



# Weaving

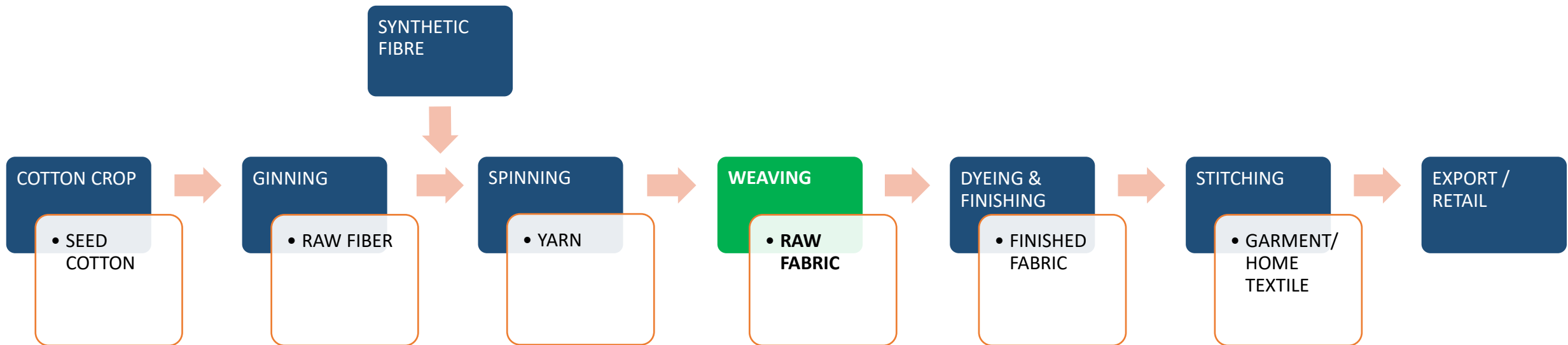
## Sector Study

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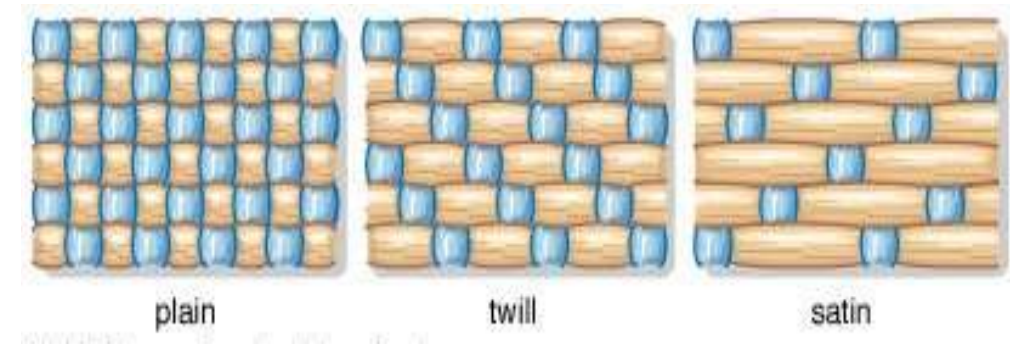
## Textile Value Chain

- Textile cluster has a relatively large value chain with multiple distinct sectors. The following flow chart depicts the major processes along with the output of the textile value chain.
- The weaving sector, which processes yarn into fabric, falls in the middle of the value chain. However, there is limited value addition in this segment.



## Production | Process & Types

- Weaving is the process of converting cotton yarn into raw fabric. It plays an instrumental role in the textile cluster. In basic weaving, two distinct sets of yarns or threads are interlaced at right angles to form a fabric or cloth, commonly known as Grey Cloth.
- The yarn has to be processed prior to weaving. There are four steps in the weaving process;
  1. Shedding: Raising and lowering of warp yarns by means of the harness to form shed, opening between warp yarns through which weft yarn passes.
  2. Picking: Inserting of weft yarn by the shuttle through the shed.
  3. Beating Up: Packing the weft yarn into the cloth to make it compact.
  4. Taking Up: Winding newly formed cloth onto the cloth beam.
- There are 3 basic types of weave;
  - **Plain weave**: A simple alternate interlacing of warp and filling yarns.
  - **Twill weave**: Made by interlacing the yarns in a manner producing diagonal ribs, ridges, or wales across the fabric.
  - **Satin weave**: Has a sheen produced by exposing more warps than fillings on the right side of the fabric. The exposed warps are called floats.
- Other types of weave such as pile, jacquard, dobby and leno are more technical and require special looms or attachments for their production.



## Technology & Machines

- There are three main types of looms from technological perspective, i.e. Projectile Loom, Rapier Loom, and Jet Loom. Major manufacturers of looms and other textile machinery are based in Germany, Italy, Belgium, China, and Japan.
- Major manufacturing brands include Lindauer Dornier GmbH, Toyota, Iteima Group, Tsudakoma, Picanol, Shandong Tongda Textile Machinery, among others.
- Loom speed is measured in terms of Revolutions Per Minute (RPM). More advanced looms have higher RPM, resulting in higher efficiency. The RPM of latest looms from major manufacturers can reach up to ~1,500-2,000 RPM.
- The cost of a single loom ranges from USD~15,000-40,000 depending on the RPM, country and brand. However, import and installation costs are also significant and raise the overall cost for weaving players. In addition, many players in Pakistan have adopted a strategy of mixing and matching machinery from different brands to achieve optimal efficiency at lowest cost.
- In Pakistan, RPM of looms range from 150 to 200 in the unorganized segment. In the organized segment, it is as high as 950 RPM. Large textile mills usually invest in higher RPM capacity.
- In the organized segment, Jet looms are the most commonly used. In air jet loom, the air consumption varies from ~13-40 litres/second.
- Almost all machinery used in the sector is imported from Europe and East Asian Countries. Further, there is a need for continuous technological BMR in order to remain competitive in the international landscape.

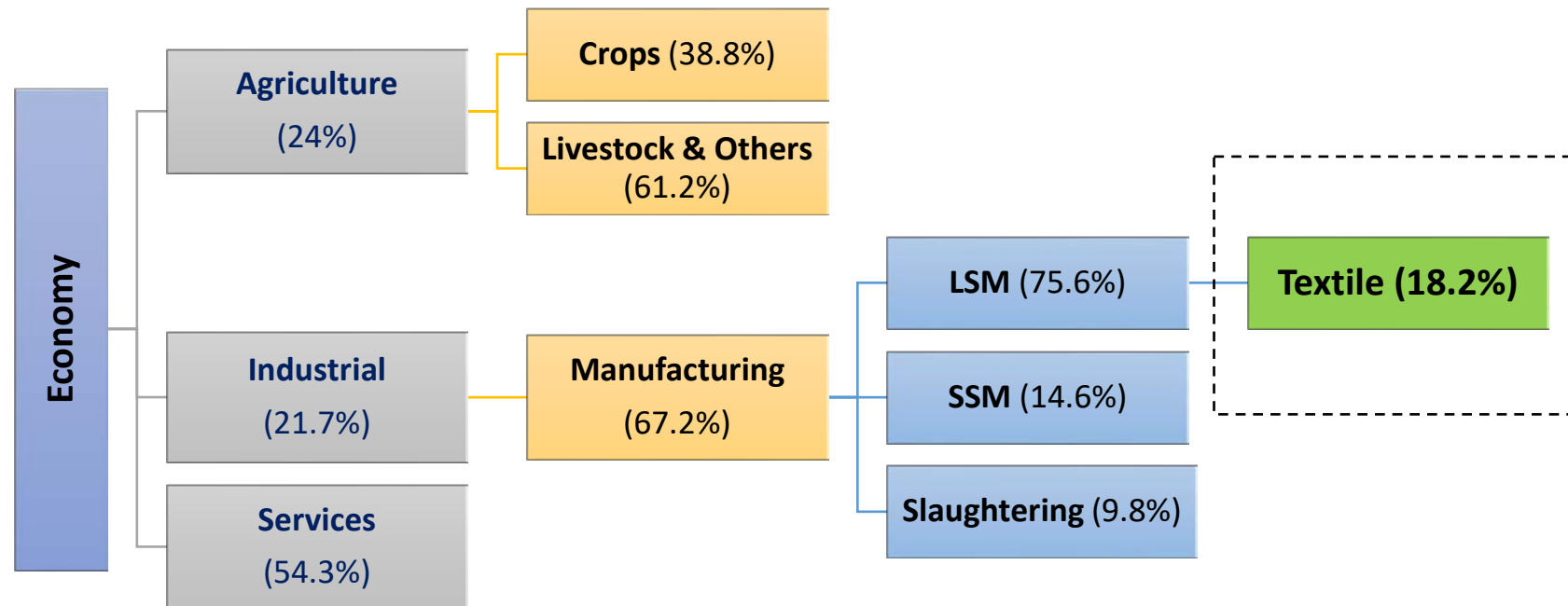


## Global | Overview

- Global cotton production is projected to decrease by ~1.1mln bales during MY23-24 as compared to SPLY (~1% decline) to ~116.8mln bales. At a country level, the largest decline is forecast for USA production by ~2.5mln bales to ~14.0mln bales, lower than MY23 estimate due to severe drought and abandonment by local farmers. The only other revision greater than ~100,000 bales is that for Uzbekistan where estimates have clocked in at ~2.9mln bales for MY24.
- According to OECD/FAO report, the largest share of global cotton production is that of India at ~25%. China is closer with ~22% share in the world cotton production. This implies that more than ~50% share of cotton is produced in Asia. Largest exporters of cotton in FY23 were USA and Brazil with ~33% and ~27%, respectively. In term of imports, Bangladesh, Vietnam and China are largest importers with ~18% share of each.
- In the meantime, the imports Bangladesh and Turkey are expected to increase during MY24, with demand from China expected to remain sluggish on the back of low economic growth. However, consumer-driven demand may impact market dynamics and might also be enough to pull in orders. With monetary tightening across developed economies, demand from these economies is expected to stay on the lower end, leading to a slowdown in cotton prices' momentum. World average cotton prices are predicted to be lower than the USD~1.01 per pound that was expected for the MY22-23.
- The global fabrics market is set to grow significantly, going from USD~107.5bln in CY22 to USD~112.9bln in CY23, with an expected CAGR of ~5%. This growth is primarily driven by the increasing demand for online shopping, which is a major factor for the fabrics manufacturing sector. During CY22, the Asia Pacific region dominated the global fabrics market, while Western Europe held the second spot.
- Manufacturers are adapting to virtual selling platforms, expanding their reach to potential customers across wider geographical areas. In India and around the world, the expansion of e-commerce has led to robust growth in apparel manufacturing. Notably, online marketplaces like Alibaba, Fibre2Fashion, and FourSource are key players in the B2B fabric commerce landscape.
- An intriguing development in the fabric industry is the rise of smart fabrics, driven by their adoption in diverse sectors like fashion, entertainment, healthcare, transportation, sports, fitness, and the military. These fabrics can interact with their environment, responding to mechanical, electrical, thermal, and chemical triggers, making them a distinct and sought-after innovation in the market.

## Local | Overview

- In FY23, Pakistan's GDP (nominal) stood at PKR~84.6trn (FY22: PKR~66.6trn) and posted a growth in real terms of ~0.29% (FY22: ~6.1%). Industrial activities in FY23 represented ~18.5% share of the (constant) GDP.
- Large Scale Manufacturing (LSM) in Pakistan is essential for economic growth, considering its linkages with other sectors, as it represents ~75.6% value of all manufacturing activities in FY23. The QIM dipped by ~10.3% during FY23 when compared with the same period of last year.
- The textile sector is classified as a Large Scale Manufacturing (LSM) industrial component within the industrial sector. In FY23, the textile industry's weight in the QIM was recorded at ~18.2%. Cotton cloth has ~7.3% share in the QIM.



# Weaving

## Local | Snapshot

- The weaving sector is divided into two segments, i) Organized mill segment and ii) Unorganized mill segment. The unorganized segment accounts for ~90% of the country's total weaving capacity. This sector study focuses on the organized segment.
- The weaving sector recorded an approximate size of PKR~2.8bln in FY23 (in terms of market capitalization), a decline of ~15.2% as compared to PKR~3.3bln in the previous year. With respect to the sector size, it recorded ~23.6% growth YoY (SPLY: ~43.1%), clocking in at PKR~637bln.
- During the outgoing FY23, the sector grappled with lower productivity growth, higher energy prices and production of low-value grey cloth of inferior quality. The sector's problems stem mainly from poor technology, a scarcity of quality yarn, and a lack of institutional financing for its development.
- The weaving sector is at a mature stage and enjoys a rich operating history in the country. Overall, the sector is competitive, represented by many players of various sizes making a relatively homogenous product.
- A significant portion of the sector's output is used within the local textile value chain to produce value-added and finished goods such as garments and home textiles. The remaining portion, which amounts to ~24% of the production, is exported.
- The major exports destinations for the weaving sector are other South East Asian and South Asian countries such as Bangladesh, China and Turkey which have significant textile industries and use the fabric as an input for finished goods to be exported to European and North American markets.

Sector Snapshot	FY20	FY21	FY22	FY23
Est. Market Cap. (PKR bln)*	2.5	4.9	3.3	2.8
Est. Market Size (PKR bln)	294	360	515	637
Sector Players	~30 Organized Weaving Mills			
Production [Organized Mills] (mln Sq. M)	931	1,048	1,051	925**
Total Production (mln Sq. M)	8,158	9,177	9,189	8,326
Export Value (PKR bln)	288	307	434	499
Export Volume (mln Sq. m)	2,328	2,545	2,642	2,012
Industry Association	All Pakistan Textile Mills Association (APTMA)			

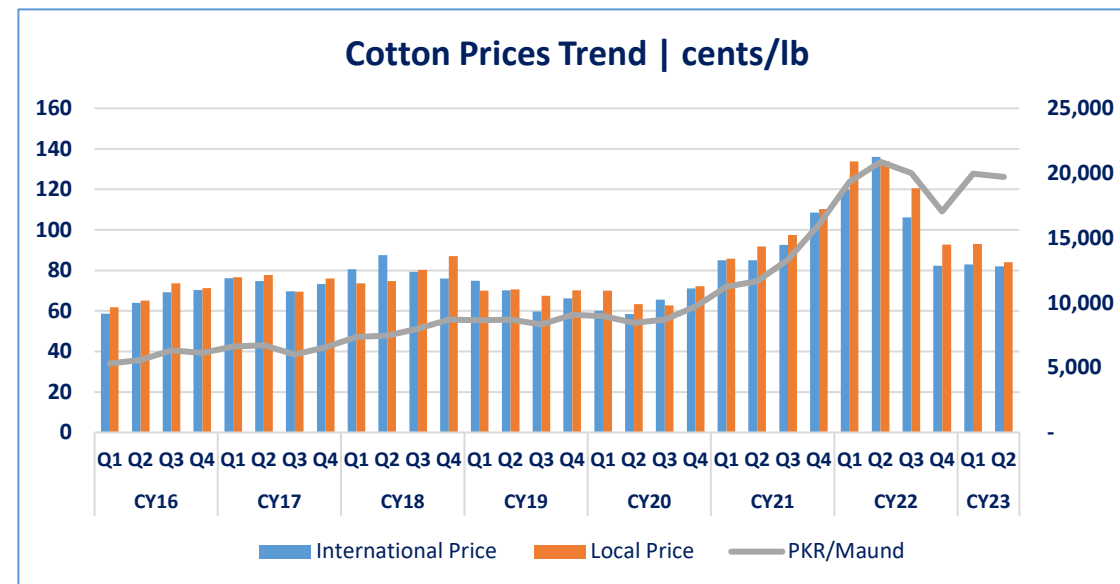
\*Market capitalization of 5 weaving sector players, where FY23 figures are based on the sector's market capitalization at Aug-03-2023. Market size has been estimated using cotton cloth's share in QIM. \*\*Numbers are based on 9MFY23 figures.



# Weaving

## Cotton Dynamics | Prices

- International cotton prices, historically (CY16-20), exhibited a range-bound trend, hovering in the range ~60-80cents/lb. Prices are largely determined by supply-demand factors but can also fluctuate based on unforeseen events. For instance, during the COVID-19 pandemic, international prices had dipped to ~60cents/lb. However, the 1QCY21-2QCY22 period registered the highest levels of ~136cents/lb largely on the back of an uptick in economic activity across the globe.
- A significant variable influencing global cotton prices is the sluggish import demand from China, the world's largest cotton importer and producer, which has built significant stockpiles within the country in the recent past. The price stability of cotton in recent times can also be likely attributed to U.S. ban on textile exports made from cotton harvested in Xinjiang region of China.
- Local cotton prices, on average, exhibited little volatility during CY16-20, growing from PKR~5,846/maund to PKR~8,969/maund during 3QCY20, and hitting lowest levels during 3QCY17 of PKR~6,025/maund. However, prices started registering a steep growth post-CY20 and climbed up a high of PKR~20,862/maund during 2QCY22. Higher local prices moved in tandem with international prices during this time.
- A slight deviation has been observed for local and international prices (cents/lb) during CY23. At the start of CY23, delay in determining cotton price support by the government allowed prices to fall as ginners tried to sell cotton at lower rates while spinners were reluctant to buy them. In Mar'23, the ECC fixed cotton intervention price at PKR~8,500/40Kg. This has failed to improve market conditions since growers were demanding a higher rate.
- Going forward, cotton prices are expected to continue similar trajectory in the face of lower demand from China and sluggish growth in top cotton-consuming countries.



Average Cotton Prices	FY19	FY20	FY21	FY22	FY23	Jun'23
International (Cents/lb)	76	62	76	114	87	82
Local (Cents/lb)	78	68	78	123	94	83
Local (PKR/maund)	8,604	8,742	10,290	13,476	19,108	19,568

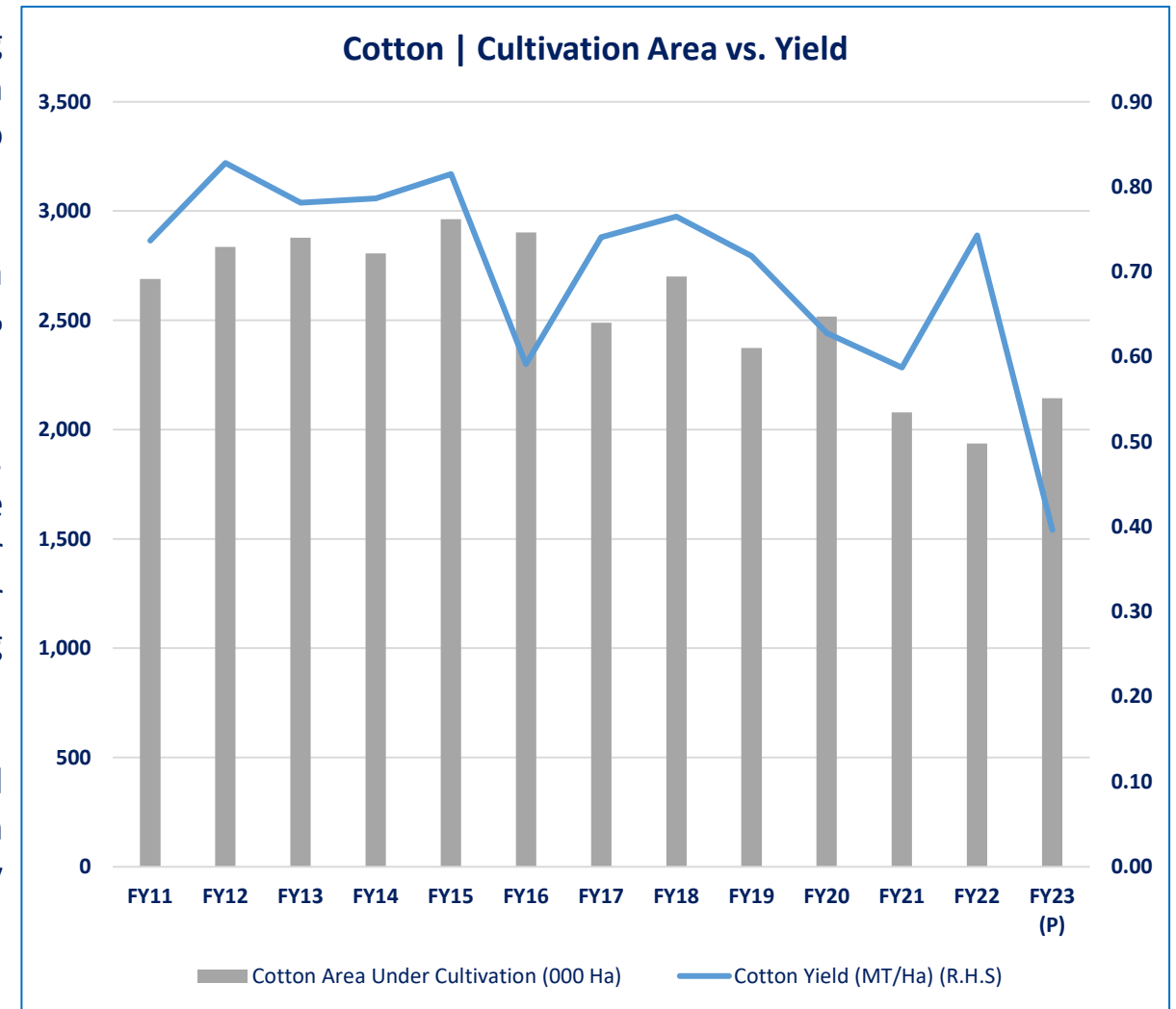
## Local | Cotton Dynamics

Pakistan's Cotton Supply (000 Bales)						
	FY18	FY19	FY20	FY21	FY22	FY23
Opening Stock	464	987	1,136	202	209	174
Production	11,946	9,861	9,148	7,064	8,329	4,910
Imports	3,519	2,438	3,149	5,035	4,636	4,023
<b>Total Supply</b>	<b>15,929</b>	<b>13,286</b>	<b>13,433</b>	<b>12,301</b>	<b>13,174</b>	<b>9,107</b>
Local Consumption	14,736	12,074	13,155	12,086	12,984	7,254
Exports	206	76	76	6	16	68
Closing Stock	987	1,136	202	209	174	1,785

- The majority of Pakistan's cotton crop is grown in Punjab and Sindh, with KPK and Balochistan sharing a relatively small fraction of total outputs. The two major cotton producing provinces are Punjab (~66%) and Sindh (~33%) based on USDA's recent 3-year average estimate.
- Pakistan's cotton production decreased by ~41% in 9MFY23 (FY22: ~57.3%) as the Aug'22 floods damaged cotton crop in major cotton producing districts like Rajanpur, DG Khan and Taunsa which were worst hit by flood and registered significant crop damages. The post-flood estimates of cotton production are ~4.9mln bales (or ~0.8mln MT) during FY23 as compared to ~8.3mln bales (or ~1.4mln MT) last year.
- FY23 was the second consecutive year when Pakistan's net imports of raw cotton declined after FY15 and FY19. Prior to FY22, cotton imports rose by ~78.1% over the FY17-21 period. However, for the outgoing FY23, estimates suggest a ~15% decline in cotton imports. The decline in imports can likely be explained by the liquidity crunch that faced the country during 2HFY23 especially, and the resultant lower quantum of imports. Moreover, there was also a slowdown in the global trade for cotton on the back of lower demand.
- The proposed target for cotton crop for FY24 season is ~2.2mln MT (or ~12.97mln bales), of which ~65.3% has been budgeted for Punjab and ~31.3% for Sindh and the remainder for KPK and Balochistan.

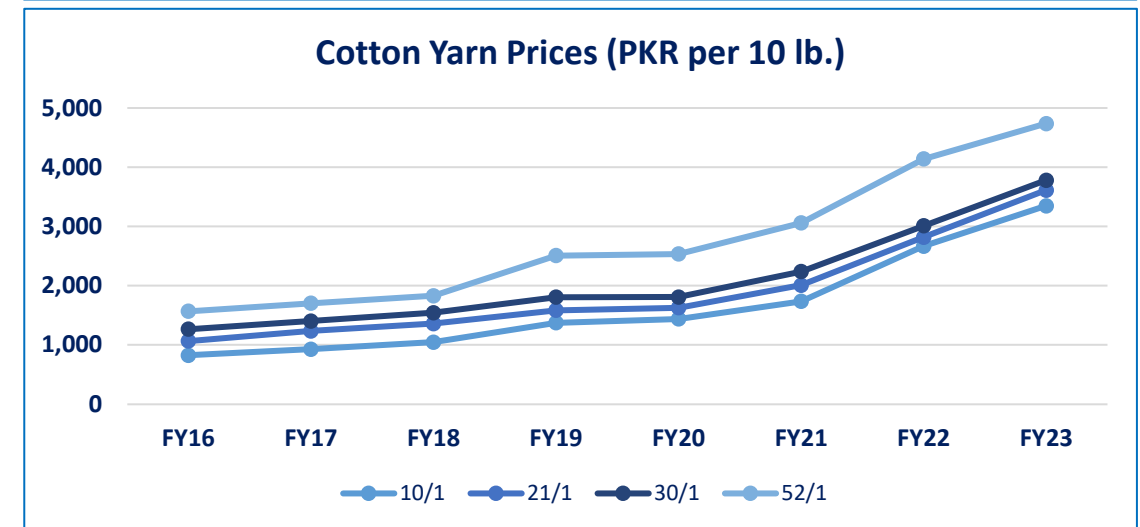
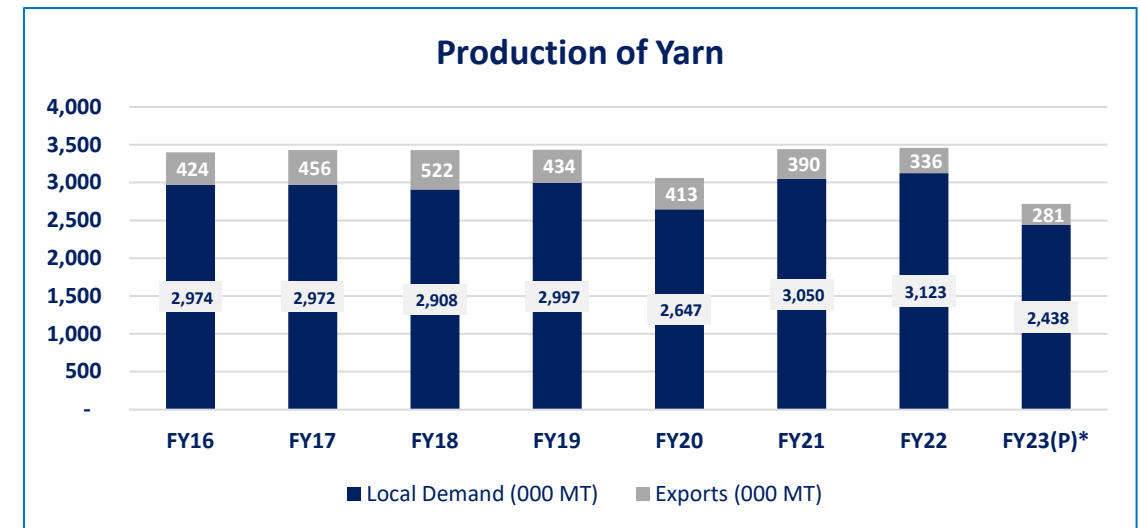
## Local | Cultivation Area and Yield

- The decline in cotton yield came despite area under cultivation having increased by ~10.7% in FY23 (FY22: ~-6.8%). The area under cultivation in FY23 Kharif season has been recorded at ~2.1mln hectares, compared to FY22 when the area under cultivation was ~1.9mln hectares.
- Despite ~10.1% increase in area under cultivation, the floods caused a significant damage to cotton crop, with its production declining by ~41% to ~4.9mln bales (SPLY: ~8.3mln bales).
- On the other hand, area under cultivation for Maize grew only by ~4.1%, while that for rice declined by ~15.9% during FY23. Maize and Rice compete directly with cotton for area. However, besides the floods, other factors such as high temperatures and shortage of irrigation water resulted in lower cotton germination, seedlings growth and leaf wilting problems impacting cotton production during Mar-May'23.
- For FY24, production target is set at ~12.7mln bales, with targeted yield set at ~785Kg/Ha. However, area under cultivation is expected to remain stagnant due to Maize and Rice capturing higher local prices, paving way for farmers to make good profits with regards to these crops.



## Local | Raw Material

- Majority of the locally produced yarn (~90% in FY23) is used as raw material for the weaving sector. The production of yarn decreased by ~21% YoY in FY23 following a meagre increase in FY22 of ~1% YoY.
- Production has considerably slowed owing to a decline in export demand in FY23 of ~16.4% (FY22: ~13.8%). This can likely be associated with global recession and dampened demand.
- This also indicates that yarn is being used to majorly meet the demand for the local weaving industry. In FY23, local demand decreased by ~21.4% compared to a small growth figure of ~2.4% in FY22. Local demand also dropped due to flood, inflation and rising interest rates and this is evident from a slowdown in the textile sector growth in 9MFY23 compared to the SPLY (~-16% vs. ~3.3%, respectively).
- The previous year had experienced comparatively positive growth in production (~1%) owing largely due to congruent production units, elevated cotton prices and invariant capacities.
- Prices of cotton yarn have exhibited a rising trend in recent years (FY16-20), however, these have recorded a steeper increase during FY21-23. This mostly resulted from an increase in international prices during FY22 and a devalued PKR. From Jan'23 till date, although international cotton prices are easing, local prices remained on the higher end due to significant trading taking place in the cotton market due to improved quality of cotton on the back of favourable weather conditions. Higher yarn prices also serve to increase the cost of production for the weaving sector.



## Local | Installed Capacity & Utilization

- As of FY23, there are ~9,084 looms installed in the organized segment of the weaving sector (i.e., cotton textile mills), out of which ~6,384 looms were utilized. Meanwhile, there are ~403,500 power and shuttle less looms operating within the unorganized segment.
- During FY23, the average capacity utilization for listed and rated players stood at ~70%, decreasing from ~82% in SPLY due to lower domestic production, restriction on imports, and unavailability of foreign exchange reserves. Meanwhile, market players also faced difficulty in clearing raw material from ports.
- Moving forward, sector players have invested in new machines on the anticipation of higher local and global demand whereas the number of looms is also expected to increase in coming years.

Organized Mill Segment	FY17	FY18	FY19	FY20	FY21	FY22	FY23*
No. of Looms Installed	9,084	9,084	9,084	9,084	9,084	9,084	9,084
No. of Looms Utilized	6,384	6,384	6,572	6,384	6,942	6,942	6,384

## Local | Fabric Production

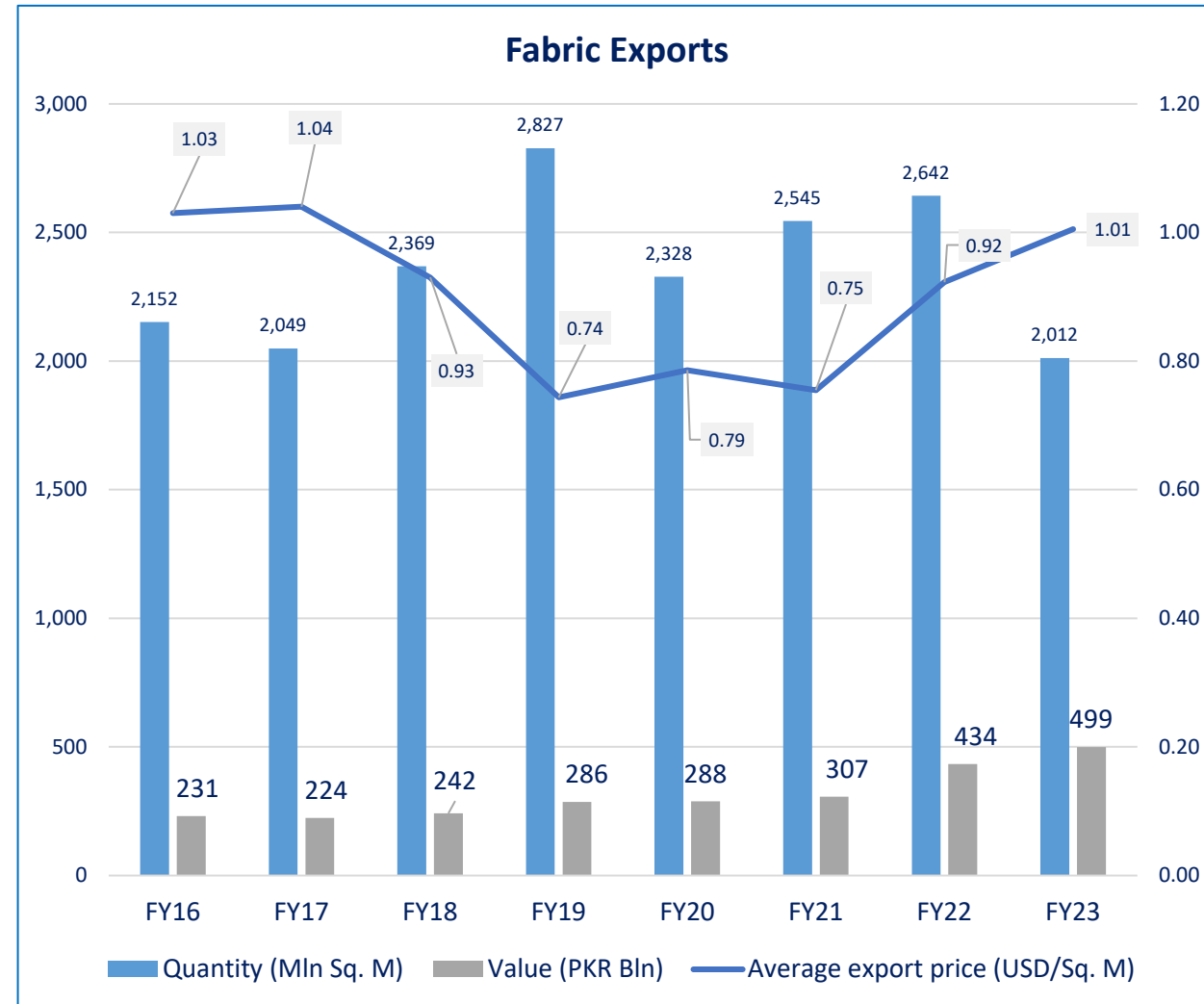
- During FY22, the organized weaving segment accounted for ~11.4% of total fabric production with the unorganized segment making up the remaining ~88.6%, which amounted to ~8.1bn Sq. M. The output from the unorganized segment is usually of a lower quality.
- During FY23, the organized segments fabric production decreased to ~925mln Sq. M, down from ~1,051mln Sq. M, a negative growth of ~12%. Growth in the SPLY was ~2%. This shrinking growth is attributable to an overall reduction in demand owing to a decline in export demand and very low levels of increase in local demand due to economic crises, including high levels of inflation, power tariff hikes and the havoc caused by Aug'22 floods. Moreover, during the said year, total fabric production clocked in at ~8.3bn Sq. M, down ~9.4% YoY.

(000 Sq. M)	FY17	FY18	FY19	FY20	FY21	FY22
Grey	584,532	582,812	583,364	519,237	584,429	585,878
Bleached	75,805	111,110	114,146	101,598	78,970	79,166
Dyed & Printed	299,519	269,082	267,397	238,003	304,564	305,319
Blended	83,488	80,736	81,073	72,161	80,484	80,684
<b>Total Organized Mill Production</b>	<b>1,043,344</b>	<b>1,043,740</b>	<b>1,045,980</b>	<b>931,000</b>	<b>1,048,447</b>	<b>1,051,047</b>
Unorganized Mill Production	8,126,356	8,127,160	8,101,820	7,266,566	8,128,845	8,137,787
<b>Total Fabric Production</b>	<b>9,169,700</b>	<b>9,170,900</b>	<b>9,147,800</b>	<b>8,157,566</b>	<b>9,177,292</b>	<b>9,188,833</b>
<i>Growth YoY</i>	<i>0.11%</i>	<i>0.01%</i>	<i>0.04%</i>	<i>-11.09%</i>	<i>12.50%</i>	<i>0.13%</i>

*Note: FY23 organized mill production figure has been prorated using 9MFY23 data, while that for fabric production is representative of the whole year.*

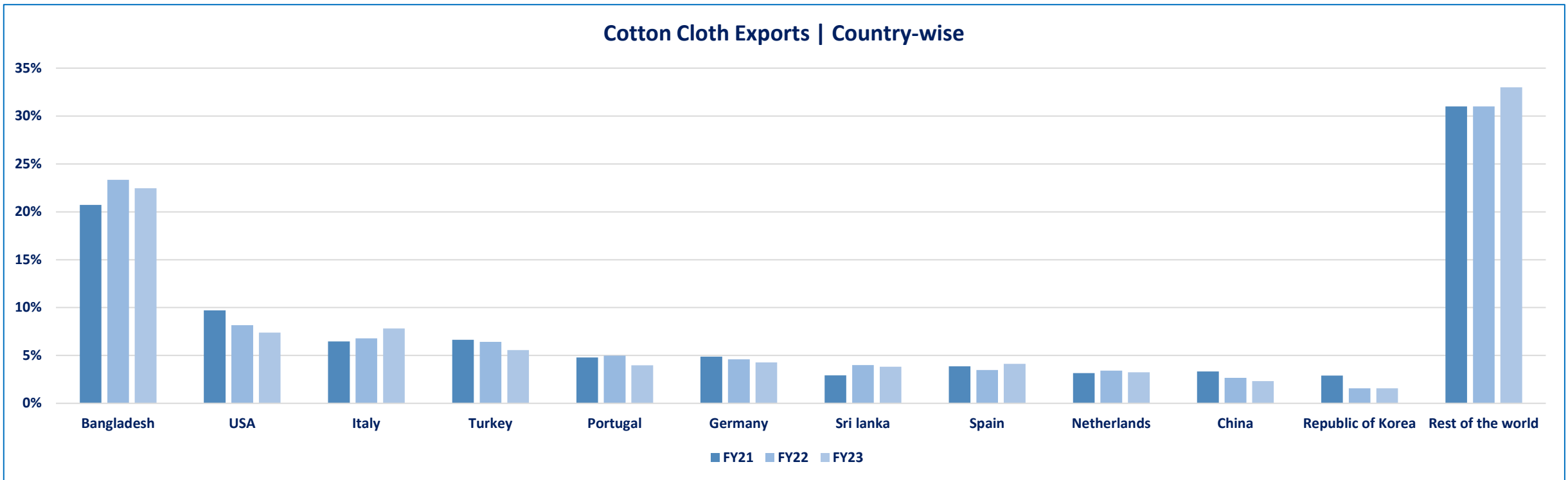
## Local | Cotton Cloth Exports

- During FY23, the export of cloth declined in volumetric terms, to ~2,012mln Sq. M from ~2,642mln Sq. M in FY22, a decrease of ~24% (SPLY growth: ~3.8%).
- Compared to FY22, the sharp decrease in volumetric exports in FY23 was due to a combined slowdown in textile exports that can be attributed to suppressed demand caused by recessionary fears in Western regions, particularly in the US and Europe. Additionally, factors such as gas shortages, rising working capital costs, lower cotton production, and uncertainty in foreign exchange rates have further contributed to the decline.
- In value terms, exports of fabrics stood at PKR~499bln in FY23, a ~15% increase from PKR~434bln in FY22. Despite the sharp decrease in export volume of ~23.8% YoY, this increase is attributable to an increase of average export price of fabric which in turn is due to depreciation of the PKR against the USD of ~39.3% during FY22-23.
- In previous years (FY17-21), the average export price had experienced a declining trend due to high competition and low levels of value-addition. However, since FY21, supply chain bottlenecks and elevated international cotton prices precipitated a rise in export prices.
- During FY23, the export of fabrics contributed ~12.4% to the country's total textile exports which amounted to ~7.3% of the country's total exports.



## Local | Export Destinations

- During FY21, ~21% of Pakistan’s cotton cloth exports were concentrated towards Bangladesh (USD~389mln), which is a significant player in the global textile finished goods market. In FY22, the share increased to ~23% (in value terms, to USD~545mln), with total exports during the year amounting to USD~2,337mln (SPLY: USD~1,874mln). Simultaneously, USA’s share declined to ~8% (SPLY: ~10%). The pick up in exports to Bangladesh in FY22 occurred on the back of increased orders from Bangladesh.
- During FY22, other export destinations include European countries such as Turkey (~6%) and Italy (~7%), Portugal and Germany (~5% each), Sri Lanka (~4%) and Spain & Netherland (~3% each), while China also stood at 3%.



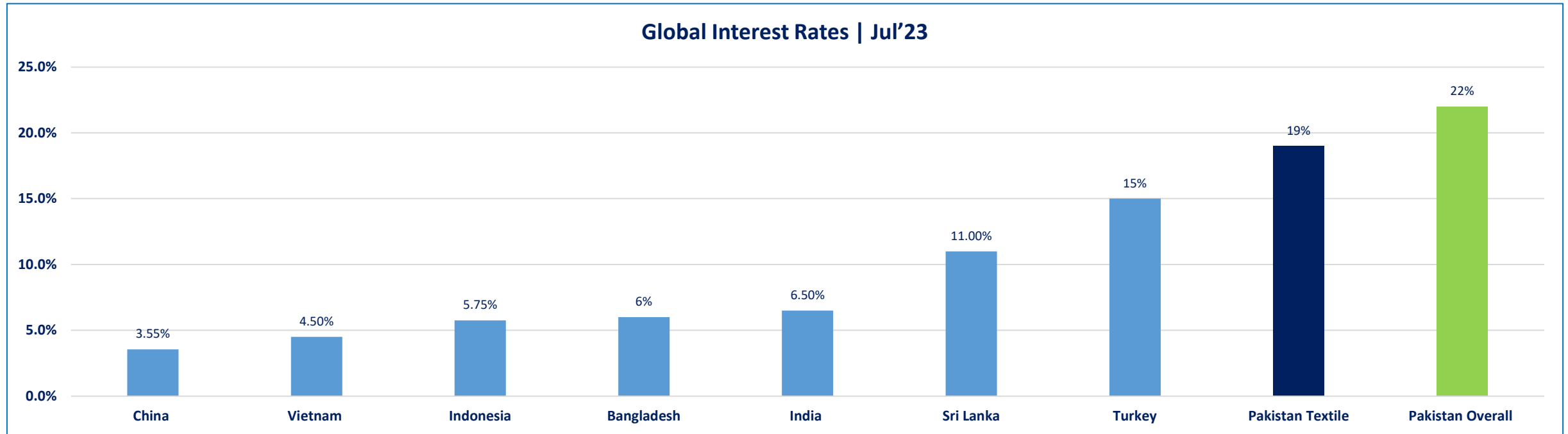
*Note: Data is stated based on export value i.e., USD mln and includes HS Codes 5208,09,10,11 &12.*



## Local | Business Risk

- **Decline in Local Cotton Production:** Cotton harvest declined by a hefty ~34% YoY in Apr'23 falling to ~4.9mln bales from ~7.4mln bales during SPLY. This is the most significant risk to impact the textile sector as damage to local crop will mean more cotton will need to be imported and with the presently high PKR/USD exchange rate, sourcing raw material from overseas will hurt the bottom lines of industry players. Due to high cost of production, Pakistani textile exports are losing their competitiveness to other regional rivals.
- **Dependency on Cotton Imports:** The Aug'22 floods are estimated to have destroyed ~40% of cotton crop. This increased the dependency on imports; raw material constitutes ~71% of the sector's direct costs and thus the sector remains vulnerable to fluctuations in the price of the raw material which is at a low level. Profitability depends on sector players' ability to continue to pass on the increased price impact.
- **Low Level of Value Addition:** Although, the increased demand has increased the overall profitability of the sector, it remains a low value addition sector with historically narrow margins. Pakistan's textile exports are low-priced, and closely follow cotton price trends. Recent drops in USD/lb cotton prices will lead to farmers getting a lower price for cotton acting as a disincentive for growing cotton and instead shifting to other cash crops.
- **High Energy Costs:** The government no longer provides the textile industry with RLNG at a subsidized rate. Price of energy for Pakistani industry stands above the regional average for countries such as India, Bangladesh and Vietnam which reduced the competitiveness of Pakistan's exports. Furthermore, the withdrawal of the RCET has forced smaller mill owners to close down businesses. As of Oct'22, APTMA reports ~1,600 mills have been forced to shut down as a result due to the rising power tariff.
- **Disruption in Electricity and Gas Supply:** The weaving sector depends on an uninterrupted supply of electricity and gas. During FY23, interruptions in energy supply and curtailment of gas supply meant that the industry output was affected.
- **High Level of Regional Competition:** Pakistan's textile exporters have traditionally faced a high level of competition from regional players such as Bangladesh and Vietnam which has driven down the average export prices and margins in previous years. Although, many regional players were severely impacted by the COVID-19 pandemic, the regional competition continues post-pandemic.

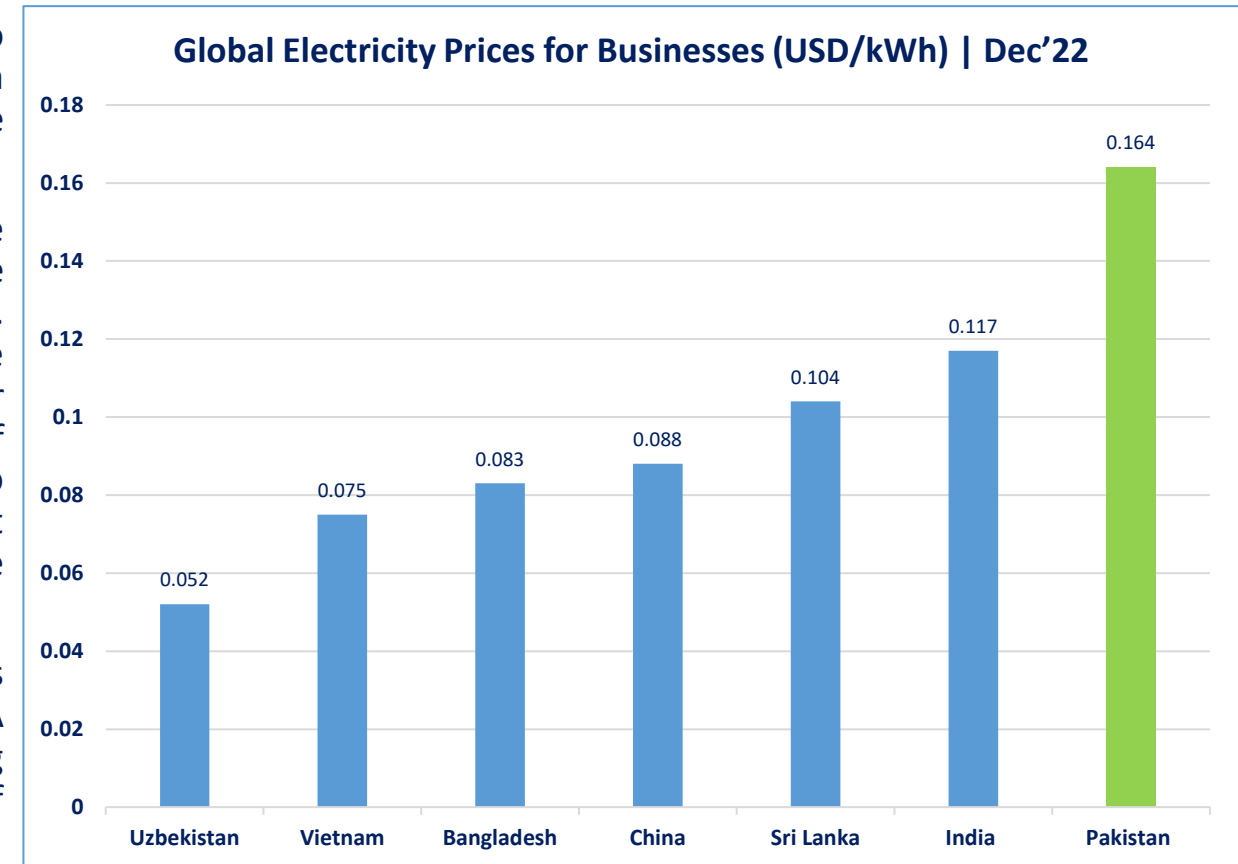
## Interest Rates | Regional Comparison



- With the recent hike in policy rate to ~22% in May'23, Pakistan has the highest interest rate in the region. In comparison, many regional countries either cut their policy rates or held them consistent. The high cost of borrowing acts as a barrier to investments in various sectors. However, going forward, the SBP is expected to observe status quo with respect to interest rate hikes in the backdrop of slowing inflation.
- The textile sector is a beneficiary of subsidized financing facilities from the SBP in the form of short term Export Refinance Facility (ERF) and Long Term Financing Facility (LTFF). In Jul'22, the SBP announced that any subsequent revisions in the LTFF and EFR rates will be linked to policy rate revisions such that the difference between the former two rates and the latter is maintained at ~5%; this difference was reduced to 3% in Dec'22.

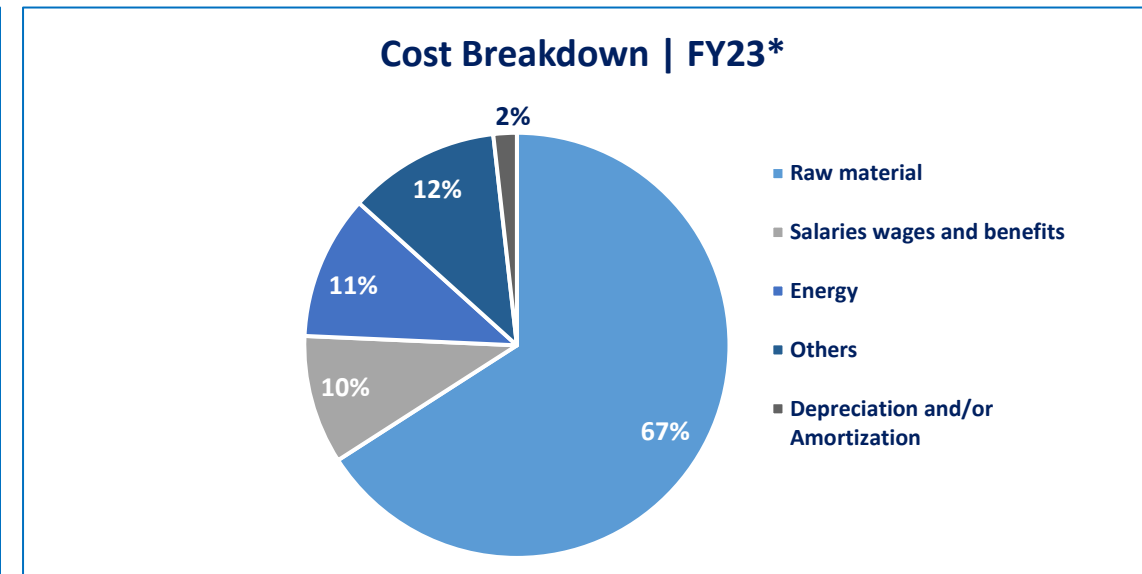
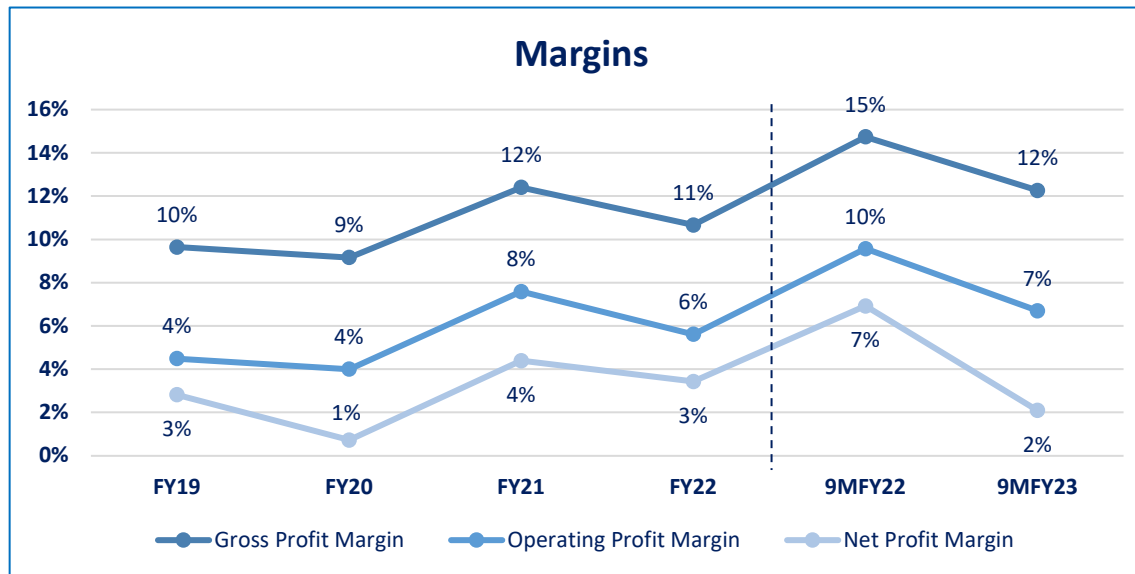
## Electricity Prices | Regional Comparison

- Pakistan's businesses face a competitive disadvantage when it comes to comparing national and regional electricity tariffs. Energy costs have a significant share in the final conversion costs of textile mills and these costs cannot be ignored for achieving a competitive edge.
- The government used to provide gas at internationally competitive prices or at regionally competitive energy tariffs (RCET) to the five export-oriented sectors of the economy including the textile cluster. However, this has now been discontinued as of Mar'23, despite government's pledge to provide electricity at PKR~19.99/kWh for Export-Oriented Units until Jun'23. Disruptions in the supply of electricity from the national grid (loadshedding and fluctuations) due to obsolete infrastructure and disconnection of gas supply make it challenging to rely on these energy supply sources. Furthermore, in the winter season, gas provided to the sector is further curtailed.
- There is also a severe lack of gas and RLNG due to declining reserves and high prices caused by Russia-Ukraine situation. According to NEPRA calculations, the cost of electricity is ~8.1cents/kWh and excluding cross-subsidies plus transmission and distribution cost makes a total of ~9.3cents/kWh.
- Withdrawal of RCET of PKR~19.99/kWh and a gas tariff of USD~9/MMBTU for gas/RLNG in Punjab has resulted in closure of Punjab-based textiles due to reliance on grid electricity at over PKR~40/kWh, making them uncompetitive in the global market. The revocation of RCET is expected to render more than ~50% of Pakistan's installed capacity in the Punjab-based industry non-operational and may amount to a loss of USD~10bn yearly exports.



## Local | Margins & Cost Structure

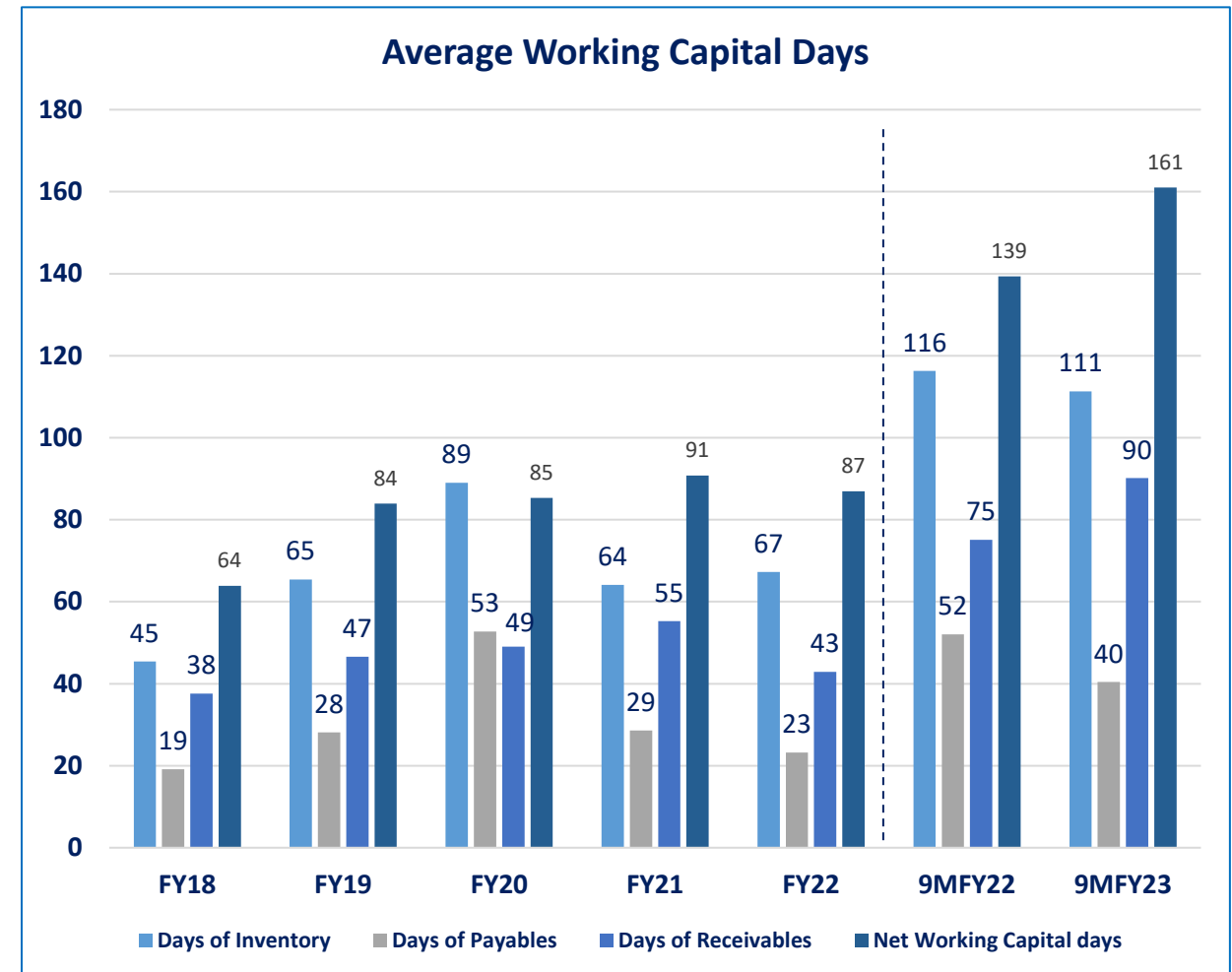
- During the 9MFY23 period, all three margin figures declined compared to the SPLY, primarily due to supply-side shocks such as the Aug'22 floods, political instability, economic downturn, rising inflation, and reduced global demand vis-a-vis global recession. Moreover, increased finance expenses due to rising policy rates by the central bank also impacted the bottom line of sector players. Delays in LCs transmission further impacted profits. While the smaller entities are shutting down, larger vertically-integrated production facilities have continued production, albeit at higher costs.
- Raw material constitutes ~67% of total manufacturing costs, followed by energy (~11%) and salaries & wages (~10%). Cotton yarn, a vital raw material for the sector, experienced price hikes due to rising cotton prices both locally and internationally, hence translating into higher raw material costs.
- In this quarter, interest rates rose to historical high levels. High interest rates have raised bank financing costs to unbearable levels. State Bank of Pakistan (SBP) is not allowing LTFF financing for purchase of machinery. Consequently, all the imported machinery retired in last one year or so is exposed to market-based interest rates. However, decision of hike in concessionary markup rates i.e. Long Term Financing Facility (LTFF) and Export Finance Scheme (EFS) and linking them to policy rate along with a surge in RLNG tariff to USD~9/MMBTU (FY22: USD~6.5/MMBTU) impact the bottom line by increasing the cost of doing business.



**Note:** Margins and cost break up are reflective of ~11 listed/rated weaving players. \*Cost Breakdown data has been prorated prior to calculating proportions.

## Local | Financial Risk

- The sector’s working capital needs are largely a function of inventory and trade receivables. Inventory consists mostly of raw material and finished goods while work-in-process makes only a small contribution. The industry’s average working capital cycle stands at ~97 days (FY18-9MFY23).
- Many players within the organized mill segment are backwards and/or forwards integrated with group companies, resulting in more efficient working capital management and ease of procurement of raw material.
- The sector’s working capital cycle has experienced a significant rise in the 9MFY23 period increasing to ~161 days compared to ~139 days in the SPLY. This is due to the significant rise in days receivables which rose from ~75 days in the 9MFY22 period to ~90 days in the 9MFY23 period.
- The sector’s working capital is largely financed through short-term borrowings which include Export Finance Scheme (EFS), amounting to PKR~79.6bln. In Dec’22, the markup rates, linked with SBP Policy Rate, were revised so that the gap between Policy Rate and EFS rate is maintained at 3%, down from 5% following up to Dec’22. In this way, the markup rate has increased to 19% in Jun’23 (with MPR at 22%), directly impacting the finance cost of weaving sector.



## Local | Financial Risk

- The total borrowing of weaving sector as at End-Jun'23 stood at PKR~354bln as compared to PKR~321bln at End-Jun'22, up ~9% YoY.
- The largest share is occupied by discounted borrowings which comprise ~45% of the sector's borrowings (Jun'22: ~52%) and includes borrowing under the export financing scheme (comprising ~22% of total borrowings; Jun'22: ~25%) and the Long-term finance and temporary economic relief facility (comprising ~23% of total borrowings; Jun'22: ~28%).
- The second highest borrowings are normal rate short-term loans which comprise ~26% of total borrowing.
- The overall textile industry's infection ratio stood at ~8.5% in Mar'23, exhibiting gradual improvement from Mar'22 when it was ~8.6%. However, the infection ratio still remains elevated in comparison to overall banking credit NPL which stood at ~7.8% in Mar'23.
- The leverage ratio of the sector stood at ~0.50 in 9MFY23 while it was ~0.56 in SPLY. It indicates that the sector has a moderate amount of debt in relation to its equity. In other words, the sector players rely on a mix of both debt and equity financing to fund their operations and investments.



## Local | Regulatory Framework

- With respect to Income Tax, the weaving sector is under the Normal Tax Regime (NTR). Further, the sector is also subject to Minimum Tax @ 1.25% of turnover, if tax liability under NTR is lower than minimum tax. However, the additional tax paid under minimum tax is adjustable against future tax liabilities for the next three years.
- In FY22 finance bill, a super tax was introduced and will be imposed at a rate of 10% on textile manufacturers whose income exceeds PKR~300bln is not removed by Finance Act 2023.
- Sales tax enhanced to 15% from 12 % on supplies of textiles and leathers from POS integrated retail outlets.
- In addition, sales tax of 18% is applicable on both the raw material, i.e. yarn and finished goods, i.e. fabric.
- The sector used to receives discounted financing from SBP under the Export Finance Scheme (EFS) and the Long Term Financing Facility (LTFF). Now, the Markup rate has been linked with SBP Policy Rate and with any change in the Policy Rate, markup rate for LTFF is revised automatically so that the gap between Policy Rate and LTFF rate is maintained at 3%.
- In response to the COVID-19 pandemic, SBP introduced several measures intended to provide relief to the industries. These measures included loan extension and refinancing, expansion and BMR activities through the Temporary Economic Refinance Facility (TERF), which has now been discontinued.
- In addition, SBP also increased the monetary policy rate by 300bps to 20% in Mar'23, and a further 100bps to 21% in Apr'23, while in Jun'23, additional 100bps increased to 22%, which has led to an increase in financing costs.
- The Federal Board of Revenue (FBR) has abolished regulatory duties on a wide range of items including synthetic filament yarn of polyester and second hand clothing.
- Duty structure of the sector provides protection to the local sector, as depicted in duty structure table. All Pakistan Textile Mill Association (APTMA) acts as the national trade association of textile cluster in the country.

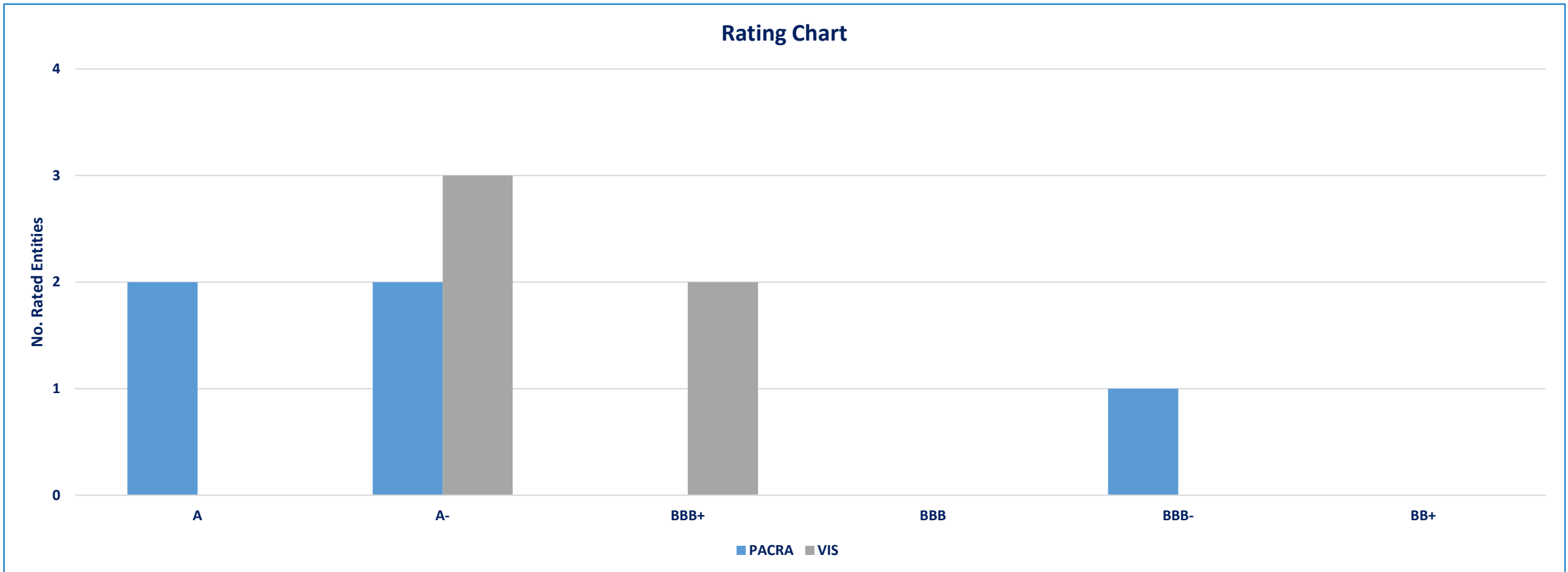
## Local | Duty Structure

PCT Code	Description	Additional Custom Duty		Custom Duty		Regulatory Duty		Total	
		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
52.05	Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale	2%	2%	11%	11%	2%	0%	15%	13%
52.06	Cotton yarn (other than sewing thread), containing less than 85% by weight of cotton, not put up for retail sale	2%	2%	11%	11%	2%	0%	15%	13%
52.07	Cotton Yarn (other than sewing thread) put up for retail sale	2%	2%	11%	11%	2%	0%	15%	13%
52.08	Woven fabric of cotton, cotaining 85% or more by weight of cotton, weighing not more than 200g/m2	2%	2%	11%	11%	2%	0%	15%	13%
52.09	Woven fabric of cotton, cotaining 85% or more by weight of cotton, weighing more than 200g/m2	2%	2%	11%	11%	2%	0%	15%	13%
52.10	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with mand-made fibres, weighting not more than 200g/m2	2%	2%	11%	11%	2%	0%	15%	13%
52.11	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with mand-made fibres, weighting more than 200g/m2	2%	2%	11%	11%	2%	0%	15%	13%
52.12	Other woven fabrics of cotton	4%	4%	16%	16%	2%	0%	22%	20%



## Local | Rating Chart

PACRA rates five players in Weaving sector, with a rating bandwidth ranging from BBB- to A.



## Local | SWOT Analysis

- Ample availability of raw material due to large size of spinning sector
- Strong support from government and SBP
- Low labour cost
- Mature and long-standing textile sector
- Strong sector association resulting in high lobbying power

- Uncertainty due to rising energy costs which threatens energy supply to the industry
- Geographical export concentration
- Intense competition from regional players in international market
- Strong bargaining power of buyers
- Climate change
- High borrowing rates, duties, and taxation



- Imported machinery
- Low BMR resulting in technological obsolescence
- Low value addition/commodity product
- Lower focus on man-made fibers
- Large unorganized segment

- Forward and horizontal integration can be used to produce value added and differentiated product
- Opportunity to increase efficiency through technological upgrade.

## Outlook: Stable

- The textile industry is one of the most important industries to Pakistan's economy. In FY23, textile exports contributed ~59.3% to the country exports (FY22: ~60.8%).
- During FY23, the weaving sector's fabric exports grew by ~15% to PKR~499bln from PKR~434bln in FY22. Higher cotton prices and exchange rate depreciation helped boost export revenues in PKR terms.
- However, global recession following interest rate hikes has dampened the demand for textile exports and this reduced demand trend has witnessed in FY23 where average growth rate of exports has decreased from ~41% to ~15%. On the domestic front, high inflation (which peaked at ~28.3% in July'23) has curbed domestic demand. This trend is likely to persist for the foreseeable future.
- One of the conditions of the IMF bailout was an end to subsidies on energy, leading to a sharp rise in the cost of electricity, which affects the competitiveness of textile companies.
- The recent drop in cotton prices is due to significant commodity market sell-offs caused by reduced demand trends and the transition from old crop to new crop on the International Exchange Limited. This shift has led to an inversion in futures prices, resulting in lower spot prices. Locally, reduced export demand has led to decreased interest among traders in existing futures positions. Consequently, local cotton prices are decreasing, affecting both local trade sentiment and import demand. Rising global freight costs is expected to increase the cost of importing raw material for manufacturers.
- While the Government has facilitated textile exporters with a LTFF and EFS rates, the recent increase in RLNG tariffs, cessation of any amnesty and relief (IMF-SBA), discontinuation of RCET and linkage of EFS and LTFF with SBP policy rate will serve to dramatically increase sector production costs and reduce margins.
- The decision taken by the State Bank of Pakistan (SBP) to increase the policy rate by 300bps to 20% in Mar'23, and a further 100 basis points to 21% in Apr'23, while in Jun'23, additional 100 bps increased to 22%, which has led to a further increase in financing costs.
- Despite the present global and domestic challenges faced by the weaving sector, the contribution of the sector to industrial growth and its importance is undebatable. Therefore, it is believed that once the global and local economy recovers from its present slowdown, the industry will experience an increase in export and domestic orders.

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