RATING REPORT

Towellers Limited

REPORT DATE:
March 28, 2025

RATING ANALYSTS:
M. Amin Hamdani
amin.hamdani@vis.com.pk

RATING DETAILS				
	Latest Rating		Previous Rating	
Rating Category	**Long-term**	**Short-term**	**Long-term**	**Short-term**
Entity	A	A1	A	A1
Rating Date	March 28, 2025		February 07, 2024	
Rating Action	Maintained		Maintained	
Outlook/Rating Watch	Stable		Positive	

COMPANY INFORMATION	
Incorporated in 1973	**External auditors:** Mushtaq & Company, Chartered Accountants
Public Listed Company	**Chief Executive Officer (CEO):** Ms. Mehreen Obaid Agha
Key Shareholders (with stake 5% or more):	**Chairperson:** Ms. Mahjabeen Obaid
Ms. Mahjabeen Obaid – 14.51%	
Ms. Mehreen Obaid Agha – 14.47%	
Ms. Sana Bilal – 14.47%	
Ms. Hadeel Obaid – 14.47%	
Mr. Sheikh Obaid Humza – 23.43%	
Public – 18.65%	

APPLICABLE METHODOLOGY(IES)
VIS Entity Rating Criteria *Industrial Corporates*
https://docs.vis.com.pk/docs/CorporateMethodology.pdf

APPLICABLE RATING SCALE(S)
VIS Issue/Issuer Rating Scale:
https://docs.vis.com.pk/docs/VISRatingScales.pdf

Towellers Limited

OVERVIEW OF THE INSTITUTION

Towellers Limited was incorporated in 1973 as a Private Limited Company, and subsequently converted into a Public Limited Company in 1994, under the Companies Act, 1913 (Companies Act, 2017), and is quoted on the Pakistan Stock Exchange (PSX). The head office and manufacturing facilities of all business units are located in Karachi, Pakistan.

Profile of Chairperson: Ms. Mahjabeen Obaid graduated from Chatham College, USA, and pursued further studies in textile designing at the Fashion Institute of Technology. She has held the position of Director at Towellers Limited since 2008 and became a certified director through PICG in 2016.

Profile of C.E.O.: Ms. Mehreen Obaid Agha graduated from Mount Holyoke College, and has experience in manufacturing and industrial management. She is a renowned humanitarian and has served as a Director of Towellers Limited since 2004 and was appointed as the Chief Executive Officer in 2011, following the demise of her father, Sheikh Muhammad Obaid.

RATING RATIONALE

Corporate Profile

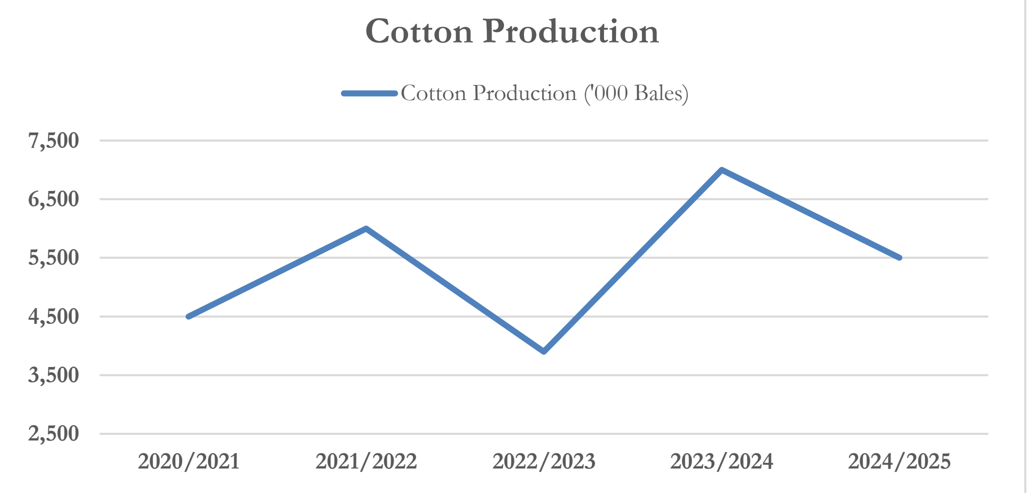
Towellers Limited ('TOWL' or 'the Company') was established in 1973 as a Private Limited Company and later transitioned to a Public Limited Company in 1994. The Company operates vertically integrated mills that encompass weaving, dyeing and sewing operations. TOWL specializes in the manufacturing and export of home textiles and garments, with key export markets in Europe and the USA. The Company's head office is located in the F.B. Area, Karachi, while its manufacturing units are situated in the F.B., North Karachi and Korangi Industrial area in Karachi. The shareholding structure is skewed towards the Obaid family with 81.35% of the shares held by five siblings, while the remainder primarily owned by the general public.

Sector Update

The business risk profile of Pakistan's textile sector is highly influenced by economic cyclicality and intense competition. The sector's performance is closely tied to broader economic conditions, making it particularly vulnerable to demand fluctuations driven by these factors.

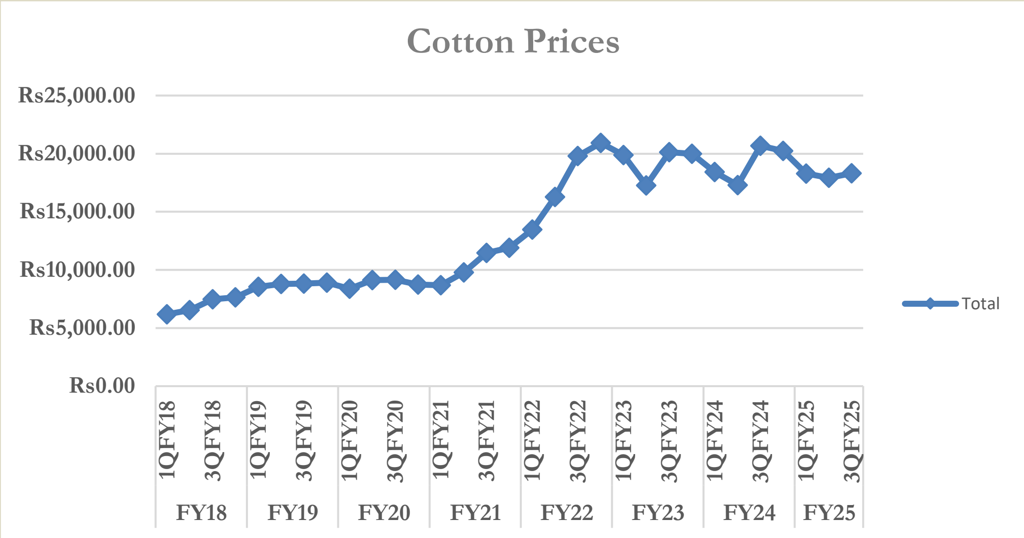
In FY23, the textile sector faced several challenges stemming from both economic and environmental factors. These included damage to the cotton crop due to flooding in the 1HFY23, escalating inflation, and import restrictions resulting from dwindling foreign exchange reserves. As a result, Pakistan's yarn production saw a substantial decline, primarily driven by the reduced availability of cotton caused by crop damage and import restrictions. The sector's profitability was further constrained by rising production costs, including higher raw material and energy expenses, which impacted profit margins.

In FY24, cotton production increased by 79% compared to FY23, but this surge was largely due to the low base of cotton production in FY23. When compared to FY22, cotton production in FY24 saw only a 17% increase. While global cotton production is expected to rebound in FY25 due to higher yields.



Source: USDA

Pakistan's cotton production was down 59.4% as at October'24 compared to the same period in 2023, with only 2.04 million bales produced. The USDA forecasts that Pakistan will produce 5.55 million bales of cotton in 2024/25. Further, the USDA Foreign Agricultural Service estimates that the cotton area in 2024/25 will be reduced to 2 million hectares, down from previous years. The country faces rising energy costs, the absence of subsidies for agricultural inputs, and a lack of an organized market system, which further complicates production. Additionally, climate change has severely impacted cotton crops, with extreme heat, heatwaves, torrential rains, and pest infestations, including whitefly, pink bollworm, and cotton leaf curl virus, contributing to decreased yields. Furthermore, the area under cultivation has been steadily shrinking, exacerbating these challenges.



Despite the decline in local cotton production, Pakistan's textile exports have experienced growth in the 1QFY25 compared to the same period last year. This growth can be attributed to the reliance on imported cotton which is cheaper now a days compared to local cotton along with the increasing focus on value-added segment. While the global demand of textile is on a recovery phase, the global and local cotton market dynamics and local inflation including fuel and power prices along with FX risk in imported cotton pricing will play a crucial role in terms of profitability of the textile exporters.

Figure 1: MoM Textile Exports (USD Million)

Financial Risk

Strong Capital Structure Maintained Despite Increased Debt Levels

The Company has consistently maintained a strong capital structure, which remains intact despite an increase in total debt to PKR 287 million at the end of FY24, up from PKR 10 million at the end of FY23. This increase is primarily due to the short-term debt of PKR 250 million secured under the Islamic Export Refinancing Scheme (EFS). As a result, the Company's leverage ratio rose to 0.37x at the end of FY24, compared to 0.32x at the end of FY23, while the gearing ratio remained low at 0.03x

(FY23: 0.0x). At the end of 1HFY25, the capital structure remained robust, despite an increase in total debt to PKR 625 million, up from PKR 39 million at the end of 1HFY24, primarily due to additional short-term borrowings. Going forward, maintaining a strong capital structure will be important for the assigned ratings.

Growth in Sales Revenue Driven by Increased Volumes and Strong Export Performance

In FY24, driven by higher sales volume, the Company achieved sales revenue of PKR 12.3 billion (FY23: PKR 11.1 billion) registering an increase of 11% from the previous year. The revenue growth however, was not in proportion to the increase in sales volume suggesting a decline in unit price earned in FY24. Export sales account for 99% of total revenues, mainly contributed by the garment and towel segments. The garment segment, the larger of the two, contributed PKR 7.4 billion (FY23: PKR 6.5 billion), while the towel segment generated PKR 4.9 billion (FY23: PKR 4.6 billion).

Despite sweatshirt remaining the top performing product, its share in sales decreased from 32% in FY23 to 24% in FY24. The top 10 customers accounted for 85% of sales, consistent with the previous year. However, the contribution from the top customer grew significantly, increasing from 31% in FY23 to 41% in FY24, reflecting the Company's reliance on one client. Europe remains the largest export market, contributing PKR 7.8 billion, followed by the USA with PKR 4.7 billion. During 1HFY25, sales revenue totaled PKR 6.9 billion, a slight increase from PKR 6.7 billion during 1HFY24 (FY24: PKR 12.3 billion). Moving forward, sales revenue is expected to improve further, driven by a planned expansion in production capacity and the addition of value-added machinery in both the garment and towel segments, contingent upon internally generated capital.

Profitability Decline Attributed to Rising Operational Costs

In FY24, cost of sales increased to PKR 11.1 billion, up from PKR 7.9 billion in FY23, primarily driven by rising operational costs and higher sales volume. Operational costs saw an increase primarily driven by higher distribution expenses, which rose by 16%, from PKR 299 million in FY23 to PKR 346 million, largely due to increased export-related costs. Additionally, administrative expenses increased by 9%, from PKR 365 million in FY23 to PKR 398 million, primarily reflecting higher utility costs. The rise in fuel and power costs, coupled with a decline in unit prices, resulted in a reduction of gross profit to PKR 1.2 billion, compared to PKR 3.1 billion in FY23. Consequently, the gross profit margin decreased to 10.0% from 28.3% in FY23. Despite an increase in operating expenses, the Company reported an operating profit of PKR 0.8 billion (FY23: PKR 2.6 billion), reflecting an operating profit margin of 6.8% (FY23: 23.8%). The decrease in gross profit, coupled with higher taxation, resulted in a further squeeze on profit after tax, which declined to PKR 0.6 billion from PKR 2.4 billion in FY23, leading to a net profit margin of 4.5% (FY23: 21.5%).

During 1HFY25, profit after tax decreased to PKR 0.2 billion, down from PKR 0.6 billion in 1HFY24. This resulted in lower net profit margin of 2.9% in 1HFY25, compared to 9.1% in 1HFY24. The decline in profitability was primarily due to higher distribution and administrative expenses, coupled with lower other income.

Going forward, TOWL expects a reduction in costs due to the implementation of biogas steam boilers. Additionally, the Company anticipates improved profitability in FY25, driven by the planned installation of value-added machinery.

Strong Liquidity and Cash Flow Performance Supported by Conservative Debt Strategy

Despite a marginal decrease in liquidity indicators, TOWL continues to maintain a strong liquidity profile, with an ample cash balance and a current ratio of 2.41x in FY24, compared to 2.98x in FY23. The Company's conservative approach to debt is reflected in its short-term debt coverage ratio, which increased to 15x in FY24, up from 0x in FY23, reflecting the absence of short-term debt. Additionally, the net operating cycle improved to 37 days in FY24 (FY23: 46 days), driven by a shorter receivables collection period and inventory turnover. This improvement aligns with the Company's historical net operating cycle, which has typically ranged between 40-50 days. However, during 1HFY25, the cycle lengthened to 48 days due to an increase in both inventory and receivables days, compared to 12 days in 1HFY24 (FY24: 37 days).

In terms of cashflow, TOWL's Funds from Operations (FFO) decreased to PKR 1.5 billion in FY24, down from PKR 2.4 billion in FY23, primarily due to lower profitability. However, the Company's Debt Service Coverage Ratio (DSCR) remained robust at 43x, unchanged from the previous year, demonstrating its ability to service debt comfortably. During 1HFY25, FFO (annualized) decreased to PKR 1.6 billion, compared to PKR 2.0 billion in 1HFY24, due to lower profitability.

Going forward, TOWL is well-positioned to maintain strong liquidity and cash flow performance, supported by its conservative debt strategy and ongoing operational improvements.

Towellers Limited **Appendix I**

FINANCIAL SUMMARY				(amounts in PKR Million)
BALANCE SHEET	**FY22**	**FY23**	**FY24**	**IHFY25**
Property, Plant, & Equipment	3,143	3,251	5,604	5,987
Stock-in-Trade	1,491	1,625	1,479	1,615
Trade Debts	1,547	2,246	2,205	2,583
Cash & Bank Balances	664	430	702	629
Total Assets	7,830	9,982	11,935	12,245
Trade and Other Payables	1,454	2,233	2,340	2,313
Long Term Debt	11	10	37	35
Short Term Debt	791	-	250	590
Total Debt	802	10	287	625
Total Liabilities	2,439	2,421	3,195	3,440
Paid Up Capital	170	170	170	170
Tier 1 Equity	3,201	5,426	5,860	5,982
Total Equity	5,391	7,561	8,740	8,805
INCOME STATEMENT				
Net Sales	10,238	11,087	12,315	6,877
Gross Profit	2,087	3,143	1,232	693
Operating Profit	1,208	2,634	836	275
Profit Before Tax	1,185	2,580	805	258
Profit After Tax	1,063	2,388	560	202
RATIO ANALYSIS				
Gross Margin (%)	20.4%	28.3%	10.0%	10.1%
Operating Margin (%)	11.8%	23.8%	6.8%	4.0%
Net Margin (%)	10.4%	21.5%	4.5%	2.9%
Net Working Capital	2,380	4,431	3,674	3,285
Trade debts/Sales	15.1%	20.3%	17.9%	37.6%
FFO	1,030	2,405	762	132
FFO (Annualized)	1,030	2,405	762	264
FFO to Total Debt (%)	128%	23474%	266%	42%
FFO to Long Term Debt (%)	9281%	23474%	2082%	763%
Debt Servicing Coverage Ratio (x)	43	45	23	13
Current Ratio (x)	2.06	2.98	2.41	2.13
Stock + Trade Debts/STD	3.84	-	14.74	7.12
Gearing (x)	0.15	0.00	0.03	0.07
Leverage (x)	0.45	0.32	0.37	0.39
ROAA (%)	20.3%	32.4%	5.3%	3.3%
ROAE (%)	24.8%	44.1%	6.9%	4.6%
CCC	57	46	37	48

REGULATORY DISCLOSURES	Appendix II
Name of Rated Entity	Towellers Limited
Sector	Textiles
Type of Relationship	Solicited
Purpose of Rating	Entity Rating
Rating History	

Rating Date	Medium to Long Term	Short Term	Outlook/Rating Watch	Rating Action
		Rating History		
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

Instrument Structure	N/A
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.
Disclaimer	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Copyright 2025 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.

Due Diligence Meeting Conducted

Name	Designation	Date
Adnan Moosaji	CFO	21 February 2025