

**PACRA COMMENTS | CORONAVIRUS | TEXTILE**

Since the start of 2020, the novel coronavirus (COVID-19) outbreak has quickly spread across the world and caused disruptions in economies worldwide. Starting in China – itself a global manufacturing hub – and moving to more than 170 countries and territories, virtually all major economies and markets have been adversely impacted. The full impact of such an outbreak on Pakistan's economy is difficult to ascertain at present and will depend on the severity and duration of the outbreak as well as Government's response. However, it is clear that credit conditions are under stress and this will impact credit quality of many entities and sectors. In this context, PACRA aims to provide analysis on how the ongoing outbreak of COVID-19 may impact various sectors in Pakistan.

SECTOR	SUB-SECTOR																		
TEXTILE	SPINNING, WEAVING, GARMENTS, TOWEL, COMPOSITE																		
SIZE	<ul style="list-style-type: none"><li>- Textile, single largest export oriented industry of Pakistan with USD ~13.3bln exports in FY19 comprising 58% of total exports</li><li>- Domestic Textile Sales: PKR ~2,100bln (estimated) in FY19</li><li>- ~8.5% share in Pakistan’s GDP with over 15mln workforce employed</li><li>- ~13mln spindles, ~9,000 looms installed in the country</li><li>- Textile sector total borrowings as end-Feb 2020: PKR 1,296bln (Long-term: PKR 314bln; Short-term: PKR 982bln)</li></ul>																		
NUMBER OF PLAYERS	<ul style="list-style-type: none"><li>- 408 formal textile units (as per Textile Commissioner’s Organization of Pakistan) including Spinning, Weaving and Composite units. 112 textile companies listed on PSX (Spinning 58, Weaving 10, Composite 36, Synthetic 8)</li><li>- Large informal sector participants</li></ul>																		
PACRA PENETRATION	<ul style="list-style-type: none"><li>- PACRA rates 46 entities in the Textile Sector</li><li>- PACRA rated universe comprises:<ul style="list-style-type: none"><li>o Exports of ~USD1.8bln contributing ~13.5% to total textile exports</li><li>o Domestic turnover of ~PKR 275bln contributing ~13% to local sales</li><li>o ~20% of working spinning capacity in Pakistan</li><li>o Over 50% of organized weaving capacity in Pakistan</li><li>o Total borrowings of PACRA rated entities ~PKR 250bln (~1/5<sup>th</sup> of total textile borrowings)</li></ul></li></ul>																		
IMPACT	<ul style="list-style-type: none"><li>- <b>EXPORT COMPOSITION</b><table><tr><th>Sub-Sector</th><th>Spinning</th><th>Weaving</th><th>Garments (incl. knitwear)</th><th>Towel</th><th>Other Composite</th></tr><tr><td>Exports (USD bln)</td><td>1.1</td><td>2.1</td><td>5.5</td><td>0.8</td><td>3.7</td></tr><tr><td>%</td><td>8%</td><td>16%</td><td>42%</td><td>6%</td><td>28%</td></tr></table></li><li>- <b>EXPORT SALES</b><p>Textile industry is highly reliant on exports to the USA and Europe – over 70% of textile exports are made to these regions. Since COVID-19 outbreak, major brands in the USA and Europe have shut down retail operations resulting in orders on hold or cancelation. In case global lockdown extends for more than a month, situation to worsen and could lead to decrease in textile exports of ~USD 2-3bln by June 2020</p></li><li>- <b>LOCAL SALES</b><p>Closure of shopping malls and retail outlets to impact local sales. Mitigated to some extent by online sales. Extended lockdown in domestic market to impact revenues locally</p></li></ul>	Sub-Sector	Spinning	Weaving	Garments (incl. knitwear)	Towel	Other Composite	Exports (USD bln)	1.1	2.1	5.5	0.8	3.7	%	8%	16%	42%	6%	28%
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- **INVENTORY**

- Cotton imports expected to slow down. Availability of imported chemicals, dyes, synthetic fibres, and other raw material from China impacted, where supply chain is being re-established. Industry carrying sufficient inventory (2-3 months on average).
- Textile units being shut down due to lockdown in country and limited uptake possibilities. Production to remain curtailed as export orders are being deferred
- Relaxation from central bank in export refinance packages, interest rate cut, and support from the Government in form of a sizeable relief package imperative for short-term survival of industry players, mainly small and medium sized units
- Textile players expected to have lower sales and higher inventory levels leading to liquidity and cash flow issues. Meeting financial obligations will be challenging in the short-term. Deferral of upcoming debt repayments (interest + principal) remains crucial. Revival in domestic sales and resumption of export shipments critical

**DISCLAIMER**

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