BUSINESS RECORDER
Founded by M.A. Zuberi

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Analyses & Comments by BR Research

Mixed bag for textile

Textile is a story of two worlds – 70 percent of the market is exports as per the textile players, and is doing better than what it was a year back – margins are good, operators are now regionally competitive, and new market avenues are opening up due to ongoing trade war between US and China. The problem is capacity, and sooner or later, it will grow (read: "Textile ready to take off", published a few months back).

The problem is in the other world of textile –catering to the domestic market. In the past ten years, virtually all the expansion was in the domestic market while exports remained stagnated. The taxation was not much and the many players used to hide domestic sales under the name of exports. Now that bonanza is over, and the issue of taxation is making the domestic industry cry.

Till last year, all the hue and cry was from the exporting segment on currency, energy and other factors. While they used to say that local market is small and insignificant, we are not making much money. Key is exports and look at it. Now, all of the sudden, local market grew and is apparently becoming the road block in exporters' capacity building (read "Textile's crocodile tears", published couple of month back).

Having said that, there are some genuine concerns of the local market, that needs addressing. And the problem is not confined to textile, and is spread across the board of domestically consumed retailing products. The FBR is rightly trying to bring retailers and traders into the tax net. But since majority of the retailers are not ready, at this point, to share their required CNIC details on purchase of goods, the effects are being felt across the chain.

Manufacturers produce goods and sell it to registered distributors and wholesalers, who in turn sell to retailers, and retailers to end users. This is a simple chain, and now majority of retailers are not ready yet to come in the documentation chain – and that is adversely affecting the others.

In case of textile, the chain is longer. There are layers of manufacturers and traders within the value chain of textile – from ginners to spinners to yarn traders to grey cloth manufacturer to dyer to final good producer to distributor to retailer. Like all other industries, the buck stops at the retailer. Now the FBR has given some form of extension of not cracking down on retailer till September end, but manufacturers have to show the documentation chain from start of August.

That problem is arising for manufacturers. The machines are producing goods, but buyers are not coming. There is a limit to hold inventory, and there is no reduction in cost, while the cash flows from buyers are withheld. That is creating liquidity problem, and at such interest rates, financing is costly. Traders have low fixed costs and they can live longer than manufacturers – some of the mills are reportedly closed temporarily.

Some are moving to sell to new layer of illusionary or fake distributors. Benami distributors are being added; and some have come into the business of producing fake ID cards. When the FBR comes for grab, the fake ID cardholder will vanish. Shabbar must keep an eye on it.

There is a liquidity issue for exporters as well. The promissory note against stuck refunds does not have sovereign cover and banks are not ready to lend against these. Then the WHT is increased from 1 percent to 4 percent and according to industry sources, not everyone in the chain has gross margins of 4 percent. That may need a revisit.

All these problems might be resolved sooner or later. Things are moving in the right direction but at a snail's pace. Everything is hung in balance at this point –more talks and less implementation.