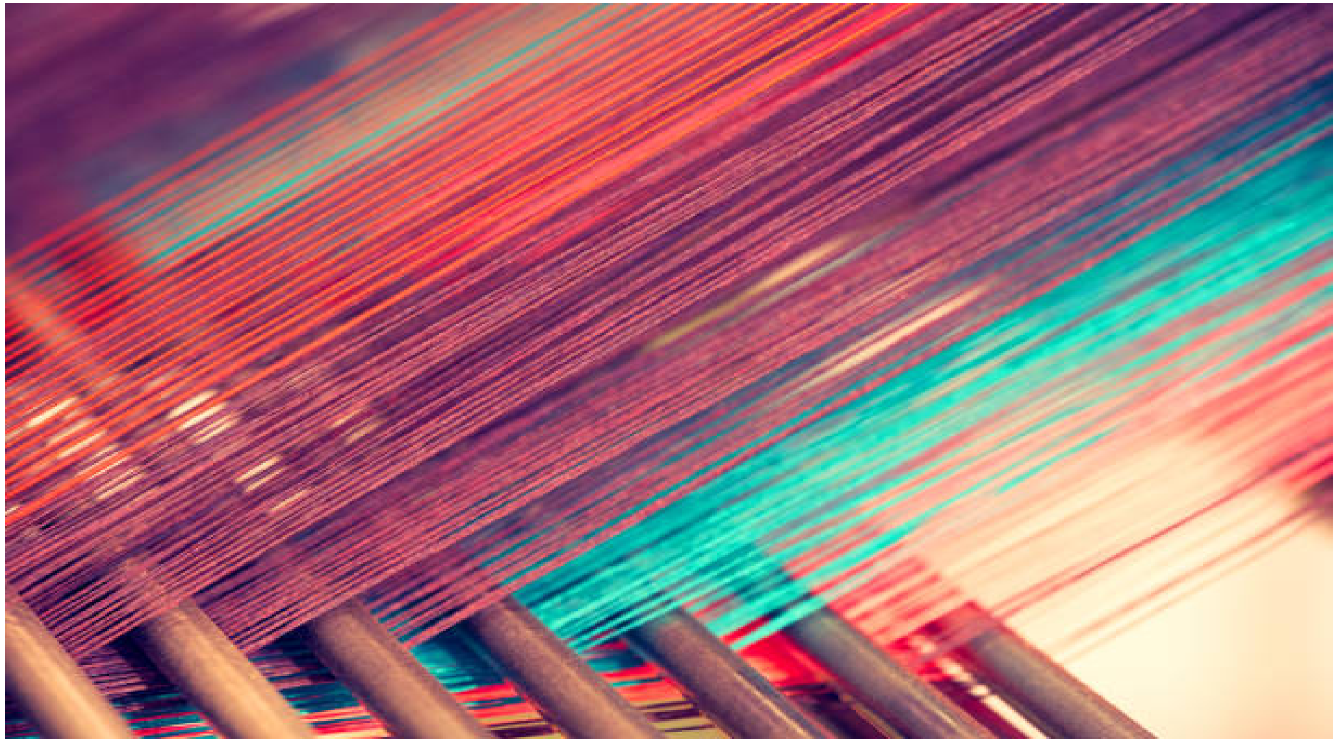
SECTOR STUDY . AUGUST 2024

Together. Creating Value.

WEAVING



Research Team

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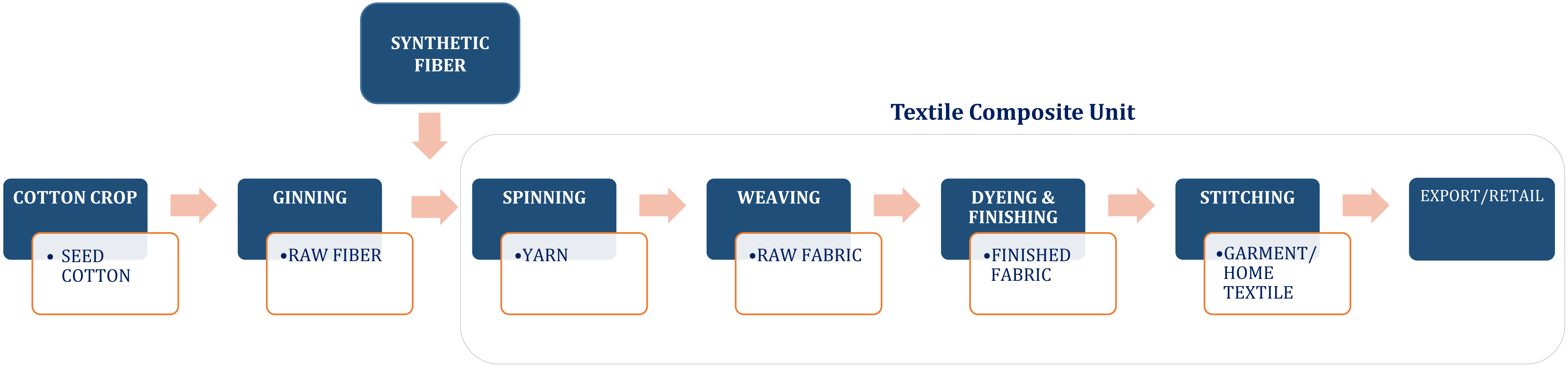
Weaving

Weaving

Introduction | 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 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.

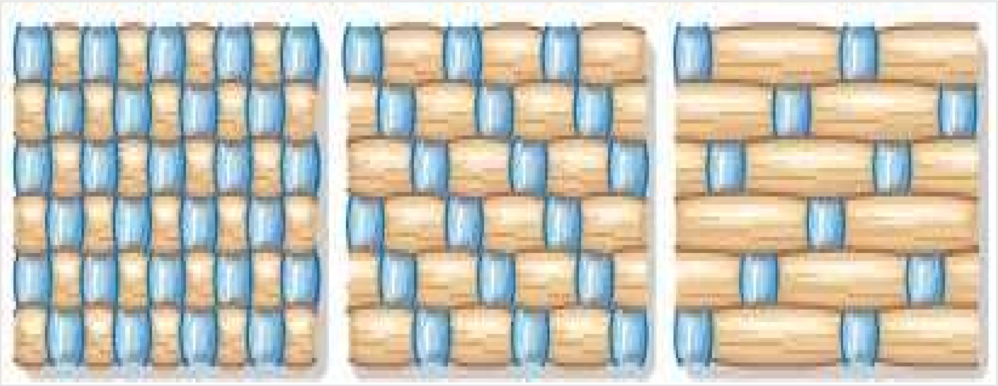


Weaving

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. Battening: compressing 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.



Plain Weave **Twill Weave** **Satin Weave**

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Technology & Machines

- There are five main types of looms from technological perspective, i.e. Projectile Loom, Rapier Loom, Water-Jet Loom, Air-Jet Loom and Shuttle 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, Itema Group, Tsudakoma, Picanol, Shandong Tongda Textile Machinery, among others.
- Advancement in technology over the years has transformed weaving machines into highly automated systems that have more electronic control, are more energy efficient and sustainable.
- 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 ~1,500-20,000 RPM.
- The cost of a single loom ranges from USD~5,000-40,000 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 the organized segment in Pakistan, Shuttle-less/Jet looms are the most commonly used. 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.

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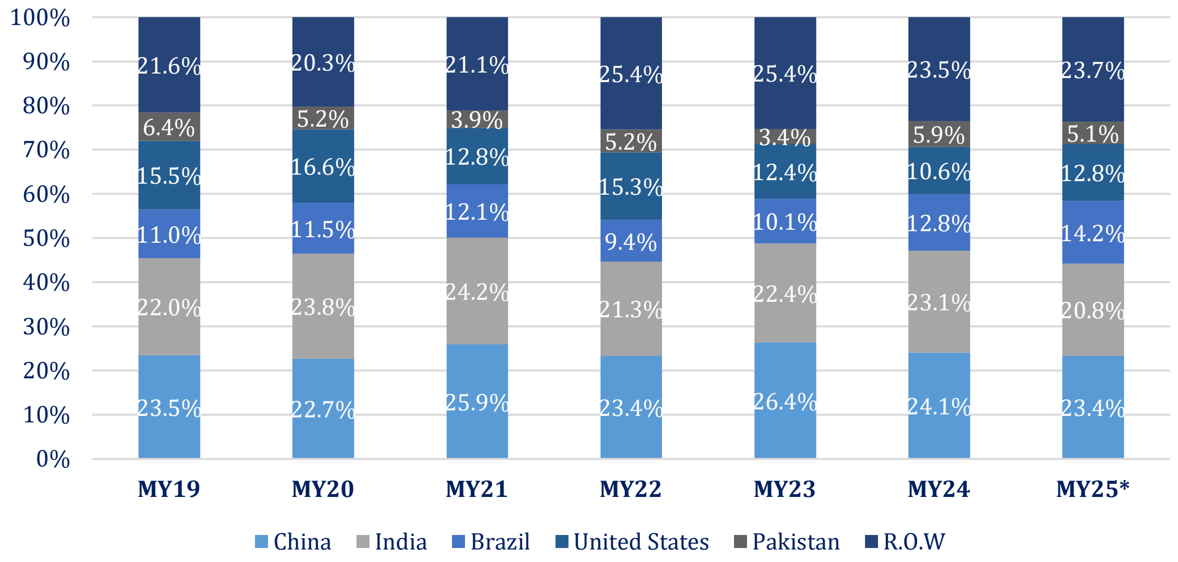
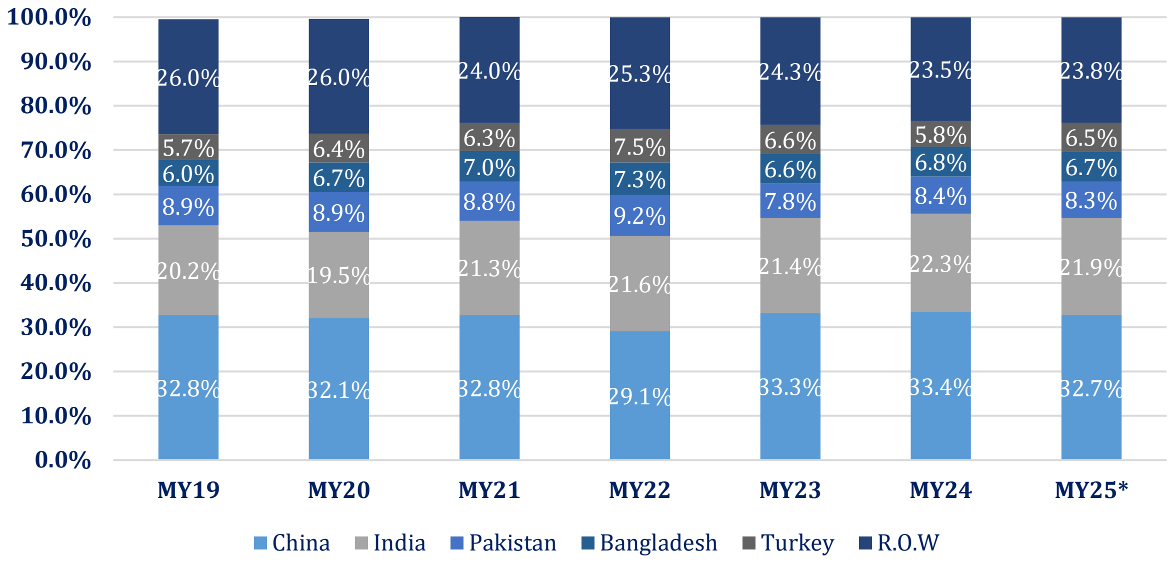
Global | Top Cotton Producers and Consumers

- 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. Brazil, India, USA and Pakistan were among the top five cotton producers in the world with ~12.8%, ~23.1% 10.6% and ~5.9% 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%, ~8.4%, ~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.

Cotton | Top 5 Producing Countries



Cotton | Top 5 Consuming Countries



Note: *MY for cotton is Aug- Jul. *Estimate*

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

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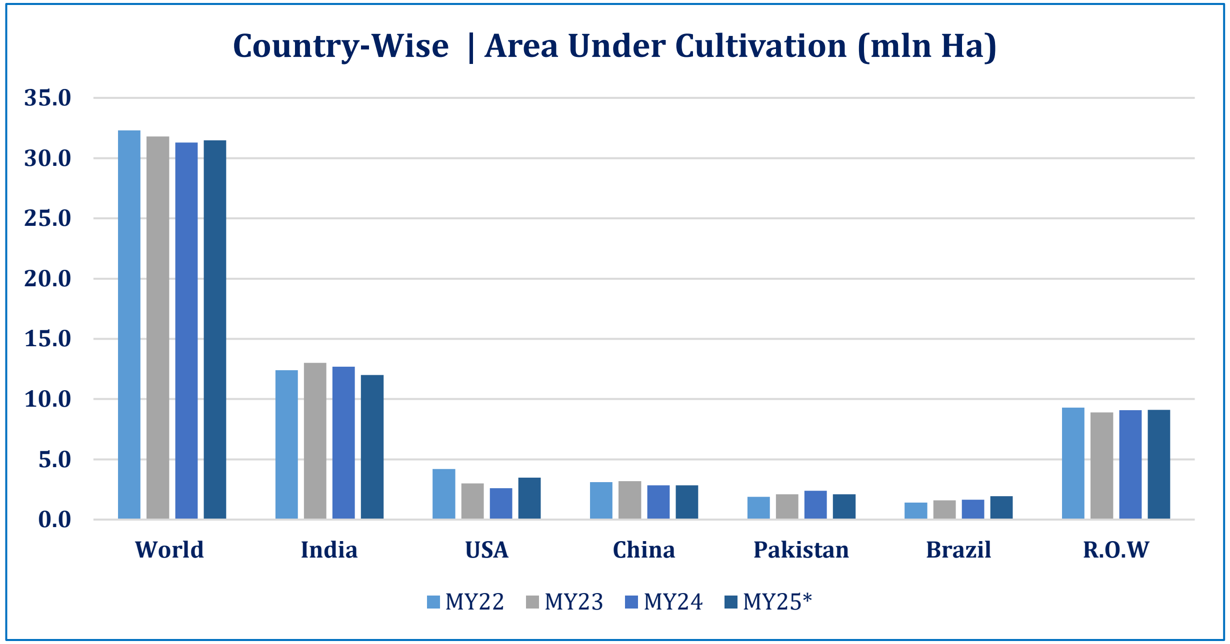
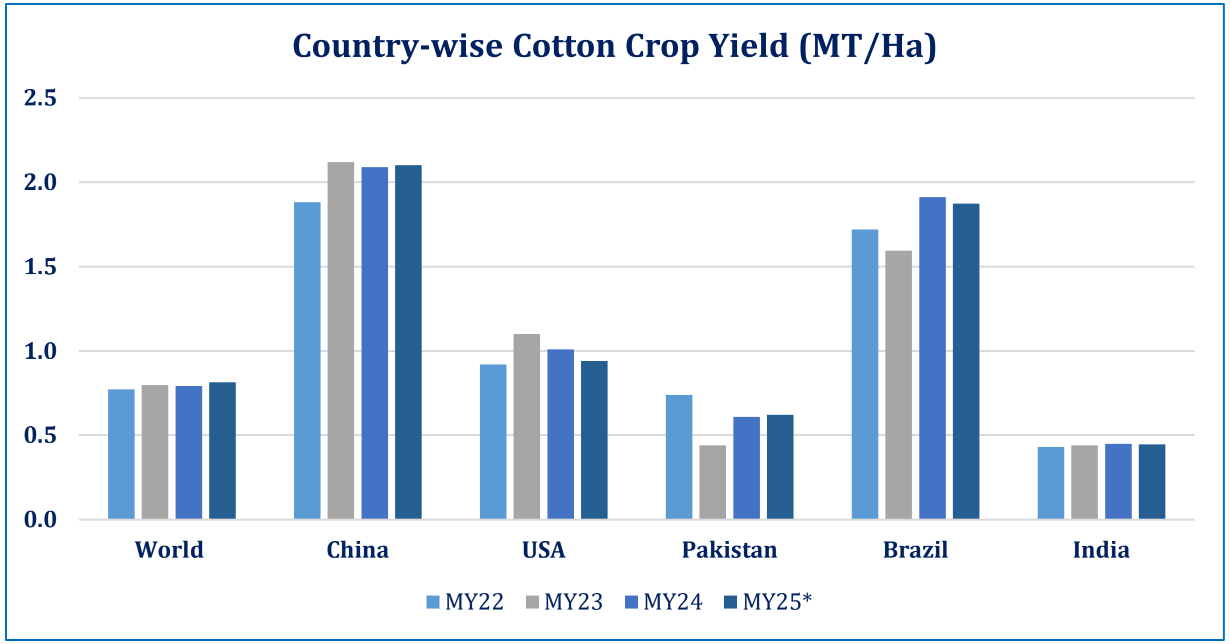
Global | Area Under Cultivation and Cotton Yield

- 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.





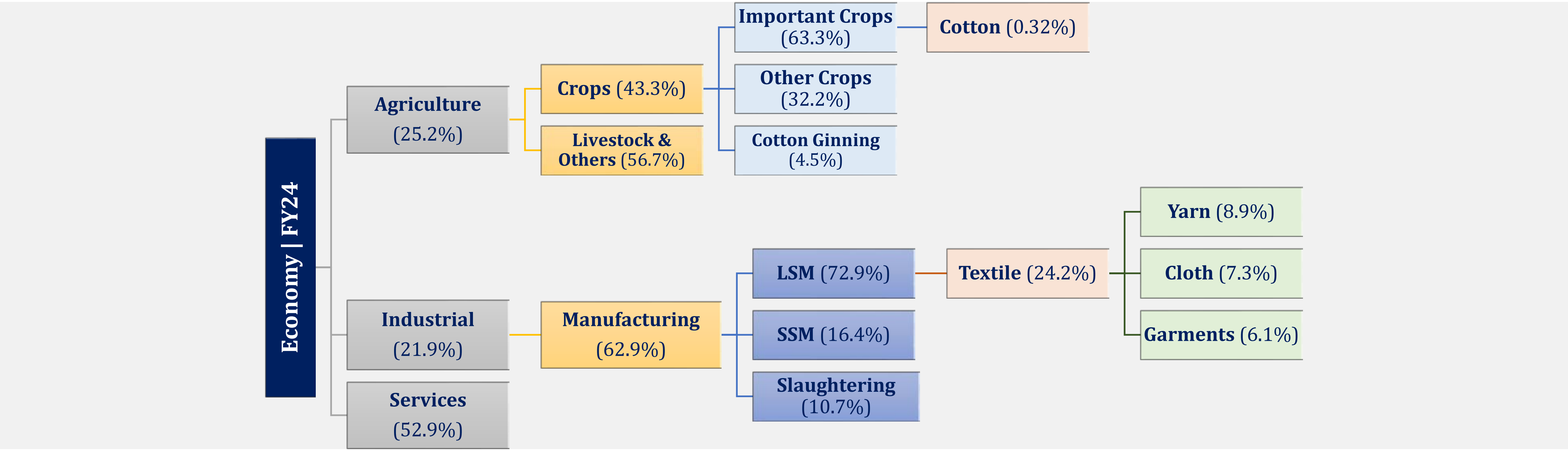
Note: *MY for cotton is Aug- Jul. *Estimate*

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

Weaving

Local | Overview

- In FY24, Pakistan's GDP (nominal) stood at PKR~106.0trn (FY23: PKR~83.9trn), increasing, in real terms, by ~2.8% YoY (FY23: ~-0.03% growth). Industrial activities in FY23 held ~21.7% share in the GDP while the manufacturing activities made up ~65.0% 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 ~75.6% value of the manufacturing activities in FY23. The LSM fell by ~10.3% YoY in FY23 (FY22: ~11.7%) However, it inched up ~0.99% YoY in 11MFY24.
- The textile sector is classified as a Large Scale Manufacturing (LSM) industrial component within the industrial sector. In FY24, the textile industry's weight in the QIM was recorded at ~18.2%. Meanwhile, cotton cloth has ~7.3% share in the QIM.



Note: *Textile (~24.2%) includes ~18.1% 'manufacturing of textile' and ~6.08% 'manufacturing of wearing apparel'.*

Source: PES, PBS

Weaving

Local | Overview

- 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 sector's market capitalization was recorded at PKR~3.3bln in FY24 (in terms of market capitalization), up ~17.9% YoY. With respect to the sector size, it recorded ~15.1% growth YoY (SPLY: ~4.3%), clocking in at PKR~733bln.
- 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 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.

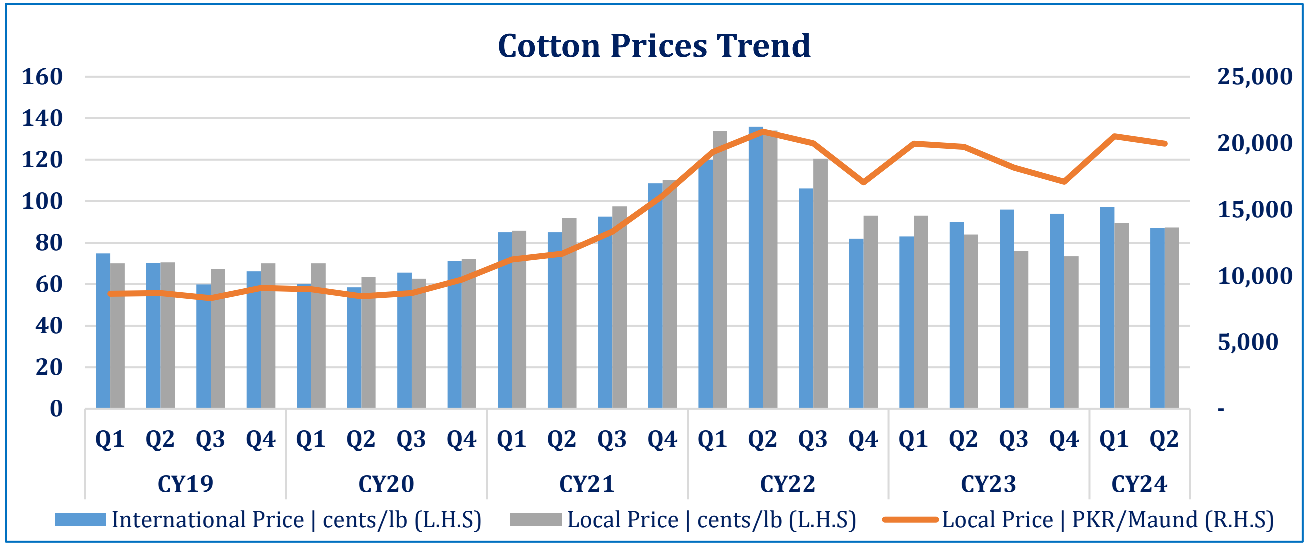
Sector Snapshot	FY21	FY22	FY23	FY24
Est. Market Cap. (PKR bln)	4.9	3.3	2.8	3.3
Est. Local Market Size (PKR bln)	360	515	637	733
Sector Players	~44 Organized Weaving Mills			
Production [Organized Mills] (mln Sq. M)	1,048	1,051	939	870**
Total Production (mln Sq. M)	9,177	9,189	8,326	7,864*
Export Value (PKR bln)	307	434	499	528
Export Volume (mln Sq. m)	2,545	2,642	2,012	
Association	All Pakistan Textile Mills Association (APTMA)			

***Note**: Market capitalization is based on the sector's market capitalization on PSX as at each FY End.*
*Market size has been estimated using cotton cloth's share in QIM. *Estimated, **9M data pro rated*

Source: SBP, PBS, TCO, PSX

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 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 USA 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 Jul'24, these have recorded at PKR~17,867/maund. Going forward during MY25, global cotton prices (cents/lb) are expected to moderate further below the price as of Jul'24 ~79 cents/lb owing to increased production.



Average Cotton Prices	FY20	FY21	FY22	FY23	FY24	Jul'24
International (cents/lb)	62	76	114	87	93	81
Local (cents/lb)	68	78	123	94	81	79
Local (PKR/maund)	8,742	10,290	13,476	19,108	18,917	17,867

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's cotton production increased ~108.2% YoY in FY24 (against the target of ~12.8mln bales) owing to increase in 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 better domestic output.
- For FY25, target for cotton production is set at ~10.9mln bales, of which ~4.0% has been met as of July 20, 2024 (or ~0.4mln bales). Of this, Punjab and Sindh comprised ~26.0% and ~74.1%, respectively, during the period.

Local | Cotton Supply ('000' Bales)						
Particulars	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**
Opening Stock	**2,440**	**2,510**	**3,200**	**2,175**	**1,925**	**1,525**
Production	9,861	9,148	7,064	8,329	4,910	10,223
Imports	2,439	3,157	5,043	4,636	4,023	1,205
Total Supply	**14,740**	**15,658**	**15,664**	**15,004**	**11,335**	**12,953**
Local Consumption	12,156	11,540	13,129	13,199	9,265	11,146
Exports	75	75	3	16	68	183
Closing Stock	**2,510**	**3,200**	**2,175**	**1,925**	**1,525**	**1,625**

Note: *Data in the table has been taken from USDA, except Cotton Production and Trade Statistics.*

Source: PBS, PES, PCCC, USDA

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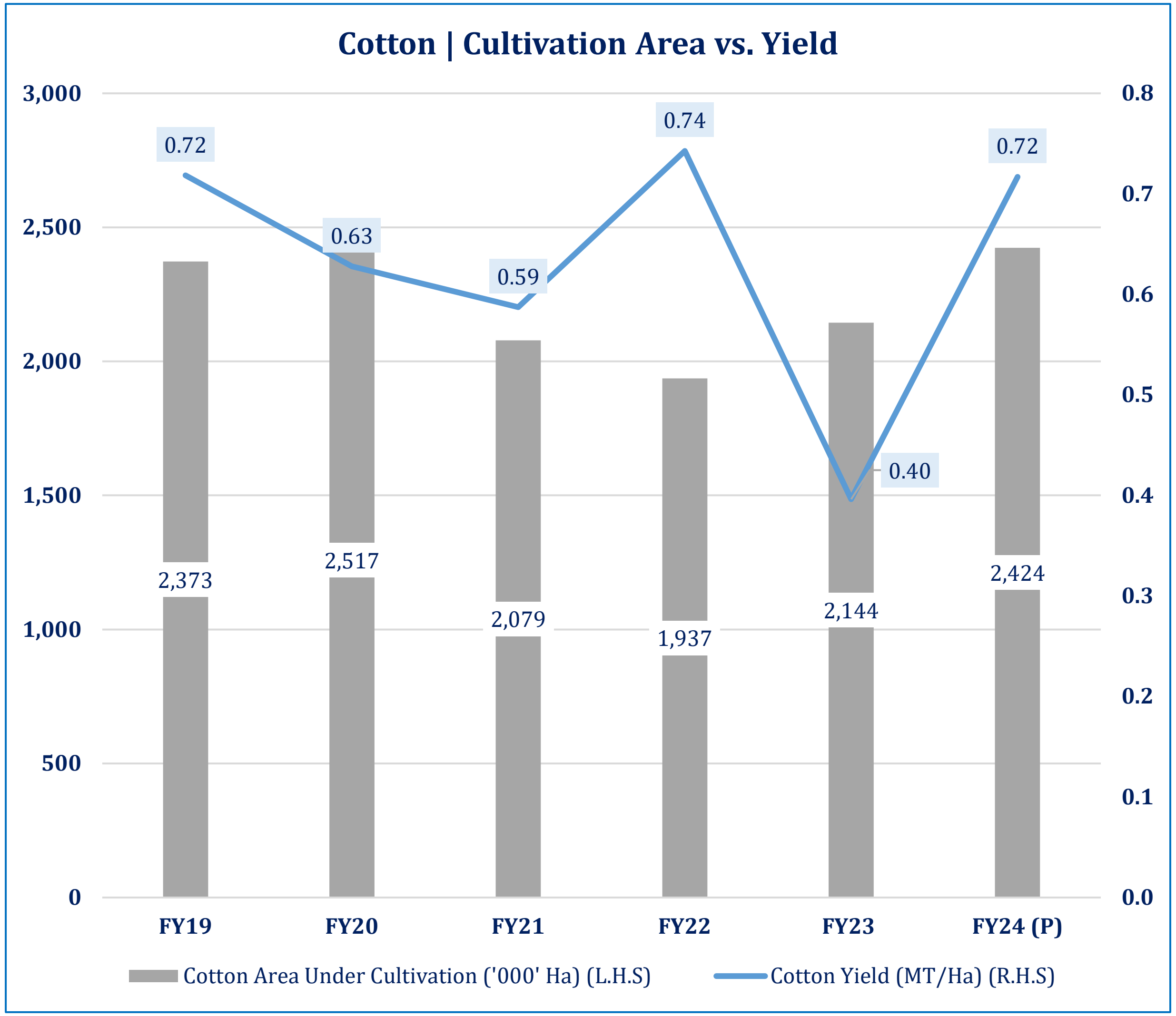
Local | Cultivation Area and Yield

- The area under cultivation for the cotton crop increased ~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 ~592.8Kg/Ha. Meanwhile, the area under cultivation is expected to record at ~3.1mln Ha.



Source: PES, USDA, PCCC

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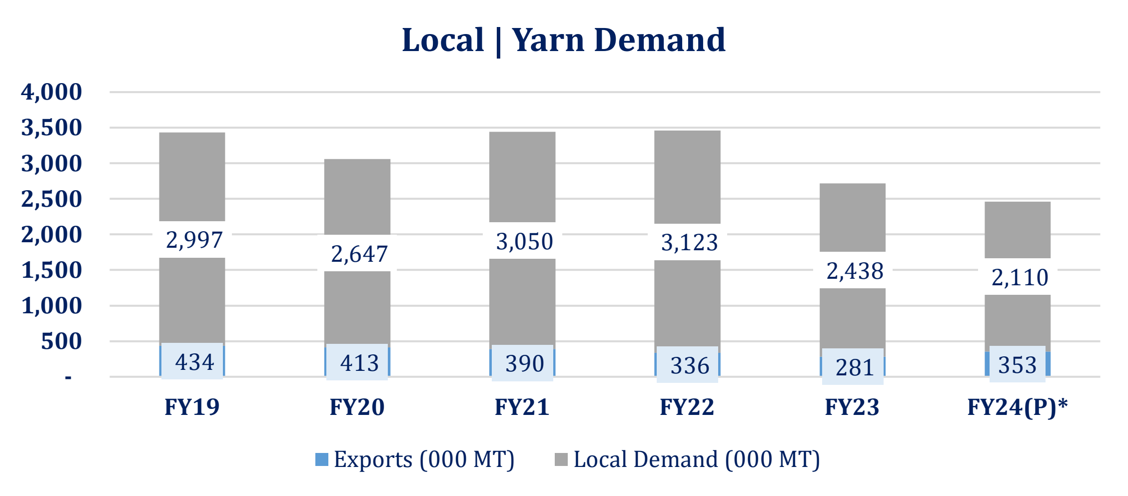
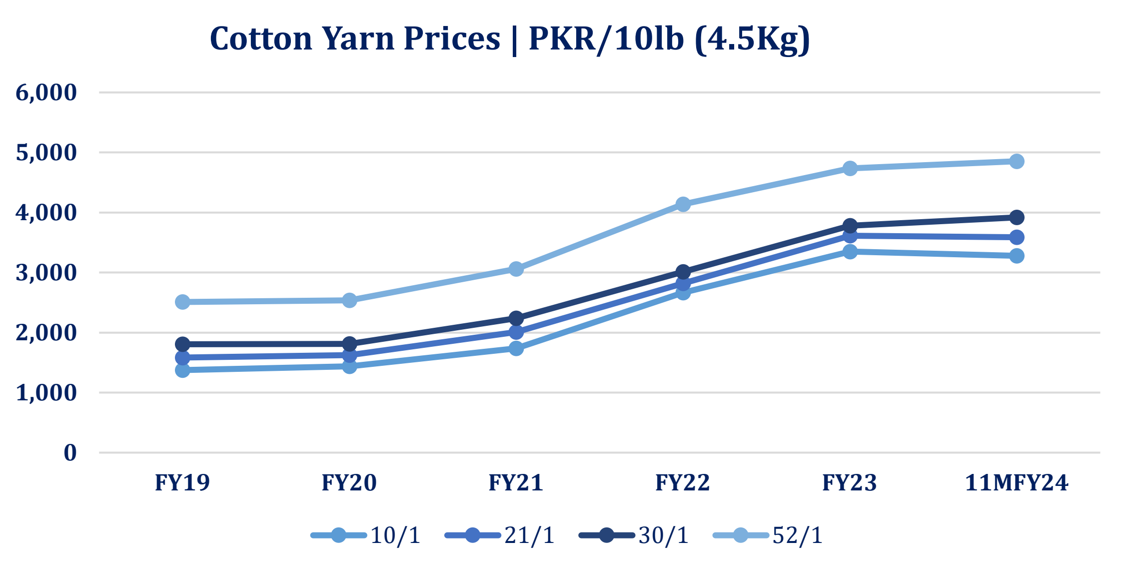
Local | Raw Material

- The production 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.
- Majority of the locally produced yarn (~86.0% in FY24, FY23: ~90.0%) is used as raw material for the local weaving sector. 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 11MFY24 (~-6.04% 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.
- Higher yarn prices also serve to increase the cost of production for the weaving sector. 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 11MFY24, 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, PES

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Local | Installed Capacity & Utilization

- As of FY24, there are ~9,084 looms installed in the organized segment of the weaving sector (i.e., cotton textile mills) (SPLY: ~9,084 looms), out of which ~6,398 looms were utilized (SPLY: ~6,384 looms.)
- During FY24, the average capacity utilization for domestic players remained subdued at 70.4% (though higher than FY23 ~70.2%) due to reasons that include but not limited to high energy tariffs and power shortages.
- 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	FY24*
No. of Looms Installed	9,084	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	6,398

Note: **FY24 figures are based on 9MFY24.*

Source: PES

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Local | Fabric Production

- During FY24, the organized weaving segment accounted for ~11.1% of the total fabric production (FY23: ~11.3%) with the unorganized segment making up the remaining ~88.9% (SPLY: ~88.7%), which amounted to ~7.0bln sq. meters. The output from the unorganized segment is usually of a lower quality.
- During FY24, the organized segments fabric production decreased to ~870.3mln sq. meters, down from ~938.6mln sq. meters in FY23, a negative growth of ~7.3% (FY23: ~-10.7%). This shrinking growth is attributable to a high input cost i.e., high energy tariffs and inflation. Moreover, during the said year, total fabric production clocked in at ~7.9bln sq. meters (FY23: ~8.3bln sq. meters), down ~5.5% YoY.

(000 Sq. Meters)	FY17	FY18	FY19	FY20	FY21	FY22*	FY23*	FY24*
Grey	584,532	582,812	583,364	519,237	584,429	588,586	525,594	487,385
Bleached	75,805	111,110	114,146	101,598	78,970	84,084	75,085	69,626
Dyed & Printed	299,519	269,082	267,397	238,003	304,564	304,804	272,182	252,396
Blended	83,488	80,736	81,073	72,161	80,484	84,684	75,085	84,084
Organized Mill Production	**1,043,344**	**1,043,740**	**1,045,980**	**931,000**	**1,048,447**	**1,051,047**	**938,560**	**870,331**
Unorganized Mill Production	8,126,356	8,127,160	8,101,820	7,266,566	8,128,845	8,137,787	7,387,760	6,994,376
Total Fabric Production	**9,169,700**	**9,170,900**	**9,147,800**	**8,157,566**	**9,177,292**	**9,188,833**	**8,326,320**	**7,864,707**
Growth YoY	*0.11%*	*0.01%*	*0.04%*	*-11.09%*	*12.50%*	*0.13%*	*-9.39%*	*-5.54%*

***Note:** *Estimated using average proportion of respective cloth type (grey, bleached, dyed & printed and blended from FY19-FY21. Total mill production both organized and unorganized has been prorated using 9MFY22, 9MFY23 and 9MFY24 data*

Source: TCO, PES , PBS

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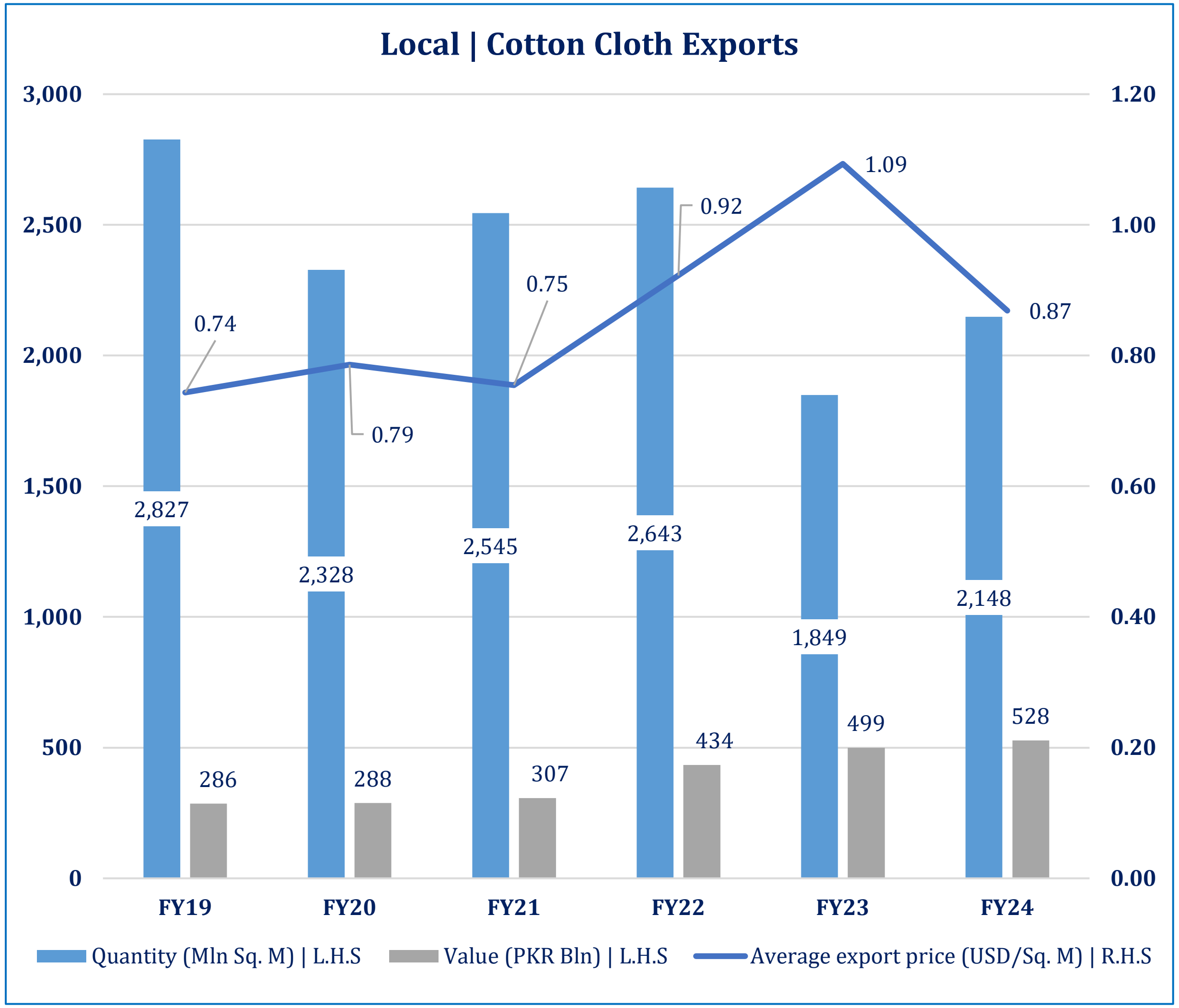
Local | Cotton Cloth Exports

- In FY24, cotton cloth exports declined in volumetric terms, to ~2,148mln sq. meters, up ~16.2% (SPLY: ~30.0% YoY decline).
- Meanwhile, production of cotton cloth in 11MFY24 was down ~5.9% YoY, clocking in at ~798.5mln sq. meters. During FY19-23, on average, ~41.8% of the cotton cloth produced was exported, while the rest catered local consumption. In 11MFY24, of the total cotton cloth produced, ~7.0% was exported.
- During FY24, cotton cloth exports (in USD terms) contributed ~11.2% to the country's total textile exports and ~6.1% to overall exports (SPLY: ~12.3%, ~7.3%, respectively).
- In FY24, average export price clocked in at USD~0.9/sq. meters, declining by ~20.2% YoY. This likely reflects ~13.8% YoY lower global cotton prices (covered earlier), along with improvement in volumetric terms.



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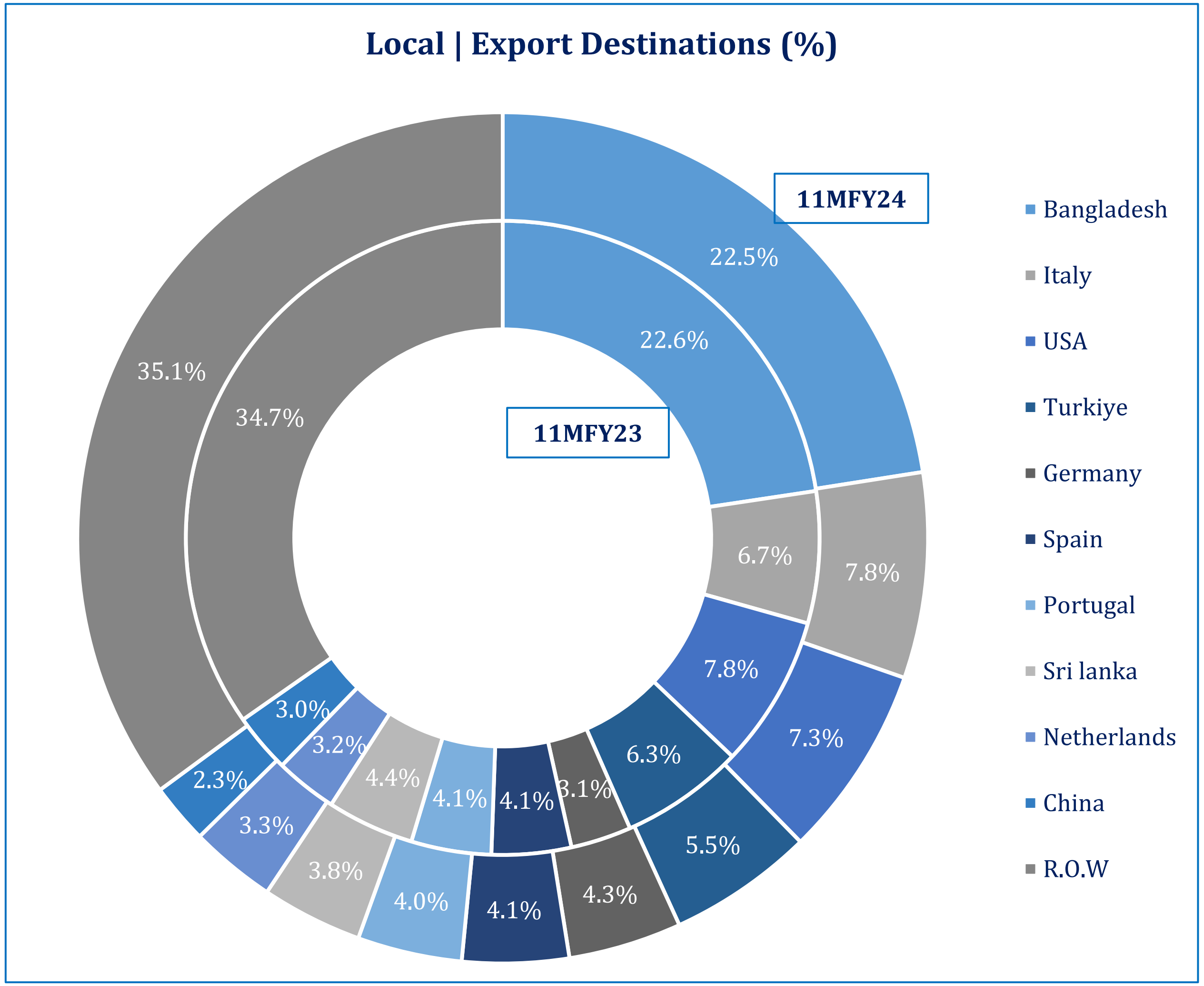
Local | Export Destinations

- During 11MFY24, ~22.5% of Pakistan's cotton cloth exports were concentrated towards Bangladesh (11MFY23: ~22.6%) and clocked in at USD~393.7mln (SPLY: USD~448.3mln).
- Bangladesh is a significant player in the global textile finished goods market, followed by Italy with a share of ~7.8% in cotton cloth exports (SPLY: ~6.7%). However, USA's share declined to ~7.3% (SPLY: ~7.8%) during the period under review.
- During 11MFY24, other export destinations include European countries such as Turkiye, Germany, Spain, Portugal, Sri Lanka, Netherlands and China with ~5.5%, ~4.3%, ~4.1%, ~4.0%, ~3.8%, ~3.3% and ~2.3% share respectively, in the cotton cloth exports..



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

Source: SBP

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Local | Business Risk

- **Varying Local Cotton Production** owing to extreme climate changes poses a significant risk to the local textile sector as damage to local crop will mean more cotton will need to be imported and with the high PKR/USD exchange rate (USD/PKR:~278.64 as at August 12, 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 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 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.

- **Disruption in Electricity and Gas Supply:** The weaving 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.

Source: Center for Disaster Philanthropy, UN Comtrade, PTJ

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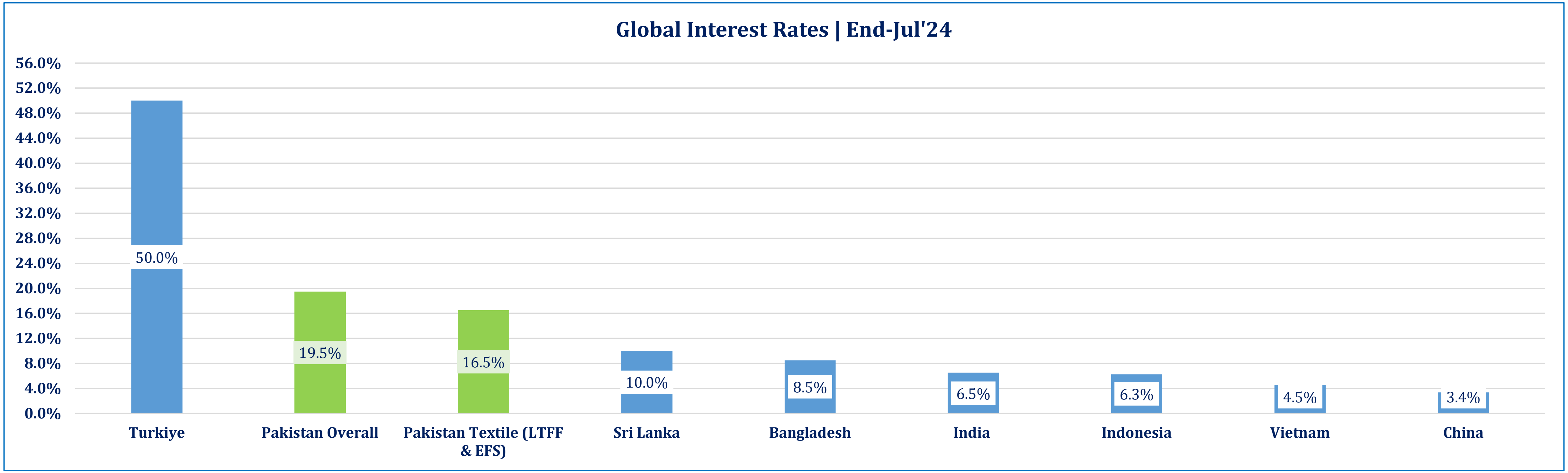
Interest Rates | Regional Comparison



- The all-time high interest rate of ~22.0% as of Jun'23 was reduced to `20.5% in Jun'24 and the further to ~19.5% in Jul'24. 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 (Jul'24 National CPI: ~11.1%, Jul'24 National CPI: ~28.3%).

- 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 ~16.5% w.e.f. Ju'24.

Note: *Interest rates taken from respective country's Central Bank website.*

Source: SBP

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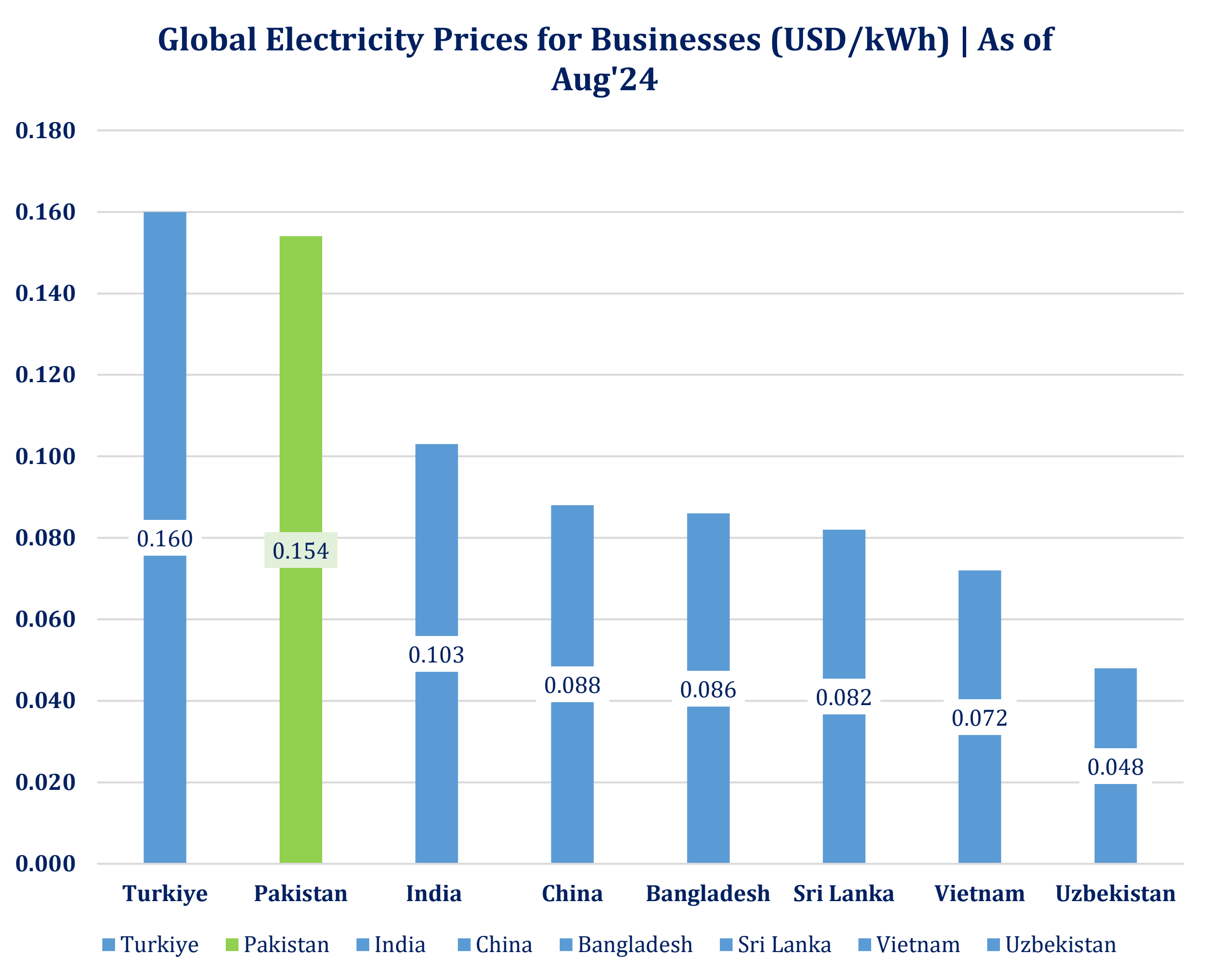
Electricity Prices | Regional Comparison

- 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.
- 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 textile sector uncompetitive in the global market.

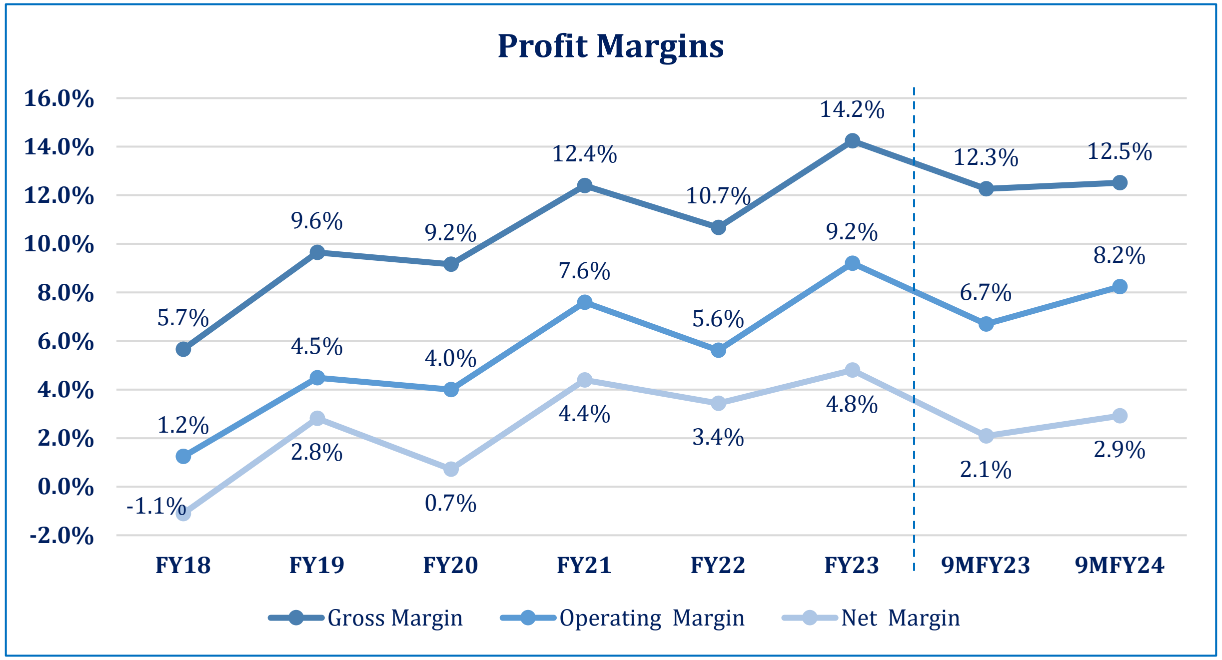


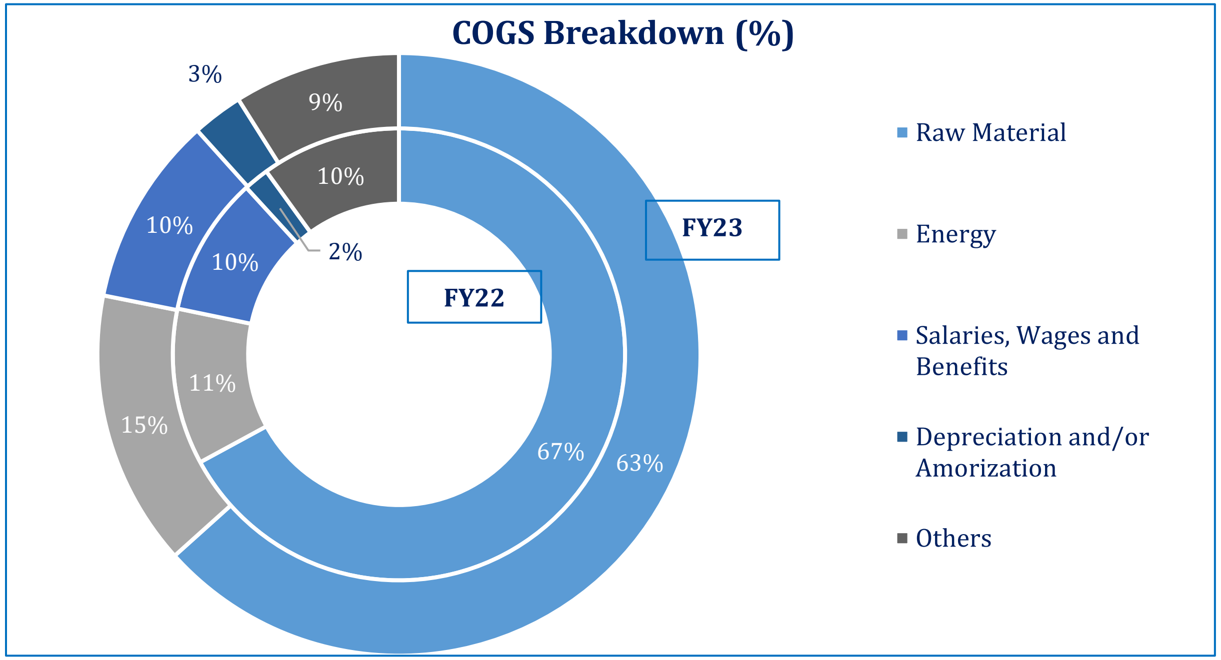
Weaving

Local | Margins & Cost Structure

- During 9MFY24, average profit margins increased compared to the SPLY. During 9MFY24, gross margin of the sector increased slightly to ~12.5% (9MFY23: ~12.3%) due ~24.5% increase in sales while cost of sales rose by ~18.2% YoY. Average operating margin during 9MFY24 clocked in at ~8.2% (9MFY23: ~6.7%) on the back of better expense management. Average net margins during 9MFY24 increased to ~2.9% (9MFY23: ~2.1%) despite ~68.0% YoY increase in finance cost.

- During FY23, raw material constituted ~63.3% of total cost (FY22: ~67.2%), followed by energy ~14.8% (CY22: ~11.2%) and salaries & wages ~10.2% (CY22: ~10%). Cotton yarn, a vital raw material for the sector, experienced price hikes due to high cotton prices both locally and internationally during 1HFY23, hence translating into higher raw material costs.





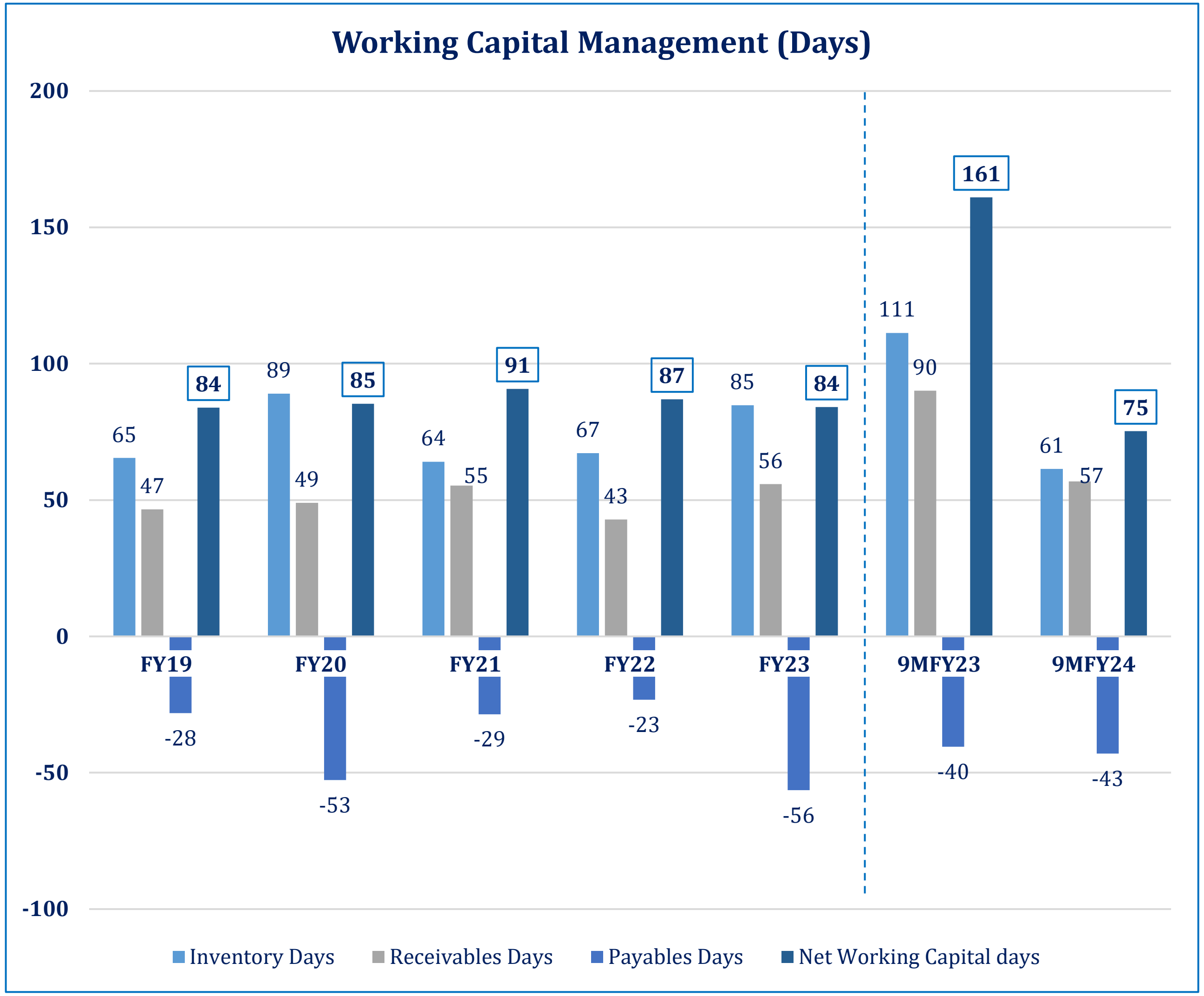
Note: Data pertains to ~10 PACRA rated /listed clients, profit margins are revenue-weighted.

Source: Global Petrol Prices, APTMA

Weaving

Local | Financial Risk

- The sector's working capital needs are largely a function of inventory and trade receivables. Inventory comprises raw material and finished goods. The sector's average working capital cycle recorded at ~89 days during FY18-23.
- 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 experienced a significant deterioration during 9MFY23 recording at ~161 days, however, it improved to ~75 days during 9MFY24, owing to decline in inventory days (~50 days), recording at ~60 days in 9MFY24.
- Additionally, the working capital cycle decreased due to a reduction in receivable days by ~33 days to reach ~57 days during 9MFY24 (9MFY23: ~90 days).
- The sector's working capital is largely financed through short-term borrowings which include Export Finance Scheme (EFS), amounting to PKR~103.3bln as at End Mar'24 (End-Mar'23: PKR~95.1bln).
- In Dec'22, the markup rates, linked with SBP Policy Rate, were revised so that the gap between Policy Rate and EFS and MPR rate is ~3.0% w.e.f Dec'22. Therefore, the mark-up rate stands at ~16.5% as of Aug'24 (with MPR at ~19.5%).



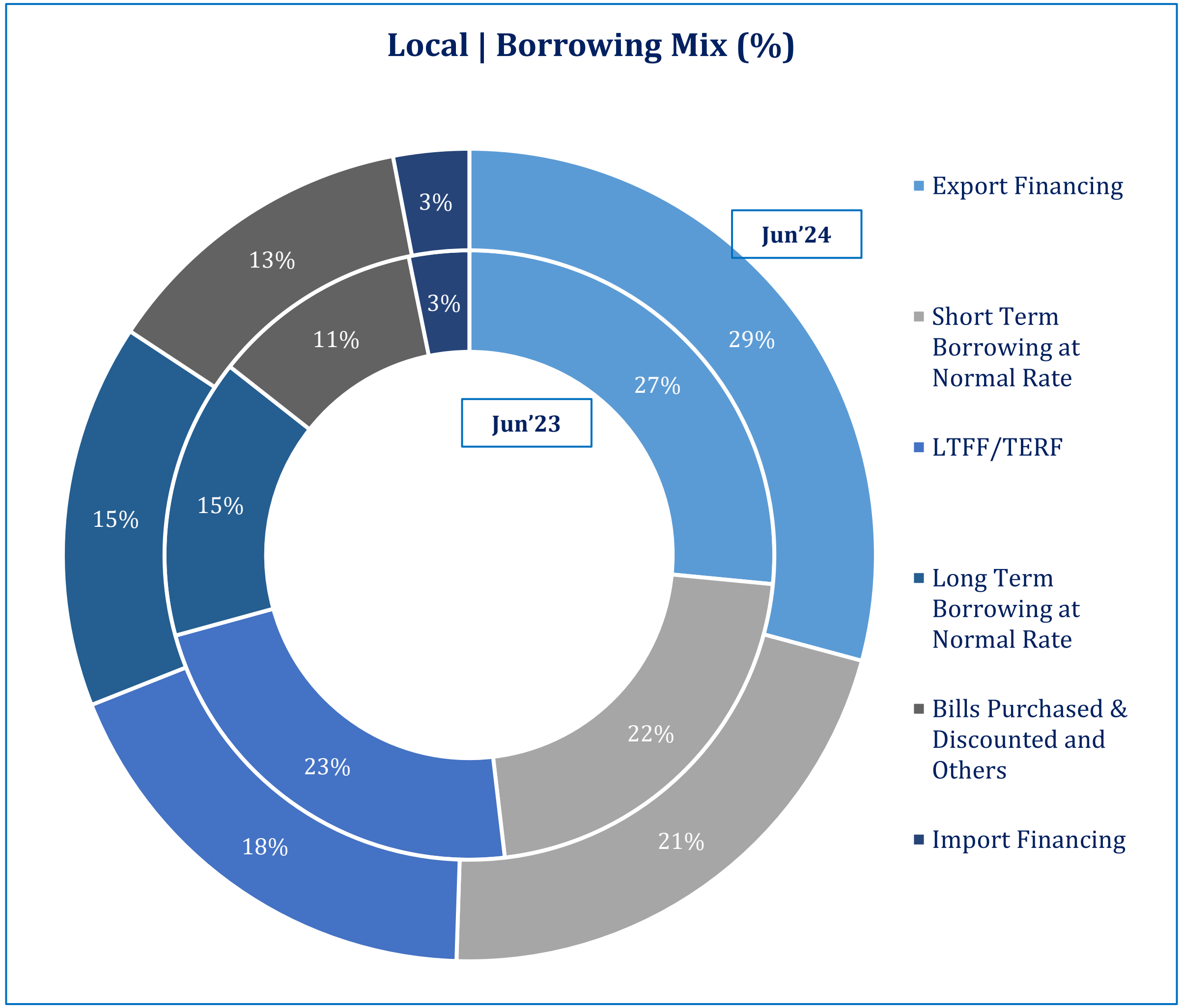
Note: *Working capital cycle is reflective of ~11 listed/rated weaving players.*

Source: PSX, PACRA Database

Weaving

Local | Borrowing Mix

- Sector's total borrowing as at End-Jun'24 stood at PKR~366.8bln, up ~14.0% YoY.
- The largest share is occupied by short term discounted borrowings (EFS- Export Financing Scheme) that stood at PKR~107.1bln (Emd-Jun'23: PKR~93.9bln) up ~14.0% YoY and comprised ~29.2% of the sector's borrowings (End-Jun'23: ~26.5%).
- The second highest borrowings are short-term loans at normal rate which comprised ~21.3% of total borrowing (End-Jun'23: ~21.6%) and were recorded at PKR~78.2bln (End-Jun'23: PKR~76.5bln), up ~2.1% YoY.
- Long discounted borrowing (LTFF) as at End-Jun'24 clocked in at PKR~67.8bln (End-Jun'24: PKR~80.0bln), down ~15.3% YoY comprised ~18.5% of total borrowings (End-Jun'23: ~22.6%).
- The overall textile industry's infection ratio as at End-Mar'24 stood at ~9.2% (End-Mar'23: ~8.5%) , exhibiting higher credit risk from SPLY. Additionally, the infection ratio still remains elevated in comparison to overall banking credit NPL which stood at ~79% in End-Mar'24.
- The average leverage ratio of the sector stood at ~46.8% in 9MFY24 (9MFY23: ~46.8%), indicating that sector players have a moderate amount of debt in relation to equity.
- In other words, the sector players rely on a mix of both debt and equity financing to fund their operations and investments.



***Note**: Data pertains to SBP Classification of " Weaving of Textiles"*

Source: SBP, PACRA Database

Weaving

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 two subsequent reduction in rates (Jun'24 : ~20.5%; Jul'24: ~19.5%). 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 ~16.5% 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.

Source: SBP, Finance Bill 2023

Weaving

Local | Duty Structure

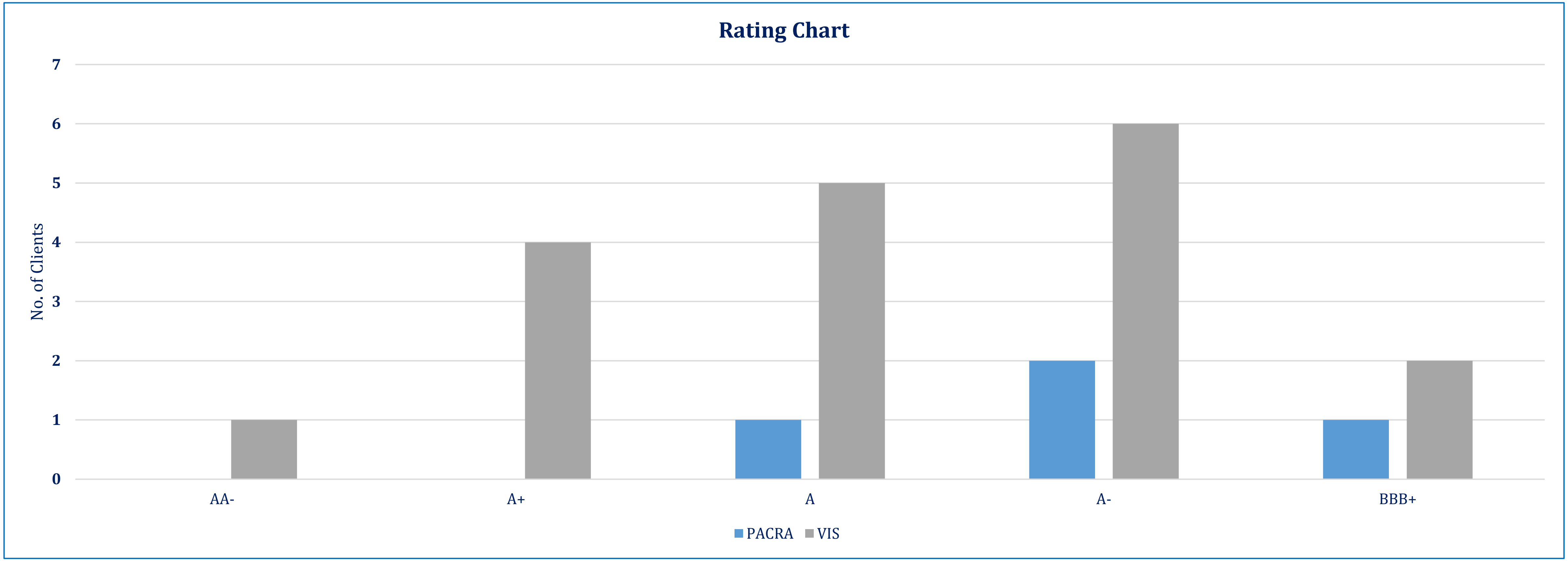
PCT Code	Description	Additional Custom Duty		Custom Duty		Regulatory Duty		Total	
		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
52.05	Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale	2.0%	2.0%	11.0%	11.0%	0.0%	0.0%	**13.0%**	**13.0%**
52.06	Cotton 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, cotaining 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, cotaining 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 mand-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 mand-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

Weaving

Local | Rating Curve

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



Weaving

Local | SWOT Analysis

Strengths

- 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

Weaknesses

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

Threats

- 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

Opportunities

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

Weaving

Outlook: Stable

- In FY24, Pakistan's GDP (nominal) stood at PKR~106.0trn (FY23: PKR~83.9trn), increasing, in real terms, by ~2.8% YoY (FY23: ~-0.03% growth). Industrial activities in FY23 held ~21.7% share in the GDP while the manufacturing activities made up ~65.0% 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 economic activity as compared to SPLY.
- The textile industry is one of the most important industries to Pakistan's economy. In FY24, textile exports contributed ~54.3% to the country exports (FY23: ~59.5%). During FY24 the weaving sector's fabric exports grew by ~5.8% to PKR~528bln from PKR~499bln in FY23. During 11MFY24, ~22.5% of Pakistan's cotton cloth exports were concentrated towards Bangladesh (11MFY23: ~22.6%) and clocked in at USD~393.7mln (SPLY: USD~448.3mln). However, during cotton cloth production was~5.5% lower than SPLY and was recorded at ~7,864mln Sq. M (FY23: ~6,326mln Sq. M)
- The policy rate in Pakistan was raised to ~22.0% w.e.f. Jun'23, followed by two subsequent reduction in rates (Jun'24 : ~20.5%; Jul'24: ~19.5%). The textile sector (including the weaving segment) 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 ~16.5% w.e.f. July 29, 2024.
- 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 making exports less competitive in the international market.
- Additionally, sales tax enhanced to 18.0% from 15.0 % on supplies of textiles and leathers were imposed in Finance Act 2024. 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).
- During 9MFY24, average profit margins of the sector exhibited an upward trend when compared with SPLY. During 9MFY24, average gross margin of the sector increased slightly to ~12.5% (9MFY23: ~12.3%) due ~24.5% YoY increase in sales while cost of sales rose by ~18.2% YoY. Average operating margin during 9MFY24 clocked in at ~8.2% (9MFY23: ~6.7%) on the back of better expense management. Average net margins during 9MFY24 increased to ~2.9% (9MFY23: ~2.1%) despite ~68.0% YoY increase in finance cost. The sector's average working capital cycle recorded at ~89 days during FY18-23. Sector's total borrowing as at End-Jun'24 stood at PKR~366.8bln, up ~14.0% YoY.
- Going forward, high energy tariffs due to the removal of subsidies and high costs of imported raw materials, are expected to impact the textile production (that includes the weaving segment) and Withdrawal of Zero-Rating on Local Inputs for Export Manufacturing, the sector might face difficulty in both production and export end. However, further anticipation of cuts in the policy rate and reduced inflation figures do reflect some respite for the sector in the short-term.

Weaving

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