SECTOR STUDY . SEPTEMBER 2024

Together. Creating Value.

Spinning

Research Team

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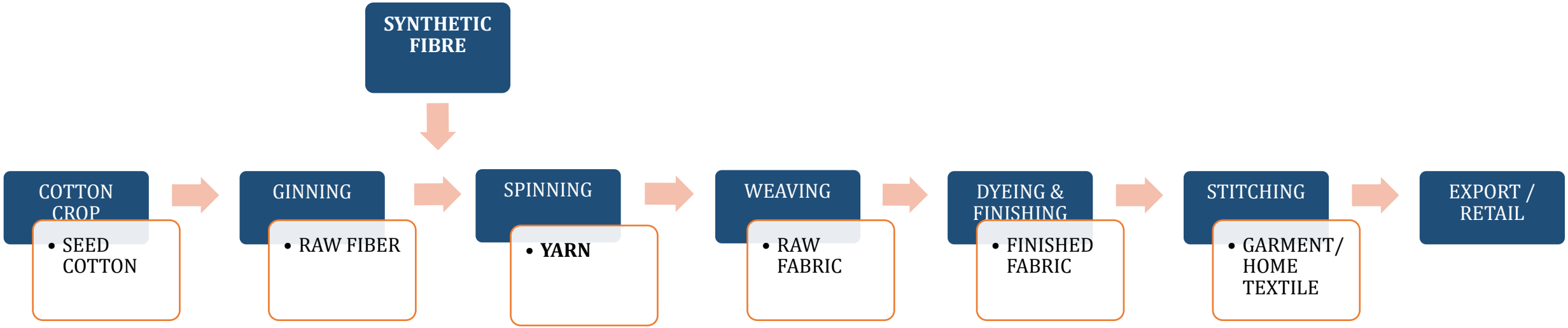
Introduction | Textile Value Chain

- The 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 textile value chain.
- The spinning sector, which processes cotton into yarn, falls towards the beginning of the value chain, also referred to upstream sector in the textile chain. However, there is limited value addition in this segment.



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Introduction | Production Process






Blow Room

The compressed bales are opened, cleaned and blended/mixed according to particular length to form a specific size of lap.

Carding

The lap is shifted to carding machine where cleaning and intermixing of fibres occurs to produce a continuous web.

Combing

Fibres are straightened and arranged in a parallel manner and short fibres are separated from long fibres.

Cone Winding

Final stage where yarn is wound into cones so that it can be shipped to the customer.

Roving/Ring Frame

Roving frames carry out process of converting fibres into low twist lea. Further twisting is done to form yarn of required count and strength.

Drawing

Strengthening of fibres by passing them through rollers

Source: Textile InfoMedia

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Introduction | Technology & Machinery

- Major manufacturers of spinning machines (i.e. spindles & rotor machines) and other textile machinery are based in Germany, Italy, Belgium, Switzerland, China, and Japan.
- Major manufacturing brands include Saurer Schlafhorst GmbH & Co., Toyota, Murata Machinery Limited, Savio Machine Tessilli, Rieter, RIFA Textile Machinery Co. Ltd. Lakshmi Machine Works Limited, among others.
- The efficiency of spinning machines is determined by the number of spindles installed on the machine and its RPM (Rotations Per Minute). More advanced machines have higher RPM, resulting in higher efficiency. The RPM of latest spinning machines from major manufacturers can reach up to ~125,000-150,000RPM.
- Overall, the cost of spinning machines depends on number of spindles, RPM and level of automation of back processes. However, import and installation costs are also significant and raise the overall cost for spinning players.
- Almost all machinery used in the sector is imported from Europe and East Asian Countries (mainly China). Further, there is a need for continuous technological BMR to improve efficiency to remain competitive in the international landscape.

Source: Manufacturers' Websites

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Introduction | Yarn Count

- Yarn count is a measurement which determines its fineness or coarseness.
- There are two methods of calculation of Yarn Count, Direct and Indirect, with Indirect method more widely practiced.
- The Direct Method uses weight per unit length to determine count with thicker/coarse yarn having higher count. There are various numbering systems as shown in the adjacent table.
- The Indirect Method uses length per unit weight to determine count with finer yarn having higher count. There are various numbering systems as shown in the table.
- The English numbering system is practiced in Pakistan. The unit length of 840 yards is also known as a 'Hank'. The number of hanks per lb. of yarn equals the yarn count.
- In Pakistan, yarn is divided between coarse, medium, fine and super fine categories based on count with major production concentrated in coarse and medium count yarns.
- Different dying and chemical processes add value to the product. Higher yarn count attracts higher prices.

Direct Method		
Numbering System	**Unit of Length**	**Unit of Weight**
Tex System, Tt	1000 m	No. of grams
Denier, D or Td	9000 m	No. of grams
DeciTex, dtex	10,000 m	No. of grams
Millitex, mtex	1000 m	No. of milligrams
Kilotex, ktex	1000 m	No. of kg
Jute Count	14,400 yards	No. of lb.

Indirect Method		
Numbering System	**Unit of Length**	**Unit of Weight**
English cotton count, Ne/S	840 yards	1 lb.
Metric count, Nm	1000m / 1km	1 kg
Woollen Count (YSW)	256 yds.	1 lb.
Woollen Count (Dewsbury)	1 yd.	1 ounce (oz.)
Worsted Count Nek	560 yds.	1 lb.
Linen Count, NeL	300 yds.	1 lb

Yarn Type	Count
Coarse	1s - 20s
Medium	21s - 34s
Fine	36s - 47s
S.Fine	48s - 80s

Source: Yarn Counts & Calculations, Thomas Woodhouse (Oxford Technical Manuals)

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Global | Production & Consumption

- During MY24, the global production of cotton stood at ~24.7mln MT (MY23: ~25.7mln MT), down ~3.7% YoY, where the decrease can be attributed to lower production in China and USA.
- China and India are the largest cotton producers in the world. China accounted for ~24.1% of the total global cotton production in MY24 (MY23: ~26.4%), while India produced ~23.1% of the global production level (MY23: ~22.4%).
- China experienced a ~10.9% YoY decrease in cotton production in MY24. Whereas, India's cotton production increased by a meagre ~0.8% YoY during MY24.
- The rise in global cotton consumption during MY24 of ~2.4% YoY was primarily owed to higher demand of cotton by the textile sector.
- During MY24, China and India remained the largest consumers of cotton, accounting for a cumulative ~55.6% of global consumption (MY23: ~54.7%).
- During MY25, it is expected that the global cotton production will rise by ~3.5% YoY to clock in at ~25.6mln MT. USA and Brazil are anticipated to be the leading contributors to increased global production in MY25.
- On the consumption end, all major cotton-spinning countries, with the exception of Pakistan, are expected to grow during MY25, while China and India are projected to continue being the largest consumers of raw cotton.

Production (000 MT)	MY20	MY21	MY22	MY23	MY24	MY25*
China	5,933	6,423	5,879	6,684	5,955	5,987
India	6,205	6,009	5,334	5,661	5,704	5,334
United States	4,336	3,181	3,815	3,150	2,627	3,289
Brazil	3,000	2,356	2,504	2,983	3,172	3,636
Pakistan	1,457	960	1,265	835	1,427	1,211
R.O.W	5,187	5,319	6,395	6,371	5,844	6,155
Total	**26,118**	**24,248**	**25,192**	**25,684**	**24,729**	**25,612**

Consumption (000 MT)	MY20	MY21	MY22	MY23	MY24	MY25*
China	7,185	8,709	7,348	7,947	8,165	8,274
India	4,355	5,661	5,443	5,117	5,443	5,552
Pakistan	1,864	1,991	2,093	1,575	1,584	2,007
Bangladesh	1,502	1,851	1,851	1,568	1,655	1,698
Turkey	1,437	1,676	1,894	1,589	1,415	1,655
R.O.W	6,044	6,686	6,627	6,103	6,200	6,116
Total	**22,387**	**26,574**	**25,256**	**23,899**	**24,462**	**25,302**

**Forecast*
MY='Marketing Year' i.e., Aug-Jul.

Source: USDA, FAO

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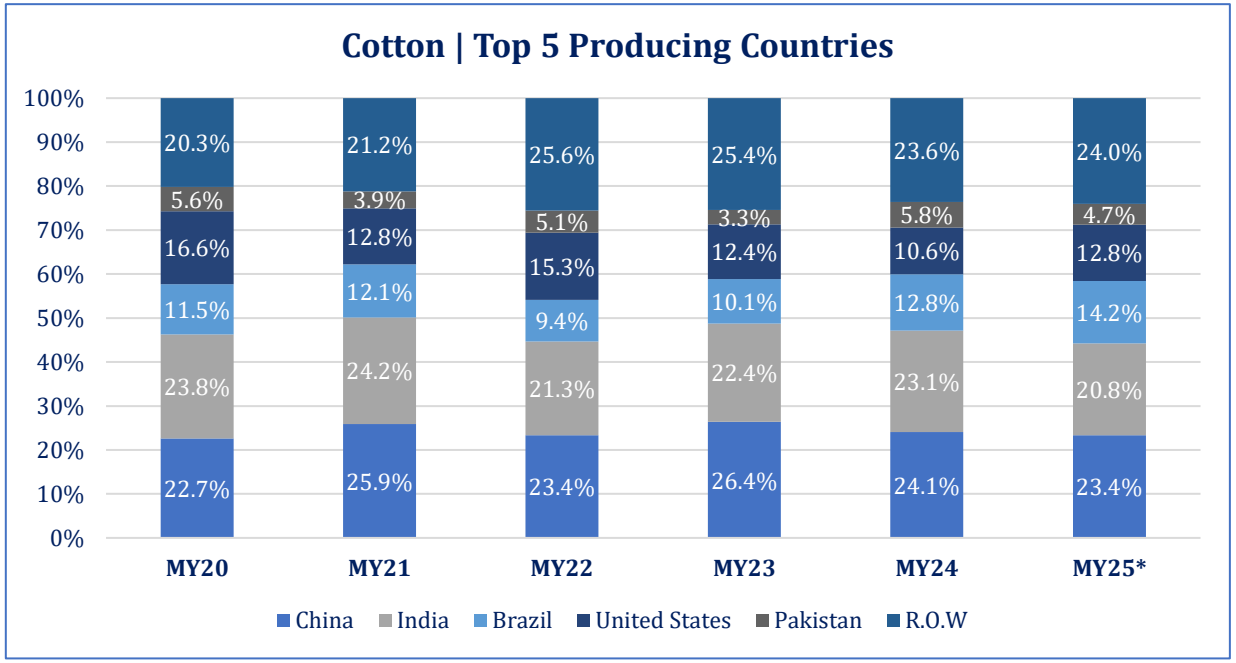
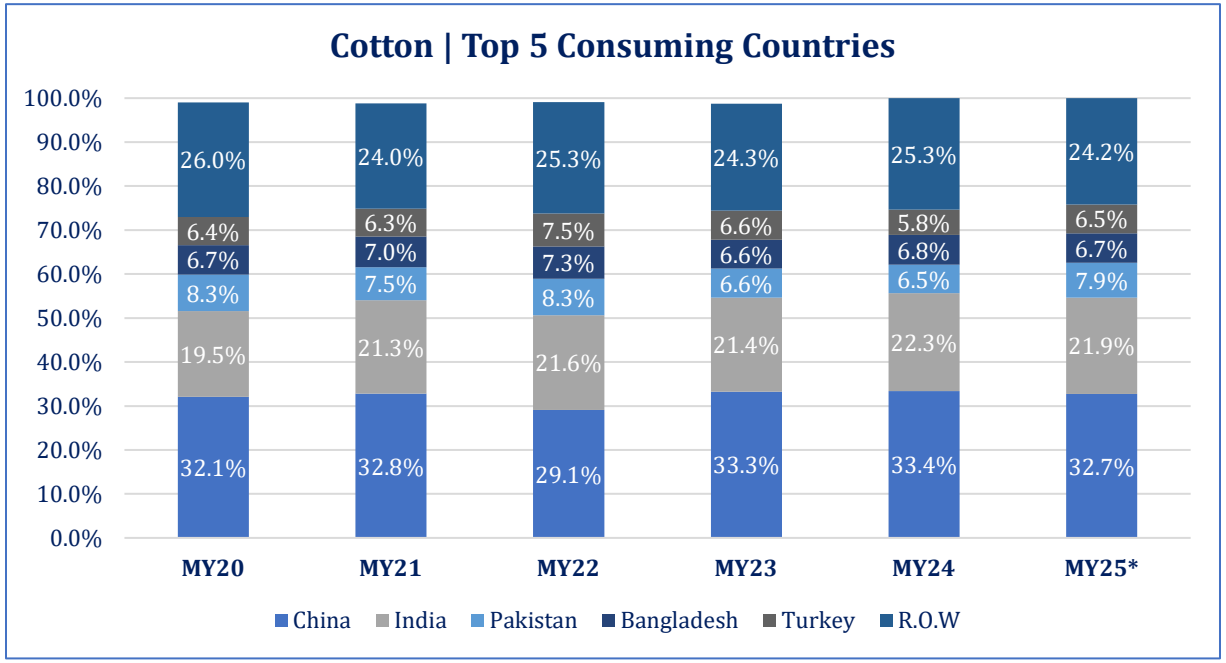
Global | Top Cotton Producers and Consumers

- During MY24, ~24.7mln MT of cotton was produced, down ~2.4% YoY. During the year, low cotton production was witnessed in USA and China owing to lower area under cultivation. However, it was partly offset by a weather-driven rebound in Pakistan and bumper crop in Brazil. China is both the largest producer and consumer of cotton globally (MY19-24). During MY24, China produced ~6.0mln MT of cotton (MY23: ~6.7mln MT), comprising ~24.1% of global cotton production. India, Brazil, USA and Pakistan were among the top five cotton producers in the world with ~23.1%, ~12.8%, 10.6% and ~5.8% share in the global cotton production, respectively, during the year.
- During MY24, China, India, Pakistan, Bangladesh and Turkey were among the top five cotton consumers with ~33.4%, ~22.3%, ~6.5%, ~6.8% and ~5.8% shares respectively, in the global cotton consumption. For MY25, global cotton production is forecast to reach ~25.6mln MT. USA is expected to be responsible for nearly all of the increase in global cotton production (~25.2%) (~3.3mln MT) contrary to the previous year's sluggish production. On the other hand, Global cotton consumption is forecasted to rise to ~25.3mln MT in MY25.





**Forecast*
MY='Marketing Year' i.e., Aug-Jul.

Source: OECD, FAO, Global Market Report 2024, USDA

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Global | Ending Stock

- Ending stocks of cotton declined by ~19.5% YoY from ~20.5mln MT in MY23 to ~16.5mln MT in MY24.
- China maintains the largest ending stock levels, amounting to ~49.8% at End-MY24 (End-MY23: 41.5%).
- Ending stock of Bangladesh significantly declined (~61.4% YoY) from ~0.7mln in MY23 to ~0.3mln MT in MY24.
- However, it is anticipated that during MY25, ending stock will reach ~16.9mln MT (MY24: ~16.5mln MT), up ~2.6% YoY due to higher ending stocks in Pakistan (~57.6% YoY) and Bangladesh (~9.2%).

Ending Stock (000 MT)	MY20	MY21	MY22	MY23	MY24	MY25*
China	8,034	8,546	8,396	8,489	8,191	8,068
India	3,676	2,599	2,577	3,451	2,215	2,193
Pakistan	544	370	328	259	276	435
Türkiye	738	597	419	327	498	398
Bangladesh	1,579	686	816	708	273	298
R.O.W	6,801	6,459	6,196	7,221	5,010	5,505
Total	**21,372**	**19,257**	**18,732**	**20,455**	**16,463**	**16,897**

**Forecast*
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Source: USDA

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Global | Trade

- During MY24, the global cotton trade grew YoY by ~2.2% (MY23: ~1.5% YoY).
- In MY24, China was the largest importer of cotton with a share of ~33.5% (MY23: ~14.5%), followed by Bangladesh (the second largest importer of cotton) with ~16.3% share in the world imports (MY23: ~15.1%). China's cotton imports increased by ~13.8% YoY, driven by a decrease in planted area and yields.
- Historically, (MY20-MY23), USA had been maintaining its position as the leading cotton exporter. However, during MY24, Brazil emerged as the largest exporter of cotton, with a share of ~27.5% (MY23: ~15.2%), while USA followed closely with ~26.3% share in the world cotton exports (MY23: ~29.3%).
- The rise in exports may be attributable to increased demand from China (the largest importer of cotton). During MY24, cotton imports by China rose by a staggering ~135.8%.
- However, during MY25, global cotton imports are expected to decline by ~2.4% on the back of ~33.2% lower imports amid economic slowdown in China.
- In MY25, a decrease in cotton production in India is anticipated to lead to ~35.4% reduction in cotton exports by the country.

Exports (000 MT)	MY20	MY21	MY22	MY23	MY24	MY25*
Brazil	1,946	2,398	1,682	1,449	2,680	2,722
USA	3,377	3,560	3,153	2,787	2,558	2,613
India	697	1,348	827	272	506	327
Australia	296	344	779	1,350	1,253	1,176
Greece	319	355	311	283	202	218
R.O.W	2,319	2,581	2,626	3,382	2,535	2,444
Total	**8,954**	**10,586**	**9,378**	**9,523**	**9,734**	**9,500**

Imports (000 MT)	MY20	MY21	MY22	MY23	MY24	MY25*
China	1,554	2,800	1,707	1,383	3,261	2,177
Bangladesh	1,633	1,807	1,785	1,437	1,589	1,698
Vietnam	1,411	1,587	1,444	1,404	1,434	1,546
Türkiye	865	1,159	980	936	777	1,045
Pakistan	537	857	788	684	205	871
R.O.W	2,954	2,376	2,674	3,679	2,468	2,163
Total	**8,954**	**10,586**	**9,378**	**9,523**	**9,734**	**9,500**

**Forecast*
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Source: USDA

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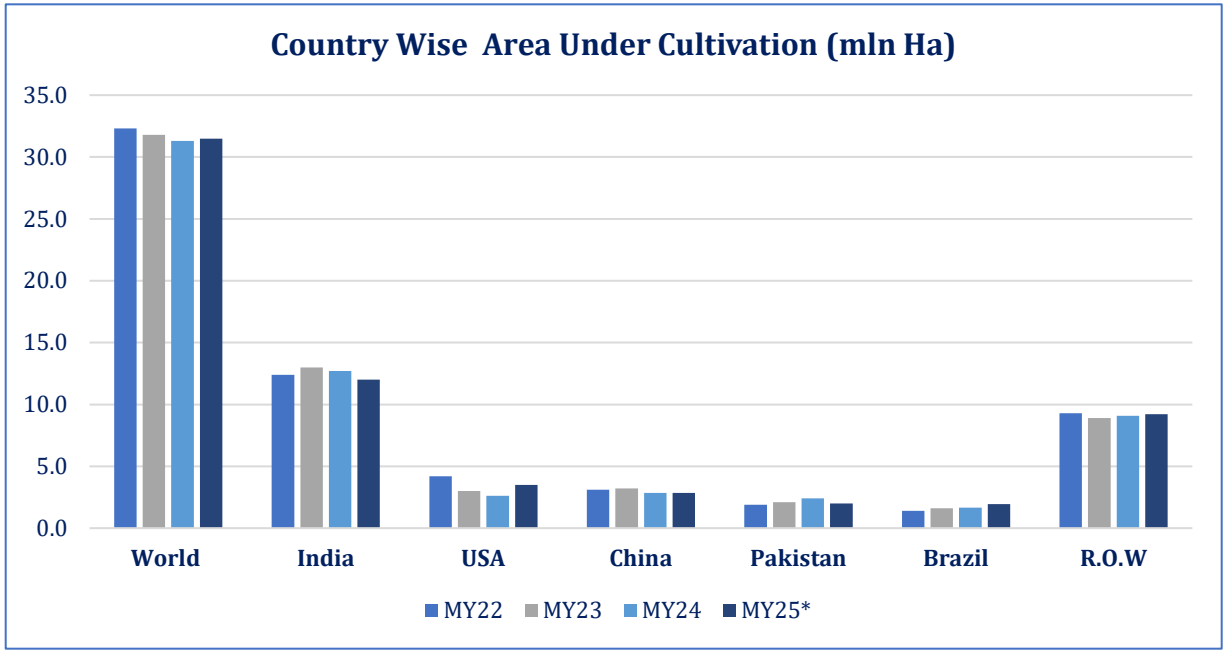
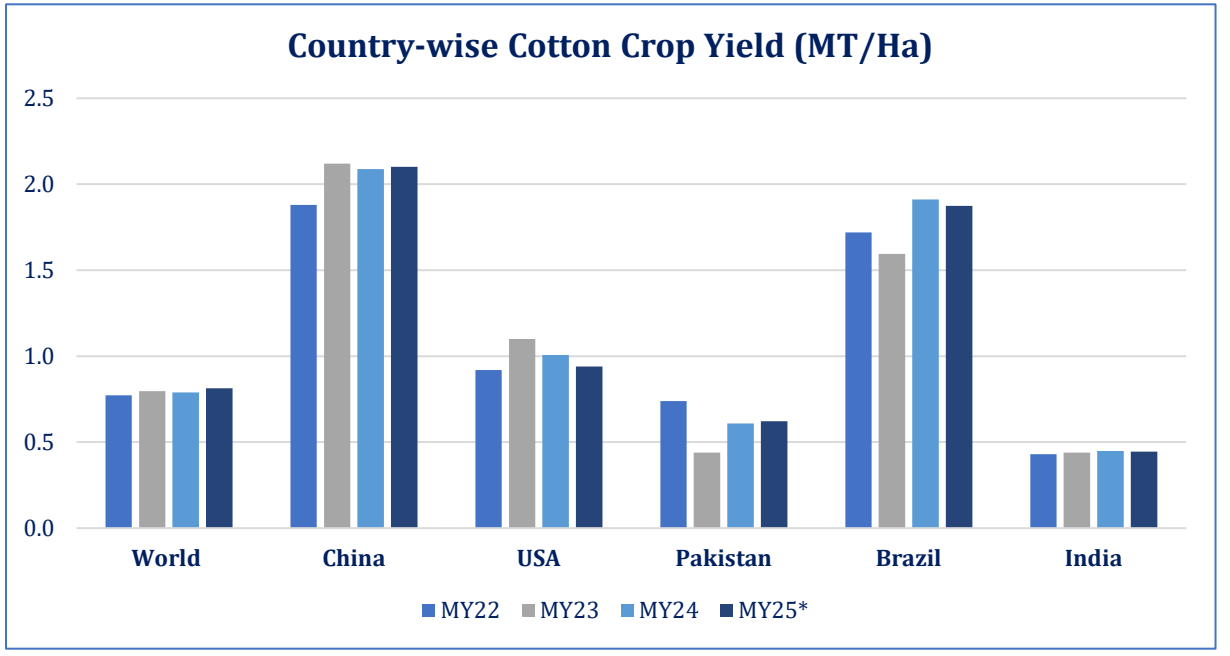
Global | Area Under Cultivation & Cotton Yield

- During MY24, China's yield was only slightly below its previous year's record level at ~2.1MT/Ha (MY23: ~2.2MT/Ha), however, it still retained its position as the world's largest cotton-producing country. Conversely, Brazil achieved a record-high cotton yield at ~1.9MT/Ha in MY24, ~30.0% higher than a decade ago and became the world's third largest cotton producer for the first time in MY24. During MY24, India had the highest area under cultivation ~12.7mln Ha (MY23: ~13.0mln Ha), albeit down ~2.3% YoY.
- The global fabric market size is expected to grow from USD~116.7bln in CY23 to USD~123.4bln in CY24, with a CAGR of ~5.8%. Additionally, the global fabric market size is expected to have a steady growth in the next few years and is expected to reach USD~148.8bln by CY33, with a CAGR of ~4.8%.
- The growth during the said period may be attributed to increasing e-commerce, rise in the demand of sports wear and home furnishing, rising population, technological advancement, increased internet penetration and smartphone usage for online shopping as manufacturers are adapting to virtual selling platforms, expanding their reach to potential customers across wider geographical areas.





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Source: OECD, FAO, Global Market Report 2024, USDA

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Global | Outlook

- The global cotton yarn market size was valued at USD~82.8bln in CY23 and is projected to grow to USD~86.1bln in CY24 at a CAGR of ~4.0%. Furthermore, by CY32, the global cotton yarn market is expected to reach USD~117.8bln.
- Asia-Pacific is the leading region in the global yarn market, followed by the North American region. Changing consumption patterns, increasing population, disposable incomes and the rise in demand for clothing along with home furnishing products in Asia-Pacific region are major growth factors for the market.
- Cotton yarns possess distinct qualities, including softness, durability, and excellent absorbency. Moreover, blended varieties of yarn are becoming more common in the market owing to significant features of both artificial and natural yarn thus opening up new growth opportunities in the coming years.
- However, in comparison to artificial yarn, higher demand for natural yarn is expected to drive market expansion in the years to follow.
- In CY23, the apparel segment accounted for a significant share of the cotton yarn market. The new generation (Gen-Z) worldwide tends to spend more on clothing compared to previous generations. This trend is anticipated to boost demand for cotton yarn in apparel manufacturing in the coming years.
- Additionally, the increasing popularity of e-commerce, rising disposable incomes, and higher per capita spending on clothing, particularly in developing countries are expected to further drive the market growth.

MY='Marketing Year' i.e., Aug-Jul.

Source: Fortune Business Insights, USDA

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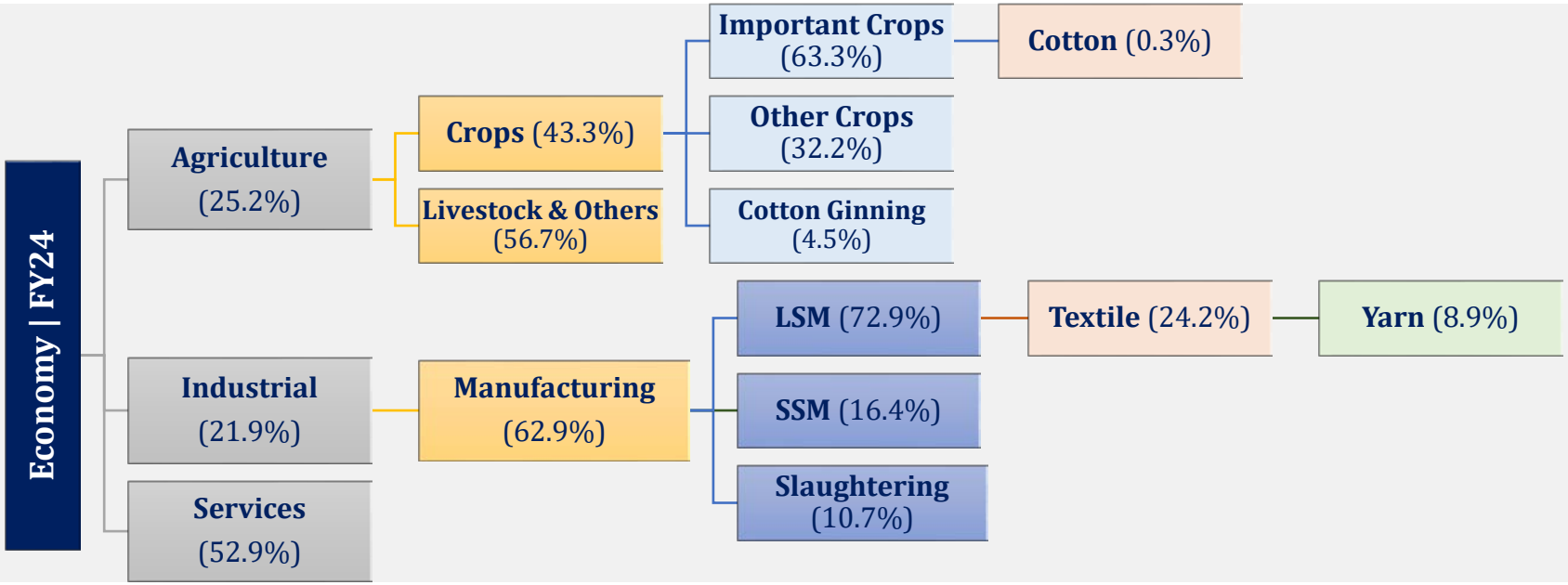
Local | Overview

- In FY24, Pakistan's GDP (nominal) stood at PKR~106.0trn (FY23: PKR~83.9trn), increasing, in real terms, by ~2.4% YoY (FY23: ~-0.21% growth). Industrial activities in FY24 held ~21.9% share in the GDP while the manufacturing activities made up ~62.9% of the value addition. In 3QFY24, Pakistan's GDP (nominal) stood at PKR~25.4trn (3QFY23: PKR~20.6trn), rising in real terms by ~2.1% YoY (2QFY24: ~1.8% YoY). Real GDP growth rate (~2.1%) for 3QFY24 signals a moderate improvement in the economic activity as compared to SPLY.
- Large Scale Manufacturing (LSM) in Pakistan is essential for the economic growth considering its linkages with other sectors, as it represented ~72.9% value of the manufacturing activities in FY24. The LSM fell by ~10.3% YoY in FY23 (FY22: ~11.7%), however, it inched up ~0.92% YoY in FY24.
- The textile cluster is classified as a Large Scale Manufacturing (LSM) industrial component within the industrial sector. In FY24, the textile's weight in the QIM was recorded at ~24.2% while Yarn that accounts for ~8.9% weight within the textile recorded ~8.1% YoY decrease during the year.



MY='Marketing Year' i.e., Aug-Jul.

Source: Fortune Business Insights, USDA

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Local | Overview

- The spinning sector is fundamental to textile production. It includes ~408 textile units, consisting of ~40 composite units and ~368 spinning units, consisting of ~13.4mln spindles and ~198,800 installed rotors. During 9MFY24, ~9.7mln spindles and 126,583 rotors were operational, with capacity utilization rates of ~72.3% and ~63.7%, respectively.
- The industry comprises large-scale organized players as well as fragmented cottage/small-scale entities.
- The sector has matured over the years and has a long operating history in the country. The market structure can be classified as competitive, with a large number of players producing a relatively homogenous product.
- During FY24, Pakistan's yarn production fell by ~8.1% to ~2.5mln MT (FY23: ~2.7mln MT). During the same period, yarn exports stood at ~353,164 MT, equivalent to PKR~272bln (or USD~956mln), accounting for ~14.3% of the total production. The export volume reflects a ~25.6% YoY increase when compared with FY23.
- The export value of yarn in PKR terms also increased by ~28.3% YoY in FY24 likely associated with depreciation of the currency against the USD that made country's exports cheaper in international market, hence, increasing exports in volumetric and value terms. Yarn exports contributed ~3.1% to the country's total export earnings in FY24 (SPLY: ~3.0%).

Spinning	FY21	FY22	FY23	FY24
Market Size based on LSMI weightage (PKR bln)	439	627	760	895
Spinning Units	477	477	368	368
Spindles Installed (000 Nos.)	13,414	13,414	13,414	13,409
Spindles Operational (000 Nos.)	11,338	11,338	9,500	9,700
Capacity Utilization (%)	84.6%	84.6%	69.3%	72.3%
Yarn Production (000 MT)	3,442	3,459	2,695	2,477
Export Volume (000 MT)	391	336	281	353
Cotton Yarn Export Value (PKR bln)	162	214	212	272
Cotton Yarn Export Value (USD mln)	1,017	1,207	844	956
Contribution in Country's Total Exports (%)	*4.0%*	*3.8%*	*3.0%*	*3.1%*
Association	All Pakistan Textile Mills Association			

Source: PBS, PACRA Database

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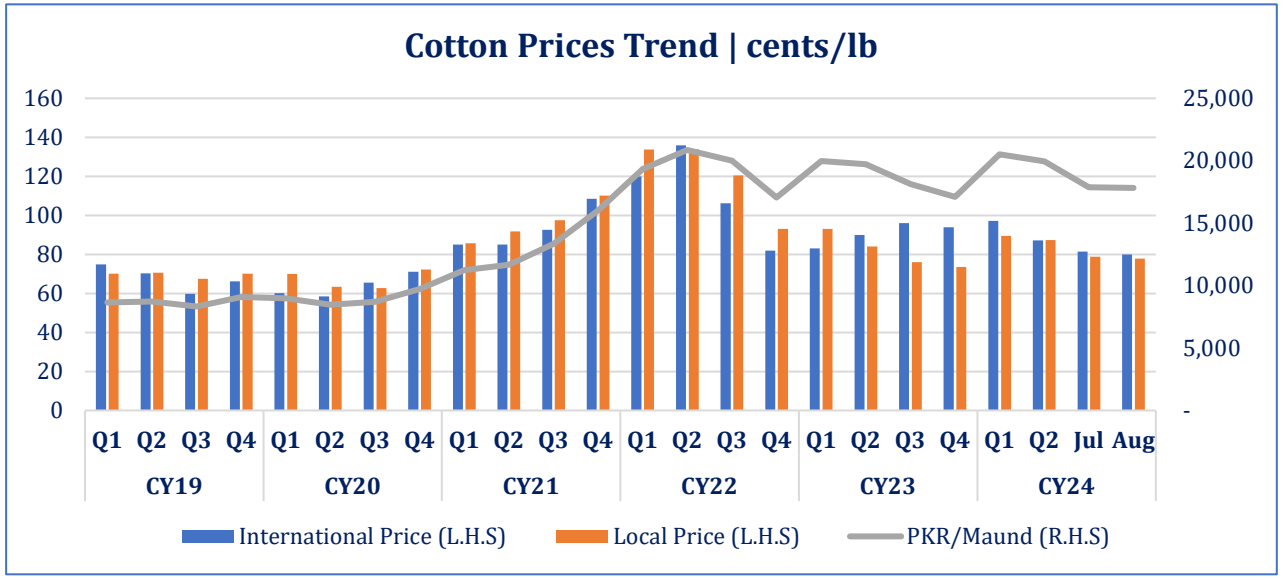
Cotton Dynamics | Prices

- Global cotton prices during CY16-20 fluctuated between ~60-80 cents/lb, influenced by supply-demand dynamics and unforeseen events. However, during 1QCY21-2QCY22, prices registered a peak of ~136 cents/lb due to a global economic uptick. In CY22, prices remained high until May'22, reaching the 11-year peak of ~136 cents/lb on the back of global economic recovery and increased textile demand.
- During CY16-20, the average delta between global and local cotton prices was recorded at ~2 cents/lb. Local cotton prices, in PKR/maund, exhibited little volatility during this time but grew steeply post-CY20, reaching PKR~2,200/maund in Sep'22.
- In CY23, average global cotton prices were recorded at ~91cents/lb, ~18.0% lower YoY. Local prices, in terms of cents/lb, were ~31.7% YoY lower, averaging at ~82 cents/lb (the PKR lost ~14.4% against the USD during the year). Local prices averaged ~18,730PKR/maund in CY23, ~3.0% lower YoY. In 4QCY23, these dipped to PKR~17,099/maund (SPLY: PKR~17,052/maund), owing to end of season of cotton crop.
- In 1QCY24, local prices recovered to PKR~20,511/maund, before declining to PKR~19,950/maund in 2QCY24. As of Aug'24, cotton prices have fallen and were recorded at PKR~17,819/maund. However, as the global cotton trade is picking up, global cotton prices (cents/lb) have started to rise and were recorded at ~82.8cents/lb as at September 20, 2024. Hence, going forward, local prices (PKR/maund) are also expected to rise during MY25.



Average Cotton Prices	FY20	FY21	FY22	FY23	FY24	Aug'24
International (cents/lb)	62	76	114	87	93	80
Local (cents/lb)	68	78	123	94	81	78
Local (PKR/maund)	8,742	10,290	13,476	19,108	18,917	17,819

Note: *Cotton Conversion Units - 1 Maund =37.3kg;1 Bale =170kg;1 Bale =4.6 Maund.*

Source: PACRA Database, Ministry of Finance

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Local | Cotton Dynamics

- Pakistan is amongst both the top five cotton producing and consuming countries.
- Pakistan's cotton production increased by ~70.9% YoY in FY24 (against the target of ~12.8mln bales) owing to an increase in the area under cultivation, a better quality of pest-resilient seeds, favorable weather conditions, and attractive fixation of the intervention price of cotton (*Phutti*) at PKR~8,500/40kg at the start of the sowing season.
- On the other hand, a ~70.0% YoY decline in cotton imports was also observed during the year (SPLY: ~13.2% YoY decline, owing to a better domestic output).
- For FY25, target for cotton production is set at ~10.9mln bales, of which ~12.8% has been met as of September 18, 2024 (or ~1.4mln bales). Of this, Punjab and Sindh comprised ~37.6% and ~62.4%, respectively, during the period.
- However, the monsoon rains of Aug-Sep'24 are expected to adversely affect the cotton crop nationwide, hence the cotton production target for FY25 have been revised down to ~7.5mln bales.

Local | Cotton Supply ('000' Bales)					
Particulars	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**
Opening Stock	**2,510**	**3,200**	**2,175**	**1,925**	**1,525**
Production	8,572	5,646	7,441	4,912	8,397
Imports	3,157	5,043	4,636	4,023	1,205
Total Supply	**14,239**	**13,889**	**14,252**	**10,860**	**11,127**
Local Consumption	10,964	11,711	12,311	9,267	9,320
Exports	75	3	16	68	183
Closing Stock	**3,200**	**2,175**	**1,925**	**1,525**	**1,625**

**Production and consumption data has been prorated based on 9-months production data. Mill consumption data has been calculated based on average cotton consumption.*

Source: PBS, PES, PCCC, USDA

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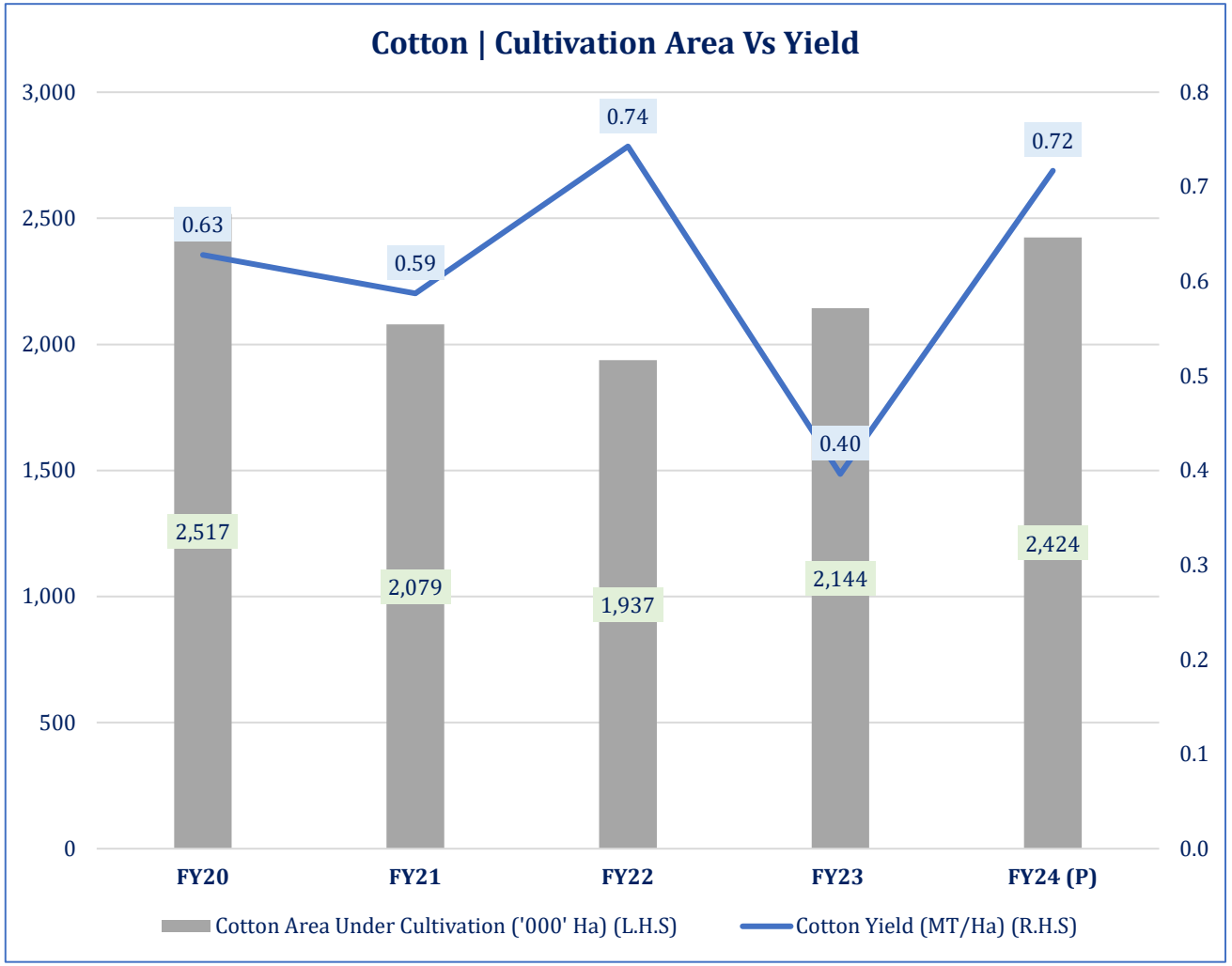
Local | Area Under Cultivation and Yield

- The area under cultivation for the cotton crop increased by ~13.1% YoY to ~2.4mln Ha in FY24. Similarly, cotton crop yield also improved to ~0.7MT/Ha.
- Area under cultivation for rice grew by ~22.2%, while that for maize declined by ~4.5% YoY during FY24. Maize and Rice compete directly with cotton for area.
- For FY25, production target is set at ~10.9mln bales, with targeted yield set at ~622.0Kg/Ha. Meanwhile, the area under cultivation is expected to record at ~3.1mln Ha.
- However, the monsoon rains (Aug-Sep'24) have caused pest infestations, particularly by the pink bollworm, causing severe damages to the cotton fields.
- Resultantly, as per USDA Aug'24 cotton report on Pakistan, the estimates for targeted yield and area under cultivation have been revised down to ~604.0Kg/Ha and ~2.0mln Ha, respectively.



Source: Economic Survey, 2022-23, USDA

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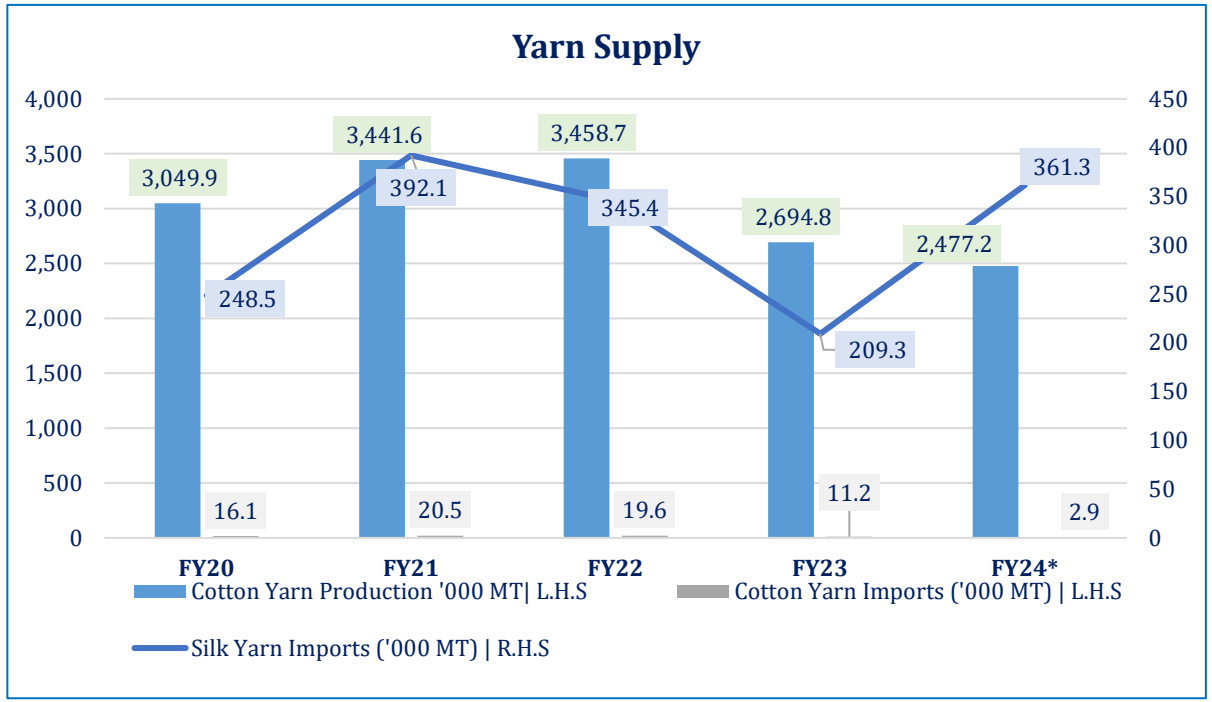
Local | Installed Capacity & Yarn Supply

- In FY23, cotton yarn production decreased by ~22.1% YoY and stood at ~2.7mln MT as the floods reduced supply of cotton, while demand across the textile chain remained sluggish. During FY24, despite of increased cotton production (~8.4mln bales) as compared to SPLY(~4.9mln bales), cotton yarn production was ~8.1% YoY lower and was recorded at ~2.5mln MT.
- During FY20-24, of the total cotton yarn supply, local production accounted for more than ~95.0%, while the remaining was met through imports.
- Cotton yarn that accounts for ~8.9% weight in LSMI recorded ~8.1% YoY decrease during the year.
- Meanwhile, the import of silk yarn rose by ~72.6% YoY, registering at ~361,300 MT during FY24 (FY23: ~209,300 MT).

Capacity utilization	FY20	FY21	FY22	FY23	FY24
Spindles Installed ('000 Nos.)	13,414	13,414	13,414	13,414	13,409
Average Capacity Utilization	83.0%	84.6%	84.6%	69.3%	72.3%



Note: Average Capacity Utilization figure is reflective of 9MFY24..
*For imports of cotton yarn, the following HS Codes have been considered: 5205 and 5206 *Cotton Yarn imports pertain to 6MFY24, also there was data limitation .*

Source: PES, PBS, UN Comtrade

Spinning

Yarn | Supply

Production of Yarn (MT)	FY20	FY21	FY22*	FY23*	FY24*
Synthetic/Blended	1,179,211	1,385,574	1,392,481	1,084,904	997,328
Medium	735,970	826,441	830,560	647,103	594,867
Coarse	707,732	792,771	796,723	620,739	570,632
Fine	350,824	350,824	352,573	274,695	252,521
Super Fine	75,891	85,975	86,404	67,318	61,884
Total	**3,049,628**	**3,441,585**	**3,458,740**	**2,694,760**	**2,477,233**

- Pakistan's annual production of yarn has remained relatively stable in the past few years with production of yarn being consistent from FY21-FY22, growing by only ~0.1%. During FY24, a total of ~2.5mln MT of yarn was produced (FY23: ~2.7mln MT), down ~8.1%.
- Synthetic or blended yarn, which includes Polyester-Viscose and Polyester-Cotton, has the largest share of total yarn production. Moreover, there is greater production of coarse and medium type yarn as compared to fine and super fine cotton yarn.

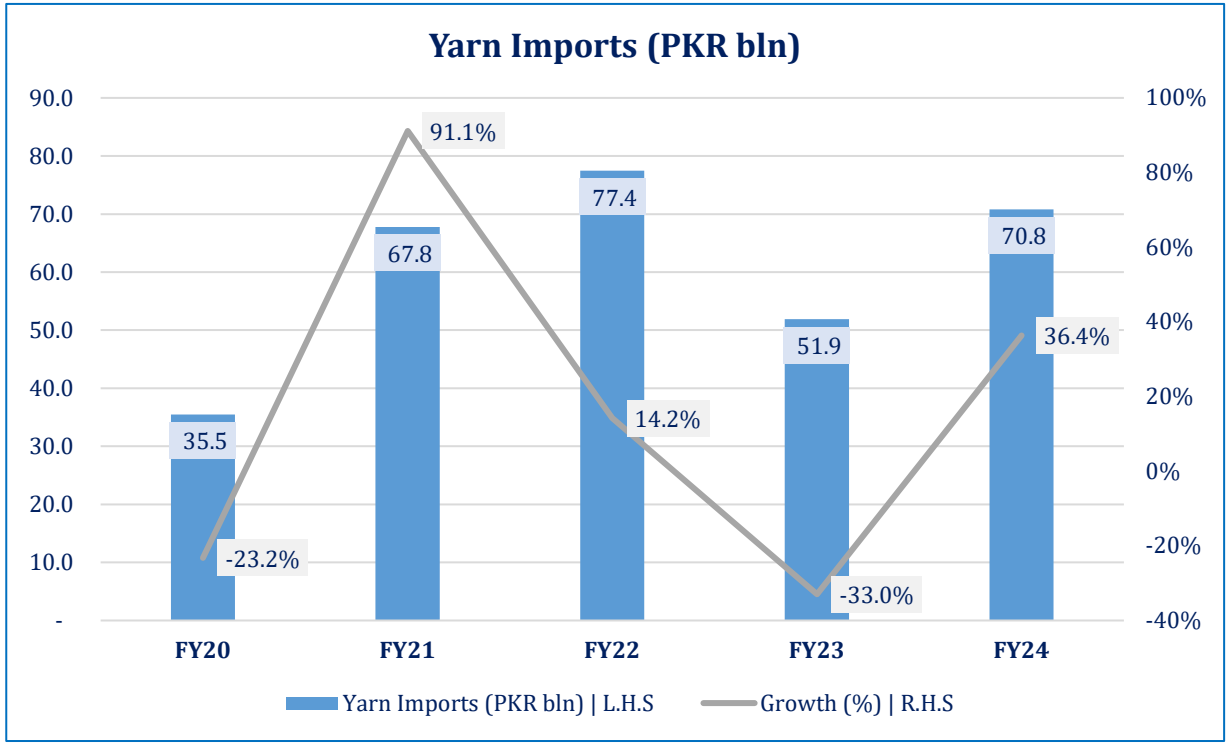
**Production figures for individual yarn categories is estimated using actual total production figures from FY21.*
***Note**: FY22, FY23 & FY24 are taken from PBS*

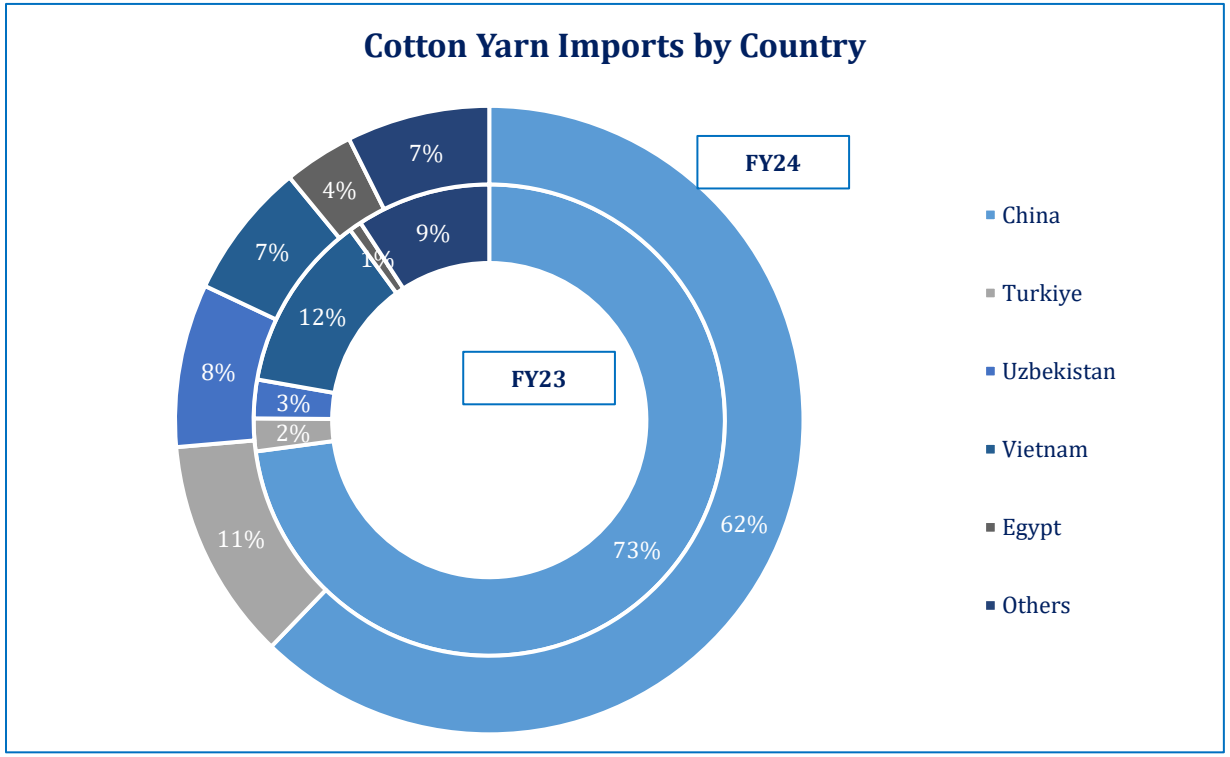
Source: PBS, TCO

Spinning

Yarn | Imports

- Pakistan import of yarn increased by ~36.4% YoY in FY24 and stood at PKR~70.8bln in FY24 (FY23: PKR~51.9bln). This increase in imports resulted from increased demand for cotton products.
- Cotton yarn imports from China had a share of ~62.2% in FY24 (FY23: ~72.9%). Türkiye's share of yarn imports was ~11.0% in FY24 (FY23: ~2.0%). Other importing countries of yarn include Uzbekistan, Vietnam and Egypt and accounted for ~8.0%, ~7.0% and ~4.0% of Pakistan's total yarn imports, respectively during FY24.





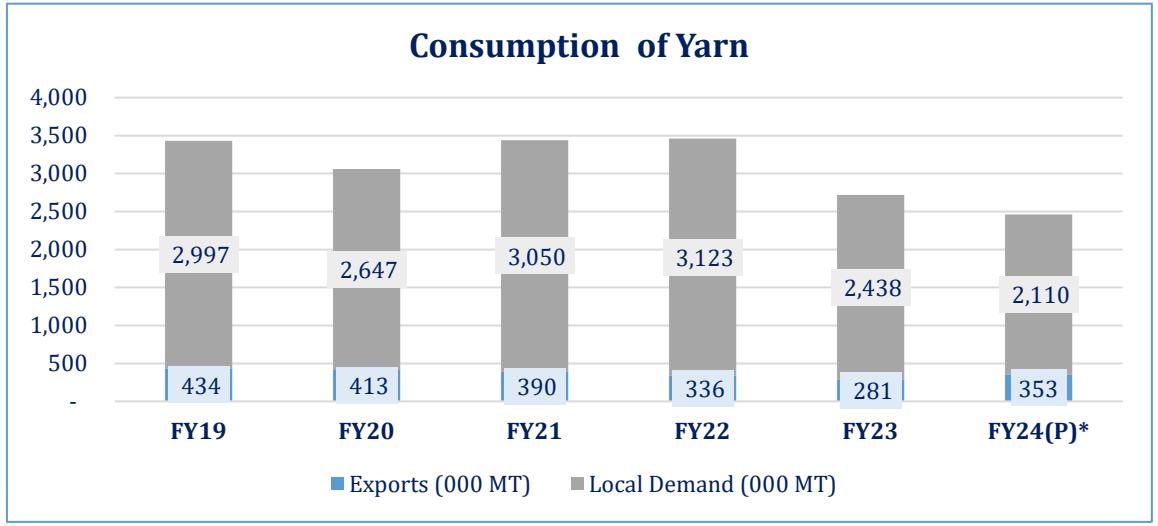
Note: Shares of countries in Pakistan's Yarn Imports by country are value-based.

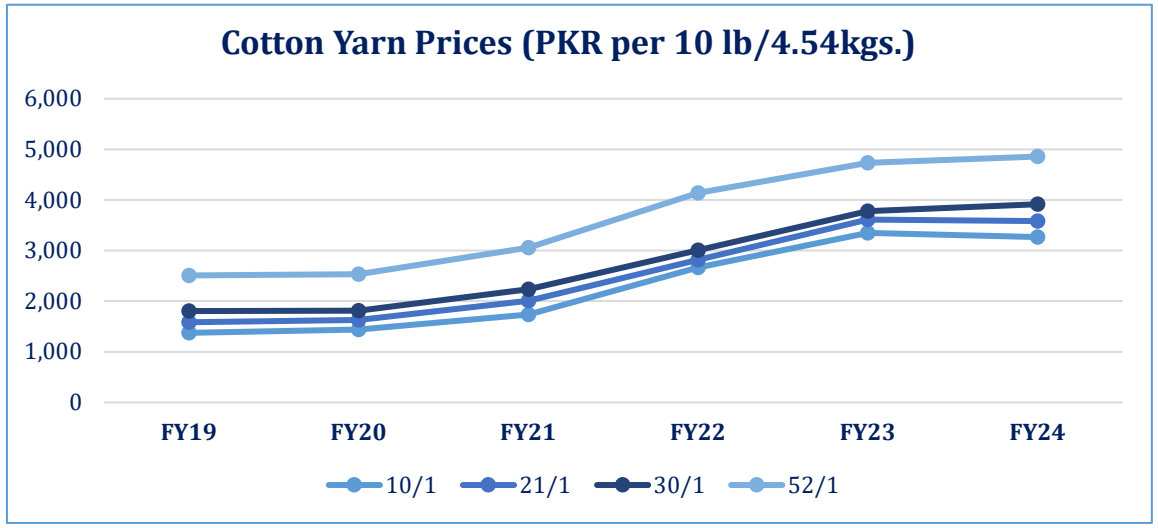
Source: SBP

Spinning

Yarn | Prices & Demand

- The consumption of yarn decreased by ~9.4% YoY in FY24 to clock in at ~2.5mln MT, owing to factors that included higher power tariffs resulting from the removal of energy subsidies for export-oriented sectors (RCET), the rising cost of imported raw materials and elevated interest rates.
- In FY24, local demand was down ~13.5% YoY (SPLY: down ~21.9%), owing to inflationary pressures and high interest rates. This is also evident from a slowdown in the textile sector growth in FY24 (~-5.2% YoY).
- Yarn production had dipped by ~21.4% YoY in FY23 due to the Jul-Aug'22 flash floods. In FY24, the decline continued despite uptick in cotton production mainly owing to high electricity and energy tariffs.
- Spinning sector processes cotton into yarn. Prices of cotton yarn exhibited a rising trend in FY19-23, recording a steeper increase during FY21-23.
- However, with the decline in the international cotton prices (cents/lb) during FY24, cotton yarn prices have also softened.





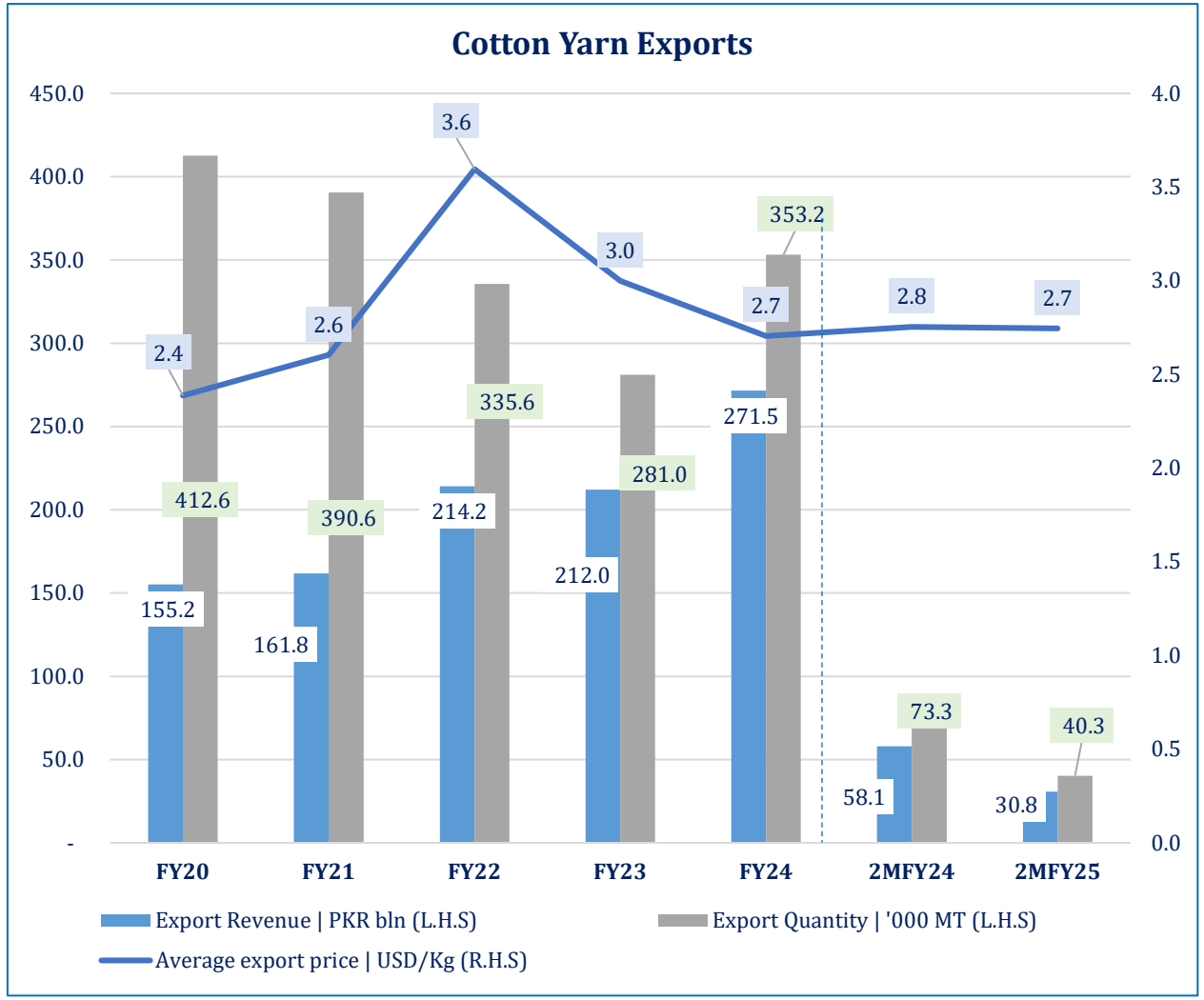
Note: **For FY24 figure for demand is based on production figure of Yarn prorated from 11MFY24 data less exports,*

Source: PBS, PCCC, Economic Survey 2021-22

Spinning

Yarn | Exports

- During FY24, the export of yarn increased in PKR terms by ~28.1 YoY% (FY23 growth: ~-1.0% YoY).
- During FY24, this rise in exports was a result of increased cotton production (FY24: ~4.9mln bales; FY23: ~10.2mln bales).
- FY23 was a devastating year for cotton crop that got badly damaged due to flash floods Jul-Aug'23. However, as the cotton production rebounded during FY24, the quantity of yarn exported rose from ~281,000 MT in FY23 to ~353,000 MT in FY24, up ~25.7%. The rise in exports may be attributed to the increased demand for textiles in the global market, which ultimately increased the demand for yarn.
- During FY24, the PKR slipped ~14.2% against the USD (FY23: ~39.0% depreciation) and likely rendered yarn exports cheap in the international market.
- Furthermore, the average export price of yarn decreased from USD~3.0/Kg in FY23 to USD~2.7/Kg in FY24.
- During 2MFY25, export of yarn in PKR terms amounted to PKR~30.8bln (2MFY24: PKR~58.1bln), down ~47.0% YoY. While in volumetric terms, yarn exports were recorded at ~40,300 MT (2MFY24: ~73,300 MT), down ~45.0% YoY. The decrease in yarn exports may be linked to lower cotton production due to monsoon rains Aug-Sep'24, which subsequently affected cotton yarn production.

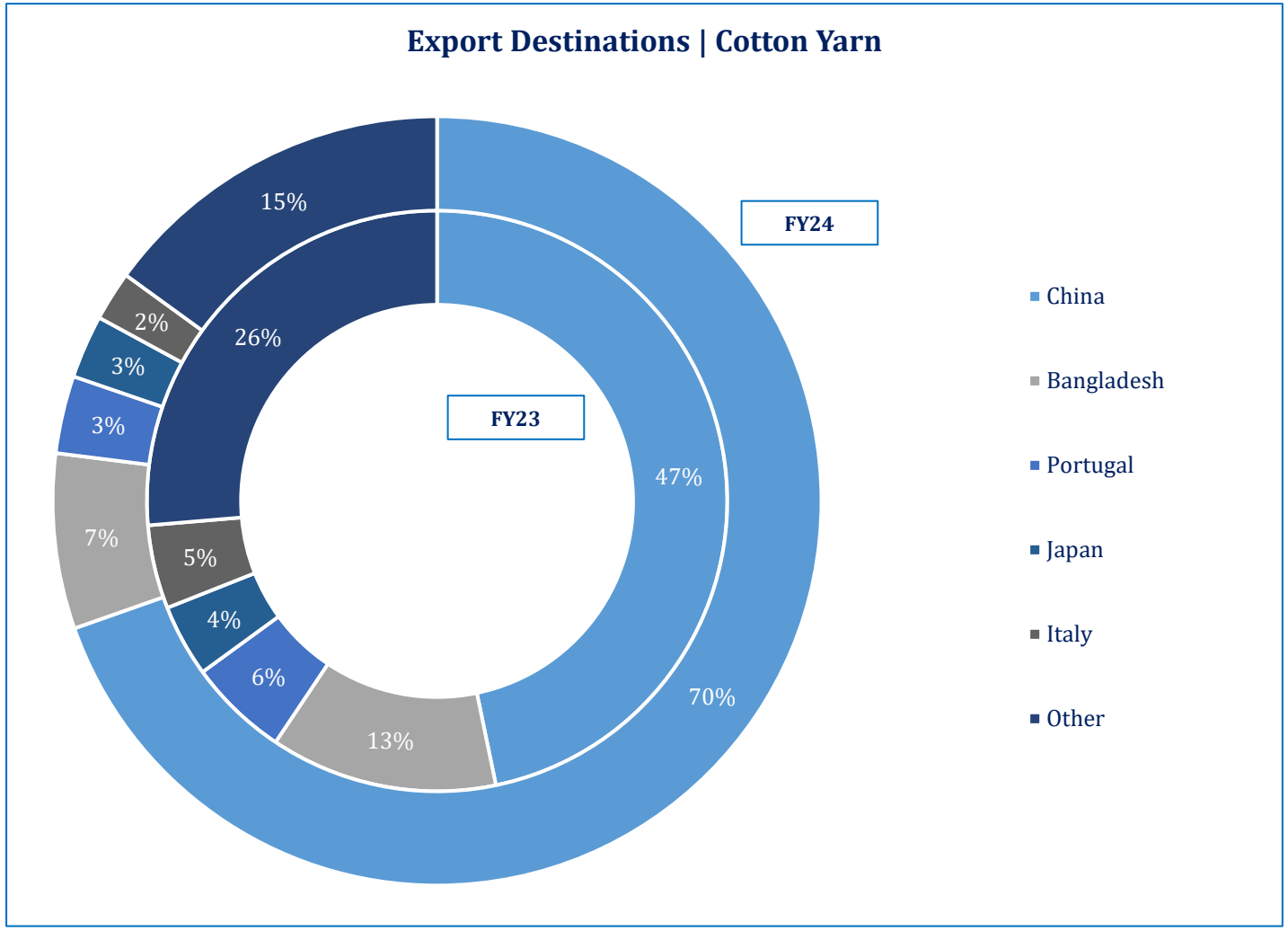


Source: PBS

Spinning

Yarn | Export Destinations

- Pakistan's exports of yarn are largely concentrated towards China which accounted for ~69.6% of total yarn exports during FY24 (FY23: ~46.7%), up 79.8% YoY.
- Other export destinations include Bangladesh, Portugal, Japan and Italy which accounted for ~7.4%, ~3.3%, ~2.7% and ~2.1% of Pakistan's total yarn exports, respectively.



Source: SBP

Spinning

Local | Business Risk

- **Varying Local Cotton Production** extreme climate changes pose a significant risk to the local textile sector as damage to local crop means more cotton will need to be imported and with a high PKR/USD exchange rate (~277.8 as at September 24, 2024), sourcing raw material from overseas could likely dilute 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 destroyed ~40% of cotton crop in FY23. This increased the dependency on imports 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. During FY25, in light of damages caused by monsoon rains of Aug-Sep'24, and resulting low cotton production, cotton imports are expected to rise to ~4.0mln bales.

- **Low Value Addition:** 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.

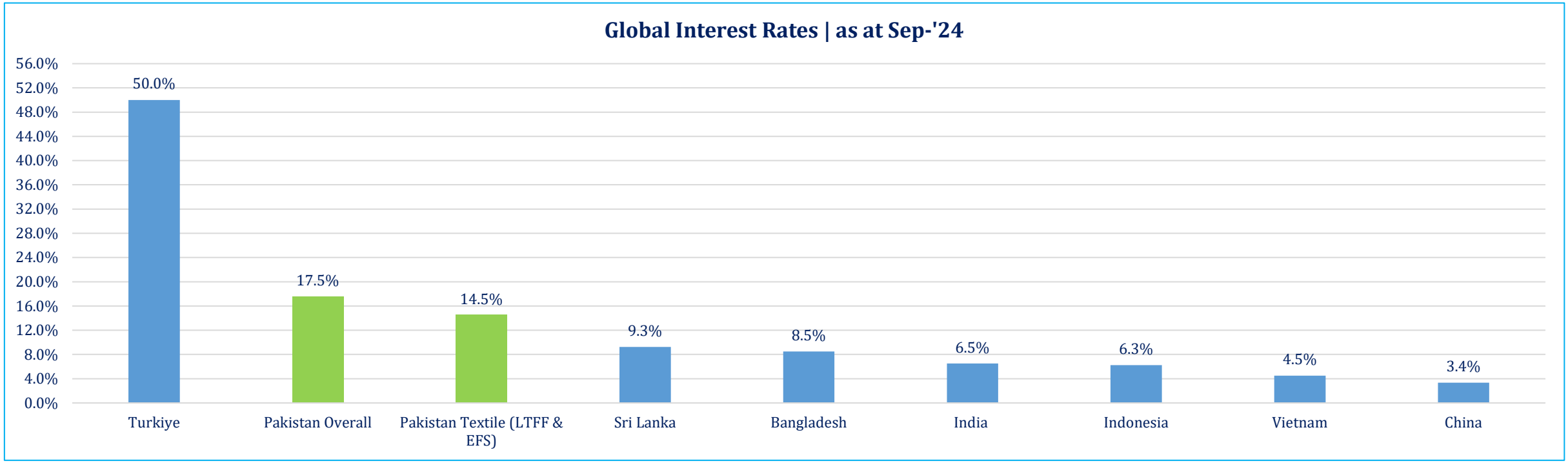
- **High Energy Costs:** The government no longer provides the textile industry with RLNG at a subsidized rate. Price of energy for Pakistan's industry stands above the regional average for countries such as India, Bangladesh and Vietnam which reduced the competitiveness of Pakistan's exports. Furthermore, the withdrawal of the RCET has forced smaller mill owners to close down businesses.

- **Disruption in Electricity and Gas Supply:** The spinning sector depends on an uninterrupted supply of electricity and gas.

- **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.

Spinning

Interest Rates | Regional Comparison



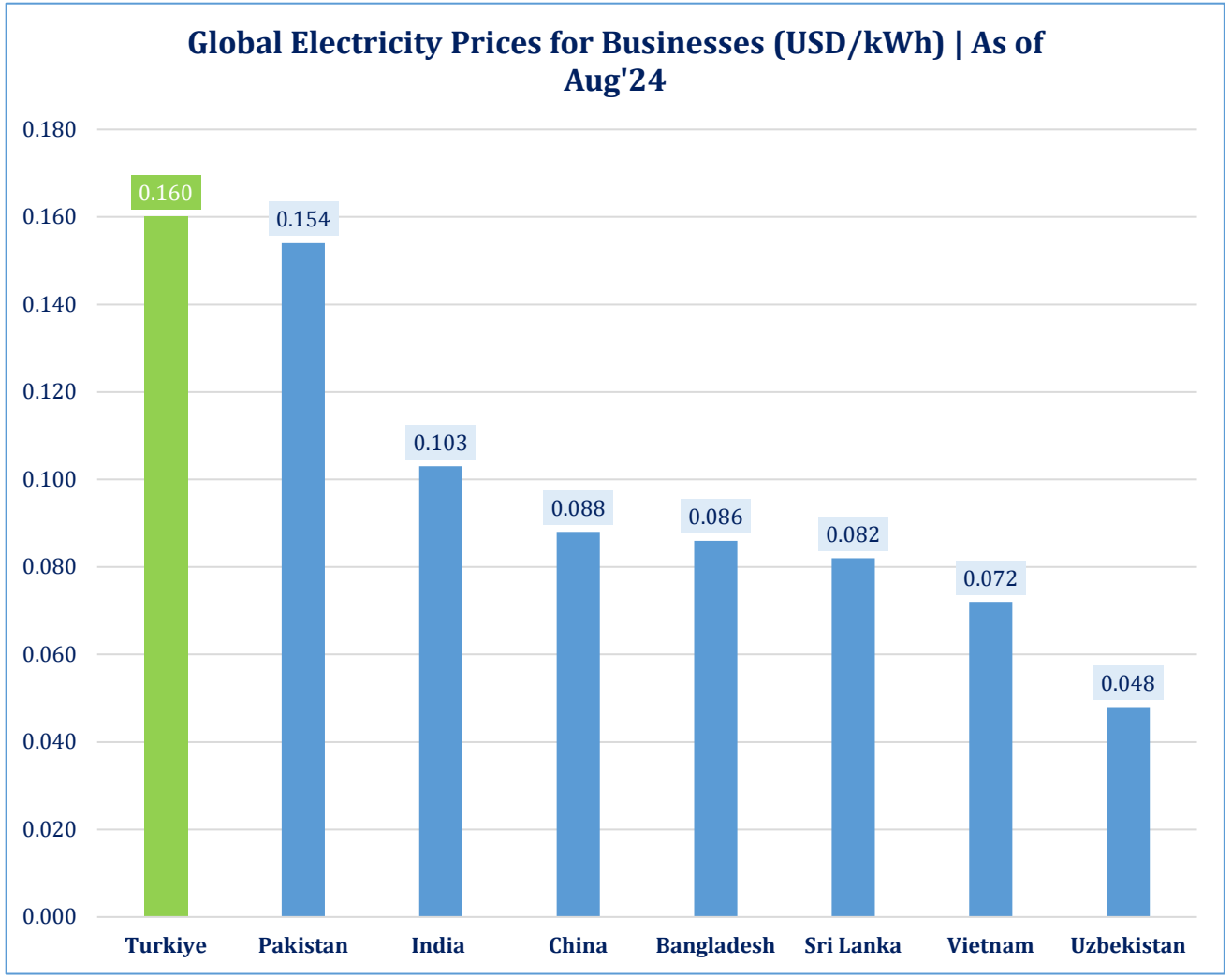
- The all-time high interest rate of ~22.0% as of Jun'23 was reduced to ~20.5% in Jun'24 and then further to ~19.5% in Jul'24, interest rate now stand at ~17.5% w.e.f September 12, 2024. Pakistan still has the second-highest interest rate in the region, highest being the Turkiye (~50.0% w.e.f. Mar'24). The high cost of borrowing acts as a barrier to investments in various sectors. However, going forward, the SBP is expected to further reduce interest rate hikes in the backdrop of lower inflation (Aug'24 National CPI: ~9.7%, Jul'24 National CPI: ~27.4%).
- 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 EFS rates will be linked to policy rate revisions, such that the difference between the two rates and the MPR is ~3.0% as of Dec'22. Hence, LTFF and EFS rates stand at ~14.5% w.e.f. September 12, 2024.

Source: PACRA Internal Database

Spinning

Electricity Prices | Regional Comparison

- Pakistan's export 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 since Mar'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.
- NEPRA provides electricity at a total cost of ~15.4 cents/kWh. All Pakistan Textile Mills Association (APTMA) is demanding a reduction in power tariffs to ~9.0 cents/kWh to increase international competitiveness of textile exports.
- Additionally, withdrawal of RCET of PKR~19.99/kWh and a gas tariff of USD~9.0/MMBTU for gas/RLNG has made the textile sector uncompetitive in the global market.

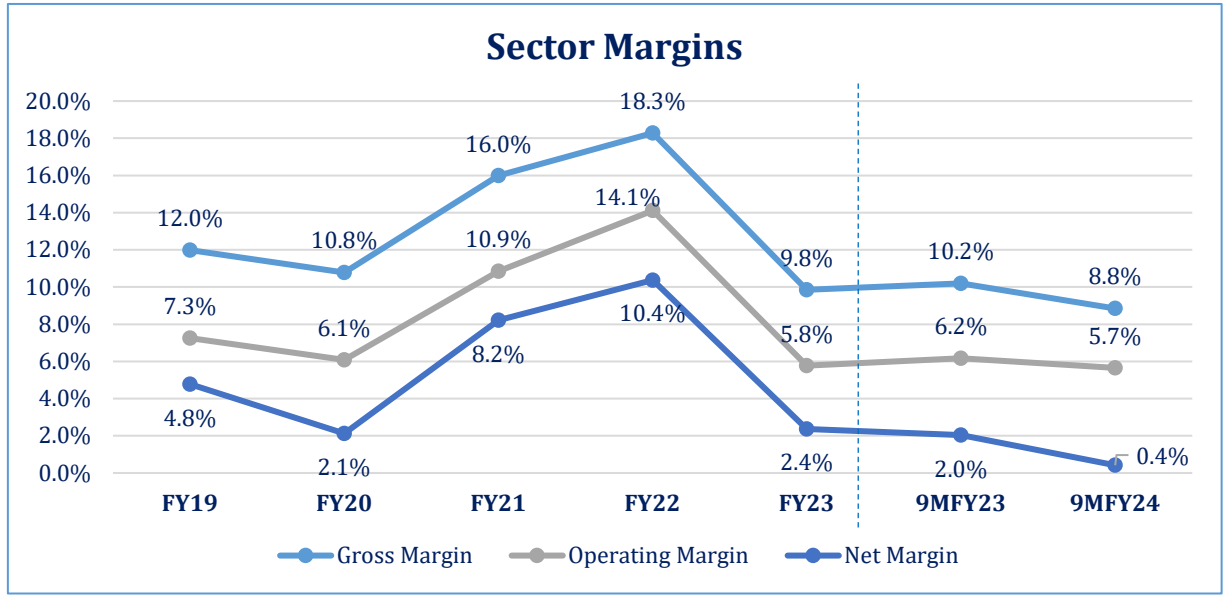


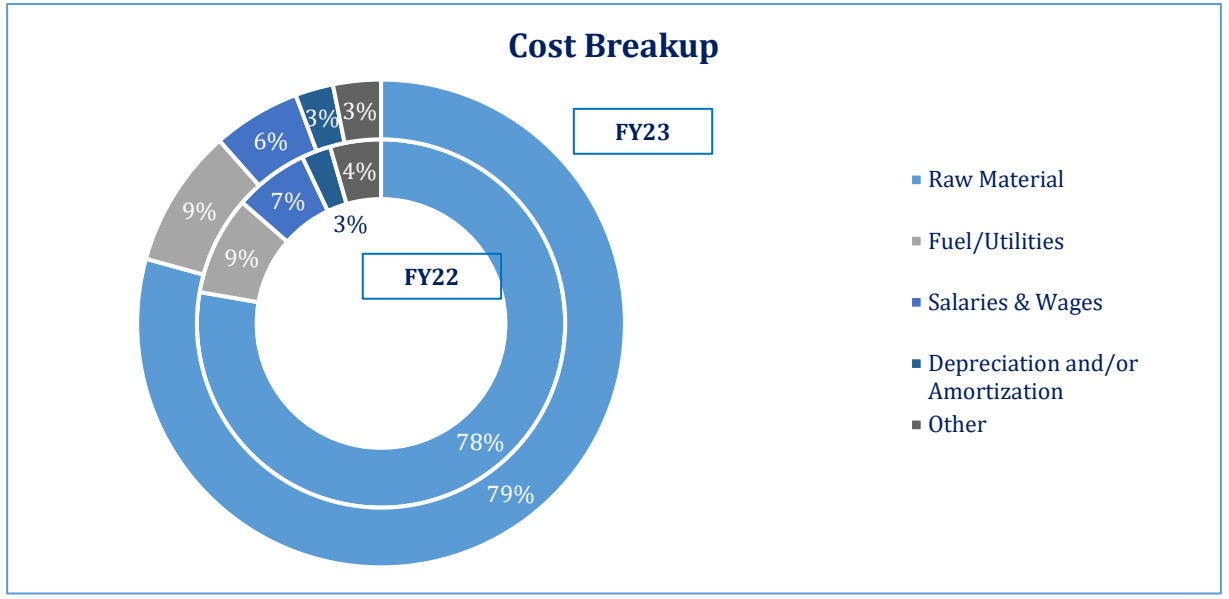
Source: PACRA Internal Database

Spinning

Local | Margins & Cost Structure

- During FY20-FY22, the sector's average margins followed an upward trajectory (for 2 years post pandemic) on the back of reopening of businesses due to which both local and international demand for sector outputs rebounded. However, the sector faced challenges during FY23 amid flash floods (Jul-Aug'22) that adversely affected the cotton crop. Resultantly, sector's margins fell considerably as compared to SPLY.
- The sector's margins continued the downward trend during 9MFY24. Gross margin reduced from ~10.2% during 9MFY23 to ~8.8% during 9MFY24 on the back of a greater rise in cost of sales (~26.3% YoY) than the rise in sector's revenue (~24.0% YoY). Operating margins dropped from ~6.2% during 9MFY23 and clocked in at ~5.7%. Furthermore, during 9MFY24, sector' net margin fell considerably and were recorded at ~0.4% (9MFY23: ~2.0%) on the back of ~46.4% higher finance costs, while, the net profit fell by ~194.6% YoY. Interest rates stood at ~22.0% during most of the FY24 (i.e., 11MFY24), but were later reduced to ~20.% w.e.f June 10, 2024. The interest rates now stand at ~17.5% w.e.f September 12, 2024. Hence, going forward sector's finance cost may be expected to go down while sector's net margins may rise.
- Looking at the cost breakup of spinning companies in FY23, raw materials made up ~79.0% of the entire cost (FY22: ~78.0%), resulting from higher cotton prices. It was followed by fuel at ~9.0% (FY22: ~9.0%) and salaries and wages at ~6.0% (FY22: 7.0%).





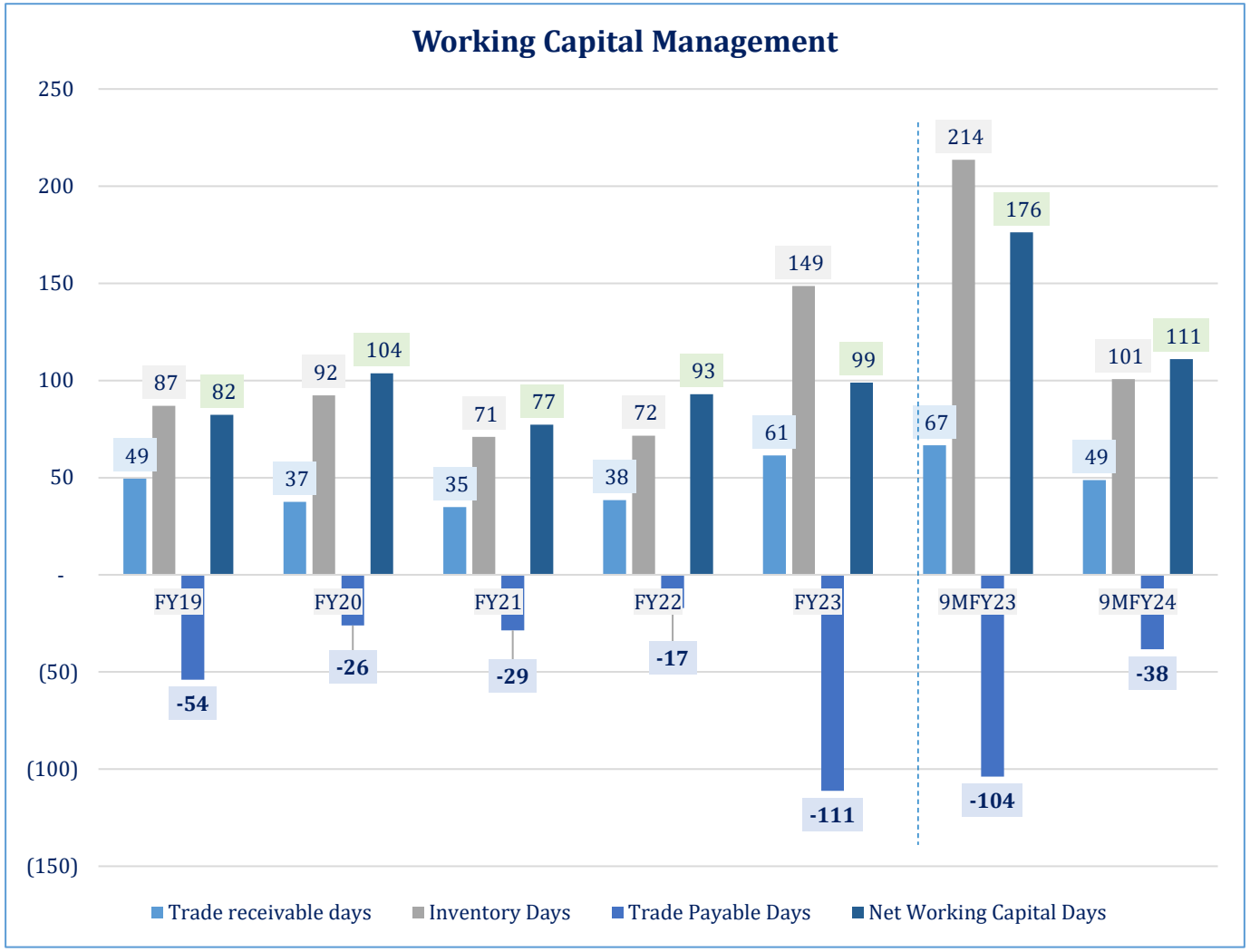
Note: *Margins and cost break up are reflective of ~49 listed/rated spinning sector players.*
Margins are revenue weighted

Source: PACRA Database

Spinning

Local | Financial Risk | Working Capital Management

- Within the sector's working capital, inventory consists mostly of raw material and finished goods, with work-in-process making a small contribution. Many players within the organized mill segment are integrated with group companies, resulting in more efficient working capital management.
- The sector's average receivable days stood at ~49 days in 9MFY24. This is down from ~67 days in 9MFY23. However, during 9MFY24, the average inventory days also fell by ~113 days to clock in at ~101 days (9MFY23: ~214 days). Payable days in 9MFY23 were ~104 days which decreased to ~38 days in 9MFY24.
- Despite, the increase in the receivable days and decrease in the payable days, average net working capital days fell from ~176 days in 9MFY23 to ~111 days during 9MFY24.



Note: *Working Capital is reflective of ~49 listed/rated spinning sector players..*

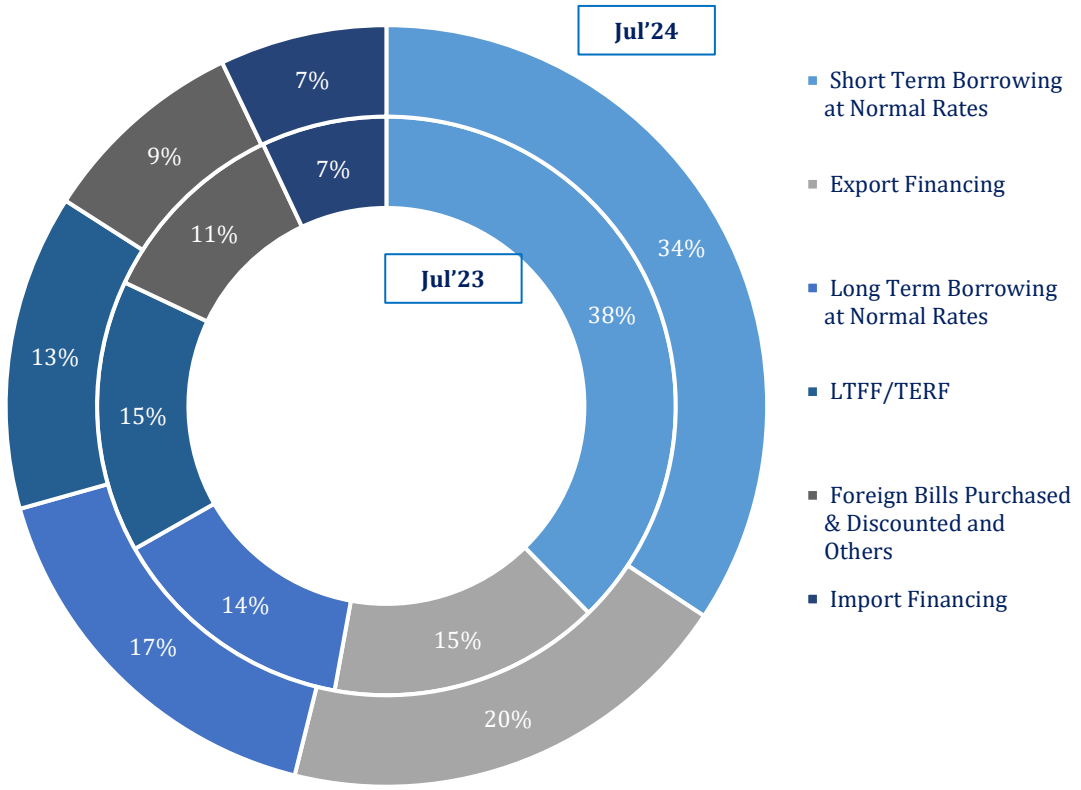
Source: PSX, PACRA Database

Spinning

Local | Borrowing Mix

- The sector's total borrowing as at End-Jul'24 stood at PKR~602.0bln (End-Jul'23: PKR~605.7bln), down ~0.6.0% YoY.
- Short-term loans at normal rates, comprising ~34.3% of total borrowing (End-Jul'23: ~37.7%), were recorded at PKR~206.5bln (End-Jul'23: PKR~228.2bln), down ~9.5% YoY.
- Short-term discounted borrowings (EFS - Export Financing Scheme) stood at PKR~117.8bln (End-Jul'23: PKR~92.0bln), up ~28.1% YoY and comprised ~19.6% of the sector's borrowings (End-Jul'23: ~15.2%).
- Long term borrowing at normal rates, comprising ~16.8% of total borrowing (End-Jul'23: ~13.9%), were recorded at PKR~100.9bln (Emd-Jul'23: PKR~84.2bln) up ~19.8%..
- Long-term discounted borrowing (LTFF) as at End-Jul'24 clocked in at PKR~80.8bln (End-Jul'23: PKR~92.3bln), down ~12.5% YoY and comprised ~13.4% of total borrowings (End-Jul'23: ~15.2%).
- The overall textile industry's infection ratio as at End-Jun'24 stood at ~9.0% (End-Jun'23: ~8.6%), exhibiting higher credit risk from SPLY. Additionally, the infection ratio still remains elevated in comparison to overall banking credit NPLs which stood at ~7.6% as of End-Jun'24.
- During FY19-FY23, the sectors average leverage stood at ~45.1%. However, during 9MFY24, sectors leverage reduced below the historical average (FY19-FY23) and clocked in at ~43.7% (9MFY23: ~47.3%), depicting that the sector is moderately leveraged and has the cushion for additional borrowings.
- Whereas, interest coverage was recorded at ~13.1x (9MFY23: ~0.03x). The rise in coverage took place despite elevated interest rates during 9MFY24, driven by increased operating profits and lower borrowings compared to SPLY.

Local | Borrowing Mix (%)



Borrowing figures are representative of 'Preparation and spinning of textile fibres' as per SBP.
Leverage and interest coverage are reflective of ~49 listed/rated spinning sector players.

Source: SBP

Spinning

Local | Regulatory Framework

- As per the Finance Act 2024, the tax regime for direct and indirect exporters has been revised. The ~1.0% tax collected from them will now be considered a minimum tax. Exporters must calculate their actual taxable income or loss based on the relevant provisions. If the ~1.0% withholding tax is less than the tax calculated on their taxable income, they will need to pay the difference.
- Additionally, exporters will now be subject to super tax, which was previously not applicable to their income due to it being under final tax.
- Furthermore, a new provision in the advance tax section mandates that specified withholding agents must collect a ~1.0% advance income tax from exporters of goods (both direct and indirect) at the time of realizing export proceeds. (i.e. Withdrawal of Zero-Rating on Local Inputs for Export Manufacturing).
- Sales tax enhanced to 18.0% from 15.0 % on supplies of textiles and leathers were imposed in Finance Act 2024.
- In addition, sales tax of 18.0% is applicable on both the raw material, i.e. yarn and finished goods, i.e. fabric.
- 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.
- The policy rate in Pakistan was raised to ~22.0% w.e.f. Jun'23, followed by three subsequent reduction in rates (Jun'24 : ~20.5%; Jul'24: ~19.5%, Sep'24: ~17.5%). 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 EFS rates will be linked to policy rate revisions, such that the difference between the two rates and the MPR is ~3.0% as of Dec'22. Hence, LTFF and EFS rates stand at ~14.5% w.e.f July 29, 2024.
- 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.

Spinning

Local | Duty Structure

PCT Code	Description	Additional Custom Duty		Custom Duty		Regulatory Duty		Total	
		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
52.05	Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale	2.0%	2.0%	11.0%	11.0%	0.0%	0.0%	**13.0%**	**13.0%**
52.06	Cotton yarn (other than sewing thread), containing less than 85% by weight of cotton, not put up for retail sale	2.0%	2.0%	11.0%	11.0%	0.0%	0.0%	**13.0%**	**13.0%**
52.07	Cotton Yarn (other than sewing thread) put up for retail sale	2.0%	2.0%	11.0%	11.0%	0.0%	0.0%	**13.0%**	**13.0%**
52.08	Woven fabric of cotton, containing 85% or more by weight of cotton, weighing not more than 200g/m2	2.0%	2.0%	11.0%	11.0%	0.0%	0.0%	**13.0%**	**13.0%**
52.09	Woven fabric of cotton, containing 85% or more by weight of cotton, weighing more than 200g/m2	2.0%	2.0%	11.0%	11.0%	0.0%	0.0%	**13.0%**	**13.0%**
52.10	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibres, weighting not more than 200g/m2	2.0%	2.0%	11.0%	11.0%	0.0%	0.0%	**13.0%**	**13.0%**
52.11	Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibres, weighting more than 200g/m2	2.0%	2.0%	11.0%	11.0%	0.0%	0.0%	**13.0%**	**13.0%**
52.12	Other woven fabrics of cotton	4.0%	4.0%	16.0%	16.0%	0.0%	0.0%	**20.0%**	**20.0%**

Source: FBR, Trade Information Portal

Spinning

SWOT Analysis

- Large installed capacity
- Integrated into textile value chain as key raw material, key industry for the economy
- Government protection from tariff & duty structure
- Strong sector association resulting in high lobbying power
- Mature and long-standing textile sector

- Low value addition/commodity product
- Periodic imposition of import duties on import of cotton
- Lower focus on synthetic fibres
- Restrictions on sales to unorganized segment creating hurdles

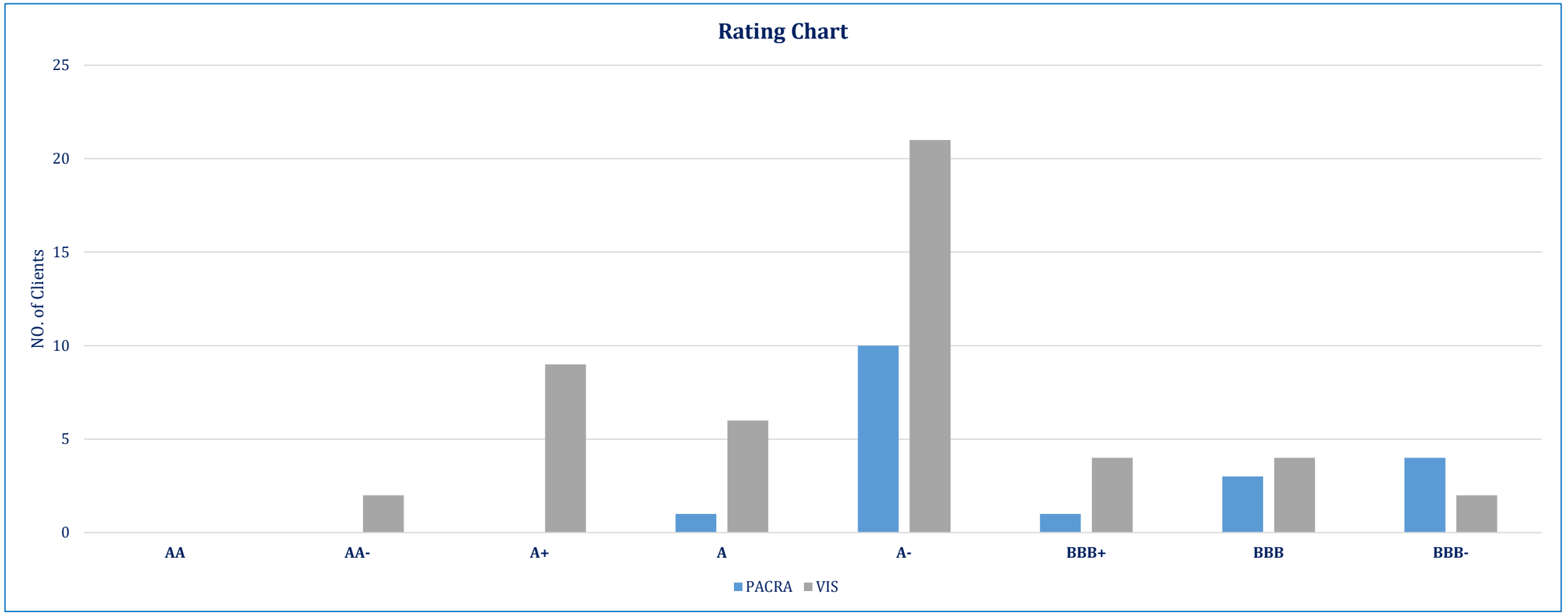
- Geographical export concentration
- Intense competition from regional players in international market
- Strong bargaining power of buyers
- Possible withdrawal of subsidies on electricity and gas
- Higher duties in imports
- Climate change and pest attack threats on cotton crop

- Forward and horizontal integration to produce value added and differentiated products
- Opportunity to increase efficiency through technological upgrade
- Special Economic Zones provide incentives to sector

Spinning

Rating Curve

PACRA rates 19 spinning players with a long-term rating bandwidth ranging from AA- to BBB-.



Spinning

Outlook : Watch

- In FY24, Pakistan's GDP (nominal) stood at PKR~106.0trn (FY23: PKR~83.9trn), increasing, in real terms, by ~2.4% YoY (FY23: ~-0.21% growth. Although, during FY24 both GDP (~2.4%) and LSM (~0.9%) showed signs of recovery, yarn recorded ~8.1% YoY decrease in terms of production during the year. This means that while the overall economy was improving, the yarn segment and hence the spinning sector within the textile cluster was facing challenges.

- With the beginning of FY25, although the overall economy has shown further signs of improvement, cotton production levels have fallen sharply by ~64.0% as compared to Sep'23 due to monsoon rains (Jul-Aug'24) that caused damages to the cotton crop. Resultantly, production of cotton yarn has reduced, impacting the output of the spinning sector. Imports of cotton and cotton yarn are, thereby, expected to increase during FY25. Additionally, local cotton prices (PKR/maund) are expected to increase in line with cotton international rates (lb/cents) that are rising as well.

- Pakistan ranks as the fifth largest producer, third largest consumer, and fifth largest importer of cotton yarn globally. Most of the spinning mills in the country tend to be small, therefore, even a fraction of rise in the base costs such as increased raw material price and high energy tariffs limits their regional competitiveness. Furthermore, these small spinning mills have limited integration, outdated technology and less access to credit because of which they are unable to cover their cost of production. Resultantly, in times when the economic growth is just picking up momentum and the costs of production are on the rise on the other side, many sector players are experiencing pressure on their profitability margins. On the other hand, even though most large spinning mills with greater integration are able to enjoy economies of scale and have both higher installed capacity and utilization, still their margins are on the lower side compared to the high-end value added segments of the textile cluster.

- During FY25, cotton production is expected to fall which in turn is going to reduce cotton yarn production and hence, spinning sector will have to rely more on cotton imports. The challenges currently faced by the sector still appear to be looming in the short-term as removal of subsidies remains intact which will keep the cost of production elevated for the sector. Meanwhile, demand recovery in the domestic market is expected to be gradual while uncertainty prevails in the global landscape, particularly with reference to our major export destination, i.e., China.

Source: PES, IMF, USDA, PACRA Internal Database, APTMA

Spinning

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- All Pakistan Textile Manufacturers' Association (APTMA)
- Trade Information Portal

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