To be a leading bank for partnering in financial growth through innovation and service

To be a catalyst for economic growth, serving the nation through diversified product Offering, innovation, superior service quality, universal banking capabilities, Multiple delivery channels, investment in people and processes and Work towards sustainable higher returns for stake holders

People: we will continue to value our *people* and will reward performance
Service: our main focus will be on providing superior *service* quality through diversification and development.
Integrity: we will not compromise on *integrity*- zero tolerance for corruption and believe in doing the right thing
Respect: we *respect* our customers' needs, beliefs and values, working towards their benefit
Excellence: we will continue to strive for *excellence* in all that we do

INDUSTRY & ECONOMIC BULLETIN - 2019

QUARTERLY ECONOMIC UPDATE FOLLOWED BY COMPARATIVE SECTORAL RESEARCH & RATINGS TO RANK INDUSTRY PERFORMANCE, OPPORTUNITIES & RISKS WITH RECOMMENDATIONS ON STRATEGIC SECTORAL POSTURING

Q1- 2019

A strategic tool to preempt increases in risk and proactive identification of opportunities.

RESEARCH DIVISION
CREDIT MANAGEMENT GROUP (CMG), NBP

CONTENTS

ECONOMIC OUTLOOK

THE WORLD IN 2019 (Annual Forecast)

[excerpts from Startfor's worldview]

AMERICAS

In North America, Domestic Issues Are Front and Center

Now that the United States-Mexico-Canada Agreement (USMCA)has finalized, the pact's three members will face less risk of trade upheaval in 2019. The divided political control of the U.S. Congress will be a key factor shaping President Donald Trump's policy agenda. Gridlock will hinder policymaking, meaning the White House will make little headway on immigration reform or tax cut plans. To avoid a political confrontation with the United States, Mexican President will not significantly alter his country's policy on countering illegal immigration or its domestic security policy against organized crime. In Canada, Prime Minister Justin Trudeau's Liberal Party will face stiff competition from the opposition Conservative Party in October's federal elections. During the year, Trudeau will try to seal a trade agreement with China, although that will raise the ire of both Washington and the Canadian opposition.

Mercosur Takes a Cautious Step Toward Free Trade

Brazil's government will negotiate with other member states in the Common Market of the South (Mercosur) to eliminate restrictions on bilateral trade. [...] Argentina and Uruguay will be open to liberalizing the bloc's trade restrictions, but the prospect of a tight presidential election in Argentina will make President Mauricio Macri reluctant to agree to a deal.

In Its Fight for Survival, Venezuela's Government Irks Its Neighbors

Running on empty amid a dearth of oil revenue, Venezuela's government desperately needs cash anywhere it can find it. The country's plight will force Caracas to seek revenue from illicit avenues, such as the illegal mining of gold and other minerals, as well as shady financial transactions. [...] But the spread of such activities into Brazil will attract the attention of the new presidential administration, giving Brasilia direct leverage over Venezuelan economic interests. To prevent a greater spillover of Venezuela's crisis, Brasilia will coordinate with Washington and the new government in Colombia to ramp up financial and political pressure on Caracas, possibly through sanctions or greater scrutiny on Venezuelan financial flows.

Brazil's New Ruler Gets Ready to Overhaul Security and Investment

Bolsonaro's government will aim to manage or curb Chinese investment in strategic sectors, such as mining and energy infrastructure. The president will also begin courting congressional votes to implement security policies like lowering the age of criminal responsibility.

The Argentine President's Difficult Path to Re-Election

Argentine President Mauricio Macri will face an uphill battle if he is to win re-election in October 2019. Because Macri's public approval is tenuous, any further currency depreciation or unhappiness over inflation will open the possibility that a populist challenger will defeat him in a second round in November.

KEY DATES TO WATCH	
May 05	**Panamanians will cast their ballots in general elections.**
June	Guatemala will go to the polls.
Oct.21	Canada will hold federal elections.
Oct. 27	Bolivia will conduct presidential elections.
Oct. 27	Uruguayans will elect a new president.
Oct. 27	Argentina will stage the first round of federal elections for president and members of Congress.
Nov. 24	Argentines will vote in a likely runoff election

ASIA-PACIFIC

China Weathers the Trade Storm

Beijing will try to keep its lines of communication with Washington open on trade by offering to buy more U.S. goods and selectively lower barriers to investment, but its concessions won't meet U.S. demands for structural economic reform. [...] The United States will maintain its demand that China ease state support for its tech sector, but that will only compel Beijing to accelerate its efforts to ease China's dependence on foreign technology and diversify its supply chain. [...] China's refusal to bow to U.S. pressure on tech will prolong their trade dispute.

Beijing Battens Down the Hatches

Because the extended trade war threatens the economy in China's coastal regions, Beijing will ease its tight regulations designed to contain debt and protect the environment while upgrading infrastructure, generating credit and offering direct subsidies to boost growth. [...] But an accumulation of debt and the fragility of the housing market will limit Beijing's ability to use massive credit flows and sharp currency devaluations as a means of economic stimulus. It will also encourage the increased use of the yuan in currency swaps and in trade with countries participating in the Belt and Road Initiative to mitigate currency volatility.

Great Power Competition in the Asia-Pacific

As it tries to chip away at the U.S. regional alliance structure, China will continue its conciliatory outreach to Japan, India and the member states of the ASEAN by privileging dispute resolution efforts and economic partnerships while also making overtures to Australia. At the same time, Washington will bolster its naval presence in the South China Sea and the Taiwan Strait. [...] In response, China will adopt tougher naval and aerial postures to assert its territorial claims, increasing the chances of accidents involving the U.S. military. [...] Japan, India and Australia will increase security cooperation with Washington, but they will refrain from joining U.S. freedom of navigation operations in the South China Sea or patrols in the Taiwan Strait.

A Fraying Consensus on North Korea

The growing discrepancy between the pace of the inter-Korean dialogue and the pace of the U.S.-North Korean discussions will leave room for China to extend its influence on the Korean Peninsula. Overall, while swings towards breakthroughs and breakdowns will occur throughout the year, North Korea will still maintain possession of many elements of its hard-won nuclear program at the end of 2019.

Moving the Belt and Road Forward

With its access to U.S. markets under strain, Beijing will redouble its efforts to find new export markets and partners through the Belt and Road Initiative. Washington will work principally with Japan and Australia to offer alternative infrastructure investments to counter China's ambitions in the Indo-Pacific, but Beijing will temper potential partners' concerns regarding financial sustainability, political influence and national security threats by attracting third-party investors.

A Japanese Awakening

Tokyo will grant concessions that will partly placate U.S. trade concerns — so long as the U.S. push for agricultural access does not exceed the limits outlined in the CPTPP and EU-Japan trade deals. If Washington pushes further, Tokyo will experience a backlash from its powerful farming lobby — although it will weigh whether to sacrifice its agricultural sector to avoid U.S. tariffs on its critical auto sector. Beyond that, Tokyo will also resist U.S. attempts to limit any future Japanese trade deal with China.

KEY DATES TO WATCH	
May 18	**Australia's Senate elections must be held before this date, with House of Representative elections due by November.**
June 28-29	A G-20 summit is scheduled to be held in Osaka, Japan.
August	U.S.-South Korean Ulchi Freedom Guardian military exercise normally held.

EURASIA

Military Buildups and an Intensifying Arms Race

The U.S. decision to withdraw from the Intermediate-Range Nuclear Forces Treaty (INF) will intensify ongoing military buildups by the United States and Russia throughout 2019, particularly in the European borderlands. [...] Negotiations between Washington and the Polish government about building a permanent U.S. military base in the country will move forward, though construction will not likely begin in 2019. In turn, Russia will advance its own efforts to increase its military presence and infrastructure in Belarus, including the opening of an air base. Another front in the ongoing conflict between Ukraine and Russia will continue to develop in the Sea of Azov. Both countries will build up naval assets, and the United States will weigh in with security support for Ukraine.

The Hybrid Warfare Campaign Intensifies

Russia will vigorously pursue its hybrid warfare campaign against Western and Western-leaning countries by interfering in national politics, spreading propaganda and launching cyberattacks and covert operations in a bid to undermine European Union and NATO unity. [...] The United States can be expected to impose sanctions on more Russian officials and entities and cut off trade channels and could perhaps downgrade diplomatic ties. [...] Russia's efforts to insulate itself from sanctions by building up foreign exchange reserves and wealth funds, diversifying trade ties, and decreasing its exposure and dependence on dollar transactions will enable it to avoid a major economic crisis in 2019.

Challenging the U.S. World Order

Russia will seek to expand its ties and involvement around the world to peel back Western hegemony and challenge the U.S.-led world order. China, whose interests in challenging Washington within the great power competition align with its own, will be a key focus of Russia's efforts. [...] Elsewhere in Asia, Russia will seek to strengthen its economic relationship with Japan. [...] Russia will sustain political and economic support for North Korea. [...] In the Middle East, Russia will maintain its military support for Syrian President and increase ties with Iran as a source of leverage against the United States.

Russia's Domestic Challenges

Unpopular economic reforms like the increases in the Russian retirement age and the value-added tax will drive domestic protest, spurred by opposition. [...] On the security front, Russia will reshuffle the leadership of the GRU military intelligence agency following a series of controversial operations abroad and disperse some of its responsibilities and assets among other security organs, most notably the Federal Security Service (FSB) and Foreign Intelligence Service (SVR).

KEY DATES TO WATCH	
June	**Kyrgyzstan hosts a summit of the Shanghai Cooperation Organization.**
September	Russia holds regional elections.
Oct. 27	Ukraine holds parliamentary elections.
December	The Power of Siberia natural gas pipeline from Russia to China is expected to come online.

EUROPE

Risk in the Eurozone

Italy will remain the main source of financial risk within the eurozone. Rome could make cosmetic changes to its fiscal policies to delay sanctions Rome's fiscal policies will create uncertainty among investors about the sustainability of its debt. The billions of euros in Italian debt held by its banks leaves them vulnerable. [...] At the same time, disputes within Italy's coalition government could prompt early elections, adding to political uncertainty. Italy's political and financial turbulence will increase the chances of higher borrowing costs and of banking uncertainty in other Southern European countries.

The Year of Brexit

While there is no shortage of disruptors around the Brexit process, London and Brussels will work to minimize the economic effects of the United Kingdom's exit from the bloc. [...] No matter how Brexit happens, the United Kingdom and the European Union will discuss a permanent post-withdrawal trade arrangement, and London will hold free trade talks with other countries, including the United States. Considering their complexity, those negotiations will likely extend beyond 2019.

Trade in Focus

The European Union will not sign a comprehensive free trade agreement with the United States in 2019, but it will be willing to discuss a more modest agreement that covers industrial goods. [...] Brussels will also see Beijing as a counterbalance to the United States when it comes to defending multilateralism. But large economies such as Germany and France will resist China's penetration into Europe — especially in sensitive areas such as technology and infrastructure — while smaller states will welcome Chinese investment as an opportunity to boost their economies.

The Battle for the EU Leadership

The selection of the new European Commission president will follow and lead to ideological disputes within the bloc. A conservative commission would probably focus on such issues as trade agreements and reducing immigration from outside the bloc, while a progressive one would more likely focus on ensuring greater economic cohesion within the bloc. Southern Europe will push for a commission that promotes higher spending and deeper risk-sharing across the bloc, while Northern Europe will push for a body that promotes fiscal discipline and risk reduction. EU governments will also select a new European Central Bank president. The south will push to continue the bank's expansionary monetary policies, and the north will push to reverse some of them. The regional disagreements will slow the pace of policymaking, reducing the chances of significant reforms.

Trouble in Germany and France

Conflict within the German government will reduce its efficacy and could lead to early elections. A new vote would again produce a fragmented parliament and lead to complex coalition talks, further reducing Berlin's EU leadership role. In France, the government's push for institutional and economic reform, will lead to protests, some of which will disrupt the economy. Domestic issues and France's dependence on others to get things done in the bloc will limit Paris' influence on Continental affairs.

The East-West Divide

Countries in Central and Eastern Europe will take advantage of the global environment to preserve, and potentially deepen, their political and military ties to the United States. The White House will look to Poland and Romania to help increase its presence or even to serve as hosts for American missile systems as the arms race with Russia intensifies. At the same time, Poland, Hungary and Romania will selectively challenge EU institutions and rules, while also making sure not to do anything that puts their memberships in the bloc in jeopardy.

The Push for Autonomy

France will lead the push to enhance Europe's military capabilities, but disagreements between member states could slow progress. [...] The bloc will also discuss ambitious plans to create international payment channels independent of the United States, replace the dollar with the euro as the world's reserve currency and increase capital market integration among member states. But a leadership vacuum at the Continental level and the complexity of their implementation will prevent the bloc from realizing them in 2019.

KEY DATES TO WATCH	
May 23-26	**Elections across the European Union for members of the European Parliament.**
Aug. 25-27	A G-7 summit is scheduled to be held in France.
Late October	Deadline for EU governments to select the presidents of the European Commission and the European Central Bank.
November	General election in Poland.
November	Selection of the new president of the European Council.

MIDDLE EAST AND NORTH AFRICA

The U.S.-Iran Collision Course

The U.S.-led sanctions campaign will hurt Iran, but it won't lead to the collapse of the Iranian government even as the country's economy struggles. [...] Tehran will more readily employ cyberwarfare, conduct covert operations, or use its key regional proxies to strike back at the United States, Israel and the Gulf states. Iran wants to avoid provoking a conventional military strike against itself, but as political support from the European Union weakens over 2019 and economic guarantees are replaced by political rhetoric, Tehran will be more willing to engage in sharper retaliatory measures.

The United States Bolsters Regional Allies

In carrying out its regional strategy, which hinges on containing Iran, the United States will lean on two sets of allies with similarly aligned objectives. The first set includes allies most concerned about Iran and willing to embrace hard-hitting anti-Iranian policies: Israel, Saudi Arabia and the United Arab Emirates. These countries are rapidly overcoming decades of mistrust and conflict to better coordinate against Tehran in cyberspace, in enforcing sanctions, and even militarily. The second set of allies, Kuwait, Oman and Qatar, is more loosely aligned and less willing to take a tough position on Iran. These countries can provide strategic, diplomatic and economic value to the United States in certain regional conflicts and crises. An improved alignment between them could reduce the intensity of the Qatar blockade, but the underlying conflict among members of the Gulf Cooperation Council will endure.

Spotlight on Saudi Arabia

Saudi Arabia will have to manage growing concerns over Crown Prince Mohammed bin Salman throughout 2019. [...] Some of Riyadh's key allies will limit military support and foreign direct investment to Saudi Arabia, but crucial relationships are unlikely to shift. Riyadh will continue to advance its Vision 2030 goals over the coming year, easing austerity measures in response to positive economic signs — higher oil prices in 2018, the opportunity to make up for decreased Iranian oil exports, and a relatively successful non-oil revenue generation strategy. This means the kingdom can avoid making hard structural changes to the Saudi economy, especially the labor markets.

The Syrian Cauldron Could Spill Over

In the closing stages of the Syrian civil war, five key powers — Turkey, Russia, Iran, the United States and Israel — are competing for influence and control. Moscow and Tehran firmly back

Syrian President Bashar al Assad but differ not only in the levels of support they provide but also in their overall objectives. Russia has used the Syrian conflict to expand its footprint in the Middle East. [...] Iran, on the other hand, will be more aggressive in its support for Damascus, especially in opposition to Ankara and Washington. [...] Turkey and the United States remain opposed to Assad's rule, but despite being NATO allies, they will pursue their own agendas in Syria. The United States is focused on eradicating remnants of the Islamic State in the country. [...] Despite efforts to deconflict, the possibility of a military incident involving U.S. and Russian assets is not beyond the realm of possibility. Turkey, for its part, will maintain its focus on containing Kurdish forces in Syria. This is problematic for the United States, which uses the Kurdish People's Protection Units (YPG), a group Ankara sees as a terrorist organization, as an ally against the Islamic State and as a proxy against Iran. [...] Given the opposing interests in Syria, the potential for accidental escalation or even a state-to-state confrontation in 2019 is higher than ever, though every power will take steps to avoid this.

Handling Turkey's Fragile Economy

The biggest challenge facing Turkey in 2019 will be its distressed economy. As well as managing record inflation. [...] Turkey's brittle economy also weakens Ankara's position when it comes to dealing with key partners in the West. The U.S. relationship with Turkey is increasingly fractious thanks in part to Ankara's growing ties with Russia and Washington's support for the YPG in Syria. Because of its vulnerability to U.S. economic pressure, Turkey will attempt to shore up foreign investment and maintain stable economic relations with Europe. However, Turkey's historically complex relationship with the European Union will complicate that effort. [...] Ankara will exert whatever influence it can in northern Syria and continue military strikes against Kurdistan Workers' Party positions in northern Iraq.

KEY DATES TO WATCH	
April	**The presidential election in Algeria will be held.**
August	Annual Iranian naval drills take place in the Strait of Hormuz.
November	Israeli parliamentary elections must be held by the end of the month.
Unknown Date	2020 Iranian parliamentary elections will be announced.

SOUTH ASIA

India and the U.S.-Russia Balance

India will cautiously advance its defense partnership with the United States in spite of disputes over trade and sanctions. After all, their shared rivalry with China makes the U.S.-Indian partnership mutually beneficial. At the same time, to maximize its strategic autonomy, New Delhi will safeguard India's relations with Russia, which it depends on for arms.

Managing Tensions with China and Pakistan

India and China will maintain their phase of managed tension during 2019. [...] Once Indian elections conclude in May — and given that Pakistani elections took place in 2018 — the two rivals will have the space to restart negotiations stalled since 2016. [...] Pakistan, in particular, wants to bring tensions to a more manageable level as its military focuses on securing the volatile border with Afghanistan and as Prime Minister Imran Khan's government explores the possibility of trade talks with New Delhi.

Contesting the Indian Ocean

To bolster its position in the Indo-Pacific, India will move to strengthen relations not only with the United States but also with Japan and Australia using a bilateral, more than a multilateral approach, with emphasis on building its relationship with Japan, especially. New governments in Bhutan, the Maldives and Bangladesh, all of which have signed on to China's Belt and Road Initiative will lead India to renew its engagement with them.

The Spotlight on India's Elections

Ahead of the elections, the current ruling party will emphasize Hindu nationalist issues. Meanwhile, a strengthening dollar means the rupee will remain weak, and the persistent threat of inflation will compel the Reserve Bank of India to maintain a monetary tightening policy, which will be a key point of contention between the government and the central bank. Finally, India will delay concluding a deal on the Regional Comprehensive Economic Partnership (RCEP) until after the elections. India has a trade deficit with 10 of the 16 RCEP countries — China accounts for the biggest share — so New Delhi's acceptance of any deal will hinge on earning concessions that can protect its industry from a surge of Chinese imports that would threaten local jobs.

The U.S. Status Quo in Afghanistan

Despite limited success thus far, the United States will maintain its current strategy in Afghanistan, deploying a mix of military and diplomatic force to pressure the Taliban on the battlefield. The U.S. pressure will continue to drive Pakistan toward a stronger security partnership with Russia and Iran as part of its regional foreign policy pivot. As the United States runs out of medium-pressure tactics, it is more likely to impose harsher measures such as revoking Pakistan's non-NATO major ally status. The Taliban will express more serious interest in negotiations, but talks will only begin if NATO commits to a drawdown, which is unlikely next year given concerns that the Afghan army isn't strong enough to handle security on its own.

Pakistan's Trade Deficit and Slowing Growth

As the prime minister implements austerity measures to strengthen Pakistan's economy, growth will slow, and unemployment will rise, compelling him to focus on anti-corruption measures to demonstrate his administration's progress. He will also push China to emphasize agriculture projects in the China-Pakistan Economic Corridor while pushing for jobs creation and inviting third-party countries to invest in the country. But a strong dollar means that dollar-denominated purchases will maintain pressure on the trade deficit.

KEY DATES TO WATCH	
April-May	**Indian parliamentary elections and state elections in Andhra Pradesh, Odisha, Sikkim and Arunachal Pradesh are held.**
Summer	India, Japan and the United States participate in Malabar naval exercises.
September	Deadline for Pakistan to complete Financial Action Task Force plan to be removed from anti-terrorism "gray list."
December	Preparations begin for Sri Lanka's 2020 presidential elections.

SUB-SAHARAN AFRICA

Ethiopia's Rise in a Changing Region

Ethiopia is the region's rising economic giant, and its reform-minded government intends to partially privatize state-owned enterprises, hoping to attract money from countries including the United Arab Emirates and China. Much depends, however, on the degree of transparency in the process — as well as the profit returns from completed megaprojects. Furthermore, the country's need for continued structural economic reforms, along with its shortage of foreign exchange reserves, will hamper growth in the short term.

A Rising Tide Buoys Eritrea, Somalia, Djibouti and Sudan

Ethiopia's rise is generating interest in neighboring Eritrea, Somalia, Djibouti and Sudan from China, Russia and the United States. Somalia and the breakaway republic of Somaliland will try to harness that interest to strengthen trade and supply chains. For Eritrea, peace with Ethiopia means it can devote more resources to its economy than in recent decades, with manufacturing, mining and tourism most likely to attract investment. The lifting of U.N. sanctions will increase investment and security interest from Washington and others, but human rights concerns will prevent any investment rush. [...] Djibouti will continue to leverage its geo-strategically important position on the Bab el-Mandeb strait for influence and financial gain. China holds roughly 80 percent of Djibouti's external debt, however, which gives Beijing a significant degree of influence.

South Africa's ANC Braces for Elections

Ahead of South Africa's 2019 general election, a weak economy will compel President to pursue populist policies such as land expropriation without compensation to shore up electoral support among the traditional base of the ruling African National Congress. The impact will scare away some foreign investment, increase currency volatility and induce fears about the country's direction. [...] Ultimately, however, if Pretoria fails to overhaul key state companies, it will become more inwardly focused, hindering its efforts to project influence across the continent.

Buhari's Last Stand?

When Nigerians vote in February, they will choose between two northerners battling it out for the country's top office. [...] President Muhammadu Buhari will continue his efforts to institutionalize the country's struggle against corruption, but his challenger, Atiku Abubakar, will likely put the issue on the back burner if elected. Regionally, the next president will finally sign the African Continental Free Trade Agreement, whose largest non-signatory is Nigeria. Despite pressure from the domestic manufacturing industry and unions to steer clear of the deal, Abuja fears it will fall behind if it doesn't ratify the agreement, which will significantly boost intra-African trade. [...] militants in the oil-producing Niger Delta remain dormant thanks to Abuja's successful appeasement strategy, and both Buhari and Abubakar will avoid aggression against the fighters to maintain peace in the country's most lucrative industry.

The Kabila System Fights for Survival

Whatever its result, the Democratic Republic of the Congo's Dec. 23 election will be flawed as outgoing President Joseph Kabila seeks to maintain a system that maximizes the political and economic spoils for his family and minimizes the weaknesses of his hand-picked successor, Emmanuel Ramazani Shadary. The ruling alliance's control of the security services and other state institutions will enable it to win a tightly controlled contest despite opposition pressure. Subsequent stability in the key commodity producer will ultimately depend on the internal, regional and international reaction to the vote. [...] After all, the government, which controls a significant chunk of the global cobalt supply, maintains the advantage — and Chinese producers will be only too willing to step in if Western producers push too far.

KEY DATES TO WATCH	
Oct. 15	**Mozambique organizes a general election.**
Aug. 4	Deadline for South African general elections (date to be confirmed).
August	The Southern African Development Community summit is set to convene in Tanzania

INDUSTRY RATINGS & ANALYSIS

SCOPE & METHODOLOGY OF SECTORAL RATINGS

There is a need to comparatively rate key industrial sectors in terms of their *relative risk, and attractiveness*. This should then translate into a strategic posture that is most appropriate for a bank. After considerable thought, and internal discussion, a concise, and easy to follow methodology was evolved to properly address this need without compromising on the essential rating. The key aspects of this *comparative industry rating and strategic positioning study* are highlighted below.

The industrial sectors/sub-sectors have been identified based on:

- their significance for the bank in terms of the industry related exposure and
- ready availability of data/information

Ratings for these sectors will provide coverage to the bulk of our corporate/commercial exposure (as of the last annual report).

INDUSTRY RATING CRITERIA & SCORECARD

Table # 1: The score conversion equivalents applied are as follows:

RANK	% OF SCORE
1	100.0
2	80.0
3	60.0
4	40.0
5	20.0

✪ "Subjective Significance Rank (1-5, 5 being most significant)"

Table # 2: The SECTOR SCORING FORMULA, which is weighted for each criterion is as follows:

CATEGORY	PERFORMANCE DRIVER	MAX SCORE
Business Environment:	Demand Volatility	3.0
	Supply Volatility	3.0
	Corporate Governance & Control Structure	1.0
	Strength of Competition	2.0
	Barriers to Entry	1.0
	Litigations	1.0
	Price Elasticity	3.0
	Exposure (FX Risk/IR Risk)	1.0
Sub Total		15.0
Profitability & Financial Strength:	Gearing *Interest Coverage* *Debt Coverage* *Debt/Equity*	 7.0 6.0 8.0
	Liquidity *Current Ratio* *Quick Ratio* *Cash Ratio*	 8.0 7.0 4.0
	Profitability	

	Net Profit Margin *Total Assets Turnover* *ROA & ROE*	7.0 2.0 7.0
	Solvency	4.0
Sub Total		60.0
Outlook & Macro Environment:	Business Outlook	12.0
	Industry/Business Life Cycle	3.0
	Correlation with GDP Growth	3.0
	Regulatory/Govt. Support Future Expectations	7.0
Sub Total		25.0
Total Score		**100.0**

Table # 3: **INDUSTRY RATINGS CLASSIFICATION**:

Category	Out of 100	Explanation (What the rating suggests)
HIGHLY ATTRACTIVE	>80	Seek to Enter/Expand Aggressively
ATTRACTIVE	70-80	Enter/Expand while mitigating/addressing relevant industry risks
AVERAGE	50-69	OK to enter. Reasonable caution.
WATCH/HOLD	40-49	Active monitoring of current portfolio
UNATTRACTIVE/EXIT	< 40	Risks outweigh potential returns; Pursue exit or appropriate risk negation strategy

KEY POINTS REGARDING THE USE OF RATINGS:

- How Should the Ratings be Viewed? The ratings should be treated as general recommendations and should not be construed as definitive. For example, in case of a negative industry rating the feasibility of a given proposal may still be fairly good if the various individual aspects of the proposal outweigh its industry risk. However, it is expected that key risks & issues highlighted would be appropriately addressed and subsequently monitored.

- Applicable Time Period of the Ratings. The ratings are reflective of the medium-term outlook, at a particular point in time, and do not apply to short-term facilities/products.

- Ratings vs. Detailed Sectoral Reports. It needs to be pointed out that this study captures the *gist* of the risk-attractiveness profile of a given sector which would cover an in-depth sectoral assessment and analysis. Virtually all the aspects of the detailed study which include: an overview, base financials, evaluation of critical success factors, assessment of threats and levels of preparedness are largely captured while focusing exclusively on the broad rating specific criteria. However, since the rating elements are largely the same as are scored in the detailed studies the essential relative ratings remain consistent, and thus address our need for quantitative and qualitative sectoral assessments.

- Treatment of any Unrated Sectors. Due to data and/or other constraints certain sectors may not be currently ratable. For such, unrated, sectors it would be best to consider them acceptable to enter, while addressing and mitigating industry specific risks.

PRIMARY DATA AND INFORMATION SOURCES

The data has been sourced, and compiled by relying on the following:

1. Trade/Industry Associations
2. Annual Reports of companies listed at KSE
3. Economic Survey
4. SBP Annual Reports
5. Various periodicals

KEY ASSUMPTIONS

Key macro-economic assumptions are consistent with the recently released SBP's Annual Report for FY17-18. Real GDP growth came in at 5.4% in 2017. Moreover, the Government has set a target of 6.0% in 2018. Pakistan's annual CPI inflation rate increase to 4.2 per cent during 2017. The government had projected 6 per cent inflation for 2018. For the next fiscal year, the underlying assumption for inflation is 6%.

INDUSTRIES INCLUDED

The following sectors were included on the basis of ready availability of data, from the sources noted above. These sectors by and large cover the bulk of the banks' non-agro industry exposure.

[SME sectors shown in bold]

1. **Agro-Chemicals**
2. Automotive - Assemblers/Manufacturers
3. **Automotive - Parts & Accessories**
4. **Carpets & Rugs**
5. Cement
6. Chemicals (inc. Plastic & Rubber Products)
7. **Construction**
8. **Edible Oil**
9. **Energy - Coal**
10. **Energy - Gas Generation & Distribution**
11. **Energy - Oil & Gas Exploration**
12. Energy - Oil (Petroleum Distribution/Marketing)
13. Energy - Oil (Petroleum Refining)
14. Energy – Power Generation & Distribution (IPPs)
15. Fertilizers
16. Financial Institutions
17. Food, Beverages & Consumer Products
18. Glass & Ceramics
19. **Information Technology**
20. **Leather Products**
21. **Machinery & Equipment**
22. **Metallic Products (Iron & Steel**)
23. Pharmaceuticals
24. **Sports Products**
25. Sugar
26. **Surgical, Precision, Optical Equipment**
27. Telecommunications
28. Textiles – Composite
29. **Textiles - Fabrics (Weaving)**
30. **Textiles - Knits & Knit Apparel**
31. Textiles – Spinning
32. Textiles - Synthetic Fibers/Polyester
33. **Textiles - Woven Apparel**
34. Tobacco Products
35. **Transport – Air**

INDUSTRY SYNOPSIS:

FINANCIALS, OPPORTUNITIES, THREATS/ISSUES, & OUTLOOK

AGROCHEMICALS

FINANCIAL SNAPSHOT 2017-18

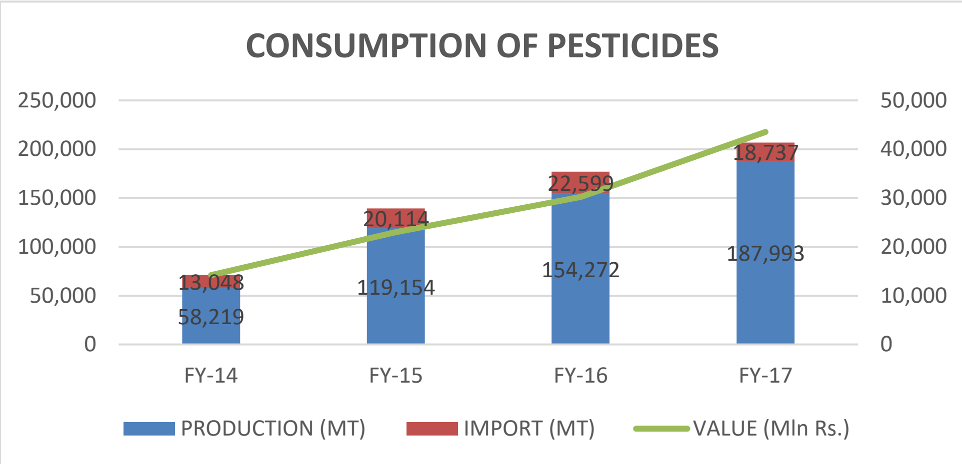
All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	` 90-100		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	1,309	1,178	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	191		
C.	Financial Charges	Act/Est	3		
D.	PAT	Act/Est	171		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	9,566		
F.	*Current Assets*	Act/Est	2,887		
G.	*Cash & Bank Balances*	Act/Est	1,894		
H.	*Trade Debtors*	Act/Est	442		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	9,098		
K.	*Current Liabilities*	Act/Est	468		
L.	*Total Liabilities*	Act/Est	468		

AGRO-CHEMICALS

SECTOR OVERVIEW

Agrochemicals and pesticides are broadly classified in terms of target pests and type of disease or fungus attack, of which main categories are insecticides, herbicides and fungicides. However, amongst these, pesticides share the dominant proportion in total market value of this group. Enterprises of agrochemical (pesticide) industry may be classified into three broad categories that include multinational corporations, well established domestic input companies with diversified marketing network and local traders of the wholesale markets. Punjab is the leading province in terms of pesticides use followed by Sindh, KPK and Baluchistan.



Over the time the trend of quantity and value of pesticides use has increased, and this is regarded by many scientists as one of the factors affecting agricultural productivity positively by reducing the chances of pest attack. However, another school of thought declared it as ethical offense because intensive pesticide use has also enhanced resistance power amongst pests which has increased the problems for farmer. Same is happening in case of herbicides and fungicides. Cotton is major cash crop which alone shares around 70% of pesticide consumption in the country.

OPPORTUNITIES

- Ministry of National Food Security will make efforts to ensure timely availability of quality pesticides at competitive price to farmers.

- Since the bulk of the farmers are not quite familiar with the correct and proper application of pesticides therefore awareness campaign should be launched in order to spread understanding among farmers.

- Prospects for agro-business are increasing and it has become a lucrative investment avenue for businessmen.

- Proper development & implementation of agro-business would help Pakistan sustain long run macroeconomic stabilization by reducing the supply deficit and achieving economic progress.

- Agriculture and the horticultural industry are the biggest users of agro-chemicals and pesticides, accounting for around 70% of their total consumption, with its other users divided among forestry, grasslands, amenity facilities, golf courses, local parks, and industrial and home gardening outlets.

- ▲ Low cost imports from China are at the expense of higher margin imports from EU/US.

- ▲ Weeds and pests are a key reason for decrease in the production of crop yield. Proper training could be given to the farmers and awareness could be created. That would also increase consumption.

- ▲ China Academy of Agriculture and Mechanized Authority intends to lend its expertise & $ 200 million, for the agri development projects in the Sindh province. The Chinese authority will help develop agricultural development zones which it will jointly own & manage with the provincial government.

THREATS

- ▼ The imposition of General Sales Tax (GST) on the import of pesticides has opened door for illegal trade of pesticides, because of which the quality of pesticides suffered.

- ▼ FAO says that the entire distribution and disposal cycle for highly hazardous pesticides carries significant risks, and safeguards are difficult to ensure in many countries. Experience in many developing countries shows that distributing and using such highly toxic products very often pose a serious risk to human health and the environment.

- ▼ Intense generic brand competition has resulted in continuous price wars which has eroded margins.

- ▼ With the introduction of new genetically engineered varieties of cotton, called B.T. Cotton, usage of pesticides will be reduced considerably in the years to come.

- ▼ Despite the strict controls and regulations that govern the ingredients and use of chemicals in synthetic fertilizers and pesticides, there is an increasing public belief that natural products are superior to synthetic products. They are claimed to be more beneficial, as they leave no chemical residues that could be potentially damaging to human health.

- ▼ The prices of different agricultural inputs have registered an increase of 70 to 100 percent during the last five years as compared to only 40-45 percent increase in prices of various produces. There is an urgent need of bringing down the input cost of the agricultural sector as high prices are discouraging the use of fertilizers, pesticides and quality seed in required quantity thus negatively impacting per acre yield.

- ▼ The exemption of imports of pesticides from all taxes and duties has resulted in lowering the manufacture of pesticides and created an advantage for the importers of pesticides.

- ▼ The immense potential for growth which is held by the sector is seriously hampered by the lack of essential infrastructure for safe storage and transportation of farm produce.

OUTLOOK

- ► Agro-chemicals sales should continue to grow overall however; the margins are likely to continue to remain under intense pressure. **Outlook is stable.**

AUTOMOTIVE-ASSEMBLERS/MANUFACTURERS

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	12		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	492,318	324,229	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	56,551		
C.	Financial Charges	Act/Est			
D.	PAT	Act/Est	106,098		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	253,895		
F.	*Current Assets*	Act/Est	205,731		
G.	*Cash & Bank Balances*	Act/Est	36,677		
H.	*Trade Debtors*	Act/Est	5,214		
I.	*Short Term Investments*	Act/Est	62,111		
J.	*Total Equity*	Act/Est	119,346		
K.	*Current Liabilities*	Act/Est	131,420		
L.	*Total Liabilities*	Act/Est	134,548		

AUTOMOTIVE ASSEMBLERS/MANUFACTURERS:

SECTOR OVERVIEW:

	SEGMENT	CATEGORY	SEGMENT LEADER
1	Passenger Cars	1300-1800cc 1000cc 800cc	Toyota Corolla Suzuki Wagon-R & Cultus Suzuki Mehran
2	LCVs & Pickups	LCV Pickups 4x4	Toyota Hilux Suzuki Ravi Honda BRV
3	Trucks	No Further Categorization	ISUZU Hino Pak Master
4	Tractors	No Further Categorization	Millat Tractor Al-Ghazi Tractor Orient
5	Motorcycles	2 Wheelers 3 Wheelers	Atlas Honda United Autos Road Prince

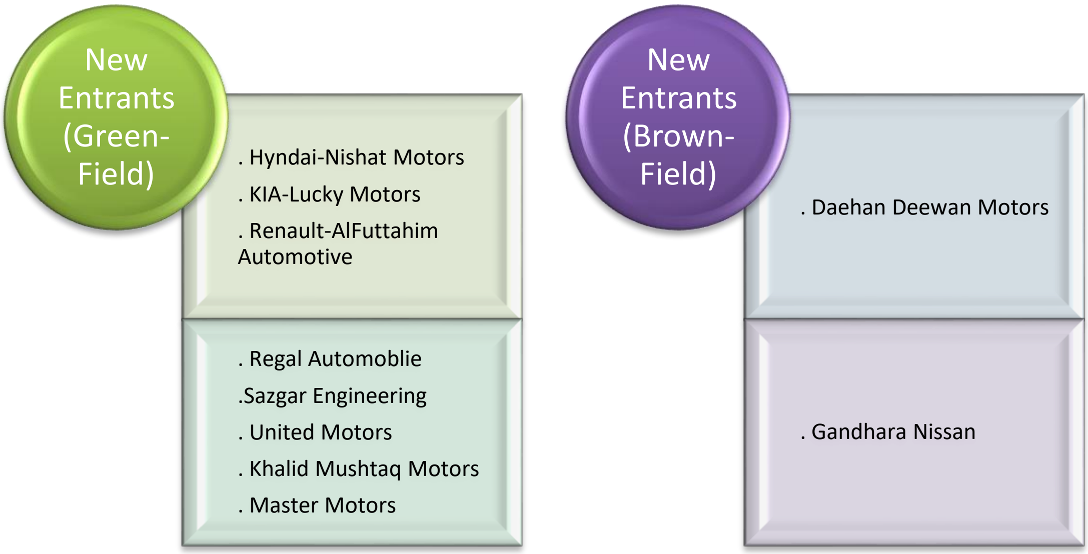
The market structure of the automobile industry in Pakistan is concentrated. In economics term, we could say it's an oligopoly, which is characterized by imperfect competition in which the industry is dominated by a small number of suppliers. The 13 listed companies on KSE of automobile assembler are AL-Ghazi Tractors, Atlas Honda Ltd, Dewan Motors, Ghani Automobile, Ghandhara Ind., Ghandhara Nissan, Ghandhara Diesel, Honda Atlas Cars XD, Hinopak Motor, Indus Motor Co, Millat Tractors, Pak Suzuki, Sazgar Eng. Though, the local car market is dominated by 3 Japanese brands, Honda, Toyota & Suzuki.

Passenger Car Segment:

- Pak-Suzuki is leading the sector in domestic sales over the last 10 years
- Domestic car production has been recorded at a CAGR of 5.47% over last 6 years
- Car imports have pick up pace over last 3 years
- The imports have a market share of 25-28% over last 3 years

Commercial Vahicle Segment

- Hino Pak is the market leader in this segment
- domestic sales have been recorded at a CAGR of 36% over last 5 years
- Gandhara Industries has been working on highest utilization levels
- hino Pak has the highest production capacity.



OPPORTUNITIES:

- ▲ In the short term, the auto market is likely to suffer from all the negative impacts that Pakistan's economy is facing in the shape of currency devaluation, higher interest rate, etc. But by 2025, the local auto market's size is likely to touch 500,000 units per year from the current size of 260,000 units.

- ▲ Automobile prices may rise further as assemblers have only passed on seven per cent to 20pc impact to the consumers against the 26pc rupee devaluation against the dollar in the last one year.

- ▲ The bike and car assemblers have raised prices four to six times in 2018 claiming that only a portion has been passed on to the consumers.

- ▲ French carmaker Renault will start vehicle production in Pakistan in 2020, a newcomer which will give wider choice to consumers and eat into some market share of existing three Japanese car assemblers. The Al-Futtaim Group, one of the biggest conglomerates of the United Arab Emirates (UAE), has started this project in partnership with French automaker Renault Automotive.

- ▲ Malaysia's automaker Proton Holdings planned to introduce its electric and other green-cars in Pakistan in partnership with a local car assembler in a deal touted to bring $200 to 300 million of investment in the country. local Alhaj Automotive Private Limited recently signed an agreement with Proton as the exclusive authorized distributor and assemblers of Proton vehicles in Pakistan.

- ▲ Car sales in December 2018 increased to 16,141 units from 15,334 in November 2018. The increase in sales is against the trend since buyers usually hold their purchases in last month of the year for change of model.

- ▲ Total car sales in the six months of the fiscal year inched up to 104,038 units from 103,432 units in comparison to the same period last year despite multiple price hikes by assemblers on account of currency depreciation, interest rate hikes and increase in petroleum prices.

- ▲ For cars in 1,300cc and above category, total sales in the first six months of fiscal year soared to 52,243 units from 47,087 units during the same period last year. Toyota Corolla remained dominant in this segment with 27,950 units sold as against 25,325 followed by Honda Civic/City sales of 21,784 units versus 19,621 sold in the same period last year.

- ▲ Suzuki Cultus and WagonR sales grew to 10,757 and 16,081 units from 9,501 and 14,141 units respectively.

- ▲ In the two-wheeler segment, Honda showed mixed trend as sales fell to 543,894 from 545,018 units while Suzuki and Yamaha sales rose to 11,864 and 12,947 from 10,442 and 10,354 units respectively.

- ▲ The United Auto Motorcycle, second largest bike assembler, also registered a jump in sales to 203,308 from 198,246 units.

THREATS:

- ▼ Pakistan's market for automobiles is too small to merit any serious investment without significant incentives or concrete guarantees. Consider these numbers, for example: we produce around 200,000 cars a year. With six times the population, India produces more than four million — 20 times as many — cars and more than 20 million two-wheelers. With a population less than a third of ours, Thailand produces approximately two million units a year, often producing more cars in a month than we do in a year.

- ▼ Locally, only 6pc of our households can afford to own a car, bus or truck — with a household size of over six, that is a vehicle ownership rate of less than 1pc.

- ▼ We clearly do not have a market for local production of cars that is both beneficial to local consumers and profitable for manufacturers. The state of our industry and the quality of cars it produces is evidence of this; recent additions of new brands, welcome as they are, seem to be following the same model of incentivized investments, centralized ownership in a few hands, and eventually profiting off the protected market in Pakistan.

- ▼ a well-defined structure is still missing as gasoline quality remains a big hurdle in the way of introducing hi-tech or eco-friendly engine variants by new entrants in Pakistan. The world's fifth largest car producer – Hyundai – also faces the low-quality fuel problem in the introduction of Euro-4 and above engine variants in Pakistan.

- ▼ From July 2017 to Dec 2018, total import bill of parts and kits of heavy vehicles, cars and bikes crossed over two billion dollars from $1.640bn in same period of July 2016 to December 2017 indicating that claim of higher localization is false.

- ▼ Consumers have been reluctant to purchase Suzuki Mehran as total units sold during the period declined to 16,826 units from 22,219 units. The company has announced its plans to discontinue the highly popular model by April this year.

- ▼ Honda BR-V sales plunged to 2,494 units from 5,159 units while Toyota Fortuner and Suzuki Ravi sales also declined to 1,253 and 8,853 units from 1,638 and 10,738 units respectively whereas Toyota Hilux sales rose to 3,428 units from 3,174 units.

- The first half of current fiscal year ended on a negative note for tractor industry. Both assemblers halted production on account of annual shutdown in mid-December 2018. Besides, thin buying from growers and farmers also cast shadow on tractor sales.

- in three-wheeler segment, sales of Qingqi, Sazgar and Road Prince in the first half of fiscal year dropped to 11,121 units, 7,119 units and 5,090 units.

FUTURE OUTLOOK:

- Low car penetration & acceleration in auto loans depicts immense potential for growth. Moreover, the Auto Development Policy suggests a further 35% increase in car production. **Outlook is stable.**

AUTOMOTIVE-PARTS & ACCESSORIES

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	4		
			2017-18	**2016-17**	
A.	**Industry Sales**	**Act/Est**	29,352	35,222	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	**Act/Est**	2,193		
C.	**Financial Charges**	**Act/Est**	392		
D.	**PAT**	**Act/Est**	1,520		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	**Act/Est**	14,584		
F.	*Current Assets*	**Act/Est**	10,024		
G.	*Cash & Bank Balances*	**Act/Est**	838		
H.	*Trade Debtors*	**Act/Est**	1,688		
I.	*Short Term Investments*	**Act/Est**	732		
J.	*Total Equity*	**Act/Est**	7,063		
K.	*Current Liabilities*	**Act/Est**	6,573		
L.	*Total Liabilities*	**Act/Est**	7,521		

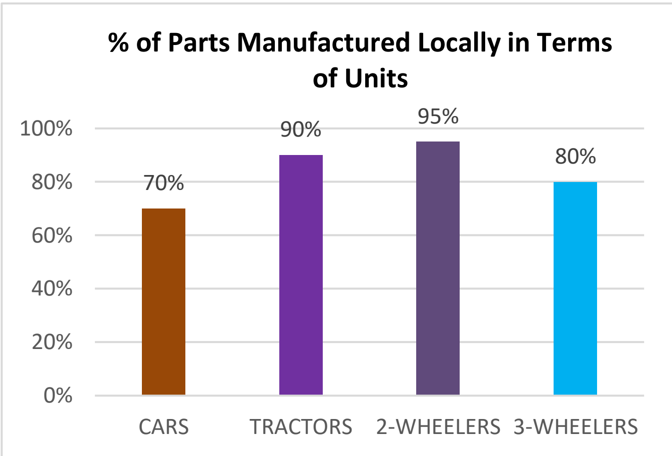
AUTOMOTIVE - PARTS & ACCESSORIES

SECTOR OVERVIEW

The Pakistani auto components market is divided into two broad segments, the organized and the unorganized segments. There are more than ~9000 establishments out of which ~400 are registered vendors for automobile assemblers, representing the organized segment.

Localization levels (proportion of components manufactured locally by Original Equipment Manufacturers) of vehicles in Pakistan are fairly high in terms of number of components installed in the vehicle. However, localization in terms of cost is on the lower side. It is estimated that two of the largest firms, Indus Motor Company Limited (INDUS) and Honda Atlas Cars (Pakistan) Limited (HCAR) have localization levels of ~55-65% for their main models. These localization levels have been achieved through decades of investing in a local parts vendor network (technology transfer, JVs with foreign part vendors, training and direct investment) and in-house parts manufacturing. For instance, INDUS and Corolla had 20% localization in 1993, which rose to 50% in 2015. Over the time, INDUS has transferred technology to over 60 local parts suppliers and set up over 27 technical assistance agreements between their vendor network and specialized international parts suppliers.

Currently, local auto component firms do not possess the manufacturing capability for key vehicle parts such as the engine, which makes up a major portion of a vehicle's cost. Pakistan's lack of specialization in higher value components is attributed to the fact that licensed technology is required for production of these high-end components which is costly. Moreover, since local vendors do not meet quality standards of the three largest OEMs, they are unable to attain key component orders from assemblers.



OPPORTUNITIES

- ▲ Pakistan's automobile market has great potential to grow by all counts only if the Original Equipment Manufacturers (OEMs) wholeheartedly strive to make cost effective and fuel-efficient cars for a growing middle-class segment. It is high time for the OEMs to sense the pulse of Pakistan's market by offering different variants and a right of choice to the consumers.

- ▲ Engineering sector has had the advantage of having an Export Oriented Unit status for any member whose 50% production is exported. This represents an untapped potential for the parts makers.
- ▲ Sector continues to enjoy high level of bargaining power with the automotive assembly and manufacture units; thereby growth of this sector is a positive coefficient of growth in their clients i.e. Indus Motors, Suzuki, Honda Atlas, Nissan, Dewan Farooq Motors and Hino Pak (the major players).

- ▲ Effective and intelligent treaties on Auto sector with low cost countries like China may curtail the base cost structure of local manufacturers, as the role of machinery and metal works is very important for the automotive supplier industry. Machinery from India is cheaper fast becoming just as reliable.

- ▲ It is extremely High Value-Added Business. There has been great increase in investment. At present, auto sector is contributing 16% to the manufacturing sector and is forecasted to increase that contribution up to 25% in the next 7 years. The strengthening of Pakistani Rupee is going to improve margins for auto assemblers in the country.

- ▲ This sector is the second largest tax paying Industry in the country.

- ▲ Potential export companies have attained an In-depth knowledge of Parts Manufacturing. It is the only country in the world, which uses a tariff-based system for the automotive industry.

- ▲ This sector has very strong unions which safeguard the interest of local automotive industry.

- ▲ Pakistan has ample skilled labor to cater to the needs of this industry. All business units operating have fairly experienced business units. Most players in the Industry have established distribution and sales networks. The sheer quantity of parts produced is strength in itself.

- ▲ For the Tractor components worldwide only three/four manufacturers exist. Tractor parts being produced in Pakistan have an automatic worldwide acceptability unlike car parts. A focused marketing has to be developed for this sector, which has huge potential.

- ▲ Reduction in fiscal deficit, increase in worker remittances and policies made to eliminate power cuts completely from the country might open up great opportunities for the auto sector.

- ▲ Proximity to India: If the government allows Pakistani auto assemblers to import auto parts from India (parts that Pakistan does not produce), while imposing a ban on import of new or used cars, it will allow local assemblers to introduce newer car models in the local market at affordable prices.

THREATS

- ▼ For many years, the issues of quality and cost have always been at the back-end of their marketability, and this continues to be the issue.

- ▼ One of the biggest threats to the industry (and a direct result of their deficiencies in quality and consistency) remains the after-market or smuggled parts sector. Not only do general consumers prefer imported or smuggled parts, but even public sector is a player in continued parallel imports of parts for vehicles

- ▼ Increased smuggling and the under invoicing of many auto parts has been a direct source of loss to the local automotive supply chain. Estimates put the value over Rs170 billion worth of goods under the name of Afghan transit trade.

- Current level and competitiveness of parts and accessories does not allow Pakistan to even be a marginal exporter

- Despite the dynamic nature of the industry globally, local investment in R&D is negligible and this is an area where local cost base can be reduced through effective technology transfer.

- The chronic electricity and gas shortages are surely a big challenge for auto sector. Lack of infrastructure, bad governance and absence of friendly industrial policies, deteriorating law and order situation are all proving serious setbacks for the development of auto sector. Due to lack of investment in human development and lower education, productivity is low as compared to other countries of the world. Inconsistent policy for Auto parts Manufacturers also remains a threat. Also, the variation in fuel prices and reduction in subsidies on fuel and electricity prices also are a threat to the industry.

- Dumping of Chinese & Indian automotive parts at a subsidized cost and there is no check on the dumping by the relevant regulatory bodies can adversely impact this industry.

- Under invoicing of parts at very low prices, import of used cars/tractors is crushing the local auto assemblers & parts manufacturers Industry and there is no check on the imports of scrap.

- There are also high costs of adapting to new technology and increase in price of raw material like rubber and steel would add on to the cost of manufacturing.

OUTLOOK

- The outlook remains tenuous with a greater probability of declining sales amid further tightening of margins. **Outlook remains stable**.

CARPETS & RUGS

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	150,000	
			2017-18	**2016-17**
A.	**Industry Sales**	Act/Est	12,242	12,079

			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			

B.	**PBT**	Act/Est	-68
C.	**Financial Charges**	Act/Est	2
D.	**PAT**	Act/Est	-69

			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			

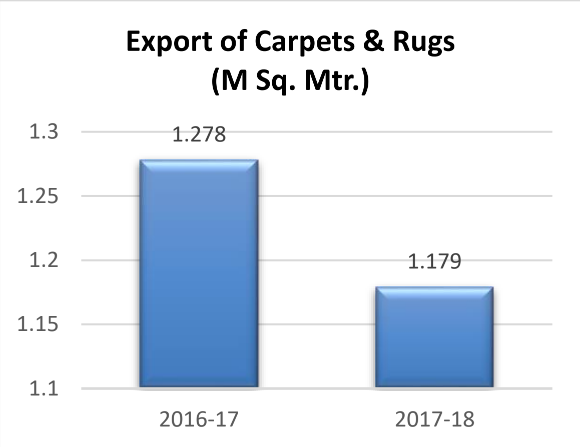
E.	*Total Assets*	Act/Est	211
F.	*Current Assets*	Act/Est	117
G.	*Cash & Bank Balances*	Act/Est	1
H.	*Trade Debtors*	Act/Est	29
I.	*Short Term Investments*	Act/Est	Nil
J.	*Total Equity*	Act/Est	176
K.	*Current Liabilities*	Act/Est	35
L.	*Total Liabilities*	Act/Est	35

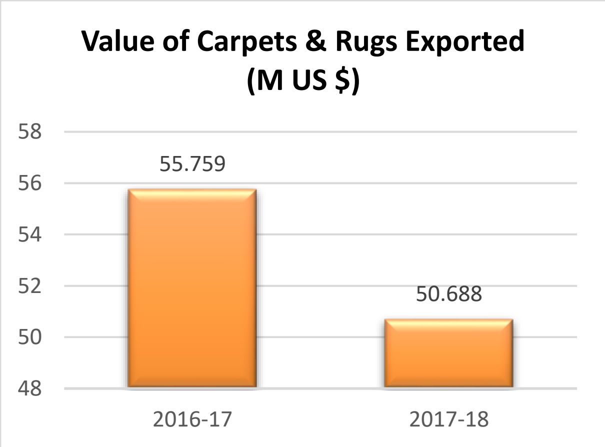
CARPETS & RUGS

SECTOR OVERVIEW

Great value is accorded to Knotted carpet manufacturing in the third world countries. However, due to child labor, government policies and poor infrastructure, the sales of hands made carpets have not reached to its potential.

More than 90% of all the Knotted carpets are exported to other countries, especially to Eastern Europe and South America. Lack of skilled manpower, inflation and high mark-up has seriously hampered the growth of this sector.





Recently, Chinese delegation has signed a memorandum of understanding with PCMEA to work in close collaboration in „Knotted Carpet Manufacturing" sector while also providing research and development facility.

This sector requires immense attention and support in order to revive the old heritage and increase its international market presence compared to its competitors like India, Iran and China.

OPPORTUNITIES

- Carpet industry plays a pivotal role in the economy of Pakistan. It not only contributes a large chunk of foreign earning to the national kitty but also provides a relief especially to the down-trodden people of rural areas. This vital cottage industry has spread widely throughout the far-flung areas of Pakistan. Communities can easily venture into this vital sector of the economy, as it requires not many infrastructural provisions. This industry does not essentially demand electricity and water; just a wooden loom, yarn and knotting ability are used to make carpets. Women and children play a dominant role in imparting strength to this industry.

- Pakistan is famous for its hand-knotted oriental carpets and it is one of the largest producers and exporters in the world. For the last several years, the hand-knotted carpets have reached every hook and corner of the globe. Iran is the top carpet exporter in the world followed by India, China, Pakistan, Nepal and Turkey. Pakistani hand-made carpets dominate the US market while the German market for silk carpets is dominated by China and India. The south-east Asian market is dominated by China and Pakistan.

- ▲ Pakistan carpet exports goods need an improvement and innovation in product designing to provide an international standard to its product. Iran exports carpets in large quantity at exorbitantly price abroad because it can produce the buyer specific carpets of brilliant quality.

- ▲ Hand-knotted carpet exports have shown resilience in the last three years, despite declining trend in the United States and the European Union markets, new exports avenues have been explored by the exporters during the last few years. This stability is due to additional carpet markets explored during the last one decade, including Turkey in Europe, Mexico, Guatemala and Honduras in Central America and Brazil and Argentina in South America.

- ▲ The real potential is in China where the newly emerging affluent class has appetite for hand-knotted carpets, which are a symbol of affluence in the society. A large number of active carpet exporters from Pakistan participated at a recent international exhibition in China. The initial response is encouraging. However, it would take a few years before the Chinese market starts delivering. Once the Chinese potential is fully exploited the demand for Pakistani carpets would rise sharply.

- ▲ Child labor issue has created a lot of fluctuations in the sales of hand-woven carpets in international markets; however recent steps taken by the government has led to the restoration of sales.

- ▲ This creates a gap in the supply and demand for the carpets as knotted carpets consume a lot of time in manufacturing. Therefore purchase/manufacture of latest machinery is required in this sector.

- ▲ The knotted carpets produced in Pakistan are mainly for the purposes of export to Western economies, and one of the major earners of foreign exchange.

THREATS

- ▼ Exports of carpets from the country during FY18 witnessed a decline.

- ▼ The carpet export sector has been greatly affected by the global economic downturn. Overall export volumes of the sector have gone down significantly, leading to sharp fall in revenues for small and medium sized carpet exporters.

- ▼ Pakistan carpet industry is faced with the problem of supply chain, quality control and skill development of fashion designing.

- ▼ Pakistan is facing stiff competition from its rivals India, Iran and China in the exports of carpets. India, Iran and China use sophisticated technologies in graphic designs whereas in the case of Pakistan it is still depending upon conventional designs that are least in demand in the world.

- ▼ Carpet exports are on the decline during the last few years due to economic crisis in the United States and the European Union. The number of active carpet exporters has declined significantly. The exports to the United States have shrunk and are still declining. The exports to the European Union have halved and are under threat due to looming financial crisis in the region. The markets in the West would continue to decline as most of the growth has now shifted to Asia and South America.

- The government policy of Afghan repatriation is a very important concern for this industry. The carpet industry of the country is likely to face another crisis, as considerable percent of the workforce in the carpet industry comprises of Afghan refugees, so the removal of this workforce can create issues for the industry.

- High prices of wool in the country carpet exports have registered a considerable increase in costs.

OUTLOOK

- Pakistan continues to command a high-quality image for the knotted carpets segment. However, the industry faces grave uncertainty & declining sales scenario over the next few years on account of the Euro crisis & recessionary global outlook which is going to further dampen demand. **Outlook remains tenuous to negative.**

CEMENT

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	19		
			2017-18	**2016-17**	
A.	Industry Sales	Act/Est	333,370	308,784	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	63,403		
C.	Financial Charges	Act/Est	3,813		
D.	PAT	Act/Est	57,034		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	653,626		
F.	*Current Assets*	Act/Est	180,867		
G.	*Cash & Bank Balances*	Act/Est	33,520		
H.	*Trade Debtors*	Act/Est	12,476		
I.	*Short Term Investments*	Act/Est	6,736		
J.	*Total Equity*	Act/Est	389,328		
K.	*Current Liabilities*	Act/Est	131,152		
L.	*Total Liabilities*	Act/Est	260,121		

CEMENT

SECTOR OVERVIEW:

NORTH ZONE
- Includes Punjab, KPK, AJK, G,B & Parts of Balochistan
- 13 listed companies
- Capacity 40.24 mmt

SOUTH ZONE
- Includes Sindh & Parts of Balochistan
- 6 listed companies
- Capacity 13.00 mmt

Both regions (North & South) have their own demand and supply dynamics. Players of the southern region, benefit from greater export market availability given their geographical proximity to the sea; providing room for revenue diversification. Reliance of companies in the Northern region; on export sales remains low; however, till FY18 local demand growth in Northern region remained higher due to CPEC and other government related infrastructure projects. Key export markets for players in the Northern region include Afghanistan and India. For players in the Southern region, Sri Lanka, Bangladesh, Vietnam, Nigeria, Tanzania, Mozambique, Iraq, Ethiopia and DR Congo are major export markets.

Dispatches data for 1HFY19 indicate a reverse trend whereby sales growth was noted in the Southern region due to higher private sector demand and increase in exports. The demand was catered with sizeable capacities coming online in the South. On the other hand, dispatches in the North witnessed a decline owing to slow disbursement of PSDP and general slowdown in the economy (lower GDP growth and increasing interest rates).

Locally the industry operates under a marketing arrangement, which helps the industry players in maintaining prices and margins. As per the arrangement, a quota is assigned to each player based on installed capacity. Given the market arrangement, demand and supply dynamics, local retention prices and margins compare favorably to export sales. In the absence of a marketing arrangement, players with higher efficiencies, wider outreach and better access to export market will enjoy competitive advantage over peers.

OPPORTUNITIES:

▲ Encouragingly, however, exports grew remarkably, as they did in previous expansionary phases as well. In volume terms, the manufacturers exported 39.1 per cent more cement during 1QFY19, which was in stark contrast to the last year's decline of 16.7 per cent.

▲ Cement exports surged 58.6 per cent YoY to US$77.6m. With additional capacity coming online in the south in 2HFY18, firms in the region have been aggressively marketing to foreign buyers. That said, initial customs data as well as market intelligence suggests that clinkers, instead of finished (Portland) cement, drove the volume increase in exports in 1QFY19. Pakistani firms are said to be more price competitive in clinker production instead of cement and are exporting clinker to countries such as Bangladesh and Kenya.

- ▲ On the costs side, a downward trend for coal prices is forecasted, due to a supply glut and depleting coal demand in China. This is positive news for cement manufacturers in Pakistan. Exports have fetched better prices due to rupee depreciation, but for northern producers, the shutdown of access to the Indian market may hurt the topline, especially if the domestic market does not recover. Any major development expenditure aside from PSDP allocations is unlikely.

- ▲ Pakistan has major construction projects lined up for the current and upcoming years including commencement of civil work on the Mohmand dam during the current year, construction of Gwadar International airport along with hospitals and vocational centers starting by April 2019, construction of special economic zones, high rises in Islamabad and the government's housing scheme. All these factors combined with growing international demand will help the industry retain prices and maintain its profitability in the long run.

- ▲ Expansion projects of three players (Lucky in Dec'2017, ACPL in Jan'2018 and DGKC in May'2018) representing around two-third of existing capacity in the South zone have come online over the last 1 year. In the North zone, capacity of BWCL came online in June'2018 while sizeable capacities are expected to come online over the next 18 months. Given the macroeconomic environment (increasing interest rates and slower GDP growth), those players that have completed expansions are considered to pose lower business risk. This is on account of elimination of construction and rupee depreciation risk (pertaining to imported plant and machinery) while players will also enjoy higher quota in the intervening period.

THREATS:

- ▼ Out of total FDI, Pakistan's cement and construction industry have received foreign direct investment (FDI) of US$317.2m during the seven months of FY18-19, compared to US$420.7m received in corresponding months of last fiscal year. This translates a YoY fall of 24.6 per cent. The breakdown shows that the cement industry attracted FDI of US$28.3m and the construction industry US$288.9m during this period compared to US$34.5m and US$386.2m, respectively in FY17-18.

- ▼ The cement sector's output contracted by 1.4 per cent in 1QFY19 against a sizeable growth of 12.4 per cent during the same period last year. The decline came despite the fact that the sector's capacity grew from 49.4Mta to 54.2Mta during the review period. A slowdown in cement dispatches in the midst of capacity enhancements led to a four per cent drop in capacity utilization to 80 per cent in 1QFY19.

- ▼ A number of Pakistan cement companies have shown poor financial performance in 1HFY19, due to a combination of factors, including dwindling local demands and the rising cost of production. the government has not only slashed Public Sector Development Program (PSDP) spending, but private sector commercial and housing construction spending has also cooled, leading to lower cement sales, particularly in the northern zone.

- ▼ For northern players that export to Afghanistan and India, volumes have fallen as both markets have become less receptive. For example, Afghanistan increased its take-off of Iranian product and cement imported from other countries.

- ▼ Relationships with India are also not progressing smoothly and are impacting Pakistani exports to its eastern neighbor. Following India's withdrawal of the Most Favored Nation

(MFN) status from Pakistan, reportedly, Pakistani trucks are stranded at the border to India unable to pass.

- Meanwhile, input costs have risen. South African imported coal prices rose by 10 per cent on average between July and December 2018. Imports have also become more expensive due to Pakistani rupee depreciation of 14 per cent, while prices of other fuels as well as grid electricity has also risen.

- Indian importers have asked Pakistani cement exporters to recall their containers destined for the country following 200 per cent increase in duty on various products and tense situation arising out after the Pulwama attack. 600-800 containers loaded with cement are currently at Karachi Port, high seas or at Colombo and Dubai.

- after tremendous sales growth (13.8 per cent YoY) in cement dispatches during FY18, demand is expected to remain flattish in FY19 mainly due to higher base of FY18, reduction in allocation of the Public Sector Development Program (PSDP) and higher interest rates which would lead to lower construction financing (lower demand from private sector).

- Moreover, it is anticipated that cement price would remain under pressure in the north region as Cherat Cement and Maple Leaf Cement expansion projects of 4.4Mt are expected to be online in 2HFY19.

- Furthermore, gross margins for industry are likely to fall on the back of PKR devaluation, lower cement retention prices and fixed cost (depreciation) owing to capital expenditure of plant expansion. Net margins are also estimated to stay flat on the back of higher financial costs. However, the bottom-line would have some support from tax credits and holidays

FUTURE OUTLOOK:

- The expanded capacity (majority line coming in FY19 & FY20) will reduce the profit margins of the cement players. However, the upcoming housing project announced by the government and the CPEC related projects makes the **outlook for the sector stable**.

CHEMICALS (INC. PLASTIC &RUBBER PRODUCTS)

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	26		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	236,449	216,719	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	16,465		
C.	Financial Charges	Act/Est	5,551		
D.	PAT	Act/Est	11,282		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	224,431		
F.	*Current Assets*	Act/Est	94,889		
G.	*Cash & Bank Balances*	Act/Est	11,080		
H.	*Trade Debtors*	Act/Est	18,249		
I.	*Short Term Investments*	Act/Est	7,870		
J.	*Total Equity*	Act/Est	89,336		
K.	*Current Liabilities*	Act/Est	99,120		
L.	*Total Liabilities*	Act/Est	138,635		

CHEMICAL:

SECTOR OVERVIEW:

27 Listed Companies

Paid-up Capital: Rs. 38,413 Mn.

Market Capatilization: Rs. 351,913 Mn.

Profit After Tax: Rs. 14,429 Mn.

In Pakistan, the industry has been classified into two sectors i.e. Primary Sector Chemical Industry & secondary sector chemical industry.

It is the classification of primary sector Industry, based on the conversion of natural resources (ores) into primary products. In Pakistan the industries considered as primary chemical Industry for production of primary chemicals are Petroleum Refinery and petrochemical Industry involved in the production of petroleum intermediates, olefins and BTX (benzene, toluene, xylene) all of which form the basis for the development of monomers, polymers and plastic industries. Fertilizers and associated products, Mineral based industries consisting of cement, limestone, gypsum, Smelting & refining of ferrous and non-ferrous metals, Agriculture industries producing cotton, oils & fats, bio-mass and raw materials is also produced.

Whereas, the principal objective of Secondary sector industries is to use Primary industries products in further manufacturing, processing, blending, fabricating plants for petrochemical intermediates, polymers, non-ferrous metals, mineral's, agricultural and miscellaneous products. These industries use medium-to high-sophisticated technology and range from light to medium categories. The Chemical industry is classified on the basis of HS code categorized by state bank of Pakistan (SBP).

	Soda Ash (000 Tonnes)	Sulphuric Acid (000 Tonnes)	Caustic Soda (000 Tonnes)	Chlorine Gas (000 Tonnes)	Paint & Varnishes (Tonnes)	Polish & Creams for Footwear (Mln Gms)
2016-17	319.5	38	140.3	11.5	31.8	570.7
2017-18	322.5	32.2	168.4	11	32.1	576.4

OPPORTUNITIES:

- The budget revealed withdrawal of custom duty in two catalysts used by the PTA industry: 11 percent for Hydrogen Bromide and 3 percent for Palladium-on-Carbon.

- The US-based chemical industry expert stated this in his recent study conducted for Pakistan Chemical Manufacturers Association to assess needs of the chemical industry in Pakistan. The report finds that petroleum products and petrochemicals over last 25-30 years have continued to play a vital role in building stronger and prosperous economies across the globe, being engine of economic growth for industrialization and rapid urbanization. The report is confident that Pakistan can also bring industrial revolution by focusing attention on development of chemical manufacturing industry.

- ▲ major progress has been made in basic inorganic chemicals like caustic soda, sulphuric acid, chlorine and soda ash with an optimum production capacity. However, a lack of other chemicals which includes petrochemicals contributes to dependence on imports

THREATS:

- ▼ The main challenge is that it has to rely on its imports and foreign materials. It does not benefit the economy and results in production of expensive products.

- ▼ Secondly lack of industrial infrastructure and technology in Pakistan results in low production which could hardly meet the demand.

- ▼ Furthermore, the lack of financial resources, energy shortages and weak trade policies also result in the weakening of chemical industry.

- ▼ Pakistan's chemical sector is less than 2 percent of the LSM with total annual revenue of less than $3 billion. India set up its first cracker facility in the 1990s and now has over 7 naphtha crackers, whereas the Pakistan Chemical Manufacturers' Association has been struggling to get even one set up. The venture is as yet in the feasibility report stages and has been so for years.

- ▼ Last fiscal year, chemicals production fell by 2.3 percent. One of the challenges underlined by the SBP report was cheaper imports from China. Furthermore, the continued absence of a naphtha cracker plant was highlighted as one of the major reasons that hindered sector's sustainable growth.

FUTURE OUTLOOK:

- ▶ Pakistan's narrow export base, lack of industrial infrastructure and technology and domestic policies are weakening the chemical industry. **Outlook is constrained.**

CONSTRUCTION

FINANCIAL SNAPSHOT 2017-18

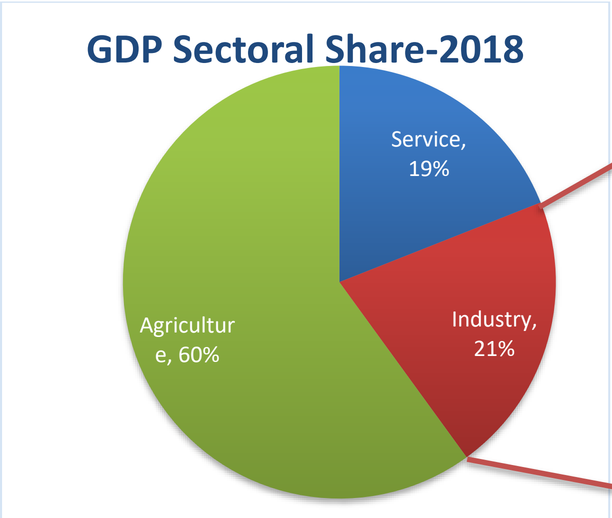
All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	4		
			2017-18	**2016-17**	
A.	**Industry Sales**	**Act/Est**	1,490	1,573	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	144		
C.	**Financial Charges**	**Act/Est**	1		
D.	**PAT**	**Act/Est**	91		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	1,620		
F.	*Current Assets*	**Act/Est**	1,334		
G.	*Cash & Bank Balances*	**Act/Est**	372		
H.	*Trade Debtors*	**Act/Est**	466		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	762		
K.	*Current Liabilities*	**Act/Est**	853		
L.	*Total Liabilities*	**Act/Est**	859		

CONSTRUCTION

SECTOR OVERVIEW

Construction as a sub sector of industrial sector contributes 13.13 percent in industrial sector and in GDP its share is 2.7 percent against the share of 2.6 percent in FY16; it absorbs 7.31 percent of labor force.



Year	Construction Share %
2013-14	2.34
2014-15	2.41
2015-16	2.62
2016-17	2.74
2017-18	2.82

Construction is considered as one of the potential components of industrial sector in the economy of Pakistan. This sub-sector has witnessed a growth of 9.0 percent against the growth of 14.6 percent in FY16, as most of the CPEC related projects were initiated in 2015 and 2016.

Most of the development in the past few years has been in highways & motorways, flyovers & bridges, and building.

Recent uptick in the construction of power & energy projects was witnessed from 2016 onwards in CPEC related projects but since most of them are at the maturing stage, the spending in this sector is gradually declining.

OPPORTUNITIES

- The real estate sector of Pakistan is seen on the rise from the last couple of years. Real estate sector in Pakistan has always been expanding and prospering because it is always backed by solid investment.

- Economy has shown some recovery in terms of GDP growth. One of the factors supporting this growth was picking up in construction which was more active as infrastructure building became priorities.

- The construction sector is likely to get a boost in 2018-19 after announcement of Apna Ghar Scheme and ongoing CPEC projects.

- ▲ The sector provides employment to both the skilled and the unskilled labor, and thus provides income to many of the society. Although the percentage share of this sector in GDP is only 2.3 %, but labor force percentage is around 7.31%.

- ▲ Pakistani contractors do not operate in the Middle East despite a huge Pakistani workforce which works under international contractors and the fact that labor contribute about 70 percent share in the remittances Pakistan receives.

- ▲ In the field of private sector, it also contributes between 300 to 400 billion rupees in terms of construction every year. It was also noted that if the construction of dams is included in any analysis, construction would likely emerge the biggest economic sector of the country.

THREATS

- ▼ Recession in the property market can result in banks being faced with non-performing loans secured against depreciated assets, which can result in crisis both for individual financial institutions, and, on occasion, for the banking system, as a whole.

- ▼ Allocated Public Sector Development Program (PSDP) funds were cut back significantly. Freeze in public funds resulted in a number of ongoing and planned projects being shelved.

- ▼ The inefficiency and the lack of technology and attention for the sector can be seen by looking at the ratios of the output to employment for both the high income developed countries and the low middle-income countries. The high-income countries produce 77 per cent of global construction output with 26 per cent of total employment. The rest of the world (comprising low- and middle-income countries) produces only 23 per cent of output but has 74 per cent of employment.

- ▼ Bank lending to the construction sector increased only marginally, on top of decline posted in the previous years. This was mainly due to high default rates in the sector. Moreover, anecdotal evidence showed that builders of community housing projects (which typically do not avail bank loans) also faced defaults.

- ▼ Due to the high tax bar for the construction industry, the initial investment is high for the sector, while cement and other cartels have a negative impact on the working of this sector.

OUTLOOK

- ▶ **The overall outlook for major players within the sector remains positive** on the back of infrastructure development program under CPEC.

EDIBLE OIL

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	2		
			2017-18	**2016-17**	
A.	**Industry Sales**	Act/Est	6,825	6,565	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	Act/Est	229		
C.	**Financial Charges**	Act/Est	48		
D.	**PAT**	Act/Est	110		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	2,323		
F.	*Current Assets*	Act/Est	1,583		
G.	*Cash & Bank Balances*	Act/Est	54		
H.	*Trade Debtors*	Act/Est	578		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	1,039		
K.	*Current Liabilities*	Act/Est	1,147		
L.	*Total Liabilities*	Act/Est	1,284		

EDIBLE OIL

SECTOR OVERVIEW

The Pakistani edible oil industry is characterized by highly competitive intensity due to fragmentation and low barriers of entry which results in limited pricing power and inherently thin profitability. However, a number of large players have been operating for a long period of time and thus enjoy stronger brand equity in relation to other firms. Key regulating entities include the following:

- Pakistani Vanspati Manufacturing Association (PVMA)
- All Pakistan Solvent Manufacturing Association (APSEA)
- Pakistan Edible Oil Refiners Association (PEORA)
- Pakistan Soap Manufacturers Association (PSMA)

Currently, a total of 122 companies operate in the country engaged in manufacture of edible oil and other allied products. There are 95 solvent extraction entities, of which 30 are in working condition. Moreover, there are over 150 ghee manufacturing units.

Consumption — **Pakistan is the 4th largest market for edible oil**

- Pakistan's per capita consumption ~ 20.3 kg
- Est. average consumption in developing countries ~ 18 kg
- World's average consumption ~19.5 kg

Local Production — **Edible oil ~ among top 5 revenue generating sectors as per FBR**

- Annual crushing capacity FY17 ~ 6.6 MMT
- Total Production in FY17 ~ 30% of total demand - 1.2 MMT
- Edible oil production from local oilseed ~ 14% of total demand - 0.56 MMT

Import — **Pakistan is the 3rd largest global importer of edible oil**

- Annual Edible Oil and Oilseed import in FY17 ~ 86%
- Import bill ~ PKR 285 billion (US$ 3 billion)

The industry is bifurcated into organized and unorganized segments. The organized segment produces ~1m ton of edible oil per annum. Major players in the organized segment (in order of descending market share) comprise Dalda Foods Limited (market share of ~8.1%), Habib Oil Mills Limited (market share of ~3.7%), Sufi Banaspati & Cooking Oil, Seasons Edible Oil, Mezan Cooking Oil & Banaspati, Punjab Oil Mills Limited and Kashmir Cooking Oil & Banaspati.

OPPORTUNITIES

▲ Domestic production of edible oil is increasing, cutting into foreign exchange spending on imports of palm oil. This is due to increased availability of imported oilseeds, coming into full operations of new edible oil refineries set up in last few years and better functioning of oilseed extraction industry. Since cotton oilseeds and sunflower seeds make up about 90 per cent of the total oilseeds stocks in Pakistan, the total stocks of oilseeds had become large enough to meet more of the requirements of edible oil industry than before and had cut into the import volumes of rapeseed/canola.

- Of late edible oil industry has also done some experiments in more innovative blending of oils. The launching of Canolive oil is one of the several examples of it. Canolive oil is a formulation of canola and sunflower oil enriched with olive oil. If the government and the private sector join hands to promote cultivation of olive oil in the Potohar region and in Balochistan and the country starts producing commercially viable large amounts of olive oil, the trend to fortify edible oils with olive oil would rise further.

- Pakistan can save over $2 billion annually by encouraging domestic edible oil sector. Proper farming, production, processing and marketing of oilseeds can not only reduce dependence on imports but also help earn foreign exchange as Pakistan is located in the food deficient region. Focus on commercial farming of oilseeds, especially soya bean having high percentage of oil (22 percent) as compared to other varieties and high protein content (42 percent) can help the country. Cottonseed with 3.63 million tonnes annual production has only 11 percent of oil.

- Increase in sunflower sowing, whose seed contains 40 per cent high quality edible oil, can make the country self-reliant in edible oil. Pakistan is only producing 34 per cent of its total requirement of edible oil and spending huge amount of precious foreign exchange on import of rest of the 66 per cent. Continuous increase in population is also pushing the edible oil requirement up and it called for need to promote sowing of oilseed crops in the country to decrease reliance on imports. Sunflower crop's duration is from 100-110 days and it can easily be sown and harvested between two crops because of its short period.

- Expansion in edible oil extraction business in the recent past to meet growing demand for cooking oil and ghee in the country has pushed up import of palm oil Soybean oil is also being imported in larger quantities. Imports of palm oil and soybean oil can be saved if provincial governments and growers join hands in acquisition of technology for cutting post-harvest losses of oilseeds.

- Edible oil imports consume a large amount of foreign exchange every year. Availability of enough oilseeds for extraction of edible oil is required to lower spending.

- Edible oil import can be minimized by enhancing sunflower and palm oil production in the country. By increasing area under sunflower cultivation, the bulk of edible oil demand can be met locally.

- The coastal zones of Sindh and Balochistan, according to Coastal Development Authority, are best suited for oil palm cultivation at places where fresh water is available.

- Setting up edible oil refining industry, which would help bring down the import of edible oil. Through import of crude palm oil in the coming years instead of refined oil would help fill a major gap.

- Per capita consumption reached 15 kilograms, which was the highest in the region's increasing edible oil demand.

- ▲ The government with the support of oil extracting companies has announced increase in the sunflower support price which would not only help encourage balanced crop system but would also help increase edible oil production to reduce dependence on the imports and thereby save billions of rupees.

- ▲ The average cotton crop in this country is estimated at around 1.20 million bales and the country is capable of producing at least 1.4 million tonnes of edible by using available cottonseeds. The formula for producing 1.4 million tonnes of oil is based on the calculations that one kg of cotton produced is equal to one kg of oil. If this opinion is true, Pakistan can save the much-needed dollars by using the home resources instead of indulging in uncertain experiments.

- ▲ Extraction of Desi Ghee from excess milk can help reduce the demand of oil for cooking food.

THREATS

- ▼ Over 2.0 million tonnes of edible oil imports cost more than $2.5 billion annually making it the second largest import after petroleum products, which compromises balance of payments capacity. Reasons behind wide gap between production and consumption include lack of research and development initiatives, want of incentives, failure to attract investment, low price and high cost of production making these crops non-profitable to many farmers. Per capita consumption of edible oil in Pakistan is declining due to increasing poverty, presently it is at 14-15 kilograms and promoting cultivation of oilseeds would also be a great remedial measure to help masses reeling under poverty. Over the past decade the primary driver for edible oil price direction has been the strong demand while the faulty policy of extracting fuel from food is also to be blamed.

- ▼ Raw material imports constitute almost 70-80 percent of the total cost of production. Given global price fluctuations (when upwards) from season to season the manufacturers may be constrained to pass on the cost increases to the consumer thereby threatening profitability.

- ▼ The biggest challenge is the working capital for the edible oil processing plants, as the price of commodity has gone up in the world market, while some rupees per kilogram is being paid on account of taxes and duties.

- ▼ Global vegetable oil markets hit their highest in more than two years, with palm oil set to breach the key resistance level. It is feared that rising palm oil prices may discourage consumers back home, where inflation is increasing following devastating floods that drove up food prices.

- ▼ Among all edible oil and fats, palm oil and soya bean are major import products in Pakistan. Soya bean is considered to be an alternative of palm oil but is imported in much less quantity than palm oil because of its high structured import price. This creates a protection for palm oil dependent firms and asymmetry that speaks of absence of a level-playing field.

- ▼ The aggregate production levels achieved by the leading four firms of cooking oil and ghee sector is almost 10 percent of the total market, significantly below the international benchmark of 40 percent, which is considered as an indicator of oligopolistic conduct. It suggests that the likelihood of oligopolistic behavior in the cooking oil and ghee industry is very low.

- The importers of edible oil have been accused of selling untreated oil to the unregistered units, which is not only injurious for health but also creating adverse impact at national treasury.

OUTLOOK

- Despite marginal GDP growth and a higher inflation trend **outlook for the sector remains stable** & with some growth on account of the staple nature of this sector.

ENERGY-COAL

FINANCIAL SNAPSHOT 2017-18

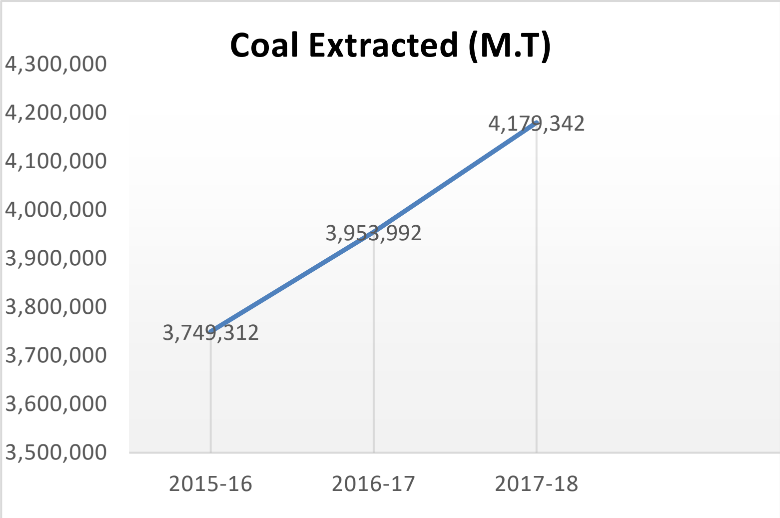
All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	3~5		
			2017-18	**2016-127**	
A.	**Industry Sales**	**Act/Est**	26,200	22,897	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	**Act/Est**	12,810		
C.	**Financial Charges**	**Act/Est**	1,605		
D.	**PAT**	**Act/Est**	11,595		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	**Act/Est**	102,257		
F.	*Current Assets*	**Act/Est**	50,043		
G.	*Cash & Bank Balances*	**Act/Est**	8,473		
H.	*Trade Debtors*	**Act/Est**	35,943		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	10,733		
K.	*Current Liabilities*	**Act/Est**	9,110		
L.	*Total Liabilities*	**Act/Est**	12,219		

ENERGY – COAL

SECTOR OVERVIEW

Coal is one of the most important energy resources in the world. It can play an important role in development of the country. As Pakistan is facing shortage in energy resources, coal can be utilized to overcome the shortage in a number of industries and can also be utilized for power generation. In Pakistan, salt range has conspicuous coal deposits. These deposits are extracted by old and manual techniques that results low production with a high number of risks as the supports are provided without geological and geotechnical evaluations. In order to enhance the coal production, proper systematic and scientific approach is essential to analyze the mining technique as well as the support required that will certainly provide the safety to the life of labor and will increase the production rate.



OPPORTUNITIES

- ▲ Pakistan's coal reserves are the 4th largest in the world but only 4 percent of electricity is generated by coal. Pakistan has immense coal resources of more than 185.5 billion tones (Thar alone 175 billion tones), and if half of these resources are exploited properly, it would be sufficient for generating 100,000 MW of electricity for 30 years.

- ▲ The consumption of coal is growing, and China and India together account for two-thirds of the increase in world coal demand over the projection period. In all regions, usage of coal becomes increasingly concentrated in power generation, where it will remain the dominant fuel. Power sector coal demand will grow with the expected increase in gas prices. The deployment of advanced technologies will also increase coal's attractiveness as a generating fuel in the long run.

- ▲ It is necessary to establish the cost and practicability of mining the Thar lignite. The stripping ratio is quite high, and the nature of some of the overburden may make it difficult to move and to stack elsewhere. It is also necessary to establish that the fuel is reasonably consistent. Also, that the mineral matter and other ash forming components do not imply unacceptable operating problems. In the blocks explored, the heating value of the coal/lignite at around 14 MJ/kg makes it quite an attractive fuel.

- ▲ Private sector can be included in projects of generation of energy from coal.

- ▲ Good quality Sub-bituminous coal is available in various coalfields of Baluchistan and Punjab, which coalfields are considered suitable for power generation. Some small coal reserves are also located in NWFP and AJK and are being mined on a small scale.

- ▲ Integrated gasification combined cycle (IGCC) power plants are believed to be the type of power plants that will predominately be used to add to our electrical power supply, replace our aging coal power plants and out increasingly expensive natural gas power plants. The process offers options to eliminate greenhouse gases produce hydrogen and/or produce liquid fuels.

THREATS

- ▼ **Technology Issues**
  The coal reserve could face possible technological impediments in successful on-going commercialization. Critics of Thar coal project say that the quality of coal is not good and due to this inferior quality of Thar coal it is more difficult to generate electricity.

- ▼ **Huge Investment Outlay**
  Setting up a coal-based power plant is not only very costly, but a huge amount would be needed to keep it running, and it would only be possible for financially strong companies to invest in this project.

- ▼ **Environmental Issues**
  According to an article "Coal Power in a Warming World", published by the Union of Concerned Scientists, the underground mining of coal is a dangerous profession, and underground and surface mining are both highly damaging to landscapes, water supplies, and ecosystems.

OUTLOOK

- ▶ Despite geo-political & economic uncertainties outlook for enhanced prospective investments into mining, refining and generation projects remains bright and is expected to stay that way into the medium term. **Outlook is positive.**

ENERGY-GAS GENERATION & DISTRIBUTION

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

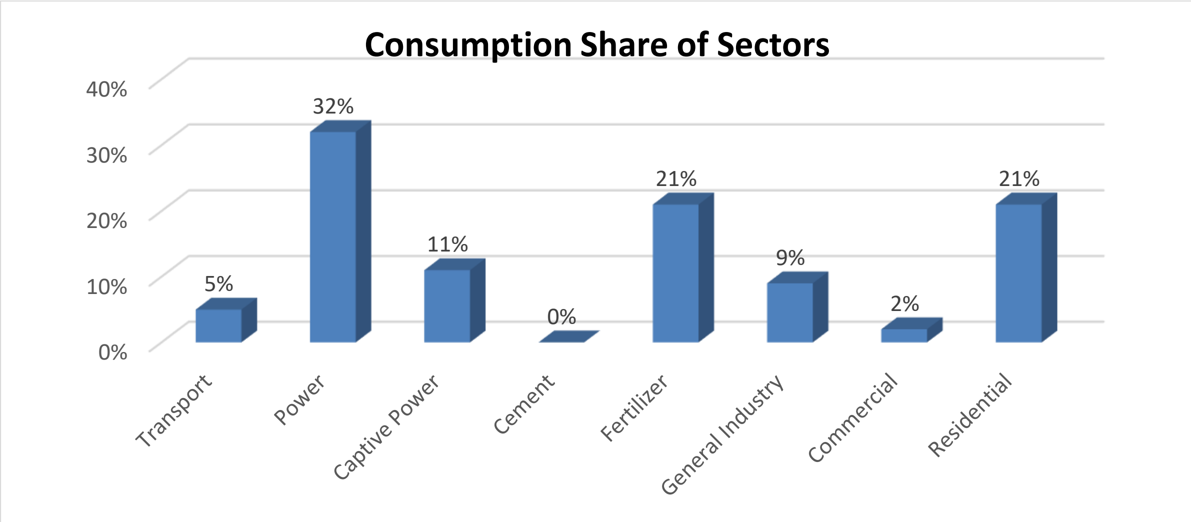
No. of Companies	Act/Est	1		
		2017-18	2016-17	
Industry Sales	Act/Est	383,626	319,935	
		High (>15%)	Medium (5-15%)	Low (<5%)
Projected Sales Growth (%)	Best			
(Next 1-2 Yrs)	Guess			
PBT	Act/Est	19,089		
Financial Charges	Act/Est	7,591		
PAT	Act/Est	12,558		
		Expected to Increase	Expected to Remain Same	Expected to Decline
Net Profitability	Best			
(Next 1-2 Yrs)	Guess			
Total Assets	Act/Est	281,308		
Current Assets	Act/Est	224,356		
Cash & Bank Balances	Act/Est	5,227		
Trade Debtors	Act/Est	76,596		
Short Term Investments	Act/Est	Nil		
Total Equity	Act/Est	61,888		
Current Liabilities	Act/Est	215,693		
Total Liabilities	Act/Est	219,421		

ENERGY - GAS GENERATION & DISTRIBUTION

SECTOR OVERVIEW

Two gas distribution companies [SNGPL & SSGC] operate in Pakistan with a cumulative transmission and distribution network of 168,686 KMs and serve ~8.6mln customers.

Gas Distribution is a regulated sector. OGRA is the regulator which determines annual tariff.



Guaranteed annual return on average operating assets | All costs and CAPEX are subject to approval.

Currently, there exists a supply gap which is presently managed through load shedding and load management by gas utilities companies. Meanwhile, Government of Pakistan (GoP) is working on various projects; importing indigenous gas, addition of RLNG through regasification terminals and respective enhancement of pipeline capacities to meet the supply deficiency.

Sindh and Punjab are major consumers of SSGC and SNGPL System's supply; consuming 47% and 43% respectively.

OPPORTUNITIES

- Pakistan is the largest CNG consuming country in the world. According to All Pakistan CNG Association, 2130 CNG stations are operating in the country while around 4000 CNG stations have been approved for installation.

- Natural gas is the obvious advantage in Pakistan's current energy mix and plays a crucial role in the economy, meeting about 44% of the country's supply mix for commercial energy. This fundamental position of Natural Gas can also be attributed to its consumption which is increasing.

- There already exists a well-developed and extensive natural gas transmission and distribution network in the country.

- ▲ Promoting the sale of LPG in order to cope with the energy crisis and to control rapidly increasing sharp gap between supply and demand of natural gas in the near future presents an opportunity for Pakistan to adjust to its internal energy scenario.

- ▲ LPG has shown a tremendous growth in terms of rising number of producers, importers, marketing companies and distributors and has attracted an investment of $200 million since 2000 in the country. More investments are expected in the future.

THREATS

- ▼ Increasing gap between demand and supply in the face of depleting reserves of Sui field.

- ▼ Sui Northern Gas Pipelines Limited has laid 800 km Pak-Iran gas pipeline but it still has geo-political risks associated with it. The Iran pipeline is also a threatened project due to extreme pressure from the US on Pakistan.

- ▼ Increasing cost based on international oil & gas prices are a major concern for this sector.

- ▼ Gas supply decreased during the last year; Industries, CNG stations, power grid stations had to face load shedding in the country and domestic consumers have to face increasing gas tariff, thereby increasing the pressure of inflation and reducing core purchasing power.

- ▼ The US-favored UNOCAL TAP pipeline has to run through the volatile Afghanistan countryside which continues to suffer from a poor law and order situation.

- ▼ Gas losses in the transmission and distribution networks is a major concern.

OUTLOOK

- ► Pakistan's LNG imports are forecast to jump over the next five years, with Pakistan LNG estimating unconstrained demand at 30 million mt/year, or 4 Bcf/day of gas equivalent, by 2022, which is half of the country's total gas demand projection of 8 Bcf/d for that year, according to government estimates. A total of seven FSRUs are expected to service Pakistan's mounting gas demand, according to Pakistan's Ministry of Petroleum and Natural Resources. Two of them are already in operation. **Outlook is positive.**

ENERGY-OIL & GAS EXPLORATION & PRODUCTION

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	4		
			2017-18	**2016-17**	
A.	**Industry Sales**	Act/Est	368,896	346,861	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	Act/Est	226,591		
C.	**Financial Charges**	Act/Est	4,166		
D.	**PAT**	Act/Est	146,141		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	719,512		
F.	*Current Assets*	Act/Est	259,177		
G.	*Cash & Bank Balances*	Act/Est	25,532		
H.	*Trade Debtors*	Act/Est	113,257		
I.	*Short Term Investments*	Act/Est	28,334		
J.	*Total Equity*	Act/Est	520,136		
K.	*Current Liabilities*	Act/Est	99,195		
L.	*Total Liabilities*	Act/Est	199,376		

ENERGY - OIL & GAS EXPLORATION

SECTOR OVERVIEW

Oil and Gas sector in Pakistan has seen phenomenal growth since the independence in 1947 when oil quantities produced were scarce. At that time there was no gas production. Over the past half century, the petroleum industry has played a significant role in national development by making large indigenous gas discoveries. With looming energy crises and the ongoing growing demand for oil and gas in Pakistan, the exploration and production of oil & gas, or upstream has garnered considerable interest from investors (both local and foreign).

OPPORTUNITIES

▲ The total estimated future O&G reserves of Pakistan which yet have to be discovered are 1864.8 MMBOE. There are 26 E&P companies operating in the country out of which 16 are foreign including 6 British E&P companies.

▲ The oil and gas sector is attracting more than 60 percent of foreign direct investment (FDI). Oil and gas exploration and mining is the only major sector that is attracting inflows as of now especially from China, United States, and Europe.

▲ As the reserves of oil and gas continue to deplete and the energy supply demand deficit widens, the situation calls for an aggressive exploration and production programs. Higher and firm oil prices due to geo-political situation around the globe would positively impact the E&P sector's profitability.

▲ Pakistan is endowed with vast sedimentary area of over 800,000 square kilometers of which over 70 percent is yet to be explored. The success ratio of oil and gas discoveries is one of the best in the world.

▲ In the downstream sector, Pakistan has a fairly well-developed gas infrastructure. It has 10,285 kilometers of transmission and 93,961 kilometers of distribution pipelines, which is managed by two public sector companies.

▲ Oil and gas exploration sector companies are allowed to import second-hand plant and machinery equipment for their projects in Pakistan, subject to pre-shipment certification to the effect that such plant machinery and equipment are in good working condition and are not older than 10 years. Since drilling rigs usually have a useful life of around 20 years it has been decided that the age limit for them may be enhanced to 20 years subject to Pre-Shipment Inspection certification.

▲ The Government of Pakistan (GOP) is committed to increase the local exploration and production (E&P) activity in the country. Recently, it took a number of initiatives to attract further investment into this sector. Last year, new petroleum policy was announced with attractive incentives for the E&P companies. The current Petroleum Policy allows 100% foreign equity and no restriction on repatriation of capital, profit and dividends.

▲ In the last few years, Ministry of Petroleum & Natural Resources has granted 88 licenses to various E&P companies including 16 international groups such as BP of UK, Eni of Italy, MOL of Hungry, OMV of Austria, BHP of Australia, NIKO Resources of Canada amongst many others.

- In the region, the location of Pakistan is strategic as it covers 827, 000 sq Km of the large sedimentary basin. Many parts of this sedimentary basin are either unexplored or under explored, providing an opportunity for the ideal investment by E&P companies.

- Baluchistan is the province that has the largest area in terms of sq. km. Land of Baluchistan is yet to be exploited as number of E&P resources is available within this particular region.

- Pakistan has a huge potential for the exploration and production of the shale gas. Pakistan has the shale gas reserves of 105 Tcf, according to the US Energy Information Administration. The shale specific studies done by PPL and the one in collaboration with Eni clearly have the significant presence of the shale gas in the region. If technology and the incentives related to finances are made available by the government, then Shale/Tight gas can prove to be a major opportunity in the sector of gas exploration.

- According to US EIA, the total shale oil reserves in Pakistan are estimated to be 227 billion barrels, out of which today's technology can recover 9.1 billion barrels. This is a huge opportunity for the companies to exploit as it can meet the oil demands of Pakistan for the next decade.

- If capital expenditure is made available, then offshore exploration is a huge opportunity to tap.

- New players can acquire the needed factors of production such as drilling rigs, surveys and technical help as well human resource from established government players, hence attracting new investment and creating more opportunities for the overall growth of the sector.

- Investment climate is improving, and we see this through the emerging interest by local as well as foreign investors in prospective joint ventures and partnerships.

- Government as well as Private Sector is expected to capitalize on the decrease in crude oil prices hence demand is expected to increase significantly.

- In Pakistan, the drilling of wells has the success ratio of 1:3.2, which is favorably higher than the international success ratio of 1:10. This can act as an opportunity for the foreign and local companies to explore in order to have major discoveries.

- Pakistan has an estimated total of 160 Tcf unconventional & conventional oil & gas reserves, thereby providing both local and multinational companies with the opportunity to exploit those reserves and receive benefits.

- Oil and gas fulfill 80% of Pakistan's energy needs and due to this, current and previous Governments have given high priority to this sector. The policies made for this sector are kept consistent in order to attract the foreign investment and promote exploration of oil & gas that will in return benefit the country. Therefore, attractive government policies provide an opportunity for the investors to invest in this sector.

- ▲ Under the foreign Investment act of 1976, foreign investment is protected as government guarantees full protection to all the foreign investments in Pakistan. Furthermore, the Governments have also been providing incentives to boost exploration activities in the country, making it an opportunity for foreign companies to explore.

- ▲ The Industry is expected to continue with same number of concentrated players with more foreign and local involvement through OGDCL upcoming secondary public offerings.

- ▲ Chinese involvement in energy sector is expected to improve the underlying weak infrastructure.

THREATS

- ▼ Due to constant exploration activities, depletion in gas reservoirs is evident. This may pose threat for the future exploration activities.

- ▼ Demand of communities may cause threat to the companies in the Industry. The exploration activities are usually done in the backward areas and locals demand a lot from the organizations. The backward communities expect employment of unskilled labor that can lead to rifts between organization and the community, making it difficult for an organization to operate.

- ▼ Political system in the country has been affecting this sector adversely as this leads to the security threat for exploration activities.

- ▼ E&P's major product "crude oil" prices are linked with international prices hence; there is a significant volatility in prices which affects the bottom line.

- ▼ Exploration activity includes the risks of incorrect selection of exploration acreage, error in processing or interpreting of seismic data, incorrect selection of drilling site. This leads to wastage of both human and financial capital.

OUTLOOK

- ▶ **Outlook remains positive** and growth oriented on anticipation of increased exploration and likely successes in drilling with consequent enhancements to local production.

ENERGY-OIL (PETROLEUM DISTRIBUTION/MARKETING)

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	4	
			2017-18	2016-17
A.	Industry Sales	Act/Est	1,655,699	1,393,840

			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			

B.	PBT	Act/Est	42,358
C.	Financial Charges	Act/Est	6,505
D.	PAT	Act/Est	26,628

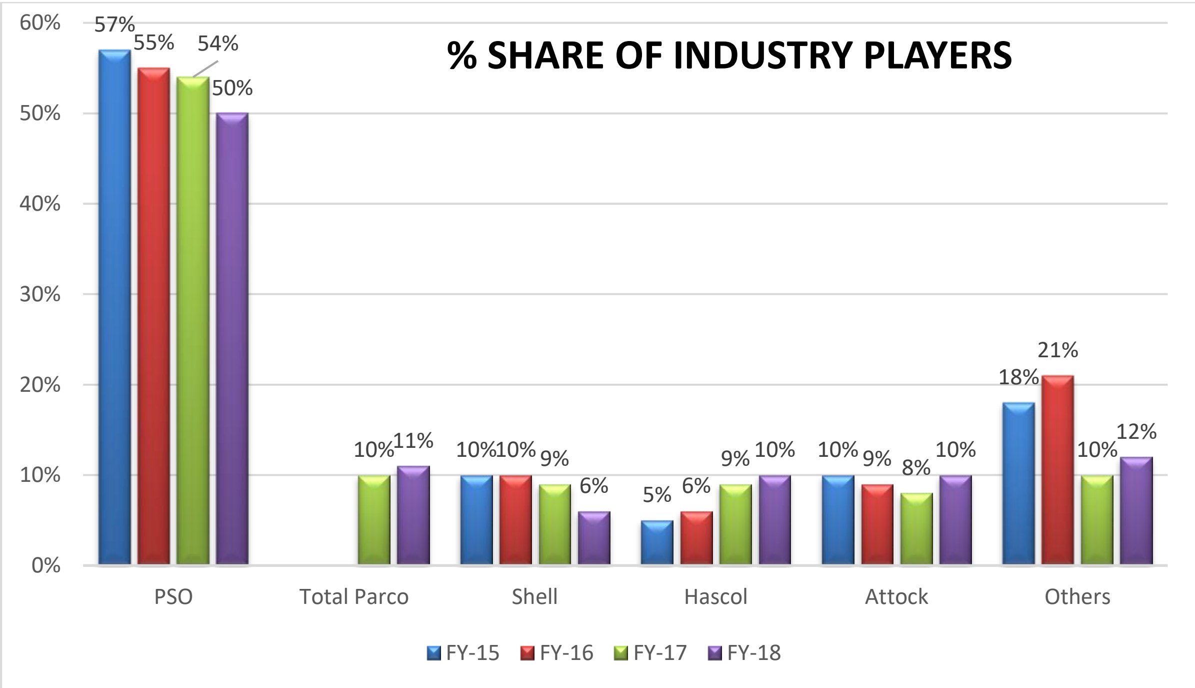
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			

E.	*Total Assets*	Act/Est	545,681
F.	*Current Assets*	Act/Est	481,753
G.	*Cash & Bank Balances*	Act/Est	24,451
H.	*Trade Debtors*	Act/Est	276,672
I.	*Short Term Investments*	Act/Est	1,641
J.	*Total Equity*	Act/Est	148,305
K.	*Current Liabilities*	Act/Est	386,148
L.	*Total Liabilities*	Act/Est	

ENERGY-OIL (PETROLEUM DISTRIBUTION & MARKETING)

SECTOR OVERVIEW:

- There are total of ~15 Oil marketing companies registered in Pakistan.
- ~54% of the country's demand is met through imports while remaining ~46% is being produced locally. Over the years, imports have been reduced while local share in the total demand has increased.
- ~95% of POL consumption is distributed among three major products i.e. MOGAS (~30%), HSD (~36%), and FO (~30%).
- Over the years, consumption of MOGAS and HSD have increased. This is because of the rising demand of transport sector particularly the growing number of motorcycles and cars, indicating increased economic activity in the country.



OPPORTUNITIES:

▲ Over the last five years, the two large OMCs (PSO and Shell) have lost significant market share to smaller OMCs indicating increasing competition from smaller players. This along with expected entry of a number of new players will result in increasing competition.

▲ In a low oil price environment, margins on retail fuel compares favorably to margins on FO. This along with linkage of margin on retail fuels to CPI has resulted in higher incentive for selling retail fuels. Players with increasing proportion of retail sales are likely to post greater profitability growth, going forward.

- ▲ The decline in oil prices since June'2014 and subsequent volatility has posed a challenge for industry players with effective inventory management and hedging becoming increasingly important to manage inventory losses.

- ▲ Financial profile of the sector is satisfactory with manageable leverage indicators and adequate cash flows. Profitability of the sector is expected to improve with volumetric growth in retail sales, improving gross margins and lower inventory losses.

- ▲ The government approved Rs. 10 billion for the state-owned oil giant, so it could supply imported oil to power generation companies. PSO asked for Rs65 billion.

- ▲ PSO's revenues were moderately up by 10 percent, year-on-year, which was due to declining furnace oil sales volumes by 75 percent year-on-year in 1HFY19. This was accompanied by slow petrol and diesel sales and inventory losses due to declining oil prices. The industry sources highlight that the growth in PSO's top line was largely because of increasing lubricant and LPG sales.

THREATS:

- ▼ 2018 was a rollercoaster ride for crude oil prices. The oil market reportedly experienced its worst annual loss since 2015. Following the 2014-2016 downturn in crude oil prices, the recovery in 2017 and the beginning of 2018 was cut short in the second half of 2018. The flip in prices came as the market expectations moved from the fears of oil shortage to fears of another crude oil glut.

- ▼ The plunge in prices came primarily from Trump's restoration of sanction on Iran, as Saudi Arabia along with OPEC members increased production amid fears of a supply squeeze. While prices rose initially on fears of a shortage, the increase in pumping by Saudi Arabia, Russia, and other OPEC members to stabilize the prices, was hit by slower than expected demand growth amid the ongoing trade war between China and the USA, and Trump's surprising move of granting waiver to countries importing crude oil from Iran at the time the sanctions officially took effect.

- ▼ Pakistan consumed a total of ~25.1mln metric tons (MT) of petroleum products (POL) in FY18 (FY17: 25.9mln MT), which is ~3% lower than the last year. This decline is mainly seen owing to decrease in the sales of Furnace oil by ~ 23% to ~7.3mln MT (FY17: ~9.6mln MT), as the government of Pakistan plans to gradually reduce reliance on oil-based power plants to other power sources i.e. LNG & coal

- ▼ The sector has been experiencing other headwinds like the increasing circular debt, and shifting fuel mix, which has affected the market shares of the players in the sector. PSO that had an overall market share of 54 percent in the liquid fuel segment in 7M FY18 saw its share recede to 40 percent in 7M FY19. This was not only led by declining furnace oil market share from 73 percent to 45 percent, but also a decline in motor gasoline and diesel market shares; PSO's market share of MS came down from 41 percent to 36 percent, while HSD saw a decline from 46 percent to 38 percent in 7M FY19.

- ▼ The firm's net profit came down by over 50 percent, year-on-year in 1HFY19, and besides weak volumes and inventory losses, PSO's decline in other income (penal income) and staggeringly high finance cost in the period were the key factors behind the dismal performance.

FUTURE OUTLOOK:

- Volumetric sales of petroleum products in future are expected to emanate strong demand in retail products driven by lower oil prices and increasing car sales. However, increase in LNG imports as planned by the government, commissioning of coal-based power generation capacities and import of gas through TAPI may pose challenges to volumetric growth. **Outlook is stable.**

ENERGY-OIL (PETROLEUM REFINING)

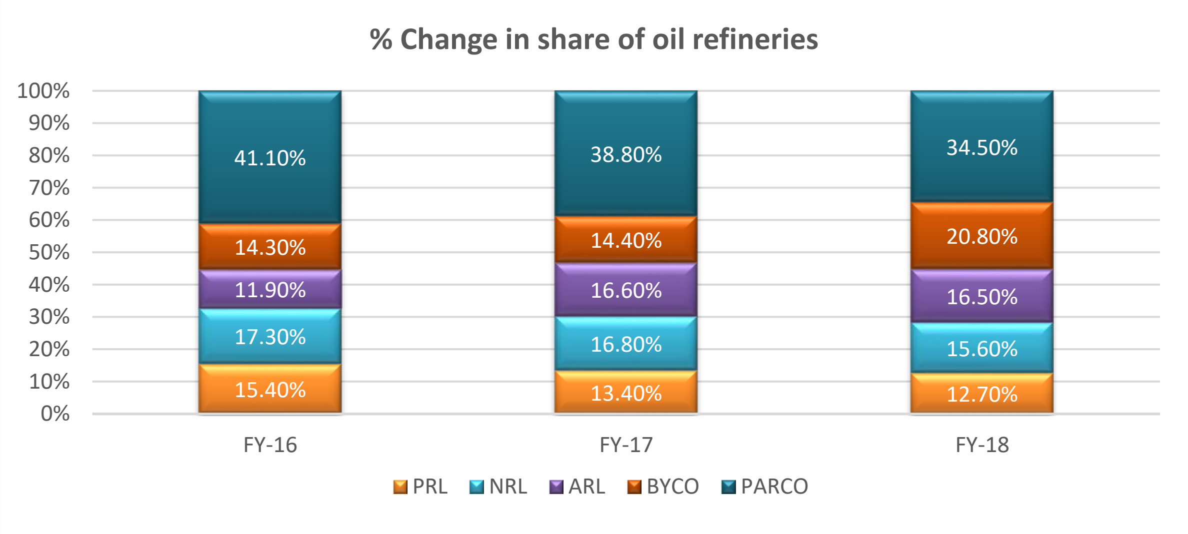
FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	4		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	622,166	401,399	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	5,552		
C.	Financial Charges	Act/Est	8,160		
D.	PAT	Act/Est	2,858		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	210,413		
F.	*Current Assets*	Act/Est	138,123		
G.	*Cash & Bank Balances*	Act/Est	23,817		
H.	*Trade Debtors*	Act/Est	36,463		
I.	*Short Term Investments*	Act/Est	985		
J.	*Total Equity*	Act/Est	116,854		
K.	*Current Liabilities*	Act/Est	165,452		
L.	*Total Liabilities*	Act/Est	210,332		

ENERGY-OIL (PETROLEUM REFINING)

SECTOR OVERVIEW:



Byco has added more sales volumes after the company commissioned its second refinery unit and the reformer unit. Because of this, relative positioning, in turn, market share of the refineries have changed.

MOGAS- Domestic Production

- The country's petrol consumption observed continuous rising trend due to higher automobile demand and low availability of CNG.
- The increased consumption level in recent years is met though a mix of imports (~69%) and domestic production (~31%).
- Additionally, over the recent years domestic production has increased with the four year CAGR of ~9.4%.
- Three refineries including PARCO, ARL and BYCO contributes ~80% of the total MOGAS supply.

HSD- Domestic Production

- The country's diesel consumption increased on the back of energy demand.
- Of the total consumption, ~90% of the HSD is used in transport sector, followed by industry (~6%), Power (~2%).
- Local production has increased in recent years.
- PARCO, NRL and BYCO contributes ~74% to the total domestic supply.

FO- Domestic Production

- During Dec17, government decided to restrict the import of fuel oil to save foreign currency reserves growing import of comparatively inexpensive liquefied natural gas (LNG). However, during Apr18, government has lifted the ban on import of furnace oil for running power plants in order to meet growing electricity demand in the country.
- PARCO and Byco contributes the most in total supply to the domestic market (~58%)

The annual capacity utilization of the refineries is as follows:

Refinery	2016		2017		2018	
	Capacity	Utilization	Capacity	Utilization	Capacity	Utilization
BYCO	1.8	65%	7.5	14.9%	7.5	35.6%
PARCO	4.5	100%	4.5	104.9%	4.5	95.1%
NRL	2.7	81.4%	2.8	8.2.9%	2.8	84.8%
PRL	2.1	79.3%	2.1	77.0%	2.1	79.4%
ARL	2.0	87.0%	2.5	91.5%	2.5	93.9%
TOTAL	13.1	83%	19.4	74%	19.4	68.8%

OPPORTUNITIES:

- Pakistan and Saudi Arabia have agreed to establish a Joint Working Group (JWG) for setting up $11 billion oil refinery and petrochemical complex at the Gwadar Port.

- The establishment of the refinery and petrochemical complex in Pakistan would help cut down annual oil import bill by $1.2 billion and added the recent agreements with Saudi Arabia in various fields would also instill confidence in foreign investors in business-friendly policies of Pakistan.

- A Chinese company has reportedly shown interest in developing an upcountry deep conversion oil refinery. PARCO, which is a joint venture between the government of Pakistan and the Emirate of Abu Dhabi, is already working to develop a deep conversion refinery at Hub near Karachi. Global investors are eager to invest billions in Pakistan's oil refining space which is a testament to the fact that this industry promises solid returns on investment over the long run.

- The combined capacity of five Pakistani refiners – ARL, Byco, PARCO, NRL, and PRL – is close to 420,000 barrels per day. Even if these refiners create savings of just $0.75/barrel and utilize 70 percent of capacity, then they will still create foreign currency savings of $80 million each year, or around Rs11 billion at the ongoing exchange rate of Rs140/$. Note that these are fairly conservative estimates and the actual positive impact of the entire refining industry on Pakistan's foreign exchange reserves was likely to be considerably larger.

- In FY18, four leading listed refineries contributed Rs176.9 billion to the exchequer as taxes, levies, and duties. Pakistan's leading refineries have shown that they can turn decent profits even in tough times. The refiners typically thrive in a weak oil price environment, since they use crude oil as a raw material and any reduction in international oil prices lowers their cost of production.

- Amid oil refineries' shutdown fear due to government's decision to switch to less costly RLNG from furnace oil (FO) for power production, the installation of a hydro-cracker unit would convert FO into other POL products. However, this would require significant CAPEX and a holistic approach is required to lift refineries out of their current crisis. (A hydrocracking unit, or hydrocracker, takes gas oil, which is heavier and has a higher boiling range than distillate fuel oil, and cracks the heavy molecules into distillate and gasoline in the presence of hydrogen and a catalyst. The hydrocracker upgrades low-quality heavy gas oils from the atmospheric or vacuum distillation tower, the fluid catalytic cracker, and the coking units into high-quality, clean-burning jet fuel, diesel, and gasoline.)

THREATS:

- the government's decision to rely more heavily on gas-based power production would create a burden on the economy and budget as closure of refineries would then lead to import of oil products such as jet fuel, diesel and motor gasoline, currently produced by the refineries.

- Already, this decision has resulted in significantly slower off-takes of Furnace Oil (FO) during the month of November-2018. This has resulted in significant build-up of FO inventories with refineries, leading to fears of an imminent shutdown in the near future.

- As per the Oil Companies Advisory Council (OCAC), all the major refineries have already slowed down production and currently operating at their lowest utilization levels.

- the structural issues of the sector regarding obsolete existing machinery persist and a holistic solution will be required to lift the sector out of its current woes.

- Also, lower utilization levels of refineries have led to reduced inventory turnover and hence higher inventory days, while the situation is worsened by build-up of inventory.

- Local refineries have been demanding an increase in deemed duty on diesel to 9% from 7.5% at present for some time. As this has not materialized to date, diesel desulphurization (DHDS) projects completed by some local refineries seem less financially viable.

- Additionally, the isomerization plants, which allow conversion of the loss-making Naphtha into high margin motor gasoline, have not provided desired results either, given weaker gasoline spreads.

- Recently, the increase in debt levels following an expansionary phase in most of the refineries could lead to higher financing costs amid rising interest rates. The latest round of rupee depreciation presents yet another challenging moment for the sector.

- With RLNG- and coal-based power plants ascending on the merit order list, demand from FO-based plants plummeted, leaving a dent on OMC volumes in November 2018. PSO, being the largest supplier of FO in the industry has been hit the hardest with a 69% YoY decline in sales volumes. This was followed closely by Hascol which posted a 67% YoY decline.

- Oil refineries receive minimal support in the form of 7.5 percent of duty on high-speed diesel, but since a refinery produces a number of other fuels as well, the net impact is just 2.25 percent on the whole barrel. This modest tariff protection for a heavily capital-intensive industry, which imports its raw materials is simply inadequate.

- Globally, the refining industry is contemplating ways to deal with the incoming Marpol Convention 2020, where the International Maritime Organization (IMO) has introduced stringent requirements for the maximum allowable sulphur content in the marine fuel consumed in open oceans from the current 3.5% to 0.5% (by weight), beginning January 1, 2020. Compliance with this new requirement will involve significant costs for both the refineries and shipping industry. For the refining industry, the regulation means that the industry will have to modernize its process streams to reduce the sulphur content and produce low sulphur fuel oil (LSFO). However, in the long run, the whole fuel supply ecosystem has to be upgraded to ensure sustainable compliance with the rule using economies of scale at the supply side. In Pakistan, the situation for the refining industry is further complicated by the policy shift to replace furnace oil with a cheaper alternative, such as gas and coal. Once the new IMO 2020 convention is in place, the demand for around two million barrels of HSFO will be replaced in the shipping industry. This will eventually put pressure on the HSFO prices due to low demand and excess supply globally and will further increase the price difference between HSFO and LSFO. It seems that there will be very few avenues to offload the HSFO in future without upsetting profit margins or environmental agencies. All the refineries in Pakistan currently have either simple topping configuration or have recently upgraded to hydro-skimming type configuration.

- Moreover, the recently announced refinery projects, such as the Parco coastal refinery and a super refining complex at Gwadar Port by Aramco, will create tough competition for the existing refineries in terms of better pricing power and improved margins. All these new projects will be using modern deep and ultra-deep conversion processes to squeeze out more bucks from the same barrel of crude.

FUTURE OUTLOOK:

- Inventory loss came from high inventory of FO, which could not be sold due to low demand while the same led to refineries lowering their selling prices, which further exacerbated the squeezing effect on earnings. **The outlook is constraint**.

ENERGY-POWER GENERATION & DISTRIBUTION (IPPs)

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	17		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	496,281	445,456	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	85,922		
C.	Financial Charges	Act/Est	19,113		
D.	PAT	Act/Est	55,339		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est			
F.	*Current Assets*	Act/Est	487,494		
G.	*Cash & Bank Balances*	Act/Est	17,762		
H.	*Trade Debtors*	Act/Est	385,513		
I.	*Short Term Investments*	Act/Est	3,070		
J.	*Total Equity*	Act/Est	436,094		
K.	*Current Liabilities*	Act/Est	409,313		
L.	*Total Liabilities*	Act/Est	512,251		

ENERGY-POWER GENERATION AND DISTRIBUTION (IPPs)

SECTOR OVERVIEW:

22 Power DISCOS operating in Pakistan

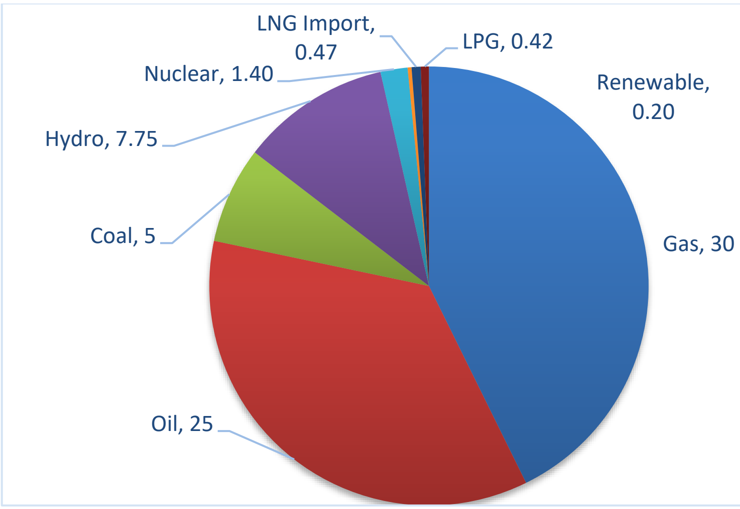
10 Public DISCOs & K-E servers almost entire customer base

Transmission network includes 17,293 KMs long lines

Distribution network include 359,930 KM High Tension & 232,042 KM Low Tension Lines

K-E operating at 500KV & 220 KV level Transmission lines

- Pakistan's high dependence on imported oil for electricity generation has contributed to high cost of electricity during the past decade.
- The energy mix will change in favor of hydel, coal, gas and renewable based power generation over the next 5 years due to increasing emphasis on RLNG, coal, hydel and renewable based power generation.
- Favorable power sector policies with equitable and time-tested concessionary framework incorporating adequate lender protection and guaranteed USD based equity returns have encouraged private sector participation in electricity generation since the 90's.



OPPORTUNITIES:

▲ Work on 13 energy projects having capacity to generate 8,995MW electricity under China Pakistan Economic Corridor (CPEC), throughout the country is in progress.

▲ About 20 energy projects under CPEC with total investment of over US $25 billion will add 12,335MW electricity in the national grid. Out of 20, seven energy projects under CPEC had been completed and supplying 3,340MW energy to the national grid. Sahiwal coal fired plant, Dawood Wind Farm, Quaid-i-Azam Solar, UEP Wind Farm, Sachal Wind Farm, Port Qasim Power plant and three gorges second and third wind farms are among the completed energy projects under CPEC . Whereas, Suki Kinari HPP, Korot HPP, TEL Mine Mouth Thar Block-II coal fired power plant and CPHGC coal fired power plant having capacity to generate about 3900MW were under construction.

▲ Eight more power projects including SSRL coal, Thal Nova power, Kohala HPP, Cacho wind, Western Energy wind, Coal fired plant at Gwadar and Oracle power having the 5,094 MW generation capacity were also in various stages of completion. Matiari-Lahore transmission is also part of CPEC and will be completed by March 21.

▲ new renewable energy policy is underway following due consultation with the provinces. The new policy would be focused on generating at least 20 per cent of the total energy mix from renewable energy by 2025 and 30 per cent by 2030. The upgradation of the national grid, as well as the introduction of regional grids, would be an important element of the policy.

▲ the government raised Rs200 billion through a sukuk to help clear part of mounting circular debt in the power sector in line with a decision of the Economic Coordination Committee of the cabinet. The government also planned to issue another Islamic bond to raise funds from the private sector for settlement of energy sector's debts. The ministry has paid the amount to the state-owned Central Power Purchasing Agency (CPPA), which gave it to 65 to 70 IPPs from which the agency had purchased electricity for power distributors and end-consumers.

▲ the Saudi power producing company ACWA Power expressed its willingness to invest around $ 4 billion in Pakistan's renewable energy sector. ACWA Power was a developer, investor, and co-owner of portfolio of power generation and desalinated water production plants in countries in the Middle East, North Africa, Southern Africa and South East Asian region.

▲ The Asian Development Bank's (ADB) support to Pakistan's energy sector has produced positive results from investment programmes supporting three key areas including conventional generation, power transmission, and, to a lesser extent, electricity distribution.

▲ ADB has been the leading development partner in Pakistan's energy sector with $6.2 billion committed during last 12 years. Disbursements reached $3.2 billion by the end of 2018. ADB supported Pakistan's power sector at two levels: institutional and regulatory, and power infrastructure, using sector reform programs, technical assistance, and infrastructure investments. ADB also provided non-sovereign financing for conventional and renewable energy generation.

THREATS:

▼ The country's energy sector has been reeling under burdensome inter-corporate debt, known as circular debt, involved the entire chain from oil marketing companies, power generators, distributors and consumers.

- The circular debt swelled to Rs1.614 trillion at the end of 2018. The official data showed that power sector had to recover a whopping Rs1.041 trillion in lieu of unpaid electricity bills.

- Power generation fell 2.7% year-on-year to 7,764 gigawatt hours (GWh) in January-2019 as electricity production from ex-furnace oil sources continued to decline during the month.

- Hydropower decreased 21% to 478 gigawatt hours (GWh) in January, while its share fell to 6.2% from 7.6%. Gas-based electricity production dipped 8% to 1,709 GWh. Re-gasified liquefied natural gas- (RLNG) based power generation declined 29% to 1,138 GWh. Share of RLNG declined to 15% from 20%. Cost of RLNG-based generation, however, increased 14% to Rs10.6/kWh.

- Solar-based generation also declined 21% to 43 GWh. Coal-based cost of generation also increased 31% to Rs6.8/kWh. Coal contributed 43% (Rs0.53/kWh) in total fuel cost rise during January-2019.

- The country produced 12 GWh from diesel power plants in January as compared to zero in the corresponding month a year earlier. Cost of diesel-based generation is the highest among all the available sources of generation.

- In January, share of nuclear fell from 10.3% to 11.7% in the corresponding month a year earlier, while share of wind power dropped to 2% from 0.9%.

FUTURE OUTLOOK:

- Pakistan needs to increase the supply of electricity to meet growing demand while also tackling its circular debt issue. At the same time, the weakening rupee is making fossil fuel imports even more expensive. With Pakistan needing to expand generation quickly, renewable energy is much better placed to meet growing demand than hydro, coal or nuclear, as wind and solar projects can be built within an 18-24-month timeframe. **The outlook is stable.**

FERTILIZERS

FINANCIAL SNAPSHOT 2017-18

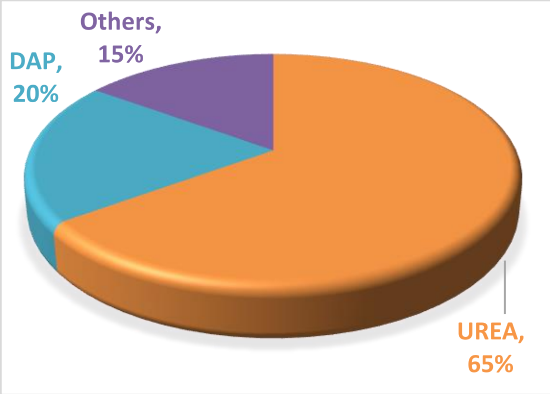
All figures in Pak Rupees (Million)

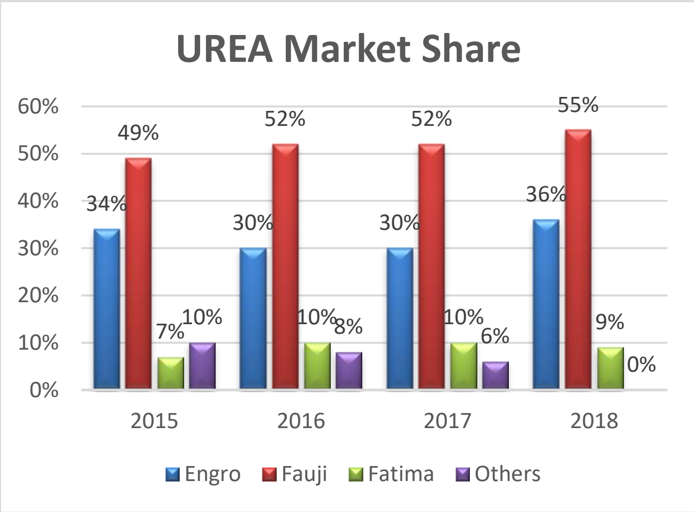
	No. of Companies	Act/Est	7		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	380,231	238,092	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	79,908		
C.	Financial Charges	Act/Est	6,520		
D.	PAT	Act/Est	54,744		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	729,390		
F.	*Current Assets*	Act/Est	286,515		
G.	*Cash & Bank Balances*	Act/Est	19,972		
H.	*Trade Debtors*	Act/Est	14,460		
I.	*Short Term Investments*	Act/Est	127,971		
J.	*Total Equity*	Act/Est	377,065		
K.	*Current Liabilities*	Act/Est	219,948		
L.	*Total Liabilities*	Act/Est	469,949		

FERTILIZERS:

SECTOR OVERVIEW:

Being primarily an agrarian state, Pakistan's agriculture sector growth is heavily dependent on the fertilizer industry. Historically, Pakistan's fertilizer demand has remained higher than its supply. Since CY16, however, the country's fertilizer industry installed capacity has surpassed the local demand. Urea constitutes around 65% of the total fertilizer demand followed by DAP with a 20% share. Other products include NP, NPK, and CAN.





- Fertilizer sector, being oligopolistic in nature, is ruled by three top conglomerates – Fauji, Engro and Fatima.

. Share of Fauji (FFC and FFBL) has gone up to 55% in CY18 from 49% in CY15 in urea offtake.

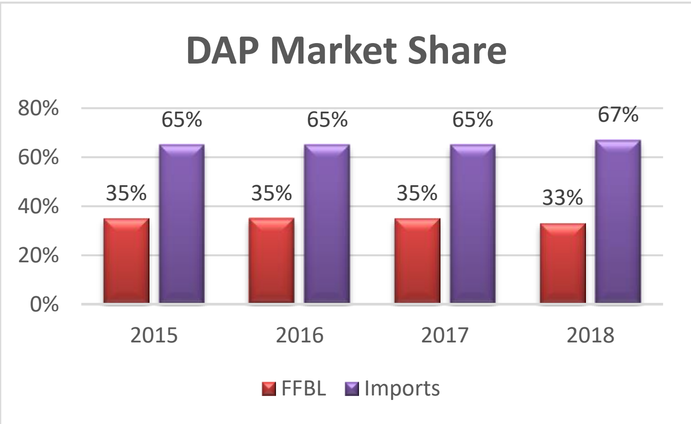
. Engro follows with a share of ~36% in 9MCY18; experienced a share decline in 2016 mainly due to players previously not operating, that became operational with the availability of LNG.

. Others in the adjacent table include: Agritech and NFML.

. Fauji Fertilizer Bin Qasim Limited (FFBL) is the only local manufacturer of DAP in the country. Others sell imported DAP (including private importers).

. FFBL maintained its market share of ~35% in 2016 and 2017 with a decline to ~33% in 9MCY18. Ratio of total production to imported DAP in 2018 was estimated at 29:71.

. In import market, Engro Fertilizers (EFERT) held a share of ~24%, 21% and ~27% in 2016, 2017 and 9MCY18 respectively.



UREA-Domestic Price- 2018	UREA-International Price- 2018
Average retail price per 50 kg bag hovered around PKR1,793 for sona urea and PKR1,769 for Kissan urea in December 2018. Prices took a hike on the backdrop of: (i) uplift in fuel and feed gas rates from 3QCY18 and (ii) removal of subsidy on urea bags.	International urea prices remained on the higher side to the local prices, and hovered around USD350-365/T, (landed equivalent to Rs.2,600-3,000/bag).

DAP-Domestic Price- 2018	DAP-International Price- 2018
Local SONA DAP and imported DAP prices increased steadily during 2018 on account of removal of subsidy of Rs.300/bag and devaluation of the local currency. Average retail price of local DAP was recorded at Rs.3,670/bag and ex-Karachi price of imported DAP was around Rs.3,500/bag in Dec'18.	In consequence to controlled output from China, and demand supply scenario, International DAP prices hovered in the range of USD430- 435/T

OPPORTUNITIES:

- Pakistan has a flourishing fertilizer industry, which has been growing at approximately 8.5 per cent per annum.

- More than 14 factories are manufacturing urea, calcium ammonium nitrate, ammonium phosphate and nitro phosphate, with each one of them having a direct impact on soil fertility. Urea is considered the highest-grade fertilizer and is useful for all types of crops.

- On January 24th, 2019, the federal cabinet had approved Gas Infrastructure Development Cess settlement mechanism for the companies with reduction in rate of GIDC that is subject to settlement of outstanding dues. The federal cabinet had approved 50 percent waiver in GIDC for companies to settle their outstanding dues. From post 2015 to December 2018, the fertilizer (fuel) sector total accrued amount was Rs 2.5 billion out of that Rs 1 billion was deposited while Rs 1.5 billion are outstanding, fertilizer feed (old) total accrued amount is Rs 112.4 billion out of which Rs 55 billion were deposited while Rs 57.5 billion are outstanding, fertilizer feed (new) total accrued amount is Rs 55.6 billion out of which Rs 1.1 billion was deposited while Rs 54.5 billion is outstanding. For industry, total accrued amount is Rs 34 billion out of which Rs 12.1 billion was deposited while Rs 21.8 billion is outstanding

- The Government, in its mini budget presented on Jan 23, 2019 acclaimed that GIDC reduction would enable a price reduction of Rs.200/bag of urea. The fertilizer sector, however, does not agree to this as they believe reduction benefit would allow a maximum price cut of Rs.100/bag. Actual price effect is yet to unfold.

- Fatima Fert, Pak Arab and Agri tech's plants remained largely non-operational up to Oct'18 due to gas supply issues. Later, the Government ensured resumption of gas to the said plants. In 4QCY18, Fatima group made strategic decision of taking over Fatima Fert (wholly owned) and all fertilizer plants of Pak Arab Fertilizers, after which a dedicated gas pipeline shall be available to Pak Arab's plant which is expected to improve production in the future.

- ▲ GST was proposed to be reduced from 5% to 3% in 2HCY18 whereas input tax on feedstock was proposed to be reduced to 5% from 10%.

THREATS:

- ▼ GIDC is a special additional tax that has been imposed by the GoP through GIDC Act, 2011 on various economic and industrial sectors, based according to the amount of natural gas consumed by the company. Therefore, the fertilizer sector, being the biggest consumer of natural gas in the country, is subjected to the highest rate of GIDC (Rs.300/mmbtu of feed gas and Rs.150/mmbtu of fuel gas). Currently, all fertilizer manufacturers are accruing GIDC amount on fuel. On feed, FFC and FFBL are accruing GIDC on full production, while EFERT is accruing it on only base plant (35% of its total production).

- ▼ As per Finance Act-2017, the cash subsidy granted by GoP was reduced to PKR100 per bag of urea fertilizer from PKR156 per bag and abolished for other fertilizers. The same subsidy for urea was also withdrawn in 1HCY18. Fertilizer prices, including urea, therefore picked up in 2HCY18, due to withdrawal of subsidy and increased gas rates.

- ▼ The fertilizer industry is facing an uncertain future as indigenous reserves of natural gas, the basic raw material for manufacturing urea, are depleting fast. The government has been subjecting fertilizer units to gas load shedding in winters for two reasons: a lack of required gas pressure and to provide domestic consumers of gas with relief.

- ▼ The Mari gas field in Ghotki district is supplying 535 million cubic feet gas per day (mmcfd) to three units of Fauji Fertilizer Company, two units of Engro Fertilizers and one unit of Fatima Fertilizer Company. Located within a radius of around 60 kilometers, these units are manufacturing 90pc or 5.2m tonnes of the country's total production of 6.2m tonnes. The Mari gas reserves, dedicated to the fertilizer units, may go dry within six to eight years. They have already gone down from six trillion cubic feet to 2tr cubic feet.

- ▼ the government either invest on the exploration of gas reserves or subsidies the import of the raw material for keeping the local fertilizer industry running. Otherwise, it has to import farm nutrients and provide the local farming community with them at subsidized rates. The current per-ton price of urea in the world market is $280. About 100,000 tonnes of it is already being imported to meet the shortage for the 2018-19 Rabi season caused by the closure of fertilizer units for want of feed gas.

FUTURE OUTLOOK:

- ▶ Prices are expected to remain stable in International market following decline in world oil prices. With Stable prices, DAP offtake is expected to improve. Urea prices are expected to go down in the coming months due to proposed GIDC settlement. DAP production is expected to improve in CY19 as maintenance activities during CY18 restrained production by FFBL. **Outlook is stable.**

FINANCIAL INSTITUTIONS

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	20		
			2017-18	2016-18	
A.	Industry Sales	Act/Est	619,141	536,852	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	237,975		
C.	Financial Charges	Act/Est			
D.	PAT	Act/Est	142,755		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	16,623,902		
F.	*Current Assets*	Act/Est			
G.	*Cash & Bank Balances*	Act/Est	1,193,615		
H.	*Trade Debtors*	Act/Est			
I.	*Short Term Investments*	Act/Est	7,795,178		
J.	*Total Equity*	Act/Est	1,060,621		
K.	*Current Liabilities*	Act/Est			
L.	*Total Liabilities*	Act/Est	12,753,048		

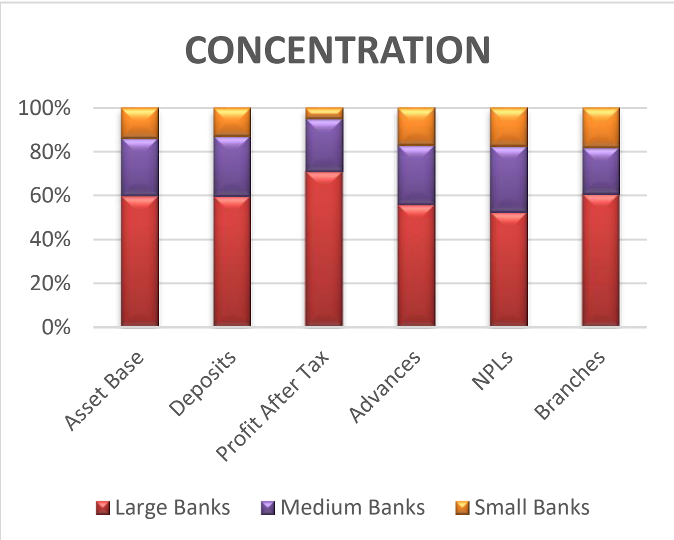
FINANCIAL INSTITUTIONS:

SECTOR OVERVIEW:

Financial soundness indicators of the banking sector are as under:

Indicators	CY16	CY17	H1CY18
CAPITAL ADEQUACY			
Risk Weighted CAR	16.2	15.8	15.9
Tier 1 Capital to RWA	13.0	12.9	13.0
ASSET QUALITY			
NPLs to Total Loans	10.1	8.4	7.9
Provision to NPLs	85.0	87.2	87.1
Net NPLs to Net Loans	1.6	1.2	1.1
Net NPLs to Capital	7.3	5.8	5.9
EARNINGS			
Return on Assets	1.3	0.9	0.8
Return on Equity	14.4	11.5	11.0
NII/Gross Income	71.2	72.7	73.6
Cost/Income Ratio	53.1	57.1	59.5
LIQUIDITY			
Liquid Assets/Total Assets	53.7	54.0	51.1
Liquid Assets/Total Deposits	72.1	76.1	71.3
Advances/Deposits	46.6	50.1	53.1

The State Bank of Pakistan (SBP) includes in their quarterly compendium 25 local commercial banks split between the private (20) and public (5) sector. Besides local commercial bank, there are 5 foreign banks and 4 specialized banks.



LARGE BANKS: HBL, NBP, UBL, ABL, MCB, ALFALAH
MEDIUM-SIZED BANKS: Meezan, Al-Habib, Askari, BoP, Habib Metro, Standard Chartered, Faisal Bank
SMALL-SIZED BANKS: Soneri, Bank Islami, Dubai Islamic, BoK, SUMMIT, Sindh, Silk, Al-Barakah, Samba, First Women Bank.

The top 6 banks account for 59.8% of banking sector deposits, including presence in various overseas markets. Besides these large banks, the industry is composed of a few medium sized banks and several small sized banks.

The banking industry is characterized by significant concentration with large banks (top 6 banks) accounting for around 60% of assets, deposit base and branches. However, contribution to profitability is significantly higher at 71.1%. Accounting for profitability of medium sized banks, large and medium sized banks cumulatively represent 95.1% of banking sector's after-tax profits. The remaining 12 banks contribute only 5% of profit after tax.

OPPORTUNITIES:

- ▲ The growth in the asset base of the banking sector has moderated during H1CY18, primarily, due to decline in net-investments. On the other hand, advances have increased. Encouragingly, advances to private sector have continued their broad-based upward trajectory with sugar, energy, and cement sectors along with individuals being the major borrowers during the reviewed period. However, sector specific factors coupled with tightening of macro-financial conditions may possibly have slowed down the growth in fixed investment advances.

- ▲ The overall risk profile of the banking sector has improved in H1CY18, mainly, due to strengthening capital adequacy and improving asset quality. Capital Adequacy Ratio (CAR) has inched up to 15.9 percent and NPLs to loans ratio has come down to 7.9 percent—lowest since H1CY08.

- ▲ Assets and deposits of Islamic banking industry were recorded at Rs. 2,458 billion and Rs. 2,005 billion by end September 2018. Market share of Islamic banking assets and deposits in the overall banking industry stood at 13.6 percent and 14.7 percent, respectively by end September 2018. Profit before tax of Islamic banking industry increased to Rs. 23 billion by end September 2018 compared to Rs. 18 billion in the same quarter last year. Other profitability indicators including return on assets and return on equity before tax were registered at 1.3 percent and 20.2 percent, respectively.

- ▲ Emirates Islamic (EI) has included Pakistan in its 60-second online fund transfer service, according to a statement. The product, called Quick Remit, will allow transfers to any Faysal Bank account in Pakistan in less than 60 seconds, and transfers to other Pakistani banks within one hour. EI is also planning to extend Quick Remit services to other countries and provide this facility to customers from other nationalities.

- ▲ Having planned to foray into Islamic finance since 2011 to capture Pakistan's largely untapped agricultural market, Zarai Taraqiati Bank Limited has now secured a license from the State Bank of Pakistan, moving the regulator closer to its targeted 15% Islamic banking market share in 2018. The bank, with assets amounting to PKR82.81 billion at the end of 2016, intends to become the sixth full-fledged Islamic bank operating in Pakistan, but will start its operations by offering Shariah compliant financing products on a branch basis.

- ▲ As part of its yearly strategy to support the development of the agricultural sector, the State Bank of Pakistan has raised the disbursement target for Islamic banking institutions fivefold to PKR100 billion, out of an overall target of PKR1.25 trillion for fiscal year 2018-19. SBP has also urged Shariah compliant financial institutions to develop bespoke financing products that meet the agricultural sector's needs.

- ▲ Latest earnings reports (Dec-2018) of Pakistan's top-five banks have also shown that key financial metrics of National Bank of Pakistan (NBP) have improved markedly and the bank has outpaced its peers in profit growth due to changes in business strategy in the first half of the current calendar year. With most banks facing a significant decline in profit due to various reasons including different provisions and loss in trade business, NBP announced a growth of 46%. However, three of the big five banks saw their after-tax profit go down massively in the same period. It is being said that earnings of top-five banks can be seen as an indicator of the health of Pakistan's banking system.

- ▲ Lending ratio to the private sector in Pakistan is less than other South Asian countries, yet banks are making huge profits as compared to the regional countries. the returns of Pakistani banks have been around eight percentage higher than regional peers over the last five years.

THREATS:

- ▼ Banks' after-tax earnings, however, have declined by 14.7 percent due to lower gain on sale of securities, one-off provisions and increase in administrative expenses.

- ▼ Moody's Investors Service has changed its outlook for the banking system in Pakistan from stable to negative stating that Over the next 12-18 months, banks in Pakistan will see their credit profiles challenged by their high exposure to the country's low-rated sovereign debt and a slowing economy. [Moody's rates the five largest banks in Pakistan by assets. Together, these banks account for around 50% of system deposits.]

- ▼ the banks' operating conditions will be difficult, with Pakistan's real GDP growth slowing to 4.3% in the fiscal year ending June 2019, down from 5.8% in 2018.

- ▼ The rupee has depreciated 30% versus the US dollar, interest rates rose by 450 basis points between December 2017 and February 2019, and inflation is rising; all factors which affect business and consumer confidence and the private sector's debt repayment capacities

- ▼ Moody's also points out that Pakistan's banks face the risk of macroeconomic contagion through a range of channels, including:

    - ❖ their large holdings of government securities, which caps their credit profiles to the sovereign, and
    - ❖ from the authorities' weakening capacity to support the banks in case of need, as evidenced by the negative outlook on the sovereign rating.

FUTURE OUTLOOK:

- ► External sector pressures, fiscal sector vulnerabilities, growing domestic inflation and volatile commodity markets are the potential risks to financial stability. While the performance of the banking sector could be affected by these factors, it is still expected that it will remain sound and resilient. **Outlook is Stable.**

FOOD, BEVERAGES & CONSUMER PRODUCTS

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	20		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	290,087	266,161	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est			
C.	Financial Charges	Act/Est	3,620		
D.	PAT	Act/Est			
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			

E.	*Total Assets*	Act/Est	207,979
F.	*Current Assets*	Act/Est	86,614
G.	*Cash & Bank Balances*	Act/Est	12,111
H.	*Trade Debtors*	Act/Est	8,644
I.	*Short Term Investments*	Act/Est	6,537
J.	*Total Equity*	Act/Est	83,219
K.	*Current Liabilities*	Act/Est	88,017
L.	*Total Liabilities*	Act/Est	146,282

FOOD, BEVERAGES AND CONSUMER PRODUCTS:

SECTOR OVERVIEW:

- Total market size is estimated to be over PKR 150 bln. in 2018
- 65% of the overall national volume is sold in the urban centers whereas 35% in the rural markets
- Domestic brands dominate more than 80% market share
- Oligopoly structure: Local market is concentrated in few players

Confectionary			Biscuits			Snacks	
Major Payer	Market Share 2017	Market Share 2018	Major Payer	Market Share 2017	Market Share 2018	Major Payer	Market Share 2018
Ismail Industries – Candyland	27%	38%	**English Biscuit Manufacturers**	48%	43%	**Pepsi Co.**	80%
Hilal Confectionaries – Hilal	27%	28%	**Continental Biscuit**	27%	19%	**Others**	20%
Volka Foods – Gigly	20%	_	**Ismail Industries**	10%	22%		
Asian Foods – Mayfair	10%	_	**Asian Foods**	10%	_		
Others	16%	_	**Others**	5%	_		

EXPORTS

- Afghanistan has the major share in Pakistan's confectionary exports
- Concentration risk of confectionary sector is high
- Rest of the export market is dominated by African countries

IMPORTS

- China has the major share in Pakistan's confectionary imports
- Quatum of imported products increases competition for the local players
- Other Importing countries include: Turkey, India, Russia

OPPORTUNITIES:

▲ Pakistan's $152 billion retail market is the fastest growing in the world, according to Euromonitor. Expanding middle class, particularly millennials with rising disposable incomes, is demanding branded and packaged consumer goods ranging from personal and baby care items to food and beverage products. Strong demand for fast moving consumer goods is drawing large new investments of hundreds of millions of dollars. Rapid growth in sales of consumer products and services is driving other sectors, including retail, e-commerce, paper and packaging, advertising, media, sports and entertainment.

- ▲ Pakistan has a large retail base, a young population, with a growing pattern of confectionary and snacks consumption

- ▲ Growing number of large retail chains in the major cities having higher concentration of middle and upper-income class allowing better margins

- ▲ Growth in the urban middle class and increase in personal disposable income in tier 1 cities have improved consumption pattern

- ▲ Imported goods are higher priced and have low brand awareness

- ▲ Dutch consumer giant Unilever has announced plans to invest $120 million to expand its operations in Pakistan. Turkish multinational Hayat Kimya has said it will invest $150 million to manufacture consumer products in the country. Earlier in 2016, Dutch dairy giant Friesland Campina acquired 51 % of Karachi-based Engro Foods Limited for $220 million.

THREATS:

- ▼ Lack of modern technologies domestic producers face hurdles for international placement in halal supplies. The demand of red meat boosts gradually and Pakistan has potential to compete this demand, but the international standards of meat export do not accomplish by the local meat producers. Third largest livestock country Pakistan has 19th position in the exporting meat.

- ▼ Over the last few years, government of Pakistan took some serious steps for the growth and development of halal industry. The government had established agricultural and meat Market Company for halal meat processing set in the homeland. Pakistan is enriching in the verities of cattle and world best classes of livestock are originated in the districts of all provinces of Pakistan. Pakistan livestock is world third largest emergent sector and growing approximately at the rate of 4% annually, all the cattle feeds are halal and the slaughtering method is purely on the word of Shariah law (halal). Nonetheless a long journey is ahead, according to a consistent study human livestock ratio of Pakistan is 1:1 and need of the time is to utilize these natural resources adequately.

- ▼ Market is highly price sensitive

- ▼ Highly competitive industry dominated by few local players

- ▼ Fluctuation in cost of raw materials

- ▼ Cost increase in imported raw materials due to devaluation of Pakistani Rupee

- ▼ Establishing distribution channels remains a challenge

- ▼ Pakistan still lacks a skilled labor, trained, qualified and experienced manpower in its retail market. The sector is not patronized by the government it should be. The country still lacks in both upper management and lower management positions.

- A major challenge is the counter sale outlet phenomenon to trade marketers who find it extremely difficult to implement various sales promotion tools like shoppers' messaging and category management.

FUTURE OUTLOOK:

- Pakistan's current retail market size is estimated at $152 billion. It is forecast to expand 8.2% a year through 2016-2021 as average disposable income has doubled since 2010. **The outlook for consumer goods, food & beverage is positive.**

GLASS & CERAMICS

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	7		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	35,943	30,917	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	4,521		
C.	Financial Charges	Act/Est	436		
D.	PAT	Act/Est	3,935		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	34,271		
F.	*Current Assets*	Act/Est	14,921		
G.	*Cash & Bank Balances*	Act/Est	2,571		
H.	*Trade Debtors*	Act/Est	3,072		
I.	*Short Term Investments*	Act/Est	10,994		
J.	*Total Equity*	Act/Est	17,614		
K.	*Current Liabilities*	Act/Est	11,657		
L.	*Total Liabilities*	Act/Est	14,946		

GLASS & CERAMICS

SECTOR OVERVIEW:

Annual Demand For tiles sector stood at 73million square meters in FY-17. The demand has now increased to ~110 million square feet per annum.

Huge potential for growth in the Industry with a CAGR of 8% since 2013 through 2017

Protected Industry – Major hindrance in development was import of cheaper tiles from neighbouring countries.

Chinese Imported tiles accounted for 75.26% of the total imports in FY17.

The National Tariff Commission imposed provisional anti-dumping duties for Imports of tiles from China against application submitted by the domestic producers effective from January 31, 2017.

- ✓ Ceramic Tiles Industry emerged in Pakistan in 1978.
- ✓ First Tiles Manufacturing unit was established in Karachi by Shabbir Tiles & Ceramics Limited.
- ✓ The industry is a sub-sector of "Non-metallic Mineral Products" Sector included in Large-Scale Manufacturing.
- ✓ Immense potential for growth available to the Industry, which is highly dependent on the growth of construction sector of the Country.
- ✓ Actual potential of the domestic industry stands at ~400 million square feet of tiles per annum.
- ✓ The Demand for Ceramic tiles has a positive outlook & is likely to increase in the future.
- ✓ Annual Demand for tiles in Pakistan stood at 73million square meters in FY17.
- ✓ At present, annual demand for the industry stands over ~100million square meters of tiles.
- ✓ Import gap filler of ~52% of the total demand due to underutilized domestic industry.
- ✓ Major Raw Materials used in the production of tiles are clay, natural minerals such as feldspar and quartz, that are used to lower the firing temperature, natural Gas and chemical additives that are required for the shaping process.

OPPORTUNITIES:

- ▲ Shabbir Tiles has recently invested Rs1.25 billion in machinery upgrade, capacity enhancement and quality improvement.

▲ The company claims it could compete with European tiles in quality. "A fair market will not only induce existing companies to invest in capacity and quality but also attract fresh investment in this industry as market size grows over the next several years

▲ Pakistan-based tiles and ceramics manufacturers have claimed to significantly increase their presence in domestic markets, following which the government imposed anti-dumping and regulatory duties and new manufacturers joined the growing industry. Our (local manufacturers) presence in domestic market has increased to 60% in the last six months from 50%

▲ Imposition of the duties have resulted in attracting two new players in the industry; one in Lahore and another one in Faisalabad. Both the players have set up units with Chinese technology.

▲ Deli China and JW SEZ Group have joined hands for establishing a $200 million modern glass manufacturing complex in Pakistan for the production of premium, export-quality glass products. The two sides have established Deli-JW Glassware Company Limited for the project. Pak-China Investment Company is facilitating Chinese investment in Pakistan and is also assisting in financing the project. The project will utilize natural resources in Pakistan and use latest technology to convert into glassware, float glass and other kinds of glass products. The project will be set up in the Industrial City M-3, Faisalabad whereas the unit for the processing of key raw material will be set up in Risalpur, Khyber-Pakhtunkhwa. The main glass manufacturing complex will comprise glassware manufacturing units, float glass units and other value-added glass products. it will start production by the end of 2019.

THREATS:

▼ Tile industry is in the revival phase and expecting relief measures from government against the difficulties of rising energy prices, high tax rates, extremely low Import Trade Price (ITP) of imported tiles from China in addition to massive inflow of smuggled tiles from Iran.

▼ Gas price for general industrial and captive power plants has been increased by 30 pc from Rs600 to Rs780 per mmbtu. This announcement will have negative impact on direct and indirect employment of over 50,000 in the local tiles industry and It will stall the growth in construction sector which is booming on the back of rapid urbanization and other construction activities of large malls, office buildings and apartments across the country thus making all the efforts of employment generation a futile exercise.

▼ Gas tariff increase will also halt all the expansion and investment projects of the industry which will also hurt the transfer of technology and creating skilled labor base and vendor industry in the country. The industry intends to invest in capacity enhancement, to further increase its production in order to meet demand, if the government supports the local industry.

▼ The industry has already been hit by huge influx of smuggled tiles and imports at lower valuation, which capture approximately over 40 percent of the country's tile market of nearly Rs. 80 billion. While domestic manufacturers continue to suffer owing to their higher production costs and uneven competition from cheaper imported products.

Increase in gas prices will badly hamper the sales and profitability of local tile industry and will further intensify the share of imported tiles.

- ▼ Almost every local tile manufacturer has up to 30pc idle capacity owing to an influx of imported tiles because of smuggling, dumping and low quality. Though the imposition of anti-dumping duty in October 2017, in the range of 9.3pc to 36.3pc and increase in regulatory duty (RD) from 25pc to 45pc have helped the domestic industry, they have failed to slow down the influx of Chinese tiles into Pakistan since they remain cheaper than the local products due to their low ITP values.

- ▼ The influx of imported tiles, mostly of poor quality and design, means a loss of almost 35,000 jobs and tax revenue worth billions of rupees. Additionally, the country is losing a substantial amount of foreign exchange.

FUTURE OUTLOOK:

- ▶ **Positive outlook** for local players for ongoing determination by National Tariff commission on anti-dumping duty for a period of 5 years.

INFORMATION TECHNOLOGY

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	3	
			2017-18	2016-17
A.	Industry Sales	Act/Est	9,725	9,848

			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			

B.	PBT	Act/Est	-787
C.	Financial Charges	Act/Est	1,124
D.	PAT	Act/Est	-432

			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			

E.	*Total Assets*	Act/Est	28,411
F.	*Current Assets*	Act/Est	9,188
G.	*Cash & Bank Balances*	Act/Est	1,850
H.	*Trade Debtors*	Act/Est	4,542
I.	*Short Term Investments*	Act/Est	33
J.	*Total Equity*	Act/Est	3,132
K.	*Current Liabilities*	Act/Est	15,587
L.	*Total Liabilities*	Act/Est	25,279

INFORMATION TECHNOLOGY

SECTOR OVERVIEW

Pakistan's Information Technology industry has demonstrated positive growth trends for the last four years. During 2016-17, Pakistan's IT exports were $3.3 billion, which have climbed to $5 billion and are expected to grow to $6 billion in the coming years. Enterprise software has grown by 17 percent, marketing tech 15 percent, financial services 13 percent, consumer goods 9 percent, retail/e-commerce 8 percent, professional services 8 percent, internet of things/hardware 7 percent, health care 4 percent, media 4 percent and non-profit 3 percent.

Amazon and large IT sectors are expecting huge in the startup world of Pakistan as evidenced by the huge number of sponsors. Pakistan government has started promoting startups. It has given three-year exemption from taxes to the start-ups and set up national incubation centers in Lahore, Islamabad, Peshawar, Karachi and Quetta.

Department working under IT & Telecom Ministry, Pakistan Software Export Board has selected 30 IT professionals and 28 IT companies and given certifications in Capability Maturity Model Integration (CMMI) platform.

Moreover, 134 IT companies got certifications in ISO 9001, ISO 20001 and ISO 27001 helping them to generate IT exports from developed countries.

OPPORTUNITIES

- The main spate of growth is still to come in IT companies as branchless banking services and the trend toward financial inclusion is increasing. Also, as telcos and banks accumulate more consumer data, the need for customer services solution will also grow.

- Pakistan's local information technology (IT) companies have enhanced their productivity standards and output at par with global level, which showed its increasingly penetration in the local market that reached up to 40 percent share in the country's largest financial sector in providing applications, solutions and services. Pakistan's IT companies and software houses are aggressively capturing the opportunities of local businesses, which were earlier using imported software provided by multinational IT-based companies.

- The local IT companies are thriving consistently their business to North America, in Middle East and Africa that increased the exports to more than $217 million per annum. The volume of exports can be pushed to $10 billion mark via improved policies and support.

- IT industry of Pakistan is growing at an accelerated pace. Competition is high as number of big and small IT companies are operating in Pakistan. Since Pakistani IT industry is still fledging, it is unlikely to provide serious competition to the enormous Indian IT industry. If trade is further liberalized between these two neighbors.

- Pakistan is a prosperous economy for IT investment that offers lucrative domestic opportunities and is attracting increasing amounts of international investment as well. Many global IT companies are present in Pakistan and their revenues are growing annually. They view the local IT market as very promising. This sector has played an important role in terms of revenue generation, job creation, foreign exchange and technological development.

- ▲ Government of Pakistan is providing IT Parks with low rent, fiber optic connectivity, libraries and conference rooms to the IT companies and funds for software companies to get ISO-9000 and CMM-level certifications. 100% ownership of equity in 'IT companies' is allowed to foreign investors.

- ▲ The availability of computers and internet connections provides unprecedented opportunities to communicate and learn in Pakistan. With the need for making things easier in the daily life and with the technological advancements, more and more daily activities are shifting online.

- ▲ Pakistan is fast becoming the destination of choice for a number of international IT/ITeS companies looking to relocate their operations offshore. The ready availability of skilled professionals, an appropriate IT infrastructure, and affordable rates for connectivity result in considerable time and cost savings for entrepreneurs.

- ▲ Pakistan is currently home to around 300 IT and BPO companies, which generate around $50 million revenues annually. At present, the industry employs around 10,000 professionals.

- ▲ Globally Pakistan's IT industry is providing services like licensing, customization and system integrations to countries like China, Australia, Thailand, Japan, Hong Kong and Asia pacific.

- ▲ By comparison of the IT industry of Pakistan with the countries in the region, Pakistan is 30-35% cheaper than India

- ▲ Normally foreign investors come to Asia and invest, after investing they need work force which can understand and speak their language. Pakistan has an advantage in this.

- ▲ Government could promote E-commerce & E-govt; it will lead to development of the IT industry in Pakistan.

- ▲ The significant growth of the Internet and the coming wave of E-Commerce still provide immense opportunities for Pakistan to exploit their potential.

THREATS

- ▼ Lack of collateral is hampering its growth & causing non-availability of bank funding.

- ▼ Changing nature/dominance of India as a competitor for most services.

OUTLOOK

- ▶ Though the software industry in Pakistan continues to stumble along with marginal growth, the considerably devalued rupee should result in higher revenue growth. **Outlook remains stable.**

LEATHER PRODUCTS

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

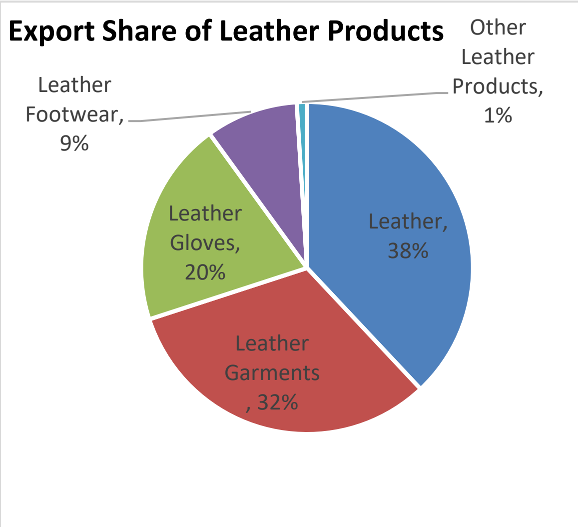
	No. of Companies	Act/Est	213		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	56,918	52,284	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	-157		
C.	Financial Charges	Act/Est	16		
D.	PAT	Act/Est	-158		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	211		
F.	*Current Assets*	Act/Est	166		
G.	*Cash & Bank Balances*	Act/Est	1		
H.	*Trade Debtors*	Act/Est	91		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	-589		
K.	*Current Liabilities*	Act/Est	789		
L.	*Total Liabilities*	Act/Est	-378		

LEATHER PRODUCTS

SECTOR OVERVIEW

Pakistan has a well-established leather industry with abundant supply of raw material. More than 800 tanneries produce finished leather for both exports as well as for domestic consumption in the country.

The leather industry in Pakistan is largely export-oriented with top 25 tanneries contributing around two-thirds of total share. Large tanneries are located in three main clusters around Karachi, Lahore and Sialkot. According to Pakistan Bureau of Statistics, leather industry ranks the second biggest export-oriented industry of the country after textiles.



Moreover, Pakistan's share in world leather trade is almost 1%. Leather exports from Pakistan can be categorized under five broad categories: 1) gloves 2) finished leather 3) footwear 4) garments and 5) other leather goods. According to the Pakistan Tanner Association (PTA), leather contributes 5.0% to GDP and 5.4% to the country's foreign exchange earnings. Germany, USA, United Kingdom, Turkey, Japan, France & UAE are major export markets of Pakistani leather products. Some of the major players in the market are Din leather (Pvt) Ltd, Shafi Tanneries (Pvt) Ltd, MIMA Leather (Pvt) Ltd & Universal Leather (Pvt) Ltd.

OPPORTUNITIES

- The European Parliament has granted GSP (Generalized Scheme of Preferences) plus status to Pakistan which will allow almost 20 percent of Pakistani exports to enter the EU market at zero tariff and 70 percent at preferential rates. EU trade concessions will benefit the country's export-oriented industry the most by enabling its products to compete with those of regional rivals which already have duty-free access to the bloc's market. The status will prove to be of great benefit to Pakistan's exporters who will now have access to 27 European countries without having to pay duties.

- The leather and tanning industry is one of the oldest established industries in Pakistan and enjoys highly skilled, even if specialized, labor for that sector.

- Some players have established a niche for themselves by focusing on demand for high quality office products locally (such as 'Traditions').

- Pakistan's share in the world leather market remains low (at around 3%) but is none the less considered a major exporter of leather products. There is therefore considerable room for export expansion.

- ▲ Raw material and semi-finished goods are generally considered to be of a competitive quality. Currently, the major customers of exports are Italy, Spain, Portugal, South Korea, Germany, France, UK, USA and the Gulf.

- ▲ In order to boost the core profitability of the industry, there is a need to focus on value-addition in the products by diversification in apparels, niche designer products etc.

- ▲ Introduction of flaying machines (at the butcher trade) would provide an estimated 25% increase in the availability of leather ready raw materials.

THREATS

- ▼ The export of leather garments has decreased million dollars during the last few financial years. Tanned leather industry is facing continuous decline in the exports of finished leather.

- ▼ Industry remains at the backend of the value-added sector. Leather products are usually comprised of footwear, leather garments, gloves, handbags and purses, wallets, key chains etc but not fashion apparel for men and women, high-end and high value product portfolio is missing.

- ▼ Availability of quality raw hide is a consistent threat due to smuggled and exported produce.

- ▼ Several factors have increased core input costs for manufacturers:
    - Export or black-market sales of raw hides, split and wet blue skins (thus reducing supply to the industry)
    - Being a very quality sensitive product, disruptions in electricity supply have impacted the finished and semi-finished goods production costs
    - A reduction in quality at the level of the butcher. There is a dire need to increase the use of flaying machines in slaughter houses.

- ▼ Owing to increased competition from China and India, the industry has had to reduce prices.

- ▼ Subsidies and rebates have been reducing over time. Duty draw back at import stage is only given at 1% where as in India, China and Bangladesh it is more that 5%.

OUTLOOK

- ▶ The industry will continue to sustain itself in the coming years due to its established share in the global market, and due to continued demand from the local market. However**, the outlook remains tenuous to negative** due to the global recessionary condition's local macroeconomic conditions.

MACHINERY & EQUIPMENT

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	6		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	33,177	37,343	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	-220		
C.	Financial Charges	Act/Est	1,797		
D.	PAT	Act/Est	-415		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	58,039		
F.	*Current Assets*	Act/Est	29,311		
G.	*Cash & Bank Balances*	Act/Est	1,154		
H.	*Trade Debtors*	Act/Est	7,397		
I.	*Short Term Investments*	Act/Est	75		
J.	*Total Equity*	Act/Est	24,137		
K.	*Current Liabilities*	Act/Est	23,658		
L.	*Total Liabilities*	Act/Est	33,902		

MACHINERY & EQUIPMENT

SECTOR OVERVIEW

During FY 2017-18, the local earthmoving and construction machinery sector has seen a steady growth trend, which is mainly attributed to the initiation of several medium-to-large-scale public and private sector infrastructure development projects. According to industry sources, the construction machinery sub-sector holds an approximate market share of 47 percent of the overall construction market. During FY 2017-18, this sub-sector, which has a market size of approximately $2.6 billion, increased by approximately four percent compared to the previous fiscal year. Despite having domestic production at a moderate level, this sub-sector is heavily dependent on imports. Major international brands from the United States, Germany, the United Kingdom, Japan, South Korea, and China have established a strong presence in the local market, either through agent/distributorship arrangements or through opening their own offices in the country.

OPPORTUNITIES

- A large part of engineering industry including electrical machinery and equipment is small in size. A need exists in improving the product mix to gain better costs and rates for the product manufacture, however, the cost of the products is subject to change due to increase in the electricity tariff which will require more investment in the process of making and designing.

- This industry operates at less than 50% of its installed capacity because of liberal imports by WAPDA, KESC and others; the industry is faced with contraction of sales in domestic market. This could mean looking for sales in other comparable markets in Africa. However, this industry is currently not working on these propositions and has limited exports to Bangladesh and Kuwait.

- The industry needs to acquire new technologies to have a sustained presence after entry in international market. It should add maintenance services as its product to take up work relating to maintenance of electricity distribution system in Middle East and Africa they would need to team up with wire and cable manufacturers as well.

- If grant is approved by the government, then HMC will be able to manufacture power generation equipment in the country, this will eventually be helpful in fulfilling the increasing demand of electricity at low cost.

- Building canons for army's tank will lead to reduction in dependence on foreign vendors for defense equipment.

- Opportunities exist for export of engineering goods in African, Middle Eastern and Asian countries. In case of plants, buyers ask for project financing on soft terms or equity partnership. Better chances exist in Africa if local marketing offices are established for there.

THREATS

- ▼ Less costly alternatives from China are a major threat to the mechanical industry. The recent case of manufacturing of wagons for railways proved quite unusual as a practice for the public sector.

- ▼ Local engineering industry is not fully developed technologically to meet requirements of all the industrial sectors; therefore, Pakistan is not able to compete with foreign supplier.

- ▼ Foreign market is not interested to transfer know-how to local industry for executing local projects, and Pakistan also lacks in design-process facilities. For this very reason the purchase of design exceeds the cost of manufacturing of the product itself.

- ▼ This industry needs to acquire new technologies to have a sustained presence after entry in the international market; otherwise the industry will suffer 'bounce back'.

- ▼ There are a multiple reason for the non-realization of the potential of this sector; which are actually major threats for this sector.
    - Little or no knowledge of export potential and export related laws, procedure and business.
    - No knowledge of potential markets.
    - No brand development of the products.
    - No standardization of the products.
    - Very little financial strength to support financial activity.
    - Limited capacity to raise finances from the banking system.
    - Very little managerial capability to handle export business and logistics required.

- ▼ The increasing cost of all the inputs i.e. materials, utilities and labor are resulting in increase in cost of production and eventually competitiveness along with the added cost of purchase of designs slows down the early manufacturing of the products demanded in the market. Higher cost of production is mainly because of the power shortage, misaligned provision of subsidies etc.

- ▼ Although there exist government SRO's/policies for preference of participation by local companies, but these are not followed. Generally, in major engineering project prequalification conditions for bidders are set such as to debar local participants.

- ▼ The industry needs to team up with electricity tower and wire and cable manufacturers and provide a complete solution in the shape of EPC, without which exports may not be possible. There is a potential of exports to rise to above US$ 200 million if teaming with other thrust sub-sectors is done.

- ▼ It is essential that design and research institutes are established in the country for development of engineering industry. Without indigenous design and engineering capabilities we will always remain dependent on foreign sources.

OUTLOOK

- ▶ The overall **outlook for the sector remains constraint** due to the constrained GDP growth rate, inflationary pressures and low manufacturing.

METALLIC PRODUCTS (IRON & STEEL)

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	4		
			2017-18	**2016-17**	
A.	**Industry Sales**	**Act/Est**	40,060	38,057	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	**Act/Est**	-127		
C.	**Financial Charges**	**Act/Est**	2,610		
D.	**PAT**	**Act/Est**	93		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	**Act/Est**	53,266		
F.	*Current Assets*	**Act/Est**	17,821		
G.	*Cash & Bank Balances*	**Act/Est**	297		
H.	*Trade Debtors*	**Act/Est**	2,960		
I.	*Short Term Investments*	**Act/Est**	20		
J.	*Total Equity*	**Act/Est**	20,783		
K.	*Current Liabilities*	**Act/Est**	21,173		
L.	*Total Liabilities*	**Act/Est**	32,483		

METALLIC PRODUCTS (IRON AND STEEL)

SECTOR OVERVIEW

- Imported steel scrap witnessed uptick to 5.2mln tons in FY18 – up 26% YoY
- Significant increase witnessed in prices on account of global increase in scrap prices and depreciation of Pak rupee against US dollar

- Pakistan's per capita steel consumption stands at 43KGs; significantly lower than world's average of 214KG
- Lower per capita consumption is on account of lesser trend of high-end buildings for offices, apartments etc.
- India's per capita consumption stands at 65.2KG
- World's highest per capita steel consumption is of South Korea at 1,123.7KG

The Flat Steel industry in Pakistan comprises two local producers International Steels Limited (ISL) and Aisha Steel Mills Limited (ASL). Flat steel producers import Hot Rolled Coil (HRC) and convert it into Cold Rolled Coil (CRC), Galvanized and Color Coated sheets. Currently, ASL only produces CRC while ISL also produces Galvanized and Color Coated Sheets in addition to CRC. At end-FY18, ISL had an 82% (FY17: 70%) market share in terms of installed capacity in Pakistan, which increased on account of its new plant installed in June'2018. During FY18, ISL produced 470,841 MT (FY17: 464,023 MT) of CRC of which 330,259 MT (FY17: 312,886 MT) was further processed into galvanized steel. During FY18, ASL produced 217,370 MT (FY17: 209,524 MT) of CRC reporting higher utilization levels of 99% (FY17: 95%) as compared to the preceding year.

With both local players operating at near full capacity, shortfall in supply in order to cater to growing demand was met through imports. Despite increased duty protection and full year impact of anti-dumping duty (ADD) imposed in 3QFY17, imports continued to be sizeable in FY18 and recorded an increase of 34% in FY18. Imports of CRC have primarily been from China, Ukraine and Russia. ISL and ASL recorded volumetric sales growth of 10% and 1%, respectively.

OPPORTUNITIES

- ▲ There are medium and small scales manufacturing units which essentially produce for domestic market. Some of them have the capacity to enter export business if support and guidance is provided.
- ▲ Pakistan already exports to Afghanistan, Singapore, Kuwait, Saudi Arabia, UAE, Iran, Syria, Bangladesh, Sri Lanka, Germany, Australia and USA. The South American markets also hold a lot of promise in this regard for seamless categories of tubes.
- ▲ The industry needs to enhance its capacity to produce enough exportable surpluses for expanding African markets.
- ▲ Large scale units are technologically advanced and produce on internationally recognized standards. Large scale units have achieved economies of scale and are price competitive.

THREATS

- ▼ Pakistan Steel Mills (PSM) total losses have swelled to over Rs 200 billion. The last time PSM was profitable was during the financial year 2007-08 when it posted an annual profit of Rs 9.54 billion. Pakistan Steel Mills (PSM) liabilities have accumulated and are still rising day by day. The PSM was running in nominal profit in 2001 to 2008 and after this period the national identity started going into losses even being injected Rs 43.1 billion during 2009-13, but actually these were commercial loans with mark-up.
- ▼ Pakistan Steel Mills is facing challenge of slow sales because of massive imports which forced the country's largest steel making plant to adjust prices of its products. The situation has thwarted Pakistan Steel Mills efforts for obtaining raw materials to enhance its production.
- ▼ High freight cost of large pipes is a barrier against entry in long distance markets. However, small diameter pipes can be exported to long distance markets. Already installed capacity is more than required.
- ▼ Steel capitalization is huge around 1.2 million ton capacity (yearly) where as demand is 0.8 million ton. Raw material is mostly imported which leads to rising costs.
- ▼ Plastic pipes are coming in competition, now they are being used and proving a threat to the steel producers. Therefore, they have also started to work on this side too. The industry needs to expand its product mix and variety to remain competitive and survive in the changing market environment.
- ▼ Costs in this sector include transportation cost, labor cost and electricity cost. And all three are increasing leading to rising costs. With the value addition of only 12% to 13%, there is not much benefit gained. China gives its producers a 9% rebate, thus it is throwing locals out of the business since their low price cannot be matched.

OUTLOOK

- ▶ The steel sector is expected to show marginal growth as far as sales are concerned. However, Slowdown in large infrastructural projects, capacity expansions which amid low demand may result in supply glut in upcoming year, Rise in commodity prices - iron ore and steel scrap; expected future rise will further slim margins of industry players & Hike in key policy rate is burdening profitability of producers and consumers of steel**. Outlook will be tenuous.**

PHARMACEUTICALS

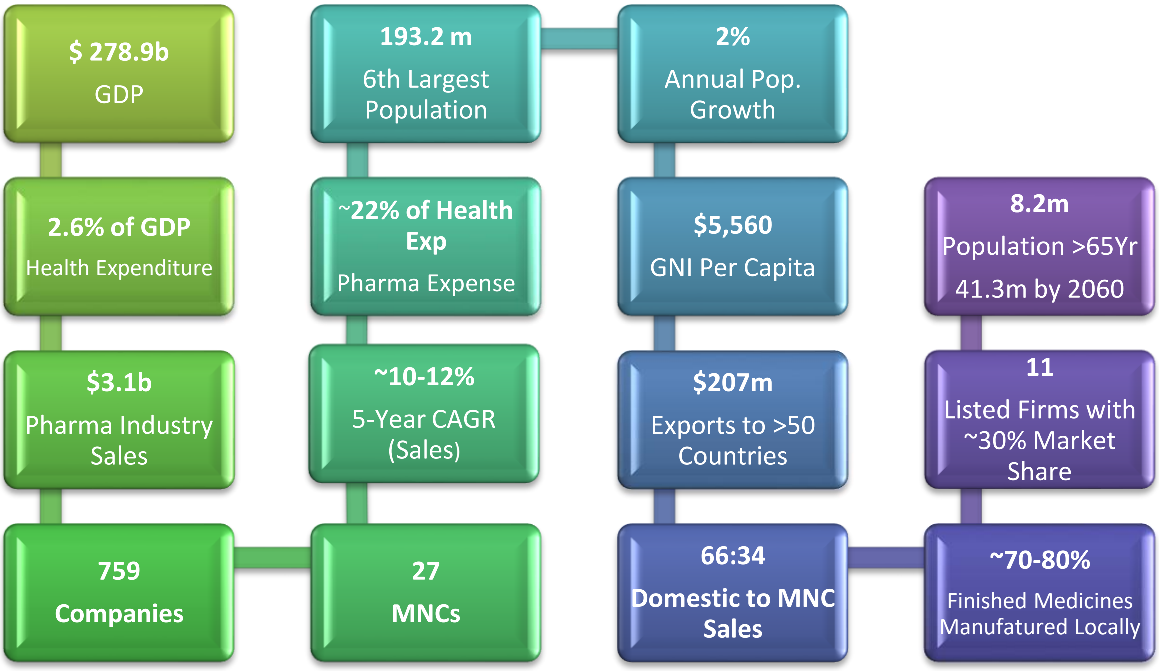
FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	10		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	3,182	87,249	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	17,365		
C.	Financial Charges	Act/Est	464		
D.	PAT	Act/Est	12,566		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	83,249		
F.	*Current Assets*	Act/Est	52,752		
G.	*Cash & Bank Balances*	Act/Est	11,461		
H.	*Trade Debtors*	Act/Est	8,931		
I.	*Short Term Investments*	Act/Est	627		
J.	*Total Equity*	Act/Est	54,893		
K.	*Current Liabilities*	Act/Est	25,728		
L.	*Total Liabilities*	Act/Est	23,322		

PHARMACEUTICAL

SECTOR OVERVIEW:



In 2017, Pakistani Pharmaceuticals Industry (PPI) registered sales of US$ 3.1b translating to a global market share of 0.5%. In line with international trend, PPI witnessed healthy growth at a Compound Annual Growth Rate (CAGR) of 10- 12% during 2012-2017. Factors such as changing lifestyle patterns with rising per capita income, a growing population and higher prevalence of chronic illnesses have together created significant opportunities for companies.

In general, pharmaceutical spending exhibits strong correlation with income levels. This has been the case in Pakistan. While population growth may also be linked to increased demand, 60% of the population comprises individuals aged under 30, which generally consume lower volume of medicines vis-à-vis old people. However, an ageing population is expected to be a key driver of drug consumption over next forty years while increase in per capita income is set to continue. Accordingly, pharmaceutical sales in Pakistan are projected to rise by 8.1% a year on average.

Exports remain on the lower side in relation to regional players like India at ~US$ 207m for 2016 increasing at CAGR of 7% during FY10-16. Major export markets are Afghanistan, Sri Lanka, Philippines and Vietnam. Over medium term, exports are expected to remain constrained by challenges associated with fulfilling regulatory and documentation requirements of foreign markets.

OPPORTUNITIES:

- Keeping in view of vision of Government for export enhancement, possible facilitation will be provided to Pharma sector as it has potential and capabilities to contribute towards exchequer.

- ▲ Medicine and drug exports have gone up during the last three years but at slower pace and remain appallingly low at $293m during FY18.

- ▲ Pharma sector has huge potential and needs harvesting for the benefit of the country by earning money abroad through improved exports of pharmaceutical and alternative medicine. It was also apprised that Pharma industry could expand its volume of exports as the sixth largest sector contributing to the overall exports of Pakistan.

- ▲ Pharma export sector is currently earning $230 million and has a potential to expand up to $2 billion.

- ▲ DRAP has already taken the initiative to facilitate local manufacturers who are exporting to other countries. This facilitation includes fast track registration, incentive of registration of one molecule against a $100,000 of export in a fiscal year, guidance and facilitation in issuance of regulatory documentation for the purpose of exports.

- ▲ Furthermore, DRAP is harmonizing its regulatory function in line with international best practices for recognition and acceptance of local pharmaceutical industry abroad.

- ▲ In order to further facilitate the exports, the authority will establish a separate desk for export purpose only where all the concerns of the exporters will be addressed regarding issuance of necessary documentation. DRAP will also facilitate the exporters for registration, enlistment and issuance of Good Manufacturing Practice certificate and certificate of pharmaceutical products.

- ▲ DRAP is adamant at ensuring quality, safety and efficacy of medicine and every effort will be made to facilitate the industry in the ambit of the law. The boost in pharmaceutical and alternative medicine sector will also be able to bring new technologies and research and development laboratories in Pakistan.

THREATS:

- ▼ The devaluation of the rupee has a negative impact on the competitiveness of the pharmaceutical industry in Pakistan. Generally, the pharma market in Pakistan is local-market oriented, due to significant barriers of entry to the export market. Hence, devaluation is making pharma products less attractive to foreign purchasers. There are stringent regulations being placed by DRAP in terms of pricing which are somewhat affecting the pharmaceutical negatively.

- ▼ In the wake of escalated tension between India and Pakistan, Indian exporters of pharmaceuticals are apprehensive of their future. The Indian pharmaceutical companies' exports over USD 140 million to Pakistan with 50 per cent active pharmaceutical ingredients (API).

- ▼ In a report, Prescription for Poverty, Oxfam has claimed that the world's biggest pharmaceutical companies appeared to be dodging an estimated $3.8 billion in tax per year across 16 countries. It analyzed the financial disclosures from Pfizer, Merck, Johnson and Johnson and Abbott between 2013 and 2015. In the seven developing countries (Pakistan, India, Chile, Colombia, Ecuador, Peru and Thailand), where data was available, the companies appeared to avoid an estimated $112 million in taxes every year.

- ▼ the Drug Regulatory Authority of Pakistan (DRAP) has decided to fix two sale prices of all drugs in the country, one for the inventor company and the other for the company's manufacturing the same drug locally. The inventor companies would be allowed to sell their medicines at a higher rate in the market, and the local pharma companies would be allowed to charge a less price for the same drug. Representatives of local companies believe the two-price policy would benefit the multinational company the most, but it would be very damaging for them financially.

- Foreign investment in the pharmaceutical sector remains lackluster mainly due to government regulations and counterfeit drug production despite expectations of pharma-related expenditure to double in next 10 years.

- Pakistan's pharma sector remains riddled with numerous problems including 'poor governance, lack of access and unequal resources, corruption in the health system, lack of monitoring and planning, and a lack of trained staff'.

- The country's pharmaceutical market was valued at Rs301bn last year. expenditure in the sector is expected to increase to Rs973bn by 2027, however, opportunities for multinational organizations will continue to be marred by underlying issues in the healthcare system.

- insufficient government funding and limited access to healthcare services will prevent any significant improvements to healthcare-related outcomes. multinational activity is to remain limited.

- Pharmaceutical industry reported a sharp 18 percent fall in its profit to Rs10.7 billion during the financial year ended September-18, as rupee depreciation eroded its profitability margins

- the industry's net margins plunged to 10.3 percent in the September-October period from 14 percent a year earlier despite a 12 percent increase in net revenues. the downward profitability was due to rupee devaluation.

- The pharmaceutical industry has lost 22 percent of its market value since December 7, 2017, when the rupee devaluation began, underperforming the KSE-100 index by 21 percent.

FUTURE OUTLOOK:

- Credit metrics of leading drug makers to remain stable on the back of steady growth prospects (increasing penetration, accessibility, continued new launches by players and relatively strong balance sheets). Capital structure and coverage indicators are likely to remain strong despite some pressure on margins in view of rupee depreciation and marginal rise in debt levels to fund capacity expansion. In case of rupee weakness, firms with product offerings in the consumer & nutrition segment are likely to fare better due to greater price flexibility. Regulatory action in terms of price control or delays in new product approvals, remain key threats for the industry. **Outlook is positive.**

SPORTS PRODUCTS

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	300		
			2017-18	**2016-17**	
A.	**Industry Sales**	**Act/Est**	33,422	33,802	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	5		
C.	**Financial Charges**	**Act/Est**	1		
D.	**PAT**	**Act/Est**	3		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	217		
F.	*Current Assets*	**Act/Est**	153		
G.	*Cash & Bank Balances*	**Act/Est**	16		
H.	*Trade Debtors*	**Act/Est**	23		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	181		
K.	*Current Liabilities*	**Act/Est**	35		
L.	*Total Liabilities*	**Act/Est**	35		

SPORTS PRODUCTS

SECTOR OVERVIEW

Pakistan has been well known all over the world for its superior quality of sports goods. All the goods come from Sialkot, the well-known city of Pakistan for its value-added products, where more than 3000 small and medium sized units operate. The goods being produced in Sialkot include football, volley ball, hockey sticks, cricket bats, all kind of sports gloves, sportswear, sports kit and fitness articles, footballs, hockey ball, hockey sticks, cricket bats and rackets are mostly knotted and reputed excellent in international market. Adidas, Nike, Micassa, Puma, Mitre, Select, Umbro, Lotto, Diadora, Decathlon, Wilsons, etc, are some of the world-renowned brands sourcing a large portion of their supplies of sports goods from Sialkot. The export of gloves increased by 23.26% during the last year and gloves of approximate value of US$101.086million were exported. Footballs, which have been always the major contributors, saw a decrease of 2.23%. Footballs worth US$117.805million were exported. Other sports goods contributed almost US$42.257million and also went up by 7.85%.

OPPORTUNITIES

- The demand of hand-stitched footballs still exists despite the introduction of machine stitched soccer balls because the machine-made soccer ball had badly failed in producing sustainable results. Hand-stitched version is however preferred in the world class games. About 45 percent footballs being produced across the world are hand-made while Pakistan gets a lion's share of 85 percent from the percentage because of its indigenous technology and expertise in hand-stitched inflatable balls.

- Despite growing demand for knotted footballs, the trend of their manufacturing through machines is growing in Sialkot. Some 15 companies in Sialkot were busy producing machine-stitched footballs with PVC material. The clear indication and the belief is that the machine-stitched footballs prepared from PVC materials are found more attractive in quality and price than the ones being produced in other countries.

- The manufacturers and exporters are preferably establishing units to meet global challenges under the WTO regime, besides, exploring and capturing international markets through their smooth access to the European markets.

- Pakistan's global reputation regarding a few industrial sectors has been extraordinary for the past few decades, one such industrial sector is that of sports goods manufacturing. This industry is centered in the city of Sialkot and over the years it has provided veritable economic benefits to the city and the country in the form of exports and foreign capital.

- The product range includes soccer balls, volley balls, rugby balls, beach balls, exercise balls, cricket balls, hockey balls, baseball balls, tennis balls, shuttle cocks, nets, gloves, hockey sticks, cricket bats, baseball bats, protective guards, pads, sportswear, etc. Adidas, Nike, Micassa, Puma, Mitre, Select, Umbro, Lotto, Diadora, Decathlon, Wilsons, etc, are some of the world-renowned brands sourcing a large portion of their supplies of sports goods from Sialkot; further enhancing the credibility of the city as an internationally acknowledged quality manufacturing and exporting centre.

- Pakistan has failed to establish a strong foothold in Russia where the sports goods market is worth $3 Billion (currently Pakistani exports to Russia are less than $100 Million which account for only 0.06% of their lucrative $196 Billion import industry). Thus, this presents a huge potential.

- ▲ The current sports manufacturing market in Pakistan is worth US $450 Million with 2400 companies employing 200,000 people. In the football industry alone, Pakistan holds 97% market share in hand-stitched products.

- ▲ The manufacturing in this industry is largely done under the brands of foreign companies and this result is lower prices for manufacturing in these sectors.

- ▲ Significant export opportunities lie as Pakistan is a world-renowned producer of sports goods, expansion in huge markets like China and Russia can yield very positive ROIs.

- ▲ Canada, Spain, Sweden, Italy, Saudi Arabia, the United Arab Emirates (UAE), Belgium, Germany, the US and the Netherlands are major destinations for exports of inflatable and cricket and hockey balls. For exports of ski suits and men's/boy's swimwear, the US, UK, Germany, the Netherlands and Finland are main markets. Other products exported by Pakistan include golf balls (35 tons), ski suits, knitted or crocheted (17 tons) and plastic (12 tons). The United Kingdom, the United States and various Middle Eastern countries are key destinations.

- ▲ Pakistan's eastern city of Sialkot has been a major source of sports goods for international sporting events for decades. Recent exports of sports goods have fallen over the past few years because of the decline in Pakistan's share in international markets.

- ▲ There exists flexibility in production runs with short lead times due to multi-skilled labor force.

THREATS

- ▼ Overall, Exports of sports products from the country during FY18 witnessed a decline.

- ▼ Sialkot had ruled the world for decades for producing and exporting the best quality footballs. Now, the world trend was rapidly changing, due to which mechanization of footballs was gaining momentum. The manufacturers trying to find possibilities of making footballs through machine wherein we lagged behind other countries like China & India primarily due to unavailability of required machinery, skills and innovation.

- ▼ Soccer ball industry needs footballs manufacturing technology of Europe as the decades-old methods are hurdle in enhancing soccer ball exports. The soccer ball industry of Sialkot remained far behind the new manufacturing technologies following the changing of global trend.

- ▼ The soccer ball industry of Sialkot facing multiple problems including lack of advanced manufacturing technology and upgradation and modernization of the industry.

- ▼ Major competitor countries include India, Taiwan, South Korea and now China. Entry of China in export market with machine-stitched balls is a serious threat to exports. China and India are providing 5 to 13 percent rebate to support their sports industry which can be considered as a threat to our exports.

- There is lack of product diversification due to non-availability of R&D facilities.

- There are no development centers and apprenticeship programs abreast with latest technologies in order to create high value addition.

- Introduction of thermo-molded (mechanized) ball by Adidas is a serious threat to this sector.

- Pakistan is competing with India, Japan, Taiwan and South Korea in international markets. India has an advantage of cheap labor and raw material, whereas countries with semi-automatic mechanized units can produce low-cost and inexpensive sports gear such as metal rackets and cricket bats etc.

- Since the entry of Japan, Taiwan and Korea, the industry is tilting towards mechanization and the use of modern equipment, which has resulted in tougher competition for manufacturers and exporters of sports goods in Sialkot. Sialkot continues to compete in the global market without a fully mechanized industry, relying mostly on old and traditional production techniques.

- The manufacturing in sports goods sectors is largely done under the brands of foreign companies, and the results in lower prices for manufacturers in these sectors.

OUTLOOK

- Overall sales are expected to continue to grow in the coming years despite the global recessionary conditions on account of continued shift of manufacturing from high cost to low cost production locations such as Pakistan. This trend is further reinforced by the declining value of rupee against major currencies. **Outlook remains fairly positive and upbeat**.

SUGAR

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

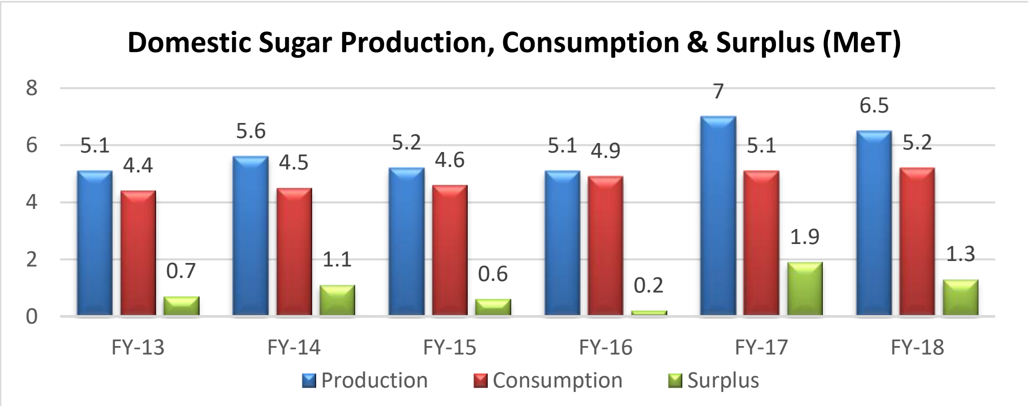
	No. of Companies	Act/Est	29		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	183,673	166,731	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	4,446		
C.	Financial Charges	Act/Est	6,755		
D.	PAT	Act/Est	3,302		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	222,361		
F.	*Current Assets*	Act/Est	96,184		
G.	*Cash & Bank Balances*	Act/Est	6,114		
H.	*Trade Debtors*	Act/Est	8,522		
I.	*Short Term Investments*	Act/Est	2,321		
J.	*Total Equity*	Act/Est	77,638		
K.	*Current Liabilities*	Act/Est	104,717		
L.	*Total Liabilities*	Act/Est	147,479		

SUGAR

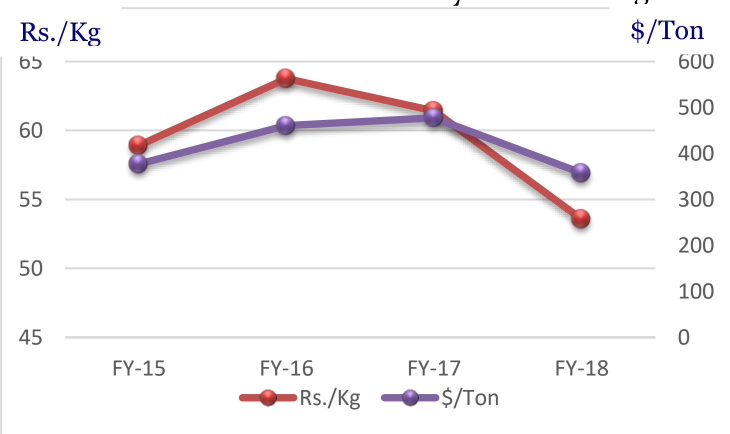
SECTOR OVERVIEW:

The sugar industry plays a vital role in creating economic activity for farmers as well as manufacturers, providing revenue to different segments of the economy. Sugar industry is the second largest agro based industry after textiles in Pakistan. The country is the 7th largest producer of sugar and 8th largest consumer of sugar. In Pakistan, sugarcane is grown on around 1.34 million hectares and provides raw material to 89 sugar mills. Area under cultivation has witnessed a sizeable increase over the last 2 years. After increasing by 7.6% in FY17, area under cultivation during FY18 crushing season was higher by 10.2% in FY18. In addition to sugar, sugarcane is also used in the production of pharmaceutical ethanol, fuel ethanol; bagasse, the by-product of the process, is used in paper and chip board manufacturing.

A total of 89 sugar mills are presently operating in the country and are pre-dominantly owned by the private sector. Out of 89 sugar mills, 45 are located in Punjab, 38 mills in Sindh and remaining mills are located in KP. About 40% (36 sugar mills) in Pakistan are listed on Pakistan Stock Exchange (PSX).



Recovery rate of sugar is primarily dependent upon favorable weather, availability of water, type of sugarcane seed and soil conditions. Variation in sucrose recovery rate from sugarcane across the country has a direct impact on cost of manufacturing and profit margins amongst different producers. As a result, mills operating in high recovery area have a competitive advantage over others. Moreover, per hectare yield of sugarcane in Pakistan is significantly lower vis-à-vis global averages. Recovery rate has also ranged between 9-10.5% over past couple of years compared to other major sugar producing countries where average recovery rate is over 10.2%.



OPPORTUNITIES:

- ▲ Pakistan has attained the status of 5th major sugarcane producing country in the world. the average sugarcane production in Pakistan especially in Punjab is 695 mound per acre, whereas at global level, the sugarcane production is 706 mound per acre.
- ▲ The ratio of support price to retail price of sugar has gone from under 1.6x in mid 2000s to up to 3.4x times in FY-18, making the crop attractive to farmers, well reflected in growing area under sugarcane cultivation. Yet, between MY05 and MY18, domestic sugar demand has grown at an annual CAGR of 2 percent, even as minimum price for sugarcane has increased over 3 times. While it is laudable that subsequent governments have looked after the interest of farming sector, to what end is sugarcane growing being incentivized, when the demand for the product is clearly sticky.
- ▲ Pakistan, being one of the major producer of sugarcane in the world, needed a prudent approach to make optimum of the resource for equal benefit of agriculturists as well as national exchequer.
- ▲ The commerce ministry needs to streamline export of sugarcane export so that farmers be in a better position to have proper returns for their crops.
- ▲ The farmers can also be supported to export other products of sugarcane including gur (jagger), shakkar or brown sugar as these are in great demand abroad.
- ▲ Major portion of locally grown sugarcane is crushed at farm level to produce jagger and brown sugar and this has also assumed a status of an important cottage industry of the country.
- ▲ Khyber Pakhtunkhwa (KP), a traditional gur making zone of the country is not only producing jagger for domestic use but also exports it to other countries. Owing to this very fact KP farmers earn 57% more profit through production and sale of jagger as compared to what they get by selling sugarcane to sugar mills
- ▲ Federal Board of Revenue (FBR) has barred the sale of molasses (a major by-product of sugar industry) to unregistered persons and deduction of input tax in respect of sales made to such persons. According to the SRO 488(I)/2004, the FBR has specified goods or class of goods which shall not be supplied to any person who is not registered under the Sales Tax Act, and if any such supply is made, the non-registered person shall not be entitled to reclaim or deduct input tax in respect thereof.
- ▲ Sugarcane molasses is a major by-product of sugar industry. It is either exported by the sugar industry or sold locally or converted to ethanol by sugar industry by itself. "If the production and sale of molasses is properly recorded, it can be used as an indicator to gauge the production of sugar too. This shall assist in documentation of sugar industry as well

THREATS:

- ▼ more than 60 percent of the Rs20 billion announcement by the government has not been so far disbursed. Sindh based millers claim that a far greater percentage of the additional subsidy announced by the provincial government is stuck with the finance department despite approvals.

- Under the Sugar Factories Act of 1950, millers are required by law to pay a quality premium to growers for any incremental sucrose recovery rate beyond 8.7 percent. The premium at such rate as may be determined by the government, from time to time. Thus, even if in absence of minimum support price, growers should have received market set rates that sufficiently compensate for the quality premium, as average national recovery rates have since climbed by 130bps above 8.7 percent. In MY18, for example, less than one-fifth of the 80 members of PSMA reported recovery rates below 8.7 percent rate.

- Most of the sugar mills — located in Sindh and Punjab — are reluctant to start new crushing season citing liquidity crunch due to an outstanding amount of Rs. 16 billion export subsidies from the government and low prices in domestic market.

- In addition to that, the industry also demanded the Federal Board of Revenue (FBR) to collect general sales tax (GST) on actual selling price of sugar instead of Rs60 per kg fixed by the board.

- The industry also wants the government to allow unconditional sugar exports as prescribed conditions cause export delays and changes in international prices.

- The Pakistan Sugar Mills Association has already rejected prices fixed by the provincial governments for procurement of sugarcane — Rs180 and Rs182 per maund for Punjab and Sindh respectively for the crushing season 2019. Punjab's sugar millers are also unwilling to begin crushing at the price fixed by provincial government at Rs180 per 40kg

- A drop of close to 50,000 hectares or 15 per cent in overall sugar cane cultivation has been reported in Sindh in 2018-19 season due to a variety of reasons, ranging from water shortage to sugar millers' obstinacy not to pay official rate, belated payments to growers and dilly-dallying on start of crushing season by sugar factories.

- A number of mills have confirmed that there is 20pc to 25pc drop in cane acreage in their area and it is believed when the final sowing figures are compiled the actual loss per acre may rise to 35pc.

- Water shortage during early Kharif also had negative implications for the cane crop and it was believed to have affected the crop's overall health. Water availability is likely to be affected in the days to come during Rabi season as well which can hit the crop even further.

FUTURE OUTLOOK:

- Refined sugar production is forecast at 6.5 million metric tons (MMT) for marketing year 2018/19 (MY Oct/Sept), down 12 percent from the current year's estimate of 7.4 million metric tons due to a projected 10 percent decrease in area. During 2017/18, record sugar exports of 1.8 MMT are estimated with a government supported export subsidy of $97 per metric ton in order to reduce sugar stocks. Consumption will continue to grow modestly in MY 2018/19 and is projected at 5.5 MMT, 4 percent higher than last year. Record sugar production in 2017/18 drove stocks to a record 3.1 MMT despite exports of 1.8 MMT. Exports and stocks are projected to decline due to the lower production while final levels will depend on government policies. Currently, Pakistan's export policies include an unsubsidized 1.0-million-ton export quota compared with 2.0 million tons exported and freight subsidies of up to $97 per ton in 2017/18. **Outlook is constraint.**

SURGICAL, PRECISION EQPT

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	230		
			2017-18	**2016-17**	
A.	**Industry Sales**	**Act/Est**	30,353	30,394	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	4		
C.	**Financial Charges**	**Act/Est**	1		
D.	**PAT**	**Act/Est**	2		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	152		
F.	*Current Assets*	**Act/Est**	107		
G.	*Cash & Bank Balances*	**Act/Est**	11		
H.	*Trade Debtors*	**Act/Est**	16		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	127		
K.	*Current Liabilities*	**Act/Est**	25		
L.	*Total Liabilities*	**Act/Est**	25		

SURGICAL, PRECISION EQUIPMENT

SECTOR OVERVIEW

Over 99% of the Pakistan's surgical instruments production is centered at Sialkot. The sector comprises over 2500 companies with the labor force ranging from (15-450) per unit, of which around 30 can be considered large and the remainder can be split as 150 units of medium sized and remaining as small. The industry produces on average over 150 million pieces a year with an estimated value of around Rs. 22 billion. Out of the total production, approximately over 95% is exported, which includes 60% of disposable and 40% of reusable surgical instruments, i.e. 100 million instruments annually.

The production of the industry can be broadly classified into two categories, i.e. disposable instruments and the reusable instruments (OR instruments). The largest market for Pakistani disposable instruments is USA. Majority of the reusable instruments, manufactured in Sialkot, are exported to the European countries.

OPPORTUNITIES

- Pakistan is manufacturing two types of Surgical Instruments:
    - Disposable instruments, which constitutes 60% of our exports.
    - Reusable instruments, which is 40% of our exports.

- The Surgical Precision, Optical and Equipment industry is centered in the city of Sialkot and over the years they have provided economic benefits to the country in the form of exports and foreign capital.

- Sialkot currently is responsible for producing 25% of the world's supply for hand-held surgical instruments, out of this share 10% are made by companies who have direct representation in the developed world and deal with their clients more or less directly (case in point FINE SURGICAL INSTRUMENTS Inc NY is representing Tinopal Surgical Corporation of Sialkot since 1975) but 15% of these companies sell their products to establishments in the developed world who re-label these instruments as their own.

- There are about 900 to 1000 active small and medium Surgical Units with labor force ranging from 10-500 person/unit. The number of workers in the Surgical Industry is about 150,000. The industry manufactures about 100 Million instruments annually.

- The surgical industry of Pakistan has attained a very competitive position globally because no other country can produce surgical instruments in such a low-price range.

- The total Capital Investment in the Surgical Industry is estimated at Rs.10 Billion & growing.

- There are dynamic and reliable linkages in international markets due to long history of exports. There also exists entrepreneurial culture directed towards exports.

- GOP support is required to this industry in setting up a surgical instruments city to facilitate the SMEs of this export-oriented metropolitan and hub of cottage industry as well as to recognize the services and importance of Sialkot, which is earning valuable foreign exchange.

THREATS

- According to the domestic industry, surgical instruments are only manufactured in Germany or Pakistan and a few other countries such as Japan & the UK. Among these, Germany is considered to be a market leader due to range of instruments, quality, innovation etc. The Pakistani surgical instruments manufacturers consider only Germany to be their competitor.

- The rising cost of utilities and even of raw materials, coupled with high banking service charges and high export refinance rates of central bank, are some of the hindrances to the industry.

- More than 95% of large & commercial surgical equipment producers are internationally certified but there are more than 3000 makeshift sweatshops that produce low grade equipment and large organizations often turn to them to meet high demands, during this process quality control is often overlooked.

- Imposition of social, environmental, technical and compliance barriers to trade is seen as a threat to this industry.

- Shortage of well-trained skilled manpower is impeding growth of surgical instruments manufacturing industry.

- Despite being a highly technical industry, in Pakistan there is no support from technical engineers in this sector. There are very few engineers in the factories. The process of new product development is done by using reverse engineering without following proper procedures such as preparing technical drawings. At this stage of development and to further grow, the industry needs technical assistance in process development, operation management and also for new product development.

OUTLOOK

- Overall sales are expected to continue to grow in the coming years despite the global recessionary conditions on account of continued shift of manufacturing from high cost to low cost production locations such as Pakistan. This trend is further reinforced by the declining value of rupee against major currencies. **Outlook remains positive & upbeat**.

TELECOMMUNICATIONS

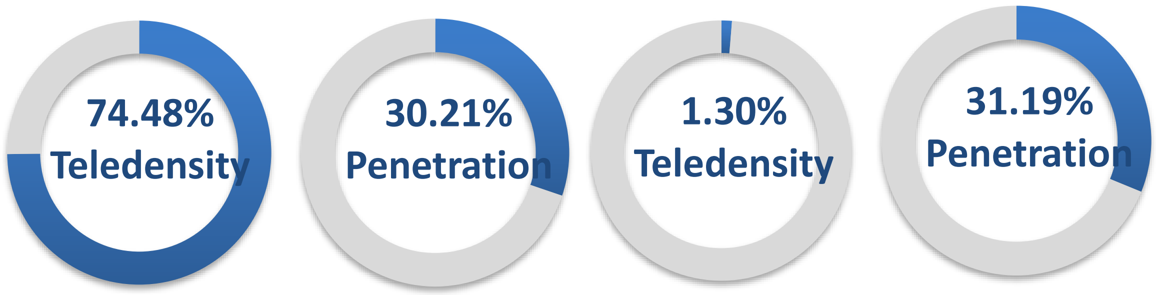
FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

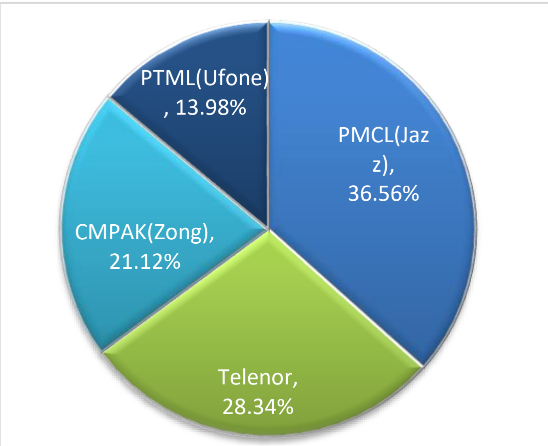
	No. of Companies	Act/Est	10		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	88,325	464,113	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	22,028		
C.	Financial Charges	Act/Est	904		
D.	PAT	Act/Est	16,713		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	246,232		
F.	*Current Assets*	Act/Est	92,303		
G.	*Cash & Bank Balances*	Act/Est	17,408		
H.	*Trade Debtors*	Act/Est	22,089		
I.	*Short Term Investments*	Act/Est	6,747		
J.	*Total Equity*	Act/Est	119,576		
K.	*Current Liabilities*	Act/Est	125,892		
L.	*Total Liabilities*	Act/Est	69,978		

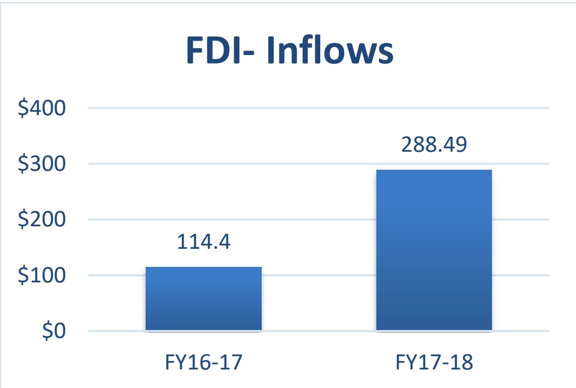
TELECOMMINICATION

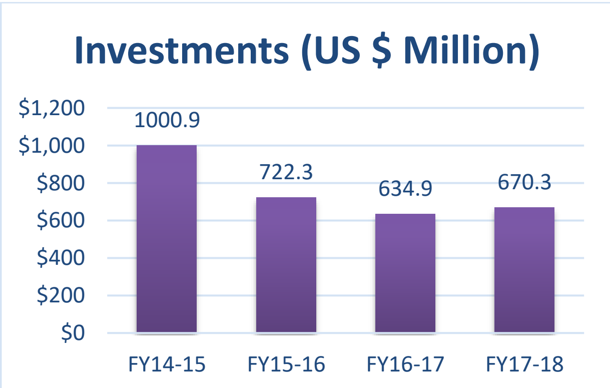
SECTOR OVERVIEW

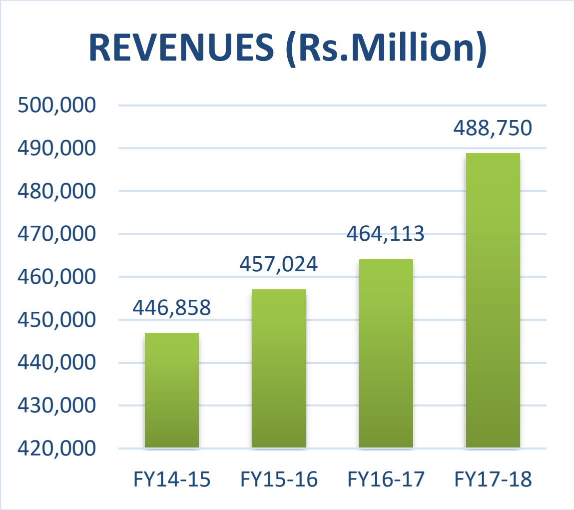


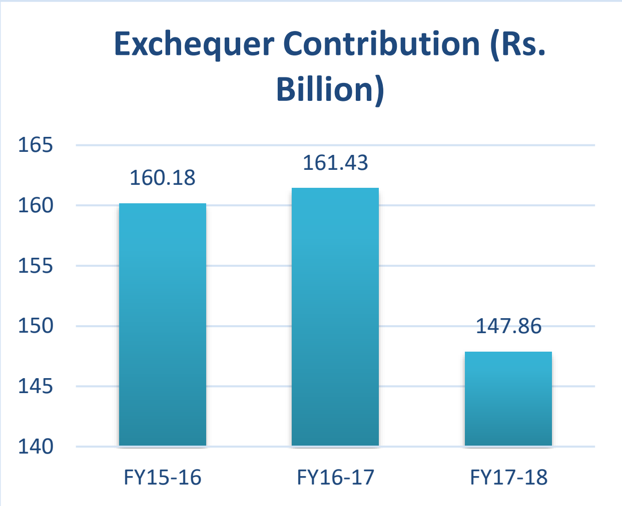
Pakistan has been one of the fastest growing cellular markets. The country's tele-density increased from 6.3% in FY04 to a high of 74.48% in FY18. Over the last several years, Pakistan telecom market has attracted considerable foreign direct investment with net FDI of US$ 288.49 Million during FY18. With the advent of 3G/4G services in Pakistan, new avenues of telecom activities have opened that cellular operators can utilize to provide innovative services, generate revenues and stabilize their market position. Additionally, with continuous investments by some of the world's telecom giants including VEON (formerly VimpleCom), Telenor and China Mobile, coupled with introduction of new value-added services and increased coverage areas, helped in sector growth. However, after years of exponential growth, cellular industry continues to face increasing challenges is the shape of market consolidation and price competition. However, cellular market penetration is expected to continue with the advent of next generation network services.











OPPORTUNITIES:

- in 2014, the government of Pakistan renewed the license of the state-owned entity, Ufone, at $291 million through interest-free payment installment in order to maintain a level playing field, Telenor Group has recommended that upcoming license of Telenor Pakistan and other operators be renewed under the same terms and conditions. This is particularly important given the fact that 2014-2018 local current depreciation increases the effective cost to the renewing parties ie renewal at $291 million will generate additional Rs10 billion for exchequer based on today's exchange rate.

- The proposal provides higher value for the government and the industry, bearing in mind the following potential benefits

  - ✓ maintaining a level playing field in highly competitive telecom industry
  - ✓ higher investors 'confidence leading to more investments in spectrum acquisition, that will, in turn, improve network quality
  - ✓ reduced risk of a possible litigation process, which will save and improve the probability of payments within the current fiscal year
  - ✓ achievement of government revenue targets through a sale of the additional spectrum.

- TPL Maps, Pakistan's first and largest digital mapping company has signed a Memorandum of Understanding (MOU) with Ufone, Pakistan's leading telecom provider. The collaboration aims to enable Ufone to use TPL Maps and offer location intelligence and solutions to the enterprise. Ufone will now be using TPL Maps' newly launched location-based services platform with APIs that can be customized for developers to suit their needs in the telecommunication sector.

- Under the outgoing CEO, a massive Network Transformation Programme (NTP) was undertaken, to fix the quality of network at top 100 exchanges across the country. Latest company results show that NTP exchanges have delivered double growth for DSL compared to non-NTP exchanges. Other operators have also been seen expanding their network, albeit on a limited scale.

- ▲ A cellular mobile service provider announced a long-haul project for network expansion, enabling the subscribers, especially of remote parts to enjoy fast and quality connectivity services. In partnership with Wateen Telecom China Mobile Pakistan (Zong 4G) will gain an exclusive optical fiber network to supplement its network coverage across the country.

- ▲ Meanwhile, AWAL Telecom in collaboration with a cellular operator has marked another milestone by facilitating formal launch of Cellular Mobile Services on its Tower Infrastructure in South Waziristan, bridging communication divide of South Waziristan people for first time. The Company has played a vital role in context of infrastructure completion, connectivity and services provisioning in WANA. These services shall be extended to other areas of South Waziristan Agency and North Waziristan Agency very soon.

- ▲ The three sub-task forces of the Prime Minister Taskforce on Information Technology and Telecom has finalized recommendations including:

  - ✓ declare IT and Telecom sector as industry and to adopt legal process in this regard soon

  - ✓ bring down 12.5 percent advance income tax on Internet to zero, as it is negatively affecting telecom growth and digitization agenda of the government

  - ✓ increase penetration of fiberization, broadband, mobile phones and smart phones;

THREATS:

- ▼ Three telecommunication companies are facing a digital crisis regarding the renewal of their spectrum licenses from the Pakistan Telecommunication Authority (PTA). Telenor, Jazz, and Warid had purchased their respective licenses in 2004 with a 15-year contract as per International Standards. The licenses of these three Telecom companies are going to expire this May and the issue lies with the renewal of these licenses.

- ▼ While PTA has ensured that any procedures regarding license renewals are being handled prospectively, the telecom industry is preparing for a hard hit which is already showing its symptoms. A statement made by PTA said, "The renewal of license and associated spectrum at the end of a license period will be as per policy of the government.

- ▼ In case of renewal of licenses, PTA will make recommendations to the federal government within the timelines stipulated in the respective licenses." The challenge in renewing the spectrum licenses is that the government wants to sell the spectrum at a whopping price valued at nearly $1-2 billion – one of the reasons why the price is set in Dollars, while the operators earn in Pakistani Rupees.

- ▼ The mobile operators on the other hand are facing not only the rush to renew their current licenses, but they also require new spectrums in order to sustain their increasing subscriber growth.

- ▼ Due to this exorbitantly high price, licensees may have less of an incentive to further deploy upgrades to their existing equipment in fear that they may not be able to regain any loss of finances before the license expires again.

- ▼ High spectrum prices also result in more expensive services for consumers. As a result, users suffer from a sufficient decline in services with problems such as lower 4G coverage and poor network quality.

- ▼ Furthermore, the average revenue per user has also significantly lowered over the years, causing these prices to become much steeper. Besides the fair pricing notion, the long-term effects of highly priced spectrums negatively impact the country's vision of digitalization and thus, overall economic growth.

- ▼ Throughout the last decade, just over a million new subscriptions were added by Pakistan's fixed broadband players. From just 1 percent of households in 2009, DSL is present now in 5 percent of households.

- ▼ A mix of factors has limited the growth of DSL in the last decade, despite the fact that DSL is a relatively more reliable and high-quality source of Internet, telephony and television (triple play).

  - ✓ First is the policy focus. To grow Internet users in this low-income market, telecom authorities naturally tilted towards MNOs who have been deploying mobile broadband (3G & 4G) services in the country since the summer of 2014. Being "mobile" and "accessible," the 3G and 4G networks continue to enjoy popularity (as per PTA data, there were 63 mn subscriptions as of Jan. 2019). The mobile broadband operators have also been selling dongles, which have further hurt the DSL penetration.

  - ✓ Second is the lingering set of issues on the supply side of DSL. In other developing countries, it has been seen that households tend to prefer a fixed broadband connection at home, despite having 3G and 4G subscriptions, because DSL is cheaper and offers multiple nodes at a higher speed. But in Pakistan, the subpar quality of the DSL players' fixed infrastructure has provided an open field for wireless carriers.

  - ✓ And third, fixing the fixed infrastructure is a mammoth exercise. It not only needs a large capex spending sustained over several years, it is a logistical and human challenge as well. On top of that, persistent issues with the "right of way" – in terms of gaining affordable access to upgrading a telecom licensee's fixed infrastructure in any area across the country – make time and cost overruns a costly norm for the industry.

FUTURE OUTLOOK:

- ▶ The past few years have been difficult for telecom companies across the world and Pakistan is no exception. Overall revenues and cash flows have dipped despite the fact that consumption of mobile data has increased. This has been mainly because telecom companies have invested heavily in their wireless 3G and 4G networks. Fiscal Year 2018-19 will continue to be a critical time for Pakistani telecom industry as companies will compete intensely for market share in already saturated market. The consumers have become more tech-savvy and companies need to innovate in order to come up to their expectations. **Outlook remains stable in term of profit margins.**

TEXTILES-COMPOSITE

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	41		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	402,852	334,021	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	20,227		
C.	Financial Charges	Act/Est	15,941		
D.	PAT	Act/Est	17,645		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	514,069		
F.	*Current Assets*	Act/Est	246,142		
G.	*Cash & Bank Balances*	Act/Est	3,670		
H.	*Trade Debtors*	Act/Est	56,757		
I.	*Short Term Investments*	Act/Est	10,278		
J.	*Total Equity*	Act/Est	214,675		
K.	*Current Liabilities*	Act/Est	216,878		
L.	*Total Liabilities*	Act/Est	289,919		

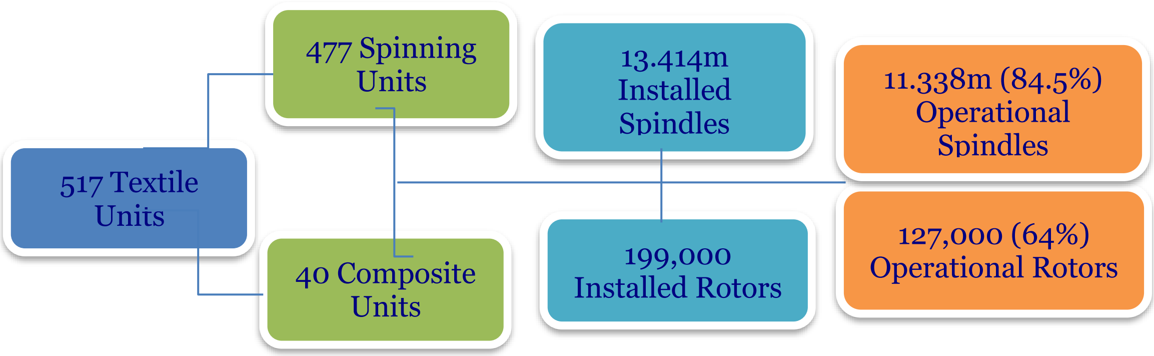
TEXTILE INDUSTRY-*AN ANALYSIS*

SECTOR OVERVIEW

International economists urge that the textile is the most significant manufacturing sector and has the longest production chain, with inherent potential for value addition at each stage of processing, from cotton to ginning, spinning, fabric, dyeing and finishing, made-ups and garments. They have also reported that the present global apparel market is worth US$ 1.7 trillion, and it amounts to 2 percent of the world's GDP. EU, USA and China are the world's largest apparel markets with a combined share of almost 54 percent. The major 8 apparel consuming nations form a dominating share of 70 percent of the worldwide apparel market size.

In Pakistan, textile sector contributes approximately one-fourth of industrial value-added and offers employment to about 40 percent of industrial labor force. Barring seasonal and cyclical fluctuations, textiles products have sustained an average share of about 45 percent in nationwide exports. Pakistan's textile experts also mention that the ancillary textile industry adds cotton spinning, fabric processing, home textiles, cotton cloth, cotton yarn, cotton fabric, towels, hosiery and knitwear and readymade garments, these components are being produced both in the large-scale manufacturing organized sector also as in the unorganized cottage/small and medium units.

Spinning Sector:



Power Loom Sector:
The government statistics show that the issues of the power loom sector evolve chiefly because of the poor technology and scarcity of quality yarn. It is also calculated that the looms installed in cotton textile mills are 9,084 and Looms worked were 6,384. Moreover, the production of cotton cloth has stayed stagnant which slightly raised by 0.03 percent while the exports in term of quantity slightly declined by 0.80 percent whereas in value term grew by 0.04 percent.

Made-up Sector:
Being value added segment of textile industry made-up sector comprises different sub groups namely towels, tents & canvas, cotton bags, bedwear hosiery, knitwear & readymade garments counting fashion apparels.

Knitwear:
Knitwear exports consists of knitted and processed fabrics knitted garments; knitted bed sheets, socks etc. and has the largest share 35 percent in textile exports.

Readymade Garments:
The readymade garment industry has emerged as one of the significant small-scale industries in the country. Its products have large demand both at home and abroad. The local requirements of readymade garments are approximately totally met by this industry. They have also recorded that most of the machines utilized by this industry are imported or domestically made/assembled. Exports rose from 22.708 million dozen to 25.621 million dozen in many types of readymade garments worth US$ 1695.557 million during Jul-Feb FY 2018 as against to US$ 1499.472 million during Jul-Feb FY 2017, thus explaining a rise of 13.08 percent in terms of value and 12.83 percent in term of quantity.

Towel:
Furthermore, statistics also show that there are about 10,000 towel looms including shuttle and shuttle less in Pakistan in both organized and unorganized sector. This industry is dominantly export-based, and its growth has all the time depended on export outlets. The production capacity of the canvas/tents is more than 100 million sq. meters. In term of quantity during July-February FY2018 it was registered at 20.239 thousand dozen as against to 33.919 thousand dozen during the corresponding period previous year thus explaining decline of 40.33 percent. Even in value term it declined by 39.49 percent.

Synthetic Textile:
It is recorded that during July-Feb FY 2018, synthetic textile fabrics value $ 197.280 million were exported as against to $ 109.552 million during the corresponding period which is explaining a rise of 80.08 percent as against to last year. In quantity term the exports of synthetic rose by 108.53 percent.

Growth in Textile Exports:
The Pakistan Textile Industry contributes substantially to Pakistan export earnings. The exports basket contains a wide range of item viz Cotton fibers, yarn and cloth, yarn other than cotton yarn, tents, canvas, bedwears, towels, carpets, made-ups and variety of garments. The Textile Industry of Pakistan has potential for performing better in production and export by virtue of its inherent expertise in the international market for its conventional products. However, to maintain its position and moving in high value-added products for the value increased market share, a large investment in machinery equipment and new technology is essential.

Products	2013-14	2014-15	2015-16	2016-17	2017-18
Cotton & Cotton Textile	13,349	13,139	12,168	12,205	13,220
Synthetic Fabrics	383	331	288	204	310
Wool & Carpets	125	119	98	79	76
Total Textile Exports	13,858	13,589	12,553	12,531	13,606
Total Exports	25,132	23,885	20,802	20,448	23,222
Textile as % of Total Exports	**55.1%**	**56.9%**	**60.3%**	**61.3%**	**58.6%**

THE COMPARATIVE PERFORMANCE OF THE TEXTILE SECTOR
(2015-16, 2016-17, 2017-18)

	2015-16	2016-17	2017-18	Growth %
PRODUCTION (M. BALES)				
Raw Cotton	9.917	10.671	11.994	12.40
CONSUMPTION (000KGs)				
Raw Cotton	2,732,678	2,733,052	2,735,262	0.08
M.M. Fiber	1,024,216	1,024,830	1,079,620	5.35
TOTAL	**3,756,894**	**3,757,882**	**3,814,882**	**1.52**
In Bales of 170 KGs	22,099,376	22,105,188	22,440,482	1.52
PRODUCTION (000KGs)				
Cotton Yarn	2,197,572	2,219,240	2,238,108	0.85
Blended Yarn	1,199,767	1,208,833	1,191,942	-1.40
TOTAL	**3,397,339**	**3,428,073**	**3,430,050**	**0.06**
CONSUMPTION OF YARN				
Mill Sector (000KGs)	115,286	115,871	116,215	0.30
PRODUCTION (000 SQ. MTR.)				
Cotton Cloth	962,026	965,090	965,462	0.40
Blended Cloth	77,157	78,253	78,282	0.04
TOTAL	**1,039,183**	**1,043,343**	**1,043,744**	**0.04**
Non-Mill Sector	8,120,122	8,126,370	8,217,155	0.01
G. TOTAL	**9,159,305**	**916,973**	**9,170,899**	**0.01**
EXPORT (IN 000)				
Raw Cotton in KGs	49,550	24,976	35,347	41.52
Yarn in KGs	187,259	198,801	198,801	0.00
Cloth in Sq. Mtr.	8,188	9,084	9,084	0.00
CAPACITY INSTALLED				
Spindle	13,409,320	13,409,420	13,409,420	0.00
Rotor	187,259	198,801	198,801	0.00
Loom	8,188	9,084	9,084	0.00
CAPACITY WORKED (AVG.)				
Spindle	11,263,025	11,288,105	11,338,265	0.44
Rotor	115,041	126,583	126,583	0.00
Loom	5,488	6,384	6,384	0.00
HOURS WORKED IN MLN				
Spindle	6,266.92	6,424.25	6,631.76	3.23
Rotor	45.79	51.02	48.68	-4.59
Loom	2.25	2.66	2.49	-6.39

OPPORTUNITIES:

▲ Shares of ready-made garments in the overall textile exports is on the rise for the last couple of months, the country sold $256 million worth of ready-made garments in the global market in January. This is because Pakistan's value-added textile industry is becoming competitive in the wake of the recent incentives given to textile exporters.

▲ Recently, the government has reduced the duties on the import of raw material and provided exporters with cheaper gas and electricity, bringing their input cost down. These benefits made the sector more competitive in the international market because of a reduction in their cost, which helped them reduce prices and compete with their international rivals.

▲ The ready-made garments contribute 29% in the value-added segment and account for more than a fifth of our overall textile exports. According to the Pakistan Bureau of Statistics, our exports increased 8% this January compared to the same month of 2018. When put in terms of the rupee, the increase was 35% because of the devaluation of the rupee against the US dollar.

▲ the impact of CPEC is likely to include improved energy supply for the industry, better internal connectivity and logistics as well as new international market linkages as a result.

▲ due to ongoing trade tensions between the US and China, Pakistan's textile industry is getting a huge amount of import queries from the US.

▲ the Economic Coordination Committee (ECC) had exempted duties on the import of cotton, a major input for the textile industry to help decrease the cost of industrial outputs. In September last year, the government had reduced the regulatory duty on the import of cotton yarn from 10% to 5%. Also, it had reduced the gas and electricity tariffs for the export concentrated industry in an effort to decrease the production cost and improve competitiveness. The textile sector is being supplied electricity at a tariff of 7.5 cents per KWh, natural gas at Rs600 per unit and imported re-gasified liquefied natural gas (RLNG) at $6.5 per unit. Due to these incentives, government have helped bring down the production cost for the textile value chain.

THREATS:

▼ **Lack of investment**: The weaving sector has potential to perform better provided that investment in machinery and new technology is undertaken. Around only 70% of the total installed looms were operational in 2016-17, the rest remained non-operational due to either high input costs or faults in machinery. Moreover, recent rupee depreciation has made it much harder for mill owners to import latest machinery from other countries. Consequently, unorganized mill sector, which accounts for majority of cotton cloth production, continues to deploy outdated machinery.

▼ **Liquidity constraints**: In the past, Government of Pakistan (GoP) has provided incentives to local millers such as rebates in order to boost exports. However, such incentives have resulted in higher payables owed by the government to the millers, resulting in curtailed liquidity profile of players. Presently, the amount of tax refunds is still considerable, and this issue remains a key priority of the newly elected government in the country.

- **High Input Costs**: Energy costs bear sizeable weightage in the overall weaving process. Textile companies in Pakistan receive electricity at the cost of Rs. 10.5/kWh, while electricity cost to textile companies in regional countries including Bangladesh is approximately Rs. 7/kWh. Similarly, system gas is provided to textile producers at a cost of Rs 600/ MMBTU in Pakistan in comparison to the lower cost of Rs. 400/MMBTU borne by companies in Bangladesh. Such factors increase the cost of goods manufactured and hurt regional competitiveness.

- **Lack of product customization**: One key issue of the sector is its inflexibility to respond to changes in consumer preferences. Given the increased competition, it is expected that textile exporters will take notice of the shift in consumer demand paradigm in key export markets and respond accordingly.

- Another significant factor will be potential synergies with Xinjiang. China has invested close to $3 billion for development of a textile cluster in the province situated next to Pakistan. The proposed plan is to have raw material including cotton and yarn to be imported from Pakistan. But there's a big caveat here. At the moment, Pakistan's cotton crop is dismal to say the least and is unable to go produce more than 10 million bales while even the local industry's demand is around 17-18 million bales per year. So, there is a slim chance of catering to Xinjiang textile cluster when our own firms are relying on imported cotton. But this can change if proper attention is given by policymakers to improve cotton yields and increase the area under cultivation. Secondly, there is a crucial need for Pakistan's textile industry to up its game where balancing modernization and replacement as well as skill development are concerned and the same is also part of the Long Term Plan of CPEC. As the report points out, Chinese businesses have shown interest in setting up joint ventures with local partners. But again, this will benefit only a handful of local players given that the majority of the firms operating in the garment sector are small and medium enterprises (SMEs) unable to invest at the scale Chinese companies usually operate at.

- Quality of cotton produced is below international standards, at the back of

  a) unclean picking, poor ginning and ineffective removal of contamination,

  b) lack of incorporation of modern technologies,

  c) inadequate supply of water,

  d) great differential between low and high performing cotton yields, and

  e) application of inefficient techniques of managing cotton crops.

  The result of all this and other factors is that cotton fiber has remained well below international standards.

- Efforts by the government to improve the quality and quantity of cotton have left a lot to be desired in terms of implementation, as targets have been missed many times. For example, in 2006, the government launched 'Cotton Vision 2015' but targets that were then set for 2015- which included

a) production of bales to be around 21 million,

b) per acre cotton yield to be 1,060 kg,

c) cotton bales exports to be 0.6 million, and

d) cotton yarn recovery to improve to 92 percent- could not be achieved.

Moreover, the efforts in the past by the government and textile owners have resulted in an increase in low-value adding textiles- cotton yarn and woven fabrics- and not high value-adding textile exports like bed linen and towels; resulting in both the low proportion of share in world textile exports, and also the slow pace at which textile exports earnings increased over time. So, while the overall share has increased, the returns in terms of foreign exchange earnings have not matched the increase that would have materialized if adequate shift towards high value-adding textiles could be made.

- The process of ginning- removing lint from cotton seed- is inadequate, for reasons including,

    a) around two-thirds of the total installed ginning units stand non-operational,

    b) absence of ginning control and monitoring process, resulting in cotton being virtually totally hand-picked,

    c) employed level of technology in the ginning process being obsolete, even of the times of 1940s and 50s, resulting in a level of efficiency of a lot less- even to the extent of being one-fifth- than that of for example of USA, and

    d) lack of standardization.

- Another important reason for the slow increase in textile exports as a proportion of world textile exports is the poor performance of the dying, printing, and finishing sectors; leading to poor quality garments/home textiles produced.

- Spinning- which involves converting man-made fibers or cotton into yarn- and the fact that it is fundamental to the quality of textiles produced in the subsequent processes, makes this stage of the overall process very significant. Yet, spinning capacity is only around 5 percent of total world capacity. The sector suffers from lack of product diversification and low share of high value-adding yarns in its overall production; and requires shifting to both modern processes and skilled labor capacitated to adopt such processes- at both the levels of 'ustaad' (or master trainers) and managers.

- Within the weaving sector- textile segment composed of woven fabrics, the power loom sector- labor intensive section of the sector- requires better trained labor force, while the shuttle-less weaving machines- the capital intensive portion of the sector- require shifting to a greater extent of computer-aided manufacturing (CAM), along with trained personnel to better manage and monitor quality and productivity. Such initiatives are important and need to be taken if Pakistan has to move up the current low level in world fabric share of around 7 percent.

- In the past the weaving sector had integrated units, composed of both ginning and spinning facilities, but lack of conducive policies- primarily with regard to taxation, and labor market regulations- the units fragmented, losing, in turn, their economies of scale advantage; with the result of the formation of independent power loom units. This integration needs to return at the back of better formulated and coordinated governance and institutional incentive structures in the fiscal and labor sectors if Pakistan is to compete with other textile exporting giants in the region.

- To enhance export potential in the weaving sector, the textile sector here needs to shift from the traditionally low value-adding export of fabric based on cotton, and rather towards high value-adding blended fabric. For this, the sector needs to plan, and the government needs to facilitate a move towards synthetic and artificial staple fibers.

- The next three sub-sectors- fabric dyeing, printing, and finishing- are collectively part of the processing sector of textile. Here too, the share of Pakistani finished cloth in overall world textile trade is only a paltry 3 percent, with underlying reasons being

    a) inefficient processes, leading to placing the sector globally among countries with high percentage wastages- large proportion of rejection/reworks demanded by international buyers, on account of products being defective at dispatch time,

    b) absence of a thorough mechanism for holding/applying both in-process and overall controls and monitoring,

    c) well below capacity utilization; mostly because of the fact that around 50 percent of installed capacity is close to 40 years old, allowing in turn producers recover only break-even costs, and therefore, leaving little incentive for growth in textile production, in terms of both quality and output, and

    d) inadequate provision of water- both quality and quantity- to the processing sector, where otherwise good quality water, and that too in abundance, is needed in these processes. The government should make a supportive policy, in turn facilitating up-gradation- through an increase in targeted subsidies and favorable tax regime towards the processing sector- to stem both losses on account of under-utilization of capacity and the flight of textile producers to other countries with better facilitation environment.

- In the textile made-ups, there is a need to

    a) graduate to higher tiers of towels exports,

    b) improve processing part in the overall bed-linen production, which in turn could be enhanced through i) technology up-gradation to ensure meeting bed-linen quality standards internationally, ii) improving labour quality, and iii) rationalizing the current unjustified inter-industry price competition among the processing manufacturers, which hurts exporters at the individual level, and export earnings overall,

    c) penetrate to elite bed-linen market levels, by improving on the smallest of margins where betterment is required in the processes, since the competition is steep at these sophisticated levels, and

d) gain greater and in-depth knowledge of global fashion/trends demands, to capture higher market share of these high value-adding export earning spheres; which in turn will also be important to remove the traditionally carried tag by the country of a low-quality producer.

- The apparel industry- where Pakistan has around 5,000 garments units- captures only 1 percent of the apparel market globally. This needs to change drastically if Pakistan needs to boost its exports, and also cut down on its apparel related imports, in turn saving on foreign exchange reserves. Here, the exporters need to shift from the mostly traditional exports production to modern lines, including those in the category of sportswear. Also, the marketing strategy needs to improve, along with harmonizing the sector with a better understanding of global fashion trends.

- Overall, on the supply side, issues range from lack of ease of doing business, including primarily lack of

  a) well targeted and substantiated subsidy structure,

  b) fluent level of electricity, and at rates that allow the sector to remain internationally competitive,

  c) training programs for raising the level of productivity and compatibility with modern computer-run processes, especially in sectors like spinning, weaving, and knitting,

  d) programs to shift the industry to higher value-adding products- currently, the composition of exports is highly skewed in favor of low-value adding cotton and cotton yarn; and even within that low-coarse and medium yarns, and

  e) technical support at the governmental level to make the textile sector more compliant with World Trade Organization's (WTO) textile related protocols.

FUTURE OUTLOOK:

- During the current financial year 2018-19, the country is anticipated to experience a deficit of 3-4 million bales with production projected at 10.738 million bales against the initial target of 14.37 million bales. Financial Year 2018-19 will be a challenging year for Spinning Division. Fear of high price of new cotton crop in local market as compared to last year is already a matter of worry. On the other hand, cotton prices in international markets are showing a decreasing trend which is why export customers are expecting a reduction in yarn prices. **Outlook is constraint.**

TEXTILES-FABRICS (WEAVING)

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	6		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	26,674	28,008	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	1,245		
C.	Financial Charges	Act/Est	935		
D.	PAT	Act/Est	1,211		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	17,100		
F.	*Current Assets*	Act/Est	7,879		
G.	*Cash & Bank Balances*	Act/Est	208		
H.	*Trade Debtors*	Act/Est	1,895		
I.	*Short Term Investments*	Act/Est	40		
J.	*Total Equity*	Act/Est	6,274		
K.	*Current Liabilities*	Act/Est	8,349		
L.	*Total Liabilities*	Act/Est	10,825		

TEXTILES-KNITS & KNIT APPAREL

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	800		
			2017-18	**2016-17**	
A.	**Industry Sales**	**Act/Est**	204,296	198,277	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	8		
C.	**Financial Charges**	**Act/Est**	2		
D.	**PAT**	**Act/Est**	7		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	93		
F.	*Current Assets*	**Act/Est**	56		
G.	*Cash & Bank Balances*	**Act/Est**	Nil		
H.	*Trade Debtors*	**Act/Est**	35		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	34		
K.	*Current Liabilities*	**Act/Est**	60		
L.	*Total Liabilities*	**Act/Est**	59		

TEXTILES-WOVEN APPAREL

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

No. of Companies	Act/Est	500		
		2017-18	2016-17	
Industry Sales	Act/Est	179,959	161,559	
		High (>15%)	Medium (5-15%)	Low (<5%)
Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
PBT	Act/Est	29		
Financial Charges	Act/Est	13		
PAT	Act/Est	21		
		Expected to Increase	Expected to Remain Same	Expected to Decline
Net Profitability *(Next 1-2 Yrs)*	Best Guess			
Total Assets	Act/Est	402		
Current Assets	Act/Est	211		
Cash & Bank Balances	Act/Est	24		
Trade Debtors	Act/Est	48		
Short Term Investments	Act/Est	Nil		
Total Equity	Act/Est	123		
Current Liabilities	Act/Est	204		
Total Liabilities	Act/Est	279		

TEXTILE-SPINNING

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	62		
			2017-18	**2016-17**	
A.	**Industry Sales**	**Act/Est**	215,712	150,895	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	**Act/Est**	395		
C.	**Financial Charges**	**Act/Est**	33,676		
D.	**PAT**	**Act/Est**	(728)		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	**Act/Est**	301,013		
F.	*Current Assets*	**Act/Est**	104,611		
G.	*Cash & Bank Balances*	**Act/Est**	2,714		
H.	*Trade Debtors*	**Act/Est**	24,599		
I.	*Short Term Investments*	**Act/Est**	2,255		
J.	*Total Equity*	**Act/Est**	112,032		
K.	*Current Liabilities*	**Act/Est**	146,236		
L.	*Total Liabilities*	**Act/Est**	238,965		

TEXTILE-SYNTHETIC FIBERS/POLYESTER

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	7		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	78,511	20,643	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	2,940		
C.	Financial Charges	Act/Est	578		
D.	PAT	Act/Est	2,153		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	80,057		
F.	*Current Assets*	Act/Est	32,010		
G.	*Cash & Bank Balances*	Act/Est	411		
H.	*Trade Debtors*	Act/Est	3,594		
I.	*Short Term Investments*	Act/Est	160		
J.	*Total Equity*	Act/Est	33,058		
K.	*Current Liabilities*	Act/Est	38,104		
L.	*Total Liabilities*	Act/Est	47,319		

TOBACCO

FINANCIAL SNAPSHOT 2016-17

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	3		
			2017-18	2016-17	
A.	Industry Sales	Act/Est	127,517	60,107	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	21,999		
C.	Financial Charges	Act/Est	92		
D.	PAT	Act/Est	9,954		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			

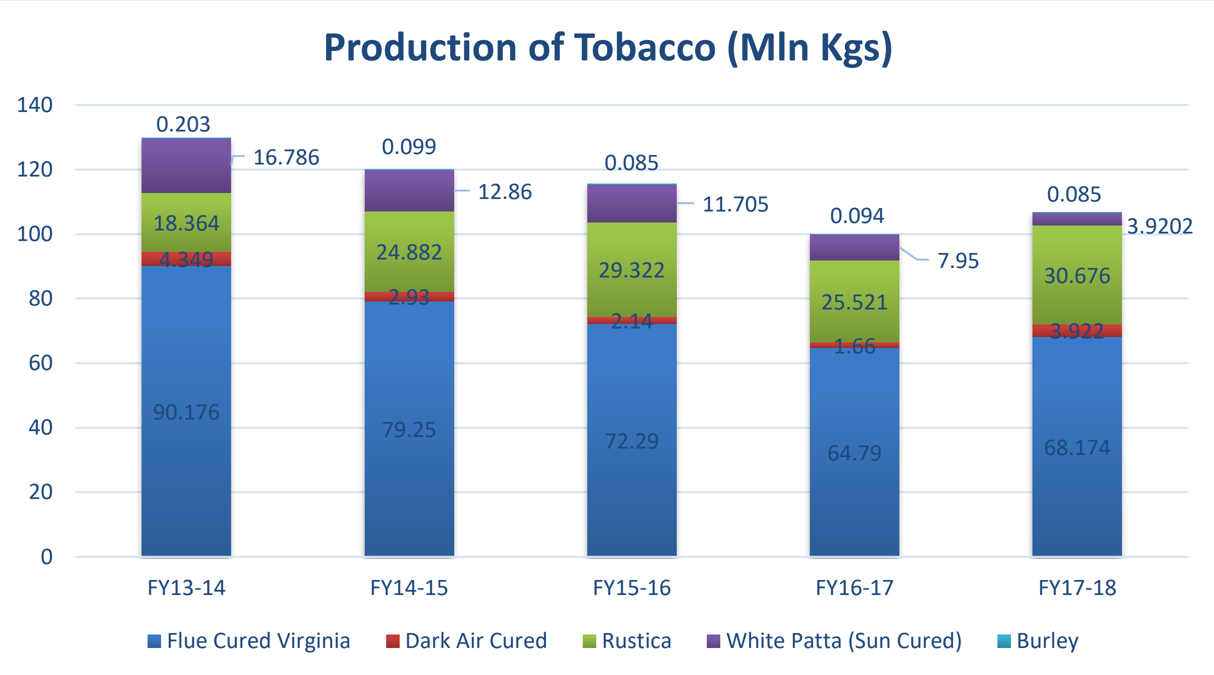
E.	*Total Assets*	Act/Est	48,707
F.	*Current Assets*	Act/Est	32,388
G.	*Cash & Bank Balances*	Act/Est	710
H.	*Trade Debtors*	Act/Est	294
I.	*Short Term Investments*	Act/Est	6,763
J.	*Total Equity*	Act/Est	30,632
K.	*Current Liabilities*	Act/Est	20,777
L.	*Total Liabilities*	Act/Est	19,281

TOBACCO

SECTOR OVERVIEW

Tobacco in Pakistan holds an economic significance in Pakistan economy. Tobacco is grown throughout the country, but major source of tobacco raw material is in the Khyber Pakhtoon khowa. In Pakistan, although tobacco cultivation occupies a relatively small area of 0.27% of the total irrigated land in the country and about 3% in Khyber Pakhtunkhwa.

Pakistan was a net importer of tobacco in 1948 but became self-sufficient in tobacco production in 1969. It was. Pakistan within 30 years of Independence became 5th largest



tobacco producer in the world and 4th highest in yield. Currently tobacco industry in Pakistan is dominated by two multinational firms Pakistan Tobacco Company and Phillip Morris Pakistan. Though there are other firms but their influence on tobacco industry is not significant. Other companies are: Sarhad Cigarette Industry, Walton Tobacco Company, International Cigarette Industry, Khyber Tobacco Company, Imperial Cigarette Industry, Universal Tobacco Company, Saleem Cigarette Industry, Souvenir Tobacco Company. Cigarette industry contributes nearly 3.5 percent of total FBR revenue currently. The major challenge for Tobacco industry is the increasing trend of smuggling.

Export of Tobacco & its Products

Value in US $000

Year	Un-manufactured	Manufactured excl. Cigarette	Cigarettes	Total Tobacco
2015-16	10,210	764	1,142	**11,816**
2016-17	12,463	2,350	938	**15,751**
2017-18	23,745	2,321	202	**26,268**

OPPORTUNITIES:

- ▲ Given the growth of incidents of illicit cigarettes to over 40%, the third tier for cigarette excise was introduced as a policy measure in 2017-18 to curb the illicit trade by reducing the price gap and this resulted in reducing the market share of illicit cigarettes to 33%.

- ▲ Tobacco industry has estimated that its tax contribution could cross Rs. 112 billion in the upcoming fiscal year 2018-19 provided the FBR stuck to the existing third tier taxation system and continued enforcement against illicit cigarettes with full force.

- ▲ After taking stern actions by the FBR on enforcement front, the illicit tobacco industry shifted their business from KP to Azad Jammu and Kashmir (AJK) and according to the estimates done by PTC that the AJK government could generate tax revenues to the tune of Rs7 billion by bringing them into tax net.

- ▲ The tobacco industry was comprised of 80 billion sticks and its declining industry in the range of 0.2 to 0.4 percent on per annum basis. The market share of illicit trade has dropped from 45 percent to 35 percent with introduction of third tier taxation system and enforcement steps taken by the FBR. With introduction of third tier slab, the shift occurred from usage of illicit cigarette to legal brands because price differential was narrowed down by reducing taxes on third tier in last fiscal year.

- ▲ Despite introduction of third tier taxation, the price of branded cigarette stands at Rs48 per packet while price of illicit tobacco packet is Rs 24 on average, but the price differential should not be increased in such a way that caused closing down of formal sector.

- ▲ An amount of Rs. 112 billion revenue earning was expected from the tobacco sector during current financial year 2018-19 as revenue collection from the tobacco sector was on the declining trend from last three years. two multinational companies including Philip Morris and Pakistan Tobacco Company was the main contributor in revenue collection where as it was expected that Rs. 12 billion to be collected form the local cigarettes manufacturers.

THREATS:

- ▼ The tobacco industry in Pakistan faces a critical challenge with the wide presence of non-tax paid cigarettes, which reached a record high market share of over 41% during fiscal year 2016-17. The primary source of these non-tax paid cigarettes is locally manufactured tax-evaded cigarettes, which were selling at a price gap of almost 170% versus the tax-paid legal cigarettes.

- ▼ In addition to evading tax, local manufacturers are seen to be blatantly violating marketing regulations through advertisements, discounts, cashback or giveaways to consumers.

- ▼ Locally manufactured cigarettes, despite adhering to printing regulations such as health warnings and minimum price on packs, are being sold at street prices even below the minimum tax payable on a pack.

- During the fiscal budget in May 2018 and subsequent supplementary budget in September 2018, the excise duty was increased by almost 56% thus once again widening the price gap between legal and tax-evaded cigarettes.

- With low disposable income, the consumers of legal cigarettes will be unable to absorb multiple tax and price increases and will shift their consumption to cheap illicit cigarettes, making the task of enforcement against these illicit operators increasingly difficult.

- Currently, tax evasion in the illicit cigarette trade is over Rs35 billion each year. Rather than introducing additional taxes on an already highly taxed sector, the focus should be on fighting illicit trade and increase excise revenue from the sector by Rs35 billion by enforcement on the illicit manufacturers.

- Philip Morris Pakistan, an affiliate of Philip Morris International, announced shutting down one of its cigarettes manufacturing facilities with severance payments for 194 employees.

- Local tobacco production during last year was recorded at 70 million kg, out of the total produces about 45 million kg was purchased by the two multinationals, about 10 million kg were exported, adding that 15 million was disappeared from the market, which were smuggled.

FUTURE OUTLOOK

- 2019 will be another challenging year. Illicit trade remains the biggest threat to the sustainability of the legitimate tobacco industry. This deprives the government of very substantial revenues and is in open contravention of the laws of the country. **Outlook is stable.**

TRANSPORT-AIR

FINANCIAL SNAPSHOT 2017-18

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	1		
			2017-18	**2016-17**	
A.	**Industry Sales**	**Act/Est**	97,553	101,224	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	-45,814		
C.	**Financial Charges**	**Act/Est**	12,519		
D.	**PAT**	**Act/Est**	-46,453		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	136,701		
F.	*Current Assets*	**Act/Est**	31,906		
G.	*Cash & Bank Balances*	**Act/Est**	2,274		
H.	*Trade Debtors*	**Act/Est**	12,415		
I.	*Short Term Investments*	**Act/Est**	19		
J.	*Total Equity*	**Act/Est**	-138,640		
K.	*Current Liabilities*	**Act/Est**	192,213		
L.	*Total Liabilities*	**Act/Est**	267,848		

TRANSPORT - AIR

SECTOR OVERVIEW

The local aviation sector comprises a total of four players: Pakistan International Airlines (PIA), Air Blue Limited, and Serene Air. Passenger traffic has been consistently growing with the share of international passengers surging more than domestic passengers. During FY17, total number of passengers in Pakistan were reported at 18.2m (FY16: 17.2m), an increase of 5% as compared to the preceding year. Share of international passengers in overall passenger traffic increased to 80% (FY14: 75%) while the remaining 20% comprised domestic passengers.

Focus of Pakistani airlines is inclined towards international traffic considering higher margins on those routes. Given the healthy demand outlook for passenger traffic, five new private airline operators have applied for Regular Public Transport (RPT) License to Civil Aviation Authority (CAA); one player (Air Sial) has already been granted license by CAA.

The list of upcoming airline operators is as follows:

1. Liberty Air
2. Go Green Airways
3. United Airways
4. Afeef Zara Airways
5. Air Sial (License granted by CAA)

OPPORTUNITIES

- ▲ PIA has been able to improve its market share in the domestic passenger segment through improved customer service, additional and convenient flight scheduling and better facilities, especially the Business Class among other initiatives.

- ▲ The arrival of private sector in the airline business has brought latest technology and innovative ideas and products in this field. The aviation sector achieved an impressive overall jump in market growth, reflected in the robust growth in air traffic.

- ▲ The airline industry provides services to virtually every segment of the country and plays an integral role in the development of economy. The airline industry itself is a major economic force, in terms of both its own operations and its impacts on related industries such as trade and tourism.

- ▲ Airlines through new marketing strategies, tightened belts, freezing on recruitments and aircraft induction can increases their opportunities for utilizing their best talents to retain their share of revenue, both in terms of passengers and cargo.

- ▲ Airline operations could be made cost-effective with the purchase of new smaller aircraft for domestic operations while using bigger aircraft on longer & traffic-oriented routes. This approach will not only help earn handsome revenues, but it will also enable to pay back the cost of new aircraft.

THREATS

- ▼ The accumulative losses of Pakistan International Airlines (PIA) are likely to cross Rs 48 billion in 2018 compared to around Rs 44 billion in 2017 due to rising fuel prices and exchange rate depreciation,

- From Eurozone to oil shocks, the aviation industry worldwide has had a difficult time juggling crisis in the past year. Unfortunately for the industry, little seems to have been changed in 2018. In its recent financial forecast, the International Air Transport Association has shown pessimism about the future of the aviation industry due to high fuel cost and European financial crisis.

- Local competitors to PIA: Airblue. It has been Airblue which has grown rapidly in a relatively short time. Airblue is operating with a fleet of 9AirbusA320/1 aircraft.

- Low aircraft utilization implies that capacity remains the number 1 threat to restoring profitability.

- The job-cuts and lack of business opportunities attributed to the low air traveling of Pakistanis from Gulf countries. Also, the eroding purchasing power and uncertain economic situation have kept away a significant number of regular passengers at bay.

- Globally, the Asia Pacific airlines are expected to account for one third of industry losses. The crisis has been further aggravated by the worldwide threat of terrorism, which coupled with economic recession, has dealt a severe blow to aviation industry.

- Stiff competition from the regional carriers and the depreciation of Pak Rupee as compared to US$ and financing cost on fleet and non-fleet loans severely hurt PIA.

- Due to security concerns the ratio of issuing visas for Pakistanis by the first world decreased alarmingly. This situation has made Pakistan an unfavorable destination for non-Pakistani travelers.

OUTLOOK

- The outlook for the local airline industry is blurred because of continued loss accumulation in the absence of any viable strategic option in PIA-the national carrier. **Outlook remains tenuous to negative**.

RANKING BY BUSINESS ENVIRONMENT

BY DEMAND VOLATILITY

Sector ranking, by the Demand Volatility (the variable is a representation of the level of certainty/ uncertainty in the demand of the products. This is mainly concerned with the expected volatility (seasonality) as well as unexpected volatility of the demand) is as follows:
Rank 1: Demand is largely steady
Rank 5: Highly volatile demand which fluctuates tremendously

S.NO.	SECTOR	RANK	% of Score	MAXIMUM SCORE	SCORE
1	Construction (General)	1	100	3.0	3.0
2	Construction (Infrastructure)	1	100	3.0	3.0
3	Financial Institutions	1	100	3.0	3.0
4	Sugar	1	100	3.0	3.0
5	Energy - Gas Generation & Distribution	2	80	3.0	2.4
6	Energy – Oil & GasExploration	2	80	3.0	2.4
7	Energy - Oil (Petroleum Distribution/Marketing)	2	80	3.0	2.4
8	Energy - Oil (Petroleum Refining)	2	80	3.0	2.4
9	Food, Beverages & Consumer Products	2	80	3.0	2.4
10	Glass & Ceramics	2	80	3.0	2.4
11	Metallic Products (Iron & Steel)	2	80	3.0	2.4
12	Telecommunications	2	80	3.0	2.4
13	Textiles - Synthetic Fibers/Polyester	2	80	3.0	2.4
14	Tobacco Products	2	80	3.0	2.4
15	Transport – Air	2	80	3.0	2.4
16	Textiles – Spinning	2	80	3.0	2.4
17	Textiles - Woven Apparel	2	80	3.0	2.4
18	Agro-Chemicals	3	60	3.0	1.8
19	Cement	3	60	3.0	1.8
20	Chemicals (inc. Plastic & Rubber Products)	3	60	3.0	1.8
21	Edible Oil	3	60	3.0	1.8
22	Energy - Power (Non Indigenous)	3	60	3.0	1.8
23	Fertilizers	3	60	3.0	1.8
24	Leather Products	3	60	3.0	1.8
25	Machinery & Equipment	3	60	3.0	1.8
26	Pharmaceuticals	3	60	3.0	1.8
27	Textiles – Composite	3	60	3.0	1.8
28	Automotive - Assemblers/Manufacturers	4	40	3.0	1.2
29	Automotive - Parts & Accessories	4	40	3.0	1.2
30	Energy - Power (Indigenous)	4	40	3.0	1.2
31	Sports Products	4	40	3.0	1.2
32	Surgical, Precision, Optical Equipment	4	40	3.0	1.2
33	Textiles - Fabrics (Weaving)	4	40	3.0	1.2
34	Textiles - Knits & Knit Apparel	4	40	3.0	1.2
35	Carpets & Rugs	5	20	3.0	0.6
36	Information Technology	5	20	3.0	0.6

BY SUPPLY VOLATILITY

Sector ranking, by the Supply Volatility, (the variable is a representation of the level of certainty/ uncertainty in the supply of key materials is as follows:
Rank 1: Supply is largely steady;
Rank 5: Highly volatile supply which fluctuates tremendously

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Construction (General)	1	100	3.0	3.0
2	Construction (Infrastructure)	1	100	3.0	3.0
3	Financial Institutions	1	100	3.0	3.0
4	Automotive - Assemblers/Manufacturers	2	80	3.0	2.4
5	Automotive - Parts & Accessories	2	80	3.0	2.4
6	Energy - Gas Generation & Distribution	2	80	3.0	2.4
7	Energy - Oil & Gas Exploration	2	80	3.0	2.4
8	Energy - Oil (Petroleum Distribution & Mrktg)	2	80	3.0	2.4
9	Energy - Oil (Petroleum Refining)	2	80	3.0	2.4
10	Energy - Power (Non Indigenous)	2	80	3.0	2.4
11	Food, Beverages & Consumer Products	2	80	3.0	2.4
12	Glass & Ceramics	2	60	3.0	1.8
13	Information Technology	2	80	3.0	2.4
14	Machinery & Equipment	2	80	3.0	2.4
15	Metallic Products (Iron & Steel)	2	80	3.0	2.4
16	Sports Products	2	80	3.0	2.4
17	Sugar	2	80	3.0	2.4
18	Surgical, Precision, Optical Equipment	2	80	3.0	2.4
19	Telecommunications	2	80	3.0	2.4
20	Textiles – Composite	2	80	3.0	2.4
21	Textiles - Fabrics (Weaving)	2	80	3.0	2.4
22	Textiles - Knits & Knit Apparel	2	80	3.0	2.4
23	Textiles – Spinning	2	80	3.0	2.4
24	Textiles - Synthetic Fibers/Polyester	2	80	3.0	2.4
25	Textiles - Woven Apparel	2	80	3.0	2.4
26	Tobacco Products	2	80	3.0	2.4
27	Transport – Air	2	80	3.0	2.4
28	Agro-Chemicals	3	60	3.0	1.8
29	Carpets & Rugs	3	60	3.0	1.8
30	Cement	3	60	3.0	1.8
31	Chemicals (inc. Plastic & Rubber Products)	3	60	3.0	1.8
32	Edible Oil	3	60	3.0	1.8
33	Energy - Power (Indigenous)	3	60	3.0	1.8
34	Fertilizers	3	60	3.0	1.8
35	Pharmaceuticals	3	60	3.0	1.8
36	Leather Products	3	60	3.0	1.8

BY CORPORATE GOVERNANCE & CONTROL STRUCTURE

Sector ranking, by the Corporate Governance & Control Structure (this variable assesses the extent of overall corporate governance and control structure and quality of compliance with generally accepted operating standards in the industry being a combination of certain factors) is as follows:
Rank 1: Enhanced standards of corporate governance & control structure required
Rank 5: Relatively informal governance & control structures required

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Energy - Gas Generation & Distribution	1	100	1.0	1.0
2	Financial Institutions	1	100	1.0	1.0
3	Food, Beverages & Consumer Products	1	100	1.0	1.0
4	Sports Products	1	100	1.0	1.0
5	Surgical, Precision, Optical Equipment	1	100	1.0	1.0
6	Telecommunications	1	100	1.0	1.0
7	Automotive - Assemblers/Manufacturers	2	80	1.0	0.8
8	Carpets & Rugs	2	80	1.0	0.8
9	Chemicals (inc. Plastic & Rubber Products)	2	80	1.0	0.8
10	Edible Oil	2	80	1.0	0.8
11	Energy - Oil & Gas Exploration	2	80	1.0	0.8
12	Energy - Oil (Petroleum Distribution/Marketing)	2	80	1.0	0.8
13	Energy - Oil (Petroleum Refining)	2	80	1.0	0.8
14	Energy – Power (Indigenous)	2	80	1.0	0.8
15	Energy – Power (Non Indigenous)	2	80	1.0	0.8
16	Fertilizers	2	80	1.0	0.8
17	Textiles - Synthetic Fibers/Polyester	2	80	1.0	0.8
18	Tobacco Products	2	80	1.0	0.8
19	Transport – Air	2	80	1.0	0.8
20	Textiles - Woven Apparel	2	80	1.0	0.8
21	Agro-Chemicals	3	60	1.0	0.6
22	Automotive - Parts & Accessories	3	60	1.0	0.6
23	Cement	3	60	1.0	0.6
24	Glass & Ceramics	3	60	1.0	0.6
25	Information Technology	3	60	1.0	0.6
26	Machinery & Equipment	3	60	1.0	0.6
27	Leather Products	3	60	1.0	0.6
28	Textiles - Fabrics (Weaving)	3	60	1.0	0.6
29	Construction (General)	4	40	1.0	0.4
30	Construction (Infrastructure)	4	40	1.0	0.4
31	Metallic Products (Iron & Steel)	4	40	1.0	0.4
32	Pharmaceuticals	4	40	1.0	0.4
33	Textiles – Composite	4	40	1.0	0.4
34	Textiles – Spinning	4	40	1.0	0.4
35	Sugar	5	20	1.0	0.2
36	Textiles - Knits & Knit Apparel	5	20	1.0	0.2

BY STRENGTH OF COMPETITION

Sector ranking, by the Strength of Competition (this factor assesses the strength of competition; number and size of players within the industry sector) is as follows:
Rank 1: Strength of Competition is low
Rank 5: Strength of Competition is high

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Energy - Gas Generation & Distribution	1	100	2.0	2.0
2	Chemicals (inc. Plastic & Rubber Products)	2	80	2.0	1.6
3	Energy - Oil & Gas Exploration	2	80	2.0	1.6
4	Energy - Oil (Petroleum Refining)	2	80	2.0	1.6
5	Energy - Power (Indigenous)	2	80	2.0	1.6
6	Energy - Power (Non Indigenous)	2	80	2.0	1.6
7	Glass & Ceramics	2	80	2.0	1.6
8	Machinery & Equipment	2	80	2.0	1.6
9	Metallic Products (Iron & Steel)	2	80	2.0	1.6
10	Pharmaceuticals	2	80	2.0	1.6
11	Automotive - Assemblers/Manufacturers	3	60	2.0	1.2
12	Automotive - Parts & Accessories	3	60	2.0	1.2
13	Cement	3	60	2.0	1.2
14	Construction (General)	3	60	2.0	1.2
15	Construction (Infrastructure)	3	60	2.0	1.2
16	Energy - Oil (Petroleum Distribution/Marketing)	3	60	2.0	1.2
17	Fertilizers	3	60	2.0	1.2
18	Financial Institutions	3	60	2.0	1.2
19	Food, Beverages & Consumer Products	3	60	2.0	1.2
20	Sports Products	3	60	2.0	1.2
21	Surgical, Precision, Optical Equipment	3	60	2.0	1.2
22	Textiles - Synthetic Fibers/Polyester	3	60	2.0	1.2
23	Transport – Air	3	60	2.0	1.2
24	Leather Products	3	60	2.0	1.2
25	Textiles – Spinning	3	60	2.0	1.2
26	Carpets & Rugs	4	40	2.0	0.8
27	Edible Oil	4	40	2.0	0.8
28	Information Technology	4	40	2.0	0.8
29	Textiles - Woven Apparel	4	40	2.0	0.8
30	Tobacco Products	4	40	2.0	0.8
31	Textiles - Fabrics (Weaving)	4	40	2.0	0.8
32	Agro-Chemicals	5	20	2.0	0.4
33	Sugar	5	20	2.0	0.4
34	Telecommunications	5	20	2.0	0.4
35	Textiles – Composite	5	20	2.0	0.4
36	Textiles - Knits & Knit Apparel	5	20	2.0	0.4

BY BARRIERS TO ENTRY

Sector ranking, by the Barriers to Entry (this variable assesses the possibility/ likelihood of entry by new participants in the industry taking into account the capital-intensive nature and extent of legal, constructive and technological barriers to the entry. This factor generally defines the dynamics of the competition within the industry) is as follows:
Rank 1: High Barriers to Entry
Rank 5: Low Barriers to Entry

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Energy - Gas Generation & Distribution	1	100	1.0	1.0
2	Sugar	1	100	1.0	1.0
3	Telecommunications	1	100	1.0	1.0
4	Construction (Infrastructure)	2	80	1.0	0.8
5	Energy - Oil & Gas Exploration	2	80	1.0	0.8
6	Energy - Oil (Petroleum Refining)	2	80	1.0	0.8
7	Energy - Power (Indigenous)	2	80	1.0	0.8
8	Energy - Power (Non Indigenous)	2	80	1.0	0.8
9	Fertilizers	2	80	1.0	0.8
10	Financial Institutions	2	80	1.0	0.8
11	Food, Beverages & Consumer Products	2	80	1.0	0.8
12	Machinery & Equipment	2	80	1.0	0.8
13	Metallic Products (Iron & Steel)	2	80	1.0	0.8
14	Cement	2	80	1.0	0.8
15	Sports Products	2	80	1.0	0.8
16	Surgical, Precision, Optical Equipment	2	80	1.0	0.8
17	Transport – Air	2	80	1.0	0.8
18	Leather Products	2	80	1.0	0.8
19	Textiles - Fabrics (Weaving)	2	80	1.0	0.8
20	Automotive - Assemblers/Manufacturers	3	60	1.0	0.6
21	Chemicals (inc. Plastic & Rubber Products)	3	60	1.0	0.6
22	Construction (General)	3	60	1.0	0.6
23	Energy - Oil (Petroleum Distribution/Marketing)	3	60	1.0	0.6
24	Glass & Ceramics	3	60	1.0	0.6
25	Pharmaceuticals	3	60	1.0	0.6
26	Textiles - Synthetic Fibers/Polyester	3	60	1.0	0.6
27	Textiles - Woven Apparel	3	60	1.0	0.6
28	Automotive - Parts & Accessories	4	40	1.0	0.4
29	Carpets & Rugs	4	40	1.0	0.4
30	Edible Oil	4	40	1.0	0.4
31	Information Technology	4	40	1.0	0.4
32	Tobacco Products	4	40	1.0	0.4
33	Agro-Chemicals	5	20	1.0	0.2
34	Textiles – Composite	5	20	1.0	0.2
35	Textiles - Knits & Knit Apparel	5	20	1.0	0.2
36	Textiles – Spinning	5	20	1.0	0.2

BY LITIGATIONS

Sector ranking, by the Litigations is as follows:
Rank 1: Likelihood of Litigations in the industry is low
Rank 5: Likelihood of Litigations in the industry is high

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Carpets & Rugs	2	80	1.0	0.8
2	Cement	2	80	1.0	0.8
3	Chemicals (inc. Plastic & Rubber Products)	2	80	1.0	0.8
4	Edible Oil	2	80	1.0	0.8
5	Energy - Gas Generation & Distribution	2	80	1.0	0.8
6	Energy - Oil & Gas Exploration	2	80	1.0	0.8
7	Fertilizers	2	80	1.0	0.8
8	Glass & Ceramics	2	80	1.0	0.8
9	Sports Products	2	80	1.0	0.8
10	Surgical, Precision, Optical Equipment	2	80	1.0	0.8
11	Leather Products	2	80	1.0	0.8
12	Agro-Chemicals	3	60	1.0	0.6
13	Energy - Oil (Petroleum Refining)	3	60	1.0	0.6
14	Food, Beverages & Consumer Products	3	60	1.0	0.6
15	Machinery & Equipment	3	60	1.0	0.6
16	Metallic Products (Iron & Steel)	3	60	1.0	0.6
17	Pharmaceuticals	3	60	1.0	0.6
18	Sugar	3	60	1.0	0.6
19	Telecommunications	3	60	1.0	0.6
20	Textiles - Synthetic Fibers/Polyester	3	60	1.0	0.6
21	Tobacco Products	3	60	1.0	0.6
22	Transport-Air	3	60	1.0	0.6
23	Textiles - Fabrics (Weaving)	3	60	1.0	0.6
24	Automotive - Assemblers/Manufacturers	4	40	1.0	0.4
25	Automotive - Parts & Accessories	4	40	1.0	0.4
26	Construction (General)	4	40	1.0	0.4
27	Construction (Infrastructure)	4	40	1.0	0.4
28	Energy - Oil (Petroleum Distribution/Marketing)	4	40	1.0	0.4
29	Energy - Power (Indigenous)	4	40	1.0	0.4
30	Energy - Power (Non Indigenous)	4	40	1.0	0.4
31	Financial Institutions	4	40	1.0	0.4
32	Information Technology	4	40	1.0	0.4
33	Textiles – Composite	4	40	1.0	0.4
34	Textiles - Knits & Knit Apparel	4	40	1.0	0.4
35	Textiles – Spinning	4	40	1.0	0.4
36	Textiles - Woven Apparel	4	40	1.0	0.4

BY PRICE ELASTICITY

Sector ranking, by the Price Elasticity (the variable represents the impact of price changes on the demand of the output) is as follows:

Rank 1: Low impact of price changes on the demand of output
Rank 5: High impact of price changes on the demand of output

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Construction (Infrastructure)	1	100	3.0	3.0
2	Energy - Gas Generation & Distribution	1	100	3.0	3.0
3	Energy - Oil (Petroleum Distribution/Marketing)	1	100	3.0	3.0
4	Energy - Oil (Petroleum Refining)	1	100	3.0	3.0
5	Construction (General)	2	80	3.0	2.4
6	Energy - Oil & Gas Exploration	2	80	3.0	2.4
7	Energy - Power (Indigenous)	2	80	3.0	2.4
8	Energy - Power (Non Indigenous)	2	80	3.0	2.4
9	Chemicals (inc. Plastic & Rubber Products)	3	60	3.0	1.8
10	Financial Institutions	3	60	3.0	1.8
11	Information Technology	3	60	3.0	1.8
12	Machinery & Equipment	3	60	3.0	1.8
13	Pharmaceuticals	3	60	3.0	1.8
14	Sugar	3	60	3.0	1.8
15	Agro-Chemicals	4	40	3.0	1.2
16	Automotive - Assemblers/Manufacturers	4	40	3.0	1.2
17	Automotive - Parts & Accessories	4	40	3.0	1.2
18	Carpets & Rugs	4	40	3.0	1.2
19	Cement	4	40	3.0	1.2
20	Edible Oil	4	40	3.0	1.2
21	Fertilizers	4	40	3.0	1.2
22	Food, Beverages & Consumer Products	4	40	3.0	1.2
23	Glass & Ceramics	4	40	3.0	1.2
24	Leather Products	4	40	3.0	1.2
25	Metallic Products (Iron & Steel)	4	40	3.0	1.2
26	Sports Products	4	40	3.0	1.2
27	Surgical, Precision, Optical Equipment	4	40	3.0	1.2
28	Telecommunications	4	40	3.0	1.2
29	Textiles – Composite	4	40	3.0	1.2
30	Tobacco Products	4	40	3.0	1.2
31	Textiles - Fabrics (Weaving)	4	40	3.0	1.2
32	Textiles – Spinning	4	40	3.0	1.2
33	Textiles - Knits & Knit Apparel	5	20	3.0	0.6
34	Textiles - Synthetic Fibers/Polyester	5	20	3.0	0.6
35	Textiles - Woven Apparel	5	20	3.0	0.6
36	Transport – Air	5	20	3.0	0.6

BY EXPOSURE (Foreign Exchange Risk)

Sector ranking, by the FX Risk (this is an assessment of the risk associated with the foreign exchange movements resulting in cash flow/ earnings risks) is as follows:

Rank 1: Low risk associated with foreign exchange movements
Rank 5: High risk associated with foreign exchange movements

S.NO.	SECTOR	RANK	% of	MAXIMUM SCORE	SCORE
1	Construction (General)	2	80	0.5	0.4
2	Construction (Infrastructure)	2	80	0.5	0.4
3	Energy - Gas Generation & Distribution	2	80	0.5	0.4
4	Financial Institutions	2	80	0.5	0.4
5	Food, Beverages & Consumer Products	2	80	0.5	0.4
6	Sugar	2	80	0.5	0.4
7	Telecommunications	2	80	0.5	0.4
8	Tobacco Products	2	80	0.5	0.4
9	Leather Products	2	80	0.5	0.4
10	Cement	3	60	0.5	0.3
11	Glass & Ceramics	3	60	0.5	0.3
12	Information Technology	3	60	0.5	0.3
13	Machinery & Equipment	3	60	0.5	0.3
14	Textiles - Fabrics (Weaving)	3	60	0.5	0.3
15	Textiles - Woven Apparel	3	60	0.5	0.3
16	Agro-Chemicals	4	40	0.5	0.2
17	Automotive - Assemblers/Manufacturers	4	40	0.5	0.2
18	Automotive - Parts & Accessories	4	40	0.5	0.2
19	Carpets & Rugs	4	40	0.5	0.2
20	Chemicals (inc. Plastic & Rubber Products)	4	40	0.5	0.2
21	Edible Oil	4	40	0.5	0.2
22	Energy - Oil & Gas Exploration	4	40	0.5	0.2
23	Energy - Oil (Petroleum Distribution/Marketing)	4	40	0.5	0.2
24	Energy - Oil (Petroleum Refining)	4	40	0.5	0.2
25	Energy - Power (Indigenous)	4	40	0.5	0.2
26	Energy - Power (Non Indigenous)	4	40	0.5	0.2
27	Fertilizers	4	40	0.5	0.2
28	Metallic Products (Iron & Steel)	4	40	0.5	0.2
29	Pharmaceuticals	4	40	0.5	0.2
30	Sports Products	4	40	0.5	0.2
31	Surgical, Precision, Optical Equipment	4	40	0.5	0.2
32	Textiles – Composite	4	40	0.5	0.2
33	Textiles - Knits & Knit Apparel	4	40	0.5	0.2
34	Textiles – Spinning	4	40	0.5	0.2
35	Textiles - Synthetic Fibers/Polyester	4	40	0.5	0.2
36	Transport – Air	4	40	0.5	0.2

BY EXPOSURE (Interest Rate Risk)

Sector ranking, by the IR Risk (this is an assessment of the risk associated with the rate fluctuations resulting in cash flow/ earnings risks. Highly leveraged industry faces a higher interest rate risk; links to Debt/Equity ratio. Higher D/E ratio means higher debt & high interest rate risk) is as follows:

Rank 1: Low risk associated with interest rate movements
Rank 5: High risk associated with interest rate movements

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Energy - Oil & Gas Exploration	1	100	0.5	0.5
2	Energy - Gas Generation & Distribution	1	100	0.5	0.5
3	Agro-Chemicals	2	80	0.5	0.4
4	Automotive - Parts & Accessories	2	80	0.5	0.4
5	Carpets & Rugs	2	80	0.5	0.4
6	Construction (General)	2	80	0.5	0.4
7	Construction (Infrastructure)	2	80	0.5	0.4
8	Energy - Oil (Petroleum Distribution/Marketing	2	80	0.5	0.4
9	Food, Beverages & Consumer Products	2	80	0.5	0.4
10	Information Technology	2	80	0.5	0.4
11	Leather Products	2	80	0.5	0.4
12	Sports Products	2	80	0.5	0.4
13	Surgical, Precision, Optical Equipment	2	80	0.5	0.4
14	Telecommunications	2	80	0.5	0.4
15	Textiles - Fabrics (Weaving)	2	80	0.5	0.4
16	Automotive - Assemblers/Manufacturers	3	60	0.5	0.3
17	Cement	3	60	0.5	0.3
18	Chemicals (inc. Plastic & Rubber Products)	3	60	0.5	0.3
19	Edible Oil	3	60	0.5	0.3
20	Glass & Ceramics	3	60	0.5	0.3
21	Machinery & Equipment	3	60	0.5	0.3
22	Metallic Products (Iron & Steel)	3	60	0.5	0.3
23	Pharmaceuticals	3	60	0.5	0.3
24	Textiles – Composite	3	60	0.5	0.3
25	Textiles - Knits & Knit Apparel	3	60	0.5	0.3
26	Textiles – Spinning	3	60	0.5	0.3
27	Textiles - Synthetic Fibers/Polyester	3	60	0.5	0.3
28	Textiles - Woven Apparel	3	60	0.5	0.3
29	Tobacco Products	3	60	0.5	0.3
30	Transport – Air	3	60	0.5	0.3
31	Energy - Oil (Petroleum Refining)	4	40	0.5	0.2
32	Energy-Power (Indigenous)	4	40	0.5	0.2
33	Energy-Power (Non Indigenous)	4	40	0.5	0.2
34	Fertilizers	4	40	0.5	0.2
35	Sugar	4	40	0.5	0.2
36	Financial Institutions	5	20	0.5	0.1

COMPOSITE RANKING BY BUSINESS ENVIRONMENT

Composite ranking, by the Business Environment, is as follows:

S.NO.	SECTOR	MAXIMUM SCORE	SCORE
1	Energy - Gas Generation & Distribution	15.0	14.1
2	Construction (Infrastructure)	15.0	12.6
3	Energy - Oil (Petroleum Refining)	15.0	12.6
4	Energy – Oil & Gas Exploration	15.0	12.5
5	Energy - Oil (Petroleum Distribution/Marketing)	15.0	12.0
6	Construction (General)	15.0	11.8
7	Energy - Power (Indigenous)	15.0	11.8
8	Financial Institutions	15.0	11.7
9	Energy - Power (Non Indigenous)	15.0	11.2
10	Cement	15.0	11.2
11	Food, Beverages & Consumer Products	15.0	10.4
12	Sugar	15.0	10.0
13	Metallic Products (Iron & Steel)	15.0	9.9
14	Machinery & Equipment	15.0	9.8
15	Telecommunications	15.0	9.8
16	Chemicals (inc. Plastic & Rubber Products)	15.0	9.7
17	Pharmaceuticals	15.0	9.5
18	Glass & Ceramics	15.0	9.4
19	Transport – Air	15.0	9.3
20	Tobacco Products	15.0	9.3
21	Sports Products	15.0	9.2
22	Surgical, Precision, Optical Equipment	15.0	9.2
23	Textiles - Synthetic Fibers/Polyester	15.0	9.1
24	Fertilizers	15.0	9.0
25	Leather Products	15.0	9.0
26	Textiles - Woven Apparel	15.0	8.5
27	Automotive - Assemblers/Manufacturers	15.0	8.3
28	Textiles - Fabrics (Weaving)	15.0	8.3
29	Edible Oil	15.0	8.1
30	Textiles – Spinning	15.0	8.1
31	Automotive - Parts & Accessories	15.0	8.0
32	Information Technology	15.0	7.7
33	Textiles – Composite	15.0	7.3
34	Agro-Chemicals	15.0	7.2
35	Carpets & Rugs	15.0	6.6
36	Textiles - Knits & Knit Apparel	15.0	5.9

RANKING BY PROFITABILITY & FINANCIAL STRENGTH

BY GEARING
BY INTEREST COVERAGE (EBIT/Interest Expense)

Rank 1: High ability to pay off interest expense
Rank 5: Less ability to pay off interest expense

S.NO.	SECTOR	EBIT	Interest Expense	Interest Coverage Ratio	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Tobacco Products	21,999	92	239.1	1	100	7.0	7.0
2	Energy - Oil & Gas Exploration	210,707	4,732	44.5	1	100	7.0	7.0
3	Pharmaceuticals	17,365	464	37.4	1	100	7.0	7.0
4	Information Technology	9,030	250	36.1	1	100	7.0	7.0
5	Telecommunications	22,028	904	24.4	1	100	7.0	7.0
6	Cement	63,403	3,813	16.6	1	100	7.0	7.0
7	Fertilizers	79,908	6,520	12.3	1	100	7.0	7.0
8	Machinery & Equipment	2981	264	11.3	1	100	7.0	7.0
9	Glass & Ceramics	4,521	436	10.4	1	100	7.0	7.0
10	Agro-Chemicals	19	2	9.5	1	100	7.0	7.0
11	Food, Beverages & Consumer Products	31,425	3,620	8.7	1	100	7.0	7.0
12	Energy - Oil (Petroleum Distribution/Marketing)	42,358	6,505	6.5	1	100	7.0	7.0
13	Construction (General/Infrastructure)	3,100	500	6.2	1	100	7.0	7.0
14	Textiles - Synthetic Fibers/Polyester	2,940	578	5.1	1	100	7.0	7.0
15	Sports Products	500	100	5.0	1	100	7.0	7.0
16	Energy-Power(Indigenous/Non Indigenous/Other)	85,922	19,113	4.5	2	80	7.0	5.6
17	Automotive - Parts & Accessories	2,258	529	4.3	2	80	7.0	5.6
18	Metallic Products (Iron & Steel)	14,164	3,493	4.1	2	80	7.0	5.6
19	Surgical, Precision, Optical Equipment	400	100	4.0	2	80	7.0	5.6
20	Chemicals (inc. Plastic & Rubber Products)	16,465	5,551	3.0	2	80	7.0	5.6
21	Textiles - Knits & Knit Apparel	2,043	720	2.8	3	60	7.0	4.2
22	Edible Oil	208	97	2.1	3	60	7.0	4.2
23	Automotive - Assemblers/Manufacturers	106,098	51,045	2.1	3	60	7.0	4.2
24	Energy - Gas Generation & Distribution	15,475	10,086	1.5	3	60	7.0	4.2
25	Financial Institutions	237,975	155,860	1.5	3	60	7.0	4.2
26	Carpets & Rugs	300	200	1.5	4	40	7.0	2.8
27	Textiles – Composite	20,227	15,941	1.3	4	40	7.0	2.8
28	Energy - Oil (Petroleum Refining)	5,552	8,160	0.7	4	40	7.0	2.8
29	Sugar	4,446	6,755	0.7	4	40	7.0	2.8
30	Textiles - Woven Apparel	4,212	8,425	0.5	4	40	7.0	2.8
31	Textiles – Spinning	395	33,676	0.01	5	20	7.0	1.4
32	Textiles - Fabrics (Weaving)	-649	800	-0.8	5	20	7.0	1.4
33	Transport-Air	-43,661	12,722	-3.4	5	20	7.0	1.4
34	Leather Products	-163	17	-9.6	5	20	7.0	1.4

BY DEBT COVERAGE (EBIT/Debt)

Rank 1: High ability to pay off Debt
Rank 5: Less ability to pay off Debt

S.NO.	SECTOR	EBIT	Debt	Debt Coverage Ratio	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Tobacco Products	21,999	19,281	1.1	1	100	6.0	6.0
2	Automotive - Assemblers/Manufacturers	106,098	134,548	0.8	2	80	6.0	4.8
3	Pharmaceuticals	17,365	23,322	0.7	2	80	6.0	4.8
4	Energy - Oil & Gas Exploration	210,707	384,222	0.5	2	80	6.0	4.8
5	Information Technology	9,030	16,820	0.5	2	80	6.0	4.8
6	Telecommunications	22,028	69,978	0.3	3	60	6.0	3.6
7	Glass & Ceramics	4,521	14,946	0.3	3	60	6.0	3.6
8	Construction (General/Infrastructure)	3,100	11,350	0.3	3	60	6.0	3.6
9	Sports Products	500	2000	0.3	3	60	6.0	3.6
10	Cement	63,403	260,121	0.2	3	60	6.0	3.6
11	Food, Beverages & Consumer Products	31,425	146,282	0.2	3	60	6.0	3.6
12	Metallic Products (Iron & Steel)	14,164	82,944	0.2	3	60	6.0	3.6
13	Fertilizers	79,908	469,949	0.2	3	60	6.0	3.6
14	Energy-Power(Indigenous/Non Indigenous/Other	85,922	512,251	0.2	3	60	6.0	3.6
15	Agro-Chemicals	19	130	0.1	3	60	6.0	3.6
16	Automotive - Parts & Accessories	2,258	16,791	0.1	3	60	6.0	3.6
17	Machinery & Equipment	2981	23989	0.1	3	60	6.0	3.6
18	Chemicals (inc. Plastic & Rubber Products)	16,465	138,635	0.1	3	60	6.0	3.6
19	Edible Oil	208	1847	0.1	3	60	6.0	3.6
20	Energy - Oil (Petroleum Distribution/Marketing)	42,358	397,376	0.1	3	60	6.0	3.6
21	Textiles – Composite	20,227	289,919	0.1	3	60	6.0	3.6
22	Surgical, Precision, Optical Equipment	400	6000	0.1	3	60	6.0	3.6
23	Textiles - Synthetic Fibers/Polyester	2,940	47,319	0.1	3	60	6.0	3.6
24	Carpets & Rugs	300	6500	0.05	4	40	6.0	2.4
25	Energy - Gas Generation & Distribution	15,475	442,480	0.03	4	40	6.0	2.4
26	Textiles - Knits & Knit Apparel	2,043	62,650	0.03	4	40	6.0	2.4
27	Sugar	4,446	147,479	0.03	4	40	6.0	2.4
28	Energy - Oil (Petroleum Refining)	5,552	210,332	0.03	4	40	6.0	2.4
29	Textiles - Woven Apparel	4,212	171,000	0.02	4	40	6.0	2.4
30	Financial Institutions	237,975	15,563,281	0.02	4	40	6.0	2.4
31	Textiles – Spinning	395	238,965	0.002	5	20	6.0	1.2
32	Transport-Air (PIA)	-43,661	276,706	-0.16	5	20	6.0	1.2
33	Leather Products	-163	35,000	-0.005	5	20	6.0	1.2
34	Textiles - Fabrics (Weaving)	-649	18,150	-0.04	5	20	6.0	1.2

BY DEBT/EQUITY

Sector ranking, by the Debt/Equity (measures industry's average gearing level) is as follows:
Rank 1: Gearing level is low
Rank 5: Gearing level is high

S.NO	SECTOR	Debt	Equity	Debt/Equity Ratio	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Tobacco Products	19,281	30,632	0.63	1	100	8.0	8.0
2	Agro-Chemicals	130	790	0.16	1	100	8.0	8.0
3	Cement	260,121	389,328	0.67	1	100	8.0	8.0
4	Machinery & Equipment	23,989	36,127	0.66	1	100	8.0	8.0
5	Financial Institutions	152,038	1,060,621	0.14	1	100	8.0	8.0
6	Pharmaceuticals	23,322	54,893	0.42	1	100	8.0	8.0
7	Sports Products	2,000	8,000	0.25	1	100	8.0	8.0
8	Surgical, Precision, Optical Equipment	6,000	14,000	0.43	1	100	8.0	8.0
9	Telecommunications	69,978	119,576	0.59	1	100	8.0	8.0
10	Information Technology	16,820	25,000	0.67	1	100	8.0	8.0
11	Energy - Oil & Gas Exploration	384,222	863,909	0.44	1	100	8.0	8.0
12	Glass & Ceramics	14,946	17,614	0.85	2	80	8.0	6.4
13	Construction (General/Infrastructure)	11,350	28,450	0.40	2	80	8.0	6.4
14	Food, Beverages & Consumer Products	146,282	83,219	1.76	2	80	8.0	6.4
15	Metallic Products (Iron & Steel)	82,944	66,977	1.24	3	60	8.0	4.8
16	Edible Oil	1,847	1,857	0.99	3	60	8.0	4.8
17	Fertilizers	469,949	377,065	1.25	4	40	8.0	3.2
18	Automotive - Assemblers/Manufacturers	134,548	119,346	1.13	4	40	8.0	3.2
19	Textiles - Synthetic Fibers/Polyester	47,319	33,058	1.43	4	40	8.0	3.2
20	Automotive - Parts & Accessories	16,791	15,421	1.09	4	40	8.0	3.2
21	Chemicals (inc. Plastic & Rubber Products)	138,635	89,336	1.55	4	40	8.0	3.2
22	Energy - Oil (Petroleum Refining)	210,332	116,854	1.80	4	40	8.0	3.2
23	Energy-Power(Indigenous/Non Indigenous)	512,251	436,094	1.17	4	40	8.0	3.2
24	Energy - Oil (Petroleum Distribution/Marketing)	397,376	148,305	2.68	4	40	8.0	3.2
25	Sugar	147,479	77,638	1.90	5	20	8.0	1.6
26	Textiles - Woven Apparel	171,000	72,600	2.36	5	20	8.0	1.6
27	Textiles – Spinning	238,965	112,032	2.13	5	20	8.0	1.6
28	Textiles – Composite	289,919	214,675	1.35	5	20	8.0	1.6
29	Textiles - Fabrics (Weaving)	18,150	10,125	1.79	5	20	8.0	1.6
30	Textiles - Knits & Knit Apparel	62,650	17,850	3.51	5	20	8.0	1.6
31	Carpets & Rugs	6,500	2,000	3.25	5	20	8.0	1.6
32	Leather Products	35,000	8,000	4.38	5	20	8.0	1.6
33	Energy - Gas Generation & Distribution	442,480	18,677	23.69	5	20	8.0	1.6
34	Transport-Air	276,707	-135,007	-2.05	5	20	8.0	1.6

BY LIQUIDITY
BY CURRENT RATIO

Sector ranking, by Current Ratio (assesses the industry's average measures of liquidity) is as follows:

Rank 1: Industry's average measure of liquidity is high
Rank 5: Industry's average measure of liquidity is low

S.NO.	SECTOR	Current Assets	Current Liabilities	Current Ratio	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Sports Products	6,000	1,600	3.75	1	100	8.0	8.0
2	Surgical, Precision, Optical Equipment	12,000	5,000	2.40	1	100	8.0	8.0
3	Energy - Oil & Gas Exploration	730,608	236,228	3.09	1	100	8.0	8.0
4	Automotive - Parts & Accessories	21,803	14,431	1.51	1	100	8.0	8.0
5	Agro-Chemicals	350	100	3.50	1	80	8.0	6.4
6	Information Technology	17,000	15,800	1.08	2	100	8.0	8.0
7	Pharmaceuticals	52,752	25,728	2.05	2	100	8.0	8.0
8	Automotive - Assemblers/Manufacturers	205,731	131,420	1.57	2	80	8.0	6.4
9	Tobacco Products	32,388	20,777	1.56	2	80	8.0	6.4
10	Energy - Oil (Petroleum Distribution/Marketing	481,753	386,148	1.25	2	60	8.0	4.8
11	Construction (General/Infrastructure)	15,450	10,350	1.49	2	40	8.0	3.2
12	Metallic Products (Iron & Steel)	69,596	58,383	1.19	2	40	8.0	3.2
13	Energy – Power(Indigenous/Non Indigenous)	487,494	409,313	1.19	2	40	8.0	3.2
14	Machinery & Equipment	32,723	21,384	1.53	3	80	8.0	6.4
15	Edible Oil	2,574	1,675	1.54	3	80	8.0	6.4
16	Cement	180,867	131,152	1.38	3	60	8.0	4.8
17	Fertilizers	286,515	219,948	1.30	3	60	8.0	4.8
18	Glass & Ceramics	14,921	11,657	1.28	3	60	8.0	4.8
19	Textiles – Composite	246,142	216,878	1.13	3	40	8.0	3.2
20	Financial Institutions	14,271,252	13,258,490	1.08	3	40	8.0	3.2
21	Food, Beverages & Consumer Products	86,614	88,017	0.98	3	40	8.0	3.2
22	Energy - Gas Generation & Distribution	267,094	280,714	0.95	3	20	8.0	1.6
23	Chemicals (inc. Plastic & Rubber Products)	94,889	99,120	0.96	3	20	8.0	1.6
24	Energy - Oil (Petroleum Refining)	138,123	165,452	0.83	3	20	8.0	1.6
25	Telecommunications	92,303	125,892	0.73	3	20	8.0	1.6
26	Leather Products	38,000	34,800	1.09	4	40	8.0	3.2
27	Sugar	96,184	104,717	0.92	4	20	8.0	1.6
28	Textiles - Fabrics (Weaving)	13,260	14,715	0.90	5	100	8.0	8.0
29	Carpets & Rugs	4,000	5,500	0.73	5	40	8.0	3.2
30	Textiles - Woven Apparel	155,400	160,000	0.97	5	20	8.0	1.6
31	Textiles - Synthetic Fibers/Polyester	32,010	38,104	0.84	5	20	8.0	1.6
32	Textiles - Knits & Knit Apparel	33,600	48,300	0.70	5	20	8.0	1.6
33	Textiles – Spinning	104,611	146,236	0.72	5	20	8.0	1.6
34	Transport-Air	35,836	195,582	0.18	5	20	8.0	1.6

BY QUICK RATIO

Sector ranking, by Quick Ratio (assesses the industry's average measures of liquidity) is as follows:
Rank 1: Industry's average measure of liquidity is high
Rank 5: Industry's average measure of liquidity is low

S.NO	SECTOR	C&BB	TD	STI	CL	Quick Ratio	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)	(Rs.Mln)	(Rs.Mln)					
1	Sports Products	1,800	1,800	0	1,600	2.25	1	100	7.0	7.0
2	Energy - Oil & Gas Exploration	40,187	409,865	22,510	236,228	2.00	1	100	7.0	7.0
3	Surgical, Precision, Optical Equipment	5,500	2,720	0	5,000	1.64	1	100	7.0	7.0
4	Glass & Ceramics	2,571	3,072	10,994	11,657	1.43	2	80	7.0	5.6
5	Energy-Power(Indigenous/Non Indigenous)	17,762	385,513	3,070	409,313	0.99	2	80	7.0	5.6
6	Pharmaceuticals	11,461	8,931	627	25,728	0.82	2	80	7.0	5.6
7	Construction (General/Infrastructure)	2,000	6,250	100	10,350	0.81	2	80	7.0	5.6
8	Energy - Oil (Petroleum Dist/Mkt)	24,451	276,672	1,641	386,148	0.78	2	80	7.0	5.6
9	Financial Institutions	1,193,615	152,038	7,795,178	13,528,490	0.68	2	80	7.0	5.6
10	Automotive - Assemblers/Manufacturers	36,677	5,214	62,111	131,420	0.79	3	60	7.0	4.2
11	Fertilizers	19,972	14,460	127,971	219,948	0.74	3	60	7.0	4.2
12	Edible Oil	44	1,196	-	1,720	0.72	3	60	7.0	4.2
13	Machinery & Equipment	5,044	10,288	0	21,384	0.72	3	60	7.0	4.2
14	Agro-Chemicals	270	44	0	500	0.63	3	60	7.0	4.2
15	Information Technology	1,970	7,830	0	15,800	0.62	3	60	7.0	4.2
16	Automotive - Parts & Accessories	1,404	6,162	867	14,431	0.58	3	60	7.0	4.2
17	Textiles - Woven Apparel	20,000	45,796	-	160,000	0.41	3	60	7.0	4.2
18	Energy - Oil (Petroleum Refining)	23,817	36,463	985	165,452	0.36	3	60	7.0	4.2
19	Cement	33,520	12,476	6,736	131,152	0.35	3	60	7.0	4.2
20	Textiles – Composite	3,670	56,757	10,278	216,878	0.33	3	60	7.0	4.2
21	Telecommunications	17,408	22,089	6,747	125,892	0.31	3	60	7.0	4.2
22	Food, Beverages & Consumer Products	12,111	8,644	6,537	88,017	0.31	3	60	7.0	4.2
23	Chemicals (inc. Plastic & Rubber Products)	11,080	18,249	7,870	99,120	0.30	3	60	7.0	4.2
24	Energy - Gas Generation & Distribution	7,075	66,314	0	280,714	0.26	3	60	7.0	4.2
25	Leather Products	50	24,000	0	34,800	0.69	4	40	7.0	2.8
26	Textiles - Fabrics (Weaving)	375	3,200	45	5,675	0.64	4	40	7.0	2.8
27	Carpets & Rugs	500	2,500	0	5,500	0.55	4	40	7.0	2.8
28	Textiles - Knits & Knit Apparel	1,600	24,000	0	48,300	0.53	4	40	7.0	2.8
29	Textiles – Spinning	2,714	24,599	2,255	146,236	0.20	4	40	7.0	2.8
30	Metallic Products (Iron & Steel)	2,149	7,329	486	58,383	0.17	4	40	7.0	2.8
31	Sugar	6,114	8,522	2,321	104,717	0.14	4	40	7.0	2.8
32	Transport-Air	4,815	13,780	34	195,582	0.10	4	40	7.0	2.8
33	Textiles - Synthetic Fibers/Polyester	411	3,594	160	38,104	0.11	4	40	7.0	2.8
34	Tobacco Products	710	294	6,763	20,777	0.05	5	20	7.0	1.4

BY CASH RATIO

Sector ranking, by Cash Ratio (assesses the industry's average measures of liquidity) is as follows:
Rank 1: Industry's average measure of liquidity is high
Rank 5: Industry's average measure of liquidity is low

S.NO	SECTOR	C&BB	CL	Cash Ratio	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Agro-Chemicals	270	100	2.70	1	100	4.0	4.0
2	Sports Products	1,800	1,600	1.13	1	100	4.0	4.0
3	Surgical, Precision, Optical Equipment	5,500	5,000	1.10	1	100	4.0	4.0
4	Pharmaceuticals	11,461	25,728	0.45	2	80	4.0	3.2
5	Automotive - Assemblers/Manufacturers	36,677	131,420	0.28	3	60	4.0	2.4
6	Cement	33,520	131,152	0.26	3	60	4.0	2.4
7	Machinery & Equipment	5,044	21,384	0.24	3	60	4.0	2.4
8	Glass & Ceramics	2,571	11,657	0.22	3	60	4.0	2.4
9	Construction (General/Infrastructure)	2,000	10,350	0.19	3	60	4.0	2.4
10	Energy - Oil & Gas Exploration	40,187	236,228	0.17	3	60	4.0	2.4
11	Energy - Oil (Petroleum Refining)	23,817	165,452	0.14	3	60	4.0	2.4
12	Telecommunications	17,408	125,892	0.14	3	60	4.0	2.4
13	Food, Beverages & Consumer Products	12,111	88,017	0.14	3	60	4.0	2.4
14	Textiles - Woven Apparel	20,000	160,000	0.13	3	60	4.0	2.4
15	Information Technology	1,970	15,800	0.12	3	60	4.0	2.4
16	Chemicals (inc. Plastic & Rubber Products)	11,080	99,120	0.11	3	60	4.0	2.4
17	Automotive - Parts & Accessories	1,404	14,431	0.10	3	60	4.0	2.4
18	Carpets & Rugs	500	5,500	0.09	4	40	4.0	1.6
19	Fertilizers	19,972	219,948	0.09	4	40	4.0	1.6
20	Financial Institutions	1,193,615	13,258,490	0.09	4	40	4.0	1.6
21	Energy - Oil (Petroleum Distribution/Marketing)	24,451	386,148	0.06	4	40	4.0	1.6
22	Sugar	6,114	104,717	0.06	4	40	4.0	1.6
23	Energy-Power(Indigenous/Non Indigenous)	17,762	409,313	0.04	4	40	4.0	1.6
24	Metallic Products (Iron & Steel)	2,149	58,383	0.04	4	40	4.0	1.6
25	Tobacco Products	710	20,777	0.03	4	40	4.0	1.6
26	Textiles - Knits & Knit Apparel	1,600	48,300	0.03	4	40	4.0	1.6
27	Edible Oil	44	1,675	0.03	4	40	4.0	1.6
28	Textiles - Fabrics (Weaving)	375	14,715	0.03	4	40	4.0	1.6
29	Energy - Gas Generation & Distribution	7,075	280,714	0.03	4	40	4.0	1.6
30	Textiles – Spinning	2,714	146,236	0.02	4	40	4.0	1.6
31	Textiles – Composite	3,670	216,878	0.02	4	40	4.0	1.6
32	Transport-Air	4,815	195,582	0.02	4	40	4.0	1.6
33	Textiles - Synthetic Fibers/Polyester	411	38,104	0.011	5	20	4.0	0.8
34	Leather Products	50	34,800	0.001	5	20	4.0	0.8

BY PROFITABILITY
BY NET PROFIT MARGIN

Sector ranking, by Net Profit Margin (profit margin and analysis of its stability and growth is important when deciding whether the sector will sustain its status as going concern) is as follows:
Rank 1: High Profit Margins
Rank 5: Low Profit Margins

S.NO.	SECTOR	NPAT	Sales	Net Profit Margin (%)	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Information Technology	8,990	21,615	41.59	1	100	7.0	7.0
2	Energy - Oil & Gas Exploration	151,182	404,886	37.34	1	100	7.0	7.0
3	Financial Institutions	142,755	619,141	23.06	1	100	7.0	7.0
4	Cement	57,034	333,370	17.11	1	100	7.0	7.0
5	Fertilizers	54,744	380,231	14.40	1	100	7.0	7.0
6	Construction (General/Infrastructure)	2,600	19,250	13.51	1	100	7.0	7.0
7	Pharmaceuticals	12,566	93,182	13.49	1	100	7.0	7.0
8	Automotive - Assemblers/Manufacturers	56,551	492,318	11.49	1	100	7.0	7.0
9	Energy – Power(Indigenous/Non Indigenous)	55,339	496,281	11.15	1	100	7.0	7.0
10	Glass & Ceramics	3,935	35,943	10.95	1	100	7.0	7.0
11	Agro-Chemicals	16	150	10.67	1	100	7.0	7.0
12	Tobacco Products	9,954	127,517	7.81	2	80	7.0	5.6
13	Metallic Products (Iron & Steel)	11,058	143,787	7.69	2	80	7.0	5.6
14	Food, Beverages & Consumer Products	21,093	290,087	7.27	2	80	7.0	5.6
15	Chemicals (inc. Plastic & Rubber Products)	11,282	236,449	4.77	2	80	7.0	5.6
16	Textiles – Composite	17,645	402,852	4.38	2	80	7.0	5.6
17	Machinery & Equipment	1,796	46,819	3.84	2	80	7.0	5.6
18	Telecommunications	16,713	473,395	3.53	2	80	7.0	5.6
19	Automotive - Parts & Accessories	1,548	46,599	3.32	2	80	7.0	5.6
20	Textiles - Synthetic Fibers/Polyester	2,153	78,511	2.74	2	80	7.0	5.6
21	Energy - Gas Generation & Distribution	11,121	446,765	2.49	2	80	7.0	5.6
22	Sugar	3,302	183,673	1.80	3	60	7.0	4.2
23	Energy - Oil (Petroleum Distribution/Marketing)	26,628	1,655,699	1.61	3	60	7.0	4.2
24	Carpets & Rugs	100	8,317	1.20	4	40	7.0	2.8
25	Edible Oil	81	8,430	0.96	4	40	7.0	2.8
26	Sports Products	300	37,710	0.80	4	40	7.0	2.8
27	Textiles - Knits & Knit Apparel	1,682	298,374	0.56	4	40	7.0	2.8
28	Textiles - Woven Apparel	2,295	421,279	0.54	4	40	7.0	2.8
29	Surgical, Precision, Optical Equipment	200	41,618	0.48	4	40	7.0	2.8
30	Energy - Oil (Petroleum Refining)	2,858	622,166	0.46	4	40	7.0	2.8
31	Textiles – Spinning	-728	215,712	-0.34	5	20	7.0	1.4
32	Leather Products	-164	36,330	-0.45	5	20	7.0	1.4
33	Textiles - Fabrics (Weaving)	-940	37,800	-2.49	5	20	7.0	1.4
34	Transport – Air	-45,096	142,765	-31.59	5	20	7.0	1.4

BY TOTAL ASSETS TURNOVER

Sector ranking, by Total Assets Turnover (assesses the industry's average turnover) is as follows:
Rank 1: The industry is sufficiently using its assets in generating revenues
Rank 5: The industry is inefficient in generating revenues

S.NO	SECTOR	Sales	Total Assets	Asset Turnover Ratio	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Sports Products	37,710	10,000	3.77	1	100	2.0	2.0
2	Textiles - Knits & Knit Apparel	298,374	80,500	3.71	1	100	2.0	2.0
3	Energy-Oil (Petroleum Dist/Mkt)	1,655,699	545,681	3.03	1	100	2.0	2.0
4	Energy - Oil (Petroleum Refining)	622,166	210,413	2.96	1	100	2.0	2.0
5	Tobacco Products	127,517	48,707	2.62	1	100	2.0	2.0
6	Edible Oil	8,430	3,704	2.28	1	100	2.0	2.0
7	Surgical, Precision, Optical Equipment	41,618	20,000	2.08	1	100	2.0	2.0
8	Automotive - Assemblers/Manufacturers	492,318	253,895	1.94	2	80	2.0	1.6
9	Telecommunications	473,395	246,232	1.92	2	80	2.0	1.6
10	Textiles - Woven Apparel	421,279	243,600	1.73	2	80	2.0	1.6
11	Food, Beverages & Consumer Products	290,087	207,979	1.39	2	80	2.0	1.6
12	Textiles - Fabrics (Weaving)	37,800	28,275	1.34	2	80	2.0	1.6
13	Pharmaceuticals	93,182	83,249	1.12	2	80	2.0	1.6
14	Chemicals (inc. Plastic & Rubber Products)	236,449	224,431	1.05	2	80	2.0	1.6
15	Glass & Ceramics	35,943	34,271	1.05	2	80	2.0	1.6
16	Automotive - Parts & Accessories	46,599	32,213	1.00	2	80	2.0	1.6
17	Textiles - Synthetic Fibers/Polyester	78,511	80,057	0.98	3	60	2.0	1.2
18	Carpets & Rugs	8,317	8,500	0.98	3	60	2.0	1.2
19	Energy - Gas Generation & Distribution	446,765	461,157	0.97	3	60	2.0	1.2
20	Metallic Products (Iron & Steel)	143,787	149,922	0.96	3	60	2.0	1.2
21	Transport – Air	142,765	150,057	0.95	3	60	2.0	1.2
22	Leather Products	36,330	43,000	0.84	3	60	2.0	1.2
23	Sugar	183,673	222,361	0.83	3	60	2.0	1.2
24	Textiles – Composite	402,852	514,069	0.78	3	60	2.0	1.2
25	Machinery & Equipment	46,819	60,116	0.78	3	60	2.0	1.2
26	Textiles – Spinning	215,712	301,013	0.72	4	40	2.0	0.8
27	Energy-Power(Indigenous/Non Indigenous)	496,281	739,810	0.67	4	40	2.0	0.8
28	Fertilizers	380,231	729,390	0.52	4	40	2.0	0.8
29	Information Technology	21,615	41,820	0.52	4	40	2.0	0.8
30	Cement	333,370	653,626	0.51	4	40	2.0	0.8
31	Construction (General/Infrastructure/Sovereig	19,250	39,800	0.48	4	40	2.0	0.8
32	Energy - Oil & Gas Exploration	404,886	1,248,130	0.32	4	40	2.0	0.8
33	Agro-Chemicals	150	920	0.16	4	40	2.0	0.8
34	Financial Institutions	619,141	16,623,902	0.04	5	20	2.0	0.4

BY ROA & ROE

Sector ranking, by ROA/ROE (assesses the industry's average measures of profitability) is as follows:

Rank 1: Industry's average measure of profitability is high
Rank 5: Industry's average measure of profitability is low

S.NO.	SECTOR	Net Profit	Total Assets	Total Equity	ROA %	ROE %	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)	(Rs.Mln)						
1	Automotive - Assemblers/Manufacturers	56,551	253,895	119,346	22.27	47.38	1	100	7.0	7.0
2	Information Technology	8,990	41,820	25,000	21.50	35.96	1	100	7.0	7.0
3	Tobacco Products	9,954	48,707	30,632	20.44	32.50	1	100	7.0	7.0
4	Pharmaceuticals	12,566	83,249	54,893	15.09	22.89	1	100	7.0	7.0
5	Energy - Oil & Gas Exploration	151,182	1,248,130	863,909	12.11	17.50	1	100	7.0	7.0
6	Glass & Ceramics	3,935	34,271	17,614	11.48	22.34	1	80	7.0	7.0
7	Food, Beverages & Consumer Products	21,093	207,979	83,219	10.14	25.35	1	100	7.0	7.0
8	Surgical, Precision, Optical Equipment	200	2,000	1,400	10.00	14.29	1	60	7.0	7.0
9	Cement	57,034	653,626	389,328	8.73	14.65	2	80	7.0	5.6
10	Fertilizers	54,744	729,390	377,065	7.51	14.52	2	80	7.0	5.6
11	Energy – Power(Indigenous/Non Indigenous	55,339	739,810	436,094	7.48	12.69	2	80	7.0	5.6
12	Energy - Gas Generation & Distribution	11,121	461,157	18,677	2.41	59.54	2	80	7.0	5.6
13	Metallic Products (Iron & Steel)	11,058	149,922	66,977	7.38	16.51	2	80	7.0	5.6
14	Telecommunications	16,713	246,232	119,576	6.79	13.98	2	80	7.0	5.6
15	Construction (General/Infrastructure/Sovereig	2,600	39,800	28,450	6.53	9.14	2	60	7.0	5.6
16	Chemicals (inc. Plastic & Rubber Products)	11,282	224,431	89,336	5.03	12.63	2	80	7.0	5.6
17	Energy - Oil (Petroleum Dist/Mkt)	26,628	545,681	148,305	4.88	17.95	2	80	7.0	5.6
18	Automotive - Parts & Accessories	1,548	32,213	15,421	4.81	10.04	2	80	7.0	5.6
19	Textiles – Composite	17,645	514,069	214,675	3.43	8.22	2	80	7.0	5.6
20	Sports Products	300	10,000	8,000	3.00	3.75	2	80	7.0	5.6
21	Machinery & Equipment	1,796	60,116	36,127	2.99	4.97	3	60	7.0	4.2
22	Textiles - Synthetic Fibers/Polyester	2,153	80,057	33,058	2.69	6.51	3	60	7.0	4.2
23	Edible Oil	81	3,704	1,857	2.19	4.36	4	40	7.0	2.8
24	Textiles - Knits & Knit Apparel	1,682	80,500	17,850	2.09	9.42	4	40	7.0	2.8
25	Agro-Chemicals	16	920	790	1.74	2.03	4	40	7.0	2.8
26	Sugar	3,302	222,361	77,638	1.48	4.25	4	40	7.0	2.8
27	Energy - Oil (Petroleum Refining)	2,858	210,413	116,854	1.36	2.45	4	40	7.0	2.8
28	Carpets & Rugs	100	8,000	2,000	1.25	5.00	5	20	7.0	1.4
29	Textiles - Woven Apparel	2,295	243,600	72,600	0.94	3.16	5	20	7.0	1.4
30	Financial Institutions	142,755	16,623,902	1,060,621	0.86	13.46	5	20	7.0	1.4
31	Textiles – Spinning	-728	301,013	112,032	-0.24	-0.65	5	20	7.0	1.4
32	Textiles - Fabrics (Weaving)	-940	28,275	10,125	-3.32	-9.28	5	20	7.0	1.4
33	Transport – Air	-45,096	150,057	-135,007	-30.05	33.40	5	20	7.0	1.4
34	Leather Products	-164	219	-787	-74.89	20.84	5	20	7.0	1.4

BY SOLVENCY

Sector ranking, by Solvency (this is an assessment of the relative ease with which the borrowers in industry in general might be able to raise funds from the external market based on various factors. If major organizations in the industry have backing from other organizations, or organizations are part of groups or conglomerates, the industry is more likely to survive an economic catastrophe) is as follows:
Rank 1: Less dependent on funding/guarantee support
Rank 5: Highly dependent on funding/guarantee support

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Energy - Gas Generation & Distribution	1	100	4.0	4.0
2	Energy - Oil & Gas Exploration	1	100	4.0	4.0
3	Sports Products	1	100	4.0	4.0
4	Surgical, Precision, Optical Equipment	1	100	4.0	4.0
5	Carpets & Rugs	1	100	4.0	4.0
6	Fertilizers	1	100	4.0	4.0
7	Automotive-Assemblers/Manufacturers	2	80	4.0	3.2
8	Agro-Chemicals	2	80	4.0	3.2
9	Construction (General/Infrastructure)	2	80	4.0	3.2
10	Financial Institutions	2	80	4.0	3.2
11	Food, Beverages & Consumer Products	2	80	4.0	3.2
12	Energy - Oil (Petroleum Refining)	2	80	4.0	3.2
13	Energy-Power(Indigenous/Non Indigenous)	2	60	4.0	3.2
14	Information Technology	2	80	4.0	3.2
15	Pharmaceuticals	2	80	4.0	3.2
16	Tobacco Products	2	80	4.0	3.2
17	Edible Oil	3	60	4.0	2.4
18	Glass & Ceramics	3	60	4.0	2.4
19	Textiles – Spinning	3	60	4.0	2.4
20	Cement	3	60	4.0	2.4
21	Energy - Oil (Petroleum Dist/Mkt)	3	60	4.0	2.4
22	Leather Products	3	60	4.0	2.4
23	Textiles - Fabrics (Weaving)	3	60	4.0	2.4
24	Automotive-Parts & Accessories	3	60	4.0	2.4
25	Metallic Products (Iron & Steel)	3	60	4.0	2.4
26	Chemicals (inc. Plastic & Rubber Products)	4	40	4.0	1.6
27	Textiles – Composite	4	40	4.0	1.6
28	Sugar	4	40	4.0	1.6
29	Telecommunications	4	40	4.0	1.6
30	Textiles - Knits & Knit Apparel	4	40	4.0	1.6
31	Textiles - Woven Apparel	4	40	4.0	1.6
32	Transport – Air	4	40	4.0	1.6
33	Machinery & Equipment	4	40	4.0	1.6
34	Textiles - Synthetic Fibers/Polyester	5	20	4.0	0.8

COMPOSITE RANKING BY PROFITABILITY/FINANCIAL STRENGTH

S.NO.	SECTOR	MAXIMUM SCORE	SCORE
1	Energy - Oil & Gas Exploration	60.0	56.0
2	Pharmaceuticals	60.0	53.8
3	Sports Products	60.0	52.0
4	Surgical, Precision, Optical Equipment	60.0	52.0
5	Information Technology	60.0	50.8
6	Agro-Chemicals	60.0	48.6
7	Tobacco Products	60.0	48.2
8	Construction (General/Infrastructure)	60.0	48.0
9	Glass & Ceramics	60.0	47.8
10	Cement	60.0	45.8
11	Food, Beverages & Consumer Products	60.0	45.8
12	Telecommunications	60.0	44.4
13	Automotive-Assemblers/Manufacturers	60.0	44.0
14	Financial Institutions	60.0	42.9
15	Machinery & Equipment	60.0	42.6
16	Energy-Power(Indigenous/Non Indigenous/Other)	60.0	42.6
17	Automotive-Parts & Accessories	60.0	42.2
18	Fertilizers	60.0	41.8
19	Energy - Oil (Petroleum Distribution/Marketing)	60.0	41.6
20	Metallic Products (Iron & Steel)	60.0	39.6
21	Chemicals (inc. Plastic & Rubber Products)	60.0	38.2
22	Energy - Gas Generation & Distribution	60.0	35.2
23	Edible Oil	60.0	33.2
24	Textiles – Composite	60.0	32.6
25	Textiles - Synthetic Fibers/Polyester	60.0	30.8
26	Energy - Oil (Petroleum Refining)	60.0	30.6
27	Sugar	60.0	24.2
28	Textiles - Knits & Knit Apparel	60.0	23.4
29	Textiles - Woven Apparel	60.0	22.4
30	Carpets & Rugs	60.0	22.2
31	Leather Products	60.0	18.8
32	Textiles - Fabrics (Weaving)	60.0	17.0
33	Textiles – Spinning	60.0	16.2
34	Transport-Air (PIA)	60.0	15.8

BY BUSINESS OUTLOOK & MACROENVIRONMENT

BY BUSINESS OUTLOOK

Sector ranking, by Business Outlook (this represents an assessment of the industry outlook in terms of expansion / contraction of business, earnings and cash flows etc) is as follows:
Rank 1: Business outlook is stable
Rank 5: Business outlook is unstable

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Sugar	1	100	12.0	12.0
2	Energy - Gas Generation & Distribution	1	100	12.0	12.0
3	Automotive - Assemblers/Manufacturers	2	80	12.0	9.6
4	Automotive - Parts & Accessories	2	80	12.0	9.6
5	Cement	2	80	12.0	9.6
6	Construction (Infrastructure)	2	80	12.0	9.6
7	Energy - Oil & Gas Exploration	2	80	12.0	9.6
8	Energy-Power (Indigenous)	2	80	12.0	9.6
9	Financial Institutions	2	80	12.0	9.6
10	Food, Beverages & Consumer Products	2	80	12.0	9.6
11	Glass & Ceramics	2	80	12.0	9.6
12	Sports Products	2	80	12.0	9.6
13	Surgical, Precision, Optical Equipment	2	80	12.0	9.6
14	Textiles - Synthetic Fibers/Polyester	2	80	12.0	9.6
15	Transport-Air	2	80	12.0	9.6
16	Textiles – Spinning	2	80	12.0	9.6
17	Agro-Chemicals	3	60	12.0	7.2
18	Chemicals (inc. Plastic & Rubber Products)	3	60	12.0	7.2
19	Construction (General)	3	60	12.0	7.2
20	Edible Oil	3	60	12.0	7.2
21	Energy - Oil (Petroleum Distribution/Marketing)	3	60	12.0	7.2
22	Energy - Oil (Petroleum Refining)	3	60	12.0	7.2
23	Energy-Power (Non Indigenous)	3	60	12.0	7.2
24	Fertilizers	3	60	12.0	7.2
25	Information Technology	3	60	12.0	7.2
26	Machinery & Equipment	3	60	12.0	7.2
27	Metallic Products (Iron & Steel)	3	60	12.0	7.2
28	Pharmaceuticals	3	60	12.0	7.2
29	Telecommunications	3	60	12.0	7.2
30	Textiles – Composite	3	60	12.0	7.2
31	Tobacco Products	3	60	12.0	7.2
32	Textiles - Fabrics (Weaving)	3	60	12.0	7.2
33	Textiles - Woven Apparel	3	60	12.0	7.2
34	Textiles - Knits & Knit Apparel	4	40	12.0	4.8
35	Carpets & Rugs	4	40	12.0	4.8
36	Leather Products	4	40	12.0	4.8

BY INDUSTRY/BUSINESS LIFE CYCLE

Sector ranking, by Industry/Business Life Cycle (the factor is an assessment of the stage of life cycle of the industry. This is critical to evaluate the business future growth, stability or decline) is as follows:
Rank 1: Business Life Cycle is largely steady
Rank 5: Business Life Cycle is unsteady

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Energy - Gas Generation & Distribution	1	100	3.0	3.0
2	Energy - Oil & Gas Exploration	1	100	3.0	3.0
3	Energy - Oil (Petroleum Refining)	1	100	3.0	3.0
4	Sports Products	1	100	3.0	3.0
5	Surgical, Precision, Optical Equipment	1	100	3.0	3.0
6	Cement	1	80	3.0	2.4
7	Chemicals (inc. Plastic & Rubber Products)	2	80	3.0	2.4
8	Edible Oil	2	80	3.0	2.4
9	Energy - Oil (Petroleum Distribution/Marketing)	2	80	3.0	2.4
10	Energy-Power (Indigenous)	2	80	3.0	2.4
11	Energy-Power (Non Indigenous)	2	80	3.0	2.4
12	Fertilizers	2	80	3.0	2.4
13	Financial Institutions	2	80	3.0	2.4
14	Food, Beverages & Consumer Products	2	80	3.0	2.4
15	Machinery & Equipment	2	80	3.0	2.4
16	Pharmaceuticals	2	80	3.0	2.4
17	Telecommunications	2	80	3.0	2.4
18	Tobacco Products	2	80	3.0	2.4
19	Leather Products	2	80	3.0	2.4
20	Textiles - Fabrics (Weaving)	2	80	3.0	2.4
21	Textiles - Knits & Knit Apparel	2	80	3.0	2.4
22	Agro-Chemicals	3	60	3.0	1.8
23	Automotive - Assemblers/Manufacturers	3	60	3.0	1.8
24	Automotive - Parts & Accessories	3	60	3.0	1.8
25	Construction (General)	3	60	3.0	1.8
26	Construction (Infrastructure)	3	60	3.0	1.8
27	Glass & Ceramics	3	60	3.0	1.8
28	Metallic Products (Iron & Steel)	3	60	3.0	1.8
29	Sugar	3	60	3.0	1.8
30	Carpets & Rugs	4	40	3.0	1.2
31	Information Technology	4	40	3.0	1.2
32	Textiles – Composite	4	40	3.0	1.2
33	Textiles – Spinning	4	40	3.0	1.2
34	Textiles - Synthetic Fibers/Polyester	4	40	3.0	1.2
35	Textiles - Woven Apparel	4	40	3.0	1.2
36	Transport-Air	4	40	3.0	1.2

BY CORRELATION WITH GDP GROWTH

Sector ranking, by Correlation with GDP Growth (represents the relationship of sector's performance with the performance of the overall economy) is as follows:
Rank 1: Less correlated with GDP growth
Rank 5: Highly correlated with GDP growth

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Sports Products	1	100	3.0	3.0
2	Surgical, Precision, Optical Equipment	1	100	3.0	3.0
3	Textiles - Fabrics (Weaving)	1	100	3.0	3.0
4	Food, Beverages & Consumer Products	2	80	3.0	2.4
5	Information Technology	2	80	3.0	2.4
6	Leather Products	2	80	3.0	2.4
7	Machinery & Equipment	2	80	3.0	2.4
8	Pharmaceuticals	2	80	3.0	2.4
9	Textiles – Composite	2	80	3.0	2.4
10	Textiles - Knits & Knit Apparel	2	80	3.0	2.4
11	Textiles – Spinning	2	80	3.0	2.4
12	Textiles - Synthetic Fibers/Polyester	2	80	3.0	2.4
13	Textiles - Woven Apparel	2	80	3.0	2.4
14	Tobacco Products	2	80	3.0	2.4
15	Agro-Chemicals	3	60	3.0	1.8
16	Carpets & Rugs	3	60	3.0	1.8
17	Cement	3	60	3.0	1.8
18	Chemicals (inc. Plastic & Rubber Products)	3	60	3.0	1.8
19	Edible Oil	3	60	3.0	1.8
20	Energy - Gas Generation & Distribution	3	60	3.0	1.8
21	Energy - Oil & Gas Exploration	3	60	3.0	1.8
22	Energy - Oil (Petroleum Distribution/Marktng)	3	60	3.0	1.8
23	Energy - Oil (Petroleum Refining)	3	60	3.0	1.8
24	Energy - Power (Indigenous)	3	60	3.0	1.8
25	Energy - Power (Non Indigenous)	3	60	3.0	1.8
26	Fertilizers	3	60	3.0	1.8
27	Financial Institutions	3	60	3.0	1.8
28	Glass & Ceramics	3	60	3.0	1.8
29	Metallic Products (Iron & Steel)	3	60	3.0	1.8
30	Sugar	3	60	3.0	1.8
31	Transport-Air	3	60	3.0	1.8
32	Automotive - Assemblers/Manufacturers	4	40	3.0	1.2
33	Automotive - Parts & Accessories	4	40	3.0	1.2
34	Construction (General)	4	40	3.0	1.2
35	Construction (Infrastructure)	4	40	3.0	1.2
36	Telecommunications	4	40	3.0	1.2

BY REGULATORY/GOVT.SUPPORT-FUTURE EXPECTATIONS

Sector ranking, by Regulatory/Govt. Support-Future Expectations (this factor reflects the future expectations / likelihood in the upcoming financial year for a particular sector to avail significant support from the government. This factor takes into account the regulatory policy direction (driven by sector's contribution in GDP / sector's relative importance to economy etc.) reflected through subsidies, tax rebates, government guarantees, and sectoral development initiatives etc.) is as follows:
Rank 1: High future expectations to avail significant support from government
Rank 5: Low future expectations to avail significant support from government

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Energy - Gas Generation & Distribution	1	100	7.0	7.0
2	Energy - Oil & Gas Exploration	1	100	7.0	7.0
3	Energy - Oil (Petroleum Distribution/Marketing)	1	100	7.0	7.0
4	Energy - Oil (Petroleum Refining)	1	100	7.0	7.0
5	Energy - Power (Indigenous)	1	100	7.0	7.0
6	Construction (General)	2	80	7.0	5.6
7	Construction (Infrastructure)	2	80	7.0	5.6
8	Energy - Power (Non Indigenous)	2	80	7.0	5.6
9	Metallic Products (Iron & Steel)	2	80	7.0	5.6
10	Automotive - Assemblers/Manufacturers	3	60	7.0	4.2
11	Automotive - Parts & Accessories	3	60	7.0	4.2
12	Cement	3	60	7.0	4.2
13	Chemicals (inc. Plastic & Rubber Products)	3	60	7.0	4.2
14	Fertilizers	3	60	7.0	4.2
15	Financial Institutions	3	60	7.0	4.2
16	Food, Beverages & Consumer Products	3	60	7.0	4.2
17	Glass & Ceramics	3	60	7.0	4.2
18	Sports Products	3	60	7.0	4.2
19	Sugar	3	60	7.0	4.2
20	Surgical, Precision, Optical Equipment	3	60	7.0	4.2
21	Telecommunications	3	60	7.0	4.2
22	Tobacco Products	3	60	7.0	4.2
23	Transport - Air	3	60	7.0	4.2
24	Carpets & Rugs	3	60	7.0	4.2
25	Agro-Chemicals	4	40	7.0	2.8
26	Edible Oil	4	40	7.0	2.8
27	Pharmaceuticals	4	40	7.0	2.8
28	Textiles – Composite	4	40	7.0	2.8
29	Textiles – Spinning	4	40	7.0	2.8
30	Textiles - Synthetic Fibers/Polyester	4	40	7.0	2.8
31	Leather Products	4	40	7.0	2.8
32	Textiles - Fabrics (Weaving)	4	40	7.0	2.8
33	Textiles - Knits & Knit Apparel	4	40	7.0	2.8
34	Information Technology	5	20	7.0	1.4
35	Machinery & Equipment	5	20	7.0	1.4
36	Textiles - Woven Apparel	5	20	7.0	1.4

COMPOSITE RANKING BY BUSINESS OUTLOOK & MACRO ENVIRONMENT

Composite ranking, by the Business Outlook & Macro environment, is as follows:

S.NO.	SECTOR	MAXIMUM SCORE	SCORE
1	Energy - Gas Generation & Distribution	25.0	23.8
2	Energy - Oil & Gas Exploration	25.0	21.4
3	Energy-Power (Indigenous)	25.0	20.8
4	Sports Products	25.0	19.8
5	Sugar	25.0	19.8
6	Surgical, Precision, Optical Equipment	25.0	19.8
7	Energy - Oil (Petroleum Refining)	25.0	19.0
8	Food, Beverages & Consumer Products	25.0	18.6
9	Cement	25.0	18.6
10	Energy - Oil (Petroleum Distribution/Marketing)	25.0	18.4
11	Financial Institutions	25.0	18.0
12	Glass & Ceramics	25.0	17.4
13	Construction (Infrastructure)	25.0	17.2
14	Textiles – Spinning	25.0	17.2
15	Energy-Power (Non Indigenous)	25.0	17.0
16	Automotive - Assemblers/Manufacturers	25.0	16.8
17	Automotive - Parts & Accessories	25.0	16.8
18	Transport-Air	25.0	16.8
19	Metallic Products (Iron & Steel)	25.0	16.4
20	Tobacco Products	25.0	16.2
21	Textiles - Synthetic Fibers/Polyester	25.0	16.0
22	Construction (General)	25.0	15.8
23	Chemicals (inc. Plastic & Rubber Products)	25.0	15.6
24	Fertilizers	25.0	15.6
25	Textiles - Fabrics (Weaving)	25.0	15.4
26	Telecommunications	25.0	15.0
27	Pharmaceuticals	25.0	14.8
28	Edible Oil	25.0	14.2
29	Agro-Chemicals	25.0	13.6
30	Textiles – Composite	25.0	13.6
31	Machinery & Equipment	25.0	13.4
32	Textiles - Knits & Knit Apparel	25.0	12.4
33	Leather Products	25.0	12.4
34	Information Technology	25.0	12.2
35	Textiles - Woven Apparel	25.0	12.2
36	Carpets & Rugs	25.0	12.0

COMPOSITE INDUSTRY RANKINGS-2019

S.NO.	SECTOR	SCORE NET	CATEGORY	RANGE
1	Energy - Oil & Gas Exploration	89.9	HIGHLY ATTRACTIVE	>80
2	Sports Products	81.0	HIGHLY ATTRACTIVE	>80
3	Surgical, Precision, Optical Equipment	81.0	HIGHLY ATTRACTIVE	>80
4	Pharmaceuticals	78.1	ATTRACTIVE	70-80
5	Construction (Infrastructure)	77.8	ATTRACTIVE	70-80
6	Cement	75.6	ATTRACTIVE	70-80
7	Construction (General)	75.6	ATTRACTIVE	70-80
8	Energy-Power (Indigenous)	75.2	ATTRACTIVE	70-80
9	Food, Beverages & Consumer Products	74.8	ATTRACTIVE	70-80
10	Glass & Ceramics	74.6	ATTRACTIVE	70-80
11	Tobacco Products	73.7	ATTRACTIVE	70-80
12	Energy - Gas Generation & Distribution	73.1	ATTRACTIVE	70-80
13	Financial Institutions	72.6	ATTRACTIVE	70-80
14	Energy - Oil (Petroleum Distribution/Marketing)	72.0	ATTRACTIVE	70-80
15	Energy-Power (Non Indigenous)	70.8	ATTRACTIVE	70-80
16	Information Technology	70.7	ATTRACTIVE	70-80
17	Agro-Chemicals	69.4	AVERAGE	50-69
18	Telecommunications	69.2	AVERAGE	50-69
19	Automotive-Assemblers/Manufacturers	68.2	AVERAGE	50-69
20	Automotive-Parts & Accessories	67.0	AVERAGE	50-69
21	Fertilizers	66.4	AVERAGE	50-69
22	Metallic Products (Iron & Steel)	65.9	AVERAGE	50-69
23	Machinery & Equipment	65.8	AVERAGE	50-69
24	Chemicals (inc. Plastic & Rubber Products)	63.5	AVERAGE	50-69
25	Energy - Oil (Petroleum Refining)	62.2	AVERAGE	50-69
26	Textiles - Synthetic Fibers/Polyester	55.9	AVERAGE	50-69
27	Edible Oil	55.5	AVERAGE	50-69
28	Sugar	54.0	AVERAGE	50-69
29	Textiles – Composite	53.5	AVERAGE	50-69
30	Textiles - Woven Apparel	43.1	WATCH/HOLD	40-49
31	Transport-Air	41.9	WATCH/HOLD	40-49
32	Textiles - Knits & Knit Apparel	41.7	WATCH/HOLD	40-49
33	Textiles – Spinning	41.5	WATCH/HOLD	40-49
34	Carpets & Rugs	40.8	WATCH/HOLD	40-49
35	Textiles - Fabrics (Weaving)	40.7	WATCH/HOLD	40-49
36	Leather Products	40.2	WATCH/HOLD	40-49

* Bank should be careful for all other forms of financing except short term working capital financing for sectors listed in the Watch/Hold category.