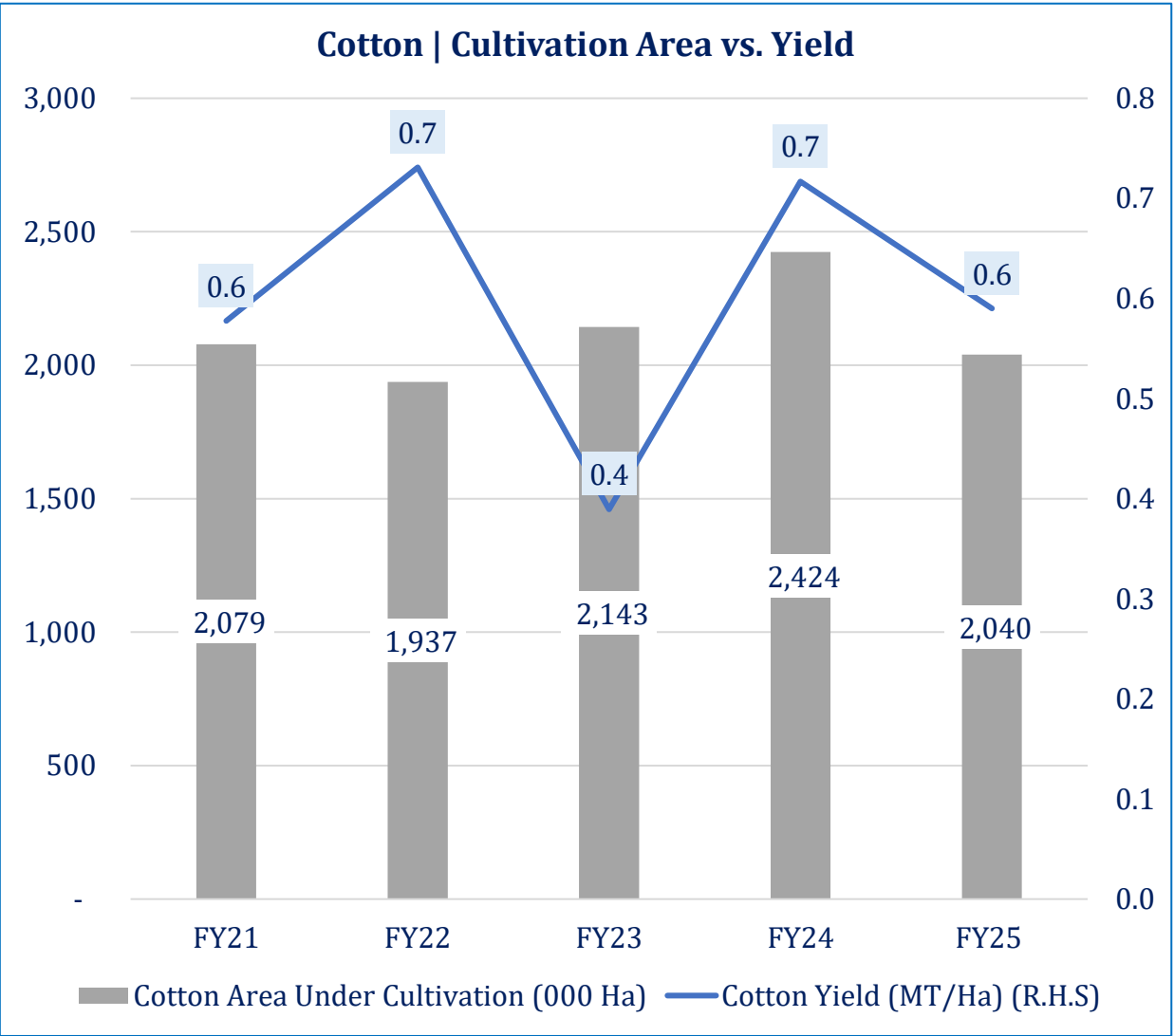
- In FY25, Pakistan's GDP (nominal) increased YoY to PKR~114.7trn (FY24: PKR~105.1trn). The GDP grew by ~2.7% YoY in real terms (FY24: ~2.5% growth YoY and ~3.7% in 1QFY26. The GDP growth target for FY26 is ~3.25% according to the State Bank of Pakistan and ~4.2% according to the Government of Pakistan.
- Industrial activities in FY25 held ~18.1% share in the GDP, while the manufacturing activities made up ~65.3% 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). In 4MFY26, LSM has posted growth of ~5.02% after several quarters of negative or stagnant growth.
- The Textile sector is classified as a Large-Scale Manufacturing (LSM) industrial component within the industrial sector. In FY25, the Textile sector weight in the QIM was recorded at ~18.6%.



# Composites and Garments

## Cotton Dynamics

- 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 ~0.7MT/Ha in FY24.
- For FY26, cotton production target is set at ~10.2mln bales. However, the actual production is expected to remain lower than the target. The target cultivation area during FY26 season was set at ~2.26mln Ha. Actual sowing reached only ~2.0mln Ha, ~11.5% less than the target. According to Federal Committee of Agriculture, the cotton production for FY26 is estimated at ~6.85mln bales from ~2.0mln Ha of area cultivated. This is ~32.3% less than the target production for the year.
- The production gap reflects climate-related disruptions, unseasonal rainfall and flooding, pest pressures (whitefly and pink bollworm), Cotton Leaf Curl Virus Disease (CLCVD), inadequate seed technology, and crop substitution by farmers.



# Composites and Garments

## Cotton Stock Movement

- Cotton arrivals for FY25 clocked in at ~7.1mln bales against the production target of ~10.8mln bales. For FY26, the target for cotton production is set at ~10.2mln bales.
- 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, ~18.0% sales tax on local cotton production as compared to initially duty-free imported cotton, also reduced demand for local cotton during the early months of FY25.
- On the other hand, reduction in local production was met through imports. A ~234.0% YoY increase in cheaper cotton imports was observed during the same period to meet domestic demand (FY24: ~70.0% YoY decline).

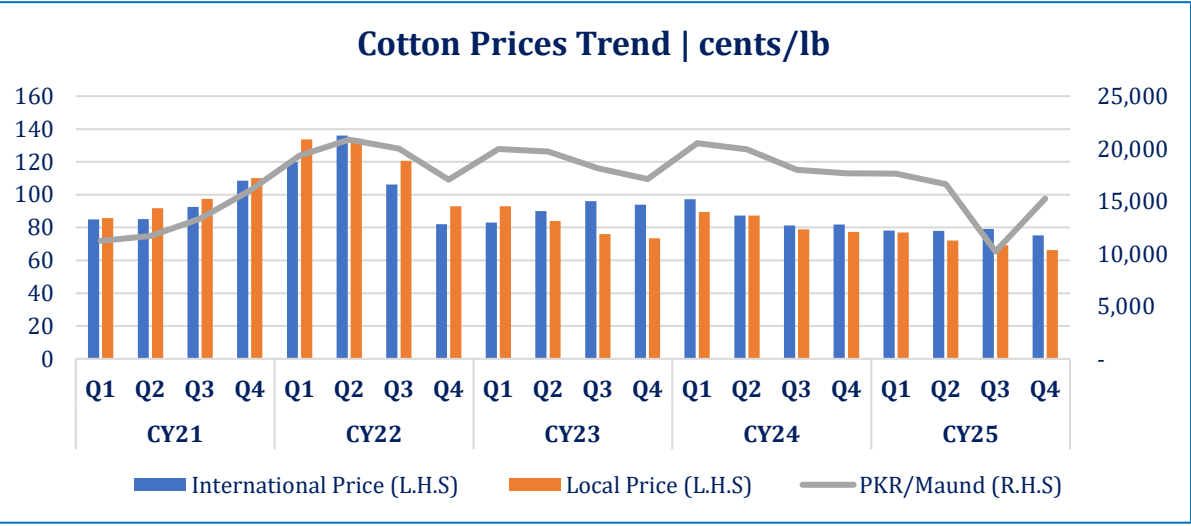
Local   Cotton Supply ('000' Bales)					
Particulars	FY21	FY22	FY23	FY24	FY25
Opening Stock	3,200	2,175	1,925	1,525	1,625
Production	7,064	8,329	4,910	10,223	7,084
Imports	5,043	4,567	4,024	1,206	4,028
Total Supply	15,307	15,140	10,858	12,954	12,737
Local Consumption	13,486	12,518	9,309	10,394	10,170
Exports	3	16	68	183	3
Closing Stock	2,175	2,470	1,958	2,376	2,564



# Composites and Garments

## Prices

- During FY25, average global cotton prices were down ~14.0% YoY to ~80.0cents/lb (SPLY: ~93.0cents/lb), This decline reflects strong competition from synthetic fibres. The subdued cotton demand added downward pressure on global prices.
- The average local price of cotton in FY25, was recorded at PKR~17,496/maund (SPLY: PKR~18,883/maund), down ~7.3% YoY in line with lower global prices amidst increasing global production (up ~2.3% YoY). During 6MFY26, local cotton prices declined further to PKR~15,660/maund (SPLY: PKR~17,820/maund), amid softer global cotton prices, weakening the international reference level for import parity and transmitting downward pressure to local markets. Global cotton prices reduced to ~77cents/lb (SPLY: ~82 cents/lb).
- Additionally, improved domestic arrivals further eased local supply conditions. Cotton arrivals increased by ~49% YoY in Sep'25, though the pace of growth moderated by late Oct'25. To support local production and reduce import dependency, the sales tax exemption on imported cotton was withdrawn under the Finance Act 2025. While the ~18.0% sales tax on domestic cotton remains, the relative price advantage of imported cotton for ginner and spinner has been largely eliminated, encouraging greater reliance on local supply.



	FY21	FY22	FY23	FY24	FY25	6MFY25	6MFY26
International (cents/lb)	76	113	89	93	80	82	77
Local (cents/lb)	78	118	94	81	76	78	68
Local (PKR/maund)	10,254	17,354	19,108	18,883	17,496	17,820	15,660

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

# Composites and Garments

## Industry Snapshot

- The share of cotton ginning in the country's GDP contracted by ~25.9% YoY in FY25, reflecting a decline in domestic cotton availability and lower ginning volumes amid a weak crop. In contrast, cotton cloth and garments manufacturing expanded by ~7.1% YoY, supported by improved export demand, rupee depreciation, and a gradual shift toward value-added segments. Overall, the downstream segment continues to drive sectoral scale despite upstream pressures.
- The sector is dominated by ~50 organized textile composite units. These entities employ both forward and backward integration to enhance their efficiency.
- During FY25, Pakistan's Textile exports recorded a ~7.4% YoY increase, accounting for approximately ~56% of the Country's total exports, supported by a gradual recovery in global apparel demand, improved order flows from key markets such particularly the US, and a relative cost competitiveness versus higher-tariff regional competitors particularly China and India.
- At the same time, Textile imports surged by ~54.9% YoY, primarily driven by raw cotton imports. Primarily, weaker domestic cotton availability and subdued production activity in the spinning segment, necessitated higher imports of cotton, yarn, and man-made fibers to meet downstream manufacturing requirements.

Particulars	FY24	FY25
Market Size based on share in GDP:	2,203	2,133
<i>Cotton Ginning (PKR bln)</i>	474	351
<i>Cotton cloth and garments manufacturing (PKR bln)</i>	1,729	1,782
YoY Growth (%)	24.2%	-3.2%
Textile Exports (USD mln)	16,656	17,887
Exchange Rate (USD/PKR)	283	279
<b><i>Share in the Country's Total Exports (%)</i></b>	<b>54%</b>	<b>56%</b>
Textile Imports (USD mln)	2,714	4,205
<b><i>Share in the Country's Total Imports (%)</i></b>	<b>5%</b>	<b>7%</b>
No. of PACRA-rated/Listed Players (All Segments)	~50	
Association	APTMA	

# Composites and Garments

## Textile Production

Product	Unit	FY21	FY22	FY23	FY24	FY25	4MFY25	4MFY26
Yarn	MT	3,441,585	3,458,740	2,694,760	2,477,233	2,665,255	879,870	899,477
Cloth	Th. SQ M	1,048,447	1,050,750	920,550	871,433	877,334	292,195	292,944
Jute Goods	MT	69,811	57,675	63,374	41,109	29,483	10,728	13,396
Terry towels & Bath robes	MT	213,150	221,488	195,106	222,719	226,200	75,349	74,272
Woolen blankets	Nos	71,479	92,443	42,961	42,738	32,568	14,039	13,687
Garments	Th. Dozen	37,247	55,657	69,987	75,753	80,069	27,335	28,616

- During, FY21-25, local yarn production reduced at a CAGR of ~6.2%, reflecting persistent challenges in spinning capacity utilization, raw material shortages, and cost pressures that discouraged domestic output. In FY25, the production began to recover, up by ~7.6% YoY to ~2.7mln MT (FY24: ~2.5mln MT).
- Terry Towels & Bath robes and Cloth production remained relatively stable, marginally increasing by ~1.8% and ~0.7% YoY, respectively. Similarly, garments production had an increasing trend during FY21-25 and rose by ~5.7% YoY during FY25, registering the highest number during the last five years. These segments remained stable due to steadier end-market demand and strong linkage with value-added exports, particularly in home textiles, which are largely produced against confirmed export orders. Additionally, greater sourcing flexibility allowed these products to absorb raw cotton supply shocks better than pure spinning operations. Jute Goods production saw a steep decline of ~28.2% YoY during FY25. Production of woolen blankets also reduced by ~23.3% YoY.
- During 4MFY26, local yarn production showed limited variation as compared to SPLY, increasing by ~2.3% YoY. Production of value-added products including terry towels and bath robes, cloth, and garments remained broadly stable, cumulatively increasing only by ~0.2% YoY. Woolen blankets and jute goods showed weaker demand during the period under review.

# Composites and Garments

## Segment-wise Textile Exports

Year	FY21		FY22		FY23		FY24		FY25		5MFY25		5MFY26	
Textile Segment (USD mln)	Value	%	Value	%	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%	2,173	28.6%	2,299	29.4%
Readymade Garments	3,033	19.7%	3,905	20.2%	3,492	21.2%	3,564	21.4%	4,129	23.1%	1,687	22.2%	1,786	22.9%
Bedwear	2,772	18.0%	3,293	17.0%	2,692	16.3%	2,803	16.8%	3,113	17.4%	1,324	17.4%	1,389	17.8%
Cotton Cloth	1,921	12.5%	2,438	12.6%	2,022	12.3%	1,866	11.2%	1,809	10.1%	816	10.7%	716	9.2%
Cotton Yarn	1,017	6.6%	1,207	6.2%	844	5.1%	956	5.7%	681	3.8%	0	0.0%	3	0.0%
Towels	938	6.1%	1,111	5.7%	1,000	6.1%	1,055	6.3%	1,083	6.1%	442	5.8%	435	5.6%
Other	1,904	12.4%	2,255	11.7%	2,014	12.2%	2,062	12.4%	2,062	11.5%	1,165	15.3%	1,187	15.2%
Total Textile Exports	15,399	100%	19,330	100%	16,501	100%	16,656	100%	17,887	100%	7,607	100%	7,815	100%

- During FY25, the Textile exports increased by ~7.4% YoY in value terms to USD~17.9bln (FY24: USD~16.7bln). This was driven by higher demand primarily from North America and European markets. The demand is mostly driven by value added products including knitwear, bedwear, garments, and towels. Meanwhile, demand for traditional product categories including yarn and cotton cloth declined.
- In volumetric terms, the exports of knitwear (~6.5%), bedwear (~8.4%), and readymade garments (~5.8%) increased. Conversely, the exports of yarn and cotton cloth fell by ~27.6% and ~7.0% YoY, respectively. As compared to regional competitors like Bangladesh and Vietnam, Pakistan faces higher manufacturing costs including energy tariffs, which impact the capital-intensive spinning and weaving processes required for yarn and cloth production.
- During 5MFY26, total textiles exports rose by ~2.7% YoY. Exports of all categories excluding towels and cotton cloth increased.

# Composites and Garments

## Segment-wise Textile Imports

Year	FY21		FY22		FY23		FY24		FY25		5MFY25		5MFY26	
Textile Segment (USD mln)	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Synthetic & Artificial Silk Yarn	656	17.0%	879	18.4%	583	15.6%	605	22.3%	678	16.1%	409	15.2%	459	16.3%
Raw Cotton	1,480	38.3%	1,828	38.2%	1,679	44.9%	448	16.5%	1,266	30.1%	883	32.8%	606	21.5%
Synthetic Fibre	629	16.3%	743	15.5%	485	13.0%	494	18.2%	519	12.3%	245	9.1%	337	11.9%
Worn Clothing	310	8.0%	433	9.0%	371	9.9%	434	16.0%	511	12.2%	217	8.1%	258	9.1%
Other Textile Items	792	20.5%	903	18.9%	623	16.7%	733	27.0%	1,232	29.3%	934	34.7%	1,163	41.2%
Total Textile Imports	3,866	100%	4,787	100%	3,742	100%	2,714	100%	4,205	100%	2,688	100%	2,823	100%

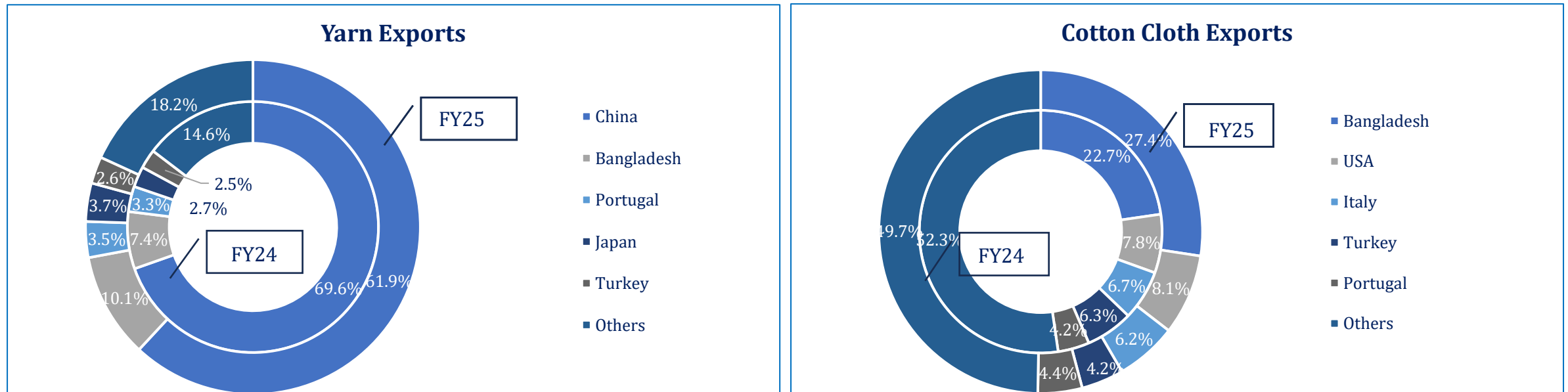
- The country’s Textile imports rose sharply by ~54.9% during FY25 amounting to USD~4.2bln (FY24: USD~2.7bln). The main contributor for increased imports was raw cotton, which increased by ~182.5% YoY.
- Although imports of other textile categories such as synthetic and artificial silk yarn, synthetic fibre, and worn clothin posted YoY growth, their increase was relatively modest and stable as compare to increase in raw cotton imports. Domestic cotton production fell sharply in FY25 due to a combination of operational and policy measures. So, mills’ dependency on imported raw cotton increased. The sharp decline in production was driven by climate stress, reduced sowing area, water shortages, rising input costs, and weak policy support. Consequently, raw cotton imports surged mainly during early FY25.
- However, during 5MFY26, the Textile imports were up by ~5.0% in value terms. Imports of raw cotton were down ~31.4% YoY. As of Sep’25, ginning factories received ~49.0% more cotton than SPLY. However, the growth momentum reversed as cotton arrivals as of Nov’25 fell to ~5.13mln bales as compared to ~5.19mln bales in SPLY.



# Composites and Garments

## Export Destinations | Yarn and Cotton Cloth

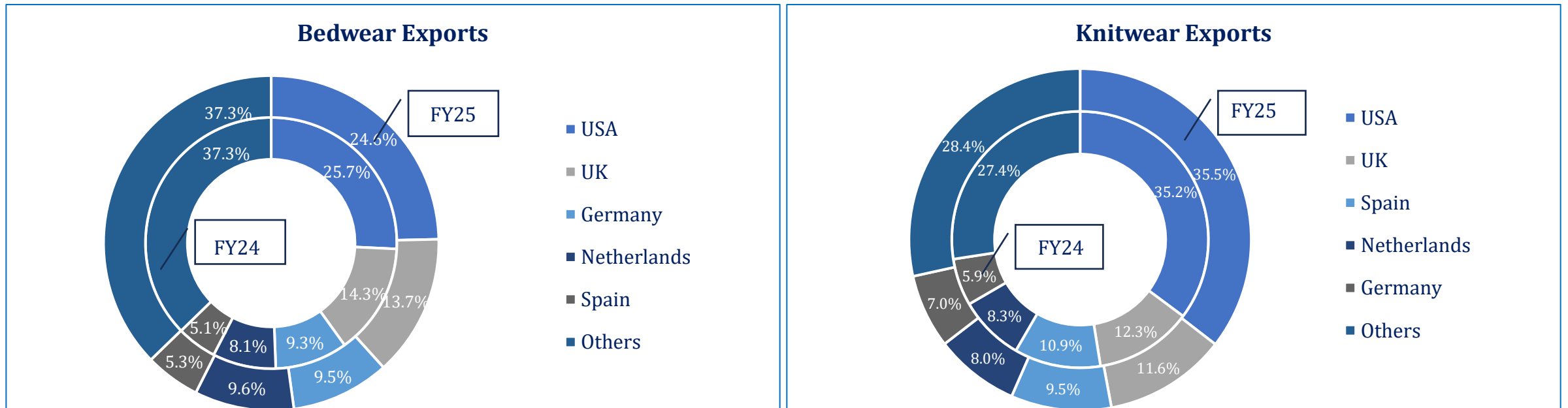
- Pakistan's yarn exports are largely concentrated towards China, accounting for ~61.9% of total yarn exports during FY25 (FY24: ~69.6%). This concentration reflects strong dependence on Chinese textile demand. Even though the share of exports to China have decreased by ~7.7% YoY, strong trade momentum is expected under China-Pakistan Free Trade Agreement. Bangladesh and Portugal are other major yarn export destinations, although their combined share of ~13.5% remains limited relative to China.
- Cotton cloth exports also exhibit a highly concentrated market structure with a limited number of destinations accounting for a major share of total exports. Bangladesh accounts for ~27.4% of cotton cloth exports due to sustained demand from its textile and garments manufacturing sector. USA and Italy collectively contribute a moderate share of ~14.3%. Turkey and Portugal represent smaller but consistent export destinations, suggesting opportunity for niche market penetration.



# Composites and Garments

## Export Destinations | Bedwear & Knitwear

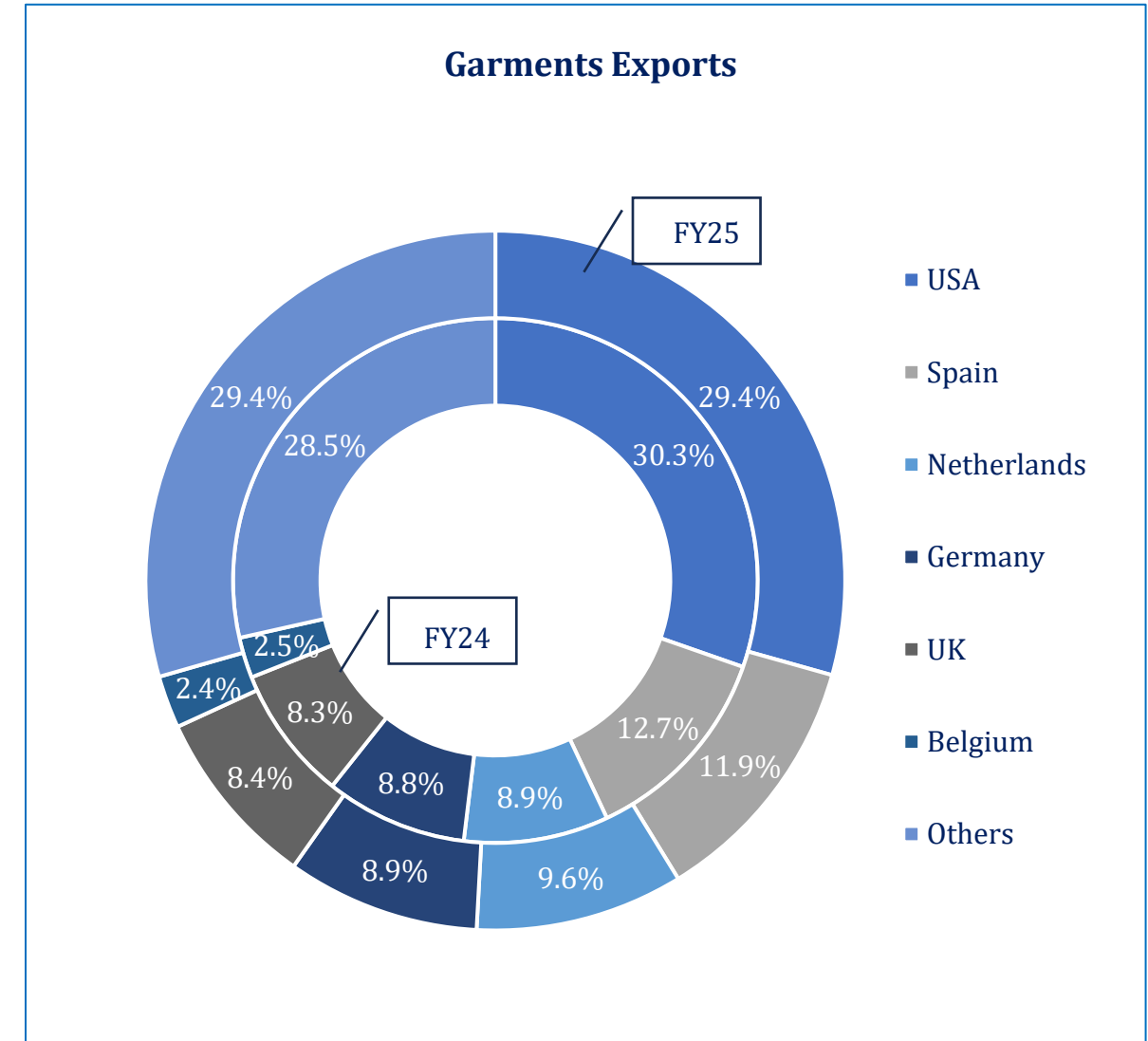
- Value added textile product exports exhibit a diversified and stable market composition as compared to cotton cloth and yarn, with USA consistently emerging as the largest export destination. During FY25, the USA accounted for ~24.6% of total bedwear exports and ~35.3% of total knitwear exports. This sustained share reflects Pakistan's strong positioning in the North American home textile market. European markets including UK, Germany, Spain, and Netherlands constitute other export destinations, cumulatively forming ~38.1% of bedwear exports and ~36.1% of knitwear exports share.
- Notably, "Others" category constitutes a significant share, ~37.3% for bedwear exports and ~28.4% for knitwear exports, underscoring broader geographical diversification and reduced dependency on a single concentrated market.



# Composites and Garments

## Export Destinations | Garments

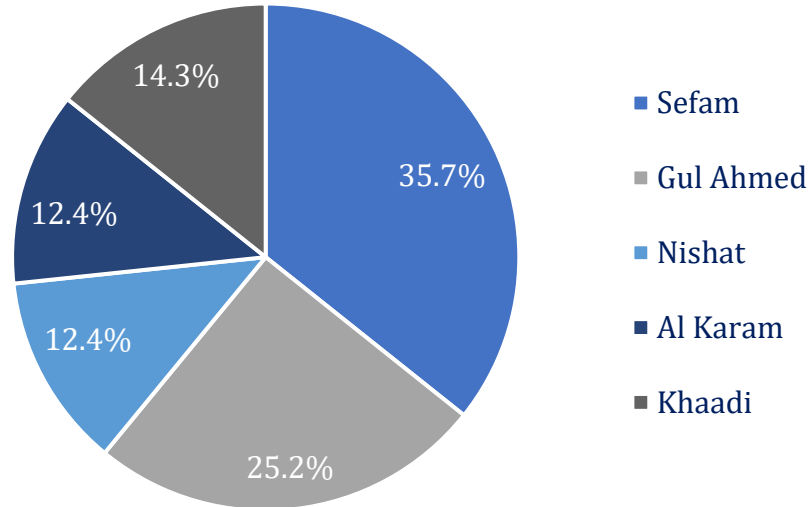
- Like other value-added segments, garments exports are also concentrated in the USA. In FY25, ~29.4% of the garment's exports revenue was generated from the USA. Other major destinations include Spain (~11.9%), the Netherlands (~9.6%), Germany (~8.9%), the UK (~8.4%), and Belgium (2.4%). During 5MFY26, garments exports improved in volumetric terms at ~36.3mln dozens (SPLY: ~33.0mln dozens), up ~10.0% YoY. Similarly, bedwear and knitwear exports improved by ~5.0% and ~7.6% YoY, respectively.
- The growth in value added textiles suggests improved global competitiveness and greater foreign exchange earnings, which can contribute positively to external sector stability. Since most of the textiles' demand is driven by the USA, Pakistan currently benefits from relatively lower tariff (~19.0%) as compared to regional competitors like India (~25%) Bangladesh (~20%) and Vietnam (~20%).
- However, Bangladesh remains the biggest competitor as it has significantly lower costs and greater scale. Garment wages in Bangladesh are among the lowest globally helping in keeping production costs down. Bangladesh also benefits from much lower energy costs (as industrial power and gas rates are materially cheaper), while offering fiscal incentives like income tax exemptions and low withholding taxes for exporters, which Pakistan does not match. By contrast, Pakistan faces relatively higher energy and financing costs and has a smaller export scale, leading to higher delivered prices to key markets like the U.S.



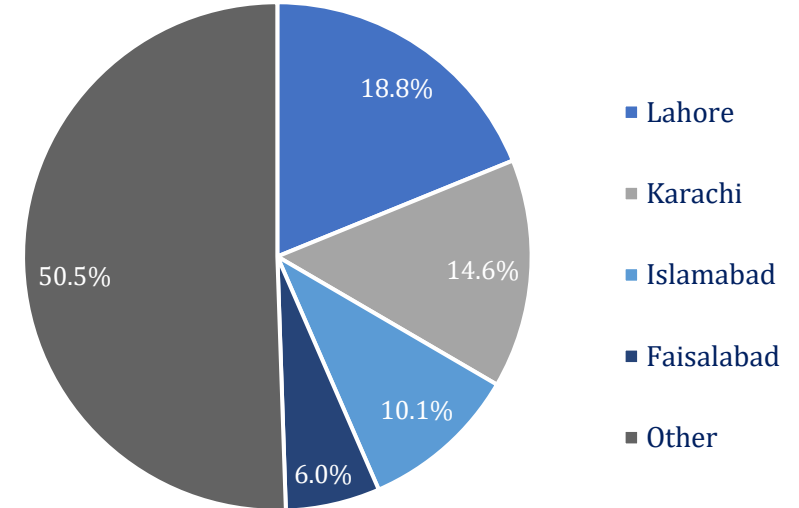
# Composites and Garments

## Garments and Retail

Market Share | Pakistan's Top 5 Retail Brands\* | FY25



Retail Outlets | Average Geographical Dispersion | FY25



- The garments and retail segment is referred to as an ancillary Textile industry with operations ranging from small to medium to large-scale units. The contribution of readymade garments (or wearing apparel) to the Large-Scale Manufacturing (LSM) index was recorded at ~6.08% during FY25 and exhibited YoY growth of ~5.7%.
- The Composites and Garments industry is highly diverse when it comes to operating structure and size. While the major brands operate via retail outlets and online platforms, the smaller brands majorly conduct their sales operations via the latter. A majority of these companies have a horizontally integrated value chain, also operating spinning and weaving units.

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

# Composites and Garments

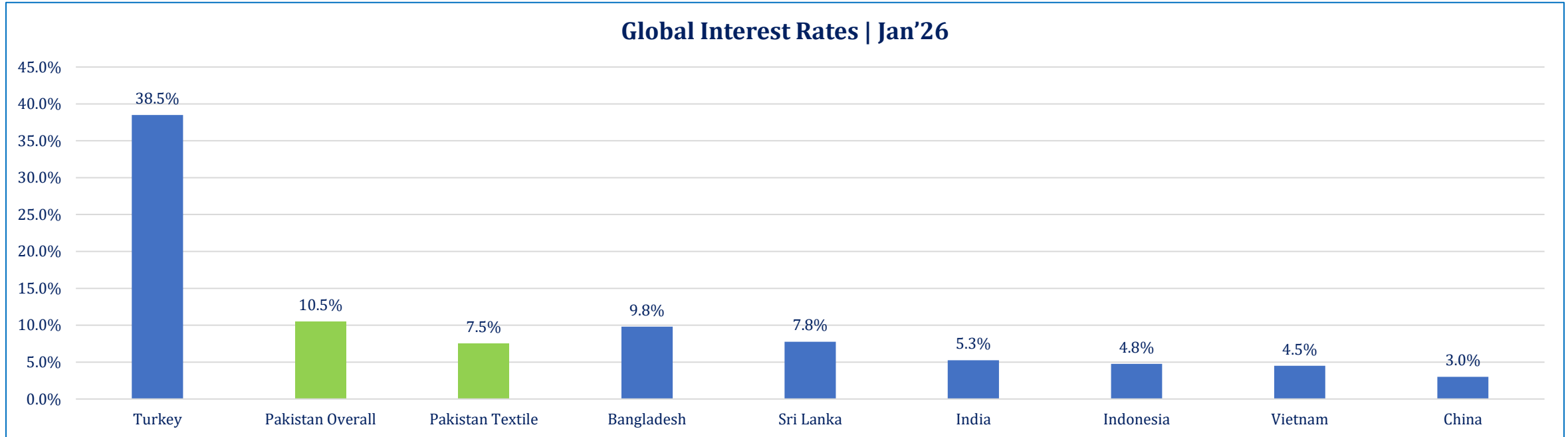
## Business Risk

Identified Risk Factors	Risk Meter	Description
<b>Low Domestic Cotton Production</b>	High	➤ Local production formed ~56% of total cotton supply in the country during FY25. The increased dependency on raw cotton import increases input costs.
<b>Increasing Dependence on Imported Cotton</b>	High	➤ Imports comprised the remaining ~32% of total cotton supply in the country during FY25 (SPLY: ~9%). Increased imports exposes the Country to exchange rate fluctuations and significantly increases the import bill.
<b>Climate Change Impact</b>	Medium	➤ In 2025, Pakistan's cotton crop faced heightened vulnerability to climate change, with rising temperatures, irregular rainfall, and water shortages affecting yields and fibre quality. Extreme weather events, including floods and heatwaves in major cotton-growing regions like Punjab and Sindh, further disrupted production and increased dependence on imports. ➤ The rise in 1°C temperature at the vegetative and flowering-fruiting stage reduces cotton yield by ~24.1%.
<b>Reduction in Value Addition</b>	Low	➤ In FY25, Net Textile Trade Balance grew by ~17.5% YoY to USD~15.2bln (FY24: USD~12.9bln) emanated from increasing reliance on imports. In 5MFY26, it has grown ~1.5% YoY to USD~5.0bln (5MFY24: USD~4.9bln).
<b>High Input Energy Costs</b>	High	➤ Since the removal of RCET in Mar'23, ~27.7% of the Industry spindles and ~33% of the Industry looms have remained idle. ➤ Power tariff for industrial consumers sits at ~15.6cents/kWh, up from ~9cents/kWh during FY20-22.
<b>Increasing Interest Rates</b>	Low	➤ The policy rate has substantially come down from an average of ~21.9% in FY24 to the current ~10.5% in Dec'25. Moreover, the discount window of ~3% is available in the form of EFS/LTFF, with ~24.8% of the Textile's total borrowings availed at discounted rates during Nov'25.
<b>Removal of GSP+ Status</b>	Low	➤ For Pakistan, the Scheme was extended in 2023 till 2027 but includes stringent conditions.
<b>ESG Compliance Risk</b>	Medium	➤ Export-oriented textile units face rising ESG pressures from international buyers, covering labor rights, sustainable sourcing, and environmental practices. Non-compliance can affect market access and reputation. To cope, many units are adopting ISO 14001, improving labor conditions, investing in sustainable raw materials, and providing training for workers and suppliers to meet global standards.



# Composites and Garments

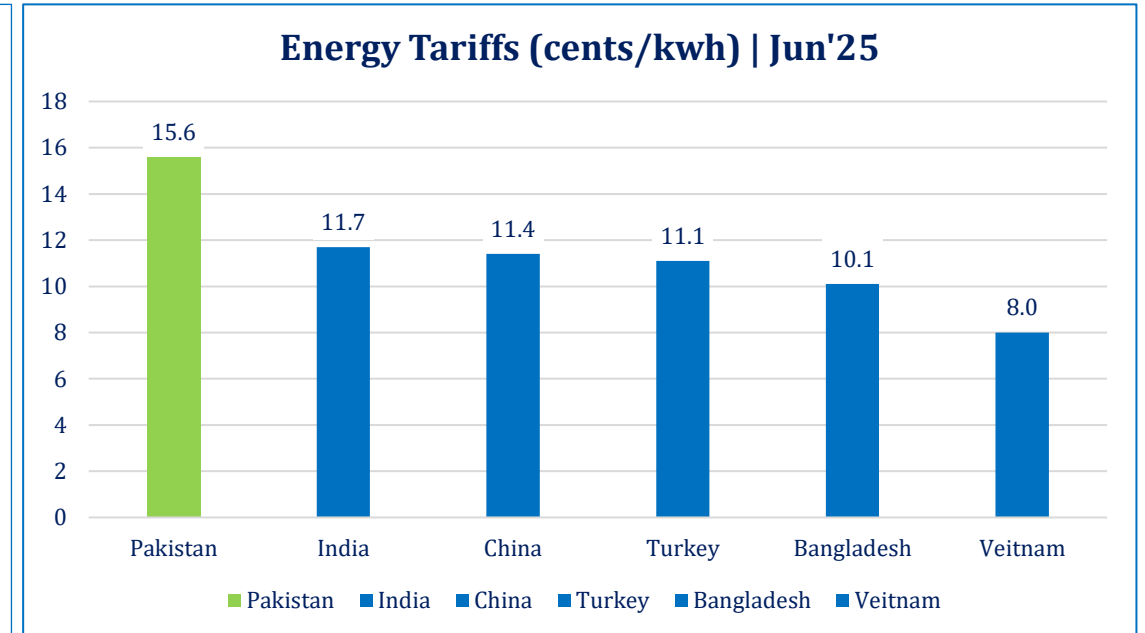
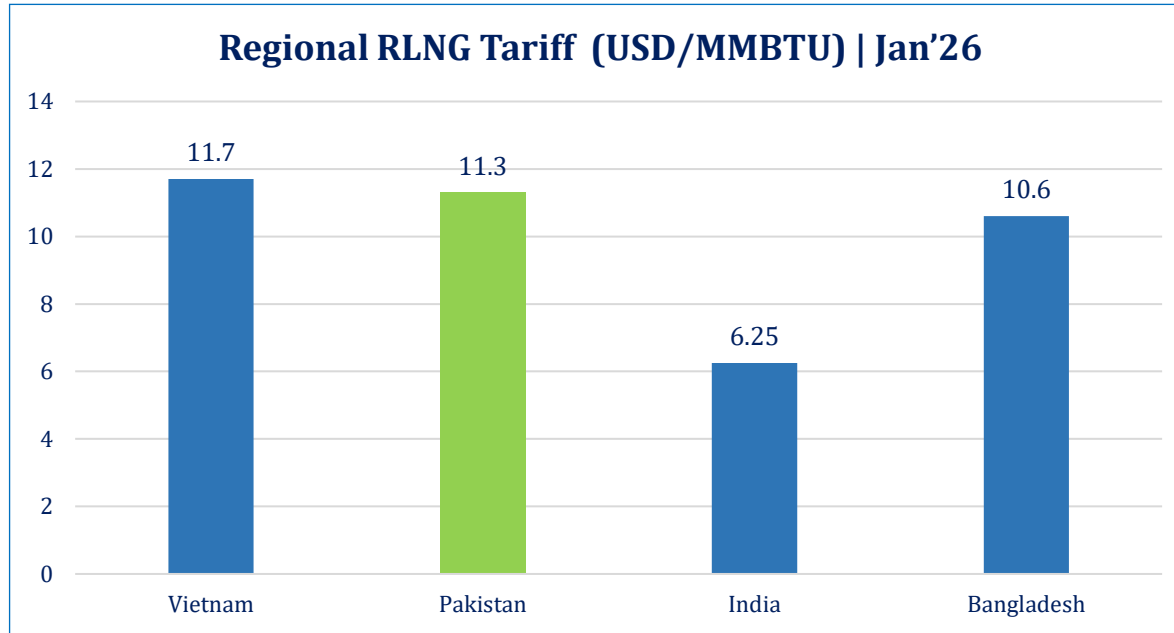
## Business Risk | Interest Rates



- Global interest rates as of Jan'26 highlight the financing landscape for Textile exporters. Pakistan currently has the second-highest interest rate in the world (~10.5%) after Turkey (~38.5%).
- The Textile sector benefits from subsidized financing facilities in the form of short-term Export Finance Facility (EFS) and Long-Term Financing Facility (LTFF). In Dec'22, the SBP linked these rates to the policy rate such that the difference between the former two rates and the latter was reduced from 5.0% to 3.0%. The current rate, therefore, is ~7.5%, which is relatively higher as compared to regional peers like China (~3.0%) and Vietnam (~4.5%), adding pressure on margins.
- In Finance Act 2025, however, cotton yarn was excluded from the EFS, which means that yarn exporters can no longer access the subsidized financing rate.

# Composites and Garments

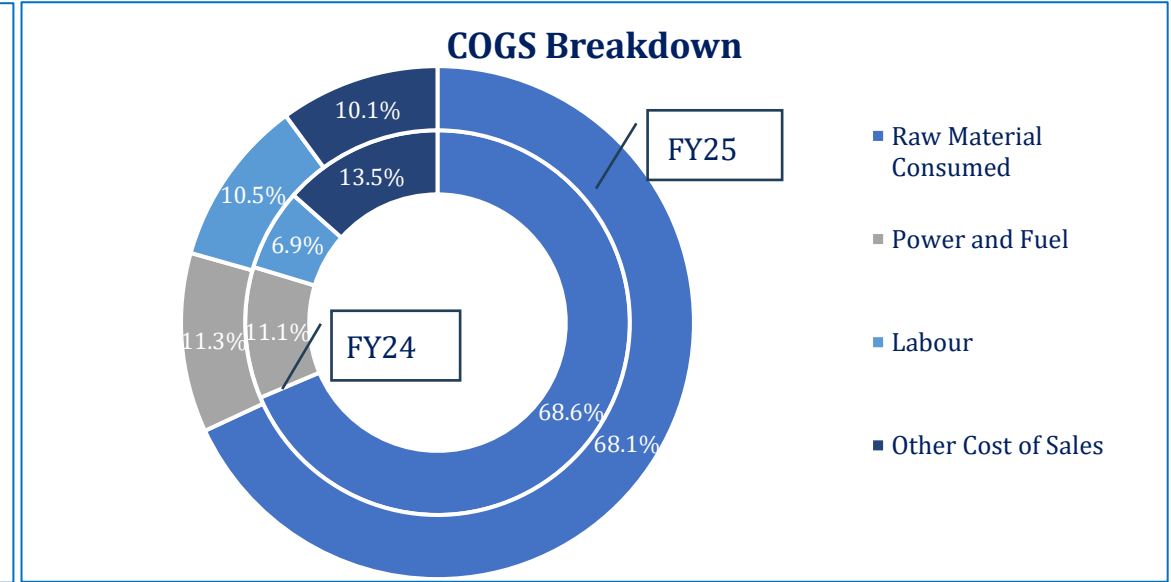
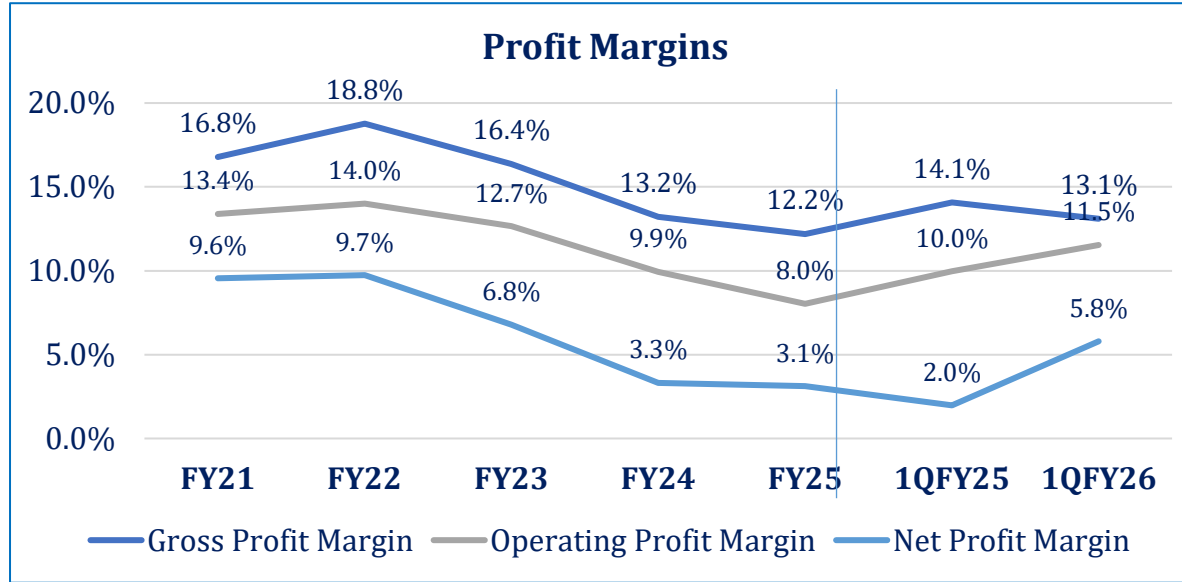
## Business Risk | Electricity & Gas Tariffs



- The government used to provide energy at internationally competitive prices or at regionally competitive energy tariffs (RCET) of PKR~19.99/kWh and a gas tariff of USD~9.0/MMBTU for gas/RLNG to the five export-oriented sectors of the economy including the Textile Sector. However, this has been discontinued since Mar'23. Pakistan's Textile sector has the second highest gas tariff of USD~11.3/MMBTU amongst the regional competitors now. Furthermore, the onset of winter implies gas curtailments for the Sector, further exacerbating input costs.
- Disruption in electricity supply from the national grid (loadshedding and fluctuations) due to obsolete infrastructure and disconnection makes it challenging to rely on these energy supply sources. Most players have reverted to solar or own energy sources to minimize this risk.

# Composites and Garments

## Business Risk | Margins & Cost Structure

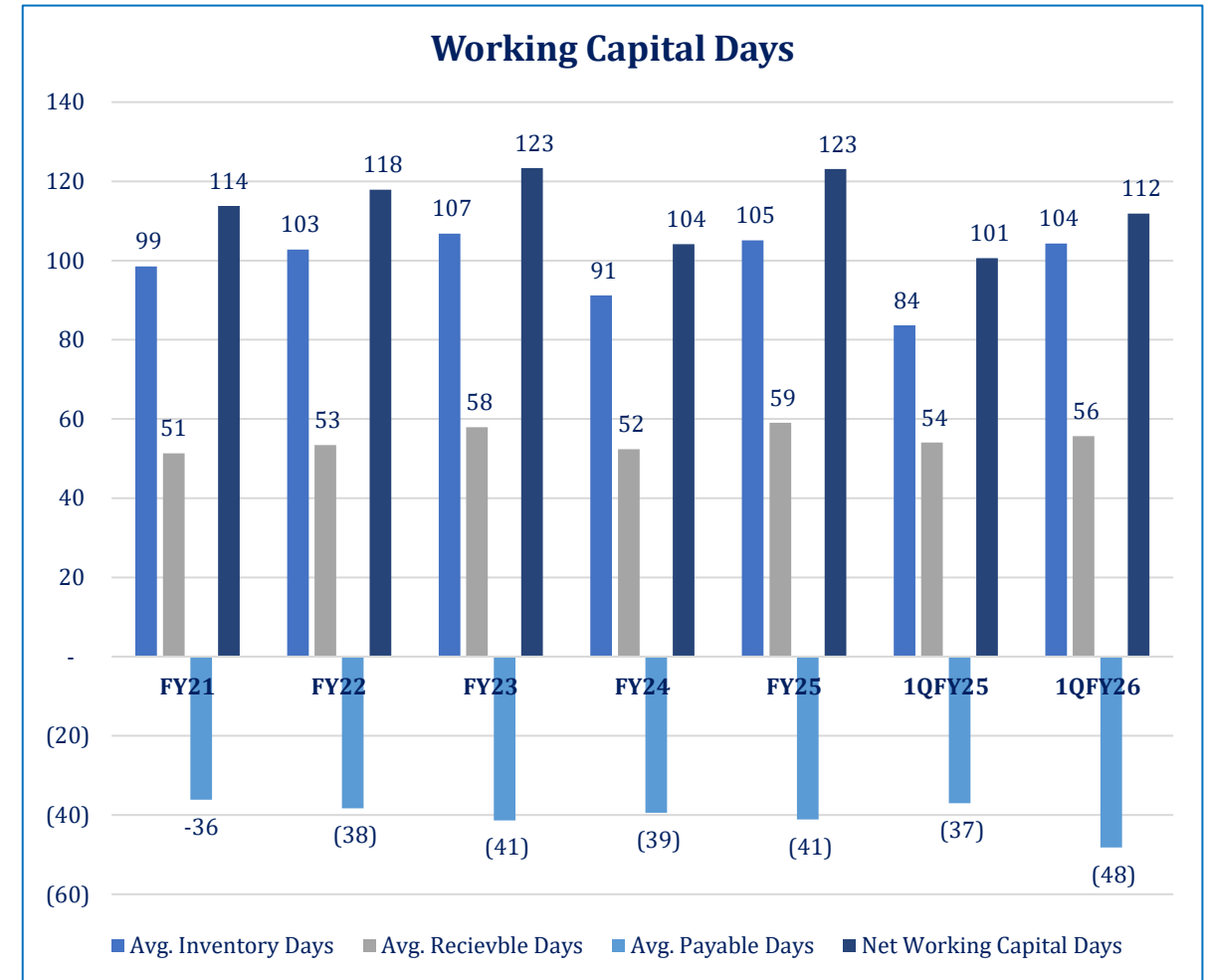


- The Sector's gross profit margins declined during FY25 to ~12.2% (FY24: ~13.2%) despite a ~3.4% YoY increase in sales revenue. This is primarily attributed to increase in cost of sales particularly raw materials, which increased by ~4.3% YoY. Other costs including labor and fuel costs increased by ~7.0% YoY. Raw materials make up the largest share of ~68.1% in the total cost of production. Gross margin improved to ~13.1% during 1QFY26 but remained below 1QFY25 margin (~14.1%), indicating persistent cost pressures.
- Operating and net profit margins of the Sector remained under pressure in FY25 operating margin declining to ~8.0% in FY25 (FY24: ~9.9%), reflecting elevated operating costs, which increased by ~12.9% YoY. This further led to net margin compressing to ~3.1% (FY24: ~3.3%) despite lower finance cost during the year. However, a notable recovery in 1QFY26 was witnessed, with operating margin improving to ~11.5% and net margin rebounding to ~5.8%, supported by better cost rationalization and easing interest environment. With low inflation, stable to low energy prices and further reduction in interest rates, margins are expected to improve.

# Composites and Garments

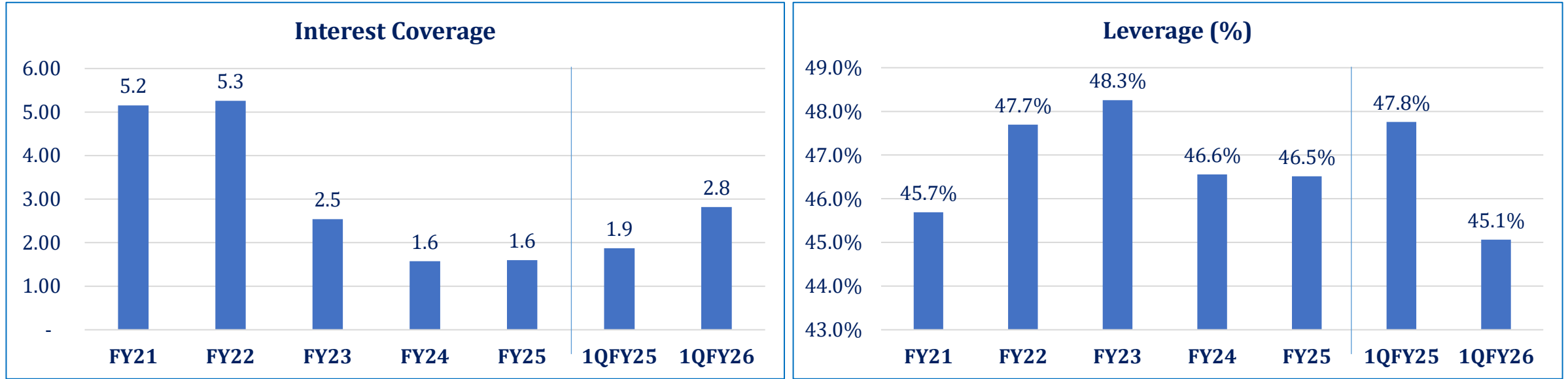
## Financial Risk | Working Capital Management

- The Sector's working capital is largely a function of its inventory and trade receivables. Inventory is the most significant component and majorly includes raw material, while finished goods and work-in-process inventory hold smaller shares.
- The industry's net working capital days in FY25 increased by ~19 days to ~123, which is close to the FY21-24 average of ~115 days. Both inventory and receivable days increased by ~14 days and ~7 days respectively. Payable days remained stable increasing only by ~2 days.
- During 1QFY26, the net working capital days increased by ~11 days YoY, mainly due to increase in inventory days which were up by ~20 days. This is led by elevated inventory levels due to upfront inventory procurement in order to ensure uninterrupted raw material supply for high demand season. The rise in inventory levels is also reflected in increase in short term borrowings, which increased by ~87% YoY, indicating greater reliance on working capital financing to fund this buildup.
- Receivable and payable days also increased marginally ~2 day and ~9 days respectively.



# Composites and Garments

## Financial Risk | Financial Risk



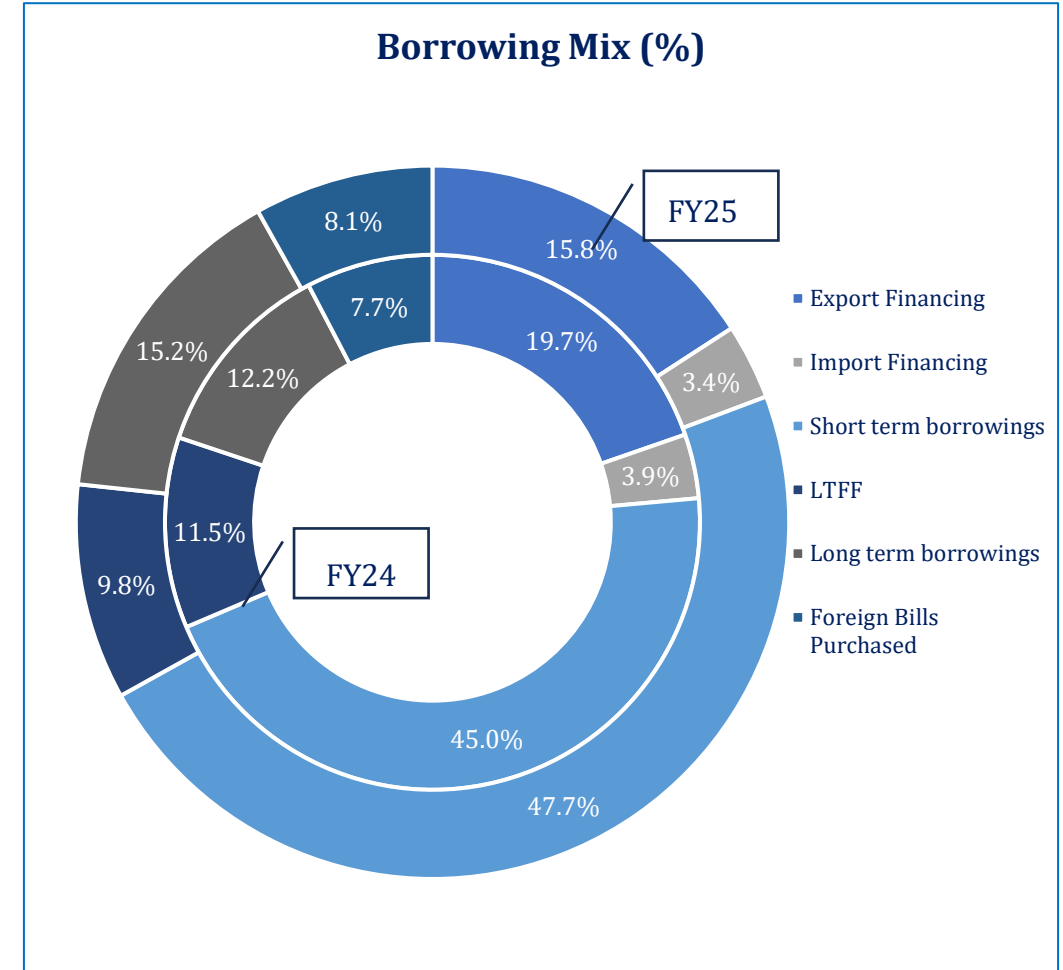
- The interest coverage of the Sector has reduced substantially over the last three years when interest rate started to increase. During FY25, it remained the same as of FY24 at ~1.6x. This is attributed to increased borrowings of the Sector which increased at a CAGR of ~40.9% during the FY21-25 period. Meanwhile, the operating profit of the Sector increased by only ~5.1% during the period under review. Coverages have improved in 1QFY26 with lower interest rates.
- The Sector is moderately leveraged, ~46.5% during FY25 (FY24:~46.6%). The decline in leverage in 1QFY26 to ~45.1% (SPLY: ~47.8%) reflects better working capital management and a sharp rise in equity (up ~98% YoY).



# Composites and Garments

## Financial Risk | Borrowing Mix

- The total borrowing for the Sector as at end-Nov'25 stood at PKR~2,355bln as compared to PKR~2,481bln in Nov'24, down by ~5.9% YoY.
- Export Financing and Import financing cumulatively formed ~19.2% share in the total borrowings and amounted to PKR~450bln. Other short-term borrowings formed the largest share of ~47.7% in total borrowing and amounted to PKR~1,113bln, down only ~0.4% YoY.
- Meanwhile, long-term borrowings at normal rate increased by ~17% YoY to PKR~354bln as of Nov'25 (SPLY: PKR~303bln). Long term discounted borrowings, however, were down by ~20.2% YoY amounting to PKR~229bln (SPLY: PKR~286bln).
- The borrowing mix of the Sector is primarily concentrated in short-term borrowings and export financing. This reflects the segment's operational pattern, characterized by inventory heavy cycles, raw material stocking, and phased capital outlays.
- Moreover, the Textile infection ratio/NPLs have consistently remained above the overall banking sector's infection ratio. As of Sep'25, the Textile infection ration was ~7.6% (overall banking sector: ~6.6%).



# Composites and Garments

## Financial Risk | Borrowing Mix

Textile Segments	Total Borrowings		YoY Change (%)	Short-term Borrowing			Long-term Borrowing		Foreign Bills Discounted
	Nov'24	Nov'25		Import Financing	EFS	Other Short-term	LTFF	Other Long-term	
Knitwear	23,325	31,609	35.5%	520	11,286	10,060	694	7,669	1,380
Readymade Garments	162,573	174,428	7.3%	25	42,574	76,079	18,407	387	16,673
Bedwear	65,682	70,564	7.4%	626	16,070	18,422	9,021	3,045	20,168
Cotton Cloth	348,497	311,247	-10.7%	11,577	53,021	119,026	42,323	48,917	36,383
Cotton Yarn	486,820	213,554	-56.1%	29,482	48,437	245,677	43,405	61,958	27,121
Towels	244,440	216,368	-11.5%	4,480	43,398	97,430	20,422	28,357	22,282
Other	1,149,419	1,317,319	14.6%	33,233	155,208	545,981	94,247	203,628	65,990
Industry Total	2,480,756	2,335,089	-5.9%	79,943	369,994	1,112,675	228,519	353,961	189,997

- The knitwear segment has seen the largest YoY increase (~35.5%) in borrowings as of Nov'25, while cotton yarn registered the largest decrease of ~56.1% YoY.

# Composites and Garments

## Regulatory Framework

- As per the Finance Act 2024, the tax regime for direct and indirect exporters has been revised. The ~1.0% tax collected from 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). Sales tax is enhanced to 18.0% from 15.0% on supplies of textiles and leathers in the Finance Act 2024. It is exempt for imported inputs and refundable for local inputs. This is still intact as per the Finance Act 2025.
- 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. As of Dec'25, the policy rate remains at ~10.5%. The Textile sector is a beneficiary of subsidized financing facilities from the SBP in the form of short-term Export Refinance Facility (ERF) and long-term Financing Facility (LTFF). In Jul'22, the SBP announced that any subsequent revisions in the LTFF and EFS rates will be linked to policy rate revisions, such that the difference between the two rates and the MPR is ~3.0% as of Dec'22. Hence, LTFF and EFS rates stand at ~7.5.0%.
- 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 players, as depicted in duty structure table. All Pakistan Textile Mill Association (APTMA) acts as the national trade association of Textile sector in the country.

# Composites and Garments

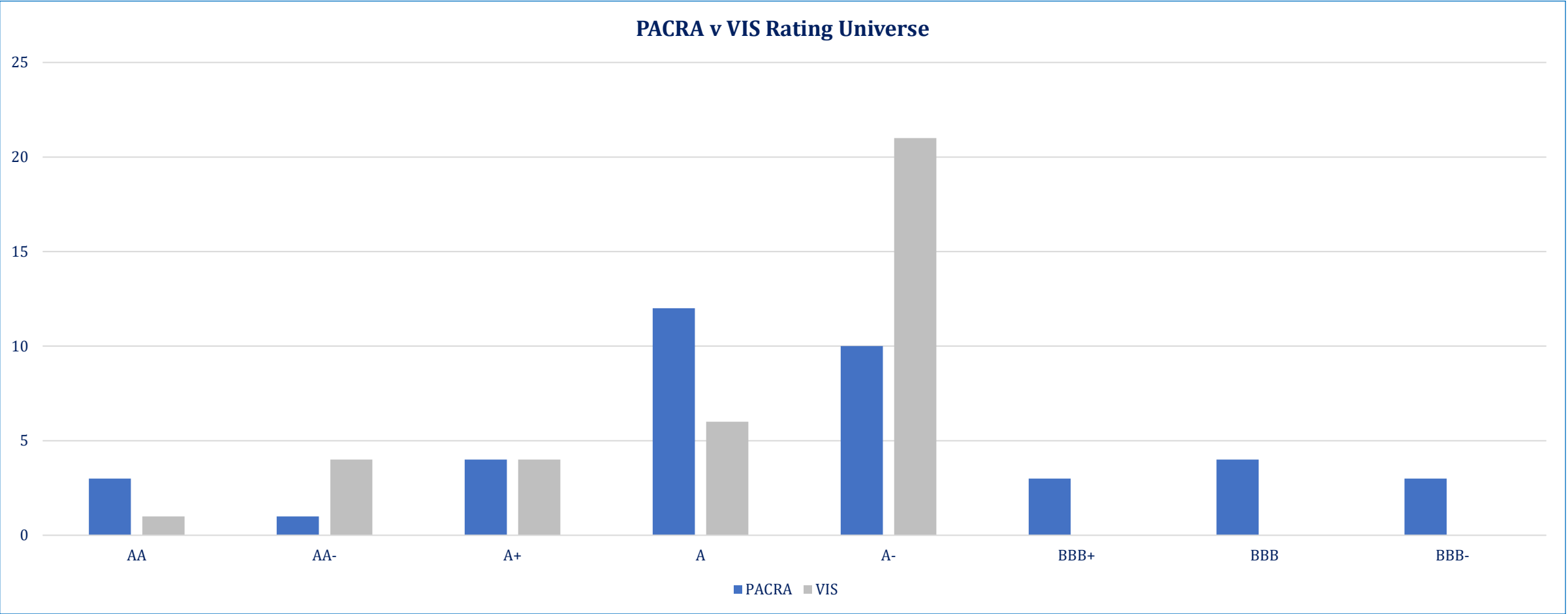
## Duty Structure

PCT Code	Description	Customs Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26
52.01	Cotton, not carded or combed	0%	0%	2%	0%	0%	0%	2%	0%
52.03	Cotton, carded or combed	0%	0%	2%	0%	0%	0%	2%	0%
52.04	Cotton sewing thread, whether or not put up for retail sale	16%-20%	5%	4%-6%	0%	0%	0%	20%-26%	5%
52.05	Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale	11%-16%	5%	2%-4%	0%	0%	0%	13%-20%	5%
52.06	Cotton yarn (other than sewing thread), containing less than 85% by weight of cotton, not put up for retail sale	11%	5%	2%	0%	0%	0%	13%	5%
52.07	Cotton Yarn (other than sewing thread) put up for retail sale	11%	5%	2%	0%	0%	0%	13%	5%
52.08	Woven fabric of cotton, containing 85% or more by weight of cotton, weighing not more than 200g/m2	11%	10%	2%	0%	0%	0%	13%	10%
52.09	Woven fabric of cotton, containing 85% or more by weight of cotton, weighing more than 200g/m2	11%	10%	2%	0%	0%	0%	13%	10%
52.10	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibres, weighing not more than 200g/m2	11%	10%	2%	0%	0%	0%	13%	10%
52.11	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibres, weighting more than 200g/m2	11%	10%	2%	0%	0%	0%	13%	10%
52.12	Other woven fabrics of cotton	16%	15%	4%	2%	0%	0%	20%	17%
61.01-61.17	Knitted or crocheted clothing articles and accessories	20%	20%	6%	4%	10%	10%	36%	34%
62.01-62.17	Clothing articles and accessories (other than knitted and crocheted)	20%	20%	6%	4%	10%	10%	36%	34%
63.01-63.07	Other made-up articles (including blankets, bedsheets, towels etc.)	20%	20%	6%	4%	10%	5%	36%	29%

# Composites and Garments

## Rating Curve

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





# Composites and Garments

## SWOT Analysis

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

- Low Cotton Production
- Geographical export concentration
- Intense competition from regional players in the international market
- Strong bargaining power of buyers
- Declining/low quality local cotton production resulting from climate-induced natural disasters and pests.



- Imported machinery
- Low BMR resulting in technological obsolescence
- Dollar based input costs leads to thin margins as a result of inefficiencies
- Interdependency on demand from developed markets
- Exposure to economic cycle shifts
- Structural dependance on imported raw cotton is increasing cost volatility.

- Forward and horizontal integration can be used to produce value added and differentiated products
- Opportunity to increase efficiency through technological upgrade
- Special Economic Zones provide incentives to sector
- Isolation of Chinese manufacturers by US and European retailers and the pursuit of alternative regional sources to meet order demand.
- Heightened compliance scrutiny and sourcing diversification by US/EU buyers create an opportunity for Pakistan to gain share,.

# Composites and Garments

## Outlook | Stable

- Pakistan's economy grew by ~2.7% YoY in FY25 in real terms, with a nominal GDP of PKR ~114.7trn, supported by macroeconomic stabilization measures, including strong control of inflation, prudent fiscal management, and policy interventions. Despite this, the LSM sector contracted by ~1.5% YoY, highlighting the limitations of these measures.
- The Textile sector, holding ~18.6% weight in LSM, remains Pakistan's largest export-oriented manufacturing sector and posted a moderate recovery in FY25, with total exports rising ~7.4% YoY and accounting for ~56% of total merchandise exports. Growth was largely driven by value-added categories such as knitwear, bedwear, and garments. As of Nov'25, the exports have continued the growth trajectory increasing by ~2.7% YoY, indicating ongoing demand for Pakistani textiles including garments. The performance, however, varied across categories with value added categories showing YoY gains, while traditional categories like cotton cloth declining.
- Despite this positive headline growth, exporters continued to highlight persistent structural constraints, including high energy costs, and financing bottlenecks, which tempered overall Sector performance through the year. Moreover, increased reliance on raw cotton and yarn imports further increased the cost of production, as raw material constitutes ~67.7% of the total cost.
- The Sector's profitability, therefore, remained below historical averages during FY25. However, encouragingly, 1QFY26 showed a visible rebound, with operating margins improving to ~11.5% and net margins recovering to ~5.8%, supported by cost rationalization, improved capacity utilization, and some easing in finance costs. While this suggests early signs of margin stabilization, sustainability of the recovery depends on addressing structural constraints, enhancing productivity, investing in value-added segments, and improving operational efficiency. Consequently, the near-term profitability outlook remains cautiously stable, with upside contingent upon macroeconomic easing and policy support, while downside risks persist from cost volatility and demand uncertainty.
- Looking ahead, Pakistan's Textile sector is poised for gradual expansion, driven by rising global demand for value-added products and moderate growth in key export markets. USA and UK, Pakistan's two biggest export destinations by value, are expected to grow by ~2.1% and ~1.3% in CY26. The global textile market is expected to grow with a CAGR of ~3.5% till 2033. The growth in the USA, the UK, and the global textile market represents a stellar opportunity for Pakistan to capitalize. Moreover, if structural constraints are addressed, the Sector could sustainably enhance profitability and competitiveness. Increasing investment in productivity, technology adoption, and value-added categories is likely to support higher margins and export diversification. However, the Sector remains sensitive to raw material cost fluctuations, energy pricing, and external demand shocks, which could temper growth.

# Composites and Garments

## Bibliography

- Pakistan Bureau of Statistics (PBS)
- Pakistan Stock Exchange (PSX)
- State Bank of Pakistan (SBP)
- Federal Board of Revenue (FBR)
- Pakistan Central Cotton Committee (PCCC)
- Pakistan Cotton Ginners Association (PCGA)
- Textile Commissioner’s Organization (TCO)
- Trade Development Authority of Pakistan (TDAP)
- All Pakistan Textile Mills Association (APTMA)
- Ministry of Finance (MoF)
- Globalpetrolprices.com
- Business Research Company
- United States Department of Agriculture (USDA)
- Punjab Board of Investments and Trade (PBIT)
- Sui Sothern Gas Company (SSGC)
- Sui Northern Gas Pipelines Limited (SNGPL)
- PACRA Internal Database

<b>Research Team</b>	<b>Aiza Khalid</b> Supervisor <a href="mailto:aiza.khalid@pacra.com">aiza.khalid@pacra.com</a>	<b>Durr E Sameen Shahid</b> Research Analyst <a href="mailto:durresameen.shahid@pacra.com">durresameen.shahid@pacra.com</a>
<b>Contact Number:</b> +92 42 35869504		

### DISCLAIMER

PACRA has used due care in the preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. The information in this document may be copied or otherwise reproduced, in whole or in part, provided the source is duly acknowledged. The presentation should not be relied upon as professional advice.