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## RELIEF

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# Relief

## Introduction

- The relief sector provides items and materials used for humanitarian aid by national and international relief and aid agencies, governmental authorities as well as Non-Governmental Organizations (NGOs).
- Relief items consist of a large variety of products including tents, tarpaulins, mosquito nets, sleeping mats, blankets, basic kitchen utensils, jerry cans and buckets. Tents, tarpaulin and mosquito nets, also known as insecticidal nets, make up the largest segments within the relief sector products.
- The need for these products arises due to natural calamities such as floods, wildfires and earthquakes or man-made crises such as wars, regional conflicts and industrial accidents. Moreover, relief items are also used to address problems that arise as a result of wealth and income inequalities in various parts of the world such as malaria, aids and malnutrition. Lately, recreational use of certain items (mainly tents, nets, portable lights etc.) has been increasing in eco-tourism and outdoor activities.
- International organizations such as UNHCR, UNICEF, WFP as well as national organizations such as NDMA purchase the required relief materials from various manufacturers who meet specific quality criteria. Procurement by such agencies is often done through a bidding process in order to receive best price.



# Relief

## Global | Overview

- The global relief sector falls under a wider category of the emergency and disaster response market, which encompasses various segments including threat detection equipment, protective gear, medical equipment and emergency notification systems, among others.
- The demand for disaster relief and management has been rising due to the increase in unpredictable natural disasters in recent years as a consequence of climate change on the global environment as well as regional conflicts.
- The emergency and relief services sector has grown strongly in recent years. The global market size of the relief sector is projected to grow by ~8.4% YoY from USD~27.16bln in FY23 to USD~29.43bln in FY24.
- The UN, through its various organizations and bodies, remains one of the largest procurers of relief goods. Total UN procurement of goods and services, through 39 organizations stood at USD~29.6bln in CY22. This was down by less than ~0.03% YoY or USD~7.8mln, from the peak high attained in CY21. The UN High Commissioner for Refugees (UNHCR) procured goods and services worth USD~1431mln during CY22 (CY21: USD~1,340mln) to provide aid and relief to refugees displaced by war and conflicts.

# Relief

## Local | Overview

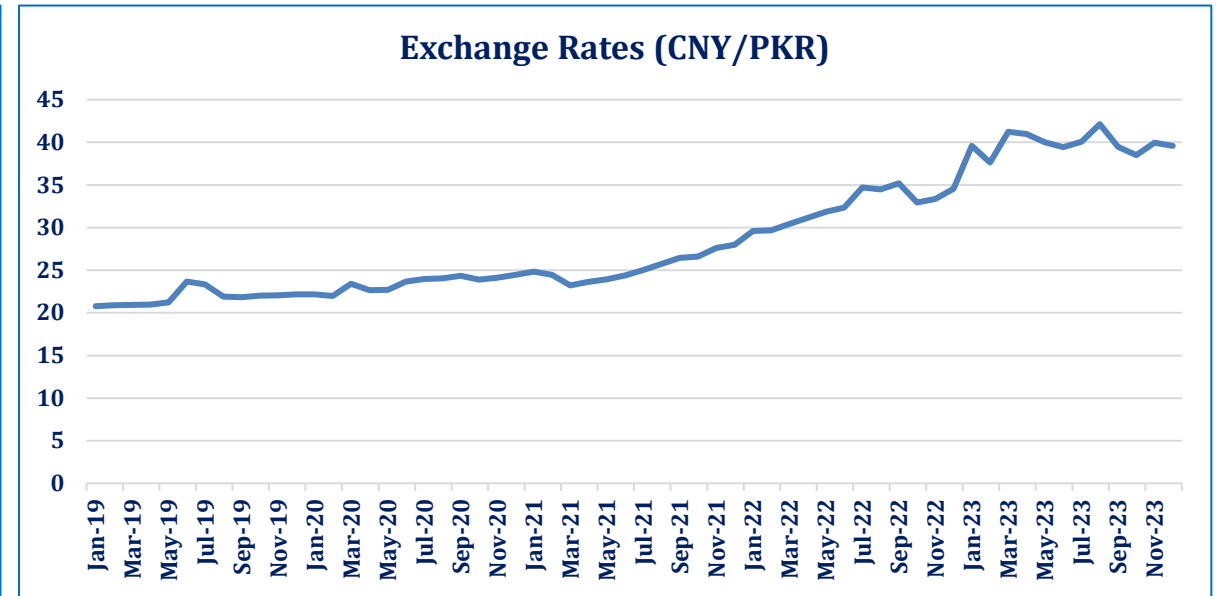
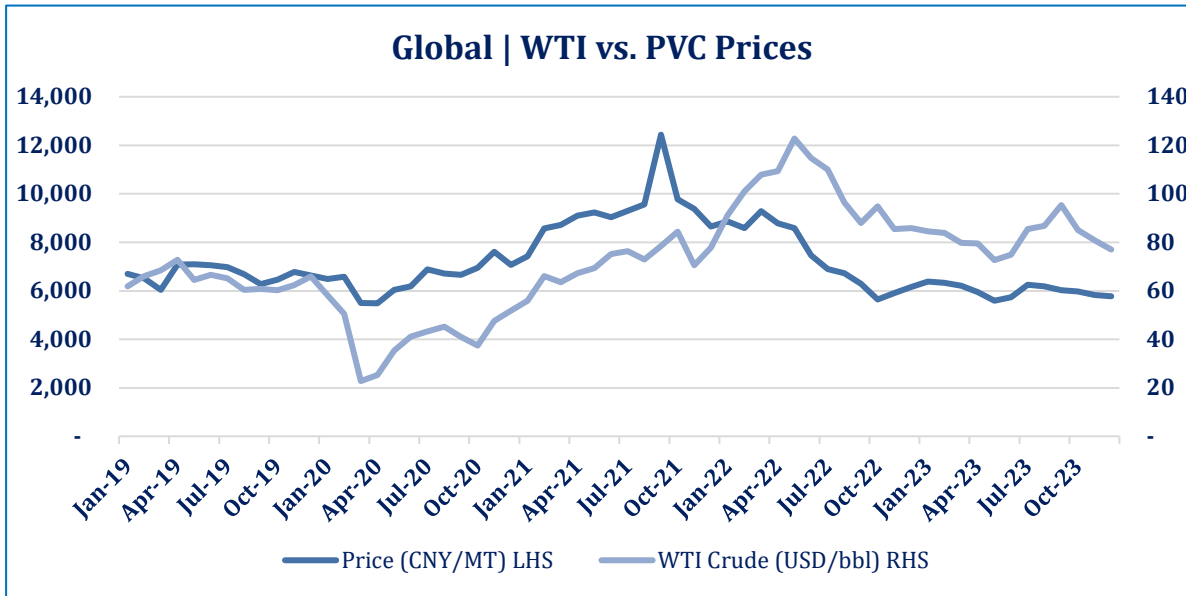
- There are, at the present moment, ~88 tent manufacturers and exporters operating in Pakistan. However, only a few of these are involved in manufacturing and providing supplies for the purpose of disaster relief.
- During FY23, Pakistan's exports of tents, canvas and tarpaulin stood at USD~138mln increasing ~76% YoY. Meanwhile, exports did increase ever so slightly in quantitative terms (~28,654MT in FY23 compared to ~28,399MT in FY22).
- While there are a number of Pakistani firms on the United Nations' list of registered vendors (as of Jan'24), there are only three manufacturers of relief items, such as tents, tarpaulin and mosquito nets, on the list, namely, H. Nizam Din & Sons (PVT) Limited, Paramount Tarpaulin Industries and Zahra Tents Industries (PVT) Limited.
- In the local relief market, the National Disaster Management Authority (NDMA) annually procures ~5,000 tents used for relief purposes for refugees or individuals displaced by floods and for maintaining its emergency stock.
- In the aftermath of torrential floods which hit Pakistan in Aug'22, ~33mln individuals were impacted, of whom ~20.6mln (half of them children) needed life-saving assistance. A minimum of ~664,000 people moved into relief camps and unofficial locations out of a total of ~7.9mln displaced persons. Moreover, the GoP, distributed ~600,000 tents, ~400,000 tarpaulins, ~3.5mln mosquito nets in the wake of these floods.
- The sector is represented by the Pakistan Canvas and Tents Manufacturers & Exporters Association (PCTMEA).



# Relief

## Raw Material | PVC

- An important raw material for the production of canvases, tents and tarpaulins is Polyvinyl Chloride (PVC), a derivative of crude oil. Crude oil and PVC prices, therefore, tend to trace similar trends.
- However, PVC prices recorded a sharp peak during 3QCY21. This was due to construction-related demand growth, noticeably higher export prices and substantially reduced availability.
- In Jul'23, average PVC price was recorded at CNY~6,250/MT. However, since then, they have exhibited a plunging trajectory and stood at CNY~5,774/MT in Dec'23. The decline of ~8% (Aug-Dec'23) is likely due to slowdown in downstream construction and packaging activities. Going forward, as inflation cools down and US consumers adjust accordingly, prices are likely to swing upwards in the coming months.
- The primary producer of PVC in Pakistan is Engro Polymer & Chemicals Ltd. with annual capacity of ~295,000MT. Engro produces both rigid and flexible types of PVC. The country is reliant on imports from countries such as China, Indonesia and USA.



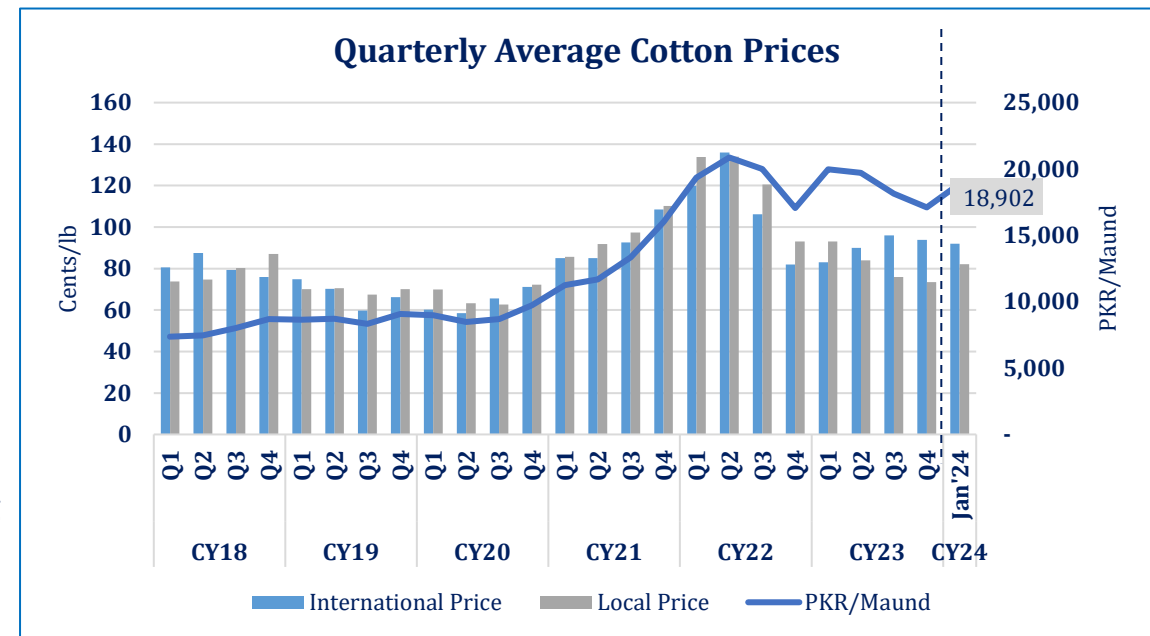
Note: Capacity is of latest available time period CY22.

# Relief

## Raw Material | Cotton

- Cotton forms the basic raw materials for the manufacturing of canvases and tents. While cotton tents are decreasing in popularity, they continue to occupy a significant share of the tents exported from Pakistan (~25% in FY23).
- Pakistan’s cotton production plunged ~41% YoY in FY23 owing to supply-chain disruptions in the wake of Aug’22 floods. On the other hand, a ~7.5% decline in cotton imports was also witnessed during the year.
- FY24 target for cotton production is set at ~12.7mln bales, of which ~65% has been met as of Jan’04, CY23 (or ~8.3mln bales). Of this, Punjab and Sindh comprised ~50.4% and ~49.6%, respectively, during the period.
- To encourage cotton production in FY24, the GoP announced an incentive in the form of Minimum Support Price (MSP) of PKR~8,500/40kg bag for the FY24 cotton crop.
- One potential reason for the slight decline in imported cotton could be lower local demand for textile products on the back of high inflation.
- Delta between local and global prices averaged ~3% during CY18-2QCY22 and thereafter, until 2QCY23 increased to ~8% owing to higher local prices.
- Global cotton prices’ downward trajectory during 2HCY22, however recovery in 2HCY23 came on the back of increased cotton supply, decreased producer price inflation, low global cotton yarn stockpiles, and higher margins for spinners.
- Going forward, global production is projected to be marginally higher in FY24 and growth is projected to be ~4.4% due to supply chain improvements and easing inflationary pressures. Local prices (PKR/maund) also eased during CY23 owing to low cotton output, potentially due to climate change.

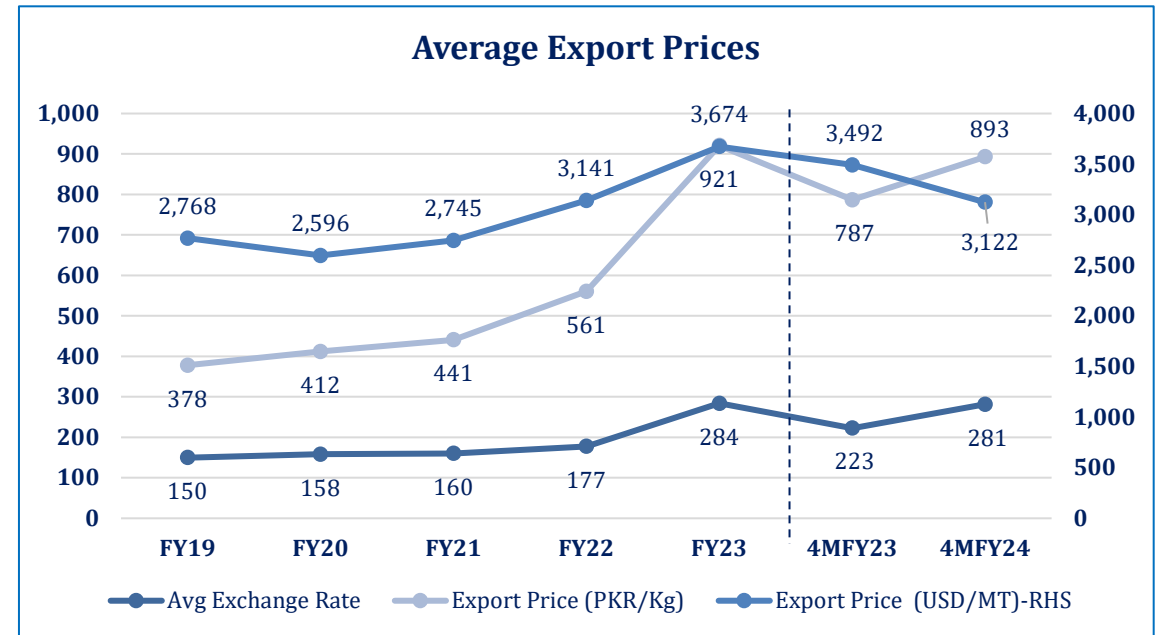
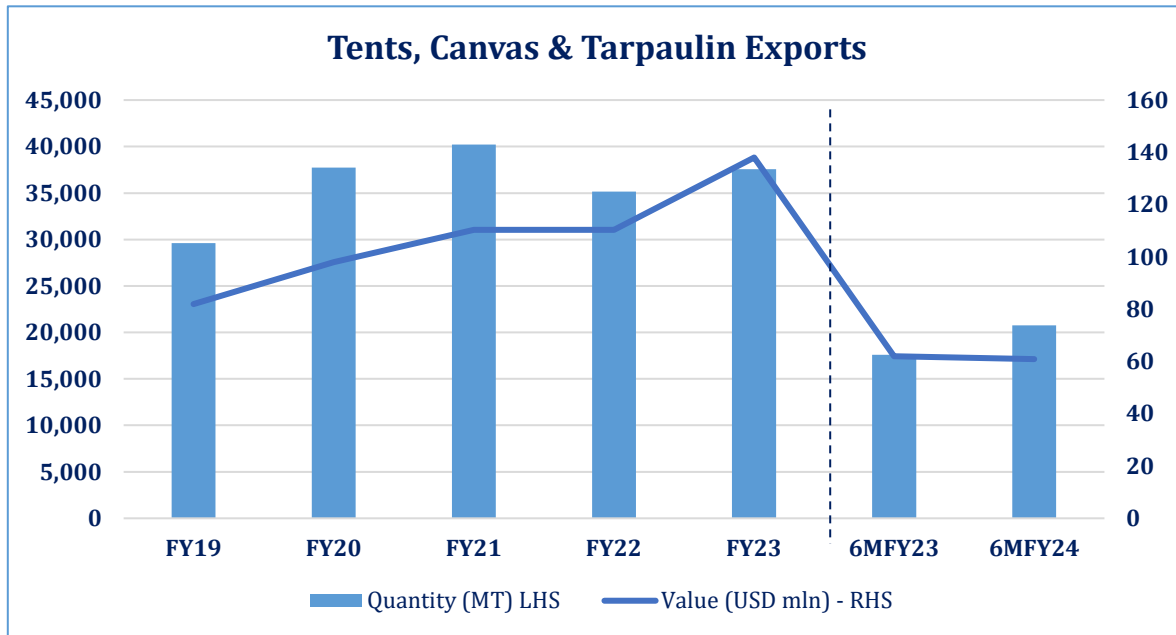
Pakistan's Cotton Supply (000 Bales)					
	FY19	FY20	FY21	FY22	FY23
<b>Production</b>	9,861	9,148	7,064	8,329	4,910
<b>Imports</b>	2,439	3,157	5,043	4,636	4,023
<b>Total Supply</b>	<b>12,300</b>	<b>12,305</b>	<b>12,107</b>	<b>12,965</b>	<b>8,933</b>



# Relief

## Local | Exports

- During FY23, exports of tents, canvas and tarpaulin exports (HS code 6306) stood at PKR~34,591mln, a growth of ~76.0%. Meanwhile, in USD terms, exports during FY23 increased by ~25.5% YoY and clocked in at USD~138mln. Export proceeds formed ~4.8% of the country's total exports in FY23.
- Exports during 6MFY23 were higher as compared to SPLY, rising to 20,745 MT, an increase of ~18.0% YoY. Some export destinations include Saudi Arabia, UAE, Turkey and the USA (covered later).
- Average export price of tents and canvas has increased with a CAGR of ~6.0% between FY16-23 and stood at USD ~3,674/MT during FY23. Moreover, in 4MFY24 period, average export prices decreased by ~15.0% to stand at USD~3,122/MT.





# Relief

## Local | Export Destinations

- Major export destination of Pakistan’s tents, canvases and tarpaulins is Saudi Arabia, which comprised ~15% of the total export proceeds in FY23. Other export destinations include Middle Eastern countries such as the U.A.E, Jordan and Turkey which contributed ~9%, ~3% and ~14%, respectively, to total exports proceeds in FY23.
- The Middle East is a region where relief activities have been highly concentrated in recent years due to prevalence of regional conflicts as well as presence of a large numbers of refugees.
- In addition, exports to the United States stood at ~6% of total exports in FY23. The top five export destinations collectively constituted ~52% of total exports of tents, canvases and tarpaulins.

Export Destinations	FY19		FY20		FY21		FY22		FY23		5MFY23		5MFY24	
	USD '000	%	USD '000	%	USD '000	%	USD '000	%	USD '000	%	USD '000	%	USD '000	%
Saudi Arabia	15,444	18%	22,073	24%	25,223	21%	18,149	16%	19,736	15%	6,795	15%	12,292	24%
Turkey	1,861	2%	7,737	8%	10,981	9%	10,118	10%	18,191	14%	455	1%	1,663	3%
U.A.E.	15,282	18%	14,892	16%	21,475	18%	20,732	14%	12,326	9%	4,597	10%	9,913	19%
USA	6,225	7%	4,998	5%	9,589	8%	13,429	3%	8,445	6%	3,030	7%	2,280	4%
Jordan	2,620	3%	1,580	2%	3,846	3%	3,115	6%	3,929	3%	3,156	7%	4,199	8%
Others	43,915	51%	40,238	44%	48,022	40%	48,985	51%	68,334	52%	27,881	61%	20,899	41%
<b>Total</b>	<b>85,347</b>	<b>100%</b>	<b>91,518</b>	<b>100%</b>	<b>119,136</b>	<b>100%</b>	<b>114,528</b>	<b>100%</b>	<b>130,961</b>	<b>100%</b>	<b>45,914</b>	<b>100%</b>	<b>51,246</b>	<b>100%</b>

# Relief

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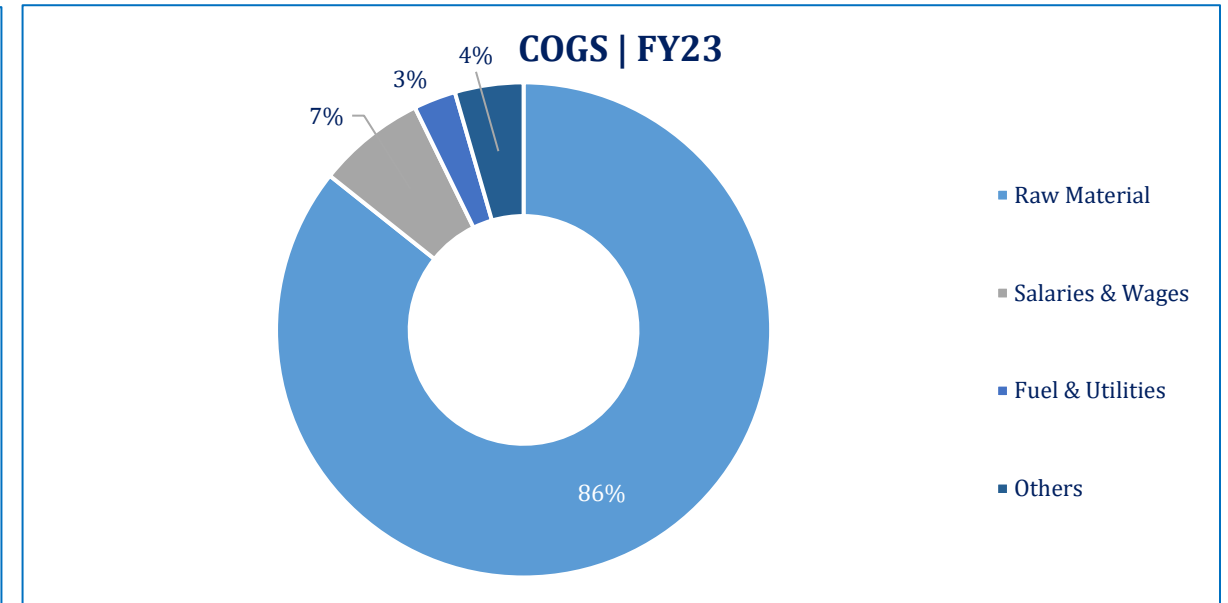
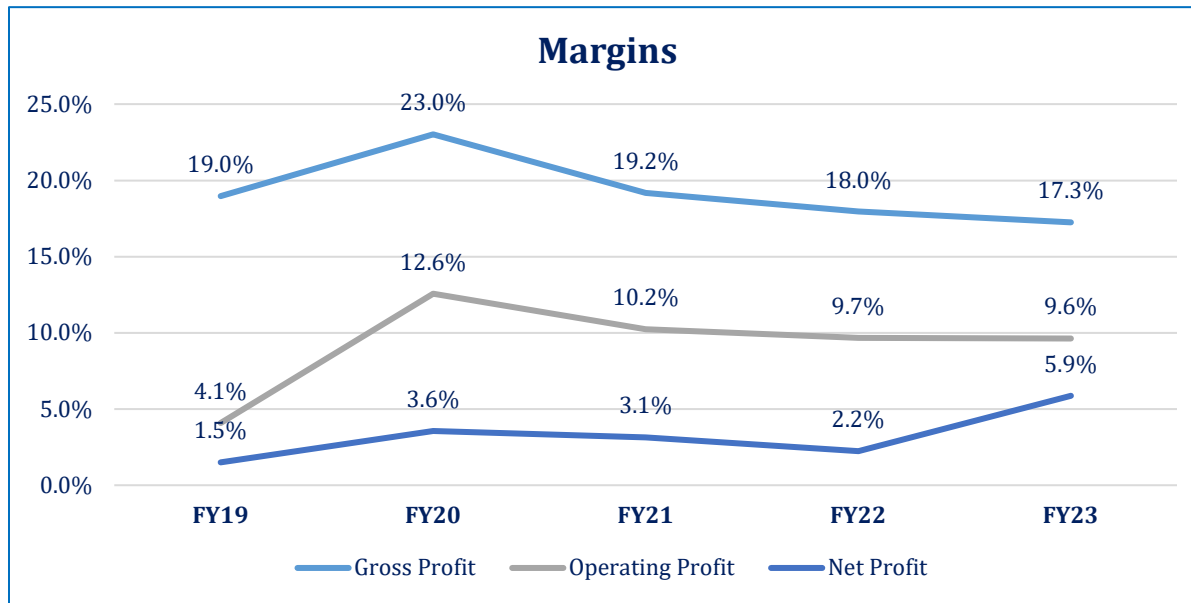
## Business Risk

- The demand for relief items largely originates from exogenous factors like natural disasters, regional conflicts and health crises. Demand created by natural disasters exhibits marked volatility since events such as earthquakes, hurricanes and floods can get challenging to predict.
- Meanwhile, demand created by regional conflicts has been on the rise in recent years as we have seen regional disputes in various parts of the world. These conflicts create a large number of refugees whose needs are met by international aid organizations such as the UNHCR and UNICEF.
- Local production of cotton has declined significantly in the previous years which led to a shift towards or a greater reliance on imported raw material. FY23 recorded a ~41% YoY decline in Pakistan's cotton production due to supply-chain interruptions following the Aug'22 floods. However, there was also a ~7.5% drop in cotton imports throughout the course of the year.
- PVC prices had also been on a rising trend since the COVID-19 pandemic, supplemented by rising oil prices along with supply constraints. From PKR~136/Kg in Jan'19 to PKR~261/Kg on Aug'23, PVC prices have increased. Since then, though, they have shown a declining trend; as of Dec'23, they were priced at PKR~228/Kg. The decrease of ~12.6% between Aug-Dec'23 is probably the result of a slowdown in downstream packaging and building operations.
- With the sector exhibiting declining margins during the previous two years (covered in the following section) as a result of the currency depreciation and rising finance costs, it remains exposed to significant exchange rate risk.
- Moreover, players need to maintain strict quality standards required by the various UN organizations and WHO, in so far as Long Lasting Insecticidal Nets are concerned, in order maintain their position on UN's qualified vendors' list.

# Relief

## Margins & Cost Structure

- The relief sector’s margins have traced a downward trajectory in recent years (FY19-FY22) with gross margins averaging ~19.8%. In FY23, the gross margins declined to ~17.3% (FY22: ~18.0%), owing to increased cost of goods sold for the sector, which rose ~117.0% YoY.
- Raw materials constitute the largest component within the sector’s direct costs, making up ~86.0% share.
- The sector’s net margins averaged at ~2.6% during (FY19-FY22) the net margins increased in FY23 to ~5.9% (SPLY: ~2.2%). This was likely due to the increasing other income segment. The sector is largely export-oriented, hence it benefits from currency devaluation. However, rising raw material prices have squeezed margins in recent periods. Local prices have also fallen over 2QFY24 VS 2QFY23.

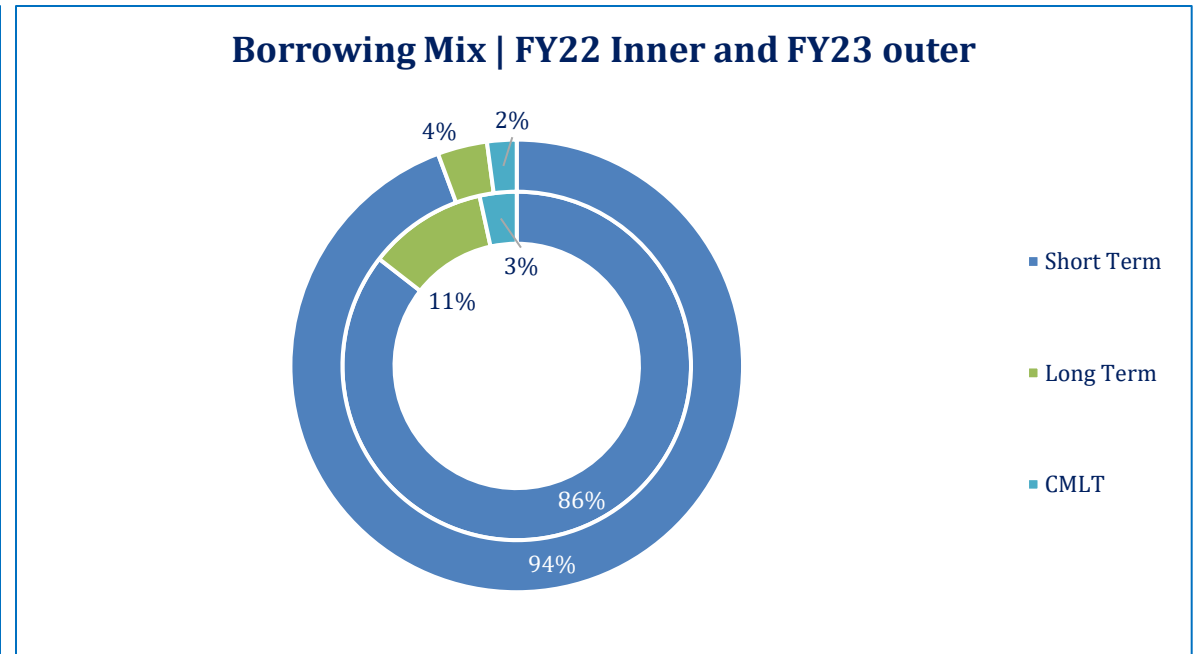
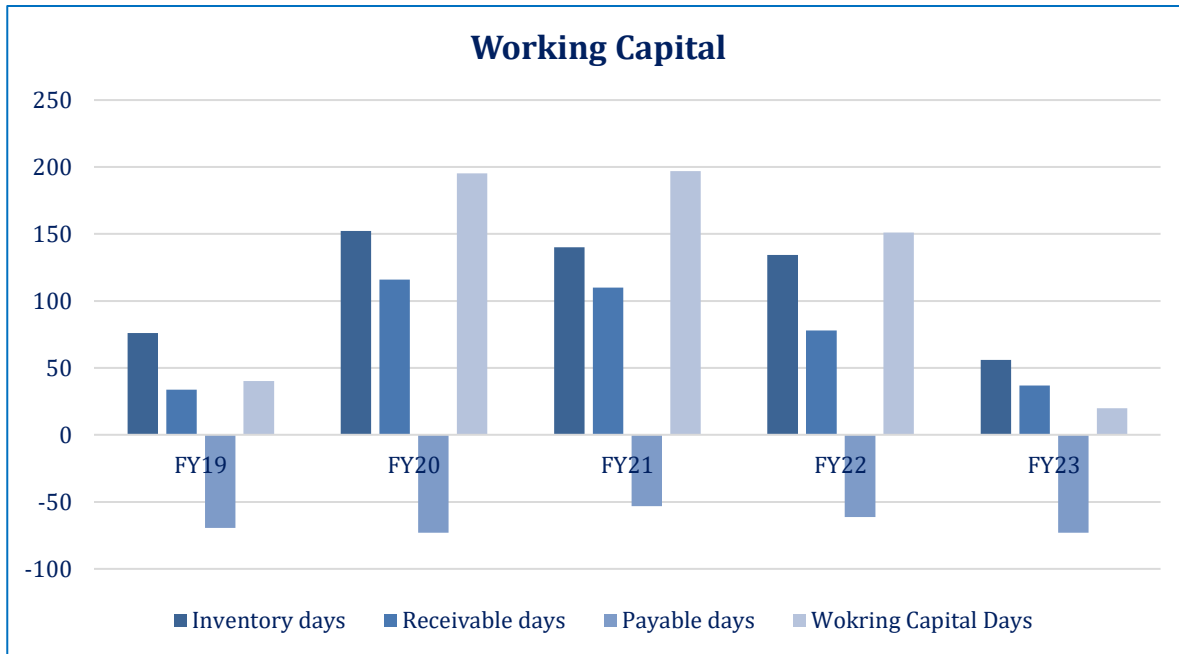


*Note: Margins and cost breakdown is reflective of 2 PACRA rated players.*

# Relief

## Financial Risk

- Relief sector’s total borrowings stood at PKR~6.03bln as at End-FY23 (End-FY22: PKR~9.07bln)(down ~34% YoY).
- The sector’s borrowings are largely dominated by Short-term borrowings (STBs) which form ~94% of the total borrowings mix. STBs stood at PKR~5.69bln as at End-FY23 (PKR~7.75bln as at End-FY22). Meanwhile, Long-Term Borrowings (LTBs) constituted ~6% of total borrowings, amounting to PKR~341mln during FY23 (FY22: PKR~1,313mln).
- The sector’s working capital is largely a function of inventory and trade receivables. The sector’s average net working capital cycle (FY19-FY23) is ~121 days.
- In FY23, inventory days, receivable and payable days decreased to ~56 days (FY22: ~134 days), ~37 days (FY22: ~78 days) and ~73 days (FY22: ~61 days), respectively, resulting in a drop in the working capital days to ~20 days in FY23 (FY22: ~151 days).



*Note: Borrowings mix is reflective of 2 rated players.*

# Relief

## Regulatory Framework

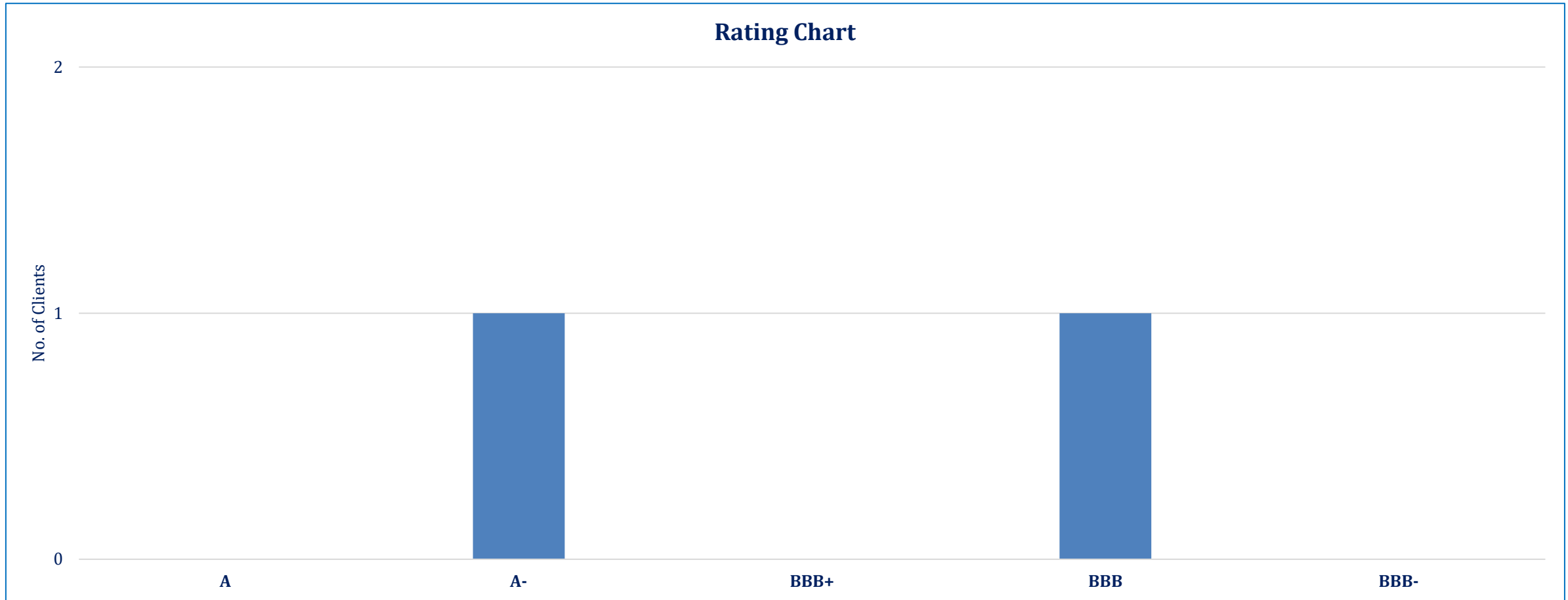
PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
52.01	Cotton, not carded or combed	0%	0%	0%	2%	0%	0%	0%	2%
52.03	Cotton, carded or combed	0%	0%	0%	2%	0%	0%	0%	2%
52.05	Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale	11%	11%	2%	2%	0%	0%	13%	13%
52.06	Cotton yarn (other than sewing thread), containing less than 85% by weight of cotton, not put up for retail sale	11%	11%	2%	2%	0%	0%	13%	13%
52.07	Cotton Yarn (other than sewing thread) put up for retail sale	11%	11%	2%	2%	0%	0%	13%	13%
39.04	Polymers of vinyl chloride, in primary forms	3-16%	2-16%	2-4%	4-11%	0%	0%	5-20%	6-27%
63.06	Tarpaulins and tents (Of textile materials and synthetic fibres)	20%	20%	6%	6%	10%	10%	36%	36%



# Relief

## Rating Curve

PACRA rates 2 players in the relief sector with a long-term rating bandwidth ranging from BBB- to AA.



# Relief

## SWOT Analysis

- Government support in the form of favorable duty structure.
- Strong reputation with status as verified vendors for the United Nations.
- Currency depreciation has increased competitiveness.

Strengths

Weaknesses

- Volatility in demand as natural disasters cannot be predicted.
- Inefficient production.

- Raw material supply constraints.
- Fluctuations in raw material prices.

Threats

Opportunities

- Increase efficiency and improve quality through technological upgrades.
- Frequent occurrence of natural disasters due to climate change and failure to resolve conflicts leads to greater demand of relief items.

# Relief

## Outlook: Stable

- In FY23, Pakistan's economy posted a real GDP contraction of ~0.17% (FY22: ~6.1% growth). Meanwhile, the LSM shrunk by ~10.3% (FY22: ~11.8%), owing majorly to supply-chain disruptions which resulted from SBP-imposed import restrictions, along with the flash floods of Aug'22 and consequent sluggish demand across major industrial sectors of the country. In 1QFY24, however, the real GDP growth stood at ~2.1% (SPLY: ~0.96%). Meanwhile, the SBP estimates the GDP growth at ~2-3% for FY24. The year was also marred by significantly high levels of inflation with average national CPI recording at ~29.4% (SPLY: 21.3%), while the increasing trend has persisted in 1HFY24, with national CPI in Dec'23 recording at ~29.7% (Nov'23: ~29.2%).
- In FY23, cotton yield declined by ~45.9% due to floods in Aug'22, resulting in ~41.0% YoY decrease in cotton production to ~4.9mln bales. On the other hand, a ~7.5% decline in cotton imports was also witnessed during the year. In Jul'23, average PVC price was recorded at CNY~6,250/MT. However, since then, they have exhibited a plunging trajectory and stood at CNY~5,774/MT in Dec'23. The decline of ~8% (Aug-Dec'23) is likely due to slowdown in downstream construction and packaging activities. Going forward, as inflation cools down and US consumers adjust accordingly, prices are likely to swing upwards in the coming months.
- In FY23, the relief sector contributed ~4.8% to the country's exports. Exports during FY23 climbed by over 25% YoY to reach USD~138mln. Meanwhile, demand created through regional conflicts remains persistent, specifically in regions such as the Middle East, which is a major destination for Pakistan's exports of tents, canvas and tarpaulin. Major export destinations of Pakistan's tents, canvases and tarpaulins are Saudi Arabia ~15%, U.A.E ~9%, Jordan ~3% and Turkey ~14%. In addition, extreme weather events are expected to continue to increase as a result of climate change and global warming and will always be a demand driving force.
- The relief sector's margins have traced a downward trajectory in recent years (FY19-FY22) with gross margins averaging ~19.8%. In FY23, the gross margins declined to ~17.3% (FY22: ~18.0%), owing to increased cost of goods sold for the sector, which rose ~117.0% YoY. The sector's net margins averaged at ~2.6% during (FY19-FY22) the net margins increased in FY23 to ~5.9% (SPLY: ~2.2%). This was likely due to the increasing other income segment. The sector is largely export-oriented, hence it benefits from currency devaluation. However, rising raw material prices have squeezed margins in recent periods. Local prices have also fallen over 2QFY24 VS 2QFY23.
- Relief sector's total borrowings stood at PKR~6.03bln as at End-FY23 (End-FY22: PKR~9.07bln)(down ~34% YoY). The sector's borrowings are largely dominated by Short-term borrowings (STBs) which form ~94% of the total borrowings mix. STBs stood at PKR~5.69bln as at End-FY23 (PKR~7.75bln as at End-FY22). Meanwhile, Long-Term Borrowings (LTBs) constituted ~6% of total borrowings, amounting to PKR~341mln during FY23 (FY22: PKR~1,313mln).
- The sector's working capital is largely a function of inventory and trade receivables. The sector's average net working capital cycle (FY19-FY23) is ~121 days.
- Overall, the outlook of the sector is expected to remain stable in the upcoming future.

# Relief

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- Karachi Cotton Association (KCA)
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- PR Newswire
- PACRA Database

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