COVER PAGE

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INDUSTRY RESEARCH &
COMPARATIVE RATINGS - 2015

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

March 2015

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

INDUSTRY ANALYSIS & ECONOMIC RESEARCH (IA&ER)

CREDIT MANAGEMENT GROUP (CMG), NBP

&

NUST BUSINESS SCHOOL

NATIONAL UNIVERSITY OF SCIENCE & TECHNOLOGY – NUST

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

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INDUSTRIES RATED

Message from Principal/Dean, NUST Business School (NBS)

NUST Co-Chair CAC Banking & Financial Services Sector (BFSS) Committee

Dr. Naukhez Sarwar

I feel pleased to share that the NUST Corporate Advisory Council (CAC) embarked on a mega research project with National Bank of Pakistan (NBP) in 2011. Building on and continuing with it, the 'Industry Research & Comparative Ratings - 2015' identifies and highlights the significant industries operating within Pakistan. This collaborative effort between NBP and the NUST CAC offers a strategic planning framework to guide investment in various sectors of Pakistan's economy. The report provides value to industry members, potential investors / lenders, as well as policy makers, providing the framework and data repository for the industrial and economic leadership of the country. This exercise has placed NUST as a partner institute for what is considered the prime source of business intelligence in the Banking and Financial Services community. The 2014 report is another iterative step building upon previous reports which form the basis of giving inputs for and shaping national policy on various aspects and sectors of the economy. This endeavor provides us with real and quantifiable experience in scoping, analyzing and appreciating the task ahead – nation-building, which requires an intimate understanding of industrial issues.

A world-class higher education system serves as the foundation of a developing country's elevation to sustainable socioeconomic development. This report, in the line with the Pakistan's needs, exhibits foresight in identifying the prospering sectors of our country's economy for investment purposes. The challenges that various sectors are facing have also been shared in the report. These challenges range from inadequate infrastructure to persistent energy shortages. The rating criterion that has been formulated in this report provides a scorecard of these struggles and pinpoints the strengths that can be leveraged and weaknesses that must be overcome related to the domestic industrial sectors. The year 2014 has ended on an optimistic note for the domestic economy. Pakistan's economic potential is widely applauded due to its unique geo-political location and a relatively young population of 180m. The economy and Pakistan's industry can only be boosted through proactive policy making, tax rationalization, and sustainable economic policies. Pakistan has the resources to grow and prosper for which a firm commitment from all stakeholders will help attain the right balance between stringent standards of quality and sustainable cost structures.

The CAC-NBP joint project is a continuous effort, and has now become an annual occurrence. As the NUST Co-Chair of the CAC BFSS Committee, I would like to take this opportunity to thank our qualified faculty for their support and guidance. I am also very pleased with the performance of our talented students who took this challenge and came up with a world-class report. We at NUST Business School (NBS) will continue to play our part in contributing to research cooperation between academia and industry. This report's research process is representative of Industry linkages that we at NBS are cementing for our students' future career prospects. We stand firm in our commitment to research, collaborate and consult in partnership with the industry.

Message from Secretary General CAC

Advisor NUST & President NUST
Secretary, Global Think Tank Network (GTTN)

Mr. Amer Hashmi

Universities have an important role to play in the socio-economic development of countries. Specifically Science & Technology Universities all over the world make significant contributions towards the development of technology in an economy. The Corporate Advisory Council (CAC) at the National University of Sciences & Technology (NUST) is the epitome of University-Industry collaboration aimed at producing knowledge for application in Industry and society for equitable socio-economic development in Pakistan.

In the fiscal year 2011-2012, CAC joined hands with the National Bank of Pakistan (NBP) to embark on a mega-research initiative aimed at mapping the industrial disposition of Pakistan. This project was initiated from the CAC Banking and Financial Services Sector (BFSS) Committee platform and marks an important milestone as it was the first time that a bank partnered with a university to conduct multi-sector research of this magnitude. The project fits in perfectly with the mandate of CAC, which is to actively forge strong academic alliances with the Industry and develop NUST's human resource in line with business requirements. This effort has gone a long way in providing hands-on experience to the students and faculty by engaging in a meaningful, targeted, and Industry-specific research on various Sectors and Industries. The project has become a yearly endeavor and is a testament to NUST's academic excellence and research capabilities since the last 4 years.

I am pleased to share with you the report 'Industry Research & Comparative Ratings - 2015' that identifies significant industries operating within Pakistan. The report not only acts as a repository containing authentic data about various sectors, but also presents future outlook of key sectors and identifies their growth potential, growth barriers, specific issues, strengths, opportunities and threats. 20 interns from NUST Business School (NBS) took part in the project, and within a period of 5 months, conducted comprehensive desk research followed by field visits and interviews with relevant Industry representatives.

I would like to take this opportunity to profusely thank Principal/Dean NBS, Dr. Naukhez Sarwar, and the Technical Leads for the project from NBS, Mr. Saad Khan Almarwat, Research Visiting Faculty Finance Department NBS; Ms. Fatima Zaheer, Lecturer International Business, Marketing Department NBS; Ms. Sana Ahmed, Lecturer Human Resource Department NBS; the Industry Lead for the project, Mr. Kh. Ahsan Elahi, Head of Industry Analysis & Economic Research (IA&ER), Credit Management Group NBP; Ms. Sundas Imran, Associate Project Manager CAC and Mr. Hammad Farid Malik, Officer Grade-I (OG-I) NBP, for their support, guidance and patronage to the project team and their efforts to put together a world-class report. I would also like to acknowledge

Chairman Allied Bank Ltd, Mr. Naeem Mukhtar, for his continuous guidance as the Industry Co-Chair for the CAC BFSS Committee.

I would also like to congratulate the interns from NUST Business School (NBS) for a job well done! This report could not have been a success without the efforts and hard work of the energetic young students who worked on a research study that had not been conducted by a Pakistani University so far. I am confident that this report will be of immense value for the banking community in general and potential investors in specific, and for policy makers and researchers.

The CAC is grateful to NBP for their continued trust in NUST's capability to deliver quality research output, and for partnering with CAC for this project. We hope that the quality of the research and its value for the beneficiaries of the report will continue to improve with each subsequent publication.

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 - 2015'. 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).

INDUSTRY RATING CRITERIA & SCORECARD

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

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

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

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

CATEGORY	PERFORMANCE DRIVER	MAX SCORE
Business Environment:	Demand Volatility	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	Gearing *Interest Coverage (B+C)/C*	 3.0

Strength:	*Debt/Equity (L/J)*	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. VISTA – a JCR-VIS sectoral database providing FJ and KSE data

3. Annual Reports of companies listed at KSE

4. Economic Survey

5. SBP Annual Reports

6. Various periodicals

KEY ASSUMPTIONS

Key macro economic assumptions are consistent with the recently released SBP's Annual Report for FY14 i.e. a GDP growth rate of 4.1% (GoP's target rate is 4.4%) and a much stabilized inflation rate of 8.6%, (GoP's target rate is 8%).

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

INDUSTRY SYNOPSIS:

FINANCIALS, OPPORTUNITIES, THREATS/ISSUES, & OUTLOOK

AGROCHEMICALS

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	` 90-100	
			2012-13	**2011-12**
A.	**Industry Sales**	Act/Est	1,309	1,178

			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	Act/Est	191		
C.	**Financial Charges**	Act/Est	3		
D.	**PAT**	Act/Est	171		

			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	9,566		
F.	*Current Assets*	Act/Est	2,887		
G.	*Cash & Bank Balances*	Act/Est	1,894		
H.	*Trade Debtors*	Act/Est	442		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	9,098		
K.	*Current Liabilities*	Act/Est	468		
L.	*Total Liabilities*	Act/Est	468		

AGRO-CHEMICALS

OPPORTUNITIES

- 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

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

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

OUTLOOK

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

AUTOMOTIVE-ASSEMBLERS/MANUFACTURERS

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	8		
			2012-13	2011-12	
A.	Industry Sales	Act/Est	100,673	148,046	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	8,174		
C.	Financial Charges	Act/Est	669		
D.	PAT	Act/Est	5,413		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	47,955		
F.	*Current Assets*	Act/Est	38,066		
G.	*Cash & Bank Balances*	Act/Est	6,758		
H.	*Trade Debtors*	Act/Est	3,741		
I.	*Short Term Investments*	Act/Est	7,442		
J.	*Total Equity*	Act/Est	26,047		
K.	*Current Liabilities*	Act/Est	24,799		
L.	*Total Liabilities*	Act/Est	21,908		

AUTOMOTIVES - ASSEMBLERS/MANUFACTURERS

OPPORTUNITIES

- December 2012 marked the reversal of five-year age limit on used cars imports to three-year age limit. Used car imports slump from a peak of 50,000 units in FY12 to just under 15,000 units in the first half of CY13. As variety of choices available to buyers dropped further, car assemblers capitalised on the opportunity, increasing car prices in tandem not once or twice, but thrice in a matter of 12 months.
- Taking nominal advantage of almost 70 percent reduction in imports of used cars, locally assembled car sales in first half of financial year 2013-14 (FY14) increased by 6.5 percent over last year's same period. As second half of fiscal year usually remained good for automakers full year sales growth of 5.0 percent to 8.0 percent is expected going forward.
- SBP has slashed its policy rate by 350 basis points to 10.5 percent since July 2011; the easing in the interest rate is likely to compel bankers to reignite consumer financing, particularly car financing. Therefore, cut in the policy rate holds the potential to once again rejuvenate car sales and compel to re-rate outlook for the sector. However, the growth in sales might take time and the impact of car financing might be visible from FY13 onwards. Therefore, where FY13 car sales assumption is maintained at 150,000 units, FY14 and FY15 car sales projections is revised upward by 10-15 percent.
- Automotive sales at the end of the year remained positive with a significant increase in unit sales of cars, light commercial vehicles (LCV) and Jeeps; representing an increase of 22 percent over FY11.The entire industry's focus remain riveted upon the announcement of the long-term Auto Industry Development Program (dubbed AIDP-II) which will prove to be a critical factor in the industry's growth going forward into FY13.
- FY12 began with great tidings for the country's auto assemblers in the form of reductions in GST and SED taxes and the consequent upsurge in the demand for cars.
- 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.
- Lack of competition in the industry itself i.e. high barriers to entry, low bargaining power of consumers, high level of duties and tariffs on imported vehicles and the oligopolistic structure of the market.

- Extension of finance by the Pak-Japan business forum as well as other consortiums, who continue to view Pakistan as a market of growth for the future.
- High level of efficiency in the production and assembly plants in Pakistan.
- There exists a big opportunity for the current big players (Indus, Suzuki, Atlas) to exploit small, energy efficient and green technology oriented vehicles.
- The sector could target markets such as Vietnam, Sri Lanka, Bangladesh and attempt to compete with India in the small vehicle and two-wheeler segment.
- 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

- Input costs due to production gaps, dollar uncertainty and financial market fluctuations will increase cost of import of essential parts and machinery.
- 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.
- India and China will continue to offer very strong competition for local market (with a loosening of trade barriers between these and Pakistan) and erode local market share if imports enter the market.
- A short-fall in Government coffers and the continued devaluation of the Rupee will have adverse impact on the Industry, and this may become even more daunting as the Yen continues to be strong and the dollar unpredictable. As an industry heavily reliant on the purchase of imported parts, machinery and expertise, the industry is braced for some shocks in input costs.
- Pakistan's exports are marginal, with Malaysia being one of the few client bases it has. Pakistan's Auto industry remains a net importer.
- Further, one of the more serious issues the industry needs addressing is the parts market and parallel imports. These are considered cheaper and of better quality by consumers and workshops.
- How the industry responds via its sponsors to the technological challenges in the future remains to be seen. Fuel-cell technology and green (hybrid) technology will move from being an optional accessory to a necessity in the near future. This will be accelerated by global demand and supply issues for petroleum products and the highly geo-political nature of fuel prices.

OUTLOOK

- **Despite renewed growth outlook remains tenuous though with a greater probability of increasing sales but a further tightening of margins**.

AUTOMOTIVE-PARTS & ACCESSORIES

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	4		
			2012-13	2011-12	
A.	Industry Sales	Act/Est	29,352	35,222	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	2,193		
C.	Financial Charges	Act/Est	392		
D.	PAT	Act/Est	1,520		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	14,584		
F.	*Current Assets*	Act/Est	10,024		
G.	*Cash & Bank Balances*	Act/Est	838		
H.	*Trade Debtors*	Act/Est	1,688		
I.	*Short Term Investments*	Act/Est	732		
J.	*Total Equity*	Act/Est	7,063		
K.	*Current Liabilities*	Act/Est	6,573		
L.	*Total Liabilities*	Act/Est	7,521		

AUTOMOTIVE - PARTS & ACCESSORIES

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

THREATS

- 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.
- (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 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	150,000		
			2012-13	2011-12	
A.	Industry Sales	Act/Est	12,242	12,079	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	-68		
C.	Financial Charges	Act/Est	2		
D.	PAT	Act/Est	-69		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	211		
F.	*Current Assets*	Act/Est	117		
G.	*Cash & Bank Balances*	Act/Est	1		
H.	*Trade Debtors*	Act/Est	29		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	176		
K.	*Current Liabilities*	Act/Est	35		
L.	*Total Liabilities*	Act/Est	35		

CARPETS & RUGS

OPPORTUNITIES

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

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

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

- 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 exhibitions 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.

THREATS

- Exports of carpets from the country during FY13 witnessed a decline.

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

- Pakistan carpet 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 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	16		
			2012-13	**2011-12**	
A.	**Industry Sales**	Act/Est	160,664	144,331	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	Act/Est	38,072		
C.	**Financial Charges**	Act/Est	6,658		
D.	**PAT**	Act/Est	30,452		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	277,015		
F.	*Current Assets*	Act/Est	82,275		
G.	*Cash & Bank Balances*	Act/Est	8,175		
H.	*Trade Debtors*	Act/Est	4,672		
I.	*Short Term Investments*	Act/Est	22,411		
J.	*Total Equity*	Act/Est	162,124		
K.	*Current Liabilities*	Act/Est	56,772		
L.	*Total Liabilities*	Act/Est	114,891		

CEMENT

OPPORTUNITIES

- The Cement Industry of Pakistan operates with a secure and firm industrial base. Factors such as domestic availability of raw materials, an increase in local demand for clinker in housing and infrastructure. The Cement Industry contributes RS.100 Billion to the GDP annually and around Rs.30 Billion per annum in the form of excise duty and other taxes.

- Domestic sales proved to be the saving grace for the sector, which saw growth by more than 1.11 million tons, a year-on-year growth of 4.64 percent making-up for the lost export volumes. However, there is surplus production which can be diverted towards export markets.

- The per capita consumption of cement in Pakistan is still quite low i.e. 137 kg. As compared to other regional peers (870 kg in Malaysia, 750 kg in Thailand, 330 kg in Philippines and 411 kg in Iran). This indicates huge potential within the country for enhancing cement consumption.

- The export market can be expanded to other regions such as UAE, Middle East and African countries. Qatar follows Dubai model (trim exports and encourage imports); it needs cement in bulk quantity due to massive construction projects. Limestone deposits in Qatar have depleted, rendering it to entirely depend on import of clinker/cement. Here in lies an opportunity for Pakistani cement Manufacturers. Moreover, limestone deposits in India will exhaust by the year 2030, if India doubles its existing capacity. Thus, Pakistan is well placed, due to its proximity, to meet this shortage by supplying cement to India. This may attract foreign cement groups to invest in the cement Industry of Pakistan as well.

- Significantly, government is opting for concrete roads. The maintenance cost of such roads is almost zero, however the initial capital cost is higher. There would be about 12 per cent saving in fuel consumption on plying vehicles on concrete roads. Not only will Cement demand increase but substantial governmental savings can be achieved by this switchover.

- GOP announced PSDP spending of RS 1.155 billion in federal budget of FY14, along with plans to construct 100 housing colonies over a period of next three years which are expected to boost sales over the next year.

- 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.

- Capacity utilization reached to 72%: Cement numbers indicate local capacity utilization of 53% in 1QFY15 as compared to 50% in 1QFY14. Including export sales, industry is operating at utilization level of 72% as against 70% in the same period last year. Southern plants continue to operate at a higher utilization levels (107% in 1QFY15) owing to growing exposure in seaborne exports, while northern plants are operating at 70% in the same period last year. The non-performing loans of this capital-intensive industry have exceeded 22 percent and are still rising.

π Cement industry NPLs have shown an improvement coming down to 21.4% this year from 29.5% last year.

THREATS

θ Despite unprecedented growth in demand of cement, the industry is currently not able to generate adequate margins due to governmental pressure to keep the cement prices low.

θ An increased GST on Cement in Pakistan compared to the other countries; high excise duty; increasing prices of electricity and fuel; an absence of legal and quality framework; devaluation of Pakistani rupee against the dollar; presence of inferior quality coal in Pakistan and a low per capita consumption are all disincentives to the cement Industry.

θ There is a scarcity of "bulk loading facilities" at ports which impedes the exports.

θ There is a lower demand for bagged Cement from neighboring countries. The slumping demand for more expensive Pakistani Cement in Afghanistan (which has seen a rise in Cement imports from Iran), has caused the exports to decline by 6.6 percent on a year-on-year basis. Dwindling Cement demand from India also played a part; with 20 percent lower export dispatched to the eastern neighbor compared to last year. During the year, Industry exports to neighboring Afghanistan and India also declined by 6.58 and 20.35 percent compared to last year as security situation in Afghanistan and slowing economic growth in India slowed down infrastructural spending.

θ Moreover, there are inflationary pressures and increased volatility in international coal prices that proves to be a menace to the industry.

θ Capacity

	CAPACITY	ADDITION*	TOTAL
LUCK	7.8	2.5	10.3
DGKC	4.2	2.5	6.7
KOHC	2.7	1.5	4.2
ACPL	1.8	1.0	2.8
CHCC	1.1	1.0	2.1
TOTAL	44.6	9.0	53.6

*Expected

The capacity is that of 45 million tons per annum while demand is 22 million with the export of 9 million and still running a surplus of 13 million. Excess capacity inevitably leads to a price war and constrained margins.

- In the past decade the price of cement has increased at a lower rate compared to inputs such as fuel and electricity which forms 60% of the cost has risen much more.

OUTLOOK

- Historical data shows that higher utilization is works in tandem with higher pricing ability and bigger margins. **With strong demand growth outlook driven by PSDP, utilization is expected to increase only to be offset by additional capacity increase thus making the outlook tenuous though stable**.

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CHEMICALS (inc. PLASTIC & RUBBER PRODUCTS)

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

No. of Companies	Act/Est	15		
		2012-13	2011-12	
A. Industry Sales	Act/Est	97,712	120,450	
		High (>15%)	Medium (5-15%)	Low (<5%)
Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B. PBT	Act/Est	2,148		
C. Financial Charges	Act/Est	1,004		
D. PAT	Act/Est	1,421		
		Expected to Increase	Expected to Remain Same	Expected to Decline
Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E. *Total Assets*	Act/Est	36,963		
F. *Current Assets*	Act/Est	17,842		
G. *Cash & Bank Balances*	Act/Est	1,532		
H. *Trade Debtors*	Act/Est	3,665		
I. *Short Term Investments*	Act/Est	47		
J. *Total Equity*	Act/Est	17,247		
K. *Current Liabilities*	Act/Est	13,357		
L. *Total Liabilities*	Act/Est	19,715		

CHEMICALS (INC. PLASTIC & RUBBER PRODUCTS)

OPPORTUNITIES

- Abundantly available raw materials for inorganic Chemical s 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.

- Consumer products account for 10% of the chemical products market. This shows that there is potential in the consumer goods of the chemical industry.

- The overall increase in the imports of Chemical s has been reported to be at an average rate of 33 percent per annum which shows there is demand for chemical products and thus immense potential for Chemical Industry of Pakistan.

- 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.

- The rubber products sector registered 11.79 percent growth in production during whole FY13 over the preceding fiscal year.

- Pakistan has a well organized system for imports and exports of chemical materials which are then converted into thousands of products for industry as well as consumers. This shows that it has potential of developing as an industry which could provide momentum for the other existing industries.

- Chemical industry including plastic and rubber is still a relatively undeveloped industry compared to the traditional industries of Pakistan, such as cotton textiles, leather, carpet, sugar, cement, building material etc.

- Rubber Products Sector was also amongst the few sectors to attract Foreign Direct Investment in FY13.

- This industry has a lot of room for expansion and utilizing its potential to its maximum, considering Pakistan has sufficient amount of raw material required.

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

- Industry NPLs have registered an improvement and have come down to 6.8% from 10.2% during last year (FY13).

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.

- The operations of this industry are not environment friendly. Most of the operations of the chemical industry have pollution causing affects making regulatory risk a threat to growth.

- 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.

- Pakistan has not been able to create its own capability for technological and engineering infrastructure for the exploitation and commercialization of local or imported technologies. The chemical projects need sophisticated technology to manufacture products which are at par with the international suppliers. And the low technological level of industry is a hindrance in its growth.

- Major barrier to entry: Chemical projects are expensive to carry out. They are costly and require huge capital investments whereas the domestic production of consumer goods is based on labor intensive, low value-added products.

- Some other factors of note for the industry are;

  Highly Cost Intensive projects
  Sophisticated technologies involved
  Export market limitations

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

OUTLOOK

- **Outlook is tenuous as sales are likely to remain stagnant with enhanced downward pressures over sales and margins** due to the tenuous economic outlook.

CONSTRUCTION

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	4		
			2012-13	**2011-12**	
A.	**Industry Sales**	**Act/Est**	1,490	1,573	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	**Act/Est**	144		
C.	**Financial Charges**	**Act/Est**	1		
D.	**PAT**	**Act/Est**	91		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	**Act/Est**	1,620		
F.	*Current Assets*	**Act/Est**	1,334		
G.	*Cash & Bank Balances*	**Act/Est**	372		
H.	*Trade Debtors*	**Act/Est**	466		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	762		
K.	*Current Liabilities*	**Act/Est**	853		
L.	*Total Liabilities*	**Act/Est**	859		

CONSTRUCTION

OPPORTUNITIES

- The rise in construction activities is evident by the increase in local cement dispatches. Also iron and steel imports increased by 15.4 percent during FY13, reflecting increased construction activities. Investment in construction sector also showed significant growth in FY13.

- The year 2013 proved to be an exceptionally beneficial year for the real estate sector of Pakistan. 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.

- The sector provides employment to both the skilled and the unskilled labor, and thus provides income to many of the society. Although the percentage share of this sector in GDP is only 2.3 %, but labor force percentage is around 6.1%.

- 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.

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

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

THREATS

- 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.

- Bank lending to the construction sector increased only marginally, on top of decline posted in the previous two years. This was mainly due to high default rates in the sector. Mortgage financing default rates continue to hover around 20 percent. Moreover, anecdotal evidence showed that builders of community housing projects (which typically do not avail bank loans) also faced defaults on monthly installments paid by the clients.

- 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 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	2		
			2012-13	**2011-12**	
A.	**Industry Sales**	**Act/Est**	6,825	6,565	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	229		
C.	**Financial Charges**	**Act/Est**	48		
D.	**PAT**	**Act/Est**	110		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	2,323		
F.	*Current Assets*	**Act/Est**	1,583		
G.	*Cash & Bank Balances*	**Act/Est**	54		
H.	*Trade Debtors*	**Act/Est**	578		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	1,039		
K.	*Current Liabilities*	**Act/Est**	1,147		
L.	*Total Liabilities*	**Act/Est**	1,284		

EDIBLE OIL

OPPORTUNITIES

- 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.

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

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

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

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

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

THREATS

- Over 2.0 million tonnes of edible oil imports cost more than $2.5 billion annually making it the second largest import after petroleum products, which compromises balance of payments capacity. Reasons behind wide gap between production and consumption include lack of research and development initiatives, want of incentives, failure to attract investment, low price and high cost of production making these crops non-profitable to many farmers. Per capita consumption of edible oil in Pakistan is declining due to increasing poverty, presently it is at 14-15 kilogrammes 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.

- Ministry of Industries and Production (MoI&P) has reportedly accused edible oil/ghee manufacturers of mixing health hazard raw "chicken oil" in edible oil and ghee extracted from chicken remains. MoI&P has made it clear that the government will take stern action against those engaged in this activity and not allow edible oil/ ghee manufacturers to play with the health of the people. The production of chicken oil is being misused by ghee manufacturers and needs to be stopped.

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

- The biggest challenge is the working capital for the edible oil processing plants, as the price of commodity has gone up by over 40 percent in the world market, while some Rs 27 per kilogram is being paid on account of taxes and duties.

- 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

- Despite lower GDP growth in recent years, and a higher inflation trend – due to the declining rupee - **outlook for the sector remains stable with some growth** on account of the staple nature of this sector.

ENERGY-COAL

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	3~5	
			2012-13	2011-12
A.	Industry Sales	Act/Est	26,200	22,897

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

B.	PBT	Act/Est	12,810
C.	Financial Charges	Act/Est	1,605
D.	PAT	Act/Est	11,595

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

E.	*Total Assets*	Act/Est	102,257
F.	*Current Assets*	Act/Est	50,043
G.	*Cash & Bank Balances*	Act/Est	8,473
H.	*Trade Debtors*	Act/Est	35,943
I.	*Short Term Investments*	Act/Est	Nil
J.	*Total Equity*	Act/Est	10,733
K.	*Current Liabilities*	Act/Est	9,110
L.	*Total Liabilities*	Act/Est	12,219

ENERGY – COAL

OPPORTUNITIES

- A memorandum of understanding (MoU) between federal and Punjab government, China National Power and Q Investment Qatar for more than 6,600-megawatt coal-based projects worth US $ 5 billion was signed. Under the tripartite agreement, ten plants of 660 megawatts each will be set up at Gadani. The projects of 3000 megawatt will be completed within first 30 months while the remaining projects of 3600 megawatt will be executed in the next two and a half years. Imported coal will be used for these projects to be established in Gadani and after the agreements, all projects will be completed during five years. The government will provide infrastructure for implementation of these agreements while all investment will be made by Q investment.

- A Memorandum of Understanding (MoU) was signed between Sindh Engro Coal Mining Company Ltd (SECMC), China Power International Holding Ltd (CPIH), and Sino Sindh Resources (Pvt) Ltd (SSR) to develop 6,000 megawatts (MW) of Thar coal-based power plants.

- 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.

- 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.

- 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.
- Mining Lease for the Development and exploitation of the 66 sq.km Block VI of the Thar Coalfield has been awarded to Oracle Coalfield of UK which plans to invest up to US$ 610 million. Oracle Coalfield of UK has entered into an MOU with KESC to develop initially a 300 MW mine mouth power plant by 2015 to be scaled up to 1100 MW. The Open-pit coal mine development is expected to start in early 2013 with initial production of coal in 2014 with full scale 5 million tons per annum coal production in 2015.

- An Abu Dhabi-based power generation company is likely to invest $1.75 billion to establish coal-fired power stations in the power-starved metropolis to generate some 1,800 megawatt of electricity in two phases.

- World Bank will provide technical assistance Credit for Sindh Coal Technical Assistance Project (SCTAP), while Pakistan Government would also contribute to this.

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

THREATS

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

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

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.**

ENERGY-GAS GENERATION & DISTRIBUTION

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

No. of Companies	**Act**/Est	1		
		2012-13	**2011-12**	
Industry Sales	**Act**/Est	1,100,122	990,110	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%)	Best			
(Next 1-2 Yrs)	Guess			
PBT	**Act**/Est	19,089		
Financial Charges	**Act**/Est	7,591		
PAT	**Act**/Est	12,558		
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability	Best			
(Next 1-2 Yrs)	Guess			
Total Assets	**Act**/Est	281,308		
Current Assets	**Act**/Est	224,356		
Cash & Bank Balances	**Act**/Est	5,227		
Trade Debtors	**Act**/Est	76,596		
Short Term Investments	**Act**/Est	Nil		
Total Equity	**Act**/Est	61,888		
Current Liabilities	**Act**/Est	215,693		
Total Liabilities	**Act**/Est	219,421		

ENERGY - GAS GENERATION & DISTRIBUTION

OPPORTUNITIES

- 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.

- The US-backed, 1,735-km (1,085-mile) TAPI is a major boon for Turkmenistan which is seeking to diversify its energy exports from its traditional market, Russia. Turkmenistan's natural gas reserves are behind only Russia, Iran and Qatar. The TAPI project will ensure long-term (annual) shipments of over 30 billion cubic metres (bcm) of Turkmen natural gas to the countries of Southeast Asia. Turkmenistan agreed in May to supply natural gas to Pakistan via Afghanistan by signing gas sales and purchase agreements with Pakistan's Inter State Gas Systems. TAPI pipeline could cost between $10 billion and $12 billion to construct. Turkmen gas supplies to Pakistan could begin in 2016.

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

- Natural gas is the obvious advantage in Pakistan's current energy mix and plays a crucial role in the economy, meeting about 40% of the country's supply mix for commercial energy.

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

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

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

THREATS

- Iran-Pakistan gas pipeline with a projected to cost $1.2-1.5 billion, and aimed to export a daily amount of 21.5 million cubic meters of Iranian gas to Pakistan is now in doldrums owing to geo-strategic factors and adjustments.

- 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.

- The US-favored UNOCAL TAP pipeline continues to face grave uncertainties due to the uncertain Afghan situation and will only materialize once the Afghan situation settles down to some level of stability.

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

OUTLOOK

- The **outlook is stable, however, growth remains constrained due to supply-side issues**; primarily the dwindling reserves at Sui and infrastructure bottlenecks. Geo-political threats and the absence of investment and funding commitments from international majors are likely to remain in place along with a constrained infrastructure. **Sector profitability, however, is not impaired.**

ENERGY-OIL & GAS EXPLORATION & PRODUCTION

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

No. of Companies	Act/Est	4		
		2012-13	2011-12	
A. Industry Sales	Act/Est	368,896	332,440	
		High (>15%)	Medium (5-15%)	Low (<5%)
Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B. PBT	Act/Est	226,591		
C. Financial Charges	Act/Est	4,166		
D. PAT	Act/Est	146,141		
		Expected to Increase	Expected to Remain Same	Expected to Decline
Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E. *Total Assets*	Act/Est	719,512		
F. *Current Assets*	Act/Est	259,177		
G. *Cash & Bank Balances*	Act/Est	25,532		
H. *Trade Debtors*	Act/Est	113,257		
I. *Short Term Investments*	Act/Est	28,334		
J. *Total Equity*	Act/Est	520,136		
K. *Current Liabilities*	Act/Est	99,195		
L. *Total Liabilities*	Act/Est	199,376		

ENERGY - OIL & GAS EXPLORATION

OPPORTUNITIES

- In financial year 2013, change in dynamics of oil and gas exploration sector in Pakistan was seen. 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 rose 13.6% to reach 76kbopd while gas production declined by 4.3% to 4.1bcfd in FY13. It is expected that oil production will increase to 97kbopd by financial year 2016. Thereby providing an opportunity for the oil production companies to enhance their E & P activities.

- 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.

- 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.

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

- Recently, Mari Petroleum Company Limited (MPCL) discovered the notable reserves of crude oil in Jhelum. The reserves are expected to have an estimated production of 5,500 barrels per day. This provides an opportunity for the company to exploit these reserves and reap benefits out of it.

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

- Investment climate is improving and we see this through the emerging interest by local as well as foreign investors in prospective joint ventures and partnerships. OGDCL is planning to create partnership with the latest technology partners to share risks and be more efficient. Thus, other companies would also see this as an opportunity to grow.

- International crude oil prices seeing violence in Iraq and Syria is expected to grow enhancing domestic crude oil prices, thereby providing an opportunity to the local players to gain more profits.

- 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.

- 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. Therefore, attractive government policies provide an opportunity for the investors to invest in this sector.

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

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

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

- Total discoveries made so far are 221 out of which 54 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.

- Oil & Gas (O&G) Sector in Pakistan remains an attractive destination for Foreign Direct Investment (FDI).

- Oil and Gas Exploration Sector was amongst the few sectors in 4 months of FY13 to attract Foreign Direct Investment (FDI) despite the fact that FDI in the real sector continued to decline.

- If the global prices stay on the same upward trend then the country could be likely poised for an even more promising scenario for exploration.

THREATS

- The continuing, though marginally improved, security situation in Baluchistan poses the single biggest risk to rapid development and investment in this strategically pivotal sector.

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

ENERGY-OIL (PETROLEUM DISTRIBUTION/MARKETING)

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

No. of Companies	**Act/Est**	3	
		2012-13	**2011-12**
Industry Sales	**Act/Est**	1,509,590	1,390,068

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

PBT	**Act/Est**	25,842
Financial Charges	**Act/Est**	9,780
PAT	**Act/Est**	16,690

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

Total Assets	**Act/Est**	349,586
Current Assets	**Act/Est**	278,627
Cash & Bank Balances	**Act/Est**	16,027
Trade Debtors	**Act/Est**	88,492
Short Term Investments	**Act/Est**	1,944
Total Equity	**Act/Est**	82,025
Current Liabilities	**Act/Est**	263,022
Total Liabilities	**Act/Est**	267,561

ENERGY - OIL (PETROLEM DISTRIBUTION/MARKETING)

OPPORTUNITIES

- Impact of the recent fall in international crude oil prices has yet to be seen. With reduction in petroleum prices in the country due to continuous falling of crude oil prices, the stage was finally set for the long awaited increase in OMC and dealers margins.

- The OMC sector has been demanding a rise in margins for a long time. The last increment that took place was in April 2013. Though the demand made little sense when the oil prices were rising, decline in international prices has provided the a cushion to go ahead with the long anticipated call.

- Firm that will benefit the most from this will be Pakistan State Oil (PSO), which holds the highest market share in petroleum products. However, the retail nature of these fuels would help other OMCs as well.

- Falling crude oil prices, and hence declining domestic petroleum prices means higher inventory costs against lower prices hence losses however, the OMCs have luckily ducked high inventory losses (primarily due to low inventories on account of circular debt in 1QFY15.

- Pakistan State Oil (PSO) has recently entered into sale purchase agreement and renegotiated its contract with two refineries namely PARCO & BYCO Petroleum & one local fuel oil blender. PARCO will provide POL products to PSO from its Mid Country Refinery (MCR) which is the largest refinery in Pakistan and the only one capable of producing low sulphur EURO II quality diesel. This will result in multiple benefits including reduced dependency on foreign fuel imports, increased throughput of local refineries and savings of foreign exchange worth an estimated $130 million per annum.

- PARCO has a strategic marketing alliance with TOTAL. TOTAL is one of the world's largest petroleum companies and a leading global player in the oil business. The synergy and fit seems natural with TOTAL bringing with it a history and track record of international experience and particular expertise in the downstream marketing of fuels.

- The Pakistan State Oil (PSO) revenues are now consistently over Rs 1 trillion (Rs 1.4 trillion in 2014) due to skyrocketing prices of petroleum products, up 25 percent on yearly basis despite slight reduction in volumes.

- Development in Afghanistan coupled with the upcoming pipeline network to Peshawar is creating another opportunity to export. Even other markets of SAFTA countries are open.

- Distribution for the lubricants is being developed nationally through dealer outlets while PEARL Gas is being co-marketed to industrial users and households in the less accessible and remote areas with SHV of Holland, which has been allocated 25% of the total LPG production of the refinery.

- PSO took a major step in improving its distribution facilities by acquiring 12% equity in the 800km long Karachi-Mehmoodkot White Oil Pipeline. As part of PSO's policy of providing better customer services, it has embarked upon its new 'Vision' retail development program.

- During FY 2014, consumption of petroleum products grew by approximately 8.7% to 21 million MTs as compared to 19.5 million MTs during FY 2013. This was a result of an increase in consumption of white oil products and black oil products by 5.5% and 12.9% respectively.

- PSO retained its market leadership position despite intensifying competition in oil market among existing players and new entrants by retaining a 73% share in black oil and 53% in white oil. Recently, PSO has entered into a 5 years exclusive agreement with M/s Air Indus for provision of Jet Fuel at all the nationwide airports. During FY 2014, a quantity of 13,562 MTs was sold to them. PSO was also able to recapture the business of Turkish Airlines at Karachi airport. In addition, PSO also renewed standing agreements with sixteen (16) customer airlines including Saudi Arabian, Air Arabia, Thai international and Fly Dubai.

- Continuing efforts to streamline its operational activities in order to make them more economical, PSO reopened six petroleum product storage and handling depots nationwide in order to help meet increasing market demand. In addition to this, land has also been acquired at Lalpir depot in order to enhance handling and storage capacity for smooth supplies to power sector customers.

- PSO has also been successful in executing a 5 year agreement with Pakistan Navy for supply of High Speed Diesel (HSD) based on which the company will be the sole supplier of HSD during FY 2015 to the entire sea-going fleet of the Karachi Port Trust (KPT).

- PSO recently signed a Fuel Supply Agreement with Nandipur Power Project. The Company also won signi¬ficant tenders (which include supply of 100,000 MTs of fuel to the Army) as well as a tender for supply of 2.7 Million liters of lubricants to Pakistan Railway.

- Pakistan Institute of development economics (PIDE) has supported deregulation of the inland freight equalization margin (IFEM). Currently IFEM is being used to keep prices at an equalized level across the country. In a recent report issued by

- PIDE states that the basic logic of price equalization across the country is not justified on any grounds. According to PIDE, deregulating the IFEM would result in strong competition among OMCs (Oil Marketing Companies). Companies will be using increasingly efficient methods of transportation and this will also lead to less malpractice such as dumping.

- The addition of 30,000 barrels of crude oil by Oil and Gas Development Company Limited (OGDCL) to the system from Nashpa field is estimated to save $1.1 Billion per annum from Pakistan's spending on oil import. Pakistan's local crude oil production is expected to cross 100,000 barrels per day from the current production of approximately 70,000 barrels.

THREATS

- The major importer of petroleum products is the state-owned Pakistan State Oil (PSO). It imports 66% of petrol while 34% being imported by other oil marketing companies (OMCs). PSO has serious liquidity problems because of non-payment for purchases of furnace oil largely by the GENCOs, HUBCO and KEPCO. By September 2014, the receivables of PSO had risen to the colossal figure of Rs 222 billion. In December, a number of L/Cs of PSO have been dishonoured. This has greatly restricted PSO's ability to import all petroleum products. In effect, a large part of the circular debt has been parked in PSO.

- CIRCULAR DEBT ISSUE: Despite payment of around Rs.500 billion circular debt in June 2013, it has again reached similar levels within a year. Circular debt consist of payments due to IPPs from primarily Wapda, Wapda related DISCO's, and to a smaller extent KESC, that in turn pay the OMCs which in turn pay refineries and for oil imports. Wapda's payment defaults/delays results in severe effects on the power plants' liquidity and operations. That in turn puts the liquidity squeeze on the OMCs and others. The only solution to resolve circular debt crisis is to enhance the power subsidy and / or increase tariffs further and significantly improve power sector leakages.

- CNG sector continues to pose a threat to the industry's local sales of gasoline, despite major supply issues.

- As the industry mostly relies on the imported crude oil and in the recent past great fluctuations have been witnessed in the international oil market which is creating a lot of uncertainty.

- Oil sector is greatly regulated by the Government. Oil advisory committee apparently is independent but is influenced by the government for sale price of POL. This is a threat for the industry.

- Growing competitor pressures can be seen as a threat to the survival of the organizations in this sector.

- There is a sales tax of 15% on the Oil marketing Companies.

- The cost is directly related to the international market, as the price changes in the international market, the price in the domestic market also fluctuates .The cost may increase more because of the large demand and shortage of supply.

- Fluctuations are expected to occur in economic growth rate due to uncertain business environment. Fluctuation of Pakistani rupee against the dollar is critical to the industry as it depends on imports devaluation of Pakistani rupee makes imports expensive increasing the overall cost and price to increase.

- Pakistan Institute of Development Economics (PIDE) has concluded in a recent report that the oil market is unfit for deregulation. Deregulation could result in excessive cartelization as well as elimination of smaller companies rather than creating competitiveness. Competitive forces resulting from deregulation could be negated as 3 main OMCs together hold more than 80% of the market share.

- Uncertain economic and political situation affects the distribution and retail networks. Recently massive theft of crude oil from the main supply pipeline from the Nashpa Oil Field in the Karak district has resulted in losses of approximately to Rs8 million per night thus causing huge financial losses. Thieves stole up to 100,000 liters of crude oil, which was supplied in tankers illegally to filling stations set up unofficially.

- Crude oil is imported into the country because of which it is affected directly by fluctuation in global oil prices and exchange rate risks. At present, the country's consumption of petroleum products stands at 22 million tons, of which approximately 13 million tons are imported. Globally rising prices of oil tend swell up the bill of the petroleum imports.

- Every year the import of oil and its products eats up roughly $15 billion. Government officials expect the import bill will swell further as a result of closure of compressed natural gas (CNG) stations in Punjab as well as lack of gas supply for running power plants.

- Combinations of political and economic uncertainty as well as security concerns tend to discourage foreign investors from investing in the industry.

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.** However the chances of that happening in the near future remain slim.

Petroleum retail market is likely to show growth on account of constrained supply of CNG but remain suppressed due to the lower GDP growth rate and circular debt.

ENERGY-OIL (PETROLEUM REFINING)

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	3		
			2012-13	2011-12	
A.	Industry Sales	Act/Est	474,599	456,354	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			

B.	PBT	Act/Est	10,468		
C.	Financial Charges	Act/Est	1,778		
D.	PAT	Act/Est	7,257		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			

E.	*Total Assets*	Act/Est	147,725
F.	*Current Assets*	Act/Est	114,660
G.	*Cash & Bank Balances*	Act/Est	27,095
H.	*Trade Debtors*	Act/Est	39,280
I.	*Short Term Investments*	Act/Est	Nil
J.	*Total Equity*	Act/Est	55,170
K.	*Current Liabilities*	Act/Est	92,149
L.	*Total Liabilities*	Act/Est	92,555

ENERGY - OIL (PETROLEM REFINING)

OPPORTUNITIES

- PSO had signed an MoU with the government of Khyber Pakhtunkhwa for the establishment of a state-of-the-art oil refinery in the province. As per this MoU, the refinery would have a capacity of 40,000 barrels per day on about 400 acres of land in district Kohat, Khyber Pakhtunkhwa.

- Pakistan Refinery Limited (PRL) will almost double its petrol production from 144,000 tonnes to 270,000 tonnes per year.The financial close is already in place and front-end engineering design of the project had been completed. After engineering, procurement, construction, commissioning of the project would be completed in 22 to 24 months i.e. 3rd quarter of 2015.

- Trans-Asia Refinery Ltd (TRL) has made a major announcement expressing its 'total commitment' to building the most complex refinery in Pakistan, producing more than 100,000 barrels a day and 4.0 million tonnes of petroleum products every year. The refinery will be located at Port Qasim, Karachi.

- Pakistan has 5 refineries with a total cumulative capacity of 14 million tons/annum.

- Attock Refinery has taken up the installation of isomerisation plant that will allow the company to convert its naphtha into premier motor gasoline, a value-added product. To address the refining needs in the country, the company plans to take steps to increase the refining capacity. The company has also received and evaluated technical and commercial bids for the refinery up gradation projects namely Pre-flash, Diesel Hydro Desulphurisation unit.

- Foreseeing the mounting demand of deficit POL products in Pakistan, PARCO in alliance with International Petroleum Investment Company (IPIC) of Abu Dhabi, is endeavoring on a 250,000 bpd deep conversion refinery with a foreign direct investment of US $6 billion, at Khalifa point near Hub in Pakistan's province of Baluchistan. The IPIC and other UAE Government institutions will have the majority of the shareholding i.e. 74% shares in the project, whereas Pak-Arab Refinery Limited (PARCO) will have 26% of the holding.

THREATS

- Government has accused oil refineries for their involvement in forgery by showing losses and misusing the consumers. The operational losses were not truly depicted by the companies which implied greater responsibility on the government to foresee the accounting practices overall.

- The recovery, and now fall, in international oil prices is not likely to result in increase in the profit margins of local refineries because of the supply and demand of the domestic market.

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.

NBP National Bank of Pakistan

NUST Defining futures

ENERGY-POWER GENERATION & DISTRIBUTION

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

No. of Companies	Act/Est	9		
		2012-13	2011-12	
Industry Sales	Act/Est	74,308	70,593	
		High (>15%)	Medium (5-15%)	Low (<5%)
Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
PBT	Act/Est	3,744		
Financial Charges	Act/Est	7,497		
PAT	Act/Est	3,755		
		Expected to Increase	Expected to Remain Same	Expected to Decline
Net Profitability *(Next 1-2 Yrs)*	Best Guess			

Total Assets	Act/Est	83,704
Current Assets	Act/Est	32,606
Cash & Bank Balances	Act/Est	4,970
Trade Debtors	Act/Est	20,421
Short Term Investments	Act/Est	Nil
Total Equity	Act/Est	20,481
Current Liabilities	Act/Est	35,843
Total Liabilities	Act/Est	63,223

ENERGY - POWER GENERATION & DISTRIBUTION (IPPs)

OPPORTUNITIES

- Government of Pakistan aims to achieve power generation mix through development of indigenous energy resources particularly hydel and coal. 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.

- There is an urgent need for well thought out plans encouraging the use of coal, incentivizing gas exploration, and exploring renewable sources of energy (e.g., wind and solar)and calibrated efforts, to pull the economy out of the ongoing power crisis. Also, long term hydel projects should be pursued to enhance the long term sustainability of the power sector.

- Co-Generation by sugar mills by utilizing bagasse and coal provides one of the most economically viable options for thermal power generation. Diversification in using energy mix in the generation of electricity can be made by producing electricity by Co-Generation for which government is seriously thinking.

- The government is committed to achieve less oil dependent power generation mix through development of indigenous energy resources particularly hydel and coal.

- Pakistan's energy fuel mix is not sustainable so measures such as setting up hydel and coal plants and to replace oil with coal are required to bring down overall cost of power generation.

- Minister of State for Water and Power has directed Water and Power Development Authority (WAPDA) to ensure that the Neelum-Jhelum Hydropower Project (NJHP) starts generating electricity by the end of 2015.On completion, NJHP will contribute 5.15 billion units of electricity to the national grid every year, adding that annual benefits to be accrued from the project have been estimated at about Rs 45 billion.

- An early construction of Kalabagh Dam (KD) is inevitable for the progress and prosperity of the country, as it will produce power at an average cost of Rs 1.5/kwh. This cheap power will annually displace costly power worth approximately Rs 300 billion with consequential savings of costly oil imports. This saving alone would wipe out the current account deficit, boost reserves and strengthen the rupee. The dam would wipe out load shedding and increase industrial output by $5-6 billion a year. Its contribution to value addition in agricultural output could go up to $10 billion a year. The dam has the potential to wipe out poverty as the project will benefit every province.

- 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.

- Karachi Electric Supply Company (KESC) signed a Joint Development Agreement (JDA) with Sindh Coal Energy Limited (SCEL) and Oracle Coalfields PLC (Oracle) of UK for establishing a coal-based power plant. KESC has already, earlier in the year, signed a JDA with Bright Eagle Enterprises (BEEGL), a Hong Kong based investment company sponsored by Chinese and Korean investors. This project aims at achieving the coal conversion of KESC's 1260MWs (210MW x 6) Bin Qasim Power Station to being coal-fired.

- 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.

- The State Bank of Pakistan (SBP) has enhanced the scope of financing facility for establishment of new power projects using renewable energy with a view to promoting the use of renewable energy and meeting the growing electricity demand of the country. It has now been decided that banks and DFIs can also consider financing requests of the sponsors for setting up power projects up to a maximum capacity of 20 megawatts (MW) in cases where only biomass, biogas is used as renewable energy source.

- PPIB is currently processing forty multiple fuel (Oil, Coal, Gas and Hydel) power projects with a cumulative capacity of 10399 MW. Out of these forty projects, a total of nine new IPPs having a cumulative capacity of over 1,800 MW have been commissioned since March 2009, while other companies are aggressively working to achieve the financial close and commissioning of their respective projects.

- NTDC and DISCOs have started a range of technical and administrative measures to enhance operational and managerial efficiency to reduce power losses. These measures have showed positive signs resulting in the reduction of power losses and leading to an increase in revenue over the past few years.

- The Asian Development Bank (ADB) will provide $242 M to help the country modernize electricity transmission lines and curtail losses that have contributed to a crippling power shortage.

- Pakistan is committed with the International Financial Institutions (IFIs) such as the World Bank and the IMF to privatize DISCOS by ensuring implementation on public private partnership. All DISCOs will be privatized in gradual manner and this process will be kick-started by privatizing proceeds of couple of companies by offering sale of 26 percent.

- NEPRA allowed power distribution companies to raise electricity prices by 33 paisa's per unit under the monthly fuel adjustment formula.

- In order to ensure uninterrupted and stable power supply to the consumers as well as integrity of the grid supply system, the augmentation of the transmission network is a continuous process. In addition to the various on-going secondary transmission lines and grid-stations programme, new transmission lines and substations are being envisaged. Transmission and Distribution losses have reduced to 31.2 percent in July-March 2010-11 from 34.5 percent.

- Being an agro-based economy almost 67 percent of the population of the country resides in rural areas. Keeping this fact in view the village electrification program is being highlighted as a central component of the total power sector development programme. The numbers of villages that have been provided with electricity have reached 160,110. Furthermore, the village electrification facility has increased by 8.9 percent during the period of July- March 2010-11 as compared to same period last year.

- Collectively, developing countries use 30% of the world's energy, but with projected population and economic growth in those markets, energy demands are expected to rise 95 %. Overall global consumption is expected to rise 50 % from 2005 to 2030.

- 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, while work on 4500-MW Diamer Basha Dam - the largest project in the history of Pakistan - will soon be started.

- The 330 MW Chashma Nuclear Power Plant Unit-2 Pakistan's third nuclear power plant went operational, pumping another 330 MW into the national grid in a bid to help meet country's growing energy demand and cut down the shortfall. If Pakistan can raise the finances for setting up more plants, then this is a viable solution to the power crisis in the country.

- Iran-Pakistan pipeline is in the loop of global trade in this sector. This imported gas will generate considerate amount of electricity for the power consumption of the country. Also, Pakistan's Thar coal reserves have the potential to generate more than 100,000 MW of electricity.

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.

- Power sector receivables have touched about Rs 590 billion. The receivables stood at Rs 587.578 billion as of November 30, 2014 (during first five months of current fiscal year), of which the key nonpayer is private sector. Receivables stood at Rs 512.909 billion as on 30 June 2014 and are now hovering around Rs 590 billion which implies that Discos fail to collect Rs 78 billion from public and private sector consumers during five months. The power sector's collections stood at Rs 435 billion during the first five months of the current fiscal year against the billing of Rs 509.7 billion, showing a significant gap between billing and collection. Private sector including industry owes Rs 402 billion during the first five months of current fiscal year and the payable amount stood at Rs 355.6 billion till June 30, 2014. This indicates that the unpaid amount rose by Rs 46.4 billion in just five months. Recovery against private sector stood at Rs 383 billion against the billing of 429.7 billion.

- Unreliable and old generation plants; low-voltage transmission and distribution lines; weak grid infrastructure and its inappropriate location; inaccurate metering and billing; un-metered supplies; and theft from illegal connections, explain the exceptionally high T&D losses in Pakistan. Depending on the efficiency of the relevant Disco, distribution losses in Pakistan range from 9.5 to 34.3 percent, which compares poorly with Bangladesh (11.8 percent), China (5.8 percent), and Asia (7.9 percent).

- The Finance Ministry has reportedly released over Rs 150 billion subsidy to power sector during the first eight months of the current fiscal year, against Rs 179 billion budgeted for the entire fiscal year - an amount that does not include Rs 40 billion provided to the sector recently. The releases also included the issuance of Rs 40 billion sovereign guarantee by the Finance Ministry to ease the financial woes of distribution companies. The power distribution companies are facing financial problems in payment of long outstanding power purchase dues to Central Power

Purchasing Agency due to high distribution losses and low revenue collection. The power sector has hardly been able to recover Rs 65 from each billed amount of Rs 100.

- Public sector generation companies (Gencos) available installed capacity is almost 5,000MW on its books, but it is only generating around 2,075MW, thus failing to utilize the available installed capacity of its existing power plants.

- 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.

- Electricity generation in Pakistan become over expensive one due to costly input and other due to transmission & distribution losses. This also results in circular debt.

- 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.

- Transmission and Distribution losses along with the system overload are responsible for financial losses. It is also responsible for higher electricity rates in the country. This is creating problems for the consumers as in the end they have to pay for such losses and overload.

- De-regulation in areas of the global energy markets has led to fierce competition. Now more than ever electricity has to be produced at a lower cost with many countries imposing ever tightening environmental legislation to reduce the impact power generation has on the environment.

- 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.

OUTLOOK

- The **overall prospects for this sector remain marginally growth oriented despite concerns over medium to high financial risks primarily on account of unresolved circular debt issues.**

FERTILIZERS

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	4	
			2012-13	**2011-12**
A.	**Industry Sales**	**Act/Est**	191,499	182,380

			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	46,881		
C.	**Financial Charges**	**Act/Est**	12,769		
D.	**PAT**	**Act/Est**	31,189		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	291,312		
F.	*Current Assets*	**Act/Est**	76,522		
G.	*Cash & Bank Balances*	**Act/Est**	10,961		
H.	*Trade Debtors*	**Act/Est**	3,495		
I.	*Short Term Investments*	**Act/Est**	23,796		
J.	*Total Equity*	**Act/Est**	88,507		
K.	*Current Liabilities*	**Act/Est**	96,844		
L.	*Total Liabilities*	**Act/Est**	202,805		

FERTILIZERS

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 State Bank of Pakistan (SBP) has urged the government to eliminate price gap between locally produced and imported urea as domestic producers are facing trouble in selling their stocks, besides this is creating incentives for black-marketing and market manipulation.
- The country's overall urea production capacity is about 6.9 million tons annually, as against the demand of some 5.8 million tons, providing an opportunity to export some one million ton of urea annually. During last five year fertilizer industry invested $2.3 billion in the country making Pakistan world's 7th largest urea manufacturer country.
- Global demand (for G9 countries) is always shifting in favor of organically grown produce; this remains a niche market and should not impact Pakistan's agricultural exports for 2012 and 2013.

THREATS

- Fertilizer off-take in Pakistan has by and large stayed flattish in the previous three years and the first nine months of 2014 were no different. The urea sales did grow by almost 3 percent year-on-year during 3MCY14, mainly on account of better plant availability for major players. On the positive side, the DAP fertilizer market grew considerably by 15 percent year-on-year on the back of improved demand and early buying in anticipation of price hike. The demand for phosphate fertilizer remained flattish in comparison to the same period last year.
- For the 9MCY14 period, the delayed sowing of BT cotton coupled with persistent feedstock gas shortage for plants at SNGPL network, led to decline in urea off-take over the previous year. Urea price has remained flattish for almost throughout the year, but urea sales have failed to pick up considerably. On the flip, the response on DAP front is comparatively better.
- The continuing threats to the fertilizer sector largely remain gas curtailments, fertilizer imports and price on pressure. One supply side constraint is the huge subsidy on imported urea which keeps a lid on the fertilizer producers' margins.

- In the first 11 months of calendar year 2014, urea demand fell 5% to 4.976 million tons and DAP sales dipped 1% to 1.434 million tons compared to the same period of last year.
- Fixed Costs are high, which will reduce competition and investment into new plants.
- The local industry was hampered by extended and unprecedented gas shutdown and curtailment.
- International prices continued to rise as global demand steadily firmed up during the first half. DAP prices were increased seven times in the first half of 2011. Hence the price has increased significantly and with the added impact of GST the current price levels are the highest in recent times; reduced demand by farmers.
- A uniform tax policy on agriculture is being evolved to bring the agriculture sector within the tax net across the four provinces. . The government has levied 17 per cent GST on agricultural inputs, including seeds, fertilizer, pesticides, agriculture machinery and equipment.

OUTLOOK

- Despite the fact that urea off-take registered a negative growth owing to rising prices followed by gas curtailment. DAP off-take registered a growth of 6.2 percent. **Going forward, demand is expected to go up due to recent sizeable hike in wheat support price and sustainability in other crop prices.**

FINANCIAL INSTITUTIONS

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	5	
			2012-13	**2011-12**
A.	**Industry Sales**	**Act**/Est	186,439	199,211

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

B.	**PBT**	**Act**/Est	118,103
C.	**Financial Charges**	**Act**/Est	130,782
D.	**PAT**	**Act**/Est	80,270

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

E.	*Total Assets*	**Act**/Est	5,074,085
F.	*Current Assets*	**Act**/Est	575,275
G.	*Cash & Bank Balances*	**Act**/Est	476,019
H.	*Trade Debtors*	**Act**/Est	Nil
I.	*Short Term Investments*	**Act**/Est	99,253
J.	*Total Equity*	**Act**/Est	535,108
K.	*Current Liabilities*	**Act**/Est	4,359,865
L.	*Total Liabilities*	**Act**/Est	4,538,978

FINANCIAL INSTITUTIONS

OPPORTUNITIES

- On cash basis, the government borrowed Rs 436.9 billion for budgetary financing from the banking system during Jul-Mar FY14, which was almost half the amount borrowed during the same period in FY13. This sharp deceleration can be attributed to government efforts to contain its overall budgetary deficit, and the availability of non-bank funding. The reduction in government borrowing, forced commercial banks to shift their focus towards the private sector. This was made easier with the improvement in business and consumer confidence; and relatively low real cost of borrowing, which created demand for bank credit. Both the demand and supply side factors resulted in some growth in credit to the private sector. Specifically, private sector credit expanded by 10.0 percent during Jul-Mar FY14, which was more than double the growth realized during the same period last year. Moreover, the growth was seen in all the three segments, i.e., working capital, trade financing, and fixed investment loans.

- Substantial improvement has been observed in banking sector during July-September quarter of 2014 as the profit (before tax) reached historically high level of Rs 176 billion as of end September 2014 showing 44 percent increase over the end September 2013.Similarly, the return on assets (ROA) and return on equity (ROE) inched up to 1.4 percent and 15.9 percent respectively up from 1.1 percent and 12.3 percent a year earlier. The quarterly banking sector statistics for the quarter ended September 2014, released by State Bank of Pakistan (SBP) indicated Capital Adequacy Ratio (CAR) of the banking system improved to 15.5 percent in September 2014 compared to 15.1 percent a quarter earlier largely on the back of healthy profits. The CAR at its existing level is well above the minimum ratio of 10 percent set by the SBP, despite implementation of strict Basel-II capital standard. Encouragingly, the stress test results also show that capital base of the system is strong enough to withstand unusual shocks due to credit, market and liquidity risks. The indicators of asset quality of the banking sector, with marginal changes, also reflect stability. Non-Performing Loans (NPLs) to Loan ratio net of provisions at 3.2 percent in September 2014 is far below its peak of 6.4 percent in September 2011.

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

- Deposits of scheduled banks rose to Rs7.5 trillion at the end of calendar year 2013 (CY13), mainly due to the State Bank's minimum deposit rates (MDR) condition. The SBP's minimum deposit rates (MDR) condition gave a better return to depositors, besides attracting new deposits for the banking industry. During last year, the SBP linked MDR with reverse Repo rate with the result the

MDR increased to 7 percent from 6 percent. According to State Bank, year-on-year basis, deposits of scheduled banks surged by 13 percent or Rs 846 billion to new historic high of Rs 7.53 trillion in CY13 as compared to Rs. 6.68 trillion in CY12.

- 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.

- State Bank of Pakistan (SBP) is exploring possibilities to decrease dependence on cash and increase the reach and penetration of electronic payments through branchless banking regulations. The advent of mobile technology has enabled new branchless banking solutions that can provide affordable services to the unbanked – known as "financial inclusion" – in areas traditional financial services have yet to penetrate. Such conditions establish a favorable environment to reach Pakistan's under-banked with mobile money solutions.

- The government has signed $625 million oil financing facility and loan arrangement with banks for a one-year period with a condition that the latter shall be required to bring funds from abroad to help improve foreign exchange reserves. The arrangements with banks would help improve reserves, stabilise rupee and significantly reduce the growing gap between open market and interbank rates. Oil payment and loan arrangement was reached with the Bank of Tokyo, Bank Alfalah, Credit Swiss, Standard Chartered, National Bank of Pakistan, Allied Bank of Pakistan and United Bank Limited and the condition is that all of them would bring inflows from abroad.

THREATS

- The absolute NPL stock of the banking sector stood at Rs 617 billion during 1H 2013. The NPLs of Public Sector Banks (PSBs) mounted to Rs 163.182 billion, up by Rs 29 million.

- The pace of consumer banking loan portfolios has slowed down dramatically since 2005 and remained flat over the past few years due to the rising risk of non-performing loans.

- With continuing challenges pertaining to macro-economic outlook and low private sector credit appetite; the banking industry's profit margins remain under pressure. The cumulative interest rate cuts by SBP aggregating to 6.5% since August 2011 coupled with recent SBP directive to pay minimum profit rate of 6% on average savings account balances has further squeezed banking sector spreads.

- The government relied heavily on short-term borrowing from the banking system which increased commercial banks exposure to the dominant borrower (i.e., GoP) whereas the credit to private sector witnessed a net contraction of Rs 19.0 billion in FY13, which was in sharp contrast to the net expansion of Rs 235.2 billion in FY12.

OUTLOOK

- **The banking sector's outlook remains under pressure in view of the contraction in banking spreads, the challenging domestic operating environment, which will continue to pressure asset quality and rising cost of doing business.**

FOOD,BEVERAGES & CONSUMER PRODUCTS

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	6		
			2012-13	**2011-12**	
A.	**Industry Sales**	**Act**/Est	84,962	76,466	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act**/Est	10,481		
C.	**Financial Charges**	**Act**/Est	2,103		
D.	**PAT**	**Act**/Est	4,935		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act**/Est	51,671		
F.	*Current Assets*	**Act**/Est	16,469		
G.	*Cash & Bank Balances*	**Act**/Est	1,223		
H.	*Trade Debtors*	**Act**/Est	1,220		
I.	*Short Term Investments*	**Act**/Est	2,039		
J.	*Total Equity*	**Act**/Est	22,870		
K.	*Current Liabilities*	**Act**/Est	10,697		
L.	*Total Liabilities*	**Act**/Est	28,801		

FOOD, BEVERAGES & CONSUMER PRODUCTS

OPPORTUNITIES

- 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.

- 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.

- Thriving consumerism is leading the growth of food and beverage sector. With a combined weight of about 14 percent in the LSM index, the sector has once again lead the names of industries showing an increase in output.. Witnessing a steady growth, the sector has continued to gain momentum & the sector is likely to carry on with its current growth well into 2015.

- Engro Foods is continuing to invest heavily for expansion purposes. Key focus is powdered milk business, capacity expansion and cold chain infrastructure development.

- Last year, Pakistan exported $2.20 billion worth of rice and $360 million worth of fruits and vegetable, $227 million worth of fish and fish preparations, $97 million worth of meat and meat preparation and $41 million worth of spices on a global scale – shows the export potential of the local industry.

- 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

- Pakistani food products such as rice, spices, pickles, kheer, vermicelli, fried onion, cooking pastes, teas, preserves (murabas), wheat, mango, onion, potato, cereals, porridge, desserts (custard powder, jelly quick set, kheer mix, firni khas), corn flour, rice flour, pearl barley, laundry kulf and ice cream powder are in great demand in world. This has led to upward pressures within the food packaging and beverages industry. However, the players continue to enjoy high margins

- Many innovations have been seen in packaging, marketing and indeed content from local players in order to provide competition to packaged foods industry of MNC FMCG companies

- Global companies remain committed to build strong brands which deliver exceptional value to all of their stakeholders – Positive impact on internal cost and marketing rationalizations for their local subsidiaries

- 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).

- If network of transportation of farm products from field to storage is developed, then Pakistan can boost up its exports in the food international market.

- Consumerism has increased sharply in the recent times. The trend of large stores such as Metro, Makro, or Cosmo, add to the general trend and provide new channels of marketing.

- Globally, there are roughly 40 noodle suppliers in the merchant market who are predominately Asian suppliers. A huge opportunity therefore exists for local producers to develop as strong, future exporters.

- This will also make an increasing number of multinational companies to enter into a joint venture with the local manufacturers, thus opening up new markets and better technology giving a chance to innovation.

- These are increased awareness of hygiene and a sense for the usage of fancy consumer products – especially true in rural areas.

- Pakistani consumers show a much higher level of consumer confidence in the quality of locally made brands (of MNCs) as opposed to other sectors, and that most smuggled or import substitutes are financially not feasible for small or middle sized family purchasers.

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.

- Continued competition and the number of players in the industry may be significant over 2015; the price pressure on the Industry may begin to erode margins.

- Skyrocketing food prices are putting a tighter strain on household budgets. While nobody can deny the raw potential of the Pakistani consumer sector, a tense political environment and woeful business environment will continue to inhibit the consumer sector from reaching its potential over the coming decade.

- Security concerns will continue to discourage further investment into the sector by international players.

- The undeveloped distribution infrastructure and a fragmented retail industry complicate supply chain management and make brand building and product penetration a challenge – this has been amplified by the recent floods.

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

- At higher risk are smaller, local manufacturers, whose process costs and marketing dynamics are more stringently configured.

- 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.

- Some brands have become highly generic in nature, with little or no distinction on price, image or off-take (in urban). This has been very favorable to the consumer (by increasing choice and forcing prices downward) but has led to intensive price wars between producers.

OUTLOOK

- **Witnessing a steady growth, the sector has continued to gain momentum** & the sector is likely to carry on in growth mode. However, the macroeconomic conditions may erode the sector's profitability in the coming year. With essential raw materials becoming pricier, industry very likely to see some whittling away of margins. **Outlook**, however, **remains bright**.

GLASS & CERAMICS

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	5		
			2012-13	**2011-12**	
A.	**Industry Sales**	**Act/Est**	11,216	10,655	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	271		
C.	**Financial Charges**	**Act/Est**	507		
D.	**PAT**	**Act/Est**	10		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	14,761		
F.	*Current Assets*	**Act/Est**	4,793		
G.	*Cash & Bank Balances*	**Act/Est**	365		
H.	*Trade Debtors*	**Act/Est**	1,420		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	5,782		
K.	*Current Liabilities*	**Act/Est**	5,198		
L.	*Total Liabilities*	**Act/Est**	8,979		

GLASS & CERAMICS

OPPORTUNITIES

- 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.

- Pakistan's glass industry can plan for joint ventures for safety and automotive glass, while it has been exporting glass to Afghanistan at an increasing rate.

- Anti-dumping measures and penalties by the government on Chinese substitutes favorably impact local manufacturers.

- The existence of many small and medium sized players requires a period of consolidation in the industry, allowing it to me more competitive and invest in technology to boost its export potential.

- 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.

- The domestic demand for tile, sanitary ware and table ware is rising because of the rapid urbanization and construction of houses.

- Large export potential in sanitary ware in Middle East, Africa and Central Asia exists which can be exploited by using local expertise for manufacturing of machinery.

- Facilitation of supply chain collaboration is needed by the sector which will eventually help in meeting the demand of the product.

- Large surplus capacities in the international market exist in the form of production whereas in Pakistan the demand usually exceeds the supply.

THREATS

- The glass sector was negatively impacted by gas shortages in FY14. The overall glass production that is captured by LSM is based on the production of only four glass manufacturers, where two of these plants faced closures in FY14, on account of non-availability of gas.

- 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.

- Glass products have a continuous production process dependant on electricity and temperature control dependant on gas supply. The current energy crisis in the country has seriously threatened the margins of glass manufacturers.

- 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.

- Technology enhancements and investments into new technologies have been low and this will impact the industry's ability to compete locally as well as internationally.

- Low priced import from abroad remain a threat for the ceramic sector.

- Increasing regulatory pressures from the government and the international market about the standards and quality of the products being manufactured.

- In sanitary ware products gas cost makes up 40% of the total manufacturing cost, due to the inappropriate design of kiln and kiln furniture.

OUTLOOK

- The overall **outlook for the sector remains tenuous and uncertain** due to the overall GDP growth rate, power sector issues, inflationary pressures **offset by a more buoyant impact of likely growth in the construction sector.**

INFORMATION TECHNOLOGY

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	3		
			2012-123	2011-12	
A.	Industry Sales	Act/Est	9,725	9,848	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	-787		
C.	Financial Charges	Act/Est	1,124		
D.	PAT	Act/Est	-432		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	28,411		
F.	*Current Assets*	Act/Est	9,188		
G.	*Cash & Bank Balances*	Act/Est	1,850		
H.	*Trade Debtors*	Act/Est	4,542		
I.	*Short Term Investments*	Act/Est	33		
J.	*Total Equity*	Act/Est	3,132		
K.	*Current Liabilities*	Act/Est	15,587		
L.	*Total Liabilities*	Act/Est	25,279		

INFORMATION TECHNOLOGY

OPPORTUNITIES

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

- 2013-4 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 software exports from Pakistan in 2013 grew by 22% over 2012 and now stand at $333 million. The Ministry of IT has set a target to boost up the software exports to $1.2 billion by 2018.

- 2013-14 was also significant in the explosive growth 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 is in 2014, 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

- 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.

- 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.

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

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

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

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

- 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

- 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 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	213		
			2012-13	**2011-12**	
A.	**Industry Sales**	**Act**/Est	56,918	52,284	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	**Act**/Est	-157		
C.	**Financial Charges**	**Act**/Est	16		
D.	**PAT**	**Act**/Est	-158		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	**Act**/Est	211		
F.	*Current Assets*	**Act**/Est	166		
G.	*Cash & Bank Balances*	**Act**/Est	1		
H.	*Trade Debtors*	**Act**/Est	91		
I.	*Short Term Investments*	**Act**/Est	Nil		
J.	*Total Equity*	**Act**/Est	-589		
K.	*Current Liabilities*	**Act**/Est	789		
L.	*Total Liabilities*	**Act**/Est	-378		

LEATHER PRODUCTS

OPPORTUNITIES

- The country's Large Scale Manufacturing registered a positive growth of 2.48 percent in July-November 2014-15 over the corresponding period of 2013-14. The leather sector showed positive growth 0f 6.41 percent during July-Nov 2014-15 as compared to July-Nov 2013-14.

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

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

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

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

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

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

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

THREATS

- 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.

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

OUTLOOK

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

MACHINERY & EQUIPMENT

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	6		
			2012-13	2011-12	
A.	Industry Sales	Act/Est	33,177	37,343	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	-220		
C.	Financial Charges	Act/Est	1,797		
D.	PAT	Act/Est	-415		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	58,039		
F.	*Current Assets*	Act/Est	29,311		
G.	*Cash & Bank Balances*	Act/Est	1,154		
H.	*Trade Debtors*	Act/Est	7,397		
I.	*Short Term Investments*	Act/Est	75		
J.	*Total Equity*	Act/Est	24,137		
K.	*Current Liabilities*	Act/Est	23,658		
L.	*Total Liabilities*	Act/Est	33,902		

MACHINERY & EQUIPMENT

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.

- The country's Large Scale Manufacturing registered a positive growth of 2.48 percent in July-November 2014-15 over the corresponding period of 2013-14. The LSM industries that witnessed positive growth included electronics 8.58 percent.

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

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

- If a grant of Rs. 21.5 billion is approved by the government, then HMC will be able to manufacture power generation equipment in the country, this will eventually be helpful in fulfilling the increasing demand of electricity at low cost.

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

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

THREATS

- Less costly alternatives from 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 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	4		
			2012-13	**2011-12**	
A.	**Industry Sales**	Act/Est	40,060	38,057	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	Act/Est	-127		
C.	**Financial Charges**	Act/Est	2,610		
D.	**PAT**	Act/Est	93		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	53,266		
F.	*Current Assets*	Act/Est	17,821		
G.	*Cash & Bank Balances*	Act/Est	297		
H.	*Trade Debtors*	Act/Est	2,960		
I.	*Short Term Investments*	Act/Est	20		
J.	*Total Equity*	Act/Est	20,783		
K.	*Current Liabilities*	Act/Est	21,173		
L.	*Total Liabilities*	Act/Est	32,483		

METALLIC PRODUCTS (IRON AND STEEL)

OPPORTUNITIES

- The country's Large Scale Manufacturing registered a positive growth of 2.48 percent in July-November 2014-15 over the corresponding period of 2013-14. The major sectors, which showed growth during July-Nov 2014-15 as compared to July-Nov 2013-14 included iron and steel products, which increased by 24.58 percent.

- Led by capacity expansions, as well as rapid conversion to alternate energy sources, the privately run steel sector has positioned itself to grow strongly. After excluding the production of PSM, steel manufacturing posted a 18.1 percent increase in FY14, compared to the adjusted growth of 16.9 percent in FY13.

- 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.

- Three new plants namely Aisha Steel, International Steel and Tuwairqi Steel have started commercial operations in recent years. The newly established plants are running on captive powers as the sector largely immune to power generation.

- Economic Coordination Committee (ECC) has approved restructuring plan for Pakistan Steel Mill (PSM) amounting to Rs. 18.5 billion. The proper implementation of plan envisages to achieve operational capacity around 77 percent, able to pay all their liabilities and also earn monthly profit of Rs. 38 million onward from January 2015.

- Pakistan’s largest Reverse Osmosis (RO) Plant having a capacity of 6500 m3/day, was inaugurated recently at Tuwairqi Steel Mills Limited (TSML); the first private sector integrated steel manufacturing complex in Karachi. Tuwairqi Steel Mills Limited (TSML) is a subsidiary of Al-Ittefaq Steel Products Company a group company of Al-Tuwairqi of the Kingdom of Saudi Arabia, one of the leading business concerns and the second fastest growing group in the kingdom of Saudi Arabia.

- 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

- The deepening liquidity crisis in PSM eventually caused its operations to come to a complete standstill in November 2013, causing its share to decline in FY14. It is important to state that PSM is the sole producer of pig iron in the country, which is used as an input for making various steel products. Hence, the closure of PSM operations forced the steel manufacturers in the private sector to rely on imported pig iron.

- Pakistan Steel, facing an accumulated losses of Rs255 billion, has given only 13 percent production since July 1, 2014 to date against officials' claim of around 25 percent. Pakistan Steel Mills, a relic of state ownership threatened by losses and bloated costs, needs an additional bailout package from the government if it is to achieve production target of over 75 percent by February 2015. The government of Pakistan planned to give a major production boost ahead of the privatization of Pakistan Steel expected to happen in the first half of next year.

- During 2009-13, Pakistan Steel Mills (PSM) the avg. cost of imported materials amounted to $465 per tonne of steel with PSM currently selling at $575 per tonne, with a gross margin of $110. And this money has to cover all other expenses such as labour, capital, power, overheads, depreciation etc. These expenses amounted to $370 per tonne. So the real cost of producing a tonne of steel is $450 plus $370, which is $820 per tonne. This is against the average world price of $540 per tonne.

- 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 some growth** 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 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	4		
			2012-13	2011-12	
A.	Industry Sales	Act/Est	9,260	8,797	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	1,322		
C.	Financial Charges	Act/Est	292		
D.	PAT	Act/Est	1,030		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	9,723		
F.	*Current Assets*	Act/Est	4,601		
G.	*Cash & Bank Balances*	Act/Est	98		
H.	*Trade Debtors*	Act/Est	1,706		
I.	*Short Term Investments*	Act/Est	399		
J.	*Total Equity*	Act/Est	6,120		
K.	*Current Liabilities*	Act/Est	2,514		
L.	*Total Liabilities*	Act/Est	3,604		

PHARMACEUTICALS

OPPORTUNITIES

- The pharmaceutical sector showed positive growth 0f 3.26 percent during July-Nov 2014-15 as compared to July-Nov 2013-14.

- The pharmaceutical sector showed positive growth 0f 3.26 percent during July-Nov 2014-15 as compared to July-Nov 2013-14.

- Issuance of new licences 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.

- Rising demand for pharmaceutical and nutritional products in the country creates the need for the development of new and improved life-saving drugs.

- Forecasts predict that by 2016 Pakistan will be the 11th largest pharmaceutical market in the Asia Pacific region.

- 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.

- 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 almost equally divided between domestic and international companies. This shows the diversity in the industry and wide variety for the consumers in the market.

- Total pharmaceutical market is estimated at $1.6 billion, of which national pharmaceutical companies enjoy a share of 53 per cent.

- There exists market space for local players and means for them to explore the market by either setting up as independent bodies or as a joint venture with the existing multinationals.

- The un-regulated, homeopathic sector can be taken within the purview of the local manufactured industry, representing an enhancement in quality control and a potential market which may well be in excess of 36% of the urban population and 64% of the rural population.

- The industry remains highly liquid and retains strong growth and profitability for most of its segments.

- Patent retention ensures a very high rate of return for the Industry, and patent law protection ensure some, if not always adequate, 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.

- Local manufacturers, incurring local costs for synthesis and R&D (although limited), have a more favourable price to R&D ratio, as it is not incurred via exchange rate adjustments.

- Trade channels are improving on a constant basis, therefore costs resultant from marketing in direct-to-physician channel is incrementally changing.

THREATS

- The Pakistani pharma industry – subject to shrinking margins in the wake of stringent price controls - is about to take another hit; the Drugs Regulatory Authority of Pakistan (DRAP) has proposed a new average pricing policy which, if approved, could result in shrinkage of the pharma sector, according to media reports. The counter argument is that the government needs to loosen its grip on the pharma sector.

- Manufacturing of pharmaceuticals posted a 0.2 percent decline in FY14, compared to the 6.3 percent increase last year. This can be explained by the increase in raw material prices in the first half of FY14, following the depreciation in the PKR; and delays in announcing drug pricing policy in FY14. The profitability of listed pharmaceutical companies, presented a mixed picture in 2013: gross profit margins of six out of nine listed companies were squeezed in 2013, because of an increase in the cost of production.

- 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.

- Overall, intense price competition cannot be sustained for smaller players.

- Due to the nature of the products, very little indigenous R&D costs are incurred at the local level for Multinational Pharmaceutical companies; this means that their ability to pass on the international costs for R&D is prohibited by Government imposed price control and ceilings on their products.

- The biggest component of the value-chain in this Industry is R&D. Current estimates put the cost of a new drug by Pfizer (the world's largest concern) to be between 700 and 1.2 Billion US Dollars, with time-to-market being 10 to 15 years. This is a very vital core cost to be considered, as the Industry has to pass this to the consumer. However, this has always been a major point of contention and resisted aggressively by most developing countries including Pakistan. And rightly so. This, however, does curtail the industry to an extent.

- The pharmaceutical sector has been governed by the Drugs Act 1976 and the Rules framed there under and implemented by the Ministry of Health (MoH). For the MoH, whose mandate is much larger and includes medical education, establishment and supervision of the health care institutions etc; the drugs industry has so far been regarded as of secondary importance with its focus only on drugs control – Therefore a degree of Ad-hoc regulatory control exists with the potential to cause losses to industry.

- It lacks a proper regulatory policy body on the lines of OGRA for the oil and gas sector.

OUTLOOK

- Having **being faced a tighter regime of fixed pricing mechanism**, the only way for the industry to perk up its fortune seems to be the restructuring of industry's operational processes to take advantage of cost efficiencies and focusing on high margin products to boost profitability margins. **Nevertheless, the industry is likely to continue its growth trajectory though the local margins are likely to remain constrained.**

SPORTS PRODUCTS

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	300		
			2012-13	**2011-12**	
A.	**Industry Sales**	Act/Est	33,422	33,802	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	Act/Est	5		
C.	**Financial Charges**	Act/Est	1		
D.	**PAT**	Act/Est	3		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	217		
F.	*Current Assets*	Act/Est	153		
G.	*Cash & Bank Balances*	Act/Est	16		
H.	*Trade Debtors*	Act/Est	23		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	181		
K.	*Current Liabilities*	Act/Est	35		
L.	*Total Liabilities*	Act/Est	35		

SPORTS PRODUCTS

OPPORTUNITIES

- The exports of sports products from the country witnessed increase of 14.5 percent during the first five months of the current fiscal year compared to the corresponding period of last year. The overall exports of sports goods were recorded at $136.166 million during July-November (2014-15) compared to the exports of $118.853 million during July-November (2013-14). The sports products that contributed in promoting country's trade positively included footballs, exports of which witnessed increase of 12.36 percent.

- Exports of all sports goods mounted by $22.615 million (7.49 per cent) to $324.697 million in July-May 2013-14 from $302.082 million in the same period last fiscal year. During July-May 2013-14, the country's export of football surged by $45.753 million (35.12 percent) to $176.014 million from $130.261 million in the same period last fiscal year.

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

- The 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.

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

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

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

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

- Pakistan's eastern city of Sialkot has been a major source of sports goods for international sporting events for decades. Recent exports of sports goods have fallen to an average $290 million from $343 million over the past four years because of the decline in Pakistan's share in international markets, according to Pakistan's Federal Bureau of Statistics.

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

THREATS

- Soccer ball industry needs footballs manufacturing technology of Europe as the decades-old methods are hurdle in enhancing soccer ball exports. The soccer ball industry of Sialkot remained behind the new manufacturing technologies following the changing of global trend. The industry is facing multiple problems including lack of advanced manufacturing technology and upgradation and modernisation of the industry.

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

- Unbridled load- shedding and growing security concerns in the country have made this industry highly cost competitive and quality conscious.

- 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.

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

- The manufacturing in sports goods sectors is largely done under the brands of foreign companies, and the results in lower prices for manufacturers in these sectors. 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. This trend is further reinforced by the declining value of rupee against major currencies. **Outlook remains fairly positive and upbeat.**

SUGAR

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	16		
			2012-13	**2011-12**	
A.	**Industry Sales**	**Act**/Est	93,933	84,152	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act**/Est	3,462		
C.	**Financial Charges**	**Act**/Est	3,317		
D.	**PAT**	**Act**/Est	2,587		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act**/Est	67,426		
F.	*Current Assets*	**Act**/Est	29,342		
G.	*Cash & Bank Balances*	**Act**/Est	55,744		
H.	*Trade Debtors*	**Act**/Est	20,590		
I.	*Short Term Investments*	**Act**/Est	2,804		
J.	*Total Equity*	**Act**/Est	21,739		
K.	*Current Liabilities*	**Act**/Est	29,937		
L.	*Total Liabilities*	**Act**/Est	45,687		

SUGAR

OPPORTUNITIES

- Driven by record sugarcane production, sugarcane crushing posted a 10 percent growth in FY14, despite higher carryover stocks from last year and depressed domestic prices. In fact, higher production of sugar created some excess supply in the market. To counter the impact of excess supply, the government purchased sugar through TCP, and allowed sugar mills to export the surplus. Surprisingly, the sugar export quota for FY14 was set at a lower level than last year. Hence, sugar exports recorded a 39.0 percent quantum decline during FY14, compared to the previous year.

- Sugar production rose again in FY14. Sugar production grew by 10.9 percent in Jul-Mar FY14, compared to 3.0 percent in the corresponding period of last year. A better sugarcane crop, and timely crushing, was the key reason for this improved performance. The timely commencement of crushing can be traced to a better understanding between the government and sugar mills. More specifically, given that most sugar mills were facing a shortage of liquidity at the start of crushing season due to excessive carryover stocks, the government not only purchased part of this stock through TCP, it also allowed sugar exports on condition that mills in Sindh and Punjab would commence crushing on 1st and 15th of November, respectively. The crushing reached its maximum in the month of January 2014, against the normal peak in February (Figure 2.1). As mentioned earlier, the impact of this change in the crushing cycle was reflected in later months when the YoY growth of sugar became negative in both February and March 2014.

- The government has announced tax incentive on the export of sugar by drastically reducing Federal Excise Duty (FED) from 8 percent to 0.5 percent on local sale of sugar equivalent to additional quantity (500,000 tons) actually exported by the sugar mills as per assigned export quota.

- 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.

- Ministry of Food and Health and other concerns have ensured higher prices to the sugar cane growers ensuring a measure of revenue increment for the Industry.

- 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).

- 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.

- 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.

- Pakistan's sugar recovery percentage is really low compared to other nations. If the sector manages to improve its ratio by only 2-3%, it will become an International Industry player leading to better results for the sector.

- The ministry of food, agriculture and livestock (MINFAL) is in consultation with the Pakistan Sugar Mills Association (PSMA) strives to increase sugarcane productivity and the capacity of sugar mills which is currently operating at 50 percent. Overproduction might be an issue, it is sufficiently catered by exporting the excess amounts to international markets, attracting huge foreign exchange amounts.

- The quality of sugar currently produced is not as good as other international sugar producing countries. With better technological resource availability, the quality of the sugar can be improved to match international standards.

THREATS

- The unsold stock caused liquidity pressures for sugar mills, which restricted retirement and increased credit appetite for working capital in FY14, compared to last year.

- The sugar industry which was already facing problems due to the increase in sugarcane prices was burdened further when the government announced to increase the sales tax from 3.50 per cent to 4 per cent. As a consequence of the increase in sugarcane price as well as the sales tax, the overall production cost has been increased, while on the other hand, the import of sugar from India at relatively low price is posing a serious threat to the survival of the local sugar industry.

- Sugar exports declined in FY14 mainly due to a shift in government policy. Specifically, despite an estimated sugar surplus for the third consecutive year, the government reduced the export limit from 1.2 million ton in FY13, to 0.75 million ton in FY14, keeping in view lower stocks available with sugar mills. In addition, the government also withdrew incentives it gave last year including the reduction in FED, and disbursement of inland freight subsidy to sugar exporters.
  Source: SBP Annual Report 2013-14

- Competition is emerging in the sugar sector. At present there are 88 sugar mills nominally in existence in the country which are divided into north and south region.

- Strict check on the smuggling of Gur to neighbouring Afghanistan would help boom crushing and production of sugar.

- 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.

- Support pricing is in turn hurting production units - sugarcane prices were fixed with the increase of 25% by the Government in the last year with the consideration to provide incentive to the growers.

- Although the acreage under cane and the number of sugar mills increased substantially in the country as compared to the base period of 1948, the levels of cane yield per unit of land and the recovery rates have shown no ostensible improvement over time. Stagnant yields ensure the industry always has to cope with cost pressures.

- Price adjustments are made against import price during years of supply shortages, and this can have abrupt and artificial changes to the price of sugar for local purchasing parties.

- 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.

- Disagreements between growers and mills continue to over-shadow the industry every 2 to 3 years, resulting in closures and under-capacity production.

- Gur Ghanis have emerged as tough competitors of sugar mills in the best quality sugarcane areas of the country. The growers prefer to supply their crop to Gur Ghanis, which has a good market in neighboring Afghanistan.

- One of the biggest threat that this sector faces is of sugarcane shortage. With a recent history of flooding, the sector faces a threat of raw material shortage.

- With the increase in demand, the sugar production cannot be catered by relying only on sugarcane. Currently this is the only backup of the sector due to which it often faces shortage. This lowers the total tcd (tonnes of canes crushed per day) count leading to shutdown of majority of sugar mills.

- The policy of claiming NOC (no objective certificate) from investors is casting a bad shadow on the sector making it slightly unattractive for investment.

- Political influence and feudal system in the country has been affecting this sector adversely. Such influences lead to unequal distribution of raw materials making few mills to perform extremely well while making others dip in deep waters.

- One of many big threats that this sector faces is the bureaucratic hurdles that are created in exporting of sugar to international markets.

- Governmental policies and regulations are self-contradictory which causes the frequent shortage in supply and increased prices. It is a known fact that several political figures own the majority sugar mills and therefore they control how it is passed on to the middle men.

- 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 shortfalls. The major chunk of the crisis that we see is often considered to be caused by these artificial factors.

OUTLOOK

- Despite input price support issues as well as price regulation, the **industry is expected to show growth during the coming years, barring any major crop** failure due to floods. **Outlook is positive.**

SURGICAL, PRECISION EQPT

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	230		
			2012-13	2011-12	
A.	Industry Sales	Act/Est	30,353	30,394	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	4		
C.	Financial Charges	Act/Est	1		
D.	PAT	Act/Est	2		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	152		
F.	*Current Assets*	Act/Est	107		
G.	*Cash & Bank Balances*	Act/Est	11		
H.	*Trade Debtors*	Act/Est	16		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	127		
K.	*Current Liabilities*	Act/Est	25		
L.	*Total Liabilities*	Act/Est	25		

SURGICAL, PRECISION EQUIPMENT

OPPORTUNITIES

- The exports of surgical goods and medical instruments registered 2.67 percent growth during first five months of current financial year as compared to the corresponding period of last year. During the period from July-November, 2014, surgical goods and medical instruments worth $138.249 million exported as compared to $134.65 million exported same period of last year.

- Exports of surgical goods and medical instruments during FY 2013-14 registered an increase of 11 per cent as compared to last year. Surgical goods and medical instruments worth $ 335 million were exported during FY 2013-14 against $ 303 million exported during FY 2012-13.

- The European Parliament has granted GSP (Generalised Scheme of Preferences) plus status to Pakistan which will allow almost 20 percent of Pakistani exports to enter the EU market at zero tariff and 70 percent at preferential rates. EU trade concessions will benefit the country's export oriented industry the most by enabling its products to compete with those of regional rivals which already have duty-free access to the bloc's market. The status will prove to be of great benefit to Pakistan's exporters who will now have access to 27 European countries without having to pay duties.
- Pakistan is manufacturing two types of Surgical Instruments:
  - Disposable instruments, which constitutes 60% of our exports.
  - Reusable instruments, which is 40% of our exports.

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

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

- There are about 900 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. The industry manufactures about 100 Million instruments annually.

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

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

- 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.

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

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

- 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.

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

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

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

OUTLOOK

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

TELECOMMUNICATIONS

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	5		
			2012-13	**2011-12**	
A.	**Industry Sales**	**Act**/Est	90,730	71,023	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act**/Est	16,288		
C.	**Financial Charges**	**Act**/Est	2,112		
D.	**PAT**	**Act**/Est	9,887		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act**/Est	210,625		
F.	*Current Assets*	**Act**/Est	82,583		
G.	*Cash & Bank Balances*	**Act**/Est	10,021		
H.	*Trade Debtors*	**Act**/Est	23,876		
I.	*Short Term Investments*	**Act**/Est	12,300		
J.	*Total Equity*	**Act**/Est	100,153		
K.	*Current Liabilities*	**Act**/Est	60,981		
L.	*Total Liabilities*	**Act**/Est	110,472		

TELECOMMUNICATIONS

OPPORTUNITIES

- The broadband subscription in the country has depicted a growth of over 40 percent during last year, reaching 3.79 million subscribers mark as compared to 2.72 million during 2013.This means 1.07 million new subscribers joined broadband networks during the year. The growth rate of broadband industry had been declining, however, the trend has reversed during 2014. This is also supplemented by the fact that for the first time, broadband market has added over a million subscribers in a fiscal year which is a welcome sign for future.

- Services sector posted a 4.3 per cent growth during FY14 as against the target of 4.6 per cent. FY14 growth in services is also lower than last year, in which it registered a 4.9 per cent growth. The growth in communication came mainly from value-addition in cellular segment. According to PTA, cellular companies operating in Pakistan earned revenue of Rs 440.2 billion in FY 2012-13, which is the highest recorded. The auction for licenses for 3G/4G spectrum is likely to boost revenues in this segment of the telecom sector.

- The net inflow of FDI during May 2014 in the telecom sector was from China-$547.2 million. This could be partly due to investment for 4G license from Zong, a mobile phone network based in China.

- The auction of 3G telecoms licenses were launched on April 2014. The auction raised $1.1 billion, of which $516 million, i.e. about half was received in foreign currency in this quarter. The remainder will be paid by firms in the next financial year.

- Both China and telecommunications industry have lately been a major chunk of Pakistan's FDI following the 3G+4G spectrum auction last year. China accounted for 55 percent of gross inflows in 1HFY15; Telecoms also accounted for 55 percent of gross inflows in the period.

- In developing countries, wire line (or fixed) technologies are being replaced by wireless - after all, wireless offers a solution of fast urban scalability. Pakistan is on a similar path, where its total tele-density is over 77 percent, thanks to the 74 percent cellular tele-density. Wireless technologies have increased their market share to 63.1% at the end of June, 2014 while fixed line technologies hold 36.9% share. This market situation is in stark contrast to the global technology trends where fixed line dominates the broadband market in most of the countries.

π With an enabling regulatory environment, the cellular mobile companies are actively pursuing their mobile banking initiatives in collaboration with the financial institutions. New players in the m-banking market can expand the existing base of m-banking network if a healthy competition in the market reduces the cost of m-banking transactions and new products and business models are launched while considering the consumer requirements.

π Cellular connectivity remains the primary driver of coverage, revenues and taxes in the telecom sector. Operators have expanded to over 90 percent of the geographical landscape and are offering telecom services (fixed line, wireless and mobile telephony) to nearly 76 percent of the population by September end. Cellular subscriptions grew by over 7 percent, in a highly saturated market, to reach 129 million in the year ending June 2013. Telecom revenues surged by nearly 9 percent year on year to Rs445.7 billion in FY13.

THREATS

θ The current security drive and emphasis is negatively impacting the industry for obvious reasons. With 11 millions SIMs put out of circulation due to non-verification this is likely to have a negative impact of net revenue growth. However, the upshot is closure of redundant SIMs as well as rationalization and more accurate customer profiling for more effective marketing.

θ As per the latest Pakistan Telecommunications Authority (PTA) annual report, cellular sector's average revenue per user or ARPU fell by nearly 6 percent year-on-year in FY14 to Rs199 per month. That figure suggests annual revenues of Rs323 billion and year-end subscriptions of 135 million.

θ Communication services, continued to decline in FY14 as well. Several factors impacted the telecommunication sector: increased competition amongst service providers (which has pulled down average revenue per user) higher tax incidence; strict regulations on the sale of new SIMS; and sluggish income growth during the last few years.

θ The cost of the services provided increases in proportion to the tax deducted by the government. The cost of the call has taxes that are deducted and hence they add up in the cost of single telephone call. The costs of the call is added up in the telephone call and other value added services provided to the customer.

OUTLOOK

υ Core margins are expected to erode due to stiffer competition and an increasingly stringent security related regulatory environment – from greater security checks on issuance of new SIMs to increasing security driven shutdown of cellular networks. However, the **industry remains adaptable with an ever increasing emphasis on VAS (Value Added Services) would continue its positive growth trajectory.** Going forward, it is expected that telecommunications will gather pace with the launch of 3G/4G technology and introduction of new facilities like domestic fund transfer by cellular companies that is being done in collaboration with commercial banks. **Outlook remains positive in the medium term though this year could see a dip on account of SIM closures.**

TEXTILES-COMPOSITE

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	24		
			2012-13	2011-12	
A.	Industry Sales	Act/Est	212,360	176,381	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	11,835		
C.	Financial Charges	Act/Est	8,648		
D.	PAT	Act/Est	9,694		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	229,907		
F.	*Current Assets*	Act/Est	103,334		
G.	*Cash & Bank Balances*	Act/Est	3,114		
H.	*Trade Debtors*	Act/Est	27,578		
I.	*Short Term Investments*	Act/Est	5,496		
J.	*Total Equity*	Act/Est	112,708		
K.	*Current Liabilities*	Act/Est	94,207		
L.	*Total Liabilities*	Act/Est	117,200		

TEXTILES - COMPOSITE

OPPORTUNITIES

- The European Union (EU) has granted Pakistan with the GSP (Generalized Scheme of Preferences) plus status. This will allow most of the country's products to enter EU markets at zero duty. The textile exports to EU are expected to increase by two billion dollars as a result of this facility. The year 2013 was even otherwise good for the textile sector as China, the largest global textile exporter, is opting out of basic textiles i.e. fabric & yarn. Pakistan is expected to increase its yarn & fabric exports to Asia and clothing exports to the EU and United States. It is expected that textile exports, as a result of these two opportunities, would cross $16 billion this fiscal year, a jump of three billion dollars in a year.

- The textile exports from the country increased by one percent during the first seven months of current fiscal year against the exports of same period of last year. The overall textile exports during July-January (2014-15) were recorded at $8.096 billion against the exports of $8.016 billion during July-January (2013-14).

- Textile exports surged to $13.74 billion during previous financial year 2013-2014 mainly because of the GSP Plus status granted to Pakistan by the European Union (EU). The country exported textile made commodities worth $13.74 billion during last fiscal year (July 2013 to June 2014) as compared to $13.05 billion of the preceding year (July 2012 to June 2013). The country's textile exports have shown increase of 5.3 percent during previous fiscal year. The main reason behind increase in textile exports is GSP plus status effective from January 2014. Textile exports to the European Union (EU) registered an increase of 18 percent reaching the figure of $5 billion for the first time due to the GSP plus status given by the EU, while textiles exports to the rest of the world declined by 3.5 percent. Under the new proposed textile policy (2014-19) value-added textile sector would be incentivized. According to the policy, textile export would be increased to $26 billion in next five years.

- Pakistan's exports to 28-member European countries- European Union (EU) witnessed a growth of 15.76 percent ($333.18 million) under the autonomous trade preferences on 75 products from January to April 2014. In absolute terms, under Generalised System of Preference (GSP) plus status the export proceeds to EU of the 75 products reached $2446.52 million in January to April 2014 period of 2013 from $2113.34 million over the corresponding period of last year. The sector wise break up oft exports revealed textile remained the major beneficiary of the GSP plus arrangement. Pakistan's exports of textiles to EU increased from $1.44 billion during January-April 2013 to $1.74 billion during the same period in 2014. There has been an increase of $300 million in our exports of textile product to EU during the first four months of 2014 as compared to the same period in 2013.

- The growth in textile exports can entirely be attributed to higher export quantums, as the price impact remained negligible. During the first nine months of FY14, Pakistan exported higher volume of yarn, cotton fabrics, knitwear, bed-wear and readymade garments. Improvement in energy supply and opportunities from GSP Plus enabled the textile sector to increase production and its export business. Although GSP plus is not restricted to textiles, Pakistani textiles are better placed to benefit from this facility, due to its established infrastructure, expertise in global trade, and specialized manpower. Nevertheless, these benefits can only be realized fully if the sector gets adequate supply of energy and other raw materials – especially cotton. However, there is also a risk to the sector, as safeguard measures introduced by the EU, do not leave much room for our existing export base, which is highly concentrated in terms of commodities. Thus, Pakistan needs to focus on diversification of its exports to maximize the benefits from GSP plus status in the medium to long-run

THE BIG PICTURE – PAKISTAN AND THE GLOBAL TEXTILE SCENARIO

- There is a considerable gap between Pakistan's fourth ranking among the leading cotton producing countries, and its tenth place slot among the leading textile exporting countries.

- It seems likely that over the next several years relatively few large textile exporting countries, as opposed to the 40 plus exporting countries today, will remain viable – Pakistan being one of the key players.

- The break-up of the value added categories clearly shows that the local industry is primarily a back end player, relative to other major textile countries, with one-third of the value vested in basics such as yarn and woven fabric and lagging way behind in the final and product categories, mostly apparel categories. However, the relative strength is in made-ups, where it has a considerable relative edge to other textile countries.

- Key conclusions of a March 2007 Bench-Marking Study commissioned by Ministry of Textiles and done by an international consultant based in Zurich. It involved cost bench marking with China, India, Bangladesh, Egypt, Indonesia and Vietnam.

  Manufacturing cost of (Pakistani) yarn has been lower due to lower power/utility costs and relatively lower wages. However, recent hikes have eroded and more or less neutralized this advantage. The lower wages, however, were already offset due to significantly lower worker productivity.

- Pakistan's spinning sector caters not only to the requirements of the domestic industry but about one third of the total production of yarn is also exported. Local industry is a major back end player as compare to other textile counties

- International statistical reports on the fabrics sector reveals the growth in application of fabric in all sectors of textile manufacturing and more so in the production of mixed textiles. This is the most dynamic segment of Textile Industry.

- According to the report the globalization and changing economic order of the world have triggered the rate at which relocations of the manufacturing enterprises to 'lowest cost-to-produce' countries are happening. The main players of global fabric manufacturing industry includes the countries like China, India, Turkey, Bangladesh, Pakistan, Vietnam, Indonesia. However, investment in Pakistan is severely hampered by law & order issues, it's international image & poor macro indicators.

- Increase in vertical linkages in the recent times by expansion of composite units which have more availability of debts.

- Fabrics export to Bangladesh may continue to support this sector in Pakistan. In January 2011, European Union eased rules of origin for textile import from Bangladesh: according to revised rules garment manufacturers in Bangladesh can avail generalized system of preferences (GSP) benefits even if they use Pakistani fabrics as input. This caused an increase in fabrics export to Bangladesh.

GLOBAL COMPETIVE DYNAMICS

- The key issue facing textile industry as a whole in Pakistan, before the global downturn and post-quota was its small scale nature relative to new economies of scale that have been ushered in via the rapid Chinese textile expansion. The medium to small size players now tend to even lag behind firms from Bangladesh and Sri Lanka in production capacity apart from China and India.

- In the value addition chain Pakistan's industry lags considerably behind China which can be and should be considered as a benchmark, being the market leader in the field. Relative to the value of the cotton crop Pakistan's total textiles export is about 3.8 times the value of its cotton, which compares quite adversely to China's 7.3 times, Turkey's 6 times and India's 5.3 times their respective cotton crop value.

- The percentage break-up of the value added categories clearly shows that the local industry is still primarily a back end player with one-third of the value vested in basics such as yarn and woven fabric and lagging way behind in the final and product categories

- Prices, in general, are under pressure and are expected to continue the downward trend. This is further compounded by increased pressures on the prices given periodic expectations of weakening of the US dollar & Euro thus eroding the rupee margins even further.

- With margins under squeeze, amid growing global competition, it is likely that this will translate into greater vertical integration with growing emphasis on apparel and home textiles. The ensuing economies of scale, will however, make the smaller apparel players non-competitive leading to considerable turmoil, change and business closures.

- Absence of some sort of a wide-ranging strategic link up with China given Pakistan's unique relationship with it. This is an aspect that needs a serious assessment for possible/potential synergies, partnerships and/or even integration.

- Key conclusions of a March 2007 Bench-Marking Study commissioned by Ministry of Textiles and done by an international consultant based in Zurich. It involved cost bench marking with China, India, Bangladesh, Egypt, Indonesia and Vietnam.

    - Manufacturing cost of yarn has been *lower* due to lower power/utility costs and relatively lower wages. *However, recent hikes have eroded and more or less neutralized this advantage. The lower wages, however, were already offset due to significantly lower worker productivity.*

    - 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.

    - Technological obsolescence in open end spinning and shuttle-less weaving.

- The weakest links in the textile chain are:

    - quality assurance to insure consistent quality flow through to final product (i.e. made ups, home textiles and apparel and an even bigger issue in the knits)

    - non-vertical and non optimal cost/production structures resulting in higher, non competitive cost levels,

    - these two factors translate practically into a limited ability to handle larger optimal volumes (that the buyers now demand), limited product range (except made ups and that too in a relative sense) and inconsistent quality.

- these crucial shortcomings are further compounded by marketing deficiencies to compete effectively in the post quota freer trade environment that requires aggressive and pro-active sales and marketing efforts.

- Infrastructural bottlenecks include:

  - High utility & wage costs (the conversion cost advantage has been largely lost due to recent surges in both utility and wage costs)

  - Higher cost of debt (interest rate differentials) further compounded by the high debt equity ratios due to past mismanagement of funds/resources i.e. resulting in low to negligible debt servicing ability and debt appetite.

  - Lower average productivity (which is a complex factor and is not simply on account of lack of training, as is typically alleged, but is a deeper and more ingrained social malaise. This is further compounded by the absence of incentive/achievement remuneration and the low quality mid level management)

ONGOING ENERGY CRISIS

- Tariff hikes and heavy load shedding has put the industry under pressure.

OTHER FACTORS

- The major competitors are wide spread across various countries including India, Italy, and Bangladesh. There are, however, many small and mid-sized international players that continue to pose a threat to Pakistan's composite export.

- The industry has been slowly losing ground in the world-market, much of it due to energy shortages and very high cost of inputs. The industry continues to suffer from other internal productivity issues, leading to an erosion of its competitive place in the world market.

- The industry has also been impacted by the residual effect of a slowdown in consumer spending in Western markets.

- The industry has not managed to invest in alternative sources of energy generation, and need to look into the payback periods of thermal and solar energy solutions.

- The industry continues to remain unable to compete on economies as seen in China, and this will remain a major threat to global competitiveness.

- Areas such as quality assurance, weak integration of the supply chain, a limited product range and marketing deficiencies will continue to impede growth in the sector.

- Pakistan textile sector maintains a low 3.8 value ratio to its cotton production, highly uncompetitive compared to India (5.3), China (7.3) and Turkey (nearly 6).

- China's prominence as an exporter continues to threaten the sector.

- Considerable tariff hikes (gas as well as electricity) and wage costs have been witnessed in the Fabrics sector

- There exist a lot of obsolete processes and technology currently in the sector, which, coupled with yarn qualities, requires a major overhaul and up-gradation

- Many textile units are relocating to Bangladesh because the government is nurturing its textile sector, and they have been able to achieve major targets like;

    - Low wage rate, plenty of energy supplies at accommodating rates.
    - They have zero rated duty structure.
    - Their government has implemented policy of "cash incentive" of 5% for their knitting sector that means they do not have to pay any such duty but in fact the government pays them cash over their earnings which is far attractive for the industrialists to invest in Bangladesh.
    - Also, they have a safe environment and sound law and order situation, unlike Pakistan.

- Anti dumping policies imposed by major importers.

- Non tariff barriers may increase such as standards relating to child labor, human rights, and wages and working conditions, use of carcinogenic chemicals, inflammable materials, etc.

- Lack of international marketing & selling efforts.

- Less awareness in acquiring international quality certifications.

- Increased competition from India, China, Turkey, Caribbean & Sub-Saharan countries and others who have preferential trade arrangements with major importing countries.

- Energy crisis coupled with reduction in global demand for clothing, apparel and synthetic fiber inputs will continue to put this sector under severe pressure.

OUTLOOK

- Higher regional demand culminating into rising exports and firm cotton prices stands out as the chief contributors to the multifold increase in the profitability of the country's textile sectors. **The overall outlook for textiles in general is tenuous at best primarily driven by lower demand on account of emerging and likely slowdown in global demand due to recessionary conditions in EU and Japan** and stiffer international competition. For the spinning sub-sector, however, windfall margins & sales are likely to stretch.

TEXTILE INDUSTRY: A STRATEGIC ASSESSMENT – IT'S OPTIMAL PATH TO GROWTH

This is a brief, though pointed, assessment of the current state of the textile industry highlighting the key issues that form the contours of the crises that the industry finds itself in time and time again and the optimal way forward. The focus here is on the longer term strategic path for the industry in conjunction with, and spearheaded by, Government of Pakistan. It covers:

- Industry's comparative placement
- Key issues
- Key opportunities (potential & possible upsides)
- Industry's strategic path – the blue print for rapid sustainable growth
- Practical and policy measures

INDUSTRY'S COPMARATIVE PLACEMENT – MAIN POINTS TO NOTE

- The relative strength is in made-ups, where it has a considerable relative edge.

- In the value addition chain Pakistan's industry lags considerably behind China which can be and should be considered as a benchmark, being the market leader in the field. Relative to the value of the cotton crop Pakistan's total textiles export is about 3.8 times the value of its cotton, which compares quite adversely to China's 7.3 times, Turkey's 6 times and India's 5.3 times their respective cotton crop value.

- The percentage break-up of the value added categories clearly shows that the local industry is still primarily a back end player with one-third of the value vested in basics such as yarn and woven fabric and lagging way behind in the final and product categories, mostly apparel categories.

- 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.

- Technological obsolescence in open end spinning and shuttle-less weaving.

- Infrastructural support by China primarily in the form of textile zones/parks, training and cheap (and 'soft') debt.

THIS CLEARLY BRINGS OUT THE FOLLOWING STRATEGIC IMPERATIVES:

1. Value addition needs to be aggressively pursued, which by definition means knit and woven apparel (that are mostly part of larger vertical set ups)

2. Significant expansions in production capability – at optimal vertical and horizontal levels i.e. significantly greater than what it is now (to keep pace and grow export volume)

3. Determine and address causes that have prevented the industry in moving this direction in accordance with its natural, comparative, potential.

THE KEY ISSUES IN TEXTILES

Causes that have prevented the industry in optimizing its natural, comparative, potential

- Prices of end products, in general, have been under pressure since the last few years in the post quota environment and are expected to continue the downward trend, though to a lesser extent. This is further compounded by increased pressures on the prices given periodic expectations of weakening of the US dollar (or at the very least its inability to strengthen *vis-à-vis* the rupee – something that the exporters as rule prefer and even expect) thus eroding the rupee margins even further.

- The weakest links in the textile chain are:
  - quality assurance to insure consistent quality flow through to final product (i.e. made ups, home textiles and apparel and an even bigger issue in the knits)
  - non-vertical and non optimal cost/production structures resulting in higher, non competitive cost levels,
  - these two factors translate practically into a limited ability to handle larger optimal volumes (that the buyers now demand), limited product range (except made ups and that too in a relative sense) and inconsistent quality.
  - these crucial shortcomings are further compounded by marketing deficiencies to compete effectively in the post quota freer trade environment that requires aggressive and pro-active sales and marketing efforts.

  - infrastructural bottlenecks include:

    - High utility & wage costs (the conversion cost advantage has been largely lost due to recent surges in both utility and wage costs)

- Higher cost of debt (interest rate differentials) further compounded by the high debt equity ratios due to past mismanagement of funds/resources i.e. resulting in low to negligible debt servicing ability and debt appetite.
- Lower average productivity (which is a complex factor and is not simply on account of lack of training, as is typically alleged, but is a deeper and more ingrained social malaise. This is further compounded by the absence of incentive/achievement remuneration and the low quality mid level management)

- Chinese factor. The major threat and competition for all textile exporting countries including Pakistan comes from the new standard bearer in textiles – China. Chinese producers offer integrated value-added manufacturing resulting with a much higher volume capability, product range, and quality assurance. Pakistan is facing stiff competition from China in exports to US and increasingly to EU as well. As part of a *quid pro quo* EU is also starting to make inroads into the large Chinese market it will give concessions to China in textiles. The most crucial factor behind swift Chinese growth are the high volume vertically integrated structures that assure consistent quality, a wide product range at a highly competitive cost.

- A degree of uncertainty lies in the near future for the textile industry as a whole, and made-ups (and apparel) in particular. Whereas on the one hand quota regime stands abolished, on the other hand 'softer' control mechanisms such as anti-dumping and countervailing duties, increased customs checks to ensure that trans-shipment activities do not take place, rigorous application of standards to prevent child labor and compulsion to adapt eco-labels, will be continue to be some of the key drivers and trade parameters determining exports of textiles in the years to come.

THE KEY ISSUE IN TEXTILES – IN A NUTSHELL

- The current textile crises is indeed a major one and represents the most significant turning point in its entire history. This is a crises that is a natural outcome of the post quota environment and in line with what we had forecast in 2004 (see IRA's Textile Reports of Mar and July 2004). The natural market driven response will be an across-the-board rationalization which is now starting to take hold and will accelerate over the next few years. This process of change will likely result in considerable re-adjustment and re-alignment (and consequently turmoil) within the industry to adapt to the new rules of stiffer competition over price, volume, product range, and consistency of quality. Rationalization will specifically entail: increases in capacity for finished products (made ups and apparel) i.e. value added processing, vertical expansions and integrated setups, quality control investments and developing niches resulting in very large composite integrated setups. The already integrated units would end up much bigger in size and stature. This, however, will happen at the expense of stand alone small to medium sized spinning, weaving and apparel units that are likely to face closure.

KEY OPPORTUNITIES (POTENTIAL UPSIDES)

- It seems likely that over the next few years relatively few large exporters, as opposed to the 40 plus exporting countries today, will remain viable – Pakistan being one of the key players.

- There is a considerable gap between Pakistan's fourth ranking among the leading cotton producing countries, and its tenth place slot among the leading textile exporting countries. With the un-natural quota ceilings out of the way, and a will to implement greater economies of scale via optimal size and/or vertical expansions, the country is reasonably positioned to *capitalize* on this opening and close the gap.

- Indications from major buyers continue to indicate a strengthening of Pakistan's strategic position in the global made-up and textile markets. The biggest impact between 2005 and 2010 will be that most of textile and apparel production will focus around low-cost labor and raw materials countries such as China, Pakistan and India.

- Expansion of the larger composite units and/or acquisitions. This will means debt and M&A opportunities with the top end and mid-level textile groups.

- Up till now China has been viewed purely from the perspective of a competitor. However, given Pakistan and China's unique strategic relationship this need not be the case. This is an aspect that needs a serious assessment for possible/potential synergies, partnerships, JVs and/or integration of the two textile industries specially now in light of the timely FTA between the two countries.

INDUSTRY'S STRATEGIC PATH
Inclusive of GOP and financial sector's role

There are two parallel tracks that have to be traversed strategically. One of them is inevitable, which is rationalization, while the other consists of a unique opportunity – one which is not open to other textile industries and if capitalized upon will lead to a pre-eminent global position and market share.

I. RATIONALIZATION

- This is now an inevitability that's starring the industry in the face.

- The local industry which essentially has a cottage structure relative to the highly cost efficient, large-scale vertical structures that have emerged (mainly in China) is being, and will continue to be, forced to become large-scale and vertical.

- This will happen <u>at the cost of medium to small sized spinners, stand alone weavers and apparel concerns.</u>

- This process will either take a 'natural' route – involving bankruptcies, much hardship, chaos and considerable losses, impacting the financial sector as well, <u>or it can be managed and facilitated in the right direction.</u>

- Facilitation, by GOP, to smoothen the process and cause the least amount of economic inertia, will need to include:

- Incentives to grow vertically, and horizontally in scale, by absorbing the newly available production capacity

- Disincentives to small size spinners, weavers, and apparel concerns (to force them to liquidate and make their capacity available to vertical groupings)

- One off support to the financial sector to write off balance amounts owed by smaller units <u>net of liquidation values</u> (i.e. possession and sale of fixed assets to large vertical-composite units).

- A clear, unambiguous, pegging of cotton prices/availability/market mechanism to those of Chinese, Indian industries.

A successful textile producer of today and of the foreseeable future, given the increasing global free trade environment, is one who has the capacity to handle large sized *finished product* orders by controlling the whole vertical chain, transferring yarn, fabric, finishing, and assembling at cost and being able to charge <u>only one margin</u> at the end of the value chain i.e. <u>highly</u> cost and quality competitive.

II. THE KARAKURUM ROUTE – SYSNERGISING WITH CHINA

Given Pakistan's unique relationship with China, the <u>Chinese textile industry has to be converted into an synergistic opportunity as opposed to a competitor</u>, which it is now.

Given the fact that China has a tremendous stake in ensuring that Pakistan thrives economically and is a strong viable ally, as it consolidates its planned naval presence at the mouth of the Persian Gulf (Gwadar) i.e. as part of its energy strategy, and continues to (help) develop Pakistan into a robust counter weight to its future regional rival India (like the US did with Taiwan).

In a nutshell Pakistan's economic well being and rapid growth is crucial for China and therein lies the opportunity to actively synergize the two textile industries with active Beijing-Islamabad facilitation.

The areas that need to be explored further include:

1. Vertical arrangements and link ups

    - Surplus orders taken in China and routed to Pakistani partners (for export to China) – BACKWARD INTEGRATION.

    - Orders taken in China – partially processed there then exported to Pakistan for further processing and re-export (essentially to bypass increasing prospects of *soft* restrictions on Chinese exports on account of burgeoning trade surpluses) FORWARD INTEGRATION.

    - A primary tool to fast forward the transformation and rapid growth of Pakistan's textile industry would be to encourage and actively facilitate DIRECT CHINESE INVESTMENTS via fully owned entities or JOINT VENTURES with Pakistan counterparts. Technical co-operation and investment (with a Chinese mind-set to see Pakistan as a natural extension of their own industry leading to longer term amalgamation and integration).

    - Active Chinese facilitation can also take the shape of direct technical training in the form of grant/aid.

2. Creation of a level playing field with China to match their subsidy/support level via a Chinese subsidy based on some formula that takes into account the quantum of co-operation, or targeted cooperation, (probably in the shape of foreign aid). This can then be passed on to the industry in the shape of infrastructural support to the industry. These can take the shape of specialized textile cities, infrastructural subsidies, training, etc.

CONCLUSION

► Rationalization is unavoidable and imminent – it can either be facilitated and its negative impact on the economy managed or it can be allowed to go its own route albeit at a considerable economic, social and political cost.

- Even if Rationalization proceeds well and the end product is an industry composed of mostly large vertical groups it will alleviate the current malaise but will not be the optimal solution since many endemic issues relating to productivity, quantum of investment, virtual absence of globally competitive marketing, sales and merchandising will remain major impediments.

- By actively pursuing the "Karakurum option" the quanta of textile exports and the size of the textile industry will be higher by multiples of what will be achieved via a straightforward rationalization. Forward and backward integration with Chinese textile industry inclusive of direct investment will marry our textile industry with the dominant global industry, resulting in:

  1. An entirely new and significantly enhanced productivity culture via training, management and technical support

  2. Huge optimal investments, funded, facilitated and possibly backed by China

  3. Support to develop highly competitive marketing, sales and merchandising functions

  4. Exports will grow rapidly far in excess of our natural trajectory resulting in a pre-eminent global position in textiles.

TEXTILES-FABRICS (WEAVING)

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	6		
			2012-13	**2011-12**	
A.	**Industry Sales**	**Act/Est**	26,674	28,008	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	1,245		
C.	**Financial Charges**	**Act/Est**	935		
D.	**PAT**	**Act/Est**	1,211		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	17,100		
F.	*Current Assets*	**Act/Est**	7,879		
G.	*Cash & Bank Balances*	**Act/Est**	208		
H.	*Trade Debtors*	**Act/Est**	1,895		
I.	*Short Term Investments*	**Act/Est**	40		
J.	*Total Equity*	**Act/Est**	6,274		
K.	*Current Liabilities*	**Act/Est**	8,349		
L.	*Total Liabilities*	**Act/Est**	10,825		

(See above, TEXTILES – COMPOSITE, for a full discussion of textiles and its sub-sectors.)

TEXTILES-KNITS & KNIT APPAREL

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	800		
			2012-13	2011-12	
A.	Industry Sales	Act/Est	204,296	198,277	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	8		
C.	Financial Charges	Act/Est	2		
D.	PAT	Act/Est	7		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	93		
F.	*Current Assets*	Act/Est	56		
G.	*Cash & Bank Balances*	Act/Est	Nil		
H.	*Trade Debtors*	Act/Est	35		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	34		
K.	*Current Liabilities*	Act/Est	60		
L.	*Total Liabilities*	Act/Est	59		

(See above, TEXTILES – COMPOSITE, for a full discussion of textiles and its sub-sectors.)

TEXTILES-SPINNING

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	57		
			2012-13	**2011-12**	
A.	**Industry Sales**	**Act/Est**	163,424	61,390	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	9,939		
C.	**Financial Charges**	**Act/Est**	4,609		
D.	**PAT**	**Act/Est**	9,122		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	141,825		
F.	*Current Assets*	**Act/Est**	55,387		
G.	*Cash & Bank Balances*	**Act/Est**	1,667		
H.	*Trade Debtors*	**Act/Est**	12,218		
I.	*Short Term Investments*	**Act/Est**	505		
J.	*Total Equity*	**Act/Est**	61,503		
K.	*Current Liabilities*	**Act/Est**	57,149		
L.	*Total Liabilities*	**Act/Est**	80,322		

(See above, TEXTILES – COMPOSITE, for a full discussion of textiles and its sub-sectors.)

TEXTILES-SYNTHETIC FIBERS/POLYESTER

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	3	
			2012-13	**2011-12**
A.	**Industry Sales**	**Act/Est**	54,477	50,515

			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	3,860		
C.	**Financial Charges**	**Act/Est**	1,133		
D.	**PAT**	**Act/Est**	4,771		

			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	***Total Assets***	**Act/Est**	63,374		
F.	***Current Assets***	**Act/Est**	19,794		
G.	***Cash & Bank Balances***	**Act/Est**	635		
H.	***Trade Debtors***	**Act/Est**	735		
I.	***Short Term Investments***	**Act/Est**	Nil		
J.	***Total Equity***	**Act/Est**	32,810		
K.	***Current Liabilities***	**Act/Est**	14,495		
L.	***Total Liabilities***	**Act/Est**	30,564		

(See above, TEXTILES – COMPOSITE, for a full discussion of textiles and its sub-sectors.)

TEXTILES-WOVEN APPAREL

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	500		
			2012-13	2011-12	
A.	Industry Sales	Act/Est	179,959	161,559	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	29		
C.	Financial Charges	Act/Est	13		
D.	PAT	Act/Est	21		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	402		
F.	*Current Assets*	Act/Est	211		
G.	*Cash & Bank Balances*	Act/Est	24		
H.	*Trade Debtors*	Act/Est	48		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	123		
K.	*Current Liabilities*	Act/Est	204		
L.	*Total Liabilities*	Act/Est	279		

(See above, TEXTILES – COMPOSITE, for a full discussion of textiles and its sub-sectors.)

TOBACCO PRODUCTS

FINANCIAL SNAPSHOT 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	2		
			2012-13	2011-12	
A.	Industry Sales	Act/Est	43,374	39,431	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	4,995		
C.	Financial Charges	Act/Est	293		
D.	PAT	Act/Est	3,474		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	30,298		
F.	*Current Assets*	Act/Est	17,855		
G.	*Cash & Bank Balances*	Act/Est	149		
H.	*Trade Debtors*	Act/Est	32		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	9,579		
K.	*Current Liabilities*	Act/Est	19,532		
L.	*Total Liabilities*	Act/Est	20,719		

TOBACCO PRODUCTS

OPPORTUNITIES

- The country's Large Scale Manufacturing (LSM) has registered positive growth of 2.48 percent in July-Nov 2014-15 over the corresponding period of 2013-14. The manufacturing items which witnessed growth included Tobacco.

- Despite its obvious health risks, tobacco products continue to witness a rise in sales and usually, barring floods or natural calamities, this trend is at par with population growth.

- Total market for the sector currently stands at more than 78 billion sticks (the industry's unit of measure) and is expected to rise

- Current estimates list consumption as 35% of adult male population.

- Industry remains a cash generating proposition

- Value chain, installed capacity and management practices remain competitive and the industry is generally well geared to absorb global shocks and local calamities due to its reserves

THREATS

- Tobacco Industry has been suffering at the hands of the non-tax paid cigarette industry. Non-tax paid tobacco brands continue to damage the industry, as excise tax-driven price increases cause people to shift over to the lower-priced, smuggled products. This gives the illegal brands an enormous competitive advantage.

- The country has lost Rs 80 billion in last five years due to illicit trade in cigarettes and is expected to lose another Rs 100 billion in the next five years. Smuggled cigarettes do not comply with any mandatory requirements. In addition to that due to non-payment of duties and taxes, the national exchequer suffers huge losses.

- Tobacco export scalded back by $3.092 million (14 percent) to $19.817 million in July-May 2013-14 from $22.909 million in July-May 2012-14. In term of quantity, export of tobacco in July-May 2013-14 reduced by 160 metric tons (2.22 percent) to 7,049 metric tons from 7,209 metric tons in July-May 2012-13.

- Government support price mechanism for tobacco leaf growers continues to hurt the industry, which cannot pay a price lower than the previous year's price and is obligated to purchase any excess supply of leaf in the market. Further issue remains of the companies having to declare their purchasing requirements beforehand.

- Consumer capacity to purchase is witnessing another year of problems for the industry, which is heavily taxed (from tobacco leaf to end product) and some down-trading (shifting to cheaper brands) is a continued trend

- Tobacco remains a sector which has always been viewed by the Government taxation authorities as relatively easy to tax to provide relief to its own revenue short-falls.

- Industry sources maintain that demand for tobacco products is elastic and subject to change in consumer behavior, as evident from industry decline in 09-10 due to successive price increases

- The co-efficient relationship between population rise and tobacco sales has started to show signs of weakening

- Global health imperatives, as well as the implementation of the WHO (World Health Organization) Framework Convention on Tobacco Control will continue to erode the marketability and distribution of tobacco products and tobacco consumption

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 2012-13

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	1		
			2012-13	2011-12	
A.	Industry Sales	Act/Est	97,553	112,130	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	-45,814		
C.	Financial Charges	Act/Est	12,519		
D.	PAT	Act/Est	-46,453		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	136,701		
F.	*Current Assets*	Act/Est	31,906		
G.	*Cash & Bank Balances*	Act/Est	2,274		
H.	*Trade Debtors*	Act/Est	12,415		
I.	*Short Term Investments*	Act/Est	19		
J.	*Total Equity*	Act/Est	-138,640		
K.	*Current Liabilities*	Act/Est	192,213		
L.	*Total Liabilities*	Act/Est	267,848		

TRANSPORT - AIR

OPPORTUNITIES

- Pakistan International Airlines (PIA) has chalked out a new business plan for its economic revival. The new business plan is in line with the Privatization Commission's strategy seeking the separation of core business and non-core businesses. According to the proposed business plan, PIA will split into (i) core business of the airline including passengers and cargo and (ii) non-core businesses comprising ground handling, technical support, flight kitchen, maintenance and repair as well as running the courier service Speedex. PIA would not become a profit-oriented entity before the agreed deadline with the International Monetary Fund (IMF) for divestment of its shares to a strategic partner and may continue to suffer an operational loss of Rs 10 billion in the current calendar year.

- PIA would induct 15 aircraft on dry lease (long lease) in its fleet in the current fiscal year under its restructuring plan aimed at making it a profit-oriented organization. All modalities relating to the procurement of 15 aircraft including 10 A-320 and five ATR planes have been finalized. The aircraft are likely to be inducted in the PIA fleet by end-March after which the total number of aircraft will reach 40. Most of the PIA aircraft have outlived their operational life and induction of new aircraft will help reduce expenditures on fuel and repair.

- 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.

- Local competitors to PIA: Shaheen Air, Airblue and now also 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.

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

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

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

- Lower global fuel prices are likely to enhance profitability and/or lower losses.

THREATS

- PIA 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. It should be fast-tracked to avoid a further fiscal drain from these loss making enterprises.

- PIA has targeted Rs27 billion operational losses for the financial year ended on December 31, 2014, down from Rs 43 billion in the previous year. Due to a reduction in oil prices airline's fuel bill came down to Rs46 billion in 2014 from Rs 55 billion in 2013.

- PIA's recent corporate results for Q1-CY14 reveal an improvement: the net loss has fallen from Rs 8.62 billion in Q1-CY13 to Rs 1.98 billion in Q1-CY14. Stronger revenue growth could be traced to the acquisition of four narrow body aircrafts, as well as stability in the exchange rate.

- The accumulative losses of the national entity Pakistan International Airlines (PIA) have soared to Rs 288 billion due to overstaffing, shortage of aircrafts and payment/interest on loans. 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.

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

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

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

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

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

OUTLOOK

- The outlook for the local airline industry is blurred because of continued loss accumulation 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	Energy - Oil & Gas Exploration	1	100	6.0	6.0
2	Financial Institutions	1	100	6.0	6.0
3	Edible Oil	2	80	6.0	4.8
4	Energy – Coal	2	80	6.0	4.8
5	Energy - Gas Generation & Distribution	2	80	6.0	4.8
6	Energy - Oil (Petroleum Distribution/Marketing)	2	80	6.0	4.8
7	Energy - Oil (Petroleum Refining)	2	80	6.0	4.8
8	Energy - Power Generation & Distribution (IPPs)	2	80	6.0	4.8
9	Fertilizers	2	80	6.0	4.8
10	Telecommunications	2	80	6.0	4.8
11	Tobacco Products	2	80	6.0	4.8
12	Agro-Chemicals	3	60	6.0	3.6
13	Cement	3	60	6.0	3.6
14	Chemicals (inc. Plastic & Rubber Products)	3	60	6.0	3.6
15	Food, Beverages & Consumer Products	3	60	6.0	3.6
16	Machinery & Equipment	3	60	6.0	3.6
17	Metallic Products (Iron & Steel)	3	60	6.0	3.6
18	Pharmaceuticals	3	60	6.0	3.6
19	Sugar	3	60	6.0	3.6
20	Surgical, Precision, Optical Equipment	3	60	6.0	3.6
21	Textiles – Composite	3	60	6.0	3.6
22	Textiles - Synthetic Fibers/Polyester	3	60	6.0	3.6
23	Automotive - Parts & Accessories	4	40	6.0	2.4
24	Automotives - Assemblers/Manufacturers	4	40	6.0	2.4
25	Construction	4	40	6.0	2.4
26	Glass & Ceramics	4	40	6.0	2.4
27	Sports Products	4	40	6.0	2.4
28	Textiles - Fabrics (Weaving)	4	40	6.0	2.4
29	Textiles - Knits & Knit Apparel	4	40	6.0	2.4
30	Textiles – Spinning	4	40	6.0	2.4
31	Textiles - Woven Apparel	4	40	6.0	2.4
32	Transport – Air	4	40	6.0	2.4
33	Carpets & Rugs	5	20	6.0	1.2
34	Information Technology	5	20	6.0	1.2
35	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	Financial Institutions	1	100	7.0	7.0
2	Energy - Oil & Gas Exploration	2	80	7.0	5.6
3	Food, Beverages & Consumer Products	2	80	7.0	5.6
4	Machinery & Equipment	2	80	7.0	5.6
5	Sports Products	2	80	7.0	5.6
6	Surgical, Precision, Optical Equipment	2	80	7.0	5.6
7	Telecommunications	2	80	7.0	5.6
8	Tobacco Products	2	80	7.0	5.6
9	Agro-Chemicals	3	60	7.0	4.2
10	Carpets & Rugs	3	60	7.0	4.2
11	Cement	3	60	7.0	4.2
12	Chemicals (inc. Plastic & Rubber Products)	3	60	7.0	4.2
13	Construction	3	60	7.0	4.2
14	Edible Oil	3	60	7.0	4.2
15	Energy – Coal	3	60	7.0	4.2
16	Glass & Ceramics	3	60	7.0	4.2
17	Information Technology	3	60	7.0	4.2
18	Metallic Products (Iron & Steel)	3	60	7.0	4.2
19	Pharmaceuticals	3	60	7.0	4.2
20	Sugar	3	60	7.0	4.2
21	Textiles – Composite	3	60	7.0	4.2
22	Textiles – Spinning	3	60	7.0	4.2
23	Textiles - Synthetic Fibers/Polyester	3	60	7.0	4.2
24	Automotives - Assemblers/Manufacturers	4	40	7.0	2.8
25	Energy - Gas Generation & Distribution	4	40	7.0	2.8
26	Energy - Oil (Petroleum Distribution/Marketing)	4	40	7.0	2.8
27	Energy - Oil (Petroleum Refining)	4	40	7.0	2.8
28	Energy - Power Generation & Distribution (IPPs)	4	40	7.0	2.8
29	Fertilizers	4	40	7.0	2.8
30	Leather Products	4	40	7.0	2.8
31	Transport – Air	4	40	7.0	2.8
32	Automotive - Parts & Accessories	4	40	7.0	2.8
33	Textiles - Fabrics (Weaving)	4	40	7.0	2.8
34	Textiles - Knits & Knit Apparel	4	40	7.0	2.8
35	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	Energy - Oil (Petroleum Distribution/Marketing)	1	100	2.0	2.0
2	Fertilizers	1	100	2.0	2.0
3	Financial Institutions	1	100	2.0	2.0
4	Pharmaceuticals	1	100	2.0	2.0
5	Telecommunications	1	100	2.0	2.0
6	Automotives - Assemblers/Manufacturers	1	100	2.0	2.0
7	Energy - Oil & Gas Exploration	2	80	2.0	1.6
8	Energy - Oil (Petroleum Refining)	2	80	2.0	1.6
9	Carpets & Rugs	2	80	2.0	1.6
10	Cement	2	80	2.0	1.6
11	Edible Oil	2	80	2.0	1.6
12	Textiles - Synthetic Fibers/Polyester	2	80	2.0	1.6
13	Chemicals (inc. Plastic & Rubber Products)	2	80	2.0	1.6
14	Food, Beverages & Consumer Products	2	80	2.0	1.6
15	Energy - Power Generation & Distribution (IPPs)	2	80	2.0	1.6
16	Tobacco Products	2	80	2.0	1.6
17	Agro-Chemicals	3	60	2.0	1.2
18	Automotive - Parts & Accessories	3	60	2.0	1.2
19	Energy – Coal	3	60	2.0	1.2
20	Energy - Gas Generation & Distribution	3	60	2.0	1.2
21	Glass & Ceramics	3	60	2.0	1.2
22	Information Technology	3	60	2.0	1.2
23	Leather Products	3	60	2.0	1.2
24	Sports Products	3	60	2.0	1.2
25	Surgical, Precision, Optical Equipment	3	60	2.0	1.2
26	Machinery & Equipment	3	60	2.0	1.2
27	Textiles - Woven Apparel	3	60	2.0	1.2
28	Textiles – Composite	4	40	2.0	0.8
29	Metallic Products (Iron & Steel)	4	40	2.0	0.8
30	Transport – Air	4	40	2.0	0.8
31	Sugar	5	20	2.0	0.4
32	Construction	5	20	2.0	0.4
33	Textiles - Fabrics (Weaving)	5	20	2.0	0.4
34	Textiles - Knits & Knit Apparel	5	20	2.0	0.4
35	Textiles – Spinning	5	20	2.0	0.4

BY STRENGTH OF COMPETITION

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

Rank 1: Strength of Competition is low
Rank 5: Strength of Competition is high

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

BY BARRIERS TO ENTRY

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

Rank 1: High Barriers to Entry
Rank 5: Low Barriers to Entry

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

BY LITIGATIONS

Sector ranking, by the Litigations (this factor assesses the likelihood of litigations in the industry materially impacting the cash flows and/ or organizational / product brand, management integrity etc. Includes potential for regulatory & quality rejection issues) is as follows:

Rank 1: Likelihood of Litigations in the industry is low
Rank 5: Likelihood of Litigations in the industry is high

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Energy - Oil & Gas Exploration	2	80	1.0	0.8
2	Carpets & Rugs	2	80	1.0	0.8
3	Cement	2	80	1.0	0.8
4	Chemicals (inc. Plastic & Rubber Products)	2	80	1.0	0.8
5	Edible Oil	2	80	1.0	0.8
6	Energy – Coal	2	80	1.0	0.8
7	Energy - Gas Generation & Distribution	2	80	1.0	0.8
8	Fertilizers	2	80	1.0	0.8
9	Food, Beverages & Consumer Products	2	80	1.0	0.8
10	Glass & Ceramics	2	80	1.0	0.8
11	Agro-Chemicals	3	60	1.0	0.6
12	Leather Products	3	60	1.0	0.6
13	Machinery & Equipment	3	60	1.0	0.6
14	Metallic Products (Iron & Steel)	3	60	1.0	0.6
15	Sports Products	3	60	1.0	0.6
16	Sugar	3	60	1.0	0.6
17	Surgical, Precision, Optical Equipment	3	60	1.0	0.6
18	Telecommunications	3	60	1.0	0.6
19	Textiles - Synthetic Fibers/Polyester	3	60	1.0	0.6
20	Tobacco Products	3	60	1.0	0.6
21	Construction	3	60	1.0	0.6
22	Financial Institutions	4	40	1.0	0.4
23	Information Technology	4	40	1.0	0.4
24	Textiles - Fabrics (Weaving)	4	40	1.0	0.4
25	Textiles - Woven Apparel	4	40	1.0	0.4
26	Transport – Air	4	40	1.0	0.4
27	Automotive - Parts & Accessories	4	40	1.0	0.4
28	Automotives - Assemblers/Manufacturers	4	40	1.0	0.4
29	Energy - Oil (Petroleum Distribution/Marketing)	4	40	1.0	0.4
30	Energy - Oil (Petroleum Refining)	4	40	1.0	0.4
31	Energy - Power Generation & Distribution (IPPs)	4	40	1.0	0.4
32	Pharmaceuticals	4	40	1.0	0.4
33	Textiles – Composite	4	40	1.0	0.4
34	Textiles - Knits & Knit Apparel	4	40	1.0	0.4
35	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	Energy - Oil (Petroleum Distribution/Marketing)	1	100	5.0	5.0
2	Energy - Oil (Petroleum Refining)	1	100	5.0	5.0
3	Energy - Power Generation & Distribution (IPPs)	1	100	5.0	5.0
4	Energy - Gas Generation & Distribution	1	100	5.0	5.0
5	Financial Institutions	1	100	5.0	5.0
6	Chemicals (inc. Plastic & Rubber Products)	2	80	5.0	4.0
7	Construction	2	80	5.0	4.0
8	Energy – Coal	2	80	5.0	4.0
9	Energy - Oil & Gas Exploration	2	80	5.0	4.0
10	Carpets & Rugs	2	80	5.0	4.0
11	Metallic Products (Iron & Steel)	2	80	5.0	4.0
12	Pharmaceuticals	2	80	5.0	4.0
13	Tobacco Products	2	80	5.0	4.0
14	Sports Products	3	60	5.0	3.0
15	Surgical, Precision, Optical Equipment	3	60	5.0	3.0
16	Automotives - Assemblers/Manufacturers	3	60	5.0	3.0
17	Glass & Ceramics	3	60	5.0	3.0
18	Information Technology	3	60	5.0	3.0
19	Leather Products	3	60	5.0	3.0
20	Machinery & Equipment	3	60	5.0	3.0
21	Textiles – Composite	3	60	5.0	3.0
22	Automotive - Parts & Accessories	3	60	5.0	3.0
23	Edible Oil	4	40	5.0	2.0
24	Telecommunications	4	40	5.0	2.0
25	Fertilizers	4	40	5.0	2.0
26	Textiles - Knits & Knit Apparel	4	40	5.0	2.0
27	Textiles - Synthetic Fibers/Polyester	4	20	5.0	2.0
28	Textiles - Woven Apparel	4	40	5.0	2.0
29	Agro-Chemicals	4	20	5.0	2.0
30	Food, Beverages & Consumer Products	4	40	5.0	2.0
31	Transport – Air	4	40	5.0	2.0
32	Cement	5	20	5.0	1.0
33	Sugar	5	20	5.0	1.0
34	Textiles - Fabrics (Weaving)	5	20	5.0	1.0
35	Textiles – Spinning	5	20	5.0	1.0

BY EXPOSURE
(Foreign Exchange Risk)

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

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

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Energy - Gas Generation & Distribution	1	100	1.5	1.5
2	Energy – Coal	2	80	1.5	1.2
3	Energy - Oil & Gas Exploration	2	80	1.5	1.2
4	Fertilizers	2	80	1.5	1.2
5	Financial Institutions	2	80	1.5	1.2
6	Food, Beverages & Consumer Products	2	80	1.5	1.2
7	Cement	2	80	1.5	1.2
8	Construction	2	80	1.5	1.2
9	Sugar	2	80	1.5	1.2
10	Telecommunications	2	80	1.5	1.2
11	Tobacco Products	2	80	1.5	1.2
12	Energy - Power Generation & Distribution (IPPs)	3	60	1.5	0.9
13	Glass & Ceramics	3	60	1.5	0.9
14	Machinery & Equipment	3	60	1.5	0.9
15	Information Technology	3	60	1.5	0.9
16	Transport – Air	3	60	1.5	0.9
17	Chemicals (inc. Plastic & Rubber Products)	4	40	1.5	0.6
18	Energy - Oil (Petroleum Distribution/Marketing)	4	40	1.5	0.6
19	Energy - Oil (Petroleum Refining)	4	40	1.5	0.6
20	Pharmaceuticals	4	40	1.5	0.6
21	Automotives - Assemblers/Manufacturers	4	40	1.5	0.6
22	Edible Oil	4	40	1.5	0.6
23	Leather Products	4	40	1.5	0.6
24	Metallic Products (Iron & Steel)	4	40	1.5	0.6
25	Textiles – Composite	4	40	1.5	0.6
26	Textiles - Fabrics (Weaving)	4	40	1.5	0.6
27	Textiles - Knits & Knit Apparel	4	40	1.5	0.6
28	Textiles – Spinning	4	40	1.5	0.6
29	Textiles - Synthetic Fibers/Polyester	4	40	1.5	0.6
30	Textiles - Woven Apparel	4	40	1.5	0.6
31	Automotive - Parts & Accessories	4	40	1.5	0.6
32	Agro-Chemicals	5	20	1.5	0.3
33	Carpets & Rugs	5	20	1.5	0.3
34	Surgical, Precision, Optical Equipment	5	20	1.5	0.3
35	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	Agro-Chemicals	1	100	1.5	1.5
2	Construction	1	100	1.5	1.5
3	Energy – Coal	1	100	1.5	1.5
4	Energy - Gas Generation & Distribution	1	100	1.5	1.5
5	Carpets & Rugs	1	100	1.5	1.5
6	Sports Products	1	100	1.5	1.5
7	Surgical, Precision, Optical Equipment	1	100	1.5	1.5
8	Energy - Oil & Gas Exploration	1	100	1.5	1.5
9	Energy - Power Generation & Distribution (IPPs)	2	80	1.5	1.2
10	Information Technology	2	80	1.5	1.2
11	Pharmaceuticals	2	80	1.5	1.2
12	Food, Beverages & Consumer Products	2	80	1.5	1.2
13	Leather Products	2	80	1.5	1.2
14	Automotive - Parts & Accessories	2	80	1.5	1.2
15	Cement	2	80	1.5	1.2
16	Tobacco Products	2	80	1.5	1.2
17	Textiles – Spinning	3	60	1.5	0.9
18	Glass & Ceramics	3	60	1.5	0.9
19	Chemicals (inc. Plastic & Rubber Products)	3	60	1.5	0.9
20	Automotives - Assemblers/Manufacturers	3	60	1.5	0.9
21	Textiles – Composite	3	60	1.5	0.9
22	Financial Institutions	4	40	1.5	0.6
23	Textiles - Fabrics (Weaving)	4	40	1.5	0.6
24	Edible Oil	4	40	1.5	0.6
25	Metallic Products (Iron & Steel)	4	40	1.5	0.6
26	Energy - Oil (Petroleum Refining)	4	40	1.5	0.6
27	Machinery & Equipment	4	40	1.5	0.6
28	Sugar	4	40	1.5	0.6
29	Fertilizers	5	20	1.5	0.3
30	Energy - Oil (Petroleum Distribution/Marketing)	5	20	1.5	0.3
31	Telecommunications	5	20	1.5	0.3
32	Textiles - Synthetic Fibers/Polyester	5	20	1.5	0.3
33	Textiles - Woven Apparel	5	20	1.5	0.3
34	Textiles - Knits & Knit Apparel	5	20	1.5	0.3
35	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	Energy - Oil & Gas Exploration	30.0	23.8
3	Energy - Gas Generation & Distribution	30.0	21.6
4	Telecommunications	30.0	21.6
5	Tobacco Products	30.0	21.6
6	Food, Beverages & Consumer Products	30.0	21.2
7	Energy – Coal	30.0	20.8
8	Surgical, Precision, Optical Equipment	30.0	20.6
9	Energy - Power Generation & Distribution (IPPs)	30.0	20.4
10	Sports Products	30.0	20.2
11	Edible Oil	30.0	20.0
12	Energy - Oil (Petroleum Distribution/Marketing)	30.0	19.8
13	Energy - Oil (Petroleum Refining)	30.0	19.8
14	Machinery & Equipment	30.0	19.8
15	Agro-Chemicals	30.0	19.4
16	Cement	30.0	18.6
17	Glass & Ceramics	30.0	18.6
18	Chemicals (inc. Plastic & Rubber Products)	30.0	18.2
19	Pharmaceuticals	30.0	18.0
20	Sugar	30.0	18.0
21	Textiles – Composite	30.0	17.8
22	Fertilizers	30.0	17.2
23	Construction	30.0	17.0
24	Textiles - Synthetic Fibers/Polyester	30.0	17.0
25	Textiles – Spinning	30.0	16.6
26	Metallic Products (Iron & Steel)	30.0	15.6
27	Information Technology	30.0	14.8
28	Automotives - Assemblers/Manufacturers	30.0	14.4
29	Leather Products	30.0	12.8
30	Textiles - Fabrics (Weaving)	30.0	12.2
31	Textiles - Knits & Knit Apparel	30.0	12.2
32	Textiles - Woven Apparel	30.0	12.2
33	Carpets & Rugs	30.0	11.6
34	Transport – Air	30.0	11.6
35	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	Construction	145	2	72.50	1	100	3.0	3.0
2	Agro-Chemicals	194	3	64.67	1	100	3.0	3.0
3	Energy - Oil & Gas Exploration	230,757	4,166	55.39	1	100	3.0	3.0
4	Tobacco Products	5,288	293	18.05	1	100	3.0	3.0
5	Automotives - Assemblers/Manufacturers	8,843	669	13.22	1	100	3.0	3.0
6	Energy – Coal	14,415	1,605	8.98	1	100	3.0	3.0
7	Telecommunications	18,400	2,112	8.71	1	100	3.0	3.0
8	Energy - Oil (Petroleum Refining)	12,246	1,778	6.89	1	100	3.0	3.0
9	Cement	44,730	6,658	6.72	1	100	3.0	3.0
10	Automotive - Parts & Accessories	2,585	392	6.59	1	100	3.0	3.0
11	Sports Products	6	1	6.00	1	100	3.0	3.0
12	Food, Beverages & Consumer Products	12,584	2,103	5.98	1	100	3.0	3.0
13	Edible Oil	277	48	5.77	1	100	3.0	3.0
14	Pharmaceuticals	1,614	292	5.53	1	100	3.0	3.0
15	Surgical, Precision, Optical Equipment	5	1	5.00	2	80	3.0	2.4
16	Textiles - Knits & Knit Apparel	10	2	5.00	2	80	3.0	2.4
17	Fertilizers	59,650	12,769	4.67	2	80	3.0	2.4
18	Textiles - Synthetic Fibers/Polyester	4,993	1,133	4.41	2	80	3.0	2.4
19	Energy - Oil (Petroleum Distribution/Marketing)	35,622	9,780	3.64	2	80	3.0	2.4
20	Energy - Gas Generation & Distribution	26,680	7,591	3.51	2	80	3.0	2.4
21	Textiles - Woven Apparel	42	13	3.23	2	80	3.0	2.4
22	Textiles – Spinning	14,548	4,609	3.16	2	80	3.0	2.4
23	Chemicals (inc. Plastic & Rubber Products)	3,152	1,004	3.14	2	80	3.0	2.4
24	Textiles – Composite	20,483	8,648	2.37	3	60	3.0	1.8
25	Textiles - Fabrics (Weaving)	2,180	935	2.33	3	60	3.0	1.8
26	Sugar	6,779	3,317	2.04	3	60	3.0	1.8
27	Financial Institutions	248,885	130,782	1.90	3	60	3.0	1.8
28	Glass & Ceramics	778	507	1.53	3	60	3.0	1.8
29	Energy - Power Generation & Distribution (IPPs)	11,241	7,497	1.50	3	60	3.0	1.8
30	Metallic Products (Iron & Steel)	2,483	2,610	0.95	4	40	3.0	1.2
31	Machinery & Equipment	1,577	1,797	0.88	4	40	3.0	1.2
32	Information Technology	337	1,124	0.30	4	40	3.0	1.2
33	Transport – Air	-33,295	12,519	-2.66	5	20	3.0	0.6
34	Leather Products	-141	16	-8.81	5	20	3.0	0.6
35	Carpets & Rugs	-66	2	-33.00	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	468	9,098	0.05	1	100	4.0	4.0
2	Sports Products	35	181	0.19	1	100	4.0	4.0
3	Surgical, Precision, Optical Equipment	25	127	0.20	1	100	4.0	4.0
4	Carpets & Rugs	35	176	0.20	1	100	4.0	4.0
5	Energy - Oil & Gas Exploration	199,376	520,136	0.38	1	100	4.0	4.0
6	Pharmaceuticals	3,604	6,120	0.59	2	80	4.0	3.2
7	Cement	114,891	162,124	0.71	2	80	4.0	3.2
8	Automotives - Assemblers/Manufacturers	21,908	26,047	0.84	3	60	4.0	2.4
9	Textiles - Synthetic Fibers/Polyester	30,564	32,810	0.93	3	60	4.0	2.4
10	Textiles – Composite	117,200	112,708	1.04	3	60	4.0	2.4
11	Automotive - Parts & Accessories	7,521	7,063	1.06	3	60	4.0	2.4
12	Telecommunications	110,472	100,153	1.10	3	60	4.0	2.4
13	Construction	859	762	1.13	3	60	4.0	2.4
14	Energy – Coal	12,219	10,733	1.14	3	60	4.0	2.4
15	Chemicals (inc. Plastic & Rubber Products)	19,715	17,247	1.14	3	60	4.0	2.4
16	Edible Oil	1,284	1,039	1.24	3	60	4.0	2.4
17	Food, Beverages & Consumer Products	28,801	22,870	1.26	3	60	4.0	2.4
18	Textiles – Spinning	80,322	61,503	1.31	3	60	4.0	2.4
19	Machinery & Equipment	33,902	24,137	1.40	3	60	4.0	2.4
20	Glass & Ceramics	8,979	5,782	1.55	4	40	4.0	1.6
21	Metallic Products (Iron & Steel)	32,483	20,783	1.56	4	40	4.0	1.6
22	Energy - Oil (Petroleum Refining)	92,555	55,170	1.68	4	40	4.0	1.6
23	Textiles - Fabrics (Weaving)	10,825	6,274	1.73	4	40	4.0	1.6
24	Textiles - Knits & Knit Apparel	59	34	1.74	4	40	4.0	1.6
25	Sugar	45,687	21,739	2.10	4	40	4.0	1.6
26	Tobacco Products	20,719	9,579	2.16	4	40	4.0	1.6
27	Textiles - Woven Apparel	279	123	2.27	4	40	4.0	1.6
28	Fertilizers	202,805	88,507	2.29	4	40	4.0	1.6
29	Energy - Power Generation & Distribution (IPPs)	63,223	20,481	3.09	4	40	4.0	1.6
30	Energy - Oil (Petroleum Distribution/Marketing)	267,561	82,025	3.26	4	40	4.0	1.6
31	Energy - Gas Generation & Distribution	219,421	61,888	3.55	4	40	4.0	1.6
32	Information Technology	25,279	3,132	8.07	4	40	4.0	1.6
33	Financial Institutions	4,538,978	535,108	8.48	4	40	4.0	1.6
34	Leather Products	378	-589	-0.64	5	20	4.0	0.8
35	Transport – Air	267,848	-138,640	-1.93	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	2,887	468	6.17	1	100	4.0	4.0
2	Energy – Coal	50,044	9,110	5.49	1	100	4.0	4.0
3	Sports Products	153	35	4.37	1	100	4.0	4.0
4	Surgical, Precision, Optical Equipment	107	25	4.28	1	100	4.0	4.0
5	Carpets & Rugs	117	35	3.34	1	100	4.0	4.0
6	Energy - Oil & Gas Exploration	259,177	99,195	2.61	1	100	4.0	4.0
7	Pharmaceuticals	4,601	2,514	1.83	1	100	4.0	4.0
8	Construction	1,334	853	1.56	1	100	4.0	4.0
9	Food, Beverages & Consumer Products	16,469	10,697	1.54	1	100	4.0	4.0
10	Automotives - Assemblers/Manufacturers	38,066	24,799	1.53	2	80	4.0	3.2
11	Automotive - Parts & Accessories	10,024	6,573	1.53	2	80	4.0	3.2
12	Cement	82,275	56,772	1.45	2	80	4.0	3.2
13	Edible Oil	1,583	1,147	1.38	2	80	4.0	3.2
14	Textiles - Synthetic Fibers/Polyester	19,794	14,495	1.37	2	80	4.0	3.2
15	Telecommunications	82,583	60,981	1.35	2	80	4.0	3.2
16	Chemicals (inc. Plastic & Rubber Products)	17,842	13,357	1.34	2	80	4.0	3.2
17	Energy - Oil (Petroleum Refining)	114,660	92,149	1.24	2	80	4.0	3.2
18	Machinery & Equipment	29,311	23,658	1.24	2	80	4.0	3.2
19	Textiles – Composite	103,334	94,207	1.10	3	60	4.0	2.4
20	Energy - Oil (Petroleum Distribution/Marketing)	278,627	263,022	1.06	3	60	4.0	2.4
21	Energy - Gas Generation & Distribution	224,356	215,693	1.04	3	60	4.0	2.4
22	Textiles - Woven Apparel	211	204	1.03	3	60	4.0	2.4
23	Sugar	29,342	29,937	0.98	4	40	4.0	1.6
24	Textiles – Spinning	55,387	57,149	0.97	4	40	4.0	1.6
25	Textiles - Fabrics (Weaving)	7,879	8,349	0.94	4	40	4.0	1.6
26	Textiles - Knits & Knit Apparel	56	60	0.93	5	20	4.0	0.8
27	Glass & Ceramics	4,793	5,198	0.92	5	20	4.0	0.8
28	Tobacco Products	17,855	19,532	0.91	5	20	4.0	0.8
29	Energy - Power Generation & Distribution (IPPs)	32,606	35,843	0.91	5	20	4.0	0.8
30	Metallic Products (Iron & Steel)	17,821	21,173	0.84	5	20	4.0	0.8
31	Fertilizers	76,522	96,844	0.79	5	20	4.0	0.8
32	Information Technology	9,188	15,587	0.59	5	20	4.0	0.8
33	Leather Products	166	789	0.21	5	20	4.0	0.8
34	Transport – Air	31,906	192,213	0.17	5	20	4.0	0.8
35	Financial Institutions	575,275	4,359,865	0.13	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	1,893	442	0	468	4.99	1	100	3.0	3.0
2	Energy – Coal	8,473	35,943	0	9,110	4.88	1	100	3.0	3.0
3	Sugar	55,744	20,590	2,804	29,937	2.64	1	100	3.0	3.0
4	Energy - Oil & Gas Exploration	25,532	113,257	28,334	99,195	1.68	1	100	3.0	3.0
5	Sports Products	16	23	0	35	1.11	2	80	3.0	2.4
6	Surgical, Precision, Optical Equipment	11	16	0	25	1.08	2	80	3.0	2.4
7	Construction	372	466	0	853	0.98	3	60	3.0	1.8
8	Pharmaceuticals	98	1,706	399	2,514	0.88	3	60	3.0	1.8
9	Carpets & Rugs	1	29	0	35	0.86	3	60	3.0	1.8
10	Telecommunications	10,021	23,876	12,300	60,981	0.76	3	60	3.0	1.8
11	Automotives - Assemblers/Manufacturers	6,758	3,741	7,442	24,799	0.72	3	60	3.0	1.8
12	Energy - Oil (Petroleum Refining)	27,095	39,280	0	92,149	0.72	3	60	3.0	1.8
13	Energy - Power Generation & Distribution (IPPs)	4,970	20,421	0	35,843	0.71	3	60	3.0	1.8
14	Cement	8,175	4,672	22,411	56,772	0.62	3	60	3.0	1.8
15	Edible Oil	54	578	0	1,147	0.55	4	40	3.0	1.2
16	Automotive - Parts & Accessories	838	1,688	732	6,573	0.50	4	40	3.0	1.2
17	Food, Beverages & Consumer Products	1,223	1,220	2,039	10,697	0.42	5	20	3.0	0.6
18	Information Technology	1,850	4,542	33	15,587	0.41	5	20	3.0	0.6
19	Energy - Oil (Petroleum Distribution/Marketing)	16,027	88,492	1,944	263,022	0.40	5	20	3.0	0.6
20	Fertilizers	10,961	3,495	23,796	96,844	0.39	5	20	3.0	0.6
21	Chemicals (inc. Plastic & Rubber Products)	1,532	3,665	47	13,357	0.39	5	20	3.0	0.6
22	Textiles – Composite	3,114	27,578	5,496	94,207	0.38	5	20	3.0	0.6
23	Energy - Gas Generation & Distribution	5,227	76,596	0	215,693	0.38	5	20	3.0	0.6
24	Machinery & Equipment	1,154	7,397	75	23,658	0.36	5	20	3.0	0.6
25	Textiles - Woven Apparel	24	48	0	204	0.35	5	20	3.0	0.6
26	Glass & Ceramics	365	1,420	0	5,198	0.34	5	20	3.0	0.6
27	Textiles - Fabrics (Weaving)	208	1,895	40	8,349	0.26	5	20	3.0	0.6
28	Textiles – Spinning	1,667	12,218	505	57,149	0.25	5	20	3.0	0.6
29	Metallic Products (Iron & Steel)	297	2,960	20	21,173	0.15	5	20	3.0	0.6
30	Financial Institutions	476,019	0	99,253	4,359,865	0.13	5	20	3.0	0.6
31	Leather Products	1	91	0	789	0.12	5	20	3.0	0.6
32	Textiles - Synthetic Fibers/Polyester	635	735	0	14,495	0.09	5	20	3.0	0.6
33	Transport – Air	2,274	12,415	19	192,213	0.08	5	20	3.0	0.6
34	Textiles - Knits & Knit Apparel	2,274	12,415	19	192,213	0.08	5	20	3.0	0.6
35	Tobacco Products	149	32	0	19,532	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	1,894	468	4.05	1	100	2.0	2.0
2	Sugar	55,744	29,937	1.86	2	80	2.0	1.6
3	Energy – Coal	8,473	9,110	0.93	2	80	2.0	1.6
4	Sports Products	16	35	0.46	3	60	2.0	1.2
5	Surgical, Precision, Optical Equipment	11	25	0.44	3	60	2.0	1.2
6	Construction	372	853	0.44	3	60	2.0	1.2
7	Energy - Oil (Petroleum Refining)	27,095	92,149	0.29	3	60	2.0	1.2
8	Automotives - Assemblers/Manufacturers	6,758	24,799	0.27	4	40	2.0	0.8
9	Energy - Oil & Gas Exploration	25,532	99,195	0.26	4	40	2.0	0.8
10	Telecommunications	10,021	60,981	0.16	4	40	2.0	0.8
11	Cement	8,175	56,772	0.14	4	40	2.0	0.8
12	Energy - Power Generation & Distribution (IPPs)	4,970	35,843	0.14	4	40	2.0	0.8
13	Automotive - Parts & Accessories	838	6,573	0.13	4	40	2.0	0.8
14	Information Technology	1,850	15,587	0.12	4	40	2.0	0.8
15	Textiles - Woven Apparel	24	204	0.12	4	40	2.0	0.8
16	Chemicals (inc. Plastic & Rubber Products)	1,532	13,357	0.11	4	40	2.0	0.8
17	Food, Beverages & Consumer Products	1,223	10,697	0.11	4	40	2.0	0.8
18	Fertilizers	10,961	96,844	0.11	4	40	2.0	0.8
19	Financial Institutions	476,019	4,359,865	0.11	4	40	2.0	0.8
20	Glass & Ceramics	365	5,198	0.07	5	20	2.0	0.4
21	Energy - Oil (Petroleum Distribution/Marketing)	16,027	263,022	0.06	5	20	2.0	0.4
22	Machinery & Equipment	1,154	23,658	0.05	5	20	2.0	0.4
23	Edible Oil	54	1,147	0.05	5	20	2.0	0.4
24	Textiles - Synthetic Fibers/Polyester	635	14,495	0.04	5	20	2.0	0.4
25	Pharmaceuticals	98	2,514	0.04	5	20	2.0	0.4
26	Textiles – Composite	3,114	94,207	0.03	5	20	2.0	0.4
27	Textiles – Spinning	1,667	57,149	0.03	5	20	2.0	0.4
28	Carpets & Rugs	1	35	0.03	5	20	2.0	0.4
29	Textiles - Fabrics (Weaving)	208	8,349	0.02	5	20	2.0	0.4
30	Energy - Gas Generation & Distribution	5,227	215,693	0.02	5	20	2.0	0.4
31	Metallic Products (Iron & Steel)	297	21,173	0.01	5	20	2.0	0.4
32	Transport – Air	2,274	192,213	0.01	5	20	2.0	0.4
33	Tobacco Products	149	19,532	0.01	5	20	2.0	0.4
34	Leather Products	1	789	0.00	5	20	2.0	0.4
35	Textiles - Knits & Knit Apparel	0	60	0.00	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	Energy – Coal	11,596	26,201	0.44	1	100	3.0	3.0
2	Financial Institutions	80,270	186,439	0.43	1	100	3.0	3.0
3	Energy - Oil & Gas Exploration	146,141	368,896	0.40	1	100	3.0	3.0
4	Cement	30,452	160,664	0.19	2	80	3.0	2.4
5	Fertilizers	31,189	191,499	0.16	2	80	3.0	2.4
6	Agro-Chemicals	171	1,309	0.13	2	80	3.0	2.4
7	Pharmaceuticals	1,030	9,260	0.11	3	60	3.0	1.8
8	Telecommunications	9,887	90,730	0.11	3	60	3.0	1.8
9	Textiles - Synthetic Fibers/Polyester	4,771	54,477	0.09	4	40	3.0	1.2
10	Tobacco Products	3,474	43,374	0.08	4	40	3.0	1.2
11	Textiles - Knits & Knit Apparel	7	105	0.067	4	40	3.0	1.2
12	Construction	91	1,490	0.06	4	40	3.0	1.2
13	Food, Beverages & Consumer Products	4,935	84,962	0.06	4	40	3.0	1.2
14	Textiles – Spinning	9,122	163,424	0.06	4	40	3.0	1.2
15	Automotives - Assemblers/Manufacturers	5,413	100,673	0.05	4	40	3.0	1.2
16	Automotive - Parts & Accessories	1,520	29,352	0.05	4	40	3.0	1.2
17	Energy - Power Generation & Distribution (IPPs)	3,755	74,308	0.05	4	40	3.0	1.2
18	Textiles – Composite	9,694	212,360	0.046	4	40	3.0	1.2
19	Textiles - Fabrics (Weaving)	1,211	26,674	0.05	4	40	3.0	1.2
20	Textiles - Woven Apparel	21	479	0.04	5	20	3.0	0.6
21	Sugar	2,587	93,933	0.03	5	20	3.0	0.6
22	Edible Oil	110	6,825	0.016	5	20	3.0	0.6
23	Sports Products	3	196	0.02	5	20	3.0	0.6
24	Energy - Oil (Petroleum Refining)	7,257	474,599	0.02	5	20	3.0	0.6
25	Surgical, Precision, Optical Equipment	2	137	0.01	5	20	3.0	0.6
26	Chemicals (inc. Plastic & Rubber Products)	1,421	97,712	0.01	5	20	3.0	0.6
27	Energy - Gas Generation & Distribution	12,558	1,100,122	0.01	5	20	3.0	0.6
28	Energy - Oil (Petroleum Distribution/Marketing)	16,690	1,509,590	0.01	5	20	3.0	0.6
29	Metallic Products (Iron & Steel)	93	40,060	0.00	5	20	3.0	0.6
30	Glass & Ceramics	10	11,216	0.00	5	20	3.0	0.6
31	Machinery & Equipment	-415	33,177	-0.0125	5	20	3.0	0.6
32	Information Technology	-432	9,725	-0.04	5	20	3.0	0.6
33	Transport – Air	-46,453	97,553	-0.48	5	20	3.0	0.6
34	Leather Products	-158	33	-4.79	5	20	3.0	0.6
35	Carpets & Rugs	-69	12	-5.75	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	Energy-Oil (Petroleum Distribution/Marketing)	1,509,590	349,586	4.32	1	100	1.0	1.0
2	Energy - Gas Generation & Distribution	1,100,122	281,308	3.91	1	100	1.0	1.0
3	Energy - Oil (Petroleum Refining)	474,599	147,725	3.21	1	100	1.0	1.0
4	Edible Oil	6,825	2,323	2.94	1	100	1.0	1.0
5	Chemicals (inc. Plastic & Rubber Products)	97,712	36,963	2.64	1	100	1.0	1.0
6	Automotives - Assemblers/Manufacturers	100,673	47,955	2.10	1	100	1.0	1.0
7	Automotive - Parts & Accessories	29,352	14,584	2.01	1	100	1.0	1.0
8	Food, Beverages & Consumer Products	84,962	51,671	1.64	1	100	1.0	1.0
9	Textiles - Fabrics (Weaving)	26,674	17,100	1.56	2	80	1.0	0.8
10	Tobacco Products	43,374	30,298	1.43	2	80	1.0	0.8
11	Sugar	93,933	67,426	1.39	2	80	1.0	0.8
12	Textiles - Woven Apparel	479	402	1.19	3	60	1.0	0.6
13	Textiles – Spinning	163,424	141,825	1.15	3	60	1.0	0.6
14	Textiles - Knits & Knit Apparel	105	93	1.13	3	60	1.0	0.6
15	Pharmaceuticals	9,260	9,723	0.95	3	60	1.0	0.6
16	Textiles – Composite	212,360	229,907	0.92	3	60	1.0	0.6
17	Construction	1,490	1,620	0.92	3	60	1.0	0.6
18	Sports Products	196	217	0.90	3	60	1.0	0.6
19	Surgical, Precision, Optical Equipment	137	152	0.90	3	60	1.0	0.6
20	Energy - Power Generation & Distribution (IPPs)	74,308	83,704	0.89	3	60	1.0	0.6
21	Textiles - Synthetic Fibers/Polyester	54,477	63,374	0.86	3	60	1.0	0.6
22	Glass & Ceramics	11,216	14,761	0.76	3	60	1.0	0.6
23	Metallic Products (Iron & Steel)	40,060	53,266	0.75	3	60	1.0	0.6
24	Transport – Air	97,553	136,701	0.71	4	40	1.0	0.4
25	Fertilizers	191,499	291,312	0.66	4	40	1.0	0.4
26	Cement	160,664	277,015	0.58	4	40	1.0	0.4
27	Machinery & Equipment	33,177	58,039	0.57	4	40	1.0	0.4
28	Energy - Oil & Gas Exploration	368,896	719,512	0.51	4	40	1.0	0.4
29	Telecommunications	90,730	210,625	0.43	4	40	1.0	0.4
30	Information Technology	9,725	28,411	0.34	4	40	1.0	0.4
31	Energy – Coal	26,200	102,257	0.26	4	40	1.0	0.4
32	Leather Products	33	211	0.16	5	20	1.0	0.2
33	Agro-Chemicals	1,309	9,566	0.14	5	20	1.0	0.2
34	Carpets & Rugs	12	211	0.06	5	20	1.0	0.2
35	Financial Institutions	186,439	5,074,085	0.04	5	20	1.0	0.2

BY ROA (Net Profit/Total Assets) & ROE (Net Profit/Total Equity)

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

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

S.NO.	SECTOR	Net Profit	Total Assets	Total Equity	ROA	ROE	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)	(Rs.Mln)						
1	Energy - Oil & Gas Exploration	146,141	719,512	520,136	0.20	0.28	1	100	3.0	3.0
2	Tobacco Products	3,474	30,298	9,579	0.11	0.36	1	100	3.0	3.0
3	Energy – Coal	11,595	102,258	10,733	0.11	1.08	1	100	3.0	3.0
4	Automotives - Assemblers/Manufacturers	5,413	47,955	26,047	0.11	0.21	1	100	3.0	3.0
5	Cement	30,452	277,015	162,124	0.11	0.19	1	100	3.0	3.0
6	Fertilizers	31,189	291,312	88,507	0.11	0.35	1	100	3.0	3.0
7	Pharmaceuticals	1,030	9,723	6,120	0.11	0.17	1	100	3.0	3.0
8	Automotive - Parts & Accessories	1,520	14,584	7,063	0.10	0.22	2	80	3.0	2.4
9	Food, Beverages & Consumer Products	4,935	51,671	22,870	0.10	0.22	2	80	3.0	2.4
10	Energy - Gas Generation & Distribution	12,558	281,308	61,888	0.04	0.20	2	80	3.0	2.4
11	Textiles - Synthetic Fibers/Polyester	4,771	63,374	32,810	0.08	0.15	3	60	3.0	1.8
12	Textiles - Knits & Knit Apparel	7	93	34	0.08	0.21	3	60	3.0	1.8
13	Textiles - Fabrics (Weaving)	1,211	17,100	6,274	0.07	0.19	3	60	3.0	1.8
14	Textiles – Spinning	9,122	141,825	61,503	0.06	0.15	3	60	3.0	1.8
15	Construction	91	1,620	762	0.06	0.12	3	60	3.0	1.8
16	Textiles - Woven Apparel	21	402	123	0.05	0.17	3	60	3.0	1.8
17	Energy - Oil (Petroleum Refining)	7,257	147,725	55,170	0.05	0.13	3	60	3.0	1.8
18	Energy - Oil (Petroleum Distribution/Marketing)	16,690	349,586	82,025	0.05	0.20	3	60	3.0	1.8
19	Edible Oil	110	2,323	1,039	0.047	0.11	3	60	3.0	1.8
20	Telecommunications	9,887	210,625	100,153	0.05	0.10	3	60	3.0	1.8
21	Energy - Power Generation & Distribution (IPPs)	3,755	83,704	20,481	0.04	0.18	3	60	3.0	1.8
22	Textiles – Composite	9,694	229,907	112,708	0.042	0.09	4	40	3.0	1.2
23	Chemicals (inc. Plastic & Rubber Products)	1,421	36,963	17,247	0.04	0.08	4	40	3.0	1.2
24	Sugar	2,587	67,426	21,739	0.04	0.12	4	40	3.0	1.2
25	Agro-Chemicals	171	9,566	9,098	0.02	0.02	4	40	3.0	1.2
26	Financial Institutions	80,270	5,074,085	535,108	0.02	0.15	4	40	3.0	1.2
27	Sports Products	3	217	181	0.01	0.02	4	40	3.0	1.2
28	Surgical, Precision, Optical Equipment	2	152	127	0.01	0.02	4	40	3.0	1.2
29	Metallic Products (Iron & Steel)	93	53,266	20,783	0.00	0.00	4	40	3.0	1.2
30	Glass & Ceramics	10	14,761	5,782	0.00	0.00	4	40	3.0	1.2
31	Machinery & Equipment	-415	58,039	24,137	-0.0072	-0.0172	5	20	3.0	0.6
32	Information Technology	-432	28,411	3,132	-0.02	-0.14	5	20	3.0	0.6
33	Carpets & Rugs	-69	211	176	-0.33	-0.39	5	20	3.0	0.6
34	Transport – Air	-46,453	136,701	-138,640	-0.34	0.34	5	20	3.0	0.6
35	Leather Products	-158	211	-589	-0.75	0.27	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	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 – Coal	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
20	Tobacco Products	2	80	2.0	1.6
16	Edible Oil	3	60	2.0	1.2
17	Energy - Power Generation & Distribution (IPPs)	3	60	2.0	1.2
18	Glass & Ceramics	3	60	2.0	1.2
19	Textiles – Spinning	3	60	2.0	1.2
21	Cement	3	60	2.0	1.2
22	Energy - Oil (Petroleum Distribution/Marketing)	3	60	2.0	1.2
23	Leather Products	3	60	2.0	1.2
24	Textiles - Fabrics (Weaving)	3	60	2.0	1.2
25	Automotive - Parts & Accessories	3	60	2.0	1.2
26	Metallic Products (Iron & Steel)	3	60	2.0	1.2
27	Chemicals (inc. Plastic & Rubber Products)	4	40	2.0	0.8
28	Textiles – Composite	4	40	2.0	0.8
29	Sugar	4	40	2.0	0.8
30	Telecommunications	4	40	2.0	0.8
31	Textiles - Knits & Knit Apparel	4	40	2.0	0.8
32	Textiles - Woven Apparel	4	40	2.0	0.8
33	Machinery & Equipment	4	40	2.0	0.8
34	Textiles - Synthetic Fibers/Polyester	5	20	2.0	0.4
35	Transport – Air	5	20	2.0	0.4

COMPOSITE RANKING BY PROFITABILITY/FINANCIAL STRENGTH

Composite ranking, by the Profitability & Financial Strength, is as follows:

S.NO.	SECTOR	MAXIMUM SCORE	SCORE
1	Energy - Oil & Gas Exploration	25.0	23.2
2	Energy – Coal	25.0	22.0
3	Agro-Chemicals	25.0	21.4
4	Pharmaceuticals	25.0	19.4
5	Cement	25.0	19.0
6	Sports Products	25.0	19.0
7	Surgical, Precision, Optical Equipment	25.0	18.4
8	Automotives - Assemblers/Manufacturers	25.0	18.0
9	Construction	25.0	17.6
10	Food, Beverages & Consumer Products	25.0	17.0
11	Automotive - Parts & Accessories	25.0	16.4
12	Telecommunications	25.0	16.0
13	Energy - Oil (Petroleum Refining)	25.0	15.4
14	Edible Oil	25.0	14.8
15	Carpets & Rugs	25.0	14.2
16	Fertilizers	25.0	14.0
17	Energy - Gas Generation & Distribution	25.0	13.4
18	Chemicals (inc. Plastic & Rubber Products)	25.0	13.0
19	Sugar	25.0	13.0
20	Textiles - Synthetic Fibers/Polyester	25.0	13.0
21	Tobacco Products	25.0	13.0
22	Textiles – Spinning	25.0	12.2
23	Energy - Oil (Petroleum Distribution/Marketing)	25.0	12.0
24	Energy - Power Generation & Distribution (IPPs)	25.0	12.0
25	Financial Institutions	25.0	11.6
26	Textiles - Woven Apparel	25.0	11.6
27	Textiles – Composite	25.0	11.4
28	Textiles - Fabrics (Weaving)	25.0	11.0
29	Machinery & Equipment	25.0	10.2
30	Textiles - Knits & Knit Apparel	25.0	10.2
31	Glass & Ceramics	25.0	9.2
32	Information Technology	25.0	8.2
33	Metallic Products (Iron & Steel)	25.0	8.2
34	Leather Products	25.0	5.8
35	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	Cement	2	80	19.0	15.2
2	Energy – Coal	2	80	19.0	15.2
3	Energy - Gas Generation & Distribution	2	80	19.0	15.2
4	Energy - Oil & Gas Exploration	2	80	19.0	15.2
5	Fertilizers	2	80	19.0	15.2
6	Financial Institutions	2	80	19.0	15.2
7	Food, Beverages & Consumer Products	2	80	19.0	15.2
8	Sports Products	2	80	19.0	15.2
9	Sugar	2	80	19.0	15.2
10	Surgical, Precision, Optical Equipment	2	80	19.0	15.2
11	Tobacco Products	2	80	19.0	15.2
12	Agro-Chemicals	3	60	19.0	11.4
13	Chemicals (inc. Plastic & Rubber Products)	3	60	19.0	11.4
14	Construction	3	60	19.0	11.4
15	Edible Oil	3	60	19.0	11.4
16	Energy - Oil (Petroleum Distribution/Marketing)	3	60	19.0	11.4
17	Energy - Oil (Petroleum Refining)	3	60	19.0	11.4
18	Energy - Power Generation & Distribution (IPPs)	3	60	19.0	11.4
19	Glass & Ceramics	3	60	19.0	11.4
20	Information Technology	3	60	19.0	11.4
21	Machinery & Equipment	3	60	19.0	11.4
22	Metallic Products (Iron & Steel)	3	60	19.0	11.4
23	Pharmaceuticals	3	60	19.0	11.4
24	Telecommunications	3	60	19.0	11.4
25	Textiles – Composite	3	60	19.0	11.4
26	Textiles – Spinning	3	60	19.0	11.4
27	Textiles - Synthetic Fibers/Polyester	3	60	19.0	11.4
28	Automotives - Assemblers/Manufacturers	4	40	19.0	7.6
29	Automotive - Parts & Accessories	4	40	19.0	7.6
30	Carpets & Rugs	4	40	19.0	7.6
31	Leather Products	4	40	19.0	7.6
32	Textiles - Fabrics (Weaving)	4	40	19.0	7.6
33	Textiles - Knits & Knit Apparel	4	40	19.0	7.6
34	Textiles - Woven Apparel	4	40	19.0	7.6
35	Transport – Air	4	40	19.0	7.6

BY INDUSTRY/BUSINESS LIFE CYCLE

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

Rank 1: Business Life Cycle is largely steady
Rank 5: Business Life Cycle is unsteady

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Energy - Gas Generation & Distribution	1	100	7.0	7.0
2	Energy - Oil & Gas Exploration	1	100	7.0	7.0
3	Energy - Oil (Petroleum Distribution/Marketing)	2	80	7.0	5.6
4	Energy - Oil (Petroleum Refining)	2	80	7.0	5.6
5	Energy - Power Generation & Distribution (IPPs)	2	80	7.0	5.6
6	Fertilizers	2	80	7.0	5.6
7	Financial Institutions	2	80	7.0	5.6
8	Food, Beverages & Consumer Products	2	80	7.0	5.6
9	Agro-Chemicals	2	80	7.0	5.6
10	Automotives - Assemblers/Manufacturers	2	80	7.0	5.6
11	Cement	2	80	7.0	5.6
12	Chemicals (inc. Plastic & Rubber Products)	2	80	7.0	5.6
13	Edible Oil	2	80	7.0	5.6
14	Energy – Coal	2	80	7.0	5.6
15	Machinery & Equipment	2	80	7.0	5.6
16	Pharmaceuticals	2	80	7.0	5.6
17	Sugar	2	80	7.0	5.6
18	Tobacco Products	2	80	7.0	5.6
19	Automotive - Parts & Accessories	3	60	7.0	4.2
20	Carpets & Rugs	3	60	7.0	4.2
21	Construction	3	60	7.0	4.2
22	Glass & Ceramics	3	60	7.0	4.2
23	Information Technology	3	60	7.0	4.2
24	Leather Products	3	60	7.0	4.2
25	Metallic Products (Iron & Steel)	3	60	7.0	4.2
26	Sports Products	3	60	7.0	4.2
27	Surgical, Precision, Optical Equipment	3	60	7.0	4.2
28	Telecommunications	3	60	7.0	4.2
29	Textiles – Composite	3	60	7.0	4.2
30	Textiles - Fabrics (Weaving)	3	60	7.0	4.2
31	Textiles - Knits & Knit Apparel	3	60	7.0	4.2
32	Textiles – Spinning	3	60	7.0	4.2
33	Textiles - Synthetic Fibers/Polyester	3	60	7.0	4.2
34	Textiles - Woven Apparel	3	60	7.0	4.2
35	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	Energy – Coal	2	80	6.0	4.8
2	Energy - Oil & Gas Exploration	2	80	6.0	4.8
3	Energy - Oil (Petroleum Distribution/Marketing)	2	80	6.0	4.8
4	Energy - Oil (Petroleum Refining)	2	80	6.0	4.8
5	Energy - Power Generation & Distribution (IPPs)	2	80	6.0	4.8
6	Food, Beverages & Consumer Products	2	80	6.0	4.8
7	Leather Products	2	80	6.0	4.8
8	Machinery & Equipment	2	80	6.0	4.8
9	Pharmaceuticals	2	80	6.0	4.8
10	Sports Products	2	80	6.0	4.8
11	Sugar	2	80	6.0	4.8
12	Surgical, Precision, Optical Equipment	2	80	6.0	4.8
13	Telecommunications	2	80	6.0	4.8
14	Textiles – Composite	2	80	6.0	4.8
15	Textiles – Spinning	2	80	6.0	4.8
16	Textiles - Synthetic Fibers/Polyester	2	80	6.0	4.8
17	Textiles - Fabrics (Weaving)	2	80	6.0	4.8
18	Textiles - Knits & Knit Apparel	2	80	6.0	4.8
19	Textiles - Woven Apparel	2	80	6.0	4.8
20	Tobacco Products	2	80	6.0	4.8
21	Transport – Air	2	80	6.0	4.8
22	Agro-Chemicals	3	60	6.0	3.6
23	Carpets & Rugs	3	60	6.0	3.6
24	Chemicals (inc. Plastic & Rubber Products)	3	60	6.0	3.6
25	Edible Oil	3	60	6.0	3.6
26	Fertilizers	3	60	6.0	3.6
27	Financial Institutions	3	60	6.0	3.6
28	Information Technology	3	60	6.0	3.6
29	Automotive - Parts & Accessories	4	40	6.0	2.4
30	Automotives - Assemblers/Manufacturers	4	40	6.0	2.4
31	Cement	4	40	6.0	2.4
32	Construction	4	40	6.0	2.4
33	Energy - Gas Generation & Distribution	4	40	6.0	2.4
34	Glass & Ceramics	4	40	6.0	2.4
35	Metallic Products (Iron & Steel)	4	40	6.0	2.4

BY REGULATORY/GOVT.SUPPORT-FUTURE EXPECTATIONS

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

Rank 1: High future expectations to avail significant support from government
Rank 5: Low future expectations to avail significant support from government

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Energy - Oil (Petroleum Distribution/Marketing)	1	100	13.0	13.0
2	Energy - Power Generation & Distribution (IPPs)	1	100	13.0	13.0
3	Chemicals (inc. Plastic & Rubber Products)	2	80	13.0	10.4
4	Construction	2	80	13.0	10.4
5	Energy – Coal	2	80	13.0	10.4
6	Energy - Gas Generation & Distribution	2	80	13.0	10.4
7	Energy - Oil & Gas Exploration	2	80	13.0	10.4
8	Energy - Oil (Petroleum Refining)	2	80	13.0	10.4
9	Financial Institutions	2	80	13.0	10.4
10	Food, Beverages & Consumer Products	2	80	13.0	10.4
11	Machinery & Equipment	2	80	13.0	10.4
12	Sports Products	2	80	13.0	10.4
13	Sugar	2	80	13.0	10.4
14	Surgical, Precision, Optical Equipment	2	80	13.0	10.4
15	Textiles - Synthetic Fibers/Polyester	2	80	13.0	10.4
16	Tobacco Products	2	80	13.0	10.4
17	Cement	3	60	13.0	7.8
18	Edible Oil	3	60	13.0	7.8
19	Fertilizers	3	60	13.0	7.8
20	Glass & Ceramics	3	60	13.0	7.8
21	Information Technology	3	60	13.0	7.8
22	Metallic Products (Iron & Steel)	3	60	13.0	7.8
23	Pharmaceuticals	3	60	13.0	7.8
24	Telecommunications	3	60	13.0	7.8
25	Textiles – Composite	3	60	13.0	7.8
26	Textiles - Fabrics (Weaving)	3	60	13.0	7.8
27	Textiles - Knits & Knit Apparel	3	60	13.0	7.8
28	Textiles – Spinning	3	60	13.0	7.8
29	Textiles - Woven Apparel	3	60	13.0	7.8
30	Agro-Chemicals	4	40	13.0	5.2
31	Automotives - Assemblers/Manufacturers	4	40	13.0	5.2
32	Automotive - Parts & Accessories	4	40	13.0	5.2
33	Transport – Air	4	40	13.0	5.2
34	Carpets & Rugs	5	20	13.0	2.6
35	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 - Oil & Gas Exploration	45.0	37.4
2	Energy – Coal	45.0	36.0
3	Energy - Oil (Petroleum Distribution/Marketing)	45.0	36.0
4	Food, Beverages & Consumer Products	45.0	36.0
5	Sugar	45.0	36.0
6	Tobacco Products	45.0	36.0
7	Energy - Gas Generation & Distribution	45.0	35.0
8	Energy - Power Generation & Distribution (IPPs)	45.0	34.8
9	Financial Institutions	45.0	34.8
10	Sports Products	45.0	34.6
11	Surgical, Precision, Optical Equipment	45.0	34.6
12	Energy - Oil (Petroleum Refining)	45.0	32.2
13	Fertilizers	45.0	32.2
14	Machinery & Equipment	45.0	32.2
15	Cement	45.0	31.0
16	Chemicals (inc. Plastic & Rubber Products)	45.0	31.0
17	Textiles - Synthetic Fibers/Polyester	45.0	30.8
18	Pharmaceuticals	45.0	29.6
19	Textiles – Composite	45.0	29.4
20	Textiles – Spinning	45.0	29.4
21	Construction	45.0	28.4
22	Edible Oil	45.0	28.4
23	Telecommunications	45.0	28.2
24	Agro-Chemicals	45.0	27.0
25	Information Technology	45.0	27.0
26	Glass & Ceramics	45.0	25.8
27	Metallic Products (Iron & Steel)	45.0	25.8
28	Textiles - Fabrics (Weaving)	45.0	24.4
29	Textiles - Knits & Knit Apparel	45.0	24.4
30	Textiles - Woven Apparel	45.0	24.4
31	Transport – Air	45.0	21.8
32	Automotives - Assemblers/Manufacturers	45.0	20.8
33	Automotive - Parts & Accessories	45.0	19.4
34	Leather Products	45.0	19.2
35	Carpets & Rugs	45.0	18.0

COMPOSITE INDUSTRY RANKINGS 2015

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	Energy - Oil & Gas Exploration	84.4	HIGHLY ATTRACTIVE	>80
2	Energy – Coal	78.8	ATTRACTIVE	70-80
3	Food, Beverages & Consumer Products	74.2	ATTRACTIVE	70-80
4	Sports Products	73.8	ATTRACTIVE	70-80
5	Surgical, Precision, Optical Equipment	73.6	ATTRACTIVE	70-80
6	Financial Institutions	72.6	ATTRACTIVE	70-80
7	Tobacco Products	70.6	ATTRACTIVE	70-80
8	Energy - Gas Generation & Distribution	70.0	ATTRACTIVE	70-80
9	Agro-Chemicals	67.8	AVERAGE	50-69
10	Energy - Oil (Petroleum Distribution/Marketing)	67.8	AVERAGE	50-69
11	Energy - Oil (Petroleum Refining)	67.4	AVERAGE	50-69
12	Energy - Power Generation & Distribution (IPPs)	67.2	AVERAGE	50-69
13	Pharmaceuticals	67.0	AVERAGE	50-69
14	Sugar	67.0	AVERAGE	50-69
15	Telecommunications	65.8	AVERAGE	50-69
16	Cement	64.8	AVERAGE	50-69
17	Fertilizers	63.4	AVERAGE	50-69
18	Edible Oil	63.2	AVERAGE	50-69
19	Chemicals (inc. Plastic & Rubber Products)	62.2	AVERAGE	50-69
20	Machinery & Equipment	62.2	AVERAGE	50-69
21	Construction	61.6	AVERAGE	50-69
22	Textiles - Synthetic Fibers/Polyester	60.8	AVERAGE	50-69
23	Textiles – Composite	56.2	AVERAGE	50-69
24	Textiles – Spinning	55.8	AVERAGE	50-69
25	Automotives - Assemblers/Manufacturers	53.2	AVERAGE	50-69
26	Metallic Products (Iron & Steel)	50.8	AVERAGE	50-69
27	Information Technology	50.0	AVERAGE	50-69
28	Glass & Ceramics	49.8	AVERAGE	50-69
29	Automotive - Parts & Accessories	46.0	WATCH/HOLD	40-49
30	Textiles - Woven Apparel	45.8	WATCH/HOLD	40-49
31	Carpets & Rugs	45.2	WATCH/HOLD	40-49
32	Textiles - Fabrics (Weaving)	45.2	WATCH/HOLD	40-49
33	Textiles - Knits & Knit Apparel	44.4	WATCH/HOLD	40-49
34	Transport – Air	38.6	WATCH/HOLD	40-49
35	Leather Products	37.8	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