

SECTOR STUDY | 21st OCTOBER 2026

Spinning

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Sector Highlights

FY26 at a Glance

~2.69mn MT

Yarn production
(FY25: ~2.67mn MT)

~116,000 MT

Cotton yarn imports
(FY25: ~62,000 MT)

~9.1%

Gross profit margin
(FY25: ~8.2%)

~118 days

Net working capital cycle
(FY25: ~106 days)

~2.01mn ha

Cultivated Area
(FY25: 2.04mn ha)

PKR ~16,657

Avg. Local Per maund price in FY26
(FY25: PKR ~17,481)

Demand and Supply

- Yarn production rose ~1.0% to ~2.69mn MT in FY26, still ~22% below the FY22 peak.
- Working spindles fell ~5.4% as mill closures continued on high energy costs and taxation.
- Export volumes recovered (up ~21%) to ~308,000 MT. China had ~71.8% of yarn exports (FY25: ~63.3%) share.

Pricing and Costs

- The average yarn export price fell ~7% to USD ~2.5/kg (FY25: USD ~2.7/kg).
- Coarse 10/1 yarn fell ~10.3% to PKR ~3,042/bundle as cheaper imports put pressure on prices.
- Raw materials made up ~68.0% of cost of sales (FY25: ~70.2%) as cotton prices on averaged remained comparatively lower.

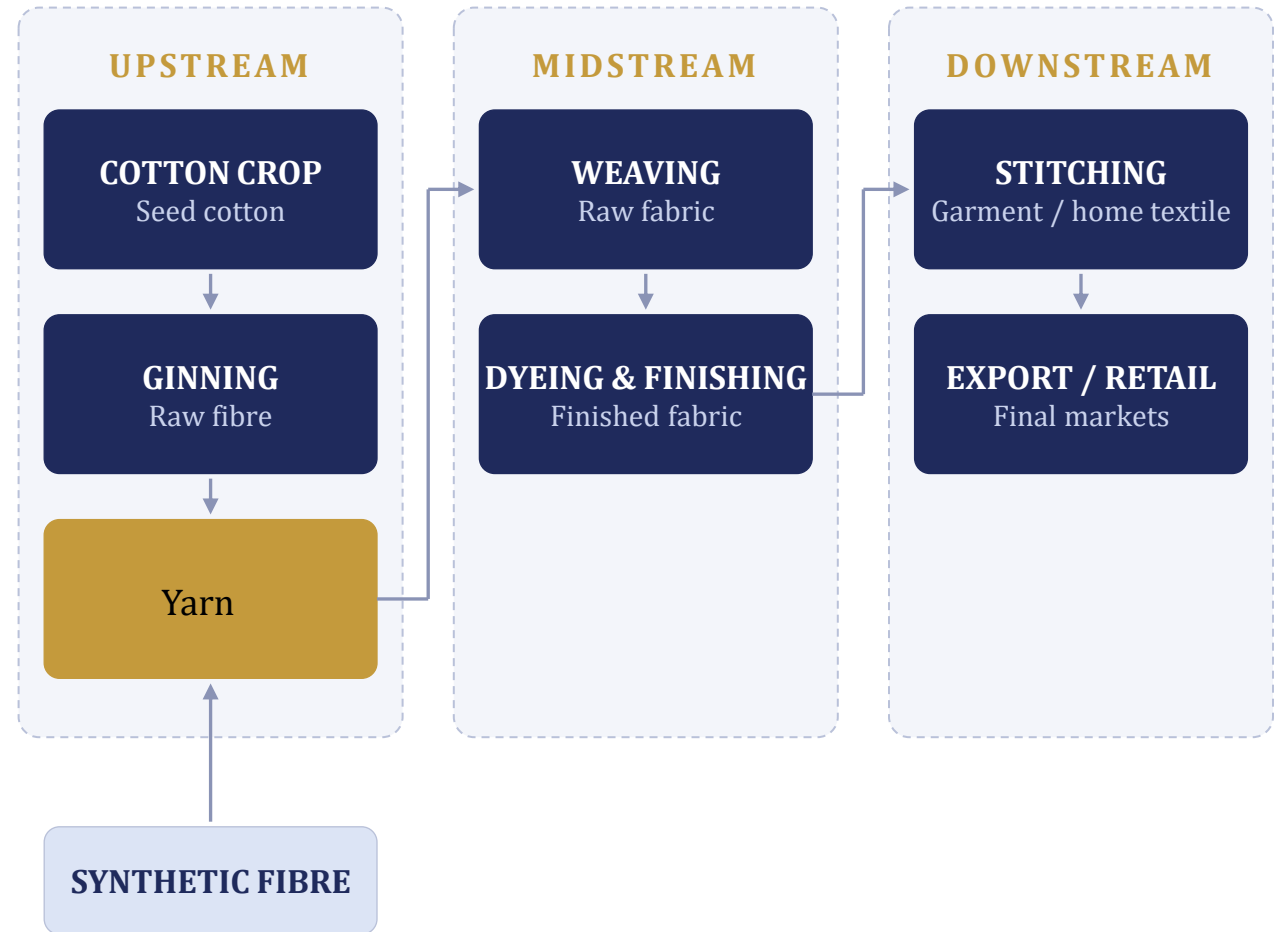
Financial Profile

- Revenue was broadly flat at PKR ~876.8bn. Operating margin increase slightly to ~6.1% (FY25: ~5.3%).
- Net margin improved to ~1.7% (FY25: ~0.5%) as finance costs fell ~17.0%.
- Sector borrowing fell ~2.4% to PKR ~607.6bn at End-Aug'26, the first decline since FY21.

Bottom line: In FY26, the sector recovered slightly as costs remained under control, especially raw cotton prices. Revenue remained stagnant but margins improved slightly at all level. Lower finance cost supplemented profitability, although net margin was only 1.7%. Shrinking capacity, thins margins, rising yarn imports and export concentration to China kept the sector under pressure.

Textile Value Chain

- The textile cluster has a relatively large value chain with multiple distinct segments. The adjacent flow chart depicts major processes along with the output of the textile value chain.
- The Spinning Sector converts cotton and man-made fibre into yarn and sits at the upstream end of the textile value chain. However, there is limited value addition in this segment.
- Yarn is classified as carded or combed, with combed yarn undergoing an additional process that yields finer, higher-value output. Pakistan's production is concentrated in carded, coarse-to-medium counts, which limits value addition in the segment.



Production Process



1

Blow Room

The compressed bales are opened, cleaned and blended/mixed according to particular length to form a specific size of lap.



2

Carding

The lap is shifted to carding machine where cleaning and intermixing of fibres occurs to produce a continuous web.



3

Combing

Fibres are straightened and arranged in a parallel manner and short fibres are separated from long fibres.



4

Cone Winding

Yarn is wound from ring bobbins onto cones, with faults cleared, ready for dispatch to customers.



5

Roving/Ring Frame

The roving frame drafts the sliver into a thin strand (roving) with light twist; the ring frame drafts and twists it into yarn of the required count and strength.



6

Drawing

Several card slivers are combined and drafted through rollers to straighten the fibres and improve evenness

Technology & Machinery

- Major manufacturers of Spinning machines (ring spindles & rotor machines) and other textile machinery are based in Germany, Italy, Belgium, Switzerland, China, and Japan.
- Major manufacturing brands include Saurer Schlafhorst GmbH & Co., Toyota, Murata Machinery Limited, Savio Machine Tessilli, Rieter, RIFA Textile Machinery Co. Ltd., and Lakshmi Machine Works Limited, among others.
- The efficiency of Spinning machines is determined by the number of spindles installed on the machine and its RPM (Rotations Per Minute). More advanced machines have higher RPM, resulting in higher efficiency. The RPM of the latest Spinning machines from major manufacturers can reach up to ~125,000-150,000.
- Overall, the cost of Spinning machines depends on the number of spindles, RPM, and level of automation of back processes. However, import and installation costs are also high and raise the overall cost for Spinning players.
- Almost all machinery used in the Sector is imported from Europe and East Asian Countries (mainly China). Further, there is a need for continuous technological Balancing, Modernization and Replacement to improve efficiency and remain competitive in the international landscape.
- With advancements in technology, the Spinning Sector is transitioning towards more energy-efficient machines, including the new Ring- Spinning machine, which incorporates features like energy-saving drives and high-speed spindles that reduce running losses.



Yarn Count

Direct Method		
Numbering System	Unit of Length	Unit of Weight
Tex System, Tt	1000 m	No. of grams
Denier, D or Td	9000 m	No. of grams
DeciTex, dtex	10,000 m	No. of grams
Millitex, mtex	1000 m	No. of milligrams
Kilotex, ktex	1000 m	No. of kg
Jute Count	14,400 yards	No. of lb.

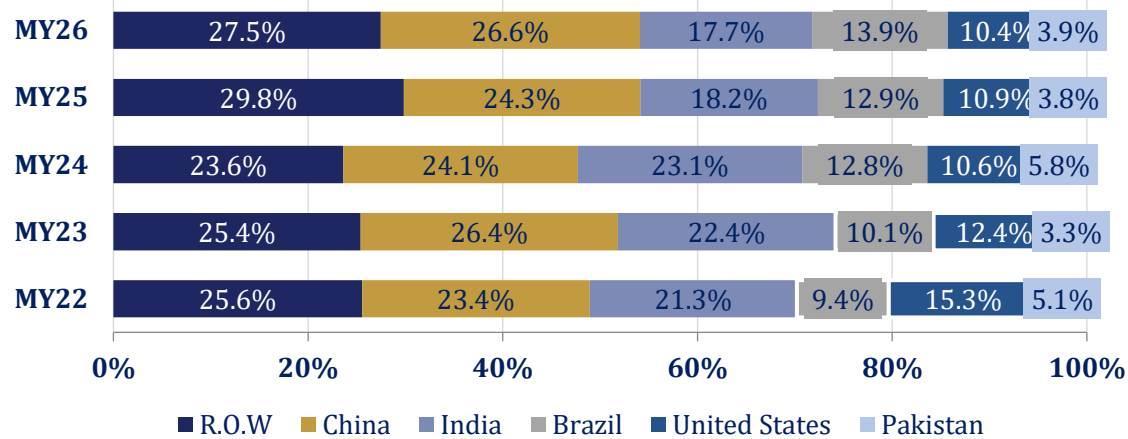
Indirect Method		
Numbering System	Unit of Length	Unit of Weight
English cotton count, Ne/S	840 yards	1 lb.
Metric count, Nm	1000m / 1km	1 kg
Woollen Count (YSW)	256 yds.	1 lb.
Woollen Count (Dewsbury)	1 yd.	1 ounce (oz.)
Worsted Count Nek	560 yds.	1 lb.
Linen Count, NeL	300 yds.	1 lb

- Yarn count is a measurement that determines its fineness or coarseness. There are two methods of calculating yarn count: Direct and Indirect, with the Indirect method more widely practiced.
- The Direct Method uses weight per unit length to determine count, with thicker/coarse yarn having a higher count. There are various numbering systems as shown in the adjacent table.
- The Indirect Method uses length per unit weight to determine count, with finer yarn having a higher count. There are various numbering systems as shown in the table.
- The English numbering system is practiced in Pakistan. The unit length of 840 yards is also known as a 'Hank'. The number of hanks per lb. of yarn equals the yarn count.
- In Pakistan, yarn is divided into coarse, medium, fine, and super fine categories based on count, with major production concentrated in coarse and medium count yarns. Different dyeing and chemical processes add value to the product. Higher yarn count attracts higher prices.

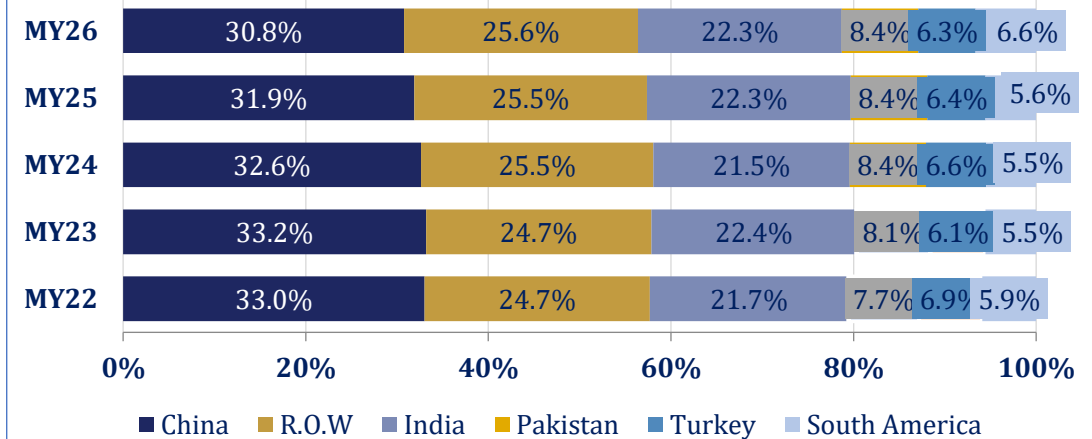
Yarn Type	Count
Coarse	1s - 20s
Medium	21s - 34s
Fine	35s - 47s
Super Fine	48s - 80s

Production & Consumption

Cotton | Top 5 Countries By Production



Cotton | Top 5 Countries By Consumption



- 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 higher output. This was fueled by ~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 MY25 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.

Ending Stocks

Ending Stock (000 MT)	MY23	MY24	MY25	MY26	MY27*
China	7,262	7,993	7,585	7,891	7,548
India	2,357	2,025	2,072	2,424	2,271
United States	1,012	686	871	904	827
Australia	1,047	910	1,045	842	537
Pakistan	332	403	501	446	441
R.O.W	4,500	4,013	4,270	3,974	3,765
Total	16,510	16,030	16,344	16,481	15,389

- Global cotton ending stocks averaged ~16.3mn MT during MY23-26. Stocks dipped to ~16.0mn MT in MY24 (MY23: ~16.5mn MT) and then recovered gradually to ~16.5mn MT in MY26, up ~0.8% YoY (MY25: ~16.3mn MT).
- Global ending stocks are projected to fall ~6.6% YoY to ~15.4mn MT in MY27 (~70.7mn bales), the lowest level in last 5 years. Production is forecasted to fall ~3.4% YoY to ~118.0mn bales, while mill use is expected to rise to ~123.1mn bales. That gap of ~5.1mn bales (~1.1mn MT) accounts for the drawdown in stocks. The global stocks-to-use ratio is projected at ~57.4%.
- China holds the largest stocks, at ~7.5mn MT in MY27 (MY26: ~7.9mn MT), down ~4.3% YoY. Its share of global stocks rose to ~49.0% (MY26: ~47.9%). China's reserves therefore remain the main buffer for the world market.
- The sharpest drawdown is projected in Australia, where stocks fall ~36.2% to ~0.5mn MT (MY26: ~0.8mn MT) after a smaller crop. Stocks are also projected to fall in the United States, by ~8.5% to ~0.8mn MT (MY26: ~0.9mn MT), and India, by ~6.3% to ~2.3mn MT (MY26: ~2.4mn MT). The decline in exporter stocks reduces the cotton available to import-reliant spinners such as Pakistan.

*Forecast, represents Oct-26 / MY='Marketing Year' i.e., Aug-Jul.

Note: The cotton stocks-to-use ratio is a key market indicator calculated by dividing projected ending cotton stocks by total use.

Trade

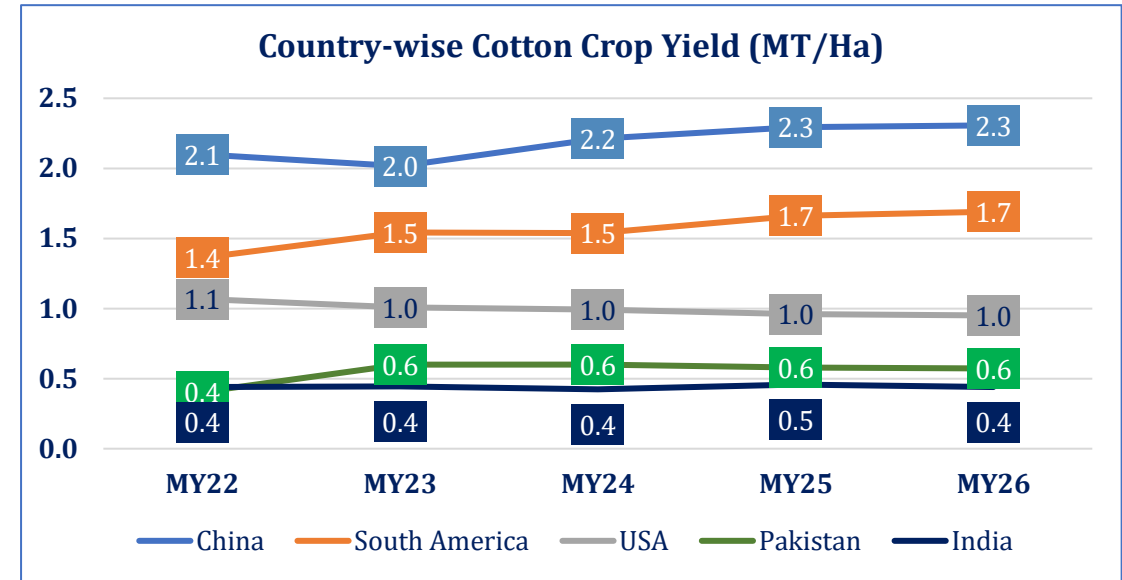
Exports (000 MT)	MY23	MY24	MY25	MY26	MY27*
Brazil	1,449	2,700	2,578	3,274	3,484
USA	2,711	2,558	2,460	2,678	2,678
Australia	1,347	1,255	1,135	1,218	980
India	239	459	300	240	327
Greece	290	212	234	260	207
R.O.W	2,181	2,406	2,661	2,310	2,060
Total	8,217	9,590	9,368	9,980	9,736

Imports (000 MT)	MY23	MY24	MY25	MY26	MY27*
China	1,357	3,259	1,129	1,578	1,524
Vietnam	1,409	1,434	1,737	1,776	1,807
Bangladesh	1,524	1,649	1,753	1,568	1,611
Turkey	912	776	971	1,029	1,089
Pakistan	980	697	1,328	958	1,110
R.O.W	2,035	1,775	2,450	3,071	2,595
Total	8,217	9,590	9,368	9,980	9,736

- Global cotton trade rose ~6.5% YoY to ~9.98mn MT in MY26 (MY25: ~9.37mn MT), the highest level in the period. It is projected to ease ~2.4% to ~9.74mn MT (~44.7mn bales) in MY27, as smaller crops in Australia and other exporters reduce the cotton available to ship.
- Brazil has been the largest exporter since MY24, and its lead keeps widening. Its exports rose ~27.0% to ~3.27mn MT in MY26 (MY25: ~2.58mn MT). They are projected at a record ~3.48mn MT in MY27, up ~6.4% YoY. Brazil's share of global exports rises to ~35.8% (MY26: ~32.8%). US exports are projected flat at ~2.68mn MT, a ~27.5% share. Together, Brazil and the US account for ~63.3% of global supply.
- Australia's exports are projected to fall ~19.5% to ~0.98mn MT (MY26: ~1.22mn MT) after a smaller crop. India's exports are projected to recover ~36.3% to ~0.33mn MT (MY26: ~0.24mn MT), though India remains a minor exporter because most of its crop goes to domestic mills.
- Pakistan's imports fell ~27.9% YoY to ~0.96mn MT in MY26 (MY25: ~1.33mn MT). It is projected to rise ~15.9% to ~1.11mn MT in MY27, as a smaller domestic crop raises mill import needs.

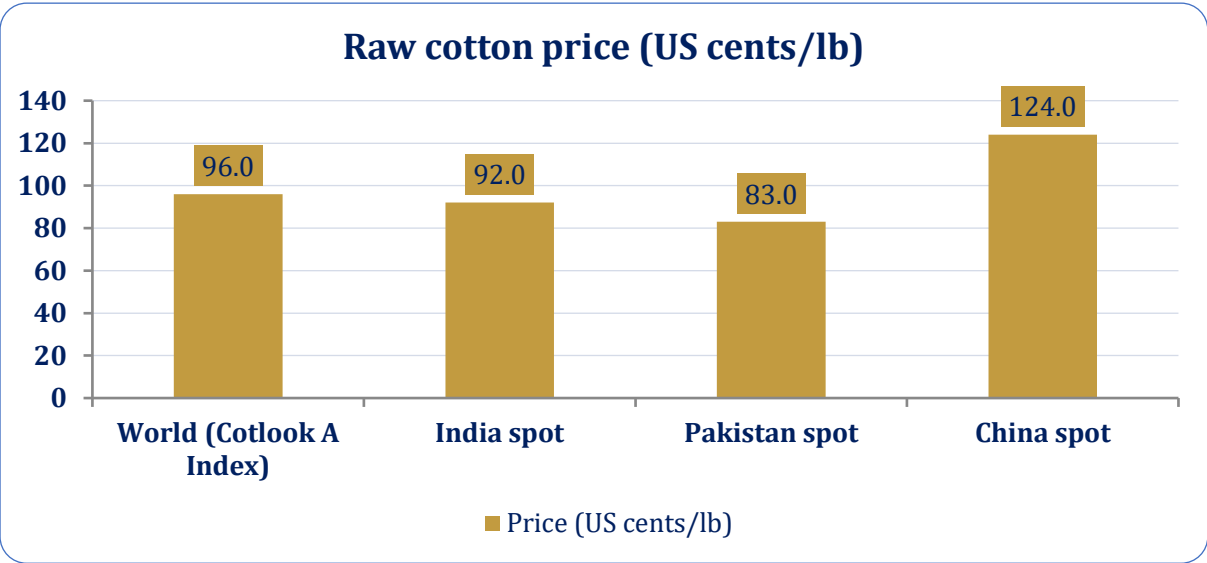
Area Under Cultivation & Cotton Yield

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



- 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).

Regional | Pricing & Tariffs



~83 US¢/lb

Pakistan cotton spot, Sep-26 (Cotlook A Index: ~96 US¢/lb)

USD~2.49/kg

Pakistan yarn export unit value, FY26

10%

US Section 301 tariff on PK, IN and BD from Jul-26 (PK Feb-26: 19%)

18%

Sales tax on Pakistan's imported cotton and yarn (India: Nil, Jun to Oct-26)

Key Takeaways

- World cotton (A Index) traded at ~96 US¢/lb in Sep-26. Pakistani spot was the cheapest in the region at ~83 US¢/lb (Aug-26: ~80 US¢/lb), against ~92 US¢/lb in India.
- US tariffs on all three countries converged at 10% under Section 301 from Jul-26. Bangladesh keeps an edge through a planned duty-free quota for apparel made with US cotton.
- Pakistan levies 18% sales tax on imported cotton and yarn, refundable against exports. India waived its cotton import duty for Jun to Oct-26. Bangladesh imports roughly 99% of its annual cotton needs so therefore, the tax rate on raw cotton (picked or combed) imports is 0%.

Tariff / duty	Pakistan	India	Bangladesh
US tariff announced (Apr-25)	29%	26%	37%
US rate to Feb-26 (IEEPA)	19%	18%	19%
US rate now (Sec. 301, Jul-26)*	10%	10%	10%
Levy on raw cotton imports	18% Sales Tax	0% (Jun to Oct-26)	0%

* The current 10% forced labor duty is a new, separate measure under Section 301. it stacks on top of any traditional, standard U.S. customs duties tied to specific product codes

China | The Spinning Model

~110mn

Spindles installed in China
(Pakistan: ~13.4mn)

~894,000 MT

Cotton importable at 1% duty;
40% applies beyond the quota

~1.60mn MT

China's cotton yarn imports, MY26
(its own exports: ~0.30mn MT)

~13.1%

Pakistan's share of those imports,
second after Vietnam (~55.7%)

- China runs ~110mn spindles behind a tiered cotton tariff, so mills can access cheap imported cotton inside the quota while the domestic crop stays shielded.
- Xinjiang drives the expansion: spindle capacity is up ~59.5% and looms ~327.6% since 2020, with yarn output above ~3.35mn MT. Its cotton-to-yarn conversion rate reached ~45% in 2025, targeted at 45-50% by 2028 and supported by a RMB ~18,600/MT crop target price.
- Cotton accounts for only ~34% of fibre used in Chinese yarn, with the cotton-polyester price gap averaging ~57% in MY26. Inland ring-spun mills continue to exit, and the chain has been loss-making for four consecutive years.
- China's yarn imports currently fill the gap left by inland mill closures. Xinjiang capacity is targeted to close that gap by 2028, the main structural risk to Pakistan's yarn exports.

Parameter	China	Pakistan	Period
Capacity utilisation	~90% / 70-75%*	~70.8%	CY25
Yarn production	~22.2mn MT	~2.69mn MT	CY25
Cotton Consumption	~8.25mn MT	~2.24mn MT	MY26
Cotton yarn imports	~1.60mn MT	~0.12mn MT	MY26
Cotton yarn exports	~0.30mn MT	~0.31mn MT	MY26
Cotton share in yarn	~34%	~60%	FY26
Cotton import levy	1% / 40%**	18% sales tax	FY26
Crop support price	RMB ~18,600/MT	None	MY26
Industrial power tariff	~USD 0.08/kWh	~USD 0.11/kWh	Sep-26

Note: MY = Marketing Year (Aug-Jul); China yarn output is NBS above-scale enterprises (CY basis); Pakistan on FY (Jul-Jun) per preceding slides. *Xinjiang / inland mills. **In-quota / out-of-quota MFN cotton tariff.

Source: USDA GAIN, NBS, CCFGroup 11

Global | Key Takeaways

Supply Tightens; Demand Holds as Cotton Heads Into MY27

Market Size & Growth

- The global cotton yarn market was estimated at USD ~77.8bn in CY25. It is projected to reach USD ~82.9bn in CY26 and USD ~108.8bn by CY30, a ~7.0% CAGR. Growth is expected to come from apparel and technical textiles, demand for sustainable fibres, and investment in advanced spinning technology.
- US trade policy has narrowed the tariff gaps among regional suppliers. Since Jul 24, 2026, Pakistan, India and Bangladesh have faced a 10% Section 301 duty on top of MFN rates, while Vietnam and China face 12.5%.
- 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).

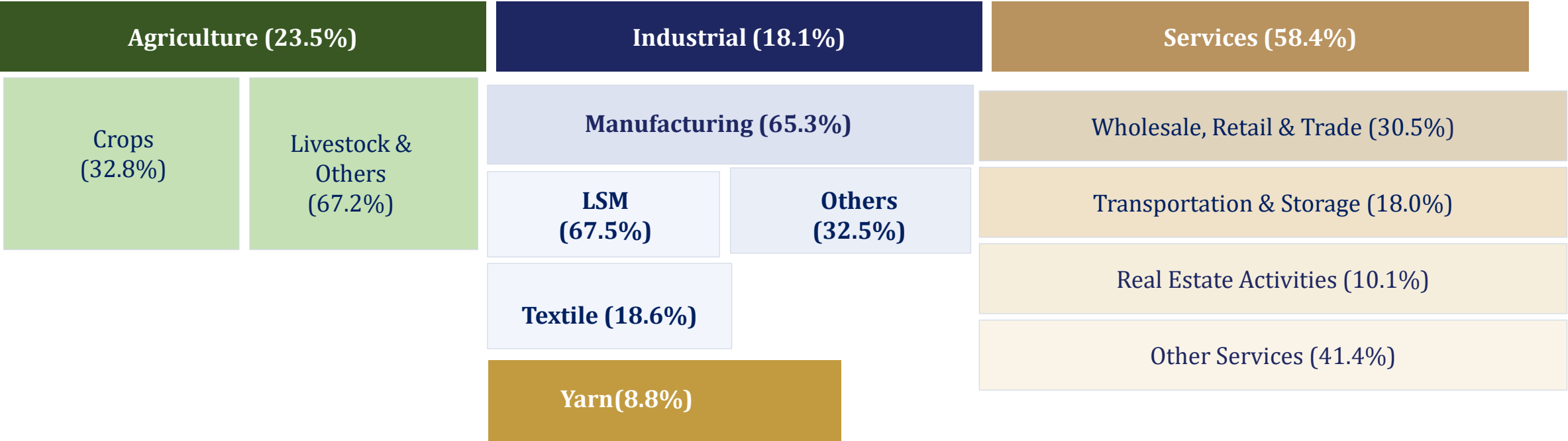
Input Costs & Raw Material Outlook

- 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.
- 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.
- The relationship between polyester and cotton is critically important because polyester serves as cotton's primary competitor in the fiber market. Although cotton and Brent crude prices initially tracked similar patterns influenced by Middle Eastern conflicts. They have recently diverged as cotton prices declined while oil climbed, keeping oil deviated commodities (like polyester) high. Whether this relative price gap ultimately boosts cotton demand will depend on how mills and downstream buyers react to shifting fiber costs.

Local Economy and Textile | An Overview

- Pakistan’s nominal GDP expanded to PKR ~126.4Tn in FY26, reflecting a 10.0% 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



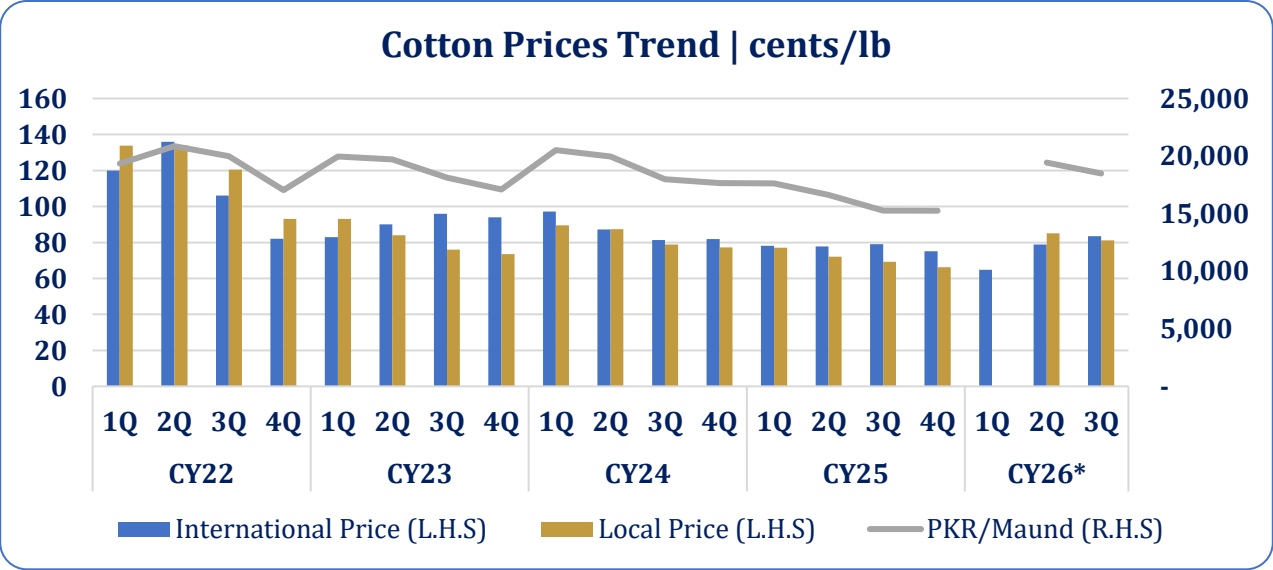
Overview

- The Spinning Sector is the first stage of the textile value chain. It converts cotton and man-made fiber into yarn for weaving and knitting.
- In FY25, ~1.8mn spindles were operational, a capacity utilization of ~90.9%. Closures continued in FY26. it was reported that more than 140 Spinning units have shutdown due to duty-free yarn imports under the Export Finance Scheme. Installed spindles fell ~6.1% YoY in FY26 and working spindles by ~5.4%.
- Yarn export volumes rose ~21% YoY in FY26. In value terms, exports rose ~13% to PKR ~214.5bn, or USD ~765mn (FY25: PKR ~189.5bn; USD ~679mn). The average export price fell ~7% to USD ~2.49/kg (FY25: USD ~2.67/kg), as global cotton prices were low through 1HCY26.
- The industry includes large organized players as well as fragmented cottage and small-scale units. The Sector has a long operating history in Pakistan. Its market structure is competitive, with a large number of players producing a relatively homogeneous product.
- Cotton procurement timing and energy efficiency becomes key determinants of margins for sector player.

Spinning	FY24	FY25	FY26
Revenue (PKR bn)	929.0	882.7	876.8
Spindles Installed (000 Nos.)	1,722	1,722	1,618
Spindles Operational (000 Nos.)	1,565	1,565	1,481
Capacity Utilization (%)	90.9%	90.9%	91.6%
Yarn Production (000 MT)	2,477	2,665	2,692
Export Volume (000 MT)	353	256	308
Cotton Yarn Export Value (PKR bn)	272	187	215
Cotton Yarn Export Value (USD mn)	956	681	765
Contribution in Country's Total Exports (%)	3.1%	2.2%	2.5%
Association	All Pakistan Textile Mills Association (APTMA)		

Cotton Dynamics | Prices

- Global cotton prices settled to ~76 cents/lb in 3QCY26, down ~-3.3% QoQ and also ~-2.3% YoY (3QCY25: ~79 cents/lb). This is a ~29% recovery from the 1QCY26 trough of ~65 cents/lb, the lowest level in the last five years period shown. Domestic prices moved the other way in 3QCY26. They increased ~14.3% QoQ to ~83 cents/lb (PKR ~18,973/maund), from ~73 cents/lb (PKR ~16,514/maund) in 3QCY26.
- Within the quarter, a nationwide goods transporters’ strike in August brought cotton trading to a near standstill, with deals of ~60,000 bales held up in Sindh. After the strike ended, buying by mills and the global rally lifted the KCA spot rate to PKR ~19,500/maund on Sept 2, 2026. The spot rate normalized to PKR ~18,500/maund by end-September. On average, domestic cotton prices are ~16.9% higher in 3QCY26 than CY25.
- Driven by expectations of a higher CY25 crop yield, international prices had dropped ~10.8% YoY to ~78 cents/lb in CY25 (CY24: ~87 cents/lb), with the decline most pronounced in the mid-year. 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 ginner and textile mills.
- Looking ahead, prices are expected to stay range-bound around current levels through end-CY26. ICAC’s 2026/27 Cotlook A forecast midpoint of ~78 cents/lb and Dec-27 futures at ~78 cents/lb point to broadly flat-to-softer global prices in CY27. Domestically, higher ginning arrivals (~4.08mn bales by mid-Oct) amid subdued mill demand are likely to keep the KCA spot rate near PKR ~18,000–19,000/maund into year-end.



	CY22	CY23	CY24	CY25	3QCY26*
International (cents/lb)	111	91	87	78	76
Local (cents/lb)	120	82	83	71	83
Local (PKR/maund)	19,312	18,730	19,027	16,200	18,973

As of Sept 30 2026

PKR ~18,500/maund

Spot rate, driven by a post-strike surge in mill demand and firm global benchmarks (NY futures ~78.5 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.

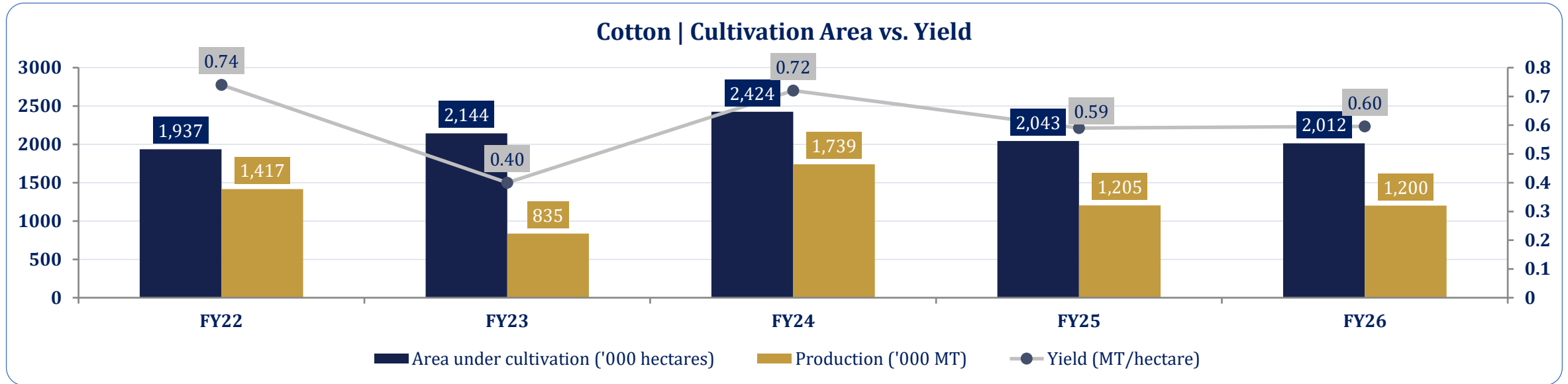
Cotton Dynamics

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

- 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 September 30, 2026, ginning factories had received ~3.2mn bales for the new MY27 season, reflecting a slim 5.4% increase from the same period last year. During the second half of September (September 16–30), cotton arrivals fell short of expectations, totaling 820,000 bales against a projected 1.1mn bales. Total cotton production is expected to be ~ 5.9 to 6.0mn bales in MY27, considering the 7.5% growth rate reported in mid October.

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. *Production and import figures may vary from local sources due to differences in reporting periods.

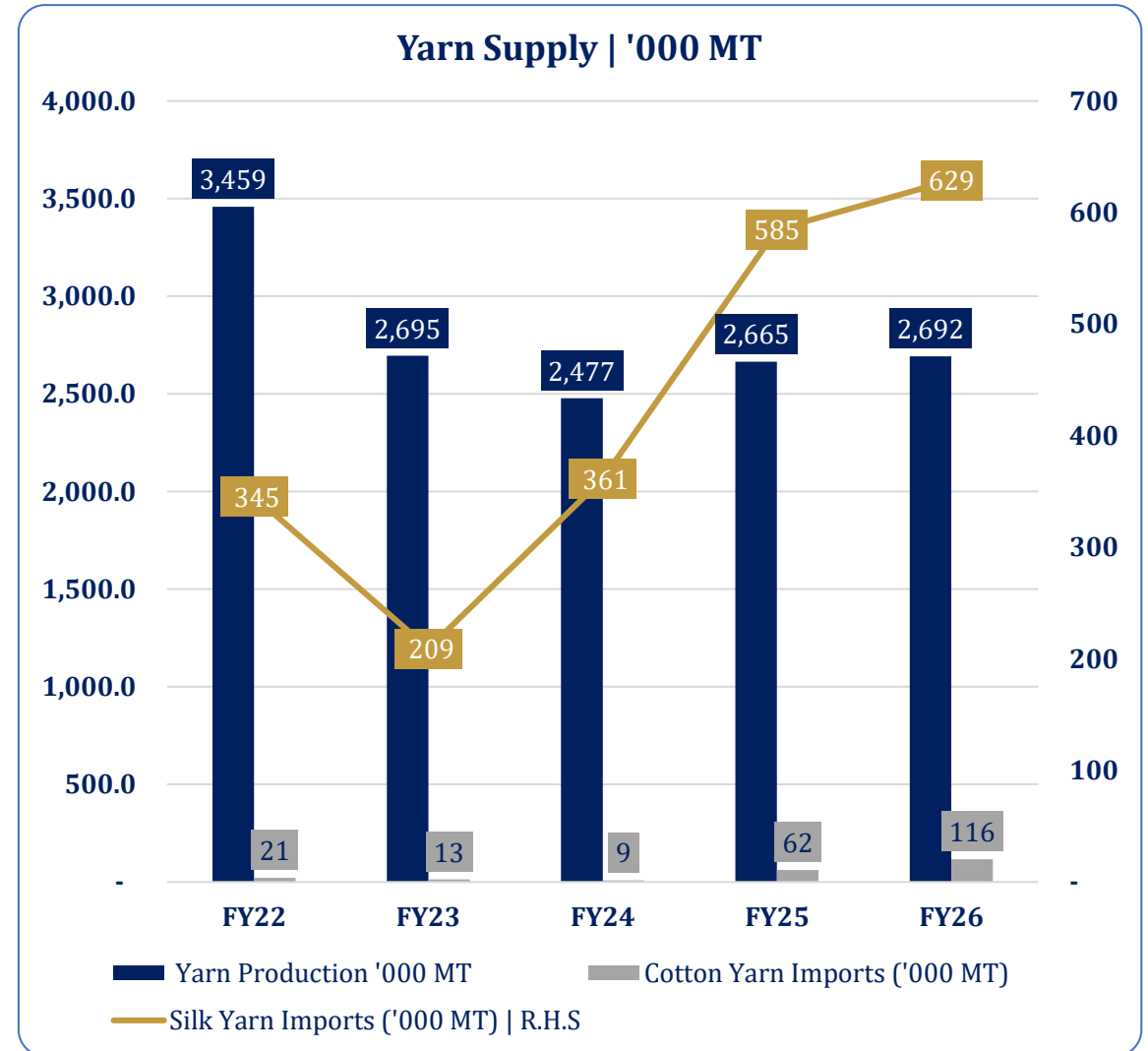
Local | Area under Cultivation vs. Yield



- 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 1.2mn MT (FY25: ~1.2mn).
- The lower area under cultivation for cotton 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 adverse weather conditions leading to low yields.
- Climate pattern changes including excessive heat, erratic rainfall, and monsoon flooding in primary cotton growing zones are quite evident in Pakistan now. As a result, crop productivity remains significantly below regional and global standards, where top producers achieve yields several times higher.
- On a regional basis as of September 30, 2026, arrivals increased in Punjab reaching 1.2mn bales (a 6.9% increase), while Sindh recorded ~2.0mn bales (a 4.5% increase).

Yarn Supply

- Cotton yarn production stayed broadly flat at ~2.69mn MT in FY26, up ~1.0% YoY (FY25: ~2.67mn MT). This follows a ~7.6% recovery in FY25 from the FY24 low of ~2.48mn MT. Output is still ~22% below the FY22 peak of ~3.46mn MT. Recovery has been held back by the closure of 100+ Spinning units, with mills citing high energy tariffs and heavy taxation as probable reasons.
- Cotton yarn imports nearly doubled to ~116k MT in FY26 (FY25: ~62k MT), ~13x the FY24 level of ~9k MT. Imports now meet ~4% of cotton yarn supply (FY24: <1%) in Pakistan. This came despite the FBR's removal of cotton, cotton yarn and grey cloth from the Export Facilitation Scheme (EFS) in Jul-25, which brought them under 18% sales tax. A weak domestic crop of ~5.6mn bales in FY26, against Spinning demand of ~10mn bales, kept mills reliant on imported fiber and yarn.
- Synthetic and artificial silk yarn imports rose ~7.5% YoY to ~629,000 MT in FY26 (FY25: ~585,000 MT), after a ~62% jump in FY25 (FY24: ~361,000 MT). These imports remained outside the 18% sales tax applied to cotton yarn under EFS.



Note: For imports of cotton yarn, the following HS Codes have been considered: 5205, 5206, and 5207.

Production and import figures may vary due to differences in reporting periods

Local | Yarn Supply

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

- 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.

Installed Capacity

- Number of spindles working fell ~5.4% to ~1.48mn in FY26 (FY25: ~1.57mn). At FY25 productivity, this would have reduced output by ~28,100 MT. That more than explains the ~1.5% (~7,800 MT) fall in production to ~518,000 MT (FY25: ~525,800 MT). Output per working spindle rose ~4.1% to ~0.35 MT (FY25: ~0.33 MT). This offset ~20,400 MT of the volume loss, so production fell far less than the spindle base.
- Installed spindles fell ~6.1% to ~1.6mn (FY25: ~1.7mn), a net reduction of ~105,000. Idle spindles fell ~13.2% to ~136,474 (FY25: ~157,262), so ~21,000 of the retirements were idle units. The remaining ~84,000 were working spindles taken out of operation. This is consistent with continued Spinning mill closures on high energy costs and taxation.

Sector Aggregate	FY26	FY25	Change
No. of Spindles installed	1,617,933	1,722,563	-6.1%
No. of Spindles working	1,481,459	1,565,262	-5.4%
Idle spindles	136,474	157,301	-13.2%
Spindle utilisation	91.6%	90.9%	+0.7%
Capacity	350,253.0	534,811.0	-34.5%
Production (mn MT)	518.1	525.8	-1.5%
MT per working spindle	0.35	0.33	+4.1%

Production bridge, FY25 to FY26

525.8
FY25 production

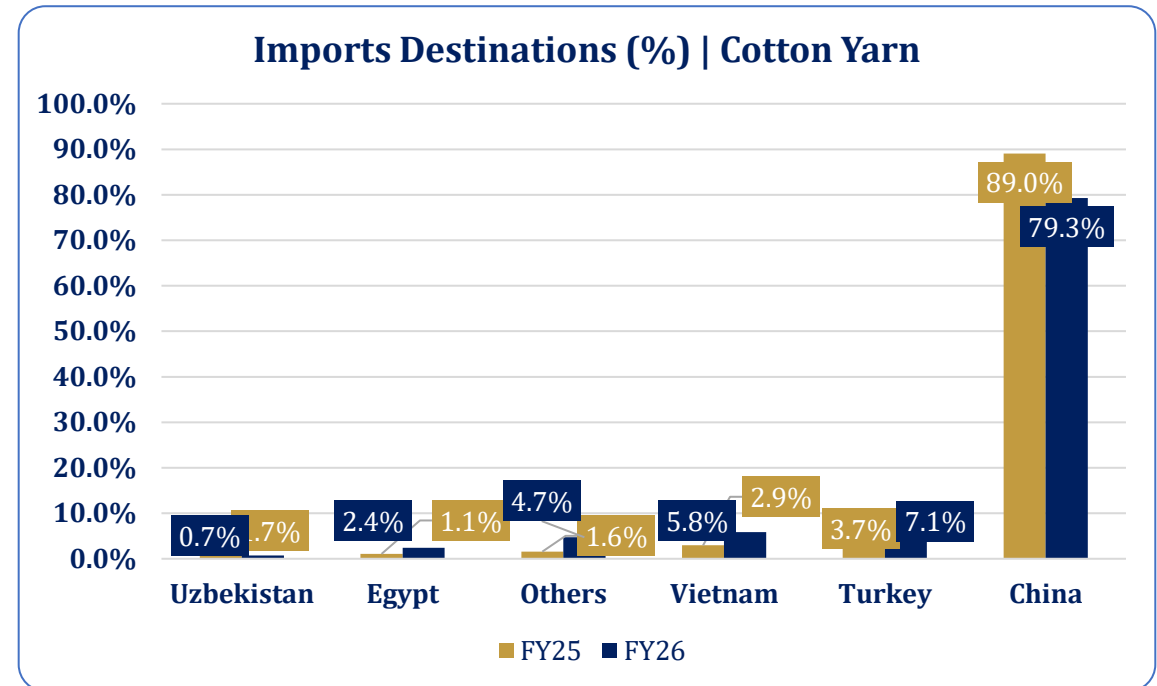
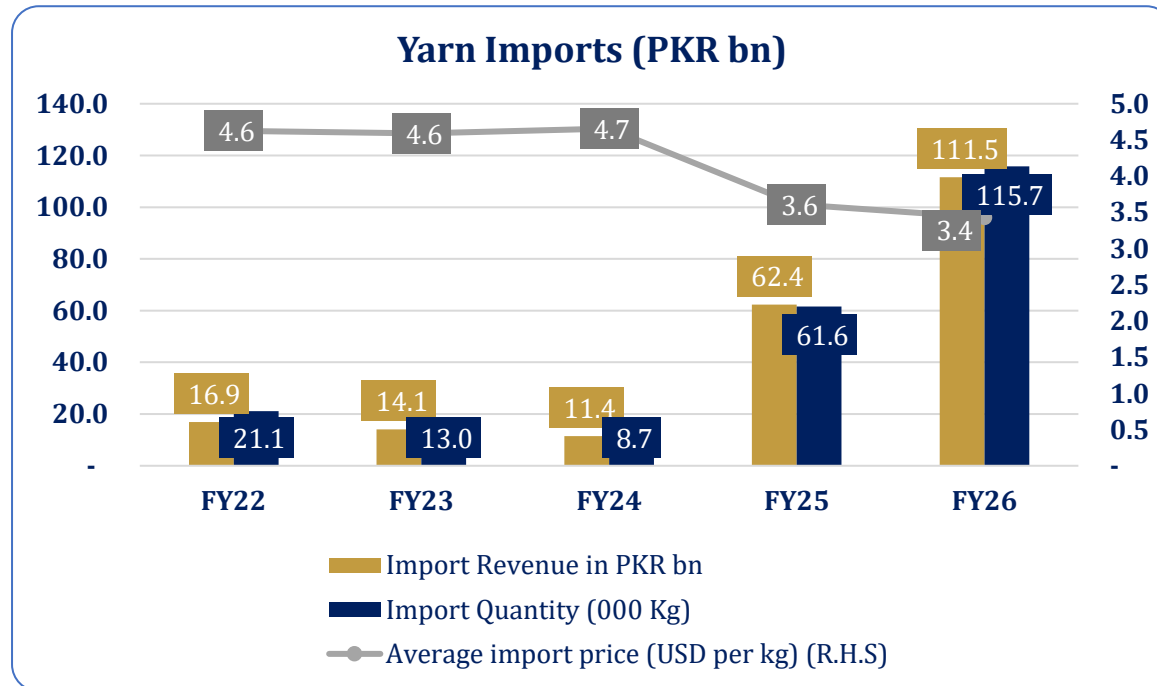
-28.1
Fewer spindles working

+20.4
Higher output per spindle

518.0
FY26 production

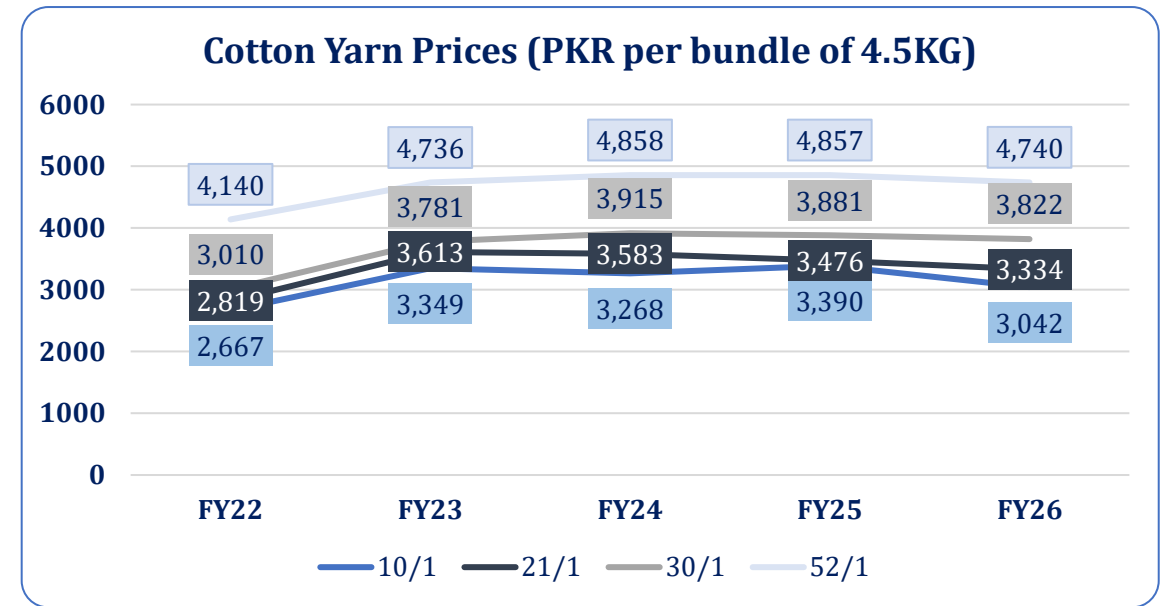
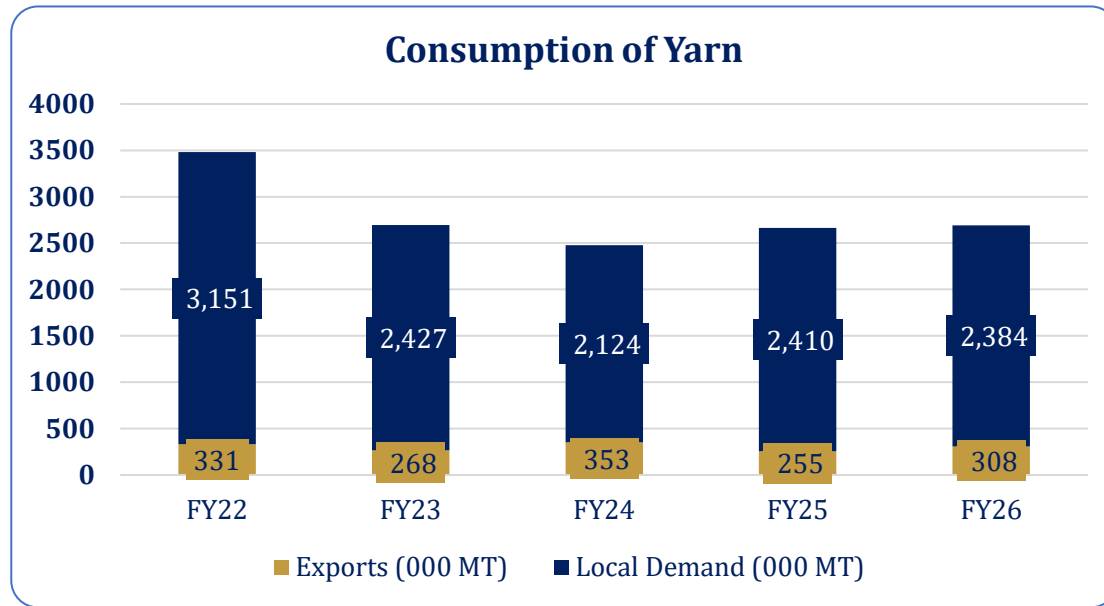
Imports

- Cotton yarn imports nearly doubled to PKR ~111.5bn in FY26, up ~79% YoY (FY25: PKR ~62.4bn). In USD terms, imports rose ~78% to USD ~397mn (FY25: USD ~222mn). During FY22-24, imports averaged only PKR ~14.1bn and bottomed at PKR ~11.4bn in FY24. The step-up began in FY25. Under the Export Facilitation Scheme (EFS), imported yarn was not subject to sales tax, while local yarn bought for exports carried 18% sales tax. This anomaly impacted local cotton and yarn producers. Cotton yarn was removed from EFS in Jul-25, but imports kept rising.
- China remained the dominant source for yarn imports, with ~79.3% share in FY26 (FY25: ~89.0%). China's share fell as other origins gained, led by Turkey at ~7.1% (FY25: ~3.7%), Vietnam at ~5.8% (FY25: ~2.9%) and Egypt at ~2.4% (FY25: ~1.1%). China's dominance stems from its scale, with over 50% of global Spinning capacity, state subsidies across its cotton and Spinning chain, and a lower duty of ~4.2% on cotton yarn under the China-Pakistan Free Trade Agreement.



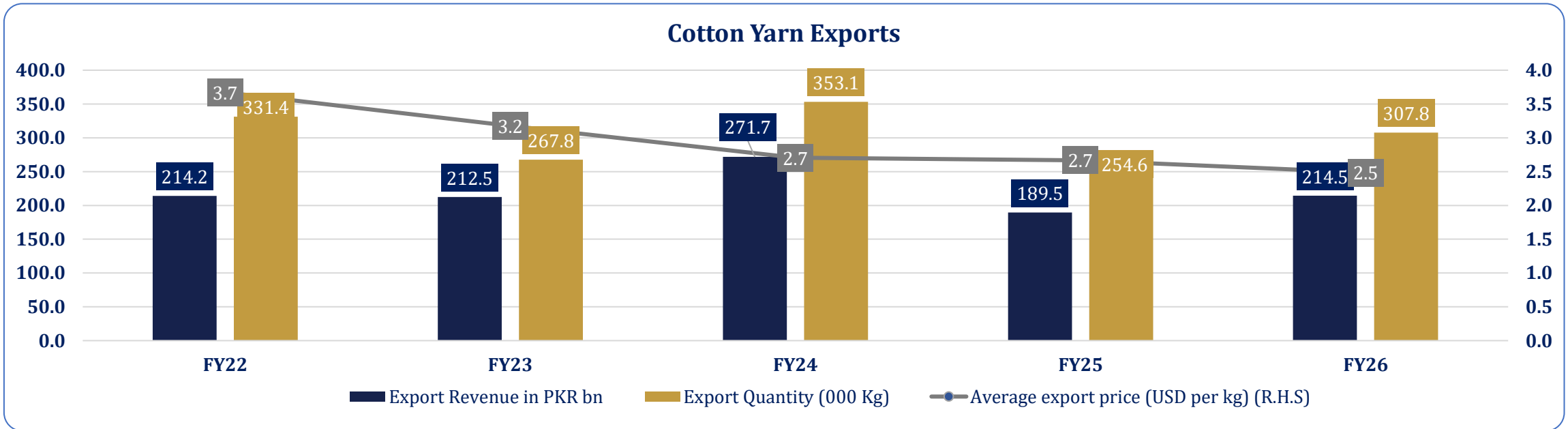
Note: Shares of countries in Pakistan's Yarn Imports by country are value-based.

Prices & Demand



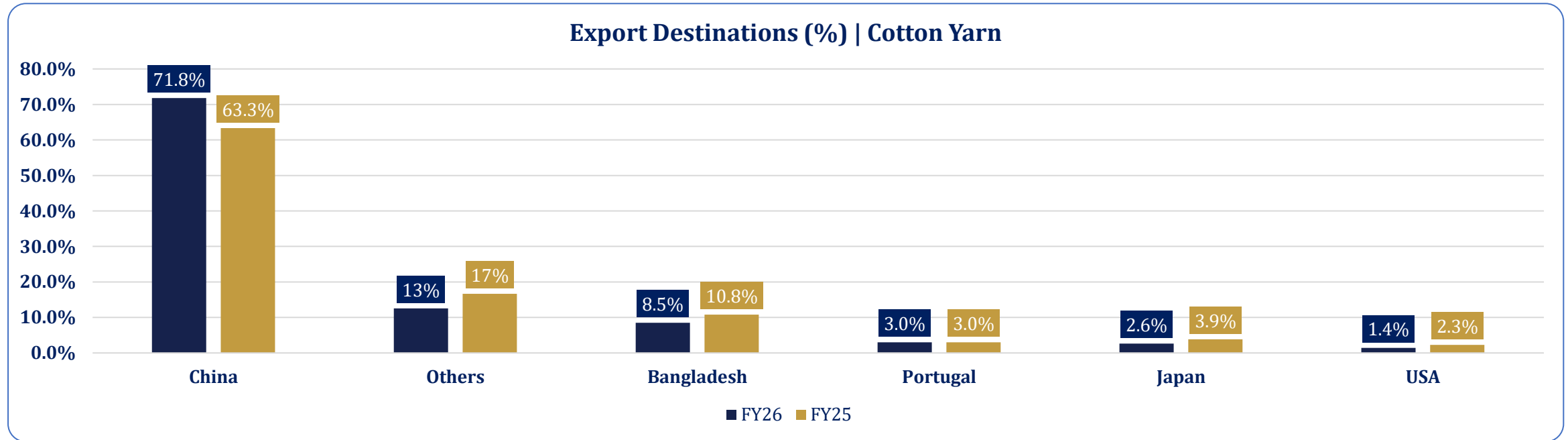
- Yarn production levelled off at ~2.5mn MT in FY26, up ~1.5% YoY. Local yarn demand eased ~1.1% to ~2.38mn MT (FY25: ~2.41mn MT). Yarn exports rose ~20.8% to ~308k MT (FY25: ~255k MT). This lifted total offtake to ~2.69mn MT (FY25: ~2.67mn MT).
- Yarn prices softened across all counts in FY26. Coarse 10/1 fell the most, down ~10.3% to PKR ~3,042 per bundle (FY25: PKR ~3,390). 21/1 fell ~4.1%, 52/1 ~2.4% and 30/1 ~1.5%. The decline tracks cheaper raw cotton. Pakistan's ex-gin cotton prices held at ~67-71 cents/lb in 2025/26, broadly following international benchmarks lower as New York futures and the Cotlook A Index fell, on larger global supplies and slower mill demand.
- The Cotlook A Index stood at ~77 cents/lb in Oct 2025, while the KCA spot rate fell to PKR ~15,100 per maund. Ample domestic cotton at competitive prices also led many mills to raise the share of local fibre in their consumption mix. Cotton makes up a larger share of the cost of coarse counts, so the pass-through was sharpest in 10/1

Exports



- Pakistan mainly exports coarse, uncombed single yarn and imports finer counts. Cotton yarn export volumes rose ~21% YoY to ~308mn kg in FY26 (FY25: ~255mn kg), recovering about half of the FY25 decline from the FY24 high of ~353mn kg.
- In value terms, exports rose ~13% YoY to PKR ~214.5bn in FY26 (FY25: PKR ~189.5bn). In USD terms, they rose ~13% to USD ~765mn in value terms, exports rose ~13% YoY to PKR ~214.5bn (FY25: PKR ~189.5bn), or USD ~765mn (FY25: USD ~679mn). Value grew more slowly than volume because the average export price fell ~7% to USD ~2.49/kg (FY25: USD ~2.67/kg), the lowest in five years and ~32% below FY22 (USD ~3.67/kg), in line with weaker international cotton prices.
- Export realizations remained under pressure in FY26, with the average price at a five-year low. Export sales benefit from access to concessionary export finance, while local sales face competition from imported yarn. Spinners therefore adjust their sales mix between the two markets in line with relative demand and pricing.

Export Destinations



- Yarn exports became more concentrated on China, whose share rose to ~71.8% in FY26 (FY25: ~63.3%). Exports to China rose ~28% YoY to USD ~550mn (FY25: USD ~430mn). Volumes rose ~33% to ~240mn kg (FY25: ~180mn kg). Pakistan has duty-free access for textiles under CPFTA Phase II since Dec-19 for the Chinese market. The rising share does add concentration risk. China buys more when its domestic cotton is expensive and imported yarn is cheaper and it can cut purchases quickly when that reverses.
- Exports to other destinations fell in FY26. Bangladesh's share fell to ~8.5% (FY25: ~10.8%), with exports down ~11% to USD ~65mn. Japan's share was ~2.6% (FY25: ~3.9%), and the USA was at ~1.4% (FY25: ~2.3%). Portugal held steady at ~3.0% (FY25: ~3.0%), and the remaining markets together fell to ~12.6% (FY25: ~16.7%).
- Pakistan holds a favorable position in its yarn trade with China, posting a trade surplus of ~USD 235.0mn as the value of yarn exported to China exceeds the value of yarn imported from it, which underscores China's role as a key net-revenue destination for local spinners.

Local | Business Risk

Dependency on Cotton Imports

- Domestic cotton production rebounded ~6.0% YoY in MY26 to ~6.8mn bales. However, local cotton is mostly short-to-medium staple, which suits coarse and medium-count yarn. Spinners producing finer counts still depend on imported long-staple cotton.
- MY27 production is projected to rise a further ~4.7% YoY, supporting raw material availability specifically for the sector.

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 Energy Costs

- With the 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 are above the regional average (India, Bangladesh, Vietnam).

Low Value Addition

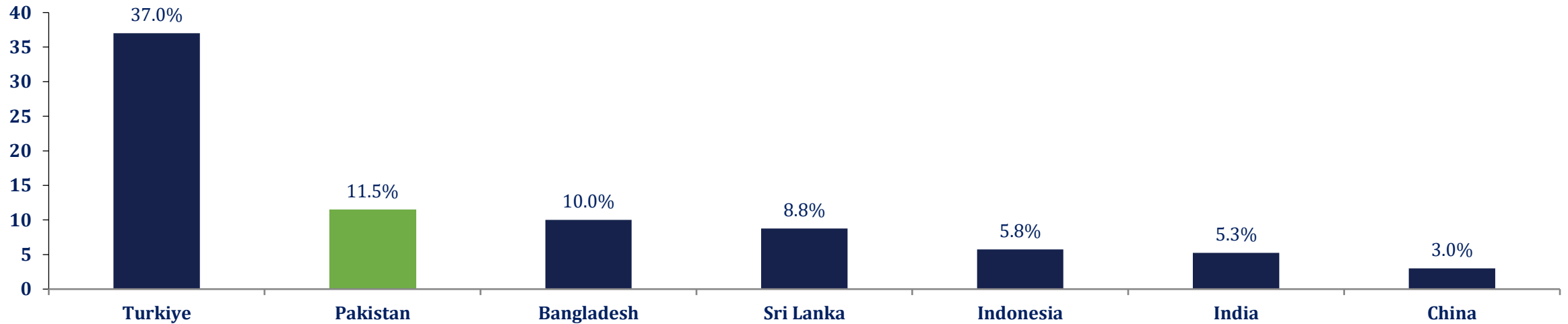
- Sector profitability has improved, but spinning remains the most commoditized link in the textile chain. Margins are structurally narrower than in downstream weaving and apparel segments.
- Yarn prices closely track cotton prices, so spinners have little pricing power. The bulk of output is concentrated in coarse and medium counts, which limits upgrading to higher-value fine yarns.

High Level of Regional Competition

- Pakistani spinners face strong competition from regional yarn producers such as India, China and Vietnam. Larger scale and lower input costs let these producers' undercut prices in export markets.
- Cheaper imported yarn also competes with local spinners in the domestic market, which further compresses prices and margins.

Interest Rates | Regional Comparison

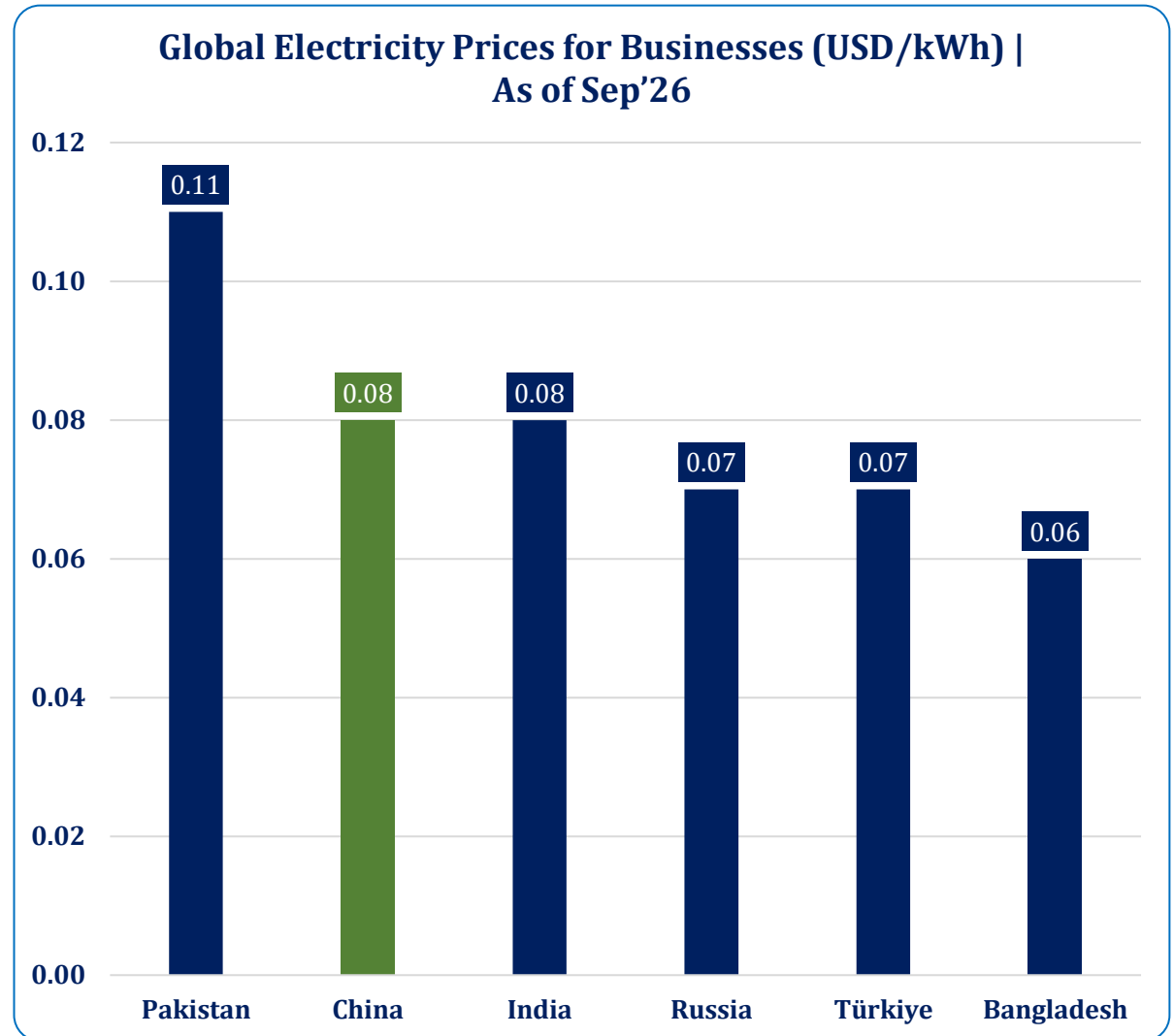
Global Interest Rates | as of Jul'26



- 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 results in higher borrowing costs for the spinning sector than most regional textile-exporting competitors, weighing on working capital and expansion or BMR activities. 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.
- Spinning ties up more working capital than any other part of the textile chain. Mills buy most of their cotton during the ginning season and carry several months of inventory, funded largely by short-term borrowing at KIBOR-linked rates. A higher policy rate therefore directly elevates finance cost and squeezes already thin yarn margins.

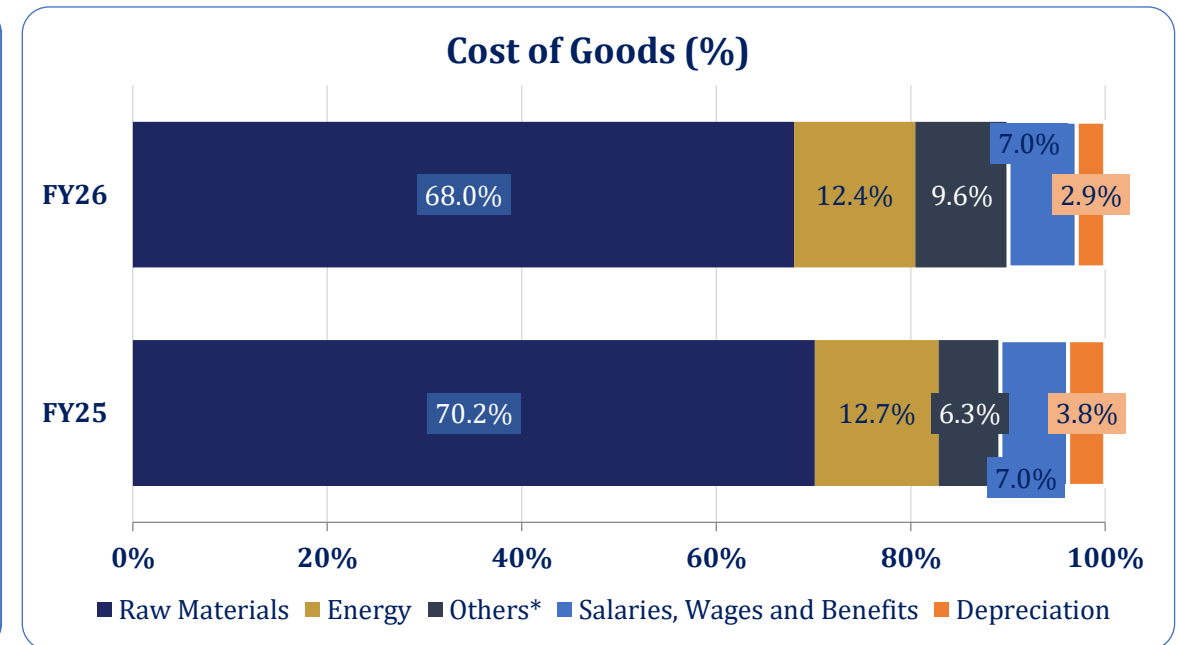
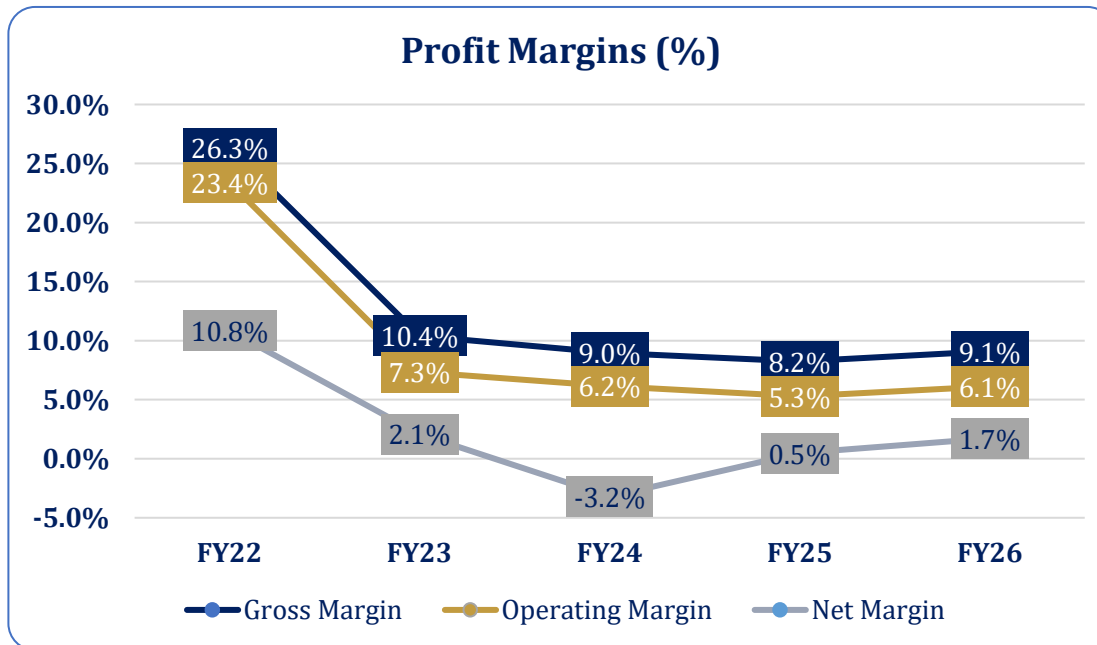
Regional Comparison

- Pakistan's export-oriented industries face a cost disadvantage against regional peers in terms of electricity tariffs. As of Sep'26, the business electricity tariff in Pakistan stood at ~USD 0.11/kWh, the second highest in the peer set after South Korea (~USD 0.13/kWh). This is ~38% above China and India (~USD 0.08/kWh) and ~57% above Russia and Türkiye (~USD 0.07/kWh).
- The government previously supplied energy to the five export-oriented sectors, including textiles, at regionally competitive rates. These comprised an RCET of PKR~19.99/kWh for electricity and a tariff of USD~9.0/MMBTU for gas/RLNG. The facility has been discontinued since Mar'23, impacting the Sector's margin and competitiveness.
- Energy is a major component of conversion costs for textile mills, making this gap a key determinant of competitiveness. Elevated electricity tariffs and overall energy costs continue to compress margins for yarn producers.



Margins & Cost Structure

- Spinning in Pakistan is a low-margin commodity business. Mills take the market price for both cotton and yarn. Margins move mainly with cotton prices, energy tariffs and the policy rate. The sector's main risks during FY26 were raw material price volatility, rising energy costs as gas supply was disrupted, and high interest rates. Revenue was broadly flat at PKR ~876.8bn in FY26, down ~0.7% YoY (FY25: PKR ~882.7bn). The gross margin improved to ~9.1% (FY25: ~8.2%) mainly on the back of relatively lower cotton prices and cost controls rather than pricing.
- In FY26, the operating margin improved to ~6.1% (FY25: ~5.3%). Distribution costs rose on higher logistics and export-related charges, as value-added and yarn export volumes increased. The net margin improved to ~1.7% (FY25: ~0.5%) where relatively lower finance costs drove most of the gain. In value terms, finance costs fell ~17.0% (FY25: ~5.3%) with the average policy rate remained lower through most of FY26,
- Cost of sales fell ~1.6%, more than revenue. Raw material costs fell ~4.6%, as local and global cotton prices averaged lower in FY26 than in FY25. Raw materials remain the largest cost, but their share of cost of sales eased to ~68.0% (FY25: ~70.2%). Energy costs fell ~3.8% in absolute terms, as industrial grid tariffs were cut by ~3.3% to PKR 33.48/kWh under the FY26 base tariff.

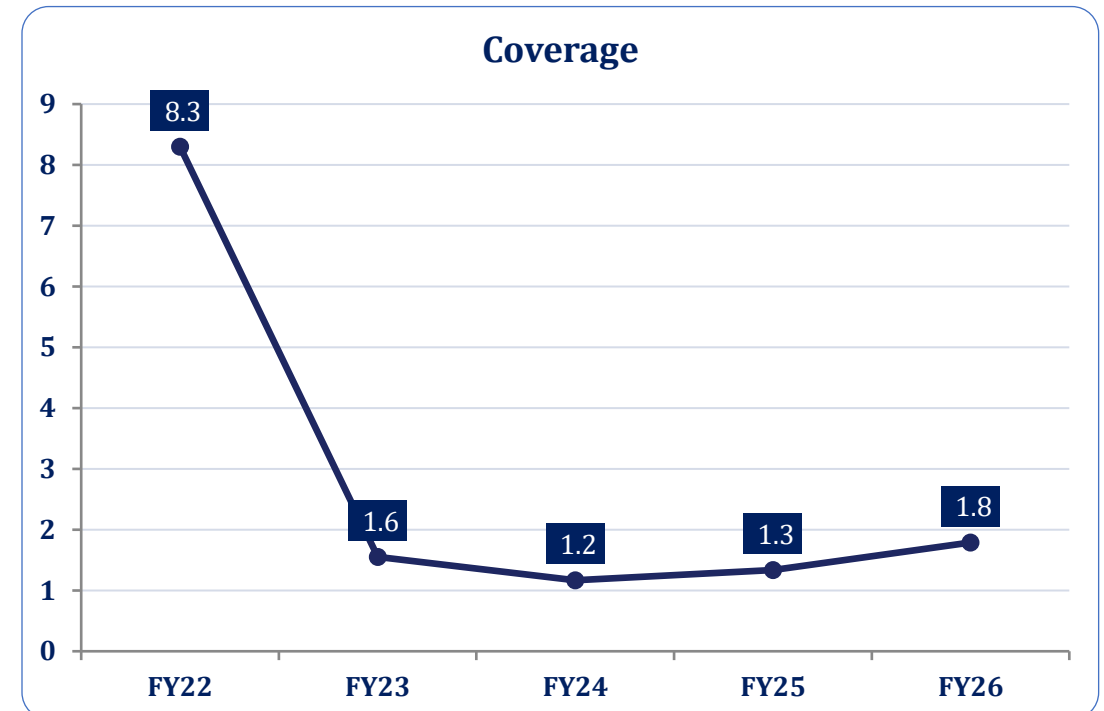
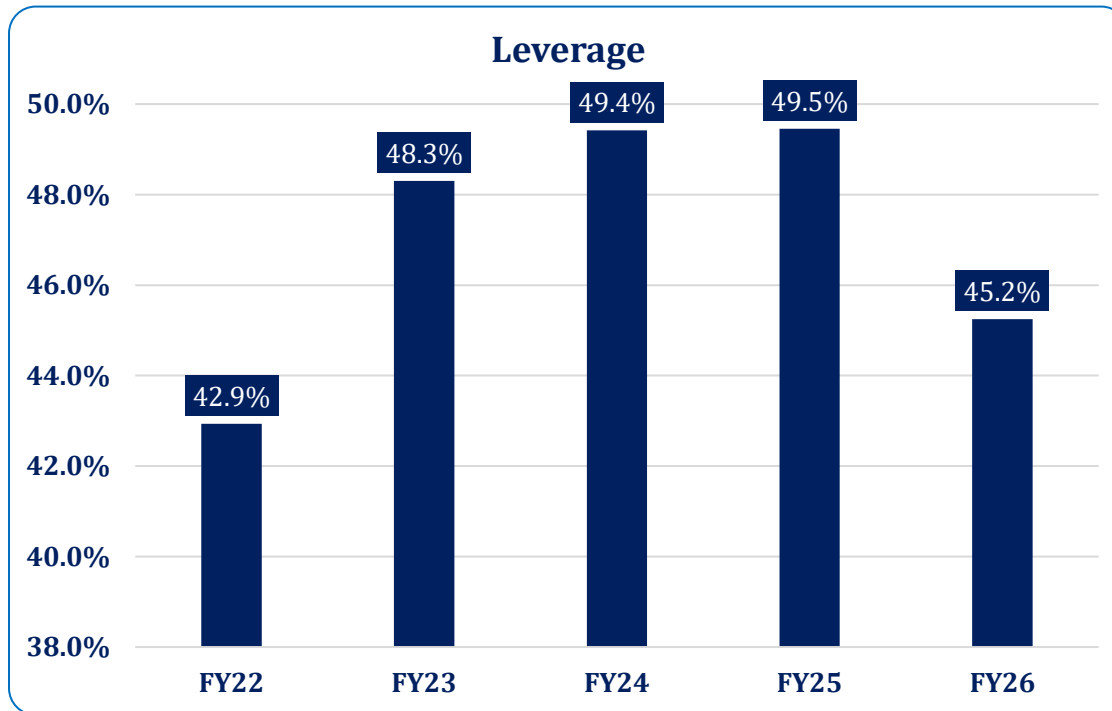


Note: Margins and cost break up are reflective of listed/rated Spinning Sector players.

*Others include but is not limited to repairs, packing material, Dyeing, stitching and knitting charges

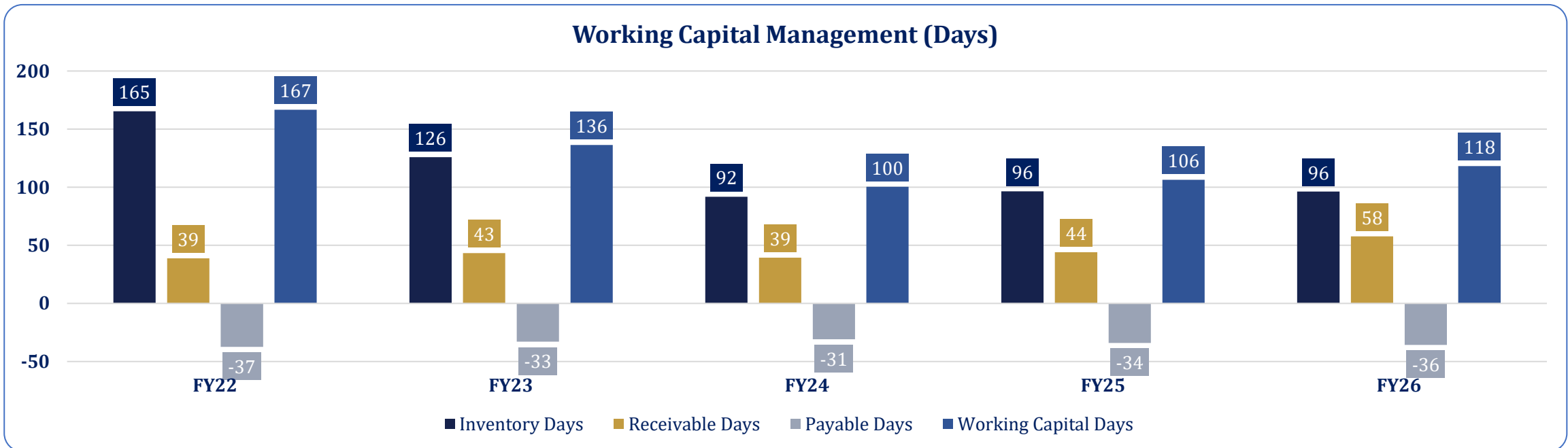
Leverage & Coverage

- The sector's leverage fell to ~45.2% in FY26 (FY25: ~49.5%), the lowest since FY22. It had climbed steadily from ~42.9% in FY22, as mills borrowed at high rates to fund costly cotton inventories and keep running through the downturn. Leverage in the spinning sector largely reflects the high working capital the business needs. Mills buy most of their cotton in the harvest season and carry it for several months,
- Coverage had collapsed from ~8.3x in FY22 to ~1.6x in FY23 as policy rates peaked and margins came under pressure, then bottomed at ~1.2x in FY24. The FY26 recovery came mainly from lower interest costs rather than higher sales.
- Coverage of ~1.8x remains far below FY22 levels and leaves little headroom. Inflation rose to ~11.1% in August 2026 (July: ~9.2%), so further rate cuts look unlikely in the near term. The expanded Export Refinance Scheme announced in the FY27 budget is still not operational. Exporters therefore continue to fund working capital at double-digit commercial rates, which limits further gains in coverage.

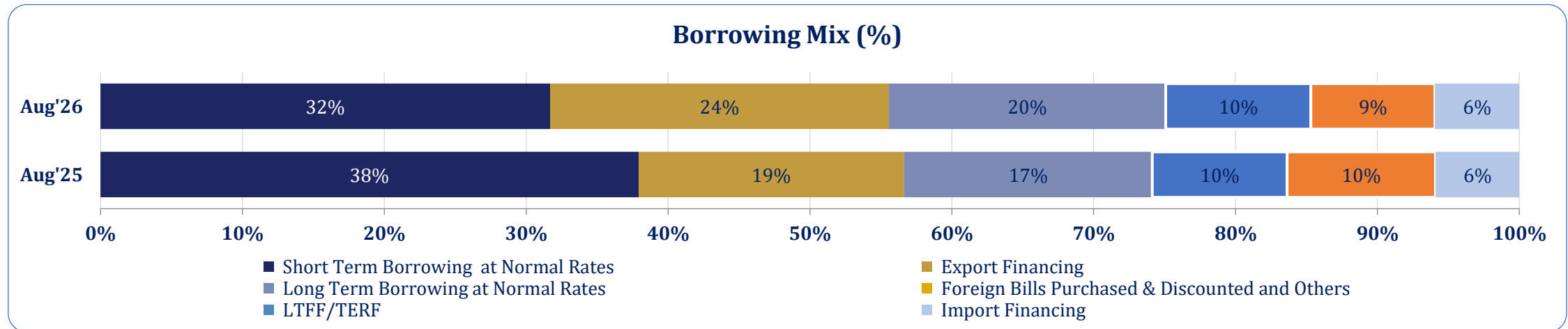


Working Capital Management

- Inventory in spinning consists mostly of raw material and finished goods, with work-in-process having a small share. Cotton is bought mainly during the ginning season and stocked for several months. Thus, spinning ties up more working capital than any other part of the textile chain. Many organized mills belong to integrated groups, which supports more efficient working capital management.
- Average inventory days held at ~96 days in FY26, largely unchanged from FY25 (~96.4 days). National cotton stocks were reported below ~10,000 bales in May-26. Receivable days rose sharply to ~57.6 days (FY25: ~44.0 days). Part of the increase reflects higher yarn and value-added export volumes, which carry longer collection cycles.
- As a result, net working capital days rose to ~118.2 days (FY25: ~106.4 days). The increase came entirely from higher receivables, not from heavier inventory. Supplier credit covers only ~36 days of this cycle, so the sector relies heavily on short-term bank borrowing to fund the rest. This reflects on the sector's reliance on short term borrowing.



Borrowing Mix



- The Sector's total borrowing stood at PKR ~607.6bn as at End-Aug'26 (End-Aug'25: PKR ~622.4bn), down ~2.4% YoY. Spinning borrowings had grown every year since FY21, marking this the first decline in last five years. It is in line with the SBP's finding that textiles made net loan retirements in 1HCY26.
- Short-term loans at normal rates fell ~18.4% YoY to PKR ~192.6bn (End-Aug'25: PKR ~236.1bn). Their share of total borrowing fell to ~31.7% (End-Aug'25: ~37.9%). The policy rate was raised to ~11.5% in Apr-26, and mills switched to cheaper export finance where they were eligible.
- Export financing rose ~24.6% YoY to PKR ~145.1bn (End-Aug'25: PKR ~116.5bn), lifting its share to ~23.9% (End-Aug'25: ~18.7%). The mix within export financing changed sharply. Borrowing under the SBP Export Finance Scheme (EFS) fell ~48.5% to PKR ~29.6bn (End-Aug'25: PKR ~57.5bn). Export financing outside SBP EFS nearly doubled to PKR ~115.5bn (End-Aug'25: PKR ~59.0bn)
- Foreign bills purchased and discounted, together with other borrowing, rose ~5.1% to PKR ~62.2bn, a ~10.2% share (End-Aug'25: ~9.5%). Import financing was broadly flat at PKR ~36.1bn, a ~5.9% share (End-Aug'25: ~5.9%). Short-term borrowing still makes up ~66% of the total (End-Aug'25: ~66%). Spinning's inventory-heavy cycle, built on seasonal cotton stocking, keeps the Sector dependent on working capital lines.

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.

Duty Structure

		Additional Custom Duty		Custom Duty		Regulatory Duty		Total	
PCT Code	Description	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, 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%
52.10	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibres, weighting not 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 fibres, weighting more than 200g/m2	0.0%	0.0%	10.0%	10.0%	0.0%	0.0%	10.0%	10.0%
52.12	Other woven fabrics of cotton	2.0%	2.0%	15.0%	15.0%	0.0%	0.0%	17.0%	17.0%

SWOT Analysis

Strengths

- Large installed capacity
- Integrated into textile value chain as key raw material, key industry for the economy
- Government protection from tariff & duty structure
- Strong Sector association resulting in high lobbying power
- Mature and long-standing Textile Sector

Weaknesses

- Low value addition/commodity product
- Periodic imposition of import duties on import of cotton
- Lower focus on synthetic fibres
- Restrictions on sales to unorganized segment creating hurdles
- Higher electricity and interest costs
- Low cultivated area and yield

Threats

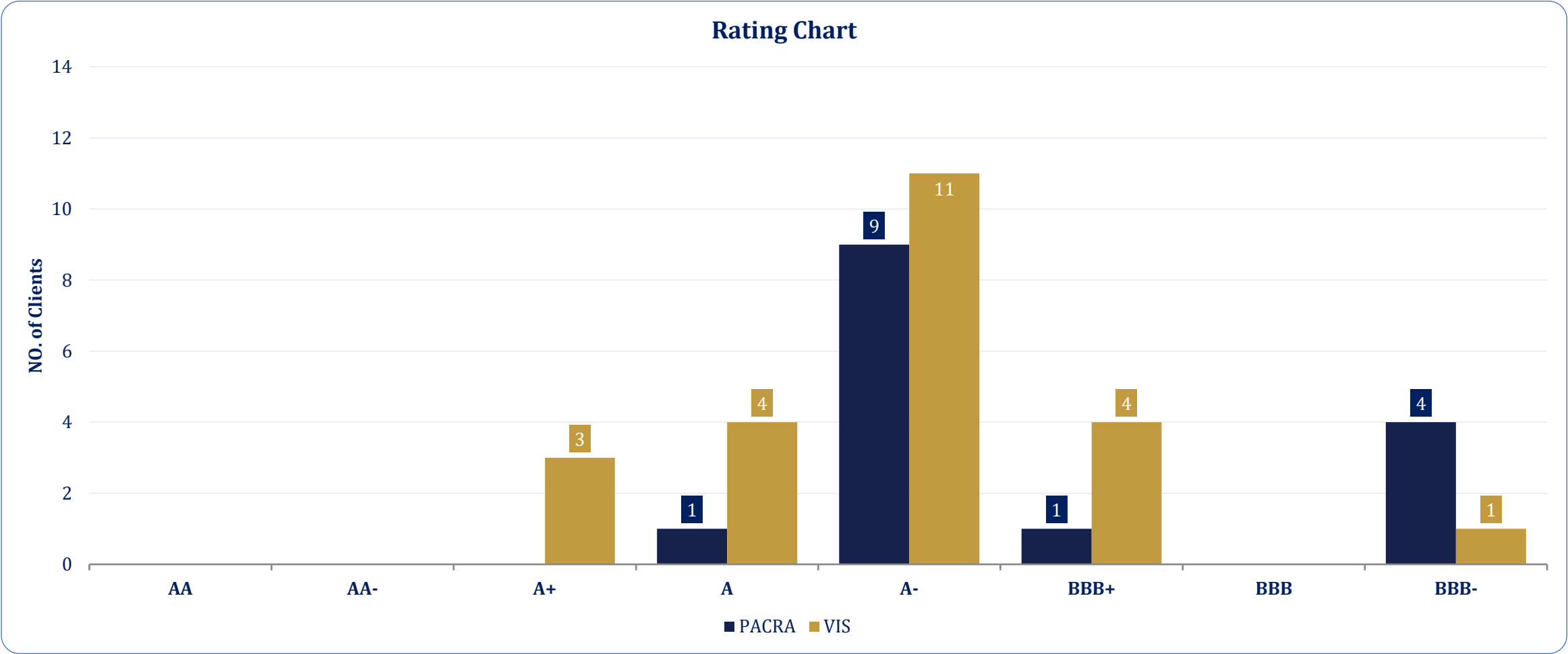
- Geographical export concentration
- Intense competition from regional players in international market
- Strong bargaining power of buyers
- Higher duties in imports
- Climate change and pest attack threats on cotton crop
- Regulatory risk

Opportunities

- Forward and horizontal integration to produce value added and differentiated products
- Opportunity to increase efficiency through technological upgrade
- Special Economic Zones provide incentives to Sector

Rating Chart

- PACRA rates 15 Spinning players with a long-term rating bandwidth ranging from A to BBB-.



Outlook: Stable

- The sector dynamics stayed broadly the same in FY26 with macro events impacting certain facets. Yarn production was flat at ~2.69mn MT, up marginally ~1.0% YoY. Export volumes recovered by ~21% to ~308k MT (USD ~765mn) with China absorbing ~72% of yarn exports. Capacity kept shrinking at the same time. Working spindles in PACRA's estimates for listed and rated clients fell ~5.4%, and higher output per spindle only partly made up the lost volume. Cotton yarn imports nearly doubled to ~116,000 MT.
- The MY27 cotton crop will be the main factor for the sector. It is estimated to be around ~5.6mn bales, against a target of ~10mn bales. That leaves a gap of ~4–5mn bales to be filled through imports. Early arrivals are ~5% ahead of last year, at ~3.21mn bales by end-September. They point to adequate supply in the first half of the season, but not to a full-season recovery. A smaller domestic crop means mills would rely on imported cotton. That will add to import and working capital financing needs. With an expected policy hike, borrowing can become costlier than last season.
- China takes ~72% of Pakistan's yarn exports (FY25: ~63%), and its share has risen every year as other markets shrank. Pakistan exports mostly coarse yarn and China uses it as an input to its own garment exports. A drop in Chinese cotton prices, or a shift in China's sourcing towards any other country like Vietnam or India could cut volumes quickly. Other markets for Pakistan are too small to absorb the lost volume.
- Spinners are increasingly moving towards captive solar power to cut energy costs, which remain their second-largest cost after raw materials. Grid power for industry still costs ~11 cents/kWh, against ~5–7.5 cents/kWh in regional competitors. This shifts the business model towards a leaner, more predictable cost base and protects margins in a price-taking market.
- FY26 margins improved across the board despite flat revenue (~PKR 876.8bn) and flat production (~2.69mn MT). The gross margin rose to ~9.1% (FY25: ~8.2%), the operating margin to ~6.1% (FY25: ~5.3%), and the net margin to ~1.7% (FY25: ~0.5%). The gains came from cost control rather than pricing: lower cotton prices, lower grid tariffs and lower finance costs. Sustained production and continued cost efficiencies, particularly the shift to solar, can support these margins going forward.
- Challenge Group's special economic zone in Punjab adds a new domestic buyer for yarn. The Chinese group committed ~USD 100mn over five years when the zone was inaugurated in August 2025. It targets USD 400mn in annual exports, and it has said raw material will be sourced locally. Its first two factories opened in December 2025. For spinners, this is new local demand and a small hedge against reliance on China's yarn purchases. SEZ status also gives the zone duty-free capital goods and a ten-year income tax exemption, a lower cost base than existing mills have. The impact on spinners will depend on whether the zone actually buys local yarn or imports through its own Chinese supply chain.

Spinning

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