

# Textile Industry

*Inflationary trends, energy crisis hampering growth...*

*competition in the international market remains severe with Bangladesh, China and India being major competitors in the region*

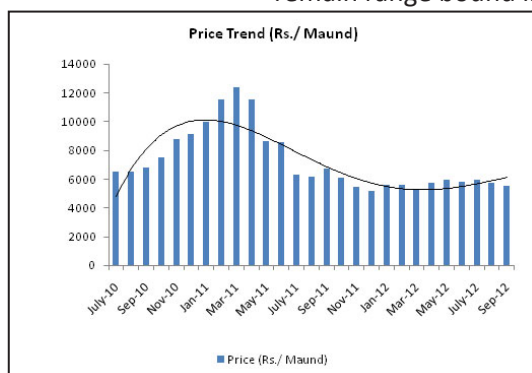
The textile sector is considered to be the backbone of Pakistan’s economy. Being the 4th largest producer of cotton, Pakistan has the 3rd largest spinning capacity in Asia after China and India. The importance of textile sector can be gauged from its contribution of around 8.5% to the total GDP of the country. Being a labor intensive industry, it also generates employment opportunities for the unskilled workers. Textile and clothing industry comprises around 46% of the total manufacturing sector and also provides employment to 38% of the manufacturing labor force. During FY12, the sector contributed around 53% (2011: 52%) to the national exports. As per the record of Textile Commissioner Organization, spinning sector of Pakistan comprises 521 textile units (50 composite units and 471 spinning units) with a capacity of around 9.99m spindles and 116,000 rotors. Weaving sector’s contribution to total textile exports increased to 20% (FY11: 9%) during FY12.

During prior years, variation has been witnessed in the sector’s performance on account of volatility in cotton prices. Average price of cotton for the month of February, 2013 stood at 89.7 US cents per pound against a fiscal year to date average of 83.4 US cents per pound. In line with the international prices, domestic cotton prices have also increased to Rs. 6,500/maund against FY12 average of Rs. 5,831/maund. The increase in prices has been on account of temporary imbalances in some countries with rising consumption of cotton and low inventories; however with expectations of sufficient overall availability of cotton, prices in the international markets are expected to remain range bound in the foreseeable future. Increase in cotton prices has

had a positive impact on the local textile industry in the form of inventory gains and improved margins.

The sector is also sensitive to total production of cotton locally and availability of the commodity in the international markets. As of March, 2013, United States Department of Agriculture (USDA) estimates global 2012/13 cotton production at 119.9m bales, a decline of around 3% from the preceding year. Lower cotton production is attributable to a less favorable market environment and depressed cotton prices which has compelled

growers towards competing crops. Global harvested area for 2012/13 is estimated at 34.2m hectares, 4% lower than the previous year while world yield is estimated at 764 kg/hectare. Increased production is expected in China and USA whereas production is expected to decline in Australia, Brazil, India and Pakistan. China’s 2012/13 production is estimated to increase by 6% to 35.0m bales while its harvested area is estimated at 5.3m hectares, a decline of 2% from the preceding year. USA cotton production is estimated



to increase by 9% with 17.0m bales expected from 2012/13. Pakistan and India are expected to produce 9.3m bales and 25.5m bales in 2012/13, down 12% and 7% respectively, from the preceding year as crops were affected by late monsoon. Harvested area in Pakistan is estimated to remain unchanged at 3.0m hectares while in India it is estimated at 11.7m hectares, down 4% from the preceding year.

Global 2012/13 cotton consumption is expected to increase by 4% from the preceding year and is estimated at 107.1m bales. As per USDA March, 2013 estimates, Chinese consumption of cotton is expected to increase to 36m bales (February estimates 35m bales). Additional demand from China is expected to be met through higher imports. India and Pakistan are estimated to consume 21.7m bales and 11.5m bales, respectively.

Being an export oriented industry, the sector is also dependent upon the demand pattern of textile products by major importing economies. USA and European economies are the major demand drivers. China is a leading player in the textile industry. National reserves of cotton maintained by China are equivalent to around one-year of own consumption. Competition in the international market remains severe for Pakistan with Bangladesh, China and India being the major competitors within the region. Growth in exports of these countries superseded that of Pakistan. Pakistan's underperformance is largely a function of domestic problems faced by the country. These include energy crises, weak law & order situation and inflationary trends in the economy.

Over the years, share of China has increased in total world exports, while share of Pakistan remained constant.

Textile exports from Pakistan declined by 10.7% in FY12 to USD 12.2b (FY11: USD 13.6b). Export of cotton yarn decreased by 18% in FY12 to USD 1.8b on account of bearish trend in global prices of yarn. In FY12, aggregate sales of top five listed players in the composite textile sector were lower at Rs. 129.4b (FY11: Rs. 135.8b); moreover, gross margin of these players on an average was lower at 13.7% (FY11: 16.1%). With reduction in sales and gross margins, aggregate profits of top five industry players declined to Rs. 5.9b (FY11: Rs. 9.8b) relative to prior year. In 1HFY13, with improvement in price of yarn, gross margins have witnessed an uptick.

#### Global Cotton Production Statistics

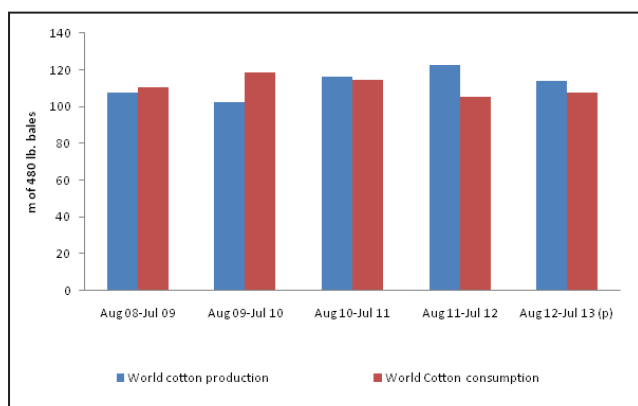
(000 bales)	2009/10	2010/11	2011/12	2012/13*
China	32,000	30,500	33,100	35,000
India	23,800	26,400	27,500	25,500
USA	12,188	18,104	15,573	17,010
Pakistan	9,240	8,640	10,600	9,300
Brazil	5,450	9,000	8,700	6,300
Australia	1,775	4,200	5,500	4,200
Uzbek.	3,900	4,100	4,200	4,500
Other	13,805	15,387	18,961	18,058
Total	102,158	116,331	124,134	119,868

\* March, 2013 USDA estimates

#### Global Cotton Consumption Statistics

(000 bales)	2009/10	2010/11	2011/12	2012/13*
China	50,000	46,000	38,000	36,000
India	19,750	20,550	19,950	21,750
Pakistan	10,400	9,900	10,000	11,500
Turkey	5,900	5,600	5,600	6,100
Brazil	4,400	4,300	4,000	4,100
Banglad.	3,900	3,700	3,300	3,700
USA	3,550	3,900	3,300	3,400
Indon.	2,150	2,050	1,900	2,200
Vietnam	1,600	1,625	1,650	2,100
Mexico	1,900	1,700	1,700	1,800
Other	15,092	14,729	13,788	14,462
Total	118,642	114,054	103,188	107,112

\* March, 2013 USDA estimates



Rupee devaluation has continued in FY13, with devaluation of 3.3% witnessed in 1HFY13. Rupee devaluation coupled with improvement in international prices of yarn may have a positive impact on gross margins and overall profitability of export-based players in the cotton yarn industry in FY13. Substantial reduction in discount rate by SBP in FY12 and 1HFY13 has also eased the cost of borrowings of industry players.

Major challenges faced by the textile industry are shortage of electricity and deteriorating law & order situation nationwide. Increasing cost of utilities along with regular load shedding creates a serious threat to the viability of the

domestic textile industry. In addition to this, incentives are required at the

	FY09	FY10	FY11
<b>World Textile Exports (in million USD)</b>			
	210.4	251.5	293.5
<b>Share of Individual Countries (%)</b>			
Pakistan	3.09	3.12	3.09
India	4.33	5.10	5.12
Bangladesh	0.42	0.50	0.54
China	28.44	30.56	32.16
Rest of the World	63.72	60.71	59.10

policy formulation level to beef up new investment in the industry. In order to sustain its position in the global textile sector, large investment in machinery equipment and new technology is also essential. Research and development, training of workers, product diversification and branding as well as improvement in labour productivity are some of the important areas that require attention, going forward.

Lending to the textile sector by the banking industry is depicted in the table below:

Loans to	Dec. 2011	Dec. 2012
<b>Textiles</b>	<b>545,435</b>	<b>556,206</b>
Spinning, weaving, finishing of textiles	426,000	436,866
a. Spinning of fibres	249,753	257,230
b. Weaving of textiles	93,168	90,819
c. Finishing of textiles	83,080	88,817
Wearing apparel, readymade garments	49,629	50,330
<b>Total Loans to Private Businesses in all Sectors</b>	<b>2,517,835</b>	<b>2,596,563</b>

Source: SBP; All figures are in PKR millions

## SECTOR COMPOSITE STATS

PKR Billion	Textile Spinning			Textile Weaving			Textile Composite		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
Total Inventories	37.81	48.17	31.24	1.73	4.25	3.52	73.38	84.49	64.50
Total Assets	147.02	168.02	118.07	8.28	15.85	15.87	314.49	320.57	263.20
Ordinary Share Capital	11.37	14.61	11.59	1.12	1.63	1.56	27.64	24.72	19.28
Total Equity	68.17	66.09	47.91	3.04	5.76	5.31	124.56	129.08	108.72
Total LT Debt	17.98	17.03	12.81	0.46	1.78	1.79	34.30	32.95	26.29
Total ST Debt	36.24	56.10	36.95	3.18	5.94	5.99	109.80	111.96	95.72
Total Current Liabilities	52.83	77.21	51.47	4.21	7.68	7.91	151.56	154.79	123.77
Net Sales	184.89	239.82	138.38	11.88	27.41	20.97	282.77	324.86	230.77
Gross Profits	18.16	29.04	21.20	0.94	3.07	2.46	27.01	41.49	36.83
EBIT	12.54	22.86	16.58	0.56	2.31	1.90	12.47	28.58	24.94
Net Profit	4.68	11.18	7.87	0.04	1.01	0.50	(7.98)	4.84	7.53
FFO	12.57	1.84	10.67	0.41	0.27	0.78	15.20	(1.15)	11.37
Free Cash Flow	1.02	(6.00)	7.76	0.15	(1.05)	0.48	6.23	(13.55)	2.84
Data Count	66	79	67	4	7	8	38	39	37

## SECTOR AVERAGES

2010 to 2012	Textile Spinning			Textile Weaving			Textile Composite		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Current Ratio (x)	0.72	0.99	1.24	0.63	1.05	1.42	0.78	1.01	1.29
Days to Sell Inventory	12.43	51.56	101.50	45.18	59.81	82.20	65.41	99.76	143.50
Collection Period	23.94	66.22	125.29	45.60	68.62	135.22	56.54	80.39	144.77
Asset Turnover (x)	0.27	0.40	0.55	0.33	0.45	0.55	0.35	0.50	0.61
Debt Leverage (x)	-0.30	1.30	2.82	0.95	1.88	2.66	0.57	1.59	3.26
Gearing	0.00	0.75	1.85	0.64	1.45	2.33	0.30	0.88	2.36
EBIT/ Interest (x)	0.00	1.57	3.00	0.90	2.06	3.13	0.44	1.68	2.90
FFO/ Total Debt (%)	0.00	11.03	33.22	7.45	22.67	33.43	0.24	11.79	32.20
Gross Margin (%)	0.00	7.99	13.43	6.96	10.98	13.52	6.15	11.79	15.92
Operating Profit Margin (%)	0.00	5.69	10.32	4.13	6.12	10.49	0.49	6.81	10.34
Net Profit Margin (%)	0.00	1.30	4.57	(1.63)	2.48	5.07	-0.94	2.36	4.90
Return on Assets (%)	-3.48	2.22	7.45	(1.29)	4.69	9.17	-2.07	2.55	6.06
Return on Equity (%)	3.97	15.73	34.03	9.65	24.82	33.77	2.41	12.76	25.27
Book Value per Share (Rs.)	-4.34	13.65	45.59	6.77	29.65	44.96	6.00	27.28	97.61
Earnings per Share (Rs.)	-1.10	2.19	9.39	(1.06)	4.25	11.48	-1.95	1.93	11.23

Source: VISTA Plus Database by Vital Information Services

Jahangir Kothari Parade (Lady Lloyd Pier)  
Inspired by Her Excellency, The Honorable Lady Lloyd, this promenade pier and pavillion was constructed at a cost of 3 Lakhs and donated to the public of Karachi by Jahangir Kothari to whose genrosity and public spirit the gift is due. Foundation stone laid on January 5, 1920. Opened by Her Excellency, The Honorable Lady Lloyd on March 21, 1921.

*Dome: A roof or vault, usually hemispherical in form. Until the 19th century, domes were constructed of masonry, of wood, or of combinations of the two, frequently reinforced with iron chains around the base to counteract the outward thrust of the structure.*

*Origins: The dome seems to have developed as roofing for circular mud-brick huts in ancient Mesopotamia about 6000 years ago. In the 14th century B.C. the Mycenaean Greeks built tombs roofed with steep corbeled domes in the shape of pointed beehives (tholos tombs). Otherwise, the dome was not important in ancient Greek architecture. The Romans developed the masonry dome in its purest form, culminating in a temple built by the emperor Hadrian. Set on a massive circular drum the coffered dome forms a perfect hemisphere on the interior, with a large oculus (eye) in its center to admit light.*



Jahangir Kothari Parade

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