REP-057

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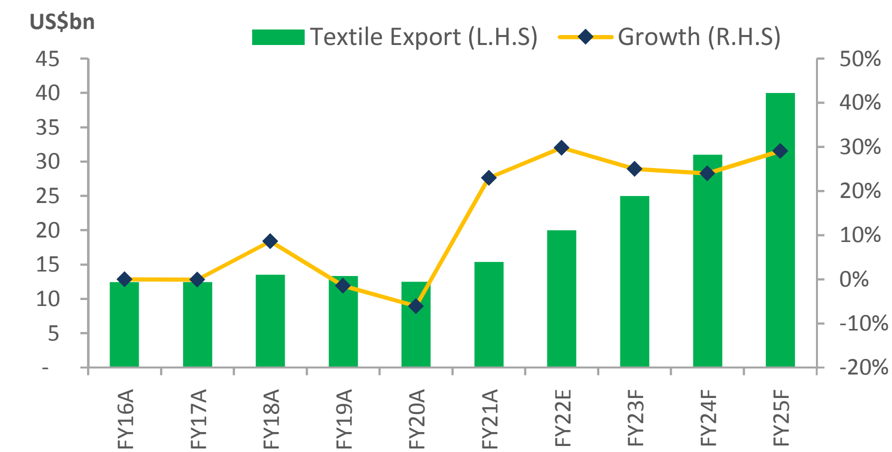
Textile Policy 2020-2025

Neutral to Positive for Textile Sector

Muhammad Saad Ziker
Saad.ziker@topline.com.pk
Tel: +9221-35303330 Ext:133
Topline Securities, Pakistan

Government sets ambitious target of US$40bn textile exports by FY25

Pakistan textile exports with future Govt. projections



Source: PBS, MoC, Topline Research

- Economic Coordination Committee (ECC) recently approved five year textile policy (2020-25) on Dec 17, 2021 which will now be forwarded to Federal Cabinet for final approval. As per news, Government of Pakistan (GoP) has set an ambitious export target of US$40bn by FY25, double compared to the US$20bn target set for current fiscal year (FY22). This means a CAGR of 26% in US$ terms.
- As per news reports, SBP concessionary markup schemes such as Export Financing Scheme (EFS) and Long Term Financing Facility (LTFF) will be continued at 3% and 5% respectively, throughout the policy years. However, SBP may evaluate mark-up rates on account of any abnormal economic and monetary conditions.
- As of Sep-20, Govt. had also fixed concessionary electricity tariffs at U.S 9cents/kwh which previously stood at U.S 7.5cents/kwh as per Regionally Competitive Energy Tariff (RCET) policy. Similarly with respect to RLNG Tariff, Govt. was initially offering US$6.5/MMBtu for captive power plants which it recently raised to US$9/MMBtu till March-22. However, the GoP may review the energy prices of regional competitors during pre-budget consultative annual sessions and hence can revise the prices on account of abnormal fluctuations in regional energy tariff.
- We believe that concessionary tariff scheme for textile sector is a cause of big debate within the government as Commerce Ministry wants continuation of the concessionary tariffs whereas the Energy Ministry wants tariff rationalization given rising RLNG/electricity tariff & pressure from IMF. It will be interesting to see what final decision is taken on the subject matter.
- The duty drawback scheme (DLTL) will be continued only for Technical Textiles, Apparel and Made-ups, however it will be delinked with increment in exports. Moreover, diversification within products and markets will be offered an additional duty drawback.

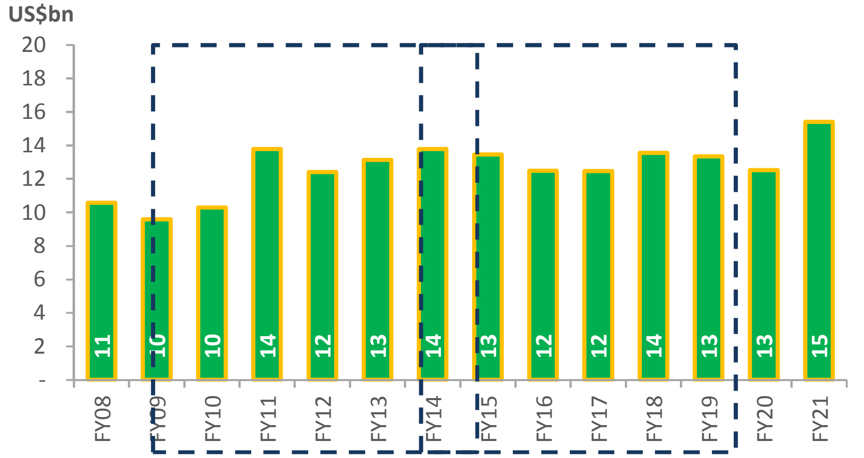
Comparison from the Previous Policies

Past Textile Policies

	2009-14	2014-19
Export Target (USD)	25bn	26bn
Technology investment (Rs)	1.6bn	5bn
Drawback on Processed Fabric	1%	1%
Drawback on Home-textile	2%	2%
Drawback on Garments	3%	4%

Source: MoC, Topline Research

Textile exports during First and Second Policy



Source: PBS, Topline Research

- The main objectives of previous Textile Policies (2009-14 and 2014-19) were to enhance Textile and Apparel exports to US$25bn and US$26bn, respectively. Both policies set financial commitments of Rs188bn (1st policy) and Rs65bn (2nd policy) which unfortunately weren't achieved amidst non-allocation of funds. The policy also failed to achieve the export target set by the government.
- During the last two policies, issues relating to energy availability, high energy tariffs, and delayed release of refunds were the major challenges the sector faced.
- The government has recently increased the pace of the refund disbursements to textile sector however there is no proposal under consideration for the restoration of zero rating regime in the new policy.
- We believe that the policy is likely to be Neutral to Positive for the textile sector as most of the incentives announced in the previous policy is likely to continue with increased focus on value added exports. However, any upward revision in concessionary energy tariff due to Pakistan's commitments with IMF impact sector margins and growth.
- We maintain our Over-Weight stance on Pakistan Textile Sector with Interloop Limited (ILP) and Nishat Mills (NML) as our top picks. The sector is currently trading at a FY22 PE of 4.5x.

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