

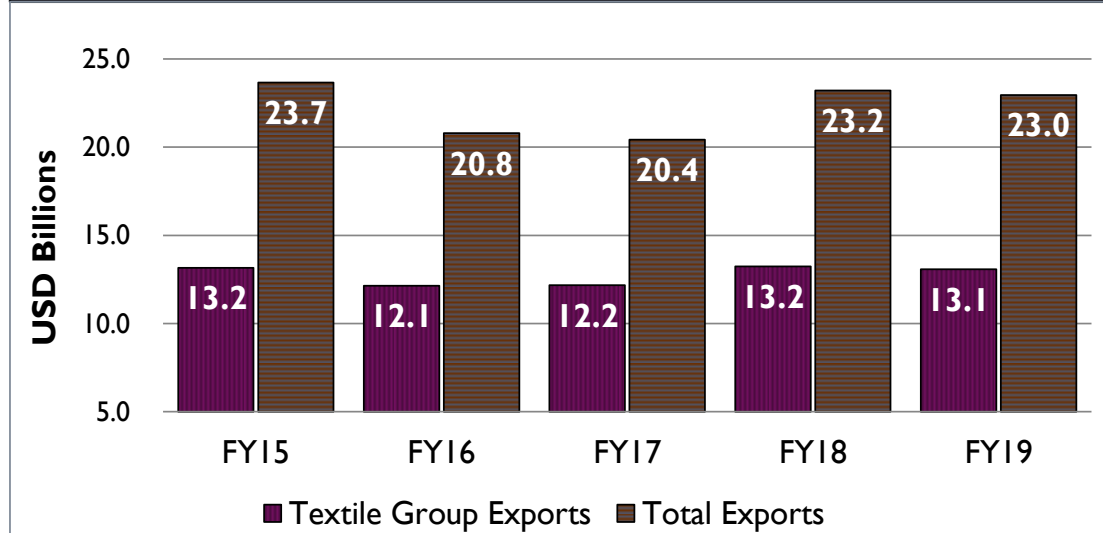
TOWEL INDUSTRY

March, 2020

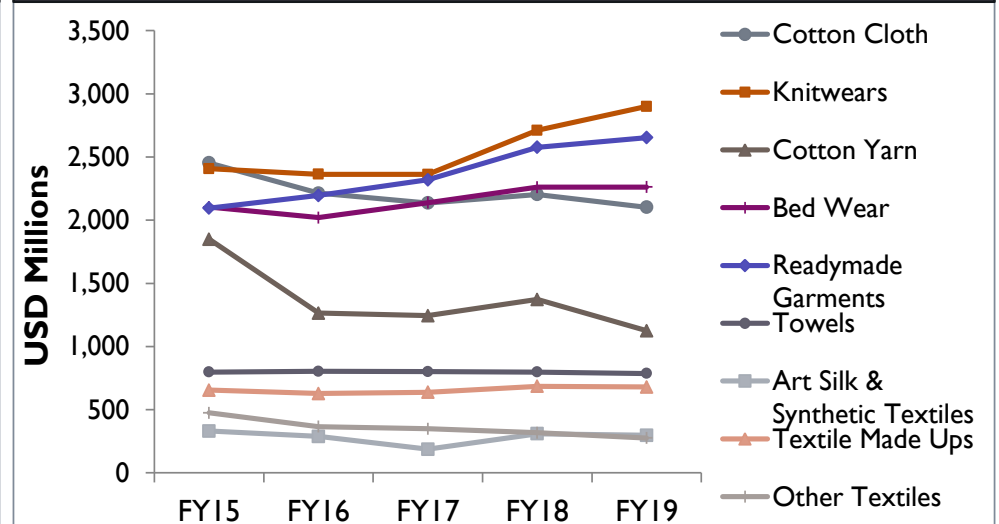


Textile Industry – Brief Overview

Pakistan's Total & Textile Exports, Five-Year Trend

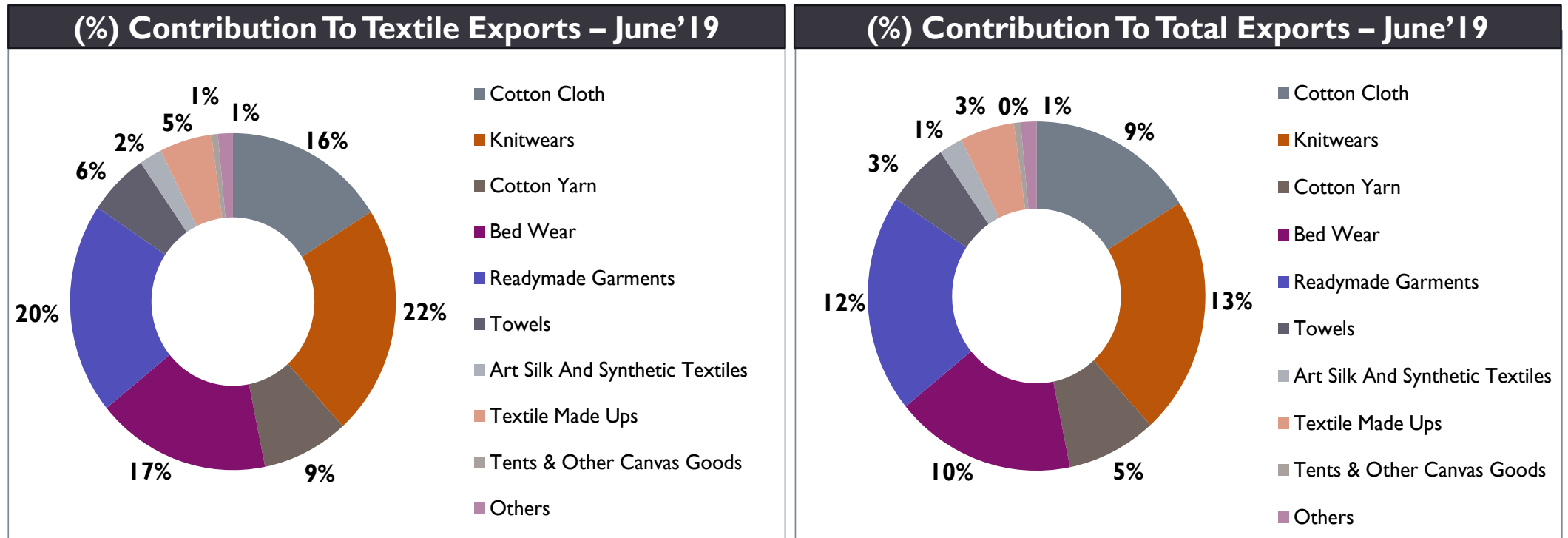


Textile Group Components



- Barring seasonal fluctuations, textile sector represented ~57% in national exports in FY19. The sector provides employment to about 40% of industrial labor force and contributes 8.5% to GDP. Pakistan is the 8th largest exporter of textile commodities in Asia while in terms of cotton it is 5th largest producer, 6th largest importer and 3rd largest consumer.
- As per World Trade Organization (WTO), world textiles & clothing exports totaled \$315 billion and \$505 billion respectively in 2018. China, European Union (EU28) and India remained top three exporters of textiles in 2018, accounting for ~70% of world exports whereas Pakistan's share in global textile exports remain stagnant at 2.5%. In clothing segment, China, European Union (EU28), Bangladesh, and Vietnam topped the list while Pakistan is not in top 10 clothing exporters.
- Pakistan textile industry comprises of 517 textile units (40 composite units and 477 spinning units), of which ~5% are listed on stock exchange. At present, the industry consists of 13.4 million spindles, 198,801 rotors, 28,500 shuttle-less looms and 375,000 conventional looms.

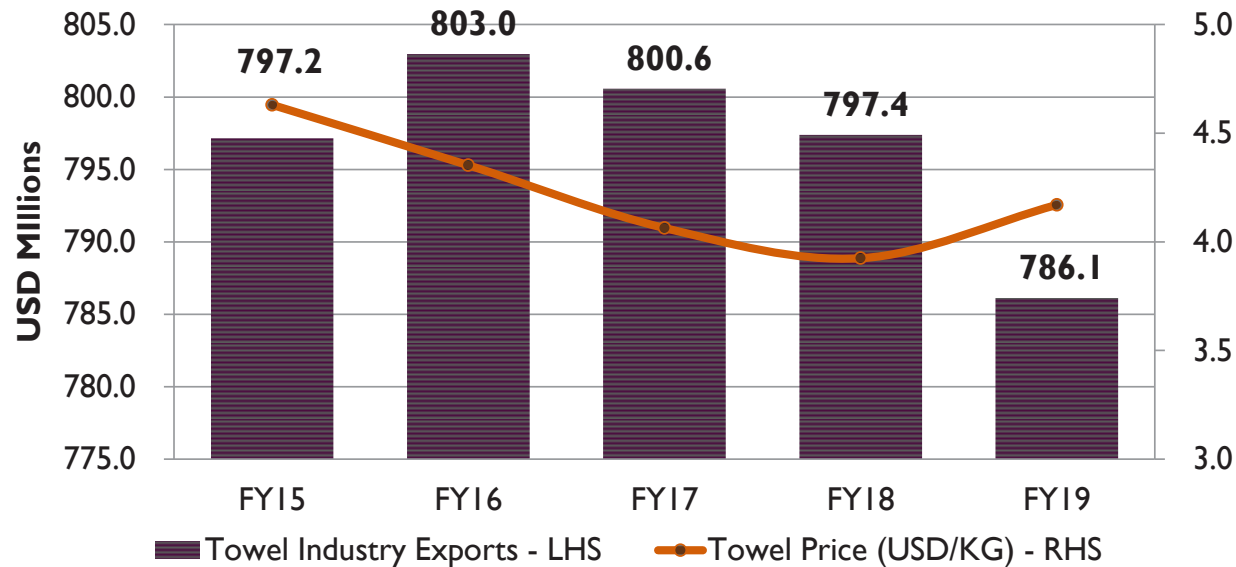
Breakdown of Pakistan's Textile Sector Exports



- Made-up sector as being the value added segment of textile industry, comprises different sub groups namely towels, tents & canvas, cotton bags, bed-wear, hosiery, knitwear & readymade garments including fashion apparels. In terms of exports value, towel's sub-sector is the fourth largest after hosiery knitwear, readymade garments and bed wears.
- Towel products include terry towels, warp pile fabric, dish cloth, wash cloth, floor cloth, bar mops, bathrobes, bath mats, dusters and kitchen towels etc. Printed beach towel has recently been added.
- Existing installed capacity of towel industry in both organized and unorganized sector is about 10,000 (shuttle & shuttle less) towel looms.

Towel Industry Structure

Towel Industry Size On Yearly Basis, June'15 – June'19



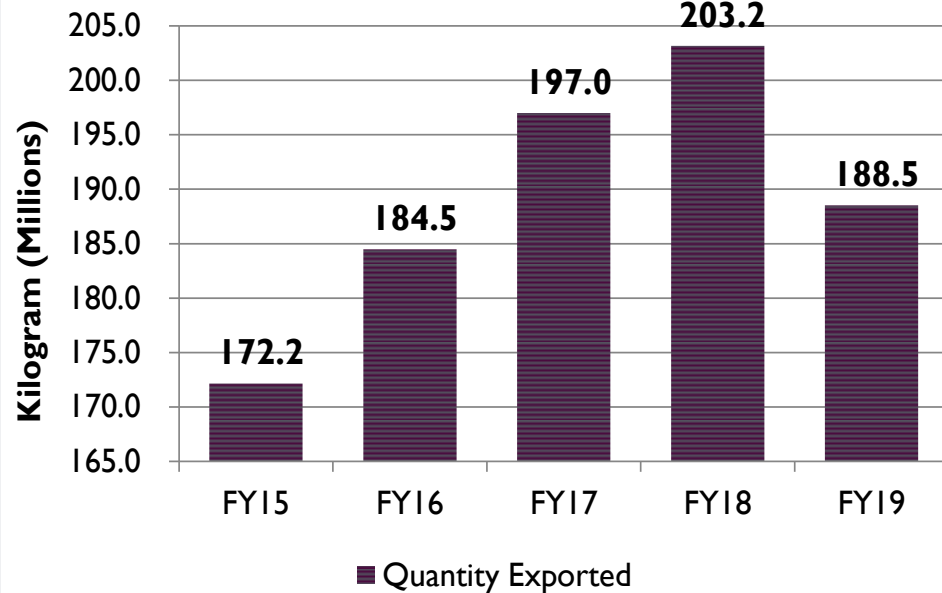
- Pakistan's towel industry is dominantly export based with its growth being dependent on quality, price competitiveness and export outlets.
- Towel exports (in dollar terms) after peaking in FY16 have remained on the lower side due to high price competition and inability of industry to produce higher quality towels.
- Towel exports, however, in rupee terms have increased by ~22.1% (FY18: 4.5%) in FY19 due to significant currency devaluation.

- During 2019, towel exports having a share of 3.4% in total exports and 6.0% in textile group, decreased both in quantity and in value by 7.2% and 1.4%, respectively.
- Average price (USD/Kg) has also declined by ~6%.

(In Value Terms)	FY15	FY16	FY17	FY18	FY19
Textile (%) Contribution in Total Exports	53.5%	55.6%	58.4%	59.6%	57.0%
Towel (%) Contribution in Total Exports	3.4%	3.9%	3.9%	3.4%	3.4%
Towel (%) Contribution in Textile Group Exports	6.1%	6.6%	6.6%	6.0%	6.0%

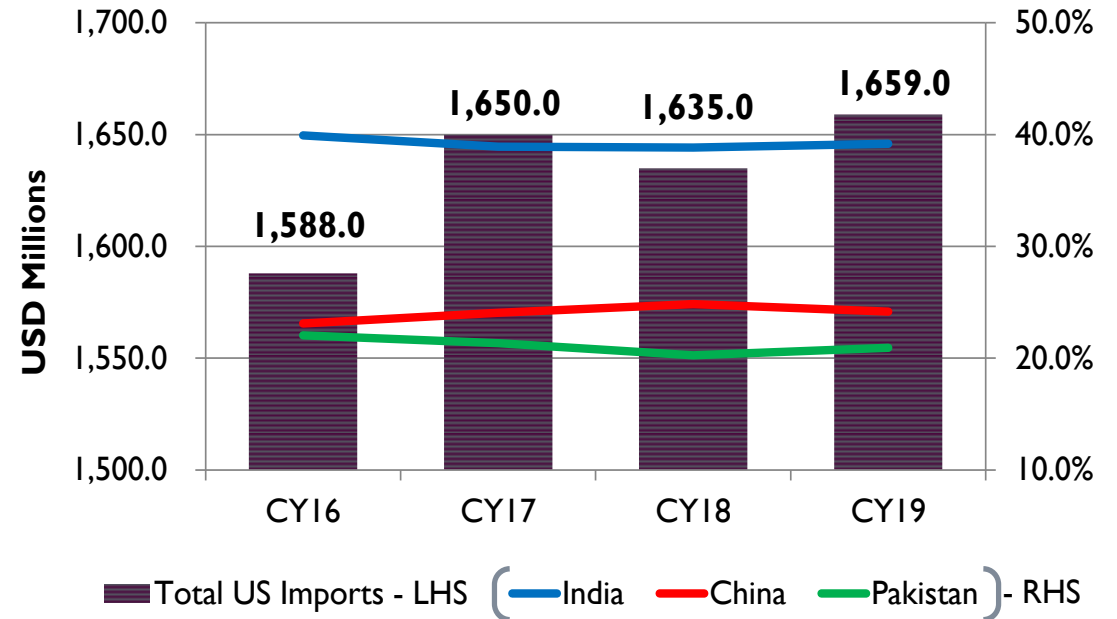
Towel Industry Structure

Towel Quantity Exported (June'15 – June'19)



- After increasing at a CAGR of 5.7% during FY15-FY18, quantity sold depicted a sizeable decline in FY19. However, quantity sold is also a function of the quality towels being sold.
- Given the ongoing expansion by a number of towel exporters, quantity sold is expected to increase from FY21.

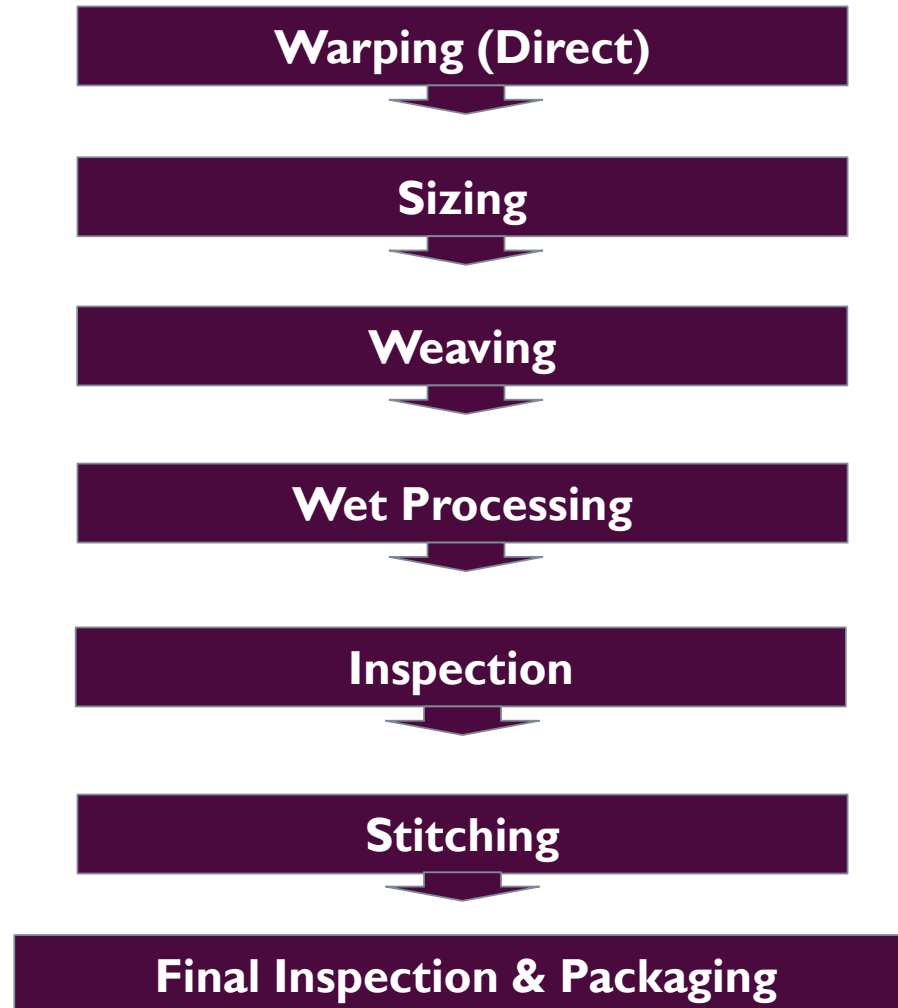
USA's Towel Imports (Dec'19 – Dec'19)



- Market share of Pakistan in towel exports to USA has remained stagnant at around 21%.
- India is the market leader in towel exports to USA with a market share of 39% followed by China at 24%.

Manufacturing Process of Towel

- The following flow steps are used in this mill for terry towel manufacturing:



Towel Export Trend By Country (June'15 – June'19)

Country-wise Exports From Pakistan	FY15		FY16		FY17		FY18		FY19	
	USD Millions	%	USD Millions	%	USD Millions	%	USD Millions	%	USD Millions	%
U.S America	396.5	49.7%	398.8	49.7%	387.4	48.4%	357.0	44.8%	345.1	43.9%
United Kingdom	77.6	9.7%	84.0	10.5%	79.9	10.0%	77.4	9.7%	78.0	9.9%
Netherlands	18.2	2.3%	19.1	2.4%	30.8	3.8%	43.5	5.5%	49.4	6.3%
Germany	40.8	5.1%	42.4	5.3%	43.6	5.4%	42.3	5.3%	39.0	5.0%
Italy	31.2	3.9%	30.9	3.8%	32.6	4.1%	36.7	4.6%	38.0	4.8%
Spain	20.0	2.5%	22.4	2.8%	26.7	3.3%	32.6	4.1%	32.5	4.1%
Other Countries	212.8	26.7%	205.5	25.6%	199.6	24.9%	208.0	26.1%	204.1	26.0%
Towel Exports	797.2	100.0%	803.0	100.0%	800.6	100.0%	797.4	100.0%	786.1	100.0%

- At present, export of towels from Pakistan is diversified among 120 countries. Among all, USA is the major buyer of terry towels with high demand for medium quality white bleached towels (used mostly in hospitals etc.) and plain dyed towels.
- USA is followed by UK and other European Union (EU) countries. Over recent years, share of EU countries in total towel exports has increased. The market in these countries is for terry towels with high quality of weaving, finishing and dyeing. Other attractive markets are Poland, France, U.A.E, Belgium, Greece, South Africa, Norway, Japan, Australia and Canada.
- Exports to Middle East during FY19 accounted for about ~4% in value terms. Requirement of these countries mostly consist of plain dyed orobby designed towels.
- Given duty advantage due to Pakistan's EU GSP Plus Status and increased focus toward European markets, proportion of towel exports to EU is expected to increase going forward.

Pakistan's Towel Export To Major Retails



- Towel exporters primarily cater to large retail store in US and European Countries. Direct sales to institution and hospitality segment is currently limited. Generally, there is no distribution channel as exports are made directly to customers (Retail Chain, Customers agent and Textile Companies).
- Reliance on few large clients has resulted in limited pricing power for towel exporters.

Leading Market Players In The Industry

Top 6 Towel Manufacturers/Exporters	Estimated Market Share (As At June'19)
Feroze 1888 Mills Ltd.	26.0%
Alkaram Towel Industries (Pvt.) Ltd	10.2%
United Towel Exporters	11.3% <i>(For FY18)</i>
Indus Home Limited	6.4%
International Textiles Limited	4.5%

- Feroze 1888 is the market leader on the basis of share in total towel exports and accounts for around one-fourth of total tower exports. The Company has a diversified product portfolio comprising Bath Towels, Hand Towels, Printed Beach Towel, Bath Sheet, Wash Cloth, Face Cloth and Kitchen Towel.
- Top 6 players account for two-third of total industry exports.
- Other leading players are Al-Rahim Textile Industries, Fazal Sardar Textile Mills, Toweller Limited, Bari Textile Mills and Hamsons Industries.

Business Risk Profile

Favourable Business Risk Factors

- Strong focus of the government on enhancing exports for sustainable growth bodes well for towel exports.
- Improving perception and law order situation of the country has also increased interest from clients.
- US-China trade war has also resulted in buyers focusing on Pakistan to reduce geographical diversification risk.
- Supportive policies of the government in the form of availability of funding at concessionary rates and availability of gas at concessionary rates for select players also bodes well for towel exports.

Key Business Challenges

- Limited product innovation and focus on research and development has resulted in low value addition.
- Low penetration in direct corporate sales and fashion segment with reliance on large retail stores for orders.
- Pricing power is limited as reflected by consistent decline in dollar pricing of products.
- Cost competitiveness is a challenge particularly vis-à-vis regional peers. Given the challenges plaguing the power sector, utility cost along with higher inflation vis-à-vis regional peers will continue to be a challenge for the sector.
- Limited progress on sustainability front vis-à-vis regional peers.

Financial Risk Profile (Profitability Indicators)

Rs. in millions	Feroze 1888			Alkaram Towels			United Towel Exporters	
	FY17	FY18	FY19	FY17	FY18	FY19	FY17	FY18
Net Sales	20,937	21,775	29,244	6,601	8,359	11,221	10,160	9,888
Gross Profit	4,874	4,825	7,638	954	1,260	1,961	1,984	1,509
Gross Margin (%)	23.3%	22.2%	26.1%	14.4%	15.10%	17.5%	19.5%	15.3%
Profit Before Tax	2,450	2,804	6,221	406	491	994	1,414	1,190
Profit After Tax	2,490	2,752	5,990	351	419	885	1,315	1,077
Net Profit Margin (%)	11.9%	12.6%	20.5%	5.3%	5.0%	7.9%	12.9%	10.9%

Rs. in millions	International Textiles Limited			Indus Home Limited			Towellers Limited		Rustam Towels (Pvt.) Limited		
	FY17	FY18	FY19	FY17	FY18	FY19	FY18	FY19	FY17	FY18	FY19
Net Sales	6,074	6,392	7,967	5,529	6,026	7,037	2,606	3,848	2,954	3,166	4,278
Gross Profit	632	692	691	800	706	908	389	858	559	580	819
Gross Margin (%)	10.4%	10.8%	8.7%	14.5%	11.7%	12.9%	14.9%	22.3%	18.9%	18.3%	19.1%
Profit Before Tax	291	337	491		363	606	280	446	291	338	524
Profit After Tax	250	337	436	410	331	573	254	397	193	231	379
Net Profit Margin (%)	4.1%	5.3%	5.5%	7.4%	5.5%	8.1%	9.7%	10.3%	6.5%	7.3%	8.9%

- Profitability profile of tower exporters has depicted an improvement in FY19 on the back of higher average selling prices (in rupee terms) and increase in margins.
- Going forward, increase in quantity sold from FY21 onwards is expected to support profitability while gross margins are expected to revert to normal levels (as benefits of devaluation are passed on to customers while cost is dollar linked and increase in utility cost) barring those players where efficiency enhancements are being undertaken.

Financial Risk Profile (Liquidity Indicators)

Rs. in millions	Feroze 1888			Alkaram Towels			United Towel Exporters	
	FY17	FY18	FY19	FY17	FY18	FY19	FY17	FY18
FFO	2,851	3,392	7,008	653	689	1,250	1,596	1,364
FFO to Total Debt	2.72	0.98	0.80	0.39	0.34	0.31	0.58	-
FFO to Long Term Debt	5.21	3.72	3.09	2.55	1.67	0.93	-	-
DSCR	50.54	19.01	24.92	9.2	8.8	8.4	-	-
Current Ratio	2.76	1.94	1.73	1.24	1.15	1.01	1.39	5.2
(Stock in Trade+ Trade debt)/ STD	1696%	1943%	230%	157%	162%	124%	139%	-

Rs. in millions	International Textiles Limited			Indus Home Limited			Towellers Limited		Rustam Towels (Pvt.) Limited		
	FY17	FY18	FY19	FY17	FY18	FY19	FY18	FY19	FY17	FY18	FY19
FFO	246	175	241	735	599	972	142	484	259	291	478
FFO to Total Debt	19.24	0.17	0.24	0.58	0.43	0.31	0.10	-	0.19	0.19	0.24
FFO to Long Term Debt	19.24	-	-	5.21	1.37	0.46	-	-	-	-	-
DSCR	-	6.65	11.48	7.95	8.9	7.76	-	76	-	-	-
Current Ratio	4.5	1.66	1.9	1.85	2.11	2.15	1.75	2.51	15.3	25.7	49.6
(Stock in Trade+ Trade debt)/ STD	-	301%	407%	175%	313%	269%	62.44%	-	-	-	-

- Liquidity profile has depicted an improvement given increase in cash flows.
- Coverages for both long-term and short-term debt is healthy for leading players.

Financial Risk Profile (Capitalization Indicators)

Rs. in millions	Feroze 1888			Alkaram Towels			United Towel Exporters	
	FY17	FY18	FY19	FY17	FY18	FY19	FY17	FY18
Long Term Debt	547	913	2,267	256	412	1,343	-	-
Short Term Debt	500	2,550	6,490	1,435	1,637	2,665	2,775	-
Total Debt	1,047	3,463	8,757	1,691	2,049	4,008	2,775	-
Total Liabilities	4,411	7,185	13,864	2,367	2,994	5,100	4,501	1,061
Total Equity	13,009	14,668	20,103	2,796	3,220	4,384	3,752	7,404
Leverage	0.33	0.49	0.75	0.85	0.93	1.16	1.20	0.14
Gearing	0.08	0.24	0.47	0.60	0.64	0.91	0.74	-

Rs. in millions	International Textiles Limited			Indus Home Limited			Towellers Limited		Rustam Towels (Pvt.) Limited		
	FY17	FY18	FY19	FY17	FY18	FY19	FY18	FY19	FY17	FY18	FY19
Long Term Debt	13	-	-	141	438	2,092	-	-	-	-	-
Short Term Debt	-	1,000	990	1,117	967	1,095	1,458	-	-	-	-
Total Debt	13	1,000	990	1,258	1,405	3,187	1,458	-	1,355	1,563	2,022
Total Liabilities	1,000	2,376	2,806	-	2,192	3,074	712	686	1,445	1,629	2,068
Total Equity	4,741	5,072	5,502	3,668	3,993	4,561	777	1,224	1,955	2,186	2,564
Leverage	0.21	0.47	0.51	0.34	0.55	0.67	0.92	0.56	0.74	0.75	0.81
Gearing	-	0.20	0.18	0.50	0.35	0.70	1.88	-	0.69	0.72	0.79

- Leverage indicators have trended upwards and are expected to remain elevated over medium-term due to increasing debt being undertaken for expansion and extended maturity of long-term debt.
- Finance cost are expected to remain manageable due to ERF and LTFF comprising a sizeable proportion of the overall debt profile.

Sources

- Pakistan Economic Survey 2018-2019
- Towel Manufacturers' Association of Pakistan (TMA)
- Trade Development Authority of Pakistan (TDAP)
- All Pakistan Textile Mills Association (APTMA)
- Annual report on performance of Textile Industry 2017-18, Textile Commissioner's Organization
- World Trade Statistical Review 2019 by World Trade Organization (WTO)
- Year Book 2017-2018 (Textile Performance)

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