SPINNING SECTOR - OVERVIEW

- Value Chain
- World Cotton Dynamics
- Pakistan Cotton Statistics
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- Pakistan's Exports
- Opportunities
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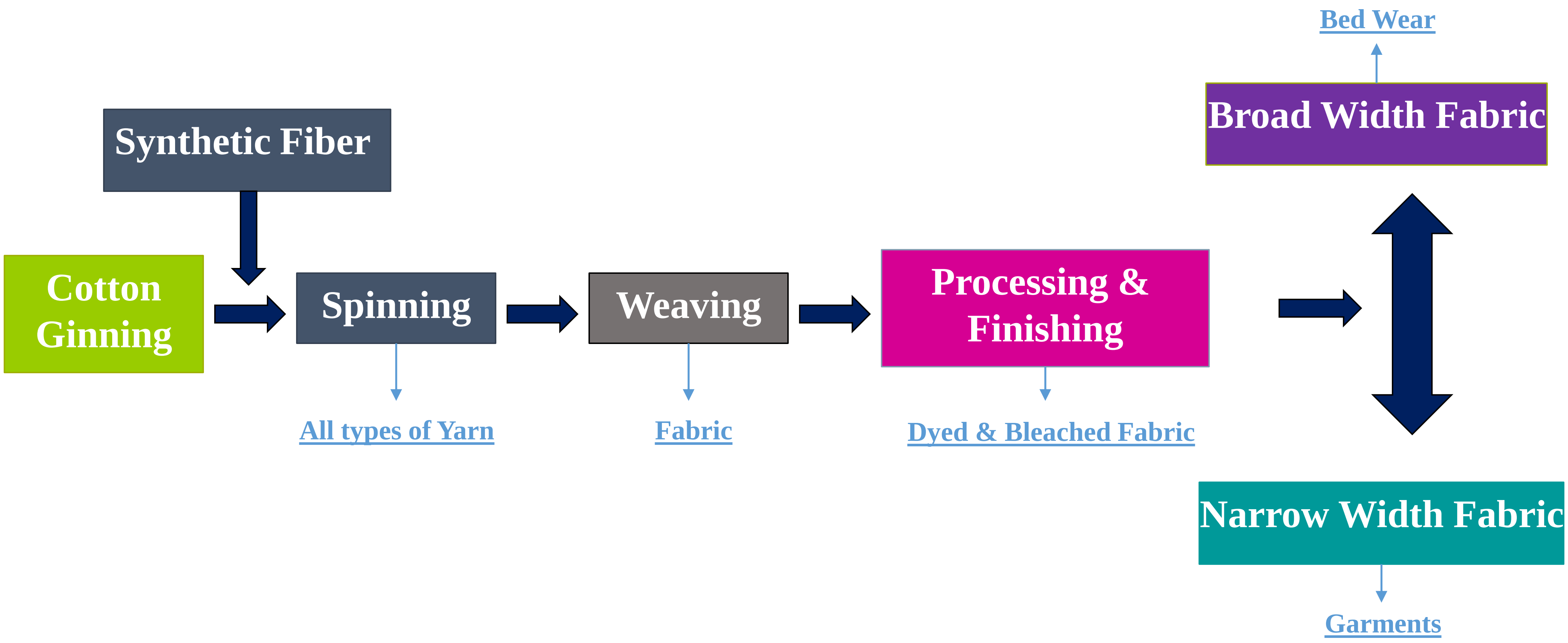
September 2019

Textile | Value Chain



Outputs at different stages of Textile Value Chain

Cotton Dynamics | World Production

- **China & India** are still the world's biggest cotton players: contribution: **~46%**

- **India** is the leading world cotton producer.

- **Pakistan** down to world's 5th largest cotton producer. **Brazil** has taken the lead.

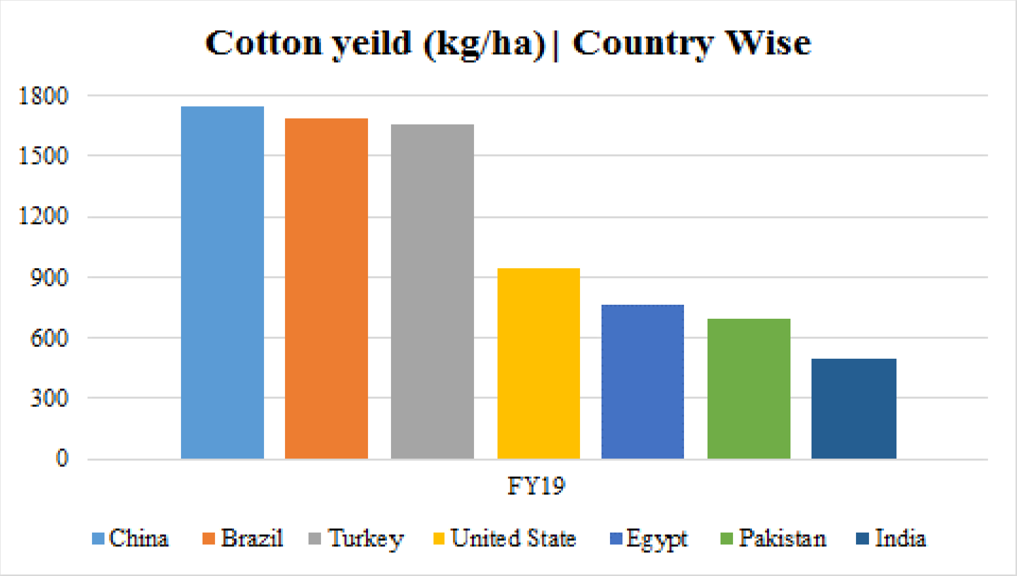
World Cotton Production

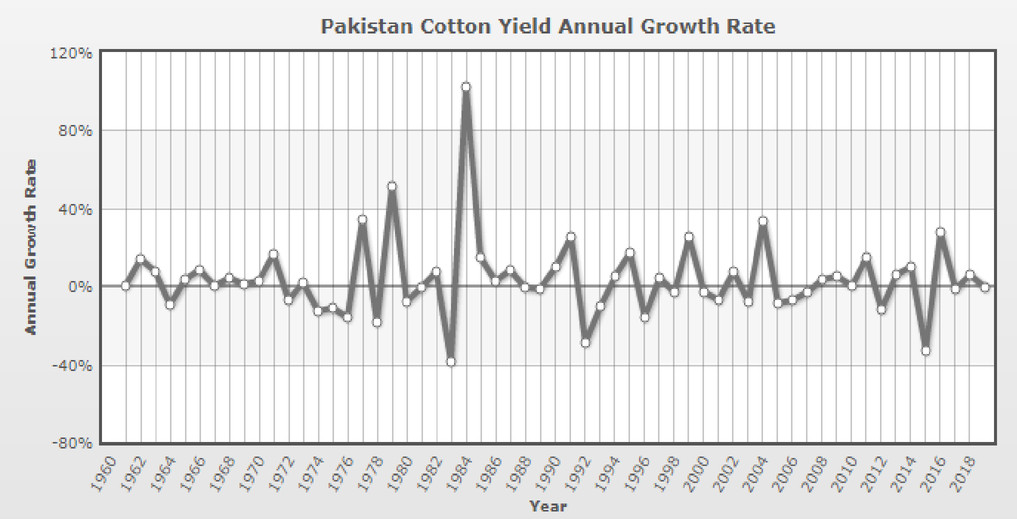
Millions of 480 lb. Bales	FY15	FY16	FY17	FY18	FY19
India	26	27	29	26	29
China	22	23	28	28	28
United States	13	17	21	18	22
Brazil	6	7	9	13	12
Pakistan	7	8	8	8	8
Rest of World	22	25	29	25	27
World Total	**96**	**107**	**124**	**118**	**125**

Source: USDA

Country wise cotton production | Pakistan's Cotton yield annual growth rate

- China has the highest per hector yield which is more than double of Pakistan's.
- Brazil is second best in terms of yield, followed by Turkey.
- Pakistan cotton yield growth has followed a mixed trend.
- In last five decades Chain's productivity has grown substantially.

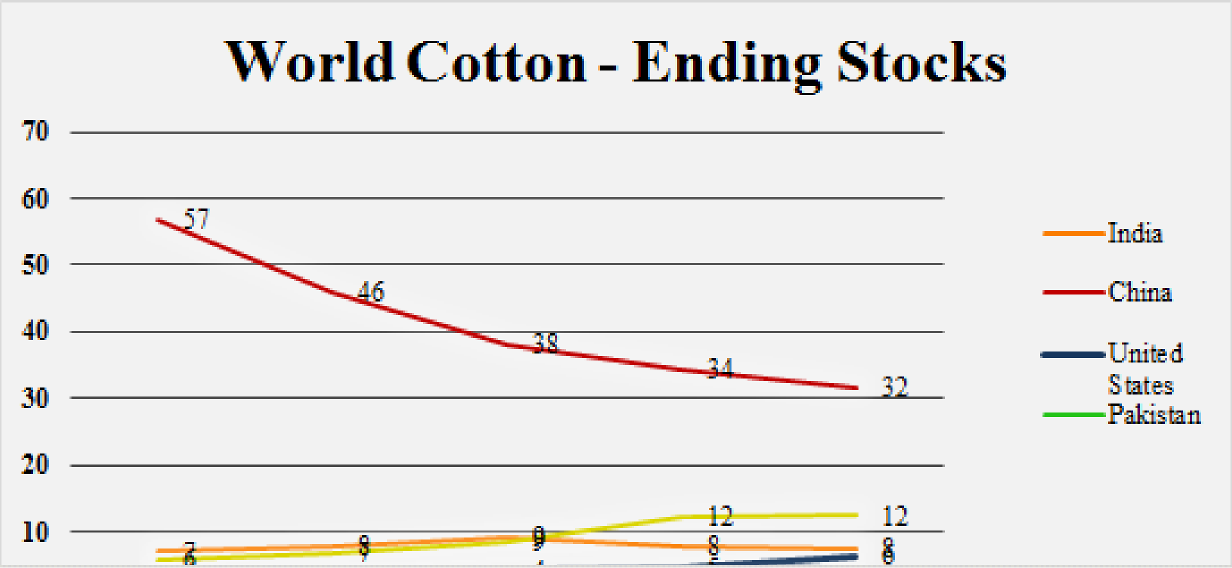




Source: Index mundi

Cotton Dynamics | World Inventories

- China still the largest stockholder of cotton. However its stocks are declining since FY15.



World Cotton Ending Stocks

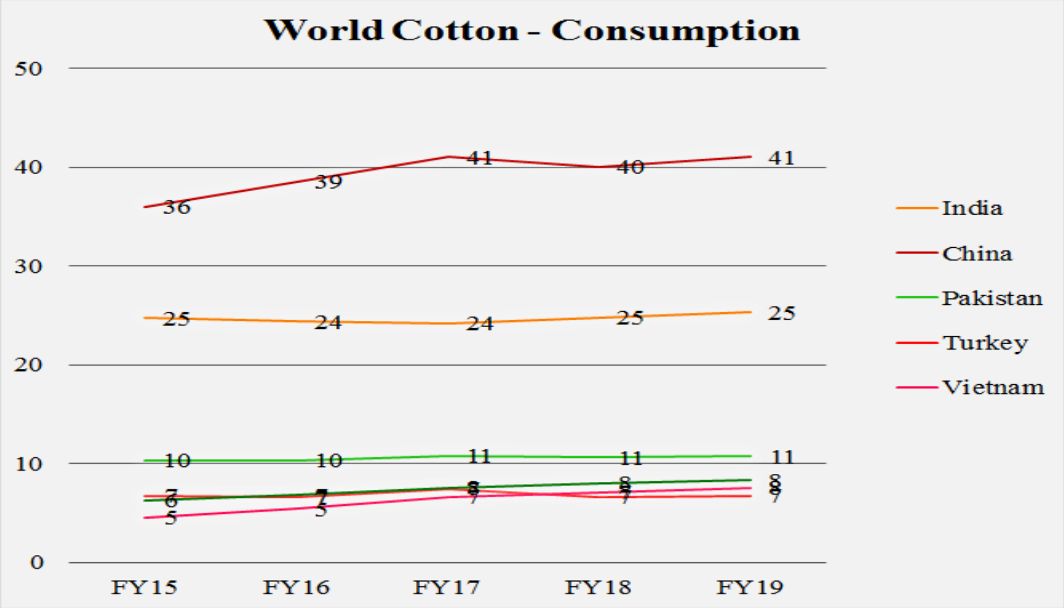
Millions of 480 lb. Bales	FY15	FY16	FY17	FY18	FY19
China	57	46	38	34	32
India	7	8	9	8	8
Brazil	6	7	9	12	12
United States	4	3	4	5	6
Pakistan	3	2	3	3	3
Rest of World	14	15	18	16	17
World Total	**90**	**80**	**81**	**78**	**77**

Source: USDA

Cotton Dynamics | World Consumption

- **China** continues to gain consumption levels, owing to new capacities in southern China.

- **Bangladesh, Vietnam and Turkey** are rising competitors.



World Cotton Consumption					
Millions of 480 lb. Bales	Aug 14 - July 15	Aug 15 - July 16	Aug 16 - July 17	Aug 17 - July 18	Aug 18 - Mar 19
China	34	35	38	41	41
India	25	24	24	25	25
Pakistan	11	10	10	11	11
Bangladesh	6	6	7	8	8
Turkey	6	7	6	7	7
Vietnam	4	4	5	7	7
Rest of World	26	25	24	25	25
World Total	**115**	**115**	**117**	**126**	**126**

Source: USDA

Cotton Dynamics | World Trade

- **Vietnam's** cotton import has significantly increased since 2015.
- **USA** holds the position of largest cotton exporter in the world.
- **Brazil** exports are continuously gaining volumes.

World Cotton Exports

Millions of 480 lb. Bales	FY15	FY16	FY17	FY18	FY19
United States	9	15	16	15	17
India	6	5	5	4	5
Australia	3	4	4	4	2
Brazil	4	3	4	6	8
Greece	1	1	1	1	1
Rest of World	12	11	11	12	12
World Total	35	38	41	42	45

World Cotton Imports

Millions of 480 lb. Bales	FY15	FY16	FY17	FY18	FY19
Bangladesh	6	7	8	8	8
Vietnam	5	6	7	7	8
China	4	5	6	8	11
Turkey	4	4	4	3	3
Indonesia	3	3	4	3	3
Pakistan	3	3	3	3	3
Rest of World	10	10	10	11	9
World Total	35	37	41	42	45

Source: USDA

Textile | Pakistan Cotton Arrivals

Cotton Arrivals for the Season (Sep-April)									
Region	Arrivals (mln Cotton Bales)								
	2014-15	2015-16	2016-17	2017-18	2018-19*	2015-16	2016-17	2017-18	2018-19
Punjab	5.9	6.0	6.9	7.3	6.6	2%	16%	5%	-9%
Sindh	4.0	3.8	3.8	4.3	4.1	-5%	1%	12%	-2%
Total of Pakistan	**9.9**	**9.8**	**10.7**	**11.6**	**10.8**	**-1%**	**10%**	**8%**	**-7%**

Source : PCGA

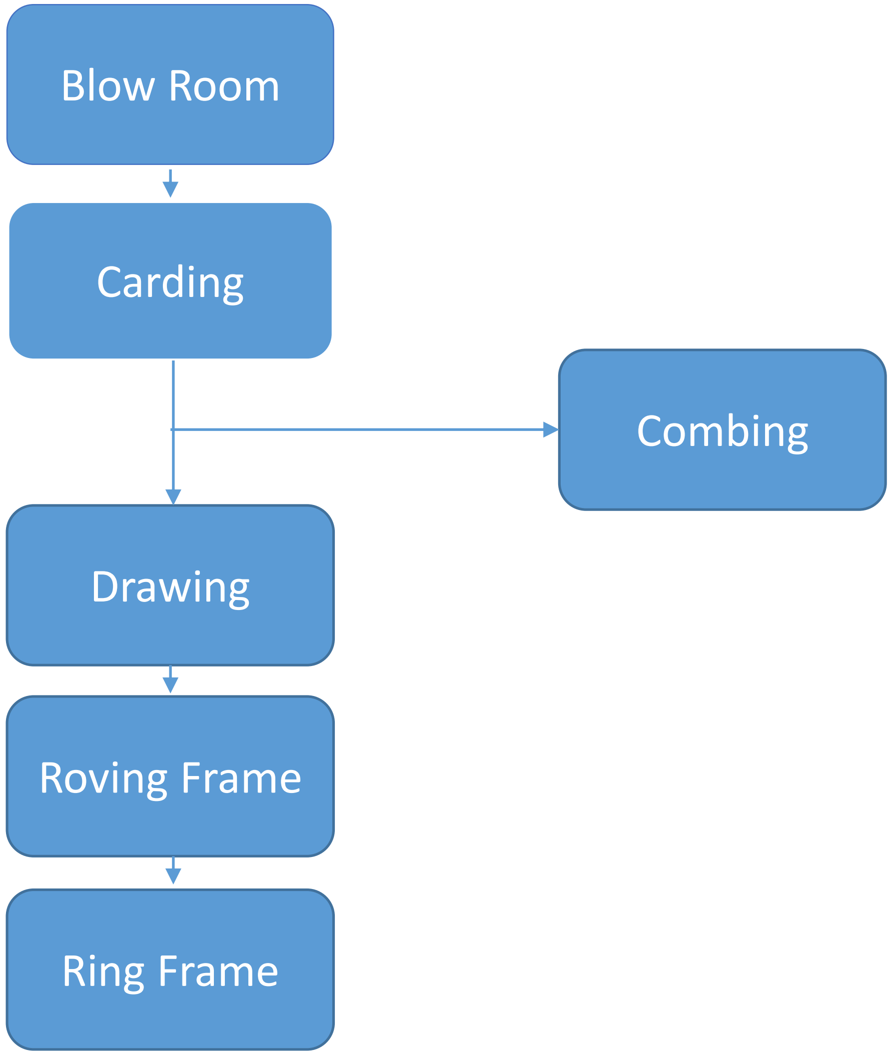
- **Area under cultivation and cotton crop for FY20:**
  - Sowing area has increased by 14% (FY20: 2.65mlnha, FY19: 2.32mlnha)
  - 95% of set target is achieved (Target: 2.78mlnha).
  - Expected crop is to be better than last year.

Cotton 480lb bales (mln)	FY16	FY17	FY18	FY19
Opening Stock	3.0	2.3	2.8	2.9
Production	7.7	8.2	8.0	7.8
Imports	2.4	3.3	3.0	2.9
Total	**13.1**	**13.8**	**13.8**	**13.6**
Consumption	10.3	10.8	10.6	10.7
Exports	0.5	0.2	0.3	0.0
Ending Stock	2.3	2.8	2.9	2.9
Total	**13.1**	**13.8**	**13.8**	**13.6**

Spinning Process

Spinning is the twisting together of drawn-out strands of fibers to form **yarn.**

- **Blow Room**: to form a uniform lap form cotton bale
- **Carding**: cleans and intermixes fibers to produce a continuous web
- **Combing**: separate short stable fibers from long stable fibers
- **Drawing**: Strengthening fibers by passing it through roller
- **Roving Machine**: fibers are converted into low twist lea called roving
- **Ring Frame**: spun and wound the fibers around a rotating spindle



Types of Yarn

Cotton Yarn

Synthetic Yarn (man made fiber)

- Acrylic: Resistant to weatherability with strength and stability
- Nylon: Tough, lightweight, elastic synthetic polymer
- Polyester: Resistant to chemicals, stretching and shrinking, wrinkle resistant and abrasion resistant

Blended Yarn:

A type of **yarn** comprised of various fibers being **blended** together. The purpose of the **blend** is to incorporate the properties and characteristics of various fibers into a mixed fiber.

Types:

- synthetic/synthetic blends
- synthetic/yarn blends

Spinning Industry of Pakistan

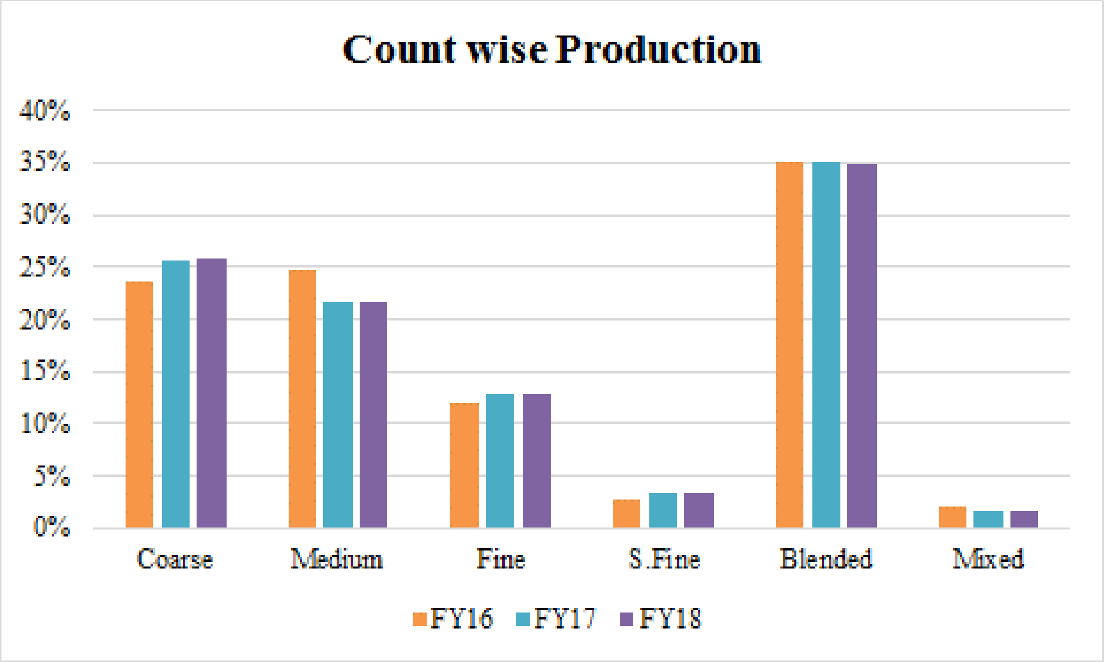
- Minor change in capacity, however number of working spindles has increased significantly (6%).
- This has been achieved on account of considerable BMR in organized sector

Regional Capacity and Production						
	Province Wise Breakup				Total	
	Sindh	Punjab	K.P	Baluchistan	FY17	FY18
No of Mills						
Spinning	110	332	19	10	**471**	**471**
Composite	17	23	-	-	**40**	**40**
Spindles installed (000)	2,662	9,546	838	269	**13,315**	**13,316**
Rotors installed (000)	97	85	3	14	**187**	**199**
No of Mills (Working)						
Spinning	67	276	16	8	**367**	**367**
Composite	15	21	-	-	**36**	**36**
Spindles working (000)	2,169	8,164	698	225	**11,181**	**11,257**
Rotors working (000)	57	59	2	8	**115**	**127**
Raw material consumed	**74**	**212**	**22**	**13**	**319**	**321**
Cotton (000 bales)	241	692	73	42	**1,065**	**1,049**
Fiber (000 bales)	99	283	30	17	**407**	**429**
Yarn Production	**66**	**188**	**20**	**11**	**287**	**285**
Cotton (000 MT)	43	123	13	7	**187**	**186**
Blended (000 MT)	23	65	7	4	**101**	**99**

Source: TCO

Cotton consumption | Yarn production

- Yarn count: **Count** is a number which indicates the mass per unit length or the length per unit mass of **yarn.**
- e.g. if one kg of yarn is spinned into 840 yards, the produced yarn will be of 1 single count. For 2 single count the length of yarn will be 1680 yards.



Cotton Consumption (mln bales 480lb)			
	FY16	FY17	FY18
Raw Cotton	1.1	1.1	1.0
Man made fibers	0.4	0.4	0.4
Total Cotton consumed	1.5	1.5	1.5

Pakistan Textile Exports

	FY18			FY19			2MFY19			2MFY20		
	Quantity	Per Unit Price ($)	Value ($mln)	Quantity	Per Unit Price ($)	Value ($mln)	Quantity	Per Unit Price ($)	Value ($mln)	Quantity	Per Unit Price ($)	Value ($mln)
Total Exports			23,279			23,041			3,651			3,753
Textile Exports			13,545			13,343			2,251			2,303
Textile Exports as % of Total			58%			58%			62%			61%
Subsegment-wise												
Raw Cotton (MT)	35,371	1,646	58	12,796	1,590	20	2,063	1,454	3	5,337	1,499	8
Cotton Yarn (MT)	490,258	2,797	1,371	428,016	2,628	1,125	79,733	2,809	224	81,987	2,525	207
Non-cotton Yarn (MT)	11,882	2,847	34	11,883	2,889	34	1,968	2,541	5	2,860	2,448	7
Cotton Cloth (th. sqm)	1,988,598	1,108	2,204	2,007,334	1,047	2,101	345,229	1,005	347	371,645	874	325
Knitwear (th. dozen)	107,611	25,268	2,719	134,548	21,610	2,908	21,440	22,388	480	20,731	26,096	541
Bed Wear (MT)	359,961	6,279	2,260	371,672	6,078	2,259	63,217	6,248	395	86,828	4,607	400
Towels (MT)	188,619	4,178	788	196,063	4,004	785	34,411	3,633	125	28,647	4,363	125
Garments (th. dozen)	36,240	71,612	2,595	48,870	54,378	2,657	7,450	58,389	435	10,436	44,749	467

- Pakistan - exports revenue heavily reliant on textile (**~60%**)
- **~0.1%** growth in textile exports of Pakistan on same period last year basis.

Top ten yarn exports destination of Pakistan

- China is the largest importer of yarn from Pakistan with 66% share. Followed by Bangladesh and Turkey.

Major yarn export destinations of Pakistan							
Sr.	Countries	FY16		FY17		FY18	
		US ($)	%	US ($)	%	US ($)	%
1	China	836,105	66%	801,407	64%	869,780	63%
2	Bangladesh	100,827	8%	83,669	7%	83,602	6%
3	Turkey	42,778	3%	62,550	5%	72,540	5%
4	Portugal	37,094	3%	49,984	4%	56,472	4%
5	Hong Kong	52,564	4%	34,507	3%	35,399	3%
6	S.Korea	30,633	2%	29,136	2%	34,004	3%
7	Japan	28,359	2%	30,253	2%	33,191	2%
8	Italy	16,372	1%	21,740	2%	30,091	2%
9	US	16,568	1%	12,055	1%	13,532	1%
10	Germany	5,788	0%	6,752	1%	12,346	1%
11	Others	95,701	8%	113,205	10%	127,819	10%
Total		1,262,789	100%	1,245,258	100%	1,368,776	100%

Spinning Industry | Duty Structure

- In Recent budget Government has ended Zero rating regime of Textile sector and imposed 10% sales tax on raw cotton and 17% on yarn.

- 3% additional sales tax is applicable on unregistered customers

Duty Structure		
	FY19	FY18
Import Duty		
Raw Cotton	4%	4%
Cotton Yarn	16%	16%
Polyester Yarn	11%	11%
Nylon Yarn	11%	11%
Viscose Yarn	11%	11%
Anti Dumping Duty		
Polyester Yarn	4-11%	4-11%
Sales Tax*		
Cotton	10%	0%
Yarn	17%	0%
**Additional 3% in case of Unregistered Sales*		

Spinning Industry | Opportunities

- Cotton procurement from international markets has been eased:

  - Lower International cotton prices.
  - Better yarn prices in local market for indirect exports

- Government is formulating a structure to release payable to textile industry. Government has already started issuing sukuks for sales tax refunds

- Subsidized energy rates for textile industry, eventually making local industry cost competitive with major regional players.

Textile Industry | Key Challenges

- In FY20 Area under cultivation improved which may ultimately result into better production
- Cotton diseases will remain a challenge, however water supply is expected to be better than last year.
- Rapidly increasing interest rates.
- Withdrawal of zero-rating status of textile sector which will cause liquidity crunch for export oriented units.
- Rupee depreciation has a negative impact on net importers.
- Higher labor cost, a factor of less automated machinery
- Reliance on Exports to China and decrease of demand from China due to US – China trade war
- Restrictions on unregistered sales creating hurdles for unorganized textile sector

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Prepared by:	**M. Haris Umar** ***Financial Analyst*** haris.umar@pacra.com	**Muhammad Hassan** ***Supervisory Senior*** Muhammad.hassan@pacra.com
	Contact Number: +92 321113999	

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