Strategic and Financial Analysis of recent trends in Weaving and Composite sectors of Pakistan's Textile Industry

By

Mohsin Ibrahim
Mohammad Shafay Shahid
Maryyum Khalid
Junaid Tariq
2014-NUST-MBA-B

NUST Business School
National University of Sciences & Technology
Islamabad, Pakistan

Friday, June 08, 2018

Acknowledgment

Thank you Allah Almighty for helping us in completing this project. We would like to express our deepest appreciation to all those who provided us the possibility to complete this report. A special gratitude we give to our Final Year Project Supervisor, Ms. Shamsah Nawaz, whose contribution in stimulating suggestions and encouragement, helped us to coordinate our project especially in writing this report.

Furthermore, we would also like to acknowledge with much appreciation the crucial role of the staff of NUST Business School, who gave the permission to use all required equipment and the necessary material to complete the report. A special thanks goes to our GEC members, Ms. Friha Wajid and Dr. Imtiaz Badshah helped us to assemble the parts and gave suggestion about how to shape the project outline. Last but not least, many thanks go to the CEO and MD of Evolving Logix who have invested their full effort in guiding our group in achieving this goal. We have to appreciate the information given by industry members, Mukkarram Jamal and Rizwan Wasim from US Apparel and Kohinoor Textile Mills for their support as well and other who gave us permission to visit their offices.

Executive Summary

This report is a thorough analysis of Pakistan's Textile industry. The purpose of this report is to provide strategic and financial insights for investment in Pakistan to our China-based client with the collaboration of Pakistan-based client. We have divided this report in seven parts. The first two chapters contains all the basic information about the project like introduction, requirements, objectives and methodology. Third chapter is the literature review which provides the basic understandings of all the models and tolls which we have used for the analysis in this report. Fourth chapter of this report is strategic analysis of the textile industry which has been done via using Porters five forces model, Diamond model and PESTEL. Fifth chapter is all about numbers and financial analysis which has been done by calculating ratios, WACC and BETA from the data of sample companies of composite and weaving sector. In the last two chapters, we have presented our findings and concluded that textile industry of Pakistan has excellent future prospect because producers now have excess to European and other markets. Historically image of Pakistani products in textile market of world is very good. We suggested to our client organization that they should consider textile sector of Pakistan as an opportunity for earning long term profits.

Table of Contents

Chapter # 1

Introduction to Project

1.1 - Overview

Since the creation of Pakistan, the development of manufacturing sector has been given the highest priority for the sustainability of economy and its growth. As Pakistan's major area is rural based, the major stress is on the development of Agriculture sector (Hamid et al., 2014). For Pakistan being one of the largest producer of cotton in the world, the primary step towards industrialization was the development of a textile industry, so that the economy can use rich resources of cotton. The annual volume of total world textile is US$ 18 trillion which is growing at 2.5%. Pakistan ranks at number 9 in the world (Pasha, 2014). Pakistan's textile industry always play its role as a major contributor to the national economy and foreign trade i.e., GDP, GNP, Imports and Exports etc. With all major contributions to the economy the industry is still not fully operational due to gas and electricity shortages, but still it constitutes almost 53% of total exports. This industry provides employment to the 30% of total labor.

Pakistan holds distinctive position worldwide in terms of world's 4th largest producer of cotton and 3rd largest consumer globally (Ahmed, 2013). The industry is spread all over Pakistan but core industry is in Karachi, Lahore and Faisalabad. The industry has a major role but this is lacking proper infrastructure and proper government support. This leads to high cost of doing such business in Pakistan. Pakistan was granted GSP plus status (generalized system of preferences) by EU in 2014. GSP status boosted the textile industry for the fiscal year ended 2013-2014, textile sector had the export value of $14.22 billion. The textile exports had shown growth of 3.81% (Waqan, 2015). Under this status, Pakistan was able to get an excess of exporting 6000 tariff lines including textiles and clothing free of duty to 27 European Union countries. Pakistan's rank in EU exports is fifth. EU accounts for 22.5% of total exports of Pakistan exports (Shad, 2012). Pakistan has to guarantee the execution of 27 international treaties regarding human right, labor standard, governance and environment. Government has ensured the EU regarding affective implications of these convections (Ghafoor et al., 2015). The overall growth of textile industry is noteworthy and appreciable, and regardless of some above mentioned issues, general progress and development of Pakistani textile sector is really good. The performance of this sector could have been even better if some of the existing policies and practices get revised and critically

reviewed. This would have made this industry more lucrative and would must get investor's attention either local or international to invest and enjoy good profits.

1.2 - Client's Profile

Evolving Logix is a Pak-China collaboration based company that started its operation back in 2008 as a foreign education consultancy firm. The company has its offices in China, Pakistan and Qatar. The main objective of the country is to bridge the information gap between their customers i.e. students and the best educational institutions by filtering out the relevant information for them. Evolving Logix have been very successful in helping students from different areas of Pakistan in getting admissions in foreign university. Recently, CEO Dr. Bilal Younus, GM operations Mr. Salman Shaukat and his partner Mr. Xia Ke decide to diversify their business by making some kind of investment in Pakistan. This decision was taken after the visit of China's president to Pakistan in which he signed billion dollars' bilateral contracts including the progress towards Pak-China economic corridor. The management is currently in contact with different consultancy firms for analysis of different industries in which they can invest. Keeping this progress in the management mindset, this project will try to provide some valuable insight about Pakistan's textile industry to Evolving Logix so they can make their investment decision wisely.

1.2.1 - Clients Requirements

As discussed above our client Evolving Logix is a Chinese based company and they don't really know much about the business environment of Pakistan. They are currently looking into different industries that they can see as an option for future endeavors. Keeping that perspective in mind following are the few points they want to look into:

1. Macro and Micro Environment of Textile Industry
2. Past Financial performance of companies in Textile Industry from last 10-15 years
3. Correlation of PSE Index returns with the Textile stock returns
4. Market risks and stock volatility
5. Type of business venture i.e. New Company, Merger or Acquisition, Joint Venture etc.

1.3 - Project Objectives

Keeping in view the requirements of our client we have highlighted some of the key objectives that we will try to achieve through our project. The below mentioned are some of the objectives:

- Textile Industry and its role in the growth of economy of Pakistan
- To perform brief analysis of sectors i.e. Weaving and Composite
- To perform strategic and financial analysis of required sectors for investment purposes
- To study the challenges faced by this industry and prospective investors.

1.3.1 - Research Questions

The purpose of this project is to do in depth analysis of Textile Industry both strategically and financially. Keeping in view these objectives following are the research questions we will try to address in our report. The questions are as below:

- How important is the textile industry to the growth of Pakistan's economy?
- How much this industry is lucrative for investment purpose?
- What is the financial performance of weaving and composite sectors in last 10 years?
- What is the situation of this industry strategically?
- What are the major hurdles faced by new entrants?
- How can the hurdles be overcome to get benefit with full potential?
- Are there any other strategic ways to enter into the industry except establishing a whole new setup?

1.3.2- Significance of Study

Textile sector is the backbone of our economy. This importance and good financial numbers in spite of many challenges are able to get investor’s attention. Our client Evolving Logix is showing interest of investing in Textile sector and that’s why they assigned us this task to analyze this industry from two perspectives i.e. strategically and financially. These two analysis will make it easy for our client to take a decision for investment.

1.3.3 - Methodology

Throughout our project we will be following a deductive approach to research. Our study would mainly base on literature review due to financial and time constraints. Most of our data collected will be from the secondary sources but we would also look into the current situation of the sector

via interviews with the owners of few textile companies operating in Faisalabad and would take insights on different hurdles that one can face while operating in Textile Industry of Pakistan.

For the depth of our project we will be doing both Strategic and Financial Analysis that will give our client a better understanding of the sector which will ultimately help them make a decision that will be beneficial for them.

For strategic analysis we will be analyzing the three tiers starting with the external analysis moving to the internal. After data has been collected, we will be following these steps to conduct our analysis:

1. To conduct PESTEL analysis to find out about the environment and pressure in which new entrant will have to work.
2. Porter's five model will be used to check the competitiveness of industry.
3. Diamond model will be used to check the global competitiveness of industry.

For financial analysis we will be looking into the detail of composite and weaving sector, a total of 11 companies, Weaving 5 & Composite 6. We would use the data of these companies to look into the following elements:

1. We will conduct ratio analysis, which will help our client to see the performing range in the weaving and composite sector of Textile Industry.
2. Capital budgeting i.e. what would be the optimal capital structure that our client can use if they want to invest in the sector.
3. We would also look into the volatility of stocks that are associated with the PSE returns for these sectors of Textile Industry.

1.3.4 - Limitation of Study

We will try our utmost to collect reliable and the most up to date information, however due to financial and time constraints we might come up short. We would also like to point out that this would be our first attempt to come up with a report of such nature, so it might not come off as perfect. Having said that we will try to meet the expectations of school guidelines and contribute towards expanding our knowledge about the respective topic.

Chapter # 2

Industry Overview

2.1 - Overview

Textile industry is one of the most significant sector of a countries economy. It is a key for building a strong backbone for the Islamic Republic of Pakistan. Textile industry holds an important place in Pakistan's economy, it contributes to the employment, exports and GDP. The largest manufacturing industry is the textile industry of Pakistan. As this industry after the agriculture industry has created opportunities of employment for both the skilled and unskilled labor.

In the top rankings of the world, Pakistan is 4th largest producer of cotton and 3rd largest consumer in the world. In the exports of Pakistan, the textile sector enjoys a crucial position it stands as the 8th largest exporter of cotton and 6th largest importer of raw cotton.

Major Export Markets		
Summary	**July-June (In US$ 000)**	
	2014-15	2013-14
Agro & Food	4249894	4325104
Textile Group	13164027	13433644
Metal & Minerals	677964	1147244
Engineering Manufacturing	2574077	2961436
Other Sectors	3001332	3242211

Table 2.1: Major exports of Pakistan (Source: Trade development authority of Pakistan)

Consumption of cotton (in million metric tons)						
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
World total	22520	24502	22666	23598	23933	24015
China	10192	9580	8274	7838	7512	7185
India	4300	4509	4235	4736	5062	5334
Pakistan	2393	2100	2177	2341	2264	2308

*Table 2.2: Consumption of cotton (*Source: United States department of Agriculture)

Textile industry's contribution to the GDP of Pakistan is about 8.5%. And to the employment of both skilled and unskilled labor is of about 39% of the 49 million people of Pakistan which approximates to about 15 million people roughly. Pakistan has the 3rd largest spinning capacity after China in Asia.

At present, there are 1,221 ginning units, 442 spinning units, 124 large spinning units and 425 small units which produce textile products. For industrialization the development of textile industry has been making use of its abundant resources of cotton. Portraying Pakistan as one of the leading producers of cotton in the world.

Maintaining the sector as the backbone of the country, Pakistan has developed its position as one of the chief cotton textile product suppliers in the world market. With a share of the world yarn and cotton fabric trade of about 30% and 8 % respectively.

2.2 - History

Pakistan came into being in the year 1947, a continuous increase in the expansion of the industry and cotton production has been quite remarkable since 1947. From 1947-2000 the cotton bales increased from 1.1 million to 10 million bales. The textile mills increased in number from 3 to 600 and spindles from about 177,000 to 805 million looms and finishing units also increased but not in the same manner.

In 1950, the textile industrialization started when textile industry was at its center. Since then textile industry has been considered as Pakistan's blooming industry. As Pakistan industrial development corporation (PIDC) set foot in the 1950s and took the initiative of industrializing many sectors of Pakistan. In 1953 the modern development of the textile sector started which started off with the inauguration of Valika Textile Mills in Karachi.

In 1960s, everything was going as planned and exceedingly well, there were 180 units of textiles which had been established in Karachi and Punjab. They consisted of units of textile bleaching, printing and processing units. With a highly secure home market new private investment began. Imported technology was being installed in the newly established mills. But there was a shortage of technical and trained staff to work with the machines along with the shortage of capital.

By 1970-1971 the textile units increased in number by 113 and the industry had 2,605 thousand spindles and 30 thousand looms. Cotton Export Corporation of Pakistan was established after the separation of East Pakistan. After the separation most of the private sector work was taken over by the state. Because the export of cotton went under the control of Cotton Export Corporation, Pakistan's textile industry had to face heavy losses at that time of the year.

The eighties came with a relief in the textile industry because of the industry friendly policies established by the government and a boom in the international market. The spinning sector was at its peak as there was a rapid growth in the spinning sector and it expanded till the year 1981.

From 1999-2008 there was an enormous increase in the textile exports of Pakistan, in 1999 the exports accounted of $5.2 billion and by the end of 2007 it reached to $10.5 billion. By 2006 the textile exports managed to increase at a very decent rate of 16%. As exports of other sectors began to grow the textile export share in total export of Pakistan declined from 67% in 1997 to 55% in 2008.

In 2009 the textile industry had to face some hardships due to the ongoing energy crisis and gas supplies. Because of lack of resources and poor cultivation methods, poor marketing and failure in making timely payments to cotton producers, Pakistan's cotton cultivation declined.

Trends of textile industry	
Years	**Growth**
2001-02	4.1%
2002-03	5.2%
2003-04	20%
2004-05	24.50%
2005-06	11.23%
2006-07	8.40%
2007-08	4.05%
2008-09	-0.70%
2009-10	-1.78%
2010-11	1%
2011-12	1.5%
2012-13	5.31%
2013-14	2.53%
2014-15	-2.01%

Table 2.3: Trends of textile (Source: TDAP)

In 2010 APTMA (All Pakistan Textile Mills Association) had prepared a report for the federal government claiming that the textile industry will cross its export over $16 billion compared to its present $8 billion. In 2011 the textile exports rose up to $12.5 billion from July 2010 to May 2011. In the same year the problem of energy crisis left the textile industry in shreds and pieces. In 2012 Pakistan's $13.8 billion textile industry was struggling to survive through the energy crisis to run its plants. As a result, 10 % of the spinning mills and fabric printing units have shut down

and the remaining are struggling hard to survive. As a result of the struggles thousands of workers came out on the streets to protest against the crisis, they burnt tires and shouted slogans against the government. In 2013 workers protested against the gas shortages and in this year the millers had to face soaring prices of cotton. Due to the soaring prices and electricity crisis the industry is not able to fulfil the national demand and there is a reduction in the export ratio of the cotton yarn to the international markets.

In 2014, existing government introduced a policy name "5-year Textile policy 2014-2019" and the GSP+ status which allowed the manufacturers to get access to Europe and export their products without any duty fees. This step of current government gave hope to current manufacturers and attracted them to stay in the field and to play more aggressively. In result of such policies, export of Pakistan's value-added products grew 3% to $1.14bn (2015) from $1.11bn last year (2014). Exports of knitwear also rose by 6.7% due to textile industry friendly policies. The other major milestone is commencement of China Pakistan Economic Corridor (CPEC). In April 2015, China's government official visited Pakistan and signed MOUs of projects worth of about $46bn. This flagship project attracts Chinese investors to invest in Pakistan in different sectors especially in energy sector and development sector.

2.2.1 - GSP plus status

In order to foster economic growth and eliminate poverty, unilateral trade preferences are provided to developed country by industrialized countries. The Generalized System of Preferences (GSP) is a generous scheme provided by European Union (Quick and Schmulling, 2011). Under these schemes, developed countries get relaxation in tariff to export their goods to EU. There are three types of arrangements under GSP scheme:

- General arrangement: Beneficiary countries under this scheme get duty free access for 3300 non-sensitive originating products and partial tariff preference on 3700 sensitive products. There are 31 countries included in this scheme from 1st January, 2014. Main countries include India, China, Indonesia, Iran, Thailand, Sri Lanka and many other.
- GSP-plus arrangement: Beneficiary countries under this scheme get duty free access for most of the originating products. There are ten countries under this scheme.

- Everything accepts under Arms arrangement: This scheme was stated in March 2001 to help poorest countries of the world. Under this scheme, all originating products except arms get quota and duty free access to EU. There is as such no barrier of time on it. Bangladesh has been granted EBA status.

On 1ST January 2014, Pakistan acquire the status of GSP Plus for first time in Pakistan till 2018. In order to qualify for this scheme, 406 members of EU supported Pakistan. Under this scheme, several Pakistani products will get duty free access to EU markets. Under GSP+, Pakistan can export 6000 tariff lines free of duty to 27 EU member countries including textile and clothing. In 2012, seven countries account for 86% of total export of Pakistan to Europe. The fastest growing market for Pakistan in EU is Germany (Ghafoor et al., 2015).

Pakistan's export to EU countries (US $ Million)			
Countries	2012	**Countries**	2012
Belgium	467.9	**Germany**	1151.7
France	481.7	**Italy**	676.4
Netherlands	425.2	**Spain**	534.9
UK	1303.6		

Table 1: Pakistan' export to EU countries (Source: Ghafoor et al., 2015)

The coverage of GSP Plus status is restricted to only those countries which met the following criteria:

- GSP-covered import should not be more than 2% Of the EU'S import
- The seven largest GSP-covered products must cover at least 75 percent of the country's total GSP-covered exports to the EU

The share of GSP imports of Pakistan was reported to be 1.6%, which is less than 2%. Pakistan's portion of seven largest sections of GSP covered imports had been around 90%, which is more than 15% of the threshold level. The major items exported to EU are woven cotton fabrics, gent shirts, garments, bed linen and women suit. This scheme is reviewed after every three years. The government of Pakistan has to ensure 27 core international convention (Pasha, 2014). Some conventions are given below:

- Convention on elimination of racial discrimination
- Convention against degrading treatment or punishment
- Convention for the right of the children

- Convention regarding the abolition of forced labor
- Convention concerning minimum age for admission of employment

The GSP plus status will help Pakistan to access EU market in a more competitive manner but at the same time EU will ensure the compliance of these conventions with the help of third parties. The further extension of this program is totally dependent on how Pakistani government try to effectively implement these conventions.

2.3 – Challenges

Whenever the government increases the electricity charges, it forces the textile industry into a corner. And the reason for the increases in electricity price is not just to cover its shortage, it's also because of the amount of electricity theft taking place. There are a large number of small industries in the textile sector which are evading the grasp of the government while stealing electricity, in response instead of trying to find the culprits the government increases the electricity prices and puts the burden on those genuine consumers who pay their bill on time.

The failure of the government to supply power to the textile sector does not end there. All of the captive plants installed in the textile export manufacturing unit all run on natural gas, the gas tariff hype has dealt another serious blow to the already ailing and dying textile sector (gas prices to make textile a sick industry)

For the purpose of investment in basic textile, Pakistan is the most appropriate place. In the past, China tried to enter some joint ventures with Pakistani players but it failed due to greed and over the top demands from our side led them to divert their attention to Bangladesh and Vietnam. Textile mills are being closed due to economic failure in the country especially the small industrialists

Due to the high cost of production in Pakistan, our products are proving to be uncompetitive in the international market and the other players such as China, Srilanka, Banladesh and India are taking advantage.

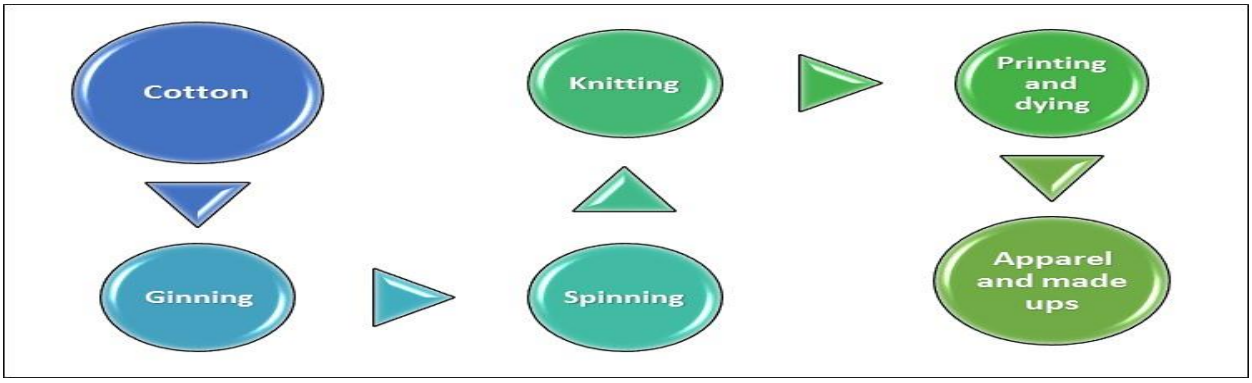
Regardless of the fact that we have abundant resources of cheap labor and raw cotton, our textile industry has been unable to exploit its maximum potential, and has failed to make some genuine progress in the international market.

Decline in new machinery import, lack of coordination among different subsectors of the textile industry and structural imbalances. Lack of product and geographical diversification in exports are some of the major challenges faced by the textile industry of Pakistan. Currency devaluation is also proving to be a big hurdle towards our success in the international market.

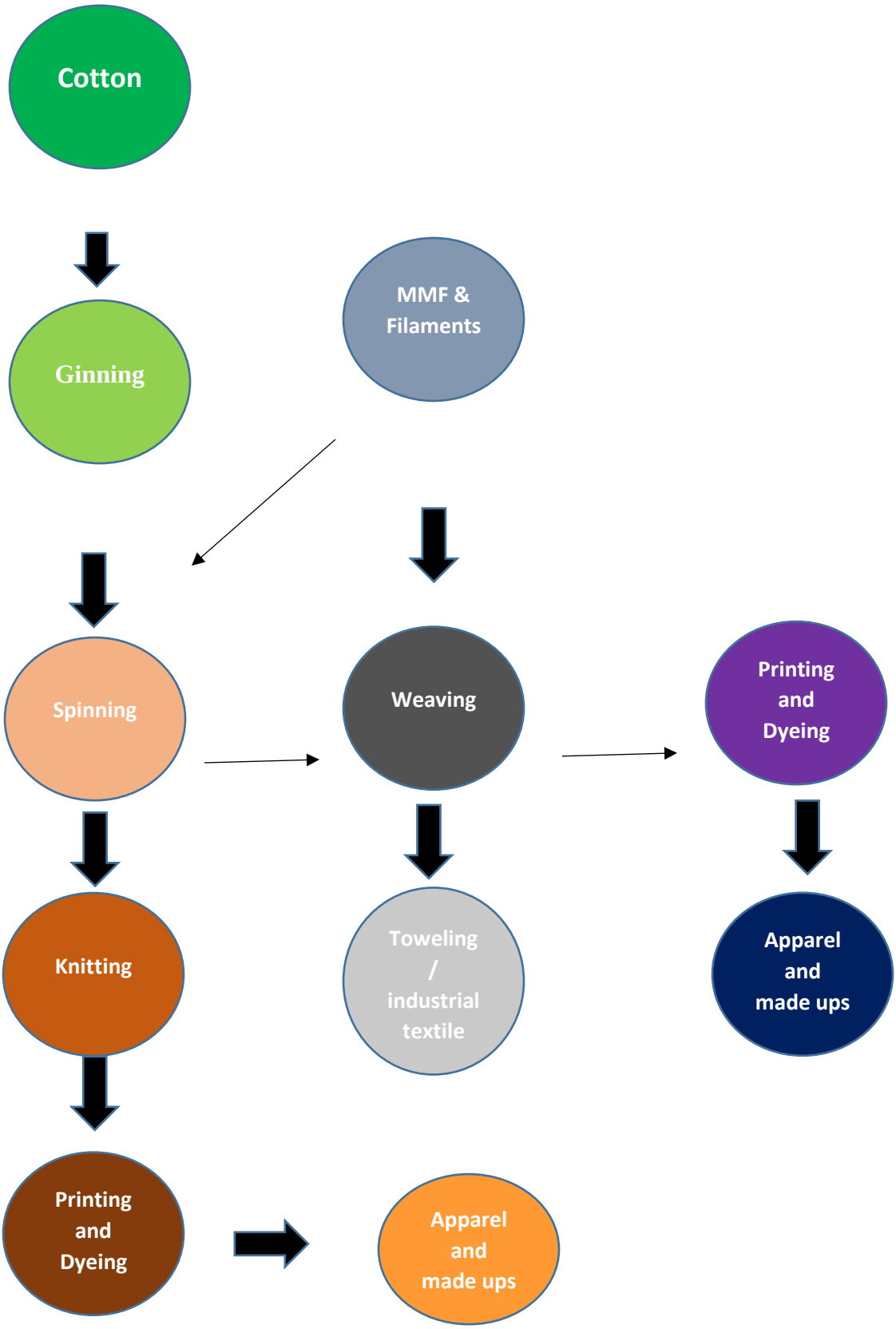
2.4 - Sectors of Textile Industries of Pakistan

1. Ginning: The first step in the textile product is ginning. In this step, cotton is extracted from the seeds. The cotton grows in the seed pods which have no use in manufacturing. So, to make cotton useable, cotton have to be separated from seed pods.
2. Spinning: This sector is usually operating in organized manner. There you can do in-house weaving, dyeing and final material.
3. Weaving: This sector is opposite to above mentioned because it ranges from ill-organized house hold setups to moderately organized large units. They are usually small and medium sized units.
4. Processing: In this sector, there exists sub-sectors like printing, dyeing and finishing which operates in an organized manner. They are capable of producing large quantities.
5. Printing: Overall processing industry dominates by this sector. In this, printing takes place in small to medium size units.
6. Garment Manufacturing: This sector has highest employment in the whole textile product process but still this sector consists of more than 75% small and medium sized manufacturing units.

2.4.1 - Process of Textile Industry



2.4.2 - Value chain



2.5 - Weaving and Composite Sector

Composite sector as the name implies is composed of different processes to form one sector. In broad terms composite sector comprises of two or more processes of the textile value chain which when combine together form a material stronger than the individual material. In the textile industry the composite sector or composite mills consists of spinning, weaving and processing activities which are all carried out under one single roof. 67% of the entire textile sector of Pakistan is comprised of the composite sector. In 2009 the composite sector made impressive earning growth of 61%.

The textile industry comprises of many sub sectors which in turn produce the required apparels and made-ups. One of the most important subsectors of the textile industry is the weaving sector. Weaving is the process of converting yarn into cloth. The textile process or value chain comprises of various steps and process the basic of them is spinning which converts fiber threads into yarn and this process leads to weaving and then the finished product is achieved. Weaving process can be broken down into 3 steps:

1. Wrapping
2. Sizing
3. Weaving

The machines used for the process are called as “Looms” or “Weaving Machines”.

As mentioned before weaving sector is one of the most important sub sectors of textile industry. The weaving sector is formed by means of two sectors namely the organized mill sector which is the composite sector and the non-organized mill sector. The non-organized mill sector, by its name is quiet clear is not a standard quality sector it consists of low standard technology and machines and hence has low level productivity. The power loom of this sector produces substandard quality fabric and hence it is unable to secure a profitable high value unit in the international markets. The non-organized sector is termed as the “Power loom sector”, it comprises of 300,000 looms (according to the 2015 Pakistan textile Journal). Significant power loom masses are located in Faisalabad, Gujarat, Multan, Karachi, Kasur and Jhang. Among these locations Faisalabad is the principal cluster in Pakistan. This sector consists of considerable number of units, which have 50 -100 weaving machines in particular premise as one unit.

On the other hand, the composite sector (organized mill), instead of making efforts to develop and modernize the weaving sector took a step towards cotton spinning. The installed volume of weaving machines decreased from 26,000 in 1978-1979 to only 8000 in 2013-2014. The weaving sector of the textile industry of Pakistan showed a reversed trend in the growth record.

Chapter # 3

Literature Review

3.1 - PESTEL analysis

PESTEL analysis enlists the “macro-economic” factors which are affecting our business currently or may affect our business in near future. It’s an elaborative methodology of defining external factors that are affecting or may affect our business in future and we have no control over them. The factors that we would include would depend upon the size and nature of our business. (An introduction to PESTEL analysis February 2011 Edition).

Most of the authors suggest that understanding of the current and future business environment is not the only thing that one needs to do in PESTEL analysis. Rather the researcher should try to dig deep into the topic under discussion and highlight the key factors that a new entrant should keep in mind. Collins, 2010 suggest that in order to have a better understanding and advantage of PESTEL analysis one does not just rely on the list of factors that can have an effect on the business entity. Rather there should be a deep understanding on the cause and effect relationship among different factors and how one triggers the other. Collins, 2010 clearly states that though finding the case and effect relationship is not that easy but if it’s found it can be very beneficial for the company.

PEST analysis is a convenient tool that we can use to understand the growth or decline in the market, potential and the current position of our business. Two additional factors i.e. environmental and legal would also be included sometimes, but these are the factors that can easily be incorporated in others (Kotler n.d.). PEST analysis also guarantees that the performance of the company is positively aligned to the forces which impacts the business environment (Porter n.d.). PEST is mostly beneficial when a business chooses to extend its operations or to enter the new markets and the countries. Its use helps us to let go of the unconscious assumptions, and would help us to successfully familiarize ourselves to the realities of the current environment.

The constituents of PESTEL are considered to be macro-environmental factors and for the appropriateness of this model, we assume that it is necessary to have information about the business environment that is relevant to our business to understand the success of the particular industry. Coming to the constituents of the PESTEL analysis:

3.1.1 - Political Factors

These are the factors that have an impact on our business in the form of legal and government regulations and accounts for formal as well as the informal rules that our business should follow. Some of the examples are:

- Political stability
- Trade restrictions
- Tax policy
- Tariffs etc.

3.1.2 - Economic Factors

These are the factors that affects the operations of the business and decision making processes of the organization. For example, the business cannot increase its workforce because of the expected recession in future. Other factors might include:

- Inflation rate
- Interest rates
- Economic growth

3.1.3 - Social Factors

The Social factors in PESTEL includes the cultural, Demographic and religious factors that the company needs to take into account. These factors are part of social life and are necessary for the company to understand in the region it operates. For example, demand of a particular product of the company might get affected by increased health consciousness among people. Social factors might also include:

- Regions Growth rate in term of population
- Age bracket of the market company wants to target

3.1.4 - Technological Factors

It includes the effect of technological growth upon the quality and the cost of the outputs. Technological factors also determine the efficient levels of production and also the barriers to enter the industry. Some examples of technological factors are:

- Research and Development activities
- Innovation in Technology

- Mechanization

3.1.5 - Legal Factors

These are the factors that would influence the operations of the company, costs that the company would incur to produce the products and also the demand for the products of the company. Examples of Legal factors are:

- Employment law
- Consumer law
- Discrimination law

3.1.6 - Environmental Factors

These are the ecological factors such as the climate change or weather conditions. It is a hot topic now-a-days as the businesses are trying to innovate their operations and build upon the concept of Green Business.

The purpose of the PESTEL analysis is to develop an in-depth understanding on the context (e.g. a country) in which the study can generate more meaningful findings. PESTEL Analysis is used to examine the scenario in which the business currently operates and the future prospects that it might face.

3.2 - INDUSTRY ANALYSIS

The industry analysis involves two techniques:

3.2.1 - Porter five forces framework

This model was given by Michal Porter in 1979. It examines the external environment in which the industry functions. This model constitutes the basis for industry to measure its attractiveness in the market by reducing its weakness of attack and take advantage of the opportunities in the industry by framing strategies that can help them to achieve profitability. (Porter 1980). Porter's model relies of 5 key competitive forces that can affect how a company operates. These forces are as follows:

- Threat of substitutes
- Industry rivalry

- Bargaining power of suppliers
- Threat of new entrants
- Bargaining buyer of buyer

These five forces help in defining:

- The attractiveness of the industry
- Intensity of competition among the industry

This model helps in knowing whether the industry is profitable or not. This model can help us in identifying the competitive position of the industry (James Cradle 2010).

PORTER'S FIVE FORCES MODEL

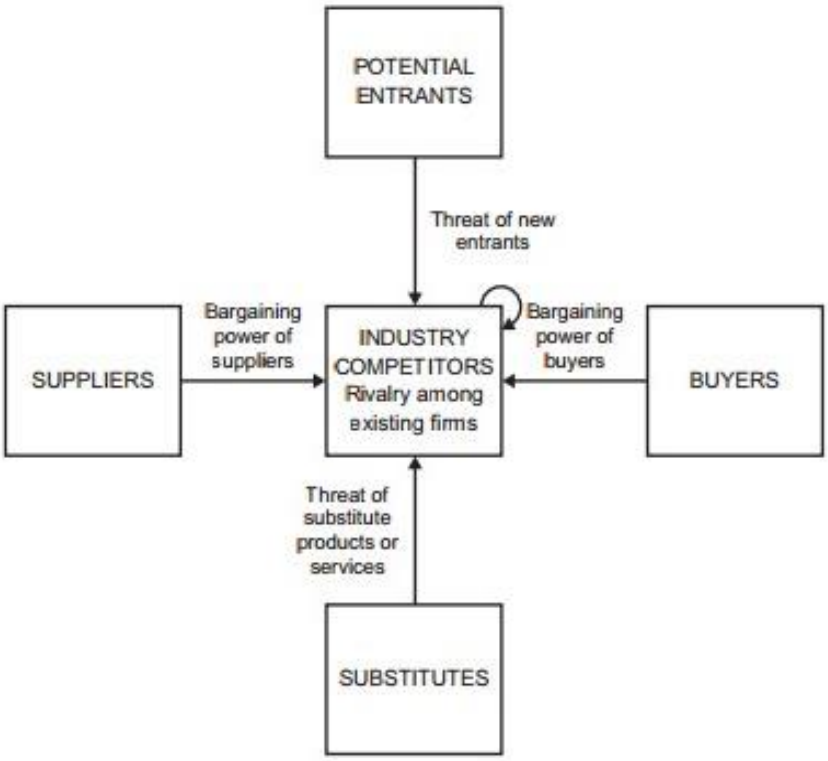


Figure 3.1

The factors that need to be considered for each forces are discussed below:

3.2.1.1 - Threat of entry

New entrants always make the environment more competitive. As more and more firms come in the industry, the profits fall down. However, there are some barriers to entry, which serve as advantage for the existing firms.

Capital requirements: Greater the capital requirements to get established in an industry, greater are the chances that firms will discourage to enter in that industry.

Access to distribution channels: Gaining distribution is one of the biggest barrier for new entrants. While the existing firms have a well establish distribution channels.

Economies of scale: New entrants are always faced with the problem of entering the market on a small scale or large scale. In both cases, they have to suffer (i.e. in small scale they have to incur high unit cot while in large scale they will have to bear the cost of underutilized capacity).

Brand recognition and customer loyalty: Establish firms always have a strong brand recognition and customer are ready to pay premium for their products while in case of new entrants they lack brand recognition and customer loyalty.

Retaliation: New entrants can be faced by retaliation by the existing firms. They can use various techniques (such as aggressive advertising, sales) against a new entrant.

3.2.1.2 - Threat of substitutes

Substitutes are always a threat for existing firms. The price consumers are willing to pay depend on number of substitutes available. The threat of substitutes decreases when the product is complex or differentiated.

3.2.1.3 - Bargaining power of supplier

This force shows how much power supplier have to drive up the prices. It depends upon number of factors:

Number of supplier: If there are more number of supplier, it means that supplier have less bargaining power. The buyers can easily substitute between different suppliers.

Uniqueness of product: If the products of suppliers are differentiated, there is less chance that buyers will switch to other products.

***Switching cost**:* If the switching cost is high, there is less probability that the buyer's will shift to some other supplier.

3.2.1.4 - Bargaining buyer of buyer

The force that deals with bargaining power of buyer in terms of bring the prices down. It depends upon:

Necessity of an item: If the item is necessary for the buyer, they will be more sensitive about the price if the item they are purchasing is sufficient cost of the total cost.

Buyer's information**:** The more buyers have information about their suppliers, better they are to bargain.

3.2.1.5 - Industry rivalry

The profitability is determined by the level of competition among the existing firms. The rivalry among firm depend upon:

Product differentiation**:** The greater is the competition among the firms when they offer similar products. Price becomes the source of competition in this case. It results in price wars.

Diversity of competitors**:** If the competitors offer different products, they are less chance of price wars between them. Hence there will be less competition between the firms.

3.2.2 - Porter's diamond model

Porter's Diamond Model is an efficient tool that can be used to study the competitive advantage of an industry while it takes into account the country level factors. There are four factors included in it. If these factors are significant in the national market than the competitor's, then it means that the industry is in profit (S.H. Chung 2005). The factors included in the Diamond model are:

- Factor Conditions
- Supporting Industries
- Demand Conditions
- Rivalry, Strategy, Structures.

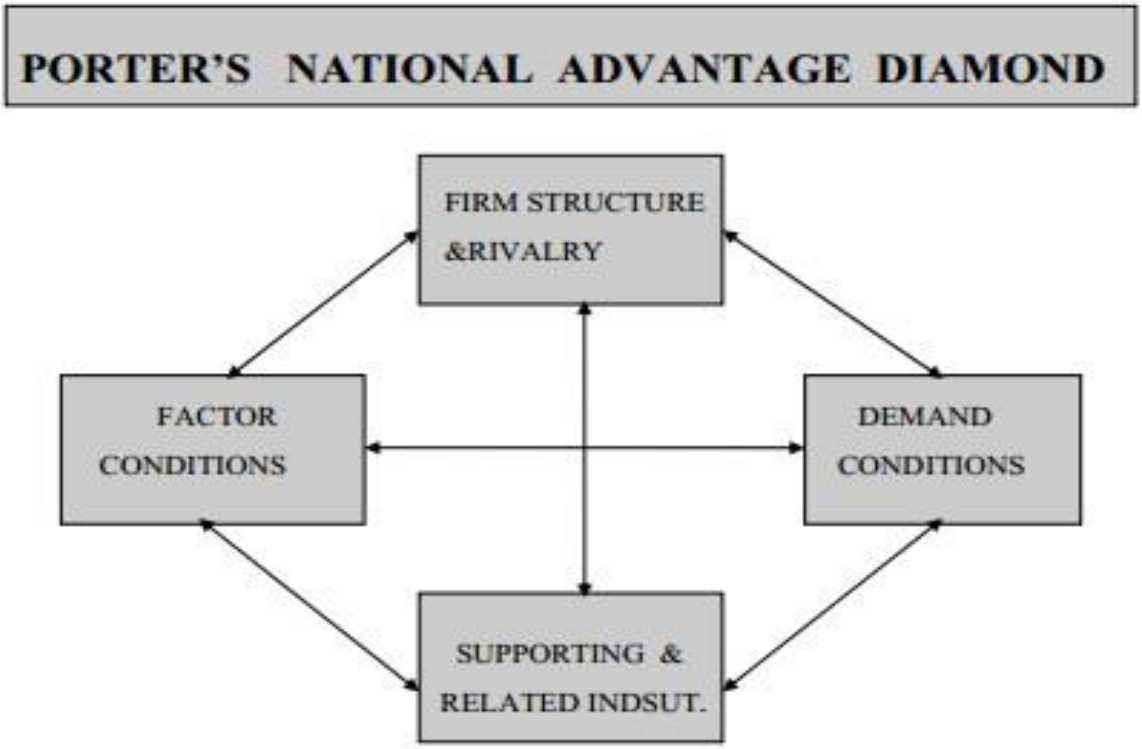


Figure 3.2

We will discuss each of the factor below:

3.2.2.1 - Factor conditions

Factor Conditions comprises of two types:

Basic factor endowments: this includes geography, basic factors, human resource and the climate.

Advanced factor endowments: Capital resources, infrastructure, and Knowledge resources are key endowment factors in the advance category. They contain heavy investment and they are difficult to match. That's why they lead towards a competitive advantage.

3.2.2.2 - Demand Conditions

Every company want to achieve as much profit as possible. Hence the demand of a product plays a vital role in this category. The driver for quality improvement and innovation depend upon the demand condition in the domestic market (Grant n.d.) Hence a better demand condition for the

product is important. This will help to prepare the industry to participate worldwide in further stages.

3.2.2.3 - Supporting Industries

Any company operating in any industry cannot survive without the availability of supporting industries. Hence the supporting industry is an important factor as most of the time they act as one of the key player in your supply chain. Related and supporting industries are a critical source for many industries. This can help in gaining competitive advantage.

3.2.2.4 - Rivalry, Strategy, Structures.

In particular sectors, the national competitive performance is linked with the strategies and structures of firm in those industries. These are the systems of traders and distributors that collaborate with the industry to support it in worldwide rivalry. This is especially the case where these supporting networks already compete internationally themselves. It is never easy to strive when you do not have access to suitable strategy in this global world. It reduces costs and produce raw materials of high quality (porter 1980). According to Porter's Diamond Model, government role is to act as "a catalyst and challenger". It encourages industries to move to higher levels of competitive performance.

3.2.3 - Our analysis

During our analysis of weaving and composite sector, we will be using both techniques because the essence of formulating competitive strategy is relating a company to its local and global environment. Porter five forces model will help us to see the competitiveness of textile industry within Pakistan and diamond model will help to see competitiveness globally (Porter 2010).

3.3 - Financial Analysis

Financial analysis is the understanding as well as the evaluation of the financial data of a particular company or the industry for the purpose of making of financial judgment or the sound investment decision. Financial analysis is used for the evaluation of the internal evaluation of the company, e.g. its employee performance and the external performance e.g. potential investment opportunities. (Drake, Financial ratio analysis 2006) The data required to financial analysis is gathered from numerous sources. The primary source of the data can be the

company's annual reports or other required disclosures. Company's annual reports comprises of cash flow statements, Income Statement, balance sheet and footnotes to these statements. Other than the information that the companies are required to reveal, additional information can also be gathered from the electronic media or the financial press. (Goran Karanovic, Financial Analysis Fundament for Assessment of the value of the company 2011) In addition to the economic, financial or market data, financial analysts are also required to consider the events that might affect the company's current position or the future projections. The financial analyst must select the relevant information, analyze it, and interpret the analysis, facilitating judgments on the current and future financial state and operating performance of the company. (Drake, Financial ratio analysis 2006) Financial analysis of any company or industry is done with the mindset that it should be as comprehensive as possible and should cater the data of at least past 5 years. Financial analysis act as a helping tool for the investors who want to invest in a specific company or industry. Moreover, with the help of financial analysis they can also look into details of the management flaws as is where they are going wrong and how they can stay save from such mistakes. The analysis also helps companies to understand the real worth of companies and they can also see which companies are under or overvalued and what can be done so that their real worth can be shown in the industry. (Kaplan 2009)

3.3.1 - Ratio Analysis

Ratio analysis is to connect the different parts of the financial statements (Drake, Financial ratio analysis 2006). Financial ratios are the logical arrangement of the different components of the financial statements. These ratios can help the investors to understand that how the company operates. These ratios do not only help in forecasting the future cash flows, but they also help in determining the profitability, liquidity, debt and other activities of the company. Ratio analysis is the study of relationship between the different elements of financial statements. From the data available in the financial reports, analysts can calculate variety of ratios for diverse use (Goran Karanovic, Financial Analysis Fundament for Assessment of the value of the company 2011).

3.3.1.1 - Objectives of Ratio Analysis

Various users can have various objectives while they approach financial statement analysis. Creditors would want to know that weather the company is likely to pay its debt on time. Stakeholders and investors, both would be interested to know about the financing of the company i.e. weather the company is financed through equity, debt or earnings. Potential investors and stockholders would be interested to know the historical earning performances of the company to get the idea about the future of their investments. In addition to using internally generated data to analyze operations, managers of the company also prepare the information for the external purposes i.e. planning the policies for the future and examining past operations. Though many of the objectives are correlated, it is convenient categorize the ratios into different types.

3.3.1.2 - Types of ratios

Ratios can be defined on the basis of their general characteristics or according to the way that they are assembled. By construction, ratios can be categorized as return ratio, coverage ratio, turnover ratio or a component percentage.

1. Return ratio measures the net benefit in relation to the expanded resources.
2. Coverage ratio that measures a firm's ability to pay off its debt obligations.
3. Turnover ratio measures the gross benefit in relation to the expanded resources.
4. A component percentage is the ratio of a component of an item.

Examining the operating profit of the company means to analyze weather the company is utilizing its assets in the most profitable and efficient manner. And examining the financial performance of the company means to assess that weather the company would be able to meet its financial obligations.

We can examine the financial and operating performance of the company from six different aspects or ratios.

1. Liquidity ratio, which measures the company's ability to meet its immediate obligations.

2. Profitability ratio, which tells the amount of income the company would generate from each dollar of sale.
3. Activity ratio, it is the efficiency of the company in managing its resources.
4. A financial leverage ratio is the degree of a company's fixed financing obligations and its ability to pay-off these financing obligations.
5. Return on investment ratio is the measure of the profit in relation to the assets employed to generate that profit.

3.3.2 - BETA

Beta in financial analysis is considered important as it enables the investor to check volatility of the stock in comparison to the market. Generically a beta with the value of less than 1 implies that the stock is less volatile as compare to market. Similarly, a value of beta higher than 1 implies that the stock is more volatile than the market.

Beta is considered as an undiversifiable risk that results from the movement of market. A market portfolio of stock usually has a beta of exactly 1. As already stated beta is important because this is the risk that cannot be reduced or cater into account by the use of diversification strategy.

Beta is also an important part of CAPM model as it enables the model to predict the cost of equity that will be given by the company as a return if they raise capital using equity. Furthermore, the beta of the firm depends on the type of leverage a firm has. As per leverage there are two betas, Beta for a levered firm known as levered beta and beta of unlevered firm known as unlevered beta.

Chapter # 4

Strategic Analysis

4.1 - PESTEL Analysis

4.1.1 - Political

Pakistan has been a target of political instability since 1947. Politically Pakistan has been facing numerous issues. The government of Pakistan has not been able to maintain stability in the country premises. There is vagueness in the government's structure and because of this uncertainty the presiding party fails to maintain a stable and peaceful economy in the country. However, the others take advantage of such situation. After global recession political instability is the second reason that investors avoid investing in Pakistan, because of increasing inflation rates, energy crisis, high interest rates and gas outages etc. The absenteeism of CNG, increase in prices of gas and electricity has put burden on the Pakistan's industrial sector and has squeezed out the gross margins of the industry. As a result of these issues there has been an increase in job losses.

Along with theses residing issues, terrorism is the most emerging crisis of Pakistan's political instability. The Pakistan army has put its foot down in bringing stability to the country's economy, but the suicide bombing in towns and cities has created a wave of threat among the people of the country.

Apart from all the residing crisis the government of Pakistan has been highly attentive towards the textile industry which is the excelling sector of Pakistan. One step taken by the authorities is the implementation of BMR (business modernization and replacement) program under which loans are assigned to the new emerging businesses with concessions.

In recent last two budgets, government showed interest in reviving local industry by taking many steps. Government knows the importance of this sector and also it is backbone of Pakistan's economy. Government announced textile policy 2014-2019, under which financial support of about Rs. 64 BN would be allocated to industry to increase their exports and employment also. The issues of textile sector will have resolved under federal textile board. This board is comprising of mixed members from both private and public sector to increase the harmony and coordination.

The main purpose of this policy to double the textile export numbers from $13 BN to $26 BN, with increasing the investment in up-gradation of technology. According to business recorder (21st august, 2015), the newly formed policy had been neglected and poorly implemented. An

article from the other source dawn newspaper (30th January, 2016), the textile exports are increasing due to G.S.P+ status. Exports of textile products to EU countries increased by 82% from 2 BN euros to 3.7 BN euros. So, there are mixed views on the implementation of newly formed textile policy.

Some of the incentives provided due to this policy alongside the BMR program by the federal government and Chamber of Commerce are as follows:

- Development of Textile City and Garment cities in Karachi, Faisalabad and Lahore.
- 5% reduction in the import duty on textile machinery such as weaving machines and looms.
- Providing 6% support of R&D to exporting business of garments.
- 5% reduction in the import duties of ginning presses
- 1% Deduction in turn over tax on merchants of identified textile fabrics and articles which would include pret wear
- Reduction of sales tax from 15% to 2%
- Government also assured training of unskilled workers i.e. 120000
- Different schemes to encourage technology upgradation to increase output

Textile exports of Pakistan from 2009-2014 were as follows:

Year	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Exports	$10,117,300	$13,634,812	12,181,215	$12,838,954	$13,433,644

Table 4.1 Textile exports of Pakistan (source: Trade development authority of Pakistan)

The residing issues of terrorism and political tensions the textile industry is going to face serious challenges. The government of Pakistan is not able to maintain an equilibrium in the regulations the constant change has disadvantaged the textile industry of Pakistan.

4.1.2 - Economical

Economy and politics of a country go hand in hand, for a stable economy it is necessary to have politically stable country. When looking into the growth of a business, a firm or even an industry it is necessary to consider all factors of the environment as economic stability plays a very essential part in the establishment of a successful business.

Pakistan's economy is facing a depressing situation, because of the fluctuating regulations of the government. The causes of the instability are long term which include structural fluctuations.
A stable economy is dependent on 4 things:

1. Leadership and long term vision
2. Political stability
3. Stable policies
4. Strong and well-structured governance sector

Long term vision is only possible if the leadership of the country is able to devise a directional approach for the country. It is only the leadership which plots out the strategy to achieve the desired vision of the country. After the government of Pakistan People's Party Parliamentarians, had inherited high inflation, large amount of inequality in income and enduring lack of spending for the infrastructure.
Pakistan's regulations have been fluctuating with changing government. Every new government mends the policies according to their understanding, halts the projects started by the previous party without any clarification. As a result, the investing party shy away from investing their money in Pakistan.
Lastly well-structured governance sector holds the key to a successful economic state. If the administration agencies are burdened with corruption, ineffectiveness, insignificance and ineptitude there will be a lot of waste. If the authorities take charge and abide by the rules than the invested 1 rupee is sure to bring back 10pc return but if half of it is going to be invested and half is going to be kept for personal use the economy is going to demolish. Because of these residing problems the development of economy is going to slow down and risk is going to stay.

On the other hand, besides these negative issues Pakistan has 4 positive factors which can brighten the economy of Pakistan:

1. Size of the domestic market
2. Favorable demographics
3. Geostrategic Location

4. Largest irrigation system

Size of the domestic Market: With a population of more than 180 million Pakistan has a huge and attractive domestic market. Because of the extremely populated market the demand and supply cycle works at its peak. Increase in demand means increase in supply which in turn helps in achieving economies of scale and lowers per unit cost of production.

Favorable demographics: Pakistan is blessed to have a huge population, as 63% of this population is below the age of 25 and almost 50% is below the age of 19, Pakistan has a high percentage of youth compared to the advanced countries. If the youth is well-educated and given the proper training, it could serve as the workforce for labor-deficient countries.

Geostrategic Location: Pakistan enjoys a promising geostrategic position. It shares its borders with China and India. If Pakistan and India develop friendly and peaceful relations with one another it can provide successful benefits to the country's economy through trade, economic collaboration, technical and investment alliance. On the other hand, linking western China with Gwadar Port through CPEC (China-Pak economic corridor) is going to be mutually profitable for both the countries. The completion of this project successfully would result in a boon in the economy of both the countries. This corridor is going to pass from the northern area of Gilgit Baltistan connecting Chinese operated Gwadar port. It is hoped that this project will help in overcoming the Pakistan's power shortfall and will help in boosting the economy as well.

Largest irrigation system: Pakistan comprises of the world's largest and well-established irrigation system i.e. the Indus Basin. It has enhanced agricultural productivity of Pakistan over a period of time. Although the agriculture sector of Pakistan has seen a decline in the labor force and the GDP, the physical productivity has multiplied eight to ten times. The two main factors which effect the textile industry are:

- Inflation rate
- Interest rate

4.1.2.1 - Inflation Rate

The inflation rate of Pakistan compared to its competitor countries has increased over the time being. In July of 2016 the recorded inflation rate has increased 4.50% compared to the same

month of last year. From 2010-1016 the average inflation rate is calculated to be 8% reaching a high amount of 11.40% in June of 2012 and low record of 3.40% in September of 2015.

High inflation rates decrease the rate of demand. As the prices of textile goods increase compared to the competing companies the demand decreases as the same textile products are available at cheap prices from the other countries.

Compared to its two neighboring countries which are Pakistan's main competitors in textile industry, the inflation rate of China is low. The average inflation rate of China for the year 2016 is about 2.38% where that of India is 5.92% low as compared to that of Pakistan.

4.1.2.2 - Interest Rate

Pakistan's interest rates are high as compared to its neighboring countries India and China. China has the lowest interest rate as compared to India and Pakistan. Pakistan has set a growth rate of 5.7% for the year 2016/2017. The average interest rate of Pakistan from 1992-2016 recorded to be 11.68% the highest rate was recorded in 1996 of an amount 19.50% and lowest as 5.75 in May 2016. The average interest rate of India from 2000-2016 is recoded to be 6.71%, in 2000 it was as high as 14.50% and in 2016 it was recorded to be as low as 4.25%. China's expected interest rate for the next 12 months is 4.10%. The increase in the interest rate is damaging the growth of textile industry of the country. This increase is the result of fluctuating government policies, as the government is unable to maintain an equilibrium in the country.

4.1.3 - Technological

Rapid changes in the economy worldwide have increased the competition among developing countries. New technological advancements are taking place, new machinery is being introduced which is making the competition fierce. The machinery being used by Pakistan and its textile sector is old and ill-equipped. The instability of the country is a major reason behind this failure. The government of Pakistan does not have the necessary funds to provide the textile sector with new and improved machinery they even fail to provide loans to the owners of the weaving and composite sector to install new looms and spinning machines. As a result, the way of performing the tasks is old and obsolete.

The competing countries are moving along with the world-wide competition. They have taken hold of the new improved technology and are producing different types of cotton, colored cotton, organic cotton etc. They are making use of genetic engineering to improve the quality of

cotton. Where as in Pakistan research is being done to improve the quality and quantity of production of cotton but on a very small scale. APTMA (all Pakistan textile mills association) is taking no interest in R&D for increasing the efforts of producing quality products. Developing countries are now making use of synthetic fiber whereas Pakistan is still relying on cotton crop for its production of made-ups and apparels.

Along with the technological failures the country faces the issue of power shortages, which is a major problem for the garment industry now days. The unscheduled long time load shedding, increased prices of electricity per unit, absence of CNG, gas load shedding in winters as well as water shortages for days has caused prominent downfall in the textile sector in the last 2-3 decades.

The technological demand in Pakistan and worldwide is at its peak. But the existing machines and technology in the country are obsolete and ill-equipped to support Pakistani firms to confront the economic challenges impersonated by the changing global economic environment.

It needs to be brought in attention of the government authorities that the success of Pakistan's industrialization depends upon the acquisition of technological advanced equipment along with skilled and trained staff to look after the machinery. Along with acquiring the equipment the acceptance and captivation abilities need to be developed in Pakistan.

4.1.4 - Social

The textile sector is the backbone of Pakistan's economy. The industry has contributed in the GDP, employment and exports of the country. Social and Cultural benefits and issues should be catered side by side. As society and cultural aspects both play a vital role in running a successful industry of the country. A perfect match should be maintained between the production and social systems in a specific area. This collaboration will help us in attaining high benevolence.

The Textile industry of Pakistan has helped in providing better living standards. It has played a vital part in the employment of skilled and un-skilled workers by providing them with the necessary training. As a result of the working labor, there was an increase in the income of the labor due to higher productivity which improved the living standard of the rising middle class.

The huge population of Pakistan majorly consists of growing middle class, as the number is increasing their buying behaviors are changing and there is an increase in demand, which has given boost to the economy of Pakistan.

The growing textile industry has heightened social welfare in a number of ways. It has resulted in providing greater and enhanced employment opportunities meeting the national needs. All in all, the textile industry has positively affected the social welfare of the country.

4.1.5 - Legal

In augmenting the export intensity of textile export, labor laws and issues play an important role in textile industry. The labor in Pakistan is cheap as compared to other competing countries. The labor law specifies a minimum wage of 13000 rupees for a worker for a month, which gives an advantage to the textile industry in terms of low cost. Besides, there is abundant domestic supply of labor. According to economic survey of Pakistan (2014-15), the total labor force is 60.09 million. Minimum Age to be eligible for work is 14.

Labor Statistics in Pakistan		
	2012-13	**2013-14**
Labor force	60.34	60.09
Employed	56.58	56.52
Unemployed	3.76	3.58
Unemployment rate	6.24	6.0

*Table 4.2: Labor Statistic in Pakistan (*Source: Pakistan Bureau of statistics)

However, textile industry faces issues of skilled labor. Due to this, it affects the productivity and quality of material. History shows that textile industry has faced issued due to unionization. This affects the production. Child labor is very common in Pakistan and many times international supplier is concern whether the industry comply with the international labor laws. In Pakistan Textile industry, workers are being forced to work in poor conditions as they do not have any other choice. As a result of which, most of them tend to suffer from problems like burns, eyestrains, backache and other injuries. There has been a lot pressure on the producers to cut their corners and they have found hidden ways of doing it. Most manufacturer's employee unskilled labor who do not have knowledge about the labor right and exploit them.

4.1.5.1 - Environmental Laws

Staring from the beginning, cotton is known be the pesticide intensive crop. Chemical defoliants used not only affect the environment but also the human health. Nitrous oxide is created by

manufacturing Nylon. As a matter of fact, this gas is more potent than carbon dioxide. Producing synthetic fibers require different chemicals usage, which is detrimental to the environment. For example, rayon uses sulphuric acid and caustic coda, which are very much injurious to health. As far as the value addition is concerned, the processing sector of the textile industry is of major importance. The downstream of the industry which comprises of the made-ups and the garments are heavily dependent upon the processing sector for the purpose of value addition to materials and fabrics. This is the segment which is mostly affected by the global environmental laws. Almost 650 units are operating currently which includes both small and medium scaled units. These units perform the activities of Bleaching, printing and dyeing of the fabrics. The area about which the textile sector is mainly concerned about is of the wastewater. Processing of the textile is a water intensive process. Wastewater that is being generated by the industry is discharged to the environment without any treatment which has caused some serious threats to the environment. Processing industry is also using a variety of chemicals for the purpose of printing and dyeing, use of these chemicals and discharging them in the environment without any treatment has been a cause of serious degradation in the environment.

Though there are environmental laws in the country but still there is no strict implementation by government. Although foreign investors are ethically show concern for the investor and it affects the reputation of Pakistan globally. However, if there are strict implementations it will reasonably affect the textile industry of Pakistan.

4.2 - Porters Five Forces Analysis

4.2.1 - Barrier to Entry

The Barrier to entry as well as exit both are high in case of textile industry of Pakistan. This is said on the basis of the legal environment and energy crisis being faced by Pakistan. Legal environment is not in favor of the textile industry. The textile industry is one of the biggest industry of Pakistan and stands among those five industries whose products were exempted for sales tax.

The self-regulatory organization (SRO) announced this exemption through SRO 509 in 2007. But recently in 2011 a new SRO 231 has been dispensed, claiming to have made changes in the

previous one. This SRO imposed a sales tax of 4% on the finished fabric if it was sold to wholesale market.

The government of Pakistan does not have the necessary funds to provide it to the owners of the textile sector along with that they are coming up with policies unfriendly for the textile industry, such as reinforcement of 0.5% tax on local sales, 1% tax on imported articles etc. As a result, the entry and exit barriers are high.

Other reasons include high inflation rates as mentioned above in the economic issues they result in a decrease in demand. Pakistan's industry is becoming un-competitive with respect to the competing countries as the prices increase on regular basis without any justification. These increase in electricity prices are increasing the production cost. As in the absence of electricity i.e. load shedding workers make use of other energy resources such as generators and UPS, this increases their production cost. As a result, the proficiency of competitiveness in international market is badly affected.

4.2.2 - Threat of Competition

In terms of competition, competition takes place at two levels the local level and the international level. The intensity of competition in the local market is quiet low. The local market of textile industry comprises of a numerous number of manufacturers of apparels and have different growth rates. The growth rate is high to some extent in different product segments whereas the high rates due to inflation, in exports indicates that the competition locally is low. It is not only because of high growth rate, but the industry requires huge investment and because of regulating and fluctuating business policies and energy crisis the investment is not possible and legal environment is not favor of the industry.

On the other hand, internationally speaking Pakistan is lagging far behind from its competing countries especially from its neighboring countries China and India. The quality of production and capacity are both going towards a downfall. China is competing with Pakistan in the international market of exports but has also joined hands with Pakistan as can be seen from the China-Pak economic corridor connecting Gwadar port, this will help in boosting the economy of both the countries. The intensity of competition is high for the textile industry.

4.2.3 - Threat of Substitutes

Textile is a broad term, basically it consists of fine threads of fiber and cotton which are spin and weaved to form clothing articles. Such as scarfs, shawls, shirts etc. Looking for substitutes in terms of textile is possible in terms of the material used, in terms of its quality, the type of product etc.

Other variations can be defined in terms of the trending fashion. As a result, the threat of substitute in the textile industry is low whether in local market or in international market. The apparels are exported from Pakistan to USA and due to some reasons USA did cut off 50% of textile trade from Pakistan and they made a shift towards China and India, but this shift cannot be termed as substitution.

4.2.4 - The Bargaining Power of Customers

The bargaining power of customers is high. As can be seen from high interest rates, inflation rates, energy crisis, unstable economy Pakistan is losing demand. The textile industry makes use of chemicals like chromium, Zinc, iron, mercury and lead, these are the immediate chemicals according to the standards of world health organization (WHO). The fortune of these elements differs, ranging from 100% preservation on the textile to 100% ejection with the waste. These elements are mostly non-degradable. And because of these elements pollution is at its peak. And Pakistan is facing problems in maintain high quality products.

Pakistan's textile goods and articles were imported to other countries by USA and EU but not now, USA had cut off the imports of Pakistani goods by 50% and made a shift towards India and China.

4.2.5 - Bargaining Power of Suppliers

Pakistan has a well-established textile industry. And the industry comprises of many manufacturers of apparels. The increase in demand was because of the increasing youth as the population of Pakistan is more than 180 million and 63% of them are below an age limit of 25. As the demand increased the supply increased automatically, it happened mainly due to the occurring changes in the social and economic structure of the countries globally.

Because of the varying trends of WHO the bargaining power of suppliers is low. Increase in production gave birth to an increase in suppliers and due to a huge number of suppliers the bargaining position becomes weak.

4.3 - Diamond model

The world has become more competitive. This situation has become more complex by the gradual elimination of quotas. We will apply diamond model on the textile sector of Pakistan, to check whether the industry is competitive from global perspective. We will discuss each factor:

4.3.1 - Factor conditions

These are of two types:

Basic factor endowment: Pakistan is basically an agrarian country. We are the 4th biggest manufacture of cotton. The total area on which cotton is cultivated is fifteen percent of the total arable land of the country. It is cultivated by 1.6 million farmers and is 11% of total GDP. Most of production is covered by provinces of Punjab and Sindh. The climate of Pakistan is suitable for the growth of cotton. Basically, it is warm climate crop and it require dry tropical temperature. The temperature has to be in between of 5°C and 25°C. The requirement for rainfall are 30 to 40 inches for cotton growth. The average rainfall in the plain areas of Punjab and Sindh is around about 20 inches. Besides, there is proper water irrigation system. With 20 inches of average rainfall and proper irrigation system, cotton crop can be easily grown especially in the plain areas of Punjab and Sindh. When it comes to fertility of soil, our land is suitable for cotton growth. The sandy soil is more suitable for its growth according to researchers and our soil is basically mixture of both clay and sand. There is no need to import labor. Labor is available in abundant. We have labor force of 60.36 million and we rank at 10 number. The per capita for value added manufacturing in Pakistan is very low. Even we rank below Sri Lanka.

Advance factor endowment: The organized sector has as such no issue for capital and there are investing heavily on expansion. We have no competitive advantage is modern and reliable infrastructure. It is hampering the growth of this sector. According to president of All Pakistan Textile Mills Association (APTMA) lack of proper infrastructure increases time span for the completion of orders. Round about 20 billion of capital is required for improving the infrastructure. There are no standard laboratories to ensure quality.

4.3.2 - Demand conditions

Cloth is the basic necessity for our lives and people in Pakistan like to spend on clothes. We can see that there is upward trend of readymade garments with the introduction of brands. Despite increase in the prices, the demand for last year has increased to more than 50%, according to

Pakistan bureau of Statistics. Many composite sector have their own brands, Gul Ahmed has Ideas, Chen One belong to Chenab industries and similarly we have Nishat linen and many others. Many industries are planning to open their brands because of huge local demand. Previous year trend shows that local sales increased more than export sales for all companies listed in Karachi stock exchange. According to ICC data, China, India, Pakistan and United State as a whole have accounted for 55% of global consumption. We are the 4th largest producer and third largest consumer of cotton. We are at 8th number in textile exports. There is no doubt that there is huge demand but still we see that the installed capacity of looms in weaving sector have kept decreasing from 30000 (1971/1972) to 7000 (2012/2013) while in the same period India and Bangladesh increased their capacity for round about 30000. Most of organized sector has opted for spinning sector. The cloth in Pakistan in produced mainly by non-mill sector. Due to low technology, it is of low quality. The United States and EU are the biggest importer of textiles, followed by china which needs fabric for garment sector.

%age export of textile		
Country	**% of Pakistan exports**	**% of country textile exports**
USA	24.1%	2.98%
China	12.4%	-
UK	7.7%	3.03%
Germany	6.5%	1.6%

Table 4.3: %age export of textiles

We lack behind in fetching the right price in international market. We need to exploit the value added sector. If Pakistan is able to achieve same value addition as compare to China, our exports will cross $50 billion.

4.3.3 - Related and supporting industries

For quality development in fabrics technology upgrade is required. Most of the technology has to be imported, there are no industries that manufacture such machines on a large scale. The Current road and rail network is inadequate and is poorly managed. The condition of Pakistan railway is not hidden from anyone. Infrastructure has been lacking also in power, gas and water supplies. The skills are rare. The port charges are high which add costs and hence lower the

competitiveness. The textile dyes industry is not properly developed. Besides, the demand of fertilizers is more than the production of fertilizer. While the textiles have grown to be the single largest manufacturing sector of Pakistan, support industries like textile machinery manufacturing, chemicals and textile dyes and accessory industry have not developed proportionately. There is as such no quality control measurements by government due to which our quality is getting lower day by day and there is a big question mark regarding the acceptance of low quality products globally. The yarn is the main input for weaving sector but there is always shortage of it. In order to ensure the adequate supply of yarn, we need to have sufficient reserves for cotton. Most of unorganized sector faces problems regarding the availability of capital or because there is high cost of burrowing.

4.3.4 - Firm strategy, structure and rivalry

As a result of tough competition with countries like China, Bangladesh, Turkey and India in the global markets, the environment of textile and clothing sector in Pakistan has become more competitive. The strategies made by Pakistan are not according to circumstance, we can say that they are more unrealistic. Just like in textile policy 2009-2014, the exports were shown to increase up to 25 billion by 2014 but we are just standing at 12 billion right now. No strategy has been made to make our cotton quality better. While on the other hand our competitors are investing huge amount in this area. It is unfortunate that there is no proper cotton crop insurance system available in Pakistan. On the other hand, government does not provide any support or subsidy to cotton growers for inputs. The overall outcome is lack of motivation in cotton growers. There are unforeseen factors like inflation, high price of energy, high price of fertilizers, imbalanced competition and speculation in open market by big cotton buyers that the farmers are faced by. We have no clear strategy where to see ourselves in near future. One of the biggest limitation for our industry is low productivity level. We are not efficient and this thing affect our competitiveness. The weaving and composite sector is mainly unorganized and they have no such unions that can represent their issues in the government. For past few years, we have seen that thee clothing industries invest very low for the up gradation of technology. We need to develop supply chain with the intention to minimize our costs. But we see that we lack behind in this regard and as such tone one is paying attention towards this problem. An. Due to improper management we our losing our competitive advantage as a result direct foreign investment is

also reducing in this sector. During 2000-2012 Pakistan only attracted $367 million direct foreign investment while on the other hand India got $1.162 billion and Bangladesh got $1 billion. In order to get most out of weaving and composite sectors, government need to focus towards growing these sectors aggressively. The strategies should be formulated according to current scenario. There is need of structural change within the industry. Beside government should ensure that resources are available like electricity. Better productivity and quality is only possible when the labor is trained properly. Training institution should be developed specially for this sector. In short, we need to develop a focused policy that can bring our industry in par with our competitors.

Chapter # 5

Financial Analysis

Pakistan's Textile industry is one of the largest industry of the economy. The industry has seen many ups and down over past 69 years and can act as a road map for many new businesses in the country. Textile industry of Pakistan is sub divided to many other divisions that operates in their own way to produce a specific product. The textile industry of Pakistan is divided into six further divisions.

1. Ginning
2. Spinning
3. Weaving
4. Processing
5. Printing
6. Garment Manufacturing

Our textile industry in very vast and analyzing each and every single division in the industry is not part of our scope as well as our client requirement. Our Client Evolving Logix (China Based Company) had a predetermined mindset that they want to invest in the Textile industry business, but keeping in view the competition level the company decided that if they for any investment, it will be limited to the weaving or composite sector of the industry.

Keeping in view the interest of our client the requirement of our financial analysis part is therefore narrowed down to just two divisions of the industry. As of June 30, 2016 there were 13 & 6 companies in composite and weaving sector respectively. We for the purpose of this project have taken a sample of few companies that we will be analyzing in the coming chapters. We have selected 6 and 5 companies from composite and weaving sector and will be analyzing these companies in the coming chapters. The companies in composite sector includes: Nishat Chunnian, Nishat Mills, Kohinoor Mills, Blessed Textiles, Mahmood Textile and Gul Ahmed Textile. Companies in weaving sector includes: Yousaf Textile, Shahtaj Textile, Zephyre Textile, Ashfaq Textile and Feroze Textile limited. We will be starting off the financial analysis on the basis of financial ratios and finally we will be analysis stock returns of the company against the stock exchange. For the current part let's look into the ratio analysis of the companies that we are analyzing in our project.

5.1 - Ratio Analysis

Over the past many year's Financial ratios have been one of the key performance measures of any company or industry. But over the years the trend has been changing, with the availability of some new methodologies, Financial ratios are now considered to be only 30% of the whole financial analysis. We are also doing Ratio analysis as one of the analysis technique in or project. For the purpose of our project, below is the ratio analysis of both composite and weaving sector of textile industry.

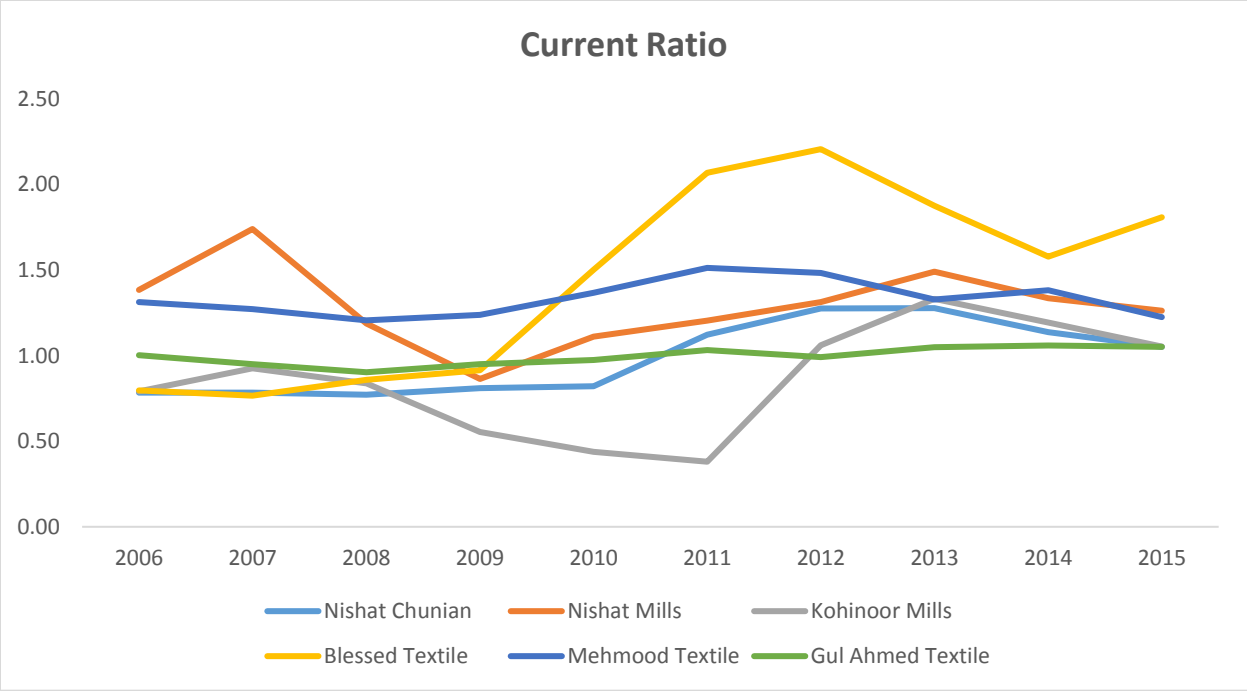
5.1.1 - Composite Sector

5.1.1.1 - Current Ratio

Current Ratio is a part of liquidity ratio measures and it takes into account Company's ability to pay off its short term liabilities using its current assets. Current Ratio can be used as a rough estimation of how much liquid the company is. The current ratio is a measurement indicator for investors who want to invest in a company for a shorter period of time. The higher current ratio gives a good insight of the company about its short term obligations that it can pay using its current assets.

Current ratio=Current Assets / Current Liabilities											
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average
Nishat Chunian	0.78	0.78	0.77	0.81	0.82	1.12	1.28	1.28	1.14	1.05	1.05
Nishat Mills	1.38	1.74	1.19	0.86	1.11	1.20	1.31	1.49	1.34	1.26	1.26
Kohinoor Mills	0.79	0.93	0.84	0.55	0.44	0.38	1.06	1.33	1.19	1.05	1.05
Blessed Textile	0.80	0.77	0.86	0.91	1.50	2.07	2.21	1.88	1.58	1.81	1.81
Mehmood Textile	1.31	1.27	1.21	1.24	1.37	1.51	1.48	1.33	1.38	1.22	1.22
Gul Ahmed Textile	1.00	0.95	0.90	0.95	0.97	1.03	0.99	1.05	1.06	1.05	1.05

Table 5.1 (Source: Author's work)



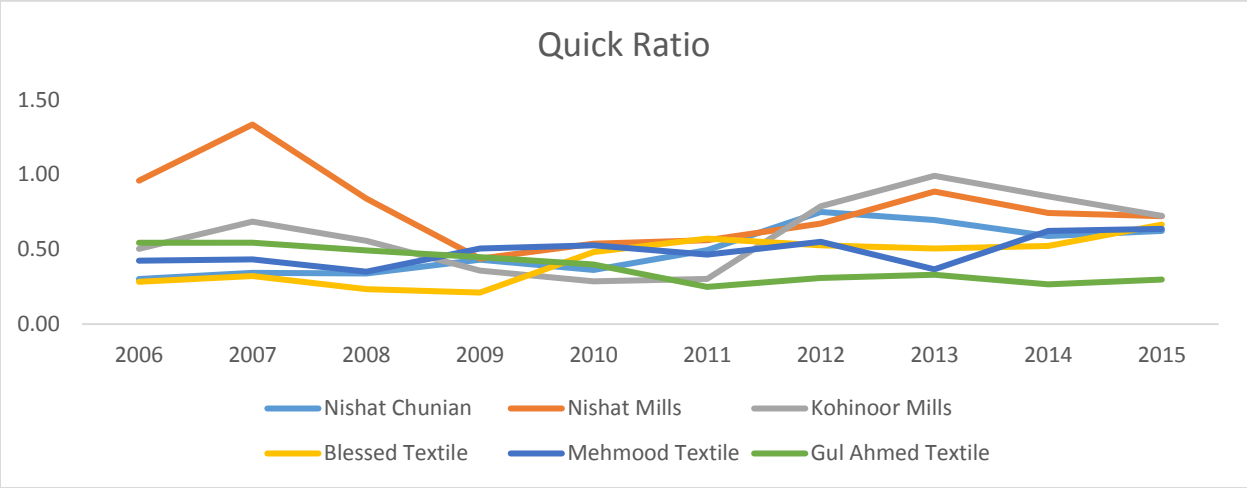
The above graph and table clearly shows that over the past 10 years Blessed Textile has the highest current ratio with an average value of 1.44. This suggests that using the current assets of the company Blessed Textile mill can pay of its liabilities 1.44 times. Followed by Blessed Textile are Mahmood Textile and Nishat mills with the value of 1.33 and 1.29 respectively. Kohinoor Mills has been one of the worst performers when it comes to the current ratio, as company has the lowest current ratio over last 10 years with the average value of 0.86. This means that company cannot pay its full short term obligations using its current assets if the need arises.

5.1.1.2 - Quick Ratio

Quick Ratio also known as acid test ratio is the measurement to check company's ability to pay of its short term obligations using most liquid assets. By most liquid assets we mean current assets minus the inventory or stock in hand. This ratio shows that how much a company can pay if the short term obligation come due and company has to pay them using its most liquid assets. Higher the ratio the better is the impression that company is following just in time inventory system and is not holding much of a stock in the inventory section.

Quick ratio=Current Assets- stock / Current Liabilities											
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average
Nishat Chunian	0.30	0.34	0.34	0.43	0.36	0.49	0.75	0.70	0.59	0.62	0.62
Nishat Mills	0.96	1.33	0.84	0.44	0.54	0.56	0.67	0.89	0.74	0.72	0.72
Kohinoor Mills	0.50	0.68	0.56	0.36	0.29	0.30	0.79	0.99	0.85	0.72	0.72
Blessed Textile	0.28	0.32	0.23	0.21	0.48	0.57	0.53	0.50	0.52	0.67	0.67
Mehmood Textile	0.42	0.43	0.35	0.51	0.53	0.46	0.55	0.37	0.62	0.64	0.64
Gul Ahmed Textile	0.54	0.54	0.49	0.45	0.40	0.25	0.31	0.33	0.27	0.30	0.30

Table 5.2 (Source: Author's work)



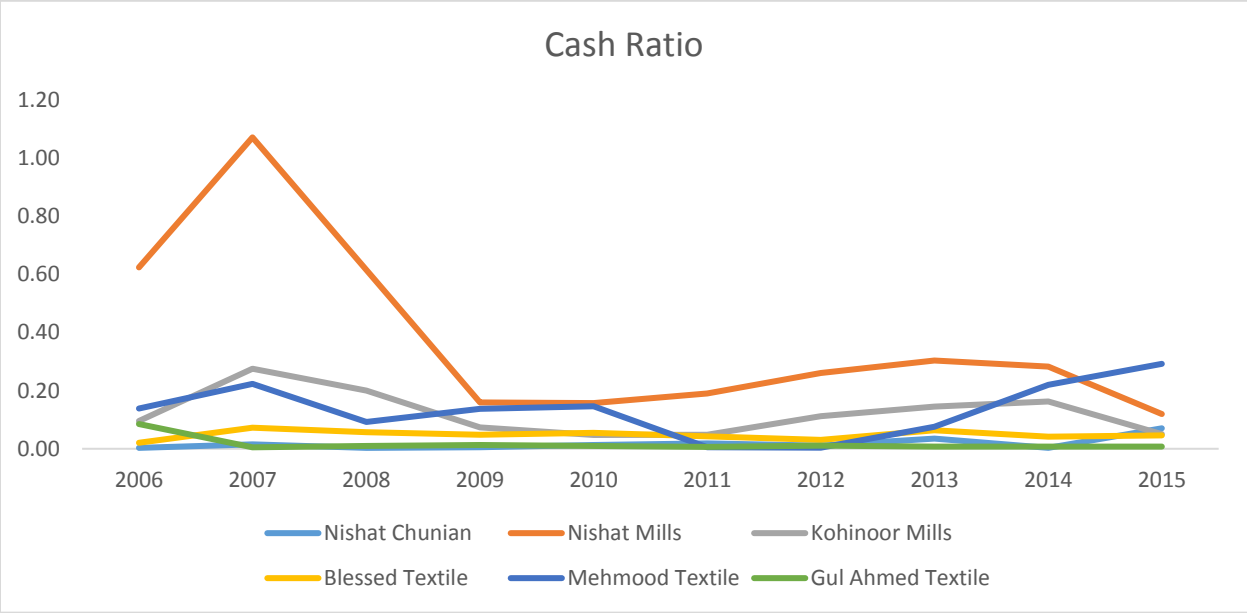
Keeping in view the concept, our analysis showed that over the past 10 years Nishat Mills have the highest quick ratio value followed by Kohinoor, Nishat Chunian and Mahmood Textile with the value of 0.77, 0.60, 0.49 & 0.49 respectively. Hence in order for companies to have better quick ratio they should try to keep as less inventory as possible because inventory is converter into cash very slowly hence lesser inventory would be a better option for companies.

5.1.1.3 - Cash Ratio

Cash ratio is one of the liquidity measurement ratio that is very less used for the financial analysis. This ratio however refines the result of Current and quick ratio. The ratio actually checks company's ability to pay off the liabilities using the cash and cash equivalent portion. This ratio enables company to see how much part of liability, company can pay using its cash.

Cash ratio=Cash and cash equivalents / Current Liabilities											
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average
Nishat Chunian	0.00	0.01	0.00	0.01	0.01	0.02	0.01	0.04	0.00	0.07	0.07
Nishat Mills	0.62	1.07	0.61	0.16	0.16	0.19	0.26	0.30	0.28	0.12	0.12
Kohinoor Mills	0.10	0.28	0.20	0.07	0.05	0.05	0.11	0.14	0.16	0.05	0.05
Blessed Textile	0.02	0.07	0.06	0.05	0.05	0.04	0.03	0.06	0.04	0.05	0.05
Mehmood Textile	0.14	0.22	0.09	0.14	0.15	0.00	0.00	0.08	0.22	0.29	0.29
Gul Ahmed Textile	0.09	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01

Table 5.3 (Source: Author's work)



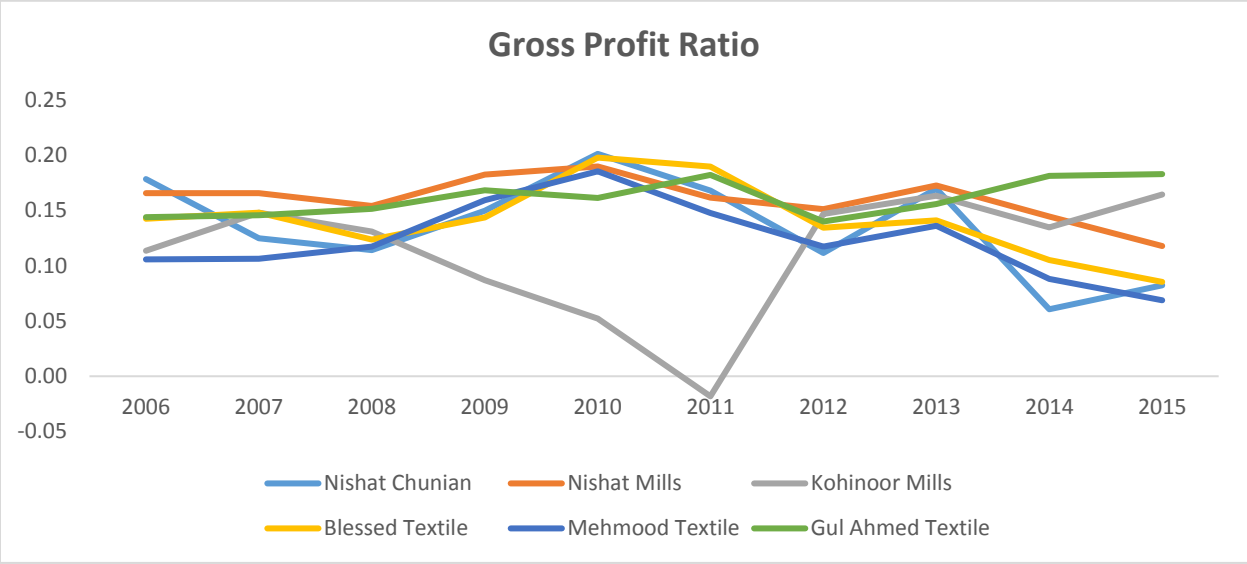
According to the results of cash ratio Nishat Mills has the highest cash reserves to pay off its current liabilities, the reason would be the highest average cash ratio for the firm over past 10 years at 0.38. Following Nishat is Mahmood Textile and Kohinoor Mills with the ratio of 0.13 and 0.12 respectively.

5.1.1.4 - Gross Profit Ratio

Gross profit margin ratio is one of the profitability ratio that enables company to see that how much gross profit the company is making after deducting the cost of goods sold expenses from their income statement. The company gross profit is the percentage of revenue after the deduction of COGS. Higher the Gross profit, higher will be the chances that the company may earn a higher net profit too.

Gross Profit Ratio=Gross Profit / Sales											
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average
Nishat Chunian	0.18	0.12	0.11	0.15	0.20	0.17	0.11	0.17	0.06	0.08	0.08
Nishat Mills	0.17	0.17	0.15	0.18	0.19	0.16	0.15	0.17	0.14	0.12	0.12
Kohinoor Mills	0.11	0.15	0.13	0.09	0.05	-0.02	0.15	0.16	0.13	0.16	0.16
Blessed Textile	0.14	0.15	0.12	0.14	0.20	0.19	0.13	0.14	0.10	0.09	0.09
Mehmood Textile	0.11	0.11	0.12	0.16	0.19	0.15	0.12	0.14	0.09	0.07	0.07
Gul Ahmed Textile	0.14	0.15	0.15	0.17	0.16	0.18	0.14	0.16	0.18	0.18	0.18

Table 5.4 (Source: Author's work)



After conducting this ratio analysis, we have come to the conclusion that Nishat Mills and Gul Ahmed textile both have a highest gross margin ratio over the last 10 years with the ratio of 0.16 each. Following them is Blessed Textile and Nishat Chunian with a ratio of 0.14 each. This clearly shows that the race between the six competitors among this ratio is very close and any competitor who can lessen their COGS can gain an edge over other competitors in the coming years.

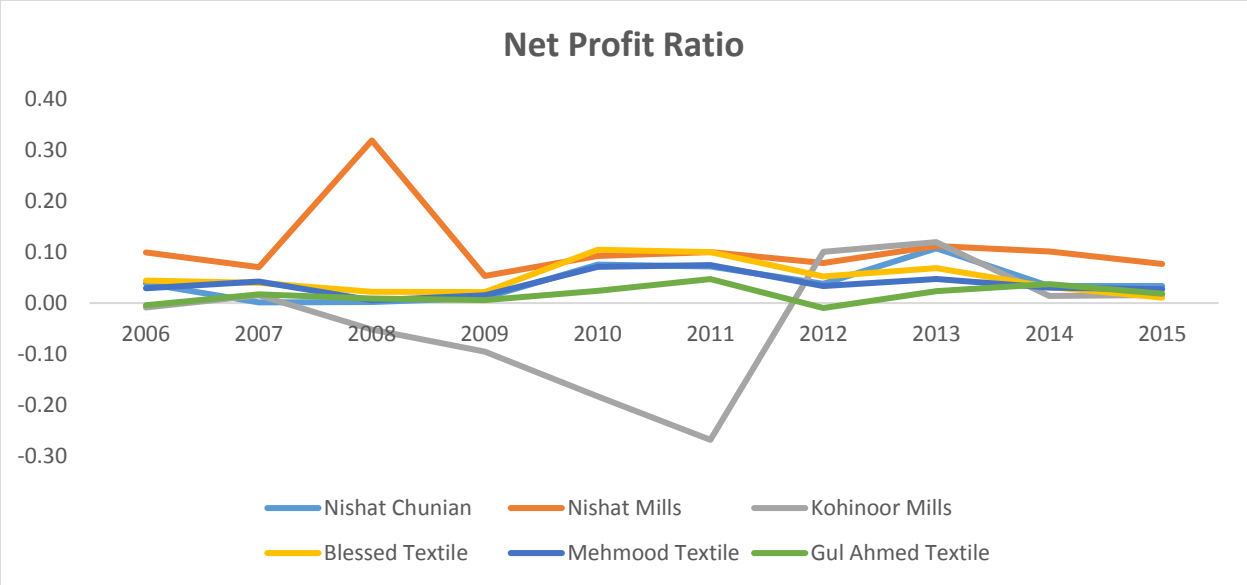
5.1.1.5 - Net Profit Ratio

Net profit margin ratio refers to the net profit as a percentage of total revenue. This ratio helps investors to learn about the profitability of the company. The ratio is the division of result of deduction of all the expenses from the revenues and the net revenue. Higher the ratio higher is

the free income for the stakeholders for dividend. Investors look into this ratio as one of the selection point to whether invest in the company or not.

Net Profit Ratio=Net profit / Sales											
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average
Nishat Chunian	0.04	0.00	0.00	0.01	0.08	0.07	0.04	0.11	0.03	0.03	0.03
Nishat Mills	0.10	0.07	0.32	0.05	0.09	0.10	0.08	0.11	0.10	0.08	0.08
Kohinoor Mills	-0.01	0.02	-0.05	-0.10	-0.18	-0.27	0.10	0.12	0.01	0.02	0.02
Blessed Textile	0.04	0.04	0.02	0.02	0.10	0.10	0.05	0.07	0.03	0.01	0.01
Mehmood Textile	0.03	0.04	0.01	0.02	0.07	0.07	0.03	0.05	0.03	0.03	0.03
Gul Ahmed Textile	0.00	0.02	0.01	0.01	0.02	0.05	-0.01	0.02	0.04	0.02	0.02

Table 5.5 (Source: Author's work)



After going through the net profit ratio we can clearly see that among all the sample companies Kohinoor is the lowest performer, as over the years' company on an average is having a loss with the ratio of -0.03. On the other hand, Nishat Mills is the most successful company in this sample as they are the most profitable company followed by blessed textile with a ratio of 0.11 and 0.5 respectively.

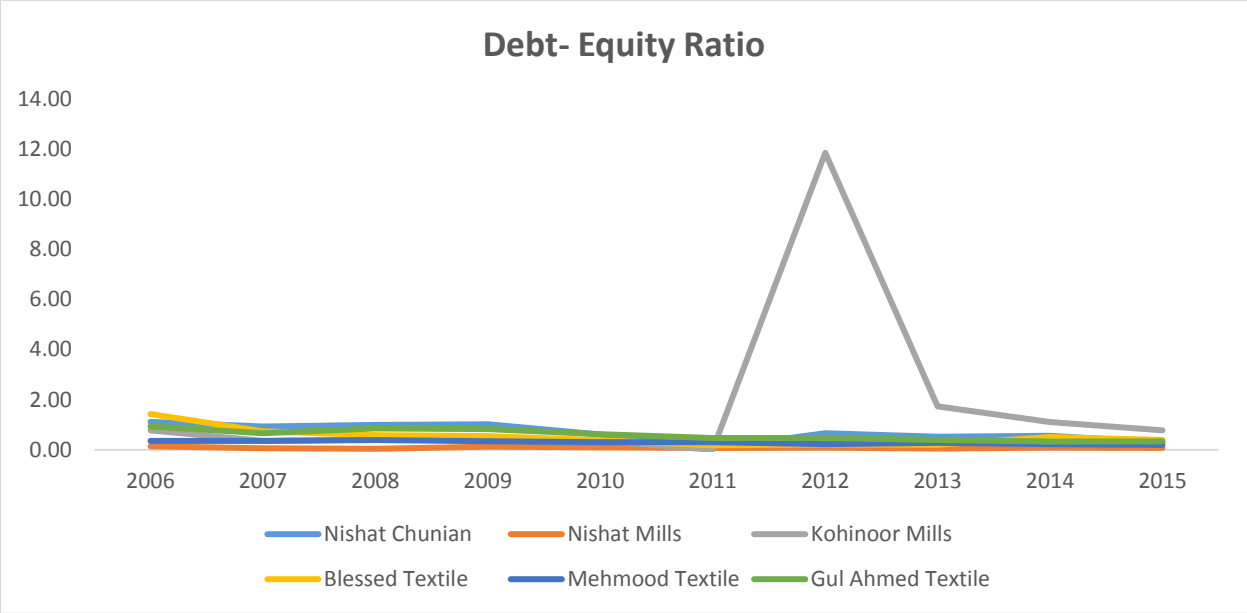
5.1.1.6 - Debt to Equity Ratio

The debt to equity ratio is a snapshot of how much debt the company is using in comparison to its equity. Higher ratio indicates that company is using a higher debt percentage in comparison to its equity. This can result in bankruptcy for the company if it is not able to pay off its debt

obligations on time. Higher debt to equity ratio also increases the cost of capital if any additional capital is needed in future.

Debt - Equity Ratio											
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average
Nishat Chunian	1.11	0.93	0.99	1.03	0.61	0.06	0.66	0.52	0.56	0.29	0.29
Nishat Mills	0.14	0.06	0.04	0.12	0.09	0.08	0.09	0.05	0.09	0.07	0.07
Kohinoor Mills	0.77	0.35	0.40	0.49	0.37	0.00	11.85	1.73	1.11	0.77	0.77
Blessed Textile	1.43	0.74	0.59	0.55	0.39	0.18	0.22	0.20	0.50	0.40	0.40
Mehmood Textile	0.35	0.35	0.39	0.35	0.31	0.30	0.23	0.28	0.23	0.20	0.20
Gul Ahmed Textile	0.93	0.67	0.85	0.82	0.62	0.47	0.47	0.40	0.34	0.34	0.34

Table 5.6 (Source: Author's work)



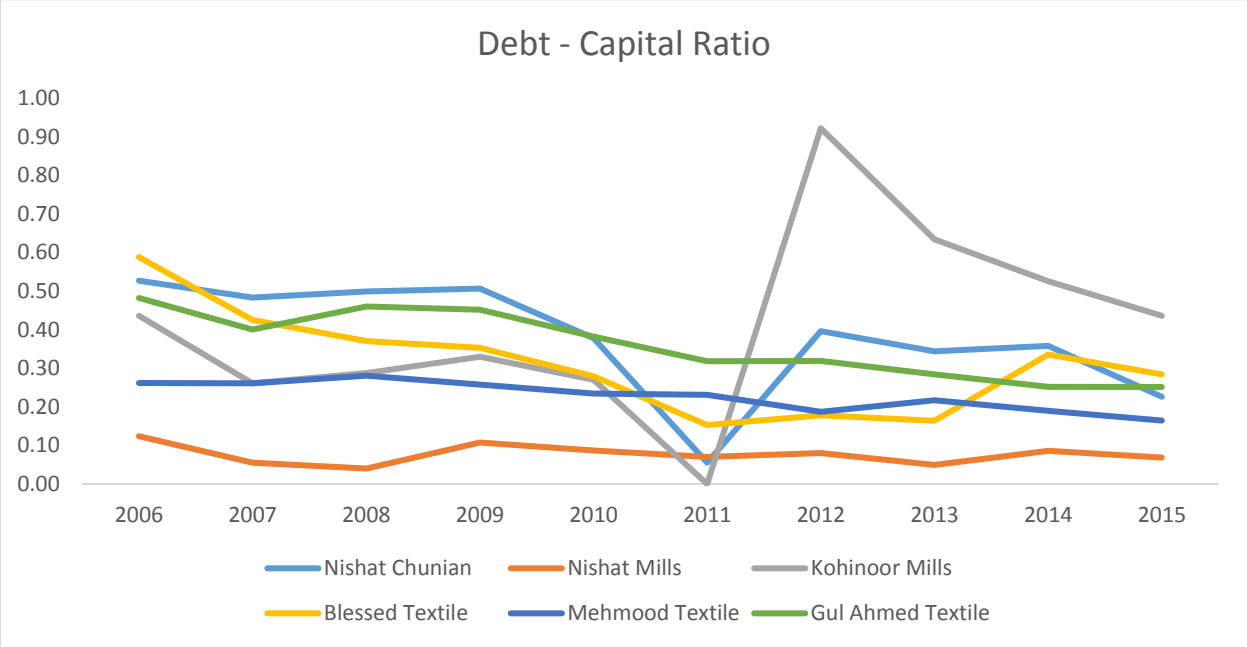
After our analysis it can clearly be seen that Kohinoor textile mills is using a handsome amount of debt over its equity. Over the past ten years on average Kohinoor textile has 1.79 times debt over its equity that makes its risky to get more debt in future at a lower rate. On the other hand, following is Nishat Chunian with the second highest debt level in comparison to the equity at 0.68. the lower the debt to equity ratio it makes it easier for the company to get more credit in future as investors can see that they can return the debt in time as they have less obligations already.

5.1.1.7 - Debt to Capital Ratio

Debt to capital ratio is a key ratio that creditors keep into account while accessing company's performance. Higher debt to capital ratio gives a bad impression to the creditors as it makes difficult for them to give more loans in future and if they do, it will be at a higher required rate of return. Companies in this case should try their maximum to have this ratio as low as possible, because only then it can help company to get more capital in future.

Debt - Capital Ratio											
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average
Nishat Chunian	0.53	0.48	0.50	0.51	0.38	0.06	0.40	0.34	0.36	0.23	0.23
Nishat Mills	0.12	0.06	0.04	0.11	0.09	0.07	0.08	0.05	0.09	0.07	0.07
Kohinoor Mills	0.44	0.26	0.29	0.33	0.27	0.00	0.92	0.63	0.53	0.44	0.44
Blessed Textile	0.59	0.42	0.37	0.35	0.28	0.15	0.18	0.16	0.34	0.28	0.28
Mehmood Textile	0.26	0.26	0.28	0.26	0.23	0.23	0.19	0.22	0.19	0.16	0.16
Gul Ahmed Textile	0.48	0.40	0.46	0.45	0.38	0.32	0.32	0.28	0.25	0.25	0.25

Table 5.7 (Source: Author's work)



The result of this ratio is more or less similar to the result of Debt to equity ratio. Similar to Debt to Equity ratio Kohinoor Textile has the highest debt portion on its capital structure over the past 10 years. On average the company has 41% debt in its capital structure, highest among the other related companies. This makes Kohinoor less acceptable for more than as compare to its other rivals. Following Kohinoor is Nishat Chunian with a debt to capital ratio of 0.38. Among all Nishat

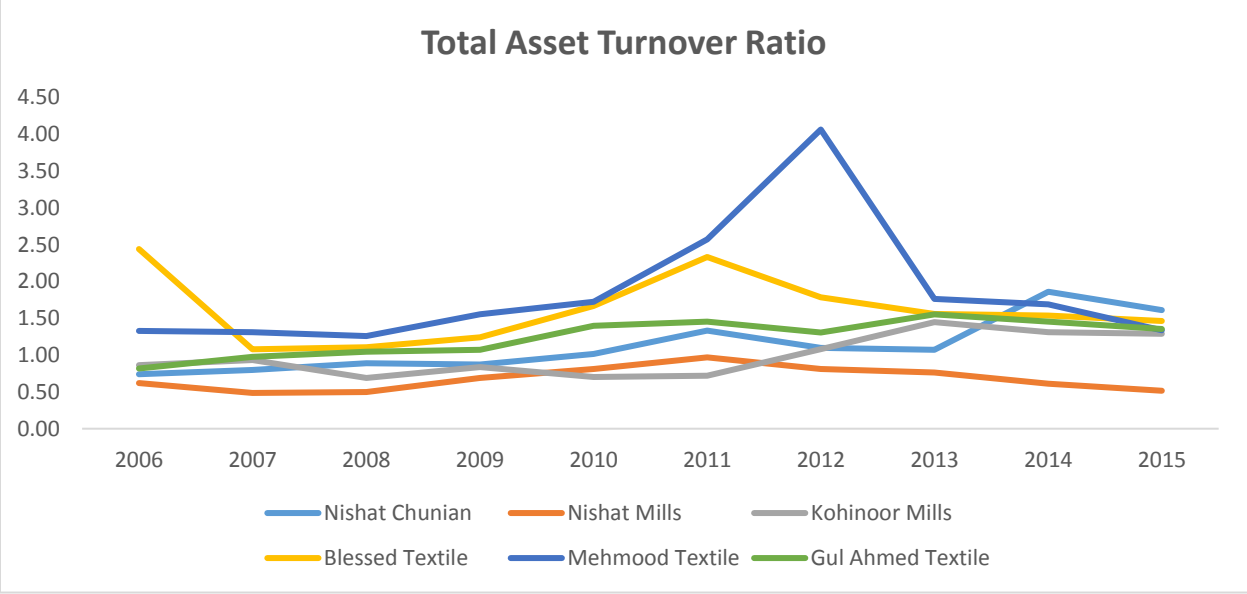
Mills has the lowest debt to capital ratio of 0.08, this enables the management of Nishat Mills to take more debt in future at a reasonable lesser rate for the creditors if needed.

5.1.1.8 - Total Asset Turnover Ratio

Total Asset turnover ratio is one of the asset management ratio that enables the investors to see how efficiently management is using its total assets to generate revenues for the firm. Ratio near to one or more is considered to be a great result of asset utilization. Companies who are able to achieve such good ratios are always considered as good companies to invest in and people trust its earnings that can ultimately result in higher dividend for shareholders.

Total Asset T.O. Ratio=Sales / Avg. Total Assets											
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average
Nishat Chunian	0.74	0.80	0.89	0.87	1.01	1.33	1.10	1.07	1.86	1.61	1.61
Nishat Mills	0.62	0.49	0.50	0.69	0.81	0.97	0.81	0.76	0.61	0.52	0.52
Kohinoor Mills	0.86	0.93	0.69	0.84	0.70	0.72	1.08	1.45	1.31	1.29	1.29
Blessed Textile	2.44	1.08	1.11	1.24	1.67	2.33	1.79	1.56	1.53	1.46	1.46
Mehmood Textile	1.33	1.31	1.26	1.55	1.72	2.57	4.06	1.76	1.69	1.34	1.34
Gul Ahmed Textile	0.82	0.97	1.05	1.07	1.40	1.45	1.31	1.55	1.45	1.36	1.36

Table 5.8 (Source: Author's work)



After conducting a ratio analysis of this ratio we have come to the conclusion that Mahmood Textiles over the past 10 years' have been the leading company in this regard with a ratio of 1.86.

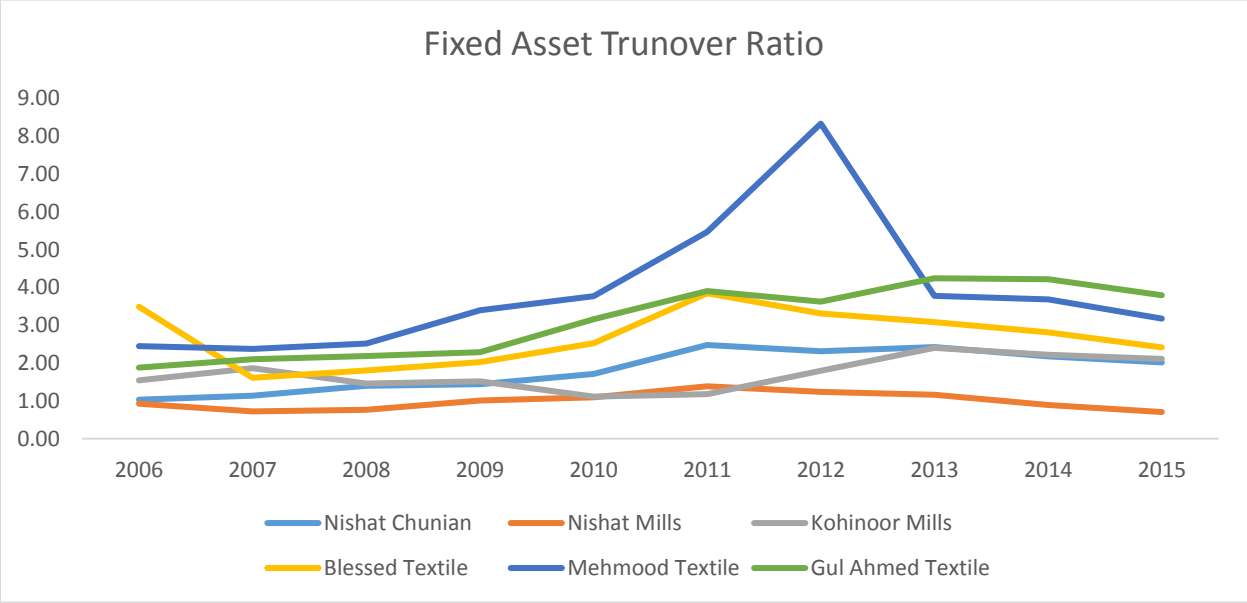
Following Mahmood Textile is Blessed Textile with a ratio of 1.62. The company with the lowest Total Asset Turnover Ratio is Nishat Mills with a ratio of 0.68, this implies that on average over the last 10 years Nishat Mill was only being able to generate 68% revenue using all its assets.

5.1.1.9 - Fixed Asset Turnover Ratio

Fixed assets of the company are the assets that company utilizes to earn revenues. This includes the efficient utilization of machinery, land and other related equipment in a way that results in maximum revenue for the firm. Companies should employ such equipment that is efficient in terms of utility utilization and is cheaper to the frim against per unit produced. Higher Fixed Asset Turnover Ratio depicts that the firm has the best available fixed assets under its umbrella and they are also using them to the best of their abilities and in efficient manner.

Fixed Asset T.O. Ratio=Sales / Avg. Fixed Assets											
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average
Nishat Chunian	1.03	1.14	1.40	1.44	1.71	2.48	2.31	2.43	2.18	2.02	2.02
Nishat Mills	0.92	0.72	0.77	1.01	1.09	1.39	1.24	1.16	0.89	0.70	0.70
Kohinoor Mills	1.54	1.87	1.46	1.52	1.11	1.18	1.80	2.40	2.22	2.11	2.11
Blessed Textile	3.49	1.61	1.81	2.03	2.52	3.85	3.31	3.08	2.81	2.41	2.41
Mehmood Textile	2.45	2.37	2.52	3.40	3.77	5.47	8.34	3.78	3.68	3.18	3.18
Gul Ahmed Textile	1.88	2.10	2.18	2.29	3.16	3.90	3.62	4.24	4.22	3.79	3.79

Table 5.9 (Source: Author's work)



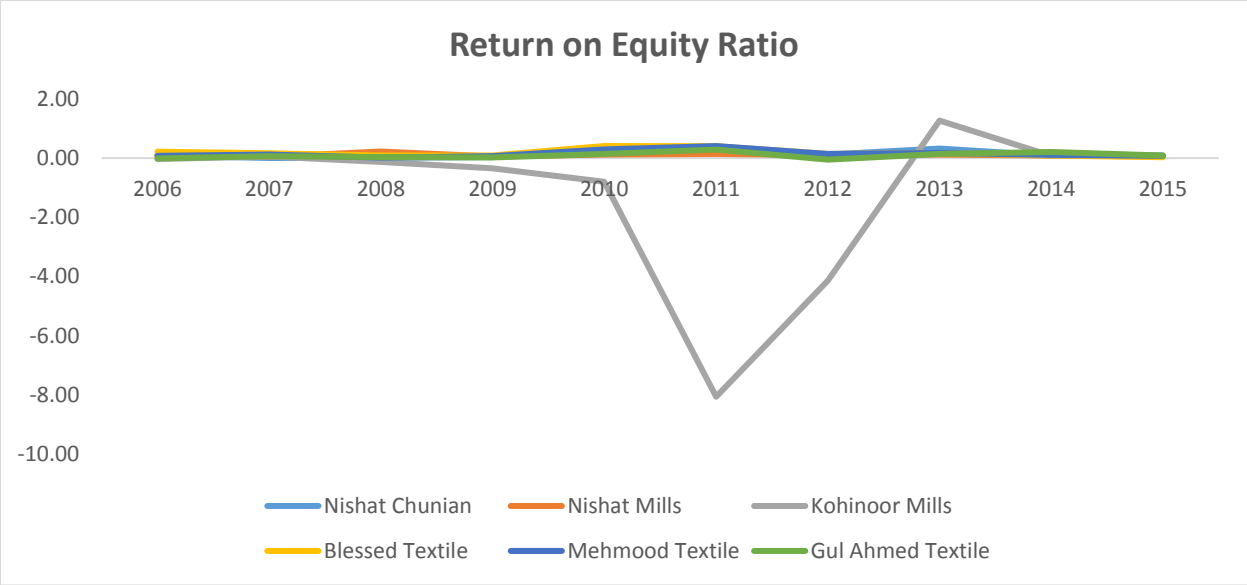
The results of this ratio is very similar to that of Total Assets turnover ratio, where Mahmood textile was leading. In This scenario it is achieving a ratio of 3.89. This implies that Mahmood Textile is being able to generate 3.89 times revenue by utilizing its fixed assets. Following Mahmood Textile is Gul Ahmed who are able to generate 3.14 times revenue using its fixed assets. Lowest performer in this ratio is Nishat mills who in comparison to its rivals has only been able to generate 0.99 times revenue from its fixed assets.

5.1.1.10 - Return on Equity Ratio

Shareholders are the real owners of the company and they assume the highest risk in the company. Thus ordinary shareholders are more interested in the profitability of a company and the performance of a company should be judged on the basis of return on equity capital of the company. Kohinoor Mills with negative ROE showed that company is not able to give some return back to shareholders for their investments. While other companies are good in ROE with the range of 0.09-0.15. In 2015, Kohinoor started improving while other's ROE started declining.

Return on Equity=Net Profit / Avg total Equity											
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	Average
Nishat Chunian	0.09	0.00	0.01	0.04	0.26	0.29	0.12	0.32	0.09	0.09	0.09
Nishat Mills	0.10	0.05	0.22	0.06	0.11	0.15	0.10	0.12	0.09	0.05	0.05
Kohinoor Mills	-0.03	0.05	-0.13	-0.35	-0.79	-8.06	-4.14	1.27	0.07	0.07	0.07
Blessed Textile	0.22	0.16	0.09	0.09	0.41	0.40	0.15	0.18	0.09	0.03	0.03
Mehmood Textile	0.08	0.12	0.02	0.06	0.29	0.41	0.14	0.17	0.11	0.08	0.08
Gul Ahmed Textile	-0.02	0.07	0.04	0.03	0.14	0.29	-0.05	0.14	0.20	0.09	0.09

Table 5.10 (Source: Author's work)



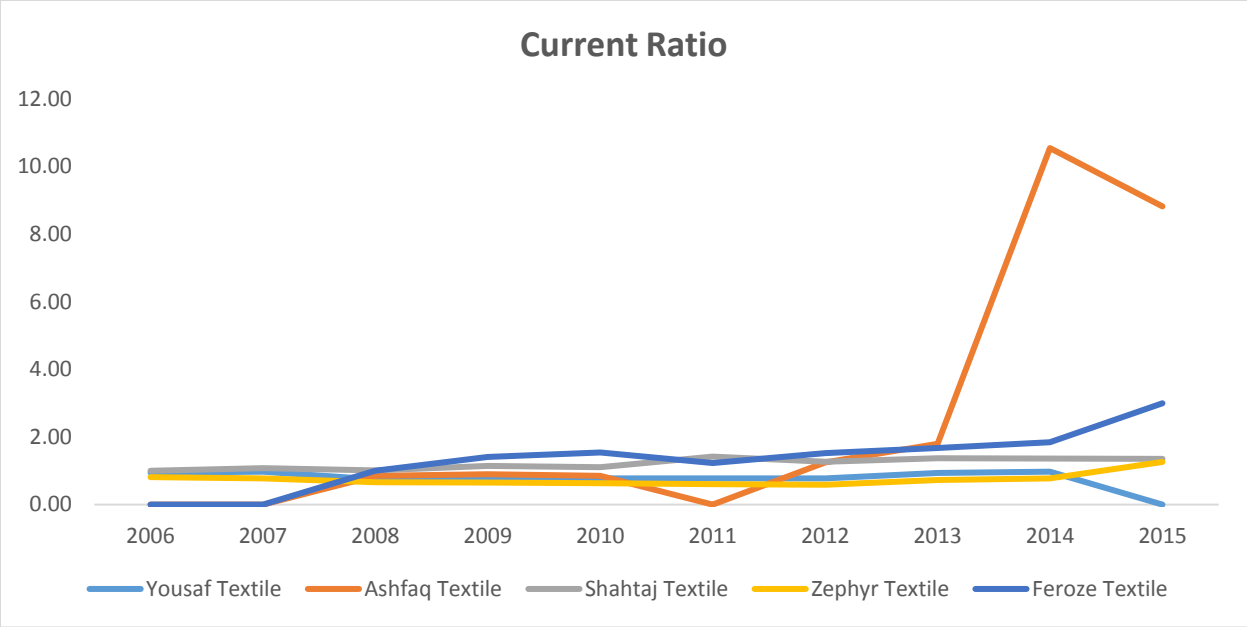
5.1.2 - Weaving Sector

5.1.2.1 - Current ratio

Yousaf textile and Zephyr textile did not perform exceptionally well with respect to its short-term solvency management; the current ratio for both, being 0.75 and 0.77 respectively on average, while other players like Ashfaq textile, Shahtaj Textile and Feroze textile had average current ratio of 2.50, 1.21 and 1.32 respectively. This change in the current ratio came about due to an increase in the company's total current assets rather than change in its total current liabilities.

Current ratio=Current Assets / Current Liabilities										
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Yousaf Textile	0.95	0.97	0.75	0.79	0.78	0.77	0.78	0.93	0.97	0.00
Ashfaq Textile	0.00	0.00	0.85	0.90	0.85	0.00	1.25	1.80	10.55	8.82
Shahtaj Textile	1.00	1.08	1.01	1.14	1.11	1.42	1.27	1.37	1.36	1.35
Zephyr Textile	0.81	0.78	0.66	0.65	0.63	0.61	0.59	0.73	0.77	1.26
Feroze Textile	0.00	0.00	1.00	1.40	1.54	1.23	1.52	1.68	1.84	3.00

Table 5.11 (Source: Author's work)



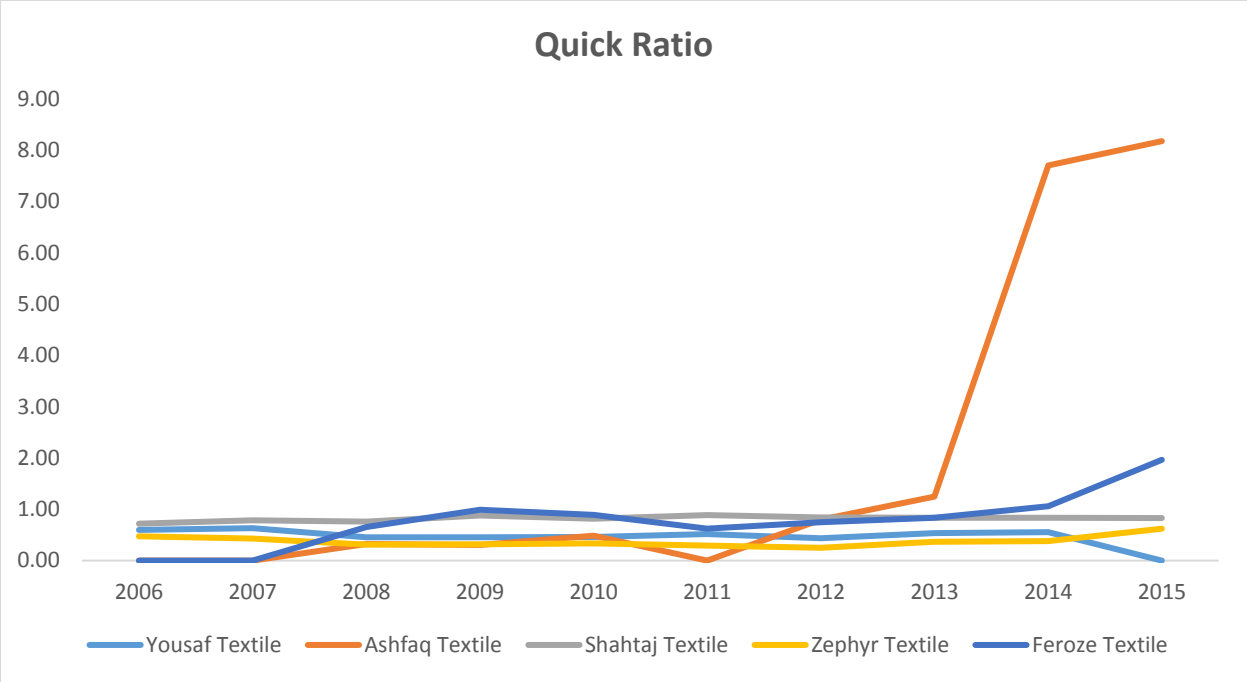
Current Ratio clears the extent to which the claim of short term creditors can be met by assets that are to become cash within a year. It shows that how many times current assets are available to meet its current liabilities. So, Ashfaq textile was outperforming others till fiscal year 2015. As a whole, Yousaf textile was performing very bad as it had ratio of 0.98 in 2015 which was very low as compared to others. One way to do so would be to timely collect its dues from debtors.

5.1.2.2 - Quick ratio

To identify the most liquid assets, inventories and stock had been deducted from this ratio. Zephyr textile's performance in terms of quick ratio was very low. As it has an average of 0.38 but in 2015 the figure is 0.62, which shows the ratio has improved from the previous years, but it is still relatively low as compared to other players Ashfaq textile (1.90), Shahtaj (0.82), Yousaf textile (0.520) and Feroze (0.78).

Quick ratio=Current Assets- stock / Current Liabilities										
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Yousaf Textile	0.60	0.63	0.46	0.46	0.46	0.52	0.43	0.54	0.56	0.00
Ashfaq Textile	0.00	0.00	0.33	0.31	0.48	0.00	0.80	1.25	7.70	8.18
Shahtaj Textile	0.72	0.79	0.76	0.88	0.82	0.89	0.84	0.84	0.84	0.83
Zephyr Textile	0.47	0.43	0.31	0.32	0.34	0.29	0.25	0.37	0.38	0.62
Feroze Textile	0.00	0.00	0.66	0.99	0.89	0.62	0.75	0.84	1.06	1.96

Table 5.12 (Source: Author's work)



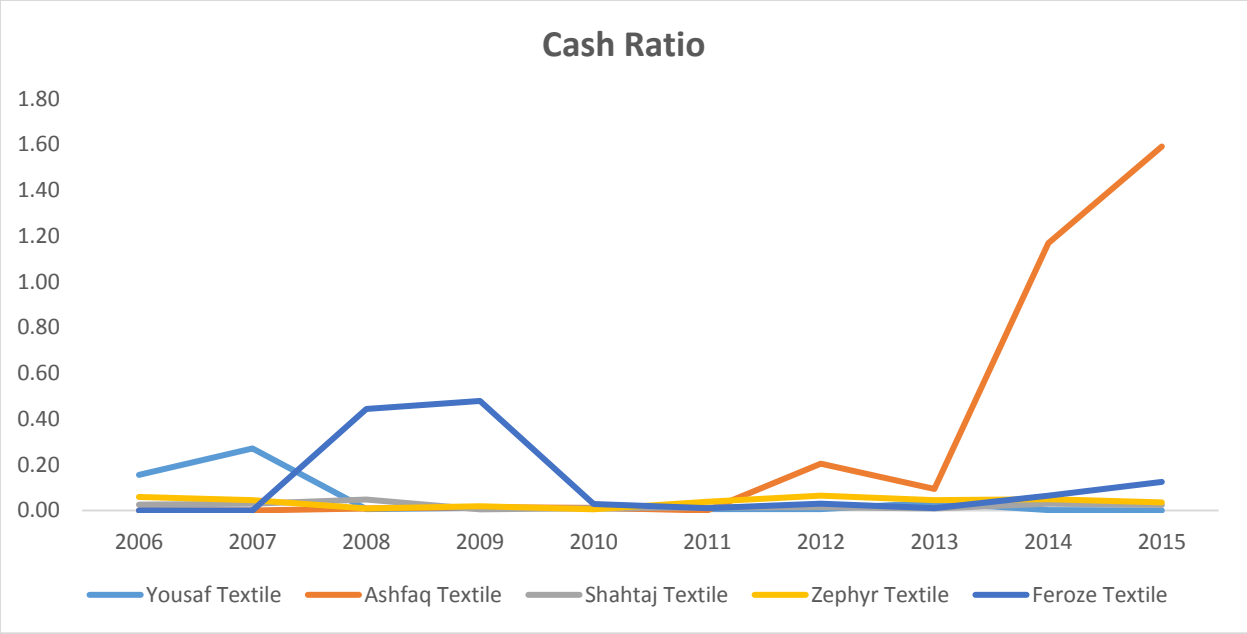
The companies which have high quick ratio, means they have more liquid assets as compare to company like Zephyr which have less liquid assets. This means they can face huge problems in order to meet short term obligations.

5.1.2.3 - Cash ratio

On average, Ashfaq textile has good cash ratio with respect to other players. The figure of 0.31 shows that it has 0.31 of cash to cover his 1 rupee of liabilities. Cash ratio shows that how hard cash would be beneficial for the company to pay their current liabilities.

Cash ratio=Cash and cash equivalents / Current Liabilities										
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Yousaf Textile	0.16	0.27	0.01	0.01	0.01	0.01	0.01	0.03	0.00	0.00
Ashfaq Textile	0.00	0.00	0.01	0.01	0.01	0.00	0.20	0.09	1.17	1.59
Shahtaj Textile	0.02	0.03	0.05	0.00	0.01	0.01	0.01	0.01	0.03	0.02
Zephyr Textile	0.06	0.05	0.01	0.02	0.01	0.04	0.06	0.05	0.05	0.03
Feroze Textile	0.00	0.00	0.44	0.48	0.03	0.01	0.03	0.01	0.07	0.12

Table 5.13 (Source: Author's work)



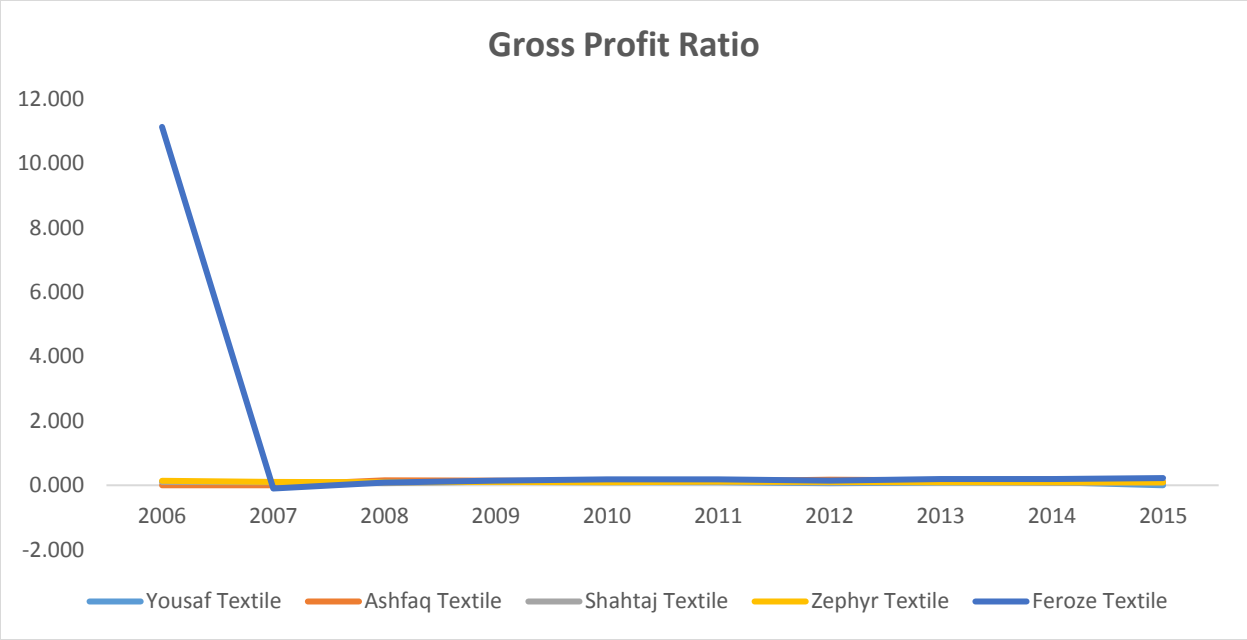
On the other side, all other players like Yousaf Textile, Shahtaj Textile, Zephyr Textile and Feroze Textile have very low cash ratio of 0.05, 0.02, 0.04 and 0.12 respectively. Last year that is 2015, cash ratios also showed that Ashfaq Textile performed well in the industry.

5.1.2.4 - Gross profit

This ratio is fine tool to find out how much company grosses profit with respect to sales after deducting COGS from sales. Ashfaq Textile (14.3%) on average is high in this ratio while Feroze Textile (13.5%) is almost equal to Ashfaq Textile's gross margin ratio. Other companies have gross margin of 9.1%, 9.5% and 10.1% which is low as compare to the top performers. This means that companies with high gross profit ratio are better because they are more profitable than the ones who have low gross profit ratio.

Gross Profit Ratio=Gross Profit / Sales										
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Yousaf Textile	0.106	0.084	0.089	0.102	0.089	0.095	0.068	0.085	0.094	0.000
Ashfaq Textile	0.00	0.00	0.16	0.14	0.12	0.12	0.17	0.16	0.19	0.10
Shahtaj Textile	0.11	0.09	0.07	0.11	0.12	0.11	0.08	0.10	0.07	0.09
Zephyr Textile	0.14	0.10	0.09	0.11	0.09	0.12	0.10	0.09	0.10	0.09
Feroze Textile	11.13	-0.10	0.09	0.14	0.18	0.18	0.14	0.19	0.19	0.22

Table 5.14 (Source: Author's work)



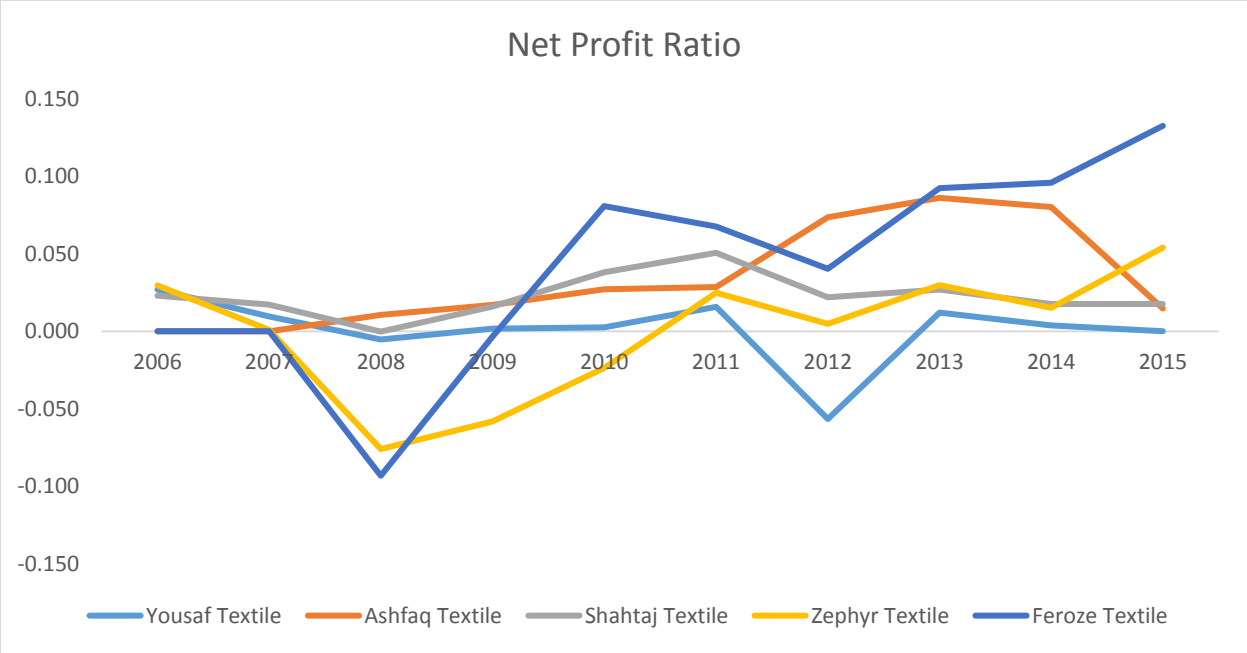
In 2015, Feroze textile was outperforming with gross margin of 22.3%, while others had equal or less than 10%.

5.1.2.5 - Net profit margin

The companies which had high profit ratio had high net profit margins as well. The companies like Ashfaq textile, Shahtaj Textile and Feroze textile had better control over their cost than Yousaf textile and Zephyr textile. Yousaf textile and Zephyr textile were poorly performing in the time period of 2008-2012. This showed that these two companies were not good in managing their expenses while Feroze Textile did perform exceptional previously in 2015 with Net profit ratio of 13.3% as compared to others.

Net Profit Ratio=Net profit / Sales										
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Yousaf Textile	0.027	0.009	-0.005	0.002	0.003	0.016	-0.057	0.012	0.004	0.000
Ashfaq Textile	0.00	0.00	0.01	0.02	0.03	0.03	0.07	0.09	0.08	0.01
Shahtaj Textile	0.023	0.017	0.000	0.016	0.038	0.051	0.022	0.027	0.018	0.018
Zephyr Textile	0.03	0.00	-0.08	-0.06	-0.02	0.02	0.00	0.03	0.02	0.05
Feroze Textile	0.00	0.00	-0.09	0.00	0.08	0.07	0.04	0.09	0.10	0.13

Table 5.15 (Source: Author's work)

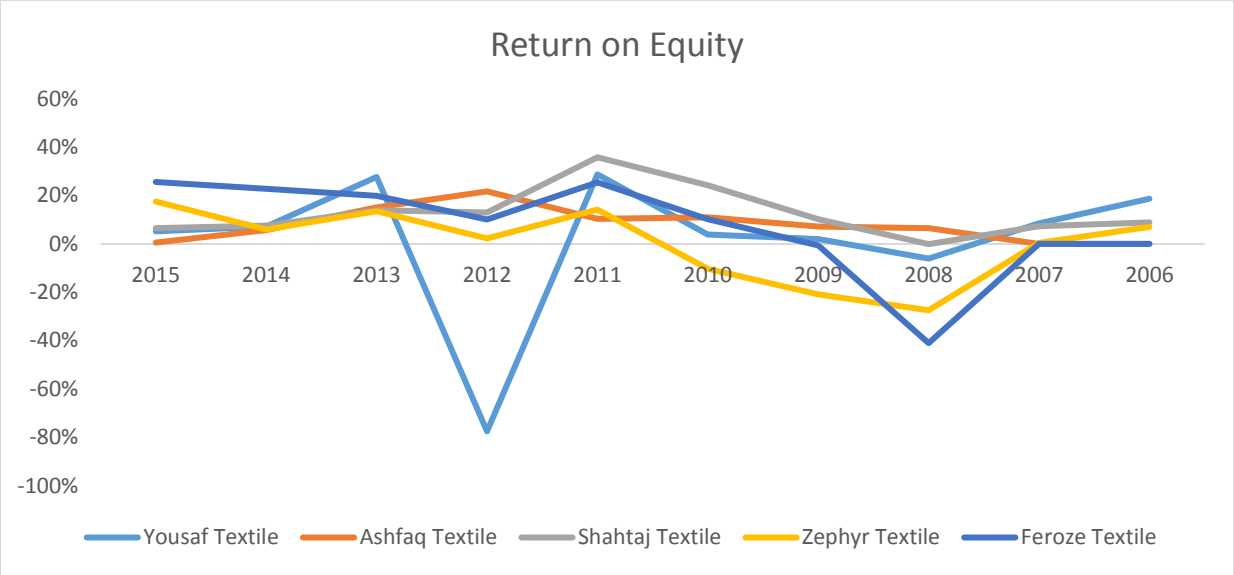


5.1.2.6 - Return on equity

In real sense, ordinary shareholders are the real owners of the company. They assume the highest risk in the company. Thus ordinary shareholders are more interested in the profitability of a company and the performance of a company should be judged on the basis of return on equity capital of the company. Shahtaj Textile have ROE of 13% on average, which means that company generated Rs. 0.13 of profit for every Rs. 1 of shareholder's equity. Yousaf Textile and Zephyr Textile was not good in ROE from last few years.

Return on Equity=Net Profit / Avg total Equity											
Company Name	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	Average
Yousaf Textile	5%	7%	28%	-78%	29%	4%	2%	-6%	9%	19%	2%
Ashfaq Textile	1%	6%	15%	22%	10%	11%	7%	7%	0%	0%	8%
Shahtaj Textile	7%	8%	14%	13%	36%	24%	10%	0%	7%	9%	13%
Zephyr Textile	18%	6%	14%	2%	14%	-10%	-21%	-27%	0%	7%	0%
Feroze Textile	26%	23%	20%	10%	25%	10%	-1%	-41%	0%	0%	7%

Table 5.16 (Source: Author's work)

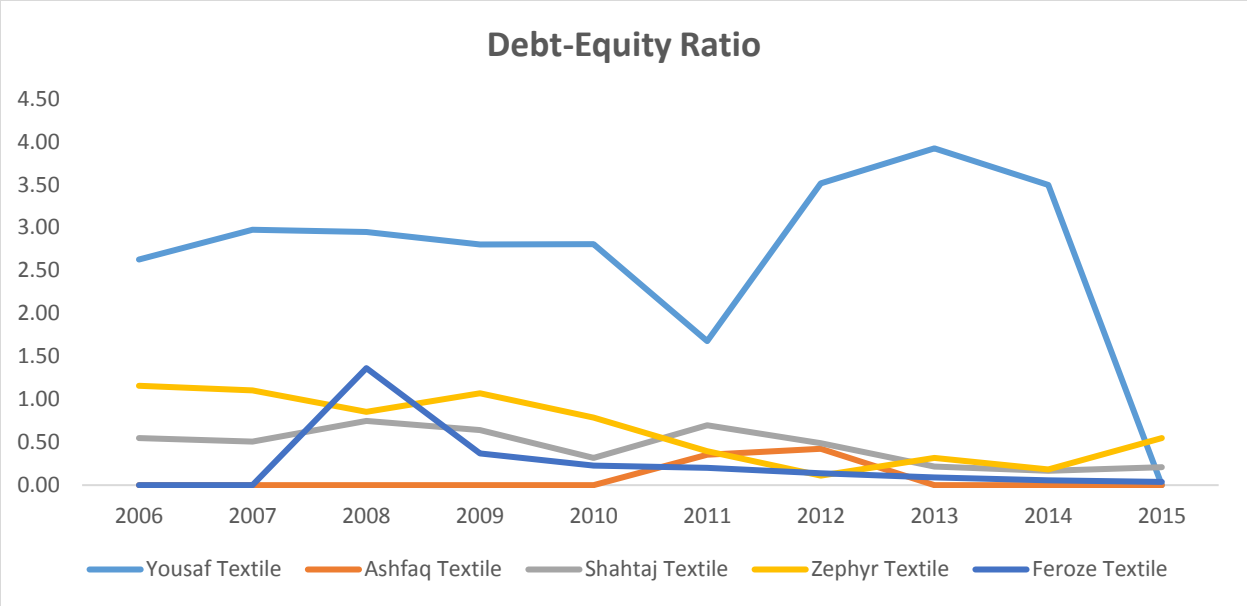


5.1.2.7 - Debt-equity ratio

Talking about the debt-to-equity ratio as the reflector of the company's performance, a company should have a debt-to equity ratio close to the industry average, i.e. neither too high, nor too less. Yousaf Textile had an average D/E ratio of 299% which means that they were relying heavily on debt and had a very high default risk. Companies with very low D/E ratio are Ashfaq Textile (8%), Shahtaj Textile (45%), Zephyr Textile (65%) and Feroze Textile (25%) which means that these were not availing the opportunity of financing their growth through debt, which is a cheaper source of capital.

Debt - Equity Ratio										
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Yousaf Textile	2.63	2.98	2.95	2.80	2.81	1.68	3.52	3.92	3.50	0.00
Ashfaq Textile	0.00	0.00	0.00	0.00	0.00	0.36	0.42	0.00	0.00	0.00
Shahtaj Textile	0.55	0.51	0.75	0.64	0.32	0.70	0.49	0.22	0.17	0.21
Zephyr Textile	1.16	1.10	0.85	1.07	0.79	0.40	0.11	0.32	0.18	0.55
Feroze Textile	0.00	0.00	1.36	0.37	0.23	0.20	0.14	0.09	0.06	0.04

Table 5.17 (Source: Author's work)

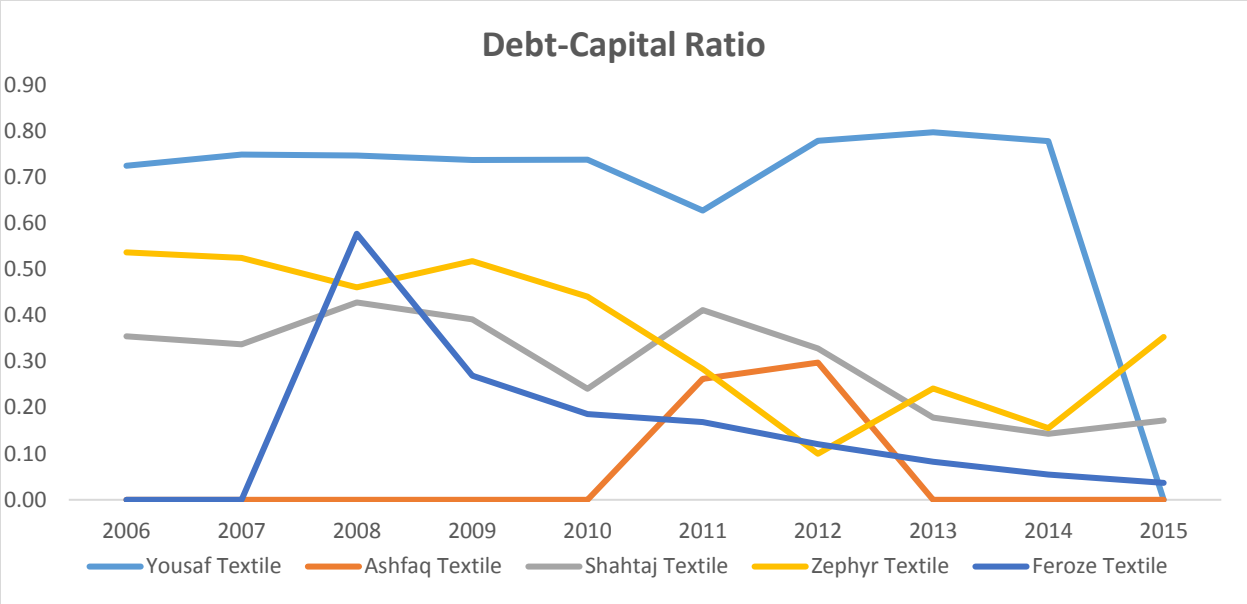


5.1.2.8 - Debt - Capital Ratio

This ratio is a measurement of company's financial leverage. This gives better idea about either company is suitable for investment or not. On average, Yousaf Textile mostly relies on debt which is 75% of total capital. While other players in our analysis are not heavily dependent on debt. Ashfaq Textile has least portion of debt out of total capital i.e., 6%.

Debt - Capital Ratio										
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Yousaf Textile	0.72	0.75	0.75	0.74	0.74	0.63	0.78	0.80	0.78	0.00
Ashfaq Textile	0.00	0.00	0.00	0.00	0.00	0.26	0.30	0.00	0.00	0.00
Shahtaj Textile	0.35	0.34	0.43	0.39	0.24	0.41	0.33	0.18	0.14	0.17
Zephyr Textile	0.54	0.52	0.46	0.52	0.44	0.28	0.10	0.24	0.16	0.35
Feroze Textile	0.00	0.00	0.58	0.27	0.19	0.17	0.12	0.08	0.05	0.04

Table 5.18 (Source: Author's work)



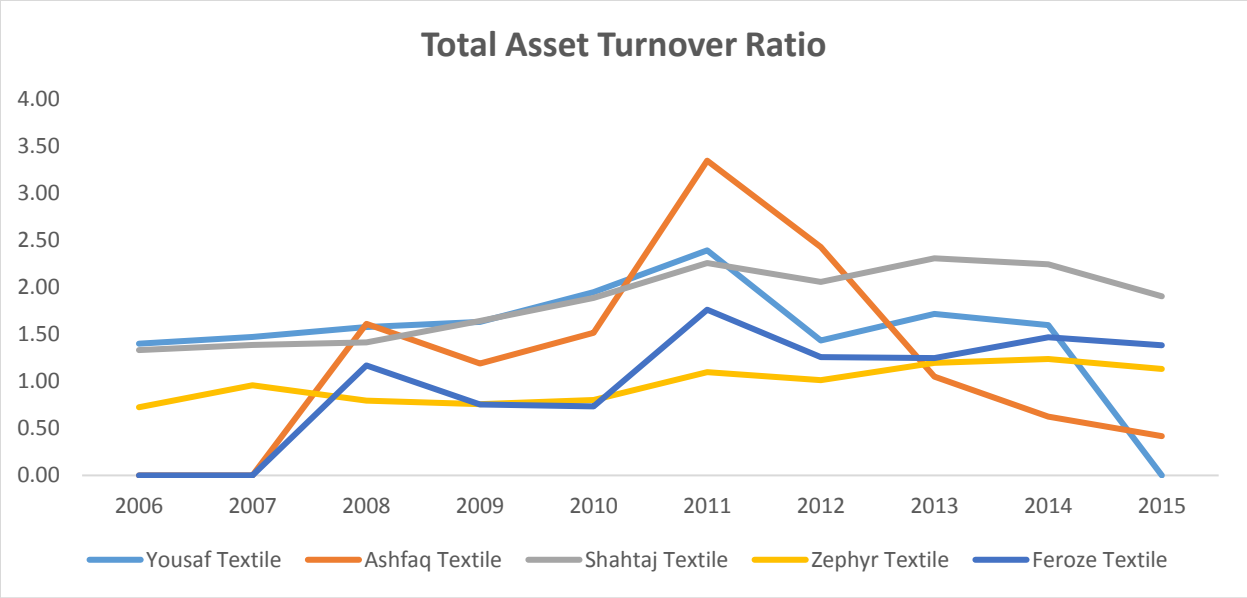
Companies to give better signal to investor must have to show lesser dependency on debt. These companies can use other source of capital rather than debt to attract more investors. In last year 2015, both Ashfaq Textile (0%) and Feroze Textile (4%) of debt, which shows that they were intelligently raising their source of capital.

5.1.2.9 - Total Assets turnover

This ratio will help in measuring company's ability to generate sales from total assets. An increase in total assets turnover ratio shows that the company was effectively using investment in total assets to generate sales. On average, Shahtaj Textile (1.84) is in better position to use its assets bitterly as compared to others. Zephyr Textile and Feroze Textile with ratio 0.97 and 0.98 respectively showed that they are not efficient in using its assets.

Total Asset T.O. Ratio=Sales / Avg. Total Assets										
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Yousaf Textile	1.40	1.47	1.58	1.63	1.95	2.39	1.43	1.72	1.60	0.00
Ashfaq Textile	0.00	0.00	1.61	1.19	1.52	3.34	2.43	1.05	0.62	0.42
Shahtaj Textile	1.33	1.39	1.41	1.64	1.88	2.26	2.06	2.31	2.24	1.90
Zephyr Textile	0.72	0.96	0.79	0.76	0.80	1.10	1.01	1.20	1.24	1.13
Feroze Textile	0.00	0.00	1.17	0.75	0.73	1.76	1.26	1.24	1.47	1.38

Table 5.19 (Source: Author's work)



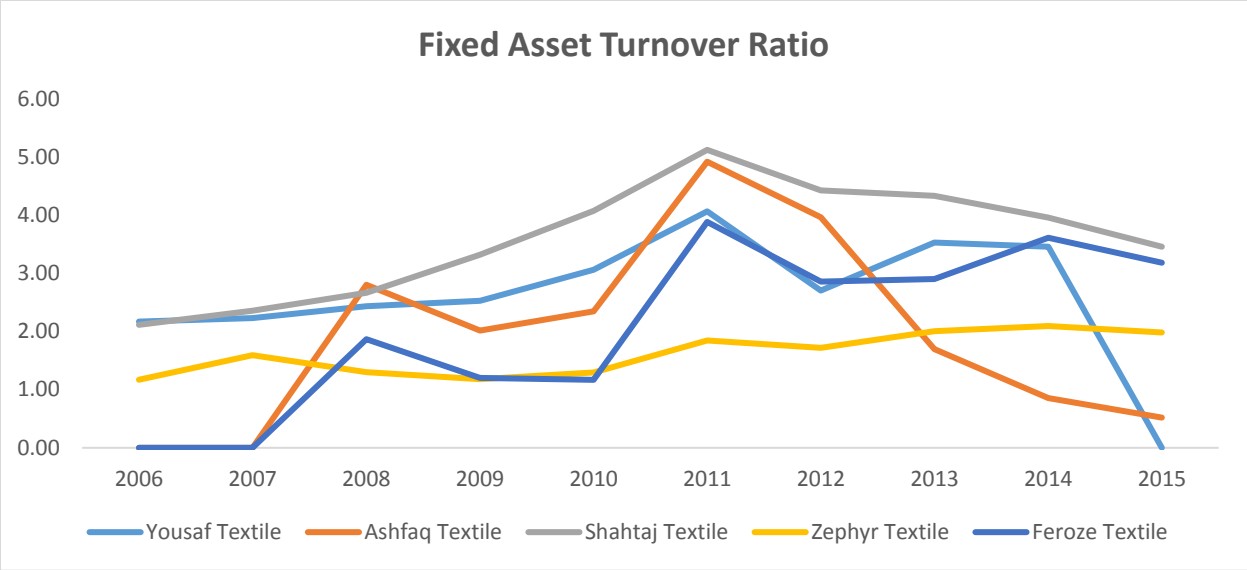
In 2015, Ashfaq Textile was becoming poor in utilizing its assets. On the other side, all other players are almost same in managing their assets to generate sales.

5.1.2.10 - Fixed Assets turnover

The amount of sales generated for every rupee's value of fixed assets. It is the measurement of firm's efficiency – higher number is better. Shahtaj Textile, on average, is effectively utilizing its fixed assets to generate more sales or revenues with ratio of about 3.58. While, Zephyr is poorly utilizing its assets to generate sales.

Fixed Asset T.O. Ratio=Sales / Avg. Fixed Assets										
Company Name	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Yousaf Textile	2.17	2.23	2.43	2.53	3.06	4.07	2.70	3.53	3.46	0.00
Ashfaq Textile	0.00	0.00	2.80	2.02	2.35	4.92	3.96	1.70	0.85	0.52
Shahtaj Textile	2.11	2.35	2.67	3.32	4.08	5.12	4.43	4.33	3.96	3.46
Zephyr Textile	1.17	1.59	1.30	1.18	1.30	1.84	1.72	2.01	2.09	1.98
Feroze Textile	0.00	0.00	1.87	1.20	1.17	3.88	2.86	2.90	3.61	3.18

Table 5.20 (Source: Author's work)



In previous year 2015, Ashfaq Textile (0.52) was not good in utilizing its fixed assets as compared to previous years. While, Zephyr Textile (1.98) was getting better as compared to its average of 1.62.

5.2 - Undiversifiable Risk Calculation (BETA)

Company's Ratios is one of the ways to analyze company performance. The ratio analysis gives us the insight as in how well the company is utilizing its resources to get better returns and a better liquidity position. On the other hand, company's performance can be judged by investors in the open market as in, how they are being seen by the general public as a whole brand. In order to understand this, we have looked in to the stock returns of the company that shows the result son company's performance on the mind of general public.

In our case we have analyzed the stock of every single company of our sample so that we can see the pattern of stock progress as per the changing Stock market dynamics. Analyzing such fluctuation of stock against market return comes under the analysis of BETA. Beta is referred to be as undiversifiable risk. A type of risk that is always there in the market regardless of the fact that the investor has a diversified portfolio.

In other words, beta is a measurement of stock change in correspondence to the change in the market dynamics. This analysis is further used in CAPM that helps to calculate the assets return against the expected market return over the same period.

5.2.1 - Beta Calculation Methodologies

As stated above we have analyzed each and every sample company of our project for beta calculation and for that we have used three different techniques, which are as follows:

- Covariance
- Slope
- Regression Analysis

Explanation of how we applied these three methodologies are as follows:

5.2.2 - Beta Using CAPM Terminology of Covariance

According to the CAPM terminology the Beta of any stock is calculated as the correlation between the

individual stock return and market return, divided by variance of the market return. This statement is mathematically donated as:

$$\beta i = COVim/\sigma 2m$$

The same above technique was also used to calculate the beta for the stocks of other textile companies. For this purpose, following data was gathered from the KSE website.

1. Company's Stock Market closing price from 1st July, 2005 till 30th June, 2015
2. KSE 100 Index Closing Points data from 1st July, 2005 till 30th June, 2015

After gathering the above data percentage change of each day was calculated for both Market and the individual stock. Once the percentage changes were calculated then the above stated formula was applied on the data to find out the value of beta for each company's stock.

5.2.3 - Beta Using Slope

The input data required to calculate beta of the individual stock is the individual stock percentage change and market index percentage change. We had calculated both these figures in our previous effort of covariance, so used both these data figures in the slope formula to calculate the beta of individual stock.

5.2.4 - Beta Using Regression Analysis

We have also applied the concept of regression analysis to calculate the beta of our sample companies stock. For regression analysis we inserted our percentage change calculation into SPSS software and analyzed the data using regression analysis with linear estimation. The regression analysis came out with the resulted beta for each stock.

Now let us look in to the results of each company's beta and their interpretation accordingly.

5.2.5 - Beta Results for Composite Division

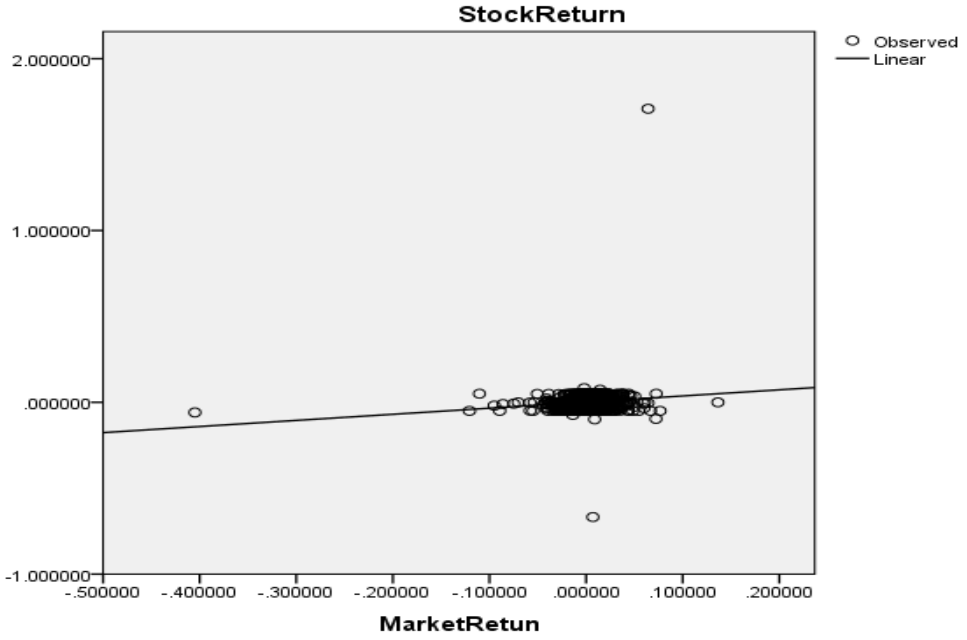
In our first section of beta results we will be looking into the details of stock volatility for the composite division of Textile industry.

5.2.5.1 - Blessed Textile Limited

Beta Using Covariance	Beta Using Slope	Beat Using Regression
0.356	0.356	0.356

Coefficients

	Unstandardized Coefficients		Coefficients	t	Sig.
	B	Std. Error	Beta		
Blessed Textile	.356	.090	.120	3.945	.000
(Constant)	.002	.002		.767	.443



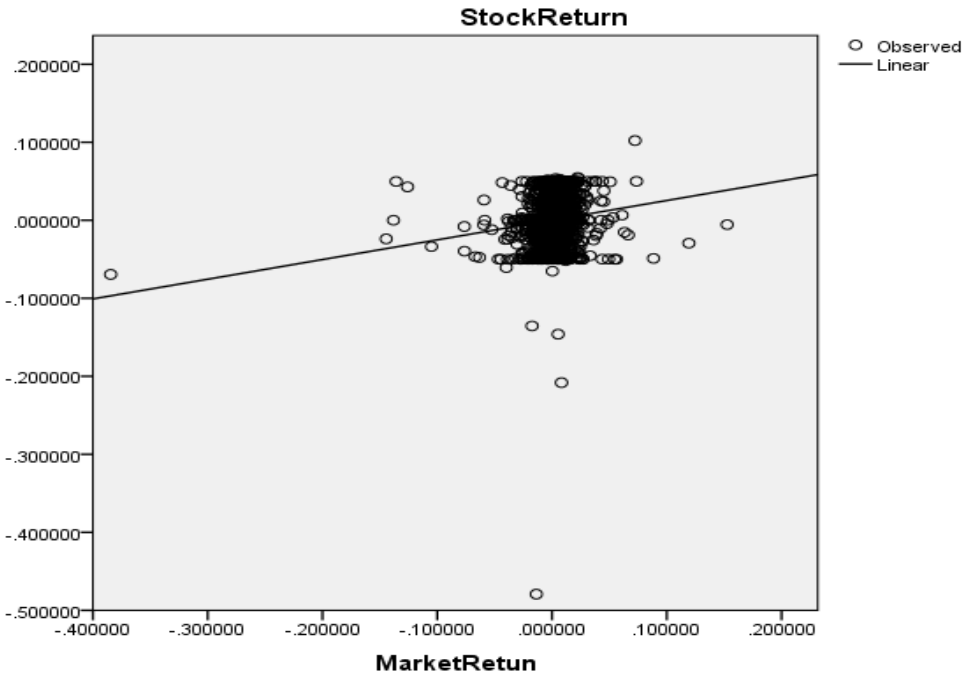
Interpretation of Beta: The result of our beta calculation has come out to be 0.356. This beta is lower than the average market beta of 1. This resulted beta shows that the stock is less volatile than average stocks in the market. This implies that the stock will move with the movement of the market but the swing of these stocks will be lower than the average market stock.

5.2.5.2 - Gul Ahmed Textile Limited

Beta Using Covariance	Beta Using Slope	Beat Using Regression
0.252	0.252	0.252

Coefficients

	Unstandardized Coefficients		Coefficients		
	B	Std. Error	Beta	t	Sig.
Gul Ahmed Textile	.252	.042	.147	6.012	.000
(Constant)	.000	.001		.172	.864



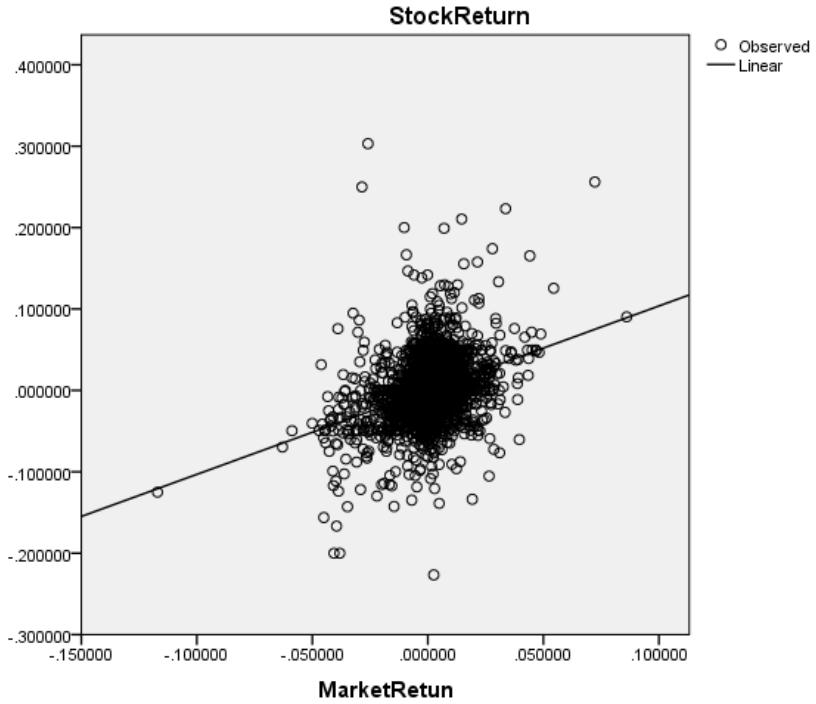
***Interpretation of Beta*:** After conduction all the method of Beta calculation the beta of Gul Ahmed Textiles came up to be 0.252. This result showed that the beta of Gul Ahmed Textile is lower than that of the average market beta. But it is positive hence any positive change in the market would have a positive impact on Gul Ahmed's Stock but the intensity of the impact would be lower as compare to an average beta stock.

5.2.5.3- Kohinoor Textile Mills Limited

Beta Using Covariance	Beta Using Slope	Beat Using Regression
1.034	1.034	1.034

Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
Kohinoor Textile	1.034	.059	.338	17.608	.000
(Constant)	.000	.001		.372	.710



Interpretation of Beta: The result of our beta calculation has come out to be 1.034 for Kohinoor Textile Mills. This beta is approximately equals to the average market beta of 1. This resulted beta shows that the stock price of Kohinoor moves with that of the changes of market condition.

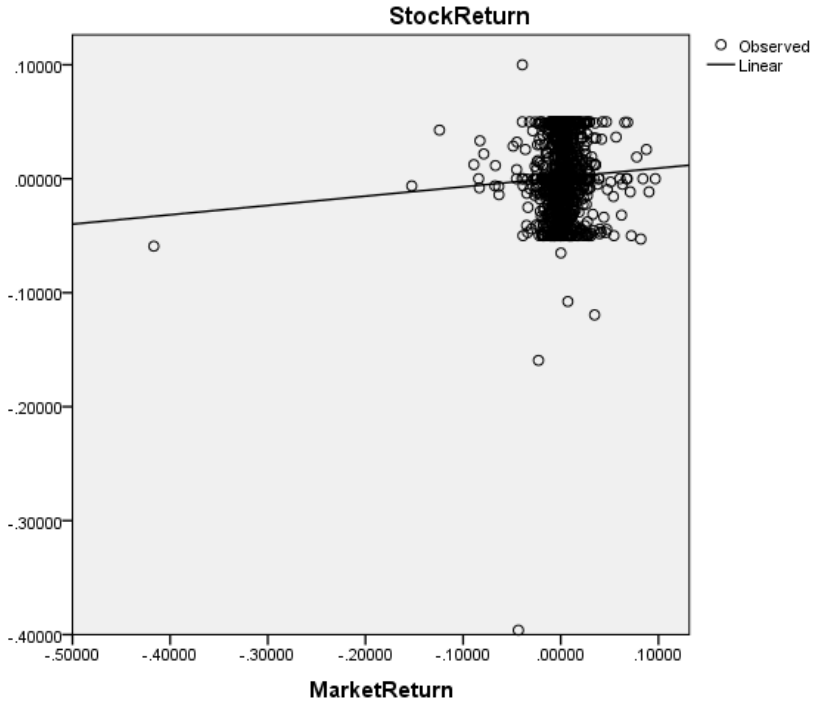
This implies that the stock will move with the movement of the market and the swing of these stocks will be similar to the average market stock.

5.2.5.4- Mahmood Textile Mills Limited

Beta Using Covariance	Beta Using Slope	Beat Using Regression
0.082	0.082	0.082

Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
Mahmood Textile	.082	.045	.056	1.808	.071
(Constant)	.001	.001		1.078	.281



Interpretation of Beta: After conduction all the method of Beta calculation the beta of Mahmood Textile Limited came up to be 0.082. This result showed that the beta of Mahmood Textile Limited is lower than that of the average market beta. But it is positive hence any positive change in the

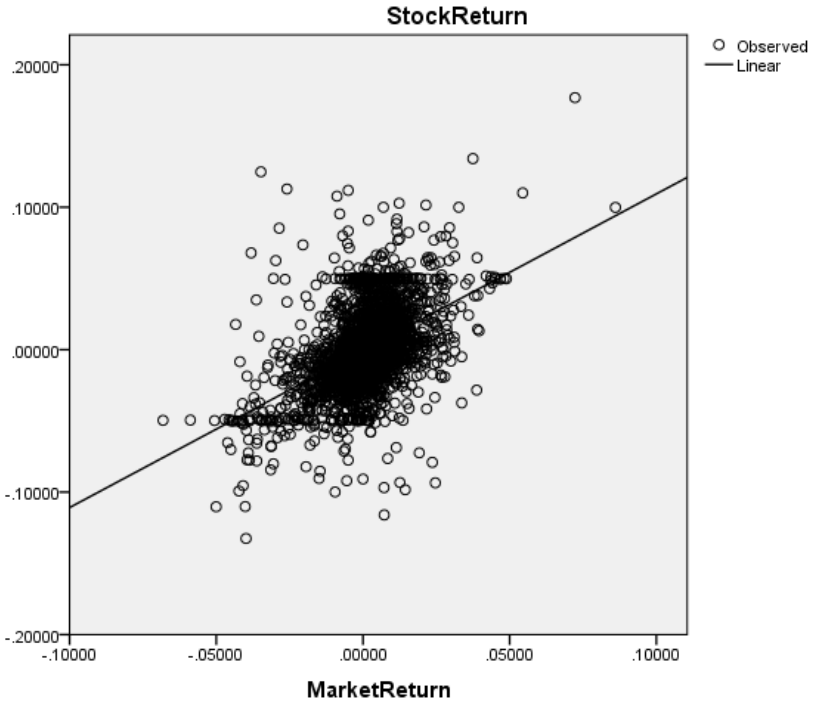
market would have a positive impact on Mahmood's Stock but the intensity of the impact would be lower as compare to an average beta stock.

5.2.5.5- Nishat Chunian Textile Mills Limited

Beta Using Covariance	Beta Using Slope	Beat Using Regression
1.101	1.101	1.101

Coefficients

	Unstandardized Coefficients		Coefficients		
	B	Std. Error	Beta	t	Sig.
Nishat Chunian	1.101	.038	.490	28.987	.000
(Constant)	-.001	.000		-1.528	.127



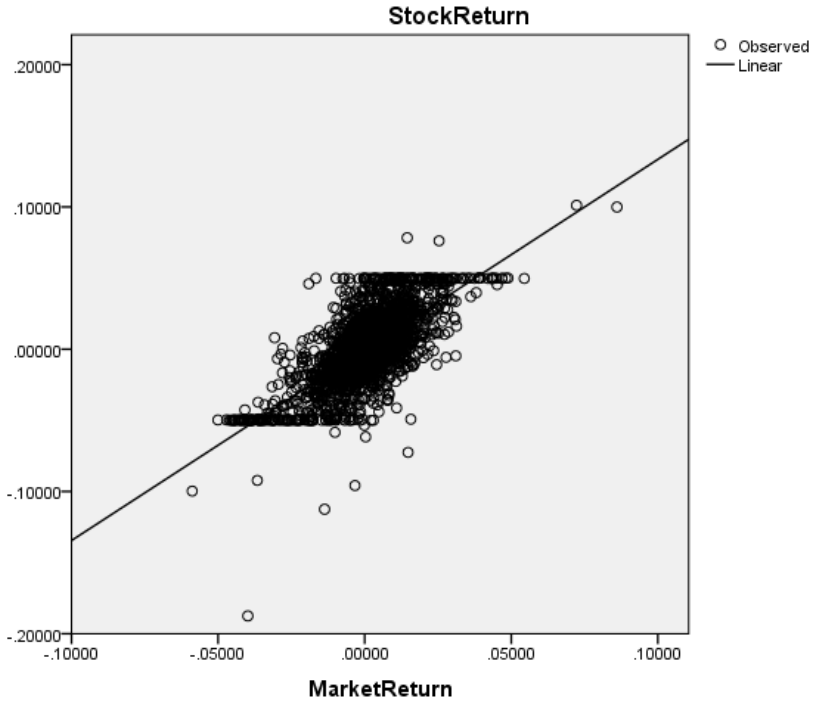
Interpretation of Beta: The result of our beta calculation has come out to be 1.101 for Nishat Chunian Textile Mills. This beta is approximately equals to the average market beta of 1. This resulted beta shows that the stock price of Nishat Chunian moves with that of the changes of market condition. This implies that the stock will move with the movement of the market and the swing of these stocks will be similar to the average market stock.

5.2.5.6 - Nishat Textile Mills Limited

Beta Using Covariance	Beta Using Slope	Beat Using Regression
1.340	1.340	1.340

Coefficients

	Unstandardized Coefficients		Coefficients		
	B	Std. Error	Beta	t	Sig.
Nishat Mills	1.340	.026	.705	51.344	0.000
(Constant)	-.001	.000		-1.570	.117



Interpretation of Beta: After conduction all the method of Beta calculation the beta of Nishat Textile Limited came up to be 1.340. This result showed that the beta of Nishat Textile Limited is more than that of the average market beta. But it is positive hence any positive change in the market would have a positive impact on Nishat's Stock and the intensity of the impact would be higher as compare to an average beta stock.

5.2.6 - Beta Results for Weaving Division

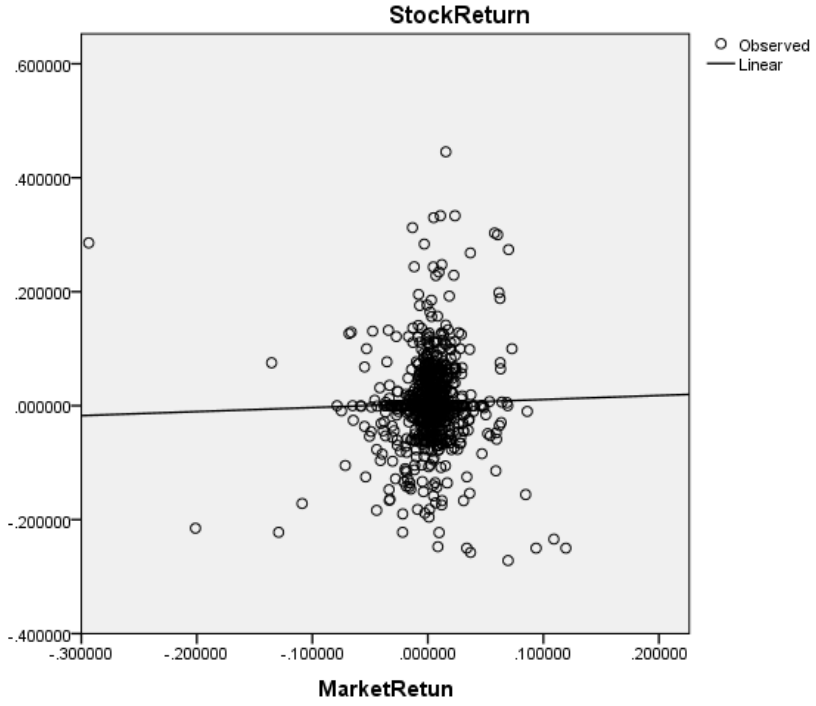
In our second section of beta results we will be looking into the details of stock volatility for the weaving division of Textile industry.

5.2.6.1 - Ashfaq Textile Mills Limited

Beta Using Covariance	Beta Using Slope	Beat Using Regression
0.071	0.071	0.071

Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
Ashfaq Textile	.071	.108	.024	.653	.514
(Constant)	.004	.003		1.294	.196



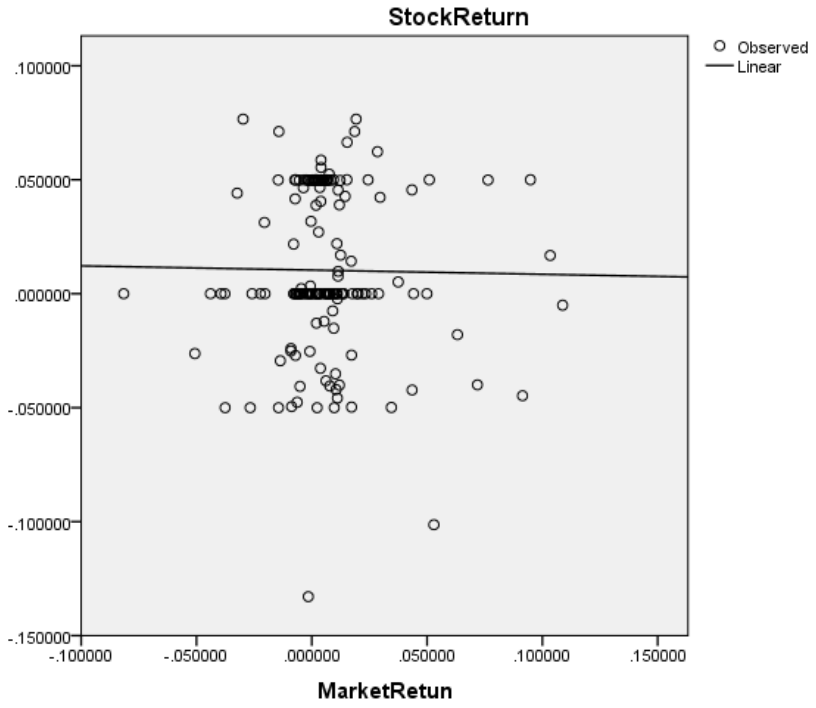
Interpretation of Beta: The result of our beta calculation has come out to be 0.071 for Ashfaq Textile Mills. This beta is very low as compared to the average market beta of 1. This resulted beta shows that the stock price of Ashfaq Textile does not really moves with that of the changes of market. This implies that the stock of Ashfaq is not really affected by the market conditions.

5.2.6.2 - Feroze Textile Mill

Beta Using Covariance	Beta Using Slope	Beat Using Regression
-0.018	-0.018	-0.018

Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
Feroze	-.018	.115	-.013	-.161	.872
(Constant)	.010	.003		3.569	.000



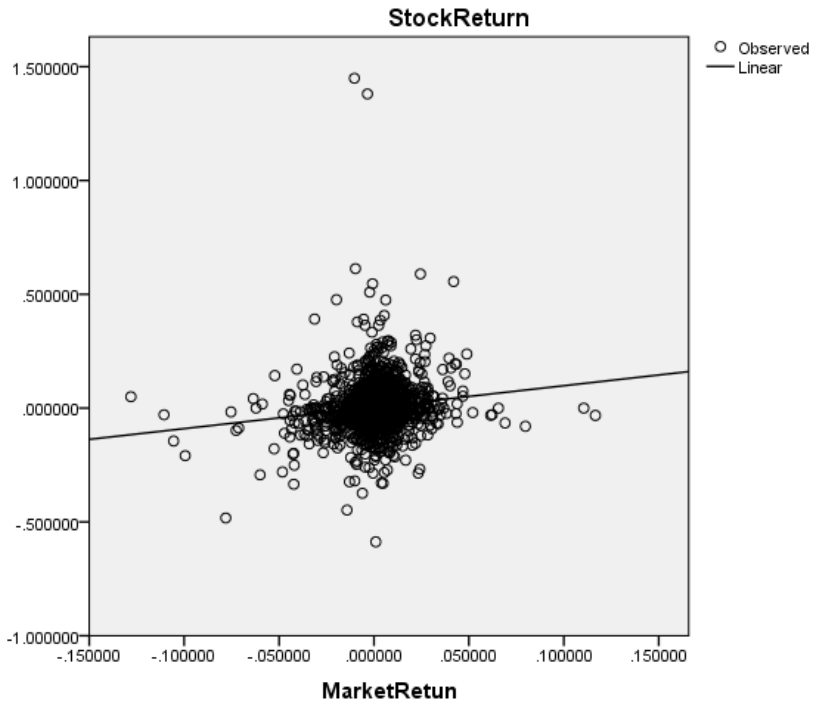
Interpretation of Beta: After conduction all the method of Beta calculation the beta of Feroze Textile Limited came up to be -0.018. This result showed that the beta of Feroze Textile Limited is very low and even negative to that of average market beta. This negative eta shows that the company's stock return reacts opposite to that of Market condition. This is because there is a negative relationship between the stock and that of Market condition.

5.2.6.3 Yousaf Textile Mill

Beta Using Covariance	Beta Using Slope	Beat Using Regression
0.94	0.94	0.94

Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
Yousaf	.943	.161	.138	5.867	.000
(Constant)	.004	.002		1.649	.099



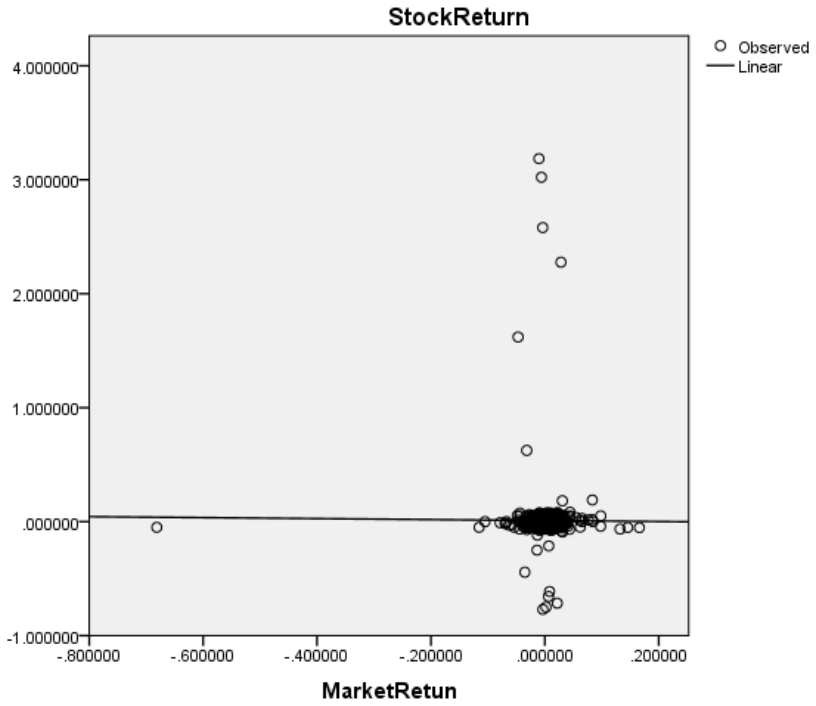
Interpretation of Beta: The result of our beta calculation has come out to be 0.943 for Yousaf Textile Mills. This beta is approximately equals to the average market beta of 1. This resulted beta shows that the stock price of Yousaf moves with that of the changes of market condition. This implies that the stock will move with the movement of the market and the swing of these stocks will be a little less than that to the average market stock.

5.2.6.4 Shahtaj Textile Mill

Beta Using Covariance	Beta Using Slope	Beat Using Regression
-0.04	-0.04	-0.04

Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
Stock Return	-.043	.192	-.006	-.222	.824
(Constant)	.010	.005		1.860	.063



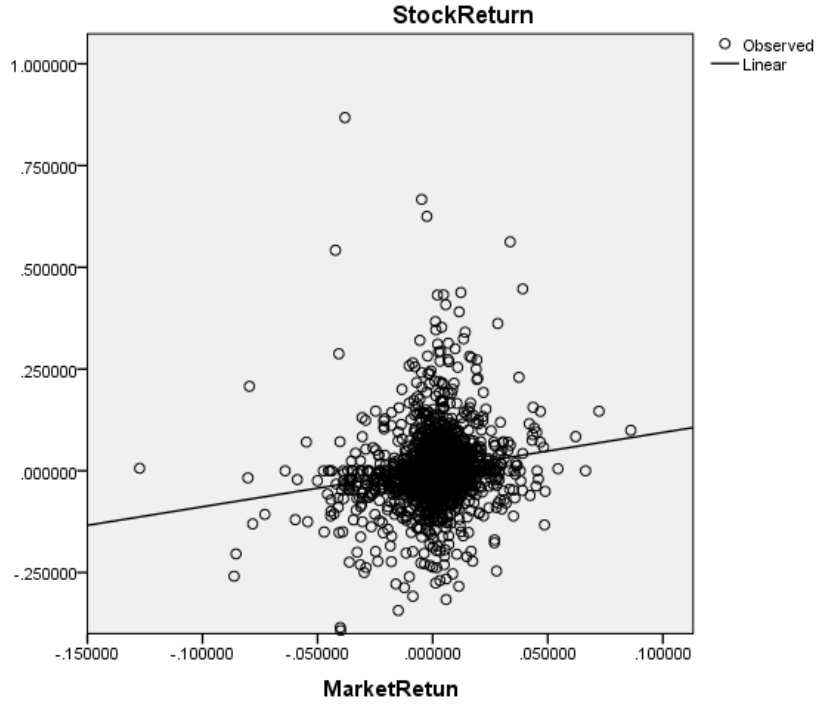
Interpretation of Beta: The beta for Shataj Textile has come out to be negative with a value of -0.043. This implies that the stock of Shahtaj moves in a slight opposite direction to that of market condition. By moving little, we mean that the beta of Shahtaj is very close to zero as well that results in no much difference on stock prices with the change in market conditions. Hence we can say that stock of Shahtaj is not really effected by the market dimensions and if it does it reacts inversely to the market situation.

5.2.6.5 Zephyre Textile Mill

Beta Using Covariance	Beta Using Slope	Beat Using Regression
0.913	0.913	0.913

Coefficients

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
Stock Return	.913	.138	.156	6.602	.000
(Constant)	.003	.002		1.347	.178



Interpretation of Beta: The result of our beta calculation has come out to be 0.913 for Zephyre Textile Mills. This beta is near to the average market beta of 1. This resulted beta shows that the stock price of Zephyre Textile will move in line with the changes of market.

5.3 - Weighted Average Cost of Capital Calculation (WACC)

Weighted average cost of capital (WACC) is the methodology used to calculate the firms cost of capital as per the weights of each capital source used to acquire capital. By all sources of capital,

we mean the use of Debt, Common Stock and Preferred stock. All these sources of capital are part of WACC calculation.

A firm WACC increases if the beta of the firm and the component cost of equity is increasing. A higher WACC results in a lower valuation of the firm and ultimately higher risk for the firm. Similarly, lower WACC results in higher valuation of the Frim. In order to calculate WACC we multiply each component cost of Debt and Equity with their respective portion in the capital structure. This ultimately result in the WACC that can be used for company's valuation if needed. For our case there were no preferred stock for any company. So, in order to calculate WACC for our companies, we need to have following elements for each of the single company:

1. Component Cost of Debt i.e. After Tax return on Debt Rd(1-T)
2. Component Cost of Equity i.e. Re (Calculated through CAPM)
3. Weight of Equity
4. Weight of Debt

5.3.1 - Component Cost of Debt

In order to calculate component cost of debt we need to have the interest rate of the debt companies used over the years. For our project as we were analyzing 10 years' data for both composite and weaving sector so we have calculated average cost of debt over past 10 years. As companies take debt from multiple resources with different interest rate we therefore calculated the annual weighted average cost of debt. For this calculation we multiplied the weight of every debt with its rate and summed all the different debts to come up with the cost of debt. These annual debt rates were then averaged out to come up with the average rate of debt for each company and were used in the WACC formula.

To calculate after tax cost of debt we used the following formula:

After tax cost of debt = Rd (1-T)

In 2015 the corporate tax rate was 33% as finalized by Government of Pakistan. We applied these figures in the formula and came out with the after tax cost of debt for each company.

5.3.2 - Component Cost of Equity

In order to calculate the component cost of equity we used CAPM approach.

For CAPM approach we used the following data:

- Risk Free Rate: 10.10% (Average 12 Month Treasury bill rate from July, 2005 till June, 2015)
- Market Risk: 19.38% (Calculated through from July, 2005 till June, 2015 market index)

After applying the data in the formula

Rs= Risk Free Rate + (Market Risk Premium) Beta

We have come up with the WACC for each company as per their average weight of debt and equity from July, 2005 till June, 2015.

5.3.3 - WACC Results for Composite Division

In our first section of WACC results we will be looking into the details of Capital Structure for the composite division of Textile industry.

5.3.3.1 - Blessed Textile Limited

WACC Calculation	
Description	**Figure**
Risk Free Rate	10.10%
Market Return	19.38%
MRP	9.28%
Beta	0.36
Corporate Tax rate	33%
Cost of Equity	13.40%
Cost of Debt	7.70%
After Tax Cost of Debt	5.16%
Weight of Equity	24.78%
Weight of Debt	75.22%

WACC	7.20%

Blessed Textile being one of the largest textile mill of the country had an average weight of debt and Equity as 75.22% and 24.78% respectively. Applying these figures on the WACC formula the WACC for Blessed Textile came out to be 7.20%. This implies that if Blessed Textile gets PKR. 100/- capital from the investors, they will have to pay PKR. 7.20 as interest to the investors.

5.3.3.2 - Gul Ahmed Textile Limited

WACC Calculation	
Description	**Figure**
Risk Free Rate	10.10%
Market Return	19.38%
MRP	9.28%
Beta	0.252
Corporate Tax rate	33%
Cost of Equity	12.44%
Cost of Debt	9.52%
After Tax Cost of Debt	6.38%
Weight of Equity	45.28%
Weight of Debt	54.72%
WACC	9.12%

Gul Ahmed Textile had an average weight of debt and Equity as 54.72% and 45.28% respectively. Applying these figures on the WACC formula the WACC for Gul Ahmed Textile came out to be 9.12%. This implies that if Gul Ahmed Textiles gets PKR. 100/- capital from the investors, they will have to pay PKR. 9.12 as interest to the investors.

5.3.3.3 Kohinoor Textile Mills Limited

WACC Calculation	
Description	**Figure**

Risk Free Rate	10.10%
Market Return	19.38%
MRP	9.28%
Beta	1.034
Corporate Tax rate	33%
Cost of Equity	19.70%
Cost of Debt	7.70%
After Tax Cost of Debt	5.16%
Weight of Equity	18.78%
Weight of Debt	81.22%
WACC	7.89%

Kohinoor Textile had an average weight of debt and Equity as 81.22% and 18.78% respectively. Applying these figures on the WACC formula the WACC for Kohinoor Textile came out to be 7.89%. This implies that if Kohinoor Textile Mills gets PKR. 100/- capital from the investors, they will have to pay PKR. 7.89 as interest to the investors.

5.3.3.4 - Mahmood Textile Mills Limited

WACC Calculation	
Description	**Figure**
Risk Free Rate	10.10%
Market Return	19.38%
MRP	9.28%
Beta	0.082
Corporate Tax rate	33%
Cost of Equity	10.86%
Cost of Debt	9.95%
After Tax Cost of Debt	6.67%

Weight of Equity	45.68%
Weight of Debt	54.32%
WACC	8.58%

Mahmood Textile Mills had an average weight of debt and Equity as 54.32% and 45.68% respectively. Applying these figures on the WACC formula the WACC for Mahmood Textile Mills came out to be 8.58%. This implies that if Mahmood Textile Mills gets PKR. 100/- capital from the investors, they will have to pay PKR. 8.58 as interest to the investors.

5.3.3.5 - Nishat Chunian Textile Mills Limited

WACC Calculation	
Description	**Figure**
Risk Free Rate	10.10%
Market Return	19.38%
MRP	9.28%
Beta	1.101
Corporate Tax rate	33%
Cost of Equity	20.32%
Cost of Debt	8.03%
After Tax Cost of Debt	5.38%
Weight of Equity	68.53%
Weight of Debt	31.47%
WACC	15.62%

Nishat Chunian Textile Mills had an average weight of debt and Equity as 31.47% and 68.53% respectively. Applying these figures on the WACC formula the WACC for Nishat Chunian Textile Mills came out to be 15.62%. This implies that if Nishat Chunian Textile Mills gets PKR. 100/- capital from the investors, they will have to pay PKR. 15.62 As interest to the investors.

5.3.3.6 Nishat Textile Mills Limited

WACC Calculation	
Description	**Figure**
Risk Free Rate	10.10%
Market Return	19.38%
MRP	9.28%
Beta	1.340
Corporate Tax rate	33%
Cost of Equity	22.54%
Cost of Debt	11.96%
After Tax Cost of Debt	8.01%
Weight of Equity	68.10%
Weight of Debt	31.90%
WACC	17.90%

Nishat Textile Mills had an average weight of debt and Equity as 31.90% and 68.10% respectively. Applying these figures on the WACC formula the WACC for Nishat Textile Mills came out to be 17.90%. This implies that if Nishat Textile Mills gets PKR. 100/- capital from the investors, they will have to pay PKR. 17.90 as interest to the investors.

5.3.4 - WACC Results for Weaving Division

In our second section of WACC results we will be looking into the details of Capital Structure for the weaving division of Textile industry.

5.3.4.1 - Ashfaq Textile Mills Limited

WACC Calculation	
Description	**Figure**
Risk Free Rate	10.10%

Market Return	19.38%
MRP	9.28%
Beta	0.071
Corporate Tax rate	33%
Cost of Equity	10.76%
Cost of Debt	9.21%
After Tax Cost of Debt	6.17%
Weight of Equity	61.84%
Weight of Debt	38.16%
WACC	9.01%

Ashfaq Textile Mills had an average weight of debt and Equity as 38.16% and 61.84% respectively. Applying these figures on the WACC formula the WACC for Ashfaq Textile Mills came out to be 9.01%. This implies that if Ashfaq Textile Mills gets PKR. 100/- capital from the investors, they will have to pay PKR. 9.01 as interest to the investors.

5.3.4.2 - Feroze Textile Mill

WACC Calculation	
Description	**Figure**
Risk Free Rate	10.10%
Market Return	19.38%
MRP	9.28%
Beta	-0.018
Corporate Tax rate	33%
Cost of Equity	9.93%
Cost of Debt	8.38%
After Tax Cost of Debt	5.61%
Weight of Equity	55.54%
Weight of Debt	44.46%

WACC	8.01%

Feroze Textile Mills had an average weight of debt and Equity as 44.46% and 55.54% respectively. Applying these figures on the WACC formula the WACC for Feroze Textile Mills came out to be 8.01%. This implies that if Feroze Textile Mills gets PKR. 100/- capital from the investors, they will have to pay PKR. 8.01 as interest to the investors.

5.3.4.3 - Yousaf Textile Mill

WACC Calculation	
Description	**Figure**
Risk Free Rate	10.10%
Market Return	19.38%
MRP	9.28%
Beta	0.940
Corporate Tax rate	33%
Cost of Equity	18.82%
Cost of Debt	9.79%
After Tax Cost of Debt	6.56%
Weight of Equity	9.80%
Weight of Debt	90.20%
WACC	7.76%

Yousaf Textile Mills had an average weight of debt and Equity as 90.20% and 9.80% respectively. Applying these figures on the WACC formula the WACC for Yousaf Textile Mills came out to be 7.76%. This implies that if Yousaf Textile Mills gets PKR. 100/- capital from the investors, they will

5.3.4.4 - Shahtaj Textile Mill

WACC Calculation	
Description	**Figure**
Risk Free Rate	10.10%
Market Return	19.38%
MRP	9.28%

Beta	-0.040
Corporate Tax rate	33%
Cost of Equity	9.73%
Cost of Debt	6.58%
After Tax Cost of Debt	4.41%
Weight of Equity	36.72%
Weight of Debt	63.28%
WACC	6.36%

Shahtaj Textile Mills had an average weight of debt and Equity as 63.28% and 36.72% respectively. Applying these figures on the WACC formula the WACC for Shahtaj Textile Mills came out to be 6.36%. This implies that if Shahtaj Textile Mills gets PKR. 100/- capital from the investors, they will have to pay PKR. 6.36 as interest to the investors.

5.3.4.5 - Zephyre Textile Mill

WACC Calculation	
Description	**Figure**
Risk Free Rate	10.10%
Market Return	19.38%
MRP	9.28%
Beta	0.913
Corporate Tax rate	33%
Cost of Equity	18.57%
Cost of Debt	8.79%
After Tax Cost of Debt	5.89%
Weight of Equity	25.22%
Weight of Debt	74.78%
WACC	9.09%

Zephyre Textile Mills had an average weight of debt and Equity as 74.78% and 25.22% respectively. Applying these figures on the WACC formula the WACC for Zephyre Textile Mills

came out to be 9.09%. This implies that if Zephyre Textile Mills gets PKR. 100/- capital from the investors, they will have to pay PKR. 9.09 as interest to the investors.

Chapter # 6

Findings

6.1 - Findings

This section of the report is all about what we have found out in our research regarding the strategic and financial analysis that we have done for our client. This section would be explaining different strategical and financial thresholds that our client needs to maintain if they want to enter in the Pakistan textile industry. All points which would be discussed in this section are all result of the previous chapter's effort. First of all, our research helped us to understand the basic difference between two countries and how textile industry of two countries differ. Secondly, we will also explain basic financial number which our client needs to maintain if they want to invest in Pakistan textile industry and also compete efficiently with local players.

6.2 - Comparative Analysis

Our comparative findings are the result of what we had done in chapter 3, our interview with the client and our industry visit to U.S Apparels and Kohinoor Mills Ltd. These interactions helped us in gaining some insights about industry which are below in detail.

6.2.1 - Overview of countries and textile industries

Pakistan had become independent in 1947 and China also got their freedom in 1949. So, both countries started their journey around the same time. However, china is on the path to become super-power in coming decades while Pakistan is facing internal and external challenges to keep itself there on the path of development. Following is the snapshot of the textile industry in the two countries:

Pakistan	China
Textile is the backbone of country's economy.	Textile is the basis of foreign exchange earnings.
It is 4th largest producer of cotton, 6th largest importer of raw cotton and 3rd largest consumer of cotton.	It depends mainly on import of cotton and its related items.

It is the 8th largest exporter of textile products.	It is also largest exporter of all type of clothing products.
Mainly skilled labor force with low labor rate, with focus on growing of cotton, ginning and spinning.	Mostly are equipped with latest technologies, but labor rate was high as compared to Pakistan.
It has an organized sector on large scale level and fairly ill-organized on small scale level.	From the era of 70's the government devoted a lot of resources to develop this industry.

6.2.2 - Textile industry 1949-2015

Pakistan after its independence, shifted its focus to industrialization in 1950s, with majorly focused on textile sector. In 1960s, many mill owners started to import latest technologies to get maximum out of the whole textile process. In the same era, economic policies and industry reforms were introduce by Chinese governments that resulted in increase in output. The era of 70s was not good for both Pakistan and china. Pakistan due to its separation with East Pakistan was facing issues of losses in textile industry. While china also suffered with same issue due to an earthquake and political instability. Things was going in right direction when respective governments adopted right policies in 80s era. In the 90s, government of Pakistan exempted machinery from duties to make the industry strong. This was also done due to fulfill the demand for quality fabric. While on the other side, factories there in china started expansion to meet international demands. With the new century began China, Bangladesh and India appeared as major competitors while Pakistan was lacking with these players in the region. Here below are the decade-wise details of both countries:

Years	Pakistan	China
50s	Industrialization era with textile at its center.	Economic policies were introduced after 1949.
60s	Focus was changing towards usage of imported machinery	Development of synthetic fiber industry.

	but labor force was not much skilled or trained.	
70s	Mismanagement of cotton export was resulting in heavy losses.	An earthquake and poor political scenario negatively impacted the growth of textile. Later on, emphasis was on textile and consumer industries.
80s	Industry was nourished due to friendly policies and international demand.	Open door policies adopted in this era. Economic reforms to boost exports.
90s	Government of Pakistan exempted machinery from duties to make the industry strong.	Expansion of factories to interior regions from coastal towns.
99-08	Exports grew at the rate of 16% till 2006. After that, regional competition was becoming fierce.	China became regional leader in textile market with India and Bangladesh.
2009	In Pakistan, energy crisis and gas shortage declined the textile production.	In china, this sector faced issues due to financial crisis.

6.2.3 - Economic impact

Pakistan's industry was failing to capitalize on latest technologies used in other developing countries. On the other side, china took full advantage of such technologies. Moreover, Pakistan also lagged behind man-made fiber production in which china was excelling from 60s. As a result, Pakistan exported only yarn, while other regional players exported impressive and branded fashionable products for international clients. That's why share of textile of Pakistan in global

trade fall rapidly in the year from 2006-2013, in contrast to china and other countries. Pakistan's textile trade was only $3.5 BN while china surpassed the $55 BN mark. Comparison of economic impact of two countries are as:

Pakistan	China
15 MN people works – 40% of workforce	20 MN people works
Technological-upgrade scheme was not utilized for investment.	China took advantage of it and other players as well.
Failed in expansion and improvement in the product range.	Opted man-made fiber in 60s.
Unable to meet international demand because they did not opt man-made fiber to increase the product range.	Able to fulfill international demand because they opted man-made fiber to increase the product range.
Exported 13% of textile, mainly yarn, to china.	Most brands are made in china and then exported to other markets.
In 2013, textile trade was $3.8 bn.	Crossed the $55 BN mark.
56% of all earning came from export of textiles.	20% of the total export is mainly from textile and clothing products.
Global share in textile sector was 1.8% in 2013.	Global share in textile was 37% in 2013.

6.3 - Financial considerations

Any new entrant needs some key information about numbers in the shape of different ratios, betas, Rd, Re and WACC to better assess the situation of industry. Firstly, key ratios of both sectors will be discusses. After that, we will tell you about the other important insights which would help our client in making their decision.

6.3.1 - Composite sector

Decision of investment will be depending solely on Client. If our client invests in composite, our client will definitely face fierce competition as companies in this sectors has financial backing of big groups. Our client has to maintain its current ratio to 1.15 as per industry average of our

sample. This means that our client would have the ability to pay off its liabilities with its current assets. Our client should have less dependency on short term borrowings and payables.

The other important ratio is of gross profit margin which indirectly have impact on net profit margin. Our client has to achieve gross margin target of 14% by efficiently producing the goods to be sold. This will help in increase in gross profit margin. If our client is able to control its expenses, then it will also result in higher net profit margin ratio. One of the important consideration for any investor is how much return he will get in return by investing certain amount of capital. The management of company needs to maintain its ratio to 0.18 as per average, if they want to go for public in near future. So, this ratio is important for both management and shareholders. Debt is the cheapest source of raising capital in most of the countries. Companies, especially new entrants are highly inclined towards this source of raising capital. The management must not go beyond the average debt ratio of 0.29 or 29% to raise capital. Otherwise, it will be difficult for the client to maintain its position in the market or to further raise the capital to operate in market.

Ratios	Nishat Chunian	Nishat Mills	Kohinoor Mills	Blessed Textile	Mehmood Textile	Gul Ahmed Textile	**Industry Average as per SAMPLE**
Current Ratio	0.98	1.29	0.86	1.44	1.33	1.00	1.15
Quick Ratio	0.49	0.77	0.60	0.43	0.49	0.39	0.53
Cash Ratio	0.02	0.38	0.12	0.05	0.13	0.02	0.12
Gross Profit Ratio	0.14	0.16	0.11	0.14	0.12	0.16	0.14
Net Profit Ratio	0.04	0.11	-0.03	0.05	0.04	0.02	0.04
Return on Equity	0.13	0.10	-1.20	0.18	0.15	0.09	-0.09
Return on Invested Capital	0.23	0.12	0.22	0.09	0.22	0.22	0.18
Debt - Equity Ratio	0.68	0.08	1.79	0.52	0.30	0.59	0.66
Debt - Capital Ratio	0.38	0.08	0.41	0.31	0.23	0.36	0.29
Total Assets Turnover	1.13	0.68	0.99	1.62	1.86	1.24	1.25
Fixed Assets Turnover	1.81	0.99	1.72	2.69	3.89	3.14	2.37

Table 6.1: Industry ratios (Source: Author's work)

6.3.2 - Weaving sector

The other sector for which client showed interest is weaving. The numbers are more or less same as of composite sector. Client has to maintain its current ratio to 1.33 as per industry average of our sample. This means that our client would have the ability to pay off its liabilities with its current assets.

Company to operate here in Pakistan successfully have to maintain gross profit margin to 11%. Gross profit margin is all remaining balance after deducting COGS from sales. Company should have to focus on reducing their COGS portion to get maximum in the form of gross profit margin.

One of the important concern for any investor is how much return he will get in return by investing certain amount of capital. The management of company needs to maintain its ratio to 0.17 as per average. Finally, the management must not to go beyond the average debt ratio of 0.29 or 29% to raise capital. Otherwise, it will be difficult for the client to maintain its position in the market or to further raise the capital to operate in market.

Ratios	Yousaf Textile	Ashfaq Textile	Shahtaj Textile	Zephyr Textile	Feroze Textile	Industry Average as per SAMPLE
Current Ratio	0.87	2.50	1.21	0.75	1.32	1.33
Quick Ratio	0.52	1.90	0.82	0.38	0.78	0.88
Cash Ratio	0.05	0.31	0.02	0.04	0.12	0.11
Gross Profit Ratio	0.09	0.14	0.10	0.10	0.14	0.11
Net Profit Ratio	0.00	0.04	0.02	0.00	0.04	0.02
Return on Equity	0.02	0.08	0.13	0.00	0.07	0.06
Return on Invested Capital	0.15	0.16	0.21	0.21	0.15	0.17
Debt - Equity Ratio	2.99	0.08	0.45	0.65	0.25	0.89
Debt - Capital Ratio	0.75	0.06	0.30	0.36	0.15	0.32
Total Assets Turnover	1.68	1.22	1.84	0.97	0.98	1.34
Fixed Assets Turnover	2.65	1.91	3.58	1.62	2.07	2.37

Table 6.2: Industry ratios (Source: Author's work)

6.3.3 - WACC

6.3.3.1 - Composite sector

WACC as discussed in detail in Chapter 4 and 6, companies have to pay %age of their income in the form of interest to those from which they raised their capital to operate. Detailed analysis of composite sector helped us in finding out the average cost of capital. This sector has WACC of 11% which means that new entrant which is our client have to pay 11% on the capital raised through equity or debt.

Ratios	WACC
Nishat Chunian	15.62%
Nishat Mills	17.90%
Kohinoor Mills	7.89%
Blessed Textile	7.20%
Mehmood Textile	8.58%
Gul Ahmed Textile	9.12%
Average	11%

Table 6.3: Industry WACC (Source: Author's work)

6.3.3.2 - Weaving sector

WACC as discussed in detail in Chapter 4 and 6, companies have to pay %age of their income in the form of interest to those from which they raised their capital to operate. Detailed analysis of composite sector helped us in finding out the average cost of capital. This sector has WACC of 8% which means that new entrant which is our client have to pay 8% on the capital raised through equity or debt.

Ratios	WACC
Yousaf Textile	7.76%
Ashfaq Textile	9.01%
Shahtaj Textile	6.36%
Zephyr Textile	9.09%
Feroze Textile	8.01%
Average	8%

Table 6.4: Industry WACC (Source: Author's work)

Chapter # 7

Conclusion

7.1- Conclusion & Recommendations

After going through all the analysis and findings we can clearly say that Pakistan's Textile industry is one of the biggest industry in the country. The industry contributes a major portion to country's economy. Though there have been many tough phases in the textile industry, but companies have managed to survive that period and still been able to get good revenues. There are certain elements that industry needs to improve in order to compete with the international competitors. These elements include advancement in technology, increased focus towards exports and many more. Shortage of power is also one of the major concern for the textile mills operating in Pakistan. This shortage has added an additional cost in company's financial statements where they have to build a power generation and backup power source for their plant, which enables them to work when there is no energy source available from Government resources.

Our client Evolving Logix should think about a strategy before entering into the Textile industry of Pakistan. Though Pakistan's Textile industry is progressing day by day after 2013 crisis, but still there are certain areas they lack behind. So in case our client wants to invest in textile industry they should keep this point in mind. Moreover, Textile mills in the country are backed by some strong groups that can support them in case they find some financial difficulty in running the operations. Our client on the other is a company back by two investors who have earned a reasonable amount to start their own businesses. They hence in order to compete with the Pakistani Textile companies should find a different strategy to enter into the market. The best strategy to enter into a market is by finding some investors who can join hands with Evolving Logix and build a partnership company to compete with other rivals of the industry.

Similarly, Evolving Logix by taking into account our findings should not enter into the composite sector of textile. The reason for this would be the amount of investment needed to build such large facility. Company, in contrast, should try to enter into the market by focusing on a smaller sector like weaving. This will enable company to understand the textile industry as whole and they then can enter into other sectors by learning the insights and better market knowledge will enable them to succeed accordingly.

In order to operate in any industry across any country requires capital. Similar is the case with Pakistan's Textile Industry, where all the players need to have some access to the resources over a period of time. Evolving Logix in this case should keep into account the Weighted Average Cost of Capital (WACC) that they have to pay as a cost of acquiring capital. They should keep in mind the cost associated with each sector of Textile industry, which have been calculated in the previous chapter.

Adding to what stated above, Evolving Logix should consider the current political collaboration between Pakistan and China regarding China Pakistan Economic Corridor (CPEC). This political collaboration between the two governments will open a new door of trade for the two countries across the globe. Pakistan's Government in this regard is encouraging companies to invest in Pakistan, this can act as a good motivator for Evolving Logix to invest in Pakistan.

Summing it all up, we will say that Pakistan's Textile Industry is progressing day by day. Governmental policies are providing better trade structure through CPEC, which will provide better opportunities for companies like Evolving Logix. But even then Evolving Logix should take into account different aspects of the report while taking any decision and should develop a complete road map of how and when they want to enter into the Textile Industry.

References

- Ahmed, Y. (2013). Textile industry of Pakistan. Horizon securities
- Awan, G. K., Sarwar, g., & Siddique, K. (2015). The impact of generalized scheme of preferences (GSP +) on Pakistan's textile exports. International journal of economics, Commerce and management
- Ahmed, Y. (2013). Textile industry of Pakistan. Horizon securities.
- Collins, Rob. 2010. "A Graphical Method for Exploring the Business Environment." Technical
- Drake, Pamela Peterson. 2006. "Financial ratio analysis."
- February 2011 Edition. "An introduction to PESTEL analysis." Housing Industry Association 4. Castilla
- Grant, Robert M. n.d. contemporary strategy analysis
- Goran Karanovic, Sinisa Bogdan, Suzana Baresa. n.d. Fianacial Analysis Fundament for Assessment of the value of the company. Croatia: University of Rijeka
- Hamid, N., Nabi, I., & Zafar, R. (2014). The textiles and garments sector: Moving up the value chain. The Lahore journal of economics
- Investopedia.com (2003). Beta. In. Retrieved from http://www.investopedia.com/terms/b/beta.asp#ixzz4HsGftNmb
- Investopedia.com (2003). Weighted average cost of capital - WACC. In. Retrieved from http://www.investopedia.com/terms/w/wacc.asp#ixzz4Hy2UVLNx
- Kaplan. 2009. Foundation of Financial reporting and analysis
- Kotler, P. n.d. Marketing Management – Analysis, Planning, Implementation, and Control, 9th Edition. Englewood Cliffs: Prentice-Hall
- Pakistan Economic Survey-2014-15, Ministry of Finance, Government of Pakistan
- Pasha, A. H. (2014). GSP plus status and compliance of labor standards
- Porter, Michael E. 1980. Competitive strategy: techniques for analyzing industries and competitors. New York: free press
- Quick, R., & Schmülling, L. (2022). A New Approach to Preferences: The Review of the European GSP Scheme. Global Trade and Customs Journal, Issue 1, pp. 9–15
- Retrieved from: http://gulahmed.com/
- Retrieved from: http://www.feroze1888.com/
- Retrieved from: http://www.kohinoormills.com/

- Retrieved from: http://mahmoodgroup.com/
- Retrieved from: http://www.nishat.net/
- Retrieved from: http://www.nishatmillsltd.com
- Retrieved from: http://www.shahtaj.com/
- Retrieved from: http://www.tdap.gov.pk/
- Retrieved from: http://www.umergroup.com/
- Retrieved from: http://www.yousafweaving.com/
- Retrieved from: http://www.zephyr.com.pk/
- Shad, R., M. (2012). An assessment of opportunities for the EU's enhanced engagement with Pakistan. Journal of European studies
- State Bank of Pakistan Annual Report – 2014-2015
- S.H. CHUNG, A.H.L Lee, W.L.Pearn. 2005. "Analytic netwrok process approach for product mix planning in semiconductor fabricator." International journal of Producation Economic
- Waqan, S., M. (2015). Export boost of textile industry of Pakistan by availing EU's GSP plus status. Journal of economic library

FYP Plagiarism

ORIGINALITY REPORT

7%	7%	2%	%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	www.ukessays.com Internet Source	1%
2	www.slideshare.net Internet Source	<1%
3	www.iajet.org Internet Source	<1%
4	www.scribd.com Internet Source	<1%
5	slideshare.net Internet Source	<1%
6	mmoore.ba.ttu.edu Internet Source	<1%
7	2012books.lardbucket.org Internet Source	<1%
8	acknowledgementsample.com Internet Source	<1%
9	library.fes.de Internet Source	<1%

10	"crisis in textile industry", University/Business and Administrative studies/Economics/Economic Systems, 2010-09-28 Publication	<1%
11	www.utrade.co Internet Source	<1%
12	www.ptj.com.pk Internet Source	<1%
13	en.wikipedia.org Internet Source	<1%
14	www.e-itm.net Internet Source	<1%
15	Memon, Noor Ahmed, Dr.. "Vital weaving sector in Pakistan needs more investment and attention to perform optimally.(Market ov", Pakistan Textile Journal, June 30 2015 Issue Publication	<1%
16	eprints.utar.edu.my Internet Source	<1%
17	www.iptu.co.uk Internet Source	<1%
18	www.studymode.com Internet Source	<1%

19	Publication	<1%
20	www.docstoc.com Internet Source	<1%
21	"ANNUAL 2015.", Pakistan & Gulf Economist, August 23 2015 Issue Publication	<1%
22	rand.org Internet Source	<1%
23	bizfinance.about.com Internet Source	<1%
24	raptor1.bizlab.mtsu.edu Internet Source	<1%
25	www.google.co.in Internet Source	<1%
26	www.sbp.org.pk Internet Source	<1%
27	higheredbcs.wiley.com Internet Source	<1%
28	www.brainia.com Internet Source	<1%
29	naija-currentnews.blogspot.com Internet Source	<1%
	econstor.eu	

30	Internet Source	<1%
31	documents.mx Internet Source	<1%
32	www.kpmg.com Internet Source	<1%
33	pages.stern.nyu.edu Internet Source	<1%
34	www.khjt.com.cn Internet Source	<1%
35	studenttheses.cbs.dk Internet Source	<1%
36	www.cottoninc.com Internet Source	<1%
37	sticerd.lse.ac.uk Internet Source	<1%
38	www.mlandp.com Internet Source	<1%
39	www.bignerds.com Internet Source	<1%
40	www.universityofcalicut.info Internet Source	<1%
41	philipchristian.com Internet Source	<1%

42	lopez-holdings.ph Internet Source	<1%
43	www.veteranstoday.com Internet Source	<1%
44	"Pakistan textile industry facing new challenges.", Pakistan Textile Journal, Oct 31 2015 Issue Publication	<1%
45	www1.radio.gov.pk Internet Source	<1%
46	www.brecorder.com Internet Source	<1%
47	www.rcci.org.pk Internet Source	<1%
48	archive.org Internet Source	<1%
49	www.simplestudies.com Internet Source	<1%
50	www.onehealth.se Internet Source	<1%
51	www.medimaging.jp Internet Source	<1%
52	associationforexportdevelopment.com Internet Source	<1%

53	"VALUE-ADDED TEXTILE INDUSTY MUST BE A FOCUS OF ATTENTION TO BOOST EXPORTS.", Pakistan & Gulf Economist, March 27 2016 Issue Publication	<1%
54	Draganac, Dragana. "Comparative analysis of functional food producers' profitability in Serbia: A leader-follower relation", Ekonomika poljoprivrede, 2016. Publication	<1%
55	faculty.lahoreschool.edu.pk Internet Source	<1%
56	Financial Management Practices, 2013. Publication	<1%
57	jru.edu.in Internet Source	<1%
58	Gubbi, Sathyajit R. Elango, B.. "Resource deepening vs. resource extension: impact on asset-seeking acquisition performance. (RESEARCH", Management International Review, May 2016 Issue Publication	<1%
59	coursehero.com Internet Source	<1%
80	"Tessera Technologies Announces Second	<1%

Quarter 2015 Results.(Financial report)", Business Wire, August 3 2015 Issue
Publication

81	www.fiberopticsensors.co.uk Internet Source	<1%
82	boi.gov.pk Internet Source	<1%
83	Memon, Dr. Noor Ahmed. "Pakistan ranks as one of the major woven fabrics suppliers. (Statistical data)", Pakistan Textile Journal, June 30 2012 Issue Publication	<1%
84	Frank Hagenstein, Tim Bangemann. "Active Fixed Income and Credit Management", Springer Nature, 2002 Publication	<1%
85	Khan, Aftab A.. "Pakistan Textile Industry Facing New Challenges", Research Journal of International Studies/1453212X, 20100501 Publication	<1%
86	"Growth oriented textile policy to yield positive outcome.", Pakistan Observer (Islamabad, Pakistan), March 13 2015 Issue Publication	<1%