Towellers Limited

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April 21, 2025

The General Manager
Pakistan Stock Exchange Ltd.
Stock Exchange Building
Stock Exchange Road.
Karachi

Subject: ***VIS Upgraded Entity Rating of Towellers Limited.***

Dear Sir

In accordance with section 96 of the Securities Act, 2015 and clause 5.6.1 (a) of PSX Regulations, we hereby convey the following information.

The VIS Credit Rating Company Limited (VIS) a rating agency provide independent rating services in Pakistan in its press release has upgraded the entity rating assigned to Towellers Limited (TOWL) at A/A1 (Single A/A One)

The copy of the above mentioned press release is attached.

You may please inform the TRE Certificate Holders of the Exchange accordingly.

Yours Sincerely,
For Towellers Limited

M. Farhan Adil
Company Secretary

TOWELLERS LIMITED

C.C. Executive Director / HOD
Offsite – II Department, Supervision Department
Securities and Exchange Commission of Pakistan
63 - NIC Building, Jinnah Avenue,
Blue Area Islamabad, Pakistan

Press Release

VIS Maintains Entity Rating of Towellers Limited

Karachi, March 28, 2025: VIS Credit Rating Company Limited has maintained entity ratings of 'A/A1' (Single A/A One) assigned to Towellers Limited. Long Term Rating of 'A' denotes good credit quality; protection factors are adequate. Risk factors may vary with possible changes in the economy. Short Term Rating of 'A1' signifies strong likelihood of timely repayment of short-term obligations with excellent liquidity factors. Outlook on the assigned ratings has been revised to 'Stable' from 'Positive.' Previous rating action was announced on February 7, 2024.

TOWL was established in 1973 as a private limited company and later transitioned to a public limited company in 1994. The Company operates vertically integrated mills, encompassing weaving, dyeing and sewing operations. TOWL specializes in the manufacturing and export of home textiles and garments, with key export markets in Europe and the USA. Its manufacturing facilities are located in F.B. Area, North Karachi and the Korangi Industrial Area in Karachi, with the head office situated in F.B. Area, Karachi.

The textile sector's business risk profile is shaped by economic cyclicality and intense competition, making it sensitive to demand fluctuations. In FY23, the sector faced challenges from flooding damage to cotton crop in 1HFY23, inflation and import restrictions due to limited foreign exchange reserves, which led to a decline in yarn production. Rising production costs, including energy and raw materials, further pressured profit margins. Cotton production in FY24 increased by 79% compared to FY23, but this was largely due to the low base of the previous year, with only a 17% increase compared to FY22. However, as of October 2024, cotton production was down 59.4% compared to the same period in 2023, with only 2.04 million bales produced. The USDA projects production of 5.55 million bales for FY24/25, with a reduced cotton area of 2 million hectares. The sector faces additional challenges from rising energy costs, a lack of subsidies and climate-related disruptions such as extreme weather and pest infestations. Despite the decline in local production, textile exports grew in 1QFY25, driven by cheaper imported cotton and a focus on value-added products. Additionally, the transition from the Final Tax Regime (FTR) to the Normal Tax Regime (NTR) has further strained financial performance. The profitability of textile exporters will depend on cotton market dynamics, inflation and foreign exchange risks.

The assigned ratings reflect the Company's financial profile, which, despite modest sales growth, experienced a significant decline in profitability margins, largely due to a sharp reduction in gross profit. This was primarily driven by higher costs of purchases, increased fuel and power expenses and the absence of rupee depreciation. Additionally, a higher tax burden further impacted TOWL's overall profitability.

The Company continued to maintain a conservative capitalization structure with negligible levels of short-term debt on its balance sheet, further supported by cash balances that cover almost all outstanding debt obligations allowing the Company to maintain a robust Debt Service Coverage Ratio.

Looking ahead, maintaining a solid capital structure and improving profitability margins will remain important from the ratings perspective.

For further information on this ratings announcement, please contact 021-35311861-64 or email at info@vis.com.pk.

Applicable Rating Criteria: Corporates
https://docs.vis.com.pk/docs/CorporateMethodology.pdf
VIS Issue/Issuer Rating Scale
https://docs.vis.com.pk/docs/VISRatingScales.pdf