



Pakistan Textile Sector – FY24 in pictures

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FY24: Reviewing a year of declining margins

- We review the 4QFY24 & FY24 performance of Textile sector with our sample size of 8 companies. During 4QFY24, our sample companies reported a topline growth of 12% YoY, however, the gross margins dipped 5ppts YoY, along with higher financial charges has reduced the impact of revenue growth into the bottom-line (+3% YoY). On QoQ basis, both the revenue and gross margin fell 1ppts.
- During FY24, our selected companies reported 22% YoY growth in revenues due to improved exports for Pak textile products, however, 3ppt decline in margins, unfavourable currency fluctuation and 46% rise in financial charges kept the earnings growth in the red zone.
- We believe the sector pins hope on improving earnings outlook for FY25 from recovery in export demand and thus better prices from importers' preference shift from Bangladesh & China, to India, Vietnam & Pakistan. Moreover, decline in interest rates (already down 450bps since Jun-2024), may also provide some relief on savings in finance cost. Having said that, these benefits may be netted off by the increased taxes (from shift in tax regime) effective from FY25.

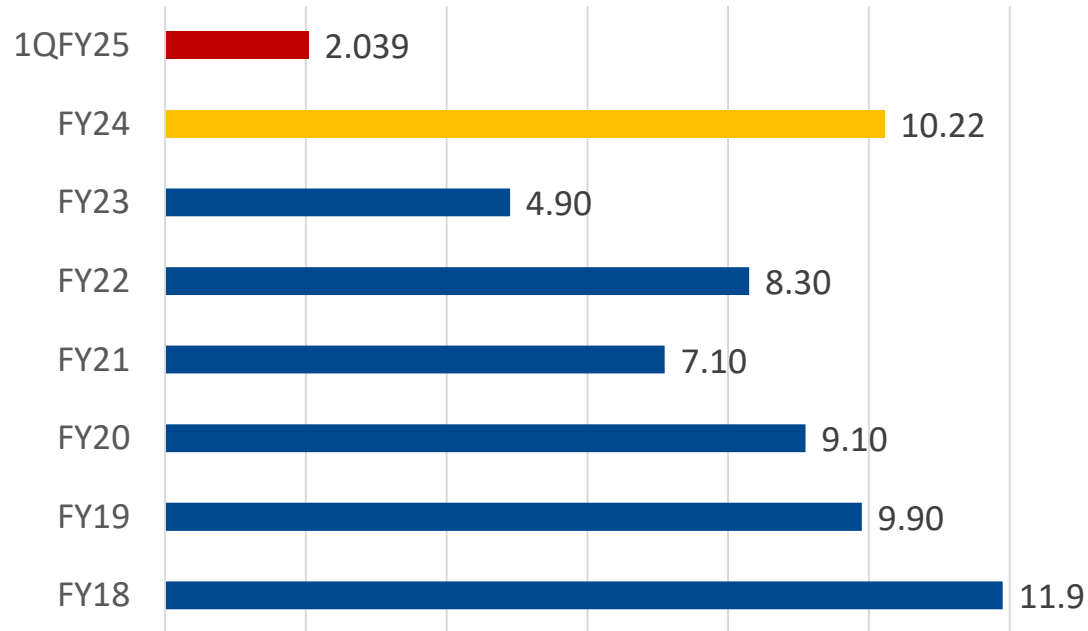
Company	Ticker	Business Segments
Nishat Mills Limited	NML	Yarn, Cloth, Bedwear, Terry & Garments
Interloop Limited	ILP	Hosiery, Denim & Knitted garments
Nishat Chunian Limited	NCL	Yarn, Cloth & Bedwear
Kohinoor Textile Mills	KTML	Yarn, Cloth & Bedwear
Gul Ahmed Textile Mills	GATM	Yarn, Bedwear, Woven & Knitted Garments
Sapphire Fibre Limited	SFL	Yarn, Cloth, Garments, Denim
Sapphire Textile Mill Limited	SAPT	Yarn, Cloth, Bedwear & Garments
Artistic Denim Mills Limited	ADMM	Denim Cloth & Garments

Our sample size listed accounts for ~68% of the textile composite sector market capitalization.

Textile Sector Dynamics during FY24/4QFY24

Pakistan Cotton Output hit a 6-year high in FY24

Cotton Output hit 6-year high (mn bales)

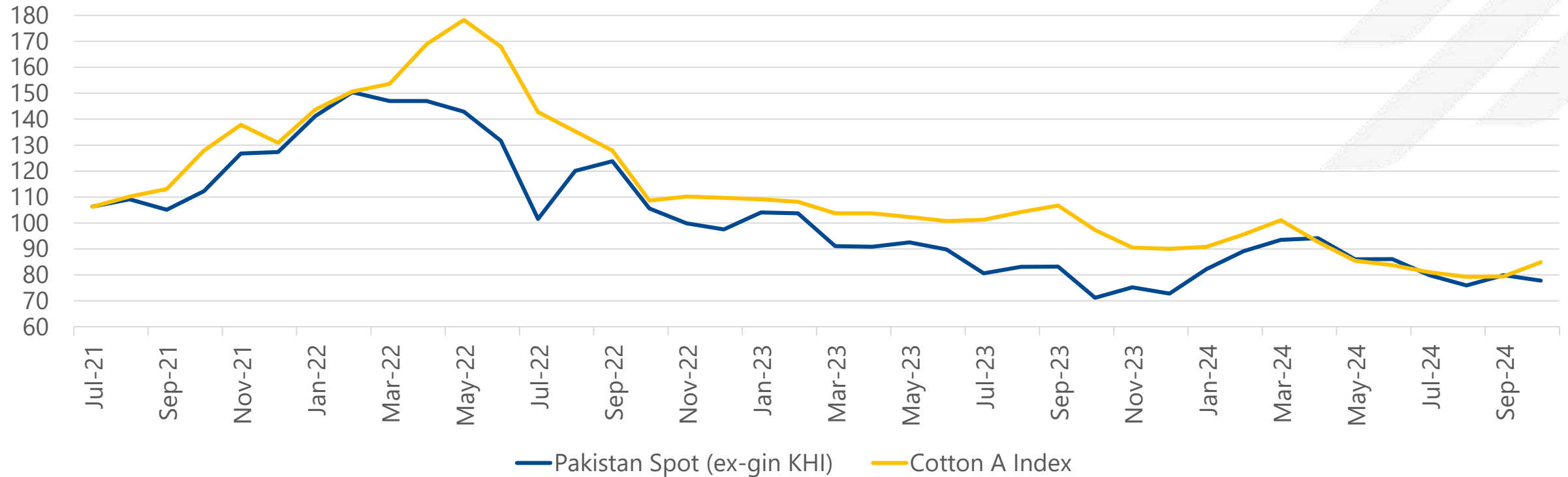


...but the output is likely to fall this year

	Sowing Area (mn hectares)	Output (mn bales)	Yield (kg/ha)
FY20	2.52	9.10	615
FY21	2.08	7.10	581
FY22	1.94	8.30	728
FY23	2.14	4.90	389
FY24	2.37	10.22	734
FY25E	1.97	8.52	734
FY25E (Target)	3.12	10.87	593

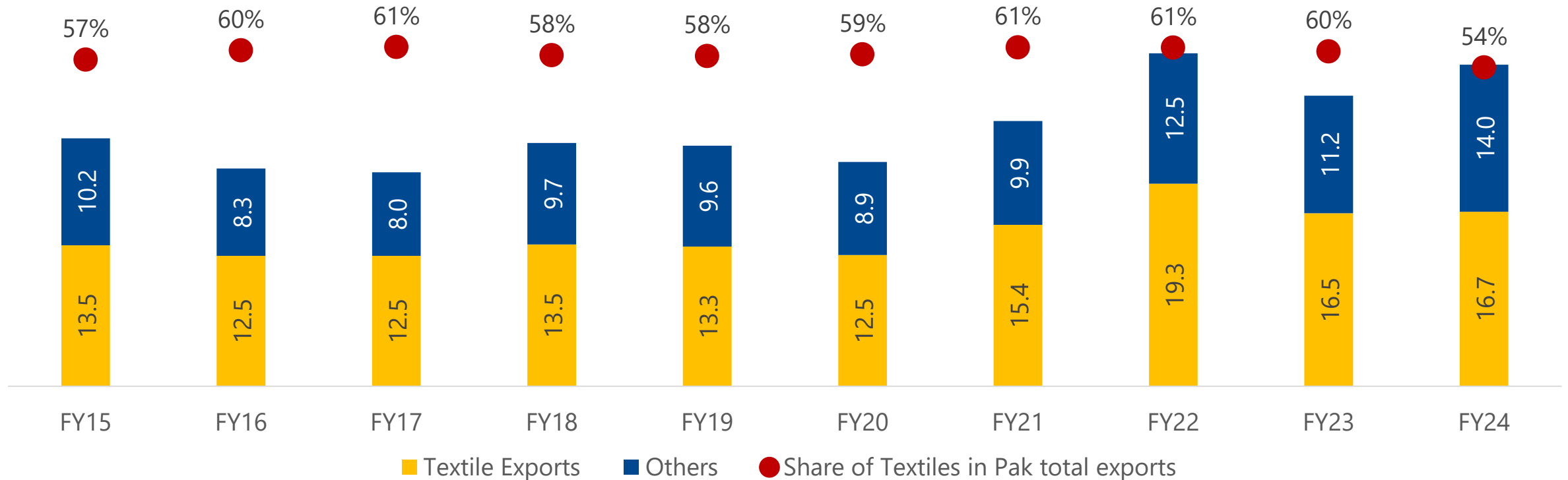
- Cotton production increased by 2.09x in FY24 to 10.22mn bales compared to 4.90mn bales in FY23 (due to flash floods during the year). This can be attributed to favorable weather conditions, higher area under cultivation (+13% YoY) and better cotton prices. However, the recent cotton arrivals data is suggesting ~60% YoY decline in the output during Jul-Sep 2024.
- We expect cotton output for FY25 to at least decline by 17% YoY to 8.5mn bales (Govt target: 10.87mn bales) inline with decline in area sown reported so far (1.97mn ha, -17% YoY) , even if we keep yields unchanged at the last year levels.

Cotton Prices picking up from its lows



- International cotton prices have picked up 20%+ from its low of US\$0.69/lbs seen in July-2024 to US\$85/lbs as the concerns over global supply got addressed by short supply in Pakistan and India and weaker global demand. Similarly, local cotton prices also picked up 5% to Rs17,800/maund from its low seen in Jul-2024 (Rs17,000/maund), the domestic market remained volatile (5% declined from the recent high of Rs18,700/maund seen in Aug-2024).

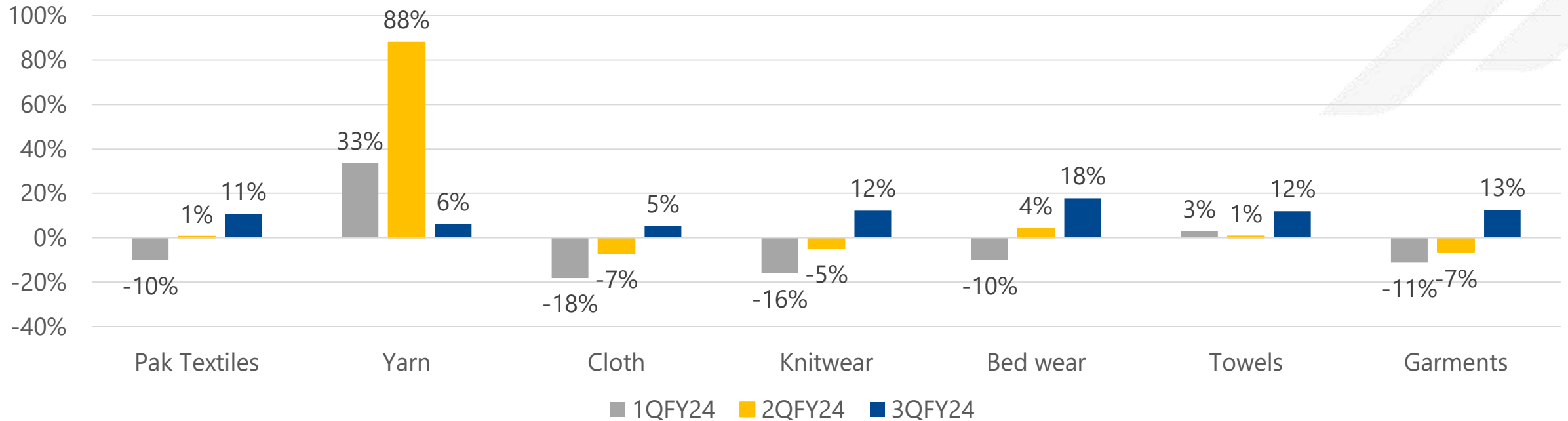
Textile share in Pakistan total exports down to 54% in FY24



- Pakistan textile exports were up 0.9% YoY in FY24 to US\$16.7bn, compared to 11% YoY increase in the country's overall merchandise exports (+25% YoY in other sectors exports), reducing textile sector share in Pak total exports from 60% in FY23 to 54% in FY24.

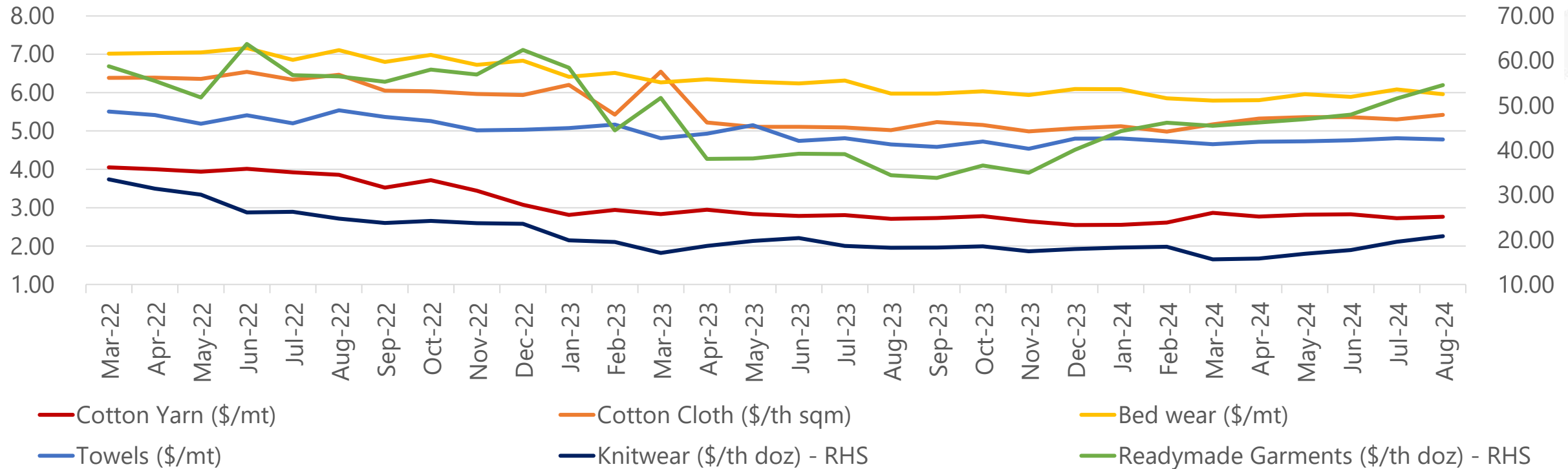
Pakistan Textile exports up 5% YoY in 4QFY24

Pakistan Textile Exports - YoY change



- Pakistan textile exports were up 5% YoY to US\$4.2bn in 4QFY24, taking full year FY24 exports to US\$16.6bn, +0.9% YoY. On QoQ basis, the pace of growth has slowed down, mainly due to lower cotton supplies limiting yarn and cloth production. Exports of textile made-ups remained strong in 4QFY24, with 12% YoY growth in knitwear, 8% in bedwear and 16% in ready-made garments. Improved local raw cotton supply, restrictions on China and rising cost for Bangladesh, acted in favour of Pakistan Textile made-ups exports during FY24.

Export prices showing signs of recovery

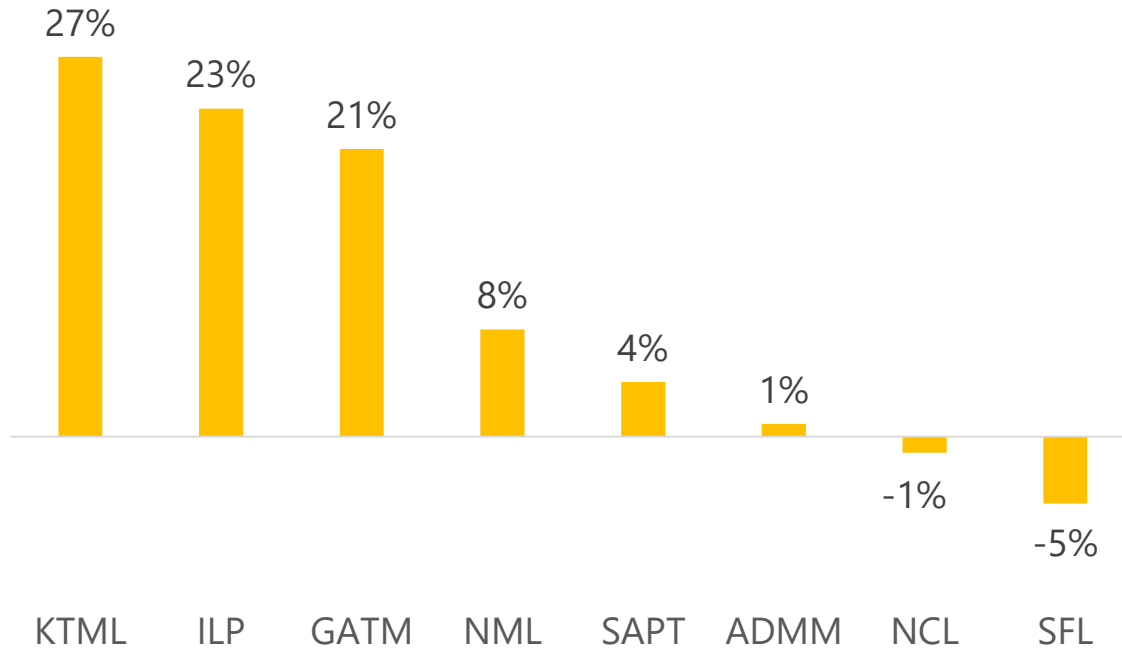


- As per the export data shared by PBS, Pakistan textile product prices (US\$/unit) have shown signs of recovery, with major increase in witnessed in knitwear (hosiery) and ready-made garments, which are up 14% YoY/ 58% YoY in Aug-2024. FY25 YTD, cotton yarn prices are down 1%, while knitwear and ready-made garment prices are up 18% and 14% respectively. Some of this can also be attributed to shift to higher value-added/ high-priced products within their respective segment.

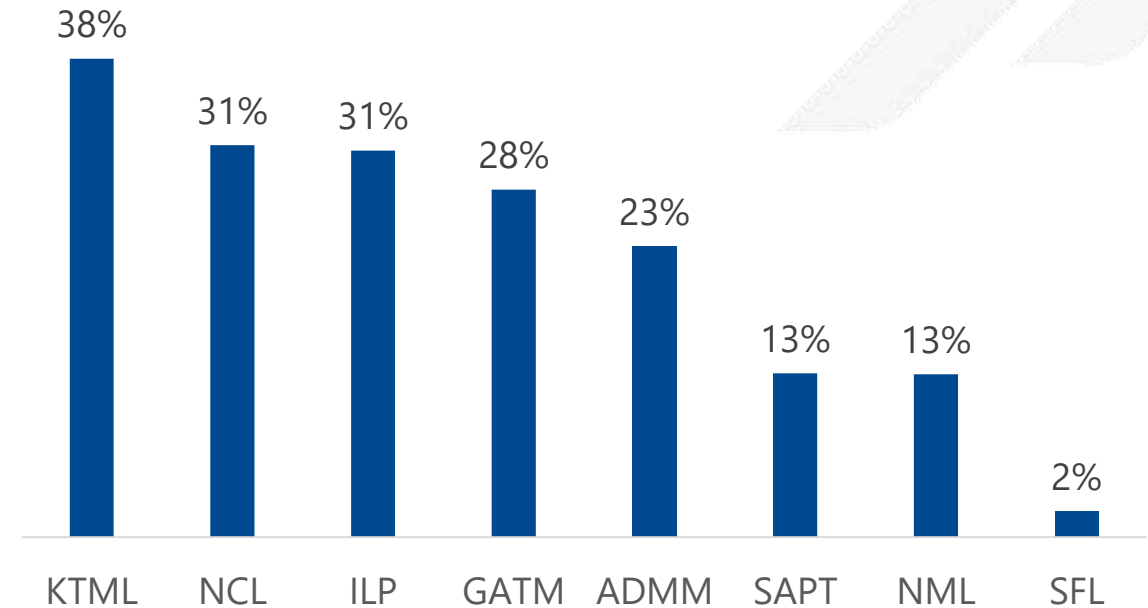
Sector profitability during 4QFY24/ FY24

Sales Revenue grew by 22% YoY in FY24 and 12% YoY in 4QFY24

4QFY24 - Sales Revenue YoY growth



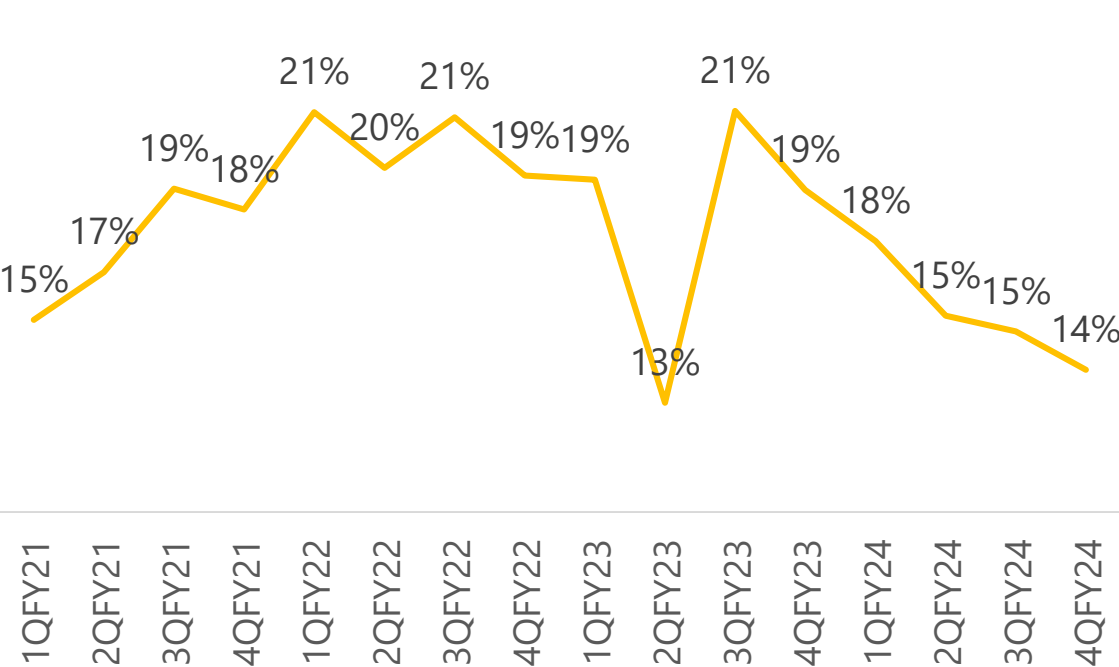
FY24 - Sales Revenue YoY growth



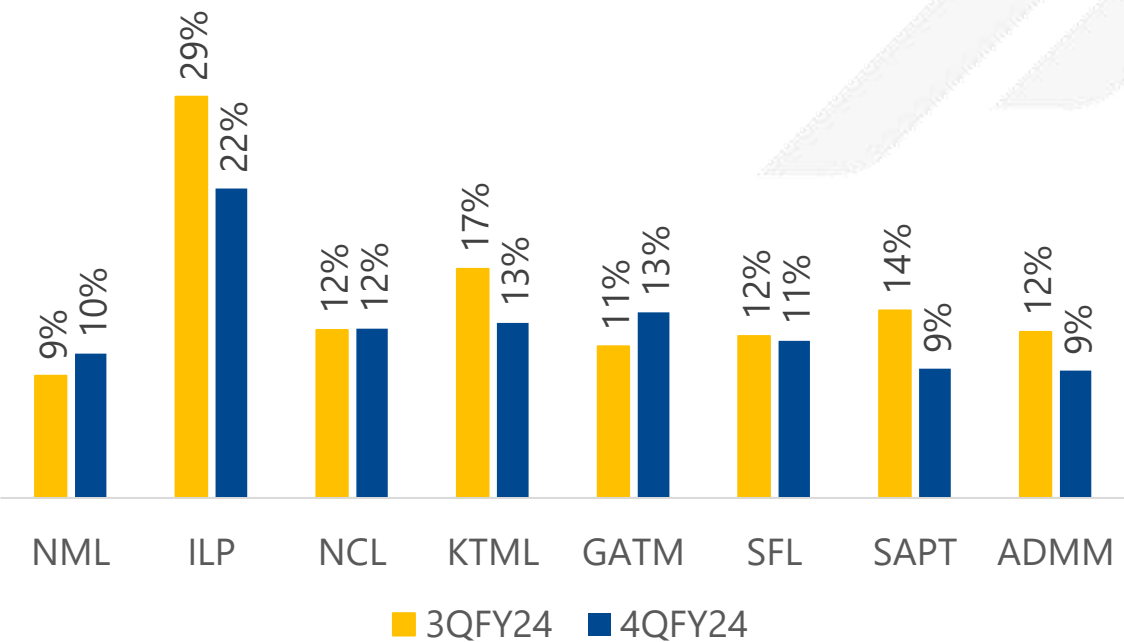
- Our sample companies reported 12% YoY growth in cumulative revenues during 4QFY24 (-1% QoQ), taking FY24 revenues growth to 22% for FY24 to Rs757bn (or US\$2.7bn, +11% YoY).
- Despite strong volumetric growth on YoY basis, decline in prices and relatively stable currency impacted revenue growth.

Gross Margins declined in 4QFY24

Sector margins declined QoQ

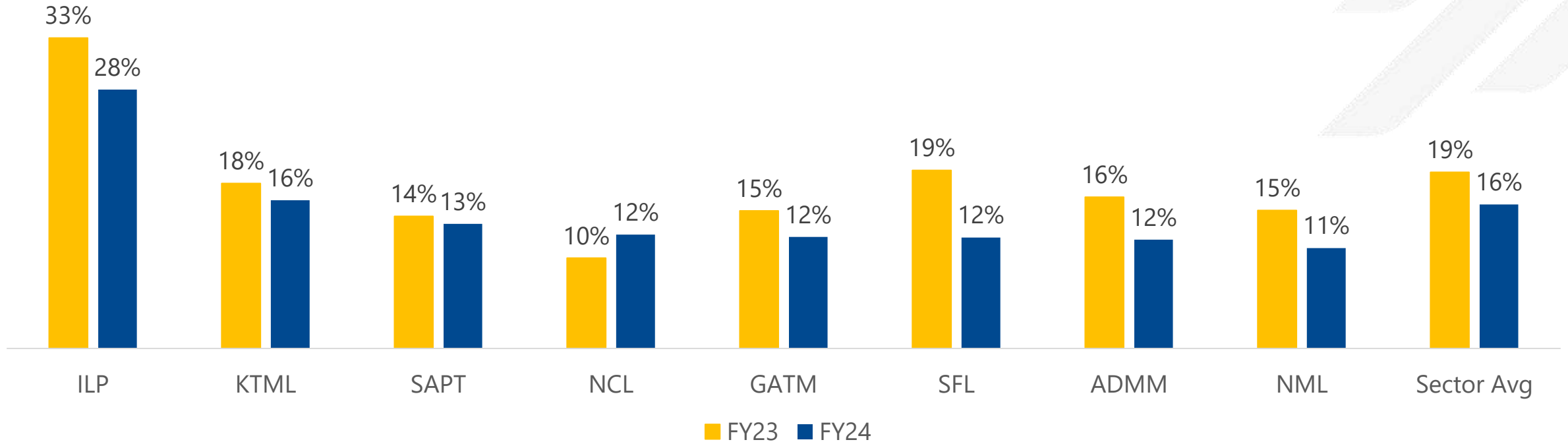


Company-wise gross margins



- Most companies reported QoQ flat or slight improvement in margins reflecting cheaper domestic cotton availability and cheaper imported inputs which slightly offset the impact of rise in energy cost. ILP margins which took a major hit in 4QFY24 due to its new apparels plant capitalization (the segment reported net loss due to higher depreciation cost this year). Despite this, ILP margins remained highest among peers.

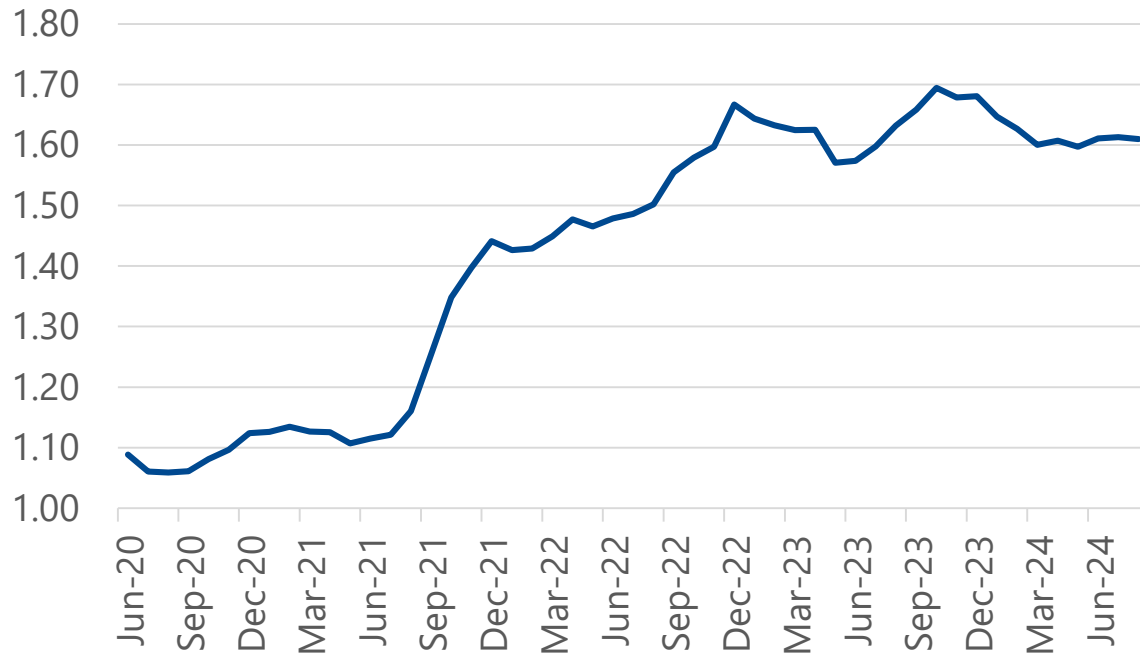
Gross Margins declined by 3ppt in FY24



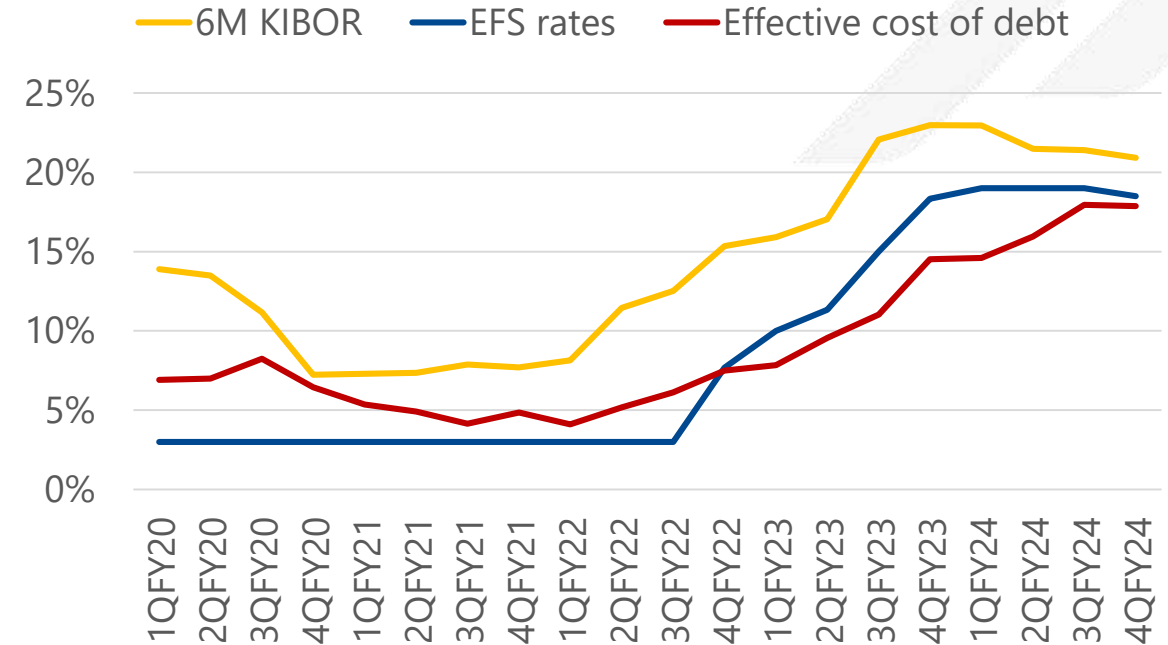
- Our sample companies combined reported 300ppt YoY decline in gross margins during FY24 to 16%. NCL was an exception where a shift to coal-fired captive power plant, enabled the company to report YoY increase in margins, otherwise weak export prices for textile products and rise in energy prices has resulted in YoY decline in margins across the board.

High Cost of Debt restricted borrowing by the textile sector in FY24

Textile Sector Loans (Rs trn)



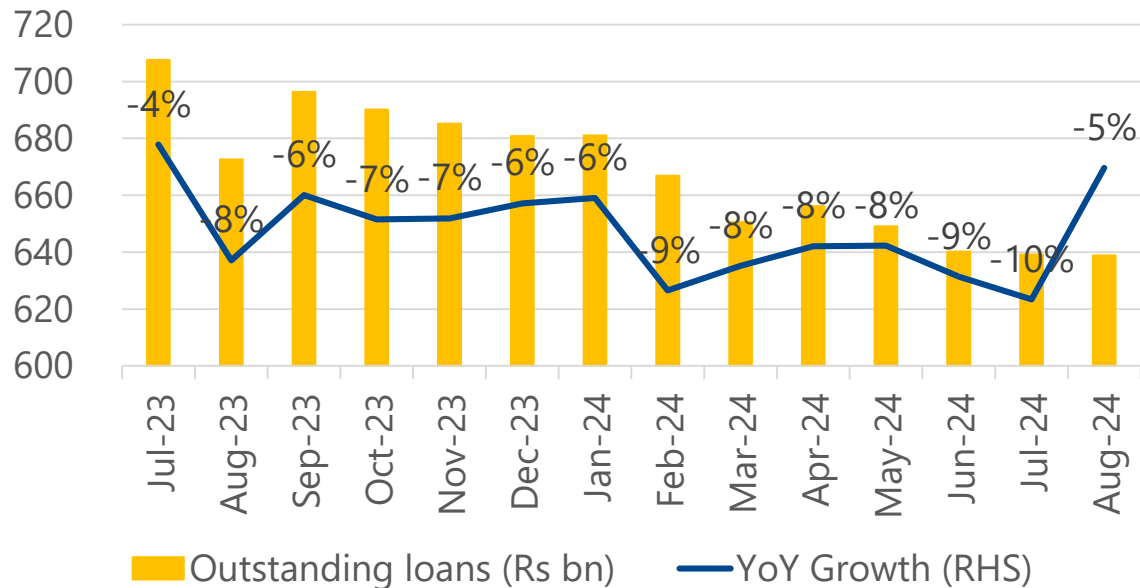
Rise in Average Lending rate to the sector



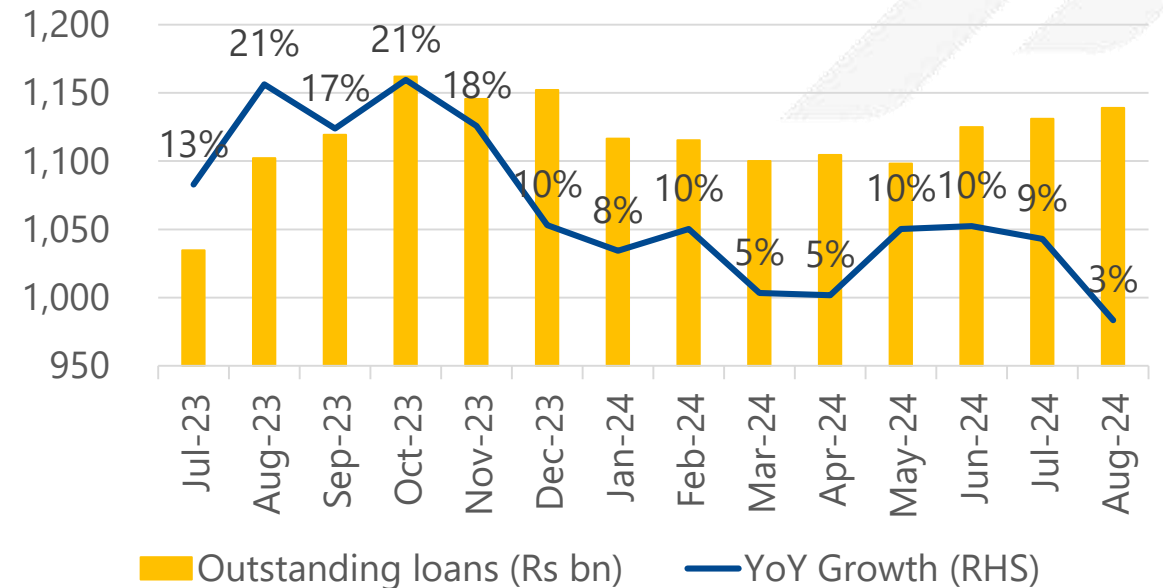
- Increase in borrowing cost and decline in EFS-based lending by banks has led to 1.5% YoY decline in Mar-24. Large companies preferred to use internally generated funds and defer major capex plans until interest rates starts declining.
- For our sample companies, effective cost of debt has increased by 200bps QoQ/ 700bps YoY in 3QFY24, reducing the gap between benchmark interest rates and effective rate to 2% compared to 7% in 3QFY23.

Restricted EFS/LTFF lending led to rise in commercial loans in FY24

**Textile sector concessional loans
(EFS, LTFF & TERF)**

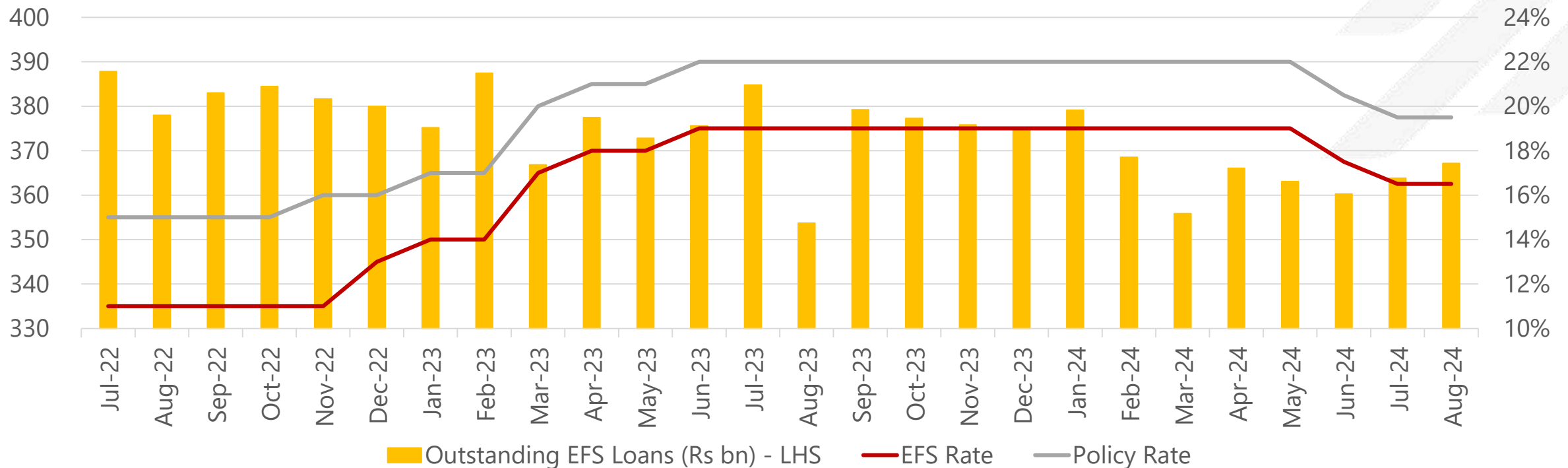


**Textile Sector other loans
(Non-concessional)**



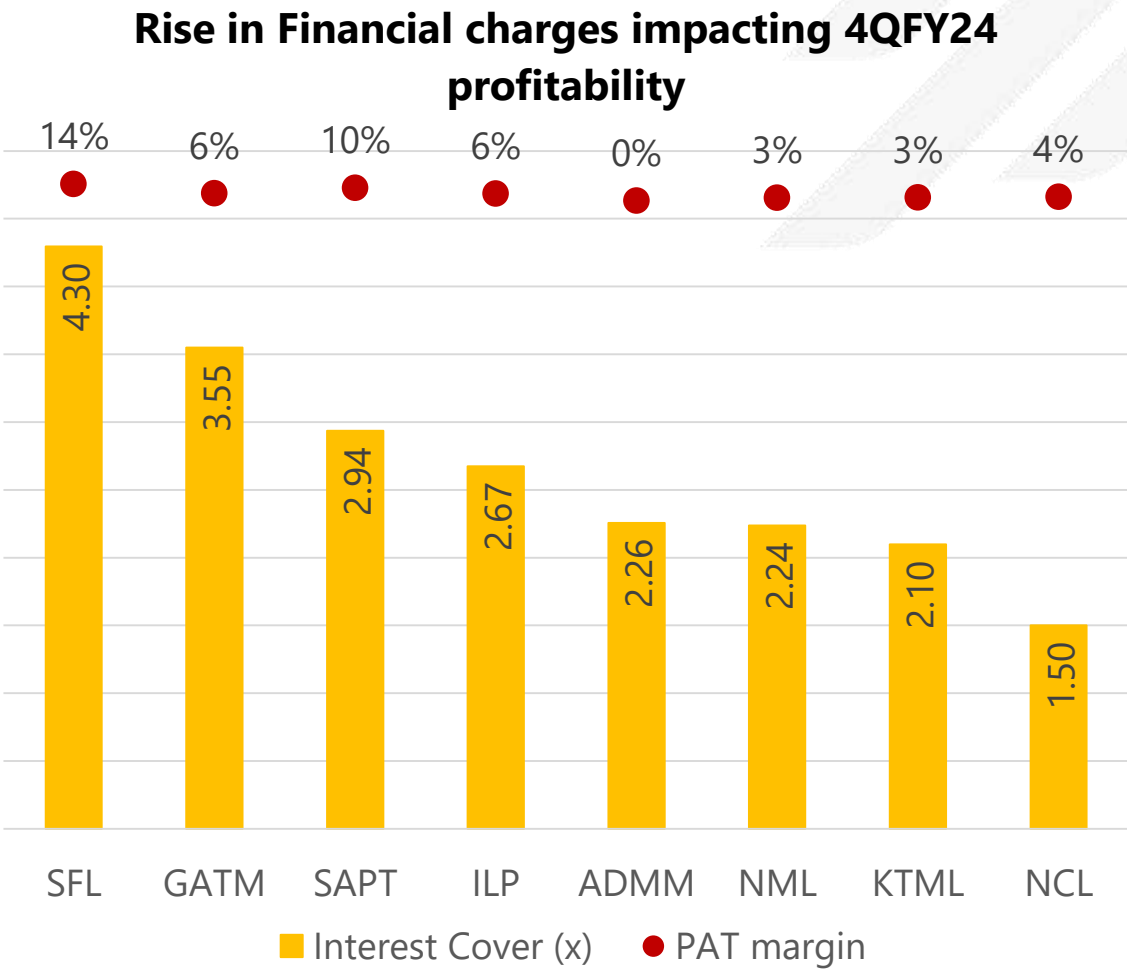
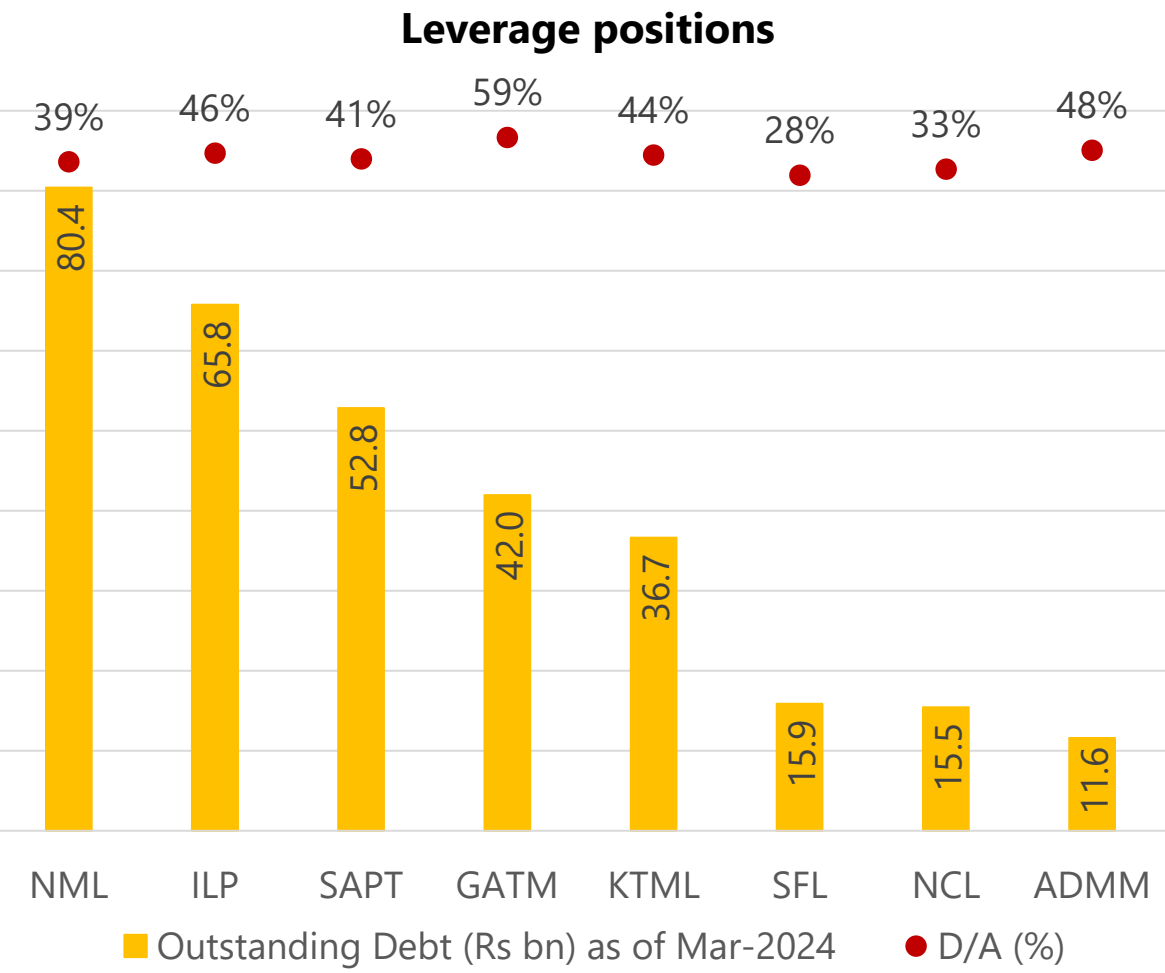
- Rise in EFS/LTFF rates to all time high levels of 19% throughout FY24 and phasing-out of Export Refinance Scheme (EFS) by SBP via gradual reduction in concessional lending limit for banks/exporters while there no fresh loans given at LTFF rates, and no fresh loans given on LTFF rates – we saw 4% and 14% YoY decline as of Jun-24 in outstanding short term (EFS) and long term (LTFF & TERF) concessional loans against 10% YoY increase in non-concessional loans
- However with decline in interest rates and resultantly EFS rates, EFS loans are now exhibiting 4% YoY growth as of Aug-2024

Rate cut and increase in EFS limits leading to pick up in EFS loans



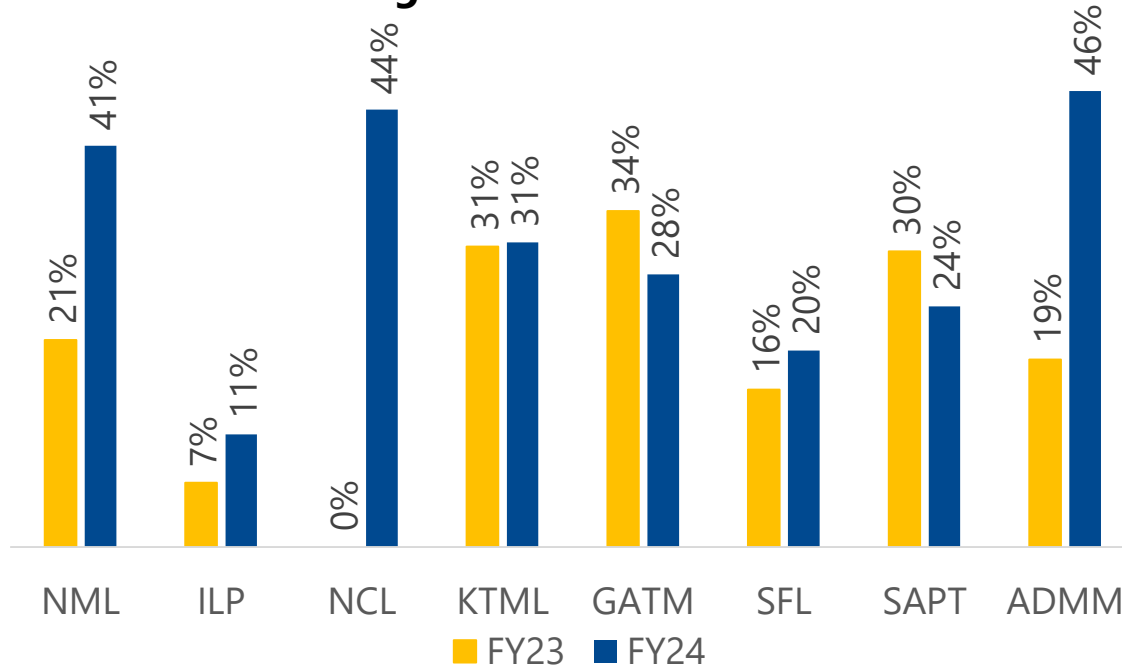
- Since Jun-2024, the central bank has cut policy rate by 450bps, the rates for EFS (Policy rate minus 300bp) are also down from 19% for almost entire FY24 to 14.5% now. This in addition to the increase in EFS limit approved in the FY25 Federal Budget and better exports orders, are also resulting in pick-up in EFS borrowing by the sector.

Company-wise Leverage Positions

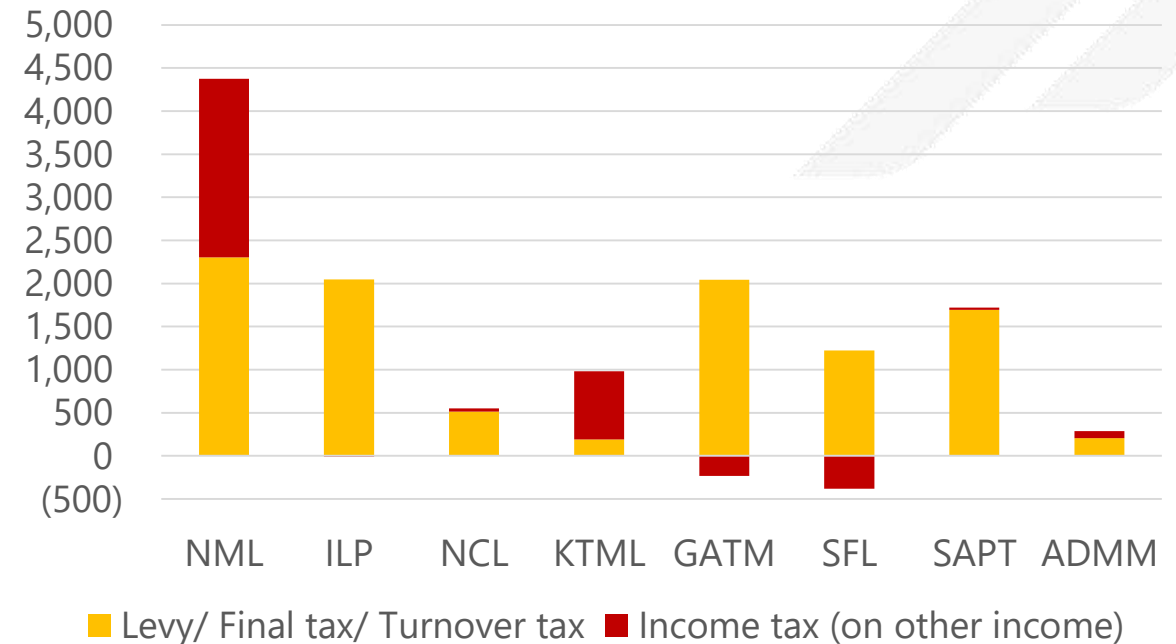


Change in tax reporting method ahead of change in taxation regime

Increasing Effective tax rate in FY24

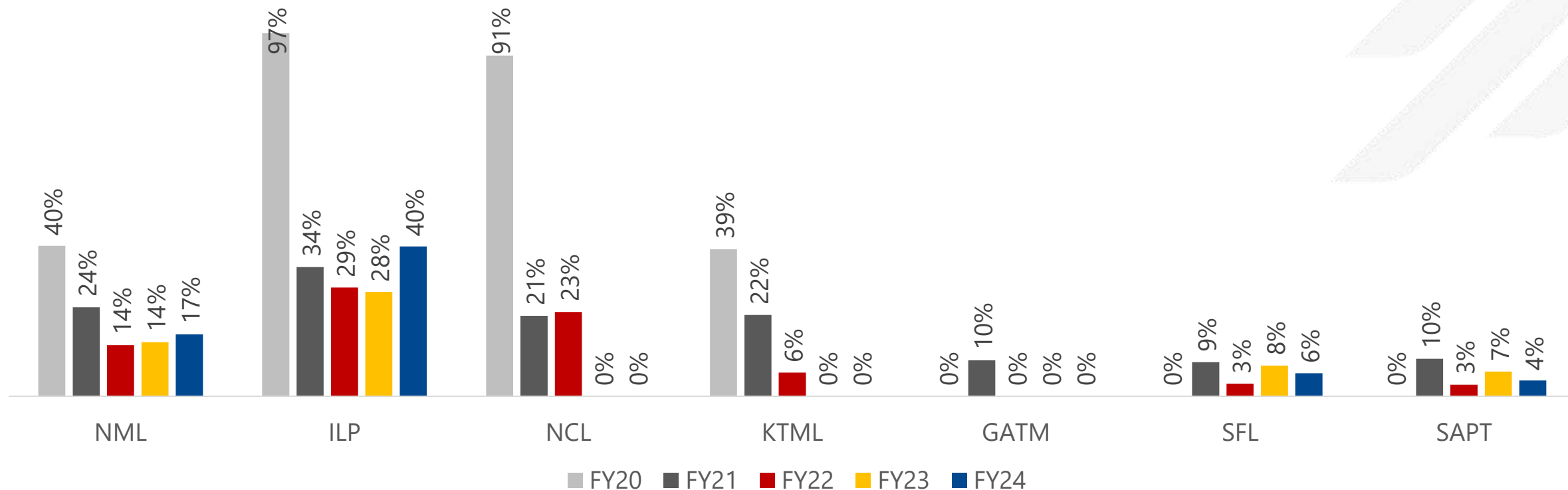


Breaking up FY24 tax expense (Rs mn)



- During FY24, most companies reported increase in their respective effective tax rate, mainly due to decline in profitability while final tax liability remained linked with the turnover. Moving ahead with change in tax regime from FY25, companies have also bifurcated their tax expense into 1) final tax/ levies (taxed applicable on turnover) reported above the profit-before tax and 2) income tax (mostly on other sources of income) after PBT. This clearly reflects that companies with higher income tax or having higher income from other sources can witness lesser impact by the change in tax regime.

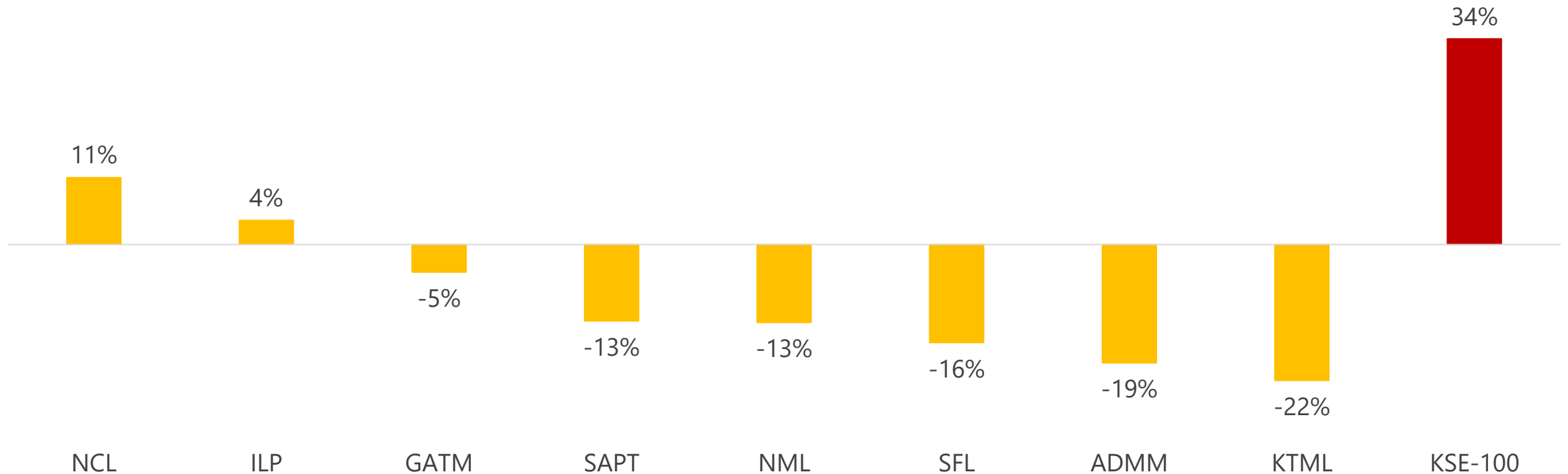
Payouts remain on the lower side



- Textile companies maintained their low payout policy where the companies continue to prefer using internally generated funds to meet their working capital and Capex requirements. Our sample companies' average payout ratio has marginally increased YoY to 10% in FY24 compared to 8%/11%/19% in FY23/FY22/FY21. Despite a major Capex plan ahead, ILP maintained its highest payout ratio among the peers in FY24.

Sector underperforms in recent months

CY24 YTD – Textile sector total returns underperform KSE100



- KSE100 index rallied 34% CY24 YTD whereas the sector cumulative market capitalization is down 5% CY24 YTD. NCL (+11% - NCL's NPAT turned green this year) and ILP (+4% - ILP outperformed peers in terms of revenue growth and margins, also announced aggressive expansion plans) outperformed the peer group companies while rest of the companies showed negative absolute returns.

P/L snapshots

4QFY24: Income statement snapshot

(Rs mn)	NML	ILP	NCL	KTML	GATM	SFL	SAPT	ADMM
Net Sales	39,990	43,273	20,315	15,228	38,000	12,467	20,735	4,645
<i>Sales YoY growth</i>	8%	23%	-1%	27%	21%	-5%	4%	1%
Cost of Sales	35,808	33,569	17,822	13,297	32,890	11,047	18,793	4,216
Gross Profit	4,182	9,704	2,493	1,931	5,110	1,420	1,942	429
Selling & distribution expenses	1,613	1,789	450	493	915	499	676	116
Administrative expenses	629	1,985	187	316	750	106	257	73
Operating Profit	1,940	5,930	1,856	1,122	3,445	815	1,009	240
Financial charges	2,386	2,715	1,819	826	1,514	558	1,571	207
Other income	2,628	231	495	197	975	1,307	2,991	38
Other charges	181	362	91	(67)	189	(2)	(24)	7
Profit Before Tax	2,001	3,084	441	560	2,717	1,566	2,453	64
Taxation	980	469	(273)	122	299	(129)	282	48
Profit After Tax	1,021	2,615	714	438	2,418	1,695	2,171	16
<i>PAT YoY growth</i>	-1%	-56%	60%	-27%	79%	103%	848%	-93%
EPS (Rs)	2.89	1.87	2.98	1.80	3.27	82.03	100.08	0.19
DPS (Rs)	3.00	2.50	0.00	0.00	0.00	10.00	10.00	1.00
Total Debt (Rs mn) as of Mar-2024	80,405	65,761	41,979	16,970	56,177	15,890	36,661	11,630
Gross Margins	10%	22%	12%	13%	13%	11%	9%	9%
Net Margins	3%	6%	4%	3%	6%	14%	10%	0%
Effective cost of debt	12%	16%	17%	19%	11%	14%	17%	7%
Effective tax rate	49%	15%	NM	22%	11%	NM	11%	75%

Source: Company accounts (standalone), JS research

FY24: Income statement snapshot

(Rs mn)	NML	ILP	NCL	KTML	GATM	SFL	SAPT	ADMM
Net Sales	160,257	156,129	88,879	58,175	143,146	47,420	82,399	20,810
<i>Sales YoY growth</i>	<i>13%</i>	<i>31%</i>	<i>31%</i>	<i>38%</i>	<i>28%</i>	<i>212%</i>	<i>13%</i>	<i>23%</i>
Cost of Sales	142,933	112,585	77,971	48,887	125,955	41,754	71,337	18,370
Gross Profit	17,324	43,544	10,908	9,288	17,191	5,666	11,062	2,440
Selling & distribution expenses	6,517	5,628	2,102	1,778	3,248	1,765	2,539	469
Administrative expenses	2,589	8,583	535	1,245	3,471	614	937	250
Operating Profit	8,218	29,333	8,271	6,265	10,472	3,287	7,586	1,721
Financial charges	10,442	10,125	7,754	3,359	5,426	2,784	6,394	1,219
Other income	13,241	661	905	456	1,982	3,765	5,894	174
Other charges	271	2,062	180	177	492	53	242	60
Profit Before Tax	10,746	17,807	1,242	3,185	6,536	4,215	6,844	616
Taxation	4,376	2,036	552	984	1,809	840	1,672	286
Profit After Tax	6,369	15,771	690	2,199	4,727	3,373	5,172	332
<i>PAT YoY growth</i>	<i>-48%</i>	<i>-22%</i>	<i>NM</i>	<i>-9%</i>	<i>25%</i>	<i>34%</i>	<i>57%</i>	<i>-69%</i>
EPS (Rs)	18.11	11.25	2.88	8.07	6.39	163.17	238.53	3.95
DPS (Rs)	3.00	4.50	0.00	0.00	0.00	10.00	10.00	1.00
Total Debt (Rs mn) as of Mar-2024	80,405	65,761	41,979	16,970	56,177	15,890	36,661	11,630
Gross Margins	11%	28%	12%	16%	12%	12%	13%	12%
Net Margins	4%	10%	1%	4%	3%	7%	6%	2%
Effective cost of debt	15%	15%	17%	19%	10%	16%	17%	11%
Effective tax rate	41%	11%	44%	31%	28%	20%	24%	46%

Source: Company accounts (standalone), JS research

FY25: Higher taxes remains a key challenge

FY25 Budget brought major changes for the textile sector with applicability of normal tax rate being the key change.

- Textiles companies (exporters) will now be subject to 29% normal income tax, in addition to super tax while previously they were subject to only 1% turnover tax, which was considered as their full and final liability. Earnings implications for each company depends on its 1) export contribution, 2) margins, and 3) dividend income contribution to total earnings.
- Increase in GST on tier-1 retail outlets, selling textile products from 15% to 18%. This measure would have an indirect negative impact on textile companies operating retail outlets directly or indirectly via wholly owned subsidiaries, for example NML, GATM, SAPT.
- Increase in limit for Export Refinance Scheme (EFS – concessionary loans) from Rs3.8bn to Rs13.8bn in FY25. This measure would be positive since the sector mostly relies on EFS for its working capital requirements, while the limit of the same was curtailed last year.

Company	Effective Tax rate*	Exports as % of Sales
NML	41%	21%
ILP	11%	7%
NCL	44%	NM
KTML	31%	30%
GATM	28%	34%
SFL	20%	16%
SAPT	24%	30%
ADMM	46%	19%

**Calculations are based on respective companies' FY24 financials.*

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