Weaving

Sector Study

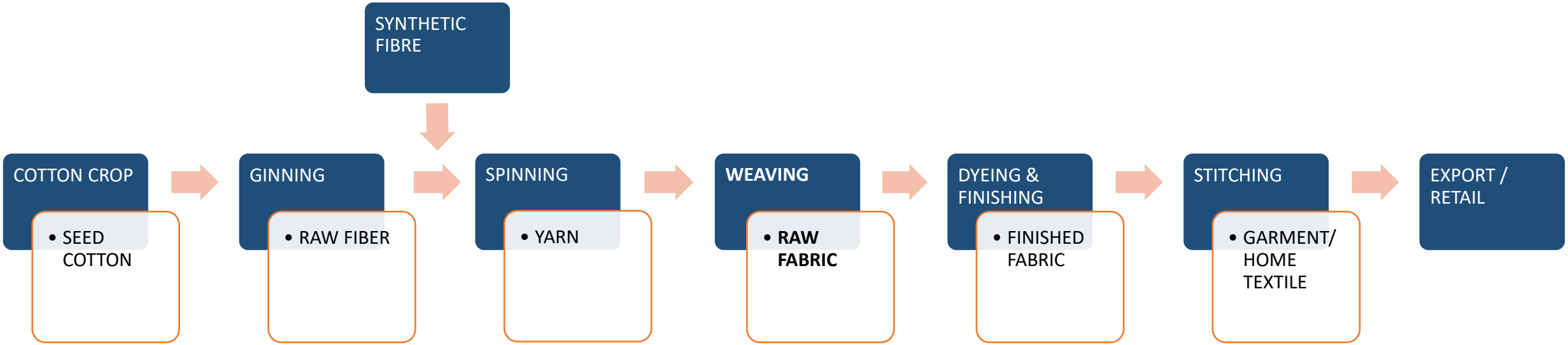
August 2022

TABLE OF CONTENTS

Weaving

Textile Value Chain

- 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 weaving sector, which processes yarn into fabric, falls in the middle of the value chain. However, there is limited value addition in this segment.



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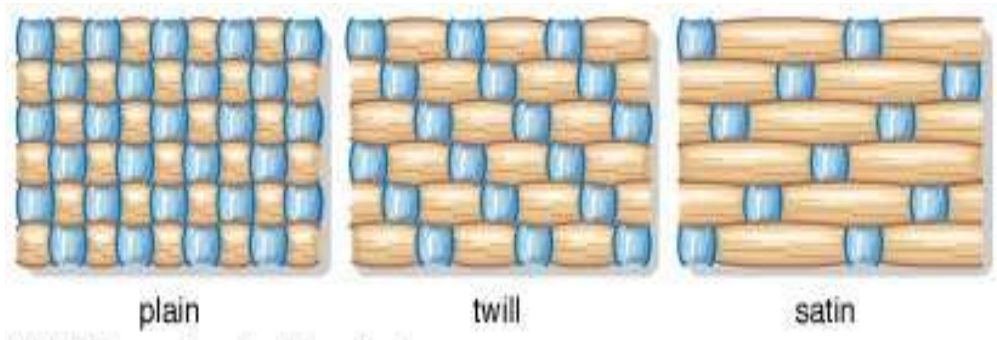
Production Process & Types

- 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. Beating Up: Packing 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.



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Technology & Machines

- There are three main types of looms from technological perspective, i.e. Projectile Loom, Rapier Loom, and Jet 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.
- 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 – 2,000 RPM.
- The cost of a single loom ranges from USD 15,000 to 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 Pakistan, RPM of looms range from 150 to 200 in the unorganized segment. In the organized segment, it is as high as 950 RPM. Large textile mills usually invest in higher RPM capacity.
- In Organized segment, Jet looms are the most commonly used. In air jet loom, the air consumption varies from 13 to 40 litres/second.
- 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.

Source: Manufacturers' Websites

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Global Overview

- The global fabrics market is expected to grow from USD~103.1bln in CY21 to USD~112.7bln in CY22 at a compound annual growth rate (CAGR) of ~8.8%. The growth is mainly driven by increasing demand for online shopping which is expected to drive the fabrics manufacturing market.
- Asia Pacific was the largest region in the global fabrics market in CY21 while Western Europe was the second largest.
- Manufacturers are increasingly organizing themselves as virtual selling platforms which broadens their geographical access to potential customers.
- In India, the massive growth in e-commerce platforms has paved the way for growth in the apparel manufacturing market. Similar trends have been observed across the world.
- The proliferation of online platforms such as Alibaba, Fibre2Fashion, textileinfomedia and FourSource are common platforms for B2B fabric commerce market.
- Another new paradigm in the fabric industry is smart fabrics. The demand for smart fabrics is increasing rapidly. This is mainly driven by the growing use of smart fabrics in various sectors including fashion, entertainment, medical, transportation, sports and fitness, and military. Smart fabrics are textiles that can interact with their environment and respond to a physical stimulus including those from mechanical, electrical, thermal and chemical sources.

Source: https://www.thebusinessresearchcompany.com/report/fabrics-global-market-report, Global Market Report 2022

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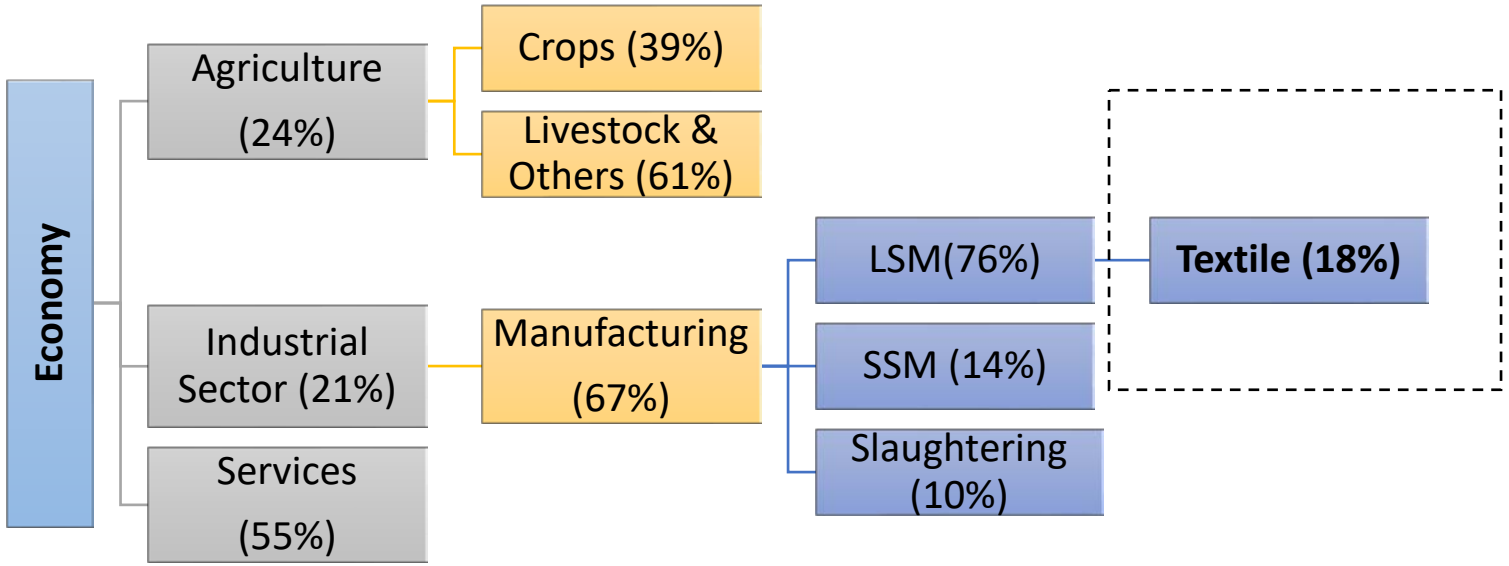
Local Economy and Textile Industry | An Overview

- In FY22 Pakistan's GDP (nominal) stood at PKR~66.9trln (FY21: PKR~55.8trln) and posted a growth in real terms of ~6.0% (FY21: ~5.7%). Industrial activities in FY22 represented ~19% share in the GDP while manufacturing activities represent a ~76% value addition in industrial activities.
- Large Scale Manufacturing (LSM) in Pakistan is essential for economic growth considering its linkages with other sectors, as it represents 76% value of all manufacturing activities in FY22. The LSM grew by ~11.7% in FY22 (FY21: ~11.3%).
- The textile sector is classified as a Large Scale Manufacturing (LSM) industrial component within the industrial sector. In FY21 and FY22, the textile industry's weight in the QIM was ~18.2%.
- Weaving is an upstream sector in the textile value chain. The production of cotton cloth, i.e., the weaving sector output, increased by ~0.2% in FY22 from the SPLY (FY21 growth: ~12.2%).



Source: PBS

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Local Industry | Overview

- The weaving sector is divided into two segments, i) Organized mill segment and ii) Unorganized mill segment. The unorganized segment accounts for approximately ~90% of the country's total weaving capacity. This sector study focuses on the organized segment.
- The weaving sector has an approximate market capitalization PKR~3.3bln as on 24-Aug-22 based on players listed on the PSX. The Sector's volumetric production (based on prorated results of 9MFY22) has remained almost the same during FY22 as compared to the previous year.
- 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, which amounts to ~30-35% of the total market, 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 Overview	FY20	FY21	FY22
Market Capitalization (PKR bln) [Estimate]*	2.5	4.9	3.3*
Sector Players	~30 Organized Weaving Mills		
Production [Organized Mills] (mln Sq. M)	931	1,048	1,051**
Total Production (mln Sq. M)	8,158	9,177	9,189**
Export Value (PKR bln)	288	307	434
Export Volume (mln Sq. m)	2,328	2,545	2,642
Industry Association	All Pakistan Textile Mills Association, Pakistan Weaving Mills Association		

*Market size is based on the market capitalization of five weaving sector players | FY22 figures are based on the sector's market capitalization at Aug-24-2022
**Numbers have been prorated based on 9MFY22 figures

Source: SBP, PBS, TCO

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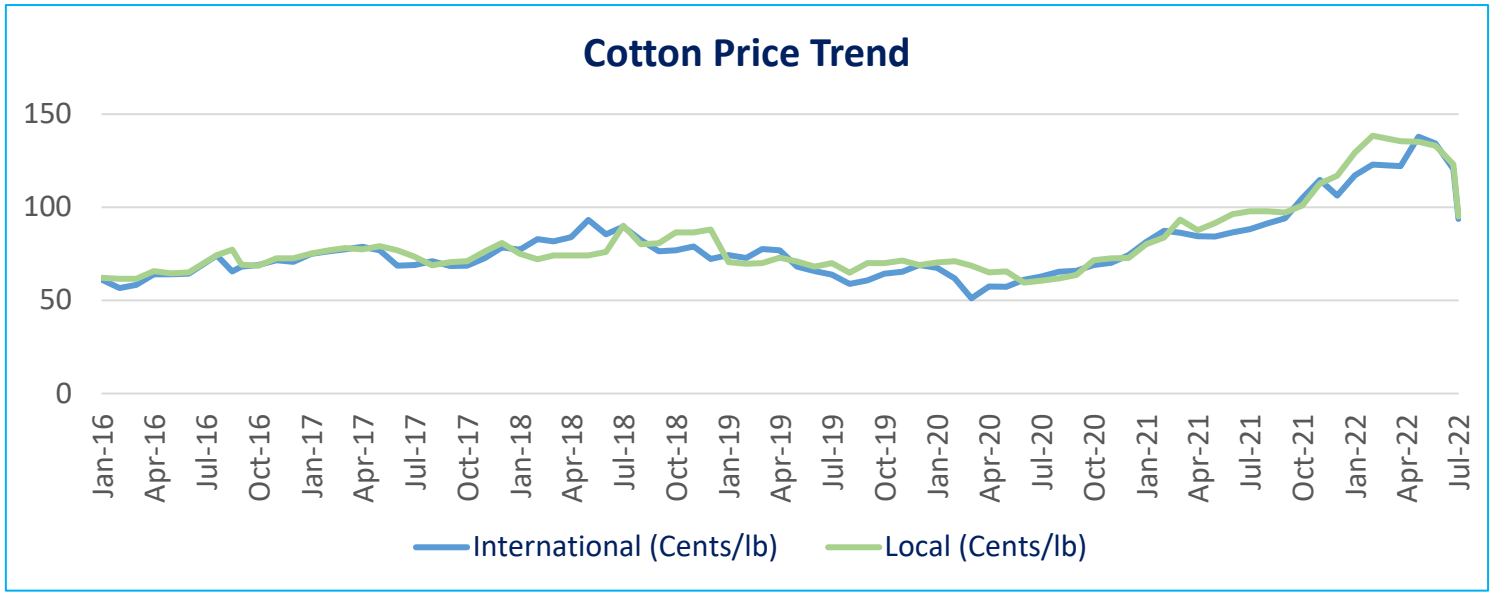
Local vs. Global Industry | Cotton Dynamics | Prices

- International cotton futures prices peaked until Apr-22 touching 134 cents/lb. Monthly futures prices have since declined and dipped to 94 cents/lb in July-22.
- The recent dip is attributable to a significant selloff in the commodity markets, following lower demand trends, and a transition from old crop to new crop on the International Exchange Limited. The futures price inversion is also being reflected in lower spot prices.
- Despite the recent dip, since CY16, international cotton prices have experienced an overall increase of ~50% due to higher freight and logistics costs and limited global supply.
- Local cotton prices are also falling as traders are losing interest in existing futures position due to lower export demand (reducing local import demand).
- Despite the recent drop in prices, average prices have reached a new peak of PKR~19,969 per maund (SPLY: ~PKR 11,460 per maund) in the 6MCY22 period for the same reasons as observed for international prices.
- Global freight rates have been continuously rising which has served to increase the cost of importing cotton by industry players.



Average Cotton Prices	CY17	CY18	CY19	CY20	CY21	6MCY 22
International (Cents/lb)	73	82	68	64	92	121
Local (Cents/lb)	75	80	70	67	96	127
Local (PKR/maund)	6,521	7,971	8,721	8,923	13,036	19,969

Cotton Unit Conversion	
Unit	Conversion
Cotton Unit Conversion	37.3kg
Unit	170kg
1 Maund	4.6 Maunds

Source: PCCC, Economic Survey 2021-22, US Department of Agriculture (Foreign Agriculture Service)

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Cotton Dynamics

Pakistan's Cotton Supply (MT 000s)							
	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Opening Stock	**93**	**2**	**79**	**168**	**193**	**34**	**35**
Production	1,688	1,816	2,033	1,678	1,557	1,202	1,890*
Imports	417	506	599	415	536	857	776
Total supply	**2,198**	**2,324**	**2,711**	**2,261**	**2,286**	**2,093**	**2,701**
Local consumption	2,147	2,220	2,508	2,055	2.239	2,057	2,210*
Exports	49	25	35	13	13	1	3
Closing stock	**2**	**79**	**168**	**193**	**34**	**35**	**488**

- The majority of Pakistan's crop is grown in Punjab and Sindh with the KPK and Balochistan sharing a relatively small fraction of total outputs.
- Pakistan's cotton production increased by ~57.3% in 9MFY22 (FY21: ~-22.8%) due to an improvement in yield by ~25.4% (FY21: ~-6.3%), conducive weather conditions, smooth input supplies, and better crop management practices.
- Despite these promising results, Pakistan missed its cotton production target for 2021-22 owing to drought, high temperatures and dry weather at the start of the season.
- FY22 was the first year Pakistan's net imports of raw cotton declined after the years FY15 and FY19. Prior to FY22, cotton imports rose by ~78.1% over the FY17-FY21 period. The ~9.5% decline can be attributable to the significant current depreciation serving to increased import prices.
- Proposed target for cotton crop for the 2022-23 season is ~1,908mln MT (or ~11.03mln bales) of which ~59.8% has been budgeted for Punjab and ~36.3% for Sindh and the remainder for KPK and Balochistan.

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

Source: PBS, Economic Survey, 2021-22, PCCC

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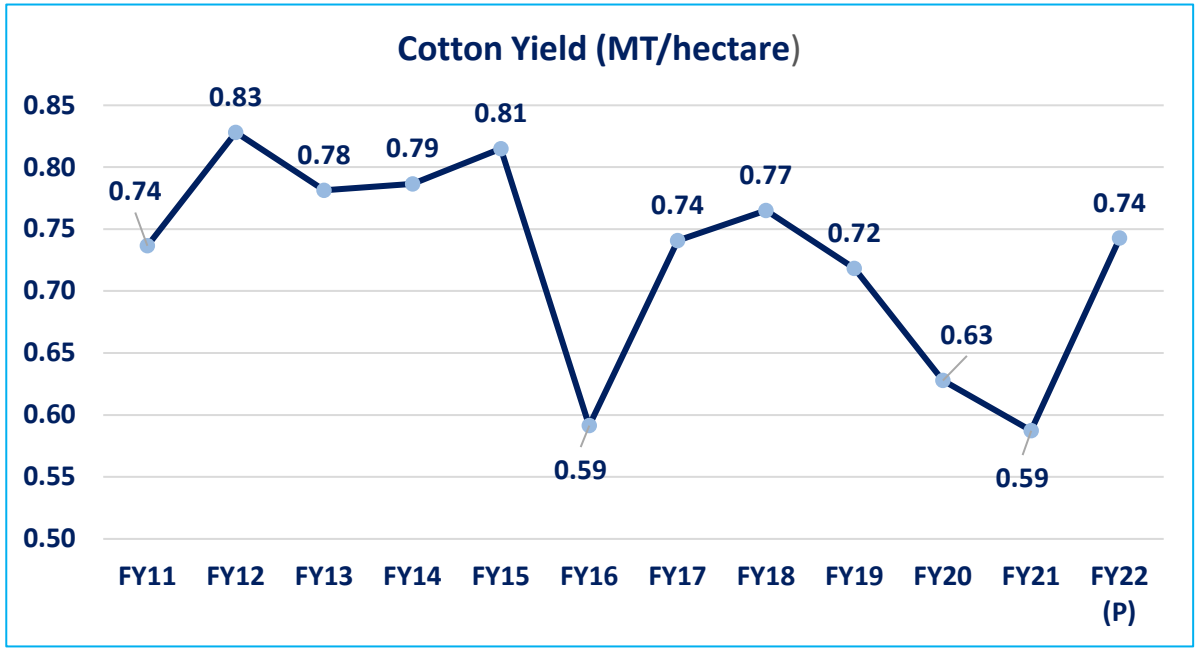
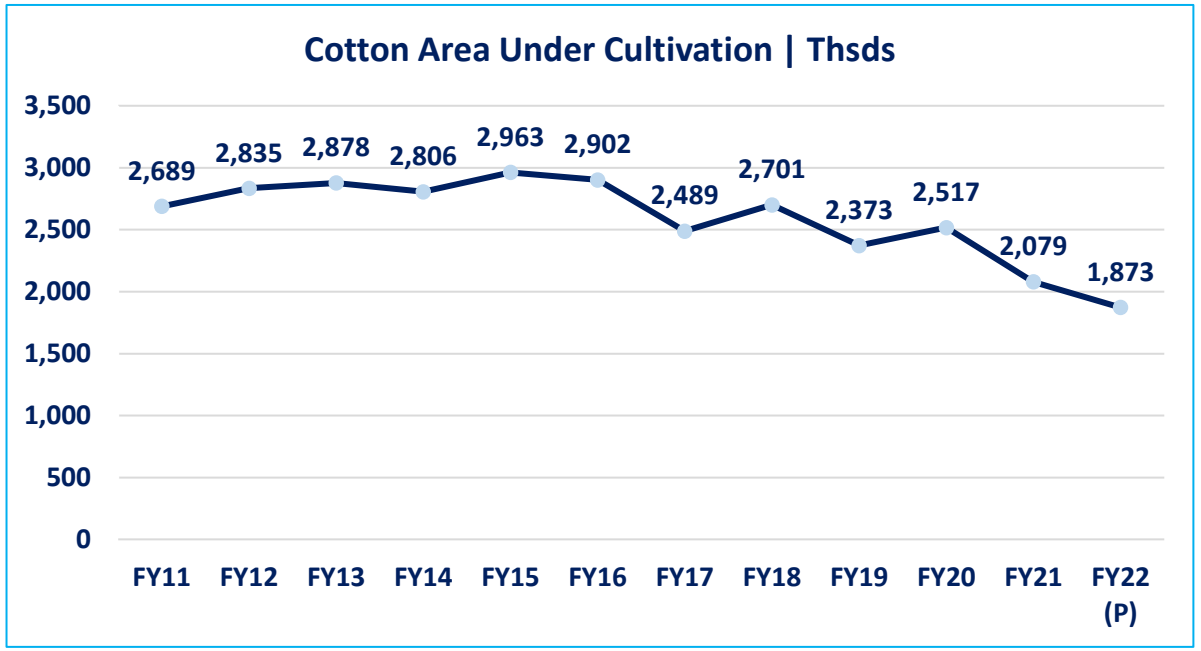
Cotton Cultivated Area and Yield





- The improvement in cotton yield comes despite the fact that the area under cultivation decreased by ~9.9% (FY21 decrease: ~-17.4%). The area under cultivation in FY23' Kharif season has been recorded at ~2mln hectares (based on Punjab's first estimate), a ~6.9% increase from FY22 when the area under cultivation was ~1.87mln hectares.
- Climate change related factors - heat wave and unprecedented water shortages at sowing time, March-22 onwards - along with the replacement of cotton by other crops, such as sugarcane and maize, explains the reason for the decline in area under cultivation for FY22.
- For FY23, the sowing of the cotton crop for the 2022-23 season has been complete in Punjab and is in its final stages in Sindh. The cultivated area of cotton in Punjab is ~1.485mln hectares (comprising ~81.5% of the target), ~16.1% higher than previous year, while sowing area in Sindh was registered at ~0.517mln hectares (comprising ~80.8% of the target), ~13.0% lower than the previous year.

Source: Economic Survey, 2021-22, PCCC's July-22 Monthly Cotton Price Review

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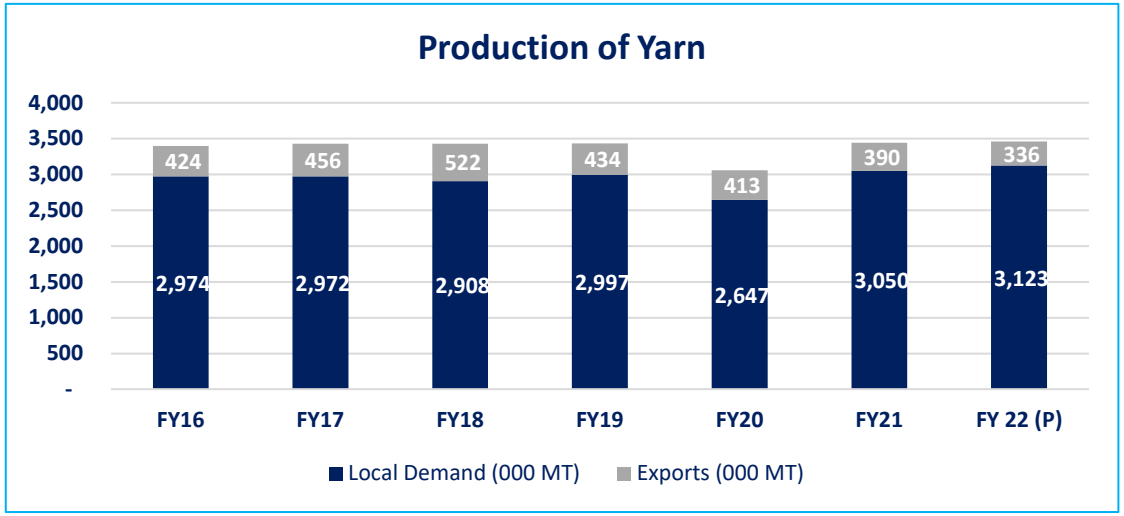
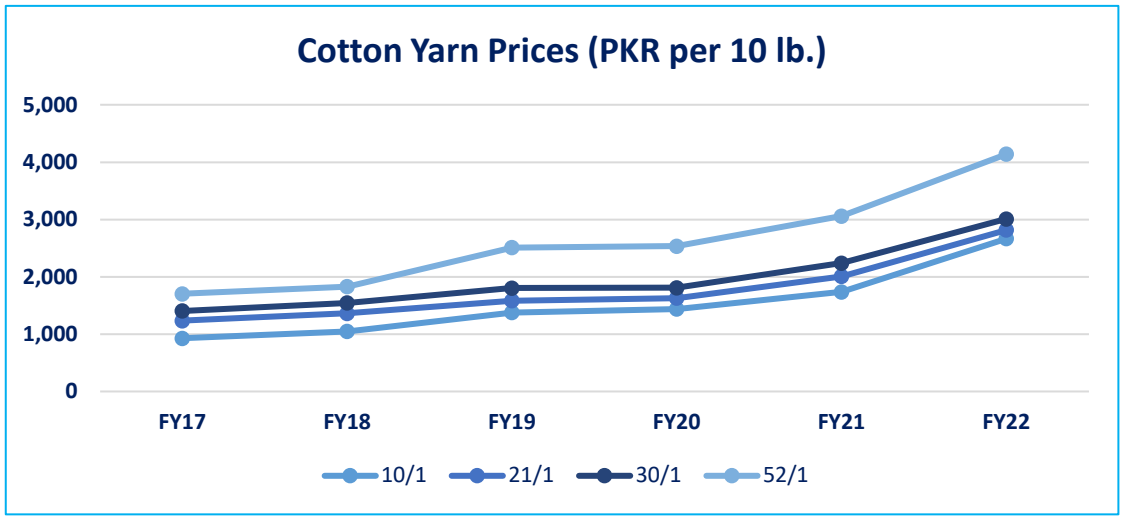
Raw Material

- The majority of locally produced yarn, approximately ~90% in FY22, is used as raw material for the weaving sector. The production of yarn increased by a meagre ~1% in FY22 following a much successful FY21 (growth: ~12.4%).
- Production has considerably slowed down owing to a decline in export demand in FY22 of ~-13.8% (FY21: ~5.6%); this is attributable to global recession.
- This indicates that yarn is being used to majorly meet the demand for the local weaving industry. In FY22, local demand increased by a small ~2.3% compared to a healthy growth figure of ~15.2% in FY21. Local demand also dropped due to inflation and rising interest rates and this is evident from a slowdown in the textile sector growth in 11MFY22 compared to the SPLY (~4.1% vs. ~18.3%, respectively).
- The previous year had experienced significantly greater growth in production (~12.5%) as greater export demand for the value added textile segments due to lockdowns in regional competitors provided a boost to the entire local textile value chain.
- Prices of cotton yarn have been on a rising trend in recent years. For the majority part of FY22, cotton prices were increasing which led to an increase in yarn prices. This also served to increase the cost of production for the weaving sector.





Note: FY22 production figure is prorated from 11MFY22 data

Source: PBS, PCCC, Economic Survey 2021-2

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Installed Capacity & Utilization

- There are ~9,000 looms installed in the organized segment of the weaving sector, out which ~6,942 looms were utilized in FY22.
- Meanwhile, there are approximately ~400,000 power and shuttle less looms operating within the unorganized segment.
- During FY21, the average capacity utilization for listed and rated players stood at ~86%, increasing from ~82% due to higher demand from global markets during the first wave of COVID-19 in which lockdowns resulted in the diversion of orders to Pakistan from India and Bangladesh.
- Moving forward, many players have invested in new machines on the anticipation of higher demand and number of looms is also expected to increase in FY23.

Organized Mill Segment	FY17	FY18	FY19	FY20	FY21	FY22
No of Looms Installed	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

Note: FY22 figure for No. of Looms utilized is based on 9M

Source: TCO, Economic Survey

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Fabric Production

- The organized weaving segment accounts for ~11% of total fabric production with the unorganized segment making up the remaining ~89% which amounts to ~8bln Sq. M. The output from the unorganized segment is usually of a lower quality.
- During FY22, the organized segments fabric production increased to ~1,051mln Sq. M from ~1,048mln Sq. M, a growth of ~2%. Growth in the SPLY was ~13%. This extremely low growth is attributable to an overall reduction in demand owing to a decline in export demand and very low levels of increase in local demand.

(000 Sq. M)	FY17	FY18	FY19	FY20	FY21	FY22*
Grey	584,532	582,812	583,364	519,237	584,429	585,878
Bleached	75,805	111,110	114,146	101,598	78,970	79,166
Dyed & Printed	299,519	269,082	267,397	238,003	304,564	305,319
Blended	83,488	80,736	81,073	72,161	80,484	80,684
Total Organized Mill Production	**1,043,344**	**1,043,740**	**1,045,980**	**931,000**	**1,048,447**	**1,051,047**
Unorganized Mill Production	8,126,356	8,127,160	8,101,820	7,266,566	8,128,845	8,137,787
Total Fabric Production	**9,169,700**	**9,170,900**	**9,147,800**	**8,157,566**	**9,177,292**	**9,188,833**
Growth	**0.11%**	**0.01%**	**0.04%**	**-11.09%**	**12.50%**	**0.13%**

Note: FY22 figure is prorated from 11MFY22 data

Source: TCO, PBS

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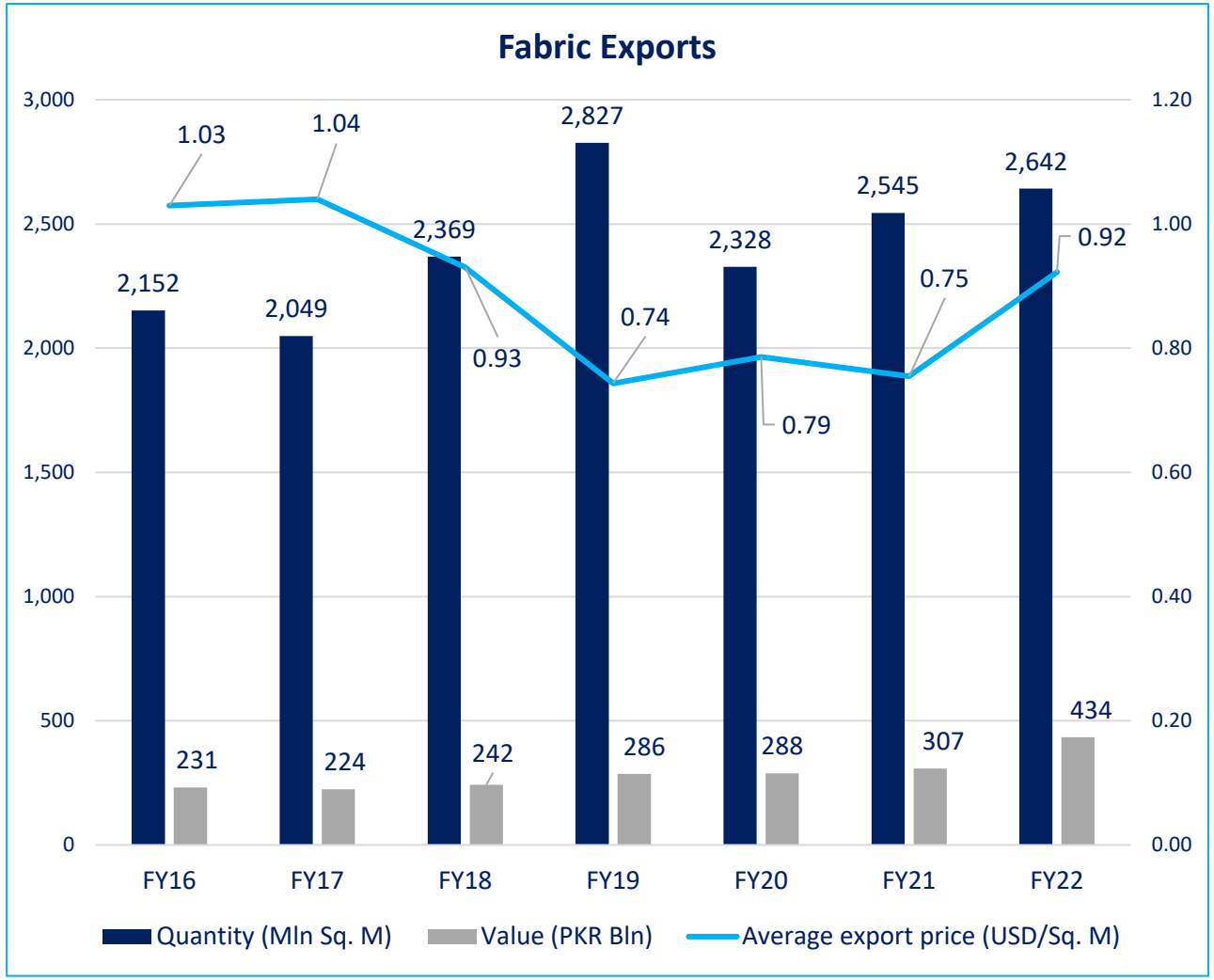
Cotton Cloth Exports

- During FY22, the export of cloth rose in volumetric terms, to ~2,642mln Sq. M from ~2,545mln Sq.M in FY21, an increase of ~3.8% (SPLY: ~9.3%).
- Compared to FY21, the marginal increase in volumetric exports in FY22 was due to a combined slowdown in local and global demand for textile exports, elevated cotton prices, and demand-supply gap disruptions.
- In value terms, exports of fabrics stood at PKR~434bln in FY22, a ~413.7% increase from PKR~307bln in FY21. This significant increase is attributable to an increase of ~122.7% in the average export price of fabric which in turn is due to depreciation of the PKR against the USD by ~11.0% between the years FY21 and FY22.
- In previous years, the average export price had experienced a declining trend due to high competition and low levels of value addition. However, in FY22, supply chain bottlenecks and elevated cotton prices for the major part of FY22 precipitated a rise in prices.
- During FY22, the export of fabrics contributed ~12.6% to the country's total textile exports which amounted to ~7.7% of the country's total exports.



Source: PBS

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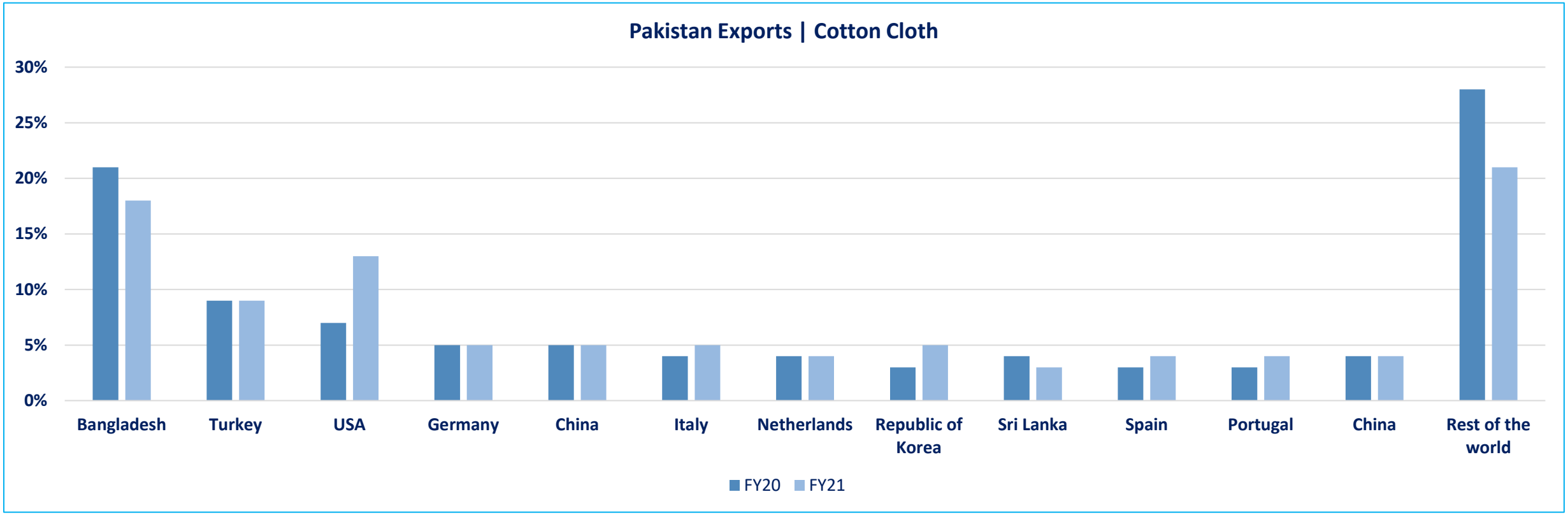
Export Destinations

- Approximately ~18% of Pakistan's cotton cloth exports are concentrated towards Bangladesh, which is a significant player in the global textile finished goods market.
- Other export destinations include European countries such as Turkey (~9%), Germany and Italy (~5% each), Netherlands (~4%) and Spain (~4%), as well as USA, ~13%.



Source: TDAP

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Business Risk

- **Decline in local cotton production:** Pakistan missed its cotton production target this year by 2.2mln bales as final cotton yield stood at 8.3mln bales. However, the production was higher compared to the previous year in which production was reduced from ~8.0mln bales down to ~5.0mln bales, due to severe impact of pest attacks and climate change. While the current season's crop estimates stands at ~7mln bales, the actual production may fall as the early onset of summers, water shortages, and heavy monsoon rains in both Sindh and Punjab have posed significant risks to the newly sown cotton crop.

- **Rising raw material prices:** The shortage in supply of cotton in local and international markets has resulted in increase in prices of both cotton and other items within the textile value chain such as yarn, which is the raw material for the weaving sector. Raw material constitutes ~60% of the sector's direct costs and thus profitability depends on the players' ability to continue to pass on the increased price impact.

- **Low level of value addition:** Although, the increased demand in past year has increased the overall profitability of the sector, it remains a low value addition sector with historically narrow margins.

- **High Energy Costs:** Although the government provides the textile industry with subsidized RLNG at USD~9.0 per mmbtu, which increased from USD~6.5 per mmbtu on August 1, 2022, and electricity at USD~9.0 cents per kwh, these rates are above the regional average for countries such as India, Bangladesh and Vietnam which reduced the competitiveness of Pakistan's fabric exports.

- **Disruption in electricity and gas supply:** The weaving sector depends on an uninterrupted supply of electricity and gas. Loadshedding of energy supply and curtailment of gas supply meant that the industry was unable to meet its export orders on a timely basis, which resulted in a loss of revenue.

- **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 which benefited Pakistan, the regional competition continues post the pandemic.

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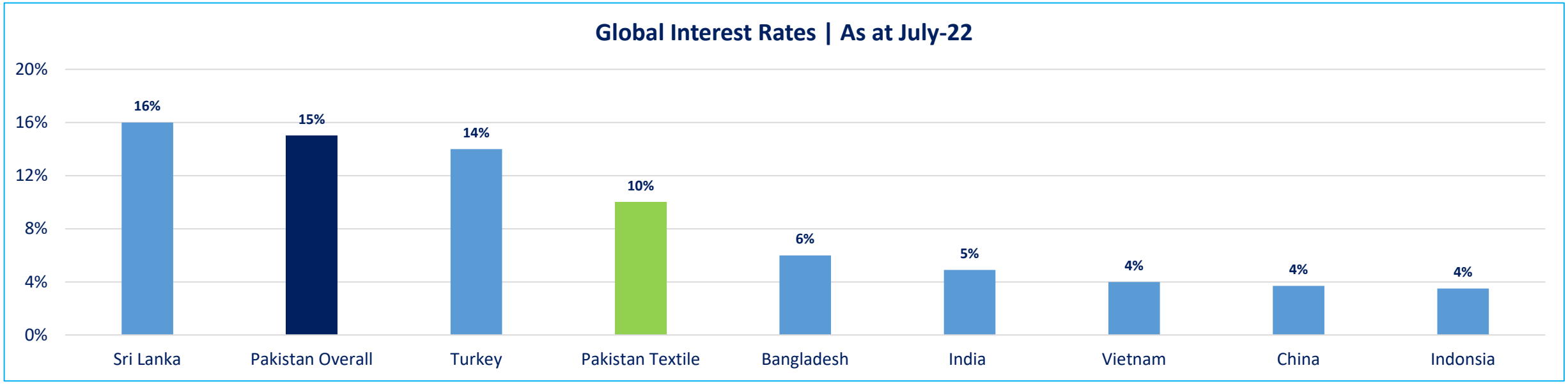
Regional Cost Comparison



- Pakistan has the second highest interest rate in the region after Sri Lanka. The high cost of borrowing acts as a barrier to investments in various sectors. Garments, on the contrary, falls in the ambit of export sector which has access to subsidized financing facilities from the SBP in the form of short term Export Refinance Facility (ERF) and Long Term Financing Facility (LTFF). On a regional level, Sri Lanka and Turkey have the lowest borrowing rate.
- Despite a recent increase in minimum wage (USD~0.64/hour from USD~0.57/hour), the country maintains a competitive advantage of low labor cost over regional players including China, Vietnam, Indonesia and Turkey. However, countries such as Sri Lanka, Bangladesh and India continue to have comparatively lower minimum wage rates.

Source: Trading Economics, globalpetrolprices.com, APTMA, OGRA

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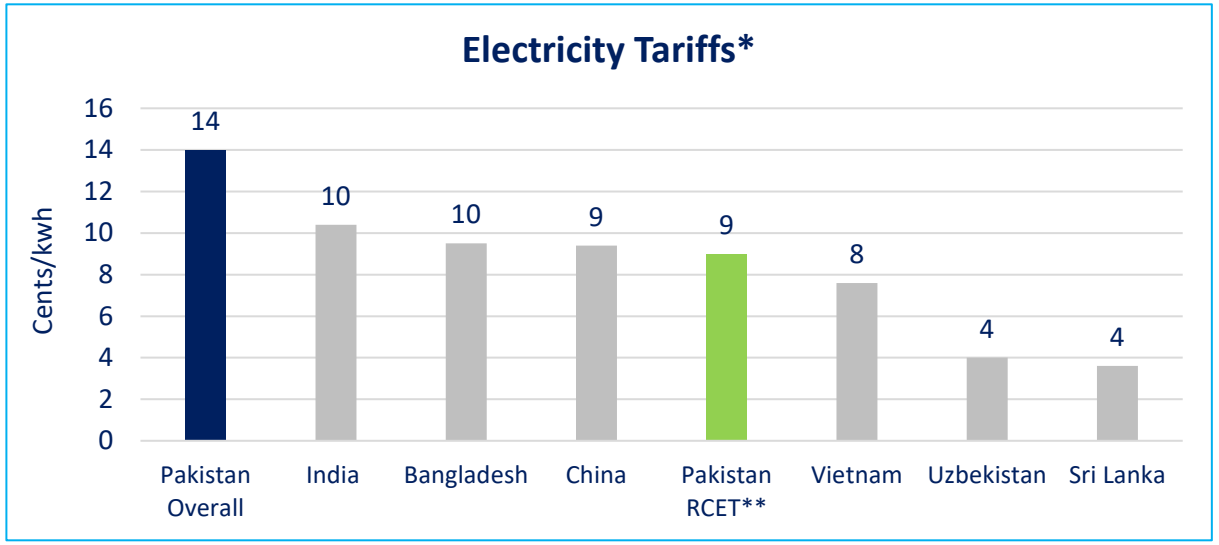
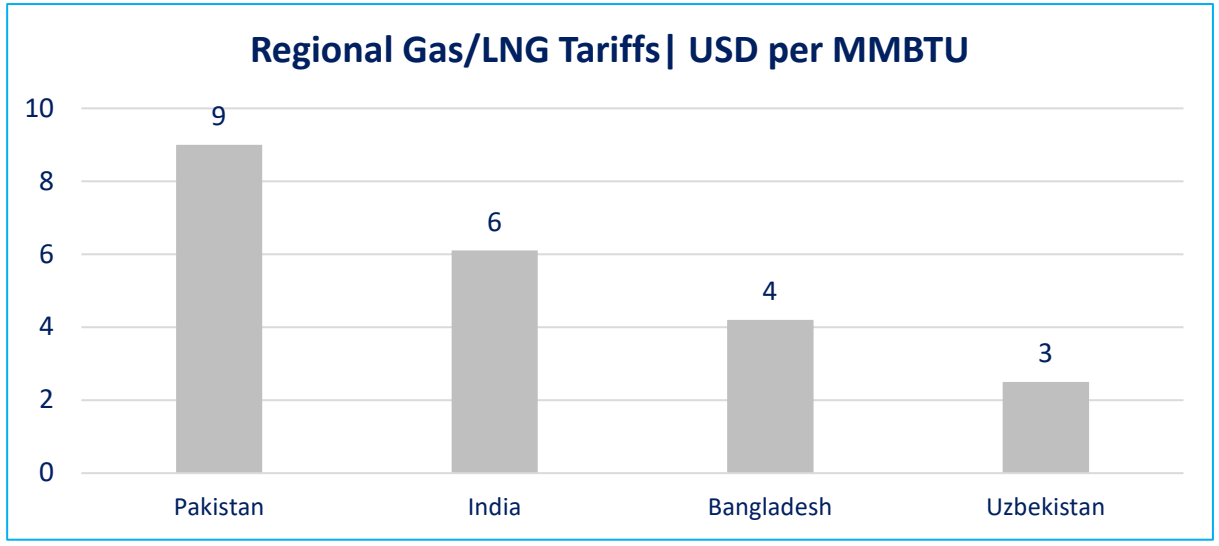
Electricity and Gas Tariffs | Local Issues and a Regional Comparison





- Pakistani 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 provides subsidized electricity and 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, these RCETs are still higher when compared to tariffs in Vietnam, Uzbekistan and Sri Lanka. 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.
- RCET for the textile sector amounts to 9 cents/kwh while gas rates have been increased to USD9.0 from USD6.5 per mmbtu in light of higher import prices for RLNG which is being sold at a retail price of USD~18.0 per MMBTU in July-22.
- Gas remains the major or only source of energy for ~75% of the textile industry which consumes only ~8% of the national gas supply. Therefore, any disconnection of gas has severe consequences for the local textile industry and export orders. In FY21, total gas supply was 4,300 MMCFD out of which 368 MMCFD was consumed by the textile industry. Compared to regional players, the local textile industry's gas/LNG tariff is significantly higher.

**Pakistan's figures are based on CY21 figures*

Source: Trading Economics, globalpetrolprices.com, APTMA, OGRA

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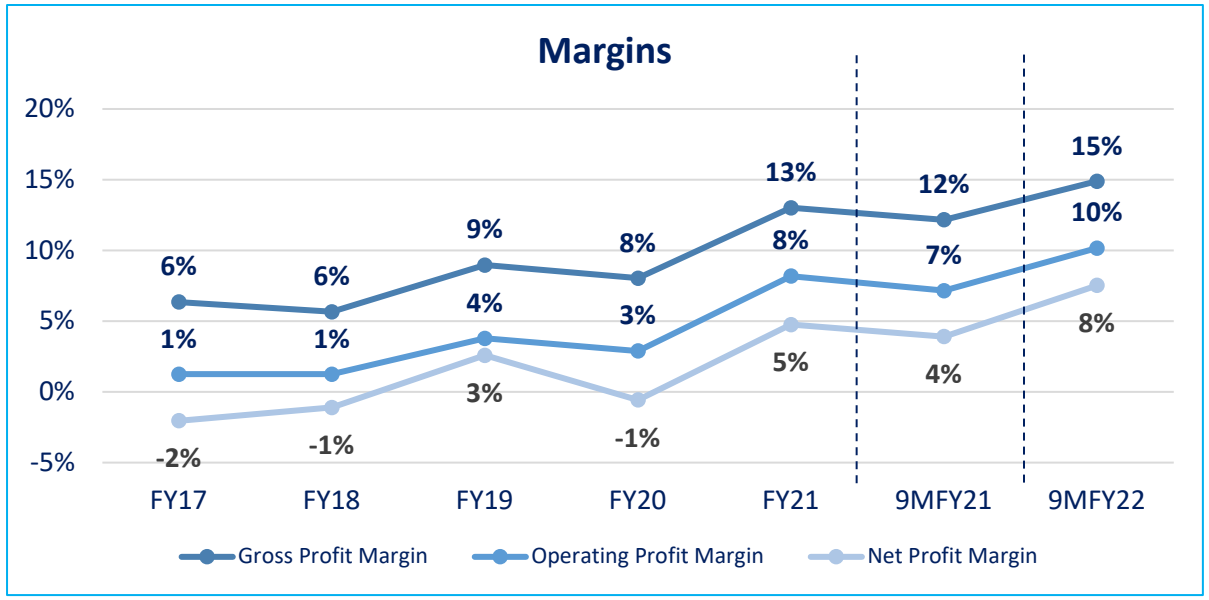
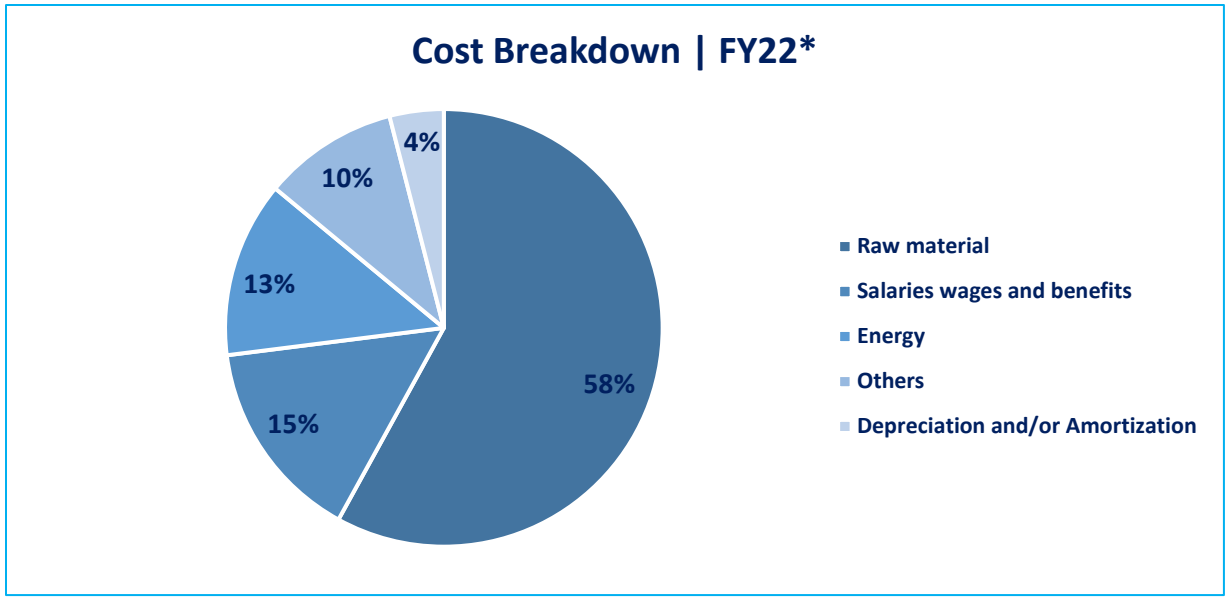
Margins & Cost Structure

- During 9MFY22, all three margin figures increased compared to the SPLY and this was mainly due to the increase in local and export demand volumes during this time period. Factors which weighed heavily on corporate profitability were rising freight costs, a high policy rate (which has led to an increase in finance cost), and rising fuel and power costs.
- The largest component within direct costs is raw material, comprising ~58% of the total manufacturing cost, followed by salaries, wages and benefits (~15%) and energy (~13%). The raw material for the sector, cotton yarn, has been impacted by rising cotton prices, both locally and internationally, which has increased production costs.
- Rising fuel costs and gas tariffs are a significant concern for the weaving industry because energy comprises a significant proportion of cost of sales. Indigenous gas tariffs for export oriented (captive) industry is PKR~852 per mmbtu rising from PKR~786 per mmbtu while the (latest) retail price for imported RLNG in July-22 is PKR~3,922 per mmbtu.





Note: Margins and cost break up are reflective of ~8 listed/rated weaving players,
**Cost Breakdown data has been prorated prior to calculating proportions*

Source: PACRA Database

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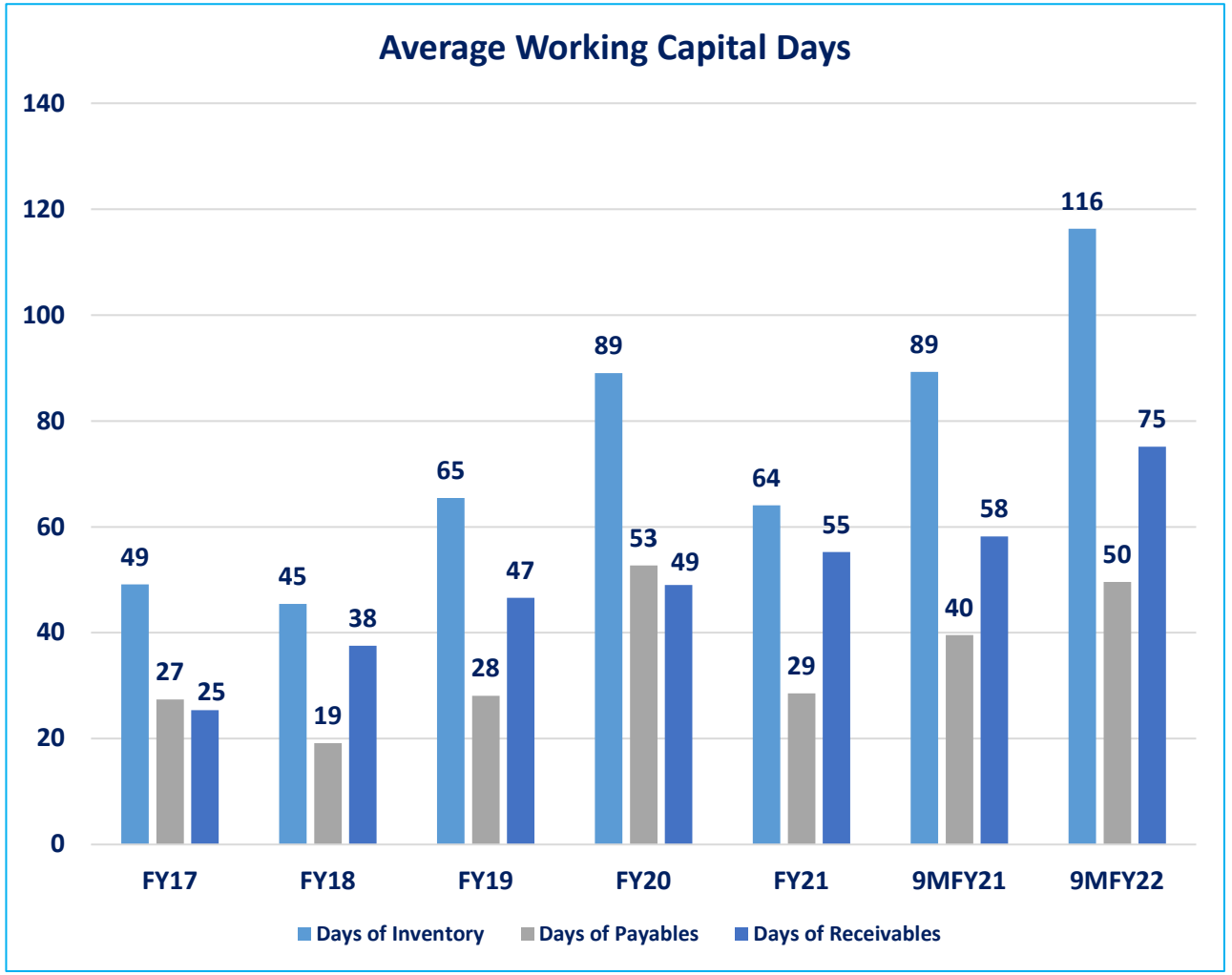
Financial Risk | Working Capital

- The sector's working capital needs are largely a function of inventory and trade receivables. Inventory consists mostly of raw material and finished goods while work-in-process makes only a small contribution.
- The industry's average working capital cycle is around ~96 days.
- The sector's working capital cycle has experienced a significant rise in the 9MFY22 period increasing to ~142 days compared to ~108 days in the SPLY. This is due to the significant rise in days of inventory on hand which rose from ~89 days in the 9MFY21 period to ~116 days in the 9MFY22 period.
- In addition, receivable days have also increased by ~10 days in the 9MFY22 period from the SPLY further lengthening the working capital cycle.
- 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 is largely financed through short term borrowings which include Export Finance Scheme (EFS) which amounts to PKR~79bln. In July-22, the markup rate for EFS schemes was increased from 7.5% to 10.0%. Going forward, this will increase the cost of borrowing for the weaving sector.



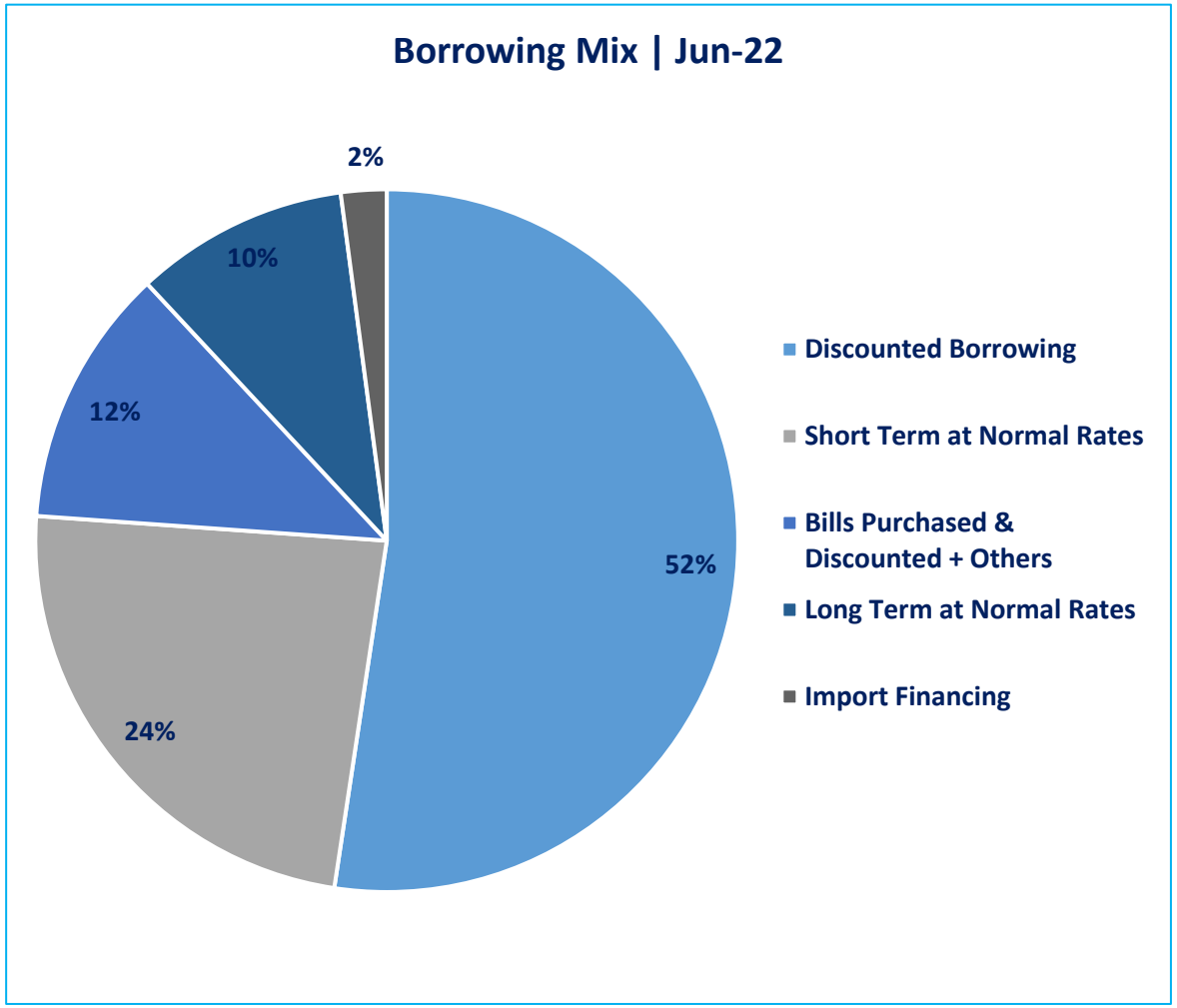
Note: Working capital cycle is reflective of ~8 listed/rated weaving players

Source: PSX, PACRA Database

Weaving

Financial Risk | Borrowing Mix

- The total borrowing of weaving sector as at End-Jun-22 stood at PKR~321bln as compared to PKR~243bln at End-Jun-21, up by ~32% YoY.
- The largest share is occupied by discounted borrowings which comprise ~52% of the sector's borrowings (June-21: ~52%) and includes borrowing under the export financing scheme (comprising ~25% of total borrowings; June-21: ~31%) and the Long-term finance and temporary economic relief facility (comprising ~28% of total borrowings; June-21: ~24%)
- The second highest borrowings are normal rate short-term loans which comprise ~24% of total borrowing.
- The overall textile industry's infection ratio stood at ~8.3% in Jun-22, exhibiting gradual improvement from Mar-22 when it was ~8.6%. However, the infection ratio still remains elevated in comparison to overall banking credit NPL which stood at ~7.5% in Jun-22.



Note: Leverage figure is reflective of ~9 listed/rated weaving players

Source: SBP Quarterly Compendium, PACRA Database

Weaving

Regulatory Framework

- With respect to Income Tax, the weaving sector is under the Normal Tax Regime (NTR). Further, the sector is also subject to Minimum Tax @ 1.25% of turnover, if tax liability under NTR is lower than minimum tax. However, the additional tax paid under minimum tax is adjustable against future tax liabilities for the next three years.
- In FY22 finance bill, a super tax was introduced and will be imposed at a rate of 10% on textile manufacturers whose income exceeds PKR~300bln.
- In addition, sales tax of 17% is applicable on both the raw material, i.e. yarn and finished goods, i.e. fabric. In addition to Sales Tax, there is Advance Tax of 1% applicable on the import of these products. However, the amount of Advance Tax is adjustable against final income tax liability.
- The government also provides Drawback of Local Taxes and Levies (DLTL) at the rate of 2% on eligible product line of processed fabric (2% additional drawback is also allowable for exports to non-traditional markets).
- The sector receives discounted financing from SBP under the Export Finance Scheme (EFS) and the Long Term Financing Facility (LTFF). In July-22 the rates for these schemes increased from 7.5% to 10.5% and 2.0% to 10.0%, respectively.
- 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, loan for payment of employee salaries and wages and facilitation of new investment, expansion and BMR activities through the Temporary Economic Refinance Facility (TERF).
- In addition, SBP also increased the monetary policy rate by 250 bps to 12.25% in April-22 and a further 150 basis points to 13.25% in May-22 which has led to an increase in financing costs. The policy rate was further revised by a further 175 basis points to 15.00% in July-22.
- 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

Weaving

Custom Duty Structure

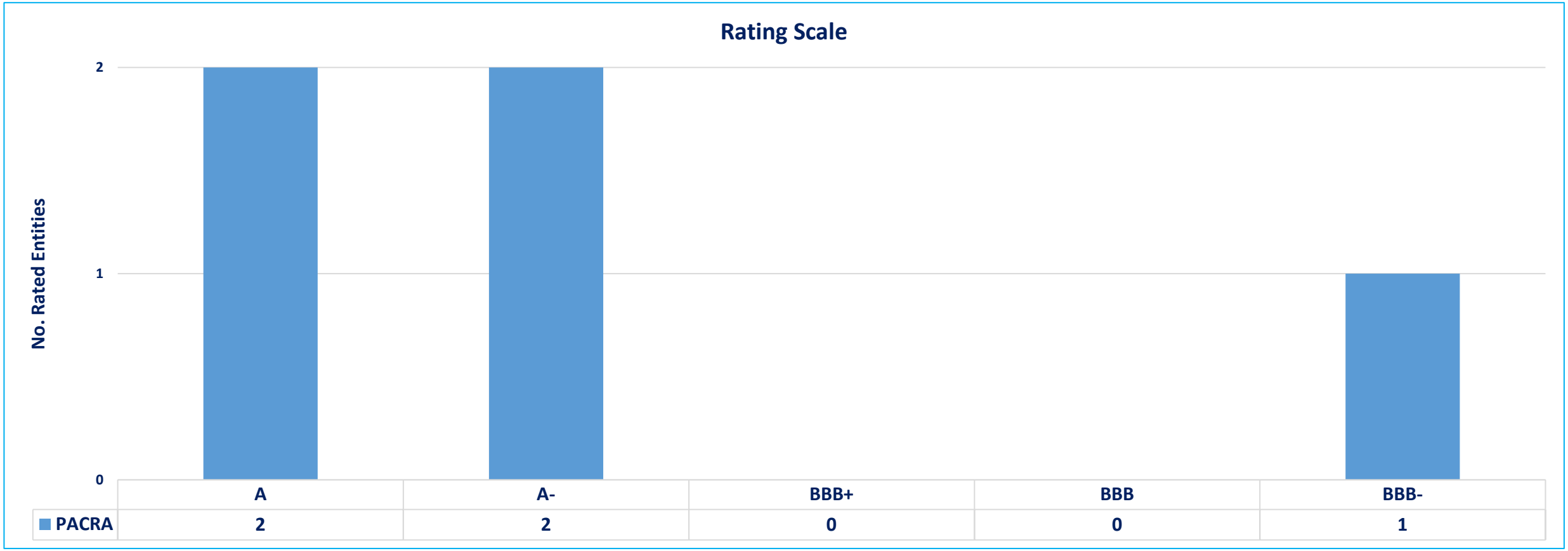
PCT Code	Description	Additional Custom Duty		Custom Duty		Regulatory Duty		Total	
		FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21
52.05	Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale	2%	2%	11%	2%	2%	0%	15%	2%
52.06	Cotton yarn (other than sewing thread), containing less than 85% by weight of cotton, not put up for retail sale	2%	2%	11%	2%	2%	0%	15%	2%
52.07	Cotton Yarn (other than sewing thread) put up for retail sale	2%	2%	11%	2%	2%	0%	15%	2%
52.08	Woven fabric of cotton, cotaining 85% or more by weight of cotton, weighing not more than 200g/m2	2%	2%	11%	2%	2%	0%	15%	13%
52.09	Woven fabric of cotton, cotaining 85% or more by weight of cotton, weighing more than 200g/m2	2%	2%	11%	2%	2%	0%	15%	13%
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%	2%	11%	2%	2%	0%	15%	13%
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%	2%	11%	2%	2%	0%	15%	13%
52.12	Other woven fabrics of cotton	4%	4%	16%	4%	2%	0%	22%	20%

Source: FBR

Weaving

Rating Curve

- PACRA rates 5 weaving players with a rating bandwidth ranging from BBB- to A.



Weaving

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 fibers
- Large unorganized segment

Threats

- Uncertainty due to 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

- The textile industry is one of the most important industries to Pakistan's economy. In FY22, textile exports contributed ~60.7% to the country exports (FY21: ~60.9%).
- During FY22, the weaving sector's fabric exports grew by ~41.4% to PKR~434bln from PKR~307bln in FY21. Higher cotton prices and exchange rate depreciation helped boost export revenues in PKR terms.
- However, global recession following interest rate hikes has dampened the demand for textile exports and this reduced demand trend is expected to persist in the near-term. On the domestic front, high inflation (which peaked at ~24.9% in July-22) has curbed domestic demand. This trend is likely to persist for the foreseeable future.
- Adverse climate-related factors may negatively impact cotton production going forward which means that more cotton may need to be imported to meet raw material requirements. After a declining trend in cotton prices observed post April-22 till Jul-22, prices are now ticking upwards. This will serve to increase raw material costs for the weaving sector.
- Rising global freight costs is expected to increase the cost of importing raw material for manufacturers.
- While the Government has facilitated textile exporters with a RCET rates, the recent increase in RLNG tariffs will serve to increase sector production costs and reduce margins. In recent developments, the Cabinet Division has signed a corrigendum indicating a likely reversal of the reduced electricity tariff, which was otherwise approved in Jul-22. This will substantially increase manufacturing costs and affect regional competitiveness.
- The decision taken by the State Bank of Pakistan (SBP) to increase the policy rate by 150bps to 13.25% in the last quarter of FY22 has increased the borrowing costs for the sector. Moreover, an increase in the EFS and LTFF rates and policy rate in July-22 will further increase financing costs for a sector which is important to Pakistan's GDP growth.
- In addition, the increase in custom duty and the imposition of a super tax will further serve to hurt the bottom line of players operating in the weaving sector.
- Interruptions in gas supply during the end of FY22 meant that the weaving sector lost out on export orders. However, this issue has since been resolved.
- Despite the present global and domestic challenges faced by the weaving sector, the contribution of the sector to industrial growth and its importance is undebatable. Therefore, it is believed that once the global and local economy recovers from its present slowdown, the industry will experience an increase in export and domestic orders. Should the reversal of the RCET policy materialize, sector production costs will considerably increase and serve to adversely impact profitability margins for the sector.

Source: PBS, SBP

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