

## Pakistan Textiles

### RLNG subsidy axed, textile industry to suffer

Amid the existing challenges faced by the textile sector, the industry has been hit with another setback as the government abolishes the RLNG subsidy for northern players, which was previously provided at a discounted rate of US\$9.0/mmbtu and has been linked to SNGPL's RLNG tariff.

The textile industry's downward spiral continues as segment's exports has posted year-on-year decline in last 7 consecutive months. In 10MFY23 textile exports clocked in at US\$13.71bn vs. US\$15.97bn in SPLY down by ~14% YoY.

In 3QFY23, ISL textile universe posted topline of PKR123.4bn vs. PKR94.9mn in SPLY, up by 30% while the bottom-line grew by ~41% driven by higher exchange gains and significant growth in net margins of ILP. However excluding Interloop, ISL textile universe doesn't portray the same story where revenue grew by ~25% while the bottom-line posted a decline of ~39% YoY.

#### Removal of power subsidy to hit industry's bottom-line

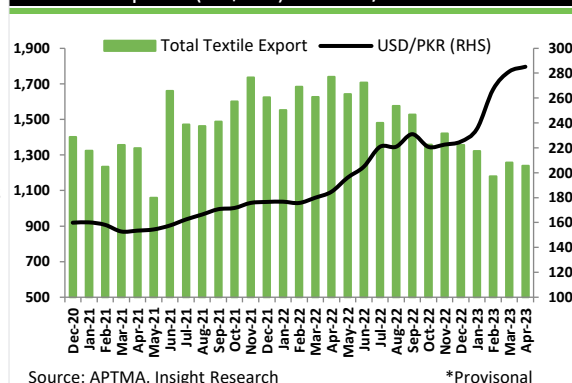
The government introduced the Regionally Competitive Energy Tariff Policy (RCET) to ensure that the textile sector remains competitive among regional players. This policy involved subsidized tariffs of RLNG for the export-oriented units of zero-rated sectors at US\$6.5/mmbtu and fixed electricity tariffs at 7.5cents/kwh in Oct'18 and Jan'19, respectively. Meanwhile in FY23, the tariffs were increased to US\$9/mmbtu and 9cents/kwh which was later fixed at 19.99/kwh.

However, the subsidy on electricity tariff had to be withdrawn amid IMF conditions, and government announced the imposition of routine tariffs from March 2023. Moreover, due to the exhaustion of funds, the government recently called off the subsidized rate of RLNG at US\$9/mmbtu and shifted to OGRA notified RLNG tariff (April'23: US\$13.2/mmbtu), effective from May 2023. The recent surge in tariffs is poised to have an adverse impact on the earnings of the industry and would adversely impact textile manufacturers margin. In ISL universe FY23 EPS of NML/ILP/NCL would decline by PKR1.50/0.08/1.50, respectively, however GATM would remain insulated amid its reliance on system gas.

#### North-South tariff disparity widens

There has been a noticeable increase in the disparity among tariffs in the southern and northern regions. With the withdrawal of subsidies, export units in the southern region will receive gas at a subsidized rate of PKR1,100/mmbtu (US\$3.9/mmbtu), while on the flipside northern players will have to pay a significantly higher rate of US\$13.23/mmbtu, creating a gap of ~US\$9.3/mmbtu.

Textile Exports (In \$mn) vs. USD/PKR



Source: APTMA, Insight Research \*Provisional

Fuel & Power as % of COGS



Source: PBS, Insight Research

Fuel & Power Expense

|     | PKRmn | 3QFY23 | 3QFY22 | YoY | 2QFY23 | QoQ |
|-----|-------|--------|--------|-----|--------|-----|
| NML |       | 4,225  | 2,929  | 44% | 4,180  | 1%  |
| NCL |       | 1,823  | 1,173  | 55% | 1,525  | 20% |
| ILP |       | 1,395  | 1,038  | 34% | 1,231  | 13% |

Source: Company Accounts, Insight Research

Regional Tariffs

| Country    | Tariff/Kwh |
|------------|------------|
| Bangladesh | 8 Cents    |
| India      | 10 Cents   |
| Vietnam    | 6 Cents    |
| Pakistan   | 15 Cents   |

Source: APTMA, Insight Research

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### Frequently Used Acronyms

|             |                           |             |                         |             |                               |
|-------------|---------------------------|-------------|-------------------------|-------------|-------------------------------|
| <b>TP</b>   | Target Price              | <b>DCF</b>  | Discounted Cash Flows   | <b>FCF</b>  | Free Cash Flows               |
| <b>FCFE</b> | Free Cash Flows to Equity | <b>FCFF</b> | Free Cash Flows to Firm | <b>DDM</b>  | Dividend Discount Model       |
| <b>SOTP</b> | Sum of the Parts          | <b>P/E</b>  | Price to Earnings ratio | <b>P/Bv</b> | Price to Book ratio           |
| <b>P/S</b>  | Price to Sales            | <b>EVA</b>  | Economic Valued Added   | <b>BVPS</b> | Book Value per Share          |
| <b>EPS</b>  | Earnings per Share        | <b>DPS</b>  | Dividend per Share      | <b>DY</b>   | Dividend Yield                |
| <b>ROE</b>  | Return on Equity          | <b>ROA</b>  | Return on Assets        | <b>CAGR</b> | Compounded Annual Growth Rate |

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