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CREDITS & ACKNOWLEDGEMENTS

INDUSTRY BULLETIN - 2016

COMPARATIVE SECTORAL RESEARCH & RATINGS TO RANK PERFORMANCE, INDUSTRY SPECIFIC ATTRACTIVENESS & RISKS WITH RECOMMENDATIONS ON STRATEGIC SECTORAL POSTURING

June 2016

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

RESEARCH DIVISION

CREDIT MANAGEMENT GROUP (CMG), NBP

&

NUST BUSINESS SCHOOL

NATIONAL UNIVERSITY OF SCIENCE & TECHNOLOGY – NUST

Under the aegis of NUST Corporate Advisory Council – (CAC)

CONTENTS

(SME Sectors in BOLD)

INDUSTRIES RATED

PREAMBLE – A Combined Effort: NBP & NUST

The publication of this report continues to be a special and noteworthy milestone in the evolution of industry specific research in Pakistan. NBP and National University of Science & Technology (NUST) have come together by combining their relevant research resources to produce this year's edition of 'Industry Research & Comparative Ratings - 2016'. While the essential structure of this report has not deviated much from its earlier format the contents have been updated and the latest outlook and results have been incorporated, including a re-assessment of the key drivers in each industry.

Our vision of combined research efforts, however, extends much further and it will take us probably another few attempts to achieve that vision in its totality. Our vision entails a fairly in-depth and *comprehensive* compendium of agro and industrial related sectors, with the following key deliverables:

- A fairly comprehensive list of sectors and sub-sectors
- Comprehensive set of financials and ratios
- Granular details of sector dynamics
- Listing and basic data of all corporate entities for larger more organized sectors.
- Data on *model* business entities as in the case of the less organized SME sectors
- Highlighting of key issues/threats/risks facing each sector
- Highlighting of key opportunities and potential upsides
- Outlook for each sector
- Comparative sector rankings based on a number of criteria

In line with this vision and having learned much from our joint endeavors for this report we made some meaningful changes to our project methodology for the computation of comparative sectoral ratings - from a credit perspective - that were incorporated in the last report, and continue on for this year.

INTRODUCTION - DEFINING THE SCOPE

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* *Cash Ratio (G/K)*	4.0 3.0 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. Real GDP growth came in at 4.3% in 2014-15, an improvement over the previous year (4.1%). Moreover, the Government has set a target of 5.5% in 2015-16. Pakistan's annual inflation rate fell to 4.7 per cent during July-June 2015. The government had projected 8 per cent inflation for the 2014-15. 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.

1. **Agro-Chemicals**
2. Automotive - Assemblers/Manufacturers
3. **Automotive - Parts & Accessories**
4. **Carpets & Rugs**
5. Cement
6. Chemicals (inc. Plastic & Rubber Products)
7. **Construction (General)**
8. Construction (Infrastructure/Sovereign Guarantees)
9. **Edible Oil**
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 (IPPs-Indigenous Resource Based)
15. Energy - Power Generation (IPPs-Non Indigenous Resource Based)
16. Energy - Other (Circular Debt/Sovereign Guarantees)
17. Fertilizers
18. Financial Institutions
19. Food, Beverages & Consumer Products
20 .Glass & Ceramics
21. **Information Technology**
22**. Leather Products**
23. **Machinery & Equipment**
24. **Metallic Products (Iron & Steel**)
25. Pharmaceuticals
26. **Sports Products**
27. Sugar
28. **Surgical, Precision, Optical Equipment**
29. Telecommunications
30. Textiles – Composite
31**. Textiles - Fabrics (Weaving)**
32. **Textiles - Knits & Knit Apparel**
33. Textiles – Spinning
34. Textiles - Synthetic Fibers/Polyester
35. **Textiles - Woven Apparel**
36. Tobacco Products
37. **Transport – Air**

(bold: **SME Sectors**)

INDUSTRY SYNOPSIS:

FINANCIALS, OPPORTUNITIES, THREATS/ISSUES, & OUTLOOK

AGROCHEMICALS

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	` 90-100		
			2014-15	2013-14	
A.	Industry Sales	Act/Est	1,415	1,361	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	199		
C.	Financial Charges	Act/Est	3		
D.	PAT	Act/Est	178		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	9,949		
F.	*Current Assets*	Act/Est	3,002		
G.	*Cash & Bank Balances*	Act/Est	1,970		
H.	*Trade Debtors*	Act/Est	460		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	9,462		
K.	*Current Liabilities*	Act/Est	487		
L.	*Total Liabilities*	Act/Est	487		

AGRO-CHEMICALS

SECTOR OUTLINE

During last two decades, there was substantial increase in the use of pesticides not only in volume, but also in value. Its use increased by about 70 times (of which about 80% was used on the cotton crop), while cotton yield increased only two-folds. The pesticide value exceeded Rs. 12- 14 billions, which added to the cost of production. Most pesticides used in Pakistan were insecticides (74%), followed by herbicides (14%), fungicides (9%), acaricides (2%), and fumigants (1%). Rough estimates showed that almost 80-90 percent of pesticides were used on cotton crop while remaining 10-20 percent consumed on paddy, sugarcane, fruits, and vegetables.

OPPORTUNITIES

- ▲ The prospects for continued growth in demand for value-added food and agricultural products provide an incentive for increased focus on agro-industries development within the context of economic growth, food security and poverty-fighting strategies.

- ▲ There is a need for clear and specific government policy dedicated to actively supporting sustainable agriculture and recognizing the important role the private sector has to play to implement such a policy.

- ▲ In Pakistan, insecticides and herbicides are among the inputs that have been considered essential to the sustainability of agricultural systems. This heavy reliance of large farmers on chemical pesticides may indicate a greater acceptance of western agricultural practices.

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

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

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

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

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

THREATS

- ▼ During the past four decades, pesticides have played pivotal role in plant protection but side by side have generated problems of pesticide resistance in pests, persistence of toxicant in ecosystem, hazards to field applicators, food consumers and dealers.

- Due to a lack of knowledge of farming community and absence of appropriate regulatory agencies, the pesticides in Pakistan are not used in ways likely to maximize the benefit.

- The pesticide business in Pakistan since its start has predominantly been the imports. Local manufacture is only a small proportion of total pesticides consumed.

- The imposition of General Sales Tax (GST) on the import of pesticides appears to be encouraging illegal trade of pesticides, because of which the quality of pesticides has suffered.

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

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

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

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

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

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

OUTLOOK

- Agro-chemicals sales should continue to grow overall however; the margins are likely to continue to remain under pressure. Outlook is constrained though fairly stable.

AUTOMOTIVE-ASSEMBLERS/MANUFACTURERS

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	12	
			2014-15	**2013-14**
A.	**Industry Sales**	Act/Est	284,050	240,246

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

B.	**PBT**	Act/Est	30,874
C.	**Financial Charges**	Act/Est	543
D.	**PAT**	Act/Est	21,385

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

E.	*Total Assets*	Act/Est	145,095
F.	*Current Assets*	Act/Est	110,708
G.	*Cash & Bank Balances*	Act/Est	36,948
H.	*Trade Debtors*	Act/Est	4,531
I.	*Short Term Investments*	Act/Est	11,211
J.	*Total Equity*	Act/Est	74,097
K.	*Current Liabilities*	Act/Est	65,349
L.	*Total Liabilities*	Act/Est	67,481

AUTOMOTIVE ASSEMBLERS/ MANUFACTURERS

SECTOR OUTLINE

The automotive industry is one of the oldest and most lucrative industries in Pakistan. The industry has significant effects on sectors such as petroleum, steel and employment etc. The Pakistan Automotive Manufacturers Association reported 62% YoY growth in this industry in November. Despite the strong growth displayed, there is still ample room for growth in the long run, as the country currently only has approximately 14 cars per 1,000 people. Automotive Sector plays a pivotal role in promoting the growth of the vendor industry. After the oil and petroleum sector, the auto industry sector in Pakistan is the second largest taxpayer in the country. Its contribution to the government's revenue is around Rs. 7.5 billion and foreign exchange savings at $96 million.

OPPORTUNITIES

- With 13% return in calendar year 2015, the automobile industry remained the second best performing sector on the Karachi Stock Exchange (KSE). Only the pharmaceutical sector outperformed the automobile sector which posted a 17% return in the year.
- Automobile sector remained in the limelight in 2015 due to improving car sales volume amid Punjab taxi scheme, launch of new Corolla models and increasing car financing due to lower interest rates.
- Although the dynamics of Pakistan's auto industry are quite different from other countries, it is interesting to note that Pakistan's auto sales are growing at a time when car sales in other countries are suffering due to the global economic slowdown.
- Pakistan's auto industry posted one of the five best auto sales numbers in the first six months of 2015 in the world.
- The sales of the locally assembled cars have gone up by 66 per cent to reach 111,720 units in the first half of the current fiscal year (2015-16) against only 67,426 units in the same period last year.
- Recently, Pak Suzuki (PSMC), Indus Motors and Honda increased the prices of all of their models by 1 per cent in December 2015 following the government decision of increasing one per cent custom duty on the import of all accessories of the vehicles. Car assemblers were able to pass on the cost hike to the customers due to strong demand in the country.
- French companies are keen in investing in the automobile industry and setting up assembling plants in Pakistan.
- Trucks and buses segment of Pakistan's automobile sector posted an increase of 40 per cent YoY to reach 2,645 units during first half 2015-16. This surge was due to rising demand because of the China Pakistan Economic Corridor (CPEC) project and improving law and order situation in the country.

- Vietnam and Pakistan's automotive industries are both poised for substantial growth, and consequently present a flurry of investment opportunities. Both countries have been positive outliers in Asia, due to superior stock market performance, higher economic growth, and also due to the relatively lower FX risks. As both countries begin their transition to emerging markets, the automotive industry in particular represents a strategic outlet for investors to profit from the superior investment landscape that is present in both countries.

- While competition in some segments is fierce, the barriers to entry for new brands and consortiums have made prohibitive the introduction of a more competitive scenario. This has aided the industry to a very large extent.

- Government purchases and military vehicles and parts purchases have continued to grow.

- There exists a big opportunity for the current big players (Indus, Suzuki, Atlas) to exploit small, energy efficient and green technology oriented vehicles.

- Auto makers have an opportunity to enter car financing directly or via their dealer networks (as is the model adopted by many players globally).

THREATS

- The absence of new auto policy did affect the auto industry during 2015.

- There are three million cars on the road in Pakistan today. This number is increasing rapidly as more than 170,000 new cars are sold every year and about 35,000 to 40,000 cars are imported every year as well. Yet these numbers pale in comparison to other developing countries, given that the car ownership per capita in Pakistan is very low.

- The analyst forecast that local car sales will grow at only 15 per in the rest of the fiscal year 2015-16 to reach 206,777 units cent (compared to 66 per cent during first half). This lower growth is due to completion of taxi scheme in February 2016 and decline in Honda Civic volumes in anticipation of new model, which is expected to hit the market in July 2016.

- Pakistan's tractor segment posted a decline of 41 per cent YoY during the first half 2015-16 to reach 12,375 units. This decline is because of the delay in the launch of provincial tractor subsidy schemes. (Punjab and Sindh governments announced in the 2015-16 budget that a subsidy of Rs. 25,000 to Rs. 29,000 would be offered on each tractor). On the other hand, tractor manufacturers are requesting government either to implement or to shelve the announced schemes so that farmers resume their normal purchasing.

- The import of used cars in the country is largely damaging the local auto industry.

- Due to the current economic condition industry is facing a higher cost structure. Profit margins are low. The sales price of a car includes a fairly high cost component and the rest is other charges, taxes, duties and levies

- Pakistan's exports are marginal, with Malaysia being one of the few client bases it has. Pakistan's Auto industry remains a net importer

OUTLOOK

- Strong macroeconomic indicators and 42-year low interest rates that boosted auto car financing will continue to remain the dominant factors helping the local auto sales.

AUTOMOTIVE-PARTS & ACCESSORIES

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	4		
			2014-15	**2013-14**	
A.	**Industry Sales**	**Act**/Est	54,140	44,070	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act**/Est	3,642		
C.	**Financial Charges**	**Act**/Est	2,762		
D.	**PAT**	**Act**/Est	3,448		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	***Total Assets***	**Act**/Est	28,329		
F.	***Current Assets***	**Act**/Est	20,190		
G.	***Cash & Bank Balances***	**Act**/Est	2,501		
H.	***Trade Debtors***	**Act**/Est	3,436		
I.	***Short Term Investments***	**Act**/Est	4,023		
J.	***Total Equity***	**Act**/Est	19,032		
K.	***Current Liabilities***	**Act**/Est	9,515		
L.	***Total Liabilities***	**Act**/Est	10,677		

AUTOMOTIVE - PARTS & ACCESSORIES

SECTOR OUTLINE

The most important strength of any automobile industry is greater indigenization and domestic availability of raw materials. The industry's capability to produce all automotive parts, ranging from engines, transmission apparatus, suspensions, brakes, body parts and chassis parts. This makes auto sector not only immune from exchange rate fluctuations, but also helps reduce its cost of production. There are 375 auto part makers in Pakistan and about 1,600 tier two suppliers that supply parts to local auto assemblers and also export them.

OPPORTUNITIES

- ▲ Sector continues to enjoy high level of bargaining power with the automotive assembly and manufacture units; thereby growth of this sector is a positive coefficient of growth in their clients i.e. Indus Motors, Suzuki, Honda Atlas, Nissan, Dewan Farooq Motors and Hino Pak (the major players).

- ▲ Effective and intelligent treaties on auto sector with low cost countries like China may curtail the base cost structure of local parts manufacturers.

- ▲ The size of the global aftermarket (automotive part dealers other than Original Equipment Manufacturers) is over $600 billion, and Pakistan can tap into this huge market.

- ▲ Pakistan is producing parts of good quality and at economical rates. What it lacks is better marketing, which is a vital skill needed to tap into the robust international market.

- ▲ Paapam is planning to arrange a three-year export coaching program with the government of Netherlands for engineering goods manufacturers of Pakistan. It will bring significant change in how Pakistani exporters approach foreign buyers.

- ▲ (ALSO SEE AUTOMOTIVES - ASSEMBLERS/MANUFACTURERS, ABOVE)

THREATS

- ▼ Pakistan's auto sector is still significantly dependent on imports, as indigenization is limited to the manufacturing of sheet metal parts, interior trim, seats, rubber & plastic parts, batteries, wheel rims, tyres, and lighting accessories. The more sophisticated moving parts (engine, transmission, etc.) that require precision engineering are all imported because Pakistan is unable to produce these components to their international standards. This implies that a significant part of the cost of production is vulnerable to movements in the exchange rate, which forms the basis of frequent increases in retail prices. Pakistan currently imports 57 per cent of its total auto-related raw materials from Japan, and Yen movements against the PKR play an important role in the final price.

- ▼ Pakistan's automobile industry is utilizing only 50 per cent of its capacity. The product range in Pakistan is limited and the demand of domestically produced cars is stagnant. As a result, consumers prefer imported products over domestic ones, as they offer more options.

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

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

- Current level and competitiveness of parts and accessories does not allow Pakistan to even be a marginal exporter.
- Despite the dynamic nature of the industry globally, local investment in R&D is negligible and this is an area where local cost base can be reduced through effective technology transfer.

- The government has recently imposed 15% additional import duty on different steel products. However, this has caused problems for the auto industry that imports various steel raw materials under the common Pakistan Customs Tariff (PCT) codes.

- Apart from raising the duty up to 35%, the FBR on March 21 also introduced 10% duty on aluminum alloy that the makers of cars, motorcycles, tractors, trucks and bus import to produce different parts.

- The biggest obstacle to long term investments in auto sector is the import of used cars. Pakistan is the only auto producing country to allow used car imports.

- (ALSO SEE AUTOMOTIVES - ASSEMBLERS/MANUFACTURERS, ABOVE)

OUTLOOK

- The outlook remains tenuous with a greater probability of declining sales over medium term amid further tightening of margins.

CARPETS & RUGS

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	150,000		
			2014-15	**2013-14**	
A.	**Industry Sales**	**Act**/Est	12,098	12,934	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act**/Est	-70		
C.	**Financial Charges**	**Act**/Est	2		
D.	**PAT**	**Act**/Est	-71		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	***Total Assets***	**Act**/Est	219		
F.	***Current Assets***	**Act**/Est	122		
G.	***Cash & Bank Balances***	**Act**/Est	1		
H.	***Trade Debtors***	**Act**/Est	30		
I.	***Short Term Investments***	**Act**/Est	Nil		
J.	***Total Equity***	**Act**/Est	183		
K.	***Current Liabilities***	**Act**/Est	36		
L.	***Total Liabilities***	**Act**/Est	36		

CARPETS & RUGS

SECTOR OUTLINE

Pakistan is famous for its hand-knotted oriental carpets and it is one of the largest producers and exporters in the world. For the last several years, the hand-knotted carpets have reached every hook and corner of the globe. Iran is the top carpet exporter in the world followed by India, China, Pakistan, Nepal and Turkey. Pakistani hand-made carpets dominate the US market while the German market for silk carpets is dominated by China and India. The south-east Asian market is dominated by China and Pakistan. Carpet industry plays a pivotal role in the economy of Pakistan. It not only contributes a large chunk of foreign earning to the national kitty but also provides a relief especially to the down-trodden people of rural areas. This vital cottage industry has spread widely throughout the far-flung areas of Pakistan. Women and children play a dominant role in imparting strength to this industry.

OPPORTUNITIES

- The government has declared full support for the declining handmade carpet sector in the country, approving Rs 7.5 million for the 33rd international Pakistan hand knotted carpet exhibition

- the government is determined to facilitate hand-knotted carpet industry, resolving issues ranging from infrastructural shortcomings to skill and product development and research to enhance trade volume for economic stability and growth

- Country's carpet export to United States and Europe was declined by over 55 percent which can be compensated by export to China and Turkey, where this handmade product is in great demand. Presently, China is the largest carpet buyer of Pakistan. Pakistan is struggling for the enhancement of Pakistani carpet export to China. Pakistan has to make all-out efforts to promote export by arranging trade fairs and exhibitions, to open warehouses and retail outlets abroad including China.

- Eastern Europe, China and South America are the potential regions of carpet export.

- The government is determined to facilitate handmade carpet industry, resolving issues ranging from infrastructural shortcomings to skill and product development and research to enhance trade volume for economic stability and growth.

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

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

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

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

- ▲ The carpet industry to focus on value addition, adding that the government was determined to resolve issues ranging from FTAs with several countries, product development and research to enhance trade volume.

THREATS

- ▼ The carpet export has registered decline despite free market access to the EU countries under GSP Plus status. The country has been suffering a huge decline of over 50 percent during the last seven years, as export of handmade carpets had fallen to 120 million dollars from 300 million dollars, depriving almost 0.5 million people of their direct employment.

- ▼ Turkey has imposed an additional 50 per cent customs duty on Pakistani handmade carpets, which can have tumultuous impact, since Turkey is the second biggest importer of Pakistani handmade carpets. The imposition of the duty comes following the safeguard measure imposed on Pakistani apparel exports at 42.2 per cent in 2011, making exports to Turkey unviable. This move will cause complete collapse of the Pakistani handmade carpet industry. After the imposition of the additional duty, exports orders pipeline for handmade carpets from Turkey has dried up.

- ▼ As per government statistics, in the last seven years, handmade carpet exports have declined from US $300 million to just $128 million, although it has a GSP+ status in its exports from the sector.

- ▼ The once-booming carpet industry has taken a nosedive in the last one decade. As regional players take giant leaps and capture world markets, Pakistan's exports of rugs have been constantly declining, falling below $130 million per year.
- ▼ In the past decade, exports came down 60% as a huge potential remained untapped because of a lack of support from the government. In comparison, India's carpet exports have shown a phenomenal growth. A decade ago, India and Pakistan had annual rug exports of roughly $350 million and now Indian shipments have reached $1 billion.

- ▼ While most countries have adopted modern methods of manufacturing, the carpet and rug makers in Pakistan still operate like a cottage industry. Rugs are made at home in rural areas and thousands of people rely on this profession. These traditional workers lack proper training and require financing to complete the supply chain
- ▼ The carpet export sector has been greatly affected by the global economic downturn. Overall export volumes of the sector have gone down significantly, leading to sharp fall in revenues for small and medium sized carpet exporters.

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

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

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

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

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

OUTLOOK

- Overall outlook remains cautiously optimistic on account of greater access to the European market and the opening of the Chinese market over the next few years however, global recessionary condition will continue to have a negative impact.

CEMENT

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	20		
			2014-15	**2013-14**	
A.	**Industry Sales**	**Act/Est**	221,234	225,009	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	66,262		
C.	**Financial Charges**	**Act/Est**	3,526		
D.	**PAT**	**Act/Est**	26,135		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	***Total Assets***	**Act/Est**	416,233		
F.	***Current Assets***	**Act/Est**	129,674		
G.	***Cash & Bank Balances***	**Act/Est**	29,346		
H.	***Trade Debtors***	**Act/Est**	9,731		
I.	***Short Term Investments***	**Act/Est**	31,950		
J.	***Total Equity***	**Act/Est**	249,330		
K.	***Current Liabilities***	**Act/Est**	69,298		
L.	***Total Liabilities***	**Act/Est**	149,660		

CEMENT

SECTOR OUTLINE

The cement industry of Pakistan is one of the major industries of Pakistan which have an enormous impact on the economic development of the country. The contribution of cement industry is very effective not for only the manufacturing sector but also for the entire economic development of Pakistan. The cement sector in Pakistan, contributing 1.2% of the global cement production, is composed of 20 plants with annual production capacity producing 43.45 million tons of clinker and 45.62 million tons of cement. Maximum plant capacity utilization in any year however varied in the range of 87 percent to 75 percent of the installed capacity. The major domestic demand drivers are Public Sector Development Programs (infrastructure), real estate and industrial construction. It also makes contribution in the development of its allies industries especially the transportation sector is largely benefited by it. The cement industry of Pakistan attracted not only domestic investors but also foreign investors.

OPPORTUNITIES

- The major driver for cement consumption is the implementation of the gigantic 46-billion dollar China-Pakistan Economic Corridor (CPEC) program, which aims at creating an over 3,000km economic corridor between Gwadar and northwest China, with roads, rail links and pipelines crossing Pakistan.

- In addition, large highway and motorway projects have been initiated during this financial year. National Highway Authority has received Rs159.6 billion under 2015-16 Public Sector Development Program (PSDP), which is about 50% more than that of the previous year.

- According to latest reports, total cement sales during fiscal year 2014-15 increased to a record level of 35.40 million tons, showing an overall increase of about 8% in domestic sales, compared to previous year.

- Dispatches increased by 6.4 % to 18.21 million tonnes during July-December 2015 as compared to 17.12 million tonnes during the same period of 2014 due to increased domestic consumption which was up by 16.34% to 15.2 million tonnes as compared to 13.06 million tonnes during July-December 2014.

- This trend of domestic sales is expected to remain in momentum in future, given the present conditions, projected to grow 10%, and to pick up at 15% to 20% annually over a period of five years, if the planned projects come up as envisaged. Consequently, the cement sector has recently announced plans to increase overall installed capacity to over 50 million tons by 2018, in the first phase.

- Some major business groups have started investing in expanding their production capacity of such materials as cement, steel, electric cables and glass that they expect will be 'in huge demand as work on the CPEC projects moves ahead at a faster pace in the months to come'. For example, the Nishat Group is setting up a cement plant in Balochistan and the Lucky Cement in Punjab.

- Major Industrial players are investing in R&D to diversify their product portfolio. Along with that trends towards environmental protection were also observed. To save energy at their manufacturing plants many companies have invested in Waste Heat Recovery processes.

- One of the greatest advantages to the industry is the availability of raw materials in the country. This helps the industry to be able to provide a continuous supply. And despite rise in prices, it still does not fall short of its inputs

- On the cost side, international coal prices, which make up significant portion of the cost of cement manufacturing, have tumbled to near 10-year low. Crumbling coal prices, along with lower electricity charges, are likely to support margins of cement players going forward.

- In the fiscal year 2016, Pakistan's cement sales may grow by 3.5% year-on-year in the fiscal year 2016 to 36.7million tonnes (82pc capacity utilization).

- The impact of improving security situation in the country is also contributing strongly in the cement demand. The security situation has improved which has helped boost the private sector growth in construction sector. Big housing projects in large cities, especially Karachi, are coming up that were on hold for the last several years.

- The Punjab Provincial Government and Chinese cement company Yantai Baoqiao Jinhong signed a memorandum of understanding to set up a cement plant in the Salt Range. Under the agreement, the Chinese company will set up the cement plant with an investment of $350 million.

THREATS

- Exports during the last year remained under pressure, down 26 percent YoY. Export performance remained lackluster due to pressure seen in Afghanistan and South African markets.

- Government planners are still lacking to check unregulated import of Iranian cement in the country at under invoiced rates. The same cement is finding its ways in the Afghan markets in which our share has been reduced by 20.63% during the first five months of current fiscal year. Pakistan Cement Industry is still facing the dilemma of importing Iranian cement into Pakistan from Balochistan by road and railway due to under invoicing and the connivance of custom authorities. The locally produced cement is fast losing its market in the areas adjacent to the Iranian border and the coastal areas of Balochistan. During April, 34,000 tons of Iranian cement was imported and about 20,000 tons of different Iranian cement brands have been imported till May 15.

- Considering the recent imposition of anti-dumping duty on Pakistani cement by South Africa, Pakistani government should also follow suit in order to stop the influx of Iranian cement in the country.

- The importers of Iranian cement declare less quantity to save duties, putting the local industry at a disadvantage.

- The local industry is subject to duties even on raw material, spare parts as well as packing material, which increases the cost of doing business in Pakistan.

- There is a scarcity of "bulk loading facilities" at ports which impedes the exports
- The primary concern for the cement industry of Pakistan is the fast evaporating reserves of gypsum, a raw material used in cement production. There is an unchecked export of raw gypsum, primarily to India, at extremely cheaper rates and in bulk quantities. Indians are importing around 1,000 tons of raw gypsum every day via the Wagah border at prices ranging between $20 and $22 per ton and are using it for value addition in their products. If these reserves are consumed, then Pakistan will have to import the raw material to meet the rapid rise in demand from the construction sector.
- Like other sectors, this industry is also under pressure due to high taxes and transportation costs. Royalty on different raw materials has also been increased. The government has pushed up the royalty on limestone to Rs60 from Rs5 per ton. Excise duty on clay, another raw material, has also gone up.
- International coal prices are record low but its positive impact on the cement industry is somewhat nullified by the imposition of Gas Infrastructure Development Cess (GIDC).
- The small cement producers continue to struggle to recover their operating costs. From sustainability perspective, small producers need to reorganize through optimizing operations, creating new capacities, improving plant performance, and adopting cost-saving methods.

OUTLOOK

- The cement industry will remain strong in fiscal year 2015-16 because of higher government development spending, initiation of projects under the CPEC, favorable macroeconomic situation and 42-year low interest rate in the country.

CHEMICALS (INC. PLASTIC & RUBBER)

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	27		
			2014-15	**2013-14**	
A.	**Industry Sales**	Act/Est	138,422	213,071	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	Act/Est	382		
C.	**Financial Charges**	Act/Est	2,327		
D.	**PAT**	Act/Est	1,307		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	98,794		
F.	*Current Assets*	Act/Est	74,927		
G.	*Cash & Bank Balances*	Act/Est	2,181		
H.	*Trade Debtors*	Act/Est	6,193		
I.	*Short Term Investments*	Act/Est	3,327		
J.	*Total Equity*	Act/Est	41,551		
K.	*Current Liabilities*	Act/Est	40,282		
L.	*Total Liabilities*	Act/Est	53,905		

CHEMICALS (Including Plastic & Rubber Products)

SECTOR OUTLINE

The chemical sector in Pakistan is made up of large multinationals, large to medium sized local companies and small companies, mostly in the unorganized sector. Market is highly fragmented with competition for specific products, instead of business lines. The companies are working in niche products, and the competitive advantage is only maintained by investing resources and energy in innovation, and continuous improvement of a product line. Due to the general macroeconomic conditions in the country, coupled with the energy shortages, the chemical sector has suffered a slowdown, which affected demand throughout 2014.

OPPORTUNITIES

- 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.

- Pakistan has excess capacity of caustic soda available in the country, which requires appropriate marketing and Industry to export.

- 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

- Crude oil prices plummeted to the lowest levels since 2009. The slump in the Crude oil prices sent the entire Petrochemical chain into a downward spiral and Para-xylene (PX) prices also followed the same trend. However, limited supply situation of PX caused by both planned and unplanned PX plant outages kept prices range bound, which kept margins for PX producers at profitable levels.

- The European Union (EU) has withdrawn the crippling Anti-Dumping Duty on Pakistan's products of PET (Polyethylene terephthalate, a chemical used in making mineral water and beverage bottles), imposed five years ago, due to aggressive "trade diplomacy" of Pakistan.

- The import duty on ethylene was cut to two percent in the budget for the current fiscal year of 2015/16, which is expected to support the PVC margins during the third quarter this year. The local demand for PVC is expected to remain strong and that of caustic to be stable. As regional ethylene plant turnaround season comes to an end, ethylene prices are expected to decline, which will improve international PVC – ethylene core delta.

- Pakistan imposed 16.97 percent anti-dumping duty on Indian sugar alcohol, popularly known as Sorbitol, for a five-year period after an investigation found dumping of the industrial input from the neighboring country. The definitive anti-dumping duty would be in addition to other anti-dumping duty imposed earlier and taxes and duties levied under any other law. However, it would not be levied on imports that are to be used as inputs in products destined solely for exports.

Sorbitol, mainly used in pharmaceuticals, food, cosmetics and textile sectors, was importing into Pakistan at lower prices and affecting the local industry.

- There has been a gradual increase in the sales with hardly any declines, showing the sustainability of the sector.

THREATS

- 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

- The chlor-alkali sector is power intensive accordingly, fuel expense accounted for more than 50% of its cost of sales. Pakistan has been facing acute shortage of energy for quite a number of years now. Due to lack of maintenance and inadequate investment, some of the installed sources of electricity are unable to run at full capacity, leading to drop in supply. Presently the sector is drastically impacted by energy crisis as well as increase in Gas Infrastructure Development Cess (GIDC) introduced through GIDC Act 2015.

- The business environment for the PTA industry turned dire. This was primarily a result of stable PX and weak PTA prices. The PTA industry in the region, especially in China, was forced to rationalize its output levels, due to poor off take and demand from the downstream polyester industry. While these measures were vital in avoiding a total collapse in PTA prices, the industry margins remained much lower.

- The domestic PSF market was adversely affected by several factors which led to its underperformance. The Government increased power tariffs and introduced new taxes in the budget, resulting in increased costs for the entire industry. Moreover, power was allocated away from industries, which reduced productivity in the downstream sectors. The demand for PET sector remained uncharacteristically weak as the domestic bottling industries introduced lighter bottles in order to manage their cost base.

- The unfair trade protection measure imposed by the EU in 2010 caused economic loss of approximately 300 million euros to Pakistan’s nascent chemical industry in the last five years.

- Immediate negative impact of levy of 35.39 euro per ton anti-dumping duty on Pakistani PET was that the country lost $90 million share in its export of this non-traditional product because Pakistani producers could not compete against world scale producers due to heavy import duty by the EU.

- Higher sales volume could not be translated into higher earnings in the first half 2015 due to lower international PVC – ethylene core delta, higher domestic energy prices, duty impact on raw material and high cost raw material inventory carried from the last year.

- Bilateral trade between Pakistan and Iran will reach over $3 billion over the next few years, as Iran is much cheaper than other countries. Major importing products will be chemical, plastic, pulses, milk, LPG, petrol and ceramics.

- Lotte Chemical Pakistan Limited – the sole producer of pure terephthalic acid (PTA) – has sought protection against cheaper imports of the acid that is being used by the polyester industry, fearing it may grab the company's market share.

OUTLOOK

- The international economic situation worsened during the period under review due to a drop in demand from major economies and falling crude oil prices on the back of the lingering oil glut. Prices in the petrochemical chain are expected to remain depressed in the absence of any fundamental change in supply-demand dynamics making the outlook constrained.

CONSTRUCTION

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	4		
			2014-15	**2013-14**	
A.	**Industry Sales**	**Act**/Est	714	553	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act**/Est	39		
C.	**Financial Charges**	**Act**/Est	9		
D.	**PAT**	**Act**/Est	25		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act**/Est	1,130		
F.	*Current Assets*	**Act**/Est	571		
G.	*Cash & Bank Balances*	**Act**/Est	37		
H.	*Trade Debtors*	**Act**/Est	275		
I.	*Short Term Investments*	**Act**/Est	Nil		
J.	*Total Equity*	**Act**/Est	691		
K.	*Current Liabilities*	**Act**/Est	420		
L.	*Total Liabilities*	**Act**/Est	439		

CONSTRUCTION (General/Infrastructure/Sovereign Guarantees)

SECTOR OUTLINE

The construction industry in Pakistan was the second largest after textile and was one of the major sources of employment generation. The industry still has a huge untapped potential due to lack of latest infrastructure. Construction industry in Pakistan consumes almost 80% of the National Development Budget, and pays highest tax per million Turn over. It provides jobs to millions of skilled and un-skilled workers and also supports more than 40 major allied industries of construction materials. With regards to the burgeoning potential of the construction industry, the sector had an economic potential of around Rs 500 billion especially in the context of the Public Sector Development Program (PSDP) which amounts to up to Rs 400 billion and Annual Development Programs of the provinces worth an equivalent amount. Moreover, CPEC with an investment of $46 Billion has the potential to improve Pakistan's business environment by reducing infrastructural bottlenecks, and thus to stimulate domestic and foreign investment over the longer run.

OPPORTUNITIES

- Bilal Group, a Dubai-based company, having its operations in the Middle East and Africa has shown keen interest in the engineering and construction industry of Pakistan. It has decided to invest $10 million in the sector ahead.

- Construction is one of the sectors that get major relief in the Federal Budget 2015-16. The minimum tax on builders, levied on the business of construction and sale of residential and other buildings, is proposed to be exempted until June 30, 2018.

- The positive impact of the China-Pakistan Economic Corridor (CPEC) is likely to benefit the construction sector of Pakistan in the near future. Introduction of cost-effective, space efficient and environmentally friendly Chinese construction and building material can bring about a revolution in Pakistan's construction sector.

- China would extend assistance to Pakistan at 1.6 percent interest rate for infrastructure projects under the China-Pakistan Economic Corridor (CPEC). Under the China-Pakistan Economic Corridor Projects (CPEC), China has promised to invest around $10 billion in infrastructure projects.

- The rise in construction activities is evident by the increase in local cement dispatches. Iron and steel imports has also increased, reflecting increased construction activities. Investment in construction sector also showed significant growth.

- The real estate sector of Pakistan is seen on the rise from the last couple of years. Real estate sector in Pakistan has always been expanding and prospering because it is always backed by solid investment. Currently Pakistan is witnessing developments from Defence Housing Authority, Bahria Town and Emaar (the UAE-based developer and erector of the world's tallest building Burj Khalifa). Consequently the real estate sector is poised to show continued resilience.

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

THREATS

- Unfortunately construction sector is one of the most neglected and un-organized sector. In Pakistan, heavily taxed as construction is still treated as a part of luxury.

- Speculatively driven downturns that result after a speculative bubble bursts at the behest of large investors are and remain a constant short term threat to small and mid-sized investors.

- GOP's high and growing sovereign debt leverage remains a threat to sizable increases in the Public Sector Development Program (PSDP) funds which is the most significant driver of the industry as a whole.

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

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

- Although it is encouraging that the process of forming Real Estate Investment Trust (REITs) in Pakistan is moving forward as Pakistan has a large population, most of them very poor facing large shortages of affordable housing; but it is moving at a very slow pace hampering the government aims in providing more housing to the population.

OUTLOOK

- The construction sector as a whole is looking up in the face of improvement in PSDP resulting from GOP's improved financial position and also as a result of Chinese infrastructural construction and investment plans.

EDIBLE OIL

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	2		
			2014-15	**2013-14**	
A.	**Industry Sales**	**Act**/Est	6,088	6,302	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act**/Est	292		
C.	**Financial Charges**	**Act**/Est	67		
D.	**PAT**	**Act**/Est	180		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act**/Est	2,555		
F.	*Current Assets*	**Act**/Est	1,741		
G.	*Cash & Bank Balances*	**Act**/Est	59		
H.	*Trade Debtors*	**Act**/Est	636		
I.	*Short Term Investments*	**Act**/Est	Nil		
J.	*Total Equity*	**Act**/Est	1,143		
K.	*Current Liabilities*	**Act**/Est	1,262		
L.	*Total Liabilities*	**Act**/Est	1,412		

EDIBLE OIL

SECTOR OUTLINE

There are more than 120 Ghee Units in Pakistan. The import of Edible Oils per annum (Calendar year) has risen to more than 2.7 Million tons while the import of Oilseeds is around 1.5 Million tons per annum. With a growing population, edible oil consumption is expected to rise on a yearly basis making it an even more attractive market for foreign suppliers and local entrepreneurs. Pakistani edible oil market is dominated by Palm oil with a 71 percent market share. This is mainly due to low cost and prevalent use of Hydrogenated Oils ('Banaspati') at 60%, compared to Cooking Oils at 40%.

OPPORTUNITIES

- ▲ Pakistan's import of palm oil plunged by over 9% to $437.037 million in the first quarter of current fiscal year, 2015-16. The import bill for palm oil thus reduced by $44.652 million in the first quarter from $481.689 million in the same period last fiscal year. The volume of palm oil import however went up by over 19% or 108,968 metric tons to 674,477 metric tons in the first quarter of current fiscal year from 565,509 metric tons in the same period last fiscal year.

- ▲ Vegetable ghee and cooking oil production during the last seven months of the current financial year witnessed 4.91 per cent and 9.22 per cent growth respectively as compared to the corresponding period of last year. 721,527 tonnes of vegetable ghee was produced during the period from July-January, 2015-16 as compared to 687,759 metric tonnes produced during the same period of last year.

- ▲ Cooking oil production also witnessed an increase of 9.22 per cent during the last seven months with about 228,029 tonnes of the commodity produced as compared to 208,775 tonnes during the same period last year, the data revealed.

- ▲ Total import of RBD palm oil stood at 1,077,194 metric tons from Malaysia/Indonesia in 2015; RBD palm oil 1,305,586 MT from Malaysia/Indonesia; crude palm oil (CPO) 125,318 MT from Malaysia and import of crude degummed (CDSBO) amounted to 191,308 MT from Argentina/Brazil. The percentage of palm oil products from Malaysia and Indonesia imported during January-December 2015 in tons (basis arrival) revealed that the share of Malaysia in total imports of palm oil is 17 percent and Indonesia's 83 percent.

- ▲ The new trend is being created in Pakistan of importing soybeans on premium over CBOT basis. Year 2015 has been the first year that Pakistan have embarked very aggressively on the journey of importing soybeans due to very weak global prices and duty advantage over other oilseeds. Pakistan entrepreneurs have done a very innovative work by importing soybeans only on premium over CBOT. This has given them a great flexibility of booking physical prices as and when required which is very much suitable in the bearish market. The statistics have proved that Pakistan buyers covered reasonable quantity of Soybeans in the year 2015 and have also covered the requirement for the first half of 2016. This shift of buying Soybeans will ultimately reduce the import of other oilseeds like canola, Rapeseed and Sunflower Seed.
- ▲ Referring to the India structure on the commodity, the government of India is seriously considering to reduce the Duty on Oilseeds from present 30% to 5 or 10%, if this happens, it would encourage import of high content oilseeds like Rapeseed

and Sunflower seeds. This will change the current level of Import of Vegetable Oil by India, as it happened in China.

- Under a dedicated project, Pakistan has brought 1,300 acres of marginal land under olive cultivation within a year. And in the next three years, the country will cover another 3,750 acres. The purpose is to promote and diversify the production of the edible oil industry. Once olive plantations mature in a few years time, "edible oil companies will produce olive oil not just for the local market but for high-value exports as well". The olive plantation project is officially titled as the 'Promotion of Olive Cultivation for Economic Development and Poverty Alleviation'.

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

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

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

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

- Despite the general pace of the economy edible oil sales continue to grow with similar prospects in the foreseeable future. Demand for edible oils is directly related to increase in population, increase in per capita income and rate of urbanization. The country's demand for ghee/edible oil is three million tons per annum that is increasing at the rate of five percent per year.

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

- ▲ Per capita consumption continues to increase and is the highest in the south Asian region.

THREATS

- ▼ At present, only 34 percent edible oil is being produced within country and 66% was being imported for catering the domestic needs for which government was spending a huge foreign exchange on the import of edible oil every year.

- ▼ In spite of the significance of oilseed crops in reducing the country’s dependence on imported edible oil, neither the government nor the growers are moved to step up production of the crops. Farmers generally prefer sugarcane and rice because of the better returns these offer on their investment. Growers feel discouraged by the market price the oilseeds fetch and are also handicapped by the absence of an enabling environment. The farmers, who go for cultivating sunflower, often feel disgusted because they are left at the mercy of the market.

- ▼ Edible oils have a strong bearing on the national economy as their import bill constitutes about 5 percent of total imports. Of the country's estimated 3.6 million metric ton vegetable oil demand, less than a third is produced locally. In 1990, the country produced about 228,000 MT of rapeseed, the major oilseed crop, whereas in 2014, the crop was a disappointing 183,000 MT, implying a negative growth of 20 percent in a span of 25 years. For comparison, oilseed crops in India have nearly quadrupled in the same period.

- ▼ The softening trend in global palm oil prices is largely attributable to the overall economic lull that has engulfed commodity markets. Major buyers across the world, including India, the European Union and China have reportedly, used the opportunity to build up historic levels of reserves of the edible oil. Historically, palm oil importers in Pakistan have also tapered their purchases based on movements in international prices. However, the recent surge in the quantity of palm oil imports, towers head and shoulders above average imports over the past five years. The average price per ton, of imported palm oil, has dropped from $1,013 per ton in FY12, to $668 per ton, in FY15. In FY 13 and FY14; the average cost stood at $782 and $783 per ton, respectively.

- ▼ Due to slump in international market of edible oil and oilseeds, the local traders were offering Rs.2,050 to Rs.2,100 per 40 kg for canola crop produce in 2014-15. Low prices in local market discouraged the oilseeds growers resulting decline in edible oil production. Last year average price of oilseeds (canola/sunflower) prevailed around Rs. 2,500 to Rs.2,800 per 40 kg.

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

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

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

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

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

OUTLOOK

- Palm oil prices remained weak in 2015, but will start picking up from 2016, as global surpluses decline. Therefore, outlook for the sector remains stable with some growth on account of the staple nature of this sector.

ENERGY-GAS GENERATION & DISTRIBUTION

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

No. of Companies	Act/Est	1		
		2014-15	**2013-14**	
Industry Sales	Act/Est	212,520	220,760	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
PBT	Act/Est	-3,363		
Financial Charges	Act/Est	3,982		
PAT	Act/Est	-2,494		
		Expected to Increase	Expected to Remain Same	Expected to Decline
Net Profitability *(Next 1-2 Yrs)*	Best Guess			
Total Assets	Act/Est	211,777		
Current Assets	Act/Est	95,022		
Cash & Bank Balances	Act/Est	555		
Trade Debtors	Act/Est	64,621		
Short Term Investments	Act/Est	Nil		
Total Equity	Act/Est	3,573		
Current Liabilities	Act/Est	119,641		
Total Liabilities	Act/Est	204,631		

ENERGY - GAS GENERATION & DISTRIBUTION

SECTOR OUTLINE

Natural gas is the obvious advantage in Pakistan's current energy mix and plays a crucial role in the economy, meeting about 40% of the country's supply mix for commercial energy. Pakistan is the largest CNG consuming country in the world. According to All Pakistan CNG Association, 2130 CNG stations are operating in the country while around 4000 CNG stations have been approved for installation. There already exists a well-developed and extensive gas transmission and distribution network in the country. LPG has shown a tremendous growth in terms of rising number of producers, importers, marketing companies and distributors and has attracted an investment of $200 million since 2000 in the country. More investments are expected in the future.

OPPORTUNITIES

▲ The China Petroleum Pipelines Bureau (CPP) would construct the 700 kilometres 42-inch gas pipeline from Gwadar to Nawabshah. At a later stage it would be added by another 70 kilometres to transport gas from Iran under Iran-Pakistan (IP) gas pipeline project. The IP gas pipeline project which will transport 750 MMCFD gas from Iran to Pakistan. Both the countries have decided to complete gas pipeline project by the end of 2016 or in the beginning of 2017.

▲ The pipeline from Gwadar to Iran border (about 70 km) will be built by two Pakistani companies SNGPL (Sui Northern Gas Pipelines Limited) and SSGC (Sui Southern Gas Company) and it will be completed before Gwadar-Nawabshah pipeline.

▲ The government carried out a price comparison of all long-term gas import options & finally suggested that LNG import from Qatar would be the lowest. Qatar had last offered $6.56 per MMBTU at Brent price of $40 per barrel while the current price is $5.35. Compared with the natural gas import options, the government claimed the delivery price at border under the Iran-Pakistan gas pipeline was $5.70 per MMBTU at $40 Brent price and that of Turkmenistan-Afghanistan-Pakistan-India was $5.90.

▲ Leaders of Turkmenistan, Afghanistan, Pakistan and India broke ground Sunday 13th December, 2015 on a $10 billion gas pipeline some 25 years after the inception of the project. The TAPI gas pipeline is expected to help ease energy deficits in South Asia. Interstate Gas Systems Private Ltd – the Pakistani company responsible for import of gas into Pakistan via the project, along with Turkmenistan's Turkmen gas, Afghanistan's Afghan Gas Enterprise and India's Gail Ltd has equal shareholding in the TAPI Pipeline Company Limited (TPCL).

▲ Gas supply to Pakistan via TAPI project will begin in 2019.Pakistan and India will get over 1.3 billion cubic feet per day of gas from TAPI while Afghanistan will get 0.5 billion cubic feet. India will pay $200-250 million in transit fees to Pakistan while Pakistan will pay the same amount in transit fees to Afghanistan. Pakistan and India have both purchased five per cent shares of the TAPI project. Pakistan and India would each receive about 42 per cent of the gas and Afghanistan the remainder. The pipeline will deliver up to 33 billion cubic metres of gas annually.

- ▲ The PSO would be the LNG buyer delivered ex-ship (DES) at 13.37 per cent of Brent, while Qatar Liquefied Gas Company Limited 2 (QG2) will be the seller from 2016 to 2031. Annual contract LNG quantity for first year (2016) would be prorate of 2.25m tons and first quarter of 2017 after which the quantity would be increased to 3.75m tons per annum beginning second quarter of 2017.

- ▲ The electricity generated through LNG in Pakistan in 2017 would be cheapest in the world and if three new power plants of 3,600MW to be set up by the current government were run on LNG they would generate 30bn units annually and save Rs200bn.

- ▲ The government saved $400 million by running 600MW diesel-based power plants on LNG this year. These plants remained closed last year. Annually $1bn could be saved if 1,800MW of diesel-based plants were run on LNG at full capacity and in case of furnace-oil based plants the saving would be $600m.

- ▲ Ever increasing demand for power in our country has created a huge challenge for the Government as well as private power sector companies. Ever depleting gas resources in Pakistan have put gas fired IPPs in a difficult situation; however, the inclusion of RLNG has provided much needed breathing space to the power sector specifically and industrial sector as a whole.

- ▲ With the signing of the first-ever tight gas agreement between Sui Southern Gas Company and a joint venture of Polish Oil and Gas Company and Pakistan Petroleum Limited, Pakistan has entered the 'tight gas' club. It has joined ranks of the US, Western Europe and South Asian countries to explore and utilize this unconventional energy source.

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

THREATS

- ▼ The deadline for the Iran-Pakistan gas pipeline agreement expired on December 31, 2104. Iran has almost completed its portion of the project but Pakistani side has yet to begin the construction of the pipeline on its territory.

- ▼ Uncertainty hangs over the TAPI gas pipeline costly project. Aside from the risks associated with a link traversing war-torn Afghanistan, the four-country consortium has yet to confirm the participation of a foreign commercial partner willing to help finance it.

- ▼ There appears to be a controversy over the fact that Pakistan and Qatar have inked a government-to-government (G2G) deal for the award of a $16 billion contract for LNG supply from a Qatar-based firm without apparently going through the mandatory bidding process.

- ▼ As per plan of the government, power sector had to use the imported LNG but private power plants did not open any Letter of Credit (LC) accounts as the power sector also linked to purchase of LNG to certain conditions.

- Pakistan is buying LNG that costs us up to $12 per mmbtu or more when the world is buying the same at around $6 per mmbtu. Also we are switching to LNG when major Asian power producers are switching away from LNG.

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

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

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

OUTLOOK

- Greater availability of gas supplies via LNG imports and expanding pipeline gas trades with regional suppliers will allow Pakistan's gas imports to grow steadily over the coming years making the outlook stable for the sector.

ENERGY-OIL & GAS EXPLORATION & PRODUCTION

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	4		
			2014-15	2013-14	
A.	Industry Sales	Act/Est	365,259	427,243	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	194,236		
C.	Financial Charges	Act/Est	5,879		
D.	PAT	Act/Est	135,611		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	922,565		
F.	*Current Assets*	Act/Est	379,581		
G.	*Cash & Bank Balances*	Act/Est	29,783		
H.	*Trade Debtors*	Act/Est	215,997		
I.	*Short Term Investments*	Act/Est	21,455		
J.	*Total Equity*	Act/Est	678,337		
K.	*Current Liabilities*	Act/Est	132,825		
L.	*Total Liabilities*	Act/Est	244,226		

ENERGY - OIL & GAS EXPLORATION

SECTOR OUTLOOK

Change in dynamics of oil and gas exploration sector in Pakistan has been seen in recent times. In past, the country has been rated as gas heavy but lately the growth in oil production is evident. Pakistan's oil production that was stagnant for last 10 years has shown rise. It is expected that oil production will increase to 97kbopd by financial year 2016. Oil and gas fulfills 80% of Pakistan's energy needs and due to this, current and previous Governments have given high priority to this sector. The policies made for this sector are kept consistent in order to attract the foreign investment and promote exploration of oil & gas that will in return benefit the country. Total discoveries made so far are 221 out of which 54 are oil and 167 are O&G/Gas/Gas Condensate. The total estimated future O&G reserves of Pakistan which yet have to be discovered are 1864.8 MMBOE. There are 26 E&P companies operating in the country out of which 16 are foreign. 6 British E&P companies are also active in Pakistan.

OPPORTUNITIES

- Poly-GCL Petroleum Group of China has agreed with Ocean Pakistan Limited (OPL) to invest $500 million in exploration of oil/gas sector of Pakistan. The Chinese company would collaborate with the OPL in enhancing oil/gas production from depleting fields such as Zamzama field which was once producing over 500 Million Cubic Feet per Day (mmcfd) but now its production is 150 mmcfd. The Zamzama Block in Sindh province has potential recoverable gas reservoirs of 300 Billion Cubic Feet (BCF) and recovery of these reservoirs will save billions of dollars for the national kitty over the years.

- Break-up of drilling numbers reveals that the sector has increased its focus towards exploration activities in recent years, reflecting commitment of E&P companies to expand their production profiles.

- Chinese involvement in energy sector in general and exploration in particular is likely to increase exponentially once the evolving geo-strategic and economic partnership is underway in all earnestness.

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

- Indus Basin, one of the Pakistan's largest offshore basins is largely under explored thereby, provides opportunities for exploration activities. If capital expenditure is made available then offshore exploration is a huge opportunity to tap.

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

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

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

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

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

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

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

THREATS

- ▼ Drilling activity depicted a downward trend in FY15, as the country's Exploration and Production (E&P) sector could manage to drill only 81 wells as compared to last year's 100.

- ▼ While the exploration and drilling activity that includes seismic data acquisition continued to roll, the earnings of the oil and gas exploration and production sector continued to tumble.

- ▼ Lower FDI in the oil & gas exploration also seems to be a global phenomenon. With record decline in crude prices, most investment plans in this sector have been put on hold as high capital costs have made oil drillings unfeasible. Major oil companies are undertaking cost cutting measures to maintain profitability, by shelving new projects and reducing work force. It is hard to imagine that oil and gas companies would expand their offshore activities anytime soon, unless prices recover.

- ▼ There are trillion of cubic feet resources of Shale gas in Pakistan, which is encouraging development for the country's future to cope with the energy crisis. However, the exploration of Shale gas/oil was financially two times more expensive and time consuming compared to conventional natural resources & it was also technology intensive.

- ▼ The exploration activities are usually done in remote and developmentally deprived areas and locals demand and expect a lot from the organizations. The communities largely expect lucrative employment of unskilled labor that can lead to rifts between organization and the community, making it difficult for an organization to operate.

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

- The Upstream Capital Costs Index, which measures cost inflation in oil and gas projects, has gone up by 79% since 2000, with most of that increase coming since May 2005.

- An increasing risk for the oil and gas industry is a perceived degree of uncertainty of energy policy. Energy policy goals include security of supply and climatic change considerations, as well as more commercial goals such as afford ability and meeting demand growth. The non-commercial goals will shape policy and result in increasing intervention in the market in areas such as carbon pricing, strategic reserve requirements, and subsidization of favored sources of energy.

OUTLOOK

- Outlook remains constrained as Crude oil prices ran the oil and gas exploration and production sectors earnings in FY15, and FY16 also began on a much expected depressed note due to the softer crude oil prices in the international market.

ENERGY-OIL (PETROLEUM DISTRIBUTION & MARKETING)

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	4	
			2014-15	**2013-14**
A.	**Industry Sales**	Act/Est	1,420,523	1,677,421

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

B.	**PBT**	Act/Est	17,983
C.	**Financial Charges**	Act/Est	11,860
D.	**PAT**	Act/Est	9,796

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

E.	*Total Assets*	Act/Est	425,515
F.	*Current Assets*	Act/Est	329,597
G.	*Cash & Bank Balances*	Act/Est	10,234
H.	*Trade Debtors*	Act/Est	197,628
I.	*Short Term Investments*	Act/Est	5,438
J.	*Total Equity*	Act/Est	104,544
K.	*Current Liabilities*	Act/Est	299,065
L.	*Total Liabilities*	Act/Est	320,650

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. On individual basis, the largest growth was seen in petrol (motor gasoline) consumption that shot up by over 40 percent year-on-year. By a marked contrast, petrol sales were extravagant in September 2015, touching its all-time high volumes – 499k tons. While the increase in petrol consumption has been because of lower prices, better car sales, the CNG curtailment, and decreasing spread between CNG and petrol. Diesel volumes also touted a healthy growth of eight percent year-on-year in 11MFY15, and 19 percent month-on-month in May 2015 alone due to higher demand on agriculture sector

OPPORTUNITIES

- Hascol recognizes the importance of pipeline infrastructure and the developed storages at Shikarpur & Machike and has connected these storages with the pipeline network. Other than the storage nearer to the pipeline networks, Hascol took the initiative to develop storages at others supply envelops and accordingly developed & recently commissioned its depot at Daulatpur. To cater to the ever growing demand of Petroleum products, Hascol as an OMC has planned to develop further storage infrastructure at Sahiwal, Habibabad, Sihala & Tarrujaba

- Lower international crude oil prices, controlled retail prices, thriving auto sales and improved macros set the background for the petroleum consumption in the country in 2015. Consumption of major petroleum products witnessed volumetric growth n CY15 - in tandem with imports.

- The rise in petrol consumption has been the key reason for growth in the overall volumes sold by the oil marketing companies and the increase in the tons imported. For CY15, petrol sales saw an increase of over 33 percent year-on-year, and the imports observed a jump of around 60 percent, characterized by de-scaling of compressed natural gas (CNG) from the transport sector (and hence increasing demand), and declining retail prices of petroleum products amid weaker crude oil prices.

- The second striking feature of oil sales in 2015 - the slump in furnace oil consumption - was primarily due to falling reliance on furnace oil based power generation in the country. In CY15 furnace oil volumes dipped by eight percent year-on-year, while furnace oil imports plunged by seven percent versus those in CY14. The furnace oil consumption remained weak in peak summers (May - August 2015) against a surge in previous years.

- High speed diesel, registered a moderate increase in the year, explained by consumption in the transport segment amidst rising auto sector sales but a slowdown in the agriculture sector. Similar movements and trends are seen in 1HFY16 aggregates; the cumulative volume for OMCs clocked in at 11 million tons with an increase of around five percent versus 1HFY15.

- Petrol and diesel were up by 35 percent and five percent year-on-year, respectively, while furnace oil was down by around eight percent year-on-year. And the trend is likely to continue as the fundamentals (mentioned earlier) remained intact.

- As oil is the basic fuel that turns the wheels of industry, most sectors listed on the Pakistan Stock Exchange (PSX) are the beneficiary of free-fall of its price. Independent Power Producers (IPPs) are one of the principal gainers as cheaper Furnace Oil (FO) supplies ought to reduce their cost of power generation.

THREATS

- Pakistan has one of the five lowest prices for petroleum products amongst oil importing countries in the world, everything, from margins to taxes, is fixed under the Government regulatory formula. The government has fixed Rs 2.35 per liter margin for Oil Marketing Companies (OMCs) while Rs 2.60 to Rs 3.8 for dealers. This regulatory formula also was keeping the OMCs from cutting POL prices according to international ones.

- OMCs' inventory losses run in billions for they don't have a level-playing field in the presence of a highly regulated oil market

- India and Bangladesh have POL prices that stood higher than Pakistan and any drastic decrease in local petroleum prices may lead to smuggling of the heavily-traded commodity to bordering countries.

- In the first quarter ending September 30, 2015, the oil marketing companies were able to sell 5.2 million tons of key petroleum products that include furnace oil, high speed diesel and motor gasoline. This was around four percent lower than 1QFY15.

- Oil price has more than halved in 18 months due to persistent oversupply.

- The fall in furnace oil volumetric sales by the oil marketing companies is due to the introduction of another fuel –liquefied natural gas (LNG) that has been imported in the country for the first time. Around 200mmcfd of LNG has made its way into the country in May 15, which has eliminated around 180,000 ton of furnace oil. In this context, furnace oil consumption fell by 13 percent in May 2015 when compared to April 2015. The same dropped by two percent year-on-year in 11MFY15.

- The circular debt of Pakistan State Oil (PSO) has crossed Rs 220 billion against power sectors as the company does not have enough money to clear pervious Letter of Credit (LC) payments to buy petrol. The state oil company is out of money to buy petrol. The PSO had asked the government to provide Rs 75 billion on an immediate basis so that the company could import fuel. The company was facing serious financial crisis and was not in a position to open further LCs as its credit limit stand exhausted and LC lines of Rs 110 billion are blocked.

OUTLOOK

The outlook for the sector will significantly improve given consistent adjustments to the customer pricing on account of movement in international prices which assures the primary profitability of the sector. Petroleum retail market is likely to show growth on account of constraint supply of CNG and reduced petroleum prices

ENERGY-OIL (PETROLEUM REFINING)

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	4		
			2014-15	2013-14	
A.	Industry Sales	Act/Est	3.969		
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	4,702.414		
C.	Financial Charges	Act/Est	5,058.881		
D.	PAT	Act/Est	3,004.417		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	214,771.050		
F.	*Current Assets*	Act/Est	112,198.115		
G.	*Cash & Bank Balances*	Act/Est	31,469.636		
H.	*Trade Debtors*	Act/Est	29,407.349		
I.	*Short Term Investments*	Act/Est	123.543		
J.	*Total Equity*	Act/Est	50,605.516		
K.	*Current Liabilities*	Act/Est	117,452.930		
L.	*Total Liabilities*	Act/Est	144,838.181		

ENERGY- OIL (PETROLEUM REFINING)

SECTOR OUTLINE

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 has a total refining capacity to process around 400,000bpd or about 19MTPA of crude oil, against the current demand of 24MTPA. Total global refining capacity is 97 million bpd, and Pakistan, with nominal world share of 0.4 percent, is ranked 48th. Demand for oil products in the country is expected to grow steadily at seven percent on year-on-year basis, in particular for the furnace oil, motor spirit, diesel and aviation fuel, which accounts for 78 percent of total oil demand. Thus, the demand-supply gap will continue to strain heavily on the imports in future, if oil refining capacity is not added at a large scale. To meet fast growing demand of the POL (petroleum oils and lubricants) products it was planned by the government since long to set up new refinery projects, besides undertaking capacity expansion of the existing refineries. It was projected to achieve total capacity, in phases, up to 520,000bpd by 2014-15. There is indeed a long list of missed opportunities in the petroleum sector.

OPPORTUNITIES

- KP and Potohar regions are producing around 40,000 barrels of crude oil daily, which is expected to increase within the next few years as drilling in the area is in progress.

- At present, Attock Oil Refinery (ARL) is refining crude oil being produced in KPK, while ARL's peak daily refining capacity is around 55,000 barrels. An additional oil refinery in the province is necessary as crude oil production was expected to increase to around 90,000 barrels per day in the region and the ARL refining capacity was not sufficient to handle the additional output of crude oil. To meet the requirement, PSO was going to establish an oil refinery in KP with a daily capacity to refine up to 36,000 barrels of crude oil. Otherwise, additional crude oil would have to be transported to the Parco refinery in Muzafargurah, which would increase the fuel's cost.

- One sector that should have benefited from declining crude oil prices is the domestic oil refining business as the continued weakness in oil prices results in improvement in gross refining margins – critical factor for refineries.

- The fall in crude oil price has also been a blessing for refineries as far as their financial expenses are concerned. Buying crude oil shipments involves hundreds of millions of dollars, which have to be borrowed from banks. Pressure is off from credit lines and interest payments have come down.

- Byco has completed Pakistan's largest oil refinery in Balochistan with a capacity of 120,000 barrels per day, which is expected to reduce the country's imports of oil products. The current share of petroleum production in Pakistan by Byco will increase from 11% to approximately 39% after its new Refinery is commissioned and brought into commercial operations. The new Refinery will enhance overall crude oil refining capacity in the country from an existing 12.25 to 18 million tons per year, and it is expected to produce about 1.6 million tons of Fuel Oil, 2.4 million tons of Diesel, 1.1 million tons of Gasoline and 0.8 million tons of LPG on an annual basis. These volumes are required for Pakistan's consistently rising energy needs.

- Pakistan Refinery Limited (PRL) has completed the installation and has commissioned its isomerization plant. The chemical process converts low value Naphtha to premium product Petrol. Pakistan Refinery Limited has been exporting this low value product up till now and will now be able to increase its refining capacity by doubling its petrol production from 140,000 metric tons to 280,000 metric tons per annum, which translates into a monthly petrol output to approximately 24,000 metric tons from about 12,000 metric tons

- Pakistan is negotiating with China National Petroleum Corp on building a 10 million tonne per year refinery that would slash its oil products import bill by up to two-thirds. Expected to cost between $3 billion and $5 billion, the refinery might be built in modular stages, with the first phase capable of refining 3 million tonnes per year (60,000 barrels per day).

- Khyber Pakhtunkhwa government and the Gulf Company "Almotahedoon Petroleum Refinery" have agreed to establish Oil Refinery at Khushal Garh area of district Kohat for which the provincial government will acquire the required land with the condition that "Almotahedoon" being private company will pay 25% charges instead of 15% for the land acquisition under the Land Acquisition Act.

- A company Trans-Asia will set up a refinery having capacity to develop 100,000 barrels oil per day in Pakistan, for which it has imported all the required machinery and equipment. The company will itself announce the launching date after completing all the required formalities

- Tehran expected to offer discounts on crude sale to open up and get a foothold in oil market. With changing political landscape in the Middle East, Pakistan’s refining industry is expecting discounted crude oil imports from Iran after removal of international trade sanctions.

- The lifting of international sanctions on Iran will lead to increased opportunities for Pakistan to promote bilateral trade and investment, and to re-initiate work on the many stalled projects agreed to in the past, including Iran-Pak Refinery project.

THREATS

- Pakistan is spending - at current low oil prices - about $9 billion per year importing 15 million tonnes a year of gasoline, diesel and fuel oil and another $3 billion to $4 billion on importing crude oil. Around 80 percent of the country’s gasoline is imported. The country’s refineries use outdated hydro-skimming equipment and desperately need updating as they are only surviving due to a favorable tax regime.

- While in any other industry this would have led to a surge in investment to increase capacity, the uncertainty over the oil price cycle would probably not allow refineries to increase fixed expenditure.

- 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.

- The volatile crude oil and product prices in international market mostly results in narrow margins. In such case the sector adjusts its throughput to minimize the losses. Sharp decline in crude oil prices may result in inventory losses.

- The sector faces exchange losses due to devaluation of Pak rupee in making payments of raw material to suppliers in foreign currencies.

- Allocation of the quota by the federal government was one of the pre-conditions of the KP government for permitting any company to install oil refinery in southern districts of the province and the provincial government had rejected many proposals, presented by many companies, for the reason that they had failed to obtain quota from the federal government under the laws.

- The oil refineries have long term crude supply contracts, therefore, it would be difficult for them to quickly switch over to Iranian discounted crude oil.

- Beijing will allow independent refineries to export refined fuel next year for the first time, freeing up 20 percent of China's refining capacity for sales abroad as the government aims to cut a local glut and boost investment. The move will allow independent refineries, also known as "teapots" to enter the lucrative international market for the first time, raising concerns about a fresh flood of excess diesel and other fuels into Asia.

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

(INDIGENOUS/NON INDIGENOUS/OTHER)

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	18		
			2014-15	**2013-14**	
A.	**Industry Sales**	**Act/Est**	605,811	565,620	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	53,958		
C.	**Financial Charges**	**Act/Est**	31,400		
D.	**PAT**	**Act/Est**	61,849		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	723,621		
F.	*Current Assets*	**Act/Est**	382,077		
G.	*Cash & Bank Balances*	**Act/Est**	9,332		
H.	*Trade Debtors*	**Act/Est**	285,692		
I.	*Short Term Investments*	**Act/Est**	56		
J.	*Total Equity*	**Act/Est**	187,361		
K.	*Current Liabilities*	**Act/Est**	340,921		
L.	*Total Liabilities*	**Act/Est**	509,200		

ENERGY – POWER GENERATION

NON INDIGENOUS-RESOURCE BASED IPPs

SECTOR OUTLINE

The power sector of Pakistan is primarily operated through the National Transmission and Dispatch Company (NTDC) which is responsible for electricity distribution across Pakistan except for Karachi (and its surrounding areas) which is supplied by K-Electric. Currently there are around 35 Independent Power Producers (IPPs) contributing more than 40% of total electricity generation in the country. Domestic users are the largest consumers of electricity, consuming approximately 46%; followed by the industrial sector 30%, agriculture 10%, commercial sector 8% and others 6% respectively. The return on equity of IPPs is substantially higher than the average of all companies. On top of this, the extremely liberal 1994 Power Policy gave lifetime exemption to all IPP projects. Therefore, the post-tax rate of return is even higher and over twice the national average. The lifetime income tax exemption was unprecedented and no other industry enjoyed such special treatment. The annual revenue foregone is Rs. 51.5 billion. The energy producers are working hard to help Pakistan fight the energy crisis. They have endured delayed payments, unwarranted legal problems and numerous challenges to keep plants running so that consumers do not suffer.

OPPORTUNITIES

- There are 30 IPPs. 28 power stations are part of the Pakistan Electric Power Company system, while two IPPs supply to the K-Electric. Eight IPPs are relatively new and came into operation after 2010. As of 2014, the total electricity generation capacity of IPPs is 8,975 megawatts. This is 37 percent of total installed capacity in the sector and 55 percent of thermal capacity. In comparison, the public sector Gencos has a total generation capacity of 4,829 megawatts, equivalent to 54 percent of the capacity with the IPPs.

- The two largest IPPs are the KAPCO and the HUBCO, with combined capacity of 2,930 megawatts, representing 33 percent of the total capacity with the IPPs. Most of the other IPPs individually have capacity below 250 megawatts. There are also five hydel IPPs now, with a total capacity of 214 megawatts.

- The share of the IPPs in power generated had risen steadily from 39 percent in 2009-10 to 43 percent in 2013-14. As opposed to this, the share of Gencos has fallen from 20 percent to 12 percent.

- Nine IPPs have recently sought international arbitration. IPPs have served legal notice through international law firm, on NTDC (power purchaser) for payment of Rs 11 billion on account of Capacity Purchase Price (CPP). In case of non-payment, the IPPs have threatened to file claim for arbitration before LCIA. The legal fight between the Independent Power Producers (IPPs) and National Transmission and Dispatch Company (NTDC) at London Court of International Arbitration (LCIA) is expected to provide undue but legitimate edge to the IPPs with respect to capacity payments in future.

- The IPPs claim that delay in payments by the power purchaser caused shortage of funds due to which they could not purchase fuel and hence could not make their power plants available. Since the delay was on the part of power purchaser, they argued that they are entitled to capacity purchase price for the period of delay in payments by the power purchaser.

- ▲ Most of the IPPs under Power Policy 1994 are not regular in submitting quarterly reports as per the PSGR. This delay in timely submission of reports relating, in particular, to the level of thermal efficiency has probably led to some overcharging by the IPPs.

- ▲ The higher pre-tax profits are attributed to rapid growth in the price charged per Kwh by the IPPs for supply to the NTDC. Over the last four years, the price has nearly doubled. This has been passed through to consumers by enhancement in tariffs by Discos.

- ▲ The IPPs have managed their liquidity problem of large receivables by building up large payables with fuel suppliers, like PSO and the gas companies. For example, at the end of 2014-15, payables of HUBCO were equivalent to 92 percent of receivables. Therefore, the circular debt problem has primarily affected entities like PSO and OGDC and not the IPPs.

- ▲ The federal government, asked to refund unwarranted penalties worth Rs16 billion to Independent Power Producers (IPPs) in the light of a decision by an arbitrator, has decided to file an appeal in the international court.

- ▲ CPEC is a Chinese project of $46 billion, out of which $35 billion are reserved for energy sector only. The Chinese will invest that amount through IPPs.

THREATS

- ▼ Amid all the efforts to increase power generation in the country, the power sector's performance has not been satisfactory. The fall in international crude oil prices, and hence a subsequent decrease in local furnace oil prices, should ideally have been a good omen for the power sector of the country as furnace oil is a key fuel used in power generation. The decreased input cost should have resulted in a spur in power generation as crude oil price drop was profound (more than 30 percent year-on-year) in FY15. However this was not the case; power generation only inched up by less than two percent year-on-year in FY15. And the evidence of poor performance of power sector is said to dwell in a number of issues.
    a. First, load management and power outages continued in FY15 since there has been no significant improvement in power supply.
    b. Secondly, the government passed on the benefit of lower furnace oil prices, and hence the generation cost to the end consumer through frequent downward revisions in the fuel adjustment surcharge. While the end consumers benefited from lower electricity bills, the central bank names the liquidity limitations erupting from circular debt to impede the generation in the country. And amid lower input costs, the mounting receivables of the oil marketing companies affected the furnace oil imports as seen from lower furnace oil consumption in the country.
    c. Thirdly, the generation from the IPPs also remained restricted as they continued to face financial constraints due to non-payment of dues by the government. Some temporary encumbrance on power generation in FY15 also came from lower water availability for hydel power generation, especially in early2015.

- The domestic power industry is unable to generate enough electricity to meet the Country's needs resulting in a demand-supply deficit of around 5,000 MW at peak demand levels.

- Pakistan is highly dependent on expensive sources of energy namely gas, oil and diesel for electricity generation. The world generates more than 40% of total electricity from coal due to its lower cost, whereas Pakistan generates less than 0.1% from coal.

- The dispute of a payment of Rs 329 billion released to all IPPs in June 2013 by the incumbent government aimed at clearing the claims of private generation companies due to which the entire power sector was choked. The payment to IPPs is still under discussion at different forums as former Auditor General of Pakistan, claimed that payment made to IPPs was illegal. The IPPs claimed payment of Rs 340 billion of which Rs 11 billion were challenged by the NTDC.

- FBR has started to disallow input tax adjustment in proportion to value of Capacity Purchase Price (CPP) which resulted in huge tax demands being unfairly raised against IPPs. FBR goes for recovery of the disputed amount directly from IPPs'' bank accounts. Another difficulty is created by the direction from FBR to Wapda/NTDC/CPPA, to deduct these disputed taxes at source - from payments that are due to be made to IPPs for supply of power. The most recent problem has arisen as a result of the issuance of stay orders, provided IPPs are prepared to submit unconditional bank guarantees to the FBR. Additionally, FBR has also been directing customs authorities to stop clearance of plant equipment which is being re-imported into Pakistan after repairs. This creates difficulties for IPPs to continue operating in an efficient and reliable manner due to increased financial stress, which is also adversely affecting the economy.

- While terming payment of Rs 480 billion to Independent Power Producers (IPPs), Gencos and fuel suppliers as illegal, Auditor General of Pakistan has recommended the recovery of Rs 23 billion paid to IPPs as Liquidated Damages (LDs).

- The government has discriminated against existing IPPs liable to pay a 5 percent duty by granting a three-year customs duty exemption to short-term Independent Power Producers (IPPs) in spite of Federal Board of Revenue's (FBR) opposition. FBR opined that since presently IPPs are subjected to a 5 percent duty therefore short-term IPPs must also attract a 5 percent duty to bring them at par with the existing IPPs. In addition total exemption of duties and taxes is not available under temporary importation scheme.

- The IPPs were providing electricity to the National Transmission and Dispatch Company (NTDC) at predetermined rates under a 2002 Power Purchase Agreement (PPA) with the government and they were bound to be paid in 30 days. During the last government, payments virtually dried up and were delayed recurrently to the point where the IPPs ran out of money to buy fuel, forcing some of the plants to shut down. The government immediately imposed a Rs. 16bn fine on 13 IPPs for shutting down the plants.

- 14 out of 43 Independent Power Producers (IPPs) are not working while 21 projects are producing less than 50 percent electricity. Only 3 power projects are producing 90 percent electricity. The quantum of electricity to be added to the national grid during the government's tenure is approximately 18,034 Mega Watt (MW) while the expected demand at that time would be 25,790 MW. The figures show that even in 2018, Pakistan will have a short fall of 7,000 MW.

OUTLOOK

Ever increasing demand for power in our country has created a huge challenge for the Government as well as private power sector companies. Ever depleting gas resources in Pakistan have put gas fired IPPs in a difficult situation; however, the inclusion of RLNG has provided much needed breathing space to the power sector specifically and industrial sector as a whole.

INDIGENOUS-RESOURCE BASED IPPs (COAL)

SECTOR OUTLINE

Pakistan's coal reserves are the 4th largest in the world but only 4 percent of electricity is generated by coal. Pakistan has immense coal resources of more than 185.5 billion tones (Thar alone 175 billion tones), and if half of these resources are exploited properly, it would be sufficient for generating 100,000 MW of electricity for 30 years. There are lignite coal reserves in Lakhra, Sonda, Indus East and other coal fields of Sindh. The Lakhra coal field is thoroughly investigated and developed. Several public and private mining companies are mining coal from Lakhra. It has been confirmed that Lakhra coal is suitable for power generation. A 150 MW FBC plant is currently being operated by WAPDA on Lakhra coal. The Sonda and other coal-fields of Sindh are yet to be investigated and developed. Good quality Sub-bituminous coal is available in various coalfields of Baluchistan and Punjab, which coalfields are considered suitable for power generation. Some small coal reserves are also located in NWFP and AJK, and are being mined on a small scale.

OPPORTUNITIES

▲ In a bid to utilise the country's vast coal resources and kick-start projects under the China-Pakistan Economic Corridor (CPEC), the Private Power and Infrastructure Board (PPIB) has approved a 1,400-megawatt power generation project (four units of 350MW each) to be set up in Thar. This is the second Thar coal-based independent power plant approved by the PPIB, which will be established by the Shanghai Electric Group Company of China. The first was a 660MW Engro power project.

▲ Pakistan and China have already entered into an agreement for laying of a transmission line for the evacuation of the electricity from the Thar plant to the national grid. The project is expected to be commissioned by 2018. This is the largest project on the top priority list of the CPEC.

▲ Pakistan and China signed in Beijing a formal agreement for around US$ 1.5 billion financing for a 3.8 million tonnes per annum of coal mining project and a 660MW coal-fired power plant at Thar. The agreements were signed by two syndicates of Chinese and Pakistani banks with Sindh Engro Coal Mining Company (SECMC) and EngroPowergenThar Ltd (EPTL) for local and foreign loans to finance mining of Thar Coal Block-2 and utilisation of its coal for 660MW power generation.

▲ The other energy project signed up under the CPEC is the 1,320MW Port Qasim Electric Power Company power plant at Port Qasim, Karachi. The financial close of the project has been achieved and is being implemented as a prioritised project under the CPEC. The project is being developed at a cost of US$ 1.9 billion and targeted to start production by end of 2017.

- Coal is truly the most viable power generation option for Pakistan, offering a fortune-turning proposition, which will not only address the severe power shortage crisis but also bring with it energy security to the country for its future generations.

- The total Thar project cost, mining plus power is US$ 2billion and $1.1bn goes to the power plant and $0.9bn to the mining side. Chinese are on the mining side and on power side there are other consortium with which is on 49 to 51 ratio, the later is with the government on the mining side.
- With its gas reserves nearly depleted, Pakistan generates 37% of its electricity using oil which is the most expensive source of power generation while there is negligible reliance on its available coal reserves. The abundance of these reserves can be equated in energy terms to the combined oil reserves of Iran and Saudi Arabia and are capable of producing 100,000 MW of electricity for the next 200 years.

- Thar, with 175 billion tons of coal, is home to the 7th largest coal reserves in the world and foreseeably the only viable and sustainable solution to Pakistan's energy shortfall which currently exceeds5000 MW.

- The overall objective of developing Thar coal deposits is to generate electric power from the country's own natural resources, mainly to reduce its dependence on imported fuels and increase its reliance on its own indigenous fuel base.

- Development of Thar Coal Project would cost Rs 430 billion (USD5.5 billion).This will lead to a infrastructural, technological and developmental investment in the country. This will enable Thar Coal Pakistan to generate 20,000 MW of electricity for next 40 years.

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

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

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

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

THREATS

- Critics have expressed concern over such coal-fired projects, saying that the "dirty fuel" would add to air pollution. Some think delays have been terribly excessive.

- 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.

- Due to lack of Infrastructure and robust energy policy, the potential of Thar coal reserves has not been developed for the last three decades.

- 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.

- 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.

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

INDIGENOUS (HYDEL)

OPPORTUNITIES

- WAPDA is constructing a number of new hydropower projects on priority; while on the other hand, it is also engaged in executing refurbishment and rehabilitation of its aged hydel power stations. Hydel power projects with a cumulative generation capacity of more than 1400 MW are under construction.

- Government of Pakistan aims to achieve power generation mix through development of indigenous energy resources. The government is committed to arrange timely finances for these projects and monitor their development regularly in order to complete them as per schedule. It is expected that 16, 564 MW power generation will be added in the national grid system through various resources by completing the new projects which will reduce/eliminate load shedding during next four years.

- The China EXIM Bank will provide US $448 million to help complete strategically important 969MW Neelum Jhelum Hydropower Project (NJHP), while in yet another significant development, the Central Development Working Party (CDWP) has also approved revised PC-I of the project amounting to Rs. 274.882 billion. NJHP is being executed on priority to induct low-cost hydel electricity in the National Grid, and to establish priority water rights over the Neelum and Jhelum Rivers. The project is scheduled to be completed in 2016. On completion, the project will contribute about 5.15 billion units of low-cost electricity per annum to the National Grid.

▲ The World Bank has allocated an unprecedented amount of $ 1.8 billion for Pakistan's development projects, mainly in energy sector, in the current year. The World Bank has also expressed agreement to assist with financing for a Dasu dam, to be built in Kohistan area on Indus River with a 1500MW power generation capacity. The World Bank Board has already approved power generation enhancement project.

THREATS

▼ Electricity is a secondary energy source which is obtained by converting primary sources like gas, oil, coal, nuclear power & other natural sources. Reliance on oil & gas is highest in Pakistan which has exposed the country to many risks and growing problem of circular debt.

▼ Pakistan is fulfilling its energy needs through expensive oil and gas based power plants. Pakistan is producing around 36pc from oil, 29pc each from gas and hydel and 5pc from nuclear to meet requirements.

▼ Heavy investment is needed as dams are mega projects and the construction period for the dams is 8-10 years which is an extensive period. This investment is so large that the local banks avoid giving loans for the particular projects. Some of the international donors are already involved in this loop.

▼ Some sites in the power sector have been politicized for example the Kala Bagh Dam. If this dam was built, it could have avoided the floods that Pakistan faced in the recent years. This dam has the capacity of 3000-4000 megawatts of energy.

INDIGENOUS (WIND)

OPPORTUNITIES

▲ The wind corridor will add 1,000 megawatts electricity to the national grid by 2018, as more investors are coming to wind industry.

▲ FWEL-I, II projects involve construction, erection and operation of 100 MW of wind generation capacity, at Kutti Kun, close to the port city of Karachi. Under the project, electricity will be sold to the national grid under a 20-year agreement. It would pay back its total investment within 10 years and after that the cost per unit of the wind energy would be about Rs6 while currently its cost is around Rs10.9 per unit, as the government recently reduced it from Rs14.

THREATS

▼ Balochistan coastal areas also have huge potential for alternative green energy but lack infrastructure facilities. Interestingly, when the plants were installed and were made operational, they tripped 200 times due to poor transmission system.

▼ Although the production capacity from wind projects is enormous to feed the country, yet the weak and obsolete power transmission is a major challenge to let the generation plants operate at full capacity.

INDIGENOUS (SOLAR)

OPPORTUNITIES

▲ On May 5, 2015, the Prime Minister inaugurated 100MW solar energy project which will generate 100 MW electricity. In Solar Energy, 33 LOIs for cumulative capacity of approximately 888.1 MW On-Grid Solar PV power plants have been issued. Four (4) companies have submitted the feasibility studies of their projects and one feasibility study is approved by AEDB. Other sponsors are at the stage of preparation of feasibility studies. Also NEPRA announced upfront tariff for solar power projects for a total of 50 MW capacity on 21st January 2014. The upfront tariff is as follows:

North Region: 17.006 cents/kWh
South Region: 16.306 cents/kWh
The upfront tariff has been awarded to 05 IPPs by NEPRA.

▲ A medium to long term policy for improving the energy mix is needed to be implemented to effectively address the growing energy problems of the country.

▲ The government is committed to achieve less oil dependent power generation mix through development of indigenous energy resources. Pakistan's energy fuel mix is not sustainable so measures such as setting up indigenous resource based plants and to replace oil are required to bring down overall cost of power generation.

THREATS

▼ Quaid-e-Azam Solar Park Critics say that the 100 megawatt project could only generate 10 to 12 megawatts of electricity at the supposed cost of Rs 18 billion, and cited it as a poor choice compared to hydel electricity which would have provided 90 megawatt at a much lower cost.

▼ Electricity is a secondary energy source which is obtained by converting primary sources like gas, oil, coal, nuclear power & other natural sources. Reliance on oil & gas is highest in Pakistan which has exposed the country to many risks and growing problem of circular debt.

▼ Pakistan is fulfilling its energy needs through expensive oil and gas based power plants. Pakistan is producing around 36pc from oil, 29pc each from gas and hydel and 5pc from nuclear to meet requirements.

OUTLOOK

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

CIRCULAR DEBT

OPPORTUNITIES

▲ The federal government is expected to renegotiate an applicable tariff with Azad Kashmir and make some payments on behalf of the AJK government, besides facilitating recovery of electricity arrears from provincial governments.

- ▲ The amount of circular debt build-up is related to a number of policy decisions to be implemented by the Ministry of Water and Power. The subsidy of AJK, Fata and the amount based on the understanding that timely policy actions in all these areas will ensure that the budgeted amount is sufficient and does not result in the increase of the circular debt.

- ▲ The government has rationalized tariff and withdrew subsidy for those using below 300 units in one month, recovery was improved from 87.1 per cent in 2013-14 to 89.9 per cent in 2014-15. However, losses remained at the level of 18.7 per cent because of an increase in energy supply.

THREATS

- ▼ Circular debt has been a persistent problem in the domestic energy sector and a cause of concern for the whole power sector. The underlying issues fueling circular debt are expensive generation mix and high transmission & dispatch losses. The Government of Pakistan announced a bailout of PKR 480 billion in June 2013 to help address the issue but due to the above factors circular debt has re-emerged. Consequently, the buildup of receivables throughout 2014 forced IPPs call upon the sovereign guarantee for settlement of outstanding dues in November 2014. This guarantee call was withdrawn subsequently by IPPs after the Government of Pakistan agreed to settle all outstanding capacity payments and gave positive assurance for settlement of outstanding interest payments by April 2015.

- ▼ Receivables of the distribution sector increased by more than Rs120 billion during 2014-15, of which increase of Rs75 billion was due to the private sector. The increased circular debt included dues of Rs43.97 billion that were to be paid by K-Electric. Moreover, the high T&D losses of distribution companies (DISCOs) also contributed to the debt. The authority had set an average loss target of 15.29% for 2014-15, whereas losses of DISCOs remained at around 18.73%.

- ▼ The unpaid electricity consumption bills by the private sector and the higher transmission and distribution (T&D) losses were the two leading factors that contributed to the circular debt, which rose 23% to Rs633 billion in the year ended June 30, 2015.

- ▼ The circular debt of the power sector is continuing to rise despite a series of surcharges imposed on consumers and other measures taken to contain it under a three-year plan.

- ▼ Under-budgeting of power sector subsidy by the finance ministry is emerging as a major stumbling block along with other structural rigidities in the system in controlling the circular debt. The government had allocated a subsidy of Rs98 billion in the 2015-16 budget compared to Rs221bn in 2014-15 to artificially lower budget deficit at the cost of power sector's financial stability.

- ▼ The subsidy actually being passed on by distribution companies (ex-Wapda Discos) to residential, agricultural, AJK and Fata consumers was more than Rs200 billion. "How can this be covered with a Rs98bn budget?" Because of this reason, the circular debt increased although it had been successfully capped in the first year (2015) due to "historical reduction of 5.8 per cent in aggregate technical and commercial (ATC) losses".

- The Public Accounts Committee (PAC) termed the payment of Rs 480 billion in circular debt to power generating companies as illegal and directed the Water and Power secretary to conduct an audit into the production capability of private power companies and ensure the return of billions of rupees to the national exchequer.

- The government has failed to meet the circular debt target agreed with the International Monetary Fund (IMF) for 2014-15. The government had agreed with the Fund to cap circular debt at Rs 250 billion in 2014-15 but the revised estimate was Rs 262 billion- Rs 12 billion higher than the target.

OUTLOOK

GOP's grip on circular debt's underlying issues is tenuous with an unlikely resolution in the near term. However, the outlook for the sector will significantly improve given consistent adjustments to customer pricing on account of movement in international prices which assures the primary profitability of the sector.

FERTILIZERS

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	7		
			2014-15	2013-14	
A.	Industry Sales	Act/Est	239,181	217,956	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	65,195		
C.	Financial Charges	Act/Est	15,423		
D.	PAT	Act/Est	63,901		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	454,334		
F.	*Current Assets*	Act/Est	77,900		
G.	*Cash & Bank Balances*	Act/Est	14,800		
H.	*Trade Debtors*	Act/Est	4,893		
I.	*Short Term Investments*	Act/Est	37,771		
J.	*Total Equity*	Act/Est	216,092		
K.	*Current Liabilities*	Act/Est	94,897		
L.	*Total Liabilities*	Act/Est	231,084		

FERTILIZERS

SECTOR OUTLINE

Pakistan's Fertilizer sector recorded highest ever January urea off-take and second highest ever January DAP off-take at the start of 2015. This surge came after a lackluster 2014, in terms of nitrogenous fertilizer off-take. Urea off-take had been declining steadily over the years despite flattish prices in the last 12 months. Although the year-on-year increase in January urea off-take is paltry, channel check suggests an improving farmer's economy promises a bright year for fertilizer intake. During first two months of Kharif season 2015-16 (April-May), urea off-take was about 788,000 tons showing an increase of 18.4 percent while DAP off-take was 179,000 tons showing an increase of 17.2 percent over same timeframe of 2014-15. During the same period, the nitrogen and phosphate off-take increased by 18.1 and 20 percent respectively.

OPPORTUNITIES

- Low Penetration of Fertilizers is expected to improve the excess demand situation and the seller will remain in a strong position.

- Industry enjoys low resource costs; therefore profitability for this sector remains high.

- The federal government has transferred Rs10 billion to the State Bank of Pakistan (SBP) to distribute among fertilizer manufacturers as subsidy on di-ammonium phosphate (DAP). The remaining 50% of the total subsidy amount is to be transferred by the provincial governments of Punjab and Sindh.

- The government will pay subsidy on purchase of phosphatic and potassic fertilisers on the basis of sales tax invoices and sales tax returns submitted by the Manufacturers/ commercial importers of the said commodity

- As per government policy all new fertilizer plants are granted concessional rates on feed gas for initial ten years which comes to about Rs 60/bag.

- Economic Co-ordination Committee (ECC) of the Cabinet has allowed Petroleum Ministry to supply imported LNG to fertilizer sector after fulfilling power sector's needs.

- Federal Board of Revenue (FBR) has agreed to introduce deemed price mechanism for charging reduced rate of sales tax on the import and local production of Di-ammonium Phosphate (DAP) fertilizer in the country

- LNG is expensive compared to natural gas produced in the country and, therefore, the government is planning to subsidize the imported gas for fertilizer manufacturing plants to keep the commodity's prices to a minimum for the farmers.

- A continuous availability of LNG to the plants during 2015 would enable them to produce 1,270,683 MT of urea which would result in estimated savings of $404.00 million in foreign exchange and Rs 9.60 billion in subsidy to be provided by GoP to the imported urea

- ▲ Local output of the natural gas is around 4 billion cubic feet a day, while demand, during peak season, is around six to 6.5 billion cubic feet. To plug the gap, as to run factories, feed houses and generate energy, the government has worked to sort the issue out on war footing. It gave the contract to the Engro Corporation after a bidding process to build a Liquefied Natural Gas (LNG) terminal at Port Qasim. The company completed the project within in 11 months after spending $150 million as capital cost. It also took a floating storage re-gasification unit (FSRU) on lease which having the capacity to deliver 600 million cubic feet/day natural gas directly to Sui Southern Gas Company's natural gas pipeline system.

- ▲ The gross margins showed improvement on the back of Engro's new plant running on concessionary feedstock gas - which has eased many a nerves at the company. The DAP trading margins are also on the higher side, helping EFERT register a 400 bps year-on-year improvement in gross margins for 9MCY15.

THREATS

- ▼ The new procedure for provision of subsidy on DAP as delay in implementation of Prime Minister's package would cause discontentment amongst farmers. Prime Minister's package announced on September 15, inter alia contained the provision of subsidy of Rs 20 billion to the farming community on purchase of phosphatic and potassic fertilizers. Fifty percent funding for the subsidy was to be contributed by the provincial governments.

- ▼ No provincial government except Baluchistan has agreed to contribute its shares for the subsidized DAP. They insist that the federal government should bear entire burden of subsidy. The cultivation of Rabi crops has already started and DAP is an extremely necessary ingredient for enhancing productivity. The farmers are not buying fertilizer as they are waiting for the immediate implementation of the Prime Minister's packag

- ▼ The government has raised the natural gas tariffs, as notified by Ogra. As was widely anticipated, the sector that has faced the biggest hit is the fertilizer sector. The sector saw a 62 percent increase in its primary raw material feedstock gas, with exceptions aside. This is in addition to the recently imposed - yet not implemented (but accounted for) GIDC levied earlier this year.

- ▼ Fertilizer cost accounts for roughly half the farm input cost. A 62 percent rise in feedstock gas price would roughly translate into an 8-10 percent increase in urea price. Such a rise in the 50 percent cost component would lead to a 5-6 percent increase in farm input cost. This would require the major crops support prices to go up by at least the same quantum. The farmer's economy is already worse of, as they face high input cost and don't get good prices in return. Compare the situation to that in India, where fertilizers are heavily subsidized, and the local farmer will certainly be under greater pressure

- ▼ Over the years, Pakistan's fertilizer sector has been suffering due to the shortage of gas which is essential raw material for the production of urea fertilizer. Short supply of gas has resulted in idle-capacity, restricting local urea production. Against an annual local demand for six million tons, Pakistan's fertilizer industry has a cumulative installed capacity of producing 6.9 million tons, but due to short supply of gas only four million tons is being produced for the last couple of years.

- The price for the local gas to the new fertilizer plants is Rs 70 per mmbtu, for the old fertilizer plant is Rs123 per mmbtu, while the imported LNG will cost them about Rs 850 per mmbtu. The prices of imported LNG would be 6 times or 591 percent higher , for the old fertilizer plants , while for the new fertilizer plants it will be more than 1100 percent expensive.

- The urea off-take has slowed down of late for variety of reasons, the biggest being uncertainty over pricing.

- The country has been meeting the deficit by importing urea fertilizer at high cost. To bridge fertilizer shortfall, the TCP imported a total of 747,398.95 tons of urea fertilizer in the last seven months — December 2014 to June, 2015. Farmers estimate that they required at least 2.8 million tons of fertilizer in the winter season.

- Fixed Costs are high, which will reduce competition and investment into new plants.

OUTLOOK

The agriculture outlook is constrained, with lower commodity prices and a lowered production outlook in general. However, with LNG deal being inked, perhaps the Fertilizer industry will receive a boost. Moreover, the Kissan Package is a huge benefit to the Fertilizer industry; ensuring availability of gas at lower rates for manufacturers.

FINANCIAL INSTITUTIONS

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	23		
			2014-15	**2013-14**	
A.	**Industry Sales**	**Act/Est**	352,309	267,389	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	**Act/Est**	229,707		
C.	**Financial Charges**	**Act/Est**	155,860		
D.	**PAT**	**Act/Est**	152,288		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	***Total Assets***	**Act/Est**	11,136,174		
F.	***Current Assets***	**Act/Est**	-		
G.	***Cash & Bank Balances***	**Act/Est**	660,906		
H.	***Trade Debtors***	**Act/Est**	-		
I.	***Short Term Investments***	**Act/Est**	5,012,044		
J.	***Total Equity***	**Act/Est**	830,841		
K.	***Current Liabilities***	**Act/Est**	-		
L.	***Total Liabilities***	**Act/Est**	9,454,187		

FINANCIAL INSTITUTIONS

SECTOR OUTLINE

Despite a major hike in the effective tax rate coupled with shrinking gap between deposit and lending rates, big banks continued posting healthy profits in the first half of 2015. Net income of the five largest banks operating in Pakistan registered a rise of 12% year-on-year to reach Rs58.3 billion in January-June 2015. Banking spreads have been shrinking since the end of 2014 in the wake of accommodative monetary policy of the central bank. Cumulatively, lending rates and deposit rates went down by 129 basis points and 106 basis points, respectively, in the first half of 2015. Outstanding advances extended to private-sector businesses at the end of January amounted to Rs3.15 trillion, up 9.98% from a year ago. The largest year-on-year (YoY) loan increases (in percentage terms) were recorded in the categories of machinery import (79.2%), fixed assets (25.3%), securities shares and other financial instruments (21.7%), readymade garments (17.1%) and real estate (11.3%). Non-performing loans (NPLs)-to-loans ratio decreased from 12.5% in September 2015 to 11.4% in December 2015. The ratio of net NPLs-to-net loans decreased from 2.5% to 1.9% over the same period.

OPPORTUNITIES

- ▲ Pakistan's central bank is expanding issuance of local currency Islamic bonds (sukuk), auctioning 100 billion rupees ($955 million) worth of three-year paper this week, a much-needed tool for the fast-growing Islamic banking sector. The central bank plans to offer another 100 billion rupees worth of sukuk in April, according to its auction calendar. If successful, the two auctions would exceed the total amount of sukuk the central bank has sold in the previous three year period.

- ▲ In the 12-month period ending in September, Pakistan´s 22 Islamic finance institutions have added 409 billion rupees in assets, a 36.2 percent growth rate, central bank data shows. The sector now holds a 11.2 percent share of total banking assets, up from 9.9 percent a year earlier.

- ▲ Pakistan launched the National Financial Inclusion Strategy in May 2015 in order to increase access to and usage of financial services by all Pakistanis, including those traditionally marginalized in the formal financial system. Financial inclusion can help Pakistan's society and economy grow stronger and more inclusive. The economy grew at 4.24 percent last year, the highest rate in seven years, but poverty remains high. Pakistan's goal is to achieve universal financial access to at least 50 per cent of adults, including women and youth, and to increase the percentage of SME loans in bank lending to 15 per cent by 2020.

- ▲ Pakistan received the 'best second placement' and 'Best Privatization Award 2015' in Asset's` Best Deal Awards' category. The Asset is Asia's leading issuer and investor-focused financial monthly publication which recognizes Asia's top financial institutions for excellence in the industry. Pakistan received the award in recognition of the country's transactional work on the divestment of the government's shareholding in Habib Bank Limited in 2014-15.

- ▲ Restricting the infected portfolio and striving towards more cost effective deposit mix would help exploring quality avenues for growth in revenues.

- ▲ Through technology based product innovation, emphasis on service quality, growth of existing branch network, alternate delivery channels along with expansion in Mobile, Branchless and Islamic banking respectively; sustainable profitability in future can be ensured.

- ▲ The Bank Group's past support to the country has enabled it to strengthen its banking system and increase private sector participation. IFC investments have supported nearly nine million customers through the private sector in expanding access to financial services to women and to micro, small, and medium enterprises. Some of the recent engagements include: Supporting the development of the NFIS in 2015 and supplementing it with nine technical notes on agriculture finance, MSME finance, digital transactional accounts, housing finance, Islamic finance, payments systems, secured transactions, insurance and pensions.

- ▲ Set up in partnership with the Pakistan Poverty Alleviation Fund (PPAF), the UK's Department for International Development (DfID) and the German development bank KFW, it will be the world's first national level intermediary organization that will help mobilize funds from investors specifically for microfinance institutions.

- ▲ The government has launched Universal Financial Access Imitative, promising to divert maximum possible financial transactions towards digital side for achieving financial inclusion target. Access to financial services has improved from 12% of population in 2008 to 23% in 2015. "Universal Financial Access initiative, under the umbrella of the UN, the World Bank and the Government, will accelerate this pace and serve as a catalyst for improving socio-economic conditions and poverty alleviation.

- ▲ The introduction of voluntary tax compliance scheme (VTCS) will help the banking system to strengthen the deposit base as the scheme offers reduced income tax on registration. The government estimated around Rs250 billion to be declared under the scheme.

- ▲ Gulf Air, the Kingdom of Bahrain's national carrier, recently entered into a business alliance with Faysal Bank Limited, one of the leading banks in the Islamic Republic of Pakistan, in a move to further facilitate air travel for the bank's credit and debit card holders.

- ▲ The government is negotiating with different local and international financial institutions to secure funding for Dasu Hydropower project. 1.44 billion rupees will be taken from local banks while another eight hundred million dollars from any international bank for execution of the project.

THREATS

- According to The Global Findex Database produced by the World Bank, the level of financial inclusion in Pakistan is the lowest in South Asia. Women have a much lower rate of financial inclusion in Pakistan than men, with a gap of between 5-11 percent. The gender gap in South Asia as a whole is 18 points, the largest among developing countries.

- Around 85 percent of adults here do not have access to formal financial services, either through a traditional bank or branchless banking (mobile banking). That is not to say that people in Pakistan are not using financial services - more often, those services are informal and include sending cash with a bus driver rather than through a regulated payment service, hiding savings in a cupboard rather than depositing them in a secure bank account and getting credit from a money lender rather than an insured finance institution.

- Only 15 percent of people in Pakistan had access to formal financial services as compared to the regional average of 46 percent.

- Pakistan's total external debt and liabilities increased 7.1 percent to $68.5 billion by December 31, 2015, the central bank said. Outstanding stocks amounted to $64 billion a year ago. The increase in stock was attributed to commercial loans and Euro bonds. Disbursement from the International Monetary Fund (IMF) stood at $1.42 billion during the year.

- Since 2013, banks and other financial institutions have written off over PKR 20 billion in loans. National Bank of Pakistan (NBP) alone had written off at least PKR 371.4 million in loans.

- The banking deposits of private sector slid eight percent to Rs2.312 trillion during the last seven months as businessmen withdrew funds to improve their balance sheets and avert withholding tax. Imposition of withholding tax of 0.3 percent on non-cash banking transactions also corroded the deposit base. The analysts said small traders and other business concerns made large withdrawals after the imposition of the levy since July 01, 2015.

- Deposits of textile industry witnessed a significant decline of 22 percent to Rs96.3 billion as compared to Rs123.61 billion. The deposits by manufacturing sector decreased 4.35 percent to Rs637 billion from Rs666 billion.

- Banks would pay taxes at different rates, ranging between 10% and 25%, depending on the source of income, such as dividends and income from mutual funds. However, the government imposed a uniform tax rate of 35% on all sources of banking incomes, which dented the bottom lines of banks in the first half of 2015. Banks' effective tax rate during the second quarter of 2015 remained 54% versus 35% recorded in the same three-month period of 2014. Taxes paid by

Habib Bank, United Bank, MCB Bank, National Bank and Allied Bank amounted to Rs47.5 billion in the first half of 2015, up a massive 77% from a year ago.

OUTLOOK

The banking sector of Pakistan continued to show strong performance on the back of improved earnings. The profits of the banking industry increased sharply during FY15, largely due to their investment in government securities. However, despite lower interest rates, the consumer demand for credit is still slow. Banks are tending towards risk free government paper while being more cautious in expanding advances at a higher rate. Upcoming materialization of CPEC and other government backed mega projects will help credit off-take numbers in coming months. Outlook is positive.

FOOD, BEVERAGES & CONSUMER PRODUCTS

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	19		
			2014-15	**2013-14**	
A.	**Industry Sales**	**Act/Est**	224,443	204,747	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	**Act/Est**	20,582		
C.	**Financial Charges**	**Act/Est**	4,993		
D.	**PAT**	**Act/Est**	15,561		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	***Total Assets***	**Act/Est**	142,209		
F.	***Current Assets***	**Act/Est**	55,167		
G.	***Cash & Bank Balances***	**Act/Est**	9,929		
H.	***Trade Debtors***	**Act/Est**	4,633		
I.	***Short Term Investments***	**Act/Est**	20,451		
J.	***Total Equity***	**Act/Est**	57,499		
K.	***Current Liabilities***	**Act/Est**	48,865		
L.	***Total Liabilities***	**Act/Est**	82,084		

FOOD, BEVERAGES & CONSUMER PRODUCTS

SECTOR OUTLINE

Over the last few years the food and beverages sector has been a ray of sunshine for Pakistan's large scale manufacturing, being amongst the few sectors that have shown actual and measurable growth. 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. Despite continuing challenging business environment, the food products and beverages sector has improved in the recent years. Stronger brands, superior products and bigger innovations are done in this sector by major players such as Unilever, Nestle, Engro foods, Halal Foods etc

OPPORTUNITIES

- ▲ 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, scheduled in Dubai later IN February.
- ▲ Buyers can leverage Pakistan's cost-competitiveness, lower transport costs and delivery time, and the quality, freshness, taste and aroma of our diverse produce
- ▲ Pakistan remains a buoyant market for consumer sales and food and beverage investment.
- ▲ 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 is forecasted.
- ▲ The food and beverage sector exports to the United Arab Emirates (UAE) have increased 27% in the last three years, making it an area worthy of attention after textiles.
- ▲ 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
- ▲ The global 'Halal' food industry can be tapped into more for strong export growth to countries with large Muslim populations, notably the Middle-east, UK and US (estimated at billion consumers world-wide).
- ▲ Worldwide spending on global Halal food and lifestyle products could rise 10.8% a year until 2019 to create an international industry worth $3.7 trillion. The past year has seen major advancements in the global Halal food and lifestyle sectors. These include investments by a Brazilian Halal food provider in a UAE production plant, new Halal testing technologies from France, Malaysia and the Emirates and international marketing of Dubai as a new Halal and Islamic Economy hub.
- ▲ The top countries with Muslim consumer food consumption are Indonesia, with a market worth $190 billion, Turkey, where the market is valued at $168 billion, Pakistan at $108 billion and Iran, where the market equates to $97 billion.

- ▲ Pakistan possesses a market that has great potential for entrepreneurs in the food and beverage sector. If hard work and ethics are maintained, there is no limit to success here.

- ▲ Fast-food chains are earning revenue of $26 million per year from Pakistan.

- ▲ The improvement in law and order situation has brought back the largest plastic and food processing exhibition to Karachi after a gap of two years, with participation of 25 countries.

- ▲ Nestlé's $104-million milk-drying facility at Sheikhupura was the largest FDI in Pakistan in financial year 2013. It also set up a $30-million water treatment plant. It costs $30 million annually to maintain these facilities. In 2015, Nestle has earmarked Rs. 3.8 billion to increase operational reliability and capacity.

- ▲ The potential for investment in packaged milk is tremendous, and the government can help by enforcing minimum pasteurization laws.

- ▲ Pakistan is one of the top 10 markets outside the United States for PepsiCo. Pakistan is one of the largest and fastest growing markets for PepsiCo around the world. Pakistan is the second-largest market in the world for Mountain Dew after the United States.

- ▲ The food sector is enjoying the decline in commodity prices globally mainly historic collapse in international powdered milk prices, lower local milk procurement costs, decreased fuel prices, stronger Pakistani rupee and low wheat prices. All these factors have brought down the core cost for the industry as the proportion to the industry top line by 7 percent.

- ▲ The food industry has kept its cost of distribution, advertising and other expenses quite stable, and it only increased by 700 bps in terms of industry's top line to 17 percent. From the start of 2015, the food industry is trying to reduce its financial leverage combined with lower interest rates; the industry has witnessed a decline in its financial cost. By the end of 1HCY15, finance costs as a percentage of the industry's top line decreased by 2300 bps to 2 percent.

THREATS

- ▼ 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.

- ▼ One is the differences in regulatory standards following the 18th Amendment to the Constitution. Provincial laws need to be harmonized so products can move freely throughout the country. The sector also suffers from the law and order situation and energy crisis.

- ▼ 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.

- Increasing inflation, poor security conditions and power outages pose significant challenges to the businesses.

- The industry is heavily reliant on on-store branding and marketing as well as well managed trade marketing channels. In this area, we cannot consider the Industry to be highly competitive, with the bigger (foreign owned) companies such as Unilever and Proctor & Gamble owning the largest shares of the branding space.

- 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.

- The global prices of milk have rebounded, up by 51 percent since the second week of August to $2260/MT at present. Combine it with the recent announcement of cutting the output by a significant player in the global market and that might pose a risk to future earnings' prospects

OUTLOOK

Superior consumer understanding, global R&D capability, strong brands, deep distribution reach, operational scale and the country's best talent makes outlook of the industry bright.

GLASS & CERAMICS

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	9		
			2014-15	2013-14	
A.	Industry Sales	Act/Est	28,094	28,000	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	2,080		
C.	Financial Charges	Act/Est	1,351		
D.	PAT	Act/Est	1,443		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	33,214		
F.	*Current Assets*	Act/Est	12,284		
G.	*Cash & Bank Balances*	Act/Est	713		
H.	*Trade Debtors*	Act/Est	3,575		
I.	*Short Term Investments*	Act/Est	-		
J.	*Total Equity*	Act/Est	12,072		
K.	*Current Liabilities*	Act/Est	19,284		
L.	*Total Liabilities*	Act/Est	11,174		

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

- 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.

- 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. Kaleseramik is Turkey's no1 Ceramics manufacturer and exporter and Europe's third largest, exports to over 100 countries, earning export revenues in access 100 million dollars per annum.

- Kaleseramik has opened a spanking new seven story exclusive showroom in Lahore to display and market the complete range of Kale brand Ceramic tiles and bathroom furniture and fixtures. Initial response is very encouraging, as the company has won contracts for Packages Shopping Malls, Nishat Emporium and Coca Cola head office.

- Kele products are at par in quality with the Italian and Spanish brands but are 40 percent cheaper. The products are 20 percent more expensive than Chinese but are far superior in quality. Chinese products are imported at very low duty due to FTA between the two countries.

- 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,

- ▲ Recently due to actions taken by the Federal Board of Revenue (FBR) and border security agencies, there has been some decline in grey imports from June onwards.
- ▲ Local ceramics and tile industry consumes raw material produced in the country and supports the development of other indigenous sectors.
- ▲ A local maker of tiles and ceramics (Karam Ceramics Limited (KCL) has invested Rs350 million to expand its production capacity and capitalize on growing demand.
- ▲ 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

- ▼ Glass industry in the country has failed to diversify itself beyond production of sheet glass used in windows and as mirrors; glass containers such as bottles and jars (primary for the use of the pharmaceutical industry) and glassware, etc.
- ▼ Methane gas (CH_4) shortages have deprived many small players of their core input, as a result of which industries running on natural gas have been closed. For glass industry natural gas is as important as the raw materials because it is used to heat furnaces.
- ▼ In sanitary ware products gas cost makes up 40% of the total manufacturing cost, due to the inappropriate design of kiln and kiln furniture.
- ▼ Capacity utilization of the sector is far below due to the influx of smuggled tiles and abnormally low import trade prices (ITPs). The tiles are being imported at low rates, while the ITPs have been decreased instead of increasing from 2010 to 2015. This situation has reached a point where it is playing havoc with the local industry.
- ▼ The companies simply do not have the capacity to meet the demand of ceramic tiles as they manufacture less than half the production as compared to the demand in the local market. The local manufacturers lag far behind in design and quality of the tiles as compared to China, Iran, Malaysia and other countries. As far as price is concerned, India offers $2 to $5.5 per square meter as compared to Pakistani manufacturers who sell their tiles at a high price of $5 to $10 per square meters. Iran and China are selling their latest design tiles at $3 to $5.5 per meter.
- ▼ The PTA with China made a disastrous impact on local industry and led to closure of several plants, while others are working under capacity.

- In case the government includes tiles in the PTA, it would lead to closure of more units. Iran has more than 300 plants, which are getting full support of their government in terms of subsidized input cost, like gas.

- The local market is almost captured by imported tiles and local tiles are losing share continuously.

- the local manufacturers had the option to either shut down factories or switch over to five-times more expensive fuel — liquefied natural gas (LPG) — and suffer losses. They could not run the plant for more than five days a month even if they had switched to LPG because of cash-flow problems.

- The increase in the cost of production meant a reduction in margins, because it was not easy for small manufacturers to immediately pass on the impact of their rising cost of production to buyers or consumers.

- At the time when under invoicing and mis-declaration of imported tiles is already rampant, the low ITPs are adding to the woes of the local industry. A large gap between the original price and ITPs of different sizes of ceramic and porcelain tiles is inflicting huge revenue losses not only on the local industry but the government as well.

OUTLOOK

The construction industry in Pakistan is also showing potential for growth. The demand for ceramic products has been resilient and is expected to increase further on account of the growth in the construction and infrastructure development projects.

INFORMATION TECHNOLOGY

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	3		
			2014-15	**2013-14**	
A.	**Industry Sales**	**Act**/Est	4,462	4,174	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act**/Est	-39		
C.	**Financial Charges**	**Act**/Est	175		
D.	**PAT**	**Act**/Est	-137		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	***Total Assets***	**Act**/Est	14,379		
F.	***Current Assets***	**Act**/Est	5,960		
G.	***Cash & Bank Balances***	**Act**/Est	562		
H.	***Trade Debtors***	**Act**/Est	771		
I.	***Short Term Investments***	**Act**/Est	335		
J.	***Total Equity***	**Act**/Est	8,506		
K.	***Current Liabilities***	**Act**/Est	3,526		
L.	***Total Liabilities***	**Act**/Est	5,873		

INFORMATION TECHNOLOGY

SECTOR OUTLINE

Pakistan is a prosperous economy for IT investment that offers lucrative domestic opportunities and is attracting increasing amounts of international investment as well. Many global IT companies are present in Pakistan and their revenues are growing annually. They view the local IT market as very promising. This sector has played an important role in terms of revenue generation, job creation, foreign exchange and technological development. Pakistan's local information technology (IT) companies have enhanced their productivity standards and output at par with global level, which showed its increasingly penetration in the local market that reached up to 40 percent share in the country's largest financial sector in providing applications, solutions and services. Pakistan's IT companies and software houses are aggressively capturing the opportunities of local businesses, which were earlier imported and provided by multinational IT-based companies.

OPPORTUNITIES

▲ The global manufacturing giant, General Electric has announced a multimillion dollar investment to establish a Technology and Digital Center in Pakistan. In another multimillion dollar project, the Korean Exim Bank started working on the feasibility study for an export-focused IT Park in Islamabad. Former is a commercial project whereas latter is a government-to-government collaboration. GE is placing a bet on the potential of digitization in local manufacturing scene, in order to bring in efficiency and productivity gains. Meanwhile, through the Koreans' capital investment and technical support for the software Park, much can be learnt by Pakistan's IT policymakers and practitioners from a high-tech economy.

▲ Software industries in comparable countries are seen to have thrived on skilled labour and capital injections from foreign and local firms. In Pakistan's case, the IT manpower's recognition is on an upward path and it is mostly foreign. Globally renowned IT firms such as Cisco and Teradata have placed their trust in local talent through having sizable backend support offices here in Pakistan.

▲ Rocket Internet, a European start-up powerhouse, has gone big in Pakistan. Online portals such as PakWheels.com and Zameen.com have gone on to successfully close multimillion dollar venture capital rounds with foreign backers. Google, Samsung, and US State Department are partners with Nest i/o, a prominent local tech incubator.

▲ PSEB should focus on capacity building of IT companies and international marketing of IT products to further strengthen Pakistan's IT sector. The capacity enhancement of IT sector through public private partnership would certainly enhance the volume of IT exports. Initiation of CMMI certification programme of PSEB will go a long way in improving the quality of IT companies and their products and services. The number of software houses and call centres registered with PSEB had increased by 12 percent during the first eight months of 2014-15.

▲ There is a 35 percent growth in IT exports over last year with a forecast of $500 million in IT remittances for 2014-15.

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

- It has been an eventful period globally for the IT industry with newer, better and more progressive technological advancements taking place. Big Data was the buzz word in the IT sector all across with companies now focusing on how to create an online environment robust enough to actually move businesses from legacy IT data storage infrastructure to a 24/7 and always available online solution. This represents a key opportunity for the IT industry.

- The Ministry of IT has set a target to boost up the software exports to $1.2 billion by 2018.

- There has been significant growth in the usage of smart phones and tablets due to local brands. Also due to very high broadband penetration, now users are well aware of what is latest in technology. This has resulted in a healthier market adoption of newer and better technology. With the launch of 3G/4G, the smart phones and tablets market with grow exponentially, which will also result in some growth of IT services.

- Sectors such as Healthcare & Education can benefit immensely from the growth of cloud based centralized services, which require a very small amount of investment but can reap way higher benefits thus provide growth opportunities to IT industry

- The local IT companies are thriving consistently their business to North America, in Middle East and Africa. The volume of exports can be pushed to $10 billion mark via improved policies and support.

- Government of Pakistan is providing IT Parks with low rent, fiber optic connectivity, libraries and conference rooms to the IT companies and funds for software companies to get ISO-9000 and CMM-level certifications. 100% ownership of equity in 'IT companies' is allowed to foreign investors. Beside this government of Pakistan has announced tax exemption for IT companies till 2016.

- Globally Pakistan's IT industry is providing services like licensing, customization and system integrations to countries like China, Australia, Thailand, Japan, Hong Kong as well as Middle East.

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

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

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

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

THREATS

- In case of the Information and Computer Technology (ICT) industry, incomplete and out-dated legal framework has restricted both local and foreign investment. More specifically, several laws await promulgation including "Data Protection Act", "Confidentiality Law" and "Privacy Law". Pakistani companies face severe competition when they have to compete against companies from countries that provide legal cover to protection and security of data in accordance with international requirements. Similarly, Pakistan's Patent Ordinance 2000 does not include "Software Registration", which raises concern amongst our IT programmers, data processors and researchers about the security of their innovations, source codes and programs.

- Foreign investment in the IT scene is welcome. But that alone will not suffice. Local investment has to pick up. But if capitalization is not an option, then large businesses can at least choose domestic IT solutions, which many in the sector say can compete well with foreign IT services. Local IT firms sometimes complain that they don't get a good response from local firms, which prefer to fly abroad to shop for IT services. This needs to change soon.

- With all the positive growth and optimistic outlook faces technological risks such as web sites hacked and defaced, data loss etc.

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

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

- On the software front mobile manufacturers appear to be ahead of the game and have now packed the newer smart phones with power equivalent to a desktop computer, in the palm of your hands.

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

OUTLOOK

Though the IT industry in Pakistan continues to grow, outlook remains constrained and uncertain due to enhanced international competition and global recessionary conditions. However, the devalued rupee, the low cost base and relative English proficiency can continue to open doors even in global slowdown conditions.

LEATHER PRODUCTS

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	213		
			2014-15	**2013-14**	
A.	**Industry Sales**	**Act/Est**	60,429	64,367	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	-163		
C.	**Financial Charges**	**Act/Est**	17		
D.	**PAT**	**Act/Est**	-164		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	***Total Assets***	**Act/Est**	219		
F.	***Current Assets***	**Act/Est**	173		
G.	***Cash & Bank Balances***	**Act/Est**	1		
H.	***Trade Debtors***	**Act/Est**	95		
I.	***Short Term Investments***	**Act/Est**	Nil		
J.	***Total Equity***	**Act/Est**	-613		
K.	***Current Liabilities***	**Act/Est**	821		
L.	***Total Liabilities***	**Act/Est**	1,006		

LEATHER PRODUCTS

SECTOR OUTLINE

The leather industry in Pakistan is as old as the history of the country. There are as much as 800 Tanneries in the country engaged in producing best quality finished leather of Cow, Buffalo, and Sheep & Goat skins. Leather manufacturers & exporters are determined to increase export of quality finished leather and leather products. Leather is one of a prolific contributor to the country's GDP and foreign exchange earnings. The Leather Industry of Pakistan is employing more than 500,000 people directly or indirectly at this time of age. Leather industry's core products in Pakistan are leather garments, gloves, tanned leather and footwear. More than 450 units of leather garment manufacturers in Pakistan are producing approximately 5 million pieces against the production capacity of exceeding 7.5 million pieces. Similarly a key sector in leather industry is the leather footwear industry which is capable of producing 200 million pairs annually and its current production is just 100 million pairs. Pakistan's share in the global skin and hides production is around 7% annually which can be doubled with just the right amount of time and effort. One can assess that these statistics show the industry's capabilities which are highly under-utilized.

OPPORTUNITIES

- Pakistan is producing the finest quality of leather, as good as any European country and some of the best brands of shoes are buying leather from Pakistan, being shipped to China and Vietnam where the shoes are produced and re-exported to USA and European markets. Our global share in leather exports is negligible, thus the government must consider measures to increase the exports.

- Leather has been enjoying zero-rated export status. The new budget was also seen as balanced, with raw hydes and skins being exempt from sales tax. In order to double the leather industry's exports, there needs to be dedicated cattle farming for at least 10-15 years.

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

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

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

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

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

THREATS

- Pakistan leather export registered a decline of 20.93 percent during July-December 2015, against the regional countries who have shown tremendous increase up to 73.58 percent mainly on account of incentives provided by their governments. China exports increased by 19 percent, India 63 percent while Bangladesh is on top of the list with 73.58 percent increase in the leather exports.

- the cost of doing business has gone up by 12% to 14% mainly because of higher cost of electricity which is higher by about 30% among from regional competitors, extreme load shedding, stuck-up claims of local taxes and exports not kept zero rated, higher rates of gas and its acute shortage, stuck up of heavy amounts in genuine refunds in shape of duty drawbacks, sales tax, income tax running into billions of rupees.

- low rate of duty drawback is hurting badly the leather industries exports in Pakistan as compared to the regional countries as many of local taxes besides customs duties to the extent of about 4 to 5% are not refunded and export buyer cannot absorb such local taxes in today's competitive international market where all regional competitors are making full efforts to increase their share.

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

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

- Several factors have increased core input costs for manufacturers:

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

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

- Although a decision was taken by the Government to support the set of labs (by matching the cost at 25% of total expense), and to match costs of treatment plants and effluent waste systems, the real effects of these initiatives have yet to materialize.

OUTLOOK

The industry will continue to sustain itself in the coming years due to its established share in the global market, and due to continued demand from the local market. However, the outlook remains uncertain due to the global recessionary conditions.

MACHINERY & EQUIPMENT

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	6		
			2014-15	2013-14	
A.	Industry Sales	Act/Est	32,707	27,794	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	2,494		
C.	Financial Charges	Act/Est	2,467		
D.	PAT	Act/Est	2,206		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	51,136		
F.	*Current Assets*	Act/Est	23,973		
G.	*Cash & Bank Balances*	Act/Est	474		
H.	*Trade Debtors*	Act/Est	10,517		
I.	*Short Term Investments*	Act/Est	74		
J.	*Total Equity*	Act/Est	6,002		
K.	*Current Liabilities*	Act/Est	21,444		
L.	*Total Liabilities*	Act/Est	34,107		

MACHINERY & EQUIPMENT

SECTOR OUTLINE

OPPORTUNITIES

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

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

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

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

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

THREATS

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

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

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

- The governmental laws and procedures in general are designed to discourage small scale manufacturers.

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

- There are a multiple reasons for the non realization of the potential of this sector; which are actually major threats for this sector.

  - Little or no knowledge of export potential and export related laws, procedure and business.
  - No knowledge of potential markets.
  - No brand development of the products.
  - Limited standardization of the products.
  - Very little managerial capability to handle export business and logistics required.

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

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

- The industry needs to team up with electricity tower and wire and cable manufacturers and provide a complete solution in the shape of EPC, without which exports may not be possible. There is a potential of exports to rise to above US$ 400 million if teaming with other thrust sub-sectors is done.

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

OUTLOOK

The overall outlook for the sector remains tenuous to negative due to endemic issues, lower GDP growth rate, and constrained manufacturing due to power crisis.

METALLIC PRODUCTS (IRON & STEEL)

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	4	
			2014-15	**2013-14**
A.	**Industry Sales**	**Act**/Est	46,695	43,260

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

B.	**PBT**	**Act**/Est	1,921
C.	**Financial Charges**	**Act**/Est	2,502
D.	**PAT**	**Act**/Est	2,040

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

E.	*Total Assets*	**Act**/Est	58,593
F.	*Current Assets*	**Act**/Est	19,603
G.	*Cash & Bank Balances*	**Act**/Est	327
H.	*Trade Debtors*	**Act**/Est	3,256
I.	*Short Term Investments*	**Act**/Est	22
J.	*Total Equity*	**Act**/Est	22,861
K.	*Current Liabilities*	**Act**/Est	23,290
L.	*Total Liabilities*	**Act**/Est	35,731

METALLIC PRODUCTS (IRON AND STEEL)

SECTOR OUTLINE

About 15 Arc furnaces of capacity 5 mt were installed in the private sector in early 70's and they have started their production to support Pakistan Steel Mills in producing steel in the country. And now, there are more than 140 steel melting induction furnaces installed in different areas of Pakistan who are producing good quality steel to meet Pakistan's steel requirements. As Arc furnaces are expensive and take longer production time than Induction furnaces, so most of the private sector is shifted to Induction furnaces. Private factories are now producing steel with latest technology induction furnaces and they are trying their best to compete the international market.
Pakistan Steel mills is producing about 1 million ton per year steel where private sector is producing 30 million (including billet, rebars, channel and angle etc) The other requirements are fulfilled with ship breaking and other steel products.

OPPORTUNITIES

- In view of the significance of steel in the economy, State Bank of Pakistan (SBP) has called for a clear and consistent policy for the steel sector. Proposed policy should also identify segments in the steel chain that need protection at the initial stage; define and enforce quality and performance standards; and ensure fair competition in the market. In addition, this policy should also consider the level of protection available to steel manufacturers in Pakistan's competitors, especially China and India.

- Due to ongoing public developmental spending, and the initiation of infrastructure projects under China-Pakistan Economic Corridor (CPEC), steel consumption is likely to remain strong in coming years.

- In the early stages of economic development, steel consumption is expected to increase at a faster rate because huge quantities of steel are required to build basic infrastructure, including bridges, dams, railways, and power generation, distribution and transmission projects, etc.

- The government has revised up regulatory duty on import of iron and steel finished products by a whopping 15 percent in a bid to protect the local industry. In January, 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 percent 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 Aisha Steel Mills Limited.

- The government also notified 10 percent duty on import of aluminum alloys for the rest of the current fiscal year.

- The strong growth was well reflected in the steel sector, where the production grew by 35.4 per cent – the highest level in the last five years. Apart from residential and infrastructure projects, the auto sector also made a strong contribution to demand for different steel products.

- ▲ The steel sector also benefited from lower prices of main raw materials, and the revival of production in Pakistan Steel Mills (PSM).

- ▲ Steel sector has immense growth potential given the very low per capita steel usage in Pakistan. However, sustaining high growth would be a major challenge for the industry.

- ▲ Led by capacity expansions, as well as rapid conversion to alternate energy sources, the privately run steel sector has positioned itself to grow strongly.

- ▲ Pakistan Steel is included in the list of entities up for strategic private sector participation. The fiscal authorities are in the process of appointing financial advisers for these entities, who will be responsible for preparing comprehensive restructuring and privatization plans for these entities.

- ▲ There are medium and small scales manufacturing units which essentially produce for domestic market. Some of them have the capacity to enter export business if support and guidance is provided. Pakistan already exports to Afghanistan, Singapore, Kuwait, Saudi Arabia, UAE, Iran, Syria, Bangladesh, Sri Lanka.

- ▲ The industry needs to enhance its capacity to produce enough exportable surpluses for expanding African markets.

- ▲ Large scale units are technologically advanced and produce on internationally recognized standards. Large scale units have achieved economies of scale and are price competitive.

THREATS

- ▼ If investment and domestic production in the country fail to keep pace, the additional demand for steel will have to be met by imports, putting additional burden on the country's balance of payments.

- ▼ 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 percent of its installed capacity, despite strong local demand for steel products.

- ▼ Power shortage is also a big concern for local manufacturers; besides, the cost of electricity is also very high. These, coupled with the challenge of competing with low-cost imports, has compelled steel manufacturers to divert investment to self-electricity generation and dedicated feeders. "From a long-term policy perspective, the local industry will need to acquire economies of scale and modern, efficient technology to become competitive.

- ▼ Pakistan spent $1.813 billion on imports of iron and steel products in the last fiscal year of 2014/15, up approximately 17 percent over the preceding fiscal year, the State Bank of Pakistan data showed. The imports were highest in terms of value in the metal group with a total import bill of $3.246 billion.

- Pakistan Steel Mills losses as of March 31, 2015 stand at over Rs 150 billion and liabilities over Rs 173 billion of which Rs 134 billion towards federal government and Rs 39 billion towards PSM, both of which has steeply escalated since 2006. It is estimated that the new investor has to invest around $ 1 billion to revamp and expand the plant to three million tonnes per annum production capacity to make it financially viable.

- The financial and operative health of PSM today is much worse than what it was at the time of first privatisation attempt in 2006. PSM has a permanent staff of 15,500 plus 1,500 temporary workforce. It is estimated that the organisation is overstaffed by at least 40% which needs to be separated to manage the viability of PSM. The total assets of the company are reported to stand at Rs 279 billion as of March 31, 2015 of which Rs 175 billion belongs to the federal government and Rs 104 to PSM.

- High freight cost of large pipes is a barrier against entry in long distance markets. However, small diameter pipes can be exported to long distance markets. Already installed capacity is more than required.

- Steel capitalization is huge around 1.2 million ton capacity (yearly) where as demand is 0.8 million ton. Raw material is mostly imported which leads to rising costs.

- Plastic pipes are coming in competition, now they are being used and proving a threat to the steel producers. Therefore they have also started to work on this side too. The industry needs to expand its product mix and variety to remain competitive and survive in the changing market environment.

- Costs in this sector include transportation cost, labor cost and electricity cost. And all three are increasing leading to rising costs. With the value addition of only 12% to 13%, there is not much benefit gained. China gives its producers a 9% rebate, thus it is throwing locals out of the business since their low price cannot be matched.

OUTLOOK

The steel sector is expected to show growth on the back of improvement in construction sector as far as sales are concerned. The overall profitability is also expected to improve with a decrease in prices of essential raw materials due to slow down in the growth of global steel demand.

PHARMACEUTICALS

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	9		
			2014-15	2013-14	
A.	Industry Sales	Act/Est	80,141	68,545	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	10,911		
C.	Financial Charges	Act/Est	98		
D.	PAT	Act/Est	7,150		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	44,849		
F.	*Current Assets*	Act/Est	28,058		
G.	*Cash & Bank Balances*	Act/Est	3,166		
H.	*Trade Debtors*	Act/Est	4,163		
I.	*Short Term Investments*	Act/Est	1,560		
J.	*Total Equity*	Act/Est	24,208		
K.	*Current Liabilities*	Act/Est	16,970		
L.	*Total Liabilities*	Act/Est	19,752		

PHARMACEUTICALS

SECTOR OUTLINE

By volumes and generated percentage, the Pharmaceutical industry may perhaps be considered a small industry which can prove itself of substantial value considering the amount of profits that can be generated, and the number of promising investors that exist. A massive potential exists for the Industry in a country of population numbers projected to hit the 350 Million mark by 2020. The industry is a net beneficiary of the boom in base materials mostly from China and this positively impacts their margins. Further treaties and trade agreements will boost this trend further. The industry is almost equally divided between domestic and international companies. This shows the diversity in the industry and wide variety for the consumers in the market. In 2014-2015, medicine exports earned $208m from exports of 14,621 tonnes as compared to $176m from 15,182 tonnes in 2013-2014, depicting a 4pc drop in quantity and 18.4pc rise in value. It's a positive sign that low value-added goods are being replaced by high value-added goods.

OPPORTUNITIES

- The Drug Registration Authority Pakistan (DRAP) has granted registration to 14 pharmaceutical companies to locally manufacture a hepatitis C oral drug. Companies that want to manufacture medicine for hepatitis will get special treatment because of the huge number of hepatitis patients in the country.

- Issuance of new licenses to various pharmaceutical companies will lead to investments and employment opportunities as Pakistan's pharmaceutical industry currently ranks sixth in the world with export potential of Rs 300 billion and a growth rate of 17 percent.

- The new drug pricing policy of the government will have a positive impact on the export of medicines produced in the country. A number of initiatives have been taken for the export of medicines in new drug pricing policy 2015. At present, 80 per cent of medicine is exported to Jordan, our pharmaceutical industry should also export medicine to developed countries.

- The pharmaceutical companies are more interested in selling the drugs in Pakistan at international market rates.

- The registration board of the Drug Regulatory Authority of Pakistan (Drap) has approved new rules for the registration of medicine to ensure their quality, stability and efficacy. Now, not only will pharmaceutical companies be able to register medicines after a laboratory scale feasibility study, they will have to submit a drug stability study after producing three commercial batches.

- Companies who wanted to export medicine would be allowed to do so without the stability study, because it would be the responsibility of the importing countries to ensure the quality of the drugs. This decision was made to increase the exports of medicines. However, companies must have complete technical documents to get themselves registered for export. The decision was taken to avoid the illegal import of chemicals and the sale of unregistered drugs.

- Patent retention ensures a very high rate of return for the Industry, and patent law protection ensure some protection for the product till it is generic-zed (i.e. patent expires).

- Local industry has done tremendously well by installing production capacity and ensuring a reasonable level of adherence to and compliance of patent and IPR (Intellectual Property Rights) laws and conventions.

- Direct sales to Hospitals, Government medical facilities and other public institutes will remain an area of strong growth.

- The PPMA has also adopted a "Vision-2025". Under the same vision, the PPMA plans to establish at least 10 FDA (US Food and Drug Administration)-accredited medicines' manufacturing units in Pakistan dedicated to export .

- The PPMA demands a feasible export regime for Pakistani pharma industry on the lines of India where pharmaceutical development fund was established under the export council for provision of loans to drug manufacturing units for 10 years on highly subsidized rates. If Pakistan adopts the Indian model, it can increase the export of its medicines to $15 billion by the year 2025.

- Financial support so extended by the government would be used for raising standard of industry, securing international certifications, and paying off high salaries to sales representatives, which used to promote Pakistani medicines in foreign markets.

- Despite pricing and policy constraints, pharmaceutical companies in Pakistan are producing quality drugs under the International Federation of Pharmaceutical Manufacturers and Associations (IFPMA) Code of Conduct.

- In pharmaceuticals group, injections, capsules and tablets were the main contributors which managed to grow by 14pc, 13.05pc and 4.73pc, respectively. The growth in pharmaceuticals industry is heavily dependent on import of raw material due to non-availability of domestic inputs.

- The pharma industry is exporting new molecules of higher value and these are being accepted by importing countries.

- In case the Drug Regulatory Authority of Pakistan (DRAP) goes through the process of certifying itself with World Health Organization (WHO) or Pharmaceutical Inspections Convention Scheme (PICS), inspections will be waived by the regulatory authorities in a large number of countries. This will shorten the registration period of dossiers to 6-8 months and will have a big impact on the cost.

- The Trade Development Authority of Pakistan and High Commission of Pakistan in Sri Lanka announced taking Pakistan's pharmaceutical exports to Sri Lanka to $1 billion under the free trade agreement (FTA).

- Concerned over the constant decline in medicines' exports of Pakistan, the national body representing pharmaceutical manufacturers has demanded the establishment of a Pakistan-level pharma export council to achieve its target of increasing annual exports of the industry to $5 billion in the next five years. (14)

- Billions of rupees had been lying unused in Central Research Fund, maintained by the Health Ministry as Pharma companies had been contributing 1% of their profits towards this fund since 1976 for doing research for development of new medicines. The industry on alternative basis should get access to this fund for its growth especially from point of view of exports-related requirements.

THREATS

- Due to absence of any vibrant contract manufacturing policy, multinational companies are reluctant to come to Pakistan. This deprives the country of transfer of latest technology – This may become important as India's indigenous capacity becomes a competitive threat.

- The exports which stood at $200 million in 2013 came down to $167 million in year 2014 and the decline seems continuing.

- Pakistanis medicines due to lack of mandatory international certifications at present could only be exported to under-developed countries having semi-regulated pharmaceutical markets mainly in Central Asian, African, Far Eastern and South American regions.

- India has become world's third largest producer and trader in medicines after the United States and Europe. Its pharmaceutical exports have increased from $21 billion to $25 billion over the past five years. $14 billion worth of that export went to the United States market where Pakistan pharmaceutical products don't figure at all. Of the more than 62,000 pharmaceutical factories working in India in 2013, 110 were US Food and Drug Administration-approved units. Another 150 Indian factories have won FDA-approval since then, surpassing the number of FDA-approved factories in entire Europe.

- Even Bangladesh boasts five FDA-approved plants whereas none of the 600 factories manufacturing medicines in Pakistan enjoy that status, which is a prerequisite for pharmaceutical exports to most countries.

- The exports of Pakistani medicines stand to decline further as the Drug Regulatory Authority of Pakistan (DRAP) has imposed huge fees on documenting the medicine for export and registration of new medicines is taking long time. 3,465 applications for the registration of medicines from the manufacturers are pending since 2013.

- Undue procedures imposed on the manufacturers increase the cost of production of medicines. The requirement of four kanals land for drug manufacturing license has badly affected the growth of pharmaceutical industry.

- About 100 pharmaceutical factories had been closed during the last 15 years and it is feared that more would face closure.

- The delay in the price raise would cause shortage of medicines in the market and ultimately sale of substandard and smuggled medicines would get a boost, which would endanger the health of millions of patients in the country.

- The pharmaceutical industry was obliged to maintain Current Good Manufacturing Practices (CGMP) which demanded huge expense.

- The pharma manufacturing, HVAC, clean rooms and QC equipment are subject to highest slabs of duties and sales tax which is non-comprehensible.

- The capacity expansion (CAPEX) is always encouraged for enhancement of quality and quantity of production. However, the current policies of the government seem to discourage them. Compared to us, the neighboring countries are already way ahead in pharma exports and are allowing heavy incentives on CAPEX for new investments as well as BMR.

- Lack of FDA approval is another barrier. The production units are unable to comply with the standards of WHO.

- Ill-advised policies of the government and undue interference by the Health Ministry had caused serious impediments to growth of the Pharma industry.

- With present non-conducive policies of the government, Pharma industry of the country could not achieve its "Vision-2020" for increasing medicines' exports from mere $200 million to $5 billion on annual basis.

- The Pharma industry had been growing at the rate of 18% in 2014 but the growth of industry had decreased to 13% in 2015. Likewise, exports of the Pharma industry stood at $250 million on annual basis in 2012, which had decreased to the alarming extent of $160 million in 2015.

- Owing to undue powers of the government to check and control price of every medicine in the market, some 30 essential life-saving drugs had been in short supply in the local Pharma market, adding that that in Bangladesh and India, governments there had powers only to control prices of essential medicines as per the list of WHO.

- Medicines manufactured in Pakistan could not get easy access to regional and international markets as their prices had irrationally been fixed by the government using its powers bestowed under Section-12 of the Drugs Act.

OUTLOOK

As per recent Government announcement of increasing the prices of medicines, the margins of the pharmaceutical industry are likely to improve. The outlook is fairly positive.

SPORTS PRODUCTS

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	300		
			2014-15	2013-14	
A.	Industry Sales	Act/Est	34,294	37,260	
			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	226		
F.	*Current Assets*	Act/Est	159		
G.	*Cash & Bank Balances*	Act/Est	17		
H.	*Trade Debtors*	Act/Est	24		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	188		
K.	*Current Liabilities*	Act/Est	36		
L.	*Total Liabilities*	Act/Est	36		

SPORTS PRODUCTS

SECTOR OUTLINE

Pakistan's global reputation regarding a few industrial sectors has been extraordinary for the past few decades, one such industrial sector is that of sports goods manufacturing. This industry is centered in the city of Sialkot and over the years it has provided veritable economic benefits to the city and the country in the form of exports and foreign capital. The product range includes soccer balls, volley balls, rugby balls, beach balls, exercise balls, cricket balls, hockey balls, baseball balls, tennis balls, shuttle cocks, nets, gloves, hockey sticks, cricket bats, baseball bats, protective guards, pads, sportswear, etc. Adidas, Nike, Micassa, Puma, Mitre, Select, Umbro, Lotto, Diadora, Decathlon, Wilsons, etc, are some of the world renowned brands sourcing a large portion of their supplies of sports goods from Sialkot; further enhancing the credibility of the city as an internationally acknowledged quality manufacturing and exporting center. The Small and Medium Enterprise Development Authority has established Sports Industry Development Centre in Sialkot at a cost of Rs272.16 million for up gradation of Sialkot's sports goods especially the soccer ball manufacturing sector. The sports goods are main exports with total exports of about US $ 350 million per annum. Sports goods account for nearly 2.5 per cent of Pakistan's net exports & of these, footballs take up the lion's share.

OPPORTUNITIES

- Strategic Trade Policy Framework 2015-18 (STPF 2015-18) will put a special focus on sports goods sector. The potential of sports goods during 2015-18 is $7.763 billion. Commerce Ministry will set up a technology up gradation fund for sports goods sector and mark up support will be extended to the sector.

- Export growth has been slow but steady & for the ten months ended FY15, sports goods exports have improved marginally by 2 percent over the preceding year.

- Pakistan is the largest sports goods manufacturer in the world. Sialkot's industry is world renowned and provides the best quality, with around 30 to 35 multinational brands – including the likes of Nike, Adidas, and Puma working with local companies in the region. Our largest market is the US, followed by Germany and the UK. Our main competitors are China and India.

- Football is the primary breadwinner, and football manufacturing has seen growth and an increase in production. There is now a shift taking place from hand-stitched production to a more mechanized modus operandi.

- There was a time when hand stitched balls were in vogue, of which producers in Sialkot had about 70 per cent of the world market. Then about ten years ago, the technologies started changing and machine stitched balls gained popularity. More recently thermo bonded technology came in, which is a seamless ball and is very high tech. The thermo bonded technology included robotic machines and very complicated soft wares. Pakistan's share in football market can increase from its current 18 per cent share to 50 per cent in the next four years if players in the market adopt the technology.

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

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

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

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

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

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

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

THREATS

- ▼ Rising cost of production is one of the problems plaguing the sports industry. Furthermore, the government is proposing to increase sales tax from 2 per cent to 5 per cent on this previously zero-rated industry.

- ▼ The sports goods sector, coupled with multiple challenges is facing major threat of rising demand for the mechanized inflatable ball. This new ball has been tested and played in a number of international football tournaments including UEFA EURO 2004. While, an improved version of this ball was used in the FIFA World cup held in 2006.
- ▼ World trotters have introduced Sialkot as total export-oriented city of Pakistan. The local business community was facing serious problems due to non-availability of trained skilled work force which is hindering productivity and under the

circumstances there was a great need of producing trained industrial workers to cope with the shortage of trained skilled workers enabling the industrial sector to induct trained workforce in their industrial units.

- Major competitor countries include India, Taiwan, South Korea and now China. Entry of China in export market with machine-stitched balls is a serious threat to exports.
- There is lack of product diversification due to non-availability of R&D facilities.
- There are no development centers and apprenticeship programs abreast with latest technologies in order to create high value addition.
- Introduction of thermo-molded (mechanized) ball by Adidas remains a serious threat to this sector.
- Pakistan is competing with India, Japan, Taiwan and South Korea in international markets. India has an advantage of cheap labor and raw material, whereas countries with semi-automatic mechanized units can produce low-cost and inexpensive sports gear such as metal rackets and cricket bats etc. China and India are providing 5 to 13 percent rebate to support their sports industry which can be considered as a threat to our exports.
- The manufacturing in sports goods sectors is largely done under the brands of foreign companies, and the results in lower prices for manufacturers in these sectors. Government of Pakistan has decided that sports goods sector would be granted 25 percent support on brand development activities.

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.

SUGAR

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	31		
			2014-15	2013-14	
A.	Industry Sales	Act/Est	160,172	158,103	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	3,220		
C.	Financial Charges	Act/Est	7,815		
D.	PAT	Act/Est	3,298		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	135,206		
F.	*Current Assets*	Act/Est	50,601		
G.	*Cash & Bank Balances*	Act/Est	2,082		
H.	*Trade Debtors*	Act/Est	8,977		
I.	*Short Term Investments*	Act/Est	4,436		
J.	*Total Equity*	Act/Est	32,256		
K.	*Current Liabilities*	Act/Est	66,222		
L.	*Total Liabilities*	Act/Est	93,371		

SUGAR

SECTOR OUTLINE

The cropped area for sugarcane stood at 1,141 thousand hectares during 2014-15 against last year's area of 1,173 thousand hectares. Sugarcane accounts for 3.1 percent in agriculture value addition and 0.6 percent in Gross Domestic Product (GDP). The USDA report puts Pakistan in the top 8 sugar producers of the world. 65.44 million tons production of sugarcane is expected for season 2015-16. On average, 80 per cent of the sugarcane produced in the country is crushed by sugar mills to produce sugar at the recovery rate of 9.8 per cent. The estimated sugar production in 2015-16 is 5.13 million tons.

OPPORTUNITIES

- A stock of 2.25 million metric tons of sugar is currently available in the country and the crushing season will continue till mid-April further adding to the available domestic stock. Therefore, there was abundant stock of sugar available in the country whereas monthly consumption is 0.4 million metric tons. After adding 300,000 tons left from the 2015 season, a surplus of around 630,000 tons was expected to be available for export in the new season.

- The retail price of sugar in domestic market has increased from Rs 57.20 per Kg on December 10, 2015 to Rs 62.07 per Kg after the ECC allowed export of sugar.

- Pakistan is the biggest consumer of sugar in South Asia with 25.83 kg per capita consumption per year where labor is cheap, sugarcane is abundant, resources are available, setting up costs are low-hence this sector remains a golden opportunity for local as well as international investors.

- In the current times of distress when the country is surrounded by a severe energy crisis, the biggest opportunity for sugar Industry lies in co-generation of electricity with WAPDA. Sugar mills produce energy that can be used to light huge areas catering to energy crisis as well has receiving huge sums of money for co-generation project.

- An increase in price at wholesale level will inevitably result in price escalation at retail level in due course. Further, in the international market, there is likely to be an increase in sugar price due to reports of lower production of sugar in India, the second largest producer of sugar in the world.

- The price of sugar in international markets is around Rs 45-46, but the government has allowed the export of 500,000 tonnes of sugar with a subsidy of Rs 13/kg to help mills owners cover the expenses of sugarcane growers and other expenses.

- Around 70 per cent of sugar output of country`s total production is being consumed in juices, squashes, syrups, soft drinks, biscuits and confectionery, while the share of households and other customers is just 25-30pc. Revenues of foreign multinationals in Pakistan show that they are registering annual growth of 12pc. Overall sugar demand is increasing from 3-5pc a year which includes the foreign firms demand.

- ▲ Sugar beet as opposed to sugar cane continues to remain an area of focus, as its requirements for water are far less. Further, the industry needs to expand its marketing base (product portfolio) to include the demand for Bio-fuel (via associated products such as ethanol).

- ▲ Most of the sugar that is produced in the country uses sugarcane as the prime raw material. In such times where floods often visit the land and lead to huge crop destruction, an alternative raw material that can be used for sugar production is sugar beet. Sugar beet produces high quality sugar that can serve as an important raw material to produce extra sugar.

- ▲ State Bank of Pakistan (SBP) has linked cash incentive on export of sugar to minimum sugarcane price.

- ▲ In the first phase, up to 200,000 tonnes of sugar will be allowed to be exported by December 31, 2015. By the end of January, a total of 350,000 tonnes will be allowed, while the cut-off date for the total volume of 500,000 tonnes will be March 31, 2016. The unutilized quotas for sugar exports allowed previously will stand cancelled.

- ▲ Over $200 million in foreign exchange would be generated through the export of 500,000 tonnes of sugar; most of the amount would be distributed among the growers. The profit margin is almost 10 per cent.

- ▲ The economic managers appear to be playing a key role in supporting sugar mill owners in fetching an extra income of billions of rupees as prices of the sweetener have gone up in the domestic market following approval of cash support for sugar export. The millers, besides enjoying Rs6.5 billion in cash support on exports, are now earning billions after a sudden increase in prices.

- ▲ The sugar industry, much like most industries in Pakistan, is highly regulated. The government raises the support price of sugarcane almost annually to facilitate farmers. As a result, the price of sugarcane in Pakistan is currently the highest anywhere in the world. And considering that sugarcane makes up around 80 percent of the cost of producing sugar, the prices are high. An 8.5 percent excise duty on the millers will make sugar prices unreasonably high.

- ▲ The government raised the regulatory duty on comparatively cheaper imported sugar with a view to making it costlier.

THREATS

- ▼ The owners of mills have never seriously addressed the inefficiency that exists in the sector when measured against regional and international benchmarks. Currently, Pakistan's yields are some of the lowest as measured against global yields.

- ▼ The industry pricing mechanism, owing to the protected nature of the sugar cane crop, continues to cause issues within the market dynamics which will not only impact the industry but hurt the pricing balance.

- Another problem currently being faced by the sugar sector is that there is an increase in cane cultivation and establishment of new mills in the country; extending it to areas which may not be suited for cane cultivation. This has led the industry to expand to where it cannot be optimized for competition, and skews the trend of competition analysis.

- In spite of the apparent stance of the government against hoarders, it is witnessed that hoarding has always been a big problem in this sector. The mill owners and large suppliers often hold large quantities and can create an artificial shortfall. The major chunk of the crisis that we see is often considered to be caused by these artificial factors.

- Robust wheat and sugar production have not helped exports despite huge subsidies.

- As per announcement from State Bank of Pakistan (SBP) in 2015 on special recommendation and request of Pakistani sugar mills that whatever rate is finalized the buyers from Afghanistan have to transfer $450 per ton as standard rate even though most contracted rates were below $450 per ton. The condition however was that excess payment would be returned to Afghanistani importers in PKR in Pakistan according to the open market conversion rate immediately after submission of Pak-Afghan cross border documents. Pakistani sugar mills are "cheating" which is negatively affecting Pakistan and Afghanistan Sugar Association's business relationship. This accounts for not only Afghan sugar importers losing trust in Pakistani sugar mills but they have also started diverting bookings and importing sugar from India and other countries.

- A surplus production of 1.5 million tons depresses prices and results in heavy losses to the industry. Therefore, sugar should be exported as the surplus poses a threat to the start of new crushing season.

- Sugarcane production for the year 2014-15 stood at 62.7 million tons against 67.5 million tons last year, showing a decrease of 7.1 percent which was due to decrease in cropped area over last year as competitive crop (rice and cotton) discouraged the growers to bring more area under cultivation. The disposal problems of sugarcane and payments difficulties also restricted the acreage of sugarcane

- Sugar exports accounted for just over one percent of total exports, and were down 15 percent over the year-ago period. Global sugar prices have plummeted since the start of FY15 and have yet to recover, so the value of sugar exports has been lower.

- Although sugar is considered one of the more important cash crops of the country, it hasn’t been bringing in too much foreign exchange. Perhaps this is because the government support price is far higher than the international price, and sugar producers prefer to remain within the local market.

- The ECC decided that the government would slap a ban on sugar shipments if prices in the domestic market increased to the extent of 10%. An inter-ministerial committee would closely monitor price movements in the market and in case of increase of more than 10% at the retail level, further exports may be stopped,

- The millers had called on the government to allow export of one million tons, but the industries ministry agreed on recommending a quantity of 500,000 tons.

- Over one million hectares are allocated to sugarcane in Pakistan, which is the fifth-most in the world. However, by recovery, we are in 14th place; the largest producer, Brazil, has a recovery of around 16 percent, while Pakistan is near 9 percent .

- The decision to deregulate prices, allowing export of half million tonnes of sugar and an export subsidy of Rs 13 per kg should be reconsidered as it will put additional burden of Rs 7 billion on the public exchequer.

- The government was providing export subsidy at Rs10 per kg but this expired somewhere around July, resulting in exports dropping to zero from August onwards.

- The biggest issue faced by the sugar industry was disparity in sugarcane prices in provinces which resulted in difference in the cost of production.

- In the previous season, the low sugar price and high cost of cane had resulted in massive losses to many mills as well as bankruptcy of over 10 mills in Punjab. The commodity was sold at prices below Rs64 per kg, which was the cost of production including taxes.

- The result of unreasonably high sugarcane support price is the exorbitant cost of production, which is why sugar in Pakistan is the most expensive in the world and we have trouble finding markets.

- The support price is based on the weight of sugarcane instead of sucrose recovery, which encourages inefficiency in sugarcane cultivation. Farmers make less effort in improving their crop quality to increase the sucrose content.

- For FY16, the USDA expects another drop in global production and a subsequent rise in consumption.

- The domestic issues are: The sugarcane support price (set by the provincial governments) is not only too high but also disparate; inter-provincial disparity has resulted in the closure of mills in Punjab, as cane is cheaper in Sindh and this puts the latter at a competitive advantage.

OUTLOOK

In view of the current estimates of sugarcane crop, sugar production seems to be surplus during the current year, as well. However, the Government has indicated its permission for export of surplus sugar stocks, along with certain incentives. Price of sugar is expected to adjust itself favorably 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.

SURGICAL, PRECISION, OPTICAL EQPT

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	230		
			2014-15	**2013-14**	
A.	**Industry Sales**	**Act/Est**	34,575	34,726	
			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**	158		
F.	***Current Assets***	**Act/Est**	111		
G.	***Cash & Bank Balances***	**Act/Est**	12		
H.	***Trade Debtors***	**Act/Est**	17		
I.	***Short Term Investments***	**Act/Est**	Nil		
J.	***Total Equity***	**Act/Est**	132		
K.	***Current Liabilities***	**Act/Est**	26		
L.	***Total Liabilities***	**Act/Est**	26		

SURGICAL, PRECISION, OPTICAL EQUIPMENT

SECTOR OUTLINE

Surgical industry of Pakistan globally was enjoying the monopolistic position because no other country can produce surgical instruments in price ranging and quality and Pakistan made surgical instruments are most economical in the world coupled with unconditional guarantee of finest quality besides world-renewed companies of surgical are entering into joint ventures with Pakistani companies. the Surgical industry represents manufacturers and exporters of surgical instruments, dental instruments, veterinary, pedicure and manicure items, tailor scissors, barber scissors and beauty salon instruments and the industry was manufacturing about 100 million instruments annually; besides the industry was also manufacturing disposable instruments which constitutes 60 percent of exports and reusable instruments is 40 percent of the export. There are about 900 to1000 active small and medium Surgical Units with labor force ranging from 10-500. The number of workers in the Surgical Industry is about 150,000.

OPPORTUNITIES

- There is 2 million US Dollars increase in the exports of surgical instruments from Sialkot, as these exports jumped to US$ 339 million from US$ 337 million during the fiscal year 2014-15. Main reason behind this increase in surgical exports from Pakistan was the easy access of Sialkot based surgical instruments' exporters to the new international markets. The Sialkot exporters are now exploring the new international trade markets of surgical exports in China and even in the African countries.
- The country has huge potential in countries like Hungary as proposed by the envoy from the prospective country. Moreover, the rising demand in Asian and African countries also remains a big opportunity for Pakistan. Presently, Pakistan exports over 70 percent of surgical and medical equipment to USA, Europe, Australia and Japan.
- Surgical goods and medical instruments worth US$ 233.779 million were exported during the period from July-February, 2015-16 which were up by 4.66 percent as compared the exports of same period of last financial year.
- Pakistan's surgical instruments industry holds immense potential. Pakistan's surgical goods are considered among the most economical in the world and they comprise of an extremely diverse assortment. Surgical goods and medical instruments form over 1.7 percent of Pakistan's aggregate exports. The segment has seen slow growth over the past few fiscal years.
- New trade policy will put a special focus on surgical instruments. The potential of surgical items during 2015-18 is $7.4 billion. The value-added surgical goods sector will get drawbacks of local taxes and levies @ 4 per cent on 10 per cent enhanced exports over last year.
- The Surgical Precision, Optical and Equipment industry is centered in the city of Sialkot and over the years they have provided economic benefits to the country in the form of exports and foreign capital.
- The surgical industry of Pakistan has attained a very competitive position globally

because no other country can produce surgical instruments in such a low price range.

- ▲ The total capital investment in the surgical industry is estimated at Rs.10 Billion & is growing.

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

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

- ▲ GOP has decided to establish a center of excellence for catering to the training, designing, and research and development needs of surgical instruments sector in Sialkot.

THREATS

- ▼ Globally, the emerging technologies are replacing the conventional ones and markets are becoming highly regulated. Due to changes in the vendor production practices and need of skilled labor subdue margins of the sector. In the turbulent times like these, compliance with labor, quality and environmental standards increase the costs.

- ▼ One of the various problems plaguing the industry was the issuance of regulatory duty of 15 percent on the import of raw materials. The industry was previously zero-rated in tax. However, the government of the day introduced a sales tax of 2 percent last year and now intends to up this figure to 5 percent in the coming fiscal year.

- ▼ To be able to sell goods and services it the international market, local firms need to comply with technical regulations and standards. Non-compliance to these standards can act as an important barrier to export, as this can lead either to an outright ban on the export of certain products, or imposition of cost-intensive compliance requirements. Pakistan has faced outright bans on export of some products (like surgical equipment) in the past due to non-compliance of international standards.

- ▼ Many firms in the SME sector are not able to export as quality certifications are quite expensive. For instance, surgical goods industry faces strict compliance requirements, especially the costly CE marking.

- ▼ Sialkot currently is responsible for producing 25% of the world's supply for hand-held surgical instruments, out of this share 15% of these companies sell their products to establishments in the developed world who re-label these instruments as their own thus severely reducing profitability.

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

- Electricity supply is severely lacking and the industry has been incurring extra costs.
- More than 95% of large & commercial surgical equipment producers are internationally certified but there are more than 3000 makeshift sweatshops that produce low grade equipment and large organizations often turn to them to meet high demands, during this process quality control is often overlooked.
- Shortage of well-trained skilled manpower is impeding growth of surgical instruments manufacturing 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. This trend is further reinforced by the declining value of rupee against major currencies. Outlook remains positive.

TELECOMMUNICATIONS

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	8		
			2014-15	2013-14	
A.	Industry Sales	Act/Est	117,914	111,331	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	3,879		
C.	Financial Charges	Act/Est	2,213		
D.	PAT	Act/Est	1,138		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	232,607		
F.	*Current Assets*	Act/Est	85,414		
G.	*Cash & Bank Balances*	Act/Est	6,358		
H.	*Trade Debtors*	Act/Est	18,916		
I.	*Short Term Investments*	Act/Est	18,881		
J.	*Total Equity*	Act/Est	103,316		
K.	*Current Liabilities*	Act/Est	87,706		
L.	*Total Liabilities*	Act/Est	107,497		

TELECOMMUNICATIONS

SECTOR OUTLINE

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. Cellular mobile services are the backbone of the telecom industry of Pakistan, which underwent revolutionary changes during the last year. On one hand the introduction of 3G and 4G LTE services provided a much needed boost to the cellular sector creating new revenue opportunities for the operators. The telecom sector of Pakistan is one of the sectors which is open for foreign investment by the Government of Pakistan. The telecom sector had the second largest share in FDI in Pakistan after the financial sector. The current number of mobile broadband subscribers in the country is around 23.5 million. Overall total number of broadband subscribers by technology is around 26.3 million including DSL, HFC, Wimax, FTTH, EvDO and mobile broadband.

OPPORTUNITIES

- International business community's confidence to invest in Pakistan has been restored due to the incentives-based transparent policies of the government. Government's clear policies have especially revolutionized the Telecom sector and successful launch of 3G and 4G in the recent past is a testimony to this.

- 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. By and large the new policy is very positive for the industry and the sector looks forward to a level-playing field that will further boost its growth.

- The industry assured to work in tandem with government to achieve the vision of Accelerated Digitization, envisioned in the policy.

- There has been an exponential growth in different areas over the years including prominent increase in broadband users, implementation of E-office suite at the IT Ministry, 40 per cent growth in IT remittances and nine USF projects in underserved areas have also been launched at a cost of Rs 20 billion.

- 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.

- Mobile Broadband subscribers in the country are expected to reach 79 million by 2025 amid a healthy growth registered during each passing year.

- The mobile and related market in the country is estimated to be worth $ 17 billion per year by 2025, up from the current $ 4 billion per year.

- The number of 3G and 4G subscribers in the country reached 23.65 million by December, 2015 as compared to 21.68 million by November 2015, showing a reasonable growth in modern mobile broadband services with each passing month

- Portable mobile broadband devices like MiFi and Wingles are one of the main reasons of the growth in 3G/4G subscribers and many more will follow this trend in upcoming days.

- Average Revenue per User of cellular segment increased to Rs 440 during FY15 as compared to Rs 432 last year while the Average Revenue per Active SIM in Pakistan stands at Rs 203 for FY 2014-15. Total outgoing national cellular traffic increased to 393.5 billion minutes at the end of FY 15 as compared to 345.7 billion minutes in FY14 while 393.1 billion SMS were exchanged over cellular networks during FY15 .

- The government, in its Vision 2025 has said key service providers would be encouraged to offer extended Over The Top (OTT) services such as Viber, Skype and work with third party digital distributors and vice versa to offer consumers value through product-centric services in a collaborative framework.

- Pakistan Telecommunications Company Limited (PTCL), the largest ICT services provider in the country, has signed a memorandum of understanding (MoU) with Telenor Pakistan. The MoU would facilitate Telenor to avail PTCL's vast network footprint and infrastructure spread nationwide for their growing 3G subscriber base.

- Since its inception VimpelCom (Parent company of Mobilink) had invested $5 billion in Pakistan and delivered services to 38 million customers. The merger of Warid Telecom with Mobilink, if approved, would open a new window of opportunity for enhancing investment and employment generation in Pakistan.

- The telecom sector in Pakistan is not too big for five operators; hence mergers in the industry were needed. More consolidations are expected within the next couple of years.

- Telecom sector is a significant source of revenue generation for the GoP in terms of initial and annual license fees, initial and annual spectrum fees, Universal Service Fund (USF) and Research and Development (R&D) fund contributions, Access Promotion Contribution (APC) for USF, Numbering Charges, license application fee, etc, and taxes including General Sales Tax (GST)/Federal Excise Duty (FED), SIM Activation Tax, Advance/Withholding Tax (WHT), sales tax on mobile handsets, custom duties and other taxes. During the last five years, telecom sector has contributed a total of Rs 745 billion in terms of the above regulatory duties and taxes.

- In terms of overall investment in the telecom sector, the momentum that was started in fiscal year 2012-13 for the up-gradation of telecom networks for 3G and 4G services continues. In fiscal year 2013-14, telecom companies invested a total of US $1,815.6 million mainly on account of acquiring spectrum for 3G and 4G services. Up-gradation of networks continues as operators are expanding their next generation networks in additional cities, for which, operators have invested a significant amount of $851 million during fiscal year 2014-15.

- In the fiscal year 2014-15, Pakistan imported $1.2 billion worth of telecom equipment, in which a record import of $629.9 million was on account of cellular mobile handsets imports. According to International Data Corporation (IDC), Pakistan remained one of the fastest growing markets for smartphones shipments in 2015 - 123 percent growth was registered in smart phone shipments to Pakistan between Q1 2014 and Q1 2015. Currently, almost 31 percent of the cellular mobile handsets imported in Pakistan are smartphones, which were only about 7 percent in 2012.

THREATS

- Cut throat competition coupled with high taxation burden on the cellular services by government has compelled cellular mobile operators to keep the tariffs low.

- Mobile companies have invested hefty CAPEX to acquire new generation technologies' licenses in 2014 but tentative regulatory policies of Pakistani incumbent have limited the operator's return on investment prospects.

- The biometric re-verification drive immediately after the 3G and 4G launch downgraded the potential subscriber pool by millions.

- Pakistan's telecom sector is the second highest taxed in the world which discourages investors, resulting in lower third generation and fourth generation penetration.

- The recent boost in the country's telecom sector will be of no benefit if the industry is burdened with taxes. The increasing taxes on the telecom sector are discouraging consumers and companies from using the services and this will ultimately prove detrimental to the national productivity.

- A 1% price increase led to a decrease in consumption of ICT goods and services in the range of 0.2% to 3.8%.

- There is an advance withholding tax to the tune of 14 percent, much higher than the 10 percent on luxury items, GST at the rate of 19.5 percent as compared to the 17 percent on other sectors, the uncollectible IMEI tax, exorbitant import tax and customs duties, supply of SIM tax and what not. For a top up of Rs100, what the customer actually gets is Rs66 – meaning his usage capacity is reduced by 34 percent right away.

- The government increased advance income tax from 10 percent in 2012-2013 to 15 percent in 2013-2014. The tax on mobile phone sets was doubled overnight in 2015-16 and the IMEI tax was imposed in 2014-15 despite reservations expressed by the industry repeatedly.

- In order to survive, the telecom sector is going towards consolidation and if the situation does not improve there will be job losses in the short term and reduction in choices for consumers in the medium term.

- The foreign investment plummeted 72% in the fiscal year ended June 30, 2015 while the telecom industry contributed 50% less in taxes compared to the previous year.

- The year 2015 was bad for the telecom industry of Pakistan as no new foreign direct investment (FDI) came in, all the cellular operators were struggling to increase their average revenue per user (ARPU) to become more competitive and coverage of 3G/4G services was to be expanded

- The telecom industry is not in a mood for further investments due to declining ARPU, increasing taxes and slow growth of data.

- Telecom sector contribution to the exchequer declined by 51 percent, investment by 46.9 percent while revenues dropped by 3 percent.

- Telecom sector has still not been granted the industrial undertaking status by FBR. In the absence of industrial status, mobile operators are unable to adjust the income tax paid at the time of import of telecom equipment, which is treated as a final tax liability.
- PTA had to recover Rs41.708 billion from different mobile phone companies and telecom companies out of which a number of companies had winded up their business and are not traceable now.

- The PTA failed to announce the auction of the remaining available 4G spectrum. None of the existing operators may show interest in it even in the next year

- 4G services subscribers stood at only 400,000. The main hindrance in adoption of 4G service is high cost of 4G-enabled handsets, while Zong, the only company, which acquired the license of 4G was unable to get the added advantage of the license.

- The industry has been so far unable to create local content for the data proliferation, while the data subscribers are mainly using data for emails, global social networking websites and chats.

- The rapid data growth is possible only when the local language content will be created by the stakeholders in Pakistan or literacy rate is increased.

- Telecom companies are not reinvesting much and repatriating most of their earnings.

- Contribution in profit repatriations has generally remained much less than other sectors, as stiff competition and heavy taxation never allowed firms to raise their profit margins. Revenues of the telecommunication companies are constantly declining.

OUTLOOK

Outlook remains positive though constrained with the increase in sales. However, core margins are expected to erode due to stiffer competition and an increasingly stringent security related regulatory environment. As the hype of the 3G auction fizzles out, a new roadmap of collaborative public-private networks from the regulatory body and the Ministry of IT& Telecoms is awaited.

TEXTILE-COMPOSITE

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	48		
			2014-15	2013-14	
A.	Industry Sales	Act/Est	357,554	313,503	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	16,985		
C.	Financial Charges	Act/Est	13,969		
D.	PAT	Act/Est	14,977		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	343,749		
F.	*Current Assets*	Act/Est	95,986		
G.	*Cash & Bank Balances*	Act/Est	1,457		
H.	*Trade Debtors*	Act/Est	31,297		
I.	*Short Term Investments*	Act/Est	4,736		
J.	*Total Equity*	Act/Est	155,388		
K.	*Current Liabilities*	Act/Est	103,292		
L.	*Total Liabilities*	Act/Est	166,733		

TEXTILE INDUSTRY- AN ANALYSIS

INDUSTRY OUTLINE

Pakistan's textile industry contributes 8.5 per cent to the GDP and employs over 40 per cent of the manufacturing sector workforce — around 15 million people. Pakistan is the fifth-largest producer of cotton, with the third-largest spinning capacity in Asia after China and India, and contributes five per cent to the global spinning capacity. At present, there are 124 large spinning units and 425 small units which produce textile products. Besides, the spinning industry being the sole consumer of cotton, sustains the largest cash crop of Pakistan. Pakistan's advantage in the textile industry lies in the lower segment of the value chain, predominantly the cotton spinning industry, where 500 units contribute 5% of the global spinning capacity.

During the period through August 2014, Pakistan's exports to the European Union increased by 5.8%, while exports to China declined by 30.8%. The GSP Plus status that Pakistan was granted by the EU clearly seems to be working: despite the slowdown in European economic growth.

Pakistan's spinning industry has for the last one decade been operating at much higher power tariff than regional economies and still remained competitive. The reason for high tariff was dependence on high cost furnace oil for power generation. Another factor for the survival of industry despite denial of zero rating, late refunds and high tariff was that until 2006 it was the most efficient producer of yarn around the world because it possessed the better technology than India, China or Bangladesh.

OPPORTUNITIES

- During crop season 2015-16, the country would likely produce more than 500,000 bales of cotton as late crop. Water availability in reservoirs would be satisfactory during the cotton-sowing and growing season in the cotton belt of Sindh and Punjab. Availability of fertilizer and cotton-related pesticides would be satisfactory, while sufficient quantity of certified cottonseed would also be available.

- Imposing regulatory duty of 10 percent on yarn and fabric is a crucial decision which would save the crisis-hit basic textile industry in Pakistan where 40 percent capacity of spinning, weaving and processing mills had become impaired, closed and inoperative.

- Reduction in the total electricity tariff by Rs 3 per unit from January 1, 2016 will go a long way towards the revival of the textile industry, which is predominantly supplied electricity through independent 11 KV feeders with nearly no loss and which was fully compliant in bills payment each month.

- The GSP Plus scheme has been proving beneficial for Pakistan at a time when its overall exports are facing serious challenges. Pakistan's exports to the EU crossed $5.7 billion, up 16% or $910 million with its exports to the EU.

- Pakistan's quality yarn is bringing back global buyers being disappointed by inconsistent and low quality Indian yarn. The Chinese also noticed this flaw and for a considerable time they persisted with Indian yarn on promise of the Indian exporters that product quality will be improved. The Chinese have started reverting back to Pakistan for their cotton yarn needs. Some Chinese buyers have even started visiting Pakistan to procure yarn.

- The Sui Northern Gas Pipelines Company Ltd (SNGPL) will supply 60 MMCFD LNG to textile industry in Punjab which will fulfill requirement of around 300 mills in Punjab, will be provided at the cost of $9 per MMBTU, which would avert the threat of a complete closure of mills due to the high cost of doing business.

- The textile package includes 5 percent rebate on exports and zero rate regime throughout the entire textile value chain, extension of Export Refinance to spinning and weaving sub-sectors, introduction of safeguards through tariff and non-tariff measures against the inroads of synthetic yarns and fabrics in domestic market, removal of electricity surcharge and GIDC and availability of incentives in the export market by matching the regional support package.

THREATS

- Pakistan's cotton has a significantly higher wastage factor (due to contamination/trash content of 8% vs. 3-4%), which translates into inconsistent quality and higher raw material costs.

- The cost of doing business continues to hamper the textile industry. Load shedding of electricity and gas further exacerbates the situation, not to mention an unfavorable exchange rate. Uncertainty in the Euro Zone dampened demand, not to mention the devaluation of the Euro hurt margins further.

- As for the textile industry as a whole, not much has been done to restore international competitiveness. The latest 10 percent RD slap on Indian yarn will hurt the value-added segment even more and increase the cost of doing business further.

- Due to underperformance of the textile industry, Pakistan's share in the global market also decreased from 2.2 per cent to 1.8 per cent during 2006-13, whereas market share of regional competitors increased by 75 per cent from 1.9 per cent to 3.3 per cent.

- The domestic market is being flooded with smuggled, subsidized and dumped clothing imports. The customs duty on import of cotton yarn in Pakistan is 5 per cent whereas India has imposed 28 per cent duty which makes export of cotton yarn to India unviable.

- There are three possible explanations for the slowdown in exports. The first is that Pakistan's major export markets – the United States, the European Union, China and the Middle East – are experiencing an economic slowdown. The second is that the energy crisis is causing exporters to struggle to meet the demand from importers. And the third possible explanation is idiosyncratic factors that are not connected to systemic issues.

- The incentives to the exporters, which had increased their export under Generalized System of Preferences (GSP) plus facility by the European Union, was facing hardships due to stuck up capital with the government to the tune of billions of rupees and rendered us unable to exploit this opportunity.

- A slowdown in Pakistan's export partners' economic growth – is a double-edged sword. On one hand, it means that the decline in Pakistan's exports is not the fault of our industries, but on the other hand, it also means that there is nothing to be done but wait for economic conditions in our export markets to improve.

- Pakistani yarn manufacturers are not prepared to export yarn at current global yarn rates as it is not commercially viable to match Indian rates that are subsidized by their government.

- The industry halted its upgrade and its technology is now older than all the three regional countries. The new spinning equipment is more energy efficient and its production speed is also higher which has enabled other economies to either match or lower the spinning costs compared with Pakistan.

- The Pakistani textile industry has been operating with 10-year-old machinery that needs to be upgraded, whereas India, which lagged behind 10 years ago, now has gone far beyond from Pakistani textile sector owing to its government's support.

- Regional competitors, from 2005 onwards, are encouraging investment to develop sizable capacity and as a result, the textile exports of Pakistan's principal competitor increased from $12 billion to $30 billion. The instrument used was the Technology Up-gradation Fund Scheme that provided for a remission of interest rate up to 50 per cent for investment. Similar schemes announced by successive governments in Pakistan did not materialize because of the characteristic gap between policy and implementation. The Indian government has launched the Technology Up gradation Fund Scheme, along with other incentives for its textile industry to the tune of $66 billion.

- Basic textiles particularly spinning industry is designed to operate 24/7. However, the spinning sector is currently operating at 66 percent of its installed capacity. Many mills are on the verge of collapse, while 15 most modern spinners have closed down after exhausting all their resources. Cost of doing business has gone sharply up and industry cannot operate without pouring additional money every day.

- More than Rs100 billion in sales tax refunds are pending. The industry would obviously like to see expeditious clearance of all refunds so as to solve its liquidity problems.

- Government is imposing 30 percent or Rs 200 per mmbtu Gas Infrastructure Development Cess (GIDC) on the domestically produced gas that will cause massive closure while 30 percent operational capacity is already closed.

- Our regional competitors have been devaluing their currencies to support their exports. Contrary to this our country has opted for a stable exchange rate path with US Dollar. This has handicapped Pakistani exports, the largest contributor to which is the textile sector.

- Continuous reduction in prices of yarn from regional competitors and their aggressive marketing has marred our ability to compete with them. Resultantly product margins in yarn are declining.

- Six percent import duty on import of polyester staple fiber (PSF) has ruined the textile industry as it has become uncompetitive when incidental charges are added to the import duty.

- The regional competitors were offering duty drawbacks besides rebate to their textile industries. Resultantly, textile exports from Pakistan have become 18% more expensive against the regional competitors due to higher domestic Polyester Fiber price.

- The textile industry is predominately cotton-based with an odd fiber mix – 80% cotton and 20% manmade fiber against the global average of 70% manmade fiber and 30% cotton. This prevented the textile industry from diversifying its products and markets, though Pakistan had been granted the GSP Plus market access facility since January 2014.

- Cheaper import and smuggled synthetic yarn and fabric have made inroads into the domestic market due to present high polyester tariff.

- Competing with Chinese or Indian polyester producers remains difficult. Besides the scale, their governments give tax breaks, subsidy on interest, tariff protection, land on concessional rates and other favors.

OUTLOOK

The outlook for textiles is likely to remain negative in the near term. The uncertain global economic situation, particularly the slowdown and currency devaluation in China, is likely to keep demand for end products weak and end prices low.

TEXTILES-FABRICS (WEAVING)

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	6	
			2014-15	**2013-14**
A.	**Industry Sales**	**Act**/Est	42,505	45,419

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

B.	**PBT**	**Act**/Est	2,635
C.	**Financial Charges**	**Act**/Est	1,114
D.	**PAT**	**Act**/Est	2,476

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

E.	*Total Assets*	**Act**/Est	18,810
F.	*Current Assets*	**Act**/Est	8,667
G.	*Cash & Bank Balances*	**Act**/Est	229
H.	*Trade Debtors*	**Act**/Est	2,085
I.	*Short Term Investments*	**Act**/Est	44
J.	*Total Equity*	**Act**/Est	6,901
K.	*Current Liabilities*	**Act**/Est	9,184
L.	*Total Liabilities*	**Act**/Est	11,908

(See above, TEXTILE INDUSTRY for a full discussion of textiles and its sub-sectors.)

TEXTILES-KNITS & KNIT APPAREL

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	800		
			2014-15	**2013-14**	
A.	**Industry Sales**	Act/Est	243,718	235,565	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	Act/Est	9		
C.	**Financial Charges**	Act/Est	1		
D.	**PAT**	Act/Est	8		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	97		
F.	*Current Assets*	Act/Est	58		
G.	*Cash & Bank Balances*	Act/Est	Nil		
H.	*Trade Debtors*	Act/Est	36		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	35		
K.	*Current Liabilities*	Act/Est	62		
L.	*Total Liabilities*	Act/Est	61		

(See above, TEXTILE INDUSTRY, for a full discussion of textiles and its sub-sectors.)

TEXTILE-SPINNING

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	68		
			2014-15	**2013-14**	
A.	**Industry Sales**	**Act/Est**	226,288	255,082	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	-3,059		
C.	**Financial Charges**	**Act/Est**	7,812		
D.	**PAT**	**Act/Est**	66,642		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	148,194		
F.	*Current Assets*	**Act/Est**	53,270		
G.	*Cash & Bank Balances*	**Act/Est**	2,079		
H.	*Trade Debtors*	**Act/Est**	14,246		
I.	*Short Term Investments*	**Act/Est**	998		
J.	*Total Equity*	**Act/Est**	37,268		
K.	*Current Liabilities*	**Act/Est**	62,174		
L.	*Total Liabilities*	**Act/Est**	87,667		

(See above, TEXTILE INDUSTRY, for a full discussion of textiles and its sub-sectors.)

TEXTILE-SYNTHETIC FIBER/ POLYESTER

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	10		
			2014-15	**2013-14**	
A.	**Industry Sales**	**Act/Est**	58,771	74,832	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	-2,067		
C.	**Financial Charges**	**Act/Est**	1,591		
D.	**PAT**	**Act/Est**	-2,408		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	40,472		
F.	*Current Assets*	**Act/Est**	23,352		
G.	*Cash & Bank Balances*	**Act/Est**	318		
H.	*Trade Debtors*	**Act/Est**	3,284		
I.	*Short Term Investments*	**Act/Est**	_		
J.	*Total Equity*	**Act/Est**	16,515		
K.	*Current Liabilities*	**Act/Est**	39,379		
L.	*Total Liabilities*	**Act/Est**	54,919		

(See above, TEXTILE INDUSTRY, for a full discussion of textiles and its sub-sectors.)

TEXTILES-WOVEN APPAREL

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	500		
			2014-15	2013-14	
A.	Industry Sales	Act/Est	212,210	196,198	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	30		
C.	Financial Charges	Act/Est	14		
D.	PAT	Act/Est	22		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	418		
F.	*Current Assets*	Act/Est	219		
G.	*Cash & Bank Balances*	Act/Est	25		
H.	*Trade Debtors*	Act/Est	50		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	128		
K.	*Current Liabilities*	Act/Est	212		
L.	*Total Liabilities*	Act/Est	290		

(See above, TEXTILE INDUSTRY, for a full discussion of textiles and its sub-sectors.)

TOBACCO

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	3		
			2014-15	**2013-14**	
A.	**Industry Sales**	**Act/Est**	50,383	67,498	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	5,675		
C.	**Financial Charges**	**Act/Est**	703		
D.	**PAT**	**Act/Est**	3,368		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	40,453		
F.	*Current Assets*	**Act/Est**	23,721		
G.	*Cash & Bank Balances*	**Act/Est**	186		
H.	*Trade Debtors*	**Act/Est**	228		
I.	*Short Term Investments*	**Act/Est**			
J.	*Total Equity*	**Act/Est**	12,000		
K.	*Current Liabilities*	**Act/Est**	22,964		
L.	*Total Liabilities*	**Act/Est**	25,452		

TOBACCO

SECTOR OUTLINE

Currently there are 9 plants where tobacco leaf is thrashed (prepared) for cigarette manufacturing. Two tobacco manufacturers contribute 99.3 per cent of the revenue generated from the industry. The tobacco industry of the Pakistan contributed Rs 100 billion annually in term of revenues. Currently tobacco was being cultivated over the area of 50,373 hectares land which comprises of 0.27 percent of total cultivated area of the country. The average yield per hectare of tobacco in Pakistan is also the highest in the world. The yield of tobacco in the country was 13 percent higher than the world average yield per hectare. The total annual economic activity of the tobacco industry is Rs 300 billion and about 1.5 million people are associated with this industry. 80,000 farmer families were also linked with tobacco farming and 53,000 people were employed in the 28 tobacco factories. Pakistan is one of the biggest markets in Asia in terms of cigarette consumption with an estimated annual consumption of 81 billion sticks – that is 422 cigarettes per person per year.

OPPORTUNITIES

- ▲ The Capital Development Authority signed a Memorandum of Understanding with a tobacco company about planting 800,000 trees during this spring.

- ▲ The Tobacco Board is exploring areas to cultivate cigar which is a very profitable crop and gives 3,096 kilogram per hectare

- ▲ Pakistan along with Bangladesh and Sri Lanka has implemented superior strategies to curb deaths caused by tobacco in comparison with India.

- ▲ As per the budget speech in June 2015, FED on cigarettes will be increased from 58pc to 63pc but an analysis of the new cigarette prices shows that the FED is still not more than 56pc.

- ▲ The total cigarette market of Pakistan in terms of consumption is estimated to be 80-85 billion sticks annually. The contribution of the legal sector is 60-62 billion (sticks consumed per year), and about 20 to 23 billion for the illicit players, including the Genuine Non Duty paid.

- ▲ The government can eliminate illicit cigarette sector through amendments in Federal Board of Revenue's (FBR) Federal Excise Rules to held retailers responsible for selling cigarette below printed price, audit of tobacco leaf thrashing plants and revision in regulatory framework, ie introduce spot fines and summary trials at the point of enforcement.

- ▲ The government is expected to revise its policy to demonstrate political will and issue a clear direction to eliminate Pakistan's illicit cigarette sector. Enforcement of this law can help curtail tax evasion by preventing inflow of smuggled cigarettes and also sale of such tax-evaded and smuggled cigarettes at retail outlets.

- ▲ Phillip Morris plans to invest up to $100 million in Pakistan in the ensuing year and it plans to continue to invest in north of $15 million a year just to keep improving their ability to compete and win at the market place.

- The $100 million that Phillip Morris got approval to bring into Pakistan is part of the long term contribution of Philip Morris International to a country like Pakistan. The funds will be used to further improve the conditions and ability to compete in Pakistan.

- Pakistan Tobacco Company (PTC) made more than Rs1 million per hour in net profit during six months ended June 30, 2015. This is the highest income PTC has ever reported since it launched operations in the country.

- The company's net profit was driven by record high gross margins of 41%, a year-on-year (YoY) increase of 543 basis points.

- The estimated number of tobacco users in Pakistan is estimated to be 15.6 million and this number is growing rapidly.

THREATS

- Under the Article 13 of the UN convention the tobacco industry cannot do any Corporate Social Responsibility (CSR) activity because the industry is after building its image that it cares about the health of people.

- The health ministry has been rendered impotent by the tobacco industry; consumer rights groups have demanded effective, vigilant and quick monitoring and action to counter a powerful tobacco industry.

- The country suffers an annual loss of more than Rs24 billion because of illegal tobacco trade, and sustained and coordinated enforcement efforts are needed to solve the problem.

- Legitimate companies are subjected to taxation and duties but there is no defined system of check and balance against the illicit cigarette network across the country.

- Smuggled cigarettes were available in the market despite the presence of the intelligence directorates general of the customs department and the Federal Board of Revenue (FBR).

- The increase in smuggling is attributed to the high federal excise duty that had raised the prices -- the average price of a lower category duty-paid pack of cigarettes has increased from Rs38 in 2013 to Rs65.

- The manufacturing and distribution of locally manufactured, tax-evaded cigarettes in Pakistan was not a covert activity but this supply chain was well established across the country and was operating seamlessly.

- Illicit cigarette segment makes up almost a quarter of the market of which 89% comprises of locally manufactured cigarettes which are tax evaded and the rest, smuggled. These combined totaled to an astounding 19.5 billion illicit cigarettes circulating in the economy in 2014.

- Between 2009 and 2014, the illicit segment exhibited growth of 43.5% at the expense of the legitimate industry which not only declined by 11% in the same period, but continues to shrink further every year.

- The governments need to tax all tobacco products in a manner that people do not opt out of one expensive product to a less expensive one.

- Cigarettes are less affordable in Pakistan, Turkey, Poland, Russia, Ukraine and Brazil and more affordable in India, China, Indonesia and Vietnam.

- There are few restrictions on advertising and promotion in Pakistan. Print advertising is prohibited, except for advertisements less than one square inch in the inside portion of publications that are not intended for young people. TV and radio advertising is limited to the hours between 3:00 and 4:00 am. Billboards and other outdoor print media may not exceed one square meter. Most other forms of advertising and promotions are allowed. There are some restrictions on tobacco sponsorship and the publicity of such sponsorship.

- Pakistan stands number three in terms of the trade of contraband cigarettes with every one cigarette out of four sold being illicit, behind Malaysia and Hong Kong.

OUTLOOK

The industry’s ability to provide a strong cash flow and turnover is being slowly eroded; however the industry retains vast financial potential and is expected to remain strong. Outlook remains stable.

TRANSPORT-AIR

FINANCIAL SNAPSHOT 2014-15

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	1		
			2014-15	**2013-14**	
A.	**Industry Sales**	**Act/Est**	121,317	100,850	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	-18		
C.	**Financial Charges**	**Act/Est**	12		
D.	**PAT**	**Act/Est**	-20		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	***Total Assets***	**Act/Est**	151,616		
F.	***Current Assets***	**Act/Est**	24,733		
G.	***Cash & Bank Balances***	**Act/Est**	1,685		
H.	***Trade Debtors***	**Act/Est**	10		
I.	***Short Term Investments***	**Act/Est**	19		
J.	***Total Equity***	**Act/Est**	-151,412		
K.	***Current Liabilities***	**Act/Est**	181,000		
L.	***Total Liabilities***	**Act/Est**	245,000		

TRANSPORT – AIR

SECTOR OUTLINE

The airline industry provides services to virtually every segment of the country and plays an integral role in the development of economy. The airline industry itself is a major economic force, in terms of both its own operations and its impacts on related industries such as trade and tourism. Local competitors to PIA are Shaheen Air, Airblue and Indus. It has been Airblue which has grown rapidly in a relatively short time. Airblue has become the trend setter mainly on the back of its quality products, innovative ideas and quality customer services Airblue is operating with a fleet of 9AirbusA320/1 aircrafts, while Shaheen which has a fleet of 10 Boeing 737's trails Airblue but is continuing to make headway in all areas. Indus has yet to establish its track record.

OPPORTUNITIES

- ▲ Under the new policy initiative of Revival of PIA" the PIA management has signed an agreement with the financing facility of EXIM Bank of USA and General Electronics to overhaul and carry out maintenance of the engines of PIA Boeing Air Crafts.
- ▲ Despite an over increasing financial cost, the Airline has been involved in taking various steps to reduce costs and improve productivity. These measures includes contracts re-negotiation, route rationalization by discontinuing loss making routes, re-deploying aircraft on more profitable routes and additional flights on high yield strategic international routes and additional flights on primary domestic routes have been operated after the addition of narrow body aircrafts acquired on lease basis. These steps under taken not only reduced PIA losses from Rs.44.3 billion to Rs.32.0 billion in 2014 but also increased its operating revenue from Rs.95.771 billion in 2013 to Rs.99.519 in 2014.
- ▲ The arrival of private sector in the airline business has brought latest technology and innovative ideas and production in this field. The aviation sector achieved an impressive overall jump in market growth, reflected in the robust growth in air traffic.
- ▲ Airlines through new marketing strategies, tightened belts, freezing on recruitments and aircraft induction can increases their opportunities for utilizing their best talents to retain their share of revenue, both in terms of passengers and cargo.
- ▲ Airline operations could be made cost-effective with the purchase of new smaller aircraft for domestic operations while using bigger aircraft on longer & traffic oriented routes. This approach will not only help earn handsome revenues but it will also enable to pay back the cost of new aircraft.
- ▲ Lower global fuel prices are likely to enhance profitability and/or lower losses.

THREATS

- ▼ PIA's cumulative losses were 227 billion rupees ($2.2 billion) as of last June 2015. The government had to inject 12 to 15 billion rupees annually to keep the airline alive and pay employees. The airline has also traditionally handed out tens of thousands of free tickets each year, contributing to its losses.

- PIA, one of the world's leading airlines until the 1970s, now suffers from frequent cancellations and delays and has been involved in numerous controversies over the years. It has also faced problems acquiring security clearances to the European Union for cargo flights.

- The government is planning to privatise PIA in view of its heavy and recurring financial losses. Once the government approves the sale, the Privatisation Commission will try to sell the struggling airline on the international market. The government was considering the mode of privatisation but one option was to sell 26 percent of the total shares along with management control.

- PIA continues to handle non-core activities and spends Rs5 billion on these services per annum including the 7,000 people employed to carry out these activities unlike other countries where non-core activities are outsourced.

- Pakistan International Airlines Corporation (PIAC) faced various challenges like; ever increasing competition in the aviation market, fleet constraints along with the operational issues of the Corporation coupled with economic challenges facing the country and prevailing law & order situation.

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

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

- Stiff competition from the regional carriers and financing cost on fleet and non fleet loans severely hurt PIA.

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

OUTLOOK

The outlook for the local airline industry is blurred because of continued loss accumulation of the national carrier. While its restructuring is likely to lurch forward in the absence of a strategic and viable sale / privatization. Outlook remains negative for the national carrier but improved somewhat from the previous year. However, especially in the wake of lower oil prices, outlook for the other carriers stands significantly improved and stable.

Note: Transport Air Category is Watch/Hold keeping in view PIA. Air Blue and Shaheen Air lie in the Average category.

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	1	100	6.0	6.0
3	Energy - Oil & Gas Exploration	1	100	6.0	6.0
4	Financial Institutions	1	100	6.0	6.0
5	Edible Oil	2	80	6.0	4.8
6	Energy – Indigenous	2	80	6.0	4.8
7	Energy - Gas Generation & Distribution	2	80	6.0	4.8
8	Energy - Oil (Petroleum Distribution/Marketing)	2	80	6.0	4.8
9	Energy - Oil (Petroleum Refining)	2	80	6.0	4.8
10	Energy - Non Indigenous	2	80	6.0	4.8
11	Fertilizers	2	80	6.0	4.8
12	Telecommunications	2	80	6.0	4.8
13	Tobacco Products	2	80	6.0	4.8
14	Agro-Chemicals	3	60	6.0	3.6
15	Cement	3	60	6.0	3.6
16	Chemicals (inc. Plastic & Rubber Products)	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	Construction (Infrastructure)	1	100	7.0	7.0
2	Energy-Other	1	100	7.0	7.0
3	Financial Institutions	1	100	7.0	7.0
4	Energy - Oil & Gas Exploration	2	80	7.0	5.6
5	Food, Beverages & Consumer Products	2	80	7.0	5.6
6	Machinery & Equipment	2	80	7.0	5.6
7	Sports Products	2	80	7.0	5.6
8	Surgical, Precision, Optical Equipment	2	80	7.0	5.6
9	Telecommunications	2	80	7.0	5.6
10	Tobacco Products	2	80	7.0	5.6
11	Agro-Chemicals	3	60	7.0	4.2
12	Carpets & Rugs	3	60	7.0	4.2
13	Cement	3	60	7.0	4.2
14	Chemicals (inc. Plastic & Rubber Products)	3	60	7.0	4.2
15	Construction (General)	3	60	7.0	4.2
16	Edible Oil	3	60	7.0	4.2
17	Energy-Indigenous	3	60	7.0	4.2
18	Glass & Ceramics	3	60	7.0	4.2
19	Information Technology	3	60	7.0	4.2
20	Metallic Products (Iron & Steel)	3	60	7.0	4.2
21	Pharmaceuticals	3	60	7.0	4.2
22	Sugar	3	60	7.0	4.2
23	Textiles – Composite	3	60	7.0	4.2
24	Textiles – Spinning	3	60	7.0	4.2
25	Textiles - Synthetic Fibers/Polyester	3	60	7.0	4.2
26	Automotives - Assemblers/Manufacturers	4	40	7.0	2.8
27	Energy - Gas Generation & Distribution	4	40	7.0	2.8
28	Energy - Oil (Petroleum Distribution/Marketing)	4	40	7.0	2.8
29	Energy - Oil (Petroleum Refining)	4	40	7.0	2.8
30	Energy - Non Indigenous	4	40	7.0	2.8
31	Fertilizers	4	40	7.0	2.8
32	Leather Products	4	40	7.0	2.8
33	Transport – Air	4	40	7.0	2.8
34	Automotive - Parts & Accessories	4	40	7.0	2.8
35	Textiles - Fabrics (Weaving)	4	40	7.0	2.8
36	Textiles - Knits & Knit Apparel	4	40	7.0	2.8
37	Textiles - Woven Apparel	4	40	7.0	2.8

BY CORPORATE GOVERNANCE & CONTROL STRUCTURE

Sector ranking, by the Corporate Governance & Control Structure (this variable assesses the extent of overall corporate governance and control structure and quality of compliance with generally accepted operating standards in the industry being a combination of certain factors. 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	Construction (Infrastructure)	1	100	2.0	2.0
2	Energy - Other	1	100	2.0	2.0
3	Energy - Oil (Petroleum Distribution/Marketing)	1	100	2.0	2.0
4	Fertilizers	1	100	2.0	2.0
5	Financial Institutions	1	100	2.0	2.0
6	Pharmaceuticals	1	100	2.0	2.0
7	Telecommunications	1	100	2.0	2.0
8	Automotives - Assemblers/Manufacturers	1	100	2.0	2.0
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	Food, Beverages & Consumer Products	2	80	2.0	1.6
17	Energy - Non Indigenous	2	80	2.0	1.6
18	Tobacco Products	2	80	2.0	1.6
19	Agro-Chemicals	3	60	2.0	1.2
20	Automotive - Parts & Accessories	3	60	2.0	1.2
21	Energy-Indigenous	3	60	2.0	1.2
22	Energy - Gas Generation & Distribution	3	60	2.0	1.2
23	Glass & Ceramics	3	60	2.0	1.2
24	Information Technology	3	60	2.0	1.2
25	Leather Products	3	60	2.0	1.2
26	Sports Products	3	60	2.0	1.2
27	Surgical, Precision, Optical Equipment	3	60	2.0	1.2
28	Machinery & Equipment	3	60	2.0	1.2
29	Textiles - Woven Apparel	3	60	2.0	1.2
30	Textiles – Composite	4	40	2.0	0.8
31	Metallic Products (Iron & Steel)	4	40	2.0	0.8
32	Transport – Air	4	40	2.0	0.8
33	Sugar	5	20	2.0	0.4
34	Construction (General)	5	20	2.0	0.4
35	Textiles - Fabrics (Weaving)	5	20	2.0	0.4
36	Textiles - Knits & Knit Apparel	5	20	2.0	0.4
37	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	Construction (Infrasrtucture)	1	100	4.0	4.0
2	Energy - Other	1	100	4.0	4.0
3	Energy - Gas Generation & Distribution	1	100	4.0	4.0
4	Energy-Indigenous	1	100	4.0	4.0
5	Energy - Oil & Gas Exploration	2	80	4.0	3.2
6	Energy - Oil (Petroleum Refining)	2	80	4.0	3.2
7	Energy - Non Indigenous	2	80	4.0	3.2
8	Fertilizers	2	80	4.0	3.2
9	Machinery & Equipment	2	80	4.0	3.2
10	Glass & Ceramics	2	80	4.0	3.2
11	Metallic Products (Iron & Steel)	2	80	4.0	3.2
12	Pharmaceuticals	2	80	4.0	3.2
13	Chemicals (inc. Plastic & Rubber Products)	2	80	4.0	3.2
14	Energy - Oil (Petroleum Distribution/Marketing)	3	60	4.0	2.4
15	Financial Institutions	3	60	4.0	2.4
16	Sports Products	3	60	4.0	2.4
17	Automotive - Parts & Accessories	3	60	4.0	2.4
18	Automotives - Assemblers/Manufacturers	3	60	4.0	2.4
19	Construction (General)	3	60	4.0	2.4
20	Surgical, Precision, Optical Equipment	3	60	4.0	2.4
21	Textiles - Synthetic Fibers/Polyester	3	60	4.0	2.4
22	Food, Beverages & Consumer Products	4	40	4.0	1.6
23	Edible Oil	4	40	4.0	1.6
24	Tobacco Products	4	40	4.0	1.6
25	Cement	4	40	4.0	1.6
26	Information Technology	4	40	4.0	1.6
27	Leather Products	4	40	4.0	1.6
28	Transport – Air	4	40	4.0	1.6
29	Carpets & Rugs	4	40	4.0	1.6
30	Textiles - Woven Apparel	4	40	4.0	1.6
31	Agro-Chemicals	5	20	4.0	0.8
32	Sugar	5	20	4.0	0.8
33	Telecommunications	5	20	4.0	0.8
34	Textiles – Composite	5	20	4.0	0.8
35	Textiles – Spinning	5	20	4.0	0.8
36	Textiles - Fabrics (Weaving)	5	20	4.0	0.8
37	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	Construction (Infrastructure)	1	100	2.0	2.0
2	Energy-Other	1	100	2.0	2.0
3	Energy - Gas Generation & Distribution	1	100	2.0	2.0
4	Energy-Indigenous	1	100	2.0	2.0
5	Energy - Oil & Gas Exploration	2	80	2.0	1.6
6	Energy - Oil (Petroleum Refining)	2	80	2.0	1.6
7	Energy - Non Indigenous	2	80	2.0	1.6
8	Fertilizers	2	80	2.0	1.6
9	Financial Institutions	2	80	2.0	1.6
10	Machinery & Equipment	2	80	2.0	1.6
11	Glass & Ceramics	2	80	2.0	1.6
12	Metallic Products (Iron & Steel)	2	80	2.0	1.6
13	Pharmaceuticals	2	80	2.0	1.6
14	Chemicals (inc. Plastic & Rubber Products)	2	80	2.0	1.6
15	Energy - Oil (Petroleum Distribution/Marketing)	3	60	2.0	1.2
16	Sports Products	3	60	2.0	1.2
17	Automotive - Parts & Accessories	3	60	2.0	1.2
18	Automotives - Assemblers/Manufacturers	3	60	2.0	1.2
19	Construction	3	60	2.0	1.2
20	Surgical, Precision, Optical Equipment	3	60	2.0	1.2
21	Textiles - Synthetic Fibers/Polyester	3	60	2.0	1.2
22	Edible Oil	4	40	2.0	0.8
23	Tobacco Products	4	40	2.0	0.8
24	Cement	4	40	2.0	0.8
25	Information Technology	4	40	2.0	0.8
26	Leather Products	4	40	2.0	0.8
27	Transport – Air	4	40	2.0	0.8
28	Carpets & Rugs	4	40	2.0	0.8
29	Textiles - Woven Apparel	4	40	2.0	0.8
30	Agro-Chemicals	5	20	2.0	0.4
31	Food, Beverages & Consumer Products	5	20	2.0	0.4
32	Sugar	5	20	2.0	0.4
33	Telecommunications	5	20	2.0	0.4
34	Textiles – Composite	5	20	2.0	0.4
35	Textiles – Spinning	5	20	2.0	0.4
36	Textiles - Fabrics (Weaving)	5	20	2.0	0.4
37	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	Construction (Infrastructure)	2	80	1.0	0.8
2	Energy - Other	2	80	1.0	0.8
3	Energy - Oil & Gas Exploration	2	80	1.0	0.8
4	Carpets & Rugs	2	80	1.0	0.8
5	Cement	2	80	1.0	0.8
6	Chemicals (inc. Plastic & Rubber Products)	2	80	1.0	0.8
7	Edible Oil	2	80	1.0	0.8
8	Energy – Indigenous	2	80	1.0	0.8
9	Energy - Gas Generation & Distribution	2	80	1.0	0.8
10	Fertilizers	2	80	1.0	0.8
11	Food, Beverages & Consumer Products	2	80	1.0	0.8
12	Glass & Ceramics	2	80	1.0	0.8
13	Agro-Chemicals	3	60	1.0	0.6
14	Leather Products	3	60	1.0	0.6
15	Machinery & Equipment	3	60	1.0	0.6
16	Metallic Products (Iron & Steel)	3	60	1.0	0.6
17	Sports Products	3	60	1.0	0.6
18	Sugar	3	60	1.0	0.6
19	Surgical, Precision, Optical Equipment	3	60	1.0	0.6
20	Telecommunications	3	60	1.0	0.6
21	Textiles - Synthetic Fibers/Polyester	3	60	1.0	0.6
22	Tobacco Products	3	60	1.0	0.6
23	Construction (General)	3	60	1.0	0.6
24	Financial Institutions	4	40	1.0	0.4
25	Information Technology	4	40	1.0	0.4
26	Textiles - Fabrics (Weaving)	4	40	1.0	0.4
27	Textiles - Woven Apparel	4	40	1.0	0.4
28	Transport – Air	4	40	1.0	0.4
29	Automotive - Parts & Accessories	4	40	1.0	0.4
30	Automotives - Assemblers/Manufacturers	4	40	1.0	0.4
31	Energy - Oil (Petroleum Distribution/Marketing)	4	40	1.0	0.4
32	Energy - Oil (Petroleum Refining)	4	40	1.0	0.4
33	Energy - Non Indigenous	4	40	1.0	0.4
34	Pharmaceuticals	4	40	1.0	0.4
35	Textiles – Composite	4	40	1.0	0.4
36	Textiles - Knits & Knit Apparel	4	40	1.0	0.4
37	Textiles – Spinning	4	40	1.0	0.4

BY PRICE ELASTICITY

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

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

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Construction (Infrastructure)	1	100	5.0	5.0
2	Energy-Other	1	100	5.0	5.0
3	Energy - Oil (Petroleum Distribution/Marketing)	1	100	5.0	5.0
4	Energy - Oil (Petroleum Refining)	1	100	5.0	5.0
5	Energy - Non Indigenous	1	100	5.0	5.0
6	Energy - Gas Generation & Distribution	1	100	5.0	5.0
7	Financial Institutions	1	100	5.0	5.0
8	Chemicals (inc. Plastic & Rubber Products)	2	80	5.0	4.0
9	Construction (General)	2	80	5.0	4.0
10	Energy – Indigenous	2	80	5.0	4.0
11	Energy - Oil & Gas Exploration	2	80	5.0	4.0
12	Carpets & Rugs	2	80	5.0	4.0
13	Metallic Products (Iron & Steel)	2	80	5.0	4.0
14	Pharmaceuticals	2	80	5.0	4.0
15	Tobacco Products	2	80	5.0	4.0
16	Sports Products	3	60	5.0	3.0
17	Surgical, Precision, Optical Equipment	3	60	5.0	3.0
18	Automotives - Assemblers/Manufacturers	3	60	5.0	3.0
19	Glass & Ceramics	3	60	5.0	3.0
20	Information Technology	3	60	5.0	3.0
21	Leather Products	3	60	5.0	3.0
22	Machinery & Equipment	3	60	5.0	3.0
23	Textiles – Composite	3	60	5.0	3.0
24	Automotive - Parts & Accessories	3	60	5.0	3.0
25	Edible Oil	4	40	5.0	2.0
26	Telecommunications	4	40	5.0	2.0
27	Fertilizers	4	40	5.0	2.0
28	Textiles - Knits & Knit Apparel	4	40	5.0	2.0
29	Textiles - Synthetic Fibers/Polyester	4	20	5.0	2.0
30	Textiles - Woven Apparel	4	40	5.0	2.0
31	Agro-Chemicals	4	20	5.0	2.0
32	Food, Beverages & Consumer Products	4	40	5.0	2.0
33	Transport – Air	4	40	5.0	2.0
34	Cement	5	20	5.0	1.0
35	Sugar	5	20	5.0	1.0
36	Textiles - Fabrics (Weaving)	5	20	5.0	1.0
37	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	Construction (Infrastructure)	1	100	1.5	1.5
2	Energy-Other	1	100	1.5	1.5
3	Energy - Gas Generation & Distribution	1	100	1.5	1.5
4	Energy-Indigenous	2	80	1.5	1.2
5	Energy - Oil & Gas Exploration	2	80	1.5	1.2
6	Fertilizers	2	80	1.5	1.2
7	Financial Institutions	2	80	1.5	1.2
8	Food, Beverages & Consumer Products	2	80	1.5	1.2
9	Cement	2	80	1.5	1.2
10	Construction (General)	2	80	1.5	1.2
11	Sugar	2	80	1.5	1.2
12	Telecommunications	2	80	1.5	1.2
13	Tobacco Products	2	80	1.5	1.2
14	Energy - Non Indigenous	3	60	1.5	0.9
15	Glass & Ceramics	3	60	1.5	0.9
16	Machinery & Equipment	3	60	1.5	0.9
17	Information Technology	3	60	1.5	0.9
18	Transport – Air	3	60	1.5	0.9
19	Chemicals (inc. Plastic & Rubber Products)	4	40	1.5	0.6
20	Energy - Oil (Petroleum Distribution/Marketing)	4	40	1.5	0.6
21	Energy - Oil (Petroleum Refining)	4	40	1.5	0.6
22	Pharmaceuticals	4	40	1.5	0.6
23	Automotives - Assemblers/Manufacturers	4	40	1.5	0.6
24	Edible Oil	4	40	1.5	0.6
25	Leather Products	4	40	1.5	0.6
26	Metallic Products (Iron & Steel)	4	40	1.5	0.6
27	Textiles – Composite	4	40	1.5	0.6
28	Textiles - Fabrics (Weaving)	4	40	1.5	0.6
29	Textiles - Knits & Knit Apparel	4	40	1.5	0.6
30	Textiles – Spinning	4	40	1.5	0.6
31	Textiles - Synthetic Fibers/Polyester	4	40	1.5	0.6
32	Textiles - Woven Apparel	4	40	1.5	0.6
33	Automotive - Parts & Accessories	4	40	1.5	0.6
34	Agro-Chemicals	5	20	1.5	0.3
35	Carpets & Rugs	5	20	1.5	0.3
36	Surgical, Precision, Optical Equipment	5	20	1.5	0.3
37	Sports Products	5	20	1.5	0.3

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	Construction (Infrastructure)	1	100	1.5	1.5
2	Energy-Other	1	100	1.5	1.5
3	Agro-Chemicals	1	100	1.5	1.5
4	Construction (General)	1	100	1.5	1.5
5	Energy – Indigenous	1	100	1.5	1.5
6	Energy - Gas Generation & Distribution	1	100	1.5	1.5
7	Carpets & Rugs	1	100	1.5	1.5
8	Sports Products	1	100	1.5	1.5
9	Surgical, Precision, Optical Equipment	1	100	1.5	1.5
10	Energy - Oil & Gas Exploration	1	100	1.5	1.5
11	Energy - Non Indigenous	2	80	1.5	1.2
12	Information Technology	2	80	1.5	1.2
13	Pharmaceuticals	2	80	1.5	1.2
14	Food, Beverages & Consumer Products	2	80	1.5	1.2
15	Leather Products	2	80	1.5	1.2
16	Automotive - Parts & Accessories	2	80	1.5	1.2
17	Cement	2	80	1.5	1.2
18	Tobacco Products	2	80	1.5	1.2
19	Textiles – Spinning	3	60	1.5	0.9
20	Glass & Ceramics	3	60	1.5	0.9
21	Chemicals (inc. Plastic & Rubber Products)	3	60	1.5	0.9
22	Automotives - Assemblers/Manufacturers	3	60	1.5	0.9
23	Textiles – Composite	3	60	1.5	0.9
24	Financial Institutions	4	40	1.5	0.6
25	Textiles - Fabrics (Weaving)	4	40	1.5	0.6
26	Edible Oil	4	40	1.5	0.6
27	Metallic Products (Iron & Steel)	4	40	1.5	0.6
28	Energy - Oil (Petroleum Refining)	4	40	1.5	0.6
29	Machinery & Equipment	4	40	1.5	0.6
30	Sugar	4	40	1.5	0.6
31	Fertilizers	5	20	1.5	0.3
32	Energy - Oil (Petroleum Distribution/Marketing)	5	20	1.5	0.3
33	Telecommunications	5	20	1.5	0.3
34	Textiles - Synthetic Fibers/Polyester	5	20	1.5	0.3
35	Textiles - Woven Apparel	5	20	1.5	0.3
36	Textiles - Knits & Knit Apparel	5	20	1.5	0.3
37	Transport – Air	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	Financial Institutions	30.0	26.2
2	Construction (Infrastructure)	30.0	23.2
3	Energy – Indigenous	30.0	22.4
4	Food, Beverages & Consumer Products	30.0	22.4
5	Energy - Gas Generation & Distribution	30.0	21.6
6	Tobacco Products	30.0	21.6
7	Energy-Other	30.0	21.2
8	Telecommunications	30.0	21.2
9	Energy - Oil & Gas Exploration	30.0	20.8
10	Surgical, Precision, Optical Equipment	30.0	20.6
11	Sports Products	30.0	20.2
12	Edible Oil	30.0	20.0
13	Energy - Oil (Petroleum Distribution/Marketing)	30.0	19.8
14	Energy - Oil (Petroleum Refining)	30.0	19.8
15	Energy - Non Indigenous	30.0	19.8
16	Agro-Chemicals	30.0	19.4
17	Glass & Ceramics	30.0	19.4
18	Machinery & Equipment	30.0	19.4
19	Cement	30.0	18.6
20	Chemicals (inc. Plastic & Rubber Products)	30.0	18.2
21	Sugar	30.0	18.0
22	Textiles – Composite	30.0	17.8
23	Fertilizers	30.0	17.2
24	Construction (General)	30.0	17.0
25	Pharmaceuticals	30.0	17.0
26	Textiles - Synthetic Fibers/Polyester	30.0	17.0
27	Textiles – Spinning	30.0	16.6
28	Metallic Products (Iron & Steel)	30.0	15.6
29	Information Technology	30.0	14.8
30	Leather Products	30.0	14.8
31	Automotives - Assemblers/Manufacturers	30.0	14.4
32	Textiles - Fabrics (Weaving)	30.0	12.2
33	Textiles - Knits & Knit Apparel	30.0	12.2
34	Textiles - Woven Apparel	30.0	12.2
35	Carpets & Rugs	30.0	11.6
36	Transport – Air	30.0	11.6
37	Automotive - Parts & Accessories	30.0	10.2

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	Agro-Chemicals	199	3	66.33	1	100	3.0	3.0
2	Automotive - Assemblers/Manufacturers	30,874	543	56.86	1	100	3.0	3.0
3	Automotive - Parts & Accessories	3,642	2,762	1.32	1	100	3.0	3.0
4	Carpets & Rugs	-70	2	-35.00	5	20	3.0	0.6
5	Cement	66,262	3,526	18.79	1	100	3.0	3.0
6	Chemicals (inc. Plastic & Rubber Products)	382	2,327	0.16	2	80	3.0	2.4
7	Construction (General/Infrastructure/Sovereign Guarantees)	39	9	4.38	1	100	3.0	3.0
8	Edible Oil	292	67	4.36	1	100	3.0	3.0
9	Energy - Gas Generation & Distribution	-3,363	3,982	-0.84	2	80	3.0	2.4
10	Energy - Oil & Gas Exploration	194,236	5,879	33.04	1	100	3.0	3.0
11	Energy - Oil (Petroleum Distribution/Marketing)	17,983	11,860	1.52	2	80	3.0	2.4
12	Energy - Oil (Petroleum Refining)	4,702	5,059	0.93	1	100	3.0	3.0
13	Energy – Indigenous/Non Indigenous/Other	53,958	31,400	1.72	1	100	3.0	3.0
14	Fertilizers	65,195	15,423	4.23	2	80	3.0	2.4
15	Financial Institutions	229,707	155,860	1.47	3	60	3.0	1.8
16	Food, Beverages & Consumer Products	20,582	4,993	4.12	1	100	3.0	3.0
17	Glass & Ceramics	2,080	1,351	1.54	3	60	3.0	1.8
18	Information Technology	-39	175	-0.22	4	40	3.0	1.2
19	Leather Products	-163	17	-9.59	5	20	3.0	0.6
20	Machinery & Equipment	2,494	2,467	1.01	4	40	3.0	1.2
21	Metallic Products (Iron & Steel)	1,921	2,502	0.77	4	40	3.0	1.2
22	Pharmaceuticals	10,911	643	16.97	1	100	3.0	3.0
23	Sports Products	6	2	3.00	1	100	3.0	3.0
24	Sugar	3,220	7,815	0.41	3	60	3.0	1.8
25	Surgical, Precision, Optical Equipment	5	2	2.50	2	80	3.0	2.4
26	Telecommunications	3,879	2,213	1.75	1	100	3.0	3.0
27	Textiles – Composite	16,985	13,969	1.22	3	60	3.0	1.8
28	Textiles - Fabrics (Weaving)	2,635	1,114	2.37	3	60	3.0	1.8
29	Textiles - Knits & Knit Apparel	9	1	9.00	2	80	3.0	2.4
30	Textiles – Spinning	-3,059	7,812	-0.39	2	80	3.0	2.4
31	Textiles - Synthetic Fibers/Polyester	-2,067	1,591	-1.30	2	80	3.0	2.4
32	Textiles - Woven Apparel	30	14	2.14	2	80	3.0	2.4
33	Tobacco Products	5,675	703	8.07	1	100	3.0	3.0
34	Transport – Air	-18	12	-1.50	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	487	9,462	0.05	1	100	4.0	4.0
2	Automotive - Assemblers/Manufacturers	67,417	74,097	0.91	3	60	4.0	2.4
3	Automotive - Parts & Accessories	10,677	19,032	0.56	3	60	4.0	2.4
4	Carpets & Rugs	36	183	0.20	1	100	4.0	4.0
5	Cement	122,996	249,330	0.49	2	80	4.0	3.2
6	Chemicals (inc. Plastic & Rubber Products)	53,905	41,551	1.30	3	60	4.0	2.4
7	Construction (General/Infrastructure)	439	691	0.64	3	60	4.0	2.4
8	Edible Oil	1,412	1,143	1.24	3	60	4.0	2.4
9	Energy - Gas Generation & Distribution	204,631	3,573	57.27	4	40	4.0	1.6
10	Energy - Oil & Gas Exploration	244,226	678,337	0.36	1	100	4.0	4.0
11	Energy - Oil (Petroleum Distribution/Marketing)	320,650	104,544	3.07	4	40	4.0	1.6
12	Energy - Oil (Petroleum Refining)	144,838	50,606	2.86	4	40	4.0	1.6
13	Energy – Indigenous/Non Indigenous/Other	509,200	187,361	2.72	3	60	4.0	2.4
14	Fertilizers	231,084	216,092	1.07	4	40	4.0	1.6
15	Financial Institutions	9,454,187	830,841	11.38	4	40	4.0	1.6
16	Food, Beverages & Consumer Products	82,084	57,499	1.43	3	60	4.0	2.4
17	Glass & Ceramics	19,284	12,072	1.60	4	40	4.0	1.6
18	Information Technology	5,873	8,506	0.69	4	40	4.0	1.6
19	Leather Products	1,006	-613	-1.64	5	20	4.0	0.8
20	Machinery & Equipment	34,107	6,002	5.68	3	60	4.0	2.4
21	Metallic Products (Iron & Steel)	35,731	22,861	1.56	4	40	4.0	1.6
22	Pharmaceuticals	19,752	24,208	0.82	2	80	4.0	3.2
23	Sports Products	36	188	0.19	1	100	4.0	4.0
24	Sugar	93,371	32,256	2.89	4	40	4.0	1.6
25	Surgical, Precision, Optical Equipment	26	132	0.20	1	100	4.0	4.0
26	Telecommunications	107,497	103,316	1.04	3	60	4.0	2.4
27	Textiles – Composite	166,503	155,388	1.07	3	60	4.0	2.4
28	Textiles - Fabrics (Weaving)	11,908	6,901	1.73	4	40	4.0	1.6
29	Textiles - Knits & Knit Apparel	61	35	1.74	4	40	4.0	1.6
30	Textiles – Spinning	87,667	37,268	2.35	3	60	4.0	2.4
31	Textiles - Synthetic Fibers/Polyester	54,919	16,515	3.33	3	60	4.0	2.4
32	Textiles - Woven Apparel	290	128	2.27	4	40	4.0	1.6
33	Tobacco Products	25,452	12,000	2.12	4	40	4.0	1.6
34	Transport – Air	245,000	-151,412	-1.62	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	Agro-Chemicals	3,002	487	6.16	1	100	4.0	4.0
2	Automotive - Assemblers/Manufacturers	110,708	65,349	1.69	2	80	4.0	3.2
3	Automotive - Parts & Accessories	20,190	9,515	2.12	2	80	4.0	3.2
4	Carpets & Rugs	122	36	3.39	1	100	4.0	4.0
5	Cement	129,674	69,298	1.87	2	80	4.0	3.2
6	Chemicals (inc. Plastic & Rubber Products)	74,927	40,282	1.86	2	80	4.0	3.2
7	Construction (General/Infrastructure)	571	420	1.36	1	100	4.0	4.0
8	Edible Oil	1,741	1,262	1.38	2	80	4.0	3.2
9	Energy - Gas Generation & Distribution	95,022	119,641	0.79	3	60	4.0	2.4
10	Energy - Oil & Gas Exploration	379,581	132,825	0.79	1	100	4.0	4.0
11	Energy - Oil (Petroleum Distribution/Marketing)	329,597	299,065	2.86	3	60	4.0	2.4
12	Energy - Oil (Petroleum Refining)	112,198	117,453	1.10	2	80	4.0	3.2
13	Energy – Indigenous/Non Indigenous/Other	382,077	340,921	0.96	1	100	4.0	4.0
14	Fertilizers	77,900	94,897	1.12	5	20	4.0	0.8
15	Financial Institutions	-	-	0.82	5	20	4.0	0.8
16	Food, Beverages & Consumer Products	55,167	48,865	1.13	1	100	4.0	4.0
17	Glass & Ceramics	12,284	-	1.13	5	20	4.0	0.8
18	Information Technology	5,960	3,526	1.69	5	20	4.0	0.8
19	Leather Products	173	821	1.69	5	20	4.0	0.8
20	Machinery & Equipment	23,973	21,444	0.21	2	80	4.0	3.2
21	Metallic Products (Iron & Steel)	19,603	23,290	1.12	5	20	4.0	0.8
22	Pharmaceuticals	28,058	16,970	0.84	1	100	4.0	4.0
23	Sports Products	159	36	1.65	1	100	4.0	4.0
24	Sugar	50,601	66,222	4.42	4	40	4.0	1.6
25	Surgical, Precision, Optical Equipment	111	26	0.76	1	100	4.0	4.0
26	Telecommunications	85,414	87,706	4.27	2	80	4.0	3.2
27	Textiles – Composite	95,986	103,292	0.97	3	60	4.0	2.4
28	Textiles - Fabrics (Weaving)	8,667	9,184	0.93	4	40	4.0	1.6
29	Textiles - Knits & Knit Apparel	58	62	0.94	5	20	4.0	0.8
30	Textiles – Spinning	53,270	62,174	0.94	4	40	4.0	1.6
31	Textiles - Synthetic Fibers/Polyester	23,352	39,379	0.86	2	80	4.0	3.2
32	Textiles - Woven Apparel	219	212	0.59	3	60	4.0	2.4
33	Tobacco Products	23,721	22,964	1.03	5	20	4.0	0.8
34	Transport – Air	24,733	181,000	1.03	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	Agro-Chemicals	1,970	460	-	487	4.99	1	100	3.0	3.0
2	Automotive - Assemblers/Manufacturers	36,948	4,531	11,211	65,349	0.81	3	60	3.0	1.8
3	Automotive - Parts & Accessories	2,501	3,436	4,023	9,515	1.05	4	40	3.0	1.2
4	Carpets & Rugs	1	30	-	36	0.86	3	60	3.0	1.8
5	Cement	29,346	9,731	31,949	69,298	1.02	3	60	3.0	1.8
6	Chemicals (inc. Plastic & Rubber Products)	2,181	6,193	3,327	40,282	0.29	5	20	3.0	0.6
7	Construction (General/Infrastructure)	37	275	-	420	0.74	3	60	3.0	1.8
8	Edible Oil	59	636	-	1,262	0.55	4	40	3.0	1.2
9	Energy - Gas Generation & Distribution	555	64,621	-	119,641	0.54	5	20	3.0	0.6
10	Energy - Oil & Gas Exploration	29,783	215,997	21,455	132,825	2.01	1	100	3.0	3.0
11	Energy - Oil (Petroleum Distribution/Marketing)	10,234	197,628	5,438	299,065	0.71	5	20	3.0	0.6
12	Energy - Oil (Petroleum Refining)	31,470	29,407	123	117,453	0.52	3	60	3.0	1.8
13	Energy-Indigenous/Non Indigenous/Other	9,332	285,692	56	340,921	0.87	1	100	3.0	3.0
14	Fertilizers	14,800	4,893	37,771	94,897	0.61	5	20	3.0	0.6
15	Financial Institutions	660,906	-	5,012,044	-	-	5	20	3.0	0.6
16	Food, Beverages & Consumer Products	9,929	4,633	20,451	48,865	0.72	5	20	3.0	0.6
17	Glass & Ceramics	713	3,575	-	-	-	5	20	3.0	0.6
18	Information Technology	562	771	335	3,526	0.47	5	20	3.0	0.6
19	Leather Products	1	95	-	821	0.12	5	20	3.0	0.6
20	Machinery & Equipment	474	10,517	74	21,444	0.52	5	20	3.0	0.6
21	Metallic Products (Iron & Steel)	327	3,256	22	23,290	0.15	5	20	3.0	0.6
22	Pharmaceuticals	3,166	4,163	1,560	16,970	0.52	3	60	3.0	1.8
23	Sports Products	17	24	-	36	1.14	2	80	3.0	2.4
24	Sugar	2,082	8,977	4,436	66,222	0.23	1	100	3.0	3.0
25	Surgical, Precision, Optical Equipment	12	17	-	26	1.12	2	80	3.0	2.4
26	Telecommunications	6,358	18,916	18,881	87,706	0.50	3	60	3.0	1.8
27	Textiles – Composite	1,457	31,297	4,736	103,292	0.36	5	20	3.0	0.6
28	Textiles - Fabrics (Weaving)	229	2,085	44	9,184	0.26	5	20	3.0	0.6
29	Textiles - Knits & Knit Apparel	-	36	-	62	0.58	5	20	3.0	0.6
30	Textiles – Spinning	2,079	14,246	998	62,174	0.28	5	20	3.0	0.6
31	Textiles - Synthetic Fibers/Polyester	318	3,284	-	39,379	0.09	5	20	3.0	0.6
32	Textiles - Woven Apparel	25	50	-	212	0.35	5	20	3.0	0.6
33	Tobacco Products	186	228	-	22,964	0.02	5	20	3.0	0.6
34	Transport – Air	1,685	10	19	181,000	0.01	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	Agro-Chemicals	1,970	487	4.05	1	100	2.0	2.0
2	Automotive - Assemblers/Manufacturers	36,948	65,349	0.57	4	40	2.0	0.8
3	Automotive - Parts & Accessories	2,501	9,515	0.26	4	40	2.0	0.8
4	Carpets & Rugs	1	36	0.03	5	20	2.0	0.4
5	Cement	29,346	69,298	0.42	4	40	2.0	0.8
6	Chemicals (inc. Plastic & Rubber Products)	2,181	40,282	0.05	4	40	2.0	0.8
7	Construction (General/Infrastructure)	37	420	0.09	3	60	2.0	1.2
8	Edible Oil	59	1,262	0.05	5	20	2.0	0.4
9	Energy - Gas Generation & Distribution	555	119,641	0.00	5	20	2.0	0.4
10	Energy - Oil & Gas Exploration	29,783	132,825	0.00	4	40	2.0	0.8
11	Energy - Oil (Petroleum Distribution/Marketing)	10,234	299,065	0.22	5	20	2.0	0.4
12	Energy - Oil (Petroleum Refining)	31,470	117,453	0.03	3	60	2.0	1.2
13	Energy – Indigenous/Non Indigenous/Other	9,332	340,921	0.27	2	80	2.0	1.6
14	Fertilizers	14,800	94,897	0.03	4	40	2.0	0.8
15	Financial Institutions	660,906	-	0.16	4	40	2.0	0.8
16	Food, Beverages & Consumer Products	9,929	48,865	0.20	4	40	2.0	0.8
17	Glass & Ceramics	713	-	0.20	5	20	2.0	0.4
18	Information Technology	562	3,526	0.16	4	40	2.0	0.8
19	Leather Products	1	821	0.16	5	20	2.0	0.4
20	Machinery & Equipment	474	21,444	0.00	5	20	2.0	0.4
21	Metallic Products (Iron & Steel)	327	23,290	0.02	5	20	2.0	0.4
22	Pharmaceuticals	3,166	16,970	0.01	5	20	2.0	0.4
23	Sports Products	17	36	0.19	3	60	2.0	1.2
24	Sugar	2,082	66,222	0.47	2	80	2.0	1.6
25	Surgical, Precision, Optical Equipment	12	26	0.03	3	60	2.0	1.2
26	Telecommunications	6,358	87,706	0.46	4	40	2.0	0.8
27	Textiles – Composite	1,457	103,292	0.07	5	20	2.0	0.4
28	Textiles - Fabrics (Weaving)	229	9,184	0.01	5	20	2.0	0.4
29	Textiles - Knits & Knit Apparel	-	62	0.02	5	20	2.0	0.4
30	Textiles – Spinning	2,079	62,174	0.03	5	20	2.0	0.4
31	Textiles - Synthetic Fibers/Polyester	318	39,379	0.03	5	20	2.0	0.4
32	Textiles - Woven Apparel	25	212	0.01	4	40	2.0	0.8
33	Tobacco Products	186	22,964	0.12	5	20	2.0	0.4
34	Transport – Air	1,685	181,000	0.01	5	20	2.0	0.4

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 organization will sustain its status as going concern) is as follows:

Rank 1: Stable Profit Margins
Rank 5: Un-Stable Profit Margins

S.NO.	SECTOR	NPAT	Sales	Net Profit Margin	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Agro-Chemicals	178	1,415	0.13	2	80	3.0	2.4
2	Automotive - Assemblers/Manufacturers	21,385	284,050	0.08	4	40	3.0	1.2
3	Automotive - Parts & Accessories	3,448	54,140	0.06	4	40	3.0	1.2
4	Carpets & Rugs	-71	12,098	-0.01	5	20	3.0	0.6
5	Cement	26,135	221,234	0.12	2	80	3.0	2.4
6	Chemicals (inc. Plastic & Rubber Products)	1,307	138,422	0.01	5	20	3.0	0.6
7	Construction (General/Infrastructure)	25	714	0.04	4	40	3.0	1.2
8	Edible Oil	180	6,088	0.030	5	20	3.0	0.6
9	Energy - Gas Generation & Distribution	-2,494	212,520	-0.012	5	20	3.0	0.6
10	Energy - Oil & Gas Exploration	135,611	365,259	-0.01	1	100	3.0	3.0
11	Energy - Oil (Petroleum Distribution/Marketing)	9,796	1,420,523	0.37	5	20	3.0	0.6
12	Energy - Oil (Petroleum Refining)	3,004	463,344	0.01	5	20	3.0	0.6
13	Energy-Indigenous/Non Indigenous/Other	61,849	605,811	0.01	1	100	3.0	3.0
14	Fertilizers	63,901	240,059	0.10	2	80	3.0	2.4
15	Financial Institutions	152,288	352,309	0.27	1	100	3.0	3.0
16	Food, Beverages & Consumer Products	15,561	224,443	0.43	4	40	3.0	1.2
17	Glass & Ceramics	1,443	28,094	0.07	5	20	3.0	0.6
18	Information Technology	-137	4,462	0.05	5	20	3.0	0.6
19	Leather Products	-164	60,429	-0.03	5	20	3.0	0.6
20	Machinery & Equipment	2,206	32,707	-0.0027	5	20	3.0	0.6
21	Metallic Products (Iron & Steel)	2,040	46,695	0.07	5	20	3.0	0.6
22	Pharmaceuticals	7,150	80,141	0.04	3	60	3.0	1.8
23	Sports Products	4	34,294	0.09	5	20	3.0	0.6
24	Sugar	3,298	160,172	0.00	5	20	3.0	0.6
25	Surgical, Precision, Optical Equipment	3	34,575	0.02	5	20	3.0	0.6
26	Telecommunications	5,658	117,914	0.00	3	60	3.0	1.8
27	Textiles – Composite	14,977	357,554	0.048	4	40	3.0	1.2
28	Textiles - Fabrics (Weaving)	2,476	42,505	0.04	4	40	3.0	1.2
29	Textiles - Knits & Knit Apparel	8	243,718	0.058	4	40	3.0	1.2
30	Textiles – Spinning	66,642	226,288	0.00	4	40	3.0	1.2
31	Textiles - Synthetic Fibers/Polyester	-2,408	58,771	0.29	4	40	3.0	1.2
32	Textiles - Woven Apparel	22	212,210	-0.04	5	20	3.0	0.6
33	Tobacco Products	3,368	50,383	0.00	4	40	3.0	1.2
34	Transport – Air	-20	121,317	0.07	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 insufficient 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	Agro-Chemicals	1,415	9,949	0.14	5	20	1.0	0.2
2	Automotive - Assemblers/Manufacturers	284,050	141,717	2.00	1	100	1.0	1.0
3	Automotive - Parts & Accessories	54,140	28,329	1.91	1	100	1.0	1.0
4	Carpets & Rugs	12,098	21,900	0.55	5	20	1.0	0.2
5	Cement	221,234	416,233	0.53	4	40	1.0	0.4
6	Chemicals (inc. Plastic & Rubber Products)	138,422	98,794	1.40	1	100	1.0	1.0
7	Construction (General/Infrastructure/Sovereign Guarantees)	714	1,130	0.63	3	60	1.0	0.6
8	Edible Oil	6,088	2,555	2.38	1	100	1.0	1.0
9	Energy - Gas Generation & Distribution	212,520	211,777	1.00	1	100	1.0	1.0
10	Energy - Oil & Gas Exploration	365,259	922,565	1.00	4	40	1.0	0.4
11	Energy-Oil (Petroleum Distribution/Marketing)	1,420,523	425,515	0.40	1	100	1.0	1.0
12	Energy - Oil (Petroleum Refining)	463,344	214,771	3.34	1	100	1.0	1.0
13	Energy-Indigenous/Non Indigenous/Other	605,811	723,621	2.16	4	40	1.0	0.4
14	Fertilizers	240,059	454,334	0.84	4	40	1.0	0.4
15	Financial Institutions	352,309	11,136,174	0.53	5	20	1.0	0.2
16	Food, Beverages & Consumer Products	224,443	142,209	0.03	1	100	1.0	1.0
17	Glass & Ceramics	28,094	33,214	1.58	3	60	1.0	0.6
18	Information Technology	4,462	14,379	0.85	4	40	1.0	0.4
19	Leather Products	60,429	219	0.31	5	20	1.0	0.2
20	Machinery & Equipment	32,707	51,136	0.64	4	40	1.0	0.4
21	Metallic Products (Iron & Steel)	46,695	58,593	0.64	3	60	1.0	0.6
22	Pharmaceuticals	80,141	44,849	0.80	3	60	1.0	0.6
23	Sports Products	34,294	226	1.79	3	60	1.0	0.6
24	Sugar	160,172	135,206	1.18	2	80	1.0	0.8
25	Surgical, Precision, Optical Equipment	34,575	158	1.18	3	60	1.0	0.6
26	Telecommunications	117,914	211,706	0.56	4	40	1.0	0.4
27	Textiles – Composite	357,554	343,749	0.56	3	60	1.0	0.6
28	Textiles - Fabrics (Weaving)	42,505	18,810	1.04	2	80	1.0	0.8
29	Textiles - Knits & Knit Apparel	243,718	97	2.26	3	60	1.0	0.6
30	Textiles – Spinning	226,288	148,194	1.53	3	60	1.0	0.6
31	Textiles - Synthetic Fibers/Polyester	58,771	40,472	1.45	3	60	1.0	0.6
32	Textiles - Woven Apparel	212,210	418,000	0.51	3	60	1.0	0.6
33	Tobacco Products	50,383	40,453	1.25	2	80	1.0	0.8
34	Transport – Air	121,317	151,616	0.80	4	40	1.0	0.4

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	Agro-Chemicals	178	9,949	9,462	0.02	0.02	4	40	3.0	1.2
2	Automotive - Assemblers/Manufacturers	21,385	141,717	74,097	0.15	0.29	1	100	3.0	3.0
3	Automotive - Parts & Accessories	3,448	28,329	19,032	0.12	0.18	2	80	3.0	2.4
4	Carpets & Rugs	-71	219	183	-0.32	-0.39	5	20	3.0	0.6
5	Cement	26,135	416,233	249,330	0.06	0.10	1	100	3.0	3.0
6	Chemicals (inc. Plastic & Rubber Products)	1,307	98,794	41,551	0.01	0.03	4	40	3.0	1.2
7	Construction (General/Infrastructure/Sovereign Guarantees)	25	1,130	691	0.02	0.04	3	60	3.0	1.8
8	Edible Oil	180	2,555	1,143	0.070	0.16	3	60	3.0	1.8
9	Energy - Gas Generation & Distribution	-2,494	211,777	3,573	-0.012	-0.70	2	80	3.0	2.4
10	Energy - Oil & Gas Exploration	135,611	922,565	678,337	-0.01	-0.70	1	100	3.0	3.0
11	Energy - Oil (Petroleum Distribution/Marketing)	9,796	425,515	104,544	0.15	0.20	3	60	3.0	1.8
12	Energy - Oil (Petroleum Refining)	3,004	214,771	50,606	0.02	0.09	3	60	3.0	1.8
13	Energy – Indigenous/Non Indigenous/Other	61,849	723,621	187,361	0.01	0.06	1	100	3.0	3.0
14	Fertilizers	63,901	454,334	216,092	0.09	0.33	1	100	3.0	3.0
15	Financial Institutions	152,288	11,136,174	830,841	0.14	0.30	4	40	3.0	1.2
16	Food, Beverages & Consumer Products	15,561	142,209	57,499	0.01	0.18	2	80	3.0	2.4
17	Glass & Ceramics	1,443	33,214	12,072	0.11	0.27	4	40	3.0	1.2
18	Information Technology	-137	14,379	8,506	0.04	0.12	5	20	3.0	0.6
19	Leather Products	-164	219	-613	-0.01	-0.02	5	20	3.0	0.6
20	Machinery & Equipment	2,206	51,136	6,002	-0.7489	0.2675	5	20	3.0	0.6
21	Metallic Products (Iron & Steel)	2,040	58,593	22,861	0.04	0.37	4	40	3.0	1.2
22	Pharmaceuticals	7,150	44,849	24,208	0.03	0.09	1	100	3.0	3.0
23	Sports Products	4	226	188	0.16	0.30	4	40	3.0	1.2
24	Sugar	3,298	135,206	32,256	0.02	0.02	4	40	3.0	1.2
25	Surgical, Precision, Optical Equipment	3	158	132	0.02	0.10	4	40	3.0	1.2
26	Telecommunications	5,658	211,706	103,316	0.02	0.02	3	60	3.0	1.8
27	Textiles – Composite	14,977	343,749	155,388	0.027	0.05	4	40	3.0	1.2
28	Textiles - Fabrics (Weaving)	2,476	18,810	6,901	0.04	0.10	3	60	3.0	1.8
29	Textiles - Knits & Knit Apparel	8	97	35	0.13	0.36	3	60	3.0	1.8
30	Textiles – Spinning	66,642	148,194	37,268	0.08	0.23	3	60	3.0	1.8
31	Textiles - Synthetic Fibers/Polyester	-2,408	40,472	16,515	0.45	1.79	3	60	3.0	1.8
32	Textiles - Woven Apparel	22	418	128	-0.06	-0.15	3	60	3.0	1.8
33	Tobacco Products	3,368	40,453	12,000	0.05	0.17	1	100	3.0	3.0
34	Transport – Air	-20	151,616	-151,412	0.08	0.28	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/Infrastrucure/Sovereign Guarantees)	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 – Indigenous/Non Indigenous/Other	2	80	2.0	1.6
13	Energy - Oil (Petroleum Refining)	2	80	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	Construction (General/Infrastructure)	25.0	22.8
2	Energy - Oil & Gas Exploration	25.0	21.4
3	Agro-Chemicals	25.0	21.0
4	Pharmaceuticals	25.0	19.6
5	Cement	25.0	19.4
6	Sports Products	25.0	19.2
7	Automotives - Assemblers/Manufacturers	25.0	18.4
8	Surgical, Precision, Optical Equipment	25.0	18.0
9	Energy – Indigenous/Non Indigenous/Other	25.0	17.4
10	Food, Beverages & Consumer Products	25.0	17.0
11	Automotive - Parts & Accessories	25.0	16.8
12	Energy - Oil (Petroleum Refining)	25.0	15.8
13	Telecommunications	25.0	15.4
14	Edible Oil	25.0	15.2
15	Fertilizers	25.0	14.0
16	Carpets & Rugs	25.0	13.8
17	Chemicals (inc. Plastic & Rubber Products)	25.0	13.4
18	Energy - Gas Generation & Distribution	25.0	13.4
19	Textiles - Synthetic Fibers/Polyester	25.0	13.4
20	Sugar	25.0	13.2
21	Tobacco Products	25.0	13.2
22	Energy - Oil (Petroleum Distribution/Marketing)	25.0	12.4
23	Metallic Products (Iron & Steel)	25.0	12.2
24	Financial Institutions	25.0	12.0
25	Textiles - Woven Apparel	25.0	12.0
26	Textiles – Composite	25.0	11.8
27	Textiles - Fabrics (Weaving)	25.0	11.8
28	Textiles – Spinning	25.0	11.8
29	Textiles - Knits & Knit Apparel	25.0	11.4
30	Machinery & Equipment	25.0	10.6
31	Glass & Ceramics	25.0	8.8
32	Information Technology	25.0	8.6
33	Leather Products	25.0	6.2
34	Transport – Air	25.0	5.2

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	Construction (Infrastructure/Sovereign Guarantees)	2	80	19.0	15.2
2	Energy-Other (Circular Debt/Sovereign Guarantees)	2	80	19.0	15.2
3	Cement	2	80	19.0	15.2
4	Energy – Indigenous Resource Based)	2	80	19.0	15.2
5	Energy - Gas Generation & Distribution	2	80	19.0	15.2
6	Energy - Oil & Gas Exploration	2	80	19.0	15.2
7	Fertilizers	2	80	19.0	15.2
8	Financial Institutions	2	80	19.0	15.2
9	Food, Beverages & Consumer Products	2	80	19.0	15.2
10	Sports Products	2	80	19.0	15.2
11	Sugar	2	80	19.0	15.2
12	Surgical, Precision, Optical Equipment	2	80	19.0	15.2
13	Tobacco Products	2	80	19.0	15.2
14	Agro-Chemicals	3	60	19.0	11.4
15	Chemicals (inc. Plastic & Rubber Products)	3	60	19.0	11.4
16	Construction	3	60	19.0	11.4
17	Edible Oil	3	60	19.0	11.4
18	Energy - Oil (Petroleum Distribution/Marketing)	3	60	19.0	11.4
19	Energy - Oil (Petroleum Refining)	3	60	19.0	11.4
20	Energy - Non Indigenous Resource Based	3	60	19.0	11.4
21	Glass & Ceramics	3	60	19.0	11.4
22	Information Technology	3	60	19.0	11.4
23	Machinery & Equipment	3	60	19.0	11.4
24	Metallic Products (Iron & Steel)	3	60	19.0	11.4
25	Pharmaceuticals	3	60	19.0	11.4
26	Telecommunications	3	60	19.0	11.4
27	Textiles – Composite	3	60	19.0	11.4
28	Textiles – Spinning	3	60	19.0	11.4
29	Textiles - Synthetic Fibers/Polyester	3	60	19.0	11.4
30	Automotives - Assemblers/Manufacturers	4	40	19.0	7.6
31	Automotive - Parts & Accessories	4	40	19.0	7.6
32	Carpets & Rugs	4	40	19.0	7.6
33	Leather Products	4	40	19.0	7.6
34	Textiles - Fabrics (Weaving)	4	40	19.0	7.6
35	Textiles - Knits & Knit Apparel	4	40	19.0	7.6
36	Textiles - Woven Apparel	4	40	19.0	7.6
37	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	Construction (Infrastructure/Sovereign Guarantees)	1	100	7.0	7.0
2	Energy - Other (Circular Debt/Soveverign Guarantees)	1	100	7.0	7.0
3	Energy - Gas Generation & Distribution	1	100	7.0	7.0
4	Energy - Oil & Gas Exploration	1	100	7.0	7.0
5	Energy - Oil (Petroleum Distribution/Marketing)	2	80	7.0	5.6
6	Energy - Oil (Petroleum Refining)	2	80	7.0	5.6
7	Energy - Non Indigenous Resource Based	2	80	7.0	5.6
8	Fertilizers	2	80	7.0	5.6
9	Financial Institutions	2	80	7.0	5.6
10	Food, Beverages & Consumer Products	2	80	7.0	5.6
11	Agro-Chemicals	2	80	7.0	5.6
12	Automotives - Assemblers/Manufacturers	2	80	7.0	5.6
13	Cement	2	80	7.0	5.6
14	Chemicals (inc. Plastic & Rubber Products)	2	80	7.0	5.6
15	Edible Oil	2	80	7.0	5.6
16	Energy – Indigenous Resource Based	2	80	7.0	5.6
17	Machinery & Equipment	2	80	7.0	5.6
18	Pharmaceuticals	2	80	7.0	5.6
19	Sugar	2	80	7.0	5.6
20	Tobacco Products	2	80	7.0	5.6
21	Automotive - Parts & Accessories	3	60	7.0	4.2
22	Carpets & Rugs	3	60	7.0	4.2
23	Construction	3	60	7.0	4.2
24	Glass & Ceramics	3	60	7.0	4.2
25	Information Technology	3	60	7.0	4.2
26	Leather Products	3	60	7.0	4.2
27	Metallic Products (Iron & Steel)	3	60	7.0	4.2
28	Sports Products	3	60	7.0	4.2
29	Surgical, Precision, Optical Equipment	3	60	7.0	4.2
30	Telecommunications	3	60	7.0	4.2
31	Textiles – Composite	3	60	7.0	4.2
32	Textiles - Fabrics (Weaving)	3	60	7.0	4.2
33	Textiles - Knits & Knit Apparel	3	60	7.0	4.2
34	Textiles – Spinning	3	60	7.0	4.2
35	Textiles - Synthetic Fibers/Polyester	3	60	7.0	4.2
36	Textiles - Woven Apparel	3	60	7.0	4.2
37	Transport – Air	3	60	7.0	4.2

BY CORRELATION WITH GDP GROWTH

Sector ranking, by Correlation with GDP Growth (represents the relationship of sector's performance with the performance of the overall economy) is as follows:

Rank 1: Less correlated with GDP growth
Rank 5: Highly correlated with GDP growth

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Construction (Infrastructure/Soveverign Guarantees)	2	80	6.0	4.8
2	Energy – Other (Circular Debt/Sovereign Guarantees)	2	80	6.0	4.8
3	Energy – Indigenous Resource Based	2	80	6.0	4.8
4	Energy - Oil & Gas Exploration	2	80	6.0	4.8
5	Energy - Oil (Petroleum Distribution/Marketing)	2	80	6.0	4.8
6	Energy - Oil (Petroleum Refining)	2	80	6.0	4.8
7	Energy - Non Indigenous Resource Based	2	80	6.0	4.8
8	Food, Beverages & Consumer Products	2	80	6.0	4.8
9	Leather Products	2	80	6.0	4.8
10	Machinery & Equipment	2	80	6.0	4.8
11	Pharmaceuticals	2	80	6.0	4.8
12	Sports Products	2	80	6.0	4.8
13	Sugar	2	80	6.0	4.8
14	Surgical, Precision, Optical Equipment	2	80	6.0	4.8
15	Telecommunications	2	80	6.0	4.8
16	Textiles – Composite	2	80	6.0	4.8
17	Textiles – Spinning	2	80	6.0	4.8
18	Textiles - Synthetic Fibers/Polyester	2	80	6.0	4.8
19	Textiles - Fabrics (Weaving)	2	80	6.0	4.8
20	Textiles - Knits & Knit Apparel	2	80	6.0	4.8
21	Textiles - Woven Apparel	2	80	6.0	4.8
22	Tobacco Products	2	80	6.0	4.8
23	Transport – Air	2	80	6.0	4.8
24	Agro-Chemicals	3	60	6.0	3.6
25	Carpets & Rugs	3	60	6.0	3.6
26	Chemicals (inc. Plastic & Rubber Products)	3	60	6.0	3.6
27	Edible Oil	3	60	6.0	3.6
28	Fertilizers	3	60	6.0	3.6
29	Financial Institutions	3	60	6.0	3.6
30	Information Technology	3	60	6.0	3.6
31	Automotive - Parts & Accessories	4	40	6.0	2.4
32	Automotives - Assemblers/Manufacturers	4	40	6.0	2.4
33	Cement	4	40	6.0	2.4
34	Construction	4	40	6.0	2.4
35	Energy - Gas Generation & Distribution	4	40	6.0	2.4
36	Glass & Ceramics	4	40	6.0	2.4
37	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. Ranking 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	Construction (Infrastructure/Sovereign Guarantees)	1	100	13.0	13.0
2	Energy - Power Generation (IPPs-Indigenous Resource Based)	1	100	13.0	13.0
3	Energy - Other (Circular Debt/Sovereign Guarantees)	1	100	13.0	13.0
4	Energy - Oil (Petroleum Distribution/Marketing)	1	100	13.0	13.0
5	Chemicals (inc. Plastic & Rubber Products)	2	80	13.0	10.4
6	Construction	2	80	13.0	10.4
7	Energy - Power Generation (Non Indigenous Resource Based)	2	80	13.0	10.4
8	Energy - Gas Generation & Distribution	2	80	13.0	10.4
9	Energy - Oil & Gas Exploration	2	80	13.0	10.4
10	Energy - Oil (Petroleum Refining)	2	80	13.0	10.4
11	Financial Institutions	2	80	13.0	10.4
12	Food, Beverages & Consumer Products	2	80	13.0	10.4
13	Machinery & Equipment	2	80	13.0	10.4
14	Sports Products	2	80	13.0	10.4
15	Sugar	2	80	13.0	10.4
16	Surgical, Precision, Optical Equipment	2	80	13.0	10.4
17	Textiles - Synthetic Fibers/Polyester	2	80	13.0	10.4
18	Tobacco Products	2	80	13.0	10.4
19	Cement	3	60	13.0	7.8
20	Edible Oil	3	60	13.0	7.8
21	Fertilizers	3	60	13.0	7.8
22	Glass & Ceramics	3	60	13.0	7.8
23	Information Technology	3	60	13.0	7.8
24	Metallic Products (Iron & Steel)	3	60	13.0	7.8
25	Pharmaceuticals	3	60	13.0	7.8
26	Telecommunications	3	60	13.0	7.8
27	Textiles – Composite	3	60	13.0	7.8
28	Textiles - Fabrics (Weaving)	3	60	13.0	7.8
29	Textiles - Knits & Knit Apparel	3	60	13.0	7.8
30	Textiles – Spinning	3	60	13.0	7.8
31	Textiles - Woven Apparel	3	60	13.0	7.8
32	Agro-Chemicals	4	40	13.0	5.2
33	Automotives - Assemblers/Manufacturers	4	40	13.0	5.2
34	Automotive - Parts & Accessories	4	40	13.0	5.2
35	Transport – Air	4	40	13.0	5.2
36	Carpets & Rugs	5	20	13.0	2.6
37	Leather Products	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 - Gas Generation & Distribution	45.0	38.8
2	Energy-Other (Circular Debt/Sovereign Guarantees)	45.0	38.6
3	Construction (Infrastructure)	45.0	36.0
4	Energy – Indigenous	45.0	36.0
5	Energy - Oil (Petroleum Distribution/Marketing)	45.0	36.0
6	Food, Beverages & Consumer Products	45.0	36.0
7	Metallic Products (Iron & Steel)	45.0	36.0
8	Sugar	45.0	36.0
9	Tobacco Products	45.0	36.0
10	Energy - Non Indigenous	45.0	34.8
11	Fertilizers	45.0	34.8
12	Financial Institutions	45.0	34.8
13	Sports Products	45.0	34.6
14	Surgical, Precision, Optical Equipment	45.0	34.6
15	Energy - Oil & Gas Exploration	45.0	32.2
16	Energy - Oil (Petroleum Refining)	45.0	32.2
17	Machinery & Equipment	45.0	32.2
18	Pharmaceuticals	45.0	32.2
19	Chemicals (inc. Plastic & Rubber Products)	45.0	31.0
20	Textiles - Synthetic Fibers/Polyester	45.0	30.8
21	Edible Oil	45.0	28.4
22	Telecommunications	45.0	28.2
23	Cement	45.0	27.2
24	Agro-Chemicals	45.0	27.0
25	Information Technology	45.0	27.0
26	Textiles – Composite	45.0	27.0
27	Textiles – Spinning	45.0	27.0
28	Transport – Air	45.0	25.6
29	Construction (General)	45.0	22.0
30	Glass & Ceramics	45.0	22.0
31	Textiles - Fabrics (Weaving)	45.0	22.0
32	Textiles - Knits & Knit Apparel	45.0	22.0
33	Textiles - Woven Apparel	45.0	22.0
34	Automotives - Assemblers/Manufacturers	45.0	20.8
35	Automotive - Parts & Accessories	45.0	19.4
36	Carpets & Rugs	45.0	19.4
37	Leather Products	45.0	19.2

COMPOSITE INDUSTRY RANKINGS 2016

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	82.0	HIGHLY ATTRACTIVE	>80
2	Energy - Other (Circular Debt/Sovereign Guarantees)	77.2	ATTRACTIVE	70-80
3	Energy - Power Generation(IPPs-Indigenous Resource Based)	75.8	ATTRACTIVE	70-80
4	Food, Beverages & Consumer Products	75.4	ATTRACTIVE	70-80
5	Energy-Oil & Gas Exploration	74.4	ATTRACTIVE	70-80
6	Sports Products	74.0	ATTRACTIVE	70-80
7	Energy - Gas Generation & Distribution	73.8	ATTRACTIVE	70-80
8	Surgical, Precision, Optical Equipment	73.2	ATTRACTIVE	70-80
9	Financial Institutions	73.0	ATTRACTIVE	70-80
10	Tobacco Products	70.8	ATTRACTIVE	70-80
11	Energy - Power Generation(IPPs-Non Indigenous Resource Based)	69.4	AVERAGE	50-69
12	Pharmaceuticals	68.8	AVERAGE	50-69
13	Energy - Oil (Petroleum Distribution/Marketing)	68.2	AVERAGE	50-69
14	Energy - Oil (Petroleum Refining)	67.8	AVERAGE	50-69
15	Agro-Chemicals	67.4	AVERAGE	50-69
16	Sugar	67.2	AVERAGE	50-69
17	Fertilizers	66.0	AVERAGE	50-69
18	Cement	65.2	AVERAGE	50-69
19	Telecommunications	64.8	AVERAGE	50-69
20	Metallic Products (Iron & Steel)	63.8	AVERAGE	50-69
21	Edible Oil	63.6	AVERAGE	50-69
22	Chemicals (inc. Plastic & Rubber Products)	62.6	AVERAGE	50-69
23	Machinery & Equipment	62.2	AVERAGE	50-69
24	Construction (General)	61.8	AVERAGE	50-69
25	Textiles - Synthetic Fibers/Polyester	61.2	AVERAGE	50-69
26	Textiles – Composite	56.6	AVERAGE	50-69
27	Textiles – Spinning	55.4	AVERAGE	50-69
28	Automotives - Assemblers/Manufacturers	53.6	AVERAGE	50-69
29	Information Technology	50.4	AVERAGE	50-69
30	Glass & Ceramics	50.2	AVERAGE	50-69
31	Automotive - Parts & Accessories	46.4	WATCH/HOLD	40-49
32	Textiles - Woven Apparel	46.2	WATCH/HOLD	40-49
33	Textiles - Fabrics (Weaving)	46.0	WATCH/HOLD	40-49
34	Textiles - Knits & Knit Apparel	45.6	WATCH/HOLD	40-49
35	Carpets & Rugs	44.8	WATCH/HOLD	40-49
36	Transport – Air	42.4	WATCH/HOLD	40-49
37	Leather Products	40.2	WATCH/HOLD	40-49

* Transport Air Category is Watch/Hold keeping in view PIA. Air Blue and 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