The Pakistan Credit Rating Agency Limited

TEXTILE SECTOR STUDY

DECEMBER 2012

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STUDY CONTENTS

PAKISTAN TEXTILES
(DECEMBER 2012)

	SPINNING AND WEAVING	VALUE ADDED SEGMENTS
Business Risk	Low	Medium

HIGHLIGHTS

	FY12
Share in GDP	8.7%
Total Exports	USD 12.4bln
Textile Loans	PKR 632bln
Share in Total Banking Loans	16%
Textile NPLs	PKR 201bln
Share in Total NPLs	32%
Cotton Production	14.8mln bales
No. of listed Companies	180

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OVERVIEW

- Pakistan is the 4th largest producer of cotton and contributes 5% to the global spinning capacity after China and India. Pakistan's textile industry consists of large scale organized sector and highly fragmented cottage/medium and small units. Organized sector includes large number of spinning units (471) and a small number of composite units (50). The rest of the downstream industry chain – finishing, madeups, garments, towel and hosiery – having a great export potential, is largely segmented in un-organized sector. Apart from being the mainstay of Pakistan's exports, the sector also represents the principal employment-generating avenue in the organized and large scale industrial segment.

Pakistan & Textile Industry Exports	FY12 (P)	FY11	FY10	FY09	FY08
Pakistan Exports *(USD bln)*	24.6	24.8	19.3	17.7	19.1
Textile Exports *(USD bln)*	12.3	13.8	10.2	9.6	10.6
%age of Textile Exports	50%	56%	53%	54%	55%

P: Provisional
Source: SBP

PERFORMANCE

- Over the years, there has been no consistent pattern in performance of textile industry. Historically, the cyclicality in performance − as measured by profitability and exports − has been primarily a function of the price of cotton, which in turn depends on, firstly the quantum of local cotton production, and secondly the availability of the commodity in the international market.

- During FY12, weaving segment was the major contributor in terms of both value and quantity in the overall exports of Pakistan. The highest price rise was witnessed for Art, Silk & Synthetic Textile and Readymade Garment segments, though the export quantities declined as domestic problems hurt the production. Meanwhile, despite achieving volumetric growth, share of yarn exports in the total textile exports, reduced. The increased garment prices helped the segment in attaining larger share on YoY basis. Furthermore, Knitwear and Bed Wear segments lost their shares mainly on account of lower export quantities.

CHALLENGES

- Currently the textile sector in Pakistan enjoys specific concessions like zero rating tax facility on all textile products, reduced export refinance rate, and long term financing for export oriented projects at lower interest rates. Although the sector has gradually ventured into the production of fairly high quality textile products, it still represents a significant size in low value added segments. With regional competitors shifting their focus to the value added sector, relative positioning of the domestic low value-added spinning segment has improved. However, the gradual increase in the share of China, India and Bangladesh in the world textile and clothing exports represents severe competition from the regional markets. Even though Pakistan enjoys availability of good quality raw material, yet the acute energy crisis, high inflation, precarious security situation, fiscal and economic imbalances continue to pose a challenge.

KEY RISKS

- **Fluctuation in cotton pricing:** With sufficient available ending cotton stocks worldwide and curtailment in China's cotton import, the price of the raw material is expected to remain range bound in FY13. Though heavy rains have hit the country's cotton belt, yet latest data reveals sufficient availability of the cotton crop.

- **Demand Pattern:** The demand may remain relatively sluggish owing to prevailing slowdown in the major importing economies

- **Energy crisis:** Due to non availability of gas and high cost of electricity, this would continue to pose a threat to overall production capacities.

1. PROFILE

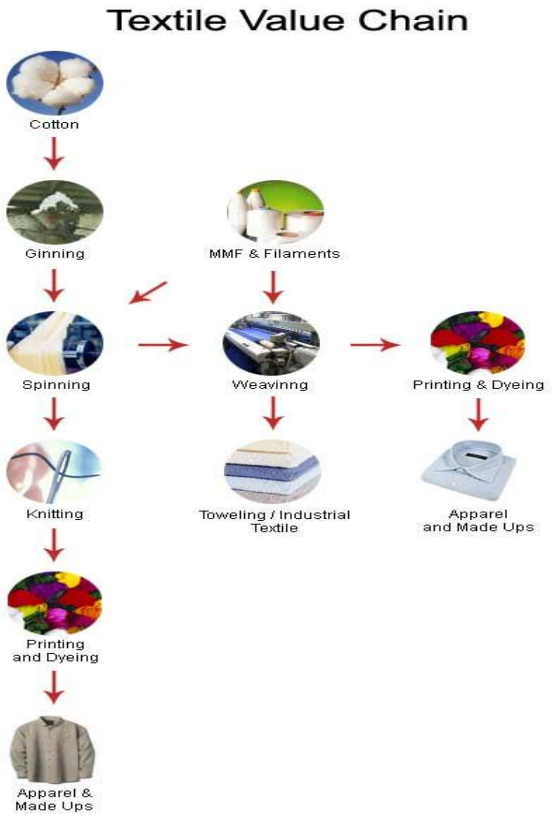
- Mainstay of exports
- A long manufacturing chain

1.1 Introduction: Pakistan's economy can be characterized as semi-industrialized. The country's industrial sector constitutes 25%[1] of the country's gross domestic product (GDP). According to the Labour Force Survey 2010-11, Pakistan has a labour force of 57.2mln people. As Pakistan is one of the major producers of cotton, the country has a sound textile industry. It is apparent from the fact that the textile exports contributed 50% of the country's total exports in FY12[2]. Apart from being the mainstay of Pakistan's exports, the sector also represents the principal employment-generating avenue in the organized and large scale industrial segment[3]. Moreover, during 2010, Pakistan's textile and clothing exports contributed 2%[4] of the world trade.

Pakistan GDP Growth					
	FY12	FY11	FY10	FY09	FY08
GDP *(PKR bln)*	6,028.6	5,815.0	5,643.6	5,475.7	5,383.0
GDP Growth	3.7%	3.0%	3.1%	1.7%	3.7%

Source: ESP

1.1.1 The word textile, originated from Latin – *texere*, which means "to weave", "to braid" or "to construct". Textiles process involves spinning of cotton and raw wool fiber on a spinning wheel to produce long strands – yarn. Yarn is further put through the steps of weaving, knitting, crocheting, knotting, or pressing fibres together to get the end product – cloth. As shown in the figure, Spinning is the first process in the cotton value chain that adds value to cotton by converting it into a new product i.e. from ginned cotton into cotton yarn. This yarn is further processed through weaving and knitting to produce fabric. The process of weaving collects the two distinct sets of yarn – warp and weft in a way that warp threads run lengthways on the piece of cloth, and the weft threads are inserted over-and-under the warp threads to make a fabric. Whereas knitting is the process of producing two dimensional fabric through one dimensional yarn. In contrast to weaving, knitting does not have straight, parallel running yarn, rather it follows a meandering path, forming symmetric loops symmetrically above and below the mean path of the yarn. These loops are stretchable giving elasticity to the knitted fabric. Provided the type of yarn and the knitting pattern, knitted garments can be stretched as much as 500%. Therefore, knitted fabric is used in stretchable garments, such as socks and hosiery.



[1] Source: Economic Survey of Pakistan (ESP) 2011-12
[2] Pakistan total exports USD 24.6bln; Textile exports: USD 12.3bln
3 Employment to 38% of the manufacturing labour force
[4] Source: Economic Survey of Pakistan 2011-12

1.1.2 ***Origination of cotton cultivation in subcontinent:*** The origination of cotton cultivation and production of textile in the subcontinent[5] is traced back to the 4th and 5th millennium B.C. in Indus valley civilization as the indigenous variety of cotton - Desi Cotton, has been produced since that period. The residuals of actual textile and textile material, tools and instruments used in manufacturing textiles, all divulge presence of textile in the Valley. In the early 20th century, another variety of cotton - American Cotton, was introduced in this region by the British ruling at that time. Initially this variety was imported from the North American continent. However, in 1917, this was cross-breeded with the Desi cotton. The first test-cultivation of the new genetically modified seed – 3F, was made in South Western Indian regions by a renowned cotton breeder - Dr. Mohammad Afzal. Biologically, cotton is perennial plant that grows in the forests; nevertheless, with the technological developments, its cultivation period turned seasonal generating higher productivity

1.2 ***Textile sector in Pakistan – History and present:*** In 1947, independence of subcontinent from the British rule and its division in two independent countries – Pakistan and India, opened new avenues for the textile sector. Pakistan then, comprised two areas, East Pakistan (now called Bangladesh) and West Pakistan. The West was the cotton producing area and the East was for jute production. At the time of partition, East Pakistan received only 90 cotton mills out of 389 mills of erstwhile undivided Bengal. Whereas, West Pakistan was left without any industrial setup and inherited merely three textile mills, – Colony Mills Limited in Multan, Okara Textile at Okara and Lyallpur Cotton Mill in Faisalabad [formerly Lyallpur][6].

1.2.1 During 50s, with the more area coming under cultivation, cotton production expended rapidly. In the meantime, under the Open General Licensing [OGL] scheme, Pakistan's business community imported plants and machinery. This led to the establishment of Star Textile Mills Limited, Gul Ahmed Textile Mills Limited in Karachi, Kohinoor at Rawalpindi, Nishat and Crescent Textile in Faisalabad. With the establishment of the Central Cotton Research Institute in Multan in 1970, cotton breeding process attained momentum in the country. Pakistan started exporting printed fabrics in the late 70s to Africa and by mid 80s was sending printed material to Europe.

1.2.2 Today Pakistan's textile processes comprise cotton spinning (yarn), cotton weaving (cloth), cotton fabric, fabric processing, home textiles, towels, hosiery and knitwear and readymade garments. These are manufactured both in the large scale organized sector as well as in unorganized cottage / small & medium units. A brief description of each segment is given below:

i) *Cotton Spinning Sector:* This segment is the most important segment in the hierarchy of textile production. At present, it is comprised 521 textile units (50 composite units and 471 spinning units)[7] with installed capacity of 10.9mln spindles and 160 thousand rotors[8]. Province wise overview of the installed spindles across the country is given below:

Year	SINDH		BALUCHISTAN		PUNJAB		A.KASHMIR		KHYBER PAKHTUNKHWA		TOTAL PAKISTAN	
	Units	Spindles 000	Units	Spindles 000	Units	Spindles 000	Units	Spindles 000	Units	Spindles 000	Units	Spindles 000
2004-05	118	2,512	10	99	307	6,998	6	93	17	781	458	10,483
2005-06	119	2,100	10	103	309	7,328	6	93	17	812	461	10,436
2006-07	119	2,132	10	127	309	7,349	6	94	17	812	461	10,514
2007-08	119	2,132	10	127	309	7,349	6	94	17	812	461	10,514
2008-09	119	2,132	10	127	309	7,349	6	94	17	813	461	10,515
2009-10	118	2,056	9	125	316	7,606	6	94	17	745	466	10,626
2010-11	116	2,188	9	130	316	7,841	6	94	17	712	464	10,965

Source: APTMA

5 Now consists of Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka
6 Source: All Pakistan Textile Mills Association (APTMA)
7 Source: Textile Commissioner Organization
8 Source: APTMA

Pakistan's textile industry enjoys several advantages over those of many other countries as far as the production of quality yarn is concerned. The country is a leading exporter of cotton yarn, including coarse, medium and fine varieties. Spinning is in the beginning of value chain since the effect of a sub-standard yarn production would go right across the entire value chain.

ii) *Weaving (Cloth) Sector*: There are two different sub-segments in weaving A) Mill segment (Integrated and Independent Weaving Units), and B) Non mill segment (Power Loom Units). The mills segment captured momentum in the late fifties with the development of First Five-Year Plan. At that time, Pakistan Industrial Development Corporation was established with an objective of industrial sector's development. As a consequence, by mid sixties, the number of units of textiles bleaching, printing and processing reached to 180. Most of these units were situated in Karachi and a small number in Punjab. However, in 1968, due to sudden change in excise duty collection (from capacity to production), majority of the mills closed their weaving section. This turned the prospects of weaving mill segment into a nightmare as the weaving capacity of Pakistan dropped down to an installed capacity of only 7,000 looms in 2011-12 from 26,000 looms in 1978-79. Whereas, the working capacity of these looms remained 70% at the end of the period. As against the declining trend in the mill segment, the power loom segment continued its growth pattern in terms of capacity and production. This was an outcome of joint catalysts – market demand forces and favorable government policies. The major problems of this segment are poor technology, scarcity of quality yarn and limited production from the organized institutional network.

Cloth Production		
Production (M. Sq. Mtrs)	(Jul-Mar) 2011-12	(Jul-Mar) 2010-11
Mill	769.6	764.5
Non Mill	5,975.9	5,971.7
Total	6,745.5	6,736.1

Source: Ministry of Textile

iii) *Textile Made-Up Sector:* Being value added segment, this comprises different sub groups namely A) Hosiery & Knitwear, B) Readymade Garments including Fashion Apparels, C) Towels D)Tents & Canvas E) Bed Wear, and F) Cotton Bags.

A) *Hosiery & Knitwear Industry:* There are about 12,000 knitting machines spread all over the country. Besides locally manufactured machinery, liberal import of machinery under different modes is also being made for the development of exports.

Year	Installed Capacity (Looms)	Working Capacity (Looms)
2004-05	9,000	5,000
2005-06	9,000	4,000
2006-07	8,000	4,000
2007-08	8,000	4,000
2008-09	8,000	4,000
2009-10	7,000	4,000
2010-11	7,000	5,000
2011-12	7,000	5,000

Source: Textile Commissioner Organization (TCO)

B) *Readymade Garment Industry*: This segment is distributed in small, medium and large scale units. The organized part of this segment is developing because of establishment of new large units. This industry, providing highest value addition in textile chain, enjoys the duty free import of machinery and income tax exemption.

C) *Towel Industry:* There are about 7,500 towel looms in the country in both organized and unorganized sector. This segment is highly dependent on export outlets due to limited demand in the local market. The existing towels manufacturing factories are required to be geared up to produce higher value towels.

D) *Tents & Canvas:* The production capacity of this segment is more than 100 million sq. meters. As Pakistan is the cheapest source of supply of tents and canvas, 60% of its production is exported while the rest is consumed locally by armed forces and food department.

iv) *Synthetic Fiber Manufacturing Sector:* This sector has made progress in line with the progress of the textile industry. Polyester Staple Fibre (PSF) has wide range of applications. Its main use is the production of blended yarns by the spinning industry, which in turn is used to produce cloth, garments and curtains etc. It is also now being used for wadding and non-woven applications i.e. upholstery, tyre cord, filters and other rubber reinforcements etc. Pakistan's current PSF demand is approximately 525,000MT. However, despite having an installed capacity of 625,000MT, the country could only produce ~385,000MT of PSF during FY11. The rest of demand was met through imports. The reason for lower capacity utilization is non availability of the biggest market participant – Dewan Salman Fibre Limited (240,000tons per annum - 39%) – which has been non-operational since January 2009. However, given its operational and financial constraints, it is unlikely to be in production anytime soon. Hence, Ibrahim Fibres Limited (IFL) is the largest supplier of PSF in the domestic market. Meanwhile, IFL currently caters around 40% of the county's PSF demand. PSF industry lacks free market mechanism for determination of PSF pricing in Pakistan due to various factors such as import duty, anti-dumping duty and oligopoly structure of the industry, further reinforced after DSFL's shutdown. International proportion of cotton to PSF to produce blended yarn is 38:62, whereas in Pakistan, 82:18 ratio is generally in practice to produce blended yarn. This leaves a lot of room for the local manufacturers vis-à-vis for potential enhancement and market exploration at domestic level. The basic raw materials used in the production of PSF are Pure Terephthalic Acid (PTA) and Mono Ethylene Glycol (MEG). Both being derivative of crude oil chain, they fluctuate accordingly making PSF a price volatile product.

v) *Filament Yarn Manufacturing Industry*: The synthetic filament yarn manufacturing industry gained ambition after the implementation of 5th Five Year Plan when private sector was allowed to enter in this segment owing to raising demand. Today three kinds of filament yarn, as mentioned in the table, are manufactured locally. Due to reduction of import duty on filament yarn resulting in large scale imports from China, the local manufacturing activity of polyester filament yarn has slowed down, limiting the local industry size to only 6 units with operational capacity of 55,851 M. Tons.

Capacity of Synthetic Filament Yarn

Type of Yarn	No of Units	Production Capacity (M.Tonnes)
Acetate Rayon Yarn	1	3,000
Polyester Filament Yarn	21	105,376
Nylon Filament Yarn	3	2,000

Source: Ministry of Textile

vi) *Art Silk and Synthetic Weaving Industry:* Art Silk and Synthetic Weaving Industry mainly based on 1-10 cottage based power looms has developed over the time across the country. There are ~ 90,000 looms in operation, of which 30,000 looms are working on blended yarn and rest 60,000 looms on filament yarn. Apart from these, demand is also met through some mobile looms which become operational on need basis. Karachi, Faisalabad, Gujranwala, Jalalpur Jattan, Bara, Sawat, Khyber Agency and Wazirstan are the main concentrated areas of this segment.

vii) *Woolen Industry:* The main products of the woolen industry are woolen Yarn, Acrylic yarn, woolen fabrics, woolen shawls, blanket, and carpets.

viii) *Jute Industry:* The main products of this industry – jute sakes and hessian cloth – are used for packing of food grains, wheat, and rice. The production of jute goods went upto 98,753 metric tones for the period of Jul-Mar 2011-12, observing a modest increase of 6.6% (Jul-Mar 2010-11: 92,666 metric tones).

Exports of Carpets and Rugs

	(Jul -Mar) 2011-2012	(Jul -Mar) 2010-2011
Quantity (M. Sq. Mtr)	2.5	2.1
Value (USD mln)	95.3	96.1

Source: Ministry of Textile

2. WORLD TEXTILE DYNAMICS

- Increased cotton output
- Volatile trading pattern
- China – leader in Textile market

2.1 With the advancement in the crop technology over the years, world's cotton production has also increased despite reduction in the cultivation area. In spite of decline in the cotton crop during last few years, China continues to contribute highest proportion in the total world production and consumption followed by India.

World Cotton Production

Millions of 480 lb. Bales	2012/13* August	2012/13* July	2011/12	2010/11	2009/10	2008/09
China	31.0	30.5	33.5	30.5	32.0	36.7
India	23.5	24.0	26.5	26.4	23.8	22.6
United States	17.7	17.0	15.6	18.1	12.2	12.8
Pakistan	9.7	9.7	10.6	8.6	9.2	8.5
Brazil	6.8	7.0	8.7	9.0	5.5	5.5
Australia	4.3	4.3	4.9	4.2	1.8	1.5
Uzbekistan	4.1	4.1	4.2	4.1	3.9	4.6
Rest of World	17.2	17.3	18.7	15.5	13.9	15.1
World Total	**114.1**	**113.8**	**122.7**	**116.4**	**102.2**	**107.3**

Source: USDA ** Estimated*

World Cotton Consumption

Millions of 480 lb. Bales	2012/13* August	2012/13* July	2011/12	2010/11	2009/10	2008/09
China	39.0	39.5	40.0	46.0	50.0	44.0
India	21.5	21.5	20.5	21.1	19.8	17.8
Pakistan	11.0	11.3	10.1	10.0	10.4	11.1
Turkey	5.6	5.6	5.3	5.6	5.8	5.1
Brazil	4.3	4.3	4.0	4.3	4.4	4.2
United States	3.4	3.4	3.3	3.9	3.6	3.5
Bangladesh	3.6	3.6	3.2	3.7	3.9	3.8
Indonesia	2.1	2.1	1.9	2.1	2.2	2.3
Mexico	1.8	1.8	1.7	1.7	1.9	1.9
Vietnam	1.8	1.8	1.6	1.7	1.6	1.3
Rest of World	14.3	14.3	13.8	14.8	15.1	15.3
World Total	**108.2**	**109.0**	**105.4**	**114.7**	**118.6**	**110.2**

Source: USDA ** Estimated*

2.2 World Textile and clothing trade, after touching the record level of USD 612bln in 2008, witnessed a decline in 2009 owing to lower demand due to economic slowdown in the USA and European Union (EU) – the leading export markets. However, in 2010, with improved manufacturing activity, mainly in Asia, world textile and clothing exports witnessed a growth of 19% and 11% respectively.

2.3 During 2010, China while continuing its lead in clothing exports also became the world's major exporter of textiles. This also increased its share in the world's clothing and textile exports to 34% (2009: 32%). The second largest contributor in combined exports of clothing and textile exports was EU with a share of ~28% (2009: 30%). Among the other players, India while observing a 40% increase in textile exports assumed the position of third largest exporting country, whereas in clothing exports, Bangladesh emerged as the third biggest nation – 45% rise on YoY basis. Meanwhile, on the import front, EU sustained its position by utilizing 27% and 45% of the world's textile and clothing imports respectively.

Sr. #	Top 10 Leading Exporters of Textile (%age share in World	2010	2009	2008	2007	2006
	World Textile (USD bln)	**250.7**	**209.9**	**250.2**	**240.4**	**220.4**
1	China *	30.7	28.3	26.1	23.5	22.3
2	European Union	26.8	29.5	32.1	33.9	32.6
3	India	5.1	4.3	4.1	4.0	4.3
4	USA	4.9	4.7	5.0	5.2	5.8
5	Korea	4.4	4.3	4.1	4.4	4.6
6	Taipei	3.9	3.7	3.7	4.1	4.5
7	Turkey	3.6	3.7	3.8	3.7	3.5
8	Pakistan	3.1	3.1	2.9	3.1	3.4
9	Japan	2.8	2.9	2.9	3.0	3.2
10	Indonesia	1.8	1.5	1.5	1.6	1.6
	Total	87.1	86.0	86.2	86.5	85.8

**Including Hong Kong*

Source: WTO

Sr. #	Top 10 Leading Exporters of Clothing (%age share in World	2010	2009	2008	2007	2006
	World Textile (USD bln)	**351.5**	**315.1**	**361.9**	**345.8**	**309.1**
1	China *	36.9	34.0	33.2	33.4	30.6
2	European Union	28.1	30.7	31.1	29.9	26.8
3	Bangladesh	4.5	3.4	3.0	2.9	2.8
4	Turkey	3.6	3.7	3.8	4.1	3.8
5	India	3.2	3.6	3.0	2.8	3.3
6	Veit Nam	3.1	2.7	2.5	2.1	1.7
7	Indonesia	1.9	1.9	1.7	1.7	1.8
8	USA	1.3	1.3	1.2	1.2	1.6
9	Mexico	1.2	1.3	1.4	1.5	2.0
10	Thailand	1.2	1.2	1.2	1.2	1.4
	Total	85.0	83.8	82.1	80.8	75.8

**Including Hong Kong*

Source: WTO

3. PAKISTAN'S TEXTILE SECTOR

- Forth largest cotton producing country
- Largest industrial sector
- Sufficient availability of raw material
- Highly Competitive market
- Government initiatives
- Challenging operating environment

3.1 Pakistan is the fourth largest producer of cotton, and has the third largest spinning capacity of 7.6% in Asia after China and India and 5% of the global spinning capacity. Pakistan's textile sector has gradually ventured into the production of fairly high quality counts, hosiery, garments and other value-added items.

Pakistan & Textile Industry Exports	FY12 (P)	FY11	FY10	FY09	FY08
Pakistan Exports *(USD mln)*	24.6	25.4	19.7	19.1	20.4
Textile Exports *(USD mln)*	13.0	13.1	10.2	9.8	10.4
%age of Textile Exports	53%	52%	52%	51%	51%

P: Provisional
Source: SBP

During FY12, total textile exports were US$ 13bln – 53% of the total textile exports. Given the sector's significant contribution in the exports, the performance of this sector, therefore, has a strong impact on the national economy.

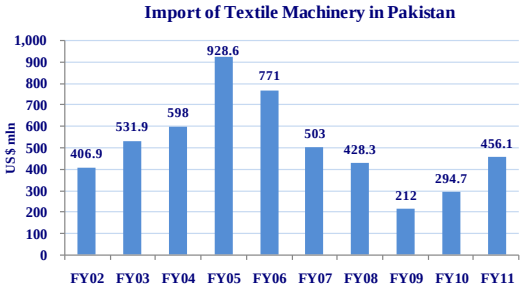
3.2 Pakistan being an agricultural country enjoys the benefit of indigenous raw material availability. Cotton is considered one of the four major crops[9] of the country. During FY12, the cotton crop was cultivated on an area of 2.8mln hectares – 5% increase on YoY. Despite a large reduction in the output of Sindh area due to heavy rains, the Punjab region recorded a tremendous growth in the harvesting on account of better weather conditions and viral controls. Thus, the production while breaking the previous high record of 14.3mln bales in FY05, reached at a record level of 14.8mln bales showing YoY increase of 26.6%. Historically, Pakistan has been net importer of

9 Wheat, Rice, Cotton and Sugarcane.

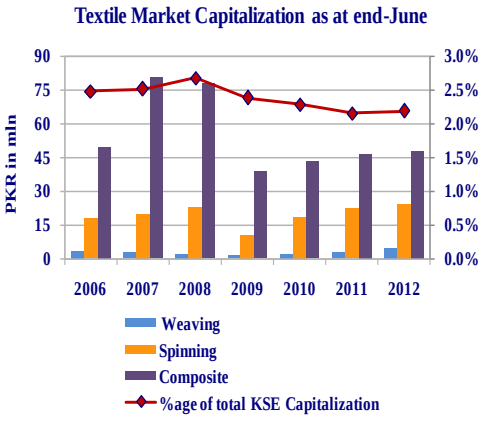
raw cotton, however, during FY12, with highest ever crop output, raw cotton exports also witnessed a significant increase.

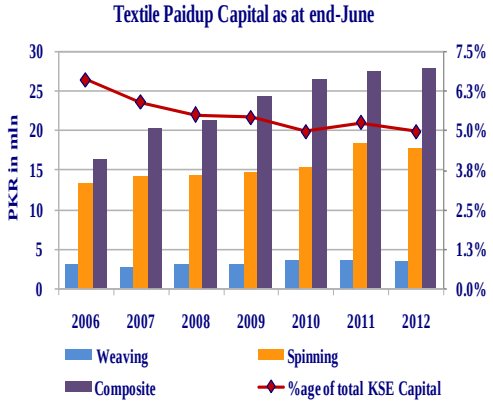
3.2.1 For the current fiscal year, though the government had estimated a cotton crop of 15mln bales. Nevertheless, considering the recent heavy rains and floods in the cotton growing areas of Sindh, this target is likely to be revised. Yet, with more BT cotton cultivation and improved yield, Pakistan is expected to remain supply sufficient.

3.3 Composition: The textile products are being manufactured both in the large scale organized sector as well as in unorganized cottage/medium & small units. The organized sector consists of integrated textile units mainly the spinning units and a very small number of shuttleless looms. The downstream industry chain – weaving, finishing, madeups, garments, towel and hosiery – is largely segmented in un-organised sector. Currently, Pakistan's textile sector comprises 521 units (50 composite and 471 spinning units). From 2000 to 2009, with the combined efforts of private and public sector, the textile industry made a rapid development. Total investment made in textile industry during 2001-2011 is estimated to be USD 5.1bln[10] that has led to improvement in productivity both in terms of quality and quantity.



3.3.1 Textile sector is completely deregulated and no government sponsored entities participate in this sector. The listed textile companies are divided in the three groups: A) Spinning, B) Weaving, and C) Composite. The adjacent graphs provide the paid up capital, market capitalization of listed textile companies and their respective share in KSE:





10 Source: PBS

3.4 Competitiveness: The following table gives an overview of the competitiveness of the Pakistan's textile industry:

FACTORS	FRAMEWORK	RISK MATRIX
The Threat of New Entrants into the Industry	▪ High capital requirement to enter in the industry however attaining the customers is dependent on experience. Moreover, without any established client portfolio it is difficult to bear costs in creating samples to attract potential customers. Thus in the sense of reference dependency, barriers of entry are considered as very strong. Keeping in view the large population of manufacturers in the spinning and weaving segment, any new entrant may hardly be noticed by the competition, which minimizes the risk for retaliation. Cost and/or quality advantages are enjoyed by the existing players and it may take time for the new entrant to reach the point where these advantages are realized.	Low
The Threat of Substitute of the products	▪ Products within the initial category of the textile chain may provide substitute, however, with the addition of quality and branding sense, probability of customer switching gets lower which makes this force much weaker.	Low
The Bargaining Power of Buyers (Demand Scenario)	▪ World textile and clothing trade has experienced a reasonable growth over the last few years. Although the dominating share of China makes it a 'supplier of choice', yet the close down of 12 million spindles in China during FY10 – equivalent to the total installed capacity of Pakistan, provides a lot of opportunity for the spinning industry to tap in. Moreover, lower price image of Pakistan benefits the domestic producers as the importers try to mitigate their risk of sourcing from only one country. However, with increasing competitive pressure from Bangladesh, Vietnam and Turkey in few segments of the textile chain, it is of importance for a producer of apparel to differentiate their products or production so it will not compete with price as primary mean. Differentiation is accomplished either by quality or service. Thus, the bargaining power of customers is considered strong.	High

The Bargaining Power of Suppliers (Supply Scenario)	▪ Pakistan's textile industry comprises numerous players with varied size and power. There has been increase in production and supply of textile products in last few decades globally, mainly due to rapidly changing social and economic structure of the countries worldwide. In past few years, especially after the removal the trade related tariffs and non tariff barriers in 2005, Asian countries such as China, Pakistan, India, Bangladesh, Hong Kong and Japan have emerged as major players in this particular industry, mainly due to their changes on economic front and infrastructure developments. Given the lower supplier concentration in the Pakistan's textile industry, evident by the existence of over 1,200 ginning factories,[11] 471 spinning units and 50 composite units, indicate a weak bargaining power of supplier. Moreover, owing to prevailing energy issues and higher cost of doing business in Pakistan, threat of forward integration is also low.	Low
The Degree of Rivalry among existing Competitors	▪ Pakistan's textile sector is the largest manufacturing business. Given the strong commitment of the participants, price competition (or respond to such competition) to defend their market share and to cover fixed costs is relatively high. Moreover, to retain their customer base in order to keep profits up, Pakistan's textile manufacturers face several domestic challenges as compared to the companies abroad, which results in rivalry among the industry players.	High
Inventory Risk	▪ The textile industry being heavily dependent on cotton is exposed to price volatility of the commodity. The longer inventory holding period it is, the higher the pricing risk. Moreover, any government intervention restricting the supply side may also create halt for the performance of the industry.	Low - Medium

3.5 Performance: Over the years, there has been no consistent pattern in performance. Historically, the cyclicality in performance − as measured by profitability and exports − has been primarily a function of the price of cotton, which in turn depends on the quantum of local cotton production.

3.5.1 The country's textile export quantities have experienced decline in the recent period primarily due to slowdown prevailing in the global economies. Since the last quarter of FY11, the prices of the basic raw material – cotton –came under pressure, largely owing to piling up of inventories and better prospects of cotton crop. This led the sector to book inventory losses and face pressure on gross margin. Thus the performance of the textile industry has experienced weakening inline with declining demand pattern. This in turn reflects the key players' view on the outlook of the world economy and expected customer behaviour down the retail chain. Because of its

11 Export less than 10% of the indigenous cotton crop

subjective nature, speculation also plays a role in influencing supply/demand dynamics, in turn, pricing. Nevertheless, there is a dominant portion of intrinsic demand, given critical importance of textiles and related products for people at large. Apart from seasonal cum cyclical spikes, the growth is mainly a function of increase in world population and changing world demographics including distribution of wealth.

3.5.2 During FY12, cotton cloth segment was the major contributor in terms of both value and quantity. The highest price rise was witnessed for Art, Silk & Synthetic Textile and Readymade Garments, which witnessed significant improvement though the export quantity declined as domestic issues hurt the production. It is expected that cotton pricing would show relatively stable pattern over the near term. Nevertheless key risks faced by the industry remain volatility in cotton pricing, continued power shortage, rising inflation, higher interest rate and weak law & order situation.

Textile Sector Exports

Commodity	Units	FY12		FY11		FY10	
		Quantity	Value (USD 000)	Quantity	Value (USD 000)	Quantity	Value (USD 000)
Raw Cotton	000 Kgs	264,076	470,133	168,210	383,151	177,947	215,954
Cotton Yarn	000 Kgs	572,047	1,794,575	536,128	2,201,405	625,418	1,433,094
Cotton Cloth	000 Sq Mtrs	1,971,757	2,454,701	2,337,804	2,623,195	1,787,659	1,800,055
Yarn Other than Cotton Yarn	000 Kgs	12,214	41,520	13,819	47,632	13,646	35,693
Knitwear	000 Doz	97,520	1,974,228	125,351	2,305,554	108,669	1,764,959
Bed Wear	000 Kgs	248,912	1,748,327	307,734	2,088,898	324,025	1,744,250
Towels	000 Kgs	143,922	684,183	173,786	762,308	192,490	668,239
Tents,Canvas & Tarpulin	000 Kgs	28,593	98,826	15,323	46,954	20,741	61,527
Readymade Garments	000 Doz	25,437	1,634,593	34,353	1,773,661	27,661	1,269,338
Art,Silk & Synthetic Textile	000 Sq Mtrs	389,084	542,116	557,349	607,806	435,185	445,807
Madeup Articles			584,772	N.A.	624,955		537,237
Other Textile Materials			328,738		322,592		245,216
Total			**12,356,712**		**13,788,111**		**10,221,369**

Source : APTMA

3.5.3 Pakistan's leading buyers are Hong Kong, South Korea, China, USA, Bangladesh, Japan, Turkey, France, UK and Portugal[12]. However, with the increasing competitive pressure in the world trading there needs to be more strategic reformation in the policies at the industry level, which could help this sector in staying ahead of the competitors.

3.6 Regulatory Structure: In order to assess the feasibility and efficacy of an industry to achieve sustainable industrial development, it is critically important to examine the nature of governance system prevailing in that industry. GoP, keeping in view the strategic importance of textile sector, established a separate Ministry of Textile Industry (MINTEX) in September 2004, and appointed Mr. Mushtaq Ali Cheema, a renowned industrialist, as the first Federal Minister for textile Industry. The Federal Minister, appointed by the Prime Minister, is the functional head and is assisted by the Parliamentary secretary. The position remains subject to political shifts. The sitting minister is Mr. Mukhdoom Shabuddin. Mr. Shabuddin is a lawyer turned politician. Mr. Shahid Rashid, Secretary MINTEX, holds a Masters degree in Public Administration from Harvard University, Cambridge, USA.

3.6.1 GoP, being cognizant of the importance of the sector, has been adopting additional fiscal and non-fiscal measures to provide support to the sector. In this regard, it has been putting greater emphasis on the export of value-added products and increased domestic consumption of locally made textile products.

3.6.1.1 Textile Policy 2009-14: Another step is the introduction of a five year Textile Policy 2009-2014, which targets exports of USD 25bln by the end policy tenor. One of the significant announcements of this policy was the establishment of Textiles

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Investment Support Fund and Technology Up-gradation Fund. The objective of these desired funds was to remove infrastructural bottlenecks by facilitating technology upgradation and new investments. However, the plan has not been materialized yet.

3.6.1.2 Steps to incentivize the industry: Apart from the above mentioned policy, the textile ministry has taken few steps to support the sector:

I. Recently, State Bank of Pakistan has reduced the long-term financing for export oriented projects. These subsidized rates are as below:

Period of financing	Rate of Refinance	PFIs' Spread	End User's Rate
Up-to 3 years	9.50%	1.50%	11.00%
Over 3 years and upto 5 years	8.60%	2.50%	11.10%
Over 5 years and upto 10 years	8.20%	3.00%	11.20%

II. Moreover, rate of Export Finance Scheme has also been revised to 8.50% p.a. from 11%, limiting the commercial banks' spread upto 1% p.a., the maximum end users rate is 9.5% p.a.
III. Ready-made Garments and Knitwear exports has been granted R&D support @ 6%.
IV. R&D support is also available for the exports of:
    i. Dyed/Printed Fabrics and white-Home Textile @ 3%
    ii. Dyed/Printed Home Textiles @ 5%
V. Gradual reduction of import duty on textile machinery and parts to 5%.
VI. Another major development is the inclusion of weaving sector in the long-term financing for export oriented projects, (LFT-EOP) scheme.
VII. Import duty on ginning presses has been reduced to 5%.
VIII. Reduction of turn over tax to 1% on retailers of specified textile fabrics and articles of apparel including readymade garments or fashion wear.
IX. Sale Tax levied on retailers has been slashed to 2% from 15%.
X. Ongoing Textile PSDP projects – Textile City at Karachi, Garment Cities at Karachi, Lahore and Faisalabad.

3.7 Challenges: Currently the textile sector in Pakistan enjoys specific concessions like zero rating tax facility on all textile products, reduction in export refinance rate, and long term financing for export oriented projects. Although the sector has gradually ventured into the production of fairly high quality textile products, it still represents a significant size in low value added segments. With regional competitors shifting their focus to the value added sector, relative positioning of the domestic spinning segment has improved. However, the gradual increase in the share of China, India and Bangladesh in the world textile and clothing exports represents severe competition from the regional markets. Even though Pakistan enjoys availability of good quality raw material, yet the acute energy crisis, high inflation, precarious security situation, fiscal and economic imbalances leading to deteroroiation in the repayment capacity of the players continue to pose a challenge.