Confidential

INDUSTRY RATINGS & STRATEGIC POSITIONING 2011-12

COMPARATIVE SECTOR RATINGS TO RANK PERFORMANCE, INDUSTRY SPECIFIC RISKS AND ATTRACTIVENESS AND RECOMMENDATIONS ON BANK'S STRATEGIC SECTORAL POSTURING

January 2012

A strategic tool to help attain competitive advantage by helping preempt increases in risk and proactive identification of opportunities.

INDUSTRY RESEARCH AND ANALYSIS

CREDIT MANAGEMENT GROUP – CMG

REPORT CONTENTS

INTRODUCTION - DEFINING THE SCOPE

In response our enhanced, and more comprehensive, risk rating procedures, **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 the 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). ✪

✪ On the basis of sectoral classification of advances as per the Annual Report 2010. Total advances exclude: commodity operations, individuals, general trading and miscellaneous.

INDUSTRY RATING CRITERIA & SCORECARD

The abbreviated methodology rests on relative indicators, and scoring, of each sector on the **CRITERIA** listed below:

CATEGORY	RATING CRITERIA	POSSIBLE RATINGS
Size:	Sales	Actual/Estimated
	Sales	H/M/L
	Employment	H/M/L
	Capital Investment	H/M/L
Growth:	Sales (Historical-Current)	H/M/L
	Sales (Projected Next 5 Yrs)	H/M/L
Profitability:	Current	P/M/N
	Projected Next 5 Yrs	P/M/N
Threats:	Technology Change	H/M/L
	Market/Environmental Change	H/M/L
	Preparedness Level (Offset)	H/M/L

These categories broadly encapsulate the essential aspects of industry risk, and attractiveness, from a financial institution's perspective. For each element above an indicative rating of High (H), Medium (M) or Low (L) has been applied. For

Profitability, these have been substituted by Positive (P), Marginal (M) and Negative (N) to indicate relative profitability. The score conversion equivalents applied are as follows:

RATING	**% OF SCORE**
High (H)/ Positive (P)	100.0
Medium (M)/ Marginal (M)	66.7
Low (L)/ Negative (N)	33.3

The **SECTOR SCORING FORMULA**, which is weighted for each criterion, and carries a negative score as well to account for negative factors and/or threats facing the sector, is as follows:

	ELEMENT	**SCORE TYPE**	**MAX SCORE**
Size:	Sales	Positive Score	10
	Employment	Positive Score	3
	Investment/Assets	Positive Score	2
Growth:	Sales (Historical)	Positive Score	5
	Sales (Projected Next 5 Yrs)	Positive Score	20
Profitability:	Historical	Positive Score	10
	Projected Next 5 Yrs	Positive Score	20
Threats:	*Technology Change*	*Negative Score*	*(10)*
	Market/Environmental Change	*Negative Score*	*(10)*
	Preparedness Level (Offset)	Positive Score	10
Bank Exposure ✪		Positive Score	20
		Positive Total	100
		Negative Total	*(20)*
Maximum Score		Total	100

✪ This has been kept constant for this exercise and a full allocation of the score has been made to all sectors, to bring at par the importance of all sectors from the perspective of the bank.

INDUSTRY RATINGS AND STRATEGIC CLASSIFICATION

These scores would yield the following strategic postures for the bank:

INDUSTRY RATINGS & STRATEGIC CLASSIFICATION:

	Out of 100	**Explanation (What the rating suggests)**
Highly Attractive	>80	Seek to Enter/Expand Aggressively
Attractive	60-80	Enter/Expand while mitigating/addressing relevant industry risks
Average	50-59	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 should not be construed as binding. 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 this study captures the *gist* of the risk-attractiveness profile of a given sector which would be covered an in-depth sectoral assessment and analysis. Virtually all the aspects of the detailed study that 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 minus any detailed descriptions. 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 the sector okay to enter, while addressing and mitigating systemic industry specific risks.

- **Final and Approved Sector Strategy.** The ratings and strategy recommendations in this report can serve as an important basis in formulating the final and approved sector strategy and/or credit policies with greater emphasis on sectors with higher returns and lower risks. The final sectoral strategy document will be approved, after any modifications and/or amendments by the Bank's Credit Committee, followed by the Board and/or its Risk Committee.

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. Economic Survey
4. SBP Annual Reports
5. Various periodicals

KEY ASSUMPTIONS

Key macro economic assumptions are consistent with the recently released SBP's Annual Report 2010-11 i.e. a GDP growth rate of 2.4% (GoP's target rate is 3.6%) and a much stabilized inflation rate of 9-11%, (GoP's target rate is 9.5%) down from last year's rate of over 11.7%.

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 exposure.✪

1 Agro-Chemicals
2 Automotive - Parts & Accessories
3 Automotives - Assemblers/Manufacturers
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 Food, Beverages & Consumer Products
17 Glass & Ceramics
18 Information Technology
19 Leather Products
20 Machinery & Equipment
21 Metallic Products (Iron & Steel)
22 Pharmaceuticals
23 Sports Products
24 Sugar
25 Surgical, Precision, Optical Equipment
26 Telecommunications
27 Textiles – Composite
28 Textiles - Fabrics (Weaving)
29 Textiles - Knits & Knit Apparel
30 Textiles – Spinning
31 Textiles - Synthetic Fibers/Polyester
32 Textiles - Woven Apparel
33 Tobacco Products
34 Transport – Air

✪ On the basis of sectoral classification of advances as per the Annual Report 2010. Total advances exclude: commodity operations, individuals, general trading and miscellaneous.

INDUSTRY SNAPSHOTS
AND
KEY ISSUES & OPPORTUNITIES

AGRO-CHEMICALS

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	80		
Other than the top 15-20 companies these are mostly SMEs. Primarily a SME Sector.				
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million)	**Act**/Est	30,172	23,317	
Best estimates if actuals not readily available				
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Employment (Direct+Contract)	**Act**/Est	10,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Assets (Rs.in million)	**Act**/Est	93,709		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Current Assets (Rs.in million)	**Act**/Est	10,749		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	43,778		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	1,514		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million)	**Act**/Est	895		
Best estimates if actuals not readily available				
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales)	**Act**/Est			
Best estimates if actuals not readily available				
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				

AGRO-CHEMICALS

OPPORTUNITIES

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

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

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

- Emergence of generic products has resulted in low costs of pesticides, hence increasing consumption in terms of volume, however this may erode margins.

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

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

- As a result of Globalization prospects for agro-business are increasing & it has become a lucrative investment avenue for businessmen.

THREATS

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

- **With the introduction of a 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 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

- The increase in gas prices for this sector will be 100% as per government rules, however the increase in cost will not affect the profitability of the company as the increase in cost can be adjusted in selling price. Outlook is stable.

AUTOMOTIVE-PARTS & ACCESSORIES

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	5		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	14,880	11,764	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	2,500		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	10,254		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	6,507		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	3,371		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	1,802		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	4,368		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

AUTOMOTIVE - PARTS & ACCESSORIES

OPPORTUNITIES

- ▲ Engineering sector has had the advantage of having an Export Oriented Unit status for any member whose 50% production is exported. This represents an untapped potential for the parts makers.

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

- ▲ Effective and intelligent treaties on Auto sector with low cost countries like China may curtail the base cost structure of local manufacturers, as the role of machinery and metal works is very important for the automotive supplier industry. India's machinery is cheaper and also becoming as reliable as that imported from the Middle East or Europe/Japan.

THREATS

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

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

- ▼ Increasing smuggling and the under invoicing of many auto parts and has been a direct source of loss to the local element of the Automotive supply chain. Estimates put the value over Rs170 billion worth of goods under the name of Afghan transit trade, causing a loss of Rs21.5 billion to the national exchequer over 2010-2011

- ▼ 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.

OUTLOOK

- ▶ The current growth scenario looks tenuous due to it being par with growth of automotive sales. There is a need for a move towards high levels of localization and quality enhancements if the industry is to maintain competitiveness over 2012.

AUTOMOTIVES-ASSEMBLERS/MANUFACTURERS

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	9		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	130,067	141,524	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	3,500		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	69,512		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	51,665		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	17,524		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	4,005		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	37,915		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

AUTOMOTIVES - ASSEMBLERS/MANUFACTURERS

OPPORTUNITIES

- The auto market is one of the largest segments of global trade. Changing models, improving fuel efficiency, cutting costs and enhancing user comfort without compromising quality are the most important challenges of the auto industry in a fast globalizing world.
- 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 purchase 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 and Atlas) to exploit small, energy efficient and green technology oriented vehicles. However, this will be highly contingent on the economic scenario of 2012.
- 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

- The Japan calamity has hit production figures and trade very hard for Q1 and Q2 2011, while European car makers also have not shown very positive growth figures in the same period this year. This will have consequences for Pakistan assembly units, who rely on international production to a very large extent.
- Input costs due to production gaps, dollar uncertainty and financial market fluctuations will increase cost of import of essential parts and machinery.
- Recent movements in favor of reducing the cost of imported vehicles may have some impact on the sector.

- High cost of fuel will dampen demand for vehicles, this will be made worse by shortages of CNG and prevailing.

- 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 93% 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 in 2012 if imports enter the market. (percentage of imports in total cars in Pakistan).

- 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 for Q1 2012.

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

- Further, one of the more serious issues the Industry feels needs addressing is the after-parts market and parallel imports. These are considered cheaper and of better quality by consumers and workshops.

- Fuel-cell technology and green (hybrid) technology will move from being an optional accessory to a necessity over 2012 and 2013. This will be accelerated by global demand and supply issues for petroleum products and the highly geo-political nature of fuel prices.

OUTLOOK

- The industry is expected to continue operating against decline in sales and higher cost of production due to imports and Forex movements. Marginal growth increment can be achieved by changes to the product line, and direct involvement in car financing.

CARPETS & RUGS

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	934		
Bulk of the sector comprises of small concerns.				
Primarily a **SME** Sector				
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million)	**Act**/Est	23,437	22,536	
Best estimates if actuals not readily available				
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Employment (Direct+Contract)	**Act**/Est	400,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Assets (Rs.in million)	**Act**/Est	7,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Current Assets (Rs.in million)	**Act**/Est	4,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	1,050		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	675		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million)	**Act**/Est	5,670		
Best estimates if actuals not readily available				
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales)	**Act**/Est			
Best estimates if actuals not readily available				
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				

CARPETS & RUGS

OPPORTUNITIES

- 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 amounting up to 300 million dollars annually (3.4% share in total exports in 2002).

- The sale of Pakistani carpet has increased during the past two years in terms of quantity and the price. US, Canada and UK are major buyers of the carpets manufactured in Pakistan. They purchase mainly hand-knotted carpets.

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

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

THREATS

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

- The local industry is globally competitive; the surge in demand of the carpets has lead to shortage of carpets being manufactured. However, the industry faces grave uncertainty & a declining sales scenario over the next few years on account of the Euro crisis & a recessionary global outlook which is going to further dampen demand.

CEMENT

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	19		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	103,894	110,463	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	8,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	307,217		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	61,099		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	34,239		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	3,330		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	97,958		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

CEMENT

OPPORTUNITIES

- The industry has achieved an overall growth of 32%, with domestic demand of cement increased by 24.95% and exports increased by 111.29%. The general increase in growth and that of domestic demand are also encouraging figures, but the immense rise in exports highlights the best available opportunity for the industry.

- ▲ The future lies in making sure that all the output of the industry is internationally competitive, up to the required standard, meets their changing demands, and avoids any embargos or heavy taxation.

- ▲ Pakistan exports cement to Afghanistan, India, Africa, and Middle East. Export of cement is exempted from the sales tax and Federal Excise Duty (FED). (However, the domestic consumption is charged the sales tax at 17 percent and FED Rs. 700 per ton.)

- ▲ Pakistan cement industry has a huge potential of exports to India, UAE, Iraq, Afghanistan, and Russian States. These countries can make the industry grow much more than expected.

- ▲ 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.

- ▲ The cement manufacturers have continued to increase the prices despite reduction in the sales tax and the Federal Excise Duty (FED) by one percent and Rs200 per ton, respectively along with the removal of 2.5 percent Special Excise Duty (SED) as announced in the Federal Budget 2011-12. This has rendered into savings of Rs22-23 per bag, which was completely absorbed by the producers.

- ▲ In historical perspective the current capacity utilization of 67% is neither on the lower side if not towards the higher side. Utilization of idle capacity will mean better profitability & growth prospects in the future.

Overview of Cement Sector's Capacity Utilization

Year	Capacity Utilization %
2001-02	62.5
2002-03	67.2
2003-04	74.0
2004-05	82.5
2005-06	84.0
2006-07	75.0
2007-08	80.0
2008-09	76.0
2009-10	71.0
2010-11 (July-Dec)	67.0

Source: Pakistan Economic Survey

THREATS

- ▼ The capacity is that of 44 million tons per annum while demand is 22 million with the export of 9 million and still running a surplus of 13 million. This leads to a price war.

- ▼ One of the most alarming news for the industry is that cement manufacturers posted net loss of Rs1.4 billion in the first nine months of financial year 2010-11. Its causes and its prevention in the future should be planned, since such a sharp loss can possibly cause severe long term affects for the industry and its future. As a loss generating industry proves to be most unattractive for the investors and as well as the current players in the market.

- In the past decade the price of cement has only increased from 200 to 300, whereas an input such as fuel and electricity which forms 60% of the cost has risen much more. Thus it has been difficult for the industrial growth with such a low price and hardly experiencing a natural increase.

- At the end of last fiscal year, industry debts to financial institutions had shot up to over Rs132 billion and cement makers had suffered collective losses of over Rs10 billion.

- Cement export and local demand since 2006-07 till 2010-11 have been decreasing. The coal used as fuel for the cement plants is allowed at zero percent customs duty and 17% sales tax.

- Four of the 22 cement manufacturers have closed down plants while three others have shut their wet process lines, trimming the country's cement output capacity by 7.7 per cent to 41.235 million tons a year from 44.680 million tons last fiscal year.

- It is also claimed that the industry has hit the bottom lowest of its capacity utilization. Thus this unaccounted for increase in price of raw materials, with the selling price unable to match with the costs.

- Domestically there has been negative growth. There is not much profitability seen except for the South. Exports are declining except for that in Afghanistan. And likewise there is declining growth for the sector. Though there has been cut throat competition the local companies were accused of forming a cartel; and have faced litigation charges due to court cases.

OUTLOOK

- The industry seems to be over burdened with taxes, with the freight charges, charged at 20% of ongoing retail price, along with electricity cost rising by 20%. It has led to a sharp rise in the price of cement bags. This has dampened its previously progressive demand, expecting negligible growth over 2012.

CHEMICALS (INC. PLASTIC & RUBBER PRODUCTS)

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	12		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	129,482	101,578	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	5,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	42,203		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	12,713		
		2011 or 2010-11		
Inventory (Rs.in million)	**Act**/Est	6,597		
		2011 or 2010-11		
Accounts Receivable (Rs.in million)	**Act**/Est	3,389		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	13,254		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

CHEMICALS (INC. PLASTIC & RUBBER PRODUCTS)

OPPORTUNITIES

- 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.

- 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.

- Pakistan has a well organized system for imports and exports of chemical materials which are then converted into more than 70,000 various products for industry as well as the goods of consumers. This shows that it has potential of developing as an industry which could provide momentum for the other existing industries.

- Consumer Products account for 10% of the chemical products market. Consumer products show some hopeful prospects for the chemical industry.

- The outlook of this sector has been expanding where there has been a gradual increase in the sales with hardly any declines, showing the sustainability of the sector over 2012.

- The overall increase in the imports of chemicals has been at an average rate of 33 percent per annum. This figure points at the immense potential for Pakistan's chemical industry.

- Petro-chemicals remain an unexplored area for the Industry. This could possibly take the sector to a next level by opening new opportunities and likewise attracting investors, domestic and international.

THREATS

- Some other factors of note for the industry are;

  Highly Cost Intensive projects
  Sophisticated technologies involved
  Export market limitations
  Insufficient current tariff spread

- The entire raw material, 0.3 million tons, used in the plastic industry in Pakistan was imported at a cost of $200 million. This makes the input cost very high for local as well as international concerns operating in Pakistan.

- In particular plastic makes 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.

- Most of the operations of this industry have pollution causing affects. This keeps creating problems for them every time a regulatory body takes charge. Also, this again can be a cost that they incur and can be discouraging if it out-weights the benefits.

- Adequate coverage against import duties needs to be provided, being a very complex and diverse set of core input materials that currently are purchased from the global market.

- A major back drop is the obsolescence of technology. This has not only made the production process inefficient, but erodes margins.

OUTLOOK

- Demand for chemical products is expected to remain at par with demand for all associated product lines and processes; with a downward pressure over sales growth due to the uncertain economic outlook.

CONSTRUCTION

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	1800		
A strong **SME** component within the sector				
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million)	**Act**/Est	284,400	300,100	
Best estimates if actuals not readily available				
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Employment (Direct+Contract)	**Act**/Est	74,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Assets (Rs.in million)	**Act**/Est	70,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Current Assets (Rs.in million)	**Act**/Est	39,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Inventory (Rs.in million)	**Act**/Est	12,000		
		2011 or 2010-11		
Accounts Receivable (Rs.in million)	**Act**/Est	14,000		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million)	**Act**/Est	30,000		
Best estimates if actuals not readily available				
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales)	**Act**/Est			■
Best estimates if actuals not readily available				
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				

CONSTRUCTION

OPPORTUNITIES

- The State Bank of Pakistan is taking measures to facilitate bank financing to the construction and housing sector. These include, revised infrastructure financing guidelines (August 2010); promoting finance for housing construction through the establishment of Pakistan Mortgage Refinance Company (to be launched in H1-FY12) and by helping banks develop large scale builder finance products (an ongoing project); and inclusion of glass sector for concessionary bank loans (under the Long Term Finance Facility in January 2011). These measures will lead to easier availability of funds to facilitate future growth.

- ▲ 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%.

- ▲ 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.

- ▲ 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.

- ▲ The registration requirements are strict and hence have a protectionist role by discouraging foreign companies from operating in Pakistan, which gives the local players a better position to compete.

THREATS

- ▼ Allocated Public Sector Development Program (PSDP) funds were cut back significantly during the year, partly necessitated by immediate relief requirements in flood affected areas. Freeze in public funds resulted in a number of ongoing and planned projects being shelved.

- ▼ During FY11 some foreign donors held back lending, which led to stalling of construction at least one major dam site. In the private sector, although demand was not very strong to begin with, cash flow constraints became a problem for the few running projects.

- ▼ Bank lending to the construction sector increased only marginally by 0.9 percent in FY11, 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 crossed 25 percent in FY11, a record high. 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 natural disasters that struck Pakistan during 2010 it was anticipated that the demand for construction projects would increase drastically, however due to recession and inflation resulting in increased prices of raw materials and overall production cost, the demand did not increase to a great degree.

- BMI forecasts a year-on-year (y-o-y) growth contraction of -11.6% in 2010 followed by a further -8.5% contraction in 2011. Also due to the low financing guarantees of the banks, the sector has suffered a lot.

- 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.

- The construction industry faces heavy tax payments in either the cases, of defaulting or the successful completion of the project, thus making the risk and the investment attached to the 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

- Indication of a worldwide economic recession again, leading to the low demand for the sector due to less free cash available to customer. Outlook remains bleak, expect stagnant growth for the industry over 2012, especially in view of the uncertain economic outlook.

EDIBLE OIL

INDUSTRY SNAPSHOT				
No. of Companies	**Act**/Est	3		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million)	**Act**/Est	6,701	6,092	
Best estimates if actuals not readily available				
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Employment (Direct+Contract)	**Act**/Est	1,200		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Assets (Rs.in million)	**Act**/Est	2,142		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Current Assets (Rs.in million)	**Act**/Est	1,403		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	556		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	448		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million)	**Act**/Est	1,081		
Best estimates if actuals not readily available				
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales)	**Act**/Est			
Best estimates if actuals not readily available				
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs)	Best Guess			

EDIBLE OIL

OPPORTUNITIES

- Despite the general pace of the economy edible oil sales continue to grow at a healthy pace, 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. Out of this, 33 percent edible oil is produced from locally available oil seeds (cottonseed, rapeseed and sunflower, etc), while 67 percent is imported.

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

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

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

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

- The prices of edible oil were unlikely to come down in the near future, mainly due to the global increase in the consumption of edible oil and diversifying uses in chemical and bio-diesel industry. Majority of the importers and manufactures have one to two months of stock in their warehouses but they never miss an opportunity to take benefit, in case of any increase in international market prices.

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

- According to the government's new policy on canola and sunflower the government will procure canola against cash payment in order to give maximum benefit to farmers. The policy will aim at providing financial benefit to the growers. and set a target of one million acres of land to be utilised for sowing the two crops in the flood-affected areas.

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

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

THREATS

- 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.

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

- Pakistan consumes about 3 million tonnes of edible oil a year, but produces only 500,000-800,000 tonnes of cottonseed, rapeseed and sunflower, relying on imports to meet about 80 percent of demand. Lower domestic output is expected this year after massive damage to cotton crops by floods.

- 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 behaviour in the cooking oil and ghee industry is very low.

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

OUTLOOK

- **Prospects for the industry remain stable and growth oriented.** Overall buying for 2012 is expected to be 10 percent higher as compared to 2011, attributing the rise to a possible change in the consumption pattern.

ENERGY-COAL

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	3~5		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million)	**Act**/Est	47,000	45,000	
Best estimates if actuals not readily available				
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs)	Best Guess		■	
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Employment (Direct+Contract)	**Act**/Est	3,500		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Assets (Rs.in million)	**Act**/Est	100,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Current Assets (Rs.in million)	**Act**/Est	55,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	14,000		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	N/A		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million)	**Act**/Est	N/A		
Best estimates if actuals not readily available				
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales)	**Act**/Est	■		
Best estimates if actuals not readily available				
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs)	Best Guess	■		
Best estimates if actuals not readily available				

ENERGY - COAL

OPPORTUNITIES

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

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

- 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.

- The bulk of Pakistan's indigenous coal resources lie in Sindh. The largest reserve, 175 billion tones of lignite coal, is located in the Thar Desert of Sindh. Thar coal is yet to be developed for mining and power generation. Thar Coal presents an electricity generation potential of 100,000 MW, at estimated consumption of 536 million tones/year.

- There are lignite coal reserves in Lakhra, Sonda, Indus East and other coal fields of Sindh. The Lakhra coal field is thoroughly investigated and developed. Several public and private mining companies are mining coal from Lakhra. It has been confirmed that Lakhra coal is suitable for power generation. A 150 MW FBC plant is currently being operated by WAPDA on Lakhra coal. The Sonda and other coal-fields of Sindh are yet to be investigated and developed.

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

- 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.

- Punjab government is also exploring the option with Chinese investors to discuss power generation project based on Mianwali/ Chakwal coal reserves.

- 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.

- 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.

- The gasification of coal was the first experiment of its kind in Asia. Through gasification, adding that power generation would gradually be increased to 50MW.

- KESC is planning to work on Thar Coal to produce cheap electricity for its customers. KESC is also working with Oracle Coalfield to establish 300 MW power plants at Thar coal. The new construction of a power plant at Bin Qasim-II is in progress in which KESC has invested around 400 million dollars. This plant has the capacity of generating 560 MW and will be operational very soon it will start generating electricity.

- 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.

- Thar region will witness first test burn of the Underground Coal Gasification (UCG) project in that will produce initial electricity of three to five megawatts. Afterwards the UCG project will further be enhanced to 100MW. UCG product gas is an alternative to natural gas and potentially offers cost savings by eliminating mining, transport and solid waste elimination. Syngas can be piped directly to the end-users. The expected cost savings could increase given higher coal prices driven by emissions trading, taxes, and other emissions reduction policies.

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

- Energy contents of coal resources are more than the energy contents of Saudi Arabia and Iran's joint oil resources. In order to exploit Pakistan's Thar coal resources for power generation, enormous investment is required for the development of coal mines and related infrastructure to ensure a sustainable and reliable coal supply for power generation plants. Expect high growth for current & prospective investments into the generation projects.

ENERGY-GAS GENERATION & DISTRIBUTION

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	2		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	108,963	278,325	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	7,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	111,495		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	68,037		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	2,522		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	43,821		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	66,766		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

ENERGY - GAS GENERATION & DISTRIBUTION

OPPORTUNITIES

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

- Natural gas is the obvious advantage in Pakistan's current energy mix and plays a crucial role in the economy, meeting about 44% of the country's supply mix for commercial energy. This fundamental position of Natural Gas can also be attributed to its consumption which is increasing at the rate of 21%.

- 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. According to DAWN Liquefied_Petroleum Gas has attracted 200 Million Dollars investment since 2000.

THREATS

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

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

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

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

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

- A Gas act needs to be formed to tackle theft which causes gas losses in the transmission and distribution networks.

OUTLOOK

- The outlook in growth remains constrained due to supply issues; primarily dwindling reserves at Sui, geo-political risks on gas import from Iran & a constrained infrastructure.

ENERGY-OIL & GAS EXPLORATION

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	4		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	225,618	212,246	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	8,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	397,682		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	206,180		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	19,788		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	122,487		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	66,261		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

ENERGY - OIL & GAS EXPLORATION

OPPORTUNITIES

- Petroleum industry has played a significant role in national development by making large indigenous gas discoveries. These sources are supplying gas to consumption centers through 9,843 kilometers transmission networks and 71,863 kilometers of distribution system.

- Pakistan's sedimentary basin stretches over 827,268 sq. kilometers, including

300,000 sq. kilometers offshore. The country has a drilling density less than one exploratory well per 1500 sq. kilometers.

- 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.

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

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

- Despite the economic down turn, Oil & Gas (O&G) Sector in Pakistan remains the highest recipient of Foreign Direct Investment (FDI). It witnessed YoY 21% increase in FDI to US$775million in FY 2008-9.

- Pakistan total primary energy consumption is currently 60.25 MTOE. 79% is contributed by O&G. Pakistan's energy demand over the next 15 years is expected to grow at a rate of between 4.4% to 6.1%per annum based on the projected economic growth and is likely to be in the range of 115 to 148 MTOE by 2021-22.

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

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

- GOP wishes to encourage involvement of Pakistani O&G companies in the country's upstream sector. There is an opportunity for foreign companies to undertake JV partnership with any suitable local company to benefit from their local knowledge.

- GOP is looking at various options to meet the growing energy demand. There are a number of projects in the pipeline, which include LNG deal with Qatar. It involves Shell Pakistan which is actively negotiating with the GOP to import LNG from Qatar. It will result in greater opportunities pertaining to the development of LNG terminals and infrastructure.

- Pakistan has so far discovered 1 billion barrels of oil and 54 trillion cubic feet of natural gas. It has a sedimentary area of 827,000 Sq. Km out of which 1/3rd is under exploration and 2/3rd has yet to be looked into for aggressive exploration for oil and gas.

- The government of Pakistan offers some of the best terms and conditions to E&P sector through the new petroleum policy 2009 and tight gas policy 2011.

- 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.

- FDI to be promoted by increasing the competitiveness of its terms of investment in the upstream sector.

THREATS

- 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 the 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.

- There has been an increase in the production of oil in the year 2010-11 of 1.15% in comparison with last year which decreased by 6.2 percent to 66,678 barrels per day during first eleven months of 2008-2009 as compared to 71,120 bpd the same period previous year.

OUTLOOK

- Subject to alleviation of key geo-political and security risks, prospects remain bright for exponential investment in this sector.

ENERGY-OIL (PETROLEUM DISTRIBUTION/MARKETING)

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	2		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	1,008,489	900,487	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	6,500		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	311,787		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	289,231		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	114,681		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	126,966		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	257,965		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

ENERGY - OIL (PETROLEM DISTRIBUTION/MARKETING)

OPPORTUNITIES

- PARCO has entered into 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.

- 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.

- The refined petroleum products transport logistics is based on road and rail and the existing pipeline network. The surface transport mode is potentially hazardous. However, PARCO's pipeline network is a safer and more cost effective alternative for both crude and product transportation.

- 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.

- As the largest oil marketing company of Pakistan, PSO is engaged in the storage, import, distribution and marketing of Petroleum products, petrochemicals, Aviation and Bunker fuels, LPG and CNG dominates the country's fuel and energy needs.

- 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.

- Pakistan can get cheap crude oil from Iran. However due to restrictions we cannot trade openly. Pakistan also imports from the KSA. Our import from the KSA is worth $2 billion.

THREATS

- CNG sector is being promoted by the government and hundreds of CNG stations are in place and other hundreds are being developed. This poses a great threat to the industry's local sales of gasoline.

- 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 being dictated by the government for sale price of POL. This is also a threat for the industry.

- Country is facing uncertain economic and political situation, oil prices (input & output) both are not stable. More over current unemployment and inflationary trends coupled with unstable monetary policy is also adding to this predicament.

- Government may increase the taxation rate on the products being offered to the customers.

- 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 will increase more because of the large demand and shortage of supply. One of the major reasons heavy taxation from the Government which will further increase the prices.

- Prices should be deregulated. Regulated price mechanism creates anomalies in the market and makes the entry of fresh investment difficult.

OUTLOOK

- If the issue of circular debt gets resolved, outlook for the sector will significantly improve; however, the chances of that happening are dim given the state of GoP finances & constrained by the effect on demand of higher trending oil prices. (Currently around $ 105/barrel, and expected to rise in the future.) This might reduce the prospects for the sector over the medium term. Petroleum retail market in Pakistan will still grow; however the growth will remain constrained.

ENERGY-OIL (PETROLEUM REFINING)				
INDUSTRY SNAPSHOT				
No. of Companies	**Act**/Est	3		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million)	**Act**/Est	326,742	316,126	
Best estimates if actuals not readily available				
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Employment (Direct+Contract)	**Act**/Est	2,500		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Assets (Rs.in million)	**Act**/Est	127,554		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Current Assets (Rs.in million)	**Act**/Est	101,895		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	38,277		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	39,802		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million)	**Act**/Est	99,429		
Best estimates if actuals not readily available				
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales)	**Act**/Est			
Best estimates if actuals not readily available				
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				

ENERGY - OIL (PETROLEM REFINING)

OPPORTUNITIES

- Pakistan has 5 refineries with a total cumulative capacity of 12.87 million tons/annum.

- PSO has decided to move back from acquiring shares of PRL. Pakistan's refining capacity can be increased if they work at full capacity.

- Refineries should set up R&D department to save most of the expenses, even if they import they should import crude oil from Iran. If they do so by importing from western countries or Arab countries they should focus on importing crude oil rather than finished products. This practice could earn them a lot of foreign exchange.

- 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.

- Foreign Direct Investment of about US $6 billion will bolster the much needed economic activity. The deficits of Diesel faced by the country will either be wiped out or reduced to minimal quantities. It will strengthen the supply chain integrity of petroleum products in the country.

- Agencies such as PSO, CALTEX etc need to fulfill the demand of crude oil from local refineries. This will enable them to set low rates furnace oil and diesel.

- All the refineries in Pakistan should adopt the latest technology which will in turn reduce costs by increasing efficiency and productivity within the industry. Keeping this is mind; the government should allow the refineries to import tax free machinery which will make this industry technologically advance.

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.

- Rising international prices of crude oil have nearly drained the country's external accounts, according to detailed import and export data released by the Federal Bureau of Statistics (FBS).

- In the first eight months (July to February) of the current fiscal year, the total value of crude oil imports stood at $2.85 billion, compared with $2.29 billion in the corresponding period of the preceding year. A comparison of these two periods shows that the country paid 24.3 per cent more for crude imports; however, the increase in actual quantity of crude imported was only 5.49 per cent.

- Similarly, imports of petroleum products registered a decline of 5.99 per cent in terms of quantity over the same period, but rising international prices swelled the import bill for petroleum products by nearly nine per cent to $4.36 billion in the July-February period of the current fiscal year.

- Although international crude oil prices have spiked in recent months, analysts expect some respite in the trend, following lower demand for crude oil from Japan and a ceasefire announced by the government in Libya. At the same time, demand for ex-refinery products are expected to remain firm until Japanese refineries are brought back online.

- The recovery in the international oil prices will not 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 constrained & lackluster.

ENERGY-POWER GENERATION & DISTRIBUTION (IPPs)

INDUSTRY SNAPSHOT

No. of Companies	Act/Est	10		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	Act/Est	309,168	255,552	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			■
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	Act/Est	10,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	Act/Est	484,396		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	Act/Est	216,862		
		2011 or 2010-11		
Inventory (Rs.in million)	Act/Est	15,072		
		2011 or 2010-11		
Accounts Receivable (Rs.in million)	Act/Est	159,087		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	Act/Est	230,831		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	Act/Est			■
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess		■	

ENERGY - POWER GENERATION & DISTRIBUTION (IPPs)

OPPORTUNITIES

- Pakistan has prepared a detailed 25 years Energy Security Plan totaling an investment outlay of $150 billion for the period 2005 to 2030. This plan assumes even greater importance because at current rates of consumption natural gas and oil provide 80 percent of the country's energy requirements.

- 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.

- The Power Sector has attracted FDI of US$ 159 million in the last year. The international investors are likely to be attracted to this sector through guarantees designed to lower the risk associated with Pakistan. PPIB has been successful in attracting an investment of US$ 7 billion and leading international investors and lenders to this sector.

- 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.

- To control the wastage of power continuous processes like renovation, rehabilitation, capacitor installation and strengthening the distribution system network should be carried out. The use of IT and GIS technology in the power sector is one of the ways forward for the sustainability of the public sector power companies.

- The concept of public private partnership should be used to get the best available professional management in DISCOs. A more feasible solution would be to encourage the private producers to supply power directly to those who wish to consume it. Also, it would be a good initiative to open up the field to greater competition.

- 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.

- The US authorities are taking keen interest to invest in couple of DISCOS. US has shown interest to invest in Tribal Electric Supply Corporation (Tesco), which is assigned to operate in volatile Federally Administered Tribal Areas (Fata), adjacent to war torn Afghanistan and some others Discos as well. The USA is also going to establish Reconstruction Opportunity Zones (ROZs) in tribal areas.

- 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.

- The growth of power generation in recent years has come primarily from new Independent Power Producers (IPPs), some of which have been funded by foreign investors, as well as few from WAPDA hydroelectric dam projects. HUBCO, the largest IPP, reached an agreement with the Government in December 2000. According to Pakistan Electric Power Company (PEPCO), six IPPs would generate 1268MW by December 2011 and five units would generate 602MW by December 2012.

- 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.

- Water and Power Development Authority (WAPDA) is availing the supplier's credit facility for the construction of Jinnah Hydro Power Project. WAPDA has also initiated construction work on Jabban Hydropower Rehabilitation Project at a cost of Rs3.7 billion. Once rehabilitated 22-MW Jabban Hydropower Project will contribute 122 million units of electricity per annum.

- 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

▼ Increases in global crude oil prices have implications for movements in input costs in the power generation sector-IPPs of Pakistan. The international price of oil is assumed to rise as well in 2012. High prices for oil and natural gas, which are expected to continue throughout the period, are likely to slow the growth of energy demand in the long term.

▼ World energy consumption is projected to continue increasing strongly as a result of robust economic growth and expanding populations in the world's developing countries. China and India—the fastest growing non-OECD economies—will be key contributors to world energy consumption in the future. Over the past decades, their energy consumption as a share of total world energy use has increased significantly.

▼ Without improving efficiency of the power sector, the desired results to overcome load shedding cannot be achieved on a sustained basis. Pakistan could see increased power shortages by 2012 unless actions are taken to increase electricity generation and reduce transmission losses. The energy crisis also contributes towards the increasing costs for the sector, making it join hands with international parties in order to fulfill the demand of the country.

▼ 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.

- The political instability, the worsening law and order situation within country are some of the issues which are creating hindrance in the implementation of some of the projects in this sector. Some sites 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.

- The Iran-Pakistan pipeline is the most significant threat due to pressures from US and India on Pakistan. This is because of US-Iran crisis at present. Inter-provincial water sharing issues between Pakistan and India is also one of the major threats confronting Pakistan.

OUTLOOK

- Effective and concrete steps have to be taken to meet the future challenges of power sector. The prospects for growth of this sector remain bright despite concerns over higher cost per unit of electric power and stability of the revenue streams of these independent projects in the future.

FERTILIZERS

INDUSTRY SNAPSHOT

No. of Companies	**Act/Est**	4		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million)	**Act/Est**	33,934	32,629	
Best estimates if actuals not readily available				
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Employment (Direct+Contract)	**Act/Est**	3,500		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Assets (Rs.in million)	**Act/Est**	136,634		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Current Assets (Rs.in million)	**Act/Est**	44,352		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act/Est**	7,114		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act/Est**	1,190		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million)	**Act/Est**	42,241		
Best estimates if actuals not readily available				
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales)	**Act/Est**			
Best estimates if actuals not readily available				
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				

FERTILIZERS

OPPORTUNITIES

- Fertilizer off-take has registered an increase of 38.28%YoY to reach 525K tons during Sep'11 compared to 324K tons sold during Sep'10. On a sequential basis, fertilizer off-take posted a decline of 5.57%MoM in Sep'11 compared with 556k tons sold in Aug'11. On the flip side, import of fertilizer registered an increase of 74%YoY to reach 117K tons during Sep'11 against 67K tons imported in Sep'10.

- Low Penetration of Fertilizers is expected to improve the excess demand situation and the seller will remain in a strong position.
- The demand for nitrogen remained strong through the 2010-11 with early sowing of BT cotton and with farmers focus on recovering losses caused by the floods in 2010. Thus the fertilizer industry remained buoyant, particularly for Urea.
- In 2010, Engro achieved mechanical completion and started trial production of its urea expansion project at Daharki which is the world's largest single train urea-ammonia plant. It is the largest private sector industrial investment in Pakistan.
- Fatima fertilizers are engaged in clean development mechanism (CDM) Project for Carbon Credits to generate revenue from certified emissions reduction (CERs).
- 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.
- Industry enjoys low resource costs; therefore profitability for this sector remains high.

THREATS

- 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 through the entire first half of the year 2011.
- Urea availability was impacted and Government on the advice of the industry had to resort to imports of Urea to bridge the shortfall. With the impacted fertilizer units facing significant volume shortfall, Urea prices were increased thrice during the first half including the impact of the imposition of 17% GST in March.
- The phosphate demand has shown a decline in the first half of 2011 and particularly in the run up to Kharif crop plantation.
- 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

- Sector remains profitable due to the low cost of inputs. Decline in farmer demand over 2011 may be offset by increase in demand in 2012 (due to floods having created the need for re-plantations). Foreign investment in the sector is also a possibility.

FOOD, BEVERAGES & CONSUMER PRODUCTS

INDUSTRY SNAPSHOT

No. of Companies	**Act/Est**	11		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million)	**Act/Est**	88,389	76,860	
Best estimates if actuals not readily available				
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Employment (Direct+Contract)	**Act/Est**	6,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Assets (Rs.in million)	**Act/Est**	32,473		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Current Assets (Rs.in million)	**Act/Est**	17,791		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Inventory (Rs.in million)	**Act/Est**	11,669		
		2011 or 2010-11		
Accounts Receivable (Rs.in million)	**Act/Est**	1,635		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million)	**Act/Est**	15,377		
Best estimates if actuals not readily available				
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales)	**Act/Est**			
Best estimates if actuals not readily available				
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				

FOOD, BEVERAGES & CONSUMER PRODUCTS

OPPORTUNITIES

- 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

- We have seen many innovations 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

- According to Pakistan Food and Drink Report Q3 2011, Business Monitor International, June 2011, the growth in the sectors are as follows:

  2011 Food Consumption Growth = +6.9%, forecast to 2015 = +61.6%
  2011 Soft Drinks Sales Growth = +6.2%, forecast to 2015 = +24.7%
  2011 Mass Grocery Retail Sales Growth = +13.7%, forecast to 2015 = +76.2%

- Major input foods for the beverages industry have started to show some signs .of changes due to the export market

- It should be noted that floods impact has not just been on Pakistan, but has impacted New Zealand and Australia as well (two major international food exporters), and Pakistan needs to follow same pattern of recovery for the industry if it is to compete for its exports. Notably in dairy products and related exports.

- The global 'Halal' food industry needs to be tapped into more for strong export growth to countries with large Muslim populations, notably the Middle-east, UK and US (estimated at 2 billion consumers world-wide).

- Value added packaging, concerns for health and use of environmental friendly packages for the preservation of food products and beverages will allow Pakistan to boost its sales in this category in international market and hence increase exports.

- 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 and reduce imports.

- Consumer Products sector presents one of the fastest and most vibrant sectors of the economy, showing signs of growth even in difficult economic times.

- Over 2010 and 2011 we have seen the emergence of a boom in locally owned businesses offering strong competition to the MNCs.

- 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.

- ▲ The advent of new media technology and ease of access to telecom and internet services means the Industry has started to adopt its marketing. Channels such as social media, as well as ad placements on the internet are the fastest growing branding spaces globally.

- ▲ 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 2012 and 2013; 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 floods.

- ▼ Increasing inflation, continued smuggling of tea, poor security conditions and power outages pose significant challenges to the business.

- ▼ Consumer food goods have been observing a rising prices trend as they increased by 1.62 percent. Although inflation had fallen in the Dec-Feb period but there has been observed a rising trend in it which is mainly due to increase in international oil and food prices. Prices of non-perishable food items witnessed a surge of 17.02pc and that of perishable items 18.62pc. In terms of percentage, Pakistan has 40.34 per cent of food weight in CPI. In the beverages sector, inflation has hit a level of 2.48 pc.

- 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.

- The slow-down and erosion of consumer purchasing power is the most important factor to the competitiveness of the Industry. Though it has mixed profitability, declines may be seen over the course of 2012. However, competition remains fierce, and new brand spend levels are high. This may increase pressure on the Industry's ability to stay competitive.

OUTLOOK

- The Food & Beverages sector will continue to benefit from strong global demand for food, and a general trend in the economy of sustained consumer spending despite loss of purchasing power. Sector will continue to show growth over 2012. Outlook remains positive.

GLASS & CERAMICS

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	5		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	13,260	11,790	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess		■	
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	2,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	10,511		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	4,543		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	2,588		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	1,049		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	3,164		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est		■	
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess		■	

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.

- ▲ Export oriented development projects by the Ministry of Industrial Production and Special Initiatives (MIP&SI) were announced during 2010 and are worth 969.97 Million Rupees for Glass and ceramics industry.

- ▲ 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.

THREATS

- ▼ Glass industry in the country has failed to diversify itself beyond production of sheet glass used in windows and as mirrors; glass containers such as bottles and jars (primary for the use of the pharmaceutical industry) and glassware, etc.

- ▼ 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 leading up to 2012, and this will impact the industry’s ability to compete locally as well as internationally.

- ▼ Low priced import from China is a threat for the ceramic sector.

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

- 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 sector has good medium term prospects as its customer base is expected to remain steady. However energy problems will impede growth over 2012.

INFORMATION TECHNOLOGY

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	1400		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	15,500	13,520	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	100,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	3,108		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	1,627		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	N/A		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	793		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	411		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

INFORMATION TECHNOLOGY

OPPORTUNITIES

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

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

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

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

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

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

THREATS

- Government is not at all supportive to the IT and telecom industry at all except the incentive which the government gave back in 2001. It was a 15 year tax break on all the software exports which will be ending in 2015.

- Collateral issue is hampering its growth.

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

OUTLOOK

- Though the software industry is growing at an accelerated pace in Pakistan, the fledging Pakistani industry is unlikely to provide serious competition to the enormous Indian industry if trade is further liberalized. As a result the outlook remains constrained.

LEATHER PRODUCTS

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	4		
A strong **SME** component within the sector.				
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million)		18,000	17,950	
Best estimates if actuals not readily available				
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Employment (Direct+Contract)	**Act**/Est	3,500		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Assets (Rs.in million)	**Act**/Est	5,394		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Current Assets (Rs.in million)	**Act**/Est	3,895		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Inventory (Rs.in million)	**Act**/Est	1,926		
		2011 or 2010-11		
Accounts Receivable (Rs.in million)	**Act**/Est	1,126		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million)	**Act**/Est	3,152		
Best estimates if actuals not readily available				
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales)	**Act**/Est			
Best estimates if actuals not readily available				
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				

LEATHER PRODUCTS

OPPORTUNITIES

- 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 due to its established share in the global market, and due to continued demand from the local market, but it must be prepared for a global recession. Supplemented by the current caution by consumers globally, there is no reason to see a sustained up-ward surge in total export sales.

MACHINERY & EQUIPMENT

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	2		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	920	893	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	2,500		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	531		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	326		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	146		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	70		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	261		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

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.

- ▲ 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, than 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

- ▼ The governmental laws and procedures 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.
    - No standardization of the products.
    - Very little financial strength to support financial activity.
    - Limited capacity to raise finances from the banking system.
    - Very little managerial capability to handle export business and logistics required.

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

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

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

- 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. Government should support local engineering projects, which will help in quick growth of the engineering industry.

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

- A marginally positive growth trajectory for 2012. The electrical machinery and equipment goods industry in Pakistan is producing machinery and equipment for power transmission and distribution to meet the requirements of WAPDA and KESC (80%) and a few industrial consumers (20%). Electrical machinery has been taken as a thrust product due to surplus production capacity and market availability in Middle East and Africa.

METALLIC PRODUCTS

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	4		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	20,814	19,906	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			■
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	15,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	35,732		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	13,195		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	8,543		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	2,348		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	12,618		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			■
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess		■	

METALLIC PRODUCTS (IRON AND STEEL)

OPPORTUNITIES

- There are medium and small scales manufacturing units which essentially produce for domestic market. Some of them have the capacity to enter export business if support and guidance is provided. The industry can have exponential growth in export and cross US$ 1 billion mark in next 12-15 years.

- The industry exported pipes and tubes worth US$ 26 million in 2005, US$ 26 million in 2006, US$ 47 million in 2007 and US$ 66 million in 2008. Pakistan's pipe and tube industry has the potential of becoming a major player in international market.

- Pakistan already exports to Afghanistan, Singapore, Kuwait, Saudi Arabia, UAE, Iran, Syria, Bangladesh, Sri Lanka, Germany, Australia and USA. The South American markets also hold a lot of promise in this regard for seamless categories of tubes. Exports are already 8 billion Pakistani Rupees while local sales are roughly Rs. 40 Billion.

- The industry needs to enhance its capacity to produce enough exportable surpluses for expanding African markets. With high bank rates, this expansion can become a tough challenge for the industry. Export of 7 billion is done with Afghanistan, rest to Sri Lanka and South Africa.

- There is only 1% withholding tax but government should still give more subsidies, since the inefficiency of labor and expired machinery is already affecting the imports. Government takes cumulative affect which is 4.5%.

- 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

- 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.

- Around 40% to 45% expenditure is on imports of metallic products. There is a high mark up rate up to 18% which negatively affects the growth. Raw material prices are also volatile.

- Plastic pipes are coming in competition, now they are being used and proving a threat to the steel producers only. 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.

- Infrastructure is not used to its full capacity. There has been a fall in construction recently which has led to a fall in demand, from areas in and around Lahore most of the export is difficult since it is away from port, therefore their major focus is regions like Afghanistan.

- 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

- Capital investment might not be a great opportunity here but capital financing is feasible, however the biggest threat currently is the energy crisis.

PHARMACEUTICALS

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	3		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million)	**Act**/Est	6,874	7,210	
Best estimates if actuals not readily available				
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Employment (Direct+Contract)	**Act**/Est	3,200		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Assets (Rs.in million)	**Act**/Est	5,823		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Current Assets (Rs.in million)	**Act**/Est	3,299		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	1,150		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	1,574		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million)	**Act**/Est	1,971		
Best estimates if actuals not readily available				
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales)	**Act**/Est			
Best estimates if actuals not readily available				
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				

PHARMACEUTICALS

OPPORTUNITIES

- 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.
- Forecasts predict that by 2016 it will be the 11^{th} largest pharmaceutical market in the Asia Pacific region.
- 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.
- Pharmaceuticals, exported to more than 60 countries, have reached $164 million during 2009-10, up by about 34 per cent from the previous year – showing an upward trend and potential for more gains in 2011-12.
- The industry is a net beneficiary of the boom in base materials from China and India, and this positively impacts their margins. Further treaties and trade agreements will boost this trend further.
- Direct sales to Hospitals, Government medical facilities and other public institutes will remains 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

- 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

- 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.

- High level of loss incurred if a drug fails is shelf-retention becomes problematic, due to high levels of R&D cost and investment incurred.

- It lacks a proper policy body. This is of acute need as in case of its absence, it may lead to some divestment by smaller local players.

- 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.

OUTLOOK

- Industry will continue on a growth trajectory, with demand for drugs always on the rise.

SPORTS PRODUCTS

INDUSTRY SNAPSHOT

No. of Companies A strong **SME** component within the sector	**Act**/Est	340		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	19,100	18,700	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	240,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	11,000		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	5,500		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	1,200		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	900		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	6,000		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

SPORTS PRODUCTS

OPPORTUNITIES

- 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.

- The cost of low credibility has been severe as 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 enhanced credibility presents a huge potential.

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

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

- The export of sports goods has seen a positive increase during FY 2010, BR reported an 8.34% increase in exports, in June-July exports were at $323 Million ($290 Million by DAWN.com), the highest increase was in gloves (22.6%) at $119 Million, and others stood at $58.7 Million.

- 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. As India has also recently announced (April 27) that they shall remove Pakistan-specific non-tariff barriers, which would improve bilateral trade with India to expand from the current $2 billion to $6.5 billion, it would be a good opportunity to invest in the sports goods industry to make sure that quality standards do not dwindle. Around 97% of sports goods production is exported.

- 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.

- Foreign direct investment worth millions is expected to come from sports goods sector from South Africa.

- 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.

- 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.

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

THREATS

- 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 our 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.

- 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 our 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 is a serious threat to this sector.

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

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

OUTLOOK

- Pakistan appears to have regained the soccer ball markets from China and India as both of these competitors are unable to meet the required standard of hand-stitched balls. This will boost this particular division of Sports Products. Overall sales are expected to ascend in the near term.

SUGAR

INDUSTRY SNAPSHOT

No. of Companies	Act/Est	36		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million)	Act/Est	78,029	65,050	
Best estimates if actuals not readily available				
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs)	Best Guess		■	
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Employment (Direct+Contract)	Act/Est	16,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Assets (Rs.in million)	Act/Est	88,591		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Current Assets (Rs.in million)	Act/Est	29,549		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Inventory *(Rs.in million)*	Act/Est	17,388		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	Act/Est	1,524		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million)	Act/Est	38,742		
Best estimates if actuals not readily available				
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales)	Act/Est			■
Best estimates if actuals not readily available				
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs)	Best Guess		■	
Best estimates if actuals not readily available				

SUGAR

OPPORTUNITIES

- In case of export of projected sugar surplus from the current harvest the price differential in the domestic and international price of sugar would help raise the prospects of highly profitable margins for sugar manufacturers and growers alike.

- ▲ Ministry of Food and health and other concerns have ensured extremely high price to the sugar cane growers and have always rejected the import of raw sugar. These tactics ensured extremely high sugarcane price resulting in high sugar price to the consumers – ensuring some measure of revenue increments for the Industry.

- ▲ The sugar industry has been demanding for the past consecutive 3 years for the import of raw sugar to supplement the production and improve sugar mills capacity utilization - In September 2010, PSMA appreciated the removal of 25% custom duty on the import of raw sugar.

- ▲ 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).

- ▲ No pest attack was reported and it was expected that a super bumper sugarcane crop might yield higher than the estimated production of 3.10 million tons in 2011.

- ▲ A reduction in the Key Policy Discount Rate (DPR) by the SBP to 150Bps should have a positive impact on the leveraging ability of the sector over 2012.

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

THREATS

- ▼ 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.

- ▼ 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 for 2012 and onwards.
- Flood of 2011 will negatively impact prices and crops and will impact industry.
- 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 neighbouring Afghanistan.

OUTLOOK

- Due to foreseen adjustments in the pricing mechanism, which have been the result of pressure from consumers and the major players, sugar prices may be allowed to be set by the market – This will open up the growth of the sector. The industry is expected to have modest growth over 2012.

SURGICAL, PRECISION EQUIPMENT

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	3263		
A **SME** sector				
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million)	**Act**/Est	22,620	19,923	
Best estimates if actuals not readily available				
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Employment (Direct+Contract)	**Act**/Est	500,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Assets (Rs.in million)	**Act**/Est	50,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Current Assets (Rs.in million)	**Act**/Est	42,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	18,000		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	6,786		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million)	**Act**/Est	3,393		
Best estimates if actuals not readily available				
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales)	**Act**/Est			
Best estimates if actuals not readily available				
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				

SURGICAL, PRECISION EQUIPMENT

OPPORTUNITIES

- 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.

- Surgical Goods have seen a boost in exports by 2.66% in 2011, currently the total evaluation of surgical goods exports stand at $18.19 Million as opposed to $17.11 Million during June-July 2009-10.

- The total Capital Investment in the Surgical Industry is estimated at Rs.18 Billion.

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

- 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.

- 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.

THREATS

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

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

- 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.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.

OUTLOOK

- In the surgical instrument cluster, manufacturer carrying out various processes might not be able to enjoy benefits of economies of scale. Wide scale process sub-contracting definitely generates economies of scale through processing of instruments in large volumes, and economies of scale will provide industry steady growth over 2012. Expect core profitability to remain same.

TELECOMMUNICATIONS

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	3		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	102,000	86,700	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	8,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	514,183		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	63,360		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	N/A		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	46,667		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	283,334		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

TELECOMMUNICATIONS

OPPORTUNITIES

- The federal government plans to auction five licences, including 3G/4G spectrum in March 2012 in a bid to generate around $800 million. The government has decided to auction 2100 MHz by giving three licences to existing players and one will be given to a new player and base price for each licence is $210 million with the earnest money of $31.5 million. This licence will be for a 15-year term and new entrants can start operation after March 2013.

- Telecom sector made its highest ever contribution to the national exchequer in the fiscal year 2011 as around Rs117 billion was deposited in the kitty by telecom companies and PTA, up from Rs109.1 billion in last year. Collection of general sales tax and federal excise duty from the sector spiked by 20 percent to Rs52.6 billion.

- Total telecom revenues swelled to an all-time high of Rs362 billion during the FY11. Cellular income rose by 11 percent to Rs262 billion from Rs236 billion. Investment of $493 million was made in the sector, including foreign direct investment of $79 million, about five percent of the total FDI which came to Pakistan.

- Telecom sector has more than 93 percent share in total GST/FED collection from services sector. Cellular services contributed Rs44.9 billion in FY11 compared with Rs36.2 billion in FY10, an increase of 25 percent in one year.

- Pakistan's total tele-density has reached 68.4 in the financial year 2011 with overall 114.6 million users including mobile phone, landline, and wireless. Total broadband users rising to 1.5 million at the end of FY11 from 0.9 million, recording 66 percent increase.

- During the past two years, the total mobile lines subscribers increased from 99.2 million to 108.9 million, almost 10.0 percent upward slide, while the fixed local lines subscribers declined from 3.418 million to 3.017 million, almost 13.0 percent downward slide.

- India is ahead of Pakistan for launching an advanced cellular phone service, that is, 3G with nearly one million of customers in nine cities. On the other hand, Pakistan has yet to capitalize upon the earning opportunities offered by this technology as the pace of progress by telecom operators in this regard is very slow.

- The cellular density in Pakistan has been increasing consistently, reaching 65.4 percent in FY11 as compared to a level of 60.4 percent in the previous year. However, this level of mobile phone penetration is lower than most other regional countries, suggesting that growth potential in this sector is still strong but it will require additional investments in infrastructure to increase the subscriber base further and tapping market's potential.

THREATS

- Government had imposed the regulatory duty fee on mobile handsets in 2010 that are Rs.750 due to this the import of mobile handsets got reduced. Now by taking in view this fact government has abolished the regulatory fee and it also reduced custom duty to about Rs.250. This activity rapidly increased the mobile handsets import. The imports of mobile handsets shot up by 29 percent to $218 million during FY11.

- The cost of the services provided increases in proportion to the tax deducted by the government. The cost of the call has number 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.

- The cut throat competition among the service providers have increased to such an extent that it is now effecting the revenues of the companies as call rates are the lowest in the world, therefore ARPU (Average Revenue Per Unit) is very low. A modest increase in cellular industry's ARPU was witnessed from $2.41 in the previous fiscal year to $2.45.

- Pakistan has failed to maintain its status of a country with highest tele-density among SAARC nations as India has superseded a top position in the region. Pakistan's total tele-density was 66.8 percent by February 2011 with overall 110.3 million users including mobile phone, landline, and wireless whereas Indian tele-density reached 68.4 percent where total number of users stood at 826.25 million in February 2011.

- Telecom sector's contribution to GDP (Gross Domestic Product) declined in the financial year 2010-11. Profitability within the sector has been eroded on account of rising marketing expenditure in response to aggressive competition.

OUTLOOK

- Overall growth was witnessed in the sector. Despite inching towards saturation stage, the telecom sector received US $ 374 million in year 2010 and $ 79 million in the following year. Core margins are expected to erode, however the industry remains adaptable and a focus on VAS (value added services) would be a positive growth indicator for 2012-2013. Outlook remains stable.

TEXTILES-COMPOSITE

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	22		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	173,868	162,814	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	70,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	225,953		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	117,544		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	68,282		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	34,840		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	119,599		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

TEXTILES - COMPOSITE

OPPORTUNITIES

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 (as of 2002). With the un-natural quota ceilings out of the way, and greater economies of scale via optimal size and/or vertical expansions, the country is reasonably positioned to capitalize on the 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.

- It seems likely that over the next few 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 stands at number four in world's cotton yarn production with 8% share. Exports of cotton yarn showed the biggest increase over the month of May 2010, rising by about 71 per cent and from 2009 to 2011 we see an upward trend in the net sales as well as the gross profits

- Net profits posted a vigorous 23 pc growth in first half of FY09; demand for textiles is apparently regaining ground as textile composite sector registered 26 percent increase in net sales while the spinning sector sales were up by 13 percent

- This information indicates that a good part of the sales increase was absorbed by the composite players owning spinning mills instead of standalone spinning units

- Out of 61 listed spinning mills, 48 declared a net profit in the range of 13.20% to 20.28%

- A reduction in the Key Policy Discount Rate (DPR) by the SBP to 150Bps should have a positive impact on the leveraging ability of the sector over 2012, which has historically paid high interest costs on debt

- 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

- ▲ As was also stated in last year's publication, energy savings measures could reap many savings to the industry. As yet, few have implemented such measures. (A study conducted by national productivity organization (NPO) with the assistance of energy experts reveals that spinning mills could improve energy efficiency by 10-15% in their factories)

- ▲ International statistical reports on the fabrics sector for the year 2011 reveals the growth in application of fabric in all sectors of textile manufacturing and more so in the production of technical 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

- ▲ Government of Pakistan (in federal budget 2008-09) reduced import duty on PSF from 6.5% to 4.5%, and later on also placed anti-dumping duty on PSF imports on companies from China (with exception of two companies), Indonesia, Thailand and South Korea mainly in order to protect the local PSF manufacturers.

- ▲ Cotton cloth exports surged 42 percent to $2.56 billion. Market sources reveals an increase in demand for Pakistani yarn cotton and cotton by China and Italy as well as a higher international price for the product are the main reasons for an escalation in exports

- ▲ The textile and clothing trade has increased from US$ 355 billion in 2000 to $613 billion in 2008, but it shrank to $527 billion in 2009 due to global financial meltdown. Clothing sector is growing at a faster rate than other textiles as world export grew from $197 billion in 2000 to $316 billion in 2009. Export of knitwear, according to ministry of textile in 2010-11 was 1726.1 million dollars.

- ▲ 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 in H2-FY11 onward.

THREATS

GLOBAL COMPETIVE DYNAMICS

- ▼ The key issue facing textile industry as a whole in Pakistan, before the global downturn and post-quota (from end 2004) 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 (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.

- 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.

- A degree of uncertainty lies ahead 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.

- Chinese factor: The major threat to the US textile industry is from China despite safeguard powers against it. ATMI, the major textile lobby of the US, reports that the 3.6 billion square meter increase from China since 2001 was the largest increase in imports from any country in the U.S. history, with 96 per cent coming in products that have been eligible for action using the China textile safeguard. Pakistan also face stiff competition from China in the EU. Since 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 is the lower cost-price structures of the Chinese manufacturers.

- **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.

- o 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.*

- o 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.

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

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

▼ 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)

- Tariff hikes have come as a bolt from the blue and heavy load shedding has many in the industry in under greater pressure.

GLOBAL DOWNTURN

- In 2012, global economies would not be back to normalcy; infact are nearing yet another major crisis. The US economy may shrink this year.

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 to 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 cost for the cloth products are increasing due to a rapid increase in cotton prices due to less production of cotton over the last few years due to natural disasters in Pakistan.
- 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 in 2012.
- Areas such as quality assurance, weak integration of the supply chain, a limited product range and marketing deficiencies will continue to impede recovery or 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).
- An expected decrease in the economy of the US (by as much as 2%) will further erode the global market for composites and its associated products.
- China’s prominence as an exporter continues to threaten sustained value within the sector
- Rising cotton prices to push production costs for value added segment. Also natural calamities and disruptions in supply of raw material (due to variable weather patterns) disturb the cotton supply as witnessed by the recent floods

- More than 20% tariff hike (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.

- Reduction in the production of cotton around the domains of Asia is a big issue of this industry.

- Resources for the proper manufacturing for products of this sector are limited.

- Sector suffers from a lack of product-to-market mechanism.

- Contamination and supply, dynamics of cotton market will also present a threat to this sector.

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

- A large part of fabrics export growth in FY11 was temporary and is less likely to sustain in FY12. The increase in fabrics export during H2-FY11 was mainly due to Turkey. However, fabrics demand by Turkey may not continue going forward after imposition of safeguard restrictions on textile inputs by Turkish government in July 2011.

OUTLOOK

- The industry has relied very heavily on cash wind-falls from previous years and may not be geared to meet the challenges of technologically advanced producers globally. They are going to face stiffer competition from neighboring economies if there is no modernization in production process and new marketing strategies are not adopted.

- **The scale of the installed spindle capacity in China means that a period of further consolidation and vertical integration in Composites (with spinning units of a marginal size or near insolvency) may well continue to sustain the industry in 2012.**

- **Economies of scale need to be achieved to compete with the average installed spindle capacity of Chinese competitors**

- **Banks should facilitate consolidation in the industry and reduce exposure to smaller units, particularly in the other sub-sectors such as weaving and ginning**

BANK'S POSTURING

The Bank's strategic posture in the industry – *vis a vis* composite and stand-alone spinning - should proceed along the following lines:

- **A *unique* opportunity lies at the heart of the industry's turmoil. With the composite sector all set to expand vertically we should pro-actively and/or aggressively support vertical expansions** through medium/long-term funding for corporate acquisitions, purchase of land and machinery and other assets. This will also likely lead to increases in working capital funding including running finance which we should facilitate.

- In doing so we should **focus on the large composite players** – the top 20-25 entities that present a coherent strategic growth plan with stable management structures indicating strong presence of management succession planning.

- **An arrangement with Chinese banks to facilitate and fund JVs should be pursued and followed up.** Strategic cooperation offers from Chinese banks have been made in the past and need to be followed up and executed.

- **Composites should be encouraged to explore JV/partnership options with Chinese partners to exponentially increase capacity as well as backward and forward integration with the Chinese industry.**

- **Our currently large exposure in this sector, at 15 percent, or even expansion, should not be a major issue as long as the shift within textiles is in favor of the expansion of the vertical (composite) units, since their viability should improve over time.**

- **The bank should abstain from participating in non integrated sub-sectors such as** Textiles - Fabrics (Weaving), Textiles - Knits & Knit Apparel and Textiles - Woven Apparel, that do not and would not have the benefit of the larger economies of scale.

A PRESENTATION ON TEXTILES & IT'S STRATEGIC PATH TO GROWTH

A presentation made by IRA to Secretary Textiles** (late 2007) **and Economic Advisory Council member Mr. Salim Raza** (now Governor SBP) **in Aug 2008.

As required **this is a quick and 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. Many of the points highlighted below have been dealt with at length in the detailed textile sector reports (mid 2004) in which the current (post quota) crises was forecast, more or less as it is currently unfolding. **The brief below specifically covers:**

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

INDUSTRY'S COMPARATIVE POSITION

Value Addition In Textiles: Pakistan vs. China, India, Bangladesh Turkey

Cotton Value & Value Addition (2004/5 Data)	**Bangladesh**	**China**	**India**	**Pakistan**	**Turkey**
Cotton Production 000's (480lb bales)	**NA**	26,200	19,000	11,143	4,150
Yield kgs/ha	**NA**	1,127	464	760	1,291
Cotton Export 000's (480lb bales)	**NA**	36	660	558	152
Cotton Import 000's (480lb bales)	**NA**	19,284	1,038	1,700	3,414
Cotton Total Usage 000's (480lb bales)	**NA**	45,000	14,800	11,750	7,100
Cotton Export (% of Production)	**NA**	0.1%	3.5%	5.0%	3.7%
Cotton Export Value (USD 000's) 263	12,890	17,656	84,616	131,861	104,670
Cotton Production Value (USD 000's)	**NA**	12,849,644	2,435,915	2,633,203	2,857,766
Value Added Exports					
Yarn 651	90,041	4,422,313	1,889,488	1,256,860	1,004,886
Cotton Woven Fabrics 652	26,633	6,044,715	861,960	2,089,439	830,593
Non Cotton Woven Fabrics 653	7,955	7,031,547	990,035	244,126	966,636
Other Textile Woven Fabrics 654	47,589	1,739,161	437,650	24,080	134,604
Knitted Fabrics 655	10,947	2,993,666	41,090	178,825	441,763
Lace, Trimmings etc 656	9,465	871,361	89,383	11,226	379,292
Specialty Yarns 657	31,022	1,811,219	118,369	50,401	313,509
Made-ups 658	156,487	7,739,798	1,809,399	3,056,960	1,839,444
Men's Woven Apparel 841	1,258,679	10,059,157	1,220,626	518,003	1,659,543
Women's Woven Apparel 842	471,749	12,832,983	2,019,826	193,320	2,665,626
Men's Knit Apparel 843	524,967	3,500,997	731,042	748,752	319,865
Women's Knit Apparel 844	247,449	6,659,526	581,230	169,496	1,327,146
Apparel Articles 845	1,859,175	18,202,216	1,265,934	686,561	4,085,604
Accessories 846	46,305	3,528,546	331,996	282,288	738,268
Headgear, other 848	34,078	7,072,989	480,215	427,315	397,335
Total Value Added Textiles	4,835,431	94,510,194	12,868,243	9,937,652	17,104,114
Total Textiles (as % of Cotton Value)	**NA**	**736%**	**528%**	**377%**	**599%**

Source: Cotton and Wool Situation and Outlook Yearbook. U.S. Department of Agriculture and The International Trade Centre (ITC) (which is the joint technical cooperation agency of the U N Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO).)

INDUSTRY'S COMPARATIVE POSITION

	Bangladesh	China	India	Pakistan	Turkey
Yarn	2%	5%	15%	13%	6%
Cotton Woven Fabrics	1%	6%	7%	**21%**	5%
Non Cotton Woven Fabrics	0%	7%	8%	2%	6%
Other Textile Woven Fabrics	1%	2%	3%	0%	1%
Knitted Fabrics	0%	3%	0%	2%	3%
Lace, Trimmings etc	0%	1%	1%	0%	2%
Specialty Yarns	1%	2%	1%	1%	2%
Made-ups	3%	8%	14%	31%	11%
Men's Woven Apparel	26%	11%	9%	**5%**	10%
Women's Woven Apparel	10%	14%	16%	**2%**	16%
Men's Knit Apparel	11%	4%	6%	**8%**	2%
Women's Knit Apparel	5%	7%	5%	**2%**	8%
Apparel Articles	38%	19%	10%	**7%**	24%
Accessories	1%	4%	3%	3%	4%
Headgear, other	1%	7%	4%	4%	2%
Total Value Added Textiles	100%	100%	100%	100%	100%

Source: The International Trade Centre (ITC) (which is the joint technical cooperation agency of the United Nations Conference on Trade and Development (UNCTAD) and the World Trade Organization (WTO).)

INDUSTRY'S COPMARATIVE PLACEMENT – MAIN POINTS TO NOTE

- 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.**

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

INDUSTRY'S COMPARATIVE POSITION

The comparative position on the cost side can be gauged via the **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.** The study points up 4 key conclusions:

- **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.**
- **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 **at the cost of medium to small sized spinners, stand alone weavers and apparel concerns.**

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

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)**.

<u>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.</u>

The **areas that need to be explored further** include:

1. **<u>Vertical arrangements and link ups</u>**

   - 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.**

THE PRACTICAL STEPS FORWARD

SHORT TERM MEASURES

To alleviate the immediate pressure:

- A clear, unambiguous, pegging of cotton prices/availability/market mechanism to those of Chinese, Indian industries perhaps even considering subsidized cotton prices to offset the effects of higher cotton wastage factor as well the recent increases in utility & wage costs.

THIS SUPPORTS RATIONALIZATION AND WILL SUFFICE TILL A BROADER STRATEGY CAN BE RE-ASSESSED & FINALIZED.

NEXT STEPS

1. **Study to consider a one-off fiscal measure to support the financial sector to write off balance amounts owed by the smaller spinning weaving, apparel units net of liquidation/sale values.** This will allow a relatively smooth sale and transfer of fixed assets to large vertical-composite units allowing for the desired expansion of capacity of composite groups. The banks will also be in a good position to actively support a strategic thrust in the new direction.

2. **Study (or studies) to clarify and articulate the China options, in depth,** covering:

   - **Government to Government possibilities/options/support measures including a subsidy/aid component**
   - **Chinese industry structure and specific resources,**
   - Identification of **specific integration and investment opportunities (specially from a Chinese standpoint in addition to our own)**
   - **Financial facilitation options out of China** (Export guarantees, domestic funding etc.)
   - To **lay out a timeline bound critical path forward with actionable steps.**

WE SHOULD AIM TO START IMPLEMENTATION OF A RATIONALIZATION BLUEPRINT BY YEAR-END OR SOONER AND A CHINA BLUEPRINT BY THE 1Q08 OR LATEST BY THE NEXT BUDGET.

TEXTILES-FABRICS (WEAVING)

INDUSTRY SNAPSHOT

No. of Companies A strong SME component within the sector	**Act**/Est	1,400		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	205,000	225,000	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	130,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	5,071		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	2,116		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	1,056		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	792		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	2,252		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

TEXTILES - FABRICS (WEAVING)

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

TEXTILES-KNITS & KNIT APPAREL

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	550		
A strong **SME component** within the sector				
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million)	**Act**/Est	59,000	55,000	
Best estimates if actuals not readily available				
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Employment (Direct+Contract)	**Act**/Est	250,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Assets (Rs.in million)	**Act**/Est	12,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Current Assets (Rs.in million)	**Act**/Est	6,500		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	2,000		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	1,000		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million)	**Act**/Est	5,500		
Best estimates if actuals not readily available				
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales)	**Act**/Est			
Best estimates if actuals not readily available				
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				

TEXTILES - KNITS & KNIT APPAREL

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

TEXTILES-SPINNING

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	461		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	112,000	65,000	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	800,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	185,889		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	101,627		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	60,029		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	22,605		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	93,976		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

TEXTILES - SPINNING

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

TEXTILES-SYNTHETIC FIBERS/POLYESTER

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	11		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	82,751	61,017	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	10,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	78,263		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	44,122		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	32,072		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	7,076		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	39,381		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

TEXTILES - SYNTHETIC FIBERS/POLYESTER

Also see above, TEXTILES – COMPOSITE, for a full discussion of textiles and its sub-sectors.

OUTLOOK

- Due to lower crude oil prices, the international PTA and MEG prices remained low, this lowered the price of PSF as well, thus reducing the margins. Despite slight improvement in energy supplies to the downstream industries, with excess stocking by customers in anticipation of price hikes and strong demand in the PSF intensive polyester viscose and pure polyester segments, the market contracted versus the same period last year. The sales to capacity ratio, for the domestic manufacturers was as low as 59% due to regular dumping of product by the regional players. **Prospects remain somewhat uncertain in the immediate term, however, this sub-sector is set to do better as global oil prices pick up and as the composite sector expands.**

TEXTILES-WOVEN APPAREL				
INDUSTRY SNAPSHOT				
No. of Companies	**Act**/Est	81		
A strong **SME** within the sector				
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million)	**Act**/Est	323	345	
Best estimates if actuals not readily available				
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Employment (Direct+Contract)	**Act**/Est	150,000		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Assets (Rs.in million)	**Act**/Est	162		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Total Current Assets (Rs.in million)	**Act**/Est	113		
Best estimates if actuals not readily available				
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	7		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	22		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million)	**Act**/Est	128		
Best estimates if actuals not readily available				
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales)	**Act**/Est			
Best estimates if actuals not readily available				
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs)	Best Guess			
Best estimates if actuals not readily available				

TEXTILES - WOVEN APPAREL

See above, TEXTILES – COMPOSITE, for a full discussion of textiles and it's sub-sectors.

TOBACCO PRODUCTS

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	3		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	35,184	30,213	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	3,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	22,873		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	12,995		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	12,194		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	91		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	10,290		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

TOBACCO PRODUCTS

OPPORTUNITIES

- 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
- ▲ Volume declines witnessed in 2010 have been reversed in 2011 with volumes showing improvement over this period
- ▲ Pakistan stands as one of the world's largest growers of tobacco, with an estimated 75 million Kilos of tobacco being produced in 2011 (down slightly from 2010: 80 million kilos)
- ▲ Industry remains a cash generating proposition, with estimated revenues in excess of 100 Billion Rupees
- ▲ 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

- ▼ Profit within the two major players in Pakistan (Lakson Tobacco (PMI) and Pakistan Tobacco Company (BAT) have been in decline, with PTC showing a net profit of less than 1 billion PKR; its lowest in the past 5 years
- ▼ 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.
- ▼ The industry is a heavy loss taker on the back of floods which cause major disruption to its supply of products and trade marketing
- ▼ 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 subject to an inconsistent taxation regime
- ▼ 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
- ▼ Despite some revisions in 2009-2010, the majority of value within the supply chain remains with the public sector in the form of excise tax

- A volume loss of 10.6% has been reported by the bigger player (PTC) with its capacity utilization at a decade low of 50%

- The biggest threat to the industry remains the illicit sector, which is comprised of smuggled substitutes as well as counterfeit products available in the market. These are not only a loss incurring factor for the industry, but an estimated loss of 108 Million USD to the national coffer

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

- Expected price increases (stalled by lobbying by the tobacco players of the legitimate sector in 2010) in 2011 will cause further erosion of value and profit from the industry

- 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 year on year increase in cash flow and turnover is being slowly eroded; however the industry retains vast financial potential and is expected to remain strong over 2012.

TRANSPORT-AIR

INDUSTRY SNAPSHOT

No. of Companies	**Act**/Est	3		
		2011 or 2010-11	**2010 or 2009-10**	
Industry Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	94,564	89,201	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	14,500		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	160,013		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	16,881		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	N/A		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	8,088		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	68,818		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est			
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess			

TRANSPORT - AIR

OPPORTUNITIES

- Pakistan International Airlines Corporation (PIAC) has prepared a five-year business plan which aims at doubling of the airlines revenues in five year period, reduction in operational cost by Rs 14.22 billion, replacement of 40 percent of national carrier's fleet with addition of 10 new aircrafts and replacement of 6 existing aircrafts.

- PIA has been able to improve its market share in the domestic passenger segment through improved customer service, additional and convenient flight scheduling and better facilities, especially the Business Class among other initiatives. The addition of new Boeing 777 has also greatly facilitated the current surge in performance.

- ▲ 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.

- ▲ The World Bank approved US$ 25 million IDA credit for Pakistan to help the country improve its trade and transport logistics. The Second Trade and Transport Facilitation Project will provide technical advisory services to help implement the National Trade Corridor Improvement Program (NTCIP). The credit is aimed to make air transport capable of responding to the growth demand resulting from a growth economy.

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

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

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

THREATS

- ▼ PIA – the national carrier – continues to be heavily subsidized by Government of Pakistan. The accumulated losses of PIA as on September 30, 2011 stood at Rs. 111.543 billion. Given the growing specter of rising oil prices once again the industry is set to incur fresh losses.

- ▼ Local competitors to PIA: Shaheen Air and Airblue. 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 in total sales.

- ▼ Rising global oil prices have desperately rattled the global aviation industry and slashed profitability; the local aviation industry has not remained exempt from this aviation chaos. Aero Asia – once a keen low end/economy competitor folded up.

- ▼ Low aircraft utilization and scheduled delivers imply 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 in 2011. 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.

- Pakistan's aviation industry has been suffering from a dearth of revenue and travelers due to the absence of a comprehensive aviation policy, global economic recession, financial and administrative issues.

- 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

- Airlines have turned pessimistic about business prospects and do not expect any improvement in international air travel until the end of 2011, according to IATA. The global recession has been cited as the main reason for deteriorating demand. Local airlines-PIAC in particular-face dim prospects in 2012 for resurgence & making a comeback.

RANKINGS BY SIZE

BY SALES

Looking at the aggregate sales of all sectors relative to each other we get the following ranking of sector size, by total sales.

S.No.	Sector	# of Cos	Sales
			(Latest FY) Rs. M
1	Energy - Oil (Petroleum Distribution/Marketing)	2	1,008,489
2	Energy - Oil (Petroleum Refining)	3	326,742
3	Energy - Power Generation & Distribution (IPPs)	10	309,168
4	Construction	1800	264,400
5	Energy - Oil & Gas Exploration	4	225,618
6	Textiles - Fabrics (Weaving)	1400	205,000
7	Textiles - Composite	22	173,868
8	Textiles - Spinning	461	112,000
9	Energy - Gas Generation & Distribution	2	108,962
10	Telecommunications	3	102,000
11	Automotives - Assemblers/Manufacturers	9	100,067
12	Transport - Air	3	94,564
13	Cement	19	93,894
14	Food, Beverages & Consumer Products	11	88,389
15	Textiles - Synthetic Fibers/Polyester	11	82,751
16	Sugar	36	78,029
17	Textiles - Knits & Knit Apparel	550	59,000
18	Energy - Coal	3~5	47,000
19	Tobacco Products	3	35,184
20	Fertilizers	4	33,934
21	Agro-Chemicals	80	30,172
22	Chemicals	12	29,482
23	Carpets & Rugs	934	23,437
24	Surgical, Precision, Optical Equipment	3263	22,620
25	Metallic Products (Iron & Steel)	4	20,814
26	Sports Products	340	19,100
27	Leather Products	4	18,000
28	Information Technology	1400	15,500
29	Automotive - Parts & Accessories	5	14,880
30	Glass & Ceramics	5	13,260
31	Pharmaceuticals	3	6,874
32	Edible Oil	3	6,701
33	Machinery & Equipment	2	920
34	Textiles - Woven Apparel	81	323

BY TOTAL ASSETS

Sector ranking, by the size of total assets, is as follows:

S.No.	Sector	T.Assets
		Rs.in M
1	Telecommunications	514,183
2	Energy - Power Generation & Distribution (IPPs)	484,396
3	Energy - Oil & Gas Exploration	397,682
4	Energy - Oil (Petroleum Distribution/Marketing)	311,787
5	Cement	307,217
6	Textiles - Composite	225,953
7	Textiles - Spinning	185,889
8	Transport - Air	160,013
9	Fertilizers	136,634
10	Energy - Oil (Petroleum Refining)	127,554
11	Energy - Gas Generation & Distribution	111,495
12	Energy - Coal	100,000
13	Agro-Chemicals	93,709
14	Textiles - Synthetic Fibers/Polyester	78,263
15	Construction	70,000
16	Automotives - Assemblers/Manufacturers	69,512
17	Surgical, Precision, Optical Equipment	50,000
18	Chemicals	42,203
19	Metallic Products (Iron & Steel)	35,732
20	Food, Beverages & Consumer Products	32,473
21	Sugar	29,549
22	Tobacco Products	22,873
23	Textiles - Knits & Knit Apparel	12,000
24	Sports Products	11,000
25	Glass & Ceramics	10,511
26	Carpets & Rugs	7,000
27	Automotive - Parts & Accessories	6,507
28	Pharmaceuticals	5,823
29	Leather Products	5,394
30	Textiles - Fabrics (Weaving)	5,071
31	Information Technology	3,108
32	Edible Oil	2,142
33	Machinery & Equipment	531
34	Textiles - Woven Apparel	162

BY EMPLOYEES

Sector ranking, by total employment, is as follows:

S.No.	Sector	Number of Employees
1	Textiles – Spinning	800,000
2	Surgical, Precision, Optical Equipment	500,000
3	Carpets & Rugs	400,000
4	Textiles - Knits & Knit Apparel	250,000
5	Sports Products	240,000
6	Textiles - Woven Apparel	150,000
7	Textiles - Fabrics (Weaving)	130,000
8	Information Technology	100,000
9	Construction	74,000
10	Textiles – Composite	70,000
11	Sugar	16,000
12	Metallic Products (Iron & Steel)	15,000
13	Transport – Air	14,500
14	Agro-Chemicals	10,000
15	Energy - Power Generation & Distribution (IPPs)	10,000
16	Textiles - Synthetic Fibers/Polyester	10,000
17	Telecommunications	8,000
18	Cement	8,000
19	Energy - Oil & Gas Exploration	8,000
20	Energy - Gas Generation & Distribution	7,000
21	Energy - Oil (Petroleum Distribution/Marketing)	6,500
22	Food, Beverages & Consumer Products	6,000
23	Chemicals	5,000
24	Automotives - Assemblers/Manufacturers	3,500
25	Energy – Coal	3,500
26	Fertilizers	3,500
27	Leather Products	3,500
28	Pharmaceuticals	3,200
29	Tobacco Products	3,000
30	Automotive - Parts & Accessories	2,500
31	Energy - Oil (Petroleum Refining)	2,500
32	Machinery & Equipment	2,500
33	Glass & Ceramics	2,000
34	Edible Oil	1,200

COMPOSITE RANKING BY SIZE

After adjusting for the relative weights (shown on page 5) we arrive at the following weighted scores and a composite *size* ranking:

S.No.	Sector	Sales Score	Employment Score	Investment (TA) Score	Size Composite Score
1	Energy - Oil & Gas Exploration	10	3	2	15
2	Energy - Oil (Petroleum Distr/Mktg)	10	3	2	15
3	Energy – Coal	10	3	2	15
4	Machinery & Equipment	10	3	2	15
5	Tobacco Products	10	3	2	15
6	Telecommunications	10	2	2	14
7	Textiles - Synthetic Fibers/Polyester	10	2	2	14
8	Chemicals	10	2	2	14
9	Sports Products	10	2	2	14
10	Energy - Power Gen & Dist (IPPs)	10	2	2	14
11	Energy - Gas Gen & Distribution	10	2	2	14
12	Energy - Oil (Petroleum Refining)	10	2	2	14
13	Fertilizers	10	2	2	14
14	Food, Beverages & Consumer Prod	10	2	2	14
15	Agro-Chemicals	10	2	1	13
16	Sugar	10	2	1	13
17	Surgical, Precision, Optical Eqpt	10	2	1	13
18	Textiles - Fabrics (Weaving)	6.7	3	2	11.7
19	Information Technology	6.7	3	2	11.7
20	Construction	6.7	3	2	11.7
21	Textiles – Composite	6.7	3	2	11.7
22	Metallic Products (Iron & Steel)	6.7	3	1	10.7
23	Carpets & Rugs	6.7	2	2	10.7
24	Textiles - Woven Apparel	6.7	2	2	10.7
25	Textiles – Spinning	6.7	2	2	10.7
26	Automotives - Asemblrs/Manufactur	6.7	2	2	10.7
27	Cement	6.7	2	2	10.7
28	Edible Oil	6.7	2	2	10.7
29	Transport – Air	6.7	2	1	9.7
30	Textiles - Knits & Knit Apparel	6.7	2	1	9.7
31	Pharmaceuticals	6.7	2	1	9.7
32	Leather Products	6.7	1	1	8.7
33	Automotive - Parts & Accessories	6.7	1	1	8.7
34	Glass & Ceramics	6.7	1	1	8.7

COMPOSITE RANKING BY GROWTH

Growth trends over the last 2 to 3 years and the outlook for growth over the next few years yields the following growth scores and ranking:

S.No.	Sector	Composite Growth Score
1	Energy - Oil & Gas Exploration	25
2	Food, Beverages & Consumer Products	25
3	Fertilizers	25
4	Energy - Oil (Petroleum Refining)	25
5	Agro-Chemicals	18.34
6	Glass & Ceramics	18.34
7	Energy - Oil (Petroleum Distribution/Marketing)	18.34
8	Energy - Gas Generation & Distribution	18.34
9	Energy - Coal	18.34
10	Textiles - Synthetic Fibers/Polyester	18.34
11	Textiles - Composite	18.34
12	Machinery & Equipment	16.675
13	Energy - Power Gen & Dist (IPPs)	16.675
14	Sports Products	16.675
15	Chemicals	16.675
16	Surgical, Precision, Optical Equipment	16.675
17	Tobacco Products	16.675
18	Edible Oil	16.675
19	Telecommunications	16.675
20	Sugar	16.675
21	Construction	16.675
22	Information Technology	16.675
23	Cement	16.675
24	Pharmaceuticals	16.675
25	Automotives - Assemblers/Manufacturers	16.675
26	Textiles - Spinning	16.675
27	Automotive - Parts & Accessories	16.675
28	Textiles - Fabrics (Weaving)	16.675
29	Textiles - Woven Apparel	16.675
30	Textiles - Knits & Knit Apparel	16.675
31	Leather Products	16.675
32	Metallic Products (Iron & Steel)	16.675
33	Transport - Air	16.675
34	Carpets & Rugs	16.675

COMPOSITE RANKINGS BY PROFITABILITY

Profitability trends over the last 2 to 3 years and the outlook over the next few years yields the following profitability scores and ranking:

S.No.	Sector	Profit Score
1	Energy - Oil & Gas Exploration	30
2	Food, Beverages & Consumer Products	20
3	Agro-Chemicals	20
4	Fertilizers	20
5	Energy - Oil (Petroleum Refining)	20
6	Energy - Oil (Petroleum Distribution/Marketing)	20
7	Energy - Gas Generation & Distribution	20
8	Energy - Coal	20
9	Glass & Ceramics	20
10	Machinery & Equipment	20
11	Energy - Power Gen & Dist (IPPs)	20
12	Sports Products	20
13	Chemicals	20
14	Surgical, Precision, Optical Equipment	20
15	Textiles - Synthetic Fibers/Polyester	20
16	Tobacco Products	20
17	Edible Oil	20
18	Telecommunications	20
19	Textiles - Composite	20
20	Sugar	20
21	Construction	20
22	Information Technology	20
23	Cement	20
24	Pharmaceuticals	20
25	Automotives - Assemblers/Manufacturers	20
26	Textiles - Spinning	10
27	Automotive - Parts & Accessories	10
28	Textiles - Fabrics (Weaving)	10
29	Textiles - Woven Apparel	10
30	Textiles - Knits & Knit Apparel	10
31	Leather Products	10
32	Metallic Products (Iron & Steel)	10
33	Transport - Air	10
34	Carpets & Rugs	10

RANKINGS BY THREATS (OFFSET BY INDUSTRY'S LEVEL OF PREPAREDNESS TO MEET THOSE THREATS SUCCESSFULLY)

This is perhaps the most subjective (and therefore variable) part of the rating. The negative score pertaining to: a) direct or indirect impact of global recession, b) technology driven changes and c) market, regulatory and/or other changes (based on an overall appreciation of the sector specific threats, and looming issues). Same is the case with the level of preparedness to meet these challenges.

S.No.	Sector	Net Threat Score
1	Fertilizers	0
2	Energy - Coal	0
3	Food, Beverages & Consumer Products	-3.3
4	Energy - Oil (Petroleum Distribution/Marketing)	-3.3
5	Energy - Gas Generation & Distribution	-3.3
6	Machinery & Equipment	-3.3
7	Energy - Power Gen & Dist (IPPs)	-3.3
8	Surgical, Precision, Optical Equipment	-3.3
9	Edible Oil	-3.3
10	Sports Products	-3.34
11	Energy - Oil (Petroleum Refining)	-3.37
12	Chemicals	-3.37
13	Agro-Chemicals	-6.67
14	Glass & Ceramics	-6.67
15	Energy - Oil & Gas Exploration	-6.67
16	Tobacco Products	-6.67
17	Telecommunications	-6.67
18	Textiles - Composite	-6.67
19	Sugar	-6.67
20	Construction	-6.67
21	Textiles - Spinning	-6.67
22	Automotive - Parts & Accessories	-6.67
23	Textiles - Synthetic Fibers/Polyester	-6.7
24	Metallic Products (Iron & Steel)	-6.7
25	Information Technology	-10
26	Cement	-10
27	Pharmaceuticals	-10
28	Textiles - Fabrics (Weaving)	-10
29	Textiles - Woven Apparel	-10
30	Textiles - Knits & Knit Apparel	-10
31	Leather Products	-10
32	Transport - Air	-13.3
33	Automotives - Assemblers/Manufacturers	-13.33
34	Carpets & Rugs	-16.67

COMPOSITE INDUSTRY RANKING AND STRATEGIC CLASSIFICATION 2010-11

Summating all the category scores we get the following rankings, net scores ***and the proposed strategic classification*** **for each sector:**

	Sector	Net Score	Category	Range
1	Energy - Oil & Gas Exploration	83.33	Highly Attractive	>80
2	Energy – Coal	80.03	Highly Attractive	>80
3	Fertilizers	79	Attractive	70-80
4	Food, Beverages & Consumer Products	75.7	Attractive	70-80
5	Energy - Gas Generation & Distribution	74.33	Attractive	70-80
6	Energy - Oil (Petroleum Refining)	73.33	Attractive	70-80
7	Energy - Oil (Petroleum Distri/Mktg)	72.33	Attractive	70-80
8	Energy - Power Gen & Dist (IPPs)	68.365	Average	50-69
9	Machinery & Equipment	67.375	Average	50-69
10	Sports Products	67.335	Average	50-69
11	Chemicals	67.305	Average	50-69
12	Surgical, Precision, Optical Equipment	66.375	Average	50-69
13	Tobacco Products	65.005	Average	50-69
14	Agro-Chemicals	64.67	Average	50-69
15	Edible Oil	64.075	Average	50-69
16	Telecommunications	64.005	Average	50-69
17	Textiles – Composite	63.37	Average	50-69
18	Sugar	63.005	Average	50-69
19	Textiles - Synthetic Fibers/Polyester	62.34	Average	50-69
20	Construction	61.705	Average	50-69
21	Glass & Ceramics	60.37	Average	50-69
22	Information Technology	58.375	Average	50-69
23	Cement	57.375	Average	50-69
24	Pharmaceuticals	56.375	Average	50-69
25	Automotive - Assemblers/Manufacturers	54.045	Average	50-69
26	Textiles – Spinning	50.705	Average	50-69
27	Metallic Products (Iron & Steel)	50.675	Average	50-69
28	Automotive - Parts & Accessories	48.705	Hold/Watch	40-49
29	Textiles - Fabrics (Weaving)	48.375	Hold/Watch	40-49
30	Textiles - Woven Apparel	47.375	Hold/Watch	40-49
31	Textiles - Knits & Knit Apparel	46.375	Hold/Watch	40-49
32	Leather Products	45.375	Hold/Watch	40-49
33	Transport – Air	43.075	Hold/Watch	40-49
34	Carpets & Rugs	40.705	Hold/Watch	40-49

* Bank should be careful for all other forms of financing except short term working capital financing for sectors listed in the Hold/Watch category

SPECIAL SUPPLEMENT

SME GROWTH SECTOR SPECIAL 2011-12

EDUCATION

SME SECTOR SNAPSHOT

No. of Companies	**Act**/Est	36000		
		2011 or 2010-11	**2010 or 2009-10**	
Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	13,551,667	13,388,055	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess		■	
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	600,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	46,689		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	42,601		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	N/A		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	2,912		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	631		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est		■	
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess		■	

EDUCATION (Primary/Secondary)

Opportunities

- ▲ Private sector has been the most active in the distribution of quality education in the country. There were 3300 institutions in 1983 which increased to about 90000 in 2009. It is estimated that 40% of the total enrolment of primary schools is in private institutes.

- ▲ There is a need to create awareness to get education. However, it is observed that a great number of children are sent to private institutes for quality education they provide.

- ▲ According to the statistics of Ministry of Education (2009-10), large number of government school do not have basic infrastructure facilities, 32% are without a boundary wall, 33.6% are without drinking water facility, 35.4% schools are without washrooms and around 60% of government schools are without electricity. This deteriorating condition has lead to the spurge of private schools, which have taken place of government schools and present a continued area of opportunity.

Threats

- ▼ There are total 149163 primary schools in Pakistan, however there is 15% underreporting in the FBS (federal bureau of statistics) survey of private schools. This underreporting leads to wrong estimation in need of schools for the future generations.

- ▼ The cost of building and managing a school is increasing day by day. The cause of increase in fees of private schools is due to load shedding along with 20-30% increase in cost of electricity.

- ▼ A lot of expenses incur on salaries of the teachers, teachers' training, curriculum development, supervision and monitoring of all the campuses and branches of the private schools.

- ▼ In 1990's government offered tax-break for private schools for 5 years. Government has the responsibility to fix minimum standard of education, however it has failed to implement it on large scale as monitoring the quality of education is not transparent. There are no incentives or formal regulations for private schools.

Outlook

- ▶ Province wise literacy data of PLFS (2009-10) shows Punjab stood at 59.6 percent, Sind at 58.2 percent, Khyber Pakhtunkhwa at 50.9 percent and Baluchistan at 51.5 percent. Various estimates put enrollment of students to increase every year so demand is expected to remain constant.

EDUCATION
(Higher Education, Universities)

Opportunities

- ▲ If more universities are established then there is a chance for the students to get more options to choose from which will eventually result in improving the quality of the education being provided to the students. More universities will lead to providing better standard of education to the students, without eroding margins due to nature of demand.

- HEC has initiated a program to support private universities that meet the basic criteria for funding on cost sharing basis in the areas of research Support Programs, Faculty Development and Training Facilities, Foreign Faculty Hiring Program and Digital Library.

- 15 universities of the private sector universities were evaluated to declare them eligible for public funding during the year 2010-11. These universities include W category universities; 5 private universities of Punjab, 2 from ICT, 9 private universities of Sindh and 1 from NWPF were declared eligible for the public funding.

- Faculty development is one of the major problems for the universities. The need for professional development training increases and is highly imperative to improve. Video conferencing, internet and intranet facilities are being developed in the private institutes. Higher Education Management Information System is being implemented in all the universities to reach the quality education imparting status from the foreign universities as well.

- Involvement of private sector in higher education has increased tremendously. There are a number of students enrolled in private sector universities/institutions. Corporate universities are growing and a wide variety of public-private and public-public partnerships are evolving to meet the rapidly increasing demands.

Threats

- The operating costs have increased with the increase in rate of power tariffs and purchase/use of generators in times electricity shortage.

- No incentives or monetary help is provided by the government. PEC and HEC impose various rules and regulations for the approval of the degrees which is a big hurdle for the private universities to grow, however on the other hand it serves as a quality check and ensures the quality of education provided to the students.

- Number of students enrolled in private institutions has declined this year 2011-12. This is probably another factor why seats in public sector institutions have increased this year.

Outlook

- Private universities generally do not consider competition as a part of their operating plan. Due to inherent demand, sector is expected to show any growth at par with general trends in the economy, and private institutions remain profitable.

EDUCATION
(Vocational/Technical)

Opportunities

- An amount of Rs. 3.2 billion is being spent during the fiscal year 2011-12 on various programs of TEVTA. This will help in increasing the options available for the young people in the form of more variety of courses/trainings to choose from.
- Labor productivity can be increased by providing technical education to youth.
- NAVTEC has also developed Industries Advisory Group (IAG), to fill missing links in the training offered and the skills needed in particular sectors which include textile, surgical instruments, construction, tourism and hospitality.
- The training is mostly done in collaboration with the foreign countries; this is responsive to the needs of the industry which ensures quality provision of training.
- According to Tracer study, 37% NAVTEC trainees got jobs or established their own business at a small scale.

Threats

- Lack of training resources for the teachers and lack of international exposure effects the training being imparted to the students, this can however be enhanced by the staff development and provision of sufficient funds.
- Less number of factories and closures of various factories along with low employability pose a great threat to technical institutes, as young people become reluctant in getting technical/vocational education.

Outlook

- There is a need of significant number of vocational training institutes in Pakistan. The present training institutes should impart training of international standard. The reason behind there is 68% of total population in the country regarded as youth. To absorb this youth it's necessary to make them productive, therefore a need for technical institutes is indispensable.

HEALTH

SME SECTOR SNAPSHOT

No. of Companies	**Act**/Est	98		
		2011 or 2010-11	**2010 or 2009-10**	
Sales (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	15,172,117	13,051,549	
		High (>15%)	**Medium (5-15%)**	**Low (<5%)**
Projected Sales Growth (%) (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess		■	
		2011 or 2010-11		
Total Employment (Direct+Contract) *Best estimates if actuals not readily available*	**Act**/Est	100,000		
		2011 or 2010-11		
Total Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	14,493,234		
		2011 or 2010-11		
Total Current Assets (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	13,372,169		
		2011 or 2010-11		
Inventory *(Rs.in million)*	**Act**/Est	16,719		
		2011 or 2010-11		
Accounts Receivable *(Rs.in million)*	**Act**/Est	N/A		
		2011 or 2010-11		
Total Current Liabilities (Rs.in million) *Best estimates if actuals not readily available*	**Act**/Est	1,240,934		
		High (>10%)	**Medium (5-10%)**	**Low (<5%)**
Net Profitability (before Tax) (% of Net Sales) *Best estimates if actuals not readily available*	**Act**/Est		■	
		Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
Net Profitability (Next 1-2 Yrs) *Best estimates if actuals not readily available*	Best Guess		■	

HEALTH

Opportunities

- The competition is intense and is mainly based on the differences in the technology, quality and the price of the services. Businesses get competitive edge by targeting different classes of the society usually the sub segments and sub regions.
- The costs are increasing with the expansions of the businesses. This is because of the positive trend seen in the development of private sector over the last decade.

External causes include the increase in taxes, inflation, government policies and financial conditions.

- In Pakistan investment in health sector is viewed as an integral part of the government's poverty alleviation endeavor. There has been a noticeable improvement in some health indicators over the years. The health care personnel doctors, dentist, nurses and paramedics etc in public sector have also increasing considerably over time in the country. Up to year 2010, there were 144901 physicians, 10508 dentists, 73244 nurses and 27153 midwives. There are 972 hospitals in the country with total of 104137 hospital beds, 4842 dispensaries and 5344 basic health units.

Threats

- Health Ministry is the only regulatory body. There are Health Policies Reports issued stating the main changes and the standards set by the government. There are no incentives given to private sector especially when it comes to CSR projects.

- Technology is changing rapidly and the businesses are adopting it accordingly. Machinery of international standard is being imported and used but the employers are not trained at the same rate which results in the decrease in the efficiency.

- Although the businesses are improving and have a positive trend in the sales and income but still it is not affordable or even available to the 64% of our population living in the rural areas of Pakistan. Regulatory or monitoring bodies are not performing any checks on the hospitals which have caused a slight decrease in the quality of the service and a major increase in the monopoly of these hospitals.

Outlook

- Demand of urban is improving margins for private hospitals, and any expansion into rural segments presents a very positive growth scenario.

LABS

Opportunities

- This is a growing industry with intense competition among the private labs, hospital or institutional labs and public labs.

- With the expansion nature and increase in the demand of the service from private labs, the costs are increasing. More and more technology is being imported and the availability of service is increasing; which further pushes the costs up.

- Companies are trying to develop technology as fast as they can in order to remain in this growing industry. There are facilities being provided by the labs which were not there even five years back.

Threats

- The boost in this sector lead to spurge in the growth of labs where quality lessens to some extent and the decrease in quality due to rapid expansion means the monitoring bodies cannot control quality assurance.

Outlook

- This industry is very attractive because of the boost it gained after the failure of the government sector. This brings a huge pressure on the private sector in response to fulfilling the demand, which resulted in the development of private share in this sector. Labs are on a positive growth trajectory.

TOURISM
(Hotels)

Opportunities

- The hotel industry plays a vital role in any country's national economy. The hospitability sector is a key component of the service industry. Around the world this industry has become one of the fastest growing businesses. The development of this industry depends on a combination of the supply and demand factors. During the past thirty years, this trade has expanded rapidly in both developed and developing countries and has become the 7th largest industry in the world. In this development, Pakistan is still far behind.
- The largest hotel industry is Switzerland. Economies of countries like Canada, Japan, United Kingdom, US and Germany are ruled by this industry. To fulfill their supply and demand needs and in order to make their economy stronger, these countries are creating further opportunities for its growth.
- In Pakistan, there are only a few top class hotels which include Pearl Continental (taken on lease for 100 years from Intercontinental) and Marriott. They are owned by the Hashoo Group . Other than these two well known chains, there are Avari, Sheraton, Holiday Inn and Hyatt (still under construction) coming from a chain of internationally recognized hotels.
- This financial year in Pakistan, a rise of 12% in the formation of new companies was observed, among those newly registered companies 217 (6.38%) were formed in the tourism business. International interest in the tourism and hospitality market in Pakistan is thriving; recently a MoU was signed between Cristal Group Holdings and Rufi Real-Estate group for the establishment of Cristal hotels in Pakistan.
- Pakistan is a very promising market and definitely a key to the rest of Asian markets. Pakistan was ranked 129th by the World Economic Forum in one of the reports named Global Tourism Competitiveness Report.
- In 2005 the Saudi financier Prince Alwaleed bin Talal who manages and owns luxury hotels around the world took the initiative of announcing finance for the establishment of three hotels in Lahore, Karachi and Islamabad. Those projects are still in the pipeline.
- Hotel development is a capital intensive business, many developing or underdeveloped countries are unable to build lavish hotels to accommodate their

desired target segment. The only solution of the current problem is the improvement of law and order situation. The role of government is very critical to curb the growing terrorism in order to boom tourism and hotel industry in Pakistan.

- Pakistan Hotel Association (PHA) in 2007 urged the Government to eliminate the hotel bed tax as it was hindering the expansion of the hotel industry. 15 percent sales tax was already being paid by the hotel industry. These tax exemptions and other duties will also magnetize shareholders to invest in hotel projects of international standards.
- 28-storey hotel was being built in Karachi at the cost of around 7 billion rupees. The project has delayed and the project will now complete in 2012 instead of July 2010.

Threats

- An independent report by World Economic forum's Travel and Tourism Competitiveness Report 2008 (TTCR) suggested that tourism facilities remained unsatisfactory in Pakistan. Due to the absence of world class tourism facilities, Pakistan is constantly being put on the back foot when it comes to tourism promotion.

- In addition to a poor tourism infrastructure, Pakistan also lacks standard and competitive hotel rooms at popular tourism sites. The TTCR ranked Pakistan at number 110 out of 124 countries, when it came to provision of standard and competitive hotel rooms.

- The planned construction of at least five hotels, including Avari Islamabad and Sheraton Lahore, have been put on the hold, while completion of big projects such as Sofitel Hotel in Karachi have been delayed. Those which are operating are finding it difficult to remain afloat.

- It is pertinent to mention that leading hotels of the twin cities have witnessed a shortfall of customers from 40 percent to 60 percent after September 20.

- The Hotels Association of Pakistan addressed that the room occupancy dropped to 40 per cent on an average, much below the numbers needed even to breakeven.

- Major part of profits to the leading hotels comes from the foreign tourists, diplomats, and executives of multinational companies. The top brass of several multinational companies have either left Pakistan or would leave soon.

Outlook

- Due to an unstable economy, Pakistan has become a difficult terrain for foreign business. Our Government's investment policies are attracting prospective foreign financiers but it has not been supportive in promoting tourism and trade activity in the country. This sector needs the Government's full attention. There is a strong demand to build world class hotels, growth is expected to remain stagnant barring public sector intervention.

TOURISM
(Restaurants and Eateries)

Opportunities

- The restaurants and eateries business has made significant improvements in the past decade as more and more international food chains have set up franchises in Pakistan. Apart from Global fast food, a marked increase has also been observed in local restaurants opening up that offer the customers with quality and ambiance comparable to an international scale.

- International food chains can provide strong stimulation to a country's economy, KFC alone pays $10 Million in taxes to the Pakistani Government. Pakistan's fast growing middle class (evaluated at 25% of the population) has a spending capability that can enable such industries to grow.

- Pakistan earned 250 Million US$ in 2009 from the tourism industry. Tourism industry contributes 6.5% to the GDP of year 2011 which is much lower as compared to the expected 13.87%.

- The government should demonstrate the significance of regulatory framework in these areas by making available supportive business opportunities having a firm focus on transportation facilities. The maturation of human and natural resources can also contribute to the development of this industry.
- With the prime objective of promotion of tourism in remote and under-developed areas, PTDC launched its Motels Subsidiary (PTDC Motels) in 1976. From a modest beginning limit of 10 units, PTDC Motels have now expanded its boarding, lodging and restaurant facilities to 43 remote tourist destinations spread across the country.

- With over 600 rooms, PTDC has now become the largest chain of motels & restaurants in Pakistan. In line with Government's tourism development strategy, PTDC motels were constructed to meet two primary objectives; to open up new areas for tourism and set the pace for the private sector to follow. Secondly to initiate socio-economic development of the area. PTDC has been meeting these objectives and presents accessible and affordable facility at the most picturesque sites of Pakistan.

- PTDC Motels are set up in areas where private sector is reluctant to invest or where infrastructure facilities are not yet developed. Playing a role of a pioneer and trend setter, PTDC Motels have always opened up new and remote places for tourism thus bringing infrastructure (road, water, electricity, telephone etc) facilities and employment opportunities at the door-step of the local communities.

- ▲ Plant, machinery and equipment (PME) not manufactured in Pakistan can be imported at only 5% customs duty.

- ▲ Rapidly increasing middle class offers more opportunities for foreign investment in the Restaurant business.

Threats

- ▼ Pakistan faces competitive disadvantages in tourism sector in the form of lack of facilities that cannot meet international standards. With a poor tourism infrastructure the provision of standard and competitive hotel rooms in Pakistan is at number 113.

- ▼ Rising inflation is another factor reducing tourism in Pakistan. Tourists returning back have words of escalating inflationary trends which as a result discourage other tourists as well from visiting Pakistan. This can be seen as a major problem confronting this sector.

Outlook

- ▶ Turbulent economic conditions coupled with fluctuating commodity costs, food safety concerns, legislative initiatives (nutritional content and disclosure), and menu innovation are some of the key issues affecting restaurant operators. Addressing these issues and other industry challenges with robust business and technology strategies can help restaurant companies adjust to the changing business environment and grow their market share.

FURNITURE

Opportunities

- ▲ European and Middle Eastern countries are good areas to tap for increasing global trade and the furniture exports.

- ▲ The skilled labor of the country if equipped with the new technology and machinery, can increase their efficiency and the quality, but will also increase the overall profits by decreasing the costs.

- ▲ The hand carving and the local style gives an edge and uniqueness to the locally produced goods.

- ▲ If the government invests and subsidizes the rates in this sector, as it majorly comprises of the cottage and SME, hence being very feasible for the government to finance than big factories, the industry could compete well and come to give competition to the players in the international markets due to its uniqueness and quality.

Threats

- There is a lot of competition in the local market, which makes it difficult for the new entrants to compete and survive; same is the case in the international market due to the high costs of inputs.

- As there is electricity crisis in the country, so the alternative sources add to the total cost, increase the selling price in the foreign market making the local product unable to compete in the international market with the low cost product from countries like China.

- Currently the imported furniture from China and Taiwan is less expensive than the furniture produced locally, thus the producer is now shifting from being the producer and bearing high costs to the importer and retailer.

- Most of the business and foreign orders are getting out of the hands of the local producers due to the lack of shipments on time (power breakages), high production and transportation costs and the delays on clearance and custom.

- Illegal trade of timber and the corruption in the sector has also led to damage the overall sector and the repute of the producer.

- Government has not taken any step to stop or minimize the illegal cutting of the wood. The forests ratio of any country should be 25% of its total land, but unfortunately in Pakistan it is 4% only. The wood obtained from the trees is also smuggled to other countries via Afghanistan which adds nothing to the GDP of the country.

Outlook

- There is huge potential in the furniture sector of the country, need is for the industry clusters to be converted into an organized industry to get maximum benefits.

- Growth is expected to remain moderate, with tree/wood input costs rising due to lack of farmed trees and reforestation success.

WHOLESALE & RETAIL TRADE

Opportunities

- Pakistan's food retail sector is unorganized and largely dominated by traditional independent small "mom and pop" stores. These stores, locally known as "kiryana stores," comprise of 95% of all Pakistan's food retail outlets with an estimated annual turnover of $3 billion. The overall share of imported food products in Kiryana stores is about 1%. Kiryana stores are located in all parts of the country with an average floor area of 3,000 to 6,000 square feet.

- Competition exists in the retail sector of Pakistan which is evident by the fact that more and more stores are emerging and existing stores are opting for expansion to remain competitive.

- To get hold of more clients, new retail stores are bringing foreign brands in the market as now the mindset of people is changing and they are becoming more inclined towards branded products.

- Availability of cheaper goods for consumers in an opportunity.

- Technological advancement is giving boost to this sector. In big retail stores technological advancement in the form of cameras is quite palpable. These are used to keep a check on customers as well on the sales people in order to avoid theft.

- Foreign chains flowing into the domestic market with their experience and proper information systems and technologies.

- Pakistan does have a large middle class. While it is not growing at the breakneck speeds as the Chinese or even the Indian middle class, it is a substantial market, one worth selling to for most food and consumer goods firms. And with the advent of larger retail and wholesale chains, they may well find it more feasible to do so.

- Carrefour, the France-based chain that is the second largest retail chain in the world, has been operating a store in Lahore since 2007 and plans to set up 10 more over the next five years.

- Wholesale is a substantial market, one worth selling to for most food and consumer goods firms. And with the advent of larger wholesale chains, the investors may well find it more feasible to do so.

- Metro Cash & Carry, a German wholesaler, has set up five stores across the country and plans to continue expanding its presence in Pakistan.

- Foreign firms have given the emerging Pakistani middle class a taste of the cornucopia of choices that is available to consumers in more developed markets. They have inspired a local response. The House of Habib, a local conglomerate with interests in manufacturing and financial services, has launched Makro, a large wholesale chain that also doubles as a retail outlet.

- In wholesale sector products are imported from China, UK, Burma, US, Indonesia etc. Export is not carried out because wholesalers are not manufacturers but service providers.

- ▲ Proper IT system, Client Relation Management (CRM), development of Supply Chain Management (CSM) and scanning system of products are the positive technological advancements in this sector.

- ▲ There is room for expansion in this sector. As Pakistan is an emerging and a developing country, this compels foreign stores to invest here.

- ▲ As the inventory sales of wholesale stores are taxable, so it contributes to the economy of the country. Most of the employees in wholesale stores are locally based so this helps in overcoming unemployment and provides platform for 'Retail Management' professionals.

Threats

- ▼ Logistics is an exceedingly important cost component that eats away at the margins of most producers of retail consumer items. Unilever, one of the largest consumer goods company in both Pakistan and the world, logistics costs constitute close to 19 per cent of their revenues, which depresses the profitability of a machine.

- ▼ The presence of large retail chains means that producers can sell directly to retailers and wholesalers, which reduces overall distribution costs. These high costs also mean that businesses who seek to invest in processed food and consumer goods manufacturing are dissuaded from doing so, despite the existence of a very large population, a significant portion of which has disposable income. According to a study conducted by Standard Chartered Bank in 2007, close to 30 million Pakistanis live in households with an annual income of $10,000.

- ▼ Future of local retailers is not obvious as Government is providing gateways to the multinational companies to enter the retail business. This is creating an unambiguous environment in terms of operations in this sector.

- ▼ There are no proper training institutes to train salesmen. Along with experience, training is also required.

- ▼ Due to cultural issues, people do not opt for this profession, not even as a part time job.

- ▼ Electricity problems currently in the limelight have increased stores expenses as retailers have to spend a lot on other alternatives (generators) and large quantity of diesel to keep the stores operational.

- ▼ Due to increase in inflation rate, everything has become expensive and this has affected the purchasing power of people in past few years. There is an increasing gap between socio economic statuses of people. This gap is affecting the retail sector as more than 60% of our population is not able to buy exclusive things other than basic food items.

- Quality check is ignored on the part of government. It does not have proper resources to check the eminence of products; however, they can technically assist, understand and check this concern.

- Government does not facilitate the local retailers to expand and grow .This is creating problems for the local companies who are trying to compete in the market having international players as well. However, consolidation within this sector may prove useful.

- Retailers face enormous challenges importing food products into Pakistan. Some of the primary obstacles include: inadequate cold chain infrastructure, lack of storage and handling facilities, and deficient transportation networks. Layers of intermediaries (middlemen/brokers) also add to the cost of importing products and cut into profits. Corruption is a major problem. In addition, imported food items are subject to tariffs ranging from 25 percent to 65 percent. Non-tariff barriers are also major obstacles to importing to Pakistan. The procedure for sampling and testing of food products at the port of entry are not well defined, thus, creating barriers for imported food market.

- Due to poor government policies, economic conditions of the country are getting worse which result in strikes and ultimately lead to the closure of shops and markets for indefinite period of time.

- Wholesale stores need huge amount of products in greater volumes, thus shortage from the factories affect the demand of the stores.

- Problem occurs when a product is imported in bulk and then there is not much demand of that product.

Outlook

- If retail sector can have lower distribution costs and easier access to a wider swathe of the consumer market, they are more likely to expand existing lines of business and introduce newer markets. In other words, food producers will go from selling raw commodities to selling higher value goods which will not only expand consumer choice but will also increase the productivity of the Pakistani workforce and thus their incomes, while enhancing core profitability.
- The existence of stable wholesale industry and chains means that Pakistanis are about to be inundated with outlets that seek to create a better shopping experience and offer consumers more choice. The larger these chains become, the more those choices they offer will be produced locally in relation to the international standards. There is an opportunity for growth over 2012 & 2013.

MINING AND QUARRYING

Opportunities

- ▲ The budget allocated for the sector combined with mining and manufacturing is Rs. 1760 million for the year 2011-12.

- ▲ There is an immense magnitude of investment opportunities in the mineral sector of Pakistan. According to the feasibility report submitted by TCC to the provincial government, the Reko Diq mine has total reserves of 22 billion pounds of copper and 13 million ounces of gold and the mine life is 56 years.

- ▲ The Government plans to establish a copper refinery and processing plant for which Rs. 8.5 billion have already been allocated to the project in the 2011-12 budgets. Investment and exploration of mineral sector would lead to the creation of job opportunities for several unemployed people all over Pakistan and especially in the area of Baluchistan.

- ▲ Thar coal reserves found in Sind are estimated at 185million tons. These are the largest coal reserves found in the country. Coal extracted from the mines can be utilized in sugar industry, power generation, and cement industry.

- ▲ According to State Bank of Pakistan FDI inflow in mining and quarrying sector is estimated at $350 million.

- ▲ The Reko Diq mines have the potential to produce 250,000 ounces of gold and 200,000 tons of copper annually which could mean a turnover of approximately $260 billion at current rates.

- ▲ Best quality coal mines are present in NWFP so in turn they are able to demand high prices.

Threats

- ▼ US $3.3 billion investment would be needed initially to start mining production. The foremost cost includes development of a 682 km long pipeline from the site to Gawadar for transport of goods to international markets. However major concern is over the exploitation of these resources over time.

- ▼ Low quality coal is a major threat because it cannot be exported to other countries. The largest coal mine in Thar Desert has the low quality coal which is sold at the least rate. Which is why even the presence of 184million tons of coal reserves alone in that mines are not worthy.

- ▼ Lack of quality roads for transportation, nearness of processing plants and low quality of machinery being imported is a big issue that needs to be resolved before the mining and mineral sector becomes fully beneficial for the economy and the investors in the long run.

- ▼ There are various other issues faced by the sector which include entry barriers including license issuance and renewal of license. Government involvement in finding the mineral sites and exploration hinders the growth of this sector at much larger extent, as it hinders FDI into the sector.

Outlook

- There are 15 minerals in the country including aluminum, iron ore, copper, coal, gypsum, zinc, rock salt, limestone, granite, marble and gemstones, which are considered as the most important in generating great amount of revenue for the country.

- Mining and quarrying sector has grown by 0.4 percent in 2010-11 as against 2.2 percent last year while growth of coal declined by 4.0 percent, chromites 39.3 percent, magnetite 60.9 percent and barites 32.6 percent. However, marble and granite sector showed considerable growth of 46 percent in exports over last year. Natural gas, crude oil and dolomite posted positive growth rate of 1.9 percent, 1.1 percent and 5.9 percent respectively.

LIVESTOCK & DAIRY

Opportunities

- Livestock accounts for approximately 55.1 percent of the agriculture value added and 11.5 percent to GDP during 2010-11. Livestock sector's prospective role towards rural economic development may well be recognized from the fact that 35-40 million rural populations are dependent on livestock – It is becoming a policy imperative to focus on this sector

- It provides raw material for food and the Leather Industry. It is a major source of food, i.e. meat. It is also a source of Farmyard Manure (FYM)

- Ample human resource available for the sector and high number of available labor for the sector

- Stationed and permanently located (secured) credit extension sector is available for local livestock and milk farmers

- High economies of scale and high returns for medium sized and large producers

- High level of export and value-addition potential for the industry on the back of global demand and investment moving towards commodities

- Improving the genetic potential of indigenous livestock through selection and crossbreeding

- Quality of poor fodders and straws can be improved with treatment of urea and molasses. The urea is cheap source of nitrogen while molasses provides ample energy to the ruminants

- In view of the global shift towards security and growth via commodities, the Livestock sector should be considered more and more as an advanced industry.

This paradigm shift will help this sector to be supported in accordance with laid down rules and regulations adopted for the development of any sector declared as 'industry' in the country

- ▲ Flexibility and gaps open for opportunities in the supply chain and in credit extension to the producers (current rates of credit are artificially high and UN-regulated)

Threats

- ▼ Due to lack of proper management practices and poor breeding, animal production tends to be very low. This results in low farm profitability and reduced national productivity. For instance, in comparison with, say, Germany, there are three times as many dairy animals in Pakistan but the milk yield is only one-fifth
- ▼ Small-holder dairy farmers in Pakistan are unorganized and mostly carry out production and marketing in isolation from each other. The highly fragmented production base particularly hampers farm profitability
- ▼ The factors which constrain the productivity of animals are diseases, inadequate feed supplies, improper management and poor genetic stock. Most of the farmers do not have adequate knowledge about animal nutrition, disease control and breed selection. This results in low meat production per animal
- ▼ To ensure product quality, proper transportation of milk also requires a cold storage chain. But agents in the marketing chain in Pakistan rarely have access to cold storage facilities; consequently a major portion of their milk is lost. According to an Asian Development Bank report an estimated 15– 20 percent of the total milk production in some areas is lost due to the unavailability of cold storage
- ▼ In the absence of financial services (such as insurance and credit) small farmers do not have a financial recourse in times of emergency, such as livestock disease or mortality. Similarly, smallholders do not have ready access to credit that enables them to improve their enterprise, such as the addition of improved marketing infrastructure
- ▼ Smallholders have to rely on middlemen to market their produce. Drawing on their monopolistic role, middlemen can exploit farmers by paying low prices, executing binding sales contracts and not passing on gains when prices are seasonally high in response to lower supply
- ▼ The formal meat market not growing due to the government regulation of price fixing as the Municipal Corporation fixes the meat prices in the urban markets
- ▼ Defective and unorganized markets leads to an uncompetitive price mechanism
- ▼ Seasonal variations have a negative impact on the pricing mechanism

Outlook

- Livestock and dairy production will remain on of the most important drivers behind an agriculture and basic foods based growth trajectory, and even a base level of re-organization of exposure by banks into the sector can yield very high returns.

- Has already become the focus of investment by many small to medium sized enterprises across the country as a new avenue for revenue (and as a means to reduce risk of exposure to industries in decline).

SECURITY SERVICES

Opportunities

- It's an infant sector in the economy of Pakistan that came into being after the events of September 11, 2001. This gave rise to the demand of internal security. Since then, approximately 600 security companies exist in Pakistan, based on the number of registrations where Phoenix Armour, All security Pakistan and Askari Guards top the list.

- Currently 124 registered private security companies are operating in Islamabad. At least 600 security companies exist in the country on the basis of licenses issued. The lack of trust in the law enforcement agencies, repetitive acts of kidnapping and killing has given these companies an opportunity in Pakistan. People are hiring guards from security companies, for personal security reasons.

- The cost of providing private security is constantly on the rise because of the increase in the minimum wage by the government and general inflation to 15-20%.

- Electronic and mechanical security systems are being preferred by large and medium organizations in public and private sector. This creates a service related by-product. This has led to an emergence of surveillance devices and electronics market-generation of value.

- Security industry in Pakistan is a prominent employment generator in the country absorbing officers, other ranks and civilians retiring from the army in their productive years, therefore increasing their purchasing power with knock-on effects to other sectors.

- Although private security regulation laws and rules have been promulgated by all the provinces and federal government, regulation of the private security companies is not very strict in Pakistan, thus more profitable scenario exists.

Threats

- There has been a mushroom growth in the private security industry during the 90s and in the last decade. This has forced the companies to offer lower per guard rates reducing the margin of profit and rendering many companies out of business and forced others to cut essential costs.

- Increasing terrorist activities in the country indicates the inefficiency of the security sector in Pakistan and the obsolete methods and equipments that are being used. The country's economy remains vulnerable to internal and external shocks due to internal security concerns and the global financial crises.

- The intelligence agencies also need to improve a lot but for that an immense investment is required. Unfortunately, the 2011 budget allocates almost the same budget to the security sector as it was in the past while major chunk of it is flowing to the less important areas.

- Low wages are a contributor towards low quality security service. Complaints are mounting while quality is going down. Therefore, the companies although on a rise yet are at a risk.

Outlook

- Increasing insecurity and instability in the country requires the government to consider making changes and improvements in the police force and other law enforcement structures. Companies providing security guard services must be encouraged to start their operations in the country and contribute to the maintenance of law and order situation in Pakistan. Given continued threat and risk parameter, sector is expected to continue to grow.