



# Food Products

## Sector Study

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## Introduction

- This sector study includes biscuits & crackers, confectionery products, snacks/chips and condiments. These are collectively referred to as the “food products” industry.
- In terms of distribution channel, food products market is segmented into supermarkets/ hypermarkets, convenience stores, specialty retailers, online retailers and others. Prices of individual products are highly variable and depend on numerous factors such as brand, quantity, packaging, region, scale of operations, etc.
- **Biscuits & Crackers:** The global biscuits market reached a value of USD~110.7bln in CY21. Looking forward, the market is expected to reach a value of USD~151.7bln by CY27, exhibiting a CAGR of ~5% during the forecast period (CY2022-27). Major players of this segments are Britannia Industries Limited, Kellogg Company, Mondelez International Inc., Nestlé S.A. and Parle Products Private Limited.
- **Confectionery:** The global confectionery market reached a value of USD~177.7bln in CY21. Looking forward, it is expected that the market will reach USD~221.7bln by CY27, exhibiting a CAGR of ~4% during CY22-CY27.
- **Snacks/Chips:** The global potato chips market size reached USD~32bln in CY21. Looking forward, the market value is expected to reach USD~39bln by CY27, exhibiting a CAGR of ~3.1% during CY2022-2027. PEPSICO is one of the renowned names in this segment with its leading brand ‘Lays’.
- **Condiments:** The global condiments market is expected to grow from USD~142.5bln in CY21 to USD~155.2bln in CY22 at a CAGR of ~8.9%. With a slightly lower CAGR of ~7.2%, the market is expected to grow to USD~204.9bln by CY26.

## Product Portfolio

### Biscuits & Crackers

- Biscuit is a flour-based baked food product. It is defined as a small quick bread made from dough that has been rolled out and cut or dropped from a spoon. Similarly, crackers are flat, dry crunchy biscuits, usually square-shaped, made from wheat flour and yeast.

### Confectionery

- Confectionary food items include confections which are rich in sugar and carbohydrates. They are classified into two broad yet overlapping categories; bakers' confections and sugar confections.
- Bakers' confectionery, also called flour confections, includes principally sweet pastries, cakes, and similar baked items.
- Sugar confectionery includes candies/sweets, candied nuts, chocolates, chewing gum, bubble gum and other confections that are made primarily of sugar.

### Snacks/ Chips

- The savory snack market is segmented as Crisps/ Chips, Extruded Snacks, Nuts and Seeds, and popcorns.
- Given the rapid entry of new brands and growing urbanization, potato chips remain the consumer's favorite savory snack, especially among children and young adults.

### Condiments

- Condiments include sauces, spices or any preparation that is added to food, during cooking or eating, to impart/enhance the flavor, or to complement the dish.
- Condiments can either be simple (e.g. salt) or compound (e.g. sauces).



## Product Portfolio

### Biscuits & Cracker



Plain biscuits



Inclusion category



Sweet and hard



Digestive



Cream biscuits



Cookies

### Confectionery



Hard boiled sweets



Caramels & Toffees



Gums and Jellies



Mints



Chocolates



Cakes



## Product Portfolio

### Snacks



Crisps and chips



Extruded snacks



Nuts and seeds



Popcorn



Other product types

### Condiments



Spices



Pickles



Seasonings



Sauces

## Global Trade | Exports

- Among the four categories of food products, snacks/ chips were the highest traded item in CY21. The segment's exports grew by ~9% YoY and clocked in at USD~48,860mln in the same time period (CY20: USD~45,134mln).
- Almost USD~71bln worth of biscuits, confectionery, snacks/ chips and condiments were traded in CY21, almost the same as in the previous year, CY20.

### Global Exports (USD mln) | CY21

Biscuits & Crackers		Sugar Confectionery *		Snacks/Chips		Condiments	
Mexico	941	China	78	United States	6,183	European Union	1,979
Netherland	835	Canada	64	Singapore	5,196	China	1,867
Germany	806	Pakistan	51	Germany	4,551	United States	1,473
Belgium	615	Turkey	51	Netherland	3,678	Italy	1,085
Canada	441	UAE	49	China	2,351	Germany	877
Others	5,047	Others	704	Others	26,901	Others	5,286
<b>Global</b>	<b>8,685</b>	<b>Global</b>	<b>997</b>	<b>Global</b>	<b>48,860</b>	<b>Global</b>	<b>12,567</b>

\*Sugar confectionery; chewing gum, whether or not sugar-coated, not containing cocoa imports by country in CY21

## Global Trade | Imports

- In all the stated categories of Food Products, USA led the board as the top importing country in CY21, with total imports of USD~10,501 worth of food products (CY20: USD~8,077mln). In snacks/ chips market, the top importing countries (USA, Germany and Netherland) also remain in the category of top exporters.
- Other major destinations included China, European Union and United Kingdom.

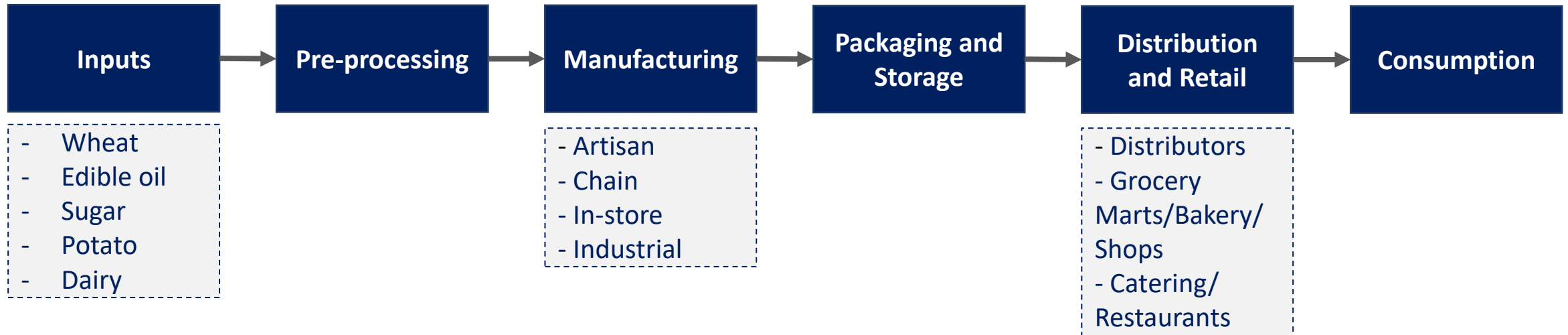
### Global Imports (USD mln) | CY21

Biscuits & Crackers		Sugar Confectionery *		Snacks-Chips		Condiments & Sauces	
United states	1,648	United States	109	United States	7,157	United States	1,587
France	528	U.A.E	61	China	4,070	European Union	908
Germany	521	European Union	51	Germany	2,254	United Kingdom	747
United Kingdom	453	Germany	45	Netherland	2,067	Germany	598
Netherland	372	South Africa	23	Canada	1,671	Canada	596
Others	5,163	Others	708	Others	31,641	Others	8,131
Global	8,685	Global	997	Global	48,860	Global	12,567

\*Sugar confectionery; chewing gum, whether or not sugar-coated, not containing cocoa imports by country in CY21.



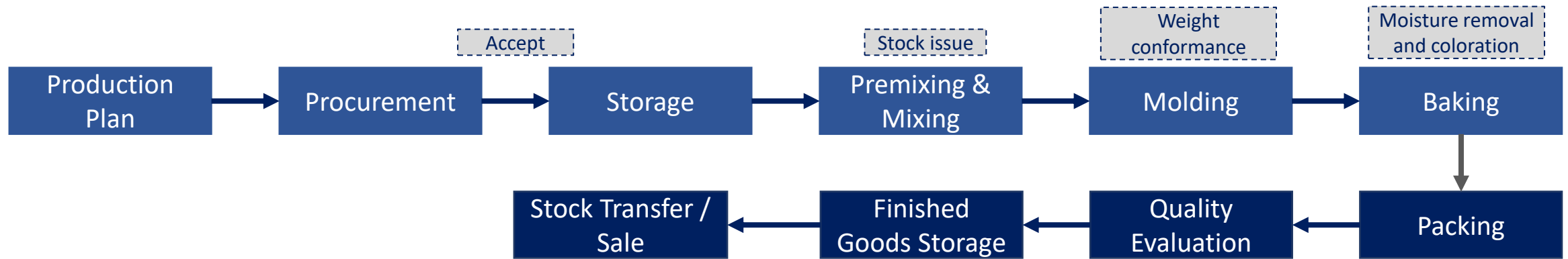
## Value Chain



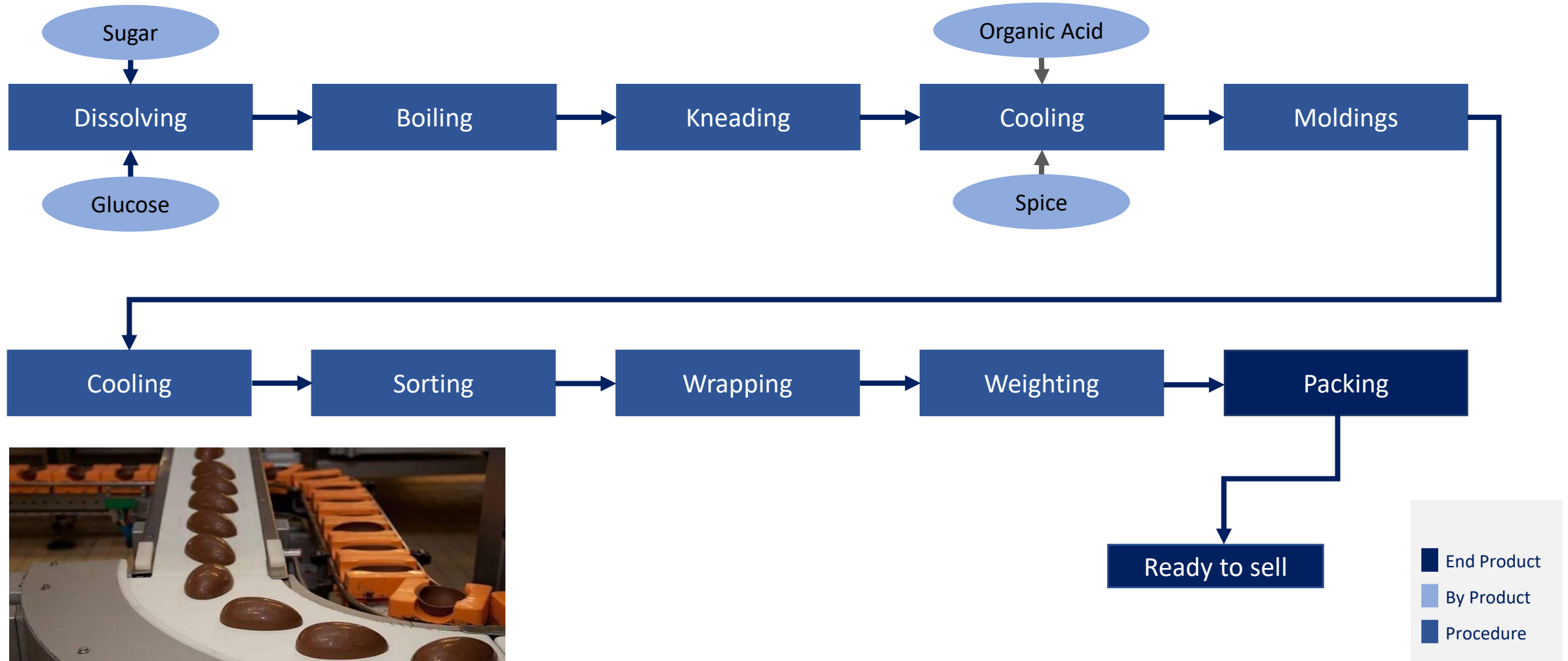
Food products' value chain is relatively simple and classified into six major steps –

- **Inputs:** Raw materials are procured and adequate inventory levels are maintained.
- **Pre-processing:** Raw materials are prepared [cut/ peeled/ kneaded] for manufacturing.
- **Manufacturing:** Semi-processed raw materials are converted into finished goods.
- **Packaging and Storage:** Finished goods are packed and stored.
- **Distribution and Retail:** Dispatch of finished goods to distributors, restaurants/ catering, retail outlets and stores.
- **Consumption:** Product is consumed by the final user.

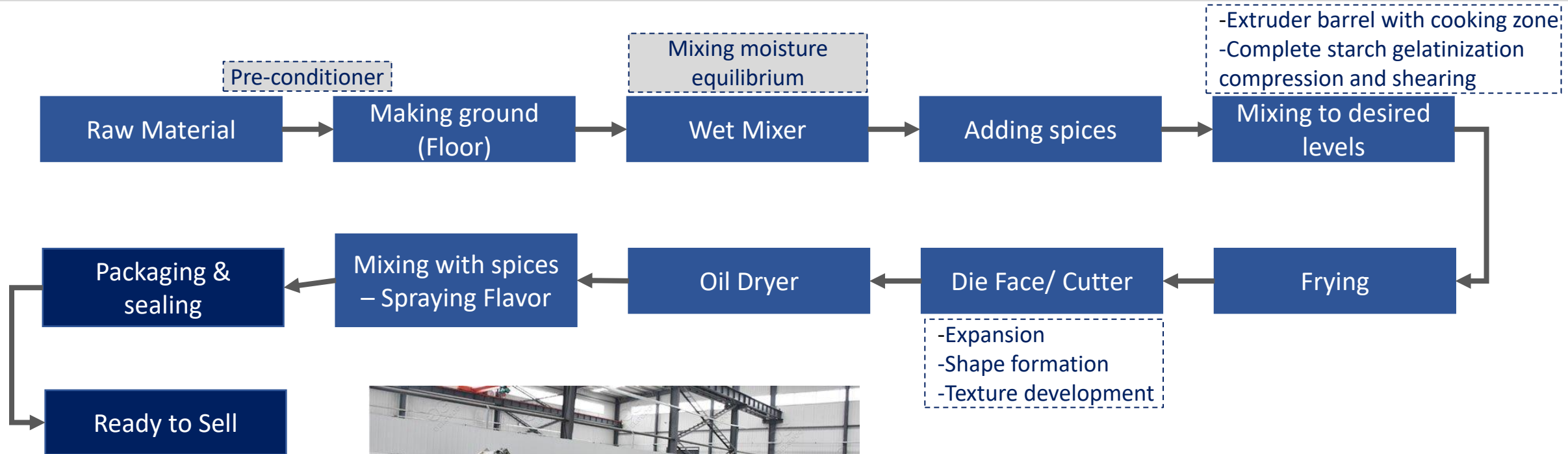
## Production Process | Biscuits & Crackers



## Production Process | Confectionery

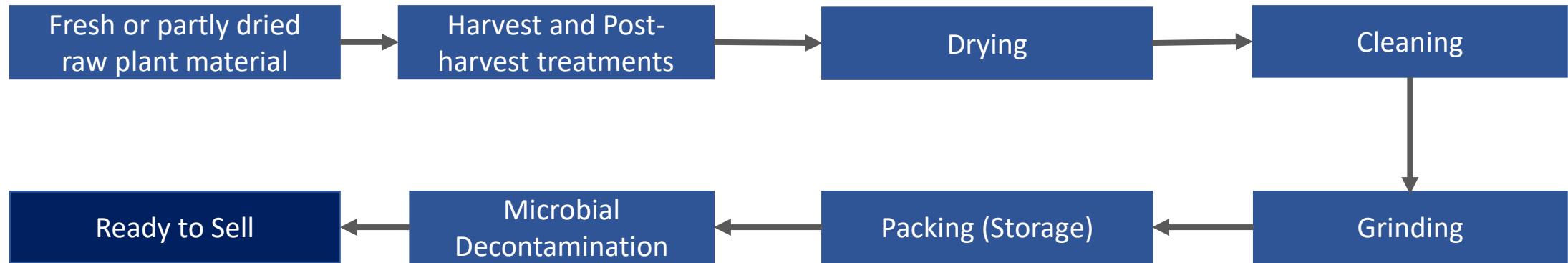


## Production Process | Snacks/Chips





## Production Process | Condiments



Domestic Snapshot		
	FY21	FY22
<b>Industry's Revenue – PKR mln</b>	53,608	69,196
<b>Revenue Growth</b>	13%	21%
<b>Condiments Revenue – PKR mln</b>	23,116	27,146
<b>Condiments Revenue Growth %</b>	20%	17%
<b>Pakistan Population mln</b>	223	228
<b>Consumption per capita mln</b>	292	347
<b>Regulatory Bodies and Associations</b>	Provincial Food Authorities, Pakistan Biscuit & Confectionery Manufacturers Association and Pakistan Association of Food Industries	

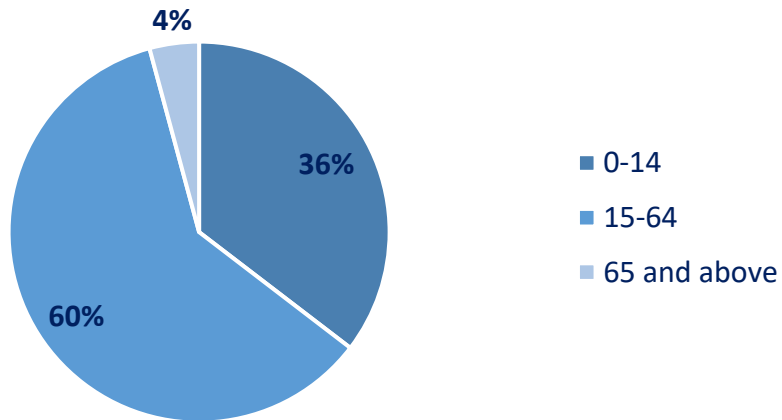
- Industry's market size, comprising - Biscuits & Cracker, Snacks/ Chips & Sugar confectionery, was recorded at PKR~69bln in FY22, which has increased by ~21% from PKR ~54bln in FY21. Condiments', a sub-category of food products, revenue stood at PKR ~27bln in FY22 as compared to PKR ~23bln in FY21.
- Food products market is steadily growing, majorly because of inflation impact and consequent increase in food products prices. It does not seem to be largely affected by economic slowdown in last few years.
- Traditional occasions such as Religious and Wedding seasons result in significant increase in overall sales as kids and young adults spend more.
- Local food product prices are largely dependent on major raw materials including Sugar, Wheat, Edible oil and Potatoes, whereas flavors and some other components are imported.
- Imported products are quite expensive in Pakistan with prices usually 50-100% more costly when compared on a per gram basis with local products.

\*Condiments revenue represent 1 listed client

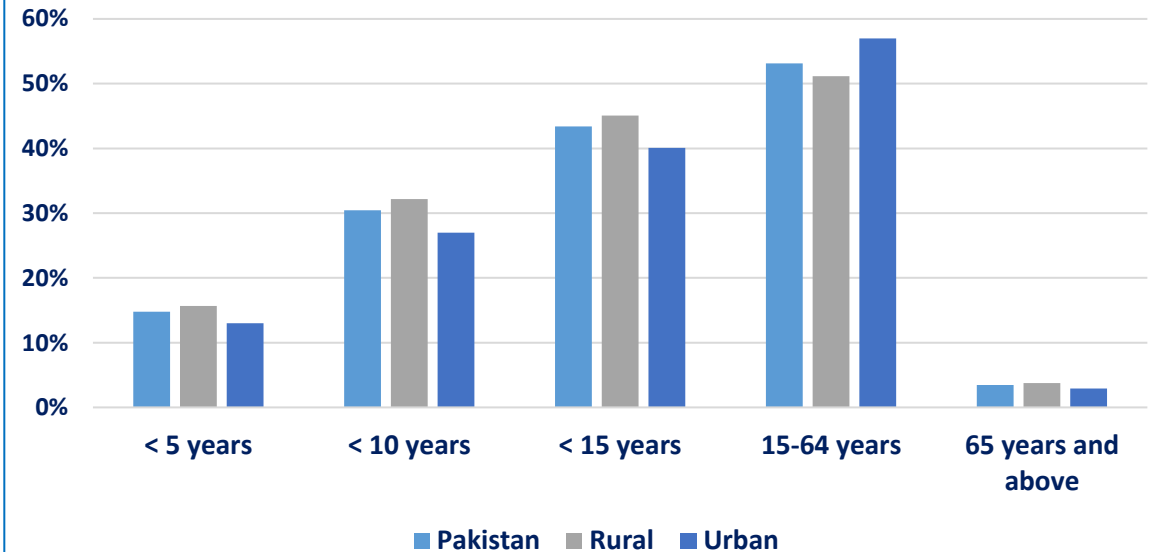
## Local | Demand

- In terms of age demographics, children and young adults up to the age of 20 contribute ~65% to the demand for food products in the country.
- High proportion of young population, increasing disposable incomes, higher brand awareness, and introduction of various flavors contribute to the growth of food products sector.
- Largest share of food products segment is occupied by teenagers while least is occupied by adults over 36 years age.
- Out of the total population, ~41% (aged under 15 & above 65 of years) is considered to be dependent population

Population by age in % - CY22



Population Of Pakistan By Selective Age Groups\*



\*Note: Data as per Pakistan Population Census of 2017.

- Plain biscuits category occupies the largest share in the biscuits market, followed by cream and chocolate chips biscuits, and wafers.
- Biscuits industry is highly competitive. ~80% of the industry is dominated by small, unorganized players.
- Few international players such as Lotus Bakeries, Britannia Industries and IFFCO also operate in the market with a very small market share.
- There is a high variation in price. Numerous factors such as product, brand, quantity, scale of operations and packaging affect the price of the product.
- Raw materials are available locally, providing opportunity to produce various quality products. though cost levels have been rising lately after the emergence of floods in the country.
- In terms of industry life cycle, biscuits market is still growing with new players entering the market.

### Major players | Biscuits Industry



Asian Foods Limited



Ismail Industries Limited



United King Food Pakistan



Continental Biscuits Limited



English Biscuit Manufacturers (Pic)



British Biscuit Company



## Supply | Confectionery

- In Pakistan, the confectionery market comprises candies, toffees, gums & jellies.
- Candies comprise nearly ~35% of the total confectionery market in Pakistan. CandyLand, with its flagship brands like Fanta and Cola, has a strong presence.
- Toffees' share in the total market share is almost ~15%. A major product is Cadbury's Éclairs. In gum category, the brand DING DONG of Hilal has been a popular brand among the young generation, however now new brands are also taking up place.
- Few international players also operate in the market, however, majority of the share is occupied by the local organized and unorganized companies due to low prices.
- Competition is considerably high in the market with virtually no entry barriers due strong penetration of the product.
- Availability of varieties is expected to contribute to the growth of confectionery sector. Also, rising disposable incomes, urbanization, and changing lifestyle are the key factors to boosting the growth of the market.
- Pricing varies greatly from product to product on the basis of quantity, brand, quality, scale of operations, lifecycle stage, and other similar factors.

### Major players | Confectionery Industry



Hilal Foods



Ismail Industries Limited



Mondelez International



Mitchell's Fruit Farms Limited



Gourmet Bakers

## Supply | Snacks/Chips

- In the snacks segment, major share is dominated by potato chips market, which majorly comprises organized branded players.
- Currently, ~60% of potato chips market is led by branded chips, while remaining ~40% of the market share belongs to other unorganized and unbranded potato chips.
- PepsiCo holds a prominent share in branded chips' market especially with its brand 'Lays'. Other popular international brands include Kurkure and Cheetos.
- Demand for international quality snacks is growing, particularly among educated, middle and upper income urban consumers due to changing lifestyles and change in the taste of the consumers, influence of foreign media and increasing awareness.
- Children, teenagers and young people are the target market of this product and given the changing eating habits of the target market, inclination is more towards having snacks.
- Sustained and continued expansion of Fast Food Industry abroad makes a strong case for exports in this segment. Potential exists for export in the Middle East, Gulf countries, and Central Asian States.

### Major players in Potato Chips Industry



Pepsi Co International



Tripple EM Limited



Standard Foods Limited



Kohinoor Smith Limited



Lotte Corporation



United Snacks

- The local condiments market has contribution from both unbranded sector (~58%) and the branded sector (~42%).
- Among the branded category, National Foods and Shan Foods are the top players that enjoy brand loyalty from their customers.
- The share of branded sector is expected to rise with rising awareness and concerns about detrimental impact of unbranded condiments that are unpacked or sub-standard.
- The branded sector provides packed high quality and standardized products to the market. The products have homogenous recipes and follow strict quality controls and international standards. However, the masses are still inclined towards unbranded products as they are almost ~30% cheaper than the branded ones.
- The increasing pace of urbanization along with convenience-seeking behaviour, rising number of working women, and attractive packing of condiments (spices and recipe mixes) has led to a rapidly increasing demand for condiments.

### Major players in Condiments Industry



National Foods Limited



Shan Foods



Mehran Foods



Shangrila Foods Limited



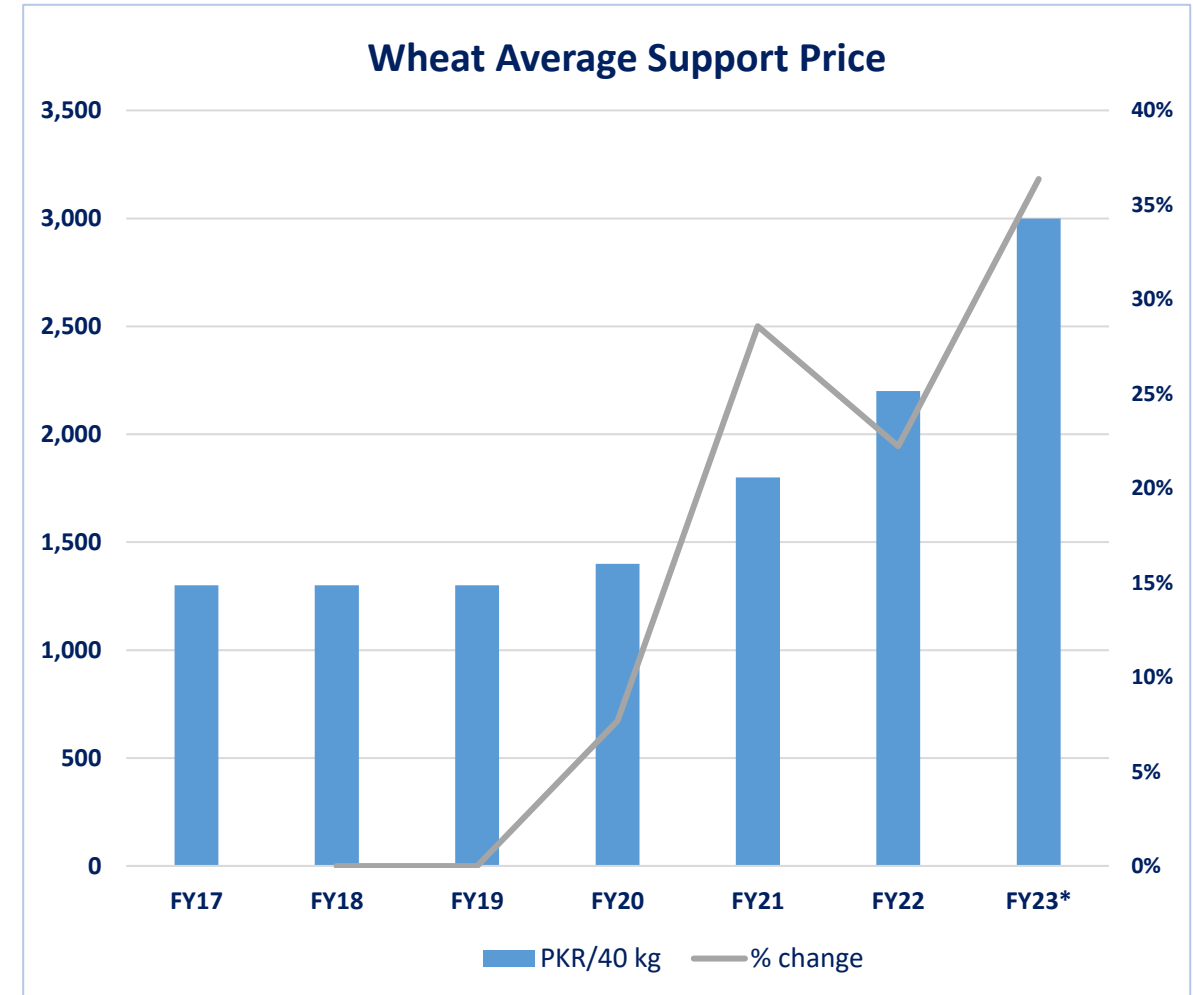
Heinz



Ahmed Foods

## Business Risk | Raw Material – Wheat

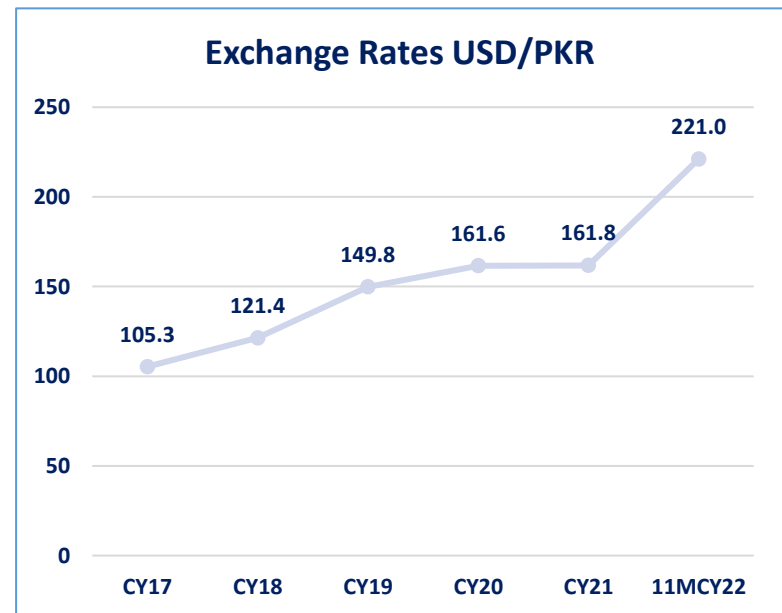
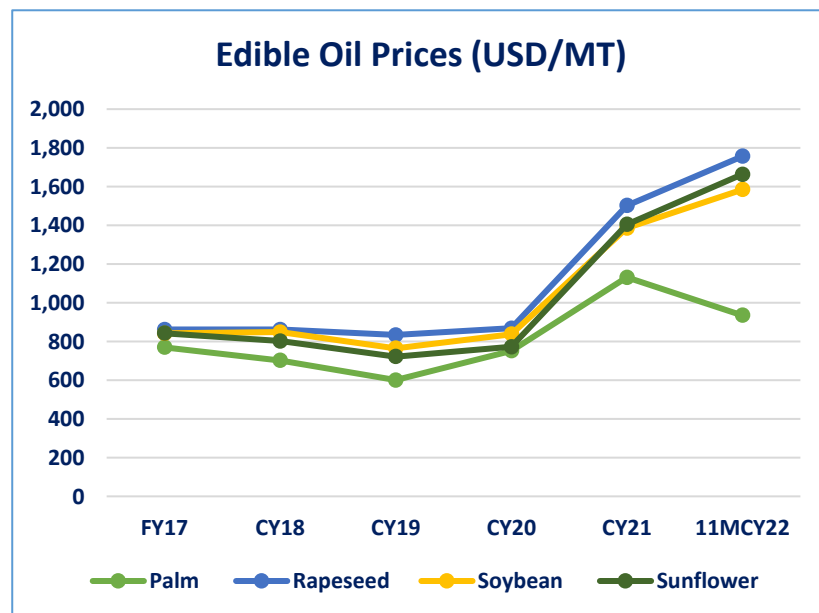
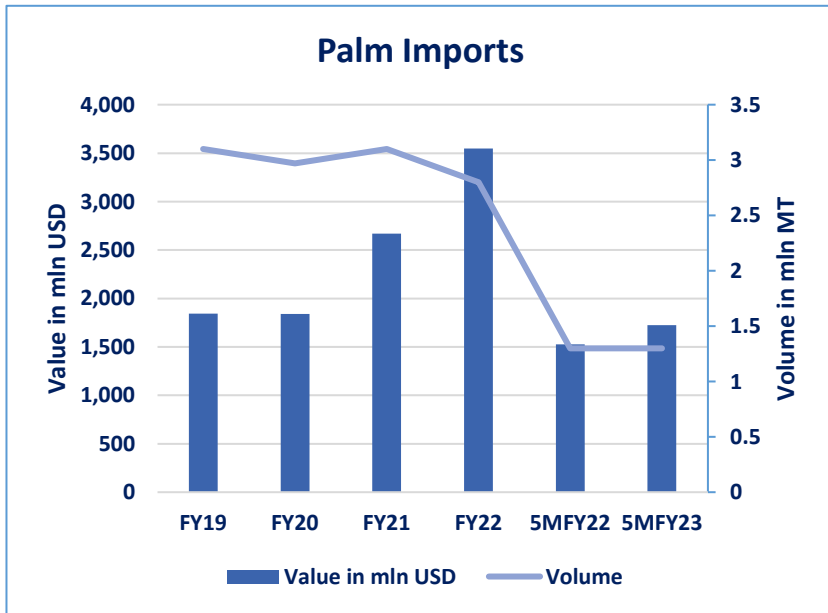
- Wheat is used as a major raw material in the biscuits & crackers and confectionery segments.
- It is the most important winter crop or “Rabi” season crop in Pakistan. Production of wheat clocked in at ~27.5mln MTs in MY22, an increase of ~8% from the previous year (MY21: ~25.2mln MT).
- Devastating flood caused substantial damage to MY22 “Kharif” cereal and cash crops. As many areas are still flooded, planting operations for the MY23 wheat crop are expected to be severely hampered. A lack of acreage under wheat might lead to a potential drop in output of about 1mln MT, as per the estimates, projecting Pakistan's MY23 wheat output at ~26.4mln MT.
- A Minimum Support Price (MSP) is set by the Government for the procurement of wheat to facilitate the wheat farmers with prices sufficient to meet their input costs. A trend of the MSP is represented in the adjacent chart.
- Post-floods, food commodity prices are on the rise. During FY22, the Government has increased the Wheat Support Price from PKR~1,800/40Kg to PKR~2,200/40Kg, representing an increase of ~22% YoY. As of Oct’22, the decision to increase the MSP to PKR~3,000/40kg for the wheat crop season in FY23 has been endorsed by the ECC .





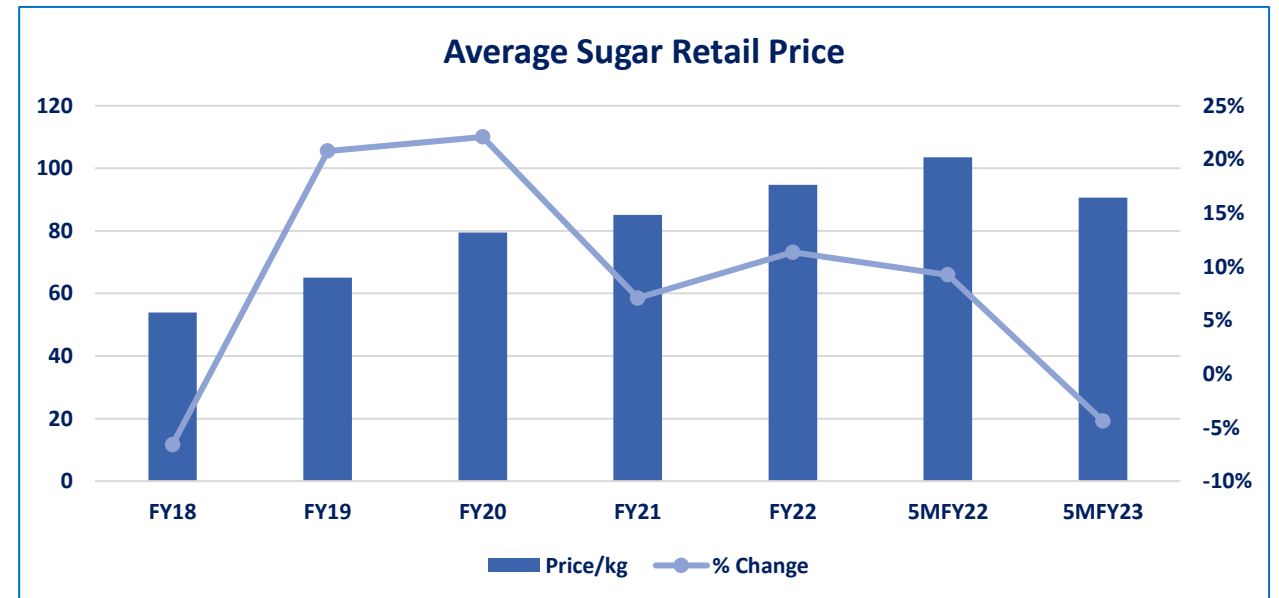
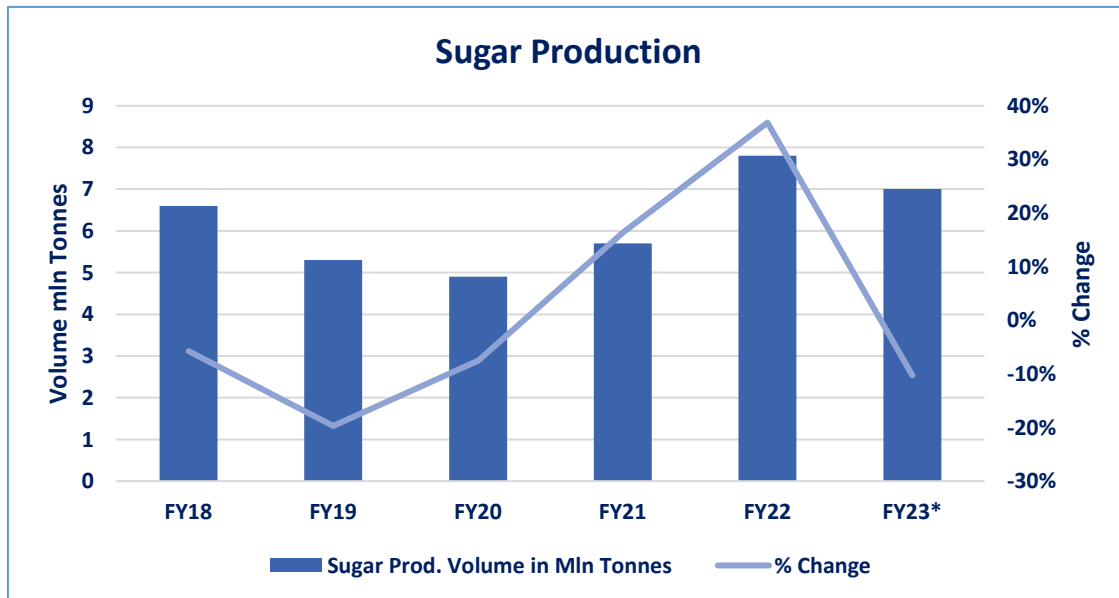
## Business Risk | Raw Material – Edible Oil

- Pakistan meets nearly all of its edible oil demand (Soyabean and Palm Oil) through imports. Seasonality factor is also high in edible oil prices. Hence, the prices represent a volatile trend.
- Owing to currency disparity, double digit inflation and rise in international prices, oil prices have exhibited an increasing trend since CY21. Overall prices of Edible Oils have cumulatively increased by ~68%. The highest contributor to the increase came from prices of sunflower, rapeseed & soybean, which grew by ~82%, ~73% and ~65%, respectively, in CY21. Palm oil prices, during the same time period, grew by ~50%. During 11MCY22, the hike in prices began to subside gradually, as depicted below. The trend is expected to witness vulnerability for the next year considering the trend in international prices and Pakistan’s precarious economic and political situation.



## Business Risk | Raw Material – Sugar

- In the aftermath of the devastating floods in the country which occurred in Jul'22, sugarcane production is forecast to drop to ~82.4mln MT for MY23 (Oct/Sep). In FY22, sugarcane production increased from ~81mln MT to ~88.7mln MT, an increase of ~9.4%, as overall crop sector outperformed and posted a YoY growth of ~6.6% in FY22. This occurred to higher domestic sugar price and better sugarcane procurement price incentivized growers to dedicate more area to sugarcane.
- While sugarcane is more resilient to flooding than other crops, the persistence of standing water and stalk lodging is expected to disrupt cane collection in Sindh province. with the expected decline in cane output, the MY23 sugarcane production is lowered to ~7mln MT.
- During FY22, prices remained relatively stable, averaging about PKR ~95/kg, while it has come down to PKR ~88/kg during 5MFY23 from PKR ~103/kg in FY22.

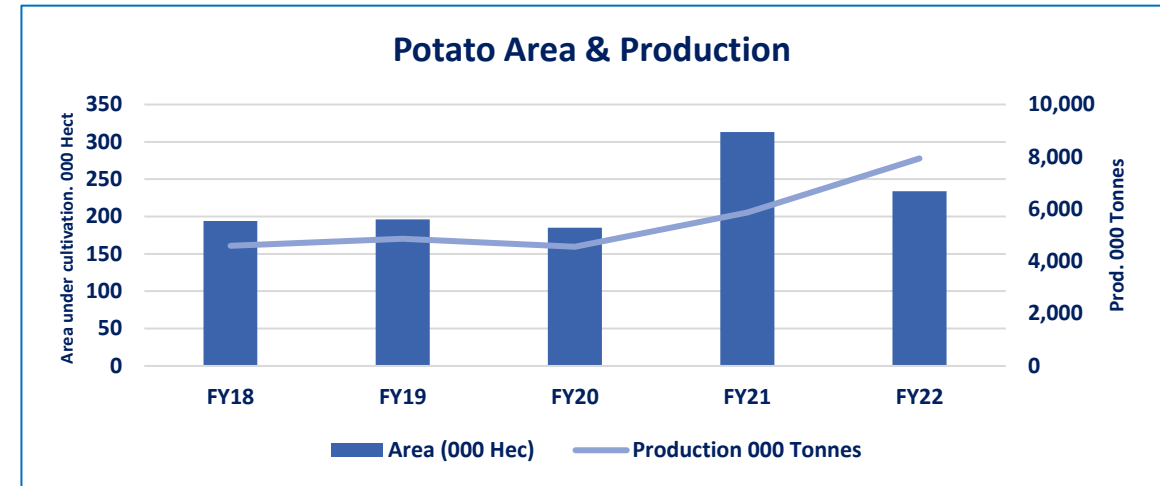


\*Estimates used for FY23 sugar production

## Business Risk | Raw Material – Potato and Dairy

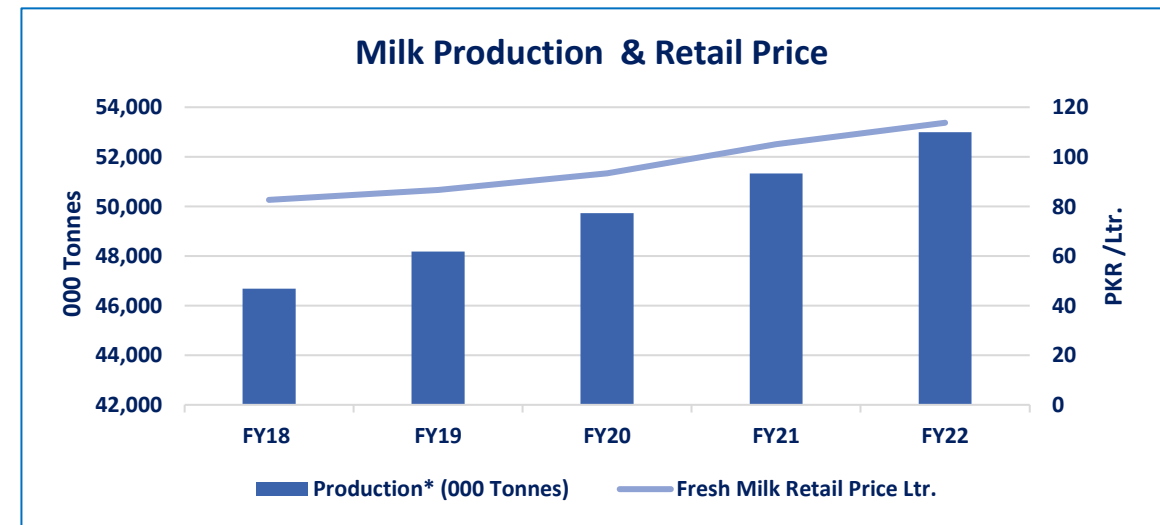
### Potato

- Potato is the main ingredient used in the snacks industry.
- During FY22, the production of potato increased by ~35% YoY as compared to the previous year (FY21: ~2.8%). Potatoes produced increased from ~5.8mln MT in FY21 to ~7.9mln MT in FY22.
- In past five year (FY18 to FY22)), retail prices of potato has ranged between PKR ~30/kg to PKR~55/kg. Currently, average prices of potato have increased from PKR~60-80/kg, post flood and amid spiked inflation. Factors like inadequate storage facilities and an under-developed processing industry often lead to volatility in prices.



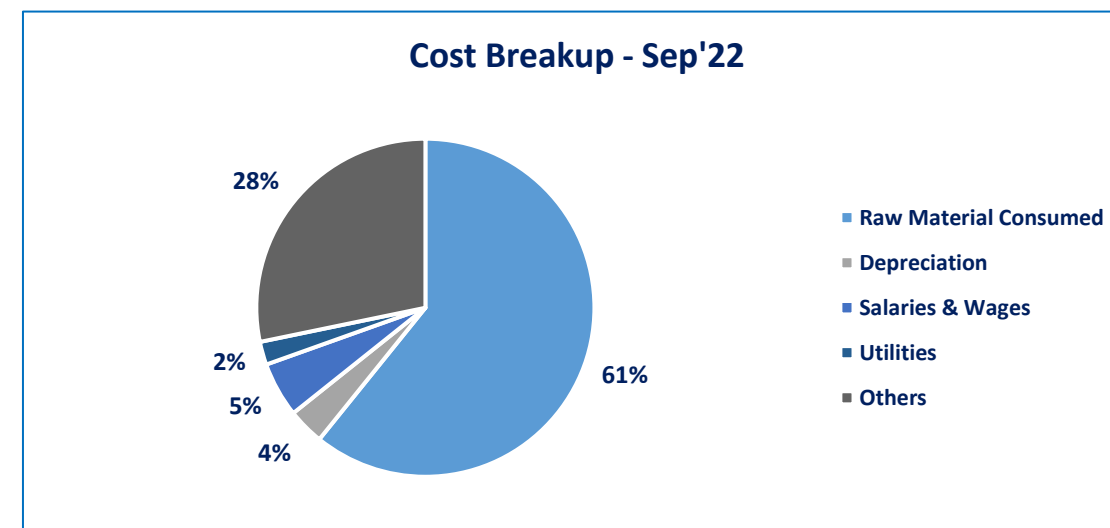
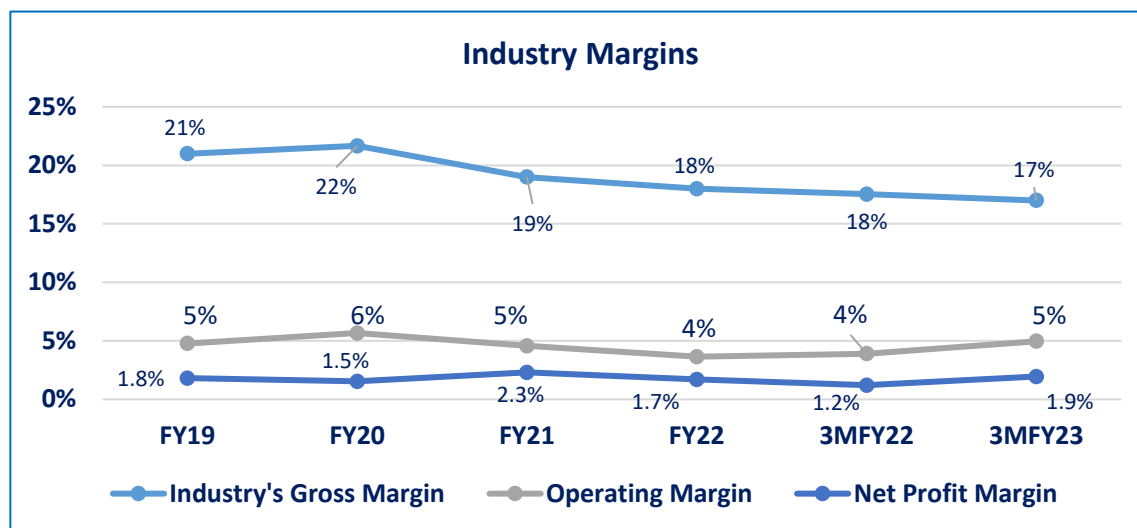
### Dairy

- Pakistan is the fourth largest milk-producing country in the world. However, the sector has not developed to its maximum potential.
- During FY22, the contribution of cow and buffalo milk was ~60% and ~36%, respectively while the combined share of goat, sheep, and camel milk was ~4%.
- Pakistan dairy industry in general is constrained by a number of major issues; low productivity, seasonality in milk supply, a patchy distribution system, the absence of cold chains, and unhygienic handling at farm and middleman level leading to poor milk quality and the inability to meet international standards.



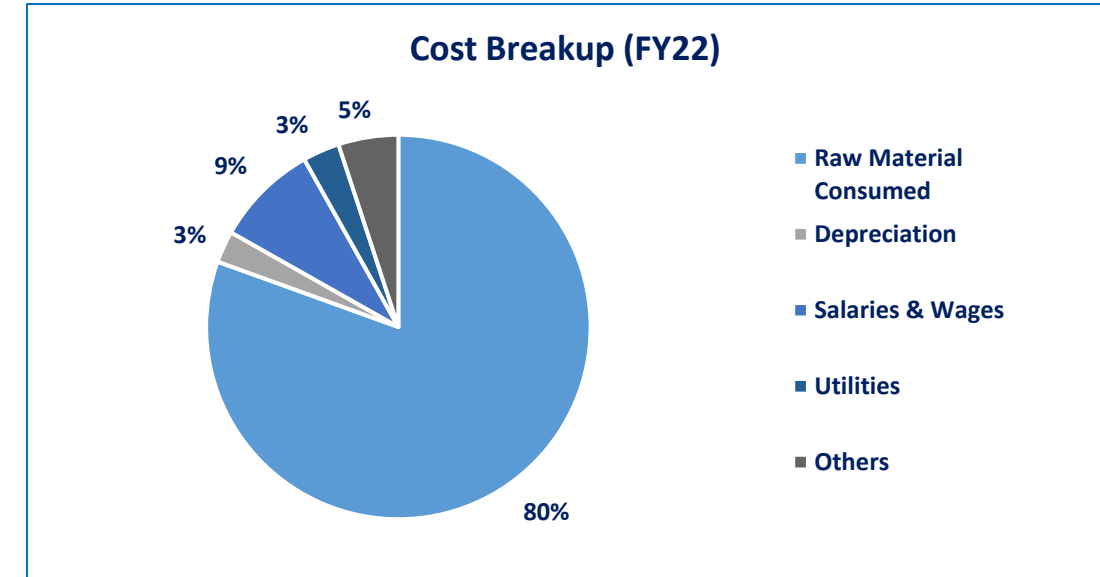
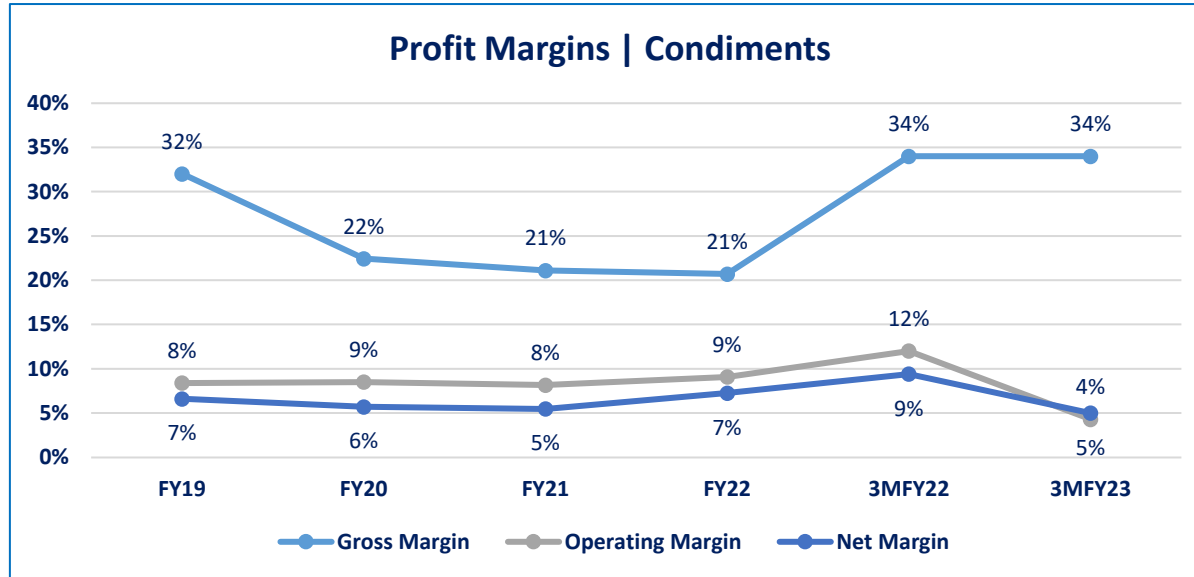
\*Milk production for human consumption.

## Business Risk | Margins



- Average gross margins of the industry hover in the range ~16-22% during FY19-3MFY23. Cost of sales is dominated by raw material costs (~61% of the cost of sales), which majorly include grains and commodities. A high pricing mechanism exists in the market and organized players counter threats from the unorganized players, who compete on their pricing strategies.
- The sector is largely demand-driven, therefore advertisement and distribution costs become a common phenomenon in the industry. This generally accounts for ~15%-40% of the total selling expenses of the Industry players, followed by salaries and wages. Therefore profits are drained at the operating level coming down to single-digit figures. For the period covered (FY19-3MFY23), average operating profits of the industry average around ~3%-7%. Instilling from the operating profits, industry's net margins stand at a bare minimum level. On SPLY basis, there is no significant variation at net margins level, i.e., ~1.9% in 3MFY23 and ~1.2% in 3MFY22.

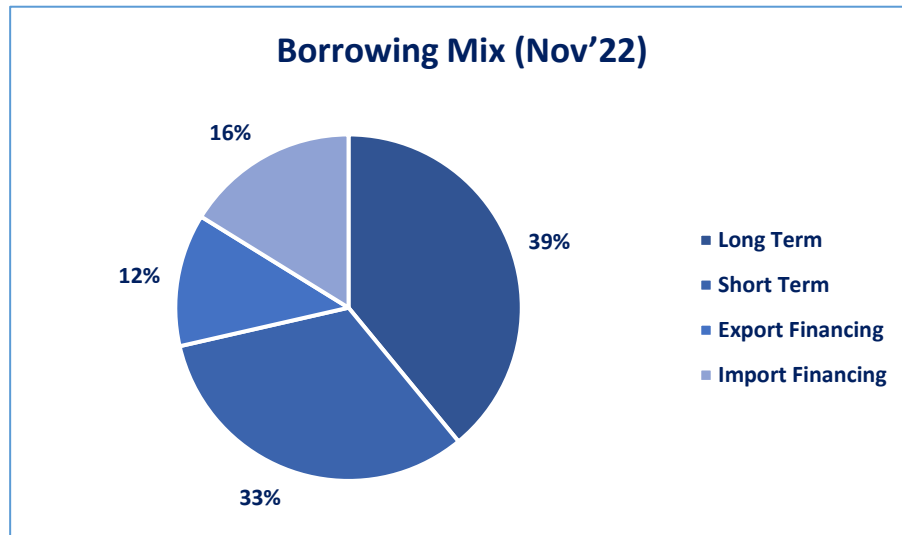




- Average gross margins of the condiments segment ranged from ~20%-35% during FY19-3MFY23. Raw Material form the biggest part of cost of sales (~80%), followed by depreciation costs (~9%). Major chunk of the profits is washed out at operating profits level as advertisement (~37%) and freight charges (~24%) hold the highest share in distribution expense. On a YoY basis, distribution expense spiked by ~32% in FY22. Operating profits ranged between ~8%-9% during FY19-FY22.
- The net margins of this segment also remain relatively better from other segments of food products industry and are recorded in the range between ~5%-9% from FY19-FY22. The lowest net margins recorded were during FY21 and 3MFY23, generally because of the rising interest rates fueling finance cost for the sector.
- In this segment also, a high pricing competition exists in the market and organized players counter threats from the unorganized players, who compete on their lower pricing strategies.

## Financial Risk | Borrowings

- The food products sector has relatively low to medium financial risk. Majority of sales are executed against cash payments. Trade debts of the sector are generally low. Short-term product lifecycle and cash sales lead to lower inclination towards short-term borrowings.
- Total debt of the industry clocked in at PKR~113bln as at End-Nov'22 (PKR~96bln, End-Nov'21), an increase of ~17% YoY. Industry's leverage falls under medium to high range.
- As at End-Nov'22, average mix of short-term to long-term borrowings of food products sector was ~40:60.
- Export Refinance Loans comprise ~13% of the total debt book of the industry while LTFF/TERF represent ~14% which reflects that some portion of the Industry's debt book was being facilitated through subsidized fixed financing rates which have lately been increased and linked to policy rate.
- Industry's overall average interest coverage for the period FY22 was 1.4x (FY21: 2.4x) while it has improved in the period 3MFY23: ~3.4x. as compared to ~3.5x in SPLY.



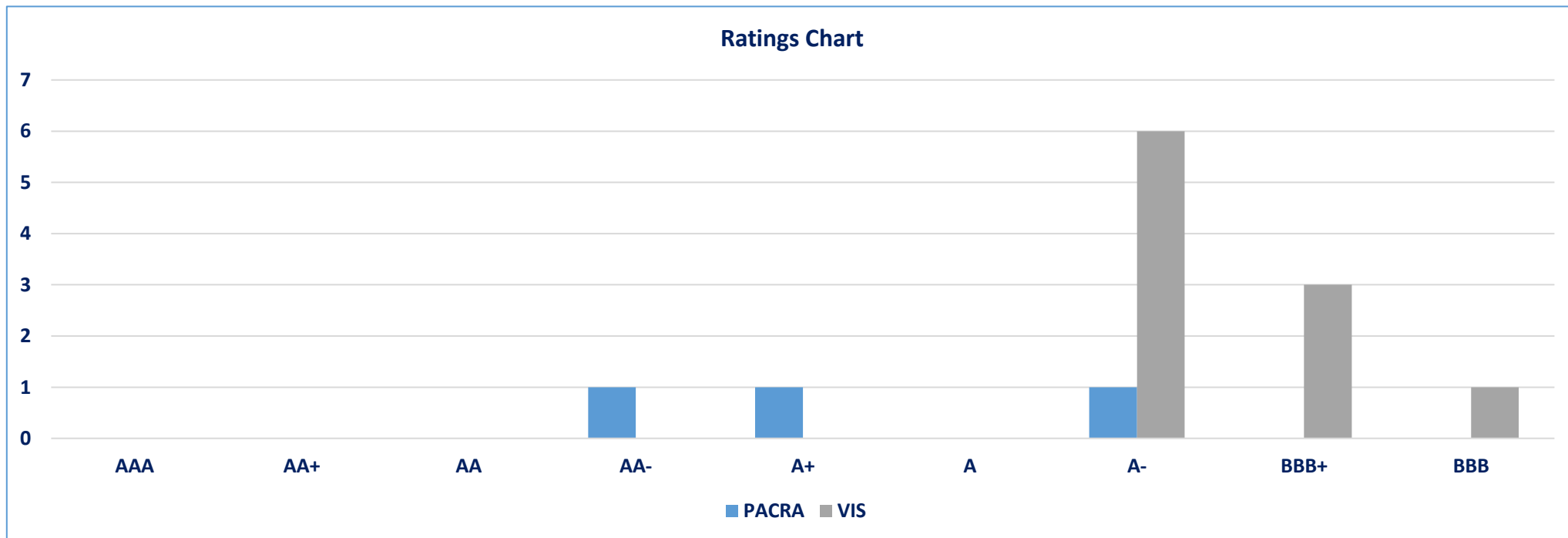
Borrowing Book (PKR mln)	Nov'21	Nov'22	Share in Debt
Processing/ blending of spices, tea, coffee etc.	1,226	1,799	2%
Manufacture of bakery products	42,984	55,619	49%
Manufacture of cocoa, chocolate and sugar confectionery	11,122	13,773	12%
Manufacture of other food products n.e.c.,	41,126	42,586	37%
<b>TOTAL</b>	<b>96,458</b>	<b>113,777</b>	<b>100%</b>

## Tax and Duty Structure

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY21	FY22	FY21	FY22	FY21	FY22	FY21	FY22
1905.31-32, 1905.40, 1905.90	Sweet biscuits; waffles and wafers, and others	20%	20%	7%	6%	20%	49%	47%	75%
17.04	Sugar confectionery (including white chocolate), not containing cocoa	20%	20%	7%	6%	20%	49%	47%	75%
1801-1805	Cocoa, Cocoa powder, not containing added sugar or other sweetening matter	3%-11%	3%-11%	2%	2%	20%	10%	3%-33%	3%-23%
18.06	Chocolate and other food preparations containing cocoa	11%-20%	11%-20%	20%	6%	10%	10%	11%-33%	11%-36%
21.03	Sauces and preparations therefor; mixed condiments and mixed seasonings; mustard flour and meal and prepared mustard.	0.2	0.2	7%	6%	50%	50%	0.2%-56%	0.2%-56%

## Ratings Chart

- PACRA rates three entities i.e. Ismail Industries Limited, Lotte Kolson Limited, and National Foods Limited in the food products sector, with a rating bandwidth of AA- to BBB.



## SWOT





## Outlook: STABLE

- In the past five years (FY18-FY22), Pakistan's food products market has grown at a CAGR of ~6%. Potato chips market grew at the rate of ~14.2%, while biscuits & crackers market at ~9.1% and confectionery products grew at the rate of ~9.4%.
- The industry is highly competitive with influx of new players, while marketing and distribution costs remain high.
- Demographic and consumer dynamics of the country are favorable for the industry and are expected to support food products' demand. However, the sector faces challenges due to deteriorating economic factors such as increasing inflation and interest rates.
- Most of the raw material (Wheat, Sugar, Potatoes & Milk) is feasibly available at local level. An increase in raw material prices has a blanket impact on all industry players and is, therefore, directly passed on to the end consumers by both organized as well as unorganized segments.
- Food products industry is a demand driven market where players pricing power is limited. Prices are widely variable and dependent upon factors such as brand, quantity, quality and scale of operations.
- The sector's net profit margins have been facing pressure lately due to higher financing expense after the interest rate hikes in the past 2 years.
- Growing concerns about obesity and other lifestyle-related diseases have urged consumers to pay close attention to nutritional labelling, leading manufacturers to introduce meals with value-added nutrients and claims, such as fewer preservatives, less fat, etc. The trend will discourage the unorganized sector and result in increased market share of the organized players with healthier alternatives. However, the target market for snacks chips biscuits and confectionery are kids which keeps the demand side strong.
- With an Export Oriented Approach, there exists significant potential of the food products exports in the international market especially to Asia Pacific and Middle East regions. However, this potential still remains untapped and unconsidered by the government.

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- Ministry of Finance
- State Bank of Pakistan (SBP)
- Pakistan Stock Exchange (PSX)
- PACRA Internal database
- Trade and Development Authority
- Food and Agriculture Organization of UN
- World Bankers

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