7

Corporate Sector

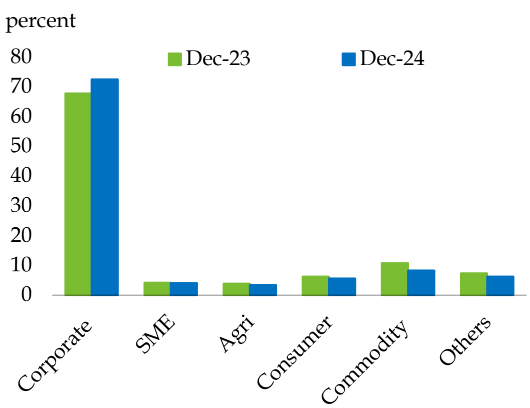
Corporate sector showed resilience with slight deterioration in debt-servicing capacity in the wake of tough but gradually improving economic conditions in CY24. The corporate sector strived to maintain its profit margins by managing finance cost; this effort was aided by declining interest rates specially in the second half of CY24. Moreover, credit off-take to private sector started reviving in the wake of policy rate cuts in the second half of CY24. The large borrowing groups of the banking sector have steady repayment capacity with sound financial performance and standing. Accordingly, delinquencies in banks' corporate loans remained well-contained. Further, mostly concentrated in higher brackets, the credit-risk rating profile of firms also suggested a strong ability to honor financial obligations and the recent increase in firms' valuations further augmented their overall financial soundness. Going forward, continued improvements in macro financial conditions and successful completion of structural reforms in the economy remain key determinants of corporate sector's overall performance.

7 Corporate Sector

A sound corporate sector is a pre-requisite for financial stability

Corporate sector loans constitute a little less than three-fourth of the banking sector's loan portfolio. Its financial performance and repayment capacity, therefore, has a direct bearing on the overall stability of the banking and financial system **(Figure 7.1)**.

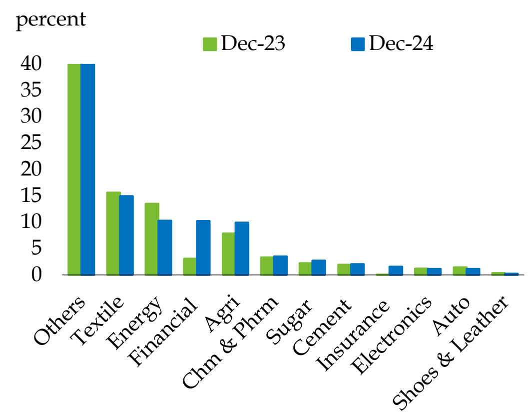
Segment-wise Share in Bank Advances **Figure 7.1**



Source: State Bank of Pakistan

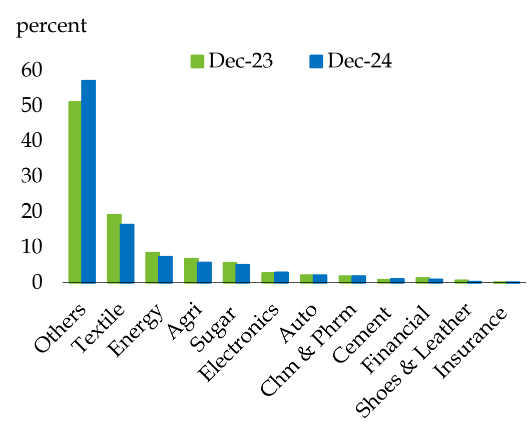
In terms of sector-wise share in total loans, textile sector has the highest share followed by energy and agriculture sectors **(Figure 7.2)**. Other sectors such as cement, sugar, auto and chemicals & pharmaceuticals constitute a smaller portion of the banks' lending exposure. Nonetheless, all these sectors have significant contribution in economic growth, and in turn their financial soundness depends on overall performance of the economy. Any adverse shock to the economy, therefore, could weaken the repayment capacity of these sectors and asset quality of banking sector may deteriorate as a result **(Figure 7.3)**.

Sector-wise Share in Bank Advances **Figure 7.2**



Source: State Bank of Pakistan

Sector-wise Share in NPLs **Figure 7.3**



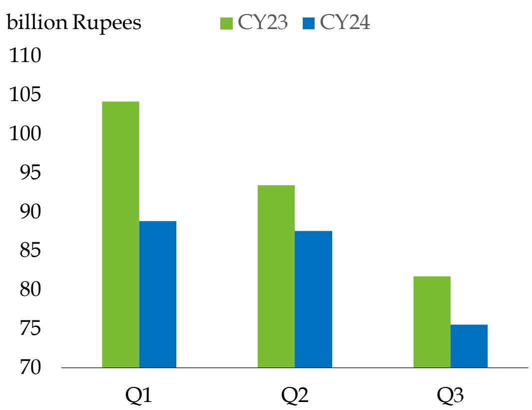
Source: State Bank of Pakistan

Amidst improving economic conditions but weak demand, corporate sector managed finance cost to support profit margins…

Despite higher finance cost (which fell in second half of CY24), depressed demand and overall difficult economic conditions during the last three years, the corporate sector continued its operational and financial resilience in CY24

(**Table 7.1**).[1] This resilience mainly stemmed from management of finance costs through deleveraging (net advances in first nine months of CY24 remained below level of net advances at December 2023) and steady retention of after-tax profit (**Table 7.2**). The credit off-take to private sector started reviving and it sharply increased in Q4CY24 in response to cut in policy rate by SBP from June 2024 onwards as well as the banks' efforts to meet ADR-linked tax requirements by the end of December 2024. On aggregate basis, reduction in finance cost during the second half of CY24 was a major factor that supported profit margins of the corporate sector in CY24 as compared to last year. Moreover, comparison of CY23 and CY24 depicts that finance cost was lower in first three quarters of CY24 as compared to the first three quarters of the previous year (**Figure 7.4**).

Finance Cost Trends **Figure 7.4**



Source: State Bank of Pakistan

7.1 Financial Assessment of Corporate Sector

Due to stressed but gradually improving macroeconomic conditions and subdued demand, corporate sector witnessed weak growth in its balance sheet in CY24.[2] Corporate sector's assets increased merely by 1.4 percent in CY24, on a YoY basis, while total current assets of the sector suffered a decline, mainly due to reduction in cash and bank balances. On liabilities side, current liabilities also declined due to deleveraging in the corporate sector. Revenue (Sales) of the corporate sector have also been on a declining trend, with gross profit and profit from operations also exhibiting similar pattern.

Reduction in other income[3] and finance cost were major factors which impaired profit before tax of the corporate sector. Due to declining interest rates, especially in the second half of CY24, other income declined due to which the corporate sector was able to reduce its finance cost.

Profitability ratios of the corporate sector also witnessed gradual slowdown due to reduction in sales and weak growth of balance sheet. However, corporate sector has adequate cash and liquid assets, as reflected in a stable current ratio. Similarly, debt repayment indicators such as interest coverage ratio showed slight deterioration while financial leverage remained steady. All these indicators illustrate that, despite tough conditions during H1CY24, the corporate sector was able to manage its repayment obligations **(Table 7.1)**.

A DuPont analysis further reveals that corporate sector benefitted from steady retention of after-tax profit in CY24 in comparison to last year. On the other hand, operating profit margin of the corporate sector declined in CY24 as compared to the previous year along with slightly lower contribution in profitability from efficiency in utilization of assets and financial leverage. At an overall level, Return on Equity (ROE) decreased

[1] The analysis is conducted on a sample of 100 non-financial companies listed on the Pakistan Stock Exchange, serving as a representative subset of the larger corporate sector. The 100 NFCs constitute around 79 percent of total assets of the listed non-financial firms.
[2] In this section, balance sheet is as of September 30, and income statement is for nine months of CY23 and CY24.
[3] 'Other Income' rose abnormally in 9MCY23 mainly due to modification of finance lease of a company within the Oil & Gas Exploration sector. Due to this reason, 'Other income' in 9MCY24 seems low in comparison to 9MCY23.

mainly due to decline in operating profit margin in CY24 **(Table 7.2)**.

Financials of Listed Non-financial Companies* — Table 7.1

	CY23	CY24	Growth (Period)
	billion Rupees		percent
Balance Sheet			
Non-Current Assets	4,278	4,495	*5.1*
Current Assets	6,250	6,178	*-1.2*
Total Assets	10,528	10,673	*1.4*
Shareholders' Equity	5,031	5,448	*8.3*
Non-Current Liabilities	1,287	1,333	*3.6*
Current Liabilities	4,210	3,892	*-7.6*
Total Equity & Liabilities	10,528	10,673	*1.4*
Income Statement			
Sales	8,761	8,633	*-1.5*
Cost of sales	7,136	7,227	*1.3*
Gross profit / (loss)	1,625	1,406	*-13.5*
General, admin. & other expenses	565	566	*0.3*
Other income / (loss)	377	290	*-23.2*
EBIT	1,438	1,129	*-21.4*
Financial expenses	279	252	*-9.8*
Profit / (loss) before taxation	1,158	877	*-24.2*
Tax expenses	500	380	*-23.9*
Profit / (loss) after tax	658	497	*-24.5*
Key Financial Ratios			
	percent		
Gross Profit Margin	18.6	16.3	
Net Profit Margin	7.5	5.8	
Return on Equity	17.4	12.2	
Return on Assets	8.3	6.2	
Asset Turnover	111.0	107.9	
Capital to Total Assets	60.0	63.5	
	Units (Times)		
Current Ratio	1.5	1.6	
Debt Equity Ratio	1.1	1.0	
Debt to Capital Employed	0.9	0.8	
Interest Coverage Ratio	5.1	4.5	
Financial Leverage	2.1	2.0	

*Nine-month Financial data of 100 listed NFCs, representing 79 percent of total assets of all listed NFCs.
Sources: Capital Stake and State Bank of Pakistan

ROE - DuPont Analysis — Table 7.2

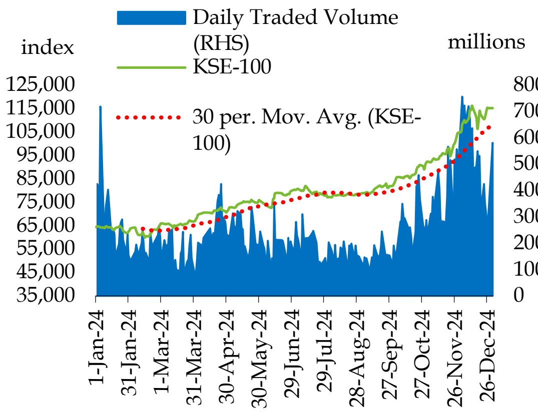
	Ratio unless specified	
	CY23	CY24
Tax Retention Rate (A)	0.57	0.57
Interest Burden (B)	0.81	0.78
Operating Profit Margin (C)	0.16	0.13
Asset Use Efficiency (D)	3.3	3.2
Financial Leverage (E)	2.1	2.0
Return on Equity (ROE) % (A×B×C×D×E)	17.4	12.2

Source: Capital Stake

7.2 KSE-100 Index

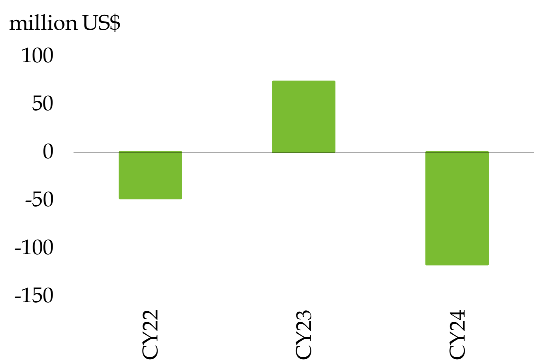
The KSE-100 index witnessed a remarkable growth in CY24 due to expectation of further improvement in macroeconomic conditions, anticipation of policy rate cuts during the year and successful engagement with the IMF **(Figure 7.5)**. Specially, in the second half of CY24, the index showed stellar growth attributed to positive momentum in key sectors such as fertilizer, oil & gas, commercial banks, technology & communication and textile amid declining interest rates and stable exchange rate. Despite net selling by foreign investors in the stock market (**Figure 7.6**), higher purchases by local investors more than offset the outflow.

KSE-100 Index During CY24 — Figure 7.5



Source: Pakistan Stock Exchange

Net-Foreign Investor Portfolio Investment — Figure 7.6



Source: National Clearing Company of Pakistan Limited

7.3 Sectoral Analysis

In order to understand sectoral dynamics, the performance[4] and risk analysis of a few major sectors are given below:

Textile

Pakistan's textile exports increased by 5.9 percent to US$ 16.7 billion in CY24 on the back of diversion of orders to Pakistan from regional peers[5] and tariffs on China. Furthermore, the recovery in textile exports was also supported by improving macroeconomic conditions, including decline in inflation, exchange rate stability, and a reduced policy rate that lowered borrowing costs and stimulated investment.

Although Pakistan's textile exports have improved in CY24, the sector is impacted by structural issues such as low domestic cotton production,[6] increasing dependence on imported cotton, high (input) energy costs[7] and general low value-addition of the sector.

According to the Finance Act, 2024, there have been some developments in tax and duty structure on textile sector such as revision of tax regime for direct and indirect exporters, super tax on exporters, enhancement in rate of sales tax etc.[8] This may increase federal tax revenue but will also impact textile exports in the future.

Within the overall textile sector, profitability of the composite subsector was satisfactory while the profitability of spinning and weaving sub-sectors faced pressure due to lower profit margins and higher finance cost. Further, the sector displayed adequate liquidity and repayment capacity, which bodes well for overall financial soundness of the sector.

In terms of advances, the textile sector made net retirements due to high interest rates in the first half of CY24, however, the advances increased in the remaining half as interest rates fell by 900 basis points (bps) to 13 percent during the period.

Power Sector

The power sector comprises of firms involved in the generation and distribution of electricity.

Due to subdued domestic demand and higher prices of electricity in CY24, demand for electricity also declined, causing overall power generation to *contrac*t by 4.5 percent on YoY basis to 124,808 GWh.

Pakistan's power sector faces chronic issues such as systemic inefficiencies (transmission and distribution losses), underutilized generation capacity, growing circular debt[9] etc., which are exacerbated by global oil price changes, and movements in rupee-dollar parity. Due to these challenges, industrial and residential consumers ended up paying high cost for electricity.

The source of power generation (thermal, hydel, renewable energy etc.) is an important factor for generation cost of electricity, which in turn determines price of electricity for the end consumers. Thermal sources of power generation costs highest, with renewable energy

[4] Analysis of financial performance of each sector within this section is based on financial statements data provided by Capital Stake.

[5] Due to conflicts in Bangladesh, some textile export orders were diverted to Pakistan

[6] Cotton production reached around 5.3 billion till December 2024 following a bumper cotton crop of around 10.2 million bales in FY24. For FY25, production target is 10.8 million bales which, given current cotton production trend, seems difficult to achieve. The country is expected to have an approximate 40-50 percent shortfall.

[7] Power tariff for industrial consumers is around 14 cents/kWh, up from around 9 cents/kWh during 2020-22 period, while gas tariff was hiked to Rs. 2,750/MMBtu for captive and Rs. 2,150/MMBtu for non-captive users.

[8] Exporters are now subject to super tax, which was previously not applicable to their income due to it being under final tax while sales tax is enhanced to 18 percent from 15 percent on supplies of textiles and leathers.

[9] Power sector circular debt was around Rs 2.3 trillion by November 2024. Circular Debt Report - November 2024, Ministry of Energy (Power Division)

being the cheapest source.[10] During the last five years, the share of thermal power as a source of power generation is decreasing while the share of nuclear power and renewables is increasing.[11]

On financial performance, the sector demonstrated satisfactory profitability and adequate debt repayment capacity.

Segment-wise share in advances shows that the power sector saw a decrease in advances in the first two quarters of CY24 but increased in the next two quarters as interest rates started falling.

Fertilizer Sector

Fertilizer sector's sale was 8.2 million metric tons in CY24, lower by 0.2 percent than CY23 on a YoY basis. Within overall fertilizer sales, Urea sales decreased by 1.0 percent, while DAP sales increased by 3.0 percent on a YoY basis in CY24.

Urea off-take remained low against projected demand in Kharif 2024 (April to September, 2024) due to low wheat prices and significant reduction in cotton acreage in Punjab and Sindh. However, the end of the year saw a rise in fertilizer sales: DAP off-take increased in October 2024 due to disbursement of interest free loans to small farmers by the Government of Punjab through Kissan Card for purchase of Agriculture inputs (seed and fertilizer). This package is also expected to increase urea offtake in December 2024.

The major raw material of the fertilizer industry is feedstock gas, a natural gas delivered through the pipelines. The government used to provide feedstock gas at a subsidized rate to support the agricultural sector ensuring fertilizers were available at a lower price to farmers. The subsidized gas led to manufacturers generating higher margins. However, in 2024 the government decided to eliminate the subsidy as part of reforms under the IMF program. Nevertheless, profitability of the sector remained strong in CY24 with robust liquidity and sound repayment capacity.

Cement Sector

Cement sector witnessed a 10 percent decrease in production, falling to 37.6 million tons in CY24 from 41.8 million tons last year. The decline in production was mainly due to weak local demand, low construction activity and high input costs.[12] Accordingly, total sales of the sector declined by 5.5 percent (YoY) to 44.1 million tons in CY24. Within overall sales, exports increased rapidly in CY24 due to resumption of construction activity in Afghanistan and Sri Lanka.

Despite the decline in sales volumes, local cement manufacturers witnessed a rising trend in revenues due to the higher prices, which reflected that the increased cost of production is being passed on to the consumers. As a result, cement manufacturers successfully maintained their margins. Accordingly, profitability ratios of the sector are resilient and the sector has ample liquidity and capacity to meet its repayment obligations.

The cement sector witnessed net retirements during the first three quarters of CY24, after which advances increased in Q4CY24.

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[10] In CY24, average generation cost of power (from thermal sources) comprised around 50 percent of the end-consumer tariff, net of taxes. The cheapest sources of fuel are renewable energy sources followed by hydel energy. HSD and RFO continued to be the most expensive fuel sources for power supply. However, their combined share in the country's generation mix is around 2.5 percent of total generation mix of the country. On the other hand, power produced from local coal has been the cheapest among fossil fuels during CY24 at an average cost of Rs. 11.6/kWh. The cost of imported coal clocked in at Rs. 17.2/kWh in CY24.

[11] Thermal plants as a source of power generation is decreasing from 60 percent in CY20 to 49 percent in CY24 while the share of nuclear energy and renewables has increased from 7 percent and 3 percent respectively in CY20 to 17 percent and 5 percent respectively in CY24.

[12] The price of cement is highly dependent on the price of coal. the price of coal fluctuated between US$ 100 -115/ton for most of CY24.

Petroleum sector

Petroleum sector sales decreased by 4.2 percent to 16.5 million metric tons in CY24 as compared to the previous year. This decline may be attributed to subdued demand for petroleum products on the back of higher prices.

For oil & gas marketing companies, demand for petroleum products is a major driver of revenue. Major demand drivers for petroleum products are the transport, industry and power sectors of the country. Transport is the biggest fuel consuming sector followed by industry and the power generation sector. The consumption by power generation sector suffered a significant decline in CY24 due to shift of many power plants from furnace oil to cheaper and more environmentally friendly alternatives such as nuclear power and renewable energy.

In Pakistan, the pricing of petroleum products is based on five components: (a) ex –refinery price, (b) Petroleum Development Levy[13] (PDL) & Sales Tax (ST), (c) In-land Freight Equalization Margin (IFEM), (d) distribution margin of Oil Marketing Companies and (e) commission of petrol pump dealers.

On an aggregate level, profitability of oil & gas exploration and oil & gas marketing companies remained satisfactory with the sector demonstrating adequate repayment capacity.

Automobile sector

In terms of number of vehicles (volume), automobile production and sales witnessed a broad-based increase (29 percent and 32 percent, respectively) in CY24, mainly due to easing of import restrictions, less plant shutdowns and falling interest rates. There was strong growth in all sub-segments of automobile production and the sales increase for all sub-segments such as passenger cars, trucks, buses, jeeps & pickups except tractors, which observed negative growth due to sales tax imposed on tractors.[14] Competition in the automotive sector in Pakistan has increased with South Korean and Chinese manufacturers gaining market share. However, Japanese manufacturers continue to dominate the market due to consumer preference for established brands. Moreover, there has been a shift in consumer preferences to the premium segment, with manufacturers introducing new cars in the Compact SUV and sedan segments. Additionally, new hybrid vehicles have been launched during the year, targeting high-income consumers. These developments indicate increasing competition in the sector which bodes well not only for the health of the automobile sector but also for the consumers to have a wide range of products at competitive prices.

As the sector remains traditionally rich in cash and enjoys handsome margins, the profitability ratios of the sector and ability to meet short-term obligations improved further and the sector demonstrated steady repayment capacity in CY24.

Sugar sector

Sugar production declined by 5.9 percent to 6.5 million tons in CY24. Although, indicative price of sugarcane increased in the three provinces, viz., Sindh, Punjab and KPK in CY24, the area under cultivation of sugarcane decreased on account of switching to other competing crops such as cotton and rice.

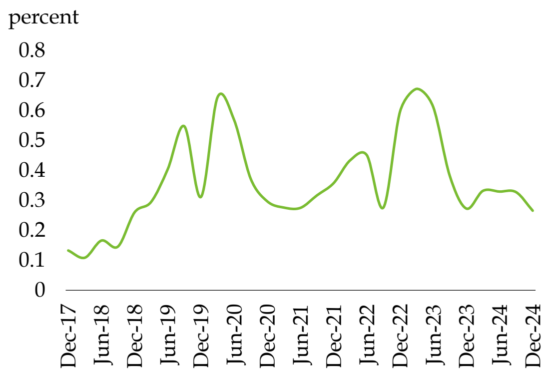
Corporate sectors' market-based resilience indicators improved during the year, mainly reflecting the increase in firms' valuations in anticipation of gradually improving operating conditions …

In line with resilience of corporate sector and gradually improving economic conditions, the

[13] The petroleum development levy as of July 2024 stands at Rs~60/liter for motor gasoline (MOGAS) and high–speed diesel (HSD)
[14] The sales tax issue was resolved in December 2024 and during the month tractor sales increased.

weighted average 1-year probability of default (PD) of selected firms of the corporate sector improved, as their valuations significantly increased over the year under review **(Figure 7.7)**.[15] The improvement was primarily due to anticipation of rate cuts from the beginning of CY24 (which materialized from June 2024 onwards), engagement with the IMF, reduction in finance cost which supported profit margins, stable exchange rate, and positive outlook of more conducive business environment.

Weighted average 1 year PD of Corporate Sector **Figure 7.7**



Source: Bloomberg and State Bank of Pakistan

As such, the corporate firms maintained financial soundness and decent operating performance despite erstwhile challenging macro-financial conditions.

…banking sector's leading borrowing firms demonstrated steady financial standing and adequate repayment capacity…

Given that banks' financial soundness is significantly influenced by the performance of their large borrowing firms; these firms and their business groups have systemic importance for the entire banking sector. Therefore, an assessment of banking sector's **top 30 borrowing groups** (along with their 221 identified firms) was carried out. These firms, together, account for around 31 percent of banks combined loan portfolio.

In CY24, top borrowing groups showed steady financial performance despite tough conditions early on and continued to show adequate debt repayment capacity. Further, banks in general continued to prefer lending to better rated firms (for details see **Box 7.1**).

Credit risk rating profile shows sound solvency position of corporate sector…

Third-party credit ratings provide an independent assessment of a firm's solvency, and capacity to honor financial obligations.

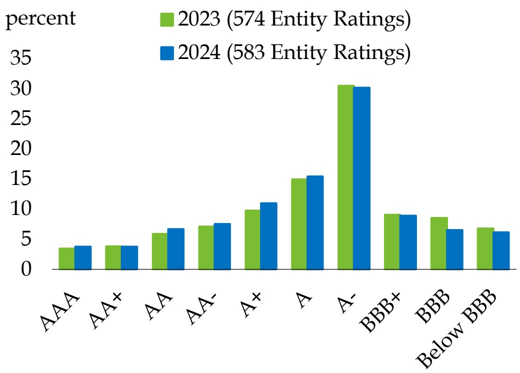
The number of rated companies in Pakistan increased from 574 in CY23 to 583 in CY24. Many companies in Pakistan rely on debt financing through banks or internal sources such as retained earnings and remain less reliant on capital markets for their funding needs.[16]

In Pakistan, the risk ratings universe is shared between two domestic credit rating agencies - the Pakistan Credit Rating Agency (PACRA) and VIS Ratings, with a combined total of 583 entity ratings in CY24.[17] The ratings universe is concentrated mostly in high rating categories (investment grade: AAA to BBB), representing 93.8 percent of the total **(Figure 7.8)**. Higher concentration in investment grade category can be attributed to the fact that majority of the rated entities are large corporate firms having sound

[15] The one year ahead probability of default (PD) demonstrates firms' credit risk and ability to honor short-term obligations. The PD, sourced from Bloomberg Inc., is based on Merton Model, which uses value of equity and volatility in stock prices to measure default probability. The overall PD here is weighted average of 424 companies listed on the PSX. The weights are determined by the market capitalization at the end of December 2024.
[16] In order to facilitate the growth of capital market and improve corporate governance regime, SBP aims to encourage firms to get themselves rated. Along with other tools, SBP incentivizes the large firms to get themselves rated by applying higher capital charge on banks' exposures on unrated firm whose total exposure exceeds Rs 3 billion.
[17] Only entity ratings are taken into account. The Credit Rating Agencies (CRAs) also issue other ratings, including Asset manager, IFS, Performance ranking etc.

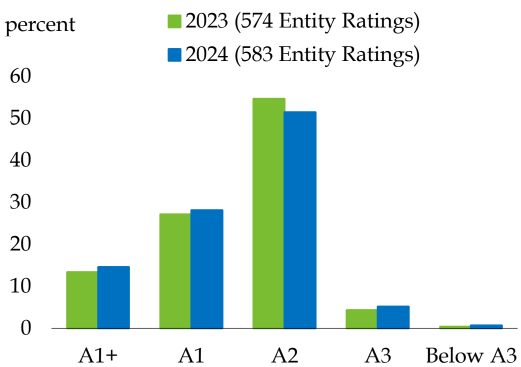
repayment capacity. Whereas, in terms of short-term ratings, a large majority of the firms (94.2 percent) were rated as A2 and above, which represents satisfactory capacity for timely repayment **(Figure 7.9)**.

Long-term Ratings of Companies **Figure 7.8**



Source: Pakistan Credit Rating Agency and VIS Credit Rating Company Limited

Short-term Ratings of Companies **Figure 7.9**



Source: Pakistan Credit Rating Agency and VIS Credit Rating Company Limited

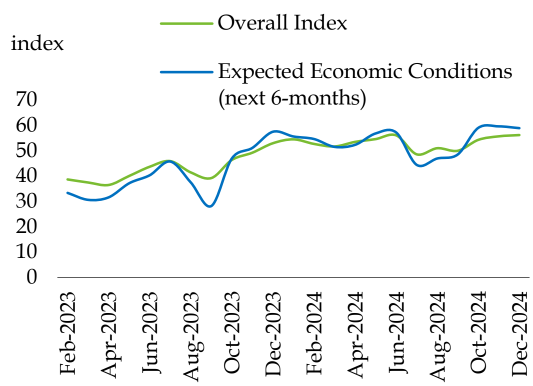
The overall rating profile of the corporate sector suggests that large corporate firms in Pakistan have the capacity to access long-term and short-term financing from capital markets to finance their capital expenditures and operating activities.

Corporate sector outlook

Due to stressed but gradually improving macroeconomic conditions and subdued demand, corporate sector witnessed weak growth in its balance sheet in CY24. However, with declining interest rates in the second half of CY24, credit off-take to private sector increased, signifying revival of production in the corporate sector.

Going forward, this gradual economic recovery is expected to continue in CY25. Recent consumer and business confidence surveys **(Figure 7.10)** indicate general economic conditions in the country to moderately improve in the next six months. These developments bode well for the performance and soundness of the corporate sector in the coming months.

Business Confidence Index **Figure 7.10**



Source: State Bank of Pakistan

The expected decline in inflation, pickup in demand and credit off-take amid overall improving macroeconomic conditions along with structural reforms in the economy, corporate sector revenues are poised for growth in CY25. In terms of financial soundness and debt repayment capacity, corporate sector was mostly successful in managing its liquidity and repayment obligations in CY24 and the same is expected to continue in CY25.

Box 7.1: Financial Performance and Soundness of Top Borrowing Groups of the Banking Sector

Corporate sector is a major client of bank loans, utilizing a hefty 72.5 percent of the total lending portfolio as of December 2024. The corporate sector also comprises a number of business conglomerates on which banks have taken exposure, potentially creating a credit concentration risk with systemic implication for the banking sector. To address the issue, SBP has put in place regulatory prudential limits on banks' exposure to a single borrower, borrowing group, and related party.[18] Moreover, prudential regulations also define the term 'large exposure' and prescribe an aggregate limit on large exposures. This box analyzes the repayment behavior and capacity as well as overall financial health of firms in the top borrowing groups of the banking sector on the following parameters:

a. Banks' own assessment of creditworthiness of large borrowers and borrowing groups, as captured through Obligor Risk Rating (ORR), assigned to each corporate sector borrower. The rating continuum goes from 1 to 12, with 1 to 9 denoting performing categories whereas 10 to 12 for non-performing categories.
b. Borrowers' repayment behavior in terms of any overdue payments in their loan obligations to banks.
c. Latest financial indicators of leading corporate borrowers as well as market-based indicators that show how investors value these firms.

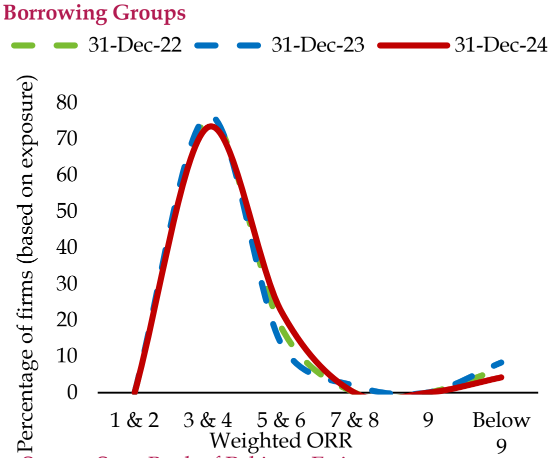
To accomplish this task, thirty (30) large borrowing groups, comprising 221 borrowers/firms, have been identified based on internal exercise conducted by SBP. This assessment considered factors/sources such as the ownership structure of the firm, regulatory returns, financial statements of the firms and information available on groups'/firms' websites etc. Further, groups with a fund-based exposure of Rs 55 billion and above are considered for this assessment, given their systemic risk implications.

Credit Worthiness of Top 30 Borrowing Groups based on their Obligor Risk Rating (ORR)

The creditworthiness of top 30 borrowing groups has been assessed based on their ORR assigned by banks. The 221 identified firms together constitute around 28.7 percent of the corporate/commercial lending portfolio of banks and DFIs at end of December 2024.[19]

Based on ORRs of different entities of the borrowing groups, overall average rating (weighted by size of loans) of each group was compiled. To assess the dynamics of credit worthiness of these groups, distributions of the weighted ORRs for last three years have been plotted. Assessment indicates that, on average, around three-fourths of the top 30 groups have at least good to medium (3 & 4) ratings. Nonetheless, major chunk of the firms in large borrowing groups, around 95 percent, has been consistently rated in performing category, viz., 1 to 9 (**Figure 7.1.1**).

Internal Credit Rating of Top 30 Borrowing Groups **Figure 7.1.1**



Source: State Bank of Pakistan Estimates

Outstanding loans to top 30 borrowing group increased by 27.2 percent (YoY) in CY24. This was largely driven by a surge in private sector credit toward the end of CY24, primarily resulting from monetary easing and banks' aggressive efforts to increase Advances-to-Deposit Ratio (ADR). The average internal credit rating profile of performing firms remained stable, although some migration was observed within performing category (ORRs 1 to 9) during CY24. Specifically, slight percentage of firms in bin (3&4) moved into lower rating bin (5&6). In terms of repayment capacity, however, the overall distribution implies that the borrowers' credit quality and repayment capacity has remained steady even in the face of low economic growth and tight financial conditions during the first half of CY24 **(Figure 7.1.1)**. It is important to note that around 64 percent of banks' corporate and commercial loan portfolio comprises of borrowers who have been rated by independent external rating agencies.

[18] Regulation R-1 of SBP Prudential Regulation for Corporate/Commercial Banking.

[19] This share was 31 percent at end of December 2023

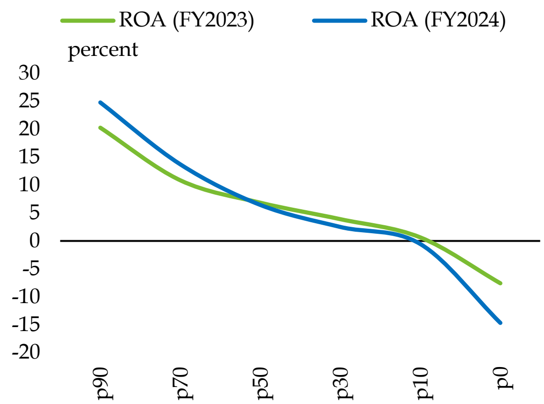
By and large, top 30 borrowing groups exhibited strong repayment capacity, except for a few groups (around 4.23 percent of total exposure) which fall under non-performing/overdue category. The non-performing borrowing groups were 8.28 percent of total exposure in prior year i.e. CY23.

Financial Soundness and Market Performance of Listed Firms of Top 30 Borrowing Groups

Out of the 221 identified firms in top 30 borrowing groups, 60 firms were listed on PSX. To analyze the financial soundness of these firms and assess how they are valued by the market, an assessment of these 60 listed firms was carried out using their financials and market-based indicators on the basis of available data for the financial year ended in 2023 and 2024.[20]

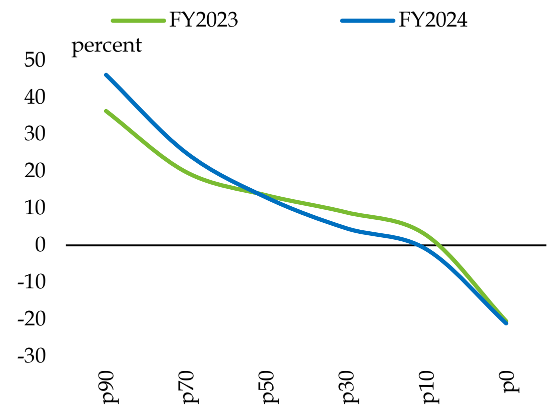
The financial year (FY) 2024[21] witnessed a slight respite in the overall stressed macroeconomic conditions, and the finance cost of the firms also declined due to monetary policy easing post May 2024; however, taxation expenses remained high leading to a mixed trend in earnings of the selected firms. On average basis, FY24 saw signs of improvement in the financial performance of the firms (**Figure 7.1.2 and Figure 7.1.3**).

Percentile Standing of Companies vis-a-vis ROA **Figure 7.1.2**



Source: Capital Stake

Percentile Standing of Companies vis-a-vis ROE **Figure 7.1.3**

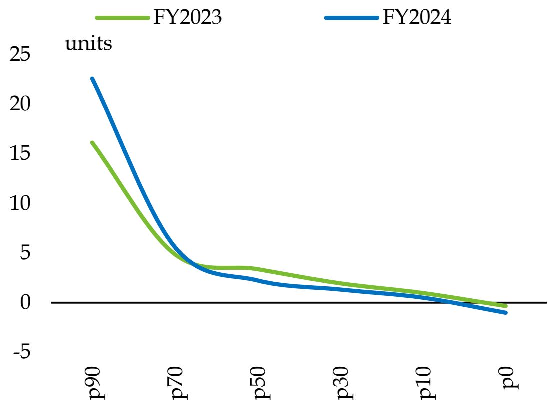


Source: Capital Stake

Similarly, the financial indicators related to repayment capacity of the firms improved primarily due to monetary easing during FY24, wherein majority of the firms in the sample demonstrated a comfortable interest coverage ratio (**Figure 7.1.4**). Sample firms faced a sluggish trend in current ratio over the year under review; however, the ratio of most of the firms remained in a comfortable zone, showing availability of ample liquidity cushions to honor their short-term financial obligations (**Figure 7.1.5**). Moreover, sample firms also showed a stable repayment behavior as there was decline in the delinquencies during the year under review.

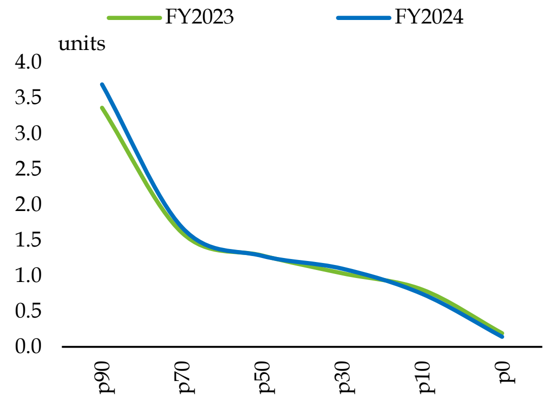
[20] Out of these, data of 17 firms was used for interim period i.e. 9-month period ended in September 2024 at the time of analysis.Where applicable, necessary adjustments have been made.
[21] FY here denotes financial year of the firm instead of usually understood fiscal year

Percentile Standing of Companies vis-a-vis Interest Coverage Ratio **Figure 7.1.4**



Source: Capital Stake

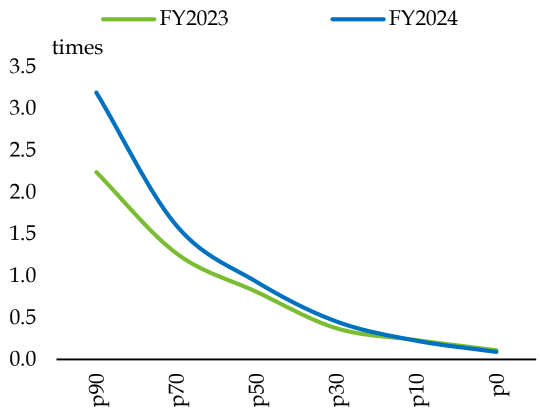
Percentile Standing of Companies vis-a-vis Current Ratio **Figure 7.1.5**



Source: Capital Stake

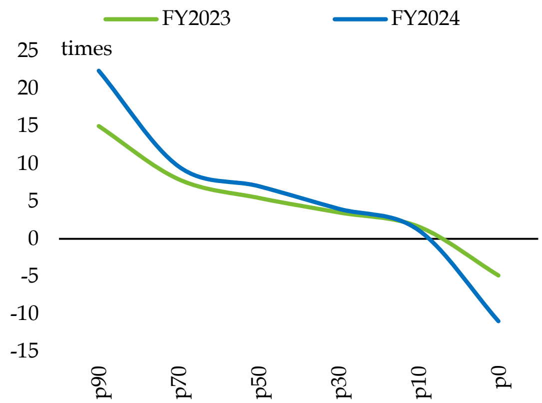
Investors in general, hold a positive sentiment about the stock/equity market, despite volatility and large movement in the market index during 2024. An analysis of market-based indicators of the selected firms shows that overall growth in price-to-book (P/B) and price-earnings (P/E) ratios of these firms was mainly driven by an increase in firms' stock prices (**Figure 7.1.6 and Figure 7.1.7**).

Percentile Standing of Companies vis-a-vis Price / Book Ratio **Figure 7.1.6**



Source: Capital Stake

Percentile Standing of Companies vis-a-vis Price / Earnings Ratio **Figure 7.1.7**



Source: Capital Stake

Conclusion

The yearly comparative position of ORRs and repayment behavior of the top 30 borrowing groups of the banking sector shows that these groups have generally maintained their creditworthiness with a good repayment behavior and bear a fair financial profile. The top borrowing firms also reflected relatively a resilient financial performance and continued to serve their financial obligations during the year under review.