

TOWELLERS LIMITED

Analyst:

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RATING DETAILS

RATINGS CATEGORY	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
ENTITY	A	A1	A	A1
RATING OUTLOOK/ WATCH	Stable		Stable	
RATING ACTION	Reaffirmed		Maintained	
RATING DATE	May 18, 2026		March 28, 2025	

Shareholding (5% or More)

Mr. Humza Shaikh Obaid - 23.43%
Ms. Mahjabeen Obaid - 14.51%
Ms. Mehreen Obaid Agha - 14.47%
Ms. Sana Bilal - 14.47%
Ms. Hadeel Obaid - 14.47%

Other Information

Incorporated in 1973
Public Limited Company (Listed)
Chief Executive: Mrs. Mehreen Obaid Agha
External Auditor: Mushtaq & Co. Chartered Accountants

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology - Corporates Ratings
<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

Rating Rationale

The assigned ratings reflect the medium business risk profile of Pakistan's textile sector, which continues to face structural challenges including declining domestic cotton production, elevated energy tariffs, and rising labor costs. While textile exports benefit from sustained demand in value-added segments and relatively favorable tariff dynamics especially in US, the sector remains exposed to intensifying regional competition, policy changes, and input cost volatility, all of which constrain profitability and growth.

TOWL's operational performance remains under strain, with stagnant topline growth in FY25 and a declining gross margin amid heightened competition, rising costs, and limited pricing flexibility in export markets. Despite these challenges, the Company continues to demonstrate a manageable financial risk profile, underpinned by a conservative capitalization structure and minimal reliance on debt. Borrowings are largely short-term in nature and linked to export financing requirements.

Liquidity and coverage indicators remain satisfactory, supported by a strong current ratio and adequate liquidity buffer in the form of cash and short-term investments. Although Funds from Operations have declined materially due to lower profitability, coverage metrics including DSCR and short-term debt coverage remain at comfortable levels, supported by limited debt obligations.

Going forward, the rating remains constrained by persistent margin pressure, high customer concentration, and exposure to evolving global trade dynamics, which may continue to weigh on the Company's earnings stability and growth trajectory.

Company Profile

Towellers Limited ('TOWL' or 'the Company') was incorporated in 1973 as a private limited company and subsequently converted into a public limited company in 1994. The Company operates vertically integrated manufacturing facilities comprising weaving, dyeing, and sewing operations, primarily engaged in the production and export of home textiles and knit apparel to international markets, particularly Europe and the USA.

TOWL's head office is situated in the F.B. Area, Karachi, while its manufacturing units are located across the F.B. Area, North Karachi, and Korangi Industrial Area. The Company's shareholding remains concentrated within the sponsoring family, with approximately 81.35% ownership collectively held, while the remaining shareholding is largely dispersed among the general public

Management and Governance

CHAIRMAN/ CEO PROFILE

Ms. Mahjabeen Obaid serves as the Chairperson and Creative Director of Towellers Limited and oversees the Company's strategic and creative direction. She holds a BA (Honors) in Graphic Design from Chatham College and a degree in Fashion Merchandising Management (Honors) from Fashion Institute of Technology

Ms. Mehreen Obaid Agha is the Chief Executive Officer (CEO) of TOWL and brings extensive experience in manufacturing and industrial management. She holds a bachelor's degree in Economics from Mount Holyoke College, USA and has been involved in the Company's development since 2004 in her capacity as a director. She was appointed CEO in 2011, following the passing of her father, Sheikh Muhammad Obaid.

BOARD & SENIOR MANAGEMENT

The Company maintains a well-structured governance framework, with an eight-member Board comprising four male and four female directors all of whom have completed Directors' Training. The Board includes four non-executive and two independent directors, ensuring an appropriate balance of oversight and independence. The Board has also constituted key committees, including the Audit Committee and the Human Resource & Remuneration Committee, to support effective governance and decision-making.

The financial accounts of the Company are audited by Mushtaq & Co, (category B on SBP's list). The auditor has issued an unqualified opinion on the FY25 accounts.

Business Risk

INDUSTRY UPDATE

Pakistan's cotton sector remained under pressure in FY25, with area under cultivation declining by 15% YoY to 2.0 million hectares and yield falling to 0.6 MT/ha (FY24: 0.7 MT/ha), resulting in a 30.7% YoY drop in production. Cotton arrivals stood at ~7.1 million bales, well below the target of 10.8 million bales, largely due to adverse weather conditions, alongside pest infestations. Additionally, the exclusion of imported raw cotton, cotton yarn, and grey cloth from Pakistan's Export Facilitation Scheme (EFS), at the start of FY26, has helped establish a more level playing field for local spinners. However, despite this policy support, domestic cotton supply remains constrained. Although the production target for FY26 is 10.2 million bales, actual output is estimated at only 6.85 million bales, primarily due to a reduction in cultivated area to around 2.0 million hectares, which is 11.5% below target. As a result, local players continue to rely on imported cotton to bridge the shortfall, with cotton imports increasing by ~234% YoY.

During FY25, Pakistan's textile exports grew by 7.4% YoY to USD 17.9 billion, driven mainly by higher demand from North America and Europe for value-added products such as knitwear, bedwear, garments, and towels. In volumes, knitwear, bedwear, and garments posted mid-single-digit growth, while exports of traditional segments, yarn and cotton cloth, declined sharply due to higher domestic energy and manufacturing costs relative to regional peers. Textile imports surged by about 54% YoY to USD 4.2 billion in FY25, primarily on account of a sharp rise in raw cotton imports amid a significant drop in domestic cotton production. However, during 5MFY26, export growth moderated to ~2.7% YoY, while imports rose modestly by ~5.0%, with raw cotton imports declining as local arrivals partially recovered. Going forward, exports to Europe could weaken as the EU-India FTA grants India duty-free access on textiles and apparel, increasing competitive pressure on Pakistan despite its GSP+ status.

Operational Performance

The Company has an annual production capacity of 25.2 million pieces of knitted apparel and towels, and has produced 20 million pieces during FY25, reflecting a utilization rate of 80%.

The workforce, primarily comprising of factory staff, expanded to 2,217 employees (FY24: 1,950), indicating an expansion in operations.

During the year, the Company has installed a biomass steam generator to mitigate gas supply shortages and further enhanced its renewable energy footprint by increasing solar capacity to 1.2 MW. Solar energy now meets approximately 47.7% of the Company's total power requirements, with the remaining demand met through grid.

PROFITABILITY

During FY25, the Company reported stagnant revenue of PKR 12.3 billion (FY24: PKR 12.3 billion), reflecting subdued sales volumes amid intensifying international competition and persistent global economic challenges that have weakened consumer purchasing power. The rising cost of doing business in Pakistan, driven by high labor costs, elevated energy tariffs, withdrawal of government subsidies and incentives, and increased taxation, has placed the Company at a competitive disadvantage in export markets. As a result, the Company has been compelled to lower prices or keep them unchanged to remain competitive, leading to margin contraction. This is reflected by a decline in gross margin to 9.4% (FY24: 10%), despite cost-control initiatives such as the installation of biomass steam generators. However, as per management, biomass steam generator has primarily mitigated gas supply shortages rather than delivering meaningful cost savings.

The Company's sales remain geographically concentrated, with Europe contributing 62% (FY24: 61%) and the USA 37% (FY24: 37%) of total revenue. Product segmentation also remained broadly stable, with garments accounting for 59% (FY24: 60%) and towels 41% (FY24: 40%) of total sales. The product mix continues to be concentrated, with the top five products i.e., bath towels, sweatshirts, pants, knitted sheets, and T-shirts, collectively contributing 78% (FY24: 74%) of total revenue. Client concentration also remains high, with the top 10 customers accounting for 86% of total sales (FY24: 85%) and 84% in volume terms. Notably, the largest client, ITX Trading, alone contributes ~34% to total sales (FY24: 41%).

Operating margin also compressed due to rising export and indirect costs, while other income, primarily generated from short term investments, declined sharply. Other income, which had supported profitability (FY25: 46% of net profit; FY24: 82%), fell by 71% YoY, following disposals during the period. However, a net tax refund (FY25: PKR 51 million; FY24: -238 million) provided some relief, resulting in a net margin of 2.3% (FY24: 4.5%).

Performance during 1HY26 has remained broadly similar. The Company reported revenue of PKR 5.7 billion, while gross margins improved to 12.3%, supported by cost efficiencies from solar energy and improved order terms due to timely deliveries. However, the management notes that growth in both revenue and profitability remains constrained by internal production capacity limitations, restricting the Company's ability to fulfill large or urgent orders and capitalize on higher-margin opportunities.

Looking ahead, the Company's performance is expected to remain under pressure due to persistent cost inflation and intensifying global competition. This may be further exacerbated by the EU-India Free Trade Agreement (FTA), which grants India duty-free access across textile and apparel tariff lines, potentially impacting TOWL given its significant exposure to European markets.

Financial Risk

CAPITAL STRUCTURE

The Company maintains a conservative capitalization profile, with minimal debt on balance sheet primarily comprising of short-term loans utilized for export financing. These borrowings increased to PKR 790 million as of end-FY25 (FY24: PKR 250 million), however, gearing and leverage ratios remained at comfortable levels of 0.14x and 0.57x, respectively (FY24: 0.05x and 0.55x). As of end-1HY26, short term borrowings declined marginally, keeping capitalization metrics at steady levels.

During FY25, the Company incurred a capex of PKR 676 million, mainly for the installation of biomass steam generator and solar energy solutions. This was funded entirely through internal resources via drawdown of short-term investments, which consequently declined to PKR 247 million (FY24: PKR 786 million).

Going forward, the Company plans to expand its stitching capacity in 1QFY27, with the project expected to be fully financed through internal cash generation.

DEBT COVERAGE & LIQUIDITY

TOWL maintains a sound liquidity profile underpinned by a current ratio of over 2.0x and a moderate cash conversion cycle of 54 days (FY24: 37 days), which lengthened due to slower inventory turnover during the period. Liquidity is further reinforced by a cash balance of PKR 825 million and short-term investments of PKR 247 million.

Funds from Operations (FFO), however, declined sharply to PKR 128 million (FY24: PKR 762 million) amidst constrained profitability. Consequently, the Company's coverage profile weakened, with FFO to total debt falling to 0.15x (FY24: 2.6x). However, DSCR remained

comfortable at 4.31x (FY24: 21.2x), while short-term debt coverage of 5.3x provided further support to the overall coverage profile. As of end-1HY26, the Company's liquidity and coverage metrics remained broadly stable.

FINANCIAL SUMMARY *(amounts in PKR millions)*

Appendix I

BALANCE SHEET	FY22 A	FY23 A	FY24 A	FY25 A	1HYFY26 M
Property and Equipment	3,143	3,251	5,601	5,988	6,014
Stock-in Trade	1,491	1,625	1,479	2,073	2,490
Trade debts	1,547	2,246	2,205	2,088	1,737
Short term investments	228	1,352	786	247	368
Income & sales tax refundable	475	653	503	701	710
Cash and bank balance	664	430	702	825	710
Total Assets	7,830	9,982	11,935	12,387	12,463
Long term debt (inc. lease & current portion)	11	10	43	39	37
Short term debt	791	-	250	818	847
Total debt	802	10	293	856	884
Trade and other payables	1,454	2,233	2,340	2,297	2,237
Total Liabilities	2,439	2,421	3,195	3,509	3,480
Paid up capital	170	170	170	170	170
Reserves	3,031	5,256	5,690	5,945	6,104
Tier-1 Equity	3,201	5,426	5,860	6,115	6,274
Revaluation Surplus	2,190	2,135	2,880	2,763	2,710
Total Equity	5,391	7,561	8,740	8,878	8,984
INCOME STATEMENT	FY22 A	FY23 A	FY24 A	FY25 A	1HYFY26 M
Net Sales	10,238	11,087	12,315	12,347	5,747
Gross Profit	2,087	3,143	1,232	1,158	704
Operating Profit	1,208	2,634	829	266	231
Finance Costs	(23)	(56)	(31)	(30)	(25)
Profit Before Tax	1,185	2,578	798	236	206
Profit After Tax	1,063	2,386	560	287	106
RATIO ANALYSIS	FY22 A	FY23 A	FY24 A	FY25 A	1HYFY26 M
Gross Margin (%)	20.4%	28.3%	10.0%	9.4%	12.3%
Operating Margin (%)	11.8%	23.8%	6.7%	2.2%	4.0%
Net Margin (%)	10.4%	21.5%	4.5%	2.3%	1.8%
Funds from Operation (FFO) (PKR Mn)	1,030	2,405	762	128	240
FFO to Total Debt (x)*	1.28	234.74	2.60	0.15	0.59
FFO to Long Term Debt (x)*	92.80	234.74	17.79	3.31	13.02
Gearing (x)	0.25	0.00	0.05	0.14	0.13
Leverage (x)	0.76	0.45	0.55	0.57	0.55
Debt Servicing Coverage Ratio (x)*	43.46	43.26	21.21	4.31	9.25
Current Ratio (x)	2.06	2.98	2.41	2.03	2.06
(Stock in trade + trade debts) / STD (x)	3.84	-	14.74	5.27	5.44
Return on Average Assets (%) *	13.6%	26.8%	5.1%	2.4%	0.9%
Return on Average Equity (%) *	33.2%	55.3%	9.9%	4.8%	1.7%
Cash Conversion Cycle (days)*	57	46	37	54	64

*Annualized, if required

A - Actual Accounts

M - Management Accounts

REGULATORY DISCLOSURES						Appendix II
Name of Rated Entity	Towellers Limited					
Sector	Textiles					
Type of Relationship	Solicited					
Purpose of Rating	Entity Ratings					
	Rating Date	Medium to Long Term	Short Term	Outlook / Rating Watch	Rating Action	
	RATING TYPE: ENTITY					
Rating History	18/05/2026	A	A1	Stable	Reaffirmed	
	03/28/2025	A	A1	Stable	Maintained	
	02/07/2024	A	A1	Positive	Maintained	
	12/30/2022	A	A1	Stable	Reaffirmed	
	01/07/2022	A	A1	Stable	Initial	
Statement by the Rating Team	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.					
Probability of Default	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.					
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Due Diligence Meetings Conducted	S.No.	Name	Designation	Date		
	1.	Mr. Adnan Moosaji	CFO	21-April-26		