To be recognized as a leader and a brand synonymous with trust, highest standards of service quality, international best practices and social responsibility.

Institutionalizing a merit and performance based culture
Creating a distinctive brand identity by providing the highest standards of services
Adopting the best international management practices
Maximizing stake-holders' value
Discharging our responsibility as a good corporate citizen of Pakistan and in countries where we operate

Highest standards of integrity
Institutionalizing a teamwork and performance culture
Excellence in services
Advancement of skills for tomorrow's challenges
Awareness of social and community responsibility
Value creation for all stakeholders

INDUSTRY & ECONOMIC BULLETIN - 2017

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

Quarter I/March 2017

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

RESEARCH DIVISION

CREDIT MANAGEMENT GROUP (CMG), NBP

CONTENTS

ECONOMIC OUTLOOK

INDUSTRY RATINGS & ANALYSIS

ECONOMIC OUTLOOK

INTERNATIONAL ECONOMIC OUTLOOK UPDATE

[Based on IMF World Economic Outlook (WEO) Update, January 2017]

FORECAST

1. Global growth projected to be 3.4% and 3.6% in 2017 and 2018 respectively. For 2016, it is now estimated at 3.1%.

2. Advanced economies projected to grow by 1.9% in 2017 and 2% in 2018. Growth in emerging market and developing economies (EMDEs), currently estimated at 4.1% in 2016, is projected to reach 4.5% for 2017 and 4.8% for 2018. This pickup is the primary contributor in strengthening global outlook over 2017-18.

3. For China, the growth forecast for 2017 is 6.5% and 6.0% in 2018 as against the estimated 6.7% in 2016. Factors like rapid expansion of credit and slow progress in addressing corporate debt, along with continued reliance on policy stimulus measures especially in hardening the budget constraints of state-owned enterprises, raises the risk of a sharper slowdown or a disruptive adjustment, and can be aggravated by capital outflow pressures.

4. In India, the growth forecast for the current and the next fiscal year were trimmed by 1 and o.4 %age point, respectively, primarily due to the temporary negative consumption shock induced by cash shortages and payment disruption associated with the recent currency note withdrawal and exchange initiative.

5. Growth was also revised down owing to weaker-than-expected private investment in Indonesia, and in the light of a slowdown in consumption and tourism in Thailand.

6. In the Middle East, growth in Saudi Arabia is expected to be weaker in 2017 than previously forecast as oil production is cut back in line with the recent OPEC agreement. Civil strife continues to take a heavy toll on a number of other countries.

7. Growth forecasts are revised down for Latin America also, reflecting weaker than expected growth outturns in Argentina and Brazil in the second half of 2016, tighter financial conditions and increased headwinds from US-related uncertainty in Mexico, and continued deterioration in Venezuela.

RISKS

1. A potential widening of global imbalances coupled with possible sharp exchange rate movements in response to major policy shifts, could further intensify protectionist pressures. Increased restrictions on global trade and migration would hurt productivity and incomes, and take an immediate toll on market sentiment.

2. In advanced countries where balance sheets remain impaired, an extended shortfall in private demand and inadequate progress on reforms could lead to permanently lower growth and inflation, with negative implications for debt dynamics.

3. Underlying vulnerabilities remain among some large emerging market economies. High corporate debt, declining profitability, weak balance sheets, and thin policy buffers imply that these economies are still exposed to tighter global financial conditions, capital flow reversals, and balance sheet implications of sharp depreciations.

4. In many low-income economies, low commodity prices and expansionary policies have eroded fiscal buffers and led in some cases to a precarious economic situation, heightening their vulnerability to further external shocks.

5. Geopolitical risks and a range of other noneconomic factors continue to weigh on the outlook in various regions – civil war and domestic conflict in parts of the Middle East and Africa, the tragic plight of refugees and migrants in neighbouring countries and Europe, acts of terror worldwide, the protracted effects of a drought in eastern and southern Africa, and the spread of Zika virus. If these factors intensify, they would deepen the hardship in directly affected countries.

6. Upside: The support to activity from the US policy stimulus and/or China could turn out to be larger than what has been incorporated into current forecasts, which also would result in a stronger pickup of activity in their trading partners unless the positive spillovers are tempered by protectionist trade policies.

POLICIES

- In those **advanced economies where output gaps are still negative and wage pressures muted**, the risk of persistent low inflation (deflation in some cases) remains. Monetary policy therefore must remain accommodative, relying on unconventional strategies as needed. However, accommodative monetary policy alone cannot lift demand sufficiently, and fiscal support, calibrated to the amount of space available and oriented towards policies that protect the vulnerable and lift medium term growth prospects, remains essential for generating momentum.

- In those **advanced economies without substantially negative output gaps**, any fiscal support should be targeted towards strengthening safety nets (including for aiding the integration of refugees in some cases) and increasing longer-term potential output through high-quality infrastructure investment and supply-friendly and equitable tax reform.

- **For EMDEs**, enhancing financial resilience can reduce the vulnerability to a tightening of global financial conditions, sharp currency movements, and the risk of capital flow reversals. Economies with large and rising non-financial debts, unhedged foreign liabilities, or heavy reliance on short-term borrowing to fund longer-term investments must adopt stronger risk management practices and contain balance sheet mismatches.

- **In low-income countries** that have seen their fiscal buffers decrease over the last few years, the priority is to restore those buffers while continuing to spend efficiently on critical capital needs and social outlays, strengthen debt management, improve domestic revenue mobilization, and implement structural reforms, including in education, that pave the way for economic diversification and higher productivity. For the countries hardest hit by the decline in commodity prices, the recent market firming provides some relief, but the adjustment to reestablish macroeconomic stability is urgent. This implies allowing the exchange rate to adjust in countries not relying on an exchange rate peg, tightening monetary policy where needed to tackle increases in inflation, and ensuring that needed fiscal consolidation is as growth friendly as possible.

- With growth weak and policy space limited in many countries, continued multilateral effort is required in several areas to minimize risks to financial stability and sustain global improvements in living standards. Multilateral and national efforts to crackdown on tax evasion and prevent tax avoidance practices are required. Efforts to strengthen the resilience of the financial sector must continue, including by recapitalizing institutions and cleaning up balance sheets where necessary, ensuring effective national and international banking resolution frameworks, and addressing emerging risks from non-bank intermediaries. A stronger global safety net can protect economies with robust fundamentals that may nevertheless be vulnerable to cross-border contagion and spillovers.

PAKISTAN'S ECONOMIC OUTLOOK

[Based on IMF's Twelfth and Final Review of Pakistan's Three-Year Economic Reform Program supported by Extended Fund Facility (EFF) Arrangement]

1. Outlook

- Economic growth has gradually increased. Growth estimated at 4.7% in FY 2015-16 and 5% in FY 2016-17, supported by buoyant construction activity and healthy expansion of the services sector.
- Headline inflation, after declining to 2.9% (on average) during the last fiscal year, from about 7.5% in FY 2012-13, is expected to remain at 5.2% in FY 2016-17. Pakistan has been benefitting from lagged effects of the pronounced fall in oil prices and a marked reduction in domestic interest rates, accompanied by strengthened private sector credit growth.
- The overall budget deficit (excluding foreign grants) narrowed by 3.9% of GDP under EFF program. The tax-to-GDP ratio increased by nearly 2.5 %age points of GDP owing to significant reduction in tax concessions and exemptions, increased withholding taxes on non-filers of income tax returns, and improvements in tax compliance and enforcements. Administrative authority to grant new tax concessions were restricted, energy subsidies reduced by about 1.5% of GDP, and capital expenditure increased by about 0.5% of GDP.
- CPEC, with a total size around US$44.5 billion of which US$28 billion is allocated to early-harvests projects over the next few years, is an opportunity for Pakistan to boost investment and growth.
- The performance of the banking sector improved, as reflected in higher profitability, strengthened liquidity indicators, robust capital adequacy, and declining (though still substantial) nonperforming loans (NPLs). Steps have been taken to strengthen the framework for NPL recovery, and the regulatory and supervisory framework is being reinforced, including through phased implementation of Basel III standards. Next steps in the reforms agenda include
    - Finalizing the introduction of the deposit insurance scheme
    - Ensuring that all banks are in compliance with regulatory requirements
    - Addressing the still high level of NPLs

2. Challenges to economic progress

- Exports small in relation to GDP and declining
- Private investment (including FDI) too low to support higher growth
- Public debt still too high. It increased by about 2.5% of GDP over the 3-year period and remains high at 65% of GDP (430 % of revenue) as of end-June 2016, well above the emerging market average. [Total debt and liabilities is 73% of GDP in FY 2015-16 (Mar).] Pakistan's tax-to-GDP ratio remains below comparator emerging market countries.
- Fiscal revenue still insufficient to support public investment, health and education
- International reserves still low despite having tripled.
- Unemployment remains relatively high at 6% (10.5% among the youth and 9.5% among women).
- Informal economy remains large.
- 30% population lives below the poverty line.
- Income and gender inequality significant

3. Risks to future outlook

- Lower growth in advanced countries, like UK and other EU countries, could weaken exports, remittances and FDI.
- Financial crisis in Europe and other markets can affect Pakistan.
- Continued appreciation of rupee would further erode export competitiveness and affect remittances.
- Tighter global financial conditions could have an adverse impact on capital inflows.
- Lower remittances if the GCC (Gulf Cooperation Council) slow down lasts longer due to low oil prices
- A more pronounced recovery of oil prices
- Domestic risks, such as political uncertainty, security conditions, policy slippages, and delay in privatizing PSEs could affect economic activity and undermine fiscal consolidation.
- On the upside, lower oil prices and a slower pace of increase in international interest rates would be beneficial for Pakistan's external position and growth.

MONETARY POLICY UPDATE– JANUARY 2017

SBP Monetary Policy Committee has decided to keep the policy rate unchanged at 5.75 %, as announced in its Monetary Policy Statement dated 28 January 2017.

FACTORS CONTRIBUTING TO THE DECISION:

- Average inflation rate 3.9% during the first half of FY17 – lower than the earlier projections. The current trends suggest the actual inflation in FY17 lower than the target rate of 6%.

- Current account deficit increased to USD 3.6 billion in the first half of FY17 (as compared to USD 1.7 billion in the same period last year) owing to decline in exports, growing CPEC-related imports, slowdown in remittances, and absence of coalition support fund. Higher deficit financed by an increase in bilateral and multilateral funding along with pickup in investments flow. Overall surplus in the balance of payments stands at USD 0.2 billion in the first half of the current year. Going forward, the need of financial inflows to grow further.

- Credit expansion owing to a sizeable net retirement of government borrowing to scheduled banks and increase in bank deposits. Private businesses actively borrowing from the banking sector given the historically low interest rates. Consumer finance gathering pace. Increase in loans for fixed investments in the first half of FY17 as compared to the expansion in the comparable period last year.

- Higher production of Kharif crops and visible improvements in energy supply. Large scale manufacturing grew by 3.2 in during the first five months of FY17 and further increase expected on account of growing infrastructure spending and recent policy support for export oriented sectors.

[*Monetary policy involves central banks' use of instruments to influence interest rates and/or money supply in the economy with the objective to keep overall prices and financial markets stable. It cannot impact long-term growth potential of an economy. Monetary Policy Committee is responsible and fully empowered to decide the monetary policy stance.*]

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).

<u>INDUSTRY RATING CRITERIA & SCORECARD</u>

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	6.0
	Supply Volatility	7.0
	Corporate Governance & Control Structure	2.0
	Strength of Competition	4.0
	Barriers to Entry	2.0
	Litigations	1.0
	Price Elasticity	5.0
	Exposure (FX Risk/IR Risk)	3.0
Sub Total		30.0
Profitability & Financial Strength:	Gearing *Interest Coverage (B+C)/C* *Debt/Equity (L/J)*	 3.0 4.0
	Liquidity *Current Ratio (F/K)* *Quick Ratio (G+H+I)/K*	 4.0 3.0

	Cash Ratio (G/K)	2.0
	Profitability *Net Profit Margin (B/A)* *Total Assets Turnover (A/E)* *ROA (B/E) & ROE (B/J)*	 3.0 1.0 3.0
	Solvency	2.0
Sub Total		25.0
Outlook & Macro Environment:	Business Outlook	19.0
	Industry/Business Life Cycle	7.0
	Correlation with GDP Growth	6.0
	Regulatory/Govt. Support Future Expectations	13.0
Sub Total		45.0
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 FY15-16. Real GDP growth came in at 4.7% in 2016, an improvement over the previous year (4.0%). Moreover, the Government has set a target of 5.7% in 2017. Pakistan's annual CPI inflation rate fell to 2.9 per cent during 2016. The government had projected 6 per cent inflation for 2016. 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 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	3		
			2015-16	2014-15	
A.	Industry Sales	Act/Est	77,346	92,815	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	-1,769		
C.	Financial Charges	Act/Est	3,574		
D.	PAT	Act/Est	-1,705		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	153,325		
F.	*Current Assets*	Act/Est	3,854		
G.	*Cash & Bank Balances*	Act/Est	3,391		
H.	*Trade Debtors*	Act/Est	2,271		
I.	*Short Term Investments*	Act/Est	10,635		
J.	*Total Equity*	Act/Est	30,230		
K.	*Current Liabilities*	Act/Est	76,046		
L.	*Total Liabilities*	Act/Est	113,363		

AGRO-CHEMICAL

SECTOR OUTLINE

Pakistan is an agrarian economy but we lag far behind in terms of obtaining the desired level of knowledge and ways to combat with potential threats to our food and cash crops existing in the form of pests, unnecessary herbs and scarcity of water. Agro-chemicals have contributed significantly in raising agricultural yield and there is still a lot of room to bring improvement in this sector.

OPPORTUNITIES

- In the Federal Budget 2016-17, pesticides have been exempted from sales tax while GST on Urea fertilizer is being lowered from the existing 17 to 5%.

- The Punjab Agriculture Department destroyed 500 cotton bolls affected by pink bollworm in the province under its campaign to destroy the cotton bolls affected by different pests launched on November 3, 2016, as stated by a spokesman of the department in February 2017. Students, people attached with pesticide business, employees of the agriculture department and farmers, all participated in the campaign that would prove helpful in saving the next cotton crop from attack of these pests. Terming the off-season cotton management formula given by the department as very effective, the growers were urged to follow the guidelines of the formula as it would reduce their input cost as a result of lower use of pesticides besides improving the quality of cotton produced.

- There is a lot of potential for locally manufactured herbicides in Pakistan. Efforts are to be made to meet the requirement of food and fiber of the population. The multinational companies have not made much effort in basic manufacturing of pesticide in Pakistan in spite of the government direction in this regard. Without chemical control of insect pests and disease, even average yield per acre of the crop cannot be obtained.

- China Agro Chemical (CAC) Pakistan provided a joint forum to government officials and industry professionals, to highlight the benefits of using pesticides, fertilizers, processed seeds, and latest yet affordable agri-equipment and machinery in the CAC Pakistan Summit and Pak–China Agro Chem Expo held in Lahore in May 2016. According to participants, there is an immense potential of agro-chemicals in Pakistan which must be utilized on priority basis. Over 40 Chinese companies participated in this exhibition to display state-of-the-art technologies and solutions to improve the productivity of agro based commodities and also keep the crops free of hazards. CAC sets up world’s largest agro-chemical trading platform in China every year with most updated policies, products, technologies and market dynamics. It has broadened its network by exhibiting in Europe, Brazil and other important destination of world. It was the first time that CAC held such exhibition and summit in South Asia. Pesticide trade could play an important role in the two-way business as China was the largest exporter of pesticide chemicals.

- Nowadays, the world is focusing on biopesticides. These are environment friendly, ease to use, and naturally originated. Their persistent time is very short and less toxic than pesticides. Biopesticides are substance having pesticidal properties that originate or are obtained from natural resources. These natural resources may be plants, animals, virus, bacteria or minerals. These natural substances provide protection against soil borne disease and insect-pests. Biopesticides are the key component in integrated pest management (IPM). There are certain challenges with the promotion of biopesticides such as lack of laboratory for quality control, lack of credit/ poor economy of the country, and lack of technical labor and extension work.

THREATS

- Pesticides, fertilizers and other chemical essentials of farming are now at a price level far out of reach of our many farmers. The lack of usage of these essentials hampers agricultural growth. Affected farmers have decried the higher prices as well as the commercial tube-well tariff. They are of the view that, as in India, fertilizer and pesticides should be tax free and command duty-free status. This would reduce their prices and enable common farmer to once again use fertilizers and pesticides necessary to yield bumper crops.

- U.S. Department of Agriculture (USDA) has reduced Pakistan's 2016-17 cotton production forecast to 8.0 million bales. According to the report, yield is estimated at 694 kilograms per hectare, down 4.4 % from last month, but up 28 % from last year. Growers have sown more corn and sugarcane and reduced cotton acreage. Cotton producers face lower prices and competition from cotton imports. Yield was forecasted to rebound this season as farmers exercise greater caution not to repeat last season's attempts to lower input costs in response to low market prices. In 2015-16, growers reduced pesticide applications which resulted in a 30 % decrease in yield due to severe whitefly infestations. Yields in 2015-16 were 544 kilograms per hectare, the lowest in the past 17 years.

- The environmental disadvantages of pesticides/ herbicides are countless. These not only destroying our habitat but also the flora and fauna of our surroundings. The chemicals in the herbicides are responsible for the long-term chemical pollution and there is always a major chance that these chemicals are taken up by the plants. From the plants this becomes a part of our food chain. Different chemicals are used in the manufacturing of the chemical herbicides. These chemical herbicides are responsible for many diseases in the human being.

OUTLOOK

- Agriculture faced a major setback in FY16 also. Yet, unlike past years when adverse weather inflicted damages, this year's stress stemmed from insects and pest attacks on cotton crop in the Punjab. The untimely and excessive rains, mainly related to El-Niño weather pattern, inflicted direct damages to crops, and also washed away fertilizer and pesticides applied earlier. Meanwhile, moist season and moderate temperatures attracted white fly and boll-worms (especially pink boll-worm) attacks, thereby resulting in significant crop damages. The crop losses were compounded by the slump in domestic cotton prices, particularly during Jul-Sep 2015 period, which prompted growers to vacate their fields earlier from cotton for next rabi crop sowing. **The cotton output thus declined by 29% over the last year** (from 13.960 Million bales in 2015 to 9.917 million bales in 2016)**.**

  Pakistan is an agrarian economy but we lag far behind in terms of obtaining the desired level of knowledge and ways to combat with potential threats to our food and cash crops existing in the form of pests, unnecessary herbs and scarcity of water. There is an immense potential of agro-chemicals in Pakistan which must be utilized on priority basis. **Agro-chemicals have contributed significantly in raising agricultural yield and there is still a lot of room to bring improvement in this sector. However, outlook for 2017 remains constraint.**

Associations:

- Pakistan Crop Protection Associate

http://pcpa.pk/

- Croplife Pakistan

http://www.croplifepakistan.enic.pk/

- Pakistan Agricultural Pesticides Association

http://pakistan-agricultural-pesticides-association-139736.pakbd.com/

AUTOMOTIVE-ASSEMBLERS/MANUFACTURERS

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	12

			2015-16	2014-15
A.	Industry Sales	Act/Est	198,171	284,050

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

B.	PBT	Act/Est	21,539
C.	Financial Charges	Act/Est	505
D.	PAT	Act/Est	14,677

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

E.	*Total Assets*	Act/Est	81,752
F.	*Current Assets*	Act/Est	61,280
G.	*Cash & Bank Balances*	Act/Est	24,693
H.	*Trade Debtors*	Act/Est	3,400
I.	*Short Term Investments*	Act/Est	6,031
J.	*Total Equity*	Act/Est	43,354
K.	*Current Liabilities*	Act/Est	35,633
L.	*Total Liabilities*	Act/Est	37,249

AUTOMOTIVE ASSEMBLERS/ MANUFACTURERS

SECTOR OUTLINE

Pakistan is an emerging market for Automobile and Allied Industry. The Industry plays an important role within the large-scale manufacturing sectors in spurring economic growth having enormous investment opportunities with positive growth of 23.3% in FY 2016. Pakistan is among the 40 automobile producing countries and 4 of the top 10 global car makers have plants in Pakistan.

The history of Pakistan's Automotive Industry is one of the oldest in the Asian countries. The Industry started semi knockdown production of trucks (Bedford) in 1949 by General Motors, which marked the start of the Industry's history after the independence from British India. From this year onwards the Industry has not shown steady growth and thus lags behind and is overtaken by other countries in Asia such as China. Thailand and India which entered in the market in 1980s, consequently its positioning in the global market is also questioned.

The automobile industry in Pakistan includes companies involved in the production/assembling of passenger cars, light commercial vehicles, trucks, buses, tractors and motorcycles. The auto spare parts industry is an allied of the auto industry. The auto & allied industry form a major manufacturing sector in Pakistan.

OPPORTUNITIES

- ▲ Pakistan's automobile industry is likely to double the annual car assembling to half a million units within the next 10 years if economic policies remain consistent and interest rate continues to bolster auto financing. If the present optimism persists the market is expected to touch 350,000 units of demand by 2025, and if new entrants step in the demand may go up to 500,000 units.

- ▲ The local car assemblers have observed an exceptional year, selling 180,079 passenger cars, highest ever in Pakistan, during the Fiscal Year 2015-16 (FY16), as compared to 151,134 cars sold in the previous year. The growth of Pakistani auto industry was on an ascending path from last two years as the industry marked another stellar year, registering 20% increase in sales of passengers cars particularly light commercial vehicles (LCVs), vans and jeeps. The total sales of local vehicles increased by 21% to 216,568 as compared to 179,953 units sold in FY15.

- ▲ During FY16, Pak Suzuki Motor Company (PSMC) remained the market leader, selling 96,901 passenger cars in local market mainly due to the invoicing of cabs under the 'Taxi Scheme'. PSMC registered slight decrease against last year's sales of 99,879 units. Indus Motor Company (IMC) registered enormous growth this year as well, as the company sold 57,452 units of new Toyota Corolla model as compared to 54,800 units sold last year, making the most popular model of the Pakistan in history. IMC has achieved its highest ever sales since the inception of the company. Sales of Honda Atlas Cars remained fairly stable at 25,726 units in FY16 versus 23,622 units last year, maintaining its sales growth despite tough competition from new model of Toyota Corolla.

- ▲ Car sales hit to 180,079 units in 2015-2016 as compared to 151,134 units in 2014-2015, followed by a jump in truck sales to 5,550 units from 4,111 and bus sales to 1,017 from 569 units. The impressive figures of 2015-16 were backed by 50,000 units of Suzuki Bolan and Ravi sold under Punjab Taxi Scheme.
- ▲ Car sales will grow at 5-year (2016-20) compound annual growth rate (CAGR) of 12% due to improving law and order situation in the country, rising auto financing owing to 42-year low interest rates and increasing disposable income.

- In Automobile Sector such as buses, LCVs, trucks and jeeps & cars registered growth of 81.95%, 68.53%, 41.68% and 29.73%, respectively in FY 2016. After the oil & petroleum sector, auto industry sector in Pakistan is the second largest taxpayer in the country.

- The heavy commercial vehicles (HCV) sector showed extraordinary growth during 2015-16 and broke records. The demand for HCVs is usually linked to economic conditions. Stable economic conditions give a positive signal to large-scale manufacturing. During the last five years, the LSM sector has recorded an upward trend. Demand in this sector rose in the past three years. In 2015-16, the sector saw a 45 % growth. The industry now looks confident to achieve 45 % sales growth in the current fiscal year after an announcement of the new auto development policy.

- In 2015-16, due to sound economic policies of the government, the auto industry has crawled back to a production level of 216,000 vehicles, a level which was last witnessed in 2006-2007. In fact, if the special one-time production volume of 30,000 taxis was reduced, the quantity sold by domestic industry was even lower than 2006-2007.

- In September 2016, Dewan Farooque Motors Limited (DFML) became the first company to announce its reentry in the local market in collaboration with Kolao Group based in Laos and South Korea. DFML assembled Hyundai Santro and Hyundai Shehzore for over 10 years before the giant business group collapsed due to defaults on loan repayments. The company has plans to launch different variants of Shehzore truck along with a 1,600cc engine capacity sport utility vehicle (SUV) in collaboration with Ssangyong China in 2017.

- In December 2016, the next announcement surprisingly came from Lucky Cement – the second largest cement maker in Pakistan – which announced to enter in auto industry in collaboration with South Korean automobile giant Kia Motor with an investment of Rs12 billion.

- JAC, a Chinese automobile colgromate has already been in talks with the government, while Zotye another Chinese automobile company is in process of making a deal with a big business group of Pakistan. One of the automobile giant of China, The Foton Group, has showed keen interest in investing in manufacturing a range of automobiles in Pakistan. A delegation from Foton Group China held a meeting with the Finance Minister, recently. The government has earlier this year announced the new auto policy for the next five years and encouraged the Chinese company to make use of the opportunities for investment offered under this policy. There are quite a few companies which have shown interest so far.

- Pakistan is definitely on the international investors' radar and the auto industry that has for long been dominated by Japanese players is poised for a face-lift. In the latest development, German carmaker Audi AG has expressed its interest in setting up an assembly plant in Pakistan and, through its authorized importer in the country, submitted a letter of intent to the Board of Investment (BoI) for consideration which would mean a fresh investment of over $30 million.

- Interest shown by luxury car producer Audi has surprised many but people are unaware of the fact that imported Audi sales already crossed 950 units in 2016. This is a high number of sales for a luxury car. If the company establishes an assembly plant in the country it would be commercially viable to operate with local sales ranging from 1000-1500 units a year.

- Among the top 10 sectors of Pakistan Stock Exchange (PSX) in terms of market capitalization, autos remained top performing sector posting market cap gains of about 70%. Last year, the sector remained the second best with an overall return of 13%.

- Until last year, the existing players were complacent and least worried about foreign competition. However, car demand in Pakistan is constantly on rise.

- The lowest car financing rates in 43 years by commercial banks have spurred demand for new cars. The burgeoning incomes of the top level and middle-class population and government plans to provide taxis to lower middles class are some of the other key factors behind rising car sales.

- Pak Suzuki Motor Company (PSMC) – the country's largest car manufacturer with over 50% market share – has decided to launch the standard model of Suzuki Celerio in March 2017.

- Pak Suzuki Motor Company (PSMC) has increased prices by 3% with effect from August 1. This will help the PSMC maintain its margins. Due to the recent appreciation in Japanese yen, which picked up pace in the wake on Brexit, the company's margins in the first half of 2016 (1H2016) were 10% compared to 14% during 2015. The PSMC will likely increase prices by another 2% during the remainder of the year. It is forecasted that the company will maintain margins of around 10-11% during second half of 2016.

- The auto manufacturers could not properly take advantage of a captive market as was done by motorcycle manufacturers. Under green field investment incentives were provided for installation of new and independent automotive assembly and manufacturing facilities by an investor for the production of vehicles not already being manufactured in Pakistan. Companies would be encouraged to setup new plants and bring equipment without paying duties.

- Green field investment was aimed at providing a level playing field to new entrants who were required to make huge investment for opening dealerships and setting up plants. If the vehicle market spread to five players instead of existing three it could benefit the consumers.

- Even in the absence of any noticeable relief by the government, local automobile manufacturers have still managed to carve their respective niches in the production of trucks, tractors and motorcycles. If given sufficient technological assistance and tax remissions, these manufacturers can be expedited in producing fuel-efficient motor vehicles. The success with which Tata Motors, an Indian firm, has rapidly emerged as world's fifth largest motor vehicle manufacturer should be pursued by Pakistan as an excellent integration of a commercial vehicle producer into the passenger vehicle market.

- Through extensive localization some of the models, being manufactured in the country, comprise of almost 70 % locally produced parts, made in accordance with the highest global quality and safety standards. In this way, the auto industry has also facilitated saving millions of dollars of foreign exchange.

- Growth lies in this region. Europe is going through an economic slowdown and Japan has introduced negative interest rates. Hence, the future lies in India, Pakistan, and Vietnam etc. There is a need to have the right policy framework in place and I hope the government realises this since the outside world does.

- Pakistan has the 6th largest population while 50% of the total population is below 30 years in age. There are 90 million young potential consumers demand for cars and other passenger vehicles is being increased day by day but existing auto manufacturers and assemblers are unable to match the demand.

THREATS

- There is not any public institute which offers majors in Automobile engineering. Moreover transfer of technology and local manufacturing of vehicle components are minimal. Although, the Automotive Parts industry has shown an active growth in the last many years and a variety of automotive parts have been developed locally but still the full implantation of deletion program has not yet been achieved due to vested interests of Vehicle Assemblers resulting the shortage of technology transfer in the vendor industry.

- The overall performance of Pakistan Automotive Sector has not met its true potential. Although Motorcycle Segment has shown commendable results but the Car segment with few exceptions is providing lesser technology and features as compared to global market. Especially in small cars segment the technology still used has been phased out in the international market and the safety features like air bags and ABS Brakes etc are not provided and most of the cars come with inefficient fuel technology engines. Car Assemblers are continuously increasing prices and making huge profits by not providing Pakistani consumer with the features essential in global markets of the same make and model. Hence the value provided to the consumer is lesser than the cost paid.

- Instead of addressing these issues the Government relaxed the import of used cars and as a result record imports of almost 57000 units were imported in 2011-12. This gave a severe blow to the existing automotive sector and the allied industries.

- The auto policy remained unable to deliver due to many issues like formulation of quality standards and specifications could not be done, overlooking the ground and market realities, ignoring consumer issues of low quality and high prices and not hand holding the vendor industry to enter into joint ventures with international auto parts manufacturing companies and acquiring new technology and techniques.

- The Government run organizations like PITAC, TUSDEQ and PSQC did not play their role in upgrading the local auto parts industry. The misuse of SRO's like 577(1)/2005 which provides exemption on the duties on import of used cars and 655(1)/2006 and 656(1)/2006 have also in a way hindered the growth in local Automotive Industry.

- Research and development is essential for the growth of this sector. Government should encourage R&D by giving sales tax exemptions on new products, or cost-sharing with local firms through technology development funds.

- Import of used vehicles during 2015-16 registered a dramatic increase of 67 % over the previous year. During 2015-16, a total of 53,600 used vehicles have been imported under gross misuse of the three schemes as compared to 32,100 vehicles imported in 2014-15. This amounts to a business activity of Rs 75 billion per year entirely undertaken in the informal sector or black economy.

- Import of used cars is the biggest impediment to bringing new investments in the auto sector, either by new entrants or by current assemblers. Even after the ADP’s announcement, the foreign investors were undecided as to why they should make long-term investments worth hundreds of millions of dollars in a country where they have to compete with over 50,000 used vehicles imported every year in blatant violation of the law.

- The illegal import of cars creates a black economy worth Rs67 billion in 2015. Fixed duties under SRO 577 were suppressed by 30%. It is a major hindrance in attracting long term investment.

- The truck and bus assemblers saw their productions increase substantially from a very low base as public and goods transport has not yet come of age in Pakistan. Jeep production has literally stopped in the country. Motorcycle production has remained stagnant in last three years.

- The bike-making units based on Chinese technology lost substantial market in 2016 because the largest Japanese manufacturer lowered its prices to reduce the gap between Chinese and Japanese motorcycles. The sluggishness in motorcycle sales was mainly due to lack of cash in rural economy due to the failure of crops.

- Local tractor manufacturers reported a 54 % YoY increase in sales for five-month period of 2016-17, to 17,541 units. For the month of November 2016, sales improved 127 per cent YoY to 5,145 units. The analyst attributes this strong growth in tractor sales to lower retail prices due to 5 % reduction in General Sales Tax (GST), announced in the 2016-17 budget and improved farm economics. The government provided relief to the local farmers announced incentives to the agriculture sector in current year's budget, including reduction in urea prices and financing rates.

- The anticipated entry of other auto manufacturers in Pakistan, including Nissan, Datsun, Renault, Volkswagen etc in the near future could give a really tough time to the big three in Pakistan.

- At present Pakistan is not producing any exportable vehicle as the companies lacked international standards. The companies even abandoned deletion programme and were not meeting any engine specifications used worldwide.

- Vehicles assembled by these manufacturers are incessantly criticized for their inferior quality when compared to the specifications of imported cars. Despite reporting high profits in the last few years, these firms have still failed to utilize their assembling plants to at least an ideal if not perfect capacity. This mis-development on top of weak governmental controls has brought about a critical shortage of supply, notwithstanding the skyrocketing car prices in the domestic market.

- The confidence of original equipment manufacturers and the parts supplier industry, that invested more than Rs100 billion in automobile and parts manufacturing, has been somewhat low due to frequent policy changes in the past. The Asian countries such as Japan, Korea, Thailand, Malaysia, China, Indonesia, India and Vietnam present a great case of economic revivals and turnaround by way of having a vibrant manufacturing base, particularly of automotive manufacturing. These countries have protected their local manufacturing industries through various tariff and non-tariff barriers, besides restricting import of used cars to ensure that locally manufactured automobiles are promoted.

- Instead of correcting the existing situation and adjusting its policies to be like those of other successful developing countries, the government is now trying an entirely new approach, through its new policy of favoring new investors.

- The industry has the following policy reservations:

  - New policy is discouraging for the existing auto assemblers from making any new investment in Pakistan and consider moving to other, more welcoming, destinations.
  - They have failed to localize auto parts used in the car assembly, the car models used are out-dated and local cars are more expensive than those produced elsewhere.
  - There is a need to look at some other countries where auto industries have flourished and the factors that contributed to that success.
  - If the market forces prevail, it would be in the best interest of consumers, the assemblers, government revenue and the environment.

- The argument of car makers is simple – they want the same incentives as those being offered to new entrants. The government, on the other hand, is visibly disappointed at the lack of progress after having extended incentives in the last few years.

- Under SRO 577(I)/2005, duties and taxes rates are fixed in US dollars. The fixed duties are highly suppressed and causing a loss of tax revenue to the government and subsidizing imported used cars is also damaging domestic auto industry.

OUTLOOK

- The financial year 2015-16 results, auto assemblers project 2016-17 as very promising on the back of positive economic indicators, rising personal incomes and cheaper car financing by banks. **The outlook is positive.**

Association:

- Pakistan Automotive Manufacturers Association (PAMA)

www.pama.org.pk

- Pakistan Association of Automotive Parts & Accessories (PAAPAM)

www.paapam.com

AUTOMOTIVE-PARTS & ACCESSORIES

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	4		
			2015-16	2014-15	
A.	Industry Sales	Act/Est	43,312	54,140	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	2,914		
C.	Financial Charges	Act/Est	2,210		
D.	PAT	Act/Est	2,758		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	26,913		
F.	*Current Assets*	Act/Est	19,180		
G.	*Cash & Bank Balances*	Act/Est	2,376		
H.	*Trade Debtors*	Act/Est	3,264		
I.	*Short Term Investments*	Act/Est	3,822		
J.	*Total Equity*	Act/Est	18,080		
K.	*Current Liabilities*	Act/Est	9,040		
L.	*Total Liabilities*	Act/Est	10,133		

AUTOMOTIVE PARTS AND ACCESSORIES

SECTOR OUTLINE

Automobile industry generates 10% revenue in the industrialized world which not only helps in industrialization, but also provides mass employment to the people. An automobile has over 2000 components and parts and the market assemblers are usually able to produce only a small number of critical parts whereas a majority of the parts are manufactured and supplied by ancillary industry, sub-contracting, and vendor industry. Today, the private sector in Pakistan is able to manufacture 40% to 50% parts locally. There are a few who have attained deletion of up to even 70%. The domestic component manufacturing industry, however, is still in the process of development and therefore 40% of the domestic requirement of auto parts is met through imports. These components are imported from Japan, U.K., Italy, USA, and Germany. The auto-part Industry in Pakistan is generating exports of Rs128 million.

The auto-parts sector is made up of a diverse set of firms, both in terms of products manufactured and in terms of size. It has two segments: sales to original equipment manufacturers (OEMs) for assembly into new cars, and the replacement market. A large number of companies operating in the automotive parts market in Pakistan are engaged in the production of repair parts. The OEMs typically provide a blueprint and manufacture to the exact specifications required by the automaker. They basically supply single unit parts; however, some OEMs make components combining multiple parts. In Pakistan, most of these are directly supplied to automakers, hence they are considered to be first tier suppliers. It can thus be concluded that the auto parts industry in Pakistan does not consist of clear multiple tiers, which may be seen in other countries.

Currently, four of the top 10 global auto assemblers are producing cars in Pakistan, utilizing up to 70% local parts. The sector is supported by 3,000 auto parts manufacturers (APMs) providing three million direct and indirect jobs. They produce a variety of parts: interior trims, plastic parts, forgings, casting, machined parts, rubber parts and electrical parts. The auto manufacturers produce sensitive and sheet metal parts in-house.

Automotive Development Policy 2016-21: The new automotive policy, approved by the Economic Coordination Committee on 15 March 2016, has incentivized potential entrants by offering them lower tax rates on localized and imported parts and duty-free import of plant and machinery for setting up assembly and manufacturing facilities, while permitting the import of 100 vehicles of the same variants in the form of completely built units at 50% of the prevailing duty for test marketing after the groundbreaking of the project. These incentives are likely to persuade foreign manufacturers to establish a footprint in Pakistan, where a sizeable demand exists, helped by low oil prices, availability of cheap financing, and lack of an efficient public transport system. The policy does not increase the age limit on the import of used cars, maintaining the status quo of three years. The government has also excluded the definition of medium knocked down units to enable the manufacturer to establish a full-fledged plant in the country. The existing car manufacturers will not be entitled to the benefits that are being offered to the new investors.

OPPORTUNITIES

- ▲ The auto policy will prepare and direct penalties to all manufacturers for missing deletion standards, hoping to encourage vendors and manufacturers to increase the localization of parts to overcome failing targets.

- ▲ 90% of all auto sector employment is generated at the vendor factories. Hence investment in local parts manufacturing will have a huge impact on job creation in the country. The investments in auto sector are always a win-win scenario for assemblers, vendors and government.

- ▲ A collaborative strategy between the government, car assemblers and parts manufacturers can bring massive amount of foreign investment in Pakistan, setup new plants, launch new models at lower prices and provide value added jobs to thousands of engineers and graduates in the country. For luring investment by automakers and their vendors, the government must setup a dignified consultative process with the representatives of car makers and parts manufacturers in the country and offer them full support to bring foreign investment to setup new capacities in auto assembly and production of localized parts. A committee of 8-10 stakeholders (government, OEMs, and vendors) should be set up to focus on passenger car segment issues such as growth, investments, taxes, employment, product line up and future market volumes.

- ▲ New companies with technological know-how are in high demand by the local industry. The import of German technology, training and skill upgrading programs can be of immense importance, as it would provide opportunities to benefit from the German know-how as well their technology in terms of improving the productivity, quality and for the marketing and development of value-added products. In comparison to a global average of 341, Pakistan has a low motorization rate of 18 vehicles per 1000 persons. This factor coupled with the fast urbanization in the country makes it quite evident that there is huge potential in the automotive sector. Standard of living is improving in the country and income levels are also increasing; hence vehicle purchases are expected to increase.

- ▲ Pakistan Association of Automotive Parts & Accessories Manufacturers (PAAPAM) is confident that it would get orders from the American auto parts manufacturer for a new model of Fiat Chrysler, expected to be launched in 2017-18. A delegation of the association recently returned from a business trip to the USA, Germany, and Italy, and had recently convened meetings with the key persons of Fiat Chrysler Automobile Tire 1 manufacturers. PAAPAM has been working to increase export of auto parts from Pakistan and making all out efforts to achieve that objective.

- ▲ In December 2016, PAAPAM and the NED University of Engineering and Technology signed a memorandum of understanding to develop strong linkages between industry and the academia. The purpose of the MoU was to create a long-term framework of collaboration and cooperation, and development of strong linkages between the industry and the academia in the fields of consultancy, training, research and development.

THREATS

- ▼ Auto parts and accessories exports declined to $2.83 million in July-September 2016 from $4 million in the same period of 2015. Total exports during 2015-16 fell to $14.5 million from $20.3 million in 2014-15, as reported by the Pakistan Bureau of Statistics. PAAPAM attributes this fall to the fact that the manufacturers focused more on meeting the surging demand of parts of locally produced vehicles due to which they could not concentrate on exports.

- ▲ An obvious but neglected area should finally receive attention, i.e. improper and unnecessary imports of full CKD kits when local components are available. In order to utilize available capacity as well as to implement the spirit of CKD imports, assembly kits for cars, trucks, tractors, buses, vans, etc., may be allowed as long as they are not locally available in sufficient quantities and in good quality, like radiators, batteries, etc. as is done in most other countries.

- An impression has been created that the import of parts in knocked down/semi knocked down condition for local assembly and progressive local manufacture must be cheaper than the fully built up units. Pakistan's own experience for a number of years has been the other way around, and particularly of imported knocked down parts from Japan. Since the knocked down parts and those particularly from Japan come from automated plants, their cost of packaging of diverse parts and freight becomes higher than fully built up units which come out more economically. As no two units are alike: treating every importer assembler or manufacturer alike is, therefore, wrong. However, some general principles may be fairly and clearly defined and applied consistently. There should be some clear proof or factual basis for valuation not the conceptual beliefs of an assessor.

- Similarly, sales tax on locally produced automotive parts is an excessive burden as there exists no standardization in this industry. Production is in small volumes and in small batches. This additional burden is a major handicap in its growth trajectory, which only leads to rampant smuggling and under-invoicing.

- PAAPAM has expressed strong reservations against inclusion of the automobile sector in the Pak-Thai FTA negotiation. According to them, the inclusion of auto parts in FTA with Thailand will instantly result in collapse of the local auto sector. New entrants would shy away, the auto parts industry would perish and all the benefits to the country would be lost.

- The association has also asked the government to address the three "key shortcomings" of the auto policy. Firstly, the special economic zone (SEZ) incentives to auto part makers on setting up new capital-intensive plants to produce parts that have not yet been produced in Pakistan must be incorporated as committed to PAAPAM. Secondly, existing assemblers, on condition of setting up a new Greenfield plant, should also be granted the same incentives as new entrants, albeit for a shorter period of two years. And thirdly, used car imports under the garb of gift, baggage and transfer of residence (TR) schemes needed to be curtailed. In 2015, Pakistan imported around 45,000 used vehicles with sales value of Rs67 billion. It is said that had these vehicles been produced in Pakistan with local parts, a total of 143,000 jobs could have been created. [The import of used cars jumped from 32,100 units in FY15 to 53,600 units in FY16, showing an increase of 67%.

- The main auto parts are being manufactured in Pakistan but we see a lack of inter and intra cluster cooperation which is due to lack of importance given to the parts manufacturers on part of the government and the manufacturers themselves. Pakistan lacks competitive advantage in any of the products being made locally. The bases of competitive advantage are quality, cost efficiency and speed. Local component manufacturers are known for their low quality and hence low price products.

OUTLOOK

- The localization of the auto parts industry has benefitted the auto parts and accessories manufacturers. **Competition in the sector will further make investments a necessary tool for survival.** The mission should thus be to build a competitive edge in the local automotive parts industry by maximizing local content and by creating an environment which is conducive to innovation and rapid modernization, and in sync with latest technology and R&D.

  Pakistan auto industry employs almost 3 million persons, directly and indirectly. The country, with a population of 200 million, desperately needs avenues to create employment opportunities. As a result of macroeconomic stability, low inflation, increasing consumer financing and rising number of young consumers, the market for automobiles is expected to touch a figure of 400,000 vehicles by 2017-18. **Outlook is positive.**

Associations:

- Pakistan Association of Automotive Parts & Accessories Manufacturers (PAAPAM)

http://www.paapam.com/

- Pakistan Automobile Spare Parts Importers & Dealers Association (PASPIDA)
- Association of Pakistan Motorcycle Assemblers (APMA)

http://www.motorcycleexport.com/str2/

- Pakistan Automotive Manufacturers Association (PAMA)

http://www.pama.org.pk/

- All Pakistan Motor Dealers Association (APMDA)

CARPETS & RUGS

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	150,000		
			2015-16	**2014-15**	
A.	**Industry Sales**	Act/Est	9,897	12,098	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	Act/Est	-88		
C.	**Financial Charges**	Act/Est	3		
D.	**PAT**	Act/Est	-89		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	164		
F.	*Current Assets*	Act/Est	92		
G.	*Cash & Bank Balances*	Act/Est	1		
H.	*Trade Debtors*	Act/Est	23		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	137		
K.	*Current Liabilities*	Act/Est	30		
L.	*Total Liabilities*	Act/Est	30		

CARPETS & RUGS

SECTOR OUTLINE

Pakistani carpet have become renowned the world over for their exquisite design, subtle elegance, attractive colors and workmanship. An important factor in this growth has no doubt been the carpet weaver who has gradually grown as an artist, a creator who could weave poetry into their design and every knot they tie, giving a touch of aesthetic beauty to their creations. Pakistani handmade carpet industry is mostly a rural-based cottage industry. The weaver community belonging to the weaker section of the society forms an integral part of the industry. It requires almost nil capital investment and is hundred % export-oriented. Pakistan exports 90% of hand knotted carpet production. The consumption of carpets and floor covering has slightly shifted from hand knotted carpets to handmade floor covering such as hand tufted, hand woven, etc.

Over the years the consumption of hand knotted carpets in the world has declined but Pakistan has been able to maintain its position in the world market in terms of value. There are six leading carpet suppliers in the world market viz. Iran, China, India, Pakistan, Nepal and Turkey. Iran ranks number one followed by China. Pakistan ranks number four in terms of value and number two in terms of volume.

A single piece of carpet requires six months to a year's labor. Around 70% of the work force of this sector comprises of women who make carpets at home. According to the Pakistan Carpet Manufacturers and Exporters Association (PCMEA), the country's 150,000-200,000 looms employ around 200,000-250,000 weavers.

OPPORTUNITIES

▲ Pakistan's hand knotted carpets are in much demand in the EU, US, Middle East and Far East countries, while Eastern Europe, China and South America are the potential regions of carpet export.

▲ The 34th Pakistan International Handmade Carpet Exhibition was organised by Pakistan Carpet Manufacturers and Exporters Association (PCMEA) in collaboration with Trade Development Authority of Pakistan (TDAP) on Oct 6-8, 2016. Some 62 national manufacturers displayed their products, while delegates from China, Germany, Japan, Brazil, Mexico, USA, UK, Iran, Italy and Turkey attended the exhibition. Such exhibitions not only facilitate the entrepreneurs and business owners but also highlight the soft image of the country, provide opportunity for exporters to enhance their brand and product visibility, and promote new and existing products. In the above-noted three-day exhibition, the Minister of Industries assured the industry of extending all-out support for value addition of their products. He added that the government was considering to provide relief on various input heads including energy cost, cost of doing business, and domestic taxes.

THREATS

▼ Pakistan has lost its share in global carpet trade as its export value declined by more than 50% over the last decade, down from $278 million in 2005-06 to $97.680 million in 2015-16. Quantity-wise also, the volume fell to 1,922,000 square metres in 2015-16 from 2,493,000 square metres a year ago, a drop of 22.90%.

▼ According to carpet exporters, Pakistani brands have lost to carpet exports from India in the international market. A decade ago, India in comparison had annual carpet exports of $300 million which climbed to $8 billion in 2015-16. According to the exporters, after the 2008 global recession, India came up with an incentive laden package to boost carpet exports, while Pakistan's industry suffered because of a lack of support from the government's side.

- The country's carpet exports to Europe and China have declined by more than 50 per cent. However, the loss could be compensated by increasing volume of exports to China, where the handmade product has been in great demand.

- Pakistan is also losing the Turkish market — the second biggest importer — because of the recent imposition of 42.2% additional customs duty on Pakistan's hand knotted carpet. Also, the GSP plus scheme failed to provide a boost to carpet exports to the EU. Interestingly, the commerce ministry included machine-made carpets in the FTA concession list, while handmade carpets were excluded from the list. As there is no demand for machine-made carpets in the international market, PCMEA has demanded that handmade carpets be included in the FTA under discussion with Turkey, and all the others existing ones, including China, Malaysia, Sri Lanka, etc.

- With the Afghan carpet weavers leaving as Pakistan pushes for repatriation of Afghan refugees, local and Afghan carpet traders and manufacturers fear that the carpet industry in KP would collapse as it is almost entirely manned by Afghan artisans. Skilled labor and investors are encouraged by governments all over the world, and the government may provide work permits or multiple visit visas to Afghan skilled weavers and manufacturers. Afghan repatriation would not affect the carpet industry in Punjab because it engages local skilled labor.

- Further, this industry which has been traditionally labour-intensive, has now undergone technological advancements. Carpet makers operate like a cottage industry. Often, these traditional workers lack proper training and the industry requires financing to complete the supply chain. There is only one training institute in Lahore. There is no facility of research and development either. In 2008, after a SMEDA feasibility report, the KP government allocated PKR 100 million to the Carpet Nagar project – an industrial cum residential project, but it never saw light of the day.

  To keep pace with the international trends, Pakistan not only needs to invest in modern technology and machines, but also in industry-specific R&D and skill development of its manpower.

- The carpet industry faces infrastructure problems such as poor roads, lack of direct linkage to markets and ports, power shortage, etc. Infrastructure for on-time production and well-planned and aggressive marketing is necessary to compete internationally. The workforce in general does not have market acumen or a market plan to project their product and compete with other countries' products. Carpets in a variety of designs and colours, closely monitoring latest trends and tastes, should be produced to capture the international market. Besides aggressive marketing, Pakistani carpets and rugs should be showcased in international forums and exhibitions.

- Handmade carpet in many countries is still considered a luxury item with a very high duty structure that affects the export earnings of the industry. Pakistan is facing stiff competition from its rivals India, Iran and China in the exports of carpets. While revival of afghan carpet industry has increased competition for the Pakistan's carpet industry, India, Iran and China use sophisticated technologies in graphic designs. Pakistan is still depending upon conventional designs that are least in demand in the world.

- Pakistan has to make an extra effort in promoting exports by arranging trade fairs and exhibitions. Pakistan participates in only two exhibitions: Shanghai Domotex, China and Hanover

Tex, Germany. The local carpet industry says the participation in these exhibitions has now been made so costly that it is very difficult to exhibit their products.

OUTLOOK

- The ailing carpet sector is facing several challenges, from production to market access. Analysts believe **Pakistan lacks the facilities to produce carpets as required by foreign buyers.** There is a need to develop carpet clusters in the places where carpets are made. Exporters need to develop such clusters hosting a few hundreds of looms at a specified place. **Outlook is negative**.

Association:

- Pakistan Carpet Manufacturers and Exporters Association (PCMEA)

CEMENT

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	24	
			2015-15	**2014-15**
A.	Industry Sales	Act/Est	234,019	221,234

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

B.	PBT	Act/Est	80,583
C.	Financial Charges	Act/Est	3,653
D.	PAT	Act/Est	56,669

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

E.	*Total Assets*	Act/Est	446,633
F.	*Current Assets*	Act/Est	140,662
G.	*Cash & Bank Balances*	Act/Est	37,666
H.	*Trade Debtors*	Act/Est	8,401
I.	*Short Term Investments*	Act/Est	30,868
J.	*Total Equity*	Act/Est	271,257
K.	*Current Liabilities*	Act/Est	70,137
L.	*Total Liabilities*	Act/Est	150,786

CEMENT

SECTOR OUTLINE

Cement is a strap used to connect the world through roads, highways, motorways and runways. It is a common construction material that is blended with other materials to build and upgrade the physical infrastructure to make modern life possible and is very important for fast growing economies.

World demand for cement is projected to rise 4.5% per year to 5.2 billion metric tonnes in 2019. Gains will continue to be driven by healthy increases in construction activity in developing countries throughout the Asia/Pacific and Africa/Mideast regions, driven by economic growth and increasing per capita income levels.

One of the global researches predicts that Chinese cement industry will continue to dominate the global market with more than half of the global cement production till 2019. North American industry will also contribute heavily as they are recovering from recessionary conditions that began in 2007. In terms of growth, India will have the fastest growth by 2019 with the rate of 8.0% per year. Many other developing countries in the Asia/Pacific region will post similarly strong growth, including Vietnam, Indonesia, and Pakistan.

The Asia-Pacific region has the largest share of the global cement market in terms of consumption. Other countries such as Iran, Brazil, Indonesia, Turkey, Russia and Japan hold great potential for growth due to rapid urbanization and industrialization. European and North American countries are also having healthy growth due to steady demand for cement.

Talking about Pakistan, the cement industry in Pakistan has come a long way since independence when the country had less than half a million tons per annum production capacity. At the time of independence in 1947, only one or two units were producing grey cement in the country. During the decade of 1948-58, the number of cement units increased to six. Now, it is one of the key sectors that generate foreign exchange for the country due to its certified quality.

What makes the quality of Pakistani cement exquisite is the basic raw material and limestone they use and that makes other countries prefer our cement over other cement producers. But, its per capita cement consumption stills stands at 140 kgs which is one of the lowest in the world since global average per capita cement consumption is 400 kgs.

Table 1: Capacity Utilization - North			
Year	Capacity (Million Tons)	Total Dispatches (Million Tons)	Capacity Utilization
9MFY16*	37.99	22.49	78.93%
FY15	37.99	27.91	73.47%
FY14	36.99	27.09	73.24%
FY13	36.99	26.45	71.49%
FY12	36.99	25.63	69.28%

Table 2: Capacity Utilization - South			
Year	Capacity (Million Tons)	Total Dispatches (Million Tons)	Capacity Utilization
9MFY16*	7.65	5.86	102.1%
FY15	7.65	7.49	97.90%
FY14	7.65	7.19	93.97%
FY13	7.65	6.99	91.35%
FY12	7.65	6.89	90.04%
** Annualized*			

Year	(Dispatches M. Tons)			%age	
	Local	Exports	Total	Local	Exports
FY12	23.95	8.57	32.52	74%	26%
FY13	25.06	8.37	33.43	75%	25%
FY14	26.15	8.14	34.29	76%	24%
FY15	28.21	7.20	35.41	80%	20%
9MFY16	23.94	4.41	28.35	84%	16%

OPPORTUNITIES

- The start of construction projects under China-Pakistan Economic Corridor (CPEC) will be a key catalyst for the growth of Pakistan's cement industry. Experts suggest that CPEC will create additional cement demand of 1.5-3 million tons per annum.

- The government expects construction-related activities to pick up further momentum on the back of increasing public sector development spending coupled with massive infrastructure and power projects under the China-Pakistan Economic Corridor (CPEC).

- The government has allocated Rs 1,675 billion for PSDP in FY17, which is 20 % higher than last year.

- The construction sector, a major consumer of cement, posted an excellent 13% growth in fiscal year 2015-16 compared to average growth of 4% in the past four years due to economic recovery and the booming real estate sector.

- Cement dispatches to domestic markets during the month of March increased by 19.13% to 3.05 million tonnes compared with 2.56 million tonnes during the same month last year. The exports which dropped by double digits in the first seven months of this fiscal year and showed a marginal growth of 1.47% during February, registered an impressive growth of 20.58 per cent during March as the quantity increased to 534,804 tonnes compared to 443,539 tonnes during March 2015. Total dispatches during March were 3.583 million tonnes compared to 3 million tonnes during same month last year showing a healthy increase of 19.34%.

- The cement industry is among the highest contributors to the national exchequer over the last four years and has paid Rs. 189 billion in taxes. The contribution has more than doubled from 39 billion rupees in 2012-13 to approximately 83 billion rupees in 2015-16.

- In order to meet the massive demand taking place in the country due to various Government and CPEC projects coming up, the industry has gone in for an expansion in its capacity from 44 million tons to 60 million tons within two to three years.

- The growth trend indicates that in the next two years the current production capacity of 46 million tons will be insufficient to meet domestic demand. The industry is making massive investments to add new capacities. The capacity would increase to 72.25 million tons in the next two to three years with additional domestic sales of 26 to 28 million tons. Cement consumption was considered a strong barometer of economic growth so the government to consider reducing taxes in order to give a boost to cement demand.

- Major cement producers have announced expansion plans for 9.7 million tons, which would enhance total capacity to 55.3 million tons per annum compared to present capacity of some 44 million tons per annum. Industry sources said that some demand from CPEC projects is also likely to arrive in coming days, therefore cement plants have initiated expansion plans to meet the rising demand. However, cement exports are presently on the lower side and they are expecting no major changes in external demand.

- The industry, during the past two decades, has increased its installed capacity by five times, doubling its production capacity every 7-8 years. The buoyancy in the sector, on the strength of robust domestic consumption during last 20 months, has encouraged the players to go for further expansion in capacities.

- Lucky Cement, a leading cement producer in Pakistan, will raise its production capacity by 1.25 million tons a year through $30 million in investment. Keeping in view the growing demand of cement in Pakistan on the back of public and private sector construction projects, as well as mega infrastructure development projects under the CPEC (China Pakistan Economic Corridor), the company has decided to increase its cement production capacity of Karachi plant by 1.25 million tons per annum. After these expansions, the company's total production capacity will increase to 11.30 million tons a year from the existing 7.75 million tons a year. The province accounts for 81 % or 37 million tons of the total production capacity in the country.

- Even with higher taxes and input cost, the cement rates in Pakistan are cheaper than neighboring India (around 4.85 US $ to 5.35 US $) and Sri Lanka (5.84 US$ to 6.14 US$). The strength and quality of Pakistani cement is superior to that of cement produced in neighboring countries. This is the reason that Pakistan exports cement to almost all its neighbors.

- In the current scenario, when the government has allocated a higher budget for development and housing sector is thriving, domestic cement demand is likely to further increase in coming months. Specifically, hydel power plants including Kohala Hydel and Soki Kinari projects and transport infrastructure projects would stimulate cement demand in the country.

- Further impetus to demand would come from rapid urbanization and the related development of mega housing projects. As per Economic Survey 2015-16 the rural-urban mix for the country has shifted from 65:35 in 2005 to 60:40 in 2016. More importantly, the demand pressures may continue going forward due to persistent housing shortages. According to estimates, the housing shortage in the country stood at 9 million units in 2014 and for bridging this gap would require huge quantity of cement and related construction materials.

- The cement industry of Pakistan is turning towards power generation, which would not only cater to their needs but would also supply electricity to the national grid.

- According to the Industry's data analysis, cement manufacturing has reached its new highs and with some incentives from government the industry can further explore Indian, Afghan and other neighboring markets, earning valuable foreign exchange for the country.

- ▲ On the cost side, international coal prices, which make up significant portion of the cost of cement manufacturing, have tumbled to near 11-year low of US$50/ton. Crumbling coal prices along with lower electricity charges are likely to support margins of cement players.

- ▲ Stellar growth in high margin local dispatches has overshadowed the concern of falling exports. This improvement in domestic front came on the back of 1) increase in private sector expenditure on construction & housing, 2) better security situation, 3) improving macros and 4) higher Govt. infrastructure spending.

- ▲ A Chinese investor has expressed interest in due diligence of Dewan Cement Limited in order to acquire a stake in the company. If this due diligence results in some deal, the new investor will most likely install a new plant which may take up to three years to start operations.

THREATS

- ▼ In last fiscal budget, the government increased taxes on cement from Rs. 600 to Rs. 1,000 along with sales tax of 17 %, while the industry previously paid Rs. 2,492 per tonne.

- ▼ GIDC was imposed last year; industrial tax is now 5 %, which was 4 % two years back; one time super tax was imposed, and duty on coal import increased from 1 % to 6 %. This all increased the minimum retail price of cement bags. These taxes had also increased the cost of doing business in Pakistan.

- ▼ The factors contributing to decline in exports include increase in fuel prices and other input cost, and the most damaging was the barriers erected by the countries we export to, such as anti-dumping duty imposed by South Africa to protect its local industry. Moreover, to discourage imports, the tariff is around 19 % in India including 3 % education cess to promote education in the country, which makes it difficult to compete with other exporting countries which have lesser input cost.

- ▼ The industry had paid Rs 40 billion in terms of just three direct taxes (excise, sales and income) during the first six months of this financial year, while the figure would touch Rs 90 billion mark at the close of the FY.

- ▼ While the world is strengthening barriers on import to promote local industries, it is surprising that some quarters are promoting imports against local industrialization in Pakistan which beats all the economic theories. Those demanding zero duty on cement imports should see the fate of other energy intensive industries like tiles and tyres after reduction in duties because energy cost in Pakistan is highest in the region.

- ▼ Coal is a widely used fuel in the production of cement and its increasing prices during last few months has a significant impact on input cost whereas recent increase in the oil prices has further increased the cost of cement production.

- ▼ UAE and South Africa used to be the thriving markets for Pakistani cement exporters in last few years but they have started building up their own cement production capacities to establish their local cement industry, this has not only adversely affected Pakistani cement manufacturers in terms of exports but also significantly increased the global competition which has negatively impacted cement prices as well.

- Export market for Pakistan cement manufacturers is more competitive than local and that is the reason that local cement manufactures are now keenly focusing on domestic market. The cement industry of the country is lagging behind when it comes to and is also suffering from a lack of skillful human resource at each tier.

- Over 11,400 tons of cement was exported to Pakistan during the eight months to November 2016, registering an over 100% growth. Forty-six trains transported Iranian cement from the city of Zahedan in Sistan-Baluchistan Province to Pakistan's Quetta City during the eight-month period. Iran is looking for alternative export destinations after losing the lucrative Iraqi market, as Baghdad banned imports of Iranian cement in April this year to support local producers.

- The industry growth had already been vulnerable owing to smuggled and under-invoiced import of cement while export declined to its lowest ebb in November 2016. Cement smuggling from Iran in Baluchistan had been causing substantial loss to the national exchequer and the government was urged to take immediate steps to curb this menace. The government should support the industry by placing anti-dumping duty on Iranian cement and decreasing the taxes to make it more affordable to consumers which will increase the demand of cement.

- Exports from the country declined by 19.02% to 4.406 million tonnes compared with exports during the first 9 months of the previous year which were 5.44 million tonnes. The overall situation during the first three quarters of the current fiscal year showed 9.95% of growth compared to the same period of the previous fiscal year as total dispatches increased to 28.34 million tonnes against 25.78 million tonnes from July 14 to March 15.

OUTLOOK

- **The outlook for the Pakistan cement industry is positive and upbeat with expansion announced by 9 key industry players over the next few years. As a result, cement demand is forecast to grow by at least eight % over the next five years (FY16-21) on the back of an average GDP growth of 4.7 %.**

Association:

- All Pakistan Cement Manufacturers Association

www.apcma.com

CHEMICALS (INC. PLASTIC &RUBBER PRODUCTS)

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	27		
			2015-16	2014-15	
A.	Industry Sales	Act/Est	98,816	138,422	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	5,005		
C.	Financial Charges	Act/Est	1,197		
D.	PAT	Act/Est	3,544		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	87,047		
F.	*Current Assets*	Act/Est	34,463		
G.	*Cash & Bank Balances*	Act/Est	2,544		
H.	*Trade Debtors*	Act/Est	6,872		
I.	*Short Term Investments*	Act/Est	156		
J.	*Total Equity*	Act/Est	38,614		
K.	*Current Liabilities*	Act/Est	31,690		
L.	*Total Liabilities*	Act/Est	44,057		

CHEMICALS

SECTOR OUTLINE

Chemical industry is a major contributor to the world's economy where the annual consumption of chemicals stands out at USD 4.6 trillion. Pakistan has yet to realize its true potential in this sector. Few segments of the Pakistani chemical industry are fairly developed in basic chemicals including fertilizer, oil refining, sulfuric acid, soda ash and chlor-alkali. In the past decade, the industry has also witnessed steady growth in some of the emerging subsectors including textile and tanning chemicals, polyester, synthetic fiber, paints, varnishes and miscellaneous coatings.

PCMA came into being in August 2015 after lots of deliberation and hard work of its founder members with its head office at Lahore while its associated office established in Karachi. In such a short span PCMA proved to be a successful association and earned a name as trustworthy association in Pakistan with the joining hands of reliable names of country like Sitara, CHT, Nimir, Ittehad, ATS synthetic, SRC, Olympia, Pharmagen, Descon, Mian Chemical, Rudolf, Engro polymer, Waleed tech, DIC, ICI, Berger paints, Sitara Peroxide, Sultan Chemical, Bin Rasheed, Radiant, Lotte, Tufail, Purechem, Crescent, Power, Qaiser LG, Descon Oxychem, Alka, Phoenix, Multi- resin, Harris Silicone, Hi Tech, Dynea, Gulf and Faras, Chromatex and Shaheen, and other prospective members of around one hundred are pouring in gradually. By virtue of its volume of around 8.5 billion USD, even now chemical sector is the biggest sector in Pakistan while it has a potential to grow owing to its importance.

OPPORTUNITIES

- ▲ PVC consumption in Pakistan is likely to be supported by the increasing construction activity and the above per capita consumption indicates that there remains significant potential for growth.

- ▲ In 2015, domestic PVC market size stood at 179 KT. The Company witnessed substantial volumetric growth in sales which was primarily driven by increased penetration in the domestic market and import substitution. Domestic PVC is manufactured solely by Engro Polymer & Chemicals which sells under the brand name of "SABZ". In 2015, EPCL's market share rose to 83% as compared to 77% in 2014.

- ▲ In the domestic market, pipes and fittings constituted a significant portion of the PVC market. Strong demand from construction sector combined with increased consumption of PVC pipes in government and large scale infrastructure projects contributed towards significant growth in EPCL sales.

- ▲ Improved outlook of construction sector, Public Sector Development Programme along with positive economic activity especially the launch of China Pakistan Economic Corridor (CPEC) is likely to support PVC demand in the domestic market, positively contributing to PVC consumption.

- ▲ Pakistan is blessed with a diverse and vibrant chemical industry having the potential to become a regional/global player. Chemical Association (PCMA) is formed to translate this potential into reality. PCMA's mission is to become an apex body central to the political and regulatory process of the chemical industry and is to be valued and trusted by the government, academia and community at large.

- ▲ The global chemical product market is expected to get double by 2035. Despite the fact that the growth perspectives are quite good and healthy, but the industry's dynamism is set to wane. The market is growing at an average annual pace of four % at the moment; this will expand the chemicals market by just 3.6 % per annum between 2030 and 2035. The chemical industry is a major contributor to the world's economy where the annual consumption of chemicals stands out at $4.6 trillion.

- ▲ The Asian market, however, is still gaining grounds, and its share of the market is set to rise to 62 % by 2035.

- ▲ As per Pakistan Chemical Manufacturers' Association, the volume of the Pakistani industry is around $8.5 billion, and it is the biggest sector in Pakistan. Few segments of the Pakistani chemical industry are relatively developed in basic chemicals including fertilizer, oil refining, sulphuric acid, soda ash etc. In the past decade, the industry has also witnessed steady growth in some of the emerging sub-sectors including textile and tanning chemicals, polyester, synthetic fiber, paints, varnishes and miscellaneous coatings.

- ▲ BASF, a world's leading chemical producer is identifying the need of new industrial solutions in Pakistan in the wake of Chinese-funded infrastructure developments as the company wants to increase its footprint into the country. BASF has been present in Pakistan for more than four decades. Currently, it has a production site in Karachi, while the company's offices are located in Karachi, Lahore, Kasur, Sialkot, and Islamabad.

- ▲ A lot of investment is flowing into the country and a lot more is to come as some western OEMs are also considering investment in Pakistan, and if true it would take the growth sentiment of the (chemical) industry even to the next level. The company (BASF) is closely monitoring how the foreign OEMs are shaping the chemical industry forward in Pakistan. "As the OEMs come to Pakistan their partners would also come, translating into additional foreign direct investment.

- ▲ ICI Pakistan, a leading chemical maker, expressed its interest to acquire a manufacturing facility and some non-core portfolios of Wyeth Pakistan, a pharmaceutical company owned by US-based Pfizer Inc. ICI is considering a potential acquisition of certain assets of the Pfizer-owned pharmaceutical company. The foregoing remains subject to the completion of due diligence, execution of definitive agreements and receipt of regulatory approvals.

- ▲ Abundantly available raw materials for inorganic Chemical are available at low rates in the country, which can boost Pakistan's competitiveness and comparativeness in production of caustic soda, soda ash and chlorine. Thus, Pakistan not only caters to the needs of the local Chemical Industry but also surplus is being exported to India and rest of the world which shows Pakistan's Chemical Industry has huge opportunity to grow.

- ▲ Petrochemicals remain an unexplored area for the industry. This could possibly take the chemical sector to a higher level by opening new opportunities and avenues

THREATS

- ▼ In terms of consumption, Pakistan has one of the lowest PVC resin consumption per capita in the region i.e. 0.90 Kg ahead of Bangladesh which is at 0.64 Kg.

- ▼ PVC Scrap imports were estimated to be approximately 6 KT in 2015 in Pakistan, which is an estimated decline of 70% from 2014.

- The Caustic Soda market size is estimated at 260 KT in 2015. EPCL sold 83 KT in domestic market in 2015 compared to 93 KT in 2014, which implied a market share of 32%. Decline in sales was inevitable due to aggressive market competition which affected product supply.

- Most of the Caustic demand in Pakistan is driven by textile and soap & detergent segments. Growth in these segments can propel growth in Caustic Soda demand in the country. During 2015, demand in Home Textile and Soap segment remained below expectation. Demand in textile sector remained low due to production inconsistency owing to gas outages. Demand in Denim sector, however, remained consistent.

- The global PVC market demand remained stable in 2015 due to continued growth in global economy. During the year, prices followed upstream crude and Ethylene prices and came down in the later half. However, PVC prices did not rise as much as Ethylene prices, which led to shrinkage in core margins.

- Domestic Caustic Soda market remained competitive in the period under discussion and the overall caustic demand growth remained muted.

- Domestic production of Chemical s held back because of competition from other countries, which have flooded the Pakistani market with cheap and better quality products, especially in the fields of construction materials and household consumer goods.

- Obsolescence of technology is the major drawback for the Chemical Industry of Pakistan. This not only led to inefficiency in the production processes but also leads to declined sales margins.

- In particular plastics makes up a significant portion of the chemical industry, the general failure to set up a hydro cracker plant has impeded its growth. Thus, reducing the potential benefits which could be extracted out of this industry.

OUTLOOK

- Going forward, PVC demand will continue to grow driven by growth in global economy but the quantum is expected to be muted on account of slowing growth in emerging economies especially China. **Outlook is constrained**.

Association:

- Pakistan chemical manufacturing association (PCMA)

www.pcdpk.com/pcma.htm

CONSTRUCTION

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	4		
			2015-16	2014-15	
A.	Industry Sales	Act/Est	750	714	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	49		
C.	Financial Charges	Act/Est	11		
D.	PAT	Act/Est	31		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	1,073		
F.	*Current Assets*	Act/Est	542		
G.	*Cash & Bank Balances*	Act/Est	35		
H.	*Trade Debtors*	Act/Est	261		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	656		
K.	*Current Liabilities*	Act/Est	400		
L.	*Total Liabilities*	Act/Est	417		

CONSTRUCTION

SECTOR OUTLINE

Pakistan's construction sector is booming as many mega residential, industrial and commercial construction projects are underway in major cities. Housing and construction sector has been identified as the driver of economic growth by the government and this was quite encouraging for foreign investors. According to Pakistan Economic Survey 2015-16, this sector recorded a growth of 13.1% against 6.24% growth rate last year, surpassing the targeted growth of 8.5%. Construction has a share of 12.29% in industrial sector and in GDP its contribution is 2.58%. It absorbs 7.33% of labor force.

The continuing robust construction activities (both in public and private sector), better availability of gas, persistent increase in the demand for consumer durables (particularly for automobiles) and fall in prices of key raw materials in the global market, contributed to industrial growth of 6.8 in FY16. Increased focus on infrastructure projects drove growth in construction and related industries, while Apna Rozgar scheme created demand for passenger cars and commercial vehicles.

OPPORTUNITIES

▲ The Government has undertaken a number of measures to give impetus to this sector which helped in reviving construction activities in the Country. Some of these include:

  ▪ Significant reduction in duties and taxes on import of building materials including steel and its products, and construction machinery & equipment

  ▪ Removing uncertainties from the real estate market by computerizing ownership documents

  ▪ Free Trade Agreement between Pakistan & China.

▲ Construction boom: The construction sector registered an excellent growth of 13.1% year-on-year in fiscal year 2016 compared to 4% average growth seen in the last four fiscal years, according to the provisional numbers made public by the Pakistan Economic Survey 2016. The survey noted that construction related activities will gain further momentum owing to increased PSDP spending coupled with infrastructure and power sector development programme under CPEC. PSDP budget has been jacked up by 20% in the Federal Budget 2016-17. In fact, analysts say, the size of this industry is much more than this because government numbers are based on the calculation of the last census which was conducted 18 years ago in 1998.

▲ The increase in construction activities also benefited allied industries. For example, the FY16 growth of 8.2 % in chemicals (on top of 8.8 % during FY15) mainly came from caustic soda (showing a growth of 22.5 %), paints and varnishes (10.1 %) and sulphuric acid (6.8 %). In addition, Cherat Packaging Limited (CPL) – a leading producer of cement bags – expanded its capacity by 50 million bags by installing the world's first ever European-made polypropylene plant. The outlook for cement and construction related industries, appears positive in view of upcoming development projects and thriving housing sector. Further impetus to demand would come from rapid urbanization and the related development of mega housing projects. More importantly, the demand pressures may continue going forward due to persistent housing shortages. (Bridging this gap would require huge quantity of cement and related construction materials.)

▲ Despite record high cement prices (cement prices varied from Rs485 to Rs535 per 50kg bag in the country in 2016), statistics shows that the overall domestic cement sales grew by 17.29% year-on-year during the first ten months (Jul-Apr) of FY16. Due to a construction boom, the capacity utilization of cement plants improved, close to 85%, the highest in a decade. Of the total installed capacity of 45 million tons, the industry's surplus capacity stood at just 5.87 million tons – the lowest in the last nine years.

▲ GDP from Construction in Pakistan increased to Rs259,271 million in 2015 from Rs242,203 million in 2014. Further, it averaged Rs226,289.20 million from 2006 until 2015, reaching an all-time high of Rs259,271 million in 2015 and a record low of Rs186,380 million in 2006.

▲ Federal Budget 2016-17 has introduced non-income based fixed tax regime for builders and developers. ABAD has appreciated the new tax regime in which the construction industry will pay a fixed tax, and in their words, it would end the bureaucratic blackmailing that builders usually faced. The finance minister announced the new tax measures for construction industry that are expected to generate Rs25 billion annually.

▲ Construction style in Pakistan is conventional and energy inefficient. Using highly efficient technology, Pakistan could save construction and energy costs massively. This was observed by a Chinese delegation that met President, Pak-China Joint Chamber of Commerce and Industry (PCJCCI) in November 2016.

▲ Under CPEC, the Gwadar city would become a center of social and economic activities. The mega project would have deep effects on the civil aviation sector of the country and result in significant increase in passengers, cargo activities and flights. Further, there is a development project to improve infrastructure of Pakistan Civil Aviation Authority which includes construction of new airports, and up-gradation of several existing airports, radars and navigational instruments.

THREATS

▼ In the Federal Budget 2016-17, it was announced that the government intended to introduce a new formula to calculate FED on cement, which would be fixed at Rs1 per kg, the current mechanism being different as it was calculated on variable 5% FED on Marginal Retail Price (MRP) of a cement bag. The new FED collection method increases the price of a 50kg cement bag by Rs25 to Rs35. According to Association of Builders and Developers of Pakistan (ABAD) Chairman, the change in formula of federal excise duty (FED) collection on cement would increase cement prices and add to the cost of construction in the country.

Cement prices are already higher in Pakistan compared to the region because of an active cartel of cement companies. ABAD fears that if the builders started importing cement from Iran, the government under pressure from cement companies would slap regulatory duty on imported cement. This would be similar to the case of cheap Chinese steel imports when the government slapped import duties. Cement and steel approximately make up to 40% of the total cost of construction.

▼ The problems plaguing Pakistan's construction sector include financial instability of local constructors and denial of due opportunities both in terms of independent contracts and joint ventures from the national government. The constructors find it too hard to compete with the international competitors, both at home and abroad. Most of the major contracts offered by the local authorities go to the foreign bidders, curbing opportunities for local constructors. Despite some inroads through individual initiatives, Pakistani national companies face tough times overseas in the absence of necessary support. The binding rules and regulations of WTO offer a number of opportunities on the one hand and pose considerable challenges on the other. An aggressive approach is needed to develop this important sector of national economy, to enable to brave the challenges and benefit fully from the opportunities afforded in the new global scenario.

OUTLOOK

- Construction, considered as one of the key components of industrial sector, registered an excellent growth. **Construction related activities will gain further momentum on the back of increasing public sector development spending coupled with infrastructure and power sector development programme under CPEC**. Substantial decrease in interest rates, oil, electricity, and coal prices will further favor the sector. Experts are of the view that reduced interest rate regimes always prove positive for the construction sector.

- According to estimates, the housing shortage in the country stood at 9 million units in 2014. **Construction outlook is positive.**

Associations:

- Association of Builders and Developers of Pakistan (ABAD)

http://abad-association-of-builders-and-developers.pakbd.com/

- Constructors Association of Pakistan

http://www.cappak.org/

- All Karachi Marble Industries Association (AKMIA)

http://akmia.org.pk/

- All Pakistan Marble Industries Association
- Pakistan Glass Manufacturers Association

EDIBLE OIL

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	2		
			2015-16	**2014-15**	
A.	**Industry Sales**	**Act/Est**	5,632	6,088	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	338		
C.	**Financial Charges**	**Act/Est**	57		
D.	**PAT**	**Act/Est**	216		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	2,427		
F.	*Current Assets*	**Act/Est**	1,654		
G.	*Cash & Bank Balances*	**Act/Est**	56		
H.	*Trade Debtors*	**Act/Est**	604		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	1,086		
K.	*Current Liabilities*	**Act/Est**	1,199		
L.	*Total Liabilities*	**Act/Est**	1,341		

EDIBLE OIL

SECTOR OUTLINE

The import of edible oil by manufacturing industry, mainly Palm Oil, is ever increasing and touched 2.7 million tons mark in 2016. The imported edible oil meets over 70% of our total annual consumption of 3.7 million tons. In addition, Pakistan also imports around 1.5 million tons of oilseeds (valuing $699 million approx.) for oil extraction purpose every year. With an annual extraction of around 600,000 tons of oil from local oilseed crops, Pakistan is effectively meeting just 16% of its edible oil requirements from local sources. For the remainder, it relies on imports. In 2014, Pakistan imported over $2 billion worth of oil, its second largest import after fuel oils. The major oilseed crops grown in the country include sunflower, canola, rapeseed/mustard and cotton.

During 2015-16 (July-March), 2.205 million tonnes edible oil of value Rs.136.920 billion (US$ 1.392 billion) was imported showing an increase of 24.5 % against the same period 2014-15 (July-March). Local production of edible oil during 2015-16 (July-March) is estimated at 0.462 million tonnes. Total availability of edible oil from all sources is estimated at 2.667 million tonnes during 2015-16 (July-March).

Pakistan is the world's fourth largest consumer of vegetable oil, 90 % of which is covered by imports, mostly of Malaysian RBD palm oil and olein. It also buys tiny amounts of soyoil from Latin America and sunflower oil from the Black Sea region. The industry comprising of over 122 units manufacture Banaspati, Cooking Oil and other allied products. With a young and growing population, edible oil consumption is expected to rise on a yearly basis.

Import Policy 2016: Under the Import Policy Order 2016 issued by the ministry of commerce, the government has allowed import of edible oil products having at least 50% of the shelf life, calculated from the date of filing of Import General Manifest (IGM). In those cases where shelf life is not printed on the packing, certificate issued by the manufacturers or principals in respect of these conditions shall be accepted by the customs authorities. Restrictions have also been imposed on import of edible oil products, which include that it must be fit for human consumption. Further, the edible oil products should carry only halal elements and ingredients. Besides, import of edible oil in bulk quantity shall be on landed weight and quality basis.

PALM OIL PRICES

YEAR	$/MT (GLOBAL)
2011	1077
2012	940
2013	857
2014	821
2015	623
2016 (Provisional)	630
2017 (Forecast)	643

Source: *IMF Global Commodity Price Index (Oct 2016); WB, Commodity Markets Outlook (Oct 2016)*

OPPORTUNITIES

- ▲ To enhance Pakistan's standing in the global market, it is imperative that the government and the industry's associations also concentrate on the Research and Development (R&D) of local oil and oil seeds as our dependency on the imported oils and oilseeds are enormous. While the government's priority is clearly mostly on cotton, wheat, rice and sugarcane, there is hardly any effort to increase the local oilseed production. Edible oil industry is one of the highest tax paying industries in the country and deserves equal focus and commitment. It is also important to introduce an innovative proposition for public and private sector participation in the growth of local oilseeds and to improve its yield. The Government must be pushed to provide accurate and authentic statistics of local oil seeds production so that the Industry as well as the Government may have some clear direction.

▲ Pakistan has the logistics for the import of edible oils with seaports namely Karachi Port and Port Qasim. A third seaport, Gwadar Port, is developing fast to become a prime destination for the import of oils. However, we have to consider the enormous challenge of infrastructure at Port Karachi and Port Qasim. It is important for us to continuously upgrade our infrastructure facilities keeping future consumption in mind. This should be the priority as infrastructure is the key to handling more volume and reducing the cost of doing business.

▲ Geographically, Pakistan is ideally located for the third-country trade. The export of vegetable ghee to Afghanistan and the Central Asian States via land route through Torkum and Chamman borders is a good source to earn precious foreign exchange for our country, in addition to boosting trade relations with these countries. Supply of end-products like ghee and refined cooking oil to landlocked countries like Afghanistan and Central Asian States can give Pakistan additional markets for export of end-products.

▲ Government is undertaking steps to increase the local cultivation of oilseeds. It has increased support prices so that farmers could grow more cotton, rapeseed and sunflower seed.

▲ Local traders forecast stable palm oil prices in the near-term on low productions in Malaysia and Indonesia this season amid El Nino – a weather pattern. As projected, the El Nino impacts diminished by start of May and the production in both the countries started to pick up, and following this the prices in the international came down.

THREATS

▼ At present, Pakistan has 120 licensed manufacturers of edible oil with an annual production capacity of 3.6 million tons. Still, most of these plants are operating much below their capacity. Only four edible oil companies are listed under the Vanaspati and allied segment on the Pakistan Stock Exchange. There are many more countries in the world that are dependent on imports to fulfil their edible oil requirements than countries which are self-sufficient. However, differentiation lies in the shape of imports of these countries for serving their needs of edible oil. Under the extraction and refining process, edible oil refineries first obtain crude oil and then refined oil. Consolidation appears to be lacking in the industry, where processors seem to be making margins even at lower capacity.

▼ To clarify the above with examples, Pakistan is still importing higher amount of refined oils as compared to crude oil. In India, share of crude palm oil in total edible oil imports is 81%, whereas in Pakistan, it stands at mere 4%. Total annual demand of edible oil in China crosses 30 million tons, but it extracts 24 million tons of edible oil from imported oil seeds. While Pakistan fulfils a small portion of its demand by processing oil seeds into refined oil, for China the portion is close to 80%. These two examples denote gaps in policy and operating structure in Pakistani edible oil market. The country can save substantially the foreign exchange spent on importing expensive refined edible oils by taking into account the policy measures taken by China and India. Government needs to investigate this anomaly that discourages local refineries from engaging in value addition process. Possible factors that ought to be looked into include tariff differential and retail price cap.

- We need to encourage more value addition and consolidation in this sector. Pakistan is among the largest consumers of edible oils in the world. Instead of spending efforts on controlling prices, if government pays more attention to structuring the market for more value-driven initiatives, it will eventually result in lower prices for end-consumers. An encouraging factor for Pakistan is the increase in recent years in imports of oil seeds such as soybean and canola. We can take a leaf from China, which along with India, is the largest importer of edible oils.

- Today the industry as a whole pays over Rs 100 billion in taxes directly or indirectly (PVMA being one of the largest contributors to the government exchequer contributing around Rs. 30 billion annually to the government exchequer in the form of customs duty, sales tax, GST, income tax, etc.) Government must recognize the contribution of the edible oil sector and allied industries and solve their problems on a fast track basis. The import duty, sales tax and other government revenue are said to be the highest in Pakistan compared to our neighbouring countries. Government may consider reducing duties and tax on this essential food items and encourage the Vansapati manufacturers to invest in oilseed production in Pakistan with an aim to achieving self-sufficiency in edible oil in the coming decades.

OUTLOOK

- Pakistan's edible oil industry witnessed notable improvement in FY16, which could be attributed to fall in international prices of palm and soybean oils, stable exchange rate, and a steady demand in the country. Low cost of borrowing and cheaper energy and transportation also supported growth. [Although palm oil prices in the global market continue to be sluggish, its import remained lower in FY16 – probably owing to use of inventories of the past year by the manufacturers.] Manufacturers also benefited from a cut in import duty (from 6% to 3% since July 2015) on soybean. The demand for semi processed soybean oil is also on the rise as it is used in the poultry feed industry.

  Profit margins for the industry also became attractive as manufacturers did not fully pass on the benefit from lower cost of production to consumers. [According to financial statements of leading firms, margins of the edible oil industry increased by 12% YoY during FY16 compared to a minor decline in FY15.]

- World oilseed market has been showing downward trend since last few years which has also affected local market of oilseeds/edible oil. Low prices in the market discouraged the oilseeds growers and resulted in decrease in area under sunflower and canola crops during 2015-16.

- **Outlook is steady.**

Associations:

- The Pakistan Vanaspati Manufacturers' Association (PVMA)

http://www.pvma.com.pk/

- Pakistan Edible Oil Refiners Association of Malaysia (PEORA)

http://poram.org.my/p/wp-content/uploads/2013/12/Peora.pdf

- All Pakistan Solvent Extractors' Association (APSEA)

http://apsea.com.pk/

ENERGY-COAL

FINANCIAL SNAPSHOT 2015-16*

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	7		
			2015-16	**2014-15**	
A.	**Industry Sales**	**Act/Est**	259,245	246,282	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	13,926		
C.	**Financial Charges**	**Act/Est**	21,249		
D.	**PAT**	**Act/Est**	13,479		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	402,018		
F.	*Current Assets*	**Act/Est**	275,244		
G.	*Cash & Bank Balances*	**Act/Est**	9,840		
H.	*Trade Debtors*	**Act/Est**	233,241		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	34,716		
K.	*Current Liabilities*	**Act/Est**	267,378		
L.	*Total Liabilities*	**Act/Est**	319,281		

*These are prospective numbers based on the upcoming power plants

ENERGY-COAL

SECTOR OUTLINE

Ever since Thar's vast 175-billion-ton coal resources were discovered in the early 1990s, concerns have been raised about their potential to generate electricity, their economic viability and sustainability, the coal quality and their environmental impact.

Thar coal can sustain the production of 100,000 megawatts of electricity for more than two centuries. With its gas reserves nearly depleted, Pakistan generates 37% of its electricity using oil, the most expensive source of power generation.

However, the region itself ranks the lowest on all socio-economic indicators, its people are impoverished and there is an undeniable lack of adequate health and educational facilities. Any corporation engaging in mining activities in Thar is duty-bound to ensure that the local Thari community is kept at the forefront of all project-related activity in the region.

Thar coal reserves containing 175 billion ton coal are spread over an area of 9000 square kilometers in Tharparkar, Sindh which has been divided in to 13 blocks while SECMC has been allocated the block-2 area which contains 1 per cent of total Thar reserves.

The 1.57 billion tons, exploitable reserves of block-2 can be used to produce 5000 MW electricity for 50 years. The Thar coal reserves beat the oil reserves held by Saudi Arabia and Iran. When converted into gas, the coal deposits are equal to 2,000 trillion cubic feet, which is 68 times more than Pakistan's total reserves.

Source wise electricity generation 2014 data shows that the country was producing 29 per cent hydel and 67 per cent thermal energy while there was zero production of electricity through wind or coal.

OPPORTUNITIES

▲ Pakistan has the world's seventh largest reserves of lignite, yet less than 0.1pc of its energy is generated from coal. Since the World Bank and other multilateral financial institutions have turned their back on coal, China has become Pakistan's partner of choice for investment, construction and operation of these new coal-fired power plants.

▲ World's 7th largest Thar coal reserves are set to meet growing energy demands of country as coal mining and power plant projects have entered construction phase and the first phase would be completed by June 2019.

▲ The project of national importance would not only help in bridging the gap of demand and supply of the energy but it would also give a boost to development activities in the most under developed district of the country. First phase of Thar Coal Fired Power Projects with power production capacity of 660 MW would start its commercial operation by June 3, 2019 instead of October 2019 (the earlier set target for completion of the project).

▲ SECMC engaged several renowned international organizations, including RWE Germany, SRK UK, Hagler Bailly, Sino Coal China and NCGB China, which conducted feasibility and socio-economic impact assessments of the mining and power project. This was important because the ecological and environmental impact of mining activities is a recurrent argument against the development of Thar coal.

▲ Under its environmental management plan, SECMC will plant hundreds of thousands of trees to maintain the natural ecosystem of the desert. It will incorporate wind and water erosion control measures, inclusive of dune management where necessary, in project design.

- Hagler Bailley's environmental and social impact assessment (ESIA) shows that there is no immediate risk to groundwater resources. SECMC will provide an alternative water supply source for domestic uses to those affected by the project.

- Pakistan and China have signed a contract to build a coal-fired power plant near Bin Qasim port in Karachi. The work on the plant having a capacity of 350MW will start in July which will be completed in 31 months. The agreement was signed between China's state-owned Harbin Electric Corporation and Pakistan Siddiqsons Energy.

- The country now aims to add 8,100 megawatts (MW) through coal to its system – as much as 40% of its existing generation capacity. The obvious reason for using coal is energy economics.

- Electricity produced using coal is cheaper than both oil and gas. While use of alternatives, like wind, solar and hydel has also been encouraged, coal-based power plants remain most viable for investors and national grid.

- Last year, K-Electric Limited (KEL) entered into a binding tripartite deal, 'Joint Development Agreement, with the China Datang Overseas Investment Company (CDTO) and China Machinery Company (CMEC), for the development of a 700-MW (2×350 MW) coal-fired power project at Port Qasim.

- A joint venture of Sindh Engro Coal Mining Company (SECMC) and ETPL will undertake the project construction at Thar (Block-II) for power generation beginning by mid-2019. This significant feat marks a new era for energy security in Pakistan and brings with it the realization of the Thar dream. This would be the first power project to rely on indigenous coal reserves of Thar.

- This coal will be utilized by a mine-mouth power plant of 2x330 (600MW) being established by Engro Powergen Ltd, a joint venture company of Engro Powergen China Machinery and Engineering Company, Habib Bank Ltd and Liberty Mills Ltd. Commercial operations date (COD) for phase 1 of both projects is expected to take place by mid-2019. Total cost for both projects is estimated to be approximately $2bn.

- Pakistan is looking into the possibility of procuring coal from Indonesia for its coal-fired power generation projects. In this regard, a pre-bid conference was arranged in Indonesia's capital Jakarta to procure coal for the 1,320-MW, government-owned Jamshoro power plant funded by the World Bank and the Islamic Development Bank (IDB).

- Hub Power Company (Hubco) has announced that it will set up a 330-megawatt coal-based power project in Thar at a cost of $500 million in partnership with other investors, subject to approval of the Private Power and Infrastructure Board (PPIB). Utilizing the coal supply option because of the company's investment in Sindh Engro Coal Mining Company (SECMC), it is considering setting up the 330-megawatt mine-mouth power plant in Thar. SECMC is estimated to mine 3.8 million tons of coal per annum. Hubco is injecting $20-million equity in the SECMC mining project.

- The CEO of Hubco also announced that the construction of two 660-megawatt imported coal-based power plants worth $1.8 billion in Hub, Balochistan would start in the third quarter of this year. The project would be developed by China Power Hub Generation Company (CPHGC) – a joint venture between Hub Power Holdings Limited and China Power International (Pakistan) Investment Limited – a Hong Kong-based company established by China Power International Holdings Limited.

▲ LIST OF UPCOMING COAL POWER PLANTS

S.No.	PROJECTS	MW	COST	COMPANY	STATUS	COMPLETION
1	Port Qasim Coal Fired	1,320	1,980	Sinohydro & Al-Mirqab	IA/PPA Signed	Dec-2017
2	Sahiwal Coal Fired Power Plant	1,320	1,600	Shandong Ruyi Group & Huaneng Shandong power Gen Co.	Gen. License Issued	Dec-2017
3	Engro Thar Coal Fired	1,320	2,000	CMEC China Machinery Engg/ Engro Power Gen	IA/PPA Signed	Dec-2017
4	Surface Mine Thar Coal Block 2		1,720	CMEC China Machinery Engg/ SECMC	Term Sheet by Finance Div. approved	Dec-2017
5	Gwadar Coal Power Project	300	360	China Communication Construction Company	Pre-feasibility submitted to PPIB	To Be Determined
6	Muzzafargarh Coal Power Project	1,320	1,600	Not Awarded	Plant ESIA	To Be Determined
7	Rahim Yar Khan Coal Power Project	1,320	1,600	Huaneng Shandong power Gen Co.	Plant ESIA	To Be Determined
8	SSRL Thar Coal Block 1	1,320	1,300	Sino Sind Resources Ltd.	CCTEG & Global Mining China	Dec-2017
9	SSRL Thar Mine Mouth Power Plant			Sino Sind Resources Ltd. & Shanghai Electric Group	OB Removal	Dec-2018
11	HUBCO Coal Power	660	970	China Power Intl & Hubco		
12	HUBCO Coal Power	660	970	HUB Power Company		Dec-2017
13	Salt Range Mine Mouth Power Project inc mining, Punjab	300	800	China Machinery Engg. Company		Dec-2017
14	Thar Mine Mouth Oracle, Thar Sindh	1,320	1,300	To Be Confirmed		

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. The construction cost of a 1000 MW coal-based power plant at Thar is estimated at around Rs. 120 billion.

▼ 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

▶ **Outlook for intended and prospective investments into mining, refining and generation projects remains bright.**

ENERGY-GAS GENERATION & DISTRIBUTION

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	1		
			2015-16	**2014-15**	
A.	**Industry Sales**	Act/Est	250,647	212,520	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**LBT**	Act/Est	-140		
C.	**Financial Charges**	Act/Est	4,403		
D.	**PAT**	Act/Est	124		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	251,714		
F.	*Current Assets*	Act/Est	112,226		
G.	*Cash & Bank Balances*	Act/Est	1,781		
H.	*Trade Debtors*	Act/Est	57,880		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	3,697		
K.	*Current Liabilities*	Act/Est	128,940		
L.	*Total Liabilities*	Act/Est	248,015		

ENERGY- GAS GENERATION & DISTRIBUTION

SECTOR OUTLINE

Pakistan's primary energy supply mix clearly shows Natural gas as playing major role in country's economic development by accounting for nearly 50% of its total primary energy supply mix. Pakistan's Natural gas production has remained stagnant at nearly 4,000 mmcfd during the last decade. Over last few decades, Pakistan has developed a formidable gas sector. Its economy has so far survived due to abundant initial gas discoveries. The Natural gas market of Pakistan is among the biggest in Asia and is somewhat comparable with the size to France and Netherlands. Pakistan was gas sufficient till 2005 however after that gas production didn't keep up with the gas demand. The constrained demand of Natural gas is 6,000 mmcfd whereas the unconstrained demand is 8,000 mmcfd (8 BCFD) or even potentially higher than this during winters when the domestic gas demand surges exponentially.

Pakistan's total Natural gas Transmission and Distribution (T&D) network is approx 150,000 Km with the consumer base of nearly 7.5 Million. During last 5 years, on average, approximately 0.38 million consumers were added on the pipeline network of the country despite a decline in natural gas volumes. This also shows that demand of natural gas is high in the country. Piped gas is available to only 25% of population.

The T&D network of the country is administered by two Government owned companies i.e. SNGPL and SSGCL. Sui Northern Gas Pipelines Limited (SNGPL) supplies natural gas in the northern part of the country i.e. the provinces of Punjab, Khyber Pakhtunkhwa and State of the Azad Jammu and Kashmir while Sui Southern Gas Company Limited (SSGCL) caters to gas needs of consumers in southern Pakistan i.e. the provinces of Sind and Balochistan. The consumer price of gas is regulated and determined on the basis of a fixed rate of return on the assets of gas utility companies by the Government of Pakistan. The Oil and Gas Regulatory Authority (OGRA) is publishing and overseeing Natural gas consumer prices in the country.

OPPORTUNITIES

- Geographically speaking, Pakistan is best positioned to act as the energy corridor as it is in a good location for pipelines to come through it. The 42 inch – 750 mmcfd Iran-Pakistan (IP) pipeline, first conceived in 1995, got delayed due to international sanctions on Iran and the first gas shipment from it will not be available till the end 2017. Iranian gas is an energy lifeline for Pakistan with longer future availability from a country having the World's second largest gas reserves. Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline which is 56 inch – 1,325 mmcfd capacity is not available before end 2019.

- Liquefied Natural Gas (LNG), therefore, remains the only immediate cost-effective solution for Pakistan's energy problems. LNG is a game changer which could help the resource constrained Pakistan save more than a billion dollars per year in cost-to-energy terms.

- The country's first LNG terminal got completed and country's pipeline network saw its first LNG molecule on 28th March 2015, just less than 11 months from date of contract award i.e. 30th April 2014. A 100% Government owned company Inter State Gas Systems (ISGS) with expertise in handling large international infrastructure projects like IPI and TAPI; was mandated the task to coordinate the Fast Track Project by facilitating the acquisition of LNG services through an open competitive bidding process.

- Pakistan's LNG receiving infrastructure for offshore regasification terminal is being served by a Floating Storage and Regasification Unit (FSRU). An FSRU is a flexible, cost effective way to receive and process shipments of LNG. FSRU is increasingly being used to meet natural gas demand in smaller markets or as temporary solution until onshore facilities are built. It is likely to remain a preferred technology option for emerging markets because of its flexible deployment capabilities, smaller capacities, quick start-ups and relatively low costs compared to those of onshore terminal.

- Pakistan and Qatar during last month have signed a worth $16 billion deal of LNG for a period of 15 years. Pakistan has been suffering through a severe energy crisis and the import of LNG from Qatar would be a positive step to address the issue.

- 3.75 million tons of LNG would be imported annually on a government-to-government basis. The price of 13.37pc of Brent value has been agreed which is claimed to be a cheaper one than the gas to be imported through pipelines projects including Iran-Pakistan (IP) and Turkmenistan-Afghanistan-Pakistan-India (TAPI) projects.

- Pakistan is expected to be a 20 mtpa (2.5 bcfd) market within 3 years with anticipated ranking of being among top 5 importers of the world. LNG imports will help diversifying energy portfolio of the country being a short-medium term solution however in order to achieve sustainable energy development and foster investment and economic growth of the country it will have to keenly focus on such multiple energy fronts

- The most prominent aspect of the LNG deal between Qatar and Pakistan is that Qatar will now provide 3 LNG ships each month as compared to the previous deal which ensured the delivery of just 2 LNG ships a month.

- LNG entered the energy system of the country via imports where Pakistan State Oil (PSO) has been mandated the task for import of LNG on behalf of the government. The government started importing 200 million cubic feet (mmcfd) of Re-gasified LNG (R-LNG) back in April 2015. A year since then, the imports have doubled to 400 mmcfd. It is being supplied primarily to the thermal power plants, replacing a significant volume of furnace oil and compensating for the shortage of gas, besides being supplied to the fertilizer and the CNG sector.

- Engro Energy Terminal Limited (EETL), which was granted a license for LNG terminal construction back in June 2014 with a construction validity period of two years, has been granted the operation license this year in March.

- Pakistan LNG Terminals Limited (PLTL) is set to build a second terminal of 600 mmcfd at Port Qasim, which is expected to come online by mid-2017.

- Bahria Foundation has also applied to OGRA for grant of LNG Terminal construction license. the Finance Minister announced allocation of Rs60 billion for two LNG power plants in Baloki and Haveli Bahadurshah that will produce 2,400 MW of electricity, combined. In addition, the government also has plans to set up a LNG terminal at Gwadar port to supply gas to three R-LNG based power plants in Punjab.

- Private Power and Infrastructure Board (PPIB) is also processing R-LNG based power projects of around 4,600 MW power generation capacity in public as well as private sector. The latest Economic Survey highlights two projects in this regard: (a) Processing of around 3,600 MW R-LNG based power projects by Quaid-e-Azam Thermal Power Limited and National Power Park Management Company Limited, (b) Development of around 1,000 MW R-LNG based power projects through International Competitive Bidding.

THREATS

- ▼ During winters (December to February) gas supply to CNG Stations is completely cut off in Punjab under the load management as its share in gas supply is about 5% while consumption is approximately 46% of national gas consumption. The choice of conversion from petrol to CNG is basically due to the fact that prices of CNG are significantly less than that of petrol. The low pressure issues are faced by the consumers especially by those situated at the tail-end of our distribution network, mainly during winter.

- ▼ Pakistan is the sixth largest urea producer in the World with total installed capacity of 6.9 million tons whereas the domestic demand stands at around 5.9 million tons despite which the country has to opt for import option as production falls short of demand due to intermittent gas supplies.

- ▼ The gas shortages in the country resulted, among affecting other sectors, in curtailment of supply to power producers, contributing to the electricity load shedding which in turn badly impacts the economy.

- ▼ The economic cost of the Natural gas shortages is incurring one billion dollars per years, as the country has to import expensive furnace oil, kerosene, LPG and diesel to make up for its energy requirements. The country is facing severe Natural gas shortages to the tune of nearly 2 bcfd.

- ▼ Low energy prices discourage the search for alternatives. Pakistan is running out of domestic gas supplies, further compounding electricity problems, and necessitating gas load shedding in winter. Low prices have discouraged exploration for new gas supplies.

- ▼ Gas shortage in the country has grown up to 40 per cent of the total demand. On the other hand Pakistan is experiencing a power shortfall of about 4000 to 9000 MW per day.

- ▼ This year's crisis is worse than last year's. Sui Northern Gas Pipelines and Sui Southern Gas Company are unable to fill the gap between the supply and demand.

- ▼ Severe gas crisis has spread across the country, where Punjab and Khyber Pakhtunkhwa (KP) are facing a shortfall of 200 million cubic feet a day. In response, the government has decided to take the decision of dedicating all gas production in provinces towards domestic consumers.

- ▼ Iran is threatening legal action over the lack of movement on the Iran-Pakistan gas pipeline deal.

- ▼ Due to gas shortage, almost 300 pump owners out of the total 2200 have left the CNG sector for good. An investment of rupees 350 billion was made in the CNG sector in Punjab alone and that the government's timely decision has saved the industry from running into a massive loss.

- ▼ Despite there being a shortfall in Pakistan of two billion cubic feet, natural gas offers the potential to generate electricity at affordable costs. Also, almost 11 per cent of natural gas remains unaccounted for in Pakistan.

OUTLOOK

- ▲ With no supply cuts in the immediate future, the global market remains conducive for countries like Pakistan to continue importing R-LNG. However, a key risk is the rising price of crude oil, which can make LNG imports expensive. **Outlook is positive nonetheless.**

Association:

- ➢ All Pakistan Compressed Natural Gas Association (APCNGA)

www.apcngassociation.com

ENERGY-OIL & GAS EXPLORATION & PRODUCTION

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	4		
			2015-16	**2014-15**	
A.	**Industry Sales**	Act/Est	286,774	365,259	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	Act/Est	123,259		
C.	**Financial Charges**	Act/Est	3,972		
D.	**PAT**	Act/Est	92,628		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	876,437		
F.	*Current Assets*	Act/Est	360,602		
G.	*Cash & Bank Balances*	Act/Est	28,294		
H.	*Trade Debtors*	Act/Est	205,197		
I.	*Short Term Investments*	Act/Est	20,382		
J.	*Total Equity*	Act/Est	644,420		
K.	*Current Liabilities*	Act/Est	126,184		
L.	*Total Liabilities*	Act/Est	232,014		

ENERGY- OIL & GAS EXPLORATION

SECTOR OUTLINE

At present Pakistan's conventional natural gas production stands at 4 BCFD (billion cubic feet per day) while the country's daily gas demand particularly in the winter months when the demand of natural gas goes up is estimated at 8 BCFD which is twice the local production. Gas still has 90% share in Pakistan's total hydrocarbon production basket. Pakistan has proven conventional resources of gas equal to 23 TCF (trillion cubic feet) but exploration and production (E&P) activities are slow to tap into these resources. The gas production may come down to 1.6 BCFD in 2020 as existing deposits are depleting fast and gas demand could touch 13 BCFD in the same year. Country's total energy consumption is 59 million tons of oil equivalent (TOE) and about 50% of this demand is met by natural gas followed by oil, hydel and nuclear.
After 68 years of independence, Pakistan's oil production reached an all-time high of 1 lac barrels/day (1 barrel = 42 gallons = 159 liters). Pakistan can be termed as an oil and gas deficit country.

OGDCL is the national oil & gas company of Pakistan and the flagship of the country's E&P sector. The Company is the local market leader in terms of reserves, production and acreage, and is listed on all three stock exchanges in Pakistan and also on the London Stock Exchange since December 2006. The Company is all set to ride the wave of E&P activity, equipped with its Vision & Mission, Business and Strategic Plan, a debt-free and robust balance sheet and healthy cash reserves. The Company is ready to take on the challenges of a volatile E&P industry.

A pioneer of the natural gas industry in the country, PPL has been a frontline player in the energy sector since the mid-1950s. As a major supplier of natural gas, PPL today contributes over 20 per cent of the country's total natural gas supplies besides producing crude oil, natural gas and liquefied petroleum gas in the country.

OPPORTUNITIES

- ▲ Pakistan has made the highest number of oil and gas discoveries in the current month as exploration companies found fresh hydrocarbon deposits in six wells that will add 50.1 million cubic feet per day (mmcfd) of gas and 2,359 barrels per day of oil to the existing production levels. Of these, major discoveries have been made in Sindh that already has a big share in total gas output in the country.

- ▲ Of these, OGDCL made two finds, MOL Pakistan two and Petroleum Exploration Limited and United Energy Pakistan one each. The discoveries have shown presence of 31.6 mmcfd of gas and 339 bpd of crude oil in Sindh and 18.5 mmcfd of gas and 2,020 bpd of oil in K-P.

- ▲ Though the gas production was declining, Latif told the committee that the company would lay pipelines over 8,000 km in the current year. At present, 1.5 million applications for new gas connections are awaiting approval of the company.

- ▲ The government plans to launch a new oil and gas exploration round this year, offering 32 blocks in different part of the country. The clearance process has been initiated for award of 32 more exploration blocks to E&P Companies through bidding process.

- ▲ The government, under the petroleum policy 2012, had already awarded 46 blocks for oil and gas discoveries.

- Besides, the ministry had also awarded 70 Supplemental Agreements (SAs) for conversion to Petroleum Concessions Agreements (PCAs) aimed at expediting oil and gas exploration activities in various potential areas of the country.

- The country received an investment of Rs1.6 trillion in oil and gas exploration sector during a short span of time.

- A total of 82 oil and gas discoveries were made during the last three fiscal years. The production from 45 out of 82 discoveries had already been started, whereas necessary work over 37 discoveries was being carried out by exploration and production companies.

- PPL is working on a well with 65 per cent working interest along with its joint venture partners, Government Holdings Private Limited and Asia Resources Oil Limited with 25 per cent and 10 per cent working interest. Hadi X-1A was spud on February 5, 2016 and reached the final depth of 4,020 meters on April 19, 2016. Based on wireline logs interpretation, potential hydrocarbon bearing zones were identified in Sembar Formation. During initial testing in Sembar Formation immeasurable amount of gas flowed at the surface for three days and reservoir appeared to be tight.

- Polish energy firm PGNiG has announced that it will open a new gas deposit in Pakistan that will be capable of producing 0.5 million cubic meters daily, according to a statement released by the company.

- An aggressive exploratory programme to exploit the oil potential in Kohat division of KPK is in place. Oil discoveries were made and resultantly a UAE based petroleum firm has signed an MOU to set up an oil refinery in KPK. But these oil discoveries do not match the demand of oil that continues to grow exponentially.

- OGDCL had the target to drill 31 wells in all the provinces during the current financial year and hoped to achieve the set target. Presently drilling was being conducted at 17 wells, adding that 9 new wells had been spud and five were in the testing phase. In the current month, six more drills would be carried out and the company would complete the process by June, 2016.

- Currently the company had 24 exploration licences and it was actively busy in exploration and production activities in Balochistan where some areas were inaccessible earlier.

- The OGDCL had also initiated 2D and 3D seismic data surveys in eight blocks in the province to step up its oil and gas exploration activities.

THREATS

- The country's gas reserves were depleting and no gas was available for the domestic consumers in Punjab. He pointed out that the purchasing cost of gas for domestic consumers stood at Rs510 per million British thermal units (mmbtu) but the consumers coming under the first slab were receiving it at Rs110 per mmbtu.

- Eighty-five per cent of domestic consumers were paying less than 50% of the cost of gas and the industrial and commercial consumers were cross-subsiding the domestic consumers.

- The government had tightened the noose around non performing E&P companies, having the licenses and revoked around 16 such permits recently.

- Government has initiated action against the non-performing exploration and production companies including those who have been holding licenses for the last so many years without any physical activity. As a result of the action, ten exploration licenses have been revoked after providing them adequate opportunities to remedy the defaults and after completing the necessary regulatory process,

- The government has been on a drive to lure foreign investors to its energy sector in an effort to address growing energy demand. But attracting exploration investment has become increasingly difficult as global oil prices have tumbled over the past two years.

- The country is a net energy importer and local production meets only 15 % demand at 100,000 bpd.

- Pakistan's local exploration and production companies are vying to acquire several relinquished blocks by the foreign oil and gas investors on low crude prices and slowing global demand.

- The country's energy sector has seen a string of asset cuts in the recent months, with companies reeling from crude prices that have improved little since hitting a 12-year low in January.

- Several multi-national E&P and drilling companies have finalized their departure from Pakistan.

- At least four foreign companies have confirmed their divestment from Pakistan, including the UK-based Tullow and Premier Oil, Anglo-Australian BHP Billiton and Austrian OMV.

- The production of indigenous natural gas is declining and the rate of new discoveries in KPK and Sindh do not match the surging gas demand. At recently held petroleum conference in Islamabad it was apprised to the participants that gas discoveries made during the past 5 years could not meet the country's gas demands even for a few days.

- The foreign well equipped E&P companies remained reluctant to undertake exploration and development of new gas fields in Baluchistan, KPK and Sindh due to the worst law and order situation prevalent till recent past. Exploration and production projects are time and capital intensive as gas treatment plants are first to be installed to treat and purify the explored gas before being injected into the system.

- About 40% of the gas lost by SNGPL and SSGCL is attributable to theft conveniently called UFG (unaccounted for gas). UFG is calculated as difference between total volumes purchased and sold to consumers by gas utility companies during a given fiscal year. The two utility companies have failed to control and reduce UFG losses which are 10 plus % against the international UFG standard 4%. However UFG was increased from 5% to 7% by OGRA board in 2009. 1% UFG loss translates to a revenue loss of Rs. 3.55 billion annually.

- The previous government promoted the use of CNG in private vehicles to lesser the import of oil into the country. The country has now over 3.5 million vehicles running on CNG and more than any other country in the world. It was not a prudent decision of the government particularly in a country whose gas fields are on depleting mode.

- Pakistan has proven conventional resources of gas equal to 23 TCF (trillion cubic feet) but exploration and production (E&P) activities are slow to tap into these resources.

- Oil and Gas Development Company Limited (OGDCL) is preparing to add 125 mmcfd (million cubic feet gas per day) of gas to the national distribution system by the end of next month. The additional supply will help meet growing energy demand in different sectors to some extent, while the company has further expedited its exploration activities across the country,”

OUTLOOK

- International crude oil prices witnessed another low in 2015-16, when Arab Light Crude prices touched USD 22/BBL in January 2016. The drop in oil prices greatly affected the industry’s current revenues, while curtailing E&P activities across the globe. **However, with oil price outlook expected to fluctuate between $50-70/ barrel, the outlook for exploration is stable.**

ENERGY-OIL (PETROLEUM DISTRIBUTION/MARKETING)

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	4		
			2015-16	2014-15	
A.	Industry Sales	Act/Est	1,341,505	1,420,523	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	25,463		
C.	Financial Charges	Act/Est	7,999		
D.	PAT	Act/Est	16,145		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	437,398		
F.	*Current Assets*	Act/Est	344,408		
G.	*Cash & Bank Balances*	Act/Est	21,088		
H.	*Trade Debtors*	Act/Est	191,812		
I.	*Short Term Investments*	Act/Est	1,867		
J.	*Total Equity*	Act/Est	116,407		
K.	*Current Liabilities*	Act/Est	312,113		
L.	*Total Liabilities*	Act/Est	319,733		

ENERGY-OIL (PETROLEUM DISTRIBUTION/ MARKETING)

SECTOR OUTLINE

Petroleum products being a necessity in various forms such as energy generation, fuel for motor vehicles, etc become a key commodity not just in Pakistan but in the entire globe. Therefore, a well-developed and an efficient oil industry infrastructure such as storage & pipeline networks are essential for efficient movement of Petroleum products. The development of US $480 million, 786 KM White Oil Pipeline (WOP) & Mehmood Kot-Faisalabad-Machike Link Pipeline (MFM) facilitated the Pakistan petroleum industry as well the general public of Pakistan in the form of cost efficient & effective transportation mode for POL products. White Oil Pipeline is catering to transport High Speed Diesel (HSD) to the central and Northern regions of Pakistan; which account for almost 60% of the total Petroleum consumption in the country.

Pakistan's government is aiming to double the country's oil product storage capacity by inviting foreign and local companies to build additional facilities. The country's current storage capacity equates to around 20 days of consumption at 1.2 million-1.3 million mt, and oil marketing companies typically maintain stock levels below that to minimize inventory losses due to price volatility. The government will both invite privately-owned domestic and foreign companies to build additional storage capacity and ask oil marketing companies to increase their storage volumes.

CRUDE OIL PRICES

YEAR	$/BARREL (GLOBAL)
2011	104.0
2012	105.0
2013	104.1
2014	96.2
2015	50.8
2016 (Provisional)	41.0
2017 (Forecast)	55.0

Source: *IMF Global Commodity Price Index (Oct 2016); WB, Commodity Markets Outlook (Oct 2016)*

OPPORTUNIITIES

▲ Total oil sale of Pakistan was up by 13 per cent year on year (YoY) to 2.4 million tons in October 2016 as sharp growth in white oil continued to support oil sales, while four month (Jul-Oct 2016-17) sales have gone up to 8.9 million tones which is up 17 per cent YoY.

▲ Sales of High Speed Diesel (HSD) were up by 17 per cent YoY to 834,000 tons led by increased demand from transportation and power sector. MOGAS (MS) sales were also up by 12 per cent YoY to 573,000 tones.

▲ Increase in power generation in the country also led to uptick in Furnace Oil sale as it increased by 10 per cent YoY to 875,000 tons in October 2016.

▲ Pakistan State Oil (PSO) sales outperformed the market growing by 17 per cent to 1.4 million tones driven by strong HSD sales that were up 31 per cent. As a result, PSO market share increased to 58 per cent in Oct 2016 from 56 per cent in the same period last year. Hascol Petroleum (HASCOL) also witnessed an impressive sales growth of 25 per cent.

- Attock Petroleum (APL) underperformed as their sales increased by 4 per cent whereas Shell Pakistan (SHELL) reported 3 per cent decline.

- Refinery supplies to Oil Marketing Companies (OMCs) were down 6 per cent to 917,000 tones. This decline was mainly attributed to decline in HSD supplies (down 16 per cent YoY) as OMC had adequate HSD stocks, the analysts believe. In Jul-Oct 2016-17, refinery supplies were up 4 per cent to 3.5 million tones.

- Furnace Oil and MOGAS supplies increased by 6 per cent and 3 per cent to 272,000 tones and 154,000 tones, respectively.

- dynamics for oil marketing companies (OMC) sector remains favorable as improving macros, increase in demand from auto sector and higher power generation are likely to drive OMC sales going forward. Linkage of margins on retail products (HSD & MOGAS) with CPI inflation also bodes well for the sector profitability.

- Rebound in international crude oil prices started proving great help to the oil marketing companies in regaining their lost profits, whereas these companies had been experiencing underperformance of 4.3% as compared to the benchmark throughout last year.

- Arab Light prices grew momentum up to 17 per cent till date and fixed margins in rupee terms on white oil products, expectations of stability and gradual rise in oil prices to contain inventory losses, strong petroleum (POL) product sales increased to 15.9% has also contributed OMC to get on profitability road.

- OMC sector is set to get benefit from strong sector dynamics and improving economic fundamentals. The anticipated oil sales of OMCs to grow 9% in 3-years as against last 3-year growth of 7% and last 5-year growth of 4%. Robust demand of white oil is being anticipated to lead this strong growth. Within white oil, petrol sales (MOGAS) is likely to grow at a 3-year of 18% driven by rising car & bike sales and affordable pump prices.

- Pakistan has received from Kuwait the first consignment of improved-quality diesel that meets Euro-II emission standards. sulphur content, which caused pollution in the environment, was 95% lower in the new diesel quality compared to the old fuel being sold across the country for decades. First PSO cargo tested 250 parts per million (ppm) sulphur content. The government has set a new standard of maximum 500 ppm sulphur content in new diesel compared to 5,000 ppm in the fuel being phased out now.

- High-speed diesel is a regulated product and the petroleum ministry revises its prices every month in line with fluctuations in world markets. The demand for diesel in the country stands at 8.4 million tons per year or 0.7 million tons per month. PSO remains the market leader in fuel oil supplies. Its market share in diesel sales is 47.3%. PSO has received the first vessel carrying 55,000 tons of low-sulphur diesel from Kuwait.

- In November 2016, the OGRA intimated the OMCs to enhance oil storage capacity to meet increasing consumption of petroleum products in the country. The OGRA also directed the state-owned Pakistan State Oil Company to enhance its storage capacity of petroleum products. All companies related to oil business were asked to make arrangements to enhance their storage capacity in the specific time. In this respect, the government is also offering necessary incentives for the industry. The current storage capacity is sufficient for 20 days.

- The government has imported petroleum products worth $ 38.673 billion during the last five years to meet energy needs of the country.

- Petroleum products amounting to $ 9,422 million were imported in the year 2011-12, $ 8,282 million in 2012-13, $ 8,899 million in 2013-14, $ 7,411 million in 2014-15 and $ 4,659 million in 2015-16. Petroleum products were being maintained by oil marketing companies keeping in view their commercial requirements. As of December 6, 2016, reserves of HOBC were available for 122 days, Motor Spirit for 11 days, JP-I for 12 days, Superior Kerosene Oil for 15 days, High Speed Diesel for 23 days and Furnace Oil for 24 days.

- Pakistan State Oil (PSO) will start selling high-quality diesel just two months after the introduction of better-quality petrol in the domestic market. The state-owned oil marketing company would start marketing within a week the high-quality diesel, which meets Euro-II emission standards. PSO has already introduced environment-friendly RON 90 and 95 petrol that replaced the old RON 87, which were being sold in the country for decades.

- Admore, an oil marketing company, already set its house in order by paying about Rs1 billion out of total defaulted legacy liabilities of Rs2 billion. Meanwhile, its volumes jumped to 174,000 tons, up 461% from 31,000 tons in just one year. Admore has undertaken major capital expenditures in an effort to build storage capacity in the northern and southern regions of the country. It has upgraded its Machike storage terminal in Punjab and is currently building its own storage facility at Daulatpur, Sindh, to cater to requirements of the retail network in upper Sindh and Balochistan. The Daulatpur storage is scheduled to be completed by January 31, 2017 and it will have storage capacity of 3,200 tons with possibility of expansion in the future.

- A government's decision to lift fuel price controls gives market forces greater sway and will also attract energy investment, boost competition and cut subsidy costs, Market-driven pricing will encourage product differentiation, supply chain cost optimization, superior forecourt services and consumer benefits. Hitherto, the dealers and distributors are benefiting from volume discounts. The government allowed the import of Euro-II gasoline – research octane number 87 and 92 – under the deregulated regime. The deregulation of the petroleum downstream sector, including pricing will benefit all the stakeholders in the long-run and bring about more efficiency in the supply chain.

- Pakistan has produced a record high 100,000 barrels per day (bpd) of crude oil recently after oil and gas exploration companies expedited efforts to find new deposits of hydrocarbons to increase their share in local consumption. "Oil production is meeting 20% of local demand the remainder 80% demand is met through imported crude oil and finished petroleum products. Local production was reportedly hovering below 90,000 bpd in November. This was standing at 87,000 bpd in the previous fiscal year ended June 30, 2016 and 95,000 bpd in the year before. The decline in production in fiscal year 2015-16 (FY16) was seen after oil producing firms put on hold their projects under the then prevailing steep low oil prices in the world market.

- State-owned Oil and Gas Development Company (OGDC) was maintaining the highest reserves of oil and gas in the country, as its share in local crude oil production stands above 50%. "OGDC has surpassed 50,000 bpd production last month.

- The government has linked profit margins of petroleum dealers with the annual CPI inflation with effect from July 1, 2016. This change in methodology will keep the margins at higher levels with expected rise in the rate of inflation in coming months. The profit margins of diesel and motor gasoline dealers had been increased by Rs0.06 per litre from July 1 in line with the CPI inflation for FY16 at around 2.85%. If margins are revised annually in line with the inflation, they will rise to around Rs2.8 per litre by FY20, assuming annual inflation of around 5% each year, which will lead to a sizeable improvement in the profit of oil marketing companies.

THREATS

- The Oil and Gas Regulatory Authority (OGRA) has restricted 13 oil marketing companies (OMCs) from expanding retail outlet network. In a public notice, the OGRA directed the Pakistan State Oil Company Limited (PSO), Shell Pakistan Limited and Total Parco Marketing Limited to stop expansion of retail outlet network across the country except Sindh.

- Meanwhile, Attock Petroleum Limited, Hascol Petroleum Limited, Total Parco Pakistan Limited, Askar Oil Services Pvt Ltd, Byco Petroleum Pakistan Limited, Overseas Oil Trading Co Pvt Limited, Bakri Trading Company Pakistan Pvt Limited, Gas and Oil Pakistan Pvt Limited, Zoom Petroleum Pvt Limited and Admore Gas Pvt Limited have been directed not to expand their retail outlet network in the whole country.

- Pakistan is again facing the specter of oil shortage that may hamper the flow of fuel to armed forces and spark prolonged power outages as outstanding bills of electricity producers for oil supplies are piling up. Pakistan State Oil (PSO), the state oil marketing giant, has warned the government that oil supplies may be disrupted in the wake of financial crisis being faced by the company due to delay in settling of its dues by the power producers. In turn, PSO has not been able to pay its local and international oil suppliers, which could lead to delay in further imports and trigger fuel shortage across the country.

- PSO also warned that oil flow to over 70% of power plants that the company was feeding would be in jeopardy and it could result in prolonged power outages in the country.

- In the event of a default, banks will be reluctant to open letters of credit (LCs) for oil imports, which had earlier happened in January 2015 when acute petrol shortages hit the consumers hard. The default on LC payments will cause deterioration in the credit rating of PSO as well as sovereign rating of Pakistan. It will leave an impact on the overall investment climate and increase the risk perception.

- PSO is again facing the similar financial situation that it had to deal with in January 2015. This time around, besides petrol, furnace oil could also be in short supply.

- PSO has to receive Rs. 251.8 billion from different clients. Power producers owe Rs. 222.6 billion whereas dues of Pakistan International Airlines, payments for liquefied natural gas and price differential claims amount to Rs. 29.2 billion.

- “The power sector was not complying with the seven-day payment arrangement. It was to pay Rs. 15.4 billion under the arrangement but it defaulted. PSO’s receivables from the power sector had stood at Rs. 185 billion in February 2015.

- PSO said its borrowing had gone beyond the limit and any further delay in bill clearance by the power producers would force it to default on payments to local and international fuel suppliers.

- Power sector subsidies have so far accumulated to Rs. 174.97 billion, resulting in non-payments to IPPs in the ongoing financial year along with increase in the payables of PSO. The amount in the head of GST that is needed to be refunded stands at Rs. 108.2 billion. The burden of Rs. 283.17

billion (Rs. 174.97 billion of outstanding subsidies and Rs. 108.2 billion GST refunds) is now becoming unbearable as cash flow constraints may lead to full-fledged crisis if not resolved on priority.

- The new oil rules require petroleum refining and marketing companies to immediately apply for fresh licenses to continue operations or risk facing punitive action. The petitioners, comprising of five oil refineries, 13 oil marketing companies, and one oil transportation company, have challenged Ogra's instructions to obtain new licenses within 90 days, under Rule Six of the Pakistan Oil Rules 2016. In the petition, the management of leading refineries and marketing companies have assailed Ogra's notices and have also challenged the powers granted under the new rules. Under the rules, he said, all oil refineries, marketing companies and oil pipeline companies are required to make a non-refundable Rs2 million fee payment for grant, renewal, modification, extension, assignment, review, transfer, amendment, relocation or re-issuance of a license.

- Influx of smuggled products poses a threat to the market players, government and end-consumers. The government runs short of legitimate duties and taxes. Consumers buy low-quality smuggled product, which does not meet OEM (original equipment manufacturer) standards, and end up destroying their car engines.

- The Competition Commission of Pakistan (CCP) has fined the Pakistan State Oil (PSO) Company Ltd Rs150 million for a deceptive marketing practices for some of its products including 'Premier XL Gasoline' and 'Green XL Plus Diesel'. The complainant alleged that since 2003 - 2004, PSO has been marketing that use of the products both in old and new vehicles results in more mileage and improved performance of vehicle's engine due to use of various additives. Between 2012 - 2013, it abruptly discontinued the use of such additives, while the name of the products and associated branding/insignias launched alongside the products in 2003 - 2004 remain in place to-date. The complainant claimed that PSO has been engaged in 'deceptive marketing practices' by distributing false and misleading information to consumers and also that distribution of such information is capable of harming the business interests of competing.

- The Oil and Gas Regulatory Authority (OGRA) has swung into action against Pakistan State Oil (PSO) for having the adulterated High Speed Diesel (HSD) in its depot at Faqeerabad and to this effect the regulator showed its strong muscle exposing the state owned oil marketing company to a penalty of Rs5 million.

- Pakistan State Oil (PSO), the state-owned oil marketing giant, is seeking to set up additional storages to keep adequate fuel reserves and ensure a smooth supply to different consumers. The Ministry of Defence has refused to ease restrictions on building new oil storages at Keamari and asked the Ministry of Petroleum to take up the matter with the National Security Council.

OUTLOOK

- **Outlook remains stable.**

ENERGY-OIL (PETROLEUM REFINING)

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	4		
			2015-16	2014-15	
A.	Industry Sales	Act/Est	352,681	463,343	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	9,399		
C.	Financial Charges	Act/Est	4,119		
D.	PAT	Act/Est	7,654		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	209,900		
F.	*Current Assets*	Act/Est	87,354		
G.	*Cash & Bank Balances*	Act/Est	22,381		
H.	*Trade Debtors*	Act/Est	25,675		
I.	*Short Term Investments*	Act/Est			
J.	*Total Equity*	Act/Est	42,178		
K.	*Current Liabilities*	Act/Est	105,119		
L.	*Total Liabilities*	Act/Est	139,921		

ENERGY- OIL (PETROLEUM REFINING)

SECTOR OUTLINE

Presently, as many as six oil refineries are operating in the country and they had full capacity to refine the product as per needs of the country. Currently 70 % of the current oil demand was met through import and the government had planned to set up more oil refineries in the coming days.

Recently, the government in a significant move to achieve self-reliance in the oil production sector had given the task to Pakistan Arab Refinery Company (PARCO) to complete the much delayed multi-billion dollar Khalifa Coastal Oil Refinery project. The coastal refinery will have the capacity to refine 250,000 bpd – equal to 13 million tons of petroleum products per year. Moreover, The Byco Petroleum Company had established the country largest production unit, having refining 120,000 bpd oil, in Balochistan last year.

OPPORTUNITIES

▲ Over the years, crude oil production in Pakistan has risen on the back of discoveries in Khyber Pakhtunkhwa (K-P) to near 100,000 barrels per day (bpd) from the historical average of 65,000 bpd. Even this led the country, which continues to remain a net oil importer, to resume crude oil export in 2014. In fiscal 2014-15, Pakistan exported 457,541 tons of crude oil, a growth of 582% over previous year.

▲ Pakistan's oil refineries are enjoying "healthy margins" despite the steep drop in crude price, which has shaken strong economies and pushed other players in the oil supply chain to the brink. Refineries process crude to make consumer-end petroleum products like petrol and furnace oil, which have not seen a decline in demand. Some of the country's peculiar economic factors like increase in sale of vehicles on the back of a growing population have also fu elled demand for petroleum products

▲ Pakistan is considering allowing oil imports from Iran via land route in the face of lifting of international sanctions. This plan will lead to resumption of oil imports from Iran which has been on halt since 2010. This way oil smuggling from Iran, which has been continuing without much interruption through Balochistan, will come to an end and legal avenues will open up.

▲ Instead of refined oil, Iran is capable of exporting crude oil in big volumes. Two Pakistani refineries – Pakistan Refinery Limited and Bosicor – had been importing Iranian crude until 2010 but after the sanctions banks refused to open letters of credit for oil purchases.

▲ Capacity to produce crude oil and its indigenous refining is increasing gradually. Now, the country has started moving on the path of achieving self-reliance in the sector.

▲ The current government had so far added 32,000 bpd in crude oil production, while additional 4,000 bpd oil would come to the system during the current winter, bringing the production capacity to 90,000 bpd mark.

▲ Byco Petroleum Company had established the country largest production unit, having refining 120,000 bpd oil, in Balochistan last year.

▲ Pakistan Refinery Limited managed to turn around and announced a profit in the quarter ended September 2016 on the back of lower finance cost and increased other income. The refinery earned Rs122.21 million in the Jul-Sept quarter compared to a loss of Rs648.13 million in the same quarter last year. Earnings per share stood at Rs0.39 against loss per share of Rs2.28 last year.

- A United Arab Emirates (UAE) based company has agreed to invest $500 million in the construction of oil refinery in southern areas of Khyber Pakhtunkhwa (KPK). A memorandum of understanding has already been signed with the company. Karak and Kohat districts are producing forty five thousand barrels crude oil daily.

- National Refinery Limited (NRL), owned by cash-rich Attock Group, has cut half its dependence on banks' loan for expansion and introduction of better quality diesel in demand for Euro-II vehicles by June 2017. NRL, which is the second largest fuel oil refinery of Pakistan, is pursuing an upgrade project that comprises of Diesel Hydro Desulphurisation and Isomerization projects and auxiliary units. "The company estimates that the project (de-sulphurisation and isomerization) will be completed on time and within the project value of $349 million.

- The Pak-Arab Oil Refinery (Parco) will begin building Pakistan's biggest oil refinery in Balochistan's Hub area. The $5 billion Khalifa Coastal Oil Refinery, which will have a production capacity of 250,000 barrels per day, is expected to be completed within five years. The project had initially been announced in 2007 and was to be built with financial assistance from the Abu Dhabi-based International Petroleum Investment Company but was scrapped in 2012 due to unavailability of funds.

- Economic managers of Pakistan have given the go-ahead to Kuwait Petroleum Corporation for setting up an oil refinery in the coastal area of Balochistan – a welcome investment initiative for the largely under-developed province, which will reduce the need for import of refined petroleum products in the country.

- Grace Refinery plans to invest $5 billion in Punjab as part of an ambitious venture which will have a positive impact on both the economy and local population. The Grace Refinery will also be exploring the petrochemical market in Pakistan through their refinery which will be established in Southern Punjab. The Refinery then intends to enter other market segments which include petrochemicals, oil marketing and power generation. The investments made by the Refinery will generate 50,000-70,000 new jobs and include a plan to build a new state-of-the-art hospital for the community

- Pakistan State Oil would like to "reverse the role," and refine crude rather than import fuel. The nation's biggest company by revenue is looking for partners to help build a plant to process 200,000 to 250,000 barrels a day of oil. The size of the refinery means Pakistan State Oil will produce about 12 million tons of fuel, similar to the amount the nation imported in the year ended July 31, and will mark a drastic change in the company's business model. The plan will also help the country, that's trying to meet revenue targets tied to an International Monetary Fund loan, save on foreign exchange

- An oil refinery would be constructed in Krapa, an area situated in Karak but also close to Kohat. The chief Minister decided to construct the refinery in Krapa so that the tug of war between lawmakers of both the districts could be brought to an end. For the project, the government would get 2,000 kanals of land and mode of the project would be finalized on July 30.

- Iraq wants to establish Oil Refinery at Gwadar Port under China-Pakistan Economic Corridor. This was stated by Iraqi Ambassador Dr. Ali Yassin Mohammad Karim in Pakistan.

▲ China Huanqiu Contracting and Engineering Corporation (HQC) showed interest in setting up an oil refinery in Pakistan preferably at Gwadar and Karak, Khyber-Pakhtunkhwa (K-P).

THREATS

▼ While Pakistan already has five refineries, they aren't working to full capacity as they are aging and cannot break down crude oil efficiently. The country's diesel consumption has also increased by as much as 8 % annually since 2011.

▼ At present, 87 RON (Research Octane Number) petrol, which is of relatively poor quality and damages car engines, is being produced and consumed in the country, though local refineries have got incentives to produce fuel of higher grade. Now, the government has planned to import 92 RON petrol.

▼ In 2000-01, the government permitted the refineries to claim deemed duty, equivalent to 10% customs duty, on locally produced diesel and use it for upgrading their plants for producing petroleum products of international standards. In the past 15 years, they have received over Rs150 billion in deemed duty, but except for Parco others have failed to upgrade their units. At present, Pakistan's fuel standards are among the worst in the world.

▼ Irked by the low quality of fuel, the government had imposed 7.5% duty on sale of diesel and directed that the proceeds be deposited in a special account to be utilized by refineries to upgrade their plants. However, despite the passage of three years, money has not been deposited in the Escrow account. The Economic Coordination Committee (ECC) has withdrawn its multi-million dollar bailout package for oil refineries that was meant for them to deposit the 'extra earnings' in an Escrow account and then use the proceeds to upgrade their plants to produce higher quality fuel.

▼ Unless petroleum producers could assure continuation of supply from wells, investment in capacity expansion would remain a risky endeavor for refiners. Attock Refinery Limited (ARL) is the sole refinery which relies entirely on domestic crude supplies.

▼ The design of oil refineries is configured to process specific crudes like Brent or Light Arab Crude. Changes in the configuration require heavy investment, often out of the reach of small refineries.

OUTLOOK

▶ **The outlook in this sector is likely to remain tenuous** as the constraining trend in refinery production & margins continues unabated with some relief likely due to margin adjustments with lower crude prices.

ENERGY-POWER GENERATION & DISTRIBUTION (IPPs)

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	19		
			2015-16	2014-15	
A.	Industry Sales	Act/Est	434,573	625,811	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	53,079		
C.	Financial Charges	Act/Est	23,877		
D.	PAT	Act/Est	61,441		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	749,082		
F.	*Current Assets*	Act/Est	372,708		
G.	*Cash & Bank Balances*	Act/Est	10,122		
H.	*Trade Debtors*	Act/Est	273,019		
I.	*Short Term Investments*	Act/Est	50		
J.	*Total Equity*	Act/Est	192,121		
K.	*Current Liabilities*	Act/Est	363,948		
L.	*Total Liabilities*	Act/Est	635,629		

ENERGY-POWER GENERATION & DISTRIBUTION (IPPs)

SECTOR OUTLINE

The present government adopted long-term strategy to stabilize the power sector which is essential for restoring macroeconomic stability and enhancing economic growth. The government developed a comprehensive power plan to support the current and future energy needs of the country by addressing power sector chronic problems in governance, liquidity, regulation, infrastructures and generation enhancement. This entire plan has been put in place with the requisite initiatives taken up in the most transparent and systematic manner.

The policies that have been put in place have started showing positive results and the improved efficiency indices are proof of the same. To introduce liquidity for the sector payment of Rs480 billion was made in June 2013 to first ease of the liquidity crunch being faced by the entities especially IPPs, oil and gas entities. The purpose of this first action (payment) was to create liquidity in the sector so that other policy actions can be put in place.

The policy actions set forth has resulted in improved recovery ratios of 94.5%, record high during the last 10 years and reduction in losses to 17.9%, also lowest over the same period of time. The reform also included a greater transparency and public disclosures of all financial transactions in the power sector which are independent of any personnel follow up or individual influence. In addition by utilizing the most efficient power plant, strict adherence to economic merit order, not only resulted in improved liquidity of the sector but also limited the growth of circular debt which stands at about Rs329 billion.

The Private Power Infrastructure Board (PPIB) is currently processing 27 multiple fuel (oil, coal, gas and hydel)-based Independent Power Producers (IPPs) projects with a cumulative capacity of 15,852MW. Of these, 16 projects of 6,339MW cumulative capacity are hydropower projects, whereas, 10 projects of 9,393MW are based on coal. In addition, PPIB is also processing RLNG-based power projects of around 4,600MW generation capacity in public and private sectors.

CPEC: Energy Priority Power Projects

S.No	PROJECTS	MW	COST	COMPANY	STATUS	COMPLETION
1	Port Qasim Coal Fired	1,320	1,980	Sinohydro & Al-Mirqab	IA/PPA Signed	Dec-2017
2	Sahiwal Coal Fired Power Plant	1,320	1,600	Shandong Ruyi Group & Huaneng Shandong power Gen Co.	Gen. License Issued	Dec-2017
3	Engro Thar Coal Fired	1,320	2,000	CMEC China Machinery Engg/ Engro Power Gen	IA/PPA Signed	Dec-2017
4	Surface Mine Thar Coal Block 2		1,720	CMEC China Machinery Engg/ SECMC	Term Sheet by Finance Div. approved	Dec-2017
5	Gwadar Coal Power Project	300	360	China Communication Construction Company	Pre-feasibility submitted to PPIB	To Be Determined
6	Muzzafargarh Coal Power Project	1,320	1,600	Not Awarded	Plant ESIA	To Be Determined

7	Rahim Yar Khan Coal Power Project	1,320	1,600	Huaneng Shandong power Gen Co.	Plant ESIA	To Be Determined
8	SSRL Thar Coal Block 1	1,320	1,300	Sino Sind Resources Ltd.	CCTEG &Global Mining China	Dec-2017
9	SSRL Thar Mine Mouth Power Plant			Sino Sind Resources Ltd. & Shanghai Electric Group	OB Removal	Dec-2018
10	Quadi Azam Solar Park	900	1,350	Zonergy	IA/EPA	Dec-2017
11	HUBCO Coal Power Plant	660	970	China Power Intl & Hub Power Co.		
12	Dawood Wind Farm	50	125	Hydro China	Financial Close	Sept-2016
13	UEP Wind Farm, Jhimpir Sindh	100	250	HydroChina/Gold Wind China/ United Energy Pak.	Financial Close	Sept-2016
14	Sachal Wind Farm, Jhimpir Sindh	50	134	Hydro China, Sachal Energy Development	Financial Close	Sept-2016
15	12 Sunnec Wind Farm, Jhimpir, Sindh	50	125	Sunnec China	IA Issued	Sept-2016
16	Suki Kinari Hydropower Project, KPK	870	1,802	China Gezhouba Group	Term Sheet	Jun-2022
17	Karot Hydropower Project	720	1,420	Karot Power Company Subsidiary of CTG	Term Sheet Finalization	Feb-2022
	Total Priority	**11,620**	**18,336**			

CPEC: Energy Actively Promoted Projects

S.No.	PROJECTS	MW	COST	COMPANY	STATUS	COMPLETION
18	Gaddani Power Park	1,320	3,960	ANC Dubai, GoP, Ciner group of Turkey		
(i)	Jetty & Infrastructure		1,200	To Be Confirmed		
(ii)	Transmission line from Lahore 7 Faisalabad to Mittiari		3,000	State Grid Corporation of China		Oct-2017
19	HUBCO Coal Power Plant	660	970	HUB Power Company		Dec-2017
20	Chicoki Malian 525MW combined cycle Power Plant (Gas Power Plant)	525	550	To Be Confirmed		
21	Salt Range Mine Mouth Power Project inc mining, Punjab	300	800	China Machinery Engg. Company		Dec-2017

22	Kohala Hydel Project, AJK	1,100	2,397	China Three Gorges		Feb-2022
23	Pakistan Wind Farm II (Jhampir, Thatta, Sindh)	100	150	To Be Confirmed		
24	Thar Mine Mouth Oracle, Thar Sindh	1,320	1,300	To Be Confirmed		
	TOTAL (Actively Promoted)	**5,325**	**14,327**			

OPPORTUNITIES

- In the light of Pakistan's challenges to fund and execute important infrastructure projects domestically, the China-Pakistan Economic Corridor (CPEC) offers a huge opportunity to tackle longstanding bottlenecks in the power and logistics sectors. Considering the broad support that the CPEC enjoys in Pakistan and the political and military capital invested in it, the commencement of the projects outlined in the CPEC will help boost energy supply in the years ahead.

- Priority energy projects under CPEC are being developed under the IPPs mode close to the source/load centers to overcome the acute energy shortages currently faced by domestic as well as commercial consumers and all the power generated through these projects will go into the National Grid. The detailed feasibility study for each of the economic zones will identify all the infrastructure requirements including link roads to connect the economic zones to the national highway network. The federal government has proposed 29 industrial parks and 21 mineral economic processing zones in all four provinces under the CPEC.

- Independent Power Producers (IPPs) will select sites for power plants in industrial zones under China Pakistan Economic Corridor (CPEC) on the basis of feasibility studies. The energy requirement of Special Economic Zones/Industrial Zones/Export/Mining Zones will be available after detailed feasibility studies are carried out for each of the economic zones and power plants would be provided accordingly.

- NEPRA has taken the first significant step towards implementation of its long-term vision of market-driven tariff based on competitive bidding by approving Request of Proposals (RFPs) of seven hydropower projects with a total capacity of 653 MW. These projects would be implemented in the private sector through open competitive bidding by the provincial power boards.

- Exemption from income tax, turnover rate tax and withholding tax on import, is available to power generation projects. The total income tax exemptions are around Rs 95 billion. Around 50 billion of the exemptions amount goes to independent power producers (IPPs). The IPPs, working in power sector, have been exempted for life on their profits. The section 'industrial zones' has been exempted from income tax for ten years but for IPPs it goes up to 27 years.

- IPPs during last financial year have been paid more than 100% of their billed amounts. He said that even HUBCO Power Company, which is an inefficient plant due to its poor maintenance and plant age, has been paid more than 100% of its billed non-fuel invoices during the previous year.

- Under a new approved mechanism, the Central Power Purchasing Agency [CPPA] will make payments to independent power producers [IPPs] every week instead of existing monthly payments as provided in the power purchase agreement [PPA]. At month-end, the IPPs will prepare a monthly invoice according to the PPA and the weekly provisional payments will be adjusted accordingly. Partial or complete closure of a power plant due to unavailability of re-gasified LNG or swapped natural gas will be treated as force majeure.

- The government is planning to induct idle capacity from captive and rental power plants to decrease electricity load shedding before June next year.

- A bold deviation from the prescribed-reforms agenda: the decision in 2015 to fund three mega projects of 1,200MWs each on gas turbines, in the public sector. Result: transparent procurement saving around Rs100 billion in costs and reducing the Nepra upfront tariff for LNG power from Rs9.78 to Rs6.42 a unit. Without this public sector initiative, the power consumers would have never got this massive benefit of Rs20.6bn per annum (Rs618 bn over the life of these three plants) and would have to pay the higher bills, had these been awarded on high upfront tariff to the IPPs.

- For the past two years the home-grown initiatives by the Ministry (mobile meter reading, online financial and operational monitoring, etc) brought the desired results of improving recoveries from 88% to 93% (the best-ever performance) and visibly reduced load shedding..

- National Electric Power Regulatory Authority (Nepra) is all set to approve Rs 3.60 per unit refund of power Distribution Companies (Discos) and 60 paisa increase in tariff for KE consumers for November 2016 under monthly fuel price adjustment mechanism.

- For sustainable resolution of the energy crisis, the government, on the one side, has made some power reforms to supplement investor-friendly Power Generation Policy 2015, while on the other, it is also promoting private sector participation in the power sector.

- The government has slashed gas prices for the power sector by about 35 per cent to Rs 400 per MMBTU from Rs 613 per MMBTU aimed at eliminating price disparity and reduce electricity generation cost.

- K-Electric (company) has approached Federal Board of Revenue (FBR) seeking customs duty concessions on the same pattern as available to Independent Power Producers (IPPs) to allow all power generation projects/IPPs connecting/supplying power to K-Electric to enjoy duty concessions.

- It is essential and a pre-requisite to attract the investors (both local and foreign) to invest in constructing power plants in Karachi. It would be appreciated that government of Pakistan provides statuary concessions to the investors that pave way for a suitable and fertile environment for investment in Pakistan. Likewise, one of the most crucial investment areas is energy sector whose dominant off-shoot is Independent Power Producers (IPPs).

- In order to address the current demand-supply situation in Karachi, K-Electric has a comprehensive investment plan in place for all three of its core functions (ie generation, transmission, and distribution). On the generation front, part of the increased supply will come from KE's embedded generation projects and the remainder will be purchased from third party power projects.

- K-Electric plans to invest Rs496 billion in developing its power generation and distribution network over the next 10 years as part of efforts to meet growing energy demand that is expected to increase by 72 % to over 5,200 MW by year 2026.

- ▲ KE plans an investment of Rs203 billion to increase generation capacity from equity participation with IPPs and addition to KE's fleet. "Moreover, 2,300 MW will be secured from new external power producers through offering a bankable security without sovereign guarantee."

- ▲ The SEL group planned an investment $760 million to set up various energy generation projects in the country, envisaging more than 400MW electricity addition. Earlier, Lucky Electric Power Company Limited, a subsidiary of Lucky Cement, had announced to convert its proposed 660MW generation facility on local coal. The power producer expected COD by December 2019. Likewise, Hub Power Company (Hubco), which earlier planned an imported coal-fired 1320MW power project, slashed the capacity to 660MW, which would use imported coal as the primary fuel. Hubco was not planning to use Thar lignite, and would not reverse its reduction decision.

THREATS

- ▼ On February 15, 2017, the total verified and audited amounts overdue to power sector (excluding WAPDA hydel) stood at PKR 414 billion. Out of this total, the verified, audited and undisputed overdue portion of IPPs is 283.2 billion rupees - 175 billion rupees on account of subsidies and 108.2 billion rupees on account of General Sales Tax refunds that are blocked by the Federal Board of Revenue (FBR) under the administrative control of the Ministry of Finance.

- ▼ The industry commends GoP for its efforts to add approximately 7000 MW generation on coal and LNG projected to come on line by 2018. This addition is likely to further increase circular debt unless GoP takes corrective measures.

- ▼ Due to deficient budgeting of the subsidies the power sector subsidies have accumulated to 174.97 billion rupees resulting in non-payments to Independent Power Producers (IPPs) in this financial year along with increase in payments to Pakistan State Oil (PSO)". In the coming days this may lead to: (i) IPPs serving notice of sovereign default with the distinct possibility of drying up of their credit lines that would naturally reduce power generation; and/or (ii) PSO may default in furnace oil/Liquefied Natural Gas payments which would also lead to reduced generation.

- ▼ The IMF in its last quarterly mandated staff review under the 6.64 billion dollar Extended Fund Facility dated 13th September 2016 emphasized the need for "further limiting the accumulation of power sector arrears and gradually reducing the outstanding stock to ensure the soundness of the sector." And the way forward as per the Fund review was a commitment by the Pakistan government to update "in consultation with development partners, their power sector arrears reduction plan (July 15, 2016 Structural Benchmark) to take into account changes in the privatization strategy for Discos. In order to contain the accumulation of new arrears, the authorities will continue to strengthen Discos' performance by further reducing distribution losses, increasing payment collections and continuing to set quarterly performance targets

- ▼ The power sector subsidies have so far accumulated to Rs174.97 billion, resulting in non-payments to IPPs in the ongoing financial year along with increase in the payables of PSO. The amount in the head of GST that is needed to be refunded stands at Rs108.2 billion. And the burden of Rs283.17 billion (Rs174.97 billion of outstanding subsidies d Rs108.2 billion GST refunds) is now becoming unbearable cash flow constraints which is bound to lead full fledge crisis, if not resolved on priority.

- ▼ When the entire chain is in the process of being unbundled due to technological advancement in renewable power production, wherein a single integrated national grid is no longer needed for efficient supply of power to the consumer and where the large and small consumers can easily produce the power at half the cost compared to what the national grid can or is willing to supply, then why the consumer should pay the extra cost of state ineptness and the single buyer IPP model. It is clear that Pakistan's international competitiveness has been eroded by a rotten power system that needs a total transformation for national survival.

- The government has been allowing IPPs to avail duty concessions on import of plant machinery and equipment but unfortunately due to non-clarify in the text of the order, duty concessions are difficult to avail for an IPP being built to supply power to K-Electric.

- IPPs had signed a memorandum of understanding (MoU) with the government at the time of the clearance of circular debt in June 2013 that they would switch their plants to coal, but since they could not fulfill their commitment over the past three years, the government was forced to purchase electricity at a higher price from them.

- The PM's Office was of the opinion that the issuance of legal notices to the IPPs could complicate the matter and might affect the power generation during next summer season. The ministry has been advised to wait until at least 2000 MW is added to the system before forcing the four IPPs out of the system for not switching their plants to coal.

- A large capacity is booked on the costly generation (at an upfront tariff of US cents 6.5/unit in 1994) based on imported furnace oil, abandoned by the rest of the world after the oil embargo of 1973. In 2007/08, their generation costs reached as high as Rs18/unit eating away our foreign exchange reserves. With 40% of our generation on imported oil, there was no easy way out. This policy also seriously compromised our energy security.

- The prescribed reforms in power sector never aimed at achieving self-sufficiency by exploring our indigenous resources such as Thar Coal or in construction of Diamer-Bhasha Dam. The effects of coal on climate were told, although clean coal technologies were available and Coal Power projects had recently been provided finances by the World Bank in Botswana and Kosovo, but that policy was not extended to Pakistan.

- The actual electricity produced by the power plants in Pakistan is approximately half of the generating capacity, according to a Pakistani planning group tasked with analyzing the energy sector and the impact of CPEC. For example, even if the government succeeds in its plans and executes power projects with a capacity of 10GW by 2020, the schemes would produce only 5.2GW.

- The planning group estimates that the electricity deficit will actually rise by 2020. According to it, the deficit will expand from 7.7GW in 2015 to 10.8GW by 2020, as consumer demand for electricity, growing at an annual pace of 10–12 % per annum, will outstrip new generation capacity. Rapid demand increases - every year approximately 700,000 people and 500,000 air-conditioners are added to the system - will continue to put a strain on the country's electricity grid.

- Presently, the generation cost of electricity through gas-fired power plants was around Rs 5.5 per unit, which would further reduce the cost of electricity. Due to a shortage of gas in the country especially on SNGPL system, the decision had created a disparity between the consumers of SSGC system and SNGPL system. Most of the consumers on SNGPL system were using RLNG which was being priced under ring fenced arrangement resulting in full cost recovery which as per latest notification of PSO was $9.7338/MMBTU inclusive of GST. As a consequence of that decision, the differential in cost of production of customers on SNGPL system versus SSGC customers has widened which was being agitated by the industrial consumers on SNGPL system who were seeking level playing field.

- The federal government has turned down a demand for the abolition of discriminatory income tax regime for public and private power producers. The federal government has exempted independent power producers from income tax but no exemption is being provided to the public power producers.

- Independent Power Producers (IPPs) have reportedly agitated at the General Sales Tax (GST) output tax collection at the federal and provincial levels as it will increase end consumers' electricity price.

- IPPs in general have not been meeting their contractual requirements on their part e.g. maintenance of fuel oil stock etc. To bring in more transparency into the system, heat rate testing and performance audit of IPPs was proposed which has been declined by the IPPs stating that they are not liable to the audit under the agreement signed with the power purchaser.

- The government has decided to impose mark-up on liquefied natural gas-based power producers for any delay in payments in a bid to address concerns of LNG supplier Qatar over accumulation of circular debt. In case of delay in payments, the mark-up would be slapped at Karachi Inter-bank Offered Rate [Kibor] plus 2.

- The government is all set to shelve its initial plan for installing Gwadar Coal Power Project of 300 megawatt (MW) with estimated cost of $360 million from the list of China-Pakistan Economic Corridor (CPEC) projects. Instead of installing Gwadar Coal Power Project, feasibility study is currently underway to consider different available options including installation of imported RLNG-based three plants with capacity of 100 MW each.

- Since the 1990s the reforms could not achieve improvement in DISCOs and GENCOs performance, and only brought circular debt into the system.

OUTLOOK

- Ever increasing demand for power and ever depleting gas resources in Pakistan have put gas fired IPPs in a difficult situation; however, the inclusion of imported RLNG has provided much needed relief to the power sector specifically and industrial sector as a whole. It is hoped that gas supply situation will improve further after the construction of new RLNG terminals. **Despite bottlenecks, such as circular debt issue, the outlook is positive.**

Related Association:

- Renewable & alternate energy association of Pakistan (REAP)

www.reap.org.com

FERTILIZERS

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	7		
			2015-16	**2014-15**	
A.	Industry Sales	Act/Est	451,241	239,181	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	119,933		
C.	Financial Charges	Act/Est	20,387		
D.	PAT	Act/Est	92,509		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	647,078		
F.	*Current Assets*	Act/Est	184,593		
G.	*Cash & Bank Balances*	Act/Est	18,910		
H.	*Trade Debtors*	Act/Est	19,674		
I.	*Short Term Investments*	Act/Est	46,664		
J.	*Total Equity*	Act/Est	296,007		
K.	*Current Liabilities*	Act/Est	198,663		
L.	*Total Liabilities*	Act/Est	365,352		

FERTILIZER

SECTOR OUTLINE

All major producers in Pakistan's fertilizer industry have invested heavily, for large scale production of Urea. Since the supply of Natural Gas has been improved recently, the fertilizer plants have improved productivity and fully met Pakistan's domestic Urea needs, while also being able to stock some surplus quantities. The industry's total production figures currently stand at 5.5 million tons, while the demand hovers between 5.1 million and 5.4 million tons. At this juncture, the government took wise decision to allow Fertilizer Producer to export their surplus quantities, to earn valuable foreign exchange.

This industry is also playing a key role in improving crop-yields in the country, as it promotes progressive farming, advisory services, and research. Since Pakistan has been traditionally spending only 0.2 % of its GDP on agricultural research, a more robust fertilizer industry can promise more funds, to promote innovative farming techniques and encourage the deployment of latest technologies to reduce costs of farming outputs.

The five major producers in Pakistan's fertilizer industry have always responded to every call of the government, to facilitate the economy of the country, by launching developmental initiatives, while also providing generous funding for improving healthcare facilities and educational infrastructure in the country, besides supporting large-scale relief and rehabilitation programmes to manage victims of natural disasters.

Pakistan's fertilizer manufacturers have long enjoyed some of the highest profitability margins in the region. The EBITDA and net profit margins in the past four years have averaged 38 and 20 %, respectively, for the big three companies. These are margins unheard of, in the fertilizer industry across the globe.

OPPORTUNITIES

- The prices were higher as the Urea manufacturing companies were getting natural gas at Rs 150 mmbtu while commercially it was available at Rs 600-700 per mmbtu. It means the gas was being given to the fertilizer industry on 400 % less rates. The fertilizer industry was earning over 200 % profit.

- In April 2016, the Oil & Gas Regulatory Authority (OGRA) has finally reduced the price of Feed-Gas, used in the Fertilizer producers. The Gas prices for the fertilizer industry have now been reduced from Rs. 200 per MMBTU, down to Rs. 123 per MMBTU.

- The fertilizer manufacturers have thanked the government for this supportive gesture of reducing Gas price, and have passed on its robust benefits to the farmer community. Therefore, the Urea prices have already been slashed by Rs.60 per bag. A Urea bag now costs Rs. 1790, down from the previous Rs 1850.

- The industry's total production figures currently stood at 5.5 million tons while the demand hovers between 5.1 to 5.4 million tons.

- Due to persistent glut in the industry with expected inventory of 1.3 million tons at the end of December 2016, the government may potentially allow export of 800,000 tons of urea to ease off the situation.

- With an increase of 17% month-on-month in international urea prices (12% in the last two weeks), courtesy a rally in coal prices, export margins will improve if the current prices stay.

- ▲ Engro Fertilizers and Fatima Fertilizer will take the lead in urea exports with estimated margins of $147 per ton, up 30% from last estimates, and $155 per ton, up 28%, respectively.

- ▲ Year 2016 started with an inventory of 0.5 million tons of urea and it had remained close to 1.5 million tons throughout major portion of the year.

- ▲ The year-end number is also expected to be higher than 1 million tons. These inventory numbers are unprecedented.

THREATS

- ▼ The federal government withdrew subsidies on urea and DAP fertilizer with immediate effect. The market, in a knee jerk reaction, sent the fertilizer stocks plunging yesterday. Recall that the government had earlier earmarked subsidy to the tune of Rs43 billion for urea, which was supposed to continue till the end of FY17.

- ▼ Rs17 billion out of Rs42 billion was government's contribution in the form of cash subsidy to manufacturers. An amount exceeding Rs20 billion was drawn from reduction in sales tax from 17 % to 5 %. The sudden withdrawal has left many wondering, and the market expects urea demand to nosedive, which could be a headache for local manufacturers already faced with slow demand growth.

- ▼ The industry currently sits with huge inventory pile of urea, exceeding 1.5 million tons; comfortably enough for another quarter, assuming nothing is imported or produced. The government's own inventory is also believed to be nearing 0.5 million tons, and it has been struggling to clear the same, as local players have been selling at discounts of late.

- ▼ The real see-saw came in the fertilizer sector. On a Tuesday evening, the government notified that subsidy on all fertilizers has finished. Wednesday morning saw the whole fertilizer sector came under severe selling pressure especially Engro Fertilizer (PSX: EFERT). Foreign institutions were not impressed by this decision and sold 14.2 million dollars' worth of fertilizer stocks during the week.

- ▼ With a burden of "Gas Infrastructure Development Cess" (GIDC) applicable @ Rs 300 per MMBtu of Gas usage. The government must ensure a sustainable level of viability for the fertilizer sector, as the growth of this industry translates into economic wellbeing and better food-security, through higher agricultural productivity in the country.

- ▼ Over the years, Pakistan's fertilizer industry had also been subjected to a heavy rate for feedstock gas, along with the imposition of the 'Gas Infrastructure Development Cess' (GIDC), making it difficult to compete with imported Urea.

- ▼ Owing to gas availability and LNG imports into the country, all urea manufacturers operated more or less throughout the year. However, the demand remained exceptionally low because of poor crop economics that further aggravated urea glut in the country.

OUTLOOK

- ▶ **Fertilizer margins may remain under pressure but volumes are expected to exhibit significant increase on a sequential basis. Also challenges to offload inventories due to low international prices makes outlook constrained.**

FINANCIAL INSTITUTIONS

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	21		
			2015-16	**2014-15**	
A.	**Industry Sales**	**Act/Est**	625,150	352,309	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	303,466		
C.	**Financial Charges**	**Act/Est**			
D.	**PAT**	**Act/Est**	185,956		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	11,276,717		
F.	*Current Assets*	**Act/Est**			
G.	*Cash & Bank Balances*	**Act/Est**	922,598		
H.	*Trade Debtors*	**Act/Est**			
I.	*Short Term Investments*	**Act/Est**	6,518,709		
J.	*Total Equity*	**Act/Est**	831,241		
K.	*Current Liabilities*	**Act/Est**			
L.	*Total Liabilities*	**Act/Est**	10,269,127		

FINANCIAL INSTITUTIONS

SECTOR OUTLINE

A thriving banking sector is essential for Pakistan because growth in the banking sector and the real economy mutually reinforce each other. The banking sector constitutes the core of the financial sector of Pakistan. Pakistan's banking industry and the broader financial sector have the potential, capability and structure to support faster economic growth; for the same, the financial sector must support private sector investment. In recent years, a wide range of significant structural reforms have taken place but there is still room for improvement.

As Pakistan's economy strengthened and productivity picked up pace, the banking sector also witnessed augmented financial activity. Within a loosened monetary and low-interest regime, the banks have done well in diversifying their revenue streams and boosting fee-income and non-interest inflows.

The revival of economic productivity and growing investor confidence have given rise to an anticipation of increased manufacturing, developmental projects and trade business; all these positive developments are expected to translate into financial opportunities for the banking sector.

Financial penetration and inclusion would also play a key role in the growth of the sector; with a significant quantum of the rural population remaining unbanked, there was a lot of untapped potential that the banks would be eager to reach out to through alternate delivery channels, mobile and branchless banking, and the promotion of Islamic Banking

Islamic Banking is the greatest contributor in Islamic Finance Industry, which contributes 80% to the total $2.3 trillion Islamic finance industry, while Sukuk contributing 14% volume in Islamic Finance industry and ranked as second largest contributor, Islamic Fund/Asset management Industry with 3% is ranked as 3rd while Takaful Industry is contributing 2% with slow pace and Islamic Microfinance contributing 1% stands as last. By 2017, the total volume of Islamic Finance Industry is expected to be $2.7 trillion.

FINANCIAL POSITION OF SELECTED BANKS

Third quarter-2016 (Rs. in Million)

	NBP	HBL	MCB	UBL	ABL	AL FALAH
Assets						
Sep 2016	1,829,481	2,382,932	974,492	1,593,289	1,029,575	870,405
Dec 2015	1,706,361	2,218,423	1,004,410	1,400,651	991,666	902,608
Equity						
Sep 2016	115,167	167,298	117,127	114,261	73,770	47,312
Dec 2015	116,011	158,352	113,186	105,867	67,969	42,425
Deposits						
Sep 2016	1,416,737	1,716,574	754,885	1,147,451	758,005	641,441
Dec 2015	1,431,037	1,634,945	696,805	1,051,235	734,596	640,189
Advances						
Sep 2016	620,860	671,067	334,411	508,856	334,011	327,718
Dec 2015	578,122	637,384	304,122	455,414	321,605	334,159
Investments						
Sep 2016	868,902	1,367,477	497,162	852,659	561,315	409,547
Dec 2015	829,246	1,270,824	565,696	719,518	544,350	423,100
Interest Expenses						
Sep 2016	44,574	44,617	18,297	30,356	24,045	21,761

FINANCIAL POSITION OF SELECTED BANKS (Cont.)

Third quarter-2016 (Rs. in Million)

Sep 2015	45,850	48,424	24,657	28,996	27,239	24,976
Change Sept over Sept	1,276	-3,807	-6,360	1,360	-3,194	-3,215
Interest Income						
Sep 2016	39,268	62,230	33,716	42,998	25,946	21,687
Sep 2015	37,640	58,153	37,009	41,141	26,776	21,240
Change Sept over Sept	1,628	4,077	-3,293	1,857	-830	447
Net Mark-Up						
Sep 2016	37,149	61,108	34,572	41,869	26,175	21,352
Sep 2015	29,447	55,517	38,434	38,462	26,301	19,887
Change Sept over Sept	7,702	5,591	-3,862	3,407	-126	1,465
Non-Interest Income						
Sep 2016	58,041	83,287	46,430	60,287	34,999	28,279
Sep 2015	54,506	83,577	51,140	55,605	34,108	26,776
Change Sept over Sept	3,535	-290	-4,710	4,682	891	1,503
Admn Expenses						
Sep 2016	34,294	38,858	16,413	23,666	14,094	17,459
Sep 2015	31,790	35,216	16,203	22,318	12,968	15,915
Change Sept over Sept	2,504	3,642	210	1,348	1,126	1,544
Profit/Loss before Tax						
Sep 2016	22,845	43,494	29,164	35,580	20,344	10,621
Sep 2015	22,112	47,125	34,068	32,286	20,513	10,283
Change Sept over Sept	733	-3,631	-4,904	3,294	-169	338
Profit/Loss after Tax						
Sep 2016	13,415	25,755	17,426	21,305	12,228	6,266
Sep 2015	12,105	25,719	20,215	19,271	11,862	6,045
Change Sept over Sept	1,310	36	-2,789	2,034	366	221

BALANCE SHEET OF ALL BANKS

(Rs. in Million)

FINANCIAL POSITION AS OF END	Q3 CY15	Q3 CY16
ASSETS		
Cash & Balances With Treasury Banks	745,977	1,106,360
Balances With Other Banks	142,899	156,287
Lending To Financial Institutions	475,674	331,997
Investments - Net	6,713,758	7,624,525
Advances - Net	4,535,921	5,052,083
Operating Fixed Assets	303,220	320,935
Deferred Tax Assets	62,098	67,288
Other Assets	538,223	474,307
TOTAL ASSETS	**13,517,769**	**15,133,782**
LIABILITIES		
Bills Payable	143,388	154,495
Borrowings From Financial Institution	1,824,998	2,011,892
Deposits And Other Accounts	9,715,165	11,092,103
Sub-ordinated Loans 55,160	41,358	61,525

BALANCE SHEET OF ALL BANKS (Cont.)

(Rs. in Million)

Liabilities Against Assets Subject to Finance Lease	15	45
Deferred Tax Liabilities	54,137	64,445
Other Liabilities	416,756	424,917
TOTAL LIABILITIES	**12,195,816**	13,809,423
NET ASSETS	**1,321,952**	**1,324,359**
NET ASSETS REPRESENTED BY:		
Share Capital	591,947	580,073
Reserves	224,854	199,717
Unappropriated Profit	254,774	312,400
Share Holders' Equity	**1,071,575**	**1,092,189**
Surplus/Deficit On Revaluation Of Assets	250,377	232,169
TOTAL	**1,321,952**	**1,324,359**

PROFIT & LOSS STATEMENT OF ALL BANKS

(Rs. In Million)

FINANCIAL POSITION AS OF END	Q3 CY15	Q3 CY16
Mark-Up/ Return/Interest Earned	732,693	701,993
Mark-Up/ Return/Interest Expenses	366,382	337,693
Net Mark-Up / Interest Income	**366,311**	**364,300**
Provisions & Bad Debts Written Off Directly/(Reversals)	30,170	10,128
Net Mark-Up / Interest Income After Provision	**336,142**	**354,172**
Fees, Commission & Brokerage Income	60,425	65,349
Dividend Income	13,025	12,061
Income From Dealing In Foreign Currencies	16,429	10,172
Other Income	74,115	57,253
Total Non - Markup / Interest Income	**163,994**	**144,835**
	500,135	499,007
Administrative Expenses	242,581	262,074
Other Expenses	5,922	3,661
Total Non-Markup/Interest Expenses	**248,503**	**265,735**
Profit before Tax and Extra ordinary Items	251,632	233,272
Extra ordinary/unusual Items - Gain/(Loss)	0.45	0.30
PROFIT/ (LOSS) BEFORE TAXATION	**251,632**	**233,272**
Less: Taxation	103,348	94,358
PROFIT/ (LOSS) AFTER TAX	**148,284**	**138,913**

OPPORTUNITIES

- ▲ The calendar year 2016 was a tale of two halves for the banking sector where it realized a return of 1.2 % in 1HCY16 followed by a robust return of 29.7 % in 2HCY16, taking full year return to 30.9 %.

- ▲ Factors such as cumulative monetary easing of 75bps and expectations of continuation of super tax in budget FY17, kept the banking sector performance in check during 1HCY16. Robust price performance witnessed during 2HCY16 was largely driven by MSCI reclassification, where Banking industry had three representatives, pickup in inflation amid fading base effect and reversal in commodity cycle.

- Banking sector advances risen by 17 % YoY/6 % MoM to Rs5.6 trillion in December 2016 whereas investments are up 8 % YoY/3 % MoM to Rs7.2 trillion.

- The sector deposits as of December 23, 2016 stood at Rs10.6 trillion which is up 15 % YoY, whereas advances were up 12 % YoY Rs5.3 trillion. Strong deposit growth bodes well for the sector as volumetric deposits growth remain the key earnings driver in a low interest rate scenario.
- The gross loan amount outstanding as on September 30, 2016 of all banks and development finance institution (DFIs) stood at Rs 65.85 billion as compared to previous quarter, it showed an increase of Rs 0.15 billion or 0.23 %.

- This year is going to be a big year for the banking industry as far as project financing is concerned. The recent up-scaling of Pakistan's projected economic growth rate for this and the next fiscal year by the World Bank (WB) also hinges primarily on infrastructural development due to take place in the country." The WB has re-projected a 5.2pc GDP growth for FY17, up from its earlier estimate of 5pc.

- Banks have also lent heavily in recent years to food, chemical and agricultural storage and transport sectors, helping them in business expansion and in undertaking balancing, modernization and rehabilitation schemes. After the introduction of prudential regulations for infrastructure financing in 2017, that covers almost all its sub-sectors, banks will find it easier to focus on project financing.

- The housing finance portfolio showed meager growth of 0.23% during the first quarter of current fiscal while year on year basis, housing finance portfolio showed an impressive growth of 13.48%.

- In order to meet the rising fiscal deficit, the federal government intends to borrow a huge amount of Rs 2.7 trillion from the banking sector during the third quarter (January-March) of current fiscal year 2016-17 (FY17). Analysts said that decline in foreign inflows, revenue shortfall and rising expenditures have compelled the government to enhance its reliance on domestic banking system to meet the required finances.

- Improvement in advances growth also indicates increased credit demand, initiation of CPEC projects and improved macros. Banks are also focusing on high yielding consumer growth to support their margins and profitability.

- As the economy looks set to grow at a 5pc plus rate and as new CPEC-related projects keep coming up, banks are getting ready for big lending. "This means we're going to see a sort of industrial revival taking place in coming years. I hope project financing is going to remain robust in 2017 and beyond.

- During the quarter ending September 30, 2016, Islamic and Private Banks remained active in extending housing finance. This rise in disbursements is reflection of efforts to create enabling environment for housing finance in Pakistan.

- IBDs and IBs had 15 % and 85 % share respectively in gross outstanding portfolio of Islamic banking industry. Compared to previous quarter, market share of conventional banking decreased and that of Islamic banking increased by % and stood at 54 % and 46 % respectively.

- Sukuk worth 78 billion dollars approximately are expected to be issued which can define the total volume of outstanding Sukuk up to 350 billion dollars. It should be clear that ICD will be rendering its contribution in flourishing Sukuk at global landscape especially in African countries.

- ▲ The retail loans/GDP ratio of Islamic Banking in Pakistan is 4 per cent, in Indonesia 7 per cent and 8 per cent in Egypt – three large countries. However, Islamic banking is also gradually moving into the retail banking space with the introduction of Islamic cards and Shariah compliant consumer finance products.

- ▲ Leading Islamic banks are enjoying attractive returns and are expanding cross-border businesses in Muslim countries. The recent move by Kuwait Finance House (KFH) to acquire RHB in Malaysia is a leading indicator of this phenomenon. The large international players such as HSBC, Citigroup, Deutsche, Standard Chartered, BNP Paribas are also entering into the Islamic banking market. With their global reach and proven capacity to innovate and generate world-class products the IFSI is likely to benefit from qualitative up-gradation and a large distribution network.

- ▲ The presence of the well-known global players will provide comfort to the new entrants in this industry. Another boost to Islamic banking is coming from the pro-active approach of the regulators particularly under the aegis of the Islamic Finance Service Board (IFSB). The setting of standards in corporate governance, risk management, auditing and accounting are beginning to address and clarify some of the outstanding issues faced by the industry.

- ▲ The use of E-banking channels has witnessed a healthy trend in banking industry as evident from increase of E-banking transactions by 16pc in volume and 4pc in value during the last fiscal year. The real-time online banking transactions also rose to 135.4 million by volume and Rs 32.3 trillion by value showing an increase of 19pc in volume and 2pc in value of E-banking transactions during period under review.

- ▲ The use of Alternate Delivery Channels (ADCs) such as ATMs, Point of Sale (PoS) terminals, internet and mobile banking also showed rising trend till June 16 as 39.2 million transactions valuing approximately Rs 200 billion were carried out at PoS terminals as compared to 32.1 million transactions valuing Rs 172 billion which showed a surge of 22pc in volume and 16pc in value as compared to the previous year.

- ▲ Likewise, internet and mobile banking also showed steady growth. The internet banking rose to 18pc in volume and 10pc in value whereas mobile banking showed an increase of 8pc in volume and 5pc in value during the period under review.

- ▲ The payment system infrastructure showed phenomenal growth during the period under review. The number of branches increased from 11,937 to 13,179 whereas total number of ATMs installed in the country increased from 9,597 to 11,381 during the year. On the other hand, 9,586 PoS terminals were added to the network totaling 50,769 POS terminals till June 30, 2016.

- ▲ The volume and value of large value transactions through Real Time Gross Settlement (RTGS) reached 930,501 and Rs 231.7 trillion respectively during 2016, showing an increase of 21pc and 29 pc in volume and value respectively from 2015.

- ▲ Another shift that has been witnessed by the industry is the exit and scale down of various foreign banks operating in Pakistan. This provides an opportunity for local banks to reach out to global corporates that seek a certain standard of service and technology.

THREATS

- A lot of financing requirements for projects under CPEC are in foreign currency which places limitations on Pakistani banks. This point to the urgent need to develop more financing instruments on the debt side as well as on the equity side. Liquidity is not that big an issue but banks will have to strengthen capital to meet adequacy requirements.

- Given the increasing capital requirements, higher risk charge on unrated exposures and in order to facilitate planned growth, JCR-VIS expects capitalization challenges for a number of medium and small banks. Increased issuances of Basel 3 Tier 2 instruments, rights issue and higher profit retention is expected in order to meet challenges on the capitalization front.

- A number of large banks may face additional capital requirements if surcharge is imposed on systematically important financial institutions (SIFIs). Internationally, SIFI surcharge has ranged from 0.8% to 3%. State Bank of Pakistan is in the process of identification of SIFIs.

- Significant reduction in discount rate along with maturity of PIBs is expected to result in pressure on profitability growth of the sector if the current low interest rate environment persists. With a number of small and medium sized banks having already realized gains on PIB portfolio and also undergoing aggressive branch expansion, profitability pressures for small and medium sized banks will be more pronounced as compared to large banks.

- Increase in overseas NPLs of large banks has been noted during 2015 and in the ongoing year. Risk of further non-performing loans in the overseas portfolio remains (particularly in MENA region) in the backdrop of lower oil prices and increased political uncertainty.

- Depositor profile of most small banks remains weak with significant depositor concentration and low proportion of retail deposits. Resultantly, cost of deposits is high as compared to most large and medium sized banks.

- Some challenges around maintaining historical growth rates in fees and commissions would be due to lower rebates from remittance business and decline in trade related fee income due to lower commodity prices.

OUTLOOK

- Going forward, as the movement of interest rates picks up in the loan book and performance of equity investment will be the key drivers of profitability. Due to an anticipated increase in investment and private sector activity that is expected to be further supplemented by stronger economic fundamentals, the growth trajectory of the financial sector can be expected to continue in 2017 as well. **Outlook is positive.**

Association:

- Pakistan Banks' Association (PBA)

www.pakistanbanks.org

FOOD, BEVERAGES & CONSUMER PRODUCTS

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

			2015-16	2014-15
	No. of Companies	Act/Est	22	
A.	Industry Sales	Act/Est	247,234	224,443

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

B.	PBT	Act/Est	27,457
C.	Financial Charges	Act/Est	3,780
D.	PAT	Act/Est	19,744

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

E.	*Total Assets*	Act/Est	137,862
F.	*Current Assets*	Act/Est	64,648
G.	*Cash & Bank Balances*	Act/Est	10,814
H.	*Trade Debtors*	Act/Est	4,259
I.	*Short Term Investments*	Act/Est	2,033
J.	*Total Equity*	Act/Est	62,679
K.	*Current Liabilities*	Act/Est	50,968
L.	*Total Liabilities*	Act/Est	68,116

FOOD, BEVERAGES & CONSUMER PRODUCTS

SECTOR OUTLINE

The massive and incremental explosion in food consumption amongst Pakistani households has boded well for almost all food producing and processing industrial giants, and in the future, the same trend is likely to benefit in the long run.
The beverage and processed food industry itself constitutes a large chunk in Pakistan's economy as it accounts for a total production of 27 % and employment worth 16 % in the manufacturing sector, moreover, there are 170 beverage industrial units currently functional in Pakistan that are witnessing steady growth.

OPPORTUNITIES

▲ Pakistan's food and beverage exports to the United Arab Emirates (UAE) have increased 27% in the last three years, making it an area worthy of attention after textiles, said the consul general of Pakistan in Dubai. While rice remains the country's top export commodity to the Emirates, the food segment remains a potential area as Pakistan continues its fight to increase foreign exchange revenue through exports.

▲ Pakistan's food and agro-products exports touched $0.5 billion last year compared to 2012's number of $362.4 million. Pakistan had boosted sale of its traditional agricultural products and expanded reach into areas such as processed meat and poultry products, tea, concentrated milk and cream, certain fruits and vegetables, spices, herbs and confectionaries

▲ Rice remains Pakistan's leading food export to the UAE. According to TDAP figures, Pakistan's rice sales jumped 11 fold to $207.8 million compared to the last two years. Meat and processed frozen food exports crossed the $100 million mark in the last three years.

▲ As for fruits and vegetables, exports increased over 100% in three years. Sales of dried fruits and vegetables to the UAE rose to $9.7 million and $7.8 million, respectively. Exports of potatoes reached $5.9 million last year – an eight-fold increase compared to the 2012 figures, while fresh and frozen meat exports crossed the $50 million mark.

▲ Moreover, for this sector, there awaits a major export push as more than 90 Pakistani companies are taking part in the Gulfood 2016; the world's largest annual food and hospitality trade platform, "In this exhibition, Pakistani exhibitors will be looking to source new buyers for a wide range of Pakistani food and agro sector products including fresh and frozen foods, rice, fruits and vegetables, sauces, nuts, sweets, confectionery and tea.

▲ Buyers can leverage Pakistan's cost-competitiveness, lower transport costs and delivery time, and the quality, freshness, taste and aroma of our diverse produce. The Pakistan pavilion at Gulfood 2016 will feature among 117 national and trade association pavilions. There will also be a first-time group participation from Russia, Costa Rica, Belarus, Mauritius and New Zealand (returning after a six-year break). In all, some 5,000 international companies from 120 countries and more than 85,000 food and beverage, wholesale, retail, distribution and hospitality professionals from five continents will take part in the event.

▲ Pakistan remains a buoyant market for consumer sales and food and beverage investment. The industry is forecasting a 9.9% per capita compound annual growth rate (CAGR) in food consumption until 2019, a 3.2% per capita CAGR growth in domestic soft drinks sales and 9.5% per capital CAGR in mass grocery retail sales.

- ▲ There are enormous business opportunities emerging in Pakistan for both food and beverage imports and exports, as evident by the recent international investment in manufacturing plants in Karachi, Multan and Islamabad.

- ▲ Givaudan has now become the first global flavor house to open its laboratory and office facilities in Pakistan and for the first time, customers in the country will be able to access Givaudan's industry-leading capabilities locally. Givaudan is the global leader in the creation of fragrances and flavors. In close collaboration with food, beverage, consumer product and fragrance partners, Givaudan develops tastes and scents that delight consumers the world over.

- ▲ Data released by global macroeconomic research firm, BMI International, show Pakistan remains a buoyant market for consumer sales and food and beverage investment. The firm is forecasting a 9.9 % per capita compound annual growth rate (CAGR) in food consumption until 2019, a 3.2 % per capita CAGR growth in domestic soft drinks sales and 9.5 % per capital CAGR in mass grocery retail sales.

- ▲ There are enormous business opportunities emerging in Pakistan for both food and beverage imports and exports, as evidenced recently by international investment in manufacturing plans in Karachi, Multan and Islamabad.

- ▲ Given its strong historical background in Halal production techniques, Pakistan could also benefit from the upsurge in demand for Halal-certified food and beverage products.

- ▲ According to a recent report by Pakistan's State Bank, the country's fast emerging food and beverage industry has grabbed the highest share of bank investment capital. The sector was the top borrower from banks last year, registering double that of a textile sector which has long been the backbone of the country's export economy.

THREATS

- ▼ Food and beverages imports in processed form have fallen 11 % to 5 % between 2005 and 2015 while industrial supplies in primary form have increased from 5 % to 7 %; both apparently positive signs.

- ▼ The issue of Intellectual Property Rights (IPR) infringements has always been in bad spotlight, especially in the beverage industry. Spurious and counterfeit products are a real threat to consumers' health, besides causing substantial loss of revenue for the government, as illegal producers do not pay duties and taxes.

- ▼ The other major challenge is taxation. For years, this sector has faced discriminatory tax, ie Federal Excise Duty (FED). No other sector within F&B is taxed under FED and Sales Tax regime. This is proving to be a major deterrent for existing and potential investors.

- ▼ Mishaps to the products occur if the packaging of the products gets damaged. The products which contain no preservatives, even microscopic damage to their six-layered packaging exposes them to air and high temperature causing decay. Damage can occur because of mishandling during any step of the value chain, from road bumps to cartons being thrown to careless shelving and storing. These are external factors which companies cannot entirely control.

- Beverages continue to suffer from rampant smuggling and counterfeiting but major players are continually lobbing for lower import duty and sales tax, in order to remove the incentive to smuggle.

- Smuggled / Imported goods in this sector continue to be perceived to have higher quality by most consumers.

- The milk-collection cycle in Pakistan is a little more challenging than in most countries. We import milk solids to make up for the shortfall. The large difference in seasonal supplies can be reduced if farmers can source better feed, breed their animals well, and adopt better farming practices.

FUTURE OUTLOOK

- **Given a steady economic growth trajectory, superior consumer understanding, global R&D capability, strong brands, deep distribution reach and operational scale makes outlook of the industry highly positive.**

GLASS & CERAMICS

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	10		
			2015-16	**2014-15**	
A.	**Industry Sales**	**Act/Est**	21,461	28,094	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	1,785		
C.	**Financial Charges**	**Act/Est**	815		
D.	**PAT**	**Act/Est**	1,409		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	35,877		
F.	*Current Assets*	**Act/Est**	14,253		
G.	*Cash & Bank Balances*	**Act/Est**	1,165		
H.	*Trade Debtors*	**Act/Est**	4,336		
I.	*Short Term Investments*	**Act/Est**	4		
J.	*Total Equity*	**Act/Est**	13,677		
K.	*Current Liabilities*	**Act/Est**	12,065		
L.	*Total Liabilities*	**Act/Est**	19,650		

GLASS & CERAMICS

SECTOR OUTLINE

Pakistan is a lucrative market for construction materials with limited state of the art manufacturing facilities. The local industry has invested Rs 40 billion in the sector so far. The tile production capacity in Pakistan is over 60 million square meters. In glass industry only few major players are there in the market, each having its own specialty in making different types sizes of glass. Therefore, competition is low and specialization is high. Raw materials as sand (silica), limestone and soda ash are basic ingredients and are readily available in Pakistan. Ceramic product lines include a vast range of products; tiles, tableware, sanitary ware, refractory and insulators which are a source of immense amount of revenue.

OPPORTUNITIES

- Chinese company Globallink Glass Technology and Equipment and Pakistani company Balochistan Glass Limited on Thursday signed a joint venture agreement. Under the agreement, a manufacturing facility will be established near Lahore to manufacture and sell high-quality USP Type-1 neutral glass tubing, vial in Pakistan using advanced technology and equipment. A new company will be formed which will be called Paidar Hong Glass. The new company will produce high-quality Borosilicate USP Type 1 and clear glass tubing under the supervision of highly-skilled Chinese glass technologists and engineers. Total capital commitment will be approximately $9 million. In addition, two furnaces with 24 tons per day capacity each will be installed along with glass tubing, glass vials and glass ampoule manufacturing machines.

- A leading Turkish industrial giant, Kale Group, with a growing worldwide footprint and diverse portfolio of interests including ceramics, machinery and equipment manufacturing, defense and energy, is the latest overseas investor to enter the Pakistan market.

- Customs values have been enhanced by 12.5 per cent on the import of tiles as compared to proposal of the domestic manufacturer to increase the values up to 30 per cent.

- The increasing demand for Pharma Glass by the national and international markets indicates an opportunity and a lot of potential for this Segment.

- The growth in Pakistan's construction sector has reached a level where it is attracting high-end foreign brands dealing with ceramic tiles, bathroom furniture and fixtures.

- The local manufacturers have demanded that tiles should not be included in the preferential trade agreement (PTA) with Iran. The core of the PTA should be to enhance trade for those items which are not produced in each other country. Trade between the two countries is essential, but it should not be at the cost of local industry.

- Local ceramics and tile industry consumes raw material produced in the country and supports the development of other indigenous sectors.

- Majority of the raw material necessary for the production of tiles was available in Pakistan which helps save precious foreign exchange and was providing jobs and business opportunities to over 10,000 people.

THREATS

- Ceramic industry of Gujrat and Gujranwala is taking their last breaths due to decreased export and use of old fashioned machinery. There are many technical universities and colleges working in rich industrial triangle of Gujrat, Gujranwala and Sialkot. Due to trust deficit of University-Industry linkage, to date no significant step has been taken to solve the industrial problems from academia.
- Illegal imports and smuggling of ceramics tiles are on the rise, which is detrimental to local tiles manufacturing industry. ITP prices for import of ceramics/porcelain tiles should be increased to the previous levels (before September 8, 2015) for survival of the local tiles manufacturing industry. Moreover, smuggling of tiles from Iran should be curbed. Anti-dumping duty should be imposed to curtail influx of cheaper tiles from China and Iran.

- The contribution of direct and indirect taxes of this industry is not less than Rs 2.5 billion per annum, adding that closure of this industry would adversely affect the government revenue.

- Current rates of customs duties on import of raw materials are 5% to 20%. These rates should be reduced by 20 % to 5 %, 15 % to 5 %, and 10 % to zero-rated. Withdrawal of turnover tax in case of losses, adding that rate of turnover tax should be reduced from existing 1% to 0.5%. Withdrawal/reduction of minimum tax, as proposed above, would lead to investments in plants and machinery, as no tax would accrue on account of minimum tax, should the company avails benefit of initial depreciation.

- Imports of ceramic tiles had been on the rise since 2010 and the last year saw the highest imports of 31.35 million square meters (sq.m), valuing $185.4 million. Since ceramic tiles are part of the FTA (free trade agreement) with China the trend is hurting the local industry.

- While the local ceramic tiles' production capacity stands at 60 million sq.m, only half of the capacity was utilized last year and nearly one million sq.m was imported in the country.

- "The industry was already struggling to survive with the presence of Chinese tiles, it now feels further threatened with an influx of cheap Iranian tiles. On an average, 0.3 million sq.m of tiles per month are imported from Iran, while the smuggled tiles coming through land route are misreported and much higher.

- The manufacturers contended that their market share is being shrunk. Presently, the imports have captured around 75% of the market and 25% share is with manufacturers. Units like Emco is closed and others are on the verge of collapse because of China's dumping and under valuation in this sector policy due to which they are facing difficulties to compete and level playing field is not available to them.

- Values of tiles are being lowered down continuously by the department in last 3 valuation rulings. Industry needs a fair value. They contended that the values are around 30-40 per cent more as compared to the valuation ruling.

- The contention of the importers is that the Pakistan industry is incompetent and in-efficient and they cannot cut price due to high wastages. They stated that the data supports their contention and actual values are low as compared to the valuation ruling.

- The marble sector is an important part of the small and medium enterprises (SMEs) of Pakistan while marble industries operating in Karachi remained the biggest contributors in this sector. As per figures, the industrial units of Karachi, which solely have to rely on K-Electric for power, contributed 90 % of total marble exports of the country. The current situation of electric supply was extremely deplorable and has resulted in production breakdowns and delays/cancellations of export orders. This situation has put the industry into jeopardy while salvaging this situation would be an uphill task, considering the current economic scenario of the country.

- The overall marble sector exports stood at $53.43 million from July 2015 to June 2016, registering a decline of around $16.55 million as compared to the same period last year that stood at $69.98 million. Frequent load shedding and power outages were proving the biggest hurdle in smooth performance of the marble industry

- Ceramic industry should be treated at par with other industries as it was also incurring huge losses on account of energy shortage and smuggling. for Captive Power Producers (CPPs) producing electricity for their own consumption, no retrospective GIDC will be charged. The rate of the GIDC for CPPs be brought down at par with the Industrial Sector/Industry. "SPP (small power producer) and NCPP (new captive power producers) will be treated at par with IPPs.

FUTURE OUTLOOK

- The construction activities in the country have increased due to construction of new housing and commercial schemes**. It is expected that the locally manufactured glass & ceramic tiles would increase as a result of favorable economic outlook.**

Association:

- Pakistan Glass Association
- Pakistan Ceramic Manufacturers Association
- All Pakistan Ceramic Tile Manufacturers Association (APCTMA)

INFORMATION TECHNOLOGY

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	3		
			2015-16	**2014-15**	
A.	**Industry Sales**	**Act/Est**	4,876	4,462	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	287		
C.	**Financial Charges**	**Act/Est**	74		
D.	**PAT**	**Act/Est**	139		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	13,660		
F.	*Current Assets*	**Act/Est**	5,662		
G.	*Cash & Bank Balances*	**Act/Est**	534		
H.	*Trade Debtors*	**Act/Est**	732		
I.	*Short Term Investments*	**Act/Est**	318		
J.	*Total Equity*	**Act/Est**	8,081		
K.	*Current Liabilities*	**Act/Est**	3,350		
L.	*Total Liabilities*	**Act/Est**	5,579		

INFORMATION TECHNOLOGY

SECTOR OUTLINE

The trade in information technology goods and services is one of the fastest growing sectors in the global trading system. In case of trade in goods, IT products are 10% of the global merchandise trade.

The IT (information technology) and ITES (IT enabled services) industry of Pakistan provides direct employment to around 120,000 people and relies on this human resource to maintain its high growth. The rapidly evolving nature of the tech sector influences job requirements and desired skill set in the market.

As of 2017, the current IT exports stands at $2.84 billion where 1/4th of foreign revenue was remitted, whereas the rest of the revenue was kept abroad to cover costs of foreign office, international marketing, etc. In 2016, the IT exports remittances are estimated to be $561 million, and currently, Pakistan Software Export Board (PSEB) projects this number to grow into $661 million in 2017. The freelancing community of Pakistan has grown in quite large numbers in the recent years, and exports through freelancers were revealed to be around $200 million per year.

Information Technology Agreement (ITA): In 1996, some WTO members, who could foresee future developments in information technology, decided to enter Information Technology Agreement (ITA) where they committed to eliminating tariffs on the import of IT goods. This was, at that time, considered the most important tariff liberation initiative in the WTO since its establishment in 1995. Since then, the trade in IT products has increased three times. In 2015, it surpassed $2 trillion.

Pakistan is not part of the ITA. It could not develop internal consensus on acceding to the agreement due to heavy reliance on taxes on international trade for revenue generation. Policymakers feared losing considerable import revenues in the short run by joining the agreement. The other argument given was that the concessions were available to all WTO members irrespective of whether they joined the agreement or not. On the other hand, a large number of developed and developing countries joined the agreement including the European Union, USA, India, China, Turkey, Malaysia, Indonesia and the Philippines. According to a recent study of the World Bank, countries that are part of the ITA have been successfully integrated into the global value chains.

The agreement has facilitated the fragmentation of manufacturing process to various geographic locations, keeping in view the competitive advantage each location offers. Each geographic location remains within the list of countries that are part of the agreement as the elimination of tariff facilitates easy movement of components and intermediaries for the finished goods. At the time of reaching the agreement, the share of developing countries in global information technologies was 30%. Now it stands at 65%.

Pakistan gradually brought down import tariffs on IT products from 2002 to 2006. This was part of the IT policy to encourage the use of IT and attract FDI. These reforms were undertaken without joining the ITA and sparked considerable interest from some important global firms as a potential investment destination. The tariff reforms were subsequently reversed due to revenue considerations as the policymakers thought it easier to collect taxes on imports rather than widening the tax net. Recently, the tariffs have been further enhanced as Pakistan under the IMF programme has to achieve revenue targets to be eligible for the periodic release of loan installments.

OPPORTUNITIES

- ▲ In the foreseeable future, the trade in IT will remain at the forefront of global trade. There is an immense opportunity for developing countries like Pakistan to benefit by eliminating tariff on IT products and liberalizing IT services. It has the potential for economic growth and employment generation.

- ▲ With nearly 16 million youth in the KP province, and few jobs available locally, there is a pressing need to think outside the box in terms of equipping young people with the skills, knowledge and capabilities to take on the future. In 2015, together with the World Bank, a series of pilot programs were conducted to test a model of digital skill training for youth. Growing connectivity, cloud technology, and the emergence of new business outsourcing models have lowered the barriers to entry for global employment, even for youth in remote parts of Pakistan. The key ingredients to accessing this employment are access to the internet, basic skills, and awareness. The pilot program tested different approaches to supporting youth to develop online work skills.

- ▲ Based on the results of this collaboration, the Government of KP launched the Youth Employment Program (YEP) in early 2016, offering free training for youth in freelancing. YEP has been piloted in seven districts of Khyber Pakhtunkhwa so far, including Abbottabad, Bannu, Dera Ismail Khan, Kohat, Malakand, Mardan and Peshawar. The pilot phase was scheduled to run until January 2017 with an aim to train 2100 students in digital freelancing and to develop models to eventually expand digital skills to all youth in the province. YEP is the first publicly funded program in Pakistan that focuses on building practical skills to link youth with international job markets through cloud based technology.

- ▲ With the aim to automate government and to make it more efficient, National Telecommunication Corporation (NTC) under the guidance of Ministry of IT & Telecom has established a cutting edge cloud based National Data Center for the government and public sector entities. The Data Center is fully virtualized across storage and server, making it hyper efficient with next generation security platforms deployed end to end. As a Tier 3 Data Center it is extremely resilient with redundancy built into every aspect of the design including power and bandwidth. The Data Center is incredibly powerful and capable of managing heavy computing loads, and is built for agility with cutting edge technologies for application delivery.

- ▲ The lightning fast changes happening on the technological front have pushed businesses to integrate technology into their systems to ensure success. Pakistan is also among the countries that are investing heavily in the Information Technology (IT) revolution and local businesses have been quick to adopt technology in all its glory. Here are some technology-based solutions introduced by some companies in Pakistan that have helped them improve different aspects of their businesses:
  1. **Paint Business –** Recently a renowned paint company launched the latest version of its Visualizer app for iOS and Android. This smartphone application allows customers to see, share and paint in their favorite colors in real time.
  2. **Land Business –** Pakistan's largest online property portal has completely digitized the property market of Pakistan. It saves precious time for buyers who just have to go online and search for a property of their choice.
  3. **Food and Beverages Business –** One of the leading dairy products hired an IT company to improve their milk supply process with the help of technology. The resulting algorithms created by the IT Company maintained an up-to-date planning and scheduling circle. The algorithm generated reports, which allowed the production team to keep an eye on the production process that included bulk produced, stock keeping units produced, plant and line capacities and other related processes. As a result, the dairy products company now

receives updated statistics regarding their production in a matter of hours rather than days, altering their plans accordingly. The innovative production plan is also accurate and precise, thus reducing both costs and wastage of milk.

The success achieved by these companies in a short span of time is a testament to the positive impact that technology can have on modern businesses. A closer look at the relationship between technology and businesses makes it very clear that technology will maintain its indispensability for governments and businesses around the world. Therefore, Pakistani companies need to realize that if they wish to introduce more variety to their work environment they have to embrace the IT revolution in its entirety. This step will most likely improve the industrial output while cutting costs by a big margin.

- The Digital Youth Summit aims at growing further and In addition, with information and communication technologies more accessible than ever, the future of employment in almost any career will incorporate technology.

  The Digital Youth Summit (DYS)– a joint initiative of the Government of Khyber Pakhtunkhwa and the World Bank along with key local community partners – is a tech conference and startup expo that takes place annually in Peshawar. It aims to become a leading platform to educate the general public, youth in particular, about tech entrepreneurship and digital employment as potential alternatives to traditional jobs. Since its inception in 2014, the Digital Youth Summit has become on the premier tech conferences in Pakistan. The summit typically attracts two key audiences: the 'who's who of the tech industry in Pakistan and abroad, and young tech entrepreneurs with fledgling startups. It draws participants from the private sector, angel investors, government, civil society and youth groups and community maker-spaces. The Digital Youth Summit revolves around three key issue areas: Digital Employment, Tech Entrepreneurship and Innovation. Participants have the opportunity to interact with leading and emerging innovators, entrepreneurs, freelancers, startup community leaders, investors and other stakeholders.

- E-Commerce industry has shown tremendous growth over the last couple of years attracting both foreign and local investment. It has been predicted that e-commerce industry in Pakistan that values at $100 million would become a $10 billion industry in coming five years. According to the Ministry of State for IT and Telecom, broadband penetration is surpassing 26% and the ministry aims to take it up to 50% by end of 2018. As of November 2016, the 3G/4G subscribers have reached 36,412,247 and Broadband subscribers have increased to 39,023,370. The rising rate of internet and broadband penetration makes Pakistan a suitable country for investment and many entrants have now showing interest in the Pakistani economy.

  Google has recently shown interest in digitizing Pakistan's IT and economic sector. In January 2017, the tech giant's Director of Public Policy and Government Relations met Pakistan's Finance Minister and stated that Google could play a role in IT development, promotion of e-commerce and can also assist in attracting investment in Pakistan. The company has been active in Pakistan for some time and has initiated many activities in the technology sphere including different events for entrepreneurs and students. Last year, it also officially launched YouTube Pakistan and has maintained its presence in the Pakistani market.

- Alibaba Group has also shown interest in Pakistani e-commerce industry. The Group Chairman and founder expressed intention to invest in Pakistan when he met Pakistan's PM in January 2017. According to him, he and his company were closely monitoring the growth in Pakistan's e-commerce sector that had convinced them to explore opportunities in Pakistan, and that his operations in Pakistan would provide opportunities to further enhance the benefits of bilateral trade between Pakistan and China. The Group was already providing services to 60 million companies across the world and its investment will also benefit the small and medium scale industry in Pakistan

THREATS

- Nearly 40% of Pakistan's companies that provided IT services have moved their business to the United Arab Emirates, largely due to the 8% additional tax on revenues levied by the government in 2015-16 to generate additional revenues. It is said that this would not bode well for the IT sector as the growth of this booming industry has already been stunted and companies are seriously re-evaluating their expansion plans in Pakistan. It is not common for a country to levy tax on revenues of IT services companies – rather the sector is subsidized. Further, companies that have moved to Dubai have little compulsion to hire a Pakistani as they can hire an Indian or Sri Lankan for the same job.

- Pakistan is a dumpsite for up to 46 % of the world's electronic waste, worth nearly US $9 billion. The legal and illegal trading of discarded electronics is disguised as useable materials as people prefer them to buying new products owing to cost factor. The rising rate of e-waste in Asia and Pakistan poses severe health threats as dismantling of these products are done through informal recycling. The report states that many such recyclers are using chemicals in a process known as "acid bathing" to reclaim gold, silver, palladium and copper from old circuit boards and wires.

OUTLOOK

- Pakistan's IT exports are expected to gallop and reach as high as $5 billion by 2020 and $10 billion in 2025, according to Pakistan Software Export Board (PSEB). Pakistan is uniquely positioned to emerge as a global powerhouse. **Outlook is positive.**

Associations and Government Bodies:

- Pakistan Computer Association (PCA)

http://pcapk.org/

- The Pakistan Software Houses Association for IT & ITES (P@SHA)

http://pasha.org.pk/

- Khyber Pakhtunkhwa Information Technology Board (KPITB)

http://www.kpitb.gov.pk/

- Punjab Information Technology Board (PTIB)

https://www.pitb.gov.pk/

- Pakistan Software Export Board (PSEB)

http://www.pseb.org.pk/

- National Information Technology Board (NITB)

http://www.e-government.gov.pk/

BUSINESS PROCESS OUTSOURCING (BPO) INDUSTRY

Business process outsourcing has become a multibillion dollar industry globally. Over the last couple of years, the worldwide business process outsourcing market has undergone rapid transformation. Continuing pressure on cost bases at a time of growing competitiveness is driving companies to look at offshore outsourcing as a strategic alternative. It has brought visible benefits and has generated tremendous employment opportunities. Access to global talent, economies of scale, process engineering and enhancements, increased profit margins and improvements in quality are some of the gains that companies and in turn countries have realized. Although outsourcing has bought visible benefits with employment opportunities to Pakistan also, these benefits do not come without a cost.

The total size of the BPO sector is currently quite small – worth only a few million dollars - but growing steadily. In-bound call centers are the most popular sub-sector. In all, BPO companies specializing in the following areas can be found in Pakistan:

- Call Center
- Accountancy
- Medical Transcription
- Animation Development
- HR services
- Claim processing
- Document Digitization
- GIS/ CAD
- Legal Transcription
- Data Entry

CALL CENTER BUSINESS IN PAKISTAN:

The call center application is one of the products of Information Technology applications. The call center industry typically employs packet switched technology for both voice and data communication. The typical services are airline booking/confirmation, help line, banking, hotels, reservations, medical prescription entries, insurance claims, data entries, etc. The customer calls are routed to a call center through VoIP technology to overseas destination where trained operators respond to the inquiries of the customers.

In Pakistan, there has been a major boom in outsourcing voice-based call center services, both in-bound and out-bound. However, there is still a room for more improvement. This sector has the potential to become a hard cash revenue generator for Pakistan, but at present, it is faced with number of problems that are affecting its growth.

OPPORTUNITIES

- ▲ Access to global talent, economies of scale, process engineering and enhancements, increased profit margins and improvements in quality are some of the gains that companies and in turn countries have realized.

- ▲ Call centers in Pakistan are growing in number and size at phenomenal rate. On the domestic scene, customer-centric organization like banks, telecom and utility providers have invested in call centers to provide prompt services and support.

- ▲ This sector of the BPO industry has mainly attracted young people in the age bracket of 19 to 24, which is a positive sign; this would help keep the young force in the mainstream of being employed at a young age, keeping in view the un-employment situation in Pakistan. Besides, there are also potentials for older people in the age bracket of 25 and above who are out of work and can be brought into the main stream of skilled labor.

- ▲ Call center business has enormous growth potential due to unprecedented growth in service industries of the developed countries. Being labor intensive, call center business is becoming a major source of employment generation in developing countries like Pakistan and India where the labor rates are comparatively low and educated class is fluent in English language. Apart from employment opportunities, this business could become one of the major sources of foreign exchange earnings for the country. The primary advantage being the relatively low cost of labor, secondary attractions are low corporate taxes and low-cost infrastructure. The time-zone differences can also be exploited in certain types of offshore outsourcing setups.

- ▲ The call center service requires quick response, high quality communication links and efficient handling without any noticeable time delay. It thus enhances the customer experience and also develops the skillsets of the employees.

- ▲ In general, encouraging export houses to take up Pakistan's case for BPO is also very important. In India, success of BPO sector is primarily the result of great IT revolution. In Pakistan, the top software houses must make effort to get into this field. And not just software export business, Sialkot and Faisalabad can become what the Bangalore is to India. The established business houses that are into export business must be invited and encouraged to look into the amazing potential of this industry. It will have enormous impact, and eventually the people will benefit with increased job opportunities and better training facilities.

- ▲ There should be increased coordination between academia and business. The public and private universities should take the initiative and sit with the leading business forums in the country to formalize the plan to root out joblessness by investing into these ventures. This will help both institutions and students/businessmen. A thorough study is needed in this regard.

THREATS

- ▼ The biggest challenge that the call centers in Pakistan are facing is high labor turnover ratio. Although many call centers provide three to four months extensive and exhaustive training in call center workings after hiring, the high turnover are mainly due to odd working hours and variations in the comparative pay offered in the market to the call center agents. The call agents tend to switch jobs quiet often when they receive an offer higher than the one they are presently paid. The organization thus suffers in the long run, both in terms of human resource and financially.

- ▼ Another challenge is the negative image of the call centers. Although rigorous training is given to the call center agents after hiring, language barriers, lack of technological knowhow of the system, and inefficient knowledge of the products render a negative image of call centers. Entrepreneurs and staff working in the ITES sector need a significant investment in training in order to be able to succeed. One particular company has made a lot of effort into training and developing the resource for call center, but obviously this needs the help and resources from the state. There is simply not enough number of people equipped with the skills to work in call center industry.

  Besides, call centers have not yet been designed to provide any value added service to the company. They act merely as messenger, rather than being the problem solver or turning any query to a transaction.

- Lack of vision or leadership is a similar issue for the call centers we have in Pakistan. Other than few BPO companies, most call centers in this country are not the prime business priority for their owners. Despite this we have some 'success stories' like TRG, Ovex Technologies, Touchstone and Voxel. The entrepreneurs investing in the BPO industry are in it for short-term returns, unlike India. They lack any long-term strategy, exposure or experience to deliver the goods.

- When there is shortage of skilled people in the market, the training and development costs go up. The lack of training and development has made another kind of business mushroom, which is training for call centers. The trend has gone unchecked with a lot of people paying huge amount of money for courses aimed at preparing them for call center related lucrative jobs, and not getting anything in return. There is a need for PSEB to step in, design, and check the quality of training provided and ensure that people don't waste time and money. Further, due to lack of training facilities for the key positions of team Leaders / supervisors, most of the call center employees lack the motivation to excel, and the result is mediocre service. There is a strong need to train the entrepreneurs on the challenges like Data Security, redundancy in Technology, and most importantly, the quality service delivery. Institutions like PSEB and PASHA can help by starting focused trainings in these areas.

- Most people, at some point in their careers, experience dissatisfaction at the job. Some call it job burnout. This is specifically a serious issue with BPO or ITES related jobs. People join this industry as a part-time or temporary employment. And without putting any serious thought into the possibilities of growth in this sector, they end up moving to other sectors or even from one call center to another, for small increments, with the result that call center loses a good trained resource. Some even go as far as opening their own small 3-5 seat call centers which die down in 1-2 years as the young restless entrepreneurs find it hard to sustain these business ventures.

- Besides, efficient use of the technological resources is not optimized to the world standards, and the huge investment is not realized with the current usage rate. There is also a significant shortage of female staff members, who are largely discouraged by the odd working hours accompanied by poor working environment and conditions.

OUTLOOK

- The Business Process Outsourcing (BPO) has not really picked up in Pakistan. **The industry has turned into a multi-billion dollar segment, and the potential is huge in Pakistan because of its labor arbitrage.**

Associations:

- Call Center Association of Pakistan (CCAP)
- Association of Call Center Operators (ACCO)

LEATHER PRODUCTS

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	2		
			2015-16	**2014-15**	
A.	**Industry Sales**	**Act/Est**	149	131	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	6		
C.	**Financial Charges**	**Act/Est**	2		
D.	**PAT**	**Act/Est**	4		
			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**	132		
G.	*Cash & Bank Balances*	**Act/Est**	1		
H.	*Trade Debtors*	**Act/Est**	89		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	-350		
K.	*Current Liabilities*	**Act/Est**	499		
L.	*Total Liabilities*	**Act/Est**	501		

LEATHER PRODUCTS

SECTOR OUTLINE

Pakistan is considered to be the hub of producing high quality leather and leather products. At the time of independence there were only a few tanneries that worked at a very small scale, but now there are about 800 tanneries in the country producing high quality leather from cow and buffalo hides, and sheep and goat skin. 213 members are currently registered with Pakistan Tanners Association from all over the country.

Pakistan's leather industry employs more than one million persons, directly or indirectly, and contributes 2.6% of GDP and 5% to the overall export earnings of the country. The leather industry consists of six sub-sectors namely Tanning, Leather, Footwear, Leather, Garments, Leather Gloves, Leather Shoe Uppers, and Leather Goods. The Tanning industry plays a vital role in the progress of these sub-sectors by providing the basic material, i.e. leather. Today, Pakistan is among the leading countries in the production of leather garments and gloves. Leather garments and footwear is a job-oriented sector providing employment to a very large segment of the society besides earning foreign exchange for the country.

In the 50s and 60s most of the tanned leather was exported in raw form but soon after owing to availability of raw material and labor accompanied by growing demand in the foreign market, the local tanning industry making semi-finished leather entered the finished products market. Currently, over 450 leather garments manufacturing units produce 5 million pieces in the country while it has the capacity of producing 7.5 million pieces annually. The industry is currently producing 100 million pairs of footwear annually against a production capacity of 200 million pairs.

Leather garments sector is an important foreign exchange earner for the country. This sector is mainly scattered in Sialkot and Karachi. In Sialkot approximately 12,000 people are directly employed by the sector.

OPPORTUNITIES

▲ Pakistan is rich in agricultural products and has a large livestock population which plays an important role in the economy of Pakistan by producing around 13.0 million hides and 47.4 million skins per annum. The quality of goat skins, cow, buffalo hides in Pakistan is satisfactory. The type of sheep skins we have in Pakistan is better in respect of grain, substance and compactness of fibers.

▲ The leather garments entrepreneurs of Sialkot enjoy a distinctive edge over their counterparts in Karachi mainly due to expertise and skills they assimilated from the export culture of the city. Immaculate products of contemporary designs are crafted by using very good leathers. In addition the skills of the craftsmen impart an insurmountable competitive edge to the products unmatched by Pakistan's competitors.

▲ Federal government has planned 29 special economic zones (SEZs) under CPEC that are aimed at enhancing the country's productive capacity, expanding its exports base, and providing a major impetus for economic and social development through their backward and forward linkages with the rest of the domestic country. Leather industry could benefit much if SEZs are planned for this industry also. However, the incentive structure should be tailored keeping in mind the outlook of the industry. It is also important that the regulatory and administrative bodies set up for SEZs have necessary power, autonomy and available funding, as weak administrative bodies established to develop, operate and regulate zones resulted in lacklustre performance by SEZs.

Further, adequate coordination and effective partnership between governments (local, provincial and federal) and private zone developers is also essential.

THREATS

- Pakistan is fast losing its share in the traditional markets of leather and leather goods to regional countries. For the last three years leather goods exporters have been expressing concern at the slide. The leather exports hover around $1.2 billion for the last few years whereas regional countries had been posting double-digit growth. According to official data, the leather and leather products exports recorded a fall of 18.2% to $0.978 billion in FY2015-16 from $1.196 billion in FY2014-15 and $1.275 billion in 2013-14 (6.3% decline in FY15). Export of leather declined by 25.9%, leather apparel and clothing by 12.4%, leather gloves by 11.9%, and leather footwear by 18.8%. In contrast, China's leather export has increased by 20%, India's 63% and Bangladesh's 100%. Vietnam is earning $3bn from footwear exports annually with a projection of $7bn in next five years. Pakistan's share of 0.5% in world market for leather and leather products is insignificant compared to China's 19%, Italy 9%, Vietnam 4% and India 2.5%.

- The industry has been on a continuous decline over the past several years for all the same reasons – a higher cost of production; lack of investment and incentives; and competition from China, India, and Bangladesh. The country produces best quality of raw material (skin and leather) but stocks are not increasing due to decline in livestock. Currently, tanneries are operating under-capacity and have to import leather from Iran, Saudi Arabia, Spain, France and Africa to meet around 25% of their total demand.

- Contrary to practices in other countries, Pakistan has imposed 3% duty on raw materials – hides and skins – resulting in increase in cost of production. On the other hand, the government allows 3% rebate and duty drawbacks for leather industry, which is 10% – 11% in India and Bangladesh, thus putting the industry at a disadvantage in the international market.

- Power tariff in India stands at 9% per unit and in China and Bangladesh around 7-8 cents, whereas the local industry pays 14 cents per unit. The cost of gas for Pakistani exporters is $6.7 per mmbtu, India $4, China and Bangladesh at around $3 per mmbtu. The labour cost is also comparatively higher. PTA has attributed the decline in leather exports as a consequence of rising cost of doing business – the highest in South Asia region. In the absence of a level playing field, Pakistani leather and leather goods exporters find it hard to compete with India, China, and Bangladesh.

- In the recently held Pakistan Mega Leather Show 2017, PTA expressed its strong concern over the controversial clause in the recently announced export package which states that rebate will be paid by the State Bank of Pakistan subject to the release of funds by the Ministry of Finance. According to PTA, the clause may jeopardize the whole incentive package, as there is already a huge pendency of various refunds in FBR to the tune of millions of rupees, and with the given cash liquidity problem, the industry cannot take any further cash crunch on non-payment from the Ministry of Finance. Payment should be credited immediately on realization of proceeds in the bank without asking for release of funds from the ministry and provision should be made for it.

- Government's Input Output Coefficient Organization (IOCO) approved and recommended a meagre refund of duty drawback for chemical consumed for the duties paid on leather and on finished leather. PTA has also demanded waiver of 4% customs duty on import of hides and skins on the analogy of duty waiver allowed for textile industry on imported cotton. This is also important because of a fast depletion of livestock due to excessive slaughtering for meat export and the available livestock figures have gone below the levels of 2006, which is alarming.

- There is around 30–40% slump in the footwear and jackets market of Europe, reduced demand in China and Far East market owing to heavy recession in international market of leather industry, directly affecting Pakistan.

- Globally, synthetic alternate materials are being substituted for leather as these are abundant in supply and are easier and economical to use for fashion and apparel companies. Changing styles and colors with those materials is relatively straightforward and producing them simple and faster. However, in terms of durability, comfort and beauty, it cannot beat leather. *P*olyurethane in all its different variations continues to be a very problematic material, and its cleaning process discharges micro particles into effluent.

OUTLOOK

- **In the absence of a level-playing field, import duties on raw materials and slump in the international market have put Pakistan leather industry at a disadvantage leading to a decline in exports. Outlook remains negative.**

Associations:

- Pakistan Leather Garments Manufacturers & Exporter Association

http://www.plgmea.pk/

- Pakistan Tanners Association

http://www.pakistantanners.org/

MACHINERY & EQUIPMENT

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	6	
			2015-16	2014-15
A.	Industry Sales	Act/Est	30,597	32,707

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

B.	PBT	Act/Est	2,372
C.	Financial Charges	Act/Est	2,344
D.	PAT	Act/Est	2,096

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

E.	*Total Assets*	Act/Est	50,236
F.	*Current Assets*	Act/Est	24,273
G.	*Cash & Bank Balances*	Act/Est	450
H.	*Trade Debtors*	Act/Est	9,500
I.	*Short Term Investments*	Act/Est	80
J.	*Total Equity*	Act/Est	5,880
K.	*Current Liabilities*	Act/Est	22,000
L.	*Total Liabilities*	Act/Est	44,356

MACHINERY AND EQUIPMENT

SECTORAL OUTLINE

The Engineering Sector in Pakistan is engaged in producing cement and sugar plants; industrial boilers; chemical plants & equipment; construction equipment; power transmission towers; textile related engineering components; automotive parts and accessories; etc. The Engineering Industry encompasses a wide range of product categories. Capital Engineering goods in major industrial sub-sectors are in great demand. These are listed here under:

A. Metal Working Machinery (Machine Tools Industry): Centre Lathes, Shaping Machines, Milling Machines, Drilling Machines, Planning Machines, Power Presses, Hydraulic Presses. Hacksaws and Circular Saws
B. Other Industrial Machinery: Food Processing Machinery, Paper Machinery, Chemical and Oil Refinery Machinery, Cement/ Sugar Manufacturing Machinery Plants, Construction Machinery.
C. Power Generation Plant & Equipment: Membrane well Segments, Rotary Air Heaters, Heat Exchangers, Condensers, Cooling Towers, Super Heater Coils, other Steel Plate Fabricated Equipment & Components
D. Miscellaneous Machinery: Agricultural Machinery, Water Pumps, Compressors etc.

Globally, the engineering goods constitute more than 60% of the world trade and account for about 20 per cent of India’s total exports. However, the share of engineering sector in Pakistan’s exports is negligible. Many countries including China, Korea, Taiwan, Thailand, Singapore, Malaysia and many others have achieved phenomenal economic growth by focusing on engineering sector. Resultantly, this sector accounts for more than 65% in their total trade and around 50% in their total exports.
Engineering products growth declined by 17.64% in FY16, as compared to a decline of 10.74% in FY15.

Heavy Mechanical Complex Ltd. (HMC), Taxila is a major heavy engineering subsidiary of the State Engineering Corporation (SEC) under the Ministry of Industries & Production, Government of Pakistan. Established in 1979 with Chinese assistance, HMC has the capability for designing, engineering and manufacturing of industrial plants and machinery. HMC has the largest fabrication and machining facilities in the country equipped with Computer Aided Designing (CAD) and can undertake a variety of fabrication / machining jobs on sub-contracting basis. HMC manufactures equipment for hydro-electric power plants, thermal power plants, sulphuric acid plants, industrial alcohol plants, oil & gas processing plants, and chemical & petro-chemical plants, etc. Boilers, cranes, construction machinery, material handling equipment, steel structure, railway equipment, etc. are also produced on regular basis. The company's capabilities include engineering and manufacturing of Sugar Mills ranging between 1,500 - 12,000 TCD (tons of cane crushing capacity per day), Portland Cement Plants of 700- 5,500 TPD (tons per day) module and White Cement Plant of 50 - 1,000 TPD.

The Heavy Industries Taxila (HIT) is a major defense, military contractor, engineering conglomerate, and Military Corporation located in Taxila. The HIT is noted as being one of the largest defense contractors and has grown into a military industrial complex since its foundation in 1971. The HIT promotes, markets, engineers, develops, and undertakes heavy engineering works for Pakistan's military and for the civilian law enforcement agencies.

OPPORTUNITIES

- Pakistan mostly depends on textiles and few other low value items for exports. However, the share of engineering goods is increasing in world exports and it is high time that government should accord top priority to developing this sector in order to get better share in the world market of more than $ 6 trillion. Fostering the growth of engineering sector could bring plenty of benefits to the country as it would translate into better industrialization, enhance exports, substitute imports, generate massive employment opportunities for the rising youth, and add significant value to our economy. Engineering sector has the potential to become an effective tool for achieving sustained economic growth of the country and get rid of poverty.

▲ Automotive Development Policy 2016-21 offers incentives to new investors, who are not only allowed duty-free import of plant and machinery for setting up the assembly and manufacturing facility on a one-time basis, but also offered concessionary tariffs (at 10% against the prevailing 32.5%) on import of auto parts for an extended period of 5 years. Similarly, the investment for the revival of a closed assembling facility would get 3-year concessional tariff.

▲ An engineering bank of Pakistan may be created by nominating one of the banks like National Bank of Pakistan (NBP) or any commercial bank on the same pattern as adopted in promoting agriculture, through Zarai Taraqiati Bank (ZTBL). This will create a specialized institution with the understanding of the specialized demands of the engineering sector that is bound to adopt a more flexible approach to the industry in general and especially towards those with proven record of performance and repayments. For larger projects of promoters with sound experience and record, even 80 to 90% credit finance may be provided as in Japan, Korea, Philippines, Thailand, Indonesia, etc. to expedite formulation and implementation of capital-intensive industries.

▲ A major objective in the engineering industry during the next few years should be the production of an automobile engine in particular. Now that the first few phases of the deletion program for automotive vehicles have been implemented to a large degree, a realistic but challenging deletion program may be approved for engine manufacture particularly for the industry. In view of the heavy financial outlay and more so due to necessity of induction of new technologies, a programme for engine manufacture must be approved, aimed at achieving deletion.

▲ Cutting tools are a basic requirement for engineering industry. In order to encourage precision and quality, import of these tools may be allowed at nominal duty. Also in order to facilitate investment, balancing and modernization, free list of import of machine tools should be extended to include tools, steel, jigs, fixtures, dies and molds. A list of such items whose free import will not affect local industry and are critical for the use of engineering goods industry may be compiled.

THREATS

▼ Import duties make implementation of projects not easy due to debt/ equity requirements and demands on cash resources. Import duty on Engineering machinery and raw materials, not produced in Pakistan, thus deserves to be streamlined. Such a move will give strong impetus to growth of Pakistan's Engineering Industry.

▼ Similarly, import of plants provides additional credit sources, which may be made use of as far as possible. Duty and other charges may be assessed and collected only on the value of the machinery and not on the components of the usance amount. Interest component of plants and machinery cost imported under usance arrangements may thus be treated as normal business expense. This would then be similar to interest paid when capital is raised locally and only actual value of plant and equipment may be capitalized.

▼ According to the 5th Schedule to the Customs Act 1969 under serial number 18, machinery and equipment imported by an industrial concern involves standard rate of customs duty. It is observed that competitor nations allow duty free import of plant, machinery and other capital goods. The FPCCI in its tax proposals suggested that import of plant, machinery and equipment for setting up fruit processing and preservation units throughout Pakistan should be exempted. FPCCI advocates deletion of areas specified (Gilgit, Baluchistan and Malakand Division) in serial number 26 to cover benefit in whole country. Fruits produced in Pakistan get wasted due to inadequate fruit processing and preservation machinery and equipment. In fact, producers are suffering from huge financial losses.

- In the case of import of machinery and plants, no Income Tax should be collected if the assessee is liable to pay Advance Tax during the financial year in which the goods are imported. Presently, Income Tax at an inappropriate rate is being collected on all imports irrespective of the fact whether finally tax is due or not. This amounts to changing definition of the tax on income. The inequity is further increased, as, in practice, the Government's policy on issuing refund is excessively cumbersome.

- Initial depreciation on investment on Balancing, Modernization and Replacement (BMR) should be increased. This would give boost to BMR investments which are usually more cost effective than investment on completely fresh units. It follows also that tax credit should be allowed on the cost of plants and machinery as well as on the installation costs associated with such acquisition. This will enable industrialization, promote employment and develop know-how rather than achieve a "limited objective" of tax collection, which is already too high.

- Significant revenue can be generated if customs officials wholeheartedly curb smuggling. Smuggling is increasing unabated and is inclusive of spare parts of all types and sizes, automotive vehicles, consumer goods and narcotics. Such a system has an adverse impact on those who abide by the laws and ironically they are the ones who are burdened even further with misconstrued assessments when revenue shortfall builds.

  More objectionable is the system of deduction of tax – custom duty from all imports and receipts irrespective of the fact whether in the final analysis such transactions lead to income or loss. In case of no income or loss, the officials have to issue refunds, which have resulted into a widespread disease of withholding them, as long as they can. Equally undesirable is the practice of interpreting the law in favor of the revenue instead of in favor of the assessee. This tendency has grown sharply more recently and has led to harassment of the tax payer more than the dishonest one.

- Imports of capital equipment have risen rapidly over the past two years, playing a large part in the mini growth boom that Pakistan has enjoyed over this period. However, the increased indebtedness that has resulted will mean that if current real GDP growth rates are not sustained, the economy could find itself in the difficult position of having to repay large foreign loans with insufficient export revenues, similar to the situation that Sri Lanka finds itself in.

OUTLOOK

- Downstream engineering industry has progressed with good pace, building a base for producing value added industrial products like automobile and parts, electrical machinery/ equipment, consumer durables, pipes valves etc. The objective is to utilize the available resources of the country in the most effective manner in order to maximize the engineering productivity as well as its share in the exports. **Outlook is steady.**

Associations:

- Pakistan Agricultural Machinery and Implements Manufacturers Association (PAMIMA)

http://www.recama.org/?page_id=530

- Engineering Components & Machinery Manufacturing Association of Pakistan

http://www.engineeringcomponentsmachinerymanuf.enic.pk/

- Pakistan Hardware Merchants' Association

http://www.phma.info/

- Pakistan Electrical & Electronics Merchants Association (PEEMA)
- Pakistan Metal Containers Manufacturers Association

http://pakistan-metal-containers-manufacturers-asso-139956.pakbd.com/

- All Pakistan Two/Tri Wheelers Assemblers Cum-Progressive Manufacturers Association

http://www.allpakistantwothreewheelersassemble.enic.pk/

- Pakistan Plastic Manufacturers Association (PPMA)

http://www.pakplas.com.pk/

- Pakistan Electric Fan Manufacturers Association
- All Pakistan Cables & Conductors Manufacturers Association

METALLIC PROUCTS (IRON & STEEL)

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	4	
			2015-16	2014-15
A.	Industry Sales	Act/Est	56,529	41,773

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

B.	PBT	Act/Est	4,072
C.	Financial Charges	Act/Est	2,420
D.	PAT	Act/Est	2,885

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

E.	*Total Assets*	Act/Est	55,663
F.	*Current Assets*	Act/Est	18,623
G.	*Cash & Bank Balances*	Act/Est	311
H.	*Trade Debtors*	Act/Est	3,093
I.	*Short Term Investments*	Act/Est	21
J.	*Total Equity*	Act/Est	21,718
K.	*Current Liabilities*	Act/Est	22,125
L.	*Total Liabilities*	Act/Est	33,945

METALLIC PRODUCTS – IRON AND STEEL

INDUSTRY OUTLINE

Pakistan's steel industry comprises a complete and a closely intertwined value chain – from pig iron furnaces to downstream sectors and end-user industries. There are at least 600 players in the industry, with no clear leaders that are able to provide vision and direction. Moreover, Pakistan's steel industry is characterized by small plants, most of which are utilizing obsolete technology and these products cannot compete with cheaper imports, particularly from India and China, where manufacturers enjoy benefits from economies of scale and more efficient production processes. The domestic industry therefore operates at only 60% of its installed capacity, despite strong local demand for steel products.

Pakistan's steel consumption remains as low as 23 kg per person compared with more than 58 kg in India, the Asian average of 261 kg and the global average of 217kg, which shows the massive potential for new investments and job creation in this sector.

Domestic steel production capacity of more than 350 steel mills spread across the country is estimated to be around 6 million tonnes, negligible when compared with the global capacity of 1.65 billion tonnes. Some say that less than 10% of the actual local steel production of 4-4.5 million tonnes meets international quality standards. The rest of the production falls in the category of 'ungraded, unrecognizable and untraceable material'.

OPPORTUNITIES

- Over the last several years, the steel consumption in the country has spiked to 6-7 million tonnes a year, mainly on the back of increasing public spending on infrastructure projects, including roads, bridges, dams, power plants, etc, and rising private construction activity. Yet local producers have not been able to take full advantage of this surge in demand as **almost one-third of the domestic consumption is met by cheaper imported products**.

- The manufacturers agree that the steel consumption in the country will continue to surge in the coming years owing to increased public development spending and the launch of infrastructure projects under the China Pakistan economic Corridor (CPEC). But they argue that the local industry will not be able to meet this new demand unless the government gives a clear-cut, long-term policy for protecting existing and new investments, and making the industry competitive.

- Some quality steel producers like Agha Steel, Amreli Steel, International Steel, Mughal Steel and Aisha Steel have either increased their production and sales or are expanding their capacity, with a view to grabbing new opportunities being created by heavy public infrastructure development spending and the initiation of the CPEC projects. But even their enhanced, combined production will be sufficient to meet only a small fraction of the additional demand.

- The government has revised up regulatory duty on import of iron and steel finished products by a whopping 15% in a bid to protect the local industry. The Ministry of Finance, in a notification in March 2016 increased the regulatory duty on import of iron and steel finished products to 30%. According to SBP data, Pakistan spent $1.813 billion on imports of iron and steel products in the FY15, up approximately 17 % over the preceding fiscal year. The imports were highest in terms of value in the metal group with a total import bill of $3.246 billion. Local steel industry has been raising hue and cry over the influx of steel products into the country.

▲ In January 2016, the government slapped anti-dumping duties on some companies from China and Ukraine on the ground that they were dumping products in Pakistan at cheap prices. The National Tariff Commission of Pakistan imposed duties in the range of 8.31 and 19.04 % on imports of cold-rolled coils and sheets from exporters based in China and Ukraine after a preliminary finding that they dumped two products during April 2014 to March 2015 into Pakistan. The NTC swung into action following a dumping complaint lodged by a local cold rolled coils/sheets producer. The domestic industry had suffered a material injury on account of increase in volume of dumped imports, price undercutting, depression, and suppression, decline in market share, profits, sales, capacity utilization and return on investment and negative effect on cash flow, inventories and ability to raise capital.

▲ The government also notified 10 % duty on import of aluminium alloys for the rest of the current fiscal year.

▲ Looking at the export of foundry products, the ministry of Commerce and Industry in Pakistan can support the foundry industry for the further growth for even better performance. Trade Development Authority of Pakistan (TDAP) can play its role for further growth in export by foundry industry, which is one of the major contributors. Pakistan has tremendous growth potential and the world foundries can benefit from

- Low labor cost
- Large population with a strong domestic demand
- Construction cost for new casting facilities and completion time is low
- Health & Safety compliances for molding binders are not stringent as the developed world
- Tooling cost and local development of auxiliary foundry equipment is low

Quality issues and improved manufacturing methods are big issues in SMEs in foundry sector.

THREATS

▼ Pakistan Steel Mills (PSM) has not been functioning due to suspension of gas supply over non-payment of outstanding bills worth Rs39 billion to Sui Southern Gas Company Limited. Additionally, above 14,000 PSM employees have been deprived of their salaries for the last five months. It is said that China's Baosteel Group has written a letter to the federal government expressing its interest in acquiring PSM. The privatization process of PSM is likely to be completed during the ongoing financial year 2016-17. Baosteel Group has 19 subsidiary companies and total annual production of the company stands at 34 million tonnes. It may be mentioned here that IMF had expressed reservations over the slow process of privatization of PSM.

▼ PSM contributes 10-15 % of the total steel production in the country and it is the sole producer of **pig iron**, which is used as an input for making various steel products. Pig iron had 4 % share in overall steel production in FY15, which fell to 0% in FY16. Hence, the suspension of PSM's operations forced steel manufacturers in the private sector to rely on imported pig iron. Hence, the import of both **steel scrap** and steel products increased by 35.6 % and 30.1 % respectively during FY16. The imports posted extraordinary growth despite the imposition of anti-dumping duties on import of **cold-rolled coils and sheets** from China and Ukraine. In the absence of fresh investment in quality local steel manufacturing, new demand for steel will have to be met through imports, bringing the country's current account under pressure. Pakistan's steel imports had cost the country $2.6bn in FY2015 and $2.2bn in FY2016.

- Local steel products are unable to compete with cheaper imports, particularly from China where manufacturers enjoy benefits from economies of scale and a more efficient production processes. In fact, low-cost steel products from China have posed a threat to many steel manufacturers around the globe. Countries such as Bangladesh, Mexico, Brazil, US and India have countered this threat by imposing countervailing duties, regulatory duties and other non-tariff barriers to protect their local steel industries. Because of concessions given through the FTA and mis-declaration of non-alloy steel goods as alloy steel, the appropriate tariff barriers are not in place to protect Pakistan's steel industry. The G7 countries agreed to take steps to tackle a global glut in steel that many blame on excess production by Chinese producers of steel products used in construction and cars (Reuters).

- According to the local steel producers, the industry largely remains uncompetitive because of a lack of mechanism for quality standards, influx of under-invoiced and smuggled steel products mainly from China, and a higher tax burden and cost of doing business because of energy shortages. Unless the industry becomes competitive and quality standards are enforced across the board, we cannot expect significant new investments in steel production in the near future. The government must provide a policy framework to encourage investment in this industry to meet the new demand for steel being created in the country.

- Some producers fear that the Chinese firms involved in the CPEC projects will prefer to import steel from their country rather than buying it from the local market unless the government takes actions to ensure that imports are allowed for CPEC projects only when the local industry is not able to meet demand.

OUTLOOK

- The steel sector recorded a growth of 13.0 % during Jul-Sep FY17, compared to contraction of 5.3 % during the same period last year. The Pakistan Steel Mills – the largest steel manufacturer in the public sector – being non-functional since July 2015, the private steel firms have taken full advantage of the growing demand for construction related materials. While higher capacity utilization helped them to lower cost of production, some support also came from the levy of regulatory duty (RD) on steel imports and increase in Chinese steel prices**. Despite PSM, the outlook for downstream steel mills remains positive in the backdrop of high construction activity.**

Associations:

- Pakistan Foundry Association (PFA)

http://www.pfa.org.pk/
- Pakistan Steel Melters Association (PSMA)

http://www.steelmelters.com/pakistan.htm
- Pakistan Iron & Steel Merchants Association (PISMA)

http://www.pakistanironsteelmerchantsassociati.enic.pk/
- Karachi Iron and Steel Merchants Association (KISMA)

http://www.kisma.com.pk/
- The Pakistan Steel Re-Rolling Mills Association (PSRMA)

http://www.psrma.com/
- Pakistan Metal Containers Manufacturers Association

http://pakistan-metal-containers-manufacturers-asso-139956.pakbd.com/

PHARMACEUTICALS

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	9		
			2015-16	2014-15	
A.	Industry Sales	Act/Est	86,954	80,141	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	22,966		
C.	Financial Charges	Act/Est	1,097		
D.	PAT	Act/Est	17,372		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	102,243		
F.	*Current Assets*	Act/Est	49,375		
G.	*Cash & Bank Balances*	Act/Est	15,404		
H.	*Trade Debtors*	Act/Est	11,302		
I.	*Short Term Investments*	Act/Est	866		
J.	*Total Equity*	Act/Est	40,699		
K.	*Current Liabilities*	Act/Est	26,856		
L.	*Total Liabilities*	Act/Est	60,007		

PHARMACEUTICAL

SECTOR OUTLINE

Pakistan has a very vibrant and forward-looking pharma industry. It is comprised by feutical 800 pharmaceutical manufacturing units, including those operated by 25 multinationals present in the country. The Pakistan pharmaceutical Industry meets around 70 % of the country’s demand of finished medicines. The domestic pharma market, in term of share market, is almost evenly divided between the nationals and the multinationals.

The national pharmaceutical industry has shown a progressive growth over the years, particularly over the last one decade. The industry has invested substantially in upgrading itself in the last few years, and today the majority industry is following good manufacturing practices, in accordance with the domestic, as well as international, guidance. Currently the industry has the capacity to manufacture a variety of product ranging from simple pills to sophisticated biotech, oncology and value -added Generic compounds.

The Pakistan pharma industry is relatively young in the international markets with an export turnover of over $212 million as of 2014 to 2015. Pakistan pharma industry boasts of quality producers and many units are approved by regulatory authorities all over the world. Like domestic market the sales in international market have gone almost double during last five years. In the meantime, exports are also likely to be boosted by new regional and global opportunities.

The Pakistan pharmaceutical industry is a success story, providing high-quality essential drugs at affordable prices to millions. Technologically, strong and self-reliant national pharmaceutical industry is not only playing a key role in promoting and sustaining development in the vital field of medicine within the country, but is also well set to take on the international markets. The Pakistan Pharmaceutical Manufacturers Association had adopted “Vision 2025” for the national pharma industry, under which it envisioned to increase the exports of medicines to $ 5 billion in 10 years.

OPPORTUNITIES

- Pakistan can increase its pharmaceutical exports to a billion dollars within the next 5 years from the current figure of less than $160 million if the country gets the membership of the Pharmaceutical Inspection Convention/Cooperation Scheme (PIC/S). PIC/S provides cooperation in the field of good manufacturing practice and if Pakistan becomes its member and follows its regulations, the country's medicines will have an access to at least 60 countries, from Malaysia to Sweden. We have been demanding of the government to get its [PIC/S] membership.

- At present there is no FDA or EMA approved facilities in Pakistan and there are only a couple of WHO certified facilities. The costs involved in obtaining these certifications are considerable and there is no incentive for companies to do. FDA and EMA certifications would allow Pakistani pharmaceutical company's access to US and EU markets.

- Pakistan’s pharmaceuticals exports to the Philippines are around US $11 million. Numerous Pakistani pharmaceutical companies have established their offices in the Philippines. While many Companies have applied for the registration of their drugs with the regulatory authority. The future prospects seem promising, general impression in the Philippines is that Pakistani medicines are competitive price-wise and are of good quality.

- The 2015 market size of pharmaceuticals in Pakistan is about Rs 300 billion, growing by 12 % annually. Many decades ago, most medicines used to be imported. Today, the pharmaceutical industry locally manufactures about 90 % of the country's requirement.

- The growth of the market is due to the increasing birth-rate. Secondly, those who used to turn to homeopathic (when there were good practitioners) or other alternative means of cure are turning to allopath, so there is a cultural change. There is also more accessibility, affordability, and awareness has also gone up.

- Most importantly, our economy's size is larger, so demand for healthcare management is higher. We have a larger undocumented economy, so more money in circulation has resulted in access to medicines, which has resulted in a healthy growth of the pharmaceutical industry.

- The market is of two kinds; trade market and institutional market. We usually deal in trade market, which is more transparent and has larger market share. Recently, initiatives made by the Punjab government to ensure supply of quality medicines by testing them in an independent quality control laboratory may allow companies like us to bid for tenders also.

- Pakistan aims to double its exports to Sri Lanka within a year. Pakistan's current medicines export to Sri Lanka amount to $20 million only. Local manufacturers said the potential is seven to eight times higher.

- The Ministry of Industries will actively play its role to strengthen the pharmaceutical industry and to achieve high level of exports.

- The Drug Regulatory Authority of Pakistan (DRAP) has started preparing a code of conduct for pharmaceutical companies and medical practitioners to safeguard the interest of patients.

- Efforts are underway to get Central Drub Laboratory (CDL) of Pakistan prequalified from the World Health Organization (WHO) so that it could certify Pakistani drugs for exports to high-price market of Europe, instead of Africa and Asia.

- "US Food and Drug Authority and WHO are assisting DRAP for up gradation of CDL in Karachi to become a WHO-certified lab so that it could test and verify drugs produced by local pharmaceutical companies. In order to get the CDL certified from WHO, two levels of the QMS (Quality Management System) had been achieved while work on achieving the third level was underway, after which DRAP would request WHO to inspect and declare the CDL a certified lab for testing drugs in the region.

- Highly skilled and trained staff were being hired by DRAP in this regard USFDA was providing financial and technical assistance to DRAP to achieve its targets

- Pharmaceutical companies in the country were following local Good Manufacturing Practice (GMP) under Schedule B-II of Drugs Act, 1976. The GMP laws were based on the World Health Organization (WHO) guidelines, which were part of Drug Acts, 1976.

- The Pharma Bureau has urged the Drug Regulatory Authority of Pakistan (DRAP) to revise the standard operating procedures (SOPs) for controlled substance and narcotic quota allocation to pharmaceutical companies.

- Some multinational pharmaceutical companies have increased the prices of medicines by up to 120 per cent just before the announcement of the 2016-17 budget. the federal government had already made a plan to raise the prices of national and multinational pharmaceutical companies' drugs by 8 to 13 per cent in the annual budget.

▲ A Chinese pharmaceutical company has expressed keen interest in investment in the healthcare sector especially medical equipment in Pakistan. A delegation of Chinese National Pharmaceutical Group Corporation Sinopharm expressed its interest during meeting with the minister for National Health Services, Regulations and Coordination,

THREATS

▼ Despite being controlled through a strict regulatory regime, Pakistan's pharmaceutical industry remains well below its total production capacity and operational potential. As per its current standing, pharma industry continues to fall at an alarming rate, down from 16 per cent to 8 per cent per year. With a meager 0.5 per cent market share in international trade in medicinal and pharmaceutical products, the market size of pharmaceuticals in Pakistan is below USD 3 billion. Comprising a negligible portion of the country's exports to the world, pharmaceutical exports from Pakistan constitute less than USD 100 million per annum in the global market worth USD 1 trillion.

▼ The biggest challenge faced by the industry is the complete freezing of prices of pharmaceutical products. The price mechanism set by the government since 2001 has not allowed the pharma industry to increase prices of even those drugs whose costs have gone up by more than a 100 %, whereas the price of inputs such as fuel, electricity, labor wages and raw materials have increased drastically making the survival of the industry very difficult.

▼ There were 36 MNCs working in Pakistan in the early 2000s in the sector that number is now down to about 22. That is an eye-opening number of exits. In recent times the situation has become worse as most of the raw material is imported and any increase in dollar rates adversely affects the profitability of the local manufacturers.

▼ On the other hand the growing menace of counterfeit products has become a serious problem for the established pharmaceutical companies. The proliferation of fake and modified goods is not only hurting the industry but the consumers as well. The menace is adversely affecting the government revenues and thereby the public sector socio-economic programs. Counterfeit medicines are estimated to cost the government over Rs 12 billion a year.

▼ Pakistan's pharmaceutical sector is simply unable to meet local demand and increase exports under the current regulatory regime, which is extremely oppressive. Pricing undoubtedly is the most burning issue with the Drug Regulatory Authority of Pakistan (DRAP). Contrary to DRAP, majority of developing countries regulate drug prices to safeguard the interest of the consumers, but their regulations are transparent. Neighboring India and China liberalized their drug pricing, which has benefitted domestic consumers and accelerated their exports. India's exports are in excess of US$15 billion per annum while Pakistan's exports have declined and are now approximately US$160 million a year. If Pakistan aims to double its exports to Sri Lanka within a year as stated recently it will need to review its drug pricing mechanism.

▼ The other issue is delays in approval of new molecules, which can often take several years, depriving patients of the benefits of the latest remedy. A cancer patient, for example does not have the luxury of waiting 3 to 4 years for a drug to come into the Pakistan market. They need that drug right away. Poor policy and an inefficient regulatory structure is denying life-saving breakthrough technologies to patients in Pakistan.

- DRAP prolongs the price approval process. The pricing delay also happens when a company wants an adjustment due to the increase in cost of doing business. Thousands of price adjustment applications are still pending with the DRAP. At this speed, the regulator would take years to approve or reject the requests. Since there is no set criterion, price determination varies on a case to case basis.

- The shortage of various medicines is directly linked to the federal government's failure to resolve this long standing pricing issue. The problem of shortage of anti-TB drugs has been going on for the last several months. Two major anti-TB drugs (Ethambutal and Pyrazinamide) are hard to find on the market. Treatment of complicated TB cases couldn't be done without these two first line life-saving drugs. Therefore, the government must respond by providing a subsidy to companies manufacturing essential drugs so that they don't continue to lose money by making a drug at a lower price.

- The production of many drugs has been stopped for some diseases which exist only in Pakistan and few developing countries. Unfortunately, pharmaceutical companies in Pakistan have also stopped producing drugs for tuberculosis due to non-viability. Therefore, the recent very nominal price increase will not help companies to continue producing anti TB and other lifesaving medicines, which DRAP considers essential to cure infectious diseases.

- R&D in Pakistan is negligible and we are light years behind other regional countries like India and China. This is because of the lack of government support. Unless the government encourages and promotes a culture of academia and research in public-sector universities, the country will continue to lose opportunities in this important arena. It is a fact that the local private sector is not motivated to conduct research. This is in contrast to China and India, which have emerged as the top destinations for researchers in the global pharmaceutical industry.

- China and India are providing benefits to their patients with new treatments. This has also helped them in authenticating their registration process by getting local pre-registration data. China and India are benefitting from generating revenue by giving industry status to pharmaceutical research.

- Contract Manufacturing, despite having a lot of potential, is not being practiced in Pakistan. Contract Manufacturing is basically the manufacturing of drugs through other pharmaceutical companies having specialization in certain formulations. Several multinationals have left Pakistan over quality production and cost issues. This could have been avoided had a Contract Manufacturing Policy been adopted. Since the manufacturing facilities at Pakistani pharmaceutical units do not have FDA approval, this prevents major multinational companies from entering the market. Approval of pharma production plants by FDA is not a part of the requirements laid down by DRAP. As a result, to maintain quality, most MNCs go to India or Bangladesh for quality production while the plants in Pakistan run below capacity.

- In statistical terms, the exit of the pharmaceutical company throws a huge investment down the drain and creates a gap of some $18 million in the medicinal market, while affecting more than 1,000 households directly in terms of unemployment, job insecurity and unused capacity.

- Unfortunately, most of the manufacturing and production facilities in Pakistan are underused and have become noncompetitive in relation to the industry benchmark followed in the region. Being on the verge of total collapse, the pharmaceutical industry needs government support more than ever.

- The mushroom growth of pharmaceutical companies affected the quality and standard of drugs and caused old manufacturers to quit as they were could not match the prices the new manufacturers were offering due to unfair competition.

- Most of the growth has come from volume increases and there has been no price increase of medicines for the past 15 years. For the first time after 15 years, the government approved only a 1.3 % price increase of 80 % of medicines. If this trend continues, there is a danger that the pharmaceutical industry will meet the same fate as that of other industries which have either closed down completely or downsized their local production and employment as well as exports.

- Recently a pharmaceutical giant was fined around 37 million sterling pounds for "illegal and unethical" practices while the US Food and Drug Authority (FDA) also fined the company millions for bribing doctors to prescribe its antibiotics unnecessarily but no such action has ever been taken against any company in Pakistan.

OUTLOOK

- Lack of pricing mechanism is adversely impacting growth of Pharmaceutical industry. This also hampers introduction of new drugs in the country. Ineffective legal protection of Intellectual Property Rights remains a matter of concern for the industry. **Outlook remains constrained.**

Association:

- Pakistan Pharmaceutical Manufacturers Association (PPMA)
  www.ppma.org.pk

SPORTS PRODUCTS

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	300		
			2015-16	2014-15	
A.	Industry Sales	Act/Est	33,862	34,294	
			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	2		
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	218		
F.	*Current Assets*	Act/Est	150		
G.	*Cash & Bank Balances*	Act/Est	20		
H.	*Trade Debtors*	Act/Est	22		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	180		
K.	*Current Liabilities*	Act/Est	34		
L.	*Total Liabilities*	Act/Est	38		

SPORTS PRODUCTS

SECTOR OUTLINE

More than 200,000 people are directly employed in the sports goods sector exporting sports goods worth US$ 450 million annually from around 2,400 companies. The entrepreneurial hub of Pakistan, Sialkot caters to more than 70% of total world demand for hand-stitched inflatable soccer balls, i.e. around 40 million balls annually worth US$ 210 million, and accounts for 9% of the total exports of Pakistan. During the peak season, which repeats after every four years on the occasion of FIFA World Cup, the production of inflatable balls exceeds 60 million per annum. These balls are produced by a workforce of around 60,000.

The entrepreneurs of Sialkot maintain high-quality standards to compete with the global competitors like China, India and Japan. This is the reason why Adidas chose Sialkot as one of two manufacturers for manufacturing the 'Brazuca' balls for 2014 FIFA World cup. Forward Sports, the Sialkot based sports good manufacturing house which was given the project to supply the soccer balls for FIFA 2014, exported over 42 million Brazuca balls to Brazil on a short notice of 33 days. At present, Sialkot has more than 3,000 small and medium sized units and over 50 well established state-of- the-art factories manufacturing world-class sports goods.

The entrepreneurial spirit of the city has been further strengthened and cemented by the second and third generations of entrepreneurs. The companies engaged in producing sports goods fall into five categories:

- large manufacturers-cum-exporters (more than 250 employees),
- medium manufacturers-cum-exporters (100–250 employees),
- small manufacturers-cum-exporters (10–100 employees), and
- commercial exporters (1–9 employees).

Most companies fall under the commercial exporters' category. These are trading companies, having minimal staff (often only one – the owner himself). They depend totally on vendors for the production of goods. Operating with a short-term orientation, the failure rate is very high. Large manufacturers-cum-exporters are suppliers of internationally known brands, whereas medium-sized manufacturers-cum-exporters cater to mid and lower segments of the market. Commercial exporters usually rely on successful designs of large/medium firms and try to sell low-priced versions to small importers who primarily deal in low-end markets. In some instances it has been observed that small manufacturers-cum-exporters and commercial exporters are supplying high quality customized products to the 1st and 2nd division football clubs.

The Pakistani sports products range includes balls for soccer, volleyball, rugby, cricket, hockey, baseball, and tennis as well as beach balls, exercise balls, shuttlecocks, nets, gloves, hockey sticks, cricket bats, baseball bats, protective guards, pads, sportswear, etc. Some of the world-renowned brands sourcing a large portion of their supplies of sports goods from Sialkot are Adidas, Nike, Micassa, Puma, Mitre, Select, Umbro, Lotto, Diadora, Decathlon and Wilsons.

OPPORTUNITIES

▲ Sialkot dominates the world exports in three sectors: sports goods, leather goods and surgical instruments. In 2015 the exports of Sialkot rose from 1.8 billion to 2 billion after they utilized their full energies. They excelled in the exports of all kinds of sports gear. The sports goods sector has a very strong international presence in the market. Pakistan exports sports goods to 90 countries. The principal importing countries are Germany, USA, UK, France and Italy. Some other important importers of the Pakistani sports goods are Spain, Netherlands, Hong Kong, Denmark, Canada, Belgium, UAE, Australia and Chile. In effect, Pakistan is supplying sports products to almost every country of the world, directly or indirectly. Before China's massive entry into international trade a few years ago, Pakistan was the world's largest exporter of gloves used by motor bikers, goalkeepers, baseball, boxing, shooting, etc. Currently, the exports value of gloves reaches to US$ 50 million per annum.

- The secret of the export boom of Sialkot lies behind the hard work and expertise of local workers and the businessmen. Pakistan's sports industry flourished and earned a rank in international market primarily due to the care that goes into their designing, manufacturing and selecting of the finest raw materials and above all talent of the local people for making world class sports equipment. Two more factors which contributed to the popularity of Pakistani sports goods in the world market are a) low price as compared to general price level and (b) durability plus good workmanship.

  Sialkot exporters have remained in the quest for the best. They utilized their energies with devotion, dedication, determination, enthusiasm and complete peace of mind for enhancing the Sialkot exports. The exporters of Sialkot have been called the 'roaming ambassadors of Pakistan', who travel all around the world to fetch business and have played a pivotal role in strengthening the national economy and boosting the national exports as well. They took up the responsibility of stabilizing the infrastructure themselves rather than depending on the political situation of Pakistan to get better. The entire success story of Sialkot from the days of independence until now is motivational for all other entrepreneurs to look up to.

- Pakistan's export figures for sports goods have been much higher than those of India in the last five financial years, starting 2011-12 although India is the global leader in producing bats and exporting them. This is largely due to its undisputed global leadership in exporting footballs. India has a much bigger domestic sports market, but manufacturers say that there's no data of the Indian domestic market as about 60-70 % of the industry is unorganized.

- Banks have shown interest in issuing soft term business loans to the Sialkot-based industrialists and exporters, enabling them to expand their sports goods business and exports. In a seminar on long term financing facility for sports goods SMEs held at SIDC by the SBP in December 2016, local bankers shared information on financing facilities available to the sports goods industry for procurement of plant and machinery on reduced markup and with long term payback period. It has been said that Sialkot based difficulties in getting loans on easy terms and conditions. Documentation and heavy securities demanded by the banks enhance their difficulties.

- Pakistan's sports goods industry is positioning itself to be the top supplier of the new pink balls. According to the CEO of one of the top brands making cricket balls, they are making 15,000 to 20,000 pink balls per year, and the number is growing. Cricket's bosses are committed to increasing the number of day/night Tests as they bid to reverse the trend of falling attendances. After years of trials, the governing body has plumped for pink to replace traditional red under lights, as it is visible against both dark skies and the traditional Test-match white kits.

- The seasoning and fabrication of the woods for quality sports goods has historically been done by traditional methods. Now, new facilities for modern method of seasoning and fabrication has been made available through the installation of the most modern wood working machines at the Sports Goods Service Centre, Sialkot. Besides, facilities relating to leather sports goods are also available with the Centre that is equipped with modern leather shaving, buffing and cutting machines along with the football specifying machines of the latest design.

▲ To facilitate the SMEs of Sialkot as well as in the recognition of the services and importance of Sialkot, local exporter community has appealed to the Federal government to set up "sports goods and surgical instruments" cities with the aim of reducing the multifarious problems and difficulties being confronted by the SMEs and enhancing the export volume.

▲ The scenario of Sialkot has taken a very sharp turn with the functioning of an airport that could open new horizons of industrial development in Sialkot, Gujranwala and Gujrat areas as well and help in increasing the export volume.

THREATS

▼ According to a recent research on export strategies of the local sports industry, the industry lacks the capability and/ or incentive to prepare export marketing plans – the life line of all marketing oriented companies. The current emphasis being on the product strategy but not on quality, the industry seems to be struggling, primarily, on price strategy. Promotion strategy was neglected, as according to the study, more than 80% of the companies neither had separate advertising departments nor any contacts with any advertising agency. Only a few manufacturing companies engaged into e-business or had a website. Yet, the most alarming situation was in the area of distribution. The industry waited helplessly for the foreign export orders, or bought the sub-export orders, rather than adopting aggressive marketing approach. On the other hand, international competitors try their best to beat this industry by hook and crook.

The critical factors thus are distribution strategies and channels of the sports industry in Pakistan. The study recommends more resources to the promotion of products, to establish its own distributions channels, especially in European and North America, and to have more control on the distribution of its quality products.

▼ There is a lack of infrastructure in Sialkot industry. Infrastructure problems faced by SMEs in Sialkot are:
- A material testing lab needs be established to maintain the quality of the products in order to match up the international standards.
- Research and development (R&D) centers, very critical for developing economies like ours, are almost absent or non-functional.
- Training centers for providing modern skills to labors related to material handling, machinery handling, production, procedures, packaging, etc. are limited.
- Inefficient supply chain system
- Railway and cargo system inefficient in facilitating the industry
- Lack of proper security system at ports like unavailability of latest scanners owing to which exporters face many issues related to packaging of goods and lead timing issues.
- Sialkot does not have any engineering university and therefore has to hire knowledge and expertise from outside which increase the expense burden.

▼ Energy crisis is another factor that impedes the growth of all industries to a large extent. Sialkot's daily energy requirement remains around 180 MW whereas the supply is approximately 110 MW, leaving a shortage of 70 MW. The city's industrial sector is willing to invest in power projects which can produce 75 MW electricity but Government policies are not favourable as they restrict the private sector to use only 5 MW of their production capacity.
It is said that some 11,000 small and medium industries are operating at 60% of total capacity.

▼ Fluctuation in rates of different goods and facilities decreases the consistency of FOH cost (Factory Overhead Cost) such as electricity rates, transportation fairs and petrol prices etc. and thus affects long-term dealings with global businesses.

▼ Lack of government support in different issues faced by exporters and SMEs in Sialkot:

- Lack of significant subsidies by the Government
- Exporters face severe problems regarding ANF (anti-narcotics force) strict rules for checking the traded material. ANF is resistive to changes demanded by the traders to maintain the proper profile record of regular traders for facilitating them.
- Direct and indirect tax burden also increasing day by day
- Huge Duty Drawback and Sales Tax refund claims of the exporters stuck-up with the concerned authorities, and making it very difficult for the exporters to meet the commitment of foreign buyers' export orders.
- No effective utilization of EDF (Export Development Fund) for major export sectors.

▼ Regulatory framework and procedures of government departments are cumbersome. For example, Sialkot based exporters have to deal with more than forty government departments, each having its own individual documentation requirements. The excessive procedural requirements not only raise the transactions costs of exporters but also impede their access to the benefits offered under various incentives and export facilitation schemes. One-window operations required.

▼ There are no strict policies regarding labor contracts. Big enterprises often attract skilled labor by offering more wages, and as a result the labors keep on shifting to better opportunities regardless of the rules and conditions. Besides, the training and education centers are not effective in equipping the labor with the desired skills of the industry. Organizations like TEVTA and NAVTTC are not working to their optimal capacity and also use outdated curriculum which does not comply with the dynamics of the industry.

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. **Outlook remains fairly positive and upbeat.**

Associations:

➢ Pakistan Sports Goods Manufacturers & Exporters Association (PSGMEA)
http://psgmea.org.pk/
➢ Sports Industries Development Centre – Sialkot (SIDC)
https://www.smeda.org/index.php?option=com_content&view=article&id=168&Itemid=559
➢ The Sialkot Chamber of Commerce and Industry (SCCI)
http://scci.com.pk/
➢ Sialkot Business and Commerce Centre (SBCC)
https://www.smeda.org/index.php?option=com_content&view=article&id=167&Itemid=558
➢ Sialkot Export Processing Zone
http://www.epza.gov.pk/sialkot.html

SUGAR

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	31	
			2015-16	2014-15
A.	Industry Sales	Act/Est	179,808	160,172

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

B.	PBT	Act/Est	7,811
C.	Financial Charges	Act/Est	6,404
D.	PAT	Act/Est	6,395

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

E.	*Total Assets*	Act/Est	163,386
F.	*Current Assets*	Act/Est	52,958
G.	*Cash & Bank Balances*	Act/Est	5,291
H.	*Trade Debtors*	Act/Est	3,355
I.	*Short Term Investments*	Act/Est	2,809
J.	*Total Equity*	Act/Est	36,043
K.	*Current Liabilities*	Act/Est	74,498
L.	*Total Liabilities*	Act/Est	111,204

NBP National Bank of Pakistan

SUGAR

SECTOR OUTLINE

Sugarcane cultivation has widened in the wake of improved returns and timely supply of inputs. The cultivation area has grown from 1,13,000 to 1,22,700 hectares while crop productivity by 10 % to 71 million tons from 64 million tons previously. In the meantime, sugar prices have also gone up from Rs31 to Rs68 per kg in the last 10 years. The Ministry of Textile Industry argued that the price increase had encouraged the setting up of more sugar mills, which increased from 45 to 85 in the country. Of these, 45 were in Punjab, 32 in Sindh and eight in Khyber-Pakhtunkhwa.

Almost 70% of sugar mills are located in the core cotton zone of the country, especially in Punjab. The establishment of mills in the top cotton growing areas and increasing crushing capacity of the existing mills has led to 26% shrinkage in cotton areas, especially in south Punjab, including Rahim Yar Khan and Muzaffargarh.

Expected sugar production during the sugar season 2016-17 would be 5.5 million tons, if the carry forward stock of 1.2 million tons (as on September 30, 2016) was added to the production figures for the current crop, with total availability at 6.7 million tons. Assuming domestic consumption of 5 million tons during this year (up to September 2017), there would be a surplus of 1.7 million tons. PSMA had requested that they may be allowed to export 0.5 million tons of sugar till March 31, 2017 without export rebate as the international market was currently at a level where the industry can recover production costs.

The total estimated sugarcane production for 2016-17 is 71.74 million tons out of which Punjab will produce 47.959 million tons, Sindh 18.159 million tons and Khyber Pakhtukhwa 5.592 million. International sugar price of refined white sugar was US $499.2 ton on December 14, 2016. There are 84 sugar mills in the country with an annual sugar production capacity of 6.8 million tons. The sugar crushing season starts from November to October. Before the recent decision of ECC regarding export of sugar, the wholesale sugar market was trading at between Rs 57.50 and Rs 58.00 per Kg in Karachi.

Domestic Sugar Statistics:

Year	Production	Consumption	Surplus	Export
2013-14	5,614,957	4,512,000	1,102,957	647,333
2014-15	5,162,293	4,600,000	562,293	708,356
2015-16	5,114,901	4,904,000	210,901	293,541
2016-17 (forecast)	5,500,000	5,000,000	500,000	500,000

International Sugar Prices:

Year	2013-14	2014-15	2015-16
Avg. Price US $/Tonne	459.28	377.30	460.82

OPPORTUNITIES

- ▲ The powerful sugar millers have got billions of rupees in extra income with a regular hike in sugar prices, though prices of the input – sugarcane – have remained almost static for the last three years.

- ▲ Apart from the price increase, the sugar millers received a huge monetary incentive from the national kitty. The current government has provided over Rs10 billion in bailout packages on the export of sugar.

- Sugar rates had dropped from $597 per ton in September 2016 to $490 on December 20, 2016 in the world market. However, the sugarcane price had remained stable at Rs180 per 40 kg in Punjab since 2014-15 and was slightly increased by Rs10 in Sindh in the current crop year.

- However, the retail price of sugar in the domestic market during the week ended December 15, 2016, according to the Sensitive Price Indicator, stood at Rs62.61 per kg compared with Rs54.12 in December 2014 and Rs57.16 in December 2015.

- Sugar production in Sindh slightly rose to 1.672 million tons in the current season to March as cane yield improved. The millers crushed 16.02 million tons of sugarcane in the October-March period as compared to 16.53 million tons a year earlier. Some 25, out of total 39 sugar mills in the province, have completed production operation for 2015/16 season.

- Sugar mills produced more than five million tons of white sweetener in the three provinces during 2015/16 as against the domestic consumption of around 4.7 million tons. The production stood at the same level of 2014/15.

- Rs230 billion worth of outstanding payments had been made to the sugarcane growers and foreign currency valuing $132 million was earned through sugar exports.

- 0.871 Million tons of sugar was in surplus that could be exported after consumption of 5.525 million tons for 13 months in the country at the rate of 0.425 million tons per month.

- Pakistan has exported 2.492 million metric tons of sugar during the last five years (2011-15) and raked in $1.2 billion in foreign exchange, which could have been effectively multiplied if sustainable, as well as favorable policies were in place.

- Another reason for the increase in sugar price is attributable to aggressive buying of sugarcane at very high prices in lower Sindh from sugarcane brokers and farmers due to low availability of sugarcane in lower Sindh. Government had announced a support price for sugarcane in Sindh at Rs 182 per 40 kg and in Punjab at Rs 180 per 40 kg but sugar mills of Sindh have been currently paying Rs 200 to Rs 225 per 40 kg for the last week. Some mills in Sindh have also purchased sugarcane from Punjab

- Most of the sugar mills have their basic core business of sugar production. During this process, electricity is generated which is not only sufficient to meet their own requirements but surplus energy can be added to the system. Keeping in view this potential which is expected to be around 600-700 MW, Nepra has already allowed the Distribution Companies (Discos) to procure electricity from the existing sugar mills in accordance with the procedure laid down in the law. Nepra in this regard has already approved the power acquisition contract of different companies, i.e., HESCO, PESCO, SEPCO, LESCO and MEPCO. Almost 24 sugar mills are providing around 125MW of electricity through the existing mechanism as per Nepra"s approved tariff and terms and conditions. The generation tariff approved by the Authority is as follows: Fuel cost component Rs 6.29 per unit and fixed cost component Rs 1.53 per unit, totaling Rs 7.82 per unit.

- Mehran Sugar Mills Limited has announced that it will set up a bagasse-based power plant of 26.5 megawatts in Sindh as higher demand for electricity and government's policies convince the company to diversify and remain profitable. The company has, in principle, decided to invest an equity of up to Rs750 million in the power project. The plant will be operational by December 2018.

- ▲ At least eight new sugar mills have been established, while the closed sugar mills of the government have also resumed operations. the mills enhanced their production capacities due to improving financial viability of the sugar business in the province. The current sugar stocks held with mills in Sindh increased nine % to 1.53 million tons as against 1.46 million tons earlier.

THREATS

- ▼ The Ministry of Textile Industry has emphasized that provinces should stop granting permission for setting up new sugar mills in the cotton growing areas that has led to a decrease in cotton plantation.

- ▼ The ECC headed by the Finance Minister Ishaq Dar, in its meeting held on December 28, 2016 had directed the Commerce Ministry to regularly monitor the domestic price of sugar and in case of any unjustified/unreasonable increase in its price the committee should immediately recommend stopping sugar exports to the ECC.

- ▼ An inter-ministerial committee decided to issue a warning letter to Pakistan Sugar Mills Association (PSMA) against continuous increase in sugar price in the domestic market without any justification,

- ▼ The data shows the industry exported 293,541 metric tons of the commodity during 2015/16 against the allowed quantity of 500,000 metric tons. The industry was unable to export the permitted quantity as the permission was granted after the crushing season. Besides, the export actually started in January 2016 because the implementation on the decision ran into many unnecessary bureaucratic hiccups along with its international marketing.

- ▼ If the industry was given a go-ahead in time, it could have exported the whole assigned quota of surplus sugar. This year, the sugar industry again aims to export 500,000 metric tons, but the government has reduced the quantity to 225,000 metric tons till March 30, 2017.

- ▼ Some 17 out of 38 mills in the province had stopped crushing in the immediate aftermath of the December 13 announcement. The association blamed the farmers for deliberately constraining the cane supply to compel the mills to pay higher than the Rs182 per 40 kilograms rate, which had been fixed by the government.

- ▼ This year again PSMA is facing problems to offload surplus stock in the wake of low international sugar prices.

OUTLOOK

- ► Price of sugar is expected to adjust itself downwards on export of surplus sugar stocks. Moreover, **keeping in consideration high purchase price of sugarcane and depressed international as well as local sale price of sugar, it seems that sugar industry will remain financially under pressure.**

  Expected sugar production during the sugar season 2016-17 would be 5.5 million tons, if the carry forward stock of 1.2 million tons (as on September 30, 2016) was added to the production figures for the current crop, with total availability at 6.7 million tons. Assuming domestic consumption of 5 million tons during this year (up to September 2017), there would be a surplus of 1.7 million tons. PSMA had requested that they may be allowed to export 0.5 million tons of sugar till March 31, 2017 without export rebate as the international market was currently at a level where the industry can recover production costs.

Association:

- ➢ Pakistan Sugar Mills Association (PSMA)

www.psmacenter.com

SURGICAL, PRECISION EQPT

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	230	
			2015-16	**2014-15**
A.	Industry Sales	Act/Est	36,304	34,575

			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	6		
C.	Financial Charges	Act/Est	2		
D.	PAT	Act/Est	4		

			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	160		
F.	*Current Assets*	Act/Est	115		
G.	*Cash & Bank Balances*	Act/Est	15		
H.	*Trade Debtors*	Act/Est	20		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	130		
K.	*Current Liabilities*	Act/Est	28		
L.	*Total Liabilities*	Act/Est	30		

SURGICAL, PRECISION, AND OPTICAL EQUIPMENT

SECTOR OUTLINE

The surgical industry represents manufacturers and exporters of surgical instruments, dental instruments, veterinary instruments, pedicure and manicure items, tailor scissors, barber salon scissors and beauty salon instruments. In Sialkot, over 10,000 different medical instruments, covering all basic and surgical segments, are being manufactured. Over 99% of production is centered at Sialkot. The sector comprises of around 3,000 companies with the labor force ranging from (15-450) per unit, of which around 30 can be considered large units, and 150 as medium sized enterprises.

The industry produces on average over 170 million pieces a year. Of the total production, over 95% is exported, which includes 60% of disposable and 40% of reusable surgical instruments. A wide range of industries including steel, chemicals, and machine parts also have strong linkages with the surgical segment. Top 10 buyers are the US, Germany, the UK, France, Italy, UAE, Japan, Brazil, Mexico, and Russia. America is the largest market for disposable instruments, while a majority of reusable instruments are exported to the EU.

Surgical Instruments Exports:

Year	Value (US$)
2015-16	358.00
2014-15	339.00
2013-14	335.00
2012-13	303.00
2011-12	297.00
2010-11	259.00

OPPORTUNITIES

▲ Pakistan and Germany are the only two major suppliers of surgical instruments in the world. Korea, France, Hungary, Poland and England are also in the field but their exports are negligible. In terms of cheap labor, 100-year-old localized skills, suitable monetary and fiscal incentives, and world-wide reputation, Pakistan has all those textbook advantages which are associated with localization of industries.

▲ Pakistan's direct exports of surgical instruments to China and India are also on the rise. According to a study of the Sustainable Development Policy Institute, a huge potential exists for increasing direct exports of surgical instruments. The goods outsourced for manufacturing in Sialkot by German and UAE based companies find their way into Indian markets. The US is the larger exporter of surgical instruments to India. Germany, China and Japan come after. There is a wide margin in import value of these products from Pakistan for re-export to India.

▲ Competitive edge of the sector:
- Pakistani surgical instruments are considered the most economical in the world with an unconditional guarantee of finest quality, and delivery time the shortest in the world. Large orders are executed within specified time period.
- In Sialkot over 10,000 different medical Instruments covering all the sections of surgery & basics, are being manufactured. This type of assortment of instruments is not available anywhere else in the world.
- World renowned companies of surgical instruments are entering into joint ventures with Pakistani companies, reflecting the confidence of multinationals in the abilities of Pakistani surgical manufacturers.

- Surgical Association, in joint collaboration with TDAP is successfully managing Sialkot Material Testing Laboratory that provides state-of-the-art material testing facilities to the surgical manufacturers and exporters
- The current world market of medical products is estimated at US$ 30 billion and its growing gradually, keeping in view the constant developments and innovations in this sector. A major share of such a huge market can be captured.

THREATS

▼ Pakistan is the leading exporter of surgical instruments, but local manufacturers receive only 2%, or $359 million, of the $17 billion global trade, as most of it is lost to outsourcing importers. It is the inability of the industry to develop international brands that can be blamed for these grossly unfair trade deals. Basically, local producers are suppliers to international brands based in the US and Western Europe, who outsource manufacturing to artisans concentrated in Sialkot. Some international brands are reported to have shut down manufacturing facilities in their home countries as they get the best products from Pakistan's world class artisans. Germany is said to have closed down its own industries and is now outsourcing manufacturing to Sialkot.

Pakistan is working as a vendor for other exporting countries as these countries sourced products to Sialkot and then stamped their logo on them for export to the world market. Pakistan can't even directly export to Islamic countries because of the excessive registration procedure as the same products are landing in their markets from Germany and US under international brand names. Pakistan's industry has no choice, but to provide products to these mediators at much lower prices. Ironically, the ministry of commerce has failed to help the sector in developing brands. In the previous trade policy, the government allocated funds for brand acquisition rather than development. The government has also failed to secure direct market access for these products under its so-called preferential trade agreements.

Internationally, social movement of fair trade is initiated to help producers in developing countries get a fair value for products such as coffee, sugar, fruit juices etc. A fair trade demand can be raised for surgical instruments also.

▼ Technological and managerial inadequacies, with reference to rapidly changing global medical requirements and advanced countries' protectionist policies stand in the way of Pakistani exporters capturing the entire world market. Apart from marketing which is the basic challenge for the industry, energy supply is also a major handicap. Neither industrialists nor the government allocates funds for R&D to innovate new products in order to stay updated with changing patterns in medical sciences. Also, there is no training institute to train human resource. As 95% of the surgical industry operates in the SME sector, there is a need for a common facility center to reduce the cost of production.

OUTLOOK

► Overall sales are expected to grow in the coming years despite the global slowdown due to the fact that Sialkot is one of the most cost effective locations. **Outlook is positive.**

Association:

➢ The Surgical Instruments Manufacturers Association of Pakistan
http://www.simap.org.pk/

TELECOMMUNICATIONS

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	8		
			2015-16	2014-15	
A.	Industry Sales	Act/Est	452,813	446,239	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	75,486		
C.	Financial Charges	Act/Est	4,392		
D.	PAT	Act/Est	33,660		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			

E.	*Total Assets*	Act/Est	218,334
F.	*Current Assets*	Act/Est	85,030
G.	*Cash & Bank Balances*	Act/Est	2,930
H.	*Trade Debtors*	Act/Est	18,623
I.	*Short Term Investments*	Act/Est	27,035
J.	*Total Equity*	Act/Est	96,634
K.	*Current Liabilities*	Act/Est	64,637
L.	*Total Liabilities*	Act/Est	119,997

TELECOMMUNICATION

SECTOR OUTLINE

The telecom sector in Pakistan, besides the auto industry, is moving in fast track enjoying high demand as it contributed Rs157.8 billion to the national exchequer.

The year-on-year increase is small but the sector has big potential to return to high-growth mode after this period of consolidation. It has introduced 3G and 4G technologies which have fully become operational.

Total revenues of Pakistan's telecom sector have been raised to Rs452.8 billion in FY-16 as compared to Rs446 billion in FY-15.

The telecom sector contributed Rs157.8 billion to the national exchequer on account of tax payments as against Rs126 billion in FY-15.

The reason for the good performance of the telecom sectors in Pakistan is that it attracts big foreign investment, deploy the latest technology and meet the requirements of a population with a rising per capita income.

The last 10 years have seen the entry of IT and mobile telephony, chiefly from foreign investors. The number of users of mobile telephones and IT climbed to over 133 million. The conventional land line sector has grown too and users now number 3.931 million plus, under the management of the Pakistan Telecommunications Corporation.

Total Teledensity (Fixed + WLL + Mobile)	
Years	**Total Teledensity (%)**
2012-13	74.9
2013-14	79.89
2014-15	62.9
2015-16	70.81
Jan-17	71.66

Annual Cellular Subscribers						
	PMCL (Jazz)	**PTML (Ufone)**	**CMPak (Zong)**	**Telenor**	**Warid**	**Total**
2012-13	37,121,871	24,547,986	21,177,156	32,183,920	12,706,353	127,737,286
2013-14	38,768,346	24,352,717	27,197048	36,571820	13,084,823	139,974,754
2014-15	33,424,268	17,809,315	22,102,968	31,491,263	9,830,620	114,658,434
2015-16	39,118,521	19,833,670	25,251,329	38,020,771	11,017,174	133,241,465
***Jan-17**	51,534,764	18,478,378	27,496,157	39,586,053	-	137,095,352

*Warid merged in PMCL (Mobilink) with new name Jazz from Jan-2017

3G/4G Subscribers									
Operator	*CMPak (Zong)*		*PMCL (Jazz)*		*Telenor*		*PTML (Ufone)*	*Warid*	*Total*
Technology	*3G*	*4G*	*3G*	*4G*	*3G*	*4G*	*3G*	*LTE*	
2013-14	417,814		425,992		895		539,376		1,384,077
2014-15	2,898,094	105,128	3,656,345		4,162,616		2,570,283	106,211	13,498,677
2015-16	5,988,197	680,620	8,919,218		8,371,991		5,223,096	347,132	29,530,254
***Jan-17**	7,475,904	2,855,336	11,875,228	700,486	10,114,292	152,645	5,095,611	-	38,269,702

Annual Cellular Mobile Teledensity (%)	
Year	**Mobile Density**
2012-13	71.4
2013-14	76.46
2014-15	60.7
2015-16	69.12
Jan-17	70.00

Annual Fixed Local Loop Teledensity (%)	
Year	**Fixed Line Density**
2012-13	1.7
2013-14	1.73
2014-15	1.73
2015-16	1.46

Broadband Subscribers by Technology								
Technology	**DSL**	**HFC**	**WiMax**	**FTTH**	**EvDO**	**Others**	**Mobile BB**	**Total**
2012-13	1,064,003	33,184	575,939	11,152	1,033,513	3,868		**2,721,659**
2013-14	1,346,817	37,011	530,889	14,848	1,861,118	5,240		**3,795,923**
2014-15	1,480,672	43,362	487,582	19,490	1,334,725	6,089	13,498,677	**16,885,518**
2015-16	1,421,746	43,167	183,181	25,665	1,084,367	6,906	29,530,254	**32,295,286**
Jan-17	1,375,890	43,738	179,040	30,726	878,585	9,097	38,269,702	**40,786,778**

Foreign Direct Investment in Telecom Sector ***(US $ million)***				
	Description	**Telecommunications**	**Total**	**Telecom Share in Total FDI (%)**
2012-13	Inflow	160.8	2,665.3	6.0
	Outflow	564.9	1,208.9	46.7
	Net FDI	(404.1)	1,456.5	(27.7)
2013-14	Inflow	904.6	2,816.4	32.1
	Outflow	474.7	1,148.8	41.3
	Net FDI	429.9	1,667.6	25.8
2014-15	Inflow	948.0	2,732.0	34.7
	Outflow	882.2	1,809.1	48.8
	Net FDI	65.7	922.9	7.1
2015-16	Inflow	377.9	2,761.1	13.7
	Outflow	131.1	859.9	15.2
	Net FDI	246.8	1,901.2	13.0

Telecom Revenues (Rs. Million)						
	Cellular	**Local Loop**	**LDI**	**WLL**	**VAS (Estimated)**	**Total**
2012-13	311,145	80,661	38,572	5,617	3,526	439,521
2013-14	322,683	88,512	43,901	6,278	4,123	463,497
2014-15	317,016	80,813	40,765	3,874	7,078	449,546
2015-16	345,537	76,981	26,545	5,208	2,101	456,371

OPPORTUNITIES

▲ The regulatory authority has allowed telecom operators including the 3G and 4G mobile phone internet service providers that they can share their networks with competitors in order to make the best commercial use of the allocated spectrums among them.

▲ With the launch of 3G and 4G services in Pakistan, there is no doubt that the telecom sector of Pakistan is witnessing boom with each passing day. It shows an increase of Rs 126.3 billion during Fiscal Year 2014-15 (FY15) to Rs 157.8 billion **in** FY 16. Telecom Contribution to National Exchequer Increases by Rs 157.8 B in FY16.

▲ The Federal Board of Revenue (FBR) is implementing a new system for cellular companies for accurate collection/deposit of withholding tax from its subscribers through online withholding data integration with all mobile operators. Senior FBR officials informed that the tax authorities have decided to commence the process for establishing online withholding data integration with all cellular companies simultaneously to ensure precision in the count of taxes collected from phone users.

▲ The telecom industry of Pakistan recently witnessed a merger between Vimplecom's company**,** Mobilink and Dubai Group's company Warid**;** with an aim to reciprocally use each other's network in Pakistan and gain maximum market share. Now Mobilink, the leading mobile services provider in Pakistan, has started testing the 4G LTE network by offering it to just few customers in the country**.** Mobilink Starts Offering 4G LTE Network in Major Cities.

▲ Pakistan ended December 2016 with 136.48 million mobile subscribes, up from 135.86 million in November. Mobile operator Mobilink led the Pakistani mobile market with over 41.25 million mobile customers at end-December, followed by Telenor (38.45 million), CMPak (26.92 million), Ufone (18.58 million) and Warid (10.27 million).

▲ The tele-density in Pakistan was one of the highest in the region, which makes the country one of the favorite destinations for foreign investors.

▲ Early in January 2016, the CEOs of Telecom companies declared the issuance of the long-awaited Telecom Policy 2015 as a landmark achievement and a forward looking document. In accordance to the newly established policy Pakistan will re-emerge on international arena. The industry also assured to work in tandem with government to achieve the vision of Accelerated Digitization, envisioned in the policy.

▲ The telecom sector of Pakistan is one of the sectors which are open for foreign investment by the Government of Pakistan. This sector remained the talk of town in the last year when new international renowned players entered in the telecom market of Pakistan. PTA stated in report that US$ 5 to 8 billion Foreign Direct Investment would come to the cellular mobile and fixed line telephony in next 3 to 5 years.

- ▲ This huge flow of FDI in Pakistan telecom sector certainly creates positive impact on domestic economy. Regulating the FDI properly, PTA and State Bank together might help achieve multiple effect of this investment in true sense.

- ▲ Pakistan Telecommunication Authority (PTA) has decided to introduce price floor regime for mobile broadband services, in order to address the issue of unhealthy competition and protect and maintain the profitability of the telecom sector. The regulatory body has planned to set minimum level of retail prices for mobile data and broadband services, while the minimum mobile broadband speed would also be realized upwards.

THREATS

- ▼ The government doubled sales tax i.e. from Rs 500 and 1000 to 1000 and 2000 respectively for medium and high category/smart phones on the import of mobile phone sets in budget (2016-17). As a result, mobile phone imports in Pakistan went down by 14.20 % during the first five months of current financial year 2016-17 (July-November) as compared to the same period of previous year.

- ▼ Total imports of mobile phone stood at $264.15 million while it was $307.84 million in the same period last year, according to Pakistan Bureau of Statistics (PBS).

- ▼ Industry experts attributed this slowdown in mobile imports mainly to the overall economic slowdown witnessed in first quarter of current fiscal and high taxation on import of mobile handsets.

- ▼ Similarly, overall telecom imports in Pakistan dropped in the said period to $ 494.18 million, registering 13.48 % yearly growth as compared to telecom imports worth of $ 571.16 million in same period of FY16.

- ▼ Due to almost completion of next generation technologies' network roll out in the country, import of mobile apparatus also dipped by 12.64 % in July-November of 2016.Telecom companies imported $230.12 million worth of telecom accessories and machinery in the first five months of FY17 while it stood at 263.41million in same period of previous fiscal.

- ▼ Despite rapid penetration of smart phones in Pakistan due to expanding 3G and 4G networks, legal import bill of mobile phones remained on downward trajectory mainly due to complex procedure and higher taxation on imports as grey imports of mobile phones continue to see rise.

- ▼ In the month of November 2016, mobile phone imports increased meagerly by 0.87 % as Pakistani imported $65.96 million worth of mobile phones in the said month as compared to $65.39 million in same month of 2015.

- ▼ Likewise, mobile imports swelled by 27.55 % to $65.86 million in November 2016, compared to $51.73 million of telecom imports in October 2016 while import of telecom apparatus and accessories fell by 4.97 % in November 2016 to $50.13 million when compared to overall import of telecom apparatus worth $52.75 million in previous month of FY17.

- ▼ A self-destructive behavior in the guise of aggressive competition is negatively affecting the telecom sector. PTA needed to regulate prices and other matters to pave the way for smooth competition in the telecom sector.

- In the first three quarters of this fiscal year, a total of Rs. 105.9 billion was contributed to the government by the telecom sector. The amount is inclusive of initial and annual license fees, initial and annual spectrum fees, universal services fund, and research and development fund contributions, access promotion contribution for USF, number charges, license applications including general sales tax, federal excise duty, SIM activation tax, advance/ withholding tax, sales tax on mobile handsets, custom duties and other taxes.

- Pakistani citizens are already paying some of the highest taxes around the globe for using telecom services.

- Revenues of telecom sector were estimated at Rs333.2 billion for 9MFY16. "Due to loss of millions of cellular subscribers after BVS Re-verification process and intense competition and low tariffs, a declining trend in revenues of telecom operators is being observed since last year.

- The sector's monthly revenue has declined by Rs1.6 billion per month in the outgoing fiscal year compared to the previous fiscal year.

- Telecom sector is probably the most challenging sector in terms of business in Pakistan. Taxes are high, the regulations are tough and there are areas where market penetration and daily operations are difficult to manage due to law and order situation. Effectively placing and selling products to the customers and adapting to the fast changing market conditions is very effort intensive. There are also very capable competitors in the market which adds to its volatility.

- The current pricing mechanism under intense competition among mobile operators was not sustainable for a longer term. Resultantly, it may slow down investment in the broadband network, which was required continuously to meet the quality of service standards and bandwidth requirements of 3G and 4G and other digital services.

- The revenue collection from telecom sector has witnessed about 10 per cent decline in current fiscal so far mainly due to heavy taxation. Telecom operators have expressed concern over heavy taxation and called for rethinking taxation regime so that true potential in telecom sector could exploit.

OUTLOOK

- **Outlook remains positive in medium term with increase in sales**. However, core margins are expected to erode due to stiffer competition and stringent security related regulatory environment.

TEXTILES-COMPOSITE

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	51		
			2015-16	**2014-15**	
A.	**Industry Sales**	**Act/Est**	371,403	408,582	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	**Act/Est**	22,461		
C.	**Financial Charges**	**Act/Est**	13,885		
D.	**PAT**	**Act/Est**	16,930		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	**Act/Est**	456,621		
F.	*Current Assets*	**Act/Est**	175,747		
G.	*Cash & Bank Balances*	**Act/Est**	6,473		
H.	*Trade Debtors*	**Act/Est**	43,268		
I.	*Short Term Investments*	**Act/Est**	6,066		
J.	*Total Equity*	**Act/Est**	187,659		
K.	*Current Liabilities*	**Act/Est**	173,895		
L.	*Total Liabilities*	**Act/Est**	251,671		

TEXTILE SECTOR- AN OVERVIEW

SECTOR OUTLINE

The role of the textile sector in economic growth of Pakistan is too important to be ignored. Government of Pakistan announced Textile Policy 2014-19 in February 2015 to increase textile exports, reduce cost of doing business and improve liquidity. The policy includes special duty-drawback incentives for enhanced exports, duty exemptions on plants and machinery, subsidy on long-term loans and other development subsidies. The policy offers Rs. 64.15 billion cash subsidy to the textile and clothing sector to boost exports to US$ 26 billion by 2019 from existing level of US$ 13 billion. In a further attempt to stimulate growth of textile sector, Government has included textile sector along with other four export oriented sectors into zero rated sales tax regime.

Textile sector, like the preceding five years, did not invest in balancing and modernization in 2016 that further deteriorated its spinning and weaving machines. The eroding competitiveness of the sector was not only because of high cost of doing business in Pakistan but also due to 10 years old machinery.

The older machines consume 40 % more power than the latest basic textile machines. New machines produce more with only 33 % of the workforce needed in older machines.

The cost of energy came substantially down in 2016. The textile industry in Punjab was completely dependent on state supplied 18 hours per day of uncertain power and average six hours natural gas supply during summer in 2015.

During acute power shortages, most of the millers had to run their diesel generators that produced costly power. In 2016 they were assured 24/7 electricity at an average of Rs12 per unit and 24/7 RLNG for their generators that produced electricity at an average of Rs10 per unit.

That was a vast improvement, but the dilemma for 70 % of the industry based in Punjab is that the energy cost in other provinces is substantially lower. They produce electricity from natural gas that is 35 % cheaper than RLNG.

Another drawback faced by the textile sector in 2016 was sharp rise in textile imports. Textile imports have crossed $3 billion. The imports include raw cotton that is usual except for the fact that this year the imports were higher due to low cotton output in Pakistan. Indian yarn has also made substantial inroads in the country. Even the readymade garments imports have increased – all at the expense of the domestic textile sector.

It was the worst year for cotton crop in the last 25 years, as the country harvested less than 10 million bales. The industry coped with the shortage by importing bales which were available globally at low cost. Bureaucratic hurdles impeded cotton imports from neighboring India.

Textile Exports of Pakistan:

	FY07	FY12	FY13	FY14	FY15	FY16
Pakistan Exports (USD Bn)	17	24.7	24.8	25.1	23.7	20.8
Textile Exports (USD Bn)	8.9	12.3	13.1	13.7	13.5	12.5
% of Pakistan's Exports	52%	50%	53%	55%	57%	60%

Pakistan Textile Export Contribution:

	FY07	FY11	FY12	FY13	FY14	FY15	FY16
Raw Cotton	1%	3%	4%	1%	1%	1%	1%
Cotton Yarn	13%	16%	15%	17%	15%	14%	10%
Cotton Cloth	19%	19%	20%	21%	20%	18%	18%
Home Textile	29%	25%	24%	24%	26%	26%	28%
Garments	31%	30%	29%	29%	31%	34%	37%
Others	7%	7%	8%	7%	7%	7%	7%

Pakistan Textile Export Trend:

Commodity	FY14		FY15		FY16			
	Quantity	**Value**	**Quantity**	**Value**	**Quantity**	**Value**	**YoY Quantity Change**	**YoY Rate Change**
Raw Cotton (000Kgs)	114,671	205,136	94,074	147,060	49,550	76,633	-47.3%	-1.1%
Cotton Yarn (000 Kgs)	669,630	2,004,476	647,604	1,855,723	448,051	1,261,992	-30.8%	-1.7%
Cotton Cloth (000 Sq.Mtr)	2,520,516	2,769,986	2,074,177	2,452,632	2,106,014	2,214,565	1.5%	-11.1%
Home Textile								
✓ Bed Wear (000 Kgs)	316,735	2,137,744	324,551	2,103,071	326,574	2,016,096	0.6%	-4.7%
✓ Towels (000 Kgs)	166,567	767,461	172,156	797,155	177,946	793,898	3.4%	-3.6%
✓ Madeup Articles		659,929		654,926		632,012		
Garments (000 Doz)	137,090	4,202,984	455,929	4,501,577	151,845	4,565,790	-66.7%	204.5%
Others		972,369		941,765		894,778		
Total		**13,720,085**		**13,453,909**		**12,455,764**		
YoY Change in %				-1.9%		-7.4%		

Pakistan Textile Exports- Key Countries:

		FY08	FY11	FY12	FY13	FY14
1	**USA**	25%	25%	26%	24%	24%
2	**China**	8%	7%	11%	15%	14%
3	**U.K**	4%	8%	8%	8%	9%
4	**Germany**	4%	6%	5%	5%	6%
5	**Bangladesh**		2%	4%	5%	5%
6	**Spain**	3%	3%	3%	3%	4%
7	**Italy**	4%	4%	4%	3%	3%
8	**UAE**	2%	2%	2%	2%	2%
9	**All Other Countries**	50%	43%	37%	35%	35%

OPPORTUNITIES:

- The government of Sindh province in Pakistan will go ahead with construction of Pakistan Textile City at Port Qasim. In case the federal government decides to wind up the project, the provincial government will fund the project from its own resources.

- Pakistan's textiles products and readymade garments have great export potential for the Indian markets as part of ambitious plan to increase overall exports to India to $1 billion within a year. Due to land route, Pakistan is the most favorite and cost-effective market for India to import raw material for its agriculture and textile products.

- Together with the Australian government, Cotton Australia and the Better Cotton Initiative (BCI) plan to train 225,000 Pakistani cotton growers, starting with the 2017 cotton season, to achieve improved environmental, social and economic benefits in line with the Better Cotton Standard System.

- The textile sector has been claiming that capacities worth $3.5 billion of exports are not operational due to high cost of doing business. Now that the competitiveness is restored one expects that at least 66 % of that capacity would become operational, while it might not be possible to start the rest that has gone sick. This means availability of $2.5 billion export surplus.

- The cotton rates are increasing rapidly in global markets. Cotton prices in Pakistan have jumped from Rs5,500/37.5kg to Rs7,000. This will increase the per unit value of all textile export items, as Pakistan’s exports are based exclusively on cotton.

- The garment exports should jump by at least 10 % in the next six months because of higher discount. All in all, there should be an improvement of $1 to $1.5 billion in textile exports after announcement of these incentives. Since the discount of leather, footwear and sports goods are also high at seven %; the exports in these categories should also jump by 20 % (because of lower base). The yarn, bed wear and fabric should also show some increase. All in all the exports in 2016-17b should be $1-2 billion higher than the exports of $19.81 billion achieved in 2015/16.

- The government has provided the textile industry a chance to enlarge its product range by allowing imports of all manmade fibers except polyester on zero duty. This will bring balance in the textile mix that currently uses 75 % cotton and 25 % manmade fibers in its products.

- In Pakistan, PC yarn prices were lifted by rising PSF and cotton prices as trading on the cotton market was limited on low stocks with ginners. 20s and 30s PC yarn prices gained PakRs1-2 per pound or US cent 2-4 a kg on the week. PV 30s yarn prices also gained PakRe1 per pound or US cent 2 a kg during the week.

- The Turkish Cooperation and Co-ordination Agency (TIKA) has offered the latest machinery and equipment for the apparel center at the Government Institute of Emerging Technologies in Pakistan. TIKA experts will provide two months training to students as well as to Technical Education and Vocational Training Authority (TEVTA) teachers on the equipment which is worth Rs 110 million.

- The year under review turned out to be little satisfactory for the polyester industry in terms of capacity utilization and to some extent in terms of margins as the Government has imposed the anti-dumping duty on the imported PSF which gave some breathing space for the industry in terms of pricing and sales volume. However, the market size did not show any noticeable change and remained almost the same as per previous years.

- ▲ The downstream textile industry during the period did not show much growth but the uninterrupted gas supply to the mills in lieu of imported LNG became helpful in reducing the cost of production which was quite encouraging for the industry. Due to that factor the local PSF sales also showed some increase, however the local yarn rates were not in accordance with the increased PSF prices.

- ▲ The Quaid-e-Azam Apparel Park will replace Sundar Industrial Estate as a flagship project of Punjab Industrial Estates Development and Management Company (PIEDMC). The Apparel Park would secure about $4 billion annual apparel exports once fully operational with major occupation by the Chinese investors.

- ▲ The Quid-e-Azam Apparel Park is exclusively designed for exports of apparel where a large number of Chinese investors have shown keen interest to invest.

- ▲ The plots will be sold in the apparel park on first come first serve basis with a time frame of six months for setting up production units. About 500 acres of the land available for this first state of the art apparel park would be utilized for service area. Around 1,000 acres will be available for industrial plots of 10 acres each, to establish medium sized woven or knitted garment units.

- ▲ Both Bangladesh and Pakistan increased exports at a faster growth rate than the world average- with Bangladesh enjoying the largest increase in global market share whereas Pakistan's growth was more modest. The elasticity estimates suggest that a 10 % increase in China's prices would increase Pakistan's exports by 316.2 %. By comparison, the system estimation estimates seem quite plausible.

THREATS:

- ▼ International outlook is continued to become tenuous and export is likely to decline further despite government incentives. Given the crisis in euro zone, exports to euro are threatened to decline at a faster rate.

- ▼ Dismal year for textile industry on bleak export performance - The downtrend of textile exports continued throughout the year and total drop in FY 16 exports was 7.7% to US$12.50 billion.

- ▼ Multiple factors including lower cotton crop, high input cost, slow yarn demand from China and slump in commodity prices rounded off the disappointing year for industry.

- ▼ It had a troublesome year with global economic slowdown affecting demand, high tariff and shortage of energy causing cost escalation and halts in production and problem in liquidity because of blockade of tax refunds and rebates.

- ▼ Local cotton prices rose 19% as compared to 3% increase in international prices on account of shortage of crop. In overall weak backdrop exports of non-value added segments was significantly low as against value added which held up ground and witnessed 2% decline.

- ▼ Performance of spinning segment was abysmal as yarn prices weakened more than realized prices of cotton which squeezed its spreads and resultantly the drop in both of its volumes and unit prices was significant.

- ▼ Textile exports also fell drastically which is alarming because contribution of the textile sector towards earning foreign exchange for the country is higher than any other sector in Pakistan. Shortage of product diversity and lackluster worldwide demand of textile products are the main factors for this poor show.

- Textile industry could not explore new avenues for exports because it didn't invest in diversification and modernization. This is the main reason why textile exporters could not avail the advantage of European Union's Generalized System of Preference (GSP) Plus status to enhance textile exports of Pakistan.

- Textile industry, particularly value added segment, is losing competitiveness in the international market because of energy shortage, heavy taxes, constant increase in minimum wages and worsened security situation. Majority of buyers from USA and Europe avoid visiting Pakistan because of security concerns. Business executives and entrepreneurs have to travel to overseas quite frequently, which makes selling more challenging, demanding and complex. Hence, despite being the fourth largest cotton producing country in the world, Pakistan cannot convert its local produce into value added products as compared to other players in the region such as Bangladesh and India.

- There was also a massive reduction in cotton production which stood at 10.074 million bales in the year 2015- 16 against 13.960 million bales last year showing a massive decline of 27.8 %.

- As many as 70 textile units in Punjab alone have so far shut down just in the wake of high cost of doing business and it is feared that half of the industry will close down in the next summer season triggering a new surge in unemployment and social unrest in the country if the energy prices for the industry are not contained at an affordable level.

- The RLNG cost has emerged as headache for the textile industry which has exposed it to the huge competitive disadvantage as the cost of re-gasified LNG is too much at higher side, and this issue has not been addressed in the package.

- The global trend is 75 % manmade fiber blended with 25 % cotton. The concern that should be addressed is that the discount on yarn and fabric export should be restricted to those that use Pakistani yarns. This would discourage dumping of Indian yarn. Indian yarn imports have reached 72,000 tons per annum that is equivalent to the production of 50 spinning mills of the country.

- The textile exports of six major items declined by $363 million to $9.888 billion in Jan-Nov 2016, compared to $10.251 billion in the same period of 2015.

- During the same period, cotton yarn exports decreased $228 million and cotton fabric by $155 million. Cumulative decline in exports of these two items amounts to $383 million that is $20 million higher than the total decline in textile exports. This in other words means that the exports in value-added sectors increased, though only nominally.

- In the first 11 months of 2015, cotton yarn export was $1.431 million that declined to $1.103 million during the corresponding period of 2016. Cotton fabric exports were down from $2.126 billion to $1.971 billion in 2016.

- Knitwear exports during Jan-Nov 2015 were $2.187 decreasing nominally to $2.186 in calendar year 2016. Bed wear exports however increased from $1.858 billion to $1.890 in 2016, towels exports declined from $694.7 million in 2015 to $691.5 million in 2016. The exports of readymade garments increased from $1.955 billion in 2015 to $2.047 billion in 2016.

- Considering the overall depressing margins in spinning the performance of this sector, it is also affected. The current financial year remained difficult and frustrating for spinning business because of significant low demand in local and international markets.

- Decline in selling prices affected not only the revenue of the segment but the overall revenue of the industry. The increase in prices of major yarn products was inconsistent with raw material prices. The significant decrease in Chinese demand together with cheaper Indian yarn in local market resulted into lower profit margins, and resulted in a pressure on local industry to liquidate its inventories on lower prices.

- China / India's policy to subsidize its yarn manufacturers by giving incentives, suppressed the demand of cotton yarn products in international market which adversely affected the yarn rates. These factors resulted into low profitability in spinning business.

- Financial year 2015-16 was one of the toughest year for spinning industry. Hope for low prices of cotton at the start of the financial year immediately turned into disappointment due to short fall of cotton and poor quality of cotton crop which caused the cotton rates to move upward. The gap between expectation and reality produced negative outcomes for the industry.

- Expensive cotton along with low demand and price of cotton yarn created a difficult scenario for spinning industry. Both price and demand for cotton yarn, in international market, remained low throughout the financial year ended 30 June 2016. The main markets of cotton yarn i.e. Hong Kong / China, remained sluggish.

OUTLOOK

- International outlook continues to be tenuous and export is likely to decline further despite government incentives. Given the crisis in euro zone, exports to EU are threatened to decline at a faster rate. **The outlook of the textile sector is expected to remain highly constrained**. The past financial year was a difficult one for the textile industry in general and the spinning sector in particular. Demand for yarn was depressed in the export as well as local markets. Prices of the textile products remained under pressure causing decline in margins.

Association:

- All Pakistan Textile Mills Association (APTMA)

www.aptma.org.pk

- Pakistan Cotton Ginners Association (PCGA)

www.pcga.org

- Karachi Cotton Association (KCA)

www.kcapk.com

- Pakistan Yarn Merchant Association (PYMA)

www.pyma.com.pk

- Pakistan Hosiery Manufacturers Association (PHMA)

www.phmaonline.com

- All Pakistan Textile Processors Mills Association (APTPMA)

www.aptpma.org.pk

- All Pakistan Textile Exporters Association (PTEA)

www.ptea.org.pk

- Pakistan Readymade Garment Manufacturers and Exporters Association (PRGMEA)

www.prgmea.org

- Pakistan Denim Manufacturers & Exporters Association (PDMEA)

www.pdmea.com

TEXTILES-FABRICS (WEAVING)

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	6		
			2015-16	**2014-15**	
A.	**Industry Sales**	**Act/Est**	17,031	42,505	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	-433		
C.	**Financial Charges**	**Act/Est**	751		
D.	**PAT**	**Act/Est**	-627		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	18,850		
F.	*Current Assets*	**Act/Est**	8,840		
G.	*Cash & Bank Balances*	**Act/Est**	250		
H.	*Trade Debtors*	**Act/Est**	2,800		
I.	*Short Term Investments*	**Act/Est**	30		
J.	*Total Equity*	**Act/Est**	6,750		
K.	*Current Liabilities*	**Act/Est**	9,810		
L.	*Total Liabilities*	**Act/Est**	12,100		

TEXTILES-KNITS & KNIT APPAREL

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	800		
			2015-16	**2014-15**	
A.	Industry Sales	Act/Est	246,267	243,718	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	12		
C.	Financial Charges	Act/Est	2		
D.	PAT	Act/Est	11		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	174		
F.	*Current Assets*	Act/Est	70		
G.	*Cash & Bank Balances*	Act/Est	3		
H.	*Trade Debtors*	Act/Est	25		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	120		
K.	*Current Liabilities*	Act/Est	53		
L.	*Total Liabilities*	Act/Est	54		

TEXTILE-SPINNING

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	83	
			2015-16	2014-15
A.	Industry Sales	Act/Est	193,794	226,288

			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	(6,075)		
C.	Financial Charges	Act/Est	6,348		
D.	PAT	Act/Est	(6,759)		

			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	179,187		
F.	*Current Assets*	Act/Est	68,679		
G.	*Cash & Bank Balances*	Act/Est	2,348		
H.	*Trade Debtors*	Act/Est	15,723		
I.	*Short Term Investments*	Act/Est	576		
J.	*Total Equity*	Act/Est	28,624		
K.	*Current Liabilities*	Act/Est	88,265		
L.	*Total Liabilities*	Act/Est	125,763		

TEXTILE-SYNTHETIC FIBERS/POLYESTER

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	11		
			2015-16	**2014-15**	
A.	**Industry Sales**	**Act/Est**	50,980	58,771	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	259		
C.	**Financial Charges**	**Act/Est**	1,293		
D.	**PAT**	**Act/Est**	356		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	25,668		
F.	*Current Assets*	**Act/Est**	9,460		
G.	*Cash & Bank Balances*	**Act/Est**	357		
H.	*Trade Debtors*	**Act/Est**	2,204		
I.	*Short Term Investments*	**Act/Est**			
J.	*Total Equity*	**Act/Est**	(1,842)		
K.	*Current Liabilities*	**Act/Est**	30,517		
L.	*Total Liabilities*	**Act/Est**	33,711		

TEXTILES-WOVEN APPAREL

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	500		
			2015-16	2014-15	
A.	Industry Sales	Act/Est	207,966	212,210	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			■
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	32		
C.	Financial Charges	Act/Est	12		
D.	PAT	Act/Est	24		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			■
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	410		
F.	*Current Assets*	Act/Est	250		
G.	*Cash & Bank Balances*	Act/Est	30		
H.	*Trade Debtors*	Act/Est	45		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	130		
K.	*Current Liabilities*	Act/Est	220		
L.	*Total Liabilities*	Act/Est	280		

TOBACCO

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	3	
			2015-16	2014-15
A.	Industry Sales	Act/Est	58,082	50,383

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

B.	PBT	Act/Est	8,983
C.	Financial Charges	Act/Est	859
D.	PAT	Act/Est	5,801

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

E.	*Total Assets*	Act/Est	44,062
F.	*Current Assets*	Act/Est	25,820
G.	*Cash & Bank Balances*	Act/Est	127
H.	*Trade Debtors*	Act/Est	96
I.	*Short Term Investments*	Act/Est	
J.	*Total Equity*	Act/Est	13,015
K.	*Current Liabilities*	Act/Est	29,592
L.	*Total Liabilities*	Act/Est	28,138

TOBACCO

SECTOR OUTLINE

Pakistan is a major tobacco-producing country with historically high smoking prevalence rates. About 40 % of the male population and 9 % of the female population smoke regularly, consume over 82 billion cigarettes on an annual basis.

While the share of excise taxes have declined from about 30 % of total tax revenue in 1990 to 5.5 % in 2016, the tobacco sector still accounts for 4 % of sales tax and excises collected at the federal level, and the share of tobacco excises stands at 56 % of total excise taxes (up from 36% in 2010).

More than Rs 17 billion cigarettes are being sold in the country. Pakistan cigarettes market consists of 33% illegal operators despite having one of the most comprehensive regulatory frameworks for tobacco control. The existing laws span the entire supply chain beginning with the cultivation of tobacco right to its sale and consumption. Tobacco advertising, promotion and sponsorship alone are regulated by seven different laws, none of which are being implemented in true spirit. There are 25 laws and 13 organizations working to stop the illicit trade which includes Ministry of National Health, Custom, Inland Revenue, Federal Investigation Agency, Police, Pakistan Coast Guards, Rangers, Frontier Constabulary, Intellectual Property Rights, Pakistan Tobacco Board, Excise and others but there have been no convictions of individuals evading these laws.

Currently, the legitimate market holds 60% of the total market share. The remaining 40% is held by the illegal cigarette industry, which is growing unabated. It is important to note here that this very segment of the industry has caused a loss of Rs 91 billion to the national exchequer through tax evasion.

Illegal Trade Statistics:

- **4th Highest:** Pakistan's Ranking on Illegal Cigarette Trade in Asia
- **23.7%** Cigarettes sold in Pakistan are illegal
- **89%** Illegal cigarettes sold in Pakistan are local duty-evaded
- **43.5%** Growth in illegal trade in last 6 years in Pakistan

Damage to economy:

- **24+ billion** Annual Government Revenue lost due to illegal trade in cigarettes
- **17.3 billion** Local tax-evaded cigarettes sold in Pakistan (2014)

Lack of enforcement:

- **13agencies** Empowered in Pakistan to curtail illegal trade
- **25+laws** Regulating every step of the cigarette industry supply chain
- **0.2** % Decline in overall smoking incidence (2008-2013) in Pakistan

OPPORTUNITIES

- ▲ The Federal Board of Revenue (FBR) Friday launched a national drive against manufacturers and suppliers of non-duty paid smuggled cigarettes and other tobacco products taking serious notice of dip in sales tax/Federal Excise Duty (FED) collection from the industry during July-December (2016-17) and raise in supplies of such items without payment of duties and taxes.

- ▲ Significant investments were made by Pakistan Tobacco Company in its brands in the form of innovative products, new brand launches and pack changes in Premium & Value for Money

(VFM) segments. These investments helped mitigate the risk of further volume decline while the portfolio wide excise driven price increase led to improvement in Gross Turnover.

- ▲ Pakistan Tobacco Company Ltd. Is one of the largest tax contributors in the private sector in Pakistan. During 2015 Pakistan Tobacco Company Ltd. contributed over Rs. 86 billion, an increase of Rs. 12.8 billion, 17% vs SPLY to Government revenues in the form of Excise Duty, Sales Tax, Income Tax & Custom duties. This increase came despite the numerous pressures the legitimate sector is facing from the illegal sector.

- ▲ The local tobacco industry sells around 80.2 billion cigarettes each year, the value of which is estimated at PKR 220.1 billion. The two legitimate players in the industry Pakistan Tobacco Company Ltd. and Philip Morris (Pakistan) Limited account for 72.3% of the market.

THREATS

- ▼ According to State Bank of Pakistan (SBP), the tobacco industry in the formal sector is facing immense competitive pressure due to massive increase in FED and the illicit market of cigarettes in Pakistan has reached about 40 % of the total demand

- ▼ Cigarette industry witnessed a substantial increase in FED in the fiscal budget, which not only adversely affected production, but also encouraged demand for smuggled and counterfeits in the market. The presence of a large, informal sector undermines the viability of the legitimate players in the industry and that remains one of the major factors in discouraging both domestic and foreign investment.

- ▼ Under S.R.O. 473(I)/2016, the government has enhanced the FED on cigarettes in two stages. During the first stage up to November 30, 2016, the excise duty was fixed at Rs 4,000 per thousand cigarettes. This rate increased further to Rs 4,400 in the second phase starting from December 1, 2016.

- ▼ As a result, not only the sale volumes of the legitimate and tax-paying segment of the industry are facing a decline, the government is also losing its revenues. FED collection on cigarettes fell to Rs 5.5 billion in first quarter of current financial year from Rs 10.1 billion in first quarter of last fiscal year, posting a decline of 45 % or Rs 4.6 billion.

- ▼ The revenue from cigarette sector was not showing any improvement due to decrease in the production/sales of the formal sector of tobacco manufacturing/ trade. The reduction in revenue was mainly due to increase in the illicit manufacturing/trade of this sector.

- ▼ The illicit sector openly violates numerous regulatory requirements as well, such as advertising outdoors, using human and animal images, offering cash prizes, etc, to consumers. This attracts people towards their packs that are sold at much cheaper prices than the legitimate packets.

- ▼ The bulk of the problem, ie Local tax Evaded (LTE) cigarettes, is manufactured in around 50 factories located either in Khyber Pakhtunkhwa or Azad Jammu and Kashmir, from where they are distributed nation-wide and available in all major and small marketplaces. These manufacturers under-declare their production to avoid their actual tax liability. The lack of enforcement and the government's inability to recognize the problem as an important issue may set a dangerous precedent for future investment.

- ▼ The combination of a decline in household income and rising duty paid cigarette prices made cigarettes 59 % more expensive, relative to incomes, for consumers in December 2015 compared to 2011. Between 2011 and 2015, duty paid cigarette sales volumes fell by 6% as duty paid cigarettes became less affordable for consumers. The higher price of duty paid cigarettes relative to average household incomes increased the incentive for consumers to look for lower priced alternatives.

- The central bank's annual report has sounded an alarm over exponential growth of duty-evading cigarettes. The SBP has warned that a large, informal sector undermines the viability of the legitimate players thus discouraging both domestic and foreign investment in the sector. Conclusive evidence is not presented, but intuitively, a high federal excise duty (FED) on formal-sector cigarette sales should make them price-uncompetitive and grow illicit tobacco traffic, in the absence of sustained crackdown.

- Illicit cigarette trade is happening under numerous banners, but three of them stand out. Biggest segment is where informal local manufacturers operate under the radar or when licensed, local manufacturers under-report their production to flood the market with non-duty paid, hence cheaper brands. Second is the contraband stuff, where imported commercial brands defeat or circumvent the applicable duty regime. And third are the counterfeit brands, the knockoffs, which mimic the famous global and local brands.

- Philip Morris (Pakistan) Limited (PSX: PMPKL) also mentioned in its latest quarterly report (Jul-Sep) that it suffered a volumetric decline in that period. The PMI affiliate reported 6 % lower excise duty collection (Rs2.04 bn) and 7 % lower sales tax collection (Rs0.63 bn) during 3QCY16 on a year-on-year basis.

- While the World Health Organization (WHO) is recommending plain packaging as the next step for all smoked and smokeless tobacco products, Pakistan unfortunately is still oceans away from enforcing any such measure. The country's Ministry of Health has not only surrendered from its global commitment to increase the size of the pictorial health warning on cigarette packs from the existing 40% to 85%, but has also failed to enforce rotation of the graphic warning every six months.

OUTLOOK

- **The future operations of the industry will continue to be critically impacted by the rapidly increasing market share of the illicit industr**y **over the coming years**. However, the sales will continue growing & margins will remain steady over the next few years.

TRANSPORT-AIR

FINANCIAL SNAPSHOT 2015-16

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	1		
			2015-16	**2014-15**	
A.	**Industry Sales**	**Act/Est**	84,880	91,268	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**LBT**	**Act/Est**	-32		
C.	**Financial Charges**	**Act/Est**	13		
D.	**LAT**	**Act/Est**	-34		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	**Act/Est**	115,842		
F.	*Current Assets*	**Act/Est**	25,079		
G.	*Cash & Bank Balances*	**Act/Est**	2,641		
H.	*Trade Debtors*	**Act/Est**	9,295		
I.	*Short Term Investments*	**Act/Est**	18		
J.	*Total Equity*	**Act/Est**	-213,226		
K.	*Current Liabilities*	**Act/Est**	205,571		
L.	*Total Liabilities*	**Act/Est**	324,204		

TRANSPORT- AIR

SECTOR OUTLINE

In Pakistan, aviation industry shares a major part in transportation which is one of the most important sectors in the economy. It helps in International trade and promotes tourism. Before aviation industry was deregulated, Pakistan International Airline dominated domestic and international market but soon when the country adopted open sky policy, 20 new licenses were issued. However, due to sanctions imposed by UN, only a few were left to continue operations. Pakistan International Airline on international routes competes with international airlines by offering low fares by cutting down flight services whereas in domestic regions it is a market leader in terms of fleet size, routes covered and passengers transported. The company has been in a financial distress for quite long time due to financial and operational mismanagement. It is also overstaffed resulting in low revenue and high employee to aircraft ratio.

Local Industry Structure: There are four domestic players in Pakistan.

- Total passenger traffic has grown at a CAGR of 5.3% over the last 5 years and has reached 15.1m passengers during FY15.
- Based on economic and demographic growth, IATA has projected intra Pakistan air traffic to grow at 9.9% over the next 20 years, more than twice the 4.1% projected annual world growth rate. This supports the prospects of growing revenues for airliners.

National Aviation Policy: On March 20, 2016, after a gap of 15 years, Pakistan introduced a new aviation policy that seeks to liberalize its air market and includes plans to outsource terminals at major airports to international operators. The domestic passenger traffic in Pakistan, the world's 6th most populous country, marginally grew to 6.72 million between 2010-2013 – an average 1.8% growth per annum – while international passenger traffic rose to 9.56 million in the same period, showing about 5% % per year, according to the official document. The policy advocates no taxes and duties on investment in aviation sector. Highlights of the policy are:

- Fleet registration in Pakistan by all operators will be mandatory.
- Foreign airlines will be allowed to take up to 49 % equity stakes in domestic carriers.
- Under the new policy, minimum fleet size for domestic operators will be three airworthy aircraft, and five such aircraft for international operations.
- Private sector will be encouraged to construct or operate new and existing airports, airstrips and cargo complexes on BOO, BOT basis, or any "suitable management arrangement".

In March 2016, the Pakistan Civil Aviation Authority granted license to establish SereneAir. The airline started operations on 29 January 2017, a week after obtaining its air operator's certificate. SereneAir became the fourth airline to offer domestic flights in Pakistan, after Airblue, Pakistan International Airlines, and Shaheen Air. SereneAir is a privately owned airline headquartered in Islamabad.

In October 2016, Pakistan International Airlines (PIA) announced that it aimed to lease up to eight new aircraft in a move to upgrade its ageing fleet as the government sought to turn around the loss-making flag carrier.

Further, in addition to Pakistan Steel Mills (PSM), the government has decided to complete the transactions of Pakistan International Airlines (PIA) and the Oil and Gas Development Company Limited (OGDCL) by June 2017. A committee has been formed, led by Planning and Development Minister, to prepare a business plan for splitting the national carrier into two companies. The business plan will deal with improving the financial and operational performance of PIACL on a sustainable basis, in coordination with the PIA management.

PIA's market share in terms of domestic passenger traffic was 51% for FY15. However, the same has decreased from 72% during FY10 on account of mismanagement and inefficiencies. Market share of PIA is expected to decline further in FY16 due to a two week airline strike, which allowed other players to gain market share.

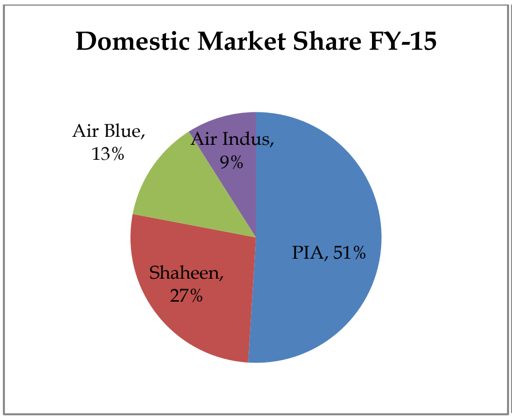
Shaheen Air is the second largest player having 27% (FY10: 14%) market share in terms of domestic passenger traffic followed by Air Blue at 13% (FY10: 14%).

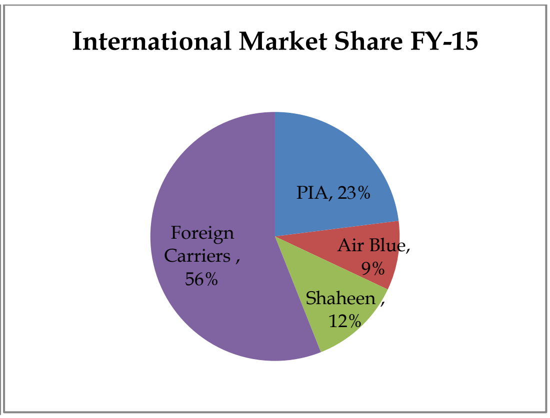
Total international air travel for Pakistan has grown at a CAGR 7.1% over the last five years. Total international passenger traffic amounted to 11.9m passengers (FY14: 10.9m, FY10: 8.5m) during FY15.

Market share of foreign carriers during FY15 has increased to 56% (FY14: 53%) of total international air travel in/out of Pakistan. Based on the above mentioned reasons, along with competitive pricing from Emirates Airlines, PIA's market share decreased from 43% in FY10 to 23% in FY15.

PIA currently has the highest number of aircrafts with fleet size totaling 43 aircrafts, comprising an average age of 12.8 years. Fleet age of SAI is currently the highest vis-à-vis peers. Serene Air commenced business on January 29, 2017 with a fleet size of 3 Boeing 737 aircrafts.

In the backdrop of declining fuel prices and improved profitability & cash flows, all local players are undergoing fleet expansion.





Aircraft Type	No. of Planes	Average Age (Years)
PIA		
ATR 42/72	11	7.07
Airbus A310	10	23.74
Airbus A320	11	10.38
Boeing 777	11	10.78
Total	**43**	**12.64**
Shaheen Air		
Airbus A320	8	13.26
Airbus A330	7	14.66
Boeing 737	10	23.51
Total	**25**	**17.75**
Air Blue		
Airbus A320	3	4.07
Airbus A321	4	2.35
Total	**7**	**3.09**

OPPORTUNITIES

- Financial performance of airline operators has shown improvement in the backdrop of declining oil prices. Decline in oil prices allowed PIA to post a gross profit during 2015 for the first time since 2012 despite declining revenues.

- Savings from decline in oil prices has allowed the company to fund increase in its fleet and undertake C-Checks of its aircrafts from internal sources. Overall financial profile has witnessed significant improvement with healthy capitalization and liquidity indicators.

- Basically, lower oil prices (forecast to be $55/barrel Brent in 2015 and averaging a lower $51/barrel in 2016) are giving airline profits a boost. However, this is strongly moderated in many markets by the appreciation of the US dollar. Moreover, stronger economic performance in some key economies (including a faster than expected recovery in the Eurozone) is outweighing the overall impact of slower growth in China and the downturn in the Brazilian economy.

- The demand for passenger travel was expected to grow by 6.9 per cent (similar to the 6.7 per cent growth expected in 2016) with 3.8 billion passengers expected to travel in 2016.

- Profitable global aviation industry: Although the airline industry is subject to changes in the world economy, grave recessions, high fuel costs and cut throat competition, etc., the global airliners would still succeed in earning a net profit of $36.3 billion, up from $33 billion in 2015 and way over the $6 billion financial gains pocketed in 2011. The successive managements and employees of the state-owned Pakistan International Airlines (PIA) thus had the opportunity of converting their colossal accumulative losses into profits by being part of the profitable global aviation industry, instead of being at daggers drawn against each other.

- A niche in tourism: Over 600,000 domestic tourists trickled into Gilgit-Baltistan in winter 2015-16, and aviation officials were confident that the number will rise substantially in the coming years. As airlines and aviation officials argue, creating a niche for itself that cannot be impeded upon by any other operator is crucial to the revival of the Pakistan International Airlines (PIA). In their view, in PIA's case this niche exists in tourism to Pakistan and within Pakistan. Put another way, PIA's revival is connected with resuscitating the tourism industry, which is beginning to pick up once again. PIA retains a monopoly over domestic tourism routes, with no other operator flying to Skardu or Gilgit from Islamabad.

- In practice, this translates into harnessing a number of profit-spinning opportunities such as the air transportation of fruit and dry fruit produce from Gilgit-Baltistan. According to an aviation official, a goods transport truck on average charges Rs150,000 for the journey between Islamabad and Skardu, while air freight charges cost a fraction of that. However, the aircraft that ply the Islamabad-Skardu route and the frequency of flights restrict it. As a result, most produce never makes it out of Gilgit-Baltistan since the costs involved become prohibitive, thereby compromising great revenue opportunities for local farmers in Skardu and other areas. Meanwhile, PIA's monopoly over the route is left unexploited.

- Away from Gilgit-Baltistan, there is also pilgrimage potential to Pakistan, as Hindu and Sikh pilgrims make their way to Chakwal and Nankana Sahib, from India as well as other international locations. The airline also holds great sway in pilgrimage tourism to Saudi Arabia, although pilgrimage tourism to Iraq and Iran has yet to be leveraged.

  Such measures require the aviation division and tourism ministry to work in tandem, with the specific goal of presenting Pakistan as a tourist-friendly destination. In obtaining control of the airlines from the defense ministry and in enforcing the presidential order to convert PIA into a public limited company, the government has allowed itself the space to do so, but there is a distinct lack of will to tackle the crisis PIA finds itself in.

THREATS

▼ Once the nation’s pride, now struggling to survive: Pakistan's national carrier, PIA, was long a source of patriotic pride, a symbol of unity. Now, PIA is in big trouble. It was an icon, and was listed as one of the best airliners in the world. PIA was the first Asian airline to operate jets and provided the planes that helped launch Emirates airline. However, for the last 20 or 30 years, PIA has been seen as a place for political cronyism and political appointees. Since the 1980s, the PIA is not making any profits. The organization was dying a slow death, over decades.

Some major factors contributing to the fall: the inability of the government to manage what are essentially commercial enterprises, political interference, resistance to change from within due to excessive union activities and excessive bureaucratization. However, the most central factor is the accumulated losses.

▼ Accumulated losses: The airline is now in debt and in crisis. It faces competition from private airlines. Accumulated losses stand at just under $3 billion, about half the national defense budget. The huge debt is paralyzing the airline and arranging for funds with which to make the next debt-service obligation has become the most important issue. PIA is currently paying off Rs3 billion per month against the loans (freight loans and other) including an interest payment of Rs 1.1 billion. Pressure to overhaul PIA is also coming from the International Monetary Fund.

The losses became more prominent after Pakistan opened its skies to foreign airlines, especially from the Gulf region to do business in the country. Airlines such as Emirates and Gulf Air gobbled up PIA’s market share and its revenues began to fall. In other words, Pakistan’s national carrier, despite boundless opportunities and empty playing field until the early 2000s, was not efficiently being managed. When faced with competition, it began to crumble.

▼ PIA’s revenues declined by 8.7% because of limited available capacity and operations. On the expenditure side, fall in global fuel prices pushed down total cost from Rs 86.7 billion in 2014 to Rs 78.2 billion in 2015. In fact, fuel cost now accounts for 28 % of the total cost compared to around 44 % in the previous two years. Other costs increased at a slower pace (7.7 %) during Jul-Sep 2015, compared to 11.6 % during the corresponding period of the previous year. [Other costs include salaries, wages, and allowances, welfare and social security, retirement benefits, repair and maintenance, flight equipment rental, landing and handling, communication, depreciation etc.]

▼ Employee per plane ratio: After the Syrian Air, the state-owned PIA has the highest number of employees on its rolls per aircraft. PIA thus has the world's second worst staff-to-plane ratio of 391 staffers per plane, revealed a research in February 2016 conducted by the Jang Group and Geo Television Network. As many as 14,847 PIA employees (excluding daily wagers) are entrusted with the task to look after 38 aircraft in its small fleet. If we take into account the number of daily wagers on the PIA pay-roll too (the exact number of which is unknown), then add it to the 14,847 confirmed staffers, and then divide it with the number of operational machines, the staff-to-plane ratio would jump to somewhere between 400 and 500 – which is extremely alarming. Comparative employee per plane ratio are given below:

- The staff-to-plane ratio of Garuda Indonesia, the flag carrier of Indonesia, is 56.15 because its 7,861 employees are looking after a fleet of 140 aircraft.

- The employee-to-aircraft ratio of Turkish Airlines is just 63.36 because its 18,882 employees are looking after a fleet of 298 aircraft.
- The employee-to-aircraft ratio of Emirates Airlines is 231.53 because its 56,725 employees are looking after a fleet of 245 aircraft. Its revenues stand at $24.2 billion.
- The staff-to-aircraft ratio of Qatar Airways is just 179.19 because its 31,000 employees are looking after a fleet of 173 aircraft.
- The staff-to-aircraft ratio of Malaysian Airlines is just 181.82 because its 14,000 employees are looking after a fleet of 77 aircraft.

▼ The reason behind the massive difference is the range of services the national carrier keeps under its belt. From engineering services to ground handling to cargo management and maintenance to name a few, PIA, unlike other successful international airlines, single-handedly runs its own show. Globally, the non-core segments of airlines business are usually outsourced to make the management leaner thus efficient. For instance, Dnata, one of the leading airport service providers, offers ground handling services to Emirates in its home base. But PIA is top heavy with departments and runs like any bureaucratic government office.

▼ Aging fleet is another point of concern. However, the fleet age which was 16 years in 2013 and 10.7 years in 2015 is now expected to be reduced to the number of 9.5 years. As far as fleet size is concerned, PIA in 2013 owned only 21 aircrafts including 8 777 aircrafts, 6 A310, 5 ATR, 1 B747 and 1 B737. However, it increased to the number of 38 in 2015 by adding 4 ATR, 3 777 and 13 A320 whereby 1 A310 was sold. In 2017 the even figure will increase to total of 43 aircrafts including the increase of 2 A320, 2 ATR and 6 A330/777.

▼ Political meddling: Political meddling in the organization is so rife that the "real employees" never really get a chance to perform. Political parties always patronized the unions who infused the culture of inefficiency in the organization. Staff unions are now fighting government plans to sell off at least part of it. In order to make PIA competitive, some radical decisions have to be taken, including shredding people hired on political basis and bringing efficient workers at the forefront. Above all, PIA needs a stakeholder who has money to put in and manage it like one's own.

On the other hand, while the PIA privatization debate in the public sphere assumes the absolute incompetence of labor employed by the organization, after the last golden handshake scheme, many of PIA's most talented found lucrative jobs elsewhere in the aviation sector. Clearly, labor isn't the problem, but its utilization (or lack of) is an issue. It is said that calculating staff that are not needed or are deemed surplus is a management issue, rather than one that requires the entire corporation to be privatized. It is important to recall that PIA incurred substantial debt when it last offered a golden handshake to its employees as a cost-cutting exercise. This very fact resonates heavily with middle and lower-tier staff of the PIA in Karachi, many of whom resent the privatization process largely due to the uncertainty it leaves them hanging in.

▼ Indus Air, which commenced flights in 2013, was forced to cease operations in 2015 by the Civil Aviation Authority (CAA) on account of failure to meet legal minimum requirement of fleet size of 3 airworthy aircrafts.'

▼ Domestic passenger traffic has remained relatively stagnant over the last five years. During FY15, total number of domestic air passengers amounted to 3.15m vis-a-vis 3.59m during FY14. The reduction was mainly due increase in number of domestic airports / destinations, facilitating direct travel.

OUTLOOK

- **A decline in operating cost helped Pakistan International Airline (PIA) further contain its losses during Jan-Sep 2015 despite falling revenues and depreciation of the exchange rate.** [Losses declined to Rs 19.0 billion compared to Rs 21.6 billion and Rs 31.6 billion in 2014 and 2013 respectively.]

  Yet, other performance indicators showed a mixed picture: the increase in fleet is an encouraging sign, but decline in the load factors is a source of concern. Going forward, fleet modernization and improved efficiencies would play a vital role in improving services quality, image and competiveness of PIA.

  Based on economic and demographic growth, IATA has projected intra Pakistan air traffic to grow at 9.9% over the next 20 years, more than twice the 4.1% projected annual world growth rate. This supports the prospects of growing revenues for airliners. **Therefore the outlook for other airlines operating with low operating expenses (Shaheen Air & Airblue) is positive given low oil prices & increased air traffic in future.**

Associations:

- Pakistan Airline Pilots Association (PALPA)

http://palpa.org.pk/

- Air Cargo Agents Association of Pakistan (ACAAP)

http://acaap.org/

- Pakistan Airlines Cabin Crew Association (PACCA)

https://paccasite.wordpress.com/

- Aircraft Technologists' Association of Pakistan (ATAP)
- Society of Aircraft Engineers of Pakistan (SAEP)

http://www.saep.org.pk/

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 (Infrastructure)	1	100	6.0	6.0
2	Energy - Other (Circular Debt)	1	100	6.0	6.0
3	Financial Institutions	1	100	6.0	6.0
4	Energy – Oil & GasExploration	2	80	6.0	4.8
5	Energy - Gas Generation & Distribution	2	80	6.0	4.8
6	Energy - Oil (Petroleum Distribution/Marketing)	2	80	6.0	4.8
7	Energy - Oil (Petroleum Refining)	2	80	6.0	4.8
8	Energy - Power (Indigenous)	2	80	6.0	4.8
9	Fertilizers	2	80	6.0	4.8
10	Telecommunications	2	80	6.0	4.8
11	Tobacco Products	2	80	6.0	4.8
12	Agro-Chemicals	3	60	6.0	3.6
13	Cement	3	60	6.0	3.6
14	Chemicals (inc. Plastic & Rubber Products)	3	60	6.0	3.6
15	Edible Oil	3	60	6.0	3.6
16	Energy - Power (Non Indigenous)	3	60	6.0	3.6
17	Food, Beverages & Consumer Products	3	60	6.0	3.6
18	Machinery & Equipment	3	60	6.0	3.6
19	Metallic Products (Iron & Steel)	3	60	6.0	3.6
20	Pharmaceuticals	3	60	6.0	3.6
21	Sugar	3	60	6.0	3.6
22	Surgical, Precision, Optical Equipment	3	60	6.0	3.6
23	Textiles – Composite	3	60	6.0	3.6
24	Textiles - Synthetic Fibers/Polyester	3	60	6.0	3.6
25	Automotive - Parts & Accessories	4	40	6.0	2.4
26	Automotives - Assemblers/Manufacturers	4	40	6.0	2.4
27	Construction (General)	4	40	6.0	2.4
28	Glass & Ceramics	4	40	6.0	2.4
29	Sports Products	4	40	6.0	2.4
30	Textiles - Fabrics (Weaving)	4	40	6.0	2.4
31	Textiles - Knits & Knit Apparel	4	40	6.0	2.4
32	Textiles – Spinning	4	40	6.0	2.4
33	Textiles - Woven Apparel	4	40	6.0	2.4
34	Transport – Air	4	40	6.0	2.4
35	Carpets & Rugs	5	20	6.0	1.2
36	Information Technology	5	20	6.0	1.2
37	Leather Products	5	20	6.0	1.2

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. It also assesses the industry's ability to continue production with alternate inputs in case of shortage of original inputs) 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	Agro-Chemicals	1	100	7.0	7.0
2	Construction (General/Infrastructure)	1	100	7.0	7.0
3	Glass & Ceramics	1	100	7.0	7.0
4	Sports Products	1	100	7.0	7.0
5	Financial Institutions	1	100	7.0	7.0
6	Surgical, Precision, Optical Equipment	1	100	7.0	7.0
7	Telecommunications	1	100	7.0	7.0
8	Machinery & Equipment	1	100	7.0	7.0
9	Energy - Oil & Gas Exploration	1	100	7.0	7.0
10	Carpets & Rugs	1	100	7.0	7.0
11	Cement	1	100	7.0	7.0
12	Edible Oil	1	100	7.0	7.0
13	Chemicals (inc. Plastic & Rubber Products)	1	100	7.0	7.0
14	Food, Beverages & Consumer Products	1	100	7.0	7.0
15	Energy-Other (Circular Debt)	1	100	7.0	7.0
16	Tobacco Products	1	100	7.0	7.0
17	Fertilizers	2	80	7.0	5.6
18	Pharmaceuticals	2	80	7.0	5.6
19	Automotives - Assemblers/Manufacturers	2	80	7.0	5.6
20	Energy - Oil (Petroleum Refining)	2	80	7.0	5.6
21	Textiles - Synthetic Fibers/Polyester	2	80	7.0	5.6
22	Automotive - Parts & Accessories	2	80	7.0	5.6
23	Energy- Oil (Petroleum Distribution/Mrktg)	2	80	7.0	5.6
24	Energy – Power (Indigenous/Non Indigenous)	2	80	7.0	5.6
25	Energy - Gas Generation & Distribution	2	80	7.0	5.6
26	Information Technology	2	80	7.0	5.6
27	Leather Products	2	80	7.0	5.6
28	Textiles - Woven Apparel	2	80	7.0	5.6
29	Textiles – Composite	2	80	7.0	5.6
30	Metallic Products (Iron & Steel)	2	80	7.0	5.6
31	Transport – Air	2	80	7.0	5.6
32	Sugar	2	80	7.0	5.6
33	Textiles - Fabrics (Weaving)	2	80	7.0	5.6
34	Textiles - Knits & Knit Apparel	2	80	7.0	5.6
35	Textiles – Spinning	2	80	7.0	5.6

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. On the other hand, lesser corporatized segments would have relatively informal governance and control structures as opposed to more regulated/corporatized industry segments) 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 - Oil (Petroleum Distribution/Marketing)	1	100	2.0	2.0
2	Fertilizers	1	100	2.0	2.0
3	Financial Institutions	1	100	2.0	2.0
4	Pharmaceuticals	1	100	2.0	2.0
5	Telecommunications	1	100	2.0	2.0
6	Automotives - Assemblers/Manufacturers	1	100	2.0	2.0
7	Food, Beverages & Consumer Products	1	100	2.0	2
8	Tobacco Products	1	100	2.0	2
9	Energy - Oil & Gas Exploration	2	80	2.0	1.6
10	Energy - Oil (Petroleum Refining)	2	80	2.0	1.6
11	Carpets & Rugs	2	80	2.0	1.6
12	Cement	2	80	2.0	1.6
13	Edible Oil	2	80	2.0	1.6
14	Textiles - Synthetic Fibers/Polyester	2	80	2.0	1.6
15	Chemicals (inc. Plastic & Rubber Products)	2	80	2.0	1.6
16	Energy-Other (Circular Debt)	2	80	2.0	1.6
17	Agro-Chemicals	3	60	2.0	1.2
18	Automotive - Parts & Accessories	3	60	2.0	1.2
19	Energy – Power (Indigenous/Non Indigenous)	3	60	2.0	1.2
20	Energy - Gas Generation & Distribution	3	60	2.0	1.2
21	Glass & Ceramics	3	60	2.0	1.2
22	Information Technology	3	60	2.0	1.2
23	Leather Products	3	60	2.0	1.2
24	Sports Products	3	60	2.0	1.2
25	Surgical, Precision, Optical Equipment	3	60	2.0	1.2
26	Machinery & Equipment	3	60	2.0	1.2
27	Textiles - Woven Apparel	3	60	2.0	1.2
28	Transport – Air	3	60	2.0	1.2
29	Textiles – Composite	4	40	2.0	0.8
30	Metallic Products (Iron & Steel)	4	40	2.0	0.8
31	Sugar	5	20	2.0	0.4
32	Construction (General/Infrastructure)	5	20	2.0	0.4
33	Textiles - Fabrics (Weaving)	5	20	2.0	0.4
34	Textiles - Knits & Knit Apparel	5	20	2.0	0.4
35	Textiles – Spinning	5	20	2.0	0.4

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	4.0	4.0
2	Energy-Other (Circular Debt)	1	100	4.0	4.0
3	Energy - Oil & Gas Exploration	2	80	4.0	3.2
4	Energy - Oil (Petroleum Refining)	2	80	4.0	3.2
5	Energy - Power (Indigenous/Non Indigenous)	2	80	4.0	3.2
6	Fertilizers	2	80	4.0	3.2
7	Machinery & Equipment	2	80	4.0	3.2
8	Glass & Ceramics	2	80	4.0	3.2
9	Metallic Products (Iron & Steel)	2	80	4.0	3.2
10	Pharmaceuticals	2	80	4.0	3.2
11	Chemicals (inc. Plastic & Rubber Products)	2	80	4.0	3.2
12	Energy - Oil (Petroleum Distribution/Marketing)	3	60	4.0	2.4
13	Financial Institutions	3	60	4.0	2.4
14	Sports Products	3	60	4.0	2.4
15	Automotive - Parts & Accessories	3	60	4.0	2.4
16	Automotives - Assemblers/Manufacturers	3	60	4.0	2.4
17	Construction (General/Infrastructure)	3	60	4.0	2.4
18	Surgical, Precision, Optical Equipment	3	60	4.0	2.4
19	Textiles - Synthetic Fibers/Polyester	3	60	4.0	2.4
20	Food, Beverages & Consumer Products	4	40	4.0	1.6
21	Edible Oil	4	40	4.0	1.6
22	Tobacco Products	4	40	4.0	1.6
23	Cement	4	40	4.0	1.6
24	Information Technology	4	40	4.0	1.6
25	Leather Products	4	40	4.0	1.6
26	Transport – Air	4	40	4.0	1.6
27	Carpets & Rugs	4	40	4.0	1.6
28	Textiles - Woven Apparel	4	40	4.0	1.6
29	Agro-Chemicals	5	20	4.0	0.8
30	Sugar	5	20	4.0	0.8
31	Telecommunications	5	20	4.0	0.8
32	Textiles – Composite	5	20	4.0	0.8
33	Textiles – Spinning	5	20	4.0	0.8
34	Textiles - Fabrics (Weaving)	5	20	4.0	0.8
35	Textiles - Knits & Knit Apparel	5	20	4.0	0.8

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	2.0	2.0
2	Energy – Other (Circular Debt)	1	100	2.0	2.0
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/Non Indigenous)	2	80	2.0	1.6
6	Fertilizers	2	80	2.0	1.6
7	Financial Institutions	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	Glass & Ceramics	3	60	2.0	1.2
11	Pharmaceuticals	3	60	2.0	1.2
12	Chemicals (inc. Plastic & Rubber Products)	3	60	2.0	1.2
13	Energy - Oil (Petroleum Distribution/Marketing)	3	60	2.0	1.2
14	Sports Products	3	60	2.0	1.2
15	Automotive - Parts & Accessories	3	60	2.0	1.2
16	Automotives - Assemblers/Manufacturers	3	60	2.0	1.2
17	Construction (General/Infrastructure)	3	60	2.0	1.2
18	Surgical, Precision, Optical Equipment	3	60	2.0	1.2
19	Textiles - Synthetic Fibers/Polyester	3	60	2.0	1.2
20	Edible Oil	4	40	2.0	0.8
21	Tobacco Products	4	40	2.0	0.8
22	Cement	4	40	2.0	0.8
23	Information Technology	4	40	2.0	0.8
24	Leather Products	4	40	2.0	0.8
25	Transport – Air	4	40	2.0	0.8
26	Carpets & Rugs	4	40	2.0	0.8
27	Textiles - Woven Apparel	4	40	2.0	0.8
28	Agro-Chemicals	5	20	2.0	0.4
29	Food, Beverages & Consumer Products	5	20	2.0	0.4
30	Sugar	5	20	2.0	0.4
31	Telecommunications	5	20	2.0	0.4
32	Textiles – Composite	5	20	2.0	0.4
33	Textiles – Spinning	5	20	2.0	0.4
34	Textiles - Fabrics (Weaving)	5	20	2.0	0.4
35	Textiles - Knits & Knit Apparel	5	20	2.0	0.4

BY LITIGATIONS

Sector ranking, by the Litigations (this factor assesses the likelihood of litigations in the industry materially impacting the cash flows and/ or organizational / product brand, management integrity etc. Includes potential for regulatory & quality rejection issues) 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	Energy - Oil & Gas Exploration	2	80	1.0	0.8
2	Carpets & Rugs	2	80	1.0	0.8
3	Cement	2	80	1.0	0.8
4	Chemicals (inc. Plastic & Rubber Products)	2	80	1.0	0.8
5	Edible Oil	2	80	1.0	0.8
6	Energy - Gas Generation & Distribution	2	80	1.0	0.8
7	Fertilizers	2	80	1.0	0.8
8	Food, Beverages & Consumer Products	2	80	1.0	0.8
9	Glass & Ceramics	2	80	1.0	0.8
10	Textiles - Fabrics (Weaving)	2	80	1.0	0.8
11	Textiles - Woven Apparel	2	80	1.0	0.8
12	Textiles – Composite	2	40	1.0	0.4
13	Textiles - Knits & Knit Apparel	2	40	1.0	0.4
14	Agro-Chemicals	3	60	1.0	0.6
15	Leather Products	3	60	1.0	0.6
16	Machinery & Equipment	3	60	1.0	0.6
17	Metallic Products (Iron & Steel)	3	60	1.0	0.6
18	Sports Products	3	60	1.0	0.6
19	Sugar	3	60	1.0	0.6
20	Surgical, Precision, Optical Equipment	3	60	1.0	0.6
21	Telecommunications	3	60	1.0	0.6
22	Textiles - Synthetic Fibers/Polyester	3	60	1.0	0.6
23	Tobacco Products	3	60	1.0	0.6
24	Construction (General/Infrastructure)	3	60	1.0	0.6
25	Energy - Oil (Petroleum Refining)	3	60	1.0	0.6
26	Pharmaceuticals	3	60	1.0	0.6
27	Textiles – Spinning	3	60	1.0	0.6
28	Financial Institutions	4	40	1.0	0.4
29	Information Technology	4	40	1.0	0.4
30	Transport – Air	4	40	1.0	0.4
31	Automotive - Parts & Accessories	4	40	1.0	0.4
32	Automotives - Assemblers/Manufacturers	4	40	1.0	0.4
33	Energy - Oil (Petroleum Distribution/Marketing)	4	40	1.0	0.4
34	Energy - Power (Indigenous/Non Indigenous)	4	40	1.0	0.4
35	Energy – Other (Circular Debt)	5	20	1.0	0.2

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	Energy - Oil (Petroleum Distribution/Marketing)	1	100	5.0	5.0
2	Energy - Oil (Petroleum Refining)	1	100	5.0	5.0
3	Energy - Other(Circular Debt)	1	100	5.0	5.0
4	Energy - Gas Generation & Distribution	1	100	5.0	5.0
5	Construction (General/Infrastructure)	2	80	5.0	4.0
6	Energy-Power (Indigenous/Non Indigenous)	2	80	5.0	4.0
7	Energy - Oil & Gas Exploration	2	80	5.0	4.0
8	Financial Institutions	3	60	5.0	3.0
9	Chemicals (inc. Plastic & Rubber Products)	3	60	5.0	3.0
10	Pharmaceuticals	3	60	5.0	3.0
11	Information Technology	3	60	5.0	3.0
12	Machinery & Equipment	3	60	5.0	3.0
13	Sugar	3	60	5.0	3.0
14	Carpets & Rugs	4	40	5.0	2.0
15	Metallic Products (Iron & Steel)	4	40	5.0	2.0
16	Tobacco Products	4	40	5.0	2.0
17	Sports Products	4	40	5.0	2.0
18	Surgical, Precision, Optical Equipment	4	40	5.0	2.0
19	Automotives - Assemblers/Manufacturers	4	40	5.0	2.0
20	Glass & Ceramics	4	40	5.0	2.0
21	Leather Products	4	40	5.0	2.0
22	Textiles – Composite	4	40	5.0	2.0
23	Automotive - Parts & Accessories	4	40	5.0	2.0
24	Edible Oil	4	40	5.0	2.0
25	Telecommunications	4	40	5.0	2.0
26	Fertilizers	4	40	5.0	2.0
27	Agro-Chemicals	4	40	5.0	2.0
28	Food, Beverages & Consumer Products	4	40	5.0	2.0
29	Cement	4	40	5.0	2.0
30	Textiles - Knits & Knit Apparel	5	20	5.0	1.0
31	Textiles - Synthetic Fibers/Polyester	5	20	5.0	1.0
32	Textiles - Woven Apparel	5	20	5.0	1.0
33	Transport – Air	5	20	5.0	1.0
34	Textiles - Fabrics (Weaving)	5	20	5.0	1.0
35	Textiles – Spinning	5	20	5.0	1.0

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 SCORE	MAXIMUM SCORE	SCORE
1	Financial Institutions	2	80	1.5	1.2
2	Food, Beverages & Consumer Products	2	80	1.5	1.2
3	Cement	2	80	1.5	1.2
4	Construction (General/Infrastructure)	2	80	1.5	1.2
5	Sugar	2	80	1.5	1.2
6	Telecommunications	2	80	1.5	1.2
7	Tobacco Products	2	80	1.5	1.2
8	Glass & Ceramics	3	60	1.5	0.9
9	Machinery & Equipment	3	60	1.5	0.9
10	Information Technology	3	60	1.5	0.9
11	Energy - Gas Generation & Distribution	4	40	1.5	0.6
12	Energy – Other (Circular Debt)	4	40	1.5	0.6
13	Energy - Oil & Gas Exploration	4	40	1.5	0.6
14	Fertilizers	4	40	1.5	0.6
15	Energy - Power(Indigenous/Non Indigenous)	4	40	1.5	0.6
16	Transport – Air	4	40	1.5	0.6
17	Chemicals (inc. Plastic & Rubber Products)	4	40	1.5	0.6
18	Energy - Oil (Petroleum Distribution/Marketing)	4	40	1.5	0.6
19	Energy - Oil (Petroleum Refining)	4	40	1.5	0.6
20	Pharmaceuticals	4	40	1.5	0.6
21	Automotives - Assemblers/Manufacturers	4	40	1.5	0.6
22	Edible Oil	4	40	1.5	0.6
23	Leather Products	4	40	1.5	0.6
24	Metallic Products (Iron & Steel)	4	40	1.5	0.6
25	Textiles – Composite	4	40	1.5	0.6
26	Textiles - Fabrics (Weaving)	4	40	1.5	0.6
27	Textiles - Knits & Knit Apparel	4	40	1.5	0.6
28	Textiles – Spinning	4	40	1.5	0.6
29	Textiles - Synthetic Fibers/Polyester	4	40	1.5	0.6
30	Textiles - Woven Apparel	4	40	1.5	0.6
31	Automotive - Parts & Accessories	4	40	1.5	0.6
32	Agro-Chemicals	4	40	1.5	0.6
33	Carpets & Rugs	4	40	1.5	0.6
34	Surgical, Precision, Optical Equipment	4	40	1.5	0.6
35	Sports Products	4	40	1.5	0.6

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	1.5	1.5
2	Agro-Chemicals	2	80	1.5	1.2
3	Construction (General/Infrastructure)	2	80	1.5	1.2
4	Energy - Gas Generation & Distribution	2	80	1.5	1.2
5	Carpets & Rugs	2	80	1.5	1.2
6	Sports Products	2	80	1.5	1.2
7	Surgical, Precision, Optical Equipment	2	80	1.5	1.2
8	Information Technology	2	80	1.5	1.2
9	Pharmaceuticals	2	80	1.5	1.2
10	Leather Products	2	80	1.5	1.2
11	Automotive - Parts & Accessories	2	80	1.5	1.2
12	Telecommunications	2	80	1.5	1.2
13	Food, Beverages & Consumer Products	3	60	1.5	0.9
14	Cement	3	60	1.5	0.9
15	Tobacco Products	3	60	1.5	0.9
16	Textiles – Spinning	3	60	1.5	0.9
17	Glass & Ceramics	3	60	1.5	0.9
18	Chemicals (inc. Plastic & Rubber Products)	3	60	1.5	0.9
19	Automotives - Assemblers/Manufacturers	3	60	1.5	0.9
20	Textiles – Composite	3	60	1.5	0.9
21	Textiles - Fabrics (Weaving)	3	60	1.5	0.9
22	Edible Oil	3	60	1.5	0.9
23	Metallic Products (Iron & Steel)	3	60	1.5	0.9
24	Machinery & Equipment	3	60	1.5	0.9
25	Fertilizers	3	60	1.5	0.9
26	Textiles - Synthetic Fibers/Polyester	3	60	1.5	0.9
27	Textiles - Woven Apparel	3	60	1.5	0.9
28	Textiles - Knits & Knit Apparel	3	60	1.5	0.9
29	Transport – Air	3	60	1.5	0.9
30	Energy - Oil (Petroleum Refining)	4	40	1.5	0.6
31	Sugar	4	40	1.5	0.6
32	Energy - Oil (Petroleum Distribution/Marketing)	4	40	1.5	0.6
33	Energy – Other (Circular Debt)	5	20	1.5	0.3
34	Energy-Power (Indigenous/Non Indigenous)	5	20	1.5	0.3
35	Financial Institutions	5	20	1.5	0.3

COMPOSITE RANKING BY BUSINESS ENVIRONMENT

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

S.NO.	SECTOR	MAXIMUM SCORE	SCORE
1	Surgical, Precision, Optical Equipment	30.0	26.2
2	Construction (Infrastructure/Sovereign Guarantees)	30.0	23.9
3	Financial Institutions	30.0	23.9
4	Energy – Other (Circular Debt)	30.0	23.9
5	Energy - Oil & Gas Exploration	30.0	23.7
6	Energy - Oil (Petroleum Refining)	30.0	23.6
7	Energy - Oil (Petroleum Distribution/Marketing)	30.0	22.6
8	Energy - Gas Generation & Distribution	30.0	22.4
9	Sports Products	30.0	21.6
10	Tobacco Products	30.0	21.5
11	Energy - Power (Indigenous)	30.0	20.8
12	Machinery & Equipment	30.0	20.6
13	Pharmaceuticals	30.0	19.8
14	Automotives - Assemblers/Manufacturers	30.0	19.4
15	Chemicals (inc. Plastic & Rubber Products)	30.0	19.1
16	Metallic Products (Iron & Steel)	30.0	18.9
17	Telecommunications	30.0	18.6
18	Food, Beverages & Consumer Products	30.0	18.4
19	Textiles - Synthetic Fibers/Polyester	30.0	17.5
20	Fertilizers	30.0	17.2
21	Energy - Power (Non Indigenous)	30.0	17.0
22	Automotive - Parts & Accessories	30.0	17.0
23	Glass & Ceramics	30.0	16.8
24	Sugar	30.0	16.2
25	Edible Oil	30.0	16.1
26	Cement	30.0	16.0
27	Information Technology	30.0	15.9
28	Textiles – Composite	30.0	15.5
29	Textiles - Woven Apparel	30.0	14.9
30	Leather Products	30.0	14.8
31	Agro-Chemicals	30.0	14.6
32	Transport – Air	30.0	14.5
33	Carpets & Rugs	30.0	14.0
34	Textiles - Fabrics (Weaving)	30.0	12.9
35	Textiles - Knits & Knit Apparel	30.0	12.9
36	Construction (General)	30.0	12.8
37	Textiles – Spinning	30.0	12.7

RANKING BY PROFITABILITY & FINANCIAL STRENGTH
BY GEARING
BY INTEREST COVERAGE (EBIT/Interest Expense)

Sector ranking, by the Interest Coverage (measures the industry's average ability to pay off interest expense) is as follows:
Rank 1: Ability to pay off interest expense
Rank 5: 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	Cement	80,583	3,653	22.06	1	100	3.0	3.0
2	Energy - Oil & Gas Exploration	123,259	3,972	31.03	1	100	3.0	3.0
3	Pharmaceuticals	22,966	1,097	20.94	1	100	3.0	3.0
4	Telecommunications	10,186	732	13.92	1	100	3.0	3.0
5	Tobacco Products	8,983	859	10.46	1	100	3.0	3.0
6	Chemicals (inc. Plastic & Rubber Products)	5,005	1,197	4.18	2	80	3.0	2.4
7	Construction (General/Infrastructure)	49	11	4.45	2	80	3.0	2.4
8	Edible Oil	338	57	5.93	2	80	3.0	2.4
9	Energy - Oil (Petroleum Distribution/Marketing)	25,463	7,999	3.18	2	80	3.0	2.4
10	Energy - Oil (Petroleum Refining)	9,399	4,119	2.28	2	80	3.0	2.4
11	Energy – Indigenous/Non Indigenous/Other	53,079	23,877	2.22	2	80	3.0	2.4
12	Fertilizers	119,933	20,387	5.88	2	80	3.0	2.4
13	Food, Beverages & Consumer Products	27,457	3,780	7.26	2	80	3.0	2.4
14	Glass & Ceramics	1,785	815	2.19	2	80	3.0	2.4
15	Information Technology	287	74	3.88	2	80	3.0	2.4
16	Leather Products	6	2	3.00	2	80	3.0	2.4
17	Sports Products	5	2	2.50	2	80	3.0	2.4
18	Surgical, Precision, Optical Equipment	6	2	3.00	2	80	3.0	2.4
19	Textiles - Knits & Knit Apparel	12	2	6.00	2	80	3.0	2.4
20	Textiles - Woven Apparel	32	12	2.67	2	80	3.0	2.4
21	Automotive - Parts & Accessories	2,914	2,210	1.32	3	60	3.0	1.8
22	Financial Institutions	303,466	267,735	1.14	3	60	3.0	1.8
23	Machinery & Equipment	2,372	2,344	1.01	3	60	3.0	1.8
24	Metallic Products (Iron & Steel)	4,072	2,420	1.68	3	60	3.0	1.8
25	Sugar	7,811	6,404	1.22	3	60	3.0	1.8
26	Textiles – Composite	22,461	13,885	1.62	3	60	3.0	1.8
27	Automotive - Assemblers/Manufacturers	21,539	505,300	0.04	4	40	3.0	1.2
28	Textiles - Synthetic Fibers/Polyester	259	1,293	0.20	4	40	3.0	1.2
29	Agro-Chemicals	-1,769	3,574	-0.49	5	20	3.0	0.6
30	Carpets & Rugs	-88	3	-29.33	5	20	3.0	0.6
31	Energy - Gas Generation & Distribution	-140	4,403	-0.03	5	20	3.0	0.6
32	Textiles - Fabrics (Weaving)	-433	751	-0.58	5	20	3.0	0.6
32	Textiles – Spinning	-6,075	6,348	-0.96	5	20	3.0	0.6
34	Transport – Air	-32	13	-2.46	5	20	3.0	0.6

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	Agro-Chemicals	2,271	30,230	0.08	2	80	4.0	3.2
2	Automotive - Assemblers/Manufacturers	3,400	43,354	0.08	2	80	4.0	3.2
3	Cement	8,401	271,257	0.03	2	80	4.0	3.2
4	Fertilizers	19,674	296,007	0.07	2	80	4.0	3.2
5	Food, Beverages & Consumer Products	4,259	62,679	0.07	2	80	4.0	3.2
6	Information Technology	732	8,081	0.09	2	80	4.0	3.2
7	Sugar	3,355	36,043	0.09	2	80	4.0	3.2
8	Tobacco Products	96	13,015	0.01	2	80	4.0	3.2
9	Automotive - Parts & Accessories	3,264	18,080	0.18	3	60	4.0	2.4
10	Carpets & Rugs	23	137	0.17	3	60	4.0	2.4
11	Chemicals (inc. Plastic & Rubber Products)	6,872	38,614	0.18	3	60	4.0	2.4
12	Construction (General/Infrastructure)	261	656	0.40	3	60	4.0	2.4
13	Edible Oil	604	1,086	0.56	3	60	4.0	2.4
14	Energy - Oil & Gas Exploration	205,197	644,420	0.32	3	60	4.0	2.4
15	Energy - Oil (Petroleum Distribution/Marketing)	191,812	116,407	1.65	3	60	4.0	2.4
16	Energy - Oil (Petroleum Refining)	25,675	42,178	0.61	3	60	4.0	2.4
17	Energy – Indigenous/Non Indigenous/Other	273,019	192,121	1.42	3	60	4.0	2.4
18	Glass & Ceramics	4,336	13,677	0.32	3	60	4.0	2.4
19	Machinery & Equipment	9,500	5,880	1.62	3	60	4.0	2.4
20	Metallic Products (Iron & Steel)	3,093	21,718	0.14	3	60	4.0	2.4
21	Pharmaceuticals	11,302	40,699	0.28	3	60	4.0	2.4
22	Sports Products	22	180	0.12	3	60	4.0	2.4
23	Surgical, Precision, Optical Equipment	20	130	0.15	3	60	4.0	2.4
24	Telecommunications	18,623	96,634	0.19	3	60	4.0	2.4
25	Textiles – Composite	43,268	187,659	0.23	3	60	4.0	2.4
26	Textiles - Fabrics (Weaving)	2,800	6,750	0.41	3	60	4.0	2.4
27	Textiles - Knits & Knit Apparel	25	120	0.21	3	60	4.0	2.4
28	Textiles – Spinning	15,723	28,624	0.55	3	60	4.0	2.4
29	Textiles - Woven Apparel	45	130	0.35	3	60	4.0	2.4
30	Financial Institutions	5,052,083	1,092,189	4.63	4	40	4.0	1.6
31	Energy - Gas Generation & Distribution	57,880	3,697	15.66	5	20	4.0	0.8
32	Leather Products	89	-350	-0.25	5	20	4.0	0.8
33	Textiles - Synthetic Fibers/Polyester	2,204	-1,842	-1.20	5	20	4.0	0.8
34	Transport – Air	9,295	-213,226	-0.04	5	20	4.0	0.8

BY LIQUIDITY

BY CURRENT RATIO (Current Assets/Current Liabilities)

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	Automotive - Parts & Accessories	19,180	9,040	2.12	2	80	4.0	3.2
2	Carpets & Rugs	92	30	3.07	2	80	4.0	3.2
3	Cement	140,662	70,137	2.01	2	80	4.0	3.2
4	Energy - Oil & Gas Exploration	360,602	126,184	2.86	2	80	4.0	3.2
5	Sports Products	150	34	4.41	2	80	4.0	3.2
6	Surgical, Precision, Optical Equipment	115	28	4.11	2	80	4.0	3.2
7	Automotive - Assemblers/Manufacturers	61,280	35,633	1.72	3	60	4.0	2.4
8	Chemicals (inc. Plastic & Rubber Products)	34,463	31,690	1.09	3	60	4.0	2.4
9	Construction (General/Infrastructure)	542	400	1.36	3	60	4.0	2.4
10	Edible Oil	1,654	1,199	1.38	3	60	4.0	2.4
11	Energy - Oil (Petroleum Distribution/Marketing)	344,408	312,113	1.10	3	60	4.0	2.4
12	Energy – Power(Indigenous/Non Indigenous/Other)	372,708	363,948	1.02	3	60	4.0	2.4
13	Financial Institutions	14,271,252	13,258,490	1.08	3	60	4.0	2.4
14	Food, Beverages & Consumer Products	64,648	50,968	1.27	3	60	4.0	2.4
15	Glass & Ceramics	14,253	12,065	1.18	3	60	4.0	2.4
16	Information Technology	5,662	3,350	1.69	3	60	4.0	2.4
17	Machinery & Equipment	24,273	22,000	1.10	3	60	4.0	2.4
18	Pharmaceuticals	49,375	26,856	1.84	3	60	4.0	2.4
19	Telecommunications	85,030	64,637	1.32	3	60	4.0	2.4
20	Textiles – Composite	175,747	173,895	1.01	3	60	4.0	2.4
21	Textiles - Knits & Knit Apparel	70	53	1.32	3	60	4.0	2.4
22	Textiles - Woven Apparel	250	220	1.14	3	60	4.0	2.4
23	Energy - Gas Generation & Distribution	112,226	128,940	0.87	4	40	4.0	1.6
24	Energy - Oil (Petroleum Refining)	87,354	105,119	0.83	4	40	4.0	1.6
25	Fertilizers	184,593	198,663	0.93	4	40	4.0	1.6
26	Tobacco Products	25,820	29,592	0.87	4	40	4.0	1.6
27	Agro-Chemicals	3,854	76,046	0.05	5	20	4.0	0.8
28	Leather Products	132	499	0.26	5	20	4.0	0.8
29	Metallic Products (Iron & Steel)	18,623	22,125	0.84	5	20	4.0	0.8
30	Sugar	52,958	74,498	0.71	5	20	4.0	0.8
31	Textiles - Fabrics (Weaving)	8,840	9,810	0.90	5	20	4.0	0.8
32	Textiles – Spinning	68,679	88,265	0.78	5	20	4.0	0.8
33	Textiles - Synthetic Fibers/Polyester	9,460	30,517	0.31	5	20	4.0	0.8
34	Transport – Air	25,079	205,571	0.12	5	20	4.0	0.8

BY QUICK RATIO

{Cash & Bank Balances(C&BB) +Trade Debtors (TD) +Short Term Investments (STI)}/Current Liabilities (CL)

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	Energy - Oil & Gas Exploration	28,294	205,197	20,382	126,184	2.01	1	100	3.0	3.0
2	Cement	37,666	8,401	30,868	70,137	1.10	2	80	3.0	2.4
3	Financial Institutions	1,262,647	5,052,083	7,624,525	13,258,490	1.05	2	80	3.0	2.4
4	Pharmaceuticals	15,404	11,302	866	26,856	1.03	2	80	3.0	2.4
5	Sports Products	20	22	-	34	1.24	2	80	3.0	2.4
6	Surgical, Precision, Optical Equipment	15	20	-	28	1.25	2	80	3.0	2.4
7	Automotive - Parts & Accessories	2,376	3,264	3,822	9,040	1.05	3	60	3.0	1.8
8	Automotive - Assemblers/Manufacturers	24,693	3,400	6,031	35,633	0.96	4	40	3.0	1.2
9	Carpets & Rugs	1	23	-	30	0.80	4	40	3.0	1.2
10	Construction (General/Infrastructure)	35	261	-	400	0.74	4	80	3.0	2.4
11	Edible Oil	56	604	-	1,199	0.55	4	80	3.0	2.4
12	Energy - Gas Generation & Distribution	1,781	57,880	-	128,940	0.46	4	80	3.0	2.4
13	Energy - Oil (Petroleum Distribution/Marketing)	21,088	191,812	1,867	312,113	0.69	4	40	3.0	1.2
14	Energy - Oil (Petroleum Refining)	22,381	25,675	1,600	105,119	0.47	4	40	3.0	1.2
15	Energy-Indigenous/Non Indigenous/Other	10,122	273,019	50	363,948	0.78	4	40	3.0	1.2
16	Fertilizers	18,910	19,674	46,664	198,663	0.43	4	40	3.0	1.2
17	Food, Beverages & Consumer Products	10,814	4,259	2,033	50,968	0.34	4	40	3.0	1.2
18	Glass & Ceramics	1,165	4,336	4	12,065	0.46	4	40	3.0	1.2
19	Information Technology	534	732	318	3,350	0.47	4	40	3.0	1.2
20	Machinery & Equipment	450	9,500	80	22,000	0.46	4	40	3.0	1.2
21	Telecommunications	2,930	18,623	27,035	64,637	0.75	4	40	3.0	1.2
22	Agro-Chemicals	3,391	2,271	10,635	76,046	0.07	5	20	3.0	0.6
23	Chemicals (inc. Plastic & Rubber Products)	2,544	6,872	156	31,690	0.30	5	20	3.0	0.6
24	Leather Products	1	89	-	499	0.18	5	20	3.0	0.6
25	Metallic Products (Iron & Steel)	311	3,093	21	22,125	0.15	5	20	3.0	0.6
26	Sugar	5,291	3,355	2,809	74,498	0.15	5	20	3.0	0.6
27	Textiles – Composite	6,473	43,268	6,066	173,895	0.32	5	20	3.0	0.6
28	Textiles - Fabrics (Weaving)	250	2,800	30	9,810	0.31	5	20	3.0	0.6
29	Textiles - Knits & Knit Apparel	3	25	-	53	0.47	5	20	3.0	0.6
30	Textiles – Spinning	2,348	15,723	576	88,265	0.21	5	20	3.0	0.6
31	Textiles - Synthetic Fibers/Polyester	357	2,204	-	30,517	0.08	5	20	3.0	0.6
32	Textiles - Woven Apparel	30	45	-	220	0.34	5	20	3.0	0.6
33	Tobacco Products	127	96	-	29,592	0.01	5	20	3.0	0.6
34	Transport – Air	2,641	9,295	18	205,571	0.06	5	20	3.0	0.6

BY CASH RATIO

Cash & Bank Balances(C&BB)/Current Liabilities (CL)

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	CL	Cash Ratio	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Automotive - Assemblers/Manufacturers	24,693	35,633	0.69	1	100	2.0	2.0
2	Cement	37,666	70,137	0.54	1	100	2.0	2.0
3	Sports Products	20	34	0.54	1	100	2.0	2.0
4	Sugar	5,291	74,498	0.59	1	100	2.0	2.0
5	Telecommunications	2,930	64,637	0.07	1	100	2.0	2.0
6	Food, Beverages & Consumer Products	10,814	50,968	0.21	2	80	2.0	1.6
7	Glass & Ceramics	1,165	12,065	0.21	2	80	2.0	1.6
8	Automotive - Parts & Accessories	2,376	9,040	0.26	3	60	2.0	1.2
9	Energy - Oil (Petroleum Distribution/Marketing)	21,088	312,113	0.26	3	60	2.0	1.2
10	Energy – Indigenous/Non Indigenous/Other	10,122	363,948	0.07	3	60	2.0	1.2
11	Financial Institutions	1,262,647	13,258,490	0.03	3	60	2.0	1.2
12	Information Technology	534	3,350	0.16	3	60	2.0	0.8
13	Leather Products	1	499	0.16	3	60	2.0	0.8
14	Tobacco Products	127	29,592	0.00	3	60	2.0	1.2
15	Agro-Chemicals	3,391	76,046	0.04	4	40	2.0	0.8
16	Carpets & Rugs	1	30	0.03	4	40	2.0	0.8
17	Chemicals (inc. Plastic & Rubber Products)	2,544	31,690	0.08	4	40	2.0	0.8
18	Construction (General/Infrastructure)	35	400	0.09	4	40	2.0	0.8
19	Edible Oil	56	1,199	0.05	4	40	2.0	0.8
20	Energy - Gas Generation & Distribution	1,781	128,940	0.01	4	40	2.0	0.8
21	Energy - Oil & Gas Exploration	28,294	126,184	0.01	4	40	2.0	0.8
22	Energy - Oil (Petroleum Refining)	22,381	105,119	0.22	4	40	2.0	0.8
23	Fertilizers	18,910	198,663	0.21	4	40	2.0	0.8
24	Machinery & Equipment	450	22,000	0.095	4	40	2.0	0.4
25	Metallic Products (Iron & Steel)	311	22,125	0.02	4	40	2.0	0.4
26	Pharmaceuticals	15,404	26,856	0.01	4	40	2.0	0.4
27	Surgical, Precision, Optical Equipment	15	28	0.57	4	40	2.0	0.8
28	Textiles – Composite	6,473	173,895	0.54	4	40	2.0	0.4
29	Textiles - Fabrics (Weaving)	250	9,810	0.04	4	40	2.0	0.4
30	Textiles - Knits & Knit Apparel	3	53	0.03	4	40	2.0	0.4
31	Textiles – Spinning	2,348	88,265	0.03	4	40	2.0	0.4
32	Textiles - Synthetic Fibers/Polyester	357	30,517	0.03	4	40	2.0	0.4
33	Textiles - Woven Apparel	30	220	0.01	4	40	2.0	0.4
34	Transport – Air	2,641	205,571	0.136	5	100	2.0	2.0

BY PROFITABILITY

BY NET PROFIT MARGIN (Net Profit after Tax/Sales)

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	Margin	Rank	Score	Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Cement	56,669	234,019	0.24	3	60	3.0	1.8
2	Energy - Oil (Petroleum Distribution/Marketing)	16,145	1,341,505	0.24	3	60	3.0	1.8
3	Fertilizers	92,509	451,241	0.01	3	60	3.0	1.8
4	Financial Institutions	185,956	701,993	0.21	3	60	3.0	1.8
5	Food, Beverages & Consumer Products	19,744	247,234	0.26	3	60	3.0	1.8
6	Automotive - Assemblers/Manufacturers	14,677	198,171	0.07	4	40	3.0	1.2
7	Automotive - Parts & Accessories	2,758	43,312	0.06	4	40	3.0	1.2
8	Chemicals (inc. Plastic & Rubber Products)	3,544	98,816	0.04	4	40	3.0	1.2
9	Construction (General/Infrastructure)	31	750	0.04	4	40	3.0	1.2
10	Edible Oil	216	5,632	0.04	4	40	3.0	1.2
11	Energy - Gas Generation & Distribution	124	250,647	0.00	4	40	3.0	1.2
12	Energy - Oil & Gas Exploration	92,628	286,774	0.00	4	40	3.0	1.2
13	Energy - Oil (Petroleum Refining)	7,654	352,681	0.32	4	40	3.0	1.2
14	Energy-Indigenous/Non Indigenous/Other	61,441	434,573	0.02	4	40	3.0	1.2
15	Glass & Ceramics	1,409	21,461	0.14	4	40	3.0	1.2
16	Information Technology	139	4,876	0.07	4	40	3.0	1.2
17	Leather Products	4	149	0.03	4	40	3.0	1.2
18	Machinery & Equipment	2,096	30,597	0.03	4	40	3.0	1.2
19	Metallic Products (Iron & Steel)	2,885	56,529	0.07	4	40	3.0	1.2
20	Pharmaceuticals	17,372	86,954	0.05	4	40	3.0	1.2
21	Sports Products	3	33,862	0.20	4	40	3.0	1.2
22	Sugar	6,395	179,808	0.00	4	40	3.0	1.2
23	Surgical, Precision, Optical Equipment	4	36,304	0.04	4	40	3.0	1.2
24	Textiles – Composite	16,930	371,403	0.00	4	40	3.0	1.2
25	Textiles - Fabrics (Weaving)	-627	17,031	0.05	4	40	3.0	1.2
26	Textiles - Woven Apparel	24	207,966	-0.04	4	40	3.0	1.2
27	Tobacco Products	5,801	58,082	0.00	4	40	3.0	1.2
28	Transport – Air	-34	84,880	0.10	4	40	3.0	1.2
29	Agro-Chemicals	-1,705	77,346	-0.02	5	20	3.0	0.6
30	Carpets & Rugs	-89	9,897	-0.01	5	20	3.0	0.6
31	Telecommunications	5,610	62,275	-0.01	5	20	3.0	0.6
32	Textiles - Knits & Knit Apparel	11	246,267	0.09	5	20	3.0	0.6
33	Textiles – Spinning	-6,759	193,794	0.00	5	20	3.0	0.6
34	Textiles - Synthetic Fibers/Polyester	356	50,980	-0.03	5	20	3.0	0.6

BY TOTAL ASSETS TURNOVER (Sales/Total Assets)

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
(All figures in Pak Rupees Million)

S.NO.	SECTOR	Sales	Total Assets	Total Assets Turnover Ratio	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Energy-Oil (Petroleum Distribution/Marketing)	1,341,505	437,398	3.07	2	80	1.0	0.8
2	Automotive - Assemblers/Manufacturers	198,171	81,752	2.42	3	60	1.0	0.6
3	Automotive - Parts & Accessories	43,312	26,913	1.61	3	60	1.0	0.6
4	Chemicals (inc. Plastic & Rubber Products)	98,816	87,047	1.14	3	60	1.0	0.6
5	Edible Oil	5,632	2,427	2.32	3	60	1.0	0.6
6	Energy - Gas Generation & Distribution	250,647	251,714	1.00	3	60	1.0	0.6
7	Energy - Oil (Petroleum Refining)	352,681	209,900	1.68	3	60	1.0	0.6
8	Food, Beverages & Consumer Products	247,234	137,862	1.79	3	60	1.0	0.6
9	Metallic Products (Iron & Steel)	56,529	55,663	1.02	3	60	1.0	0.6
10	Sports Products	338	218	1.55	3	60	1.0	0.6
11	Sugar	179,808	163,386	1.10	3	60	1.0	0.6
12	Surgical, Precision, Optical Equipment	363	160	2.27	3	60	1.0	0.6
13	Tobacco Products	58,082	44,062	1.32	3	60	1.0	0.6
14	Pharmaceuticals	86,954	102,243	0.85	4	40	1.0	0.4
15	Textiles - Knits & Knit Apparel	246	174	1.41	4	40	1.0	0.4
16	Textiles – Spinning	193,794	179,187	1.08	4	40	1.0	0.4
17	Textiles - Synthetic Fibers/Polyester	50,980	25,668	1.99	4	40	1.0	0.4
18	Agro-Chemicals	77,346	153,325	0.50	5	20	1.0	0.2
19	Carpets & Rugs	89	164	0.54	5	20	1.0	0.2
20	Cement	234,019	446,633	0.52	5	20	1.0	0.2
21	Construction (General/Infrastructure/Sovereign Guarantees)	750	1,073	0.70	5	20	1.0	0.2
22	Energy - Oil & Gas Exploration	286,774	876,437	0.33	5	20	1.0	0.2
23	Energy-Indigenous/Non Indigenous/Other	434,573	749,082	0.58	5	20	1.0	0.2
24	Fertilizers	451,241	647,078	0.70	5	20	1.0	0.2
25	Financial Institutions	701,993	15,133,782	0.05	5	20	1.0	0.2
26	Glass & Ceramics	21,461	35,877	0.60	5	20	1.0	0.2
27	Information Technology	4,876	13,660	0.36	5	20	1.0	0.2
28	Leather Products	149	152	0.98	5	20	1.0	0.2
29	Machinery & Equipment	30,597	50,236	0.61	5	20	1.0	0.2
30	Telecommunications	62,275	218,334	0.29	5	20	1.0	0.2
31	Textiles – Composite	371,403	456,621	0.81	5	20	1.0	0.2
32	Textiles - Fabrics (Weaving)	17,031	18,850	0.90	5	20	1.0	0.2
33	Textiles - Woven Apparel	207	410	0.50	5	20	1.0	0.2
34	Transport – Air	84,880	115,842	0.73	5	20	1.0	0.2

BY ROA (Net Profit/Total Assets) & ROE (Net Profit/Total Equity)

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	Machinery & Equipment	2,096	50,236	5,880	0.04	0.36	2	80	3.0	2.4
2	Pharmaceuticals	17,372	102,243	40,699	0.17	0.43	2	80	3.0	2.4
3	Tobacco Products	5,801	44,062	13,015	0.13	0.45	2	80	3.0	2.4
4	Automotive - Assemblers/Manufacturers	14,677	81,752	43,354	0.18	0.34	3	60	3.0	1.8
5	Automotive - Parts & Accessories	2,758	26,913	18,080	0.10	0.15	3	60	3.0	1.8
6	Cement	56,669	446,633	271,257	0.13	0.21	3	60	3.0	1.8
7	Edible Oil	216	2,427	1,086	0.089	0.20	3	60	3.0	1.8
8	Energy - Oil (Petroleum Distribution/Marketing)	16,145	437,398	116,407	0.04	0.14	3	60	3.0	1.8
9	Energy - Oil (Petroleum Refining)	7,654	209,900	42,178	0.04	0.18	3	60	3.0	1.8
10	Energy – Indigenous/Non Indigenous/Other	61,441	749,082	192,121	0.08	0.32	3	60	3.0	1.8
11	Fertilizers	92,509	647,078	296,007	0.14	0.31	3	60	3.0	1.8
12	Financial Institutions	185,956	15,133,782	1,092,189	0.01	0.17	3	60	3.0	1.8
13	Food, Beverages & Consumer Products	19,744	137,862	62,679	0.14	0.32	3	60	3.0	1.8
14	Metallic Products (Iron & Steel)	2,885	55,663	21,718	0.05	0.13	3	60	3.0	1.8
15	Sugar	6,395	163,386	36,043	0.04	0.18	3	60	3.0	1.8
16	Textiles - Woven Apparel	24	410	130	0.06	0.18	3	60	3.0	1.8
17	Chemicals (inc. Plastic & Rubber Products)	3,544	87,047	38,614	0.04	0.09	4	40	3.0	1.2
18	Construction (General/Infrastructure/Sovereign Guarantees)	31	1,073	656	0.03	0.05	4	40	3.0	1.2
19	Energy - Gas Generation & Distribution	124	251,714	3,697	0.0005	0.03	4	40	3.0	1.2
20	Energy - Oil & Gas Exploration	92,628	876,437	644,420	0.0005	0.03	4	40	3.0	1.2
21	Glass & Ceramics	1,409	35,877	13,677	0.04	0.10	4	20	3.0	0.6
22	Information Technology	139	13,660	8,081	0.01	0.02	4	40	3.0	1.2
23	Sports Products	3	218	180	0.01	0.02	4	40	3.0	1.2
24	Surgical, Precision, Optical Equipment	4	160	130	0.03	0.03	4	40	3.0	1.2
25	Telecommunications	5,610	218,334	96,634	0.03	0.06	4	40	3.0	1.2
26	Textiles – Composite	16,930	456,621	187,659	0.04	0.09	4	40	3.0	1.2
27	Textiles - Knits & Knit Apparel	11	174	120	0.06	0.09	4	40	3.0	1.2
28	Agro-Chemicals	-1,705	153,325	30,230	-0.01	-0.06	5	20	3.0	0.6
29	Carpets & Rugs	-89	164	137	-0.54	-0.65	5	20	3.0	0.6
30	Leather Products	4	152	-350	0.03	-0.01	5	20	3.0	0.6
31	Textiles - Fabrics (Weaving)	-627	18,850	6,750	-0.03	-0.09	5	20	3.0	0.6
32	Textiles – Spinning	-6,759	179,187	28,624	-0.04	-0.24	5	20	3.0	0.6
33	Textiles - Synthetic Fibers/Polyester	356	25,668	-1,842	0.01	-0.19	5	20	3.0	0.6
34	Transport – Air	-34	115,842	-213,226	0.00	0.0002	5	20	3.0	0.6

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	2.0	2.0
2	Energy - Oil & Gas Exploration	1	100	2.0	2.0
3	Sports Products	1	100	2.0	2.0
4	Surgical, Precision, Optical Equipment	1	100	2.0	2.0
5	Carpets & Rugs	1	100	2.0	2.0
6	Fertilizers	1	100	2.0	2.0
7	Automotives - Assemblers/Manufacturers	2	80	2.0	1.6
8	Agro-Chemicals	2	80	2.0	1.6
9	Construction (General/Infrastructure)	2	80	2.0	1.6
10	Financial Institutions	2	80	2.0	1.6
11	Food, Beverages & Consumer Products	2	80	2.0	1.6
12	Energy - Oil (Petroleum Refining)	2	80	2.0	1.6
13	Energy-Power(Indigenous/Non Indigenous/Other)	2	60	2.0	1.6
14	Information Technology	2	80	2.0	1.6
15	Pharmaceuticals	2	80	2.0	1.6
16	Tobacco Products	2	80	2.0	1.6
17	Edible Oil	3	60	2.0	1.2
18	Glass & Ceramics	3	60	2.0	1.2
19	Textiles – Spinning	3	60	2.0	1.2
20	Cement	3	60	2.0	1.2
21	Energy - Oil (Petroleum Distribution/Marketing)	3	60	2.0	1.2
22	Leather Products	3	60	2.0	1.2
23	Textiles - Fabrics (Weaving)	3	60	2.0	1.2
24	Automotive - Parts & Accessories	3	60	2.0	1.2
25	Metallic Products (Iron & Steel)	3	60	2.0	1.2
26	Chemicals (inc. Plastic & Rubber Products)	4	40	2.0	0.8
27	Textiles – Composite	4	40	2.0	0.8
28	Sugar	4	40	2.0	0.8
29	Telecommunications	4	40	2.0	0.8
30	Textiles - Knits & Knit Apparel	4	40	2.0	0.8
31	Textiles - Woven Apparel	4	40	2.0	0.8
32	Machinery & Equipment	4	40	2.0	0.8
33	Textiles - Synthetic Fibers/Polyester	5	20	2.0	0.4
34	Transport – Air	5	20	2.0	0.4

COMPOSITE RANKING BY PROFITABILITY/FINANCIAL STRENGTH

Composite ranking, by the Profitability & Financial Strength, is as follows:

S.NO.	SECTOR	MAXIMUM SCORE	SCORE
1	Energy - Power (Indigenous/Non Indigenous/Other)	25.0	22.0
2	Cement	25.0	18.8
3	Fertilizers	25.0	17.4
4	Energy - Oil & Gas Exploration	25.0	17.0
5	Construction (General/Infrastructure)	25.0	17.0
6	Food, Beverages & Consumer Products	25.0	16.6
7	Pharmaceuticals	25.0	16.2
8	Automotive - Assemblers/Manufacturers	25.0	16.2
9	Tobacco Products	25.0	15.4
10	Automotive - Parts & Accessories	25.0	15.2
11	Edible Oil	25.0	15.2
12	Energy - Oil (Petroleum Distribution/Marketing)	25.0	15.2
13	Financial Institutions	25.0	14.8
14	Information Technology	25.0	14.2
15	Telecommunications	25.0	13.8
16	Energy - Oil (Petroleum Refining)	25.0	13.6
17	Glass & Ceramics	25.0	13.2
18	Sports Products	25.0	13.0
19	Machinery & Equipment	25.0	12.8
20	Sugar	25.0	12.8
21	Chemicals (inc. Plastic & Rubber Products)	25.0	12.4
22	Textiles - Woven Apparel	25.0	12.2
23	Surgical, Precision, Optical Equipment	25.0	11.6
24	Carpets & Rugs	25.0	11.6
25	Energy - Gas Generation & Distribution	25.0	11.2
26	Textiles - Knits & Knit Apparel	25.0	11.2
27	Textiles – Composite	25.0	11.0
28	Metallic Products (Iron & Steel)	25.0	10.8
29	Agro-Chemicals	25.0	10.8
30	Leather Products	25.0	8.6
31	Textiles - Fabrics (Weaving)	25.0	8.0
32	Textiles – Spinning	25.0	7.6
33	Transport – Air	25.0	7.2
34	Textiles - Synthetic Fibers/Polyester	25.0	5.8

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	Cement	2	80	19.0	15.2
2	Energy - Gas Generation & Distribution	2	80	19.0	15.2
3	Energy - Oil & Gas Exploration	2	80	19.0	15.2
4	Fertilizers	2	80	19.0	15.2
5	Financial Institutions	2	80	19.0	15.2
6	Food, Beverages & Consumer Products	2	80	19.0	15.2
7	Sports Products	2	80	19.0	15.2
8	Sugar	2	80	19.0	15.2
9	Surgical, Precision, Optical Equipment	2	80	19.0	15.2
10	Tobacco Products	2	80	19.0	15.2
11	Agro-Chemicals	3	60	19.0	11.4
12	Chemicals (inc. Plastic & Rubber Products)	3	60	19.0	11.4
13	Construction (General/Infrastructure)	3	60	19.0	11.4
14	Edible Oil	3	60	19.0	11.4
15	Energy - Oil (Petroleum Distribution/Marketing)	3	60	19.0	11.4
16	Energy - Oil (Petroleum Refining)	3	60	19.0	11.4
17	Energy-Power (Indigenous/Non Indigenous)	3	60	19.0	11.4
18	Glass & Ceramics	3	60	19.0	11.4
19	Information Technology	3	60	19.0	11.4
20	Machinery & Equipment	3	60	19.0	11.4
21	Metallic Products (Iron & Steel)	3	60	19.0	11.4
22	Pharmaceuticals	3	60	19.0	11.4
23	Telecommunications	3	60	19.0	11.4
24	Textiles – Composite	3	60	19.0	11.4
25	Textiles – Spinning	3	60	19.0	11.4
26	Textiles - Synthetic Fibers/Polyester	3	60	19.0	11.4
27	Energy – Other (Circular Debt)	4	40	19.0	7.6
28	Automotives - Assemblers/Manufacturers	4	40	19.0	7.6
29	Automotive - Parts & Accessories	4	40	19.0	7.6
30	Carpets & Rugs	4	40	19.0	7.6
31	Leather Products	4	40	19.0	7.6
32	Textiles - Fabrics (Weaving)	4	40	19.0	7.6
33	Textiles - Knits & Knit Apparel	4	40	19.0	7.6
34	Textiles - Woven Apparel	4	40	19.0	7.6
35	Transport – Air	4	40	19.0	7.6

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	7.0	7.0
2	Energy - Oil & Gas Exploration	1	100	7.0	7.0
3	Energy - Oil (Petroleum Distribution/Marketing)	2	80	7.0	5.6
4	Energy - Oil (Petroleum Refining)	2	80	7.0	5.6
5	Fertilizers	2	80	7.0	5.6
6	Financial Institutions	2	80	7.0	5.6
7	Food, Beverages & Consumer Products	2	80	7.0	5.6
8	Automotives - Assemblers/Manufacturers	2	80	7.0	5.6
9	Cement	2	80	7.0	5.6
10	Chemicals (inc. Plastic & Rubber Products)	2	80	7.0	5.6
11	Edible Oil	2	80	7.0	5.6
12	Energy-Power (Indigenous/Non Indigenous)	2	80	7.0	5.6
13	Machinery & Equipment	2	80	7.0	5.6
14	Pharmaceuticals	2	80	7.0	5.6
15	Tobacco Products	2	80	7.0	5.6
16	Telecommunications	2	80	7.0	5.6
17	Textiles – Composite	2	80	7.0	5.6
18	Agro-Chemicals	3	60	7.0	4.2
19	Sugar	3	60	7.0	4.2
20	Automotive - Parts & Accessories	3	60	7.0	4.2
21	Construction (General/Infrastructure)	3	60	7.0	4.2
22	Glass & Ceramics	3	60	7.0	4.2
23	Leather Products	3	60	7.0	4.2
24	Metallic Products (Iron & Steel)	3	60	7.0	4.2
25	Sports Products	3	60	7.0	4.2
26	Surgical, Precision, Optical Equipment	3	60	7.0	4.2
27	Energy - Other (Circular Debt)	4	40	7.0	2.8
28	Carpets & Rugs	4	40	7.0	2.8
29	Information Technology	4	40	7.0	2.8
30	Textiles - Fabrics (Weaving)	4	40	7.0	2.8
31	Textiles - Knits & Knit Apparel	4	40	7.0	2.8
32	Textiles – Spinning	4	40	7.0	2.8
33	Textiles - Synthetic Fibers/Polyester	4	40	7.0	2.8
34	Textiles - Woven Apparel	4	40	7.0	2.8
35	Transport – Air	4	40	7.0	2.8

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	Leather Products	2	80	6.0	4.8
2	Machinery & Equipment	2	80	6.0	4.8
3	Pharmaceuticals	2	80	6.0	4.8
4	Sports Products	2	80	6.0	4.8
5	Surgical, Precision, Optical Equipment	2	80	6.0	4.8
6	Textiles – Composite	2	80	6.0	4.8
7	Textiles – Spinning	2	80	6.0	4.8
8	Textiles - Synthetic Fibers/Polyester	2	80	6.0	4.8
9	Textiles - Fabrics (Weaving)	2	80	6.0	4.8
10	Textiles - Knits & Knit Apparel	2	80	6.0	4.8
11	Textiles - Woven Apparel	2	80	6.0	4.8
12	Tobacco Products	2	80	6.0	4.8
13	Information Technology	2	80	6.0	4.8
14	Energy - Oil & Gas Exploration	3	60	6.0	3.6
15	Energy - Oil (Petroleum Distribution/Marketing)	3	60	6.0	3.6
16	Energy - Oil (Petroleum Refining)	3	60	6.0	3.6
17	Energy – Other (Circular Debt)	3	60	6.0	3.6
18	Energy - Power (Indigenous/Non Indigenous)	3	60	6.0	3.6
19	Sugar	3	60	6.0	3.6
20	Transport – Air	3	60	6.0	3.6
21	Agro-Chemicals	3	60	6.0	3.6
22	Carpets & Rugs	3	60	6.0	3.6
23	Chemicals (inc. Plastic & Rubber Products)	3	60	6.0	3.6
24	Edible Oil	3	60	6.0	3.6
25	Fertilizers	3	60	6.0	3.6
26	Financial Institutions	3	60	6.0	3.6
27	Food, Beverages & Consumer Products	4	40	6.0	2.4
28	Telecommunications	4	40	6.0	2.4
29	Automotive - Parts & Accessories	4	40	6.0	2.4
30	Automotives - Assemblers/Manufacturers	4	40	6.0	2.4
31	Cement	4	40	6.0	2.4
32	Construction (General/Infrastructure)	4	40	6.0	2.4
33	Energy - Gas Generation & Distribution	4	40	6.0	2.4
34	Glass & Ceramics	4	40	6.0	2.4
35	Metallic Products (Iron & Steel)	4	40	6.0	2.4

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 - Oil (Petroleum Distribution/Marketing)	1	100	13.0	13.0
2	Energy - Other (Circular Debt)	1	100	13.0	13.0
3	Energy – Power (Indigenous/Non Indigenous)	1	100	13.0	13.0
4	Energy - Gas Generation & Distribution	1	100	13.0	13.0
5	Energy - Oil & Gas Exploration	1	100	13.0	13.0
6	Energy - Oil (Petroleum Refining)	2	80	13.0	10.4
7	Construction (General/Infrastructure)	3	60	13.0	7.8
8	Financial Institutions	3	60	13.0	7.8
9	Sugar	3	60	13.0	7.8
10	Cement	3	60	13.0	7.8
11	Fertilizers	3	60	13.0	7.8
12	Glass & Ceramics	3	60	13.0	7.8
13	Metallic Products (Iron & Steel)	3	60	13.0	7.8
14	Pharmaceuticals	3	60	13.0	7.8
15	Telecommunications	3	60	13.0	7.8
16	Automotives - Assemblers/Manufacturers	3	60	13.0	7.8
17	Automotive - Parts & Accessories	3	60	13.0	7.8
18	Transport – Air	3	60	13.0	7.8
19	Chemicals (inc. Plastic & Rubber Products)	4	40	13.0	5.2
20	Food, Beverages & Consumer Products	4	40	13.0	5.2
21	Machinery & Equipment	4	40	13.0	5.2
22	Tobacco Products	4	40	13.0	5.2
23	Edible Oil	4	40	13.0	5.2
24	Textiles – Composite	4	40	13.0	5.2
25	Textiles - Fabrics (Weaving)	4	40	13.0	5.2
26	Textiles - Knits & Knit Apparel	4	40	13.0	5.2
27	Textiles – Spinning	4	40	13.0	5.2
28	Textiles - Woven Apparel	4	40	13.0	5.2
29	Agro-Chemicals	4	40	13.0	5.2
30	Carpets & Rugs	4	40	13.0	5.2
31	Leather Products	4	40	13.0	5.2
32	Sports Products	5	20	13.0	2.6
33	Surgical, Precision, Optical Equipment	5	20	13.0	2.6
34	Textiles - Synthetic Fibers/Polyester	5	20	13.0	2.6
35	Information Technology	5	20	13.0	2.6

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 - Oil & Gas Exploration	45.0	38.8
2	Construction (General/Infrastructure)	45.0	38.8
3	Energy - Gas Generation & Distribution	45.0	37.6
4	Energy - Power (Indigenous/Non Indigenous)	45.0	36.0
5	Sports Products	45.0	36.0
6	Financial Institutions	45.0	34.8
7	Surgical, Precision, Optical Equipment	45.0	34.8
8	Energy - Oil (Petroleum Distribution/Marketing)	45.0	33.6
9	Energy - Oil (Petroleum Refining)	45.0	32.2
10	Cement	45.0	31.0
11	Sugar	45.0	30.8
12	Tobacco Products	45.0	30.8
13	Pharmaceuticals	45.0	29.6
14	Telecommunications	45.0	28.6
15	Food, Beverages & Consumer Products	45.0	28.4
16	Energy – Other (Circular Debt)	45.0	27.0
17	Machinery & Equipment	45.0	27.0
18	Fertilizers	45.0	26.8
19	Automotives - Assemblers/Manufacturers	45.0	26.8
20	Chemicals (inc. Plastic & Rubber Products)	45.0	25.8
21	Edible Oil	45.0	25.8
22	Glass & Ceramics	45.0	25.8
23	Agro-Chemicals	45.0	24.4
24	Textiles – Composite	45.0	24.2
25	Textiles – Spinning	45.0	24.2
26	Transport – Air	45.0	23.2
27	Automotive - Parts & Accessories	45.0	22.0
28	Textiles - Woven Apparel	45.0	21.8
29	Textiles - Synthetic Fibers/Polyester	45.0	21.6
30	Information Technology	45.0	21.6
31	Metallic Products (Iron & Steel)	45.0	20.4
32	Textiles - Fabrics (Weaving)	45.0	20.4
33	Textiles - Knits & Knit Apparel	45.0	20.4
34	Leather Products	45.0	19.2
35	Carpets & Rugs	45.0	18.0

COMPOSITE INDUSTRY RANKINGS 2017

Summating all the category scores we get the following rankings, net scores *and the proposed strategic classification* for each sector:

S.NO.	SECTOR	NET SCORE	CATEGORY	RANGE
1	Construction (Infrastructure/Sovereign Guarantees)	79.7	ATTRACTIVE	70-80
2	Energy-Oil & Gas Exploration & Production	79.5	ATTRACTIVE	70-80
3	Energy - Power Generation(IPPs-Indigenous Resource Based)	78.8	ATTRACTIVE	70-80
4	Energy - Power Generation(IPPs-Non Indigenous Resource Based)	75.0	ATTRACTIVE	70-80
5	Financial Institutions	73.5	ATTRACTIVE	70-80
6	Surgical, Precision, Optical Equipment	72.6	ATTRACTIVE	70-80
7	Energy-Oil (Petroleum Distribution/Marketing)	71.4	ATTRACTIVE	70-80
8	Energy - Gas Generation & Distribution	71.2	ATTRACTIVE	70-80
9	Sports Products	70.6	ATTRACTIVE	70-80
10	Energy - Oil (Petroleum Refining)	69.4	AVERAGE	50-69
11	Construction (General)	68.6	AVERAGE	50-69
12	Tobacco Products	67.7	AVERAGE	50-69
13	Cement	65.8	AVERAGE	50-69
14	Pharmaceuticals	65.6	AVERAGE	50-69
15	Energy - Other (Circular Debt/Sovereign Guarantees)	65.3	AVERAGE	50-69
16	Food, Beverages & Consumer Products	63.4	AVERAGE	50-69
17	Automotive- Assemblers/Manufacturers	62.4	AVERAGE	50-69
18	Fertilizers	61.4	AVERAGE	50-69
19	Telecommunications	61.0	AVERAGE	50-69
20	Machinery & Equipment	60.4	AVERAGE	50-69
21	Sugar	59.8	AVERAGE	50-69
22	Chemicals (inc. Plastic & Rubber Products)	57.3	AVERAGE	50-69
23	Edible Oil	57.1	AVERAGE	50-69
24	Glass & Ceramics	55.8	AVERAGE	50-69
25	Metallic Products (Iron & Steel)	55.5	AVERAGE	50-69
26	Automotive - Parts & Accessories	54.2	AVERAGE	50-69
27	Information Technology	51.7	AVERAGE	50-69
28	Textiles – Composite	50.7	AVERAGE	50-69
29	Agro-Chemicals	49.8	AVERAGE	50-69
30	Textiles - Woven Apparel	48.9	WATCH/HOLD	40-49
31	Textiles - Synthetic Fibers/Polyester	44.9	WATCH/HOLD	40-49
32	Transport – Air	44.9	WATCH/HOLD	40-49
33	Textiles – Spinning	44.5	WATCH/HOLD	40-49
34	Textiles - Knits & Knit Apparel	44.5	WATCH/HOLD	40-49
35	Carpets & Rugs	43.6	WATCH/HOLD	40-49
36	Leather Products	42.6	WATCH/HOLD	40-49
37	Textiles - Fabrics (Weaving)	41.3	WATCH/HOLD	40-49

* Transport Air Category is Watch/Hold keeping in view PIA. Air Blue & Shaheen Air lie in the Average category.

** Bank should be careful for all other forms of financing except short term working capital financing for sectors listed in the Watch/Hold category.

LIST OF ACRONYMS

ARPU	Average Revenue per User
BMR	Balancing Modernization & Replacement
CKD	Completely Knocked Down
FDI	Foreign Direct Investment
FED	Federal Excise Duty
GDP	Gross Domestic Product
GoP	Government of Pakistan
GST	General Sales Tax
IPP	Independent Power Producers
LSM	Large Scale Manufacturing
OGDCL	Oil & Gas Development Company Limited
OGRA	Oil & Gas Regulatory Authority
OMCs	Oil Marketing Companies
PIA	Pakistan International Airline
PSDP	Public Sector Development Program
PSEs	Public Sector Enterprises
PSF	Polyester Staple Fiber
PTA	Pakistan Telecommunication Authority
PTCL	Pakistan Telecommunication Limited
SED	Shipper's Export Declaration
WLL	Wireless Local Loop
YoY	Year on Year