

PAKISTAN



Sector of Large Scale Manufacturing	Weight	Apr-23	10MFY23
Textile	18.2%	-33.3%	-17.9%
Food	10.7%	-5.9%	-8.5%
Coke & Petroleum Products	6.7%	-20.4%	-11.2%
Chemicals	6.5%	-7.9%	-6.4%
Fertilizers	3.9%	-2.6%	-8.8%
Chemicals Products	2.6%	-15.1%	-3.0%
Wearing Apparel	6.1%	2.1%	27.4%
Pharmaceuticals	5.2%	-32.0%	-24.3%
Non Metallic Mineral Products	5.0%	-24.5%	-11.8%
Beverages	3.8%	-10.1%	-3.8%
Iron & Steel Products	3.5%	-10.2%	-4.7%
Automobiles	3.1%	-75.5%	-45.6%
Tobacco	2.1%	-61.6%	-27.5%
Electrical Equipment	2.1%	-28.1%	-13.1%
Paper & Board	1.6%	-25.4%	-7.1%
Leather Products	1.2%	-0.9%	2.2%
Other transport Equipment	0.7%	-49.3%	-39.6%
Furniture	0.5%	-15.9%	40.6%
Fabricated Metal	0.4%	-26.1%	-15.1%
Machinery and Equipment	0.4%	-43.3%	-45.5%
Other Manufacturing (Football)	0.3%	3.5%	30.8%
Rubber Products	0.2%	-13.4%	-8.6%
Wood Products	0.2%	-9.8%	-64.0%
Computer, electronics and Optical products	0.0%	-37.8%	-27.7%
		-21.1%	-9.4%

Source: PBS, Foundation Research, June 2023

Analyst

Zeeshan Azhar zeeshan@fs.com.pk
 +92 213 5612290 Ext 331

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Large Scale Manufacturing

Industrial growth remains downbeat

LSM decreased by 21.1%YoY in Apr'23

LSM declined by 21.1% YoY (down 9.8% MoM) during Apr'23 pushing 10MFY23 decline to 9.4% YoY amid slowdown in economic activity due to (1) import restrictions on raw materials, (2) highest ever interest rates and (3) record inflation amid sharp currency depreciation. Growth in Apr'23 was witnessed in Wearing Apparel (↑2.1%) and Other Manufacturing - Football (↑3.5%). Whereas, all other sectors declined, noticeably, Textile (↓33.3%), Food (↓5.9%), Coke & Petroleum (↓20.4%), Non-Metallic minerals (↓24.5%), Iron & Steel (↓10.2%), Chemicals Products (↓15.1%), Fertilizers (↓2.6%), Pharma (↓32.0%), Autos (↓75.5%), Machinery & Equipment (↓43.3%), Electrical Equipment (↓28.1%), Furniture (↓15.9%), Beverages (↓10.1%).

Textile, Food, Iron & Steel, Chemicals and Electrical Equip declined

Textile sector declined by 33.3% YoY given decline of 29.9/17.5% YoY in spinning/weaving due to fall in cotton production amid record floods. Looking ahead, we are cautious as exports would continue to be impacted by economic slowdown in export markets, resulting in tepid demand for textiles. Food segment declined 5.9% YoY as sugar, bakery & chocolate products/wheat and rice milling fell by 92.5/4.3% YoY. Whereas, cooking oil/vegetable ghee increased by 5.0/16.7% YoY.

Chemicals were down by 7.9% YoY as Chemical products fell by 15.1% YoY given that toilet soaps/sulphuric acid/paints and varnishes (s) declined by 34.4/54.7/4.4% YoY. Whereas, Fertilizers fell by 2.6% YoY given Phos/Nit declined by 18.2/0.3%.

Iron & Steel production was down by 10.2% YoY as billets/ingots declined by 25.9% and H/C.R.Sheets/Strips/Coils/Plates inclined by 0.2% YoY. Electrical equipment fell by 28.1% YoY given decline in batteries/motors/transformers/refrigerators/deepfreezers of 14.3/22.1/48.9/33.7/59.6%.

Pharma, Autos, NMM, Beverages and Coke/Petroleum also decreased

Pharmaceuticals decreased by 32.0% YoY on the back of 33.0/37.1% decline in tablets/syrups. Whereas, injections/capsules grew by 9.4/18.9%. Autos registered a decline of 75.5% YoY given 80.1/57.4/63.5/74.4/31.7% YoY fall in cars/jeeps/LCVs/trucks/buses. Likewise, Motor cycles sales declined 49.7% YoY. Going forward, we believe that in the medium-term, auto industry would decline given plant shutdowns due to import ban on CKD kits, rising car prices, and high interest rates. Non Metallic Minerals decreased by 24.5% YoY due to decline in glass/cement production by 29.3/23.8% YoY. Beverages production fell by 10.1% YoY given 22.7% YoY decrease in Juices, syrups & squashes. Coke and Petroleum declined by 20.4% YoY as MS/HSD/FO/solvent naphtha decreased by 12.9/32.4/22.0/3.1% YoY.

Wearing Apparel showed growth

Wearing Apparel witnessed growth of 2.1% YoY in Apr'23 given strong domestic demand for local products even as exports of garments/knitwear/bedwear declined by 29.5/34.1/21.7% YoY in Apr'23.

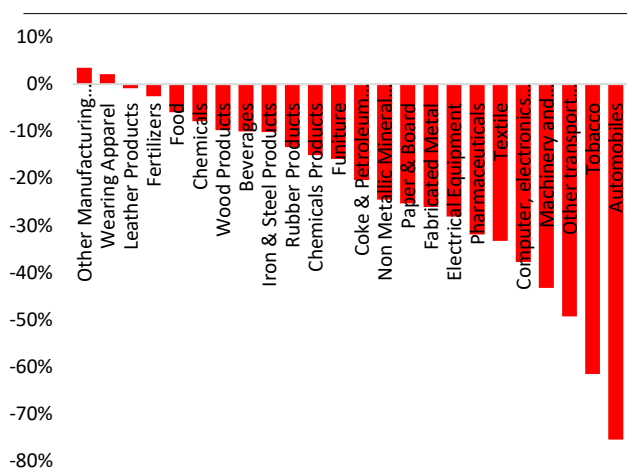
Outlook

We expect LSM growth would continue the downtrend in 1HFY24 given slowdown in domestic and external economic activity on account of (1) import restrictions imposed by Gov't, (2) high interest rates and record inflation amid sharp exchange rate depreciation, (3) increase in fuel and energy prices, (4) withdrawal of concessionary electricity tariff for export industries and (5) shortage of gas.

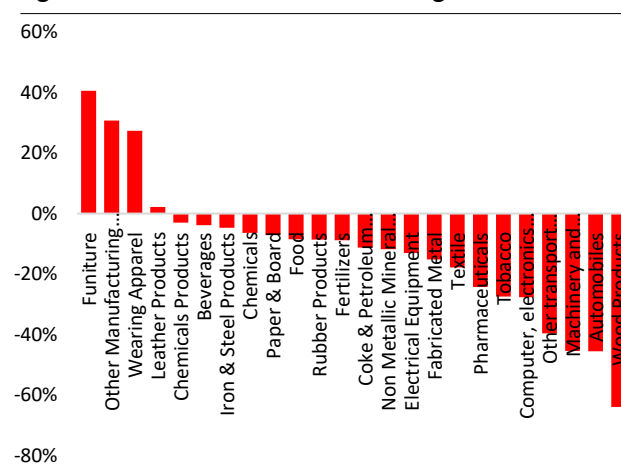
Table 1: LSM growth rates

Sector wise breakdown	Weights	FY20	FY21	FY22	10MFY22	10MFY23
Textile	18.2%	-14%	18%	3%	4%	-18%
Food	10.7%	13%	22%	8%	11%	-9%
Coke & Petroleum Products	6.7%	-20%	18%	1%	1%	-11%
Chemicals	6.5%	2%	12%	9%	9%	-6%
<i>Fertilizers</i>	3.9%	4%	7%	3%	3%	-9%
<i>Chemicals Products</i>	2.6%	-3%	21%	19%	17%	-3%
Wearing Apparel	6.1%	-13%	-23%	49%	41%	27%
Pharmaceuticals	5.2%	-2%	10%	14%	3%	-24%
Non Metallic Mineral Products	5.0%	-3%	22%	1%	0%	-12%
Beverages	3.8%	-8%	4%	1%	1%	-4%
Iron & Steel Products	3.5%	-17%	5%	16%	16%	-5%
Automobiles	3.1%	-51%	66%	47%	51%	-46%
Tobacco	2.1%	-24%	12%	16%	14%	-27%
Electrical Equipment	2.1%	-30%	-2%	0%	-1%	-13%
Paper & Board	1.6%	0%	3%	17%	16%	-7%
Leather Products	1.2%	-10%	-26%	1%	1%	2%
Other transport Equipment	0.7%	-26%	36%	-11%	-11%	-40%
Furniture	0.5%	-38%	171%	180%	225%	41%
Fabricated Metal	0.4%	-24%	9%	-4%	-6%	-15%
Machinery and Equipment	0.4%	-34%	50%	15%	14%	-45%
Other Manufacturing (Football)	0.3%	-9%	-17%	43%	39%	31%
Rubber Products	0.2%	3%	-15%	-16%	-19%	-9%
Wood Products	0.2%	-39%	-39%	115%	135%	-64%
Computer, elect & Opt prod	0.0%	-26%	-26%	4%	1%	-28%
Overall LSM		-11.0%	11.6%	11.9%	10.7%	-9.4%

Source: PBS, Foundation Research, June 2023

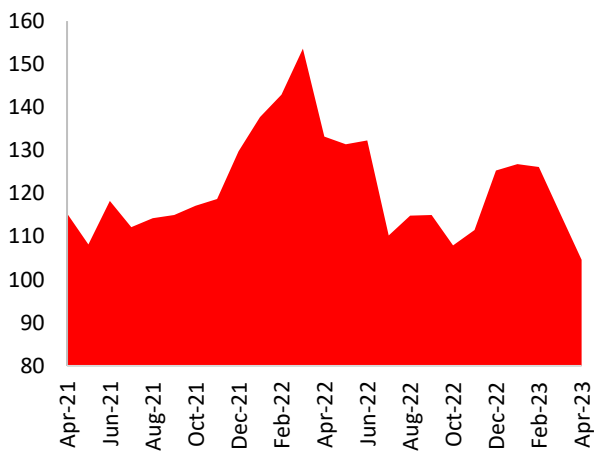
Fig 1: Growth of various sectors during Apr'23

Source: PBS, Foundation Research, June 2023

Fig 2: Growth of various sectors during 10MFY23

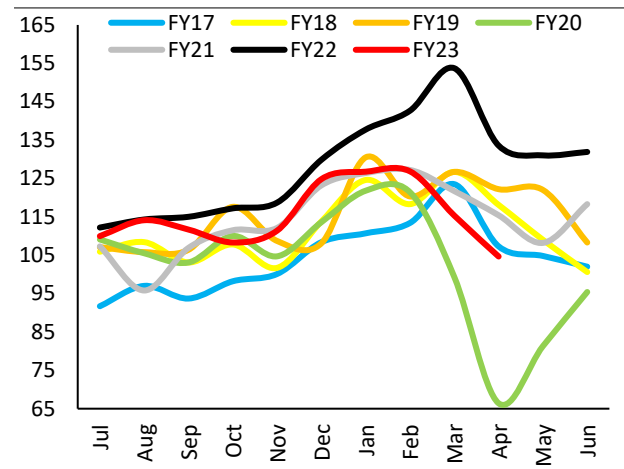
Source: PBS, Foundation Research, June 2023

Fig 3: LSM index declined 21.1% YoY in Apr'23



Source: PBS, Foundation Research, June 2023

Fig 4: : LSM index displays marked seasonality



Source: PBS, Foundation Research, June 2023

Acronyms

- FY Fiscal year
- HSD High Speed Diesel
- MoM Month on Month
- YoY Year on Year

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If	
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Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.