INDUSTRY RATINGS & STRATEGIC POSITIONING 2013

A COLLABORATIVE RESEARCH EFFORT BETWEEN:
National Bank of Pakistan (NBP) &
National University of Science & Technology (NUST)
Under the auspicious of NUST Corporate Advisory Council (CAC)

NUST
National University of Sciences & Technology

CAC
CORPORATE ADVISORY COUNCIL
Think.Collaborate.Build

NBP
National Bank of Pakistan

Furthering the CAC Mandate – Hands-on Sector Analysis by NUST-NBP team

The National University of Sciences and Technology (NUST), Islamabad, is the dynamic face of higher education in Pakistan today; it combines the strength and expertise of 18 constituent Schools, Colleges and Institutes, and prides itself on its teaching and research excellence. Moreover, NUST is fully cognizant of its role in the socio-economic development of Pakistan, and therefore does not limit itself to academic research only. NUST has a long-standing relationship with the Industry, and is one of the few Pakistani Universities to engage in Industry-specific R&D. Much of the research adopted by the various Schools at NUST derives from the necessity to maintain a high level of skill and R&D capability to fulfill the requirements of Pakistan's Industries.

The Corporate Advisory Council (CAC) is the formal platform for Industry-Academia collaboration at NUST; it was established in April 2010, and is Co-Chaired by Rector NUST Engineer Muhammad Asghar and Professor Emeritus NUST Engr. Dr. M. Akram Sheikh. The CAC promotes and facilitates dialogue, relationship-building and collaboration between the Industry and NUST Academia. It is a Triple-Helix Alliance between the University, Government and business enterprises / Industry. The alignment of traditionally opposed academic and business worldviews is embodied in the 11 Sector Committees of the Council, including Automotive, Health & Pharmaceuticals, Infrastructure, Information & Communications Technology (ICT), Engineering, Banking & Financial Services (BFS), Energy, Chemical, Defence Technologies, Intellectual Property Rights (IPR), and the Social Sector. In a period of just over 3 years, the CAC membership has grown to include more than 150 members from top local and international business and industrial firms, banking and investment houses, high-level public policy-makers, and intellectuals.

In line with its core aim of having long-term economic impact and facilitating socio-economic growth in Pakistan, the CAC, from the platform of its Banking & Financial Services Sector (BFSS) Committee, embarked on a joint research project with the National Bank of Pakistan (NBP) in 2011. It was a mega-research initiative of mapping the industrial disposition of Pakistan; this was the first time that a bank partnered with a University to conduct multi-sector research of this magnitude. The first joint research report, titled **'Industry Ratings and Strategic Positioning 2012',** was published in January 2012. In July 2012, the same research study for the next year commenced. The project methodology was improved, as were the techniques for qualitative analysis; the resulting report is **'Industry Ratings and Strategic Positioning 2013'**.

The CAC-NBP Joint Research Project is an excellent example of Industry-Academia research collaboration, and has helped NUST students to gain exposure to several Sectors of the economy in a brief period of 6 weeks. It also speaks volumes of the increasing trust of our Industry partners in the capability of NUST to deliver quality research output.

NUST
National University of Sciences & Technology

CAC
CORPORATE ADVISORY COUNCIL
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Industry Ratings
&
Strategic Positioning 2013

Comparative sector ratings to rank performance, identification of industry specific risks and opportunities with composite assessments & recommendations on strategic sectoral posturing

June 2013

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INDUSTRIES RATED

Credits & Acknowledgments

NBP

1. Mr. K. Ahsan Elahi	SVP, Head of Industry Research & Analysis Wing, CMG, Industry, Lead for Research Collaboration

NUST

2 .Dr. Ashfaque Hasan Khan	Dean NBS and NUST Co-Chair CAC BFS Sector Committee
3 .Mr. Omar Aziz	Asst. Professor NUST Business School, Technical Lead & Research Supervision from the NUST side

Primary Researcher NBP

4 .Mr. Hammad Farid Malik	Research Analyst, Industry Research & Analysis Wing, CMG

Research Coordinator NUST

5.Ms. Wasifa Hussain	Associate Project Manager, CAC-NUST

Data & Compilation (Students):

1. Mr. Muhammad Sulaiman Jahangir MBA, Bahria University Islamabad (Student Suprevisor)

2. Ms. Areej Anwar	MBA, NUST Business School
3. Ms. Imtisal-e-noor	BE-CHE, NUST School of Chemical and Materials Engineering
4. Mr. Jamshed Afzal	MBA, NUST Business School
5.Mr. Usama Bin Zubair	BS-Economics, NUST Business School
6. Mr. Arslan Gul Malik	BBA, NUST Business School
7. Mr. M. Bilal Munir	BBA, NUST Business School
8.Ms. Zaineb Naveed	BS-Economics, NUST Business School
9. Ms. Mahwish Rizwan	BS-Economics, NUST Business School
10. Ms. Anum Aftab	BBA, NUST Bussiness School
11 .Mr. Ahmar Awan	BBA, NUST Business School
12 .Mr. M. Ali Asad	MBA, NUST Business School
13 .Ms. Mehwish Musharraf	MBA, NUST Business School
14 .Ms. Durdana Irshad	MBA, NUST Business School
15 .Ms. Sabeen Rashid	MBA, NUST Business School
16 .Mr. Maraj Murtaza	MBA, NUST Business School
17 .Mr. Imran Khan Afridi	MBA-Finance, NUST Business School
18 .Mr. Muhammad Ali	MBA, NUST Business School
19 .Ms. Fatima khurram	BBA, NUST Business School
20 .Ms. Areej Javed	BS-Economics, NUST Business School
21 .Mr. Bader Al Hussain	BBA, NUST Busines School
22.Mr. Muhammad Saad	BBA, NUST Business School
23. Mr. Mamoon Asif	BE-CHE, NUST School of Chemical and Materials Engineering
24. Mr. Faizan Hayat	MBA, NUST Business School

Special Acknowledgement:

A.F.Fergusons team led by Mr. Syed Faraz Anwar (Partner, Risk Advisory Services), and currently assisting NBP with Basel III compliance, for their invaluable support in helping expand the rating criteria in line with international best practices.

Message from Principal / Dean NBS NUST Co-Chair CAC Banking & Financial Services Sector Committee

Dr. Ashfaque Hassan Khan

The 'Industry Ratings and Strategic Positioning 2013' delivers a road map necessary to identify and highlight the significant industries operating within Pakistan. This collaborative effort between National Bank of Pakistan (NBP) and the Corporate Advisory Council (CAC), National University of Sciences and Technology (NUST) offers a strategic planning framework to guide investment in various sectors of Pakistan's economy. The 2013 report is another iterative step building upon previous reports, and has to be viewed as such, rather than a static all-inclusive document. Establishing cohesive measurement criteria is crucial to achieving growth and sustainability targets for the transitioning industries of Pakistan. With the help of this report we track the nation's industrial progress year upon year. We must first see where we are, in order to project where we want to be.

We hope that this report will not only help identify the prospering sectors of Pakistan's economy for investment purposes, but, just as importantly, also identify the challenges that the nation's machinery, in the form of factories, plants and mills, faces on a daily basis. These challenges range from inadequate infrastructure to persistent energy shortages to the bare existence of a highly trained and productive labor force. The annual evaluation in this report provides a scorecard of these struggles. In essence, it pinpoints the strengths that can be leveraged and weaknesses that must be overcome related to the domestic industrial sectors. There is no doubt that competition among exporters from the world over is fierce. Pakistan's Industry must meet and exceed the expectations of global importers. Only a firm commitment from all stakeholders will help attain the right balance between strict standards of quality and sustainable cost structures. These are prerequisite characteristics for competing at the international level. And it is the global arena that we must focus at and gear to compete and excel in. In this regard, it is recommended that a comprehensive export oriented strategy must be developed. This report therefore may be used to smooth out the various road blocks being faced by sector after sector.

The CAC-NBP Joint Project is an ongoing effort, and has now become an annual occurrence. As NUST Co-Chair of the CAC BFSS Committee, I am very pleased at the output by our qualified faculty, talented students, and experienced partners from NBP. We at NUST Business School (NBS) will continue to play our part in making this report and subsequent reports relevant and competent. In this respect, we strive to enhance our relationships with the Industry and policy-makers alike. The contribution of NBS students towards the development of this report is a testament to this commitment. Their role as sector analysts played a pivotal part in this exercise. This report's research process is representative of the Industry linkages that we at NBS are cementing for our students' future career prospects. We stand ready to research, coordinate, consult and deliver.

Message from Secretary General, CAC Advisor NUST

Mr. Amer Hashmi

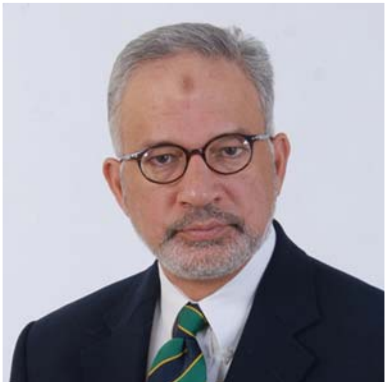
The Corporate Advisory Council (CAC) at the National University of Sciences & Technology (NUST) is the epitome of University-Industry collaboration aimed at producing knowledge for application in Industry and society for equitable socio-economic development in Pakistan. The CAC is a unique triple-helix combination of advisory, consultation and R&D collaboration; this takes place through our core values of THINK.COLLABORATE.BUILD.

The CAC-National Bank of Pakistan (NBP) Joint Research Project 'Industry Ratings and Strategic Positioning' was launched by the CAC Banking & Financial Services Sector (BFSS) Committee in 2011. This project gave a wonderful opportunity to NUST students and faculty to engage in a meaningful, targeted, and Industry-specific research study. This was the first time that a bank and a University joined hands to conduct an Industry-wide SWOT Analysis covering more than 30 Sectors of the economy. The project fits in perfectly with the mandate of CAC, which is to actively engage NUST's human resource with the Pakistani Industry to ensure that they get hands-on experience and exposure of the Industry. 24 interns from NUST and Bahria University Islamabad took part in the project, and within a short period of 6 weeks, conducted comprehensive desk research followed by field visits and interviews of Industry representatives. The wealth of information gathered and put together by the interns was analyzed, verified and consolidated by the Technical Lead for the project from NBS and the Industry Lead from NBP. The CAC is grateful to NBP for their trust in NUST's capability to deliver quality research output, and for partnering with CAC in 2011-12 and then in 2012-13 for the project. We assure NBP of our continuing support for this initiative, which has now become an annual publication. We hope that the quality of the research and its value for the beneficiaries of the report can be enhanced with each subsequent publication.

I would also like to thank Dean NBS Dr. Ashfaque Hasan Khan and the Industry Lead for the project Mr. Ahsan Elahi, Senior Vice President, Head of Industry Research & Analysis, Credit Management Group, National Bank of Pakistan, for their guidance to the project team and their efforts to put together a world-class report. A special word of thanks is due for Chairman Allied Bank Ltd., Mr. Naeem Mukhtar, for his continuous guidance as the Industry Co-Chair for the CAC BFSS.

I would also like to congratulate the interns; students from NBS, NUST School of Chemical & Materials Engineering (SCME) and Bahria University Islamabad; for a job well done! This report could not have been a success without the efforts and hard work of the energetic young boys and girls that accepted the challenge and worked on a research study that had not been conducted by a Pakistani University so far. The team of brilliant students from NUST and Bahria University has contributed to a national project, and this is the essence of a national university like NUST; to develop mechanisms for the youth to become part of such strategic nation-building initiatives. I am confident that this report will be of immense value for the banking community, potential investors in different Sectors of the economy, and for policy makers and other stakeholders.

Message from SVP, Head of Industry Research & Analysis, Credit Management Group, NBP Industry Lead for the Project



K. Ahsan Elahi

The publication of this report continues to set noteworthy milestones, with each publication, in the evolution of industry specific research in Pakistan. NBP and National University of Science & Technology (NUST) have come together by combining their relevant research resources to produce this year's edition of INDUSTRY RATINGS & STRATEGIC POSITIONING REPORT – 2013. The essential structure of this report has been modified in consultation with A. F. Fergusons - currently assisting NBP with making the bank Basel III compliant. The rating criterion for each sector now encapsulates a fairly wide range which is in line with international best practices. The contents have been updated and the latest outlook and results incorporated, including a re-assessment of the key drivers in each industry. This year's report is a product of the endeavors of a team of research associates from NUST aided by about 20 plus students who were mainly assigned much of the field work as well as the staff at Industry Research & Analysis at NBP.

Our vision of combined research efforts, however, extends much further and it will take us probably another attempt or two to achieve that vision in its totality. Our vision entails a fairly in-depth and comprehensive compendium of agro and industrial sectors, with the following key deliverables, that we still need to challenge ourselves to:

- A fairly comprehensive list of sectors and sub-sectors
- Granular details of sector dynamics
- Listing and basic data of all corporate entities for larger and more organized sectors.
- Data on standard model business entities as in the case of the less organized SME sectors

In line with this vision and having learned much from our joint endeavors for the last two reports we made some meaningful changes to our rating methodology to better achieve our goals for this year's INDUSTRY RATINGS & STRATEGIC POSITIONING REPORT – 2013.

I would like to take this opportunity to profusely thank Mr. Amer Hashmi Secretary General, CAC, and Advisor to Rector, NUST who has been the main inspiration for this collaborative effort.; Dr. Muhammad Akram Shaikh for his tremendous encouragement and confidence;. Dr. Ashfaque Hassan Khan for his confidence, support, guidance & patronage; Mr. Omar Aziz, Asst. Professor NUST Business School for his tremendous collaborative effort & insights; Ms. Rabia Shoaib & Ms. Wasifa Hussain for their considerable support & input; Syed Faraz Anwar, Partner - Risk Advisory Services, A.F. Ferguson & Company, for his collaborative effort in helping reconfigure and upgrade our rating criterion. And, last but not the least, I would like to especially acknowledge the support & encouragement provided by President, NBP and Rector, NUST in addition to the Group Chief, Credit Management Group.

INTRODUCTION - DEFINING THE SCOPE

There is a need to comparatively rate key industrial sectors in terms of their *relative risk, and attractiveness*. This should then translate into a strategic posture that is most appropriate for a bank. After considerable thought, feedback and discussion, the rating methodology was re-evaluated and enhanced in conjunction with A. F. Fergusons - currently assisting NBP with a view to making it Basel III compliant. The key aspects the methodology used in the compilation and tabulation of ratings 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 banking industry in terms of the sector related exposure and
- ready availability of data/information

Ratings for these sectors will provide coverage to the bulk of the large banks' corporate and commercial exposures.

INDUSTRY RATING CRITERIA & SCORECARD

The composite score conversion equivalents in terms of sectoral rankings are as follows:

% OF SCORE	RANK
100 – 81	1
80 - 71	2
70 – 51	3
50 – 41	4
40 – 0	5

The **SECTOR SCORING FORMULA**, which is weighted for each criterion has been divided into three criterion groups or three main criteria, namely:

1. Business Environment
2. Profitability & Financial Strength
3. Outlook & Macro Environment

Each group, in turn, has many components, that are shown in the table below along with the respective weight/maximum score of the component as well as the consolidated weight/maximum score of each main group. These are as follow:

CATEGORY	PERFORMANCE DRIVER	MAX SCORE
Business Environment:	Demand Volatility	6.0
	Supply Volatility	7.0
	Corporate Governance & Control Structure	2.0
	Strength of Competition	4.0
	Barriers to Entry	2.0
	Litigations	1.0
	Price Elasticity	5.0
	Exposure (FX Risk/IR Risk)	3.0
Sub Total		**30.0**
Profitability & Financial Strength:	**Gearing** *Interest Coverage (B+C)/C* *Debt/Equity (L/J)*	 3.0 4.0
	Investments *Cash Flow from Investment Activities*	 2.0
	Liquidity *Current Ratio (F/K)* *Quick Ratio (G+H+I)/K*	 4.0 3.0
	Profitability *Net Profit Margin (B/A)* *Total Assets Turnover (A/E)* *ROA (B/E) & ROE (B/J)*	 3.0 1.0 3.0
	Solvency	2.0
Sub Total		**25.0**
Outlook & Macro Environment:	Business Outlook	19.0
	Industry/Business Life Cycle	7.0
	Correlation with GDP Growth	6.0
	Regulatory/Govt. Support Future Expectations	13.0
Sub Total		**45.0**
Total Score		**100.0**

INDUSTRY RATINGS CLASSIFICATION

Category	Out of 100	RANK	Explanation (What the rating suggests)
HIGHLY ATTRACTIVE	>80	1	Seek to Enter/Expand Aggressively
ATTRACTIVE	70-80	2	Enter/Expand while mitigating/addressing relevant industry risks
AVERAGE	50-69	3	OK to enter. Reasonable caution.
WATCH/HOLD	40-49	4	Active monitoring of current portfolio
UNATTRACTIVE/EXIT	< 40	5	Risks outweigh potential returns; Pursue exit or appropriate risk negation strategy

KEY POINTS REGARDING THE USE OF RATINGS:

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

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

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

PRIMARY DATA AND INFORMATION SOURCES

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

1. Trade/Industry Associations
2. VISTA – a JCR-VIS sectoral database providing FJ and KSE data.
3. Economic Survey
4. SBP Annual Reports
5. Various periodicals

KEY ASSUMPTIONS

Key macro economic assumptions are consistent with the recently released SBP's Annual Report for FY12 i.e. a GDP growth rate of 3.7% (GoP's target rate is 4.2%) and a much stabilized inflation rate of 11%, (GoP's target rate is 12%) down from last year's rate of over 13%.

INDUSTRIES INCLUDED

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

1 Agro-Chemicals
2 Automotive - 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

INDUSTRY SYNOPSIS:

KEY ISSUES, OPPORTUNITIES & OUTLOOK

AGROCHEMICALS

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	` 90-100		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	1,170	1,111	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	90		
C.	**Financial Charges**	**Act/Est**	18		
D.	**PAT**	**Act/Est**	54		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	8280		
F.	*Current Assets*	**Act/Est**	3,150		
G.	*Cash & Bank Balances*	**Act/Est**	2,520		
H.	*Trade Debtors*	**Act/Est**	360		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	8,100		
K.	*Current Liabilities*	**Act/Est**	90		
L.	*Total Liabilities*	**Act/Est**	180		

AGRO-CHEMICALS

OPPORTUNITIES

- ▲ Prospects for agro-business are increasing and it has become a lucrative investment avenue for businessmen.
- ▲ Proper development & implementation of agro-business would help Pakistan sustain long run macroeconomic stabilization by reducing the supply deficit and achieving economic progress.
- ▲ Agriculture and the horticultural industry are the biggest users of agro-chemicals and pesticides, accounting for around 70% of their total consumption, with its other users divided among forestry, grasslands, amenity facilities, golf courses, local parks, and industrial and home gardening outlets.
- ▲ Low cost imports from China are at the expense of higher margin imports from EU/US.
- ▲ Weeds and pests are a key reason for decrease in the production of crop yield. Proper training could be given to the farmers and awareness could be created. That would also increase consumption.
- ▲ China Academy of Agriculture and Mechanized Authority intends to lend its expertise & $ 200 million, for the agri development projects in the Sindh province. The Chinese authority will help develop agricultural development zones which it will jointly own & manage with the provincial government.

THREATS

- ▼ **Intense generic brand competition has resulted in continuous price wars which has eroded margins.**
- ▼ **With the introduction of new genetically engineered varieties of cotton, called B.T. Cotton, usage of pesticides will be reduced considerably in the years to come.**
- ▼ Despite the strict controls and regulations that govern the ingredients and use of chemicals in synthetic fertilizers and pesticides, there is an increasing public belief that natural products are superior to synthetic products. They are claimed to be more beneficial, as they leave no chemical residues that could be potentially damaging to human health.
- ▼ The prices of different agricultural inputs have registered an increase of 70 to 100 percent during the last five years as compared to only 40-45 percent increase in prices of various produces. There is an urgent need of bringing down the input cost of the agricultural sector as high prices are discouraging the use of fertilizers, pesticides and quality seed in required quantity thus negatively impacting per acre yield.

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

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

OUTLOOK

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

AUTOMOTIVE-PARTS & ACCESSORIES

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	3		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	13,601	14,281	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	1,241		
C.	**Financial Charges**	**Act/Est**	397		
D.	**PAT**	**Act/Est**	891		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	9,509		
F.	*Current Assets*	**Act/Est**	6,863		
G.	*Cash & Bank Balances*	**Act/Est**	542		
H.	*Trade Debtors*	**Act/Est**	1,395		
I.	*Short Term Investments*	**Act/Est**	967		
J.	*Total Equity*	**Act/Est**	5,015		
K.	*Current Liabilities*	**Act/Est**	3,996		
L.	*Total Liabilities*	**Act/Est**	4,494		

AUTOMOTIVE - PARTS & ACCESSORIES

OPPORTUNITIES

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

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

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

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

THREATS

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

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

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

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

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

OUTLOOK

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

AUTOMOTIVE-ASSEMBLERS/MANUFACTURERS

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	11	
			2011-12	**2010-11**
A.	**Industry Sales**	**Act/Est**	167,264	183,991

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

B.	**PBT**	**Act/Est**	10,253
C.	**Financial Charges**	**Act/Est**	893
D.	**PAT**	**Act/Est**	6,664

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

E.	*Total Assets*	**Act/Est**	76,033
F.	*Current Assets*	**Act/Est**	56,656
G.	*Cash & Bank Balances*	**Act/Est**	14,035
H.	*Trade Debtors*	**Act/Est**	5,030
I.	*Short Term Investments*	**Act/Est**	6,709
J.	*Total Equity*	**Act/Est**	31,247
K.	*Current Liabilities*	**Act/Est**	43,369
L.	*Total Liabilities*	**Act/Est**	44,786

AUTOMOTIVES - ASSEMBLERS/MANUFACTURERS

OPPORTUNITIES

- SBP has slashed its policy rate by 350 basis points to 10.5 percent since July 2011; the easing in the interest rate is likely to compel bankers to reignite consumer financing, particularly car financing. Therefore, cut in the policy rate holds the potential to once again rejuvenate car sales and compel to re-rate outlook for the sector. However, the growth in sales might take time and the impact of car financing might be visible from FY13 onwards. Therefore, where FY13 car sales assumption is maintained at 150,000 units, FY14 and FY15 car sales projections is revised upward by 10-15 percent.

- Automotive sales at the end of the year remained positive with a significant increase in unit sales of cars, light commercial vehicles (LCV) and Jeeps; representing an increase of 22 percent over FY11.The entire industry's focus remain riveted upon the announcement of the long-term Auto Industry Development Programme (dubbed AIDP-II) which will prove to be a critical factor in the industry's growth going forward into FY13.

- FY12 began with great tidings for the country's auto assemblers in the form of reductions in GST and SED taxes and the consequent upsurge in the demand for cars.

- Indus Motor Company has managed to report impressive year-end financial results, signing off on a robust 57 percent year-on-year bottom line growth. Coming off the back of 9 percent growth in volumetric sales the firm reported a 24.7 percent year-on-year growth in net sales & a record 130 percent year-on-year growth in net profit after tax.

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

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

- Lack of competition in the industry itself i.e. high barriers to entry, low bargaining power of consumers, high level of duties and tariffs on imported vehicles and the oligopolistic structure of the market.

- Extension of finance by the Pak-Japan business forum as well as other consortiums, who continue to view Pakistan as a market of growth for the future.

- High level of efficiency in the production and assembly plants in Pakistan.

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

- ▲ The sector could target markets such as Vietnam, Sri Lanka, Bangladesh and attempt to compete with India in the small vehicle and two-wheeler segment.

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

THREATS

- ▼ Input costs due to production gaps, dollar uncertainty and financial market fluctuations will increase cost of import of essential parts and machinery.

- ▼ Recent movements in favor of reducing the cost of imported vehicles may have some impact on the sector.

- ▼ 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 if imports enter the market.

- ▼ A short-fall in Government coffers and the continued devaluation of the Rupee will have adverse impact on the Industry, and this may become even more daunting as the Yen continues to be strong and the dollar unpredictable. As an industry heavily reliant on the purchase of imported parts, machinery and expertise, the industry is braced for some shocks in input costs.

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

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

- ▼ During the FY12 year Honda Atlas Cars sales volume declined by 30.7 percent and the Company made an after tax loss of Rs.532.2 million.

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

OUTLOOK

- ▶ 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

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	250		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	11,700	12,285	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	3,600		
C.	**Financial Charges**	**Act/Est**	180		
D.	**PAT**	**Act/Est**	2,700		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	8100		
F.	*Current Assets*	**Act/Est**	6,300		
G.	*Cash & Bank Balances*	**Act/Est**	3,600		
H.	*Trade Debtors*	**Act/Est**	630		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	7,200		
K.	*Current Liabilities*	**Act/Est**	900		
L.	*Total Liabilities*	**Act/Est**	900		

CARPETS & RUGS

OPPORTUNITIES

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

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

- ▲ 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.

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

THREATS

- ▼ Carpet exports are on the decline during the last five years due to economic crisis in the United States and the European Union. The number of active carpet exporters has declined significantly. Carpet exports touched its peak of $288 million in 2000/01 after which there have been constant decline in exports. The export volume stayed around $130 million during the last two years and is expected to remain in the same range this year. The exports to the United States have shrunk from a peak of $92 million to around $40 million and are still declining. The exports to the European Union have halved and are under threat due to looming financial crisis in the region. The markets in the West would continue to decline as most of the growth has now shifted to Asia and South America.

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

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

OUTLOOK

- Pakistan continues to command a high quality image for the hand-woven carpets segment. 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

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	14		
			2012 or 2011-12	**2011 or 2010-11**	
A.	**Industry Sales**	**Act/Est**	147,548	140,171	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	22,122		
C.	**Financial Charges**	**Act/Est**	10,374		
D.	**PAT**	**Act/Est**	18,500		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	253,716		
F.	*Current Assets*	**Act/Est**	55,952		
G.	*Cash & Bank Balances*	**Act/Est**	2,701		
H.	*Trade Debtors*	**Act/Est**	3,351		
I.	*Short Term Investments*	**Act/Est**	12,066		
J.	*Total Equity*	**Act/Est**	132,851		
K.	*Current Liabilities*	**Act/Est**	61,281		
L.	*Total Liabilities*	**Act/Est**	120,865		

CEMENT

OPPORTUNITIES

- The cement sector as a whole is poised for a more promising FY13, with favorable budgetary policies, such as an enhancement of PSDP expenditures and reduction in FED. FED on cement was reduced by a further Rs100 per ton for FY13, and the budgeted increase in PSDP is also more than 19 percent of last year's outlays' aspects that bode well for cement players. The FED reduction and better retention prices of cement locally, combined with the downtrend in global coal prices seen recently, may help a further uptick in turnover and margins of cement industry.

- Local cement dispatches for year 2011-2012, were highest ever in country's history. Local cement dispatches increased to record level of 23.947 million tonnes registering 8.84 percent increase. However exports remained under pressure throughout the year and declined by 9.12 percent to 8.568 million tonnes and 2011-12 was third straight year when exports declined.
  Cement sector added 3 million tonnes additional production capacity in year 2011-12 and total production capacity increased by 7.23 percent to 44.217 million tonnes from 42.235 million tonnes in 2010-11. For year 2011-12 capacity utilisation remained under pressure.

- Export sales are expected to improve in the coming fiscal year as depreciation of the rupee is expected to help local players. Besides, declining coal and oil prices are also expected to help margins in export markets and, hence, export sales in the coming year.

- Overall, the post-budget scenario appears quite positive for the cement sector. Important measures of the 2012-13 budget affecting the cement sector positively includes,
  - FED reduced by Rs100 per ton.
  - Reduction in custom duty on rubber scraps and shredded tyres. With the duty brought down from 20 percent to 10 percent, this is a positive measure for cement manufacturers that use shredded rubber scrap as an alternate fuel.

  - At Rs873 billion, the increase in the size of PSDP rounds off to 19 percent more than what was expended in the previous year's budget.

  - Reduction in minimum turnover tax from one percent to 0.5 percent.
  - Reduction in withholding tax on exports from one percent to 0.5 percent.

  Increase in the gas infrastructural development cess for industries from Rs13 per mmbtu to Rs100 per mmbtu will impact the sector negatively, though the impact will be small.

- 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.

THREATS

- Cement consumption remained stagnant in past four years while the exports are also on constant decline forcing the sector to operate at 68-70 percent installed capacity. The non-performing loans of this capital-intensive industry have exceeded 22 percent and are still rising.

- Capacity utilisation of the cement industry declined to 68.29 percent in the first two months of this fiscal year 2012-13, as the demand of cement drastically decreased locally and for export purposes. Cement capacity increased from 16.321 million tonnes in 2002-03 to over 44.80 million tonnes in 2012-13. The local consumption of cement however remained almost stagnant in past five years fluctuating in the range of 22-23 million tonnes. The economic recession kept the construction sector growth very low. The exports did provide the cement manufacturers a relief at the start of this century when the cement exports jumped from zero in 2001-02 to 10.981 million tonnes in 2008-09. The exports have been on decline since then reducing to only 8.568 million tonnes in FY 2011-12.

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

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

OUTLOOK

- As the construction sector as a whole is poised for a disappointing FY13 due to a constrained PSDP resulting from GOP's fiscal constraints and low overall GDP growth rate. The overall outlook for the sector remains uncertain in the near term, but highly positive in the medium term.

CHEMICALS (inc. PLASTIC & RUBBER PRODUCTS)

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	11		
			2011-12	2010-11	
A.	Industry Sales	Act/Est	24,993	23,743	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	1,516		
C.	Financial Charges	Act/Est	1,606		
D.	PAT	Act/Est	1,049		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	28,242		
F.	*Current Assets*	Act/Est	9,909		
G.	*Cash & Bank Balances*	Act/Est	576		
H.	*Trade Debtors*	Act/Est	3,206		
I.	*Short Term Investments*	Act/Est	20		
J.	*Total Equity*	Act/Est	11,982		
K.	*Current Liabilities*	Act/Est	11,037		
L.	*Total Liabilities*	Act/Est	16,260		

CHEMICALS (INC. PLASTIC & RUBBER PRODUCTS)

OPPORTUNITIES

- 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.
- 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.
- The country's Large Scale Manufacturing (LSM) has registered positive growth of 1.85 percent during the July-Sep first quarter of the current FY13 over the corresponding period of the last FY12. The manufacturing items witnessed growth during the first quarter over the same period of last year included chemicals (6.15%).Chemicals sector was also amongst the few sectors to attract Foreign Direct Investment in 4 months of FY13.
- The profit after tax of Clariant Pakistan Limited has increased to Rs 901.455 million in the nine month period ended September 30, 2012 as compared to Rs 593.150 million earned in the corresponding period in 2011.
- The profit after tax of ICI Pakistan Limited has declined to Rs 1.935 billion in the year ended December 31, 2011 as compared to Rs 2.428 billion earned in 2010.
- Lucky Cement Limited has acquired 75.81 percent stake in ICI Pakistan held by ICI Omicron, a 100 percent owned subsidiary of AkzoNobel. ICI Pakistan has recently de-merged the company and separated its businesses in two entities namely AkzoNobel Pakistan having paint business and ICI Pakistan Limited having PSF, soda ash, life sciences and captive power plant. ICI Pakistan currently has 122,000 tons of polyester fibre capacity, 350,000 tons of soda ash, 32,000 tons of other chemicals and a captive power plant with a capacity of 22GW supplying power to PSF unit.
- Rubber Products Sector was also amongst the few sectors to attract Foreign Direct Investment in 4 months of FY13.
- This industry has a lot of room for expansion and utilizing its potential to its maximum, considering Pakistan has sufficient amount of raw material required.
- 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

- The industry should continue to grow at a marginal pace with enhanced downward pressures over sales and margins due to the negative economic outlook.

CONSTRUCTION

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	50		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act**/Est	20,600	16,250	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act**/Est	11,900		
C.	**Financial Charges**	**Act**/Est	30		
D.	**PAT**	**Act**/Est	8,870		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act**/Est	30,150		
F.	*Current Assets*	**Act**/Est	30,050		
G.	*Cash & Bank Balances*	**Act**/Est	22,550		
H.	*Trade Debtors*	**Act**/Est	7,550		
I.	*Short Term Investments*	**Act**/Est	Nil		
J.	*Total Equity*	**Act**/Est	29,400		
K.	*Current Liabilities*	**Act**/Est	700		
L.	*Total Liabilities*	**Act**/Est	750		

CONSTRUCTION

OPPORTUNITIES

- ▲ Economy has shown some recovery in terms of GDP growth which grew by 3.7 percent. One of the factors supporting this growth was picking up in construction which was more active as post-flood reconstruction and infrastructure building became priorities.

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

- ▲ The construction sector is likely to get a boost in 2012-13 after creation of Urban Challenge Fund and simplification of commercialization rules.

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

- ▲ With regards to the burgeoning potential of the construction industry, the sector had an economic potential of around Rs 500 billion especially in the context of the Public Sector Development Program (PSDP) which amounts to up to Rs 400 billion and Annual Development Programs of the provinces worth an equivalent amount.

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

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

- ▲ 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.

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

- Bank lending to the construction sector increased only marginally, on top of decline posted in the previous two years. This was mainly due to high default rates in the sector. Mortgage financing default rates crossed 25 percent. Moreover, anecdotal evidence showed that builders of community housing projects (which typically do not avail bank loans) also faced defaults on monthly installments paid by the clients.

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

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

OUTLOOK

- The construction sector as a whole poised for a disappointing FY13 due to a constrained PSDP resulting from GOP's fiscal constraints and low overall GDP growth rate. The overall outlook for major players within the sector remains tenuous and uncertain.

EDIBLE OIL

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	3		
			2011-12	**2010-11**	
A.	**Industry Sales**	Act/Est	6,406	6,131	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	Act/Est	145		
C.	**Financial Charges**	Act/Est	129		
D.	**PAT**	Act/Est	7		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	2546		
F.	*Current Assets*	Act/Est	1,815		
G.	*Cash & Bank Balances*	Act/Est	49		
H.	*Trade Debtors*	Act/Est	396		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	885		
K.	*Current Liabilities*	Act/Est	1,533		
L.	*Total Liabilities*	Act/Est	1,661		

EDIBLE OIL

OPPORTUNITIES

- Expansion in edible oil extraction business in the recent past to meet growing demand for cooking oil and ghee in the country has pushed up import of palm oil (14 per cent in FY11 and eight per cent in FY12). Soybean oil is also being imported in larger quantities. Imports of palm oil and soybean oil can be saved if provincial governments and growers join hands in acquisition of technology for cutting post-harvest losses of oilseeds.

- Edible oil imports consume a large amount of foreign exchange every year. In FY12 Pakistan imported 2.109 million tonnes of palm oil for $2.375 billion which was equal to about 5.3 per cent of the country's overall imports bill. Availability of enough oilseeds for extraction of edible oil is required to lower spending.

- 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 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.

- 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.

- 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

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

ENERGY-COAL

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	3~5		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act**/Est	76,700	72,865	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act**/Est	19,900		
C.	**Financial Charges**	**Act**/Est	600		
D.	**PAT**	**Act**/Est	16,700		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act**/Est	245,900		
F.	*Current Assets*	**Act**/Est	161,500		
G.	*Cash & Bank Balances*	**Act**/Est	7,000		
H.	*Trade Debtors*	**Act**/Est	1,700		
I.	*Short Term Investments*	**Act**/Est	Nil		
J.	*Total Equity*	**Act**/Est	225,200		
K.	*Current Liabilities*	**Act**/Est	8,700		
L.	*Total Liabilities*	**Act**/Est	20,700		

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.

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

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

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

- It is necessary to establish the cost and practicability of mining the Thar lignite. The stripping ratio is quite high, and the nature of some of the overburden may make it difficult to move and to stack elsewhere. It is also necessary to establish that the fuel is reasonably consistent. Also that the mineral matter and other ash forming components do not imply unacceptable operating problems.

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

- Good quality Sub-bituminous coal is available in various coalfields of Baluchistan and Punjab, which coalfields are considered suitable for power generation. Some small coal reserves are also located in NWFP and AJK, and are being mined on a small scale.
- Mining Lease for the Development and exploitation of the 66 sq.km Block VI of the Thar Coalfield has been awarded to Oracle Coalfield of UK which plans to invest up to US$ 610 million. Oracle Coalfield of UK has entered into an MOU with KESC to develop initially a 300 MW mine mouth power plant by 2015 to be scaled up to

1100 MW. The Open-pit coal mine development is expected to start in early 2013 with initial production of coal in 2014 with full scale 5 million tons per annum coal production in 2015.

- ▲ An Abu Dhabi-based power generation company is likely to invest $1.75 billion to establish coal-fired power stations in the power-starved metropolis to generate some 1,800 megawatt of electricity in two phases.
- ▲ World Bank will provide technical assistance Credit for Sindh Coal Technical Assistance Project (SCTAP), while Pakistan Government would also contribute to this.
- ▲ Punjab government is also exploring the option with Chinese investors to discuss power generation project based on Mianwali/ Chakwal coal reserves.
- ▲ Integrated gasification combined cycle (IGCC) power plants are believed to be the type of power plants that will predominately be used to add to our electrical power supply, replace our aging coal power plants and out increasingly expensive natural gas power plants. The process offers options to eliminate greenhouse gases produce hydrogen and/or produce liquid fuels.

THREATS

- ▼ **Technology Issues**
  The coal reserve could face possible technological impediments in successful on-going commercialization. Critics of Thar coal project say that the quality of coal is not good and due to this inferior quality of Thar coal it is more difficult to generate electricity.
- ▼ **Huge Investment Outlay**
  Setting up a coal-based power plant is not only very costly but a huge amount would be needed to keep it running, and it would only be possible for financially strong companies to invest in this project. The construction cost of a 1000 MW coal-based power plant at Thar is estimated at around Rs. 120 billion.
- ▼ According to an article "Coal Power in a Warming World" , published by the Union of Concerned Scientists, the underground mining of coal is a dangerous profession, and underground and surface mining are both highly damaging to landscapes, water supplies, and ecosystems.

OUTLOOK

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

ENERGY-GAS GENERATION & DISTRIBUTION

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	2		
			2011-12	2010-11	
A.	Industry Sales	Act/Est	1,177,267	1,118,403	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	19,321		
C.	Financial Charges	Act/Est	12,870		
D.	PAT	Act/Est	13,176		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	377,959		
F.	*Current Assets*	Act/Est	365,859		
G.	*Cash & Bank Balances*	Act/Est	8,438		
H.	*Trade Debtors*	Act/Est	233,374		
I.	*Short Term Investments*	Act/Est	873		
J.	*Total Equity*	Act/Est	62,343		
K.	*Current Liabilities*	Act/Est	311,508		
L.	*Total Liabilities*	Act/Est	315,616		

ENERGY - GAS GENERATION & DISTRIBUTION

OPPORTUNITIES

- Iran-Pakistan gas pipeline will touch the border by September 21 next year & the 56-inch Iranshahr-Pakistan border Chabahar-Zahedan pipeline would be completely operational by the end of next year. The Iran-Pakistan gas pipeline, projected to cost $1.2-1.5 billion, is aimed to export a daily amount of 21.5 million cubic meters of Iranian gas to Pakistan. Maximum daily gas transfer capacity of the pipeline is estimated to hit 110 million cubic meters.

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

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

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

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

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

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

THREATS

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

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

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

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

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

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

OUTLOOK

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

ENERGY-OIL & GAS EXPLORATION & PRODUCTION

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	4		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	370,110	351,605	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	**Act/Est**	216,390		
C.	**Financial Charges**	**Act/Est**	3,353		
D.	**PAT**	**Act/Est**	150,797		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	**Act/Est**	594,499		
F.	*Current Assets*	**Act/Est**	348,178		
G.	*Cash & Bank Balances*	**Act/Est**	17,127		
H.	*Trade Debtors*	**Act/Est**	206,413		
I.	*Short Term Investments*	**Act/Est**	39,912		
J.	*Total Equity*	**Act/Est**	441,496		
K.	*Current Liabilities*	**Act/Est**	68,370		
L.	*Total Liabilities*	**Act/Est**	153,003		

ENERGY - OIL & GAS EXPLORATION

OPPORTUNITIES

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

- The government is offering for bidding 50 blocks for exploration and production of oil and gas under the newly-approved Petroleum Policy-2012. The current Petroleum Policy allows 100% foreign equity and no restriction on repatriation of capital, profit and dividends. The country has gas reserves of 23 Trillion Cubic Feet per Day (tcfd) and according to international estimates, Pakistan has 51 trillion cubic feet of shale gas reserves for which the policy was chalked out.

- Italian energy group ENI announced that it had made a significant gas discovery onshore Pakistan, located in the Kirthar Fold Belt region, 350 kilometres north of Karachi. The size of the discovery is currently estimated at between 300 to 400 billion cubic feet of gas in place and its delineation will require further appraisal wells.

- Iraq signed a five-year deal with Pakistan Petroleum for the company to explore a massive tract of land believed to contain gas. Under the contract, the firm must invest at least $100 million to explore the 6,000 square-kilometre (2,300 square-mile) block covering the provinces of Wasit and volatile Diyala.

- The government will allow Pakistan Petroleum Limited (PPL) to invest $100 million in exploration of oil and gas in Iraq. Given that PPL has aggressive exploration plans including focus on international opportunities, Iraq stands as a premium opportunity for exploration and the Company is fully geared to pursue this opportunity.

- The oil and gas sector is attracting more than 60 percent of foreign direct investment (FDI). Oil and gas exploration and mining, another 'big' for the investors abroad, especially China, United States, and Europe, is the only major sector that is attracting inflows as of now.

- As the reserves of oil and gas continue to deplete and the energy supply demand deficit widens, the situation calls for an aggressive exploration and production programmes to help replenish the shrinking bank.

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

1:3.22 discovery rate.

- ▲ 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.

- ▲ 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.

- ▲ 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.

THREATS

- ▼ E&P companies are likely to miss annual drilling target. This will be the third consecutive year that these companies have missed their annual drilling target.

- ▼ 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.

OUTLOOK

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

ENERGY-OIL (PETROLEUM DISTRIBUTION/MARKETING)

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

No. of Companies	Act/Est	2		
		2011-12	2010-11	
Industry Sales	Act/Est	1,237,225	1,039,679	
		High (>15%)	Medium (5-15%)	Low (<5%)
Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
PBT	Act/Est	18,330		
Financial Charges	Act/Est	13,293		
PAT	Act/Est	6,974		
		Expected to Increase	Expected to Remain Same	Expected to Decline
Net Profitability *(Next 1-2 Yrs)*	Best Guess			
Total Assets	Act/Est	392,324		
Current Assets	Act/Est	371,561		
Cash & Bank Balances	Act/Est	5,012		
Trade Debtors	Act/Est	220,029		
Short Term Investments	Act/Est	Nil		
Total Equity	Act/Est	56,136		
Current Liabilities	Act/Est	332,154		
Total Liabilities	Act/Est	336,188		

ENERGY - OIL (PETROLEM DISTRIBUTION/MARKETING)

OPPORTUNITIES

- ▲ PSO was able to bag net sales worth Rs276 billion for 1QFY13 as compared to Rs239 billion net sales in the same corresponding period last year; a healthy growth of 16 percent YoY. Profit after tax of the OMC during the first quarter of FY13 leapt by a huge 65 percent standing at 4.2 billion YoY as compared to Rs2.5 billion profit after tax in the same corresponding period last year.

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

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

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

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

- ▲ 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

- ▼ Country's oil consumption declined by 3 percent in FY12 to 19.1 million tons as against 19.7 million tons recorded in FY11. PSO's sales declined by 3 percent, Shell sales down 29 percent whereas APL sales increasing by 13 percent in the year FY12.

- With the highest sales of high speed diesel (HSD) since October 2009, total oil sales for the outgoing month of May 2012 have improved by 24 percent on month-on-month basis. Despite double digit improvement in May 2012 consumption numbers, oil sales fell by one percent on YoY in 11 months of FY12. The consumption during the period clocked in at 17.8 million tons compared to 17.9 million tons in the corresponding period.

- 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.

- CNG sector 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 influenced by the government for sale price of POL. This is a threat for the industry.

- Country is facing uncertain economic and political situation, oil prices (input & output) both are unstable.

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

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

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

OUTLOOK

- If the issue of circular debt gets resolved, outlook for the sector will significantly improve given consistent adjustments to customer pricing on account of movement in international prices which assures the primary profitability of the sector. However the chances of that happening in the near future remain slim. Petroleum retail market is likely to show growth on account of constrained supply of CNG but remain suppressed due to the low GDP growth rate.

ENERGY-OIL (PETROLEUM REFINING)

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	3	
			2011-12	2010-11
A.	Industry Sales	Act/Est	456,354	361,406

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

B.	PBT	Act/Est	6,327
C.	Financial Charges	Act/Est	4,093
D.	PAT	Act/Est	3,737

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

E.	*Total Assets*	Act/Est	185,040
F.	*Current Assets*	Act/Est	153,641
G.	*Cash & Bank Balances*	Act/Est	20,230
H.	*Trade Debtors*	Act/Est	83,092
I.	*Short Term Investments*	Act/Est	Nil
J.	*Total Equity*	Act/Est	37,889
K.	*Current Liabilities*	Act/Est	134,829
L.	*Total Liabilities*	Act/Est	147,151

ENERGY - OIL (PETROLEM REFINING)

OPPORTUNITIES

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

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

- Gross refinery margin (GRM) during FY12 kept fluctuating. On average the refining margins were 2.54 percent during FY12 compared to 2.76 percent during FY11. In terms of capacity utilisation, an improvement was seen from 97.2 percent in FY11 to 99.5 percent during FY12.

- The top performer of the refining sector during FY12 was Attock Refinery followed by National Refinery and Pakistan Refinery Limited. The revenues of the three players grew by approximately 26 percent YoY during FY12, while the earnings were slammed by almost 60 percent YoY during the same period. The profitability plunge was mostly due to nosedive in NRL's earnings and PRL's profits turning red. Attock Refinery's revenues climbed by a healthy 33 percent YoY during FY12.

- The start of FY13 has been sanguine for the two refineries so far, as the sales during July 2012 surged by six percent with ATRL and NRL being the primary reason behind higher sales.

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

- The international crude oil prices (Arab Light) on the back of Iran west standoff and positive developments in Greece debt crisis has increased by 9 percent to average $119 per barrel in the third quarter of FY12 so far as against $109 per barrel in the second quarter of FY12. This is expected to exert pressure on the domestic refinery sector profitability which is to remain under pressure in the third quarter of FY12 with remedy coming in the form of possible inventory gains.

- Foreseeing the mounting demand of deficit POL products in Pakistan, PARCO in alliance with International Petroleum Investment Company (IPIC) of Abu Dhabi, is endeavoring on a 250,000 bpd deep conversion refinery with a foreign direct investment of US $6 billion, at Khalifa point near Hub in Pakistan's province of

Baluchistan. The IPIC and other UAE Government institutions will have the majority of the shareholding i.e. 74% shares in the project, whereas Pak-Arab Refinery Limited (PARCO) will have 26% of the holding.

THREATS

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

- 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.

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

OUTLOOK

- The outlook in this sector is likely to remain tenuous as the constraining trend in refinery production & margins continues unabated.

ENERGY-POWER GENERATION & DISTRIBUTION

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	10		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	503,807	478,616	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	22,653		
C.	**Financial Charges**	**Act/Est**	32,503		
D.	**PAT**	**Act/Est**	20,156		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	***Total Assets***	**Act/Est**	666,045		
F.	***Current Assets***	**Act/Est**	379,405		
G.	***Cash & Bank Balances***	**Act/Est**	2,483		
H.	***Trade Debtors***	**Act/Est**	301,032		
I.	***Short Term Investments***	**Act/Est**	Nil		
J.	***Total Equity***	**Act/Est**	124,619		
K.	***Current Liabilities***	**Act/Est**	402,123		
L.	***Total Liabilities***	**Act/Est**	541,426		

ENERGY - POWER GENERATION & DISTRIBUTION (IPPs)

OPPORTUNITIES

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

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

- Country's first 50 MW wind power project by FFC Energy Limited, a subsidiary of FFCL, at Jhampir, District Thatta is nearly 60 percent complete and will start its trial production in June 2012, which would be provided free of cost till the start of commercial operations in November 2012. FFC's investment in the ongoing project of 50 MW is $135m. The Gharo-Jhimpir-Keti Bandar wind corridor in which the FFCEL wind power project is being established carried a massive potential of energy production as feasible wind conditions are available here in consecutive nine months of the year except from a period from January to March. According to the Alternative Energy Development Board, the Gharo-Keti Bandar wind corridor spreading 60 kilometres along the coastline of Sindh and more than 170kms deep towards the land alone has a potential of approximately 50,000MW.

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

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

- 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.

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

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

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

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

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

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

- ▲ WAPDA is constructing a number of new hydropower projects on priority; while on the other hand, it is also engaged in executing refurbishment and rehabilitation of its aged hydel power stations. Hydel power projects with a cumulative generation capacity of more than 1400 MW are under construction, while work on 4500-MW Diamer Basha Dam - the largest project in the history of Pakistan - will soon be started.

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

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

THREATS

- ▼ 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.

- ▼ 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.

- ▼ The government is likely to shelve high priority Diamer-Bhasha dam at least for the time being due to uncertain financial assistance from international financial institutions and Friends of Democratic Pakistan (FoDP) including Japan and will commence civil work on the project by utilising its own resources as well as establish power house as Independent Power Producer (IPP). World Bank and Asian Development Bank (ADB) have already conveyed diplomatically 'no financing' to the multi-purpose dollars 12 billion project, which will also generate 4500MW electricity at very cheap rates.

- ▼ 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.

OUTLOOK

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

FERTILIZERS

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	4		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	182,380	157,276	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			■
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	**Act/Est**	42,619		
C.	**Financial Charges**	**Act/Est**	13,441		
D.	**PAT**	**Act/Est**	28,354		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best		■	
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	**Act/Est**	274,691		
F.	*Current Assets*	**Act/Est**	75,256		
G.	*Cash & Bank Balances*	**Act/Est**	14,043		
H.	*Trade Debtors*	**Act/Est**	7,587		
I.	*Short Term Investments*	**Act/Est**	20,359		
J.	*Total Equity*	**Act/Est**	83,435		
K.	*Current Liabilities*	**Act/Est**	88,954		
L.	*Total Liabilities*	**Act/Est**	191,256		

FERTILIZERS

OPPORTUNITIES

- Low Penetration of Fertilizers is expected to improve the excess demand situation and the seller will remain in a strong position.
- Industry enjoys low resource costs; therefore profitability for this sector remains high.
- Dawood Hercules Corporation Limited (DHCL) has signalled its intent to sell its only wholly owned subsidiary, DH Fertilizer Limited, to Pakarab Fertilizers. DH Fertilizer Limited is a relatively smaller player in the urea market, with an annual production capacity of 0.45 million tons and a market share of nearly nine percent.
- The cumulative urea off-take for January-April CY12 is reeling at a five-year low, and in comparison to the same period last year, it is down by 22 percent.
- The State Bank of Pakistan (SBP) has urged the government to eliminate price gap between locally produced and imported urea as domestic producers are facing trouble in selling their stocks, besides this is creating incentives for black-marketing and market manipulation.
- Fertilizer manufacturers in Pakistan faced over 2.7 million tons urea production loss in 2012 as they could only produce 4.2 million tons of urea against a total production capacity of over 6.9 million tons per annum. To meet this production loss government imported over 1.23 million tons of urea spending 566 million dollars and also paid over 24 billion rupees subsidy to keep the imported urea's prices at par with locally produced urea. The country's overall urea production capacity is about 6.9 million tons annually, as against the demand of some 5.8 million tons, providing an opportunity to export some one million ton of urea annually. During last five year fertilizer industry invested $2.3 billion in the country making Pakistan world's 7th largest urea manufacturer country.
- 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.

THREATS

- The year 2012 has been a tough year for fertilizer companies as extended gas curtailment has hit their profits adversely. The industry's urea off-take slid by a greater margin of 13 percent during 9MCY12 year-on-year. Going forward, urea off-take might pick up in the final quarter as seasonal urea buying will compel farmers to procure urea. However, the prices may still remain under pressure due to heavy presence of cheap imported urea.

- The profit after tax of Fauji Fertilizer Bin Qasim Limited has declined to Rs643.860 million in the half year period ended June 30, 2012 as compared to Rs3, 513.626 million earned in the corresponding period in 2011. Mainly on account of availability of cheap imported urea. Yet, the massive increase in urea prices kept the revenues on the higher side.
- Fertilizer sales have declined by 24 percent during the first five months of current calendar year (2012) as compared to same period of last calendar year. The breakup shows that urea offtake fell by 20 percent Year on Year (YoY) to 1.72 million tons but improved by 22 percent Month on Month (MoM) to 377,000 tons in May 2012 mainly due to Rs145 per bag price cut to get rid of record inventory available with the industry. YoY basis, DAP offtake fell by 13 percent to 173,000 tons in May 2012, while in May 2012 its sales declined by 13 percent to 26,000 tons. The drastic decline in international urea price along with the regulatory risk related to Competition Commission of Pakistan's enquiry report remains a key risk.
- 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.
- The phosphate demand has shown a decline 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

- Despite the fact that urea off-take registered a negative growth of 12 percent during the last calendar year owing to rising prices followed by gas curtailment. DAP off-take registered a growth of 6.2 percent. Going forward, demand is expected to go up due to recent sizeable hike in wheat support price and sustainability in other crop prices.

FOOD,BEVERAGES & CONSUMER PRODUCTS

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	7		
			2011-12	2010-11	
A.	Industry Sales	Act/Est	31,632	30,050	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	3,733		
C.	Financial Charges	Act/Est	175		
D.	PAT	Act/Est	2,831		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	14,734		
F.	*Current Assets*	Act/Est	9,802		
G.	*Cash & Bank Balances*	Act/Est	1,040		
H.	*Trade Debtors*	Act/Est	1,141		
I.	*Short Term Investments*	Act/Est	1,289		
J.	*Total Equity*	Act/Est	8,805		
K.	*Current Liabilities*	Act/Est	5,064		
L.	*Total Liabilities*	Act/Est	5,929		

FOOD, BEVERAGES & CONSUMER PRODUCTS

OPPORTUNITIES

- Over the last year the food and beverages sector has been a sole ray of sunshine for Pakistan's large scale manufacturing, being amongst the few sectors that have shown actual and measurable growth. The massive and incremental explosion in food consumption amongst Pakistani households has boded well for almost all food producing and processing industrial giants, and in the future, the same trend is likely to benefit in the long run.

- Thriving consumerism is leading the growth of food and beverage sector. With a combined weight of 12.2 percent in the LSM index, the sector has once again lead the names of industries showing an increase in output, posting a seven percent growth over the same period last year at the end of August. Witnessing a steady growth, the sector has continued to gain momentum & the sector is likely to carry on with its current growth well into 2013.

- Engro Foods plans to invest Rs 8.7 billion in 2012-13 for expansion purposes. Out of this, two billion rupees will be invested in the powdered milk business, while the remainder will be invested in capacity expansion and cold chain infrastructure development.

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

- Despite continuing challenging business environment, the food products and beverages sector has improved in the recent years. Stronger brands, superior products and bigger innovations are done in this sector by major players such as Unilever, Nestle, Engro foods, Halal Foods etc

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

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

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

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

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

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

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

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

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

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

THREATS

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

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

- Continued competition and the number of players in the industry may be significant over 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 recent floods.

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

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

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

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

OUTLOOK

- Witnessing a steady growth, the sector has continued to gain momentum & the sector is likely to carry on with its current growth into 2013. However, the macroeconomic conditions may erode the sector's profitability in the coming year. With essential raw materials becoming pricier, industry very likely to see some whittling away of margins.

GLASS & CERAMICS

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	6	
			2011-12	2010-11
A.	Industry Sales	Act/Est	19,473	18,888

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

B.	PBT	Act/Est	1,725
C.	Financial Charges	Act/Est	656
D.	PAT	Act/Est	1,426

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

E.	*Total Assets*	Act/Est	22,344
F.	*Current Assets*	Act/Est	7,226
G.	*Cash & Bank Balances*	Act/Est	660
H.	*Trade Debtors*	Act/Est	1,634
I.	*Short Term Investments*	Act/Est	Nil
J.	*Total Equity*	Act/Est	10,086
K.	*Current Liabilities*	Act/Est	8,248
L.	*Total Liabilities*	Act/Est	12,258

GLASS & CERAMICS

OPPORTUNITIES

- ▲ The Economic Survey 2011-12 revealed that intermediate goods such as building materials posted a modest contribution in overall LSM growth.
(Business Recorder-June 01, 2012)

- ▲ Only few major players are there in the market, each having its own specialty in making different types sizes of glass. Therefore, competition is low and specialization is high.

- ▲ Raw materials as sand (silica), limestone and soda ash are basic ingredients and are readily available in Pakistan.

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

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

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

- ▲ Ceramic product lines include a vast range of products; tiles, tableware, sanitary ware, refractory and insulators which are a source of immense amount of revenue.

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

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

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

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

THREATS

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

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

- Methane gas (CH_4) shortages have deprived many small players of their core input, as a result of which industries running on natural gas have been closed. For glass industry natural gas is as important as the raw materials because it is used to heat furnaces.

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

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

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

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

OUTLOOK

- The overall outlook for the sector remains tenuous and uncertain due to the overall GDP growth rate, inflationary pressures and a constrained construction sector.

INFORMATION TECHNOLOGY

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	260		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	93,800	89,110	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	18,200		
C.	**Financial Charges**	**Act/Est**	1,400		
D.	**PAT**	**Act/Est**	14,000		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	71,400		
F.	*Current Assets*	**Act/Est**	65,800		
G.	*Cash & Bank Balances*	**Act/Est**	47,600		
H.	*Trade Debtors*	**Act/Est**	14,000		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	53,200		
K.	*Current Liabilities*	**Act/Est**	1,400		
L.	*Total Liabilities*	**Act/Est**	18,200		

INFORMATION TECHNOLOGY

OPPORTUNITIES

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

- The local IT companies are thriving consistently their business to North America, in Middle East and Africa that increased the exports to more than $217 million per annum by 2011. The volume of exports can be pushed to $10 billion mark via improved policies and support.

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

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

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

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

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

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

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

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

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

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

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

THREATS

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

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

OUTLOOK

- Though the software industry in Pakistan continues to stumble along with marginal growth, this fledgling sector's outlook remains constrained and lackluster due to enhanced international competition and global recessionary conditions. However, the considerably devalued rupee should result in higher revenue growth.

LEATHER PRODUCTS

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	200		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act**/Est	46,090	48,395	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	**Act**/Est	4,291		
C.	**Financial Charges**	**Act**/Est	471		
D.	**PAT**	**Act**/Est	3,004		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	**Act**/Est	25,000		
F.	*Current Assets*	**Act**/Est	20,675		
G.	*Cash & Bank Balances*	**Act**/Est	2,175		
H.	*Trade Debtors*	**Act**/Est	1,600		
I.	*Short Term Investments*	**Act**/Est	500		
J.	*Total Equity*	**Act**/Est	14,425		
K.	*Current Liabilities*	**Act**/Est	9,700		
L.	*Total Liabilities*	**Act**/Est	10,575		

LEATHER PRODUCTS

OPPORTUNITIES

- ▲ The country's Large Scale Manufacturing (LSM) has registered positive growth of 1.85 percent during the July-Sep first quarter of the current FY13 over the corresponding period of the last FY12. The manufacturing items witnessed growth during the first quarter over the same period of last year included leather products (5.56%).
- ▲ The export of Pakistan's leather garments and goods to European Union has increased from 318.03 million dollars to 361.98 million dollars from 2007 to 2010. As per statistics of Jan-Oct 2011, there has been an increase of 12.75 percent in the export figure as compared to Jan-Oct 2010.
- ▲ The leather and tanning industry is one of the oldest established industries in Pakistan and enjoys highly skilled, even if specialized, labor for that sector.
- ▲ Some players have established a niche for themselves by focusing on demand for high quality office products locally (such as 'Traditions').
- ▲ Pakistan's share in the world leather market remains low (at around 3%), but is none the less considered a major exporter of leather products. There is therefore considerable room for export expansion.
- ▲ Raw material and semi-finished goods are generally considered to be of a competitive quality. Currently, the major customers of exports are Italy, Spain, Portugal, South Korea, Germany, France, UK, USA and the Gulf.
- ▲ In order to boost the core profitability of the industry, there is a need to focus on value-addition in the products by diversification in apparels, niche designer products etc.
- ▲ Introduction of flaying machines (at the butcher trade) would provide an estimated 25% increase in the availability of leather ready raw materials.

THREATS

- ▼ The export of leather garments has decreased from 369.3 million dollars to 306.7 million dollars during last two financial years.
- ▼ Tanned leather industry is facing continuous decline in the exports of finished leather, which stood at $401.890 million during July 2011 to May 2012, as against the export during the same period of previous financial year of $422.722 million, depicting a decline by 4.93 percent.

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

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

- Several factors have increased core input costs for manufacturers:

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

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

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

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

OUTLOOK

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

MACHINERY & EQUIPMENT

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	5		
			2011-12	2010-11	
A.	Industry Sales	Act/Est	34,952	30,670	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	PBT	Act/Est	-33		
C.	Financial Charges	Act/Est	2,341		
D.	PAT	Act/Est	3		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	Act/Est	52,115		
F.	*Current Assets*	Act/Est	27,941		
G.	*Cash & Bank Balances*	Act/Est	1,731		
H.	*Trade Debtors*	Act/Est	12,709		
I.	*Short Term Investments*	Act/Est	Nil		
J.	*Total Equity*	Act/Est	9,921		
K.	*Current Liabilities*	Act/Est	23,875		
L.	*Total Liabilities*	Act/Est	42,194		

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, then HMC will be able to manufacture power generation equipment in the country, this will eventually be helpful in fulfilling the increasing demand of electricity at low cost.
- Building canons for army's tank will lead to reduction in dependence on foreign vendors for defense equipment.
- Opportunities exist for export of engineering goods in African, Middle Eastern and Asian countries. In case of plants, buyers ask for project financing on soft terms or equity partnership. Better chances exist in Africa if local marketing offices are established for there.

THREATS

- Less costly alternatives from China are a major threat to the mechanical industry. The recent case of manufacturing of wagons for railways proved quite unusual as a practice for the public sector.
- Local engineering industry is not fully developed technologically to meet requirements of all the industrial sectors; therefore Pakistan is not able to compete with foreign supplier.
- Foreign market is not interested to transfer know-how to local industry for executing local projects, and Pakistan also lacks in design-process facilities. For this

very reason the purchase of design exceeds the cost of manufacturing of the product itself.

- 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.
- The increasing cost of all the inputs i.e. materials, utilities and labor are resulting in increase in cost of production and eventually competitiveness along with the added cost of purchase of designs slows down the early manufacturing of the products demanded in the market. Higher cost of production is mainly because of the power shortage, misaligned provision of subsidies etc.
- Although there exists government SRO's/policies for preference of participation by local companies but these are not followed. Generally in major engineering project prequalification conditions for bidders are set such as to debar local participants.
- The industry needs to team up with electricity tower and wire and cable manufacturers and provide a complete solution in the shape of EPC, without which exports may not be possible. There is a potential of exports to rise to above US$ 200 million if teaming with other thrust sub-sectors is done.
- It is essential that design and research institutes are established in the country for development of engineering industry. Without indigenous design and engineering capabilities we will always remain dependent on foreign sources.

OUTLOOK

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

METALLIC PRODUCTS (IRON & STEEL)

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	6		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	37,911	36,015	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	**Act/Est**	426		
C.	**Financial Charges**	**Act/Est**	2,230		
D.	**PAT**	**Act/Est**	414		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	**Act/Est**	49,632		
F.	*Current Assets*	**Act/Est**	22,439		
G.	*Cash & Bank Balances*	**Act/Est**	198		
H.	*Trade Debtors*	**Act/Est**	2,980		
I.	*Short Term Investments*	**Act/Est**	523		
J.	*Total Equity*	**Act/Est**	16,857		
K.	*Current Liabilities*	**Act/Est**	22,238		
L.	*Total Liabilities*	**Act/Est**	32,775		

METALLIC PRODUCTS (IRON AND STEEL)

OPPORTUNITIES

- The country's Large Scale Manufacturing (LSM) has registered positive growth of 1.85 percent during the July-Sep first quarter of the current FY13 over the corresponding period of the last FY12. The manufacturing items witnessed growth during the first quarter over the same period of last year included iron and steel products (16.07%).

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

- There are medium and small scales manufacturing units which essentially produce for domestic market. Some of them have the capacity to enter export business if support and guidance is provided.

- 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.

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

THREATS

- Pakistan Steel Mills is facing a new challenge of slow sales because of massive imports and a decline in steel prices in the world market, which forced the country's largest steel making plant to adjust prices of its products 15 times during this calendar year. The situation has thwarted Pakistan Steel Mills efforts for obtaining raw materials to enhance its production.

- With a weightage of 5.39 in Provisional Quantum Index Numbers (QIN) of Large Scale Manufacturing Industries, the steel and iron production has shown a 1.05 point year-on-year decline and with fixed investment declining from 11.5 percent of the GDP to 10.9 in 2011-12, major commodity producing sectors including steel has been exhibiting declining productivity.

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

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

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

- 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

- The steel sector is expected to show marginal growth in FY13 as far as sales are concerned. The overall profitability is also expected to improve with a decrease in prices of essential raw materials due to slow down in the growth of global steel demand.

PHARMACEUTICALS

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	7		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	60,035	54,474	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	7,479		
C.	**Financial Charges**	**Act/Est**	574		
D.	**PAT**	**Act/Est**	5,031		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	***Total Assets***	**Act/Est**	42,289		
F.	***Current Assets***	**Act/Est**	25,596		
G.	***Cash & Bank Balances***	**Act/Est**	5,229		
H.	***Trade Debtors***	**Act/Est**	3,344		
I.	***Short Term Investments***	**Act/Est**	472		
J.	***Total Equity***	**Act/Est**	26,277		
K.	***Current Liabilities***	**Act/Est**	12,761		
L.	***Total Liabilities***	**Act/Est**	16,012		

PHARMACEUTICALS

OPPORTUNITIES

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

- The industry is a net beneficiary of the boom in base materials mostly from China and this positively impacts their margins. Further treaties and trade agreements will boost this trend further.

- The country's Large Scale Manufacturing (LSM) has registered positive growth of 1.85 percent during the July-Sep first quarter of the current FY13 over the corresponding period of the last FY12. The manufacturing items witnessed growth during the first quarter over the same period of last year included pharmaceuticals (4.09%).

- FBR has decided to reduce the rate of the 0.5 percent withholding tax under Section 153A of the Income Tax Ordinance, 2001 to 0.3 or 0.2 percent for those sectors paying lower rate of turnover tax below 0.5 percent. This would be a major facilitative measure to be announced for all such sectors like manufacturers of pharmaceutical products having low turnover and also paying turnover tax.

- By volumes and generated percentage, the Pharmaceutical industry may perhaps be considered a small industry which can prove itself of substantial value considering the amount of profits that can be generated, and the number of promising investors that exist.

- A massive potential exists for the Industry in a country of population numbers projected to hit the 350 Million mark by 2020.

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

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

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

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

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

- ▲ Patent retention ensures a very high rate of return for the Industry, and patent law protection ensure some, if not always adequate, protection for the product till it is generic-zed (i.e. patent expires).

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

- ▲ Direct sales to Hospitals, Government medical facilities and other public institutes will 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 absence of any vibrant contract manufacturing policy, multinational companies are reluctant to come to Pakistan. This deprives the country of transfer of latest technology – This may become important as India's indigenous capacity becomes a competitive threat.

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

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

- ▼ The biggest component of the value-chain in this Industry is R&D. Current estimates put the cost of a new drug by Pfizer (the world's largest concern) to be between 700 and 1.2 Billion US Dollars, with time-to-market being 10 to 15 years. This is a very vital core cost to be considered, as the Industry has to pass this to the consumer

- ▼ 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.

OUTLOOK

- Industry continues its growth trajectory despite the recent image and credibility issues on the export side, with continued rise in the demand for drugs and higher rupee price levels due to fall in the value of rupee. However, local margins are likely to remain constrained.

SPORTS PRODUCTS

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	300		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	10,756	11,322	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	**Act/Est**	4,800		
C.	**Financial Charges**	**Act/Est**	180		
D.	**PAT**	**Act/Est**	3,900		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	***Total Assets***	**Act/Est**	63,813		
F.	***Current Assets***	**Act/Est**	43,413		
G.	***Cash & Bank Balances***	**Act/Est**	5,367		
H.	***Trade Debtors***	**Act/Est**	23,150		
I.	***Short Term Investments***	**Act/Est**	Nil		
J.	***Total Equity***	**Act/Est**	55,923		
K.	***Current Liabilities***	**Act/Est**	7,890		
L.	***Total Liabilities***	**Act/Est**	7,890		

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.

- Adidas, Nike, Micassa, Puma, Mitre, Select, Umbro, Lotto, Diadora, Decathlon, Wilsons, etc, are some of the world renowned brands sourcing a large portion of their supplies of sports goods from Sialkot; further enhancing the credibility of the city as an internationally acknowledged quality manufacturing and exporting centre.

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

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

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

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

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

- 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 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.

- The manufacturing in sports goods sectors is largely done under the brands of foreign companies, and the results in lower prices for manufacturers in these sectors. Government of Pakistan has decided that sports goods sector would be granted 25 percent support on brand development activities.

OUTLOOK

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

SUGAR

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	25		
			2011-12	2011-12	
A.	Industry Sales	Act/Est	113,918	108,222	
			High (>15%)	Medium (5-15%)	Low (<5%)
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	PBT	Act/Est	2,494		
C.	Financial Charges	Act/Est	5,260		
D.	PAT	Act/Est	2,155		
			Expected to Increase	Expected to Remain Same	Expected to Decline
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	*Total Assets*	Act/Est	101,636		
F.	*Current Assets*	Act/Est	44,725		
G.	*Cash & Bank Balances*	Act/Est	1,923		
H.	*Trade Debtors*	Act/Est	3,372		
I.	*Short Term Investments*	Act/Est	1,085		
J.	*Total Equity*	Act/Est	30,365		
K.	*Current Liabilities*	Act/Est	52,241		
L.	*Total Liabilities*	Act/Est	71,271		

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. The country could earn $0.5 billion precious foreign exchange provided the government allows sugar millers to export 1 million tons of white refined sugar from this season's production that is expected to be about 5.5 million tons. Pakistan produced 4.8 million tons of sugar in the year (2011-12). The millers anticipate a bumper sugar crop for the season 2012-13, putting the stockpiles of sweetener at 6 million tons after adding carryover stocks of 0.5 million tons.

- The State Bank of Pakistan (SBP) announced procedure for sugar export and advised all banks to get appropriate approval of all sugar export cases from the central bank. Cumulative ceiling for the sugar export is 200,000 tons, while a quantity not in excess of 10,000 tons will be allowed to be exported by individual sugar mills.

- The country's annual sugar requirement estimates range between 3.8-4.2 million tons per annum. Reportedly, TCP stocks are sufficient till November 2012, based on depletion of 50,000 tons per month. Internationally, the sugar prices are expected to remain stable owing to abundant sugar supply.

- Loans to the sugar sector did not accelerate during H1-FY12 at the pace shown in the last two years. In fact, sugar mills could not off-load their inventories before the start of the crushing season, due to lower domestic price of sugar. This situation constricted sugar mills' ability to borrow from the banking system. Resultantly, the government intervened in the market and purchased 378,000 tons of sugar through TCP, to alleviate the problems faced by sugar mills. This intervention is expected to not only stabilize the market price but also help sugar mills clear their dues to farmers and to banks.

- Ministry of Food and health and other concerns have ensured higher prices to the sugar cane growers. These tactics ensured a high sugarcane price resulting in high sugar price to the consumers – ensuring a measure of revenue increment for the Industry.

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

- 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.

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.
- Strict check on the smuggling of Gur to neighbouring Afghanistan would help boom crushing and production of sugar.
- Another problem currently being faced by the sugar sector is that there is an increase in cane cultivation and establishment of new mills in the country; extending it to areas which may not be suited for cane cultivation. This has led the industry to expand to where it cannot be optimized for competition, and skews the trend of competition analysis.
- Support pricing is in turn hurting production units - sugarcane prices were fixed with the increase of 25% by the Government in the last year with the consideration to provide incentive to the growers.
- Although the acreage under cane and the number of sugar mills increased substantially in the country as compared to the base period of 1948, the levels of cane yield per unit of land and the recovery rates have shown no ostensible improvement over time. Stagnant yields ensure the industry always has to cope with cost pressures.
- Price adjustments are made against import price during years of supply shortages, and this can have abrupt and artificial changes to the price of sugar for local purchasing parties.
- The owners of mills have never seriously addressed the inefficiency that exists in the sector when measured against regional and international benchmarks. Currently, Pakistan's yields are some of the lowest as against global yields.
- The industry pricing mechanism, owing to the protected nature of the sugar cane crop, continues to cause issues within the market dynamics which will not only impact the industry but hurt the pricing balance.
- Disagreements between growers and mills continue to over-shadow the industry every 2 to 3 years, resulting in closures and under-capacity production.
- Gur Ghanis have emerged as tough competitors of sugar mills in the best quality sugarcane areas of the country. The growers prefer to supply their crop to Gur Ghanis, which has a good market in neighbouring Afghanistan.

OUTLOOK

- With an increase in support prices for sugar by the GoP, profits are likely to be dampened somewhat. If surpluses are not exported it will further squeeze the margins. Overall the industry is expected to have modest growth during FY13.

SURGICAL, PRECISION EQPT

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	230	
			2011-12	**2010-11**
A.	**Industry Sales**	**Act/Est**	26,523	22,279

			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	11,935		
C.	**Financial Charges**	**Act/Est**	1,500		
D.	**PAT**	**Act/Est**	8,020		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	***Total Assets***	**Act/Est**	531,775		
F.	***Current Assets***	**Act/Est**	361,775		
G.	***Cash & Bank Balances***	**Act/Est**	55,367		
H.	***Trade Debtors***	**Act/Est**	123,150		
I.	***Short Term Investments***	**Act/Est**	Nil		
J.	***Total Equity***	**Act/Est**	466,025		
K.	***Current Liabilities***	**Act/Est**	65,750		
L.	***Total Liabilities***	**Act/Est**	65,750		

SURGICAL, PRECISION EQUIPMENT

OPPORTUNITIES

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

- The export of surgical goods and medical equipments during first eleven months of current financial year increased by 17.06 percent as surgical goods valuing US$273.58 million were exported as against the export of US$233.70 million during the same period of last year.

- Malaysian supplier of surgical instruments and implants, AM Medicare Sdn Bhd, has finalized a deal worth Rs 135 million with Care & Cure Ltd of Pakistan to market its products in Malaysia. AM Medicare will help sell Care & Cure's surgical and dental instruments, hollow wares and diagnostic instruments under the brand name 'AM Surgical'.

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

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

- There are about 900 to1000 active small and medium Surgical Units with labor force ranging from 10-500. The number of workers in the Surgical Industry is about 150,000. The industry manufactures about 100 Million instruments annually.

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

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

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

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

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

THREATS

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

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

- ▼ Electricity supply is severely lacking and the industry has been incurring extra costs.

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

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

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

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

OUTLOOK

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

TELECOMMUNICATIONS

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	5		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act**/Est	270,644	257,111	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act**/Est	-51,236		
C.	**Financial Charges**	**Act**/Est	37,892		
D.	**PAT**	**Act**/Est	-52,608		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act**/Est	507,796		
F.	*Current Assets*	**Act**/Est	79,456		
G.	*Cash & Bank Balances*	**Act**/Est	2,824		
H.	*Trade Debtors*	**Act**/Est	17,468		
I.	*Short Term Investments*	**Act**/Est	Nil		
J.	*Total Equity*	**Act**/Est	59,188		
K.	*Current Liabilities*	**Act**/Est	379,304		
L.	*Total Liabilities*	**Act**/Est	448,608		

TELECOMMUNICATIONS

OPPORTUNITIES

- ▲ Telecommunication sector will provide a diversification in 2012-13 through auction for 3G licences, thereby brightening prospects for value-addition in the sector.
  The 3G auction would be completed by the end of current financial year and is expected to generate revenue of Rs 100 billion instead of Rs 79 billion to the exchequer. The new policy for setting up of International Clearing House (ICH) would bring sustainable foreign exchange reserves of $ 800 million annually to the exchequer. The new policy has been implemented from October 1, 2012.

- ▲ The teledensity in the country has reached 68.3 percent mark during last eight months, showing 6.7 per cent growth as compared to previous year. Mobile teledensity stands at 64.9 percent while the teledensities in fixed and wireless local loop remained at 1.93 and 1.6 percent, respectively.

- ▲ There is positive growth in telecom indicators. The telecom revenues reached an all time high of Rs387.15 billion in CY11.Telecom players, mostly the mobile network operators, invested $371.5 million during CY11. However, owing to some disinvestments, the sector FDI was at negative $164.6 million last year. The 1HFY12 taxation proceeds from the sector stood at Rs58.1 billion, and PTA expects the total FY12 contributions to cross Rs120 billion. The country's sms traffic was ranked sixth in 2010 in Asia-Pacific, only behind China, the Philippines, Indonesia, India and Japan.

- ▲ 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.

- ▲ 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 during FY 2011.

- ▲ 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.

- ▲ 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.

- ▼ 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.

THREATS

- 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.

- 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.

OUTLOOK

- Core margins are expected to erode due to stiffer competition and an increasingly stringent security related regulatory environment – from greater security checks on issuance of new SIMs to increasing security driven shutdown of cellular networks. However, the industry remains adaptable with an ever increasing emphasis on VAS (Value Added Services) would continue its positive growth trajectory into FY13. Outlook remains stable.

TEXTILES-COMPOSITE

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	32		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	262,040	275,142	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	1,833		
C.	**Financial Charges**	**Act/Est**	15,423		
D.	**PAT**	**Act/Est**	-725		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	280,674		
F.	*Current Assets*	**Act/Est**	131,137		
G.	*Cash & Bank Balances*	**Act/Est**	4,871		
H.	*Trade Debtors*	**Act/Est**	35,971		
I.	*Short Term Investments*	**Act/Est**	12,774		
J.	*Total Equity*	**Act/Est**	114,034		
K.	*Current Liabilities*	**Act/Est**	130,967		
L.	*Total Liabilities*	**Act/Est**	166,640		

TEXTILES - COMPOSITE

OPPORTUNITIES

- EU has granted 75 items duty-free market access under the Autonomous Trade Concessions (ATCs) till December 31, 2013 of which 26 items originated in Pakistan have been offered under Tariff Regulated Quotas (TRQ) while 49 items have been covered under non-tariff regulated quotas effective from 15th Nov, 2012 as the package has been notified in the official Journal of EU.As an increased market access to EU, which is the largest trading partner of Pakistan. Pakistan will make a net gain of 31.4 per cent in export of textiles under the EU Autonomous Preference Scheme. Value of exports for 2011 was $1709 million and under the EU Preference Scheme, the exports are estimated to rise to $2246 million yielding in net increase of 537 million. The package will provide real and substantial support to Pakistan's exports mainly of textile exports to EU.

- Textile remains the leading export category for Pakistan, scoring over half of the cumulative export receipts of nearly four billion dollars during the July to August 2012 two-month period. This tally is, however, 1.5 percent lower over same period last year. Continued slowdown in key textile exporting destinations, especially the EU, and lower cotton prices owing to global surplus, have weighed heavy on textiles exports. International cotton prices have already dropped by a third from what they were in September 2011. Future outlook isn't promising either. Within the textile group, cotton yarn exports grew tremendously in both volume and value terms compared to last year. Knitwear exports fell way more in value terms compared to a small corresponding decline in their volume.

- After receding sharply in the early months of FY12, international and domestic cotton prices appear to have become relatively stable around their long-term price trend. Given high levels of cotton inventories in India, China and depressed demand in the US, cotton prices are expected to remain stable in the upcoming fiscal year. Although textile exporters are unlikely to enjoy a price bonanza similar to FY11, downside risk in cotton prices and hence textile prices, is also relatively limited.

- With a substantial growth of over 78 per cent, raw cotton export has reached all time high at the end of last fiscal year 2011-2012 (FY12) mainly due to bumper cotton crop in the country and high demand in the world market. In term of dollar, raw cotton export has registered a healthy growth of over 26.65 per cent at the end of last fiscal year. It may be mentioned here that Pakistan is the fourth largest cotton producer in the world. Pakistan has achieved over 14.6 million bales bumper cotton crop last fiscal year and this year is expected to achieve 15 million bales mark.

- The Finance Division has released a billion rupees to the Textile Ministry for various schemes/incentives announced in the Textile Policy (2009-14). The govt. released Rs660 million against drawbacks on local taxes and levies (DLTL) and Rs340 million against the Export Finance Scheme. With this amount, the total release for the current fiscal year touched Rs6.3 billion against an allocation of Rs7.5 billion while total release for the implementation of textile policy amounted to Rs32 billion over the past three years. The Ministry of Textile is likely to get major share of Rs7.5 billion from the Export Promotion Fund worth Rs10 billion announced in the budget 2012-13.

- Nishat Mills Limited has been investing heavily into fixed assets related to energy generation using alternative fuel sources, allowing them to effectively lower their costs for the upcoming periods and increase their yield margins. Facing gas shortages of up to five million cubic feet per day, the growth statistics for the textile sector have been consistently going down-stream.

THE BIG PICTURE – PAKISTAN AND THE GLOBAL TEXTILE SCENARIO

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

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

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

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

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

- 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

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

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

- ▲ 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.

THREATS

- ▼ **Textile exports recorded at 12.356 billion dollars in 2011-12 against 13.788 billion dollars during the same period of the corresponding year, registering a decline of 1.432 billion dollars (10.38 percent).**

- ▼ **Textiles which contributed the most in last year's exports with high price in international markets faced lower demand in international market during the outgoing fiscal year 2011-2012 owing to inflation and the Euro zone debt crisis leading to overall decline in exports of the country. Textile exports were targeted at $16 billion for this year (FY12).**

- ▼ **The country's Large Scale Manufacturing (LSM) has registered positive growth of 1.85 percent during the July-Sep first quarter of the current FY13 over the corresponding period of the last FY12. However, the manufacturing items witnessed decrease in production during the period included textile (0.39%).**

- ▼ **Globally and locally, Polyester Staple Fiber demand has been subdued owing to recessionary pressures and a healthy cotton output. Demand from the downstream sector has been lackluster because of lower cotton prices which tilted blend economics in favor of cotton rather than PSF and secondly, textile units have also borne the brunt of global recessionary pressures, particularly in the Euro zone, leading to lower exports and, therefore, lower demand for fiber.**

- ▼ **The downturn in PSF prices and margins is cyclical. So the likelihood of PSF prices and margins reverting back to stupendous margins after a few years from the existing low levels are always there.**

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

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

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

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

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

- 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. Pakistan also faces stiff competition from China in the EU. Since EU is also starting to make inroads into the large Chinese market it has given 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.

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

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

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

- The weakest links in the textile chain are:

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

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

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

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

- Infrastructural bottlenecks include:

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

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

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

ONGOING ENERGY CRISIS

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

GLOBAL DOWNTURN

- In 2013, global economies would not be back to normalcy; infact are nearing yet another major crisis. The US economy may shrink this year, as well as the EU.

OTHER FACTORS

- The major competitors are wide spread across various countries including India, Italy, and Bangladesh. There are, however, many small and mid-sized international players that continue to pose a threat to Pakistan's composite export.
- The industry has been slowly losing ground in the world-market, much of it due to energy shortages and very high cost of inputs. The industry continues to suffer from other internal productivity issues, leading to an erosion of its competitive place in the world market.
- The industry has also been impacted by the residual effect of a slowdown in consumer spending in Western markets.
- The industry has not managed to invest in alternative sources of energy generation, and need to look into the payback periods of thermal and solar energy solutions.
- The industry continues to remain unable to compete on economies as seen in China, and this will remain a major threat to global competitiveness.
- Areas such as quality assurance, weak integration of the supply chain, a limited product range and marketing deficiencies will continue to impede growth in the sector.
- Pakistan textile sector maintains a low 3.8 value ratio to its cotton production, highly uncompetitive compared to India (5.3), China (7.3) and Turkey (nearly 6).
- 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 the sector.
- Considerable tariff hikes (gas as well as electricity) and wage costs have been witnessed in the Fabrics sector
- There exist a lot of obsolete processes and technology currently in the sector, which, coupled with yarn qualities, requires a major overhaul and up-gradation
- Many textile units are relocating to Bangladesh because the government is nurturing its textile sector, and they have been able to achieve major targets like;
    - Low wage rate, plenty of energy supplies at accommodating rates.
    - They have zero rated duty structure.

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

▼ Anti dumping policies imposed by major importers.

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

▼ Lack of international marketing & selling efforts.

▼ Less awareness in acquiring international quality certifications.

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

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

OUTLOOK

▶ The overall outlook for the sector is tenuous at best primarily driven by lower demand on account of global recessionary conditions and stiffer international competition. For the spinning sub-sector, however, windfall margins & sales are likely to stretch into 2013.

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

A presentation made by IRA to Secretary Textiles (late 2007). In our view the key conclusions & assessments remain valid even today in 2013 and pertinent to the industry's strategic direction.

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)

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act**/Est	40		
			2011-12	**21010-11**	
A.	**Industry Sales**	**Act**/Est	156,640	164,472	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act**/Est	7,159		
C.	**Financial Charges**	**Act**/Est	6,068		
D.	**PAT**	**Act**/Est	5,779		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act**/Est	90,600		
F.	*Current Assets*	**Act**/Est	40,297		
G.	*Cash & Bank Balances*	**Act**/Est	600		
H.	*Trade Debtors*	**Act**/Est	10,939		
I.	*Short Term Investments*	**Act**/Est	1,321		
J.	*Total Equity*	**Act**/Est	32,914		
K.	*Current Liabilities*	**Act**/Est	43,868		
L.	*Total Liabilities*	**Act**/Est	57,686		

TEXTILES - FABRICS (WEAVING)

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

TEXTILES-KNITS & KNIT APPAREL

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	800		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	175,901	197,144	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	300		
C.	**Financial Charges**	**Act/Est**	1,800		
D.	**PAT**	**Act/Est**	240		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	23,700		
F.	*Current Assets*	**Act/Est**	5,400		
G.	*Cash & Bank Balances*	**Act/Est**	120		
H.	*Trade Debtors*	**Act/Est**	60		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	-9,000		
K.	*Current Liabilities*	**Act/Est**	26,100		
L.	*Total Liabilities*	**Act/Est**	32,700		

TEXTILES - KNITS & KNIT APPAREL

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

TEXTILES-SPINNING

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	55		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	167,877	159,483	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	6,080		
C.	**Financial Charges**	**Act/Est**	5,716		
D.	**PAT**	**Act/Est**	4,656		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	***Total Assets***	**Act/Est**	130,238		
F.	***Current Assets***	**Act/Est**	53,883		
G.	***Cash & Bank Balances***	**Act/Est**	1,498		
H.	***Trade Debtors***	**Act/Est**	13,475		
I.	***Short Term Investments***	**Act/Est**	125		
J.	***Total Equity***	**Act/Est**	60,882		
K.	***Current Liabilities***	**Act/Est**	45,227		
L.	***Total Liabilities***	**Act/Est**	69,356		

TEXTILES - SPINNING

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

TEXTILES-SYNTHETIC FIBERS/POLYESTER

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	Act/Est	3	
			2011-12	2010-11
A.	Industry Sales	Act/Est	15,780	16,569

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

B.	PBT	Act/Est	-729
C.	Financial Charges	Act/Est	286
D.	PAT	Act/Est	-847

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

E.	*Total Assets*	Act/Est	21,363
F.	*Current Assets*	Act/Est	9,816
G.	*Cash & Bank Balances*	Act/Est	281
H.	*Trade Debtors*	Act/Est	3,935
I.	*Short Term Investments*	Act/Est	Nil
J.	*Total Equity*	Act/Est	-2,291
K.	*Current Liabilities*	Act/Est	21,045
L.	*Total Liabilities*	Act/Est	23,654

TEXTILES - SYNTHETIC FIBERS/POLYESTER

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

OUTLOOK

- 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 this year, even though this sub-sector is set to benefit as global oil prices rise thus improving margins; this however will be offset by the high probability global recessionary conditions likely to intensify in the later part of the year.

TEXTILES-WOVEN APPAREL

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	500		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	146,013	151,620	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	-756		
C.	**Financial Charges**	**Act/Est**	738		
D.	**PAT**	**Act/Est**	-758		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	12,378		
F.	*Current Assets*	**Act/Est**	11,631		
G.	*Cash & Bank Balances*	**Act/Est**	51		
H.	*Trade Debtors*	**Act/Est**	10,645		
I.	*Short Term Investments*	**Act/Est**	Nil		
J.	*Total Equity*	**Act/Est**	-3,540		
K.	*Current Liabilities*	**Act/Est**	15,918		
L.	*Total Liabilities*	**Act/Est**	15,918		

TEXTILES - WOVEN APPAREL

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

TOBACCO PRODUCTS

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	2		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	39,431	35,167	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%)	Best			
	(Next 1-2 Yrs)	Guess			
B.	**PBT**	**Act/Est**	2,020		
C.	**Financial Charges**	**Act/Est**	469		
D.	**PAT**	**Act/Est**	1,145		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability	Best			
	(Next 1-2 Yrs)	Guess			
E.	***Total Assets***	**Act/Est**	27,639		
F.	***Current Assets***	**Act/Est**	16,485		
G.	***Cash & Bank Balances***	**Act/Est**	156		
H.	***Trade Debtors***	**Act/Est**	196		
I.	***Short Term Investments***	**Act/Est**	Nil		
J.	***Total Equity***	**Act/Est**	10,060		
K.	***Current Liabilities***	**Act/Est**	16,392		
L.	***Total Liabilities***	**Act/Est**	17,579		

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.

- ▲ The country's Large Scale Manufacturing (LSM) has registered positive growth of 1.85 percent during the July-Sep first quarter of the current FY13 over the corresponding period of the last FY12. The manufacturing items witnessed growth during the first quarter over the same period of last year included Tobacco.

- ▲ The Federal Board of Revenue has decided to reduce the rate of the 0.5 percent withholding tax under Section 153A of the Income Tax Ordinance, 2001 to 0.3 or 0.2 percent for those sectors paying lower rate of turnover tax below 0.5 percent. This would be a major facilitative measure to be announced for all such sectors like cigarette distributors having low turnover and also paying turnover tax.

- ▲ 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

- ▼ CY11 has been a challenging year for the tobacco industry due to the weakening economic situation and rising inflation. The tobacco industry was also seriously affected by the floods during the summers. The continuing growth of the illicit tobacco industry has served to be a great threat to the income stream of the government by the tobacco industry.

- The sale of counterfeit, low price brands and smuggled cigarettes is rapidly gripping the domestic market, causing heavy loss to the exchequer. The sale of smuggled cigarettes has increased by 65 percent, from 1,018 million to 1,685 million, while the overall illicit trade had reportedly increased by 10 percent in 2011.

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

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

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

OUTLOOK

- The industry's ability to provide a strong cash flow and turnover is being slowly eroded; however the industry retains vast financial potential and is expected to remain strong over 2013.Outlook remains stable.

TRANSPORT-AIR

FINANCIAL SNAPSHOT 2011-12

All figures in Pak Rupees (Million)

	No. of Companies	**Act/Est**	1		
			2011-12	**2010-11**	
A.	**Industry Sales**	**Act/Est**	112,130	116,551	
			High (>15%)	**Medium (5-15%)**	**Low (<5%)**
	Projected Sales Growth (%) *(Next 1-2 Yrs)*	Best Guess			
B.	**PBT**	**Act/Est**	-32,724		
C.	**Financial Charges**	**Act/Est**	11,381		
D.	**PAT**	**Act/Est**	-33,181		
			Expected to Increase	**Expected to Remain Same**	**Expected to Decline**
	Net Profitability *(Next 1-2 Yrs)*	Best Guess			
E.	*Total Assets*	**Act/Est**	128,674		
F.	*Current Assets*	**Act/Est**	22,500		
G.	*Cash & Bank Balances*	**Act/Est**	2,172		
H.	*Trade Debtors*	**Act/Est**	9,416		
I.	*Short Term Investments*	**Act/Est**	19		
J.	*Total Equity*	**Act/Est**	-116,899		
K.	*Current Liabilities*	**Act/Est**	166,945		
L.	*Total Liabilities*	**Act/Est**	245,573		

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

- Pakistan International Airline's (PIA) loss after tax has reduced by 49 percent to Rs 4.406 billion in quarter ended September 2012 from Rs 8.557 billion in the same period of last fiscal year.
  PIA's cumulative losses have mounted to Rs 22.428 billion during nine months ended on September 30, 2012 compared to Rs 19.294 billion in corresponding period of last calendar year.

- From Eurozone to oil shocks, the aviation industry worldwide has had a difficult time juggling crisis in the past year. Unfortunately for the industry, little seems to have been changed in 2012. In its recent financial forecast, the International Air Transport Association has shown pessimism about the future of the aviation industry due to high fuel cost and European financial crisis.

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

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

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

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

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

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

OUTLOOK

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

RANKING BY BUSINESS ENVIRONMENT

BY DEMAND VOLATILITY

Sector ranking, by the Demand Volatility (the variable is a representation of the level of certainty/ uncertainty in the demand of the products. This is mainly concerned with the expected volatility (seasonality) as well as unexpected volatility of the demand) is as follows:

Rank 1: Demand is largely steady
Rank 5: Highly volatile demand which fluctuates tremendously

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Energy - Oil & Gas Exploration	1	100	6.0	6.0
2	Edible Oil	2	80	6.0	4.8
3	Energy – Coal	2	80	6.0	4.8
4	Energy - Gas Generation & Distribution	2	80	6.0	4.8
5	Energy - Oil (Petroleum Distribution/Marketing)	2	80	6.0	4.8
6	Energy - Oil (Petroleum Refining)	2	80	6.0	4.8
7	Energy - Power Generation & Distribution (IPPs)	2	80	6.0	4.8
8	Telecommunications	2	80	6.0	4.8
9	Tobacco Products	2	80	6.0	4.8
10	Fertilizers	2	80	6.0	4.8
11	Food, Beverages & Consumer Products	3	60	6.0	3.6
12	Agro-Chemicals	3	60	6.0	3.6
13	Sugar	3	60	6.0	3.6
14	Cement	3	60	6.0	3.6
15	Chemicals (inc. Plastic & Rubber Products)	3	60	6.0	3.6
16	Machinery & Equipment	3	60	6.0	3.6
17	Metallic Products (Iron & Steel)	3	60	6.0	3.6
18	Pharmaceuticals	3	60	6.0	3.6
19	Surgical, Precision, Optical Equipment	3	60	6.0	3.6
20	Textiles – Composite	3	60	6.0	3.6
21	Textiles - Synthetic Fibers/Polyester	3	60	6.0	3.6
22	Automotives - Assemblers/Manufacturers	3	60	6.0	3.6
23	Automotive - Parts & Accessories	4	40	6.0	2.4
24	Construction	4	40	6.0	2.4
25	Glass & Ceramics	4	40	6.0	2.4
26	Sports Products	4	40	6.0	2.4
27	Textiles - Fabrics (Weaving)	4	40	6.0	2.4
28	Textiles - Knits & Knit Apparel	4	40	6.0	2.4
29	Textiles – Spinning	4	40	6.0	2.4
30	Textiles - Woven Apparel	4	40	6.0	2.4
31	Transport – Air	4	40	6.0	2.4
32	Carpets & Rugs	5	20	6.0	1.2
33	Leather Products	5	20	6.0	1.2
34	Information Technology	5	20	6.0	1.2

BY SUPPLY VOLATILITY

Sector ranking, by the Supply Volatility, (the variable is a representation of the level of certainty/ uncertainty in the supply of key materials. It also assesses the industry's ability to continue production with alternate inputs in case of shortage of original inputs) is as follows:

Rank 1: Supply is largely steady
Rank 5: Highly volatile supply which fluctuates tremendously

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

BY CORPORATE GOVERNANCE & CONTROL STRUCTURE

Sector ranking, by the Corporate Governance & Control Structure (this variable assesses the extent of overall corporate governance and control structure and quality of compliance with generally accepted operating standards in the industry being a combination of certain factors. On the other hand, lesser corporatized segments would have relatively informal governance and control structures as opposed to more regulated/corporatized industry segments) is as follows:

Rank 1: Enhanced standards of corporate governance & control structure required
Rank 5: Relatively informal governance & control structures required

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

BY STRENGTH OF COMPETITION

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

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

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

BY BARRIERS TO ENTRY

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

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

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

BY LITIGATIONS

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

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

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

BY PRICE ELASTICITY

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

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

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

BY EXPOSURE
(Foreign Exchange Risk)

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

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

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

BY EXPOSURE
(Interest Rate Risk)

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

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

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

COMPOSITE RANKING BY BUSINESS ENVIRONMENT

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

S.NO.	SECTOR	MAXIMUM SCORE	SCORE
1	Energy - Oil & Gas Exploration	30.0	25.5
2	Energy – Coal	30.0	23.7
3	Energy - Gas Generation & Distribution	30.0	22.1
4	Tobacco Products	30.0	21.2
5	Pharmaceuticals	30.0	20.8
6	Energy - Oil (Petroleum Refining)	30.0	20.6
7	Energy - Power Generation & Distribution (IPPs)	30.0	20.6
8	Chemicals (inc. Plastic & Rubber Products)	30.0	20.5
9	Machinery & Equipment	30.0	20.3
10	Energy - Oil (Petroleum Distribution/Marketing)	30.0	19.5
11	Surgical, Precision, Optical Equipment	30.0	19.4
12	Metallic Products (Iron & Steel)	30.0	19.2
13	Fertilizers	30.0	18.7
14	Sports Products	30.0	18.2
15	Glass & Ceramics	30.0	18.2
16	Food, Beverages & Consumer Products	30.0	18.0
17	Construction	30.0	17.9
18	Telecommunications	30.0	17.7
19	Edible Oil	30.0	17.0
20	Automotives - Assemblers/Manufacturers	30.0	16.9
21	Textiles - Synthetic Fibers/Polyester	30.0	16.5
22	Cement	30.0	16.0
23	Carpets & Rugs	30.0	16.0
24	Automotive - Parts & Accessories	30.0	15.2
25	Textiles – Composite	30.0	14.7
26	Agro-Chemicals	30.0	14.6
27	Information Technology	30.0	14.5
28	Leather Products	30.0	13.0
29	Sugar	30.0	12.8
30	Textiles - Woven Apparel	30.0	12.1
31	Transport – Air	30.0	12.0
32	Textiles – Spinning	30.0	11.1
33	Textiles - Knits & Knit Apparel	30.0	10.1
34	Textiles - Fabrics (Weaving)	30.0	9.4

RANKING BY PROFITABILITY & FINANCIAL STRENGTH

BY GEARING
BY INTEREST COVERAGE (EBIT/Interest Expense)

Sector ranking, by the Interest Coverage (measures the industry's average ability to pay off interest expense) is as follows:
Rank 1: Ability to pay off interest expense
Rank 5: Ability to pay off interest expense

S.NO.	SECTOR	EBIT	Interest Expense	Interest Coverage Ratio	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Energy - Oil & Gas Exploration	219,742	3,353	65.54	1	100	3.0	3.0
2	Energy – Coal	20,500	600	34.17	1	100	3.0	3.0
3	Food, Beverages & Consumer Products	4,807	175	27.47	1	100	3.0	3.0
4	Surgical, Precision, Optical Equipment	3,521	138	25.52	1	100	3.0	3.0
5	Sports Products	4,593	180	25.52	1	100	3.0	3.0
6	Carpets & Rugs	3,780	180	21.00	2	80	3.0	2.4
7	Pharmaceuticals	8,053	574	14.03	2	80	3.0	2.4
8	Information Technology	19,600	1,400	14.00	2	80	3.0	2.4
9	Automotives - Assemblers/Manufacturers	11,146	893	12.48	2	80	3.0	2.4
10	Leather Products	4,762	471	10.11	3	60	3.0	1.8
11	Tobacco Products	2,489	469	5.31	3	60	3.0	1.8
12	Agro-Chemicals	108	18	6.00	3	60	3.0	1.8
13	Fertilizers	56,060	13,441	4.17	4	40	3.0	1.2
14	Automotive - Parts & Accessories	1,638	397	4.13	4	40	3.0	1.2
15	Construction	119	30	3.97	4	40	3.0	1.2
16	Glass & Ceramics	2,345	656	3.57	4	40	3.0	1.2
17	Cement	32,495	10,374	3.13	4	40	3.0	1.2
18	Energy - Oil (Petroleum Refining)	10,420	4,093	2.55	4	40	3.0	1.2
19	Energy - Gas Generation & Distribution	32,191	12,870	2.50	4	40	3.0	1.2
20	Textiles - Fabrics (Weaving)	13,381	6,068	2.21	4	40	3.0	1.2
21	Edible Oil	274	129	2.12	4	40	3.0	1.2
22	Textiles – Spinning	11,796	5,716	2.06	4	40	3.0	1.2
23	Chemicals (inc. Plastic & Rubber Products)	3,122	1,606	1.94	4	40	3.0	1.2
24	Energy - Oil (Petroleum Distribution/Marketing)	24,864	13,293	1.87	4	40	3.0	1.2
25	Energy - Power Generation & Distribution (IPPs)	55,156	32,503	1.70	4	40	3.0	1.2
26	Sugar	7,753	5,260	1.47	4	40	3.0	1.2
27	Textiles - Knits & Knit Apparel	2,400	1,800	1.33	4	40	3.0	1.2
28	Metallic Products (Iron & Steel)	2,656	2,230	1.19	4	40	3.0	1.2
29	Textiles – Composite	17,256	15,423	1.12	4	40	3.0	1.2
30	Machinery & Equipment	2,308	2,341	0.99	5	20	3.0	0.6
31	Telecommunications	6,665	37,892	0.18	5	20	3.0	0.6
32	Textiles - Woven Apparel	-129	738	-0.17	5	20	3.0	0.6
33	Textiles - Synthetic Fibers/Polyester	-443	286	-1.55	5	20	3.0	0.6
34	Transport – Air	-21,343	11,381	-1.88	5	20	3.0	0.6

BY DEBT/EQUITY

Sector ranking, by the Debt/Equity (measures industry's average gearing level) is as follows:

Rank 1: Gearing level is low
Rank 5: Gearing level is high

S.NO.	SECTOR	Debt	Equity	Debt/Equity Ratio	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Agro-Chemicals	180	8,100	0.02	1	100	4.0	4.0
2	Construction	750	29,400	0.03	1	100	4.0	4.0
3	Carpets & Rugs	900	7,200	0.13	1	100	4.0	4.0
4	Sports Products	7,890	55,923	0.14	1	100	4.0	4.0
5	Surgical, Precision, Optical Equipment	65,750	466,025	0.14	1	100	4.0	4.0
6	Information Technology	18,200	53,200	0.34	2	80	4.0	3.2
7	Energy - Oil & Gas Exploration	153,003	441,496	0.35	2	80	4.0	3.2
8	Pharmaceuticals	16,012	26,277	0.61	3	60	4.0	2.4
9	Food, Beverages & Consumer Products	5,929	8,805	0.67	3	60	4.0	2.4
10	Energy – Coal	92,000	154,000	0.60	3	60	4.0	2.4
11	Leather Products	10,575	14,425	0.73	4	40	4.0	1.6
12	Automotive - Parts & Accessories	4,494	5,015	0.90	4	40	4.0	1.6
13	Cement	120,865	132,851	0.91	4	40	4.0	1.6
14	Textiles – Spinning	69,356	60,882	1.14	4	40	4.0	1.6
15	Glass & Ceramics	12,258	10,086	1.22	4	40	4.0	1.6
16	Chemicals (inc. Plastic & Rubber Products)	16,260	11,982	1.36	4	40	4.0	1.6
17	Automotives - Assemblers/Manufacturers	44,786	31,247	1.43	4	40	4.0	1.6
18	Textiles – Composite	166,640	114,034	1.46	4	40	4.0	1.6
19	Textiles - Fabrics (Weaving)	57,686	32,914	1.75	4	40	4.0	1.6
20	Edible Oil	1,661	885	1.88	4	40	4.0	1.6
21	Tobacco Products	17,579	10,060	1.75	4	40	4.0	1.6
22	Metallic Products (Iron & Steel)	32,775	16,857	1.94	4	40	4.0	1.6
23	Sugar	71,271	30,365	2.35	4	40	4.0	1.6
24	Fertilizers	191,256	83,435	2.29	4	40	4.0	1.6
25	Energy - Oil (Petroleum Refining)	147,151	37,889	3.88	4	40	4.0	1.6
26	Machinery & Equipment	42,194	9,921	4.25	4	40	4.0	1.6
27	Energy - Power Generation & Distribution (IPPs)	541,426	124,619	4.34	4	40	4.0	1.6
28	Energy - Gas Generation & Distribution	315,616	62,343	5.06	4	40	4.0	1.6
29	Energy - Oil (Petroleum Distribution/Marketing)	336,247	56,671	5.93	4	40	4.0	1.6
30	Telecommunications	448,608	59,188	7.58	4	40	4.0	1.6
31	Transport – Air	245,573	-116,899	-2.10	5	20	4.0	0.6
32	Textiles - Knits & Knit Apparel	32,700	-9,000	-3.63	5	20	4.0	1.2
33	Textiles - Woven Apparel	15,918	-3,540	-4.50	5	20	4.0	0.6
34	Textiles - Synthetic Fibers/Polyester	23,654	-2,291	-10.32	5	20	4.0	0.6

BY INVESTMENTS

Sector ranking, by the Investments (investment in new production facilities and upgrades etc.) is as follows:

Rank 1: High cash flow generated from new investments
Rank 5: Low cash flow generated from new investments

S.NO.	SECTOR	Cash Flow from Investment Activities	Rank	% of Score	Max Score	Score
		(Rs.Mln)				
1	Energy - Oil (Petroleum Refining)	3,060	1	100	3.0	3.0
2	Automotives - Assemblers/Manufacturers	2,877	1	100	3.0	3.0
3	Automotive - Parts & Accessories	244	2	80	3.0	2.4
4	Metallic Products (Iron & Steel)	54	2	80	3.0	2.4
5	Energy - Gas Generation & Distribution	2	3	60	3.0	1.8
6	Sports Products	-25	4	40	3.0	1.2
7	Edible Oil	-34	4	40	3.0	1.2
8	Surgical, Precision, Optical Equipment	-50	4	40	3.0	1.2
9	Textiles - Woven Apparel	-50	4	40	3.0	1.2
10	Information Technology	-67	4	40	3.0	1.2
11	Textiles - Synthetic Fibers/Polyester	-75	4	40	3.0	1.2
12	Textiles - Knits & Knit Apparel	-80	4	40	3.0	1.2
13	Construction	-87	4	40	3.0	1.2
14	Agro-Chemicals	-90	4	40	3.0	1.2
15	Energy - Oil (Petroleum Distribution/Marketing)	-92	4	20	3.0	1.2
16	Leather Products	-121	4	40	3.0	1.2
17	Machinery & Equipment	-284	5	20	3.0	0.6
18	Energy – Coal	-500	5	20	3.0	0.6
19	Fertilizers	-682	5	20	3.0	0.6
20	Food, Beverages & Consumer Products	-777	5	20	3.0	0.6
21	Chemicals (inc. Plastic & Rubber Products)	-837	5	20	3.0	0.6
22	Tobacco Products	-2,007	5	20	3.0	0.6
23	Pharmaceuticals	-4,241	5	20	3.0	0.6
24	Glass & Ceramics	-4,341	5	20	3.0	0.6
25	Textiles – Composite	-4,877	5	20	3.0	0.6
26	Cement	-5,071	5	20	3.0	0.6
27	Energy - Power Generation & Distribution (IPPs)	-6,184	5	20	3.0	0.6
28	Sugar	-6,412	5	20	3.0	0.6
29	Textiles - Fabrics (Weaving)	-6,486	5	20	3.0	0.6
30	Transport – Air	-7,273	5	20	3.0	0.6
31	Carpets & Rugs	-7,500	5	20	3.0	0.6
32	Textiles – Spinning	-8,401	5	20	3.0	0.6
33	Telecommunications	-15,938	5	20	3.0	0.6
34	Energy - Oil & Gas Exploration	-24,513	5	20	3.0	0.6

BY LIQUIDITY
BY CURRENT RATIO (Current Assets/Current Liabilities)

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

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

S.NO.	SECTOR	Current Assets	Current Liabilities	Current Ratio	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Energy - Oil & Gas Exploration	348,178	68,370	5.09	1	100	4.0	4.0
2	Energy – Coal	161,500	8,700	18.56	1	100	4.0	4.0
3	Food, Beverages & Consumer Products	9,802	5,064	1.94	1	100	4.0	4.0
4	Sports Products	43,413	7,890	5.50	1	100	4.0	4.0
5	Surgical, Precision, Optical Equipment	361,775	65,750	5.50	1	100	4.0	4.0
6	Information Technology	65,800	1,400	47.00	1	100	4.0	4.0
7	Construction	30,050	700	42.93	1	100	4.0	4.0
8	Agro-Chemicals	3,150	90	35.00	1	100	4.0	4.0
9	Carpets & Rugs	6,300	900	7.00	1	100	4.0	4.0
10	Leather Products	20,675	9,700	2.13	1	100	4.0	4.0
11	Pharmaceuticals	25,596	12,761	2.01	1	100	4.0	4.0
12	Automotive - Parts & Accessories	6,863	3,996	1.72	1	100	4.0	4.0
13	Automotives - Assemblers/Manufacturers	56,656	43,369	1.31	1	100	4.0	4.0
14	Textiles – Spinning	53,883	45,227	1.19	1	100	4.0	4.0
15	Edible Oil	1,815	1,533	1.18	1	100	4.0	4.0
16	Energy - Gas Generation & Distribution	365,859	311,508	1.17	1	100	4.0	4.0
17	Machinery & Equipment	27,941	23,875	1.17	1	100	4.0	4.0
18	Energy - Oil (Petroleum Refining)	153,641	134,829	1.14	1	100	4.0	4.0
19	Energy - Oil (Petroleum Distribution/Marketing)	371,561	332,154	1.12	1	100	4.0	4.0
20	Metallic Products (Iron & Steel)	22,349	22,238	1.00	1	100	4.0	4.0
21	Textiles – Composite	131,137	130,967	1.00	1	100	4.0	4.0
22	Tobacco Products	16,485	16,392	1.01	1	100	4.0	4.0
23	Energy - Power Generation & Distribution (IPPs)	379,405	402,123	0.94	2	80	4.0	3.2
24	Textiles - Fabrics (Weaving)	40,297	43,868	0.92	2	80	4.0	3.2
25	Cement	55,952	61,281	0.91	2	80	4.0	3.2
26	Chemicals (inc. Plastic & Rubber Products)	9,909	11,037	0.90	2	80	4.0	3.2
27	Glass & Ceramics	7,226	8,248	0.88	3	60	4.0	2.4
28	Fertilizers	75,256	88,954	0.85	3	60	4.0	2.4
29	Sugar	44,725	52,241	0.86	3	60	4.0	2.4
30	Textiles - Woven Apparel	11,631	15,918	0.73	4	40	4.0	1.6
31	Textiles - Synthetic Fibers/Polyester	9,816	21,045	0.47	5	20	4.0	0.8
32	Telecommunications	79,456	379,304	0.21	5	20	4.0	0.8
33	Textiles - Knits & Knit Apparel	5,400	26,100	0.21	5	20	4.0	0.8
34	Transport – Air	22,500	166,945	0.13	5	20	4.0	0.8

BY QUICK RATIO

{Cash & Bank Balances(C&BB) +Trade Debtors (TD) +Short Term Investments (STI)}/Current Liabilities (CL)

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

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

S.NO.	SECTOR	C&BB	TD	STI	CL	Quick Ratio	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)	(Rs.Mln)	(Rs.Mln)					
1	Energy - Oil & Gas Exploration	17,127	206,413	39,912	68,370	3.85	1	100	3.0	3.0
2	Sports Products	5,367	23,150	0	7,890	3.61	1	100	3.0	3.0
3	Surgical, Precision, Optical Equipment	55,367	123,150	0	65,750	2.72	1	100	3.0	3.0
4	Energy – Coal	7,000	1,700	0	8,700	1.00	1	100	3.0	3.0
5	Information Technology	47,600	14,000	0	1,400	44.00	2	80	3.0	2.4
6	Construction	22,550	7,550	0	700	43.00	2	80	3.0	2.4
7	Agro-Chemicals	2,520	360	0	90	32.00	2	80	3.0	2.4
8	Carpets & Rugs	3,600	630	0	900	4.70	2	80	3.0	2.4
9	Energy - Gas Generation & Distribution	8,438	233,374	873	311,508	0.78	3	60	3.0	1.8
10	Energy - Oil (Petroleum Refining)	20,230	83,092	0	134,829	0.77	3	60	3.0	1.8
11	Energy - Power Generation & Distribution (IPPs)	2,483	301,032	0	402,123	0.75	3	60	3.0	1.8
12	Automotive - Parts & Accessories	542	1,395	967	3,996	0.73	4	40	3.0	1.2
13	Pharmaceuticals	5,229	3,344	472	12,761	0.71	4	40	3.0	1.2
14	Food, Beverages & Consumer Products	1,040	1,141	1,289	5,064	0.69	4	40	3.0	1.2
15	Energy - Oil (Petroleum Distribution/Marketing)	5,012	220,029	0	332,154	0.68	4	40	3.0	1.2
16	Textiles - Woven Apparel	51	10,645	0	15,918	0.67	4	40	3.0	1.2
17	Machinery & Equipment	1,731	12,709	0	23,875	0.60	4	40	3.0	1.2
18	Automotives - Assemblers/Manufacturers	14,035	5,030	6,709	43,369	0.59	4	40	3.0	1.2
19	Fertilizers	14,043	7,587	20,359	88,954	0.47	5	20	3.0	0.6
20	Leather Products	2,175	1,600	500	9,700	0.44	5	20	3.0	0.6
21	Textiles – Composite	4,871	35,971	12,774	130,967	0.41	5	20	3.0	0.6
22	Chemicals (inc. Plastic & Rubber Products)	576	3,206	20	11,037	0.34	5	20	3.0	0.6
23	Textiles – Spinning	1,498	13,475	125	45,227	0.33	5	20	3.0	0.6
24	Cement	2,701	3,351	12,066	61,281	0.30	5	20	3.0	0.6
25	Textiles - Fabrics (Weaving)	600	10,939	1,321	43,868	0.29	5	20	3.0	0.6
26	Edible Oil	49	396	0	1,533	0.29	5	20	3.0	0.6
27	Glass & Ceramics	660	1,634	0	8,248	0.28	5	20	3.0	0.6
28	Textiles - Synthetic Fibers/Polyester	281	3,935	0	21,045	0.20	5	20	3.0	0.6
29	Metallic Products (Iron & Steel)	198	2,980	523	22,238	0.17	5	20	3.0	0.6
30	Sugar	1,923	3,372	1,085	52,241	0.12	5	20	3.0	0.6
31	Transport – Air	2,172	9,416	19	166,945	0.07	5	20	3.0	0.6
32	Telecommunications	2,824	17,468	0	379,304	0.05	5	20	3.0	0.6
33	Tobacco Products	156	196	0	16,392	0.02	5	20	3.0	0.6
34	Textiles - Knits & Knit Apparel	120	60	0	26,100	0.01	5	20	3.0	0.6

BY PROFITABILITY
BY NET PROFIT MARGIN (Net Profit after Tax/Sales)

Sector ranking, by Net Profit Margin (profit margin and analysis of its stability and growth is important when deciding whether the organization will sustain its status as going concern) is as follows:

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

S.NO.	SECTOR	NPAT	Sales	Net Profit Margin	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Energy - Oil & Gas Exploration	150,797	370,110	0.41	1	100	3.0	3.0
2	Construction	8,870	20,600	0.43	1	100	3.0	3.0
3	Sports Products	3,900	10,756	0.36	1	100	3.0	3.0
4	Surgical, Precision, Optical Equipment	8,020	26,523	0.30	1	100	3.0	3.0
5	Carpets & Rugs	2,700	11,700	0.23	1	100	3.0	3.0
6	Energy – Coal	16,700	76,700	0.22	1	100	3.0	3.0
7	Fertilizers	28,354	182,380	0.16	2	80	3.0	2.4
8	Information Technology	14,000	93,800	0.15	2	80	3.0	2.4
9	Cement	18,500	147,548	0.13	2	80	3.0	2.4
10	Food, Beverages & Consumer Products	2,831	31,632	0.09	3	60	3.0	1.8
11	Pharmaceuticals	5,031	60,035	0.08	3	60	3.0	1.8
12	Glass & Ceramics	1,426	19,473	0.07	3	60	3.0	1.8
13	Automotive - Parts & Accessories	891	13,601	0.07	3	60	3.0	1.8
14	Leather Products	3,004	46,090	0.07	3	60	3.0	1.8
15	Agro-Chemicals	54	1,170	0.05	3	60	3.0	1.8
16	Chemicals (inc. Plastic & Rubber Products)	1,049	24,993	0.04	4	40	3.0	1.2
17	Energy - Power Generation & Distribution (IPPs)	20,156	503,807	0.04	4	40	3.0	1.2
18	Automotives - Assemblers/Manufacturers	6,664	167,264	0.04	4	80	3.0	1.2
19	Textiles - Fabrics (Weaving)	5,779	156,640	0.04	4	40	3.0	1.2
20	Tobacco Products	1,145	39,431	0.03	4	20	3.0	1.2
21	Textiles – Spinning	4,656	167,877	0.03	4	40	3.0	1.2
22	Sugar	2,155	113,918	0.02	4	40	3.0	1.2
23	Energy - Oil (Petroleum Refining)	3,737	456,354	0.01	4	40	3.0	1.2
24	Energy - Gas Generation & Distribution	13,176	1,177,267	0.01	4	40	3.0	1.2
25	Metallic Products (Iron & Steel)	414	37,911	0.01	4	40	3.0	1.2
26	Energy - Oil (Petroleum Distribution/Marketing)	6,974	1,237,225	0.01	4	40	3.0	1.2
27	Edible Oil	7	6,406	0.001	5	20	3.0	0.6
28	Textiles - Knits & Knit Apparel	240	175,901	0.001	5	20	3.0	0.6
29	Machinery & Equipment	3	34,952	0.0001	5	20	3.0	0.6
30	Textiles – Composite	-725	262,040	-0.003	5	20	3.0	0.6
31	Textiles - Woven Apparel	-758	146,013	-0.01	5	20	3.0	0.6
32	Textiles - Synthetic Fibers/Polyester	-847	15,780	-0.05	5	20	3.0	0.6
33	Telecommunications	-52,608	270,644	-0.19	5	20	3.0	0.6
34	Transport – Air	-33,181	112,130	-0.30	5	20	3.0	0.6

BY TOTAL ASSETS TURNOVER (Sales/Total Assets)

Sector ranking, by Total Assets Turnover (assesses the industry's average turnover) is as follows:

Rank 1: The industry is sufficiently using its assets in generating revenues
Rank 5: The industry is insufficient in generating revenues
(All figures in Pak Rupees Million)

S.NO.	SECTOR	Sales	Total Assets	Total Assets Turnover Ratio	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)					
1	Energy - Oil (Petroleum Distribution/Marketing)	1,237,225	392,918	3.15	1	100	1.0	1.0
2	Energy - Gas Generation & Distribution	1,177,267	377,959	3.11	1	100	1.0	1.0
3	Energy - Oil (Petroleum Refining)	456,354	185,040	2.47	1	100	1.0	1.0
4	Automotives - Assemblers/Manufacturers	167,264	76,033	2.20	1	100	1.0	1.0
5	Food, Beverages & Consumer Products	31,632	14,734	2.15	1	100	1.0	1.0
6	Textiles - Woven Apparel	146,013	12,378	11.80	1	100	1.0	1.0
7	Textiles - Knits & Knit Apparel	175,901	23,700	7.42	1	100	1.0	1.0
8	Edible Oil	6,406	2,546	2.52	1	100	1.0	1.0
9	Leather Products	46,090	25,000	1.84	1	100	1.0	1.0
10	Textiles - Fabrics (Weaving)	156,640	90,600	1.73	1	100	1.0	1.0
11	Tobacco Products	39,431	27,369	1.44	2	80	1.0	0.8
12	Carpets & Rugs	11,700	8,100	1.44	2	80	1.0	0.8
13	Automotive - Parts & Accessories	13,601	9,509	1.43	2	80	1.0	0.8
14	Pharmaceuticals	60,035	42,289	1.42	2	80	1.0	0.8
15	Information Technology	93,800	71,400	1.31	2	80	1.0	0.8
16	Textiles – Spinning	167,877	130,238	1.29	2	80	1.0	0.8
17	Sugar	113,918	101,636	1.12	2	80	1.0	0.8
18	Textiles – Composite	262,040	280,674	0.93	3	60	1.0	0.6
19	Chemicals (inc. Plastic & Rubber Products)	24,993	28,242	0.88	3	60	1.0	0.6
20	Glass & Ceramics	19,473	22,344	0.87	3	60	1.0	0.6
21	Transport – Air	112,130	128,674	0.87	3	60	1.0	0.6
22	Metallic Products (Iron & Steel)	37,911	49,632	0.76	3	60	1.0	0.6
23	Energy - Power Generation & Distribution (IPPs)	503,807	666,045	0.76	3	60	1.0	0.6
24	Textiles - Synthetic Fibers/Polyester	15,780	21,363	0.74	4	40	1.0	0.4
25	Construction	20,600	30,150	0.68	4	40	1.0	0.4
26	Machinery & Equipment	34,952	52,115	0.67	4	40	1.0	0.4
27	Fertilizers	182,380	274,691	0.66	4	40	1.0	0.4
28	Energy - Oil & Gas Exploration	370,110	594,499	0.62	4	40	1.0	0.4
29	Cement	147,548	253,716	0.58	4	40	1.0	0.4
30	Telecommunications	270,644	507,796	0.53	4	40	1.0	0.4
31	Energy – Coal	76,700	245,900	0.31	5	20	1.0	0.2
32	Sports Products	10,756	63,813	0.17	5	20	1.0	0.2
33	Agro-Chemicals	1,170	8,280	0.14	5	20	1.0	0.2
34	Surgical, Precision, Optical Equipment	26,523	531,775	0.05	5	20	1.0	0.2

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

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

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

S.NO.	SECTOR	Net Profit	Total Assets	Total Equity	ROA	ROE	Rank	% of Score	Max Score	Score
		(Rs.Mln)	(Rs.Mln)	(Rs.Mln)						
1	Energy - Oil & Gas Exploration	150,797	594,499	441,496	0.25	0.34	1	100	3.0	3.0
2	Fertilizers	28,354	274,691	83,435	0.10	0.34	1	100	3.0	3.0
3	Carpets & Rugs	2,700	8,100	7,200	0.33	0.38	1	100	3.0	3.0
4	Construction	8,870	30,150	29,400	0.29	0.30	1	100	3.0	3.0
5	Food, Beverages & Consumer Products	2,831	14,734	8,805	0.19	0.32	2	80	3.0	2.4
6	Information Technology	14,000	71,400	53,200	0.20	0.26	2	80	3.0	2.4
7	Pharmaceuticals	5,031	42,289	26,277	0.12	0.19	2	80	3.0	2.4
8	Leather Products	3,004	25,000	14,425	0.12	0.21	2	80	3.0	2.4
9	Automotive - Parts & Accessories	891	9,509	5,015	0.09	0.18	3	60	3.0	1.8
10	Automotives - Assemblers/Manufacturers	6,664	76,033	31,247	0.09	0.21	3	60	3.0	1.8
11	Cement	18,500	253,716	132,851	0.07	0.14	3	60	3.0	1.8
12	Energy – Coal	16,700	245,900	225,200	0.07	0.07	3	60	3.0	1.8
13	Glass & Ceramics	1,426	22,344	10,086	0.06	0.14	3	60	3.0	1.8
14	Textiles - Fabrics (Weaving)	5,779	90,600	32,914	0.06	0.18	3	60	3.0	1.8
15	Sports Products	3,900	63,813	55,923	0.06	0.07	3	60	3.0	1.8
16	Tobacco Products	1,145	27,639	10,060	0.04	0.11	3	60	3.0	1.8
17	Chemicals (inc. Plastic & Rubber Products)	1,049	28,242	11,982	0.04	0.09	4	40	3.0	1.2
18	Textiles – Spinning	4,656	130,238	60,882	0.04	0.08	4	40	3.0	1.2
19	Energy - Gas Generation & Distribution	13,176	377,959	62,343	0.03	0.21	4	40	3.0	1.2
20	Energy - Power Generation & Distribution (IPPs)	20,156	666,045	124,619	0.03	0.16	4	40	3.0	1.2
21	Sugar	2,155	101,636	30,365	0.02	0.07	4	40	3.0	1.2
22	Energy - Oil (Petroleum Refining)	3,737	185,040	37,889	0.02	0.10	4	40	3.0	1.2
23	Energy - Oil (Petroleum Distribution/Marketing)	6,974	392,918	56,671	0.02	0.12	4	40	3.0	1.2
24	Surgical, Precision, Optical Equipment	8,020	531,775	466,025	0.02	0.02	4	40	3.0	1.2
25	Textiles - Knits & Knit Apparel	240	23,700	-9,000	0.01	-0.03	4	40	3.0	1.2
26	Metallic Products (Iron & Steel)	414	49,632	16,857	0.01	0.02	5	20	3.0	0.6
27	Agro-Chemicals	54	8,280	8,100	0.01	0.01	5	20	3.0	0.6
28	Edible Oil	7	2,546	885	0.003	0.01	5	20	3.0	0.6
29	Machinery & Equipment	3	52,115	9,921	0.0001	0.0003	5	20	3.0	0.6
30	Textiles – Composite	-725	280,674	114,034	-0.003	-0.01	5	20	3.0	0.6
31	Textiles - Synthetic Fibers/Polyester	-847	21,363	-2,291	-0.04	0.37	5	20	3.0	0.6
32	Textiles - Woven Apparel	-758	12,378	-3,540	-0.06	0.21	5	20	3.0	0.6
33	Telecommunications	-52,608	507,796	59,188	-0.10	-0.89	5	20	3.0	0.6
34	Transport – Air	-33,181	128,674	-116,899	-0.26	0.28	5	20	3.0	0.6

BY SOLVENCY

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

Rank 1: Less dependent on funding/guarantee support
Rank 5: Highly dependent on funding/guarantee support

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

COMPOSITE RANKING BY PROFITABILITY/FINANCIAL STRENGTH

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

S.NO.	SECTOR	MAXIMUM SCORE	SCORE
1	Energy - Oil & Gas Exploration	25.0	22.2
2	Sports Products	25.0	22.2
3	Carpets & Rugs	25.0	22.2
4	Surgical, Precision, Optical Equipment	25.0	21.6
5	Construction	25.0	20.8
6	Information Technology	25.0	20.4
7	Energy – Coal	25.0	19.6
8	Automotives - Assemblers/Manufacturers	25.0	17.8
9	Agro-Chemicals	25.0	17.6
10	Food, Beverages & Consumer Products	25.0	17.6
11	Pharmaceuticals	25.0	17.2
12	Energy - Oil (Petroleum Refining)	25.0	16.6
13	Automotive - Parts & Accessories	25.0	16.0
14	Leather Products	25.0	15.6
15	Energy - Gas Generation & Distribution	25.0	15.0
16	Fertilizers	25.0	14.6
17	Tobacco Products	25.0	13.6
18	Metallic Products (Iron & Steel)	25.0	13.4
19	Energy - Oil (Petroleum Distribution/Marketing)	25.0	13.2
20	Cement	25.0	13.0
21	Energy - Power Generation & Distribution (IPPs)	25.0	12.6
22	Textiles - Fabrics (Weaving)	25.0	12.4
23	Textiles – Spinning	25.0	12.4
24	Edible Oil	25.0	12.0
25	Glass & Ceramics	25.0	11.8
26	Chemicals (inc. Plastic & Rubber Products)	25.0	11.0
27	Textiles – Composite	25.0	10.6
28	Machinery & Equipment	25.0	10.4
29	Sugar	25.0	10.4
30	Textiles - Knits & Knit Apparel	25.0	8.6
31	Textiles - Woven Apparel	25.0	8.2
32	Telecommunications	25.0	6.6
33	Textiles - Synthetic Fibers/Polyester	25.0	5.8
34	Transport – Air	25.0	5.4

BY BUSINESS OUTLOOK & MACROENVIRONMENT
BY BUSINESS OUTLOOK

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

Rank 1: Business outlook is stable
Rank 5: Business outlook is unstable

S.NO.	SECTOR	RANK	% of SCORE	MAXIMUM SCORE	SCORE
1	Cement	2	80	19.0	15.2
2	Energy – Coal	2	80	19.0	15.2
3	Energy - Gas Generation & Distribution	2	80	19.0	15.2
4	Energy - Oil & Gas Exploration	2	80	19.0	15.2
5	Fertilizers	2	80	19.0	15.2
6	Food, Beverages & Consumer Products	2	80	19.0	15.2
7	Sports Products	2	80	19.0	15.2
8	Sugar	2	80	19.0	15.2
9	Surgical, Precision, Optical Equipment	2	80	19.0	15.2
10	Tobacco Products	2	80	19.0	15.2
11	Agro-Chemicals	3	60	19.0	11.4
12	Automotives - Assemblers/Manufacturers	3	60	19.0	11.4
13	Chemicals (inc. Plastic & Rubber Products)	3	60	19.0	11.4
14	Construction	3	60	19.0	11.4
15	Edible Oil	3	60	19.0	11.4
16	Energy - Oil (Petroleum Distribution/Marketing)	3	60	19.0	11.4
17	Energy - Oil (Petroleum Refining)	3	60	19.0	11.4
18	Energy - Power Generation & Distribution (IPPs)	3	60	19.0	11.4
19	Glass & Ceramics	3	60	19.0	11.4
20	Information Technology	3	60	19.0	11.4
21	Machinery & Equipment	3	60	19.0	11.4
22	Metallic Products (Iron & Steel)	3	60	19.0	11.4
23	Pharmaceuticals	3	60	19.0	11.4
24	Telecommunications	3	60	19.0	11.4
25	Textiles – Composite	3	60	19.0	11.4
26	Textiles – Spinning	3	60	19.0	11.4
27	Textiles - Synthetic Fibers/Polyester	3	60	19.0	11.4
28	Automotive - Parts & Accessories	4	40	19.0	7.6
29	Carpets & Rugs	4	40	19.0	7.6
30	Leather Products	4	40	19.0	7.6
31	Textiles - Fabrics (Weaving)	4	40	19.0	7.6
32	Textiles - Knits & Knit Apparel	4	40	19.0	7.6
33	Textiles - Woven Apparel	4	40	19.0	7.6
34	Transport – Air	4	40	19.0	7.6

BY INDUSTRY/BUSINESS LIFE CYCLE

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

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

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

BY CORRELATION WITH GDP GROWTH

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

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

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

BY REGULATORY/GOVT.SUPPORT-FUTURE EXPECTATIONS

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

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

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

COMPOSITE RANKING BY BUSINESS OUTLOOK & MACRO ENVIRONMENT

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

S.NO.	SECTOR	MAXIMUM SCORE	SCORE
1	Energy – Coal	45.0	36.0
2	Energy - Oil & Gas Exploration	45.0	36.0
3	Energy - Oil (Petroleum Distribution/Marketing)	45.0	36.0
4	Food, Beverages & Consumer Products	45.0	36.0
5	Sugar	45.0	36.0
6	Energy - Power Generation & Distribution (IPPs)	45.0	34.8
7	Sports Products	45.0	34.6
8	Surgical, Precision, Optical Equipment	45.0	34.6
9	Tobacco Products	45.0	34.6
10	Energy - Gas Generation & Distribution	45.0	32.2
11	Energy - Oil (Petroleum Refining)	45.0	32.2
12	Fertilizers	45.0	32.2
13	Machinery & Equipment	45.0	32.2
14	Cement	45.0	31.0
15	Chemicals (inc. Plastic & Rubber Products)	45.0	31.0
16	Textiles - Synthetic Fibers/Polyester	45.0	30.8
17	Pharmaceuticals	45.0	29.6
18	Textiles – Composite	45.0	29.4
19	Textiles – Spinning	45.0	29.4
20	Construction	45.0	28.4
21	Edible Oil	45.0	28.4
22	Telecommunications	45.0	28.2
23	Agro-Chemicals	45.0	27.0
24	Information Technology	45.0	27.0
25	Glass & Ceramics	45.0	25.8
26	Metallic Products (Iron & Steel)	45.0	25.8
27	Automotive - Parts & Accessories	45.0	24.6
28	Automotives - Assemblers/Manufacturers	45.0	24.6
29	Textiles - Fabrics (Weaving)	45.0	24.4
30	Textiles - Knits & Knit Apparel	45.0	24.4
31	Textiles - Woven Apparel	45.0	24.4
32	Transport – Air	45.0	21.8
33	Leather Products	45.0	19.2
34	Carpets & Rugs	45.0	18.0

COMPOSITE INDUSTRY RANKING AND STRATEGIC CLASSIFICATION 2013

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

S.NO.	SECTOR	NET SCORE	CATEGORY	RANGE
1	Energy - Oil & Gas Exploration	83.7	HIGHLY ATTRACTIVE	>80
2	Energy – Coal	79.3	ATTRACTIVE	70-80
3	Surgical, Precision, Optical Equipment	75.6	ATTRACTIVE	70-80
4	Sports Products	75.0	ATTRACTIVE	70-80
5	Food, Beverages & Consumer Products	71.6	ATTRACTIVE	70-80
6	Tobacco Products	69.4	AVERAGE	50-69
7	Energy - Oil (Petroleum Refining)	69.4	AVERAGE	50-69
8	Energy - Gas Generation & Distribution	69.3	AVERAGE	50-69
9	Energy - Oil (Petroleum Distribution/Marketing)	68.7	AVERAGE	50-69
10	Energy - Power Generation & Distribution (IPPs)	68.0	AVERAGE	50-69
11	Pharmaceuticals	67.6	AVERAGE	50-69
12	Construction	67.1	AVERAGE	50-69
13	Fertilizers	65.5	AVERAGE	50-69
14	Machinery & Equipment	62.9	AVERAGE	50-69
15	Chemicals (inc. Plastic & Rubber Products)	62.5	AVERAGE	50-69
16	Information Technology	61.9	AVERAGE	50-69
17	Cement	60.0	AVERAGE	50-69
18	Automotives - Assemblers/Manufacturers	59.3	AVERAGE	50-69
19	Agro-Chemicals	59.2	AVERAGE	50-69
20	Sugar	59.2	AVERAGE	50-69
21	Metallic Products (Iron & Steel)	58.4	AVERAGE	50-69
22	Edible Oil	57.4	AVERAGE	50-69
23	Automotive - Parts & Accessories	55.8	AVERAGE	50-69
24	Glass & Ceramics	55.8	AVERAGE	50-69
25	Carpets & Rugs	54.8	AVERAGE	50-69
26	Textiles – Composite	54.7	AVERAGE	50-69
27	Textiles - Synthetic Fibers/Polyester	53.1	AVERAGE	50-69
28	Textiles – Spinning	52.9	AVERAGE	50-69
29	Telecommunications	52.5	AVERAGE	50-69
30	Leather Products	47.8	WATCH/HOLD	40-49
31	Textiles - Fabrics (Weaving)	46.2	WATCH/HOLD	40-49
32	Textiles - Woven Apparel	44.7	WATCH/HOLD	40-49
33	Textiles - Knits & Knit Apparel	43.1	WATCH/HOLD	40-49
34	*Transport – Air	40.0	WATCH/HOLD	40-49

* Transport Air Category is Watch/Hold keeping in view PIA which comprises the bulk of the sector. Air Blue and Shaheen Air line in the Average category.

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

LIST OF ACRONYMS

ARPU	Average Revenue per User
BMR	Balancing Modernization & Replacement
CKD	Completely Knocked Down
FDI	Foreign Direct Investment
FED	Federal Excise Duty
GDP	Gross Domestic Product
GoP	Government of Pakistan
GST	General Sales Tax
IPP	Independent Power Producers
LSM	Large Scale Manufacturing
OGDCL	Oil & Gas Development Company Limited
OGRA	Oil & Gas Regulatory Authority
OMCs	Oil Marketing Companies
PIA	Pakistan International Airline
PSDP	Public Sector Development Program
PSEs	Public Sector Enterprises
PSF	Polyester Staple Fiber
PTA	Pakistan Telecommunication Authority
PTCL	Pakistan Telecommunication Limited
SED	Shipper's Export Declaration
WLL	Wireless Local Loop
YoY	Year on Year

INDUSTRY RATINGS & STRATEGIC POSITIONING 2013

A COLLABORATIVE RESEARCH EFFORT BETWEEN:
National Bank of Pakistan (NBP) &
National University of Science & Technology (NUST)
Under the auspicious of NUST Corporate Advisory Council (CAC)