



FOOD PRODUCTS

An Overview

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FOOD PRODUCTS | BRIEF OVERVIEW

Food Products – Snapshot

- This Sector includes biscuits, confectionery products and snacks collectively referred to as the “food products” Industry.
- By distribution channel, food products market is segmented into supermarkets/hypermarkets, convenience stores, specialty retailers, online retailers and others.
- The prices of individual products are highly variable in this segment and depend on numerous factors such as brand, quantity, packaging, region, scale of operations, etc.

Parameters	CY20		
	Biscuits	Confectionary	Snacks [Chips]
Revenue – Global	USD~75-80bln	USD~35bln	USD~35-40bln
Revenue – Pakistan	USD~1bln	USD~0.44bln	USD~0.50bln
Revenue – Per capita – Global	USD~10.8	USD~4.7	USD~5.4
Revenue – Per capita – Pakistan	USD~4.5	USD~2.0	USD~2.3
Global Market share – Pakistan [<i>Revenue</i>]	1.25%	1.26%	1.25%
Average price per unit – Global	-	USD~6.8	USD~6.7
Average price per unit – Pakistan	-	USD~3.7	USD~3.7
Average per capita consumption – Global	5.0kg	19kg	9kg
Average per capita consumption – Pakistan	4.2kg	20.6kg	6.8kg
CAGR [2020-2025] – Global	~4.7%	~4.9%	~5.2%
CAGR [2020-2025] – Pakistan	~14%	~9%	~9%
Share of Consumers [25-34 age group]	~52%	~45%	~44%

*Biscuits ‘Average price per unit’ cannot be calculated because of high variability in the price of the products.

Biscuits

- 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

Confectionary

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

Snacks

- Pakistan's savory snack market is segmented as Crisps/Chips, Extruded Snacks, Nuts and Seeds, and popcorns. It is highly dominated by the crisps/chips segment followed by extruded snacks and other types of savory snacks, such as locally-made namkeen, etc.
- 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.

Biscuits



Plain biscuits



Inclusion category



Sweet and hard



Digestive



Cream biscuits



Cookies

Confectionery



Hard boiled sweets



Caramels & Toffees



Gums and Jellies



Mints



Chocolates



Cakes

Snacks



Crisps and chips



Extruded snacks



Nuts and seeds

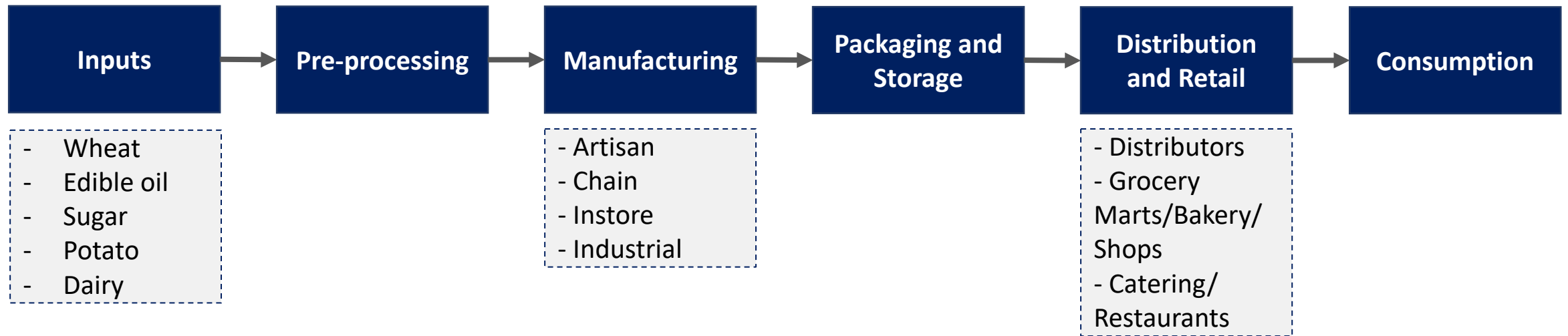


Popcorn



Other product type

FOOD PRODUCTS | VALUE CHAIN

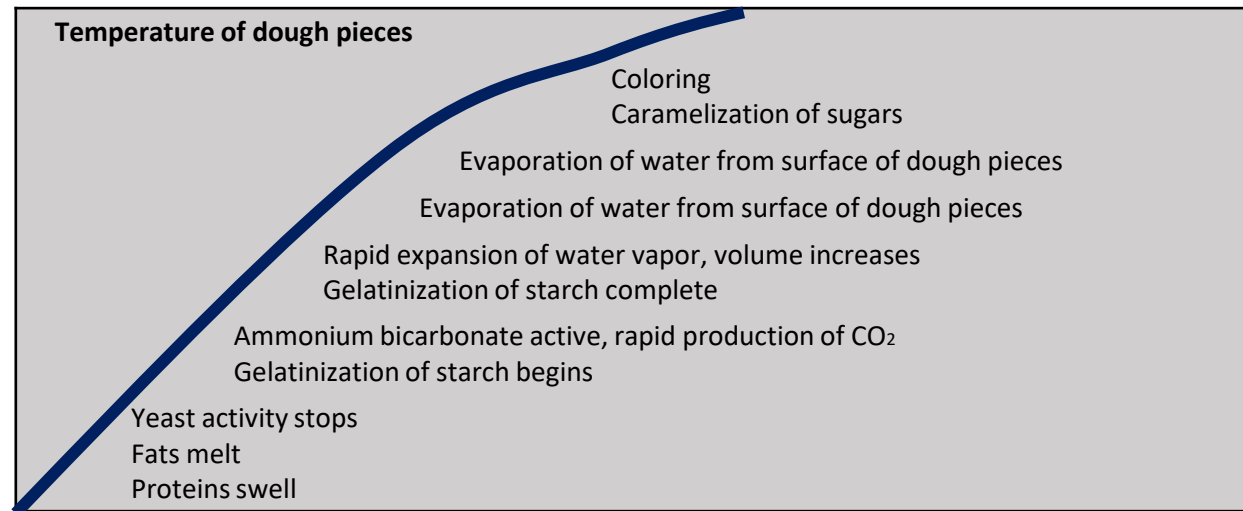
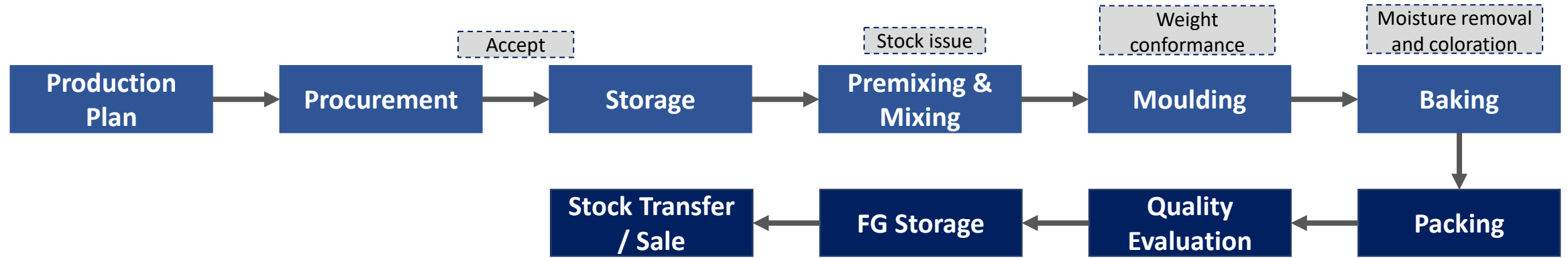


Food products value chain is relatively simple and is classified into six major steps

- **Inputs:** Raw materials are procured, adequate inventory levels are maintained
- **Pre-processing:** Raw materials are prepared [cut/peeled/knead] 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

FOOD PRODUCTS | PRODUCTION PROCESS

Biscuits



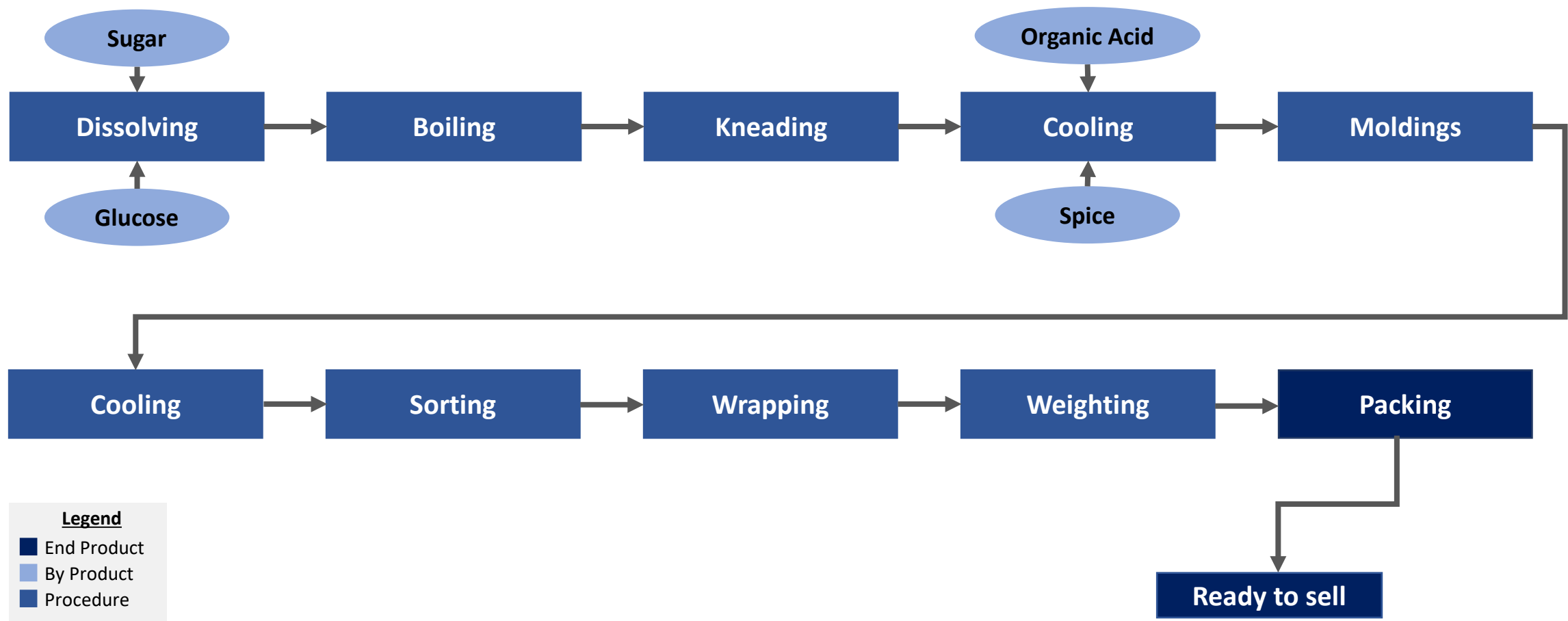
Legend

- End Product
- By Product
- Procedure

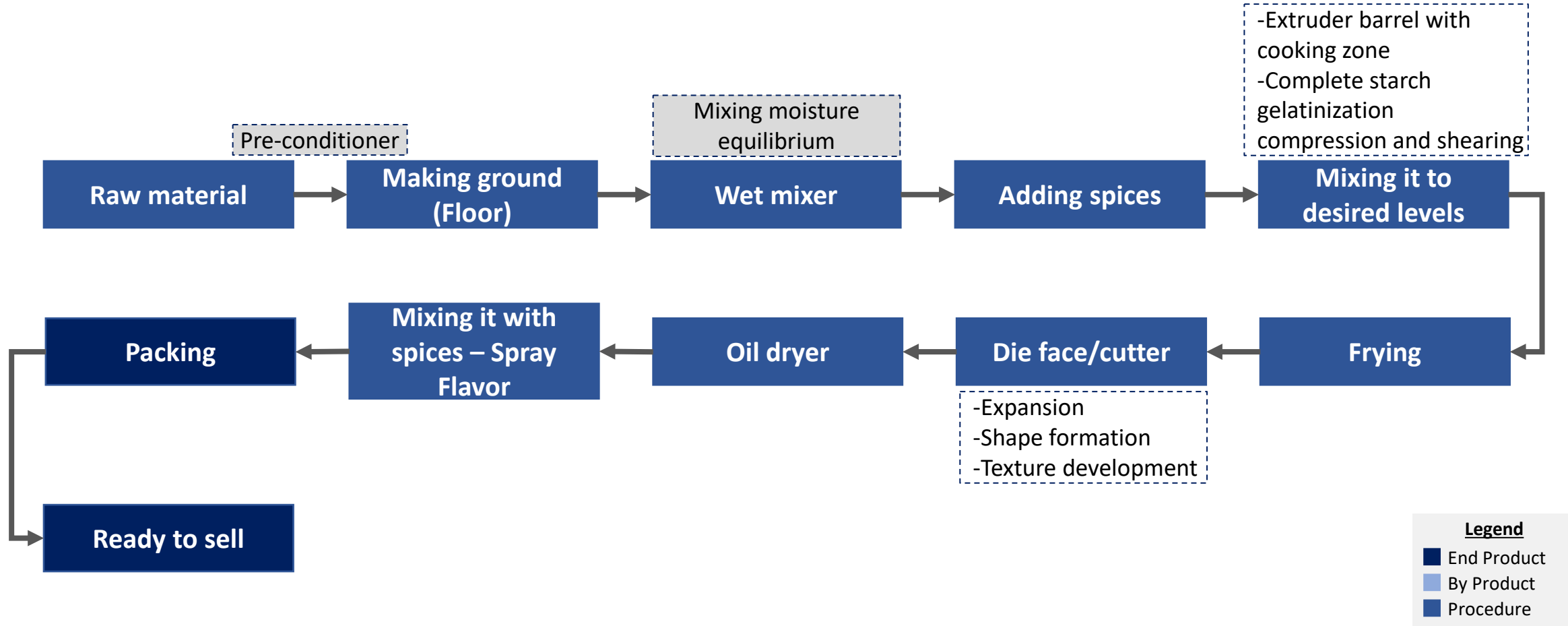
FOOD PRODUCTS | PRODUCTION PROCESS

Confectionary

General production process observed in the confectionary manufacturing



Snacks



Top Global Exporters and Importers

[All Amounts In Dollar Billion]

United States generates the most revenue in the Food products sector; contributing approx. 22 percent to the global revenue in CY20.

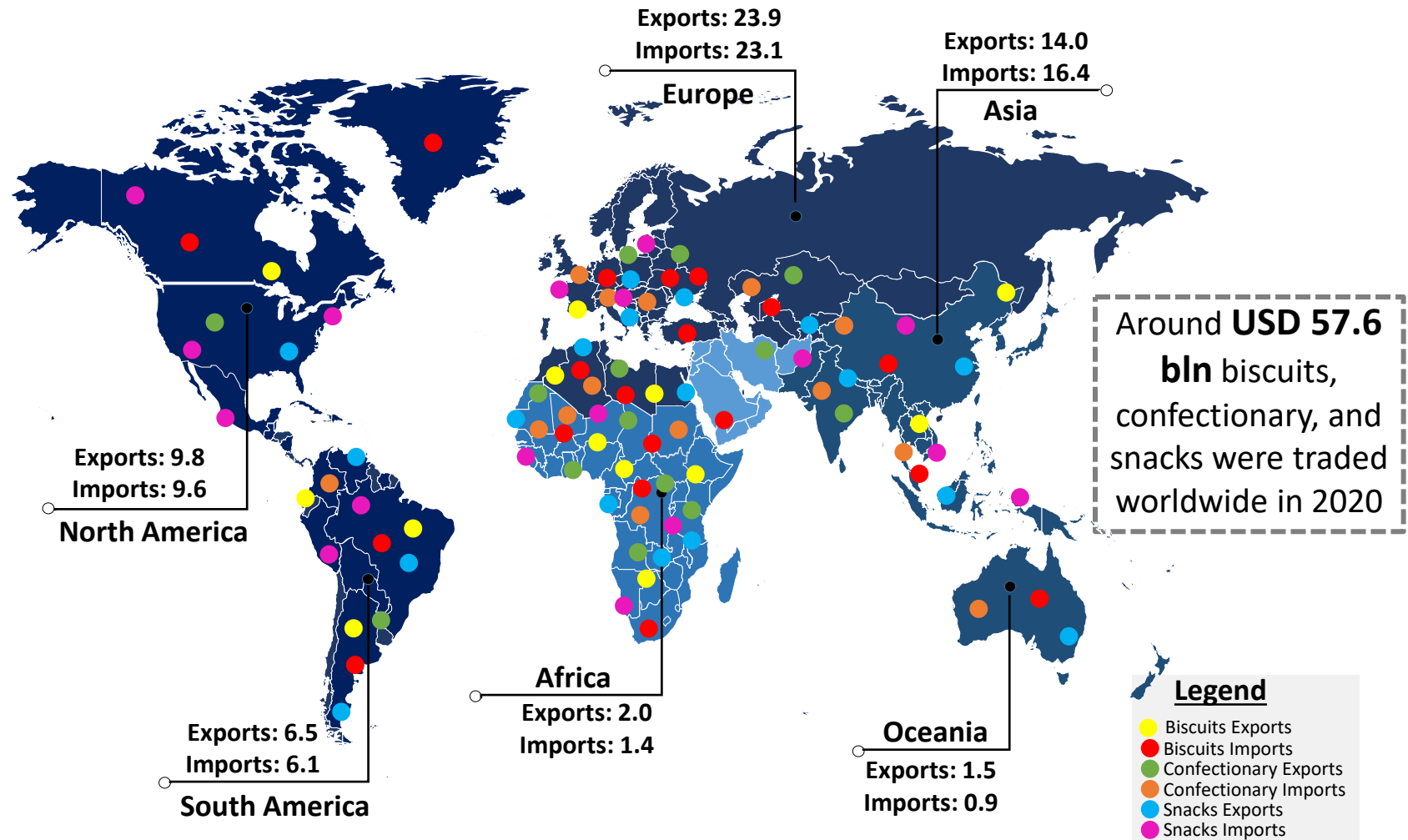
Asia region contributed 24.3 percent to exports while 28.6 percent towards the imports in CY20

Europe region contributed 41.5 percent to exports while 40.1 percent towards the imports in CY20

United States region contributed 28.2 percent to exports while 27.2 percent towards the imports in CY20

Oceania and Africa combined contributed 6.0 percent to exports while 4.1 percent towards the imports in CY20

Exports have grown by approx. 4.2% y-o-y while imports have grown approx. 4 percent YoY over the past five years



An Overview

- Pakistan's food product market size was recorded at PKR~155bln in FY20 (PKR~130bln - FY19) up by ~19% YoY majorly because of inflation impact and consequent increase in food products price in 9MFY20.
- Pakistan food products market grew at a CAGR of ~6% during the last 5 years
- Food products market is steadily growing and 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
- Due to increase in raw material prices, the market is currently working below its capacity. Instability in raw material prices leads to fluctuation in selling prices or lower grams, which, in turn, affects the market.



Pakistan potato chips market grew at CAGR of **14.2%** in last 5 years

Pakistan biscuits market grew at CAGR of **9.1%** in last 5 years



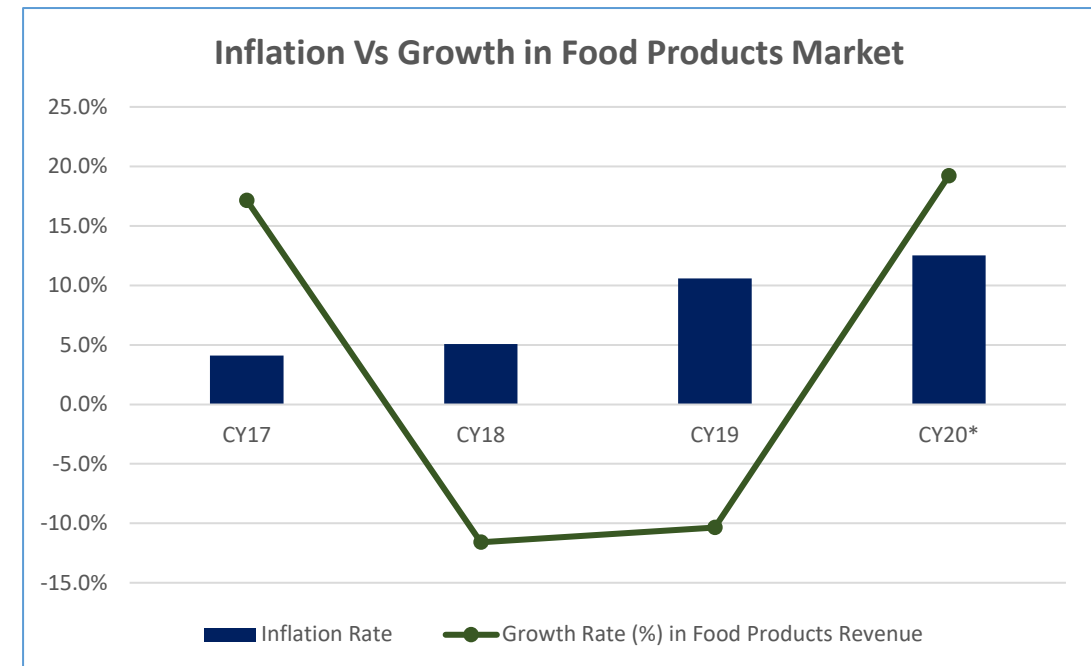
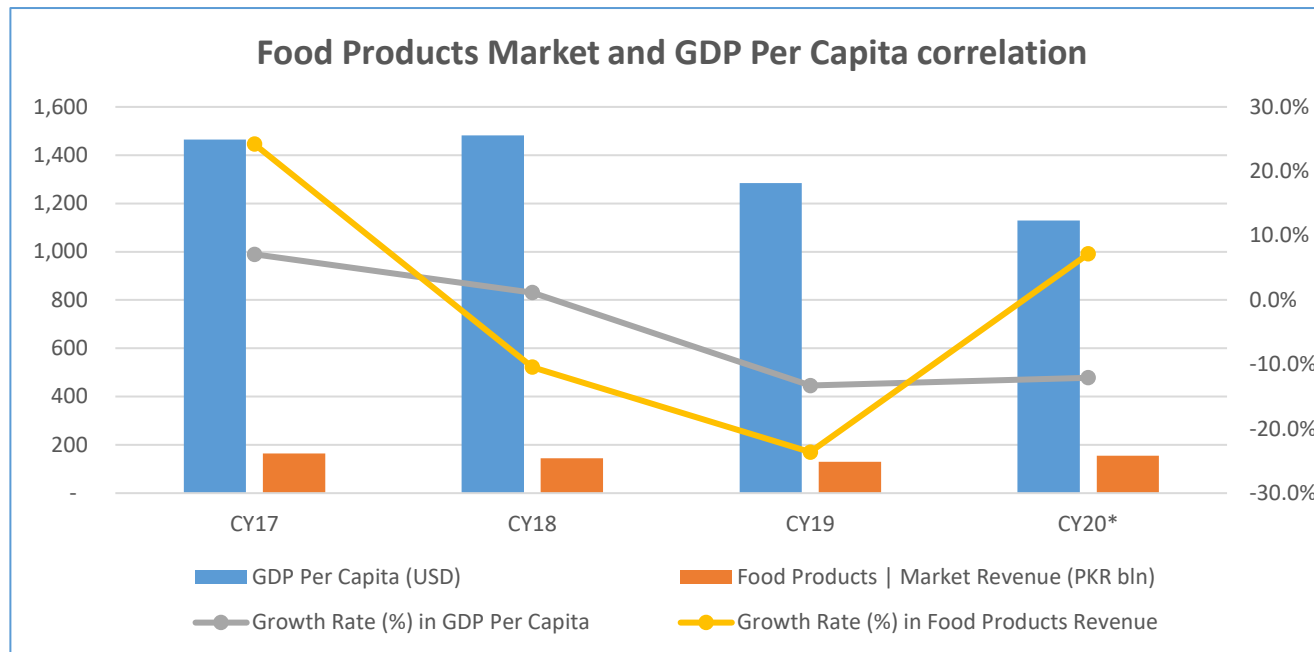
Pakistan confectionary market grew at CAGR of **9.4%** in last 5 years

- The market is highly fragmented, with few large players
- **7-8** major players operating in Pakistan's food products market occupy ~25% of food products market. These include local as well as prominent international brands operating in Pakistan
- Local to international players ratios is 80:20 in food products market.
- Local 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
- Limited high end market for imported products willing to pay a premium for international products

FOOD PRODUCTS | DOMESTIC MARKET

Demand Dynamics

- Pakistan’s food products market is directly correlated to the per capita spending capacities as well as Inflation rate in Pakistan as witnessed in the graphs.
- One of the major determinant of food products demand is household income; Pakistan’s per capita income is projected around 3.2% p.a of its nominal GDP
- Approximately ~37% of Income is spent on food and beverages of every household.



*CY20: Estimated, for Inflation CY20 inflation is computed as an average of 1HCY20, Current Inflation is around 8.35%

FOOD PRODUCTS | DOMESTIC MARKET

Demographics

- In Pakistan food products demand, Biscuits segment has the highest share (~52%)
- 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 (~ % population in Pakistan comprises of 30 years and younger) increasing disposable incomes, higher brand awareness, and introduction of various flavors contribute to the growth of food products sector.
- Children, teenagers and young people are the main target market
- Largest share of food products segment is occupied by teenagers while least is occupied by adults over 36 years age

Parameters	Food Products	
	2020	2019
Total Market size	PKR ~155bln	PKR ~130bln
Major players in areas	6-8	7-10
Local to International players ratio	80:20	80:20
Rural to Urban ratio*	35:65	35:65

*Ratio of overall volume sold in rural markets as compared to urban markets

Age group (Years)	Percentage share
5 – 10	30%
11 – 20	35%
21 – 35	20%
36 – Above	15%

Population Of Pakistan By Selective Age Groups

Age group (Years)	Pakistan	Rural	Urban
Less than 5 years	14.80 [8%]	15.69 [8%]	13.00 [7%]
Less than 10 years	30.45 [15%]	32.18 [16%]	26.98 [14%]
Less than 15 years	43.40 [22%]	45.06 [23%]	40.07 [21%]
18 years and above	51.25 [26%]	50.05 [25%]	53.66 [28%]
15 – 64 years	53.09 [27%]	51.16 [26%]	56.98 [29%]
65 years and above	3.50 [2%]	3.78 [2%]	2.94 [2%]
Age dependency ratio **	88.34	95.46	75.5

**Ratio of persons in the "dependent" ages (under 15 and over 64 years) to those in the "economically productive" ages (15-64 years).

Biscuits Supply Dynamics

- Plain biscuits category occupies the largest share in biscuits market (over 50%), followed by cream and chocolate chips biscuits, and wafers.
- Biscuits industry is highly fragmented. There are 6-8 major branded players, which hold approx. 20% of market share. Rest of the Industry is dominated by small unorganized players.
- Few international players also operate in the market with less than ~8% of the market share.
- Major players in the biscuits industry are English Biscuits Manufacturers (EBM), Continental Biscuits Ltd. (CBL),) Wafer Biscuits Pakistan, International Biscuits Limited, United King Food Pakistan, British Biscuits Company (Pvt.) Ltd., Ismail Industries, and Asian Food Industries Ltd.
- 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
- High quality raw materials are available easily and at a low cost domestically; providing an opportunity to produce various quality products
- In terms of industry life cycle, biscuits market is still in a growing phase with new players entering the market

Segments	Revenue Split – CY20	
	In PKR	In %
Biscuits	PKR~80bln	52%
Confectionary	PKR~35bln	23%
Snacks [Chips]	PKR ~40bln	26%

Confectionary Supply Dynamics

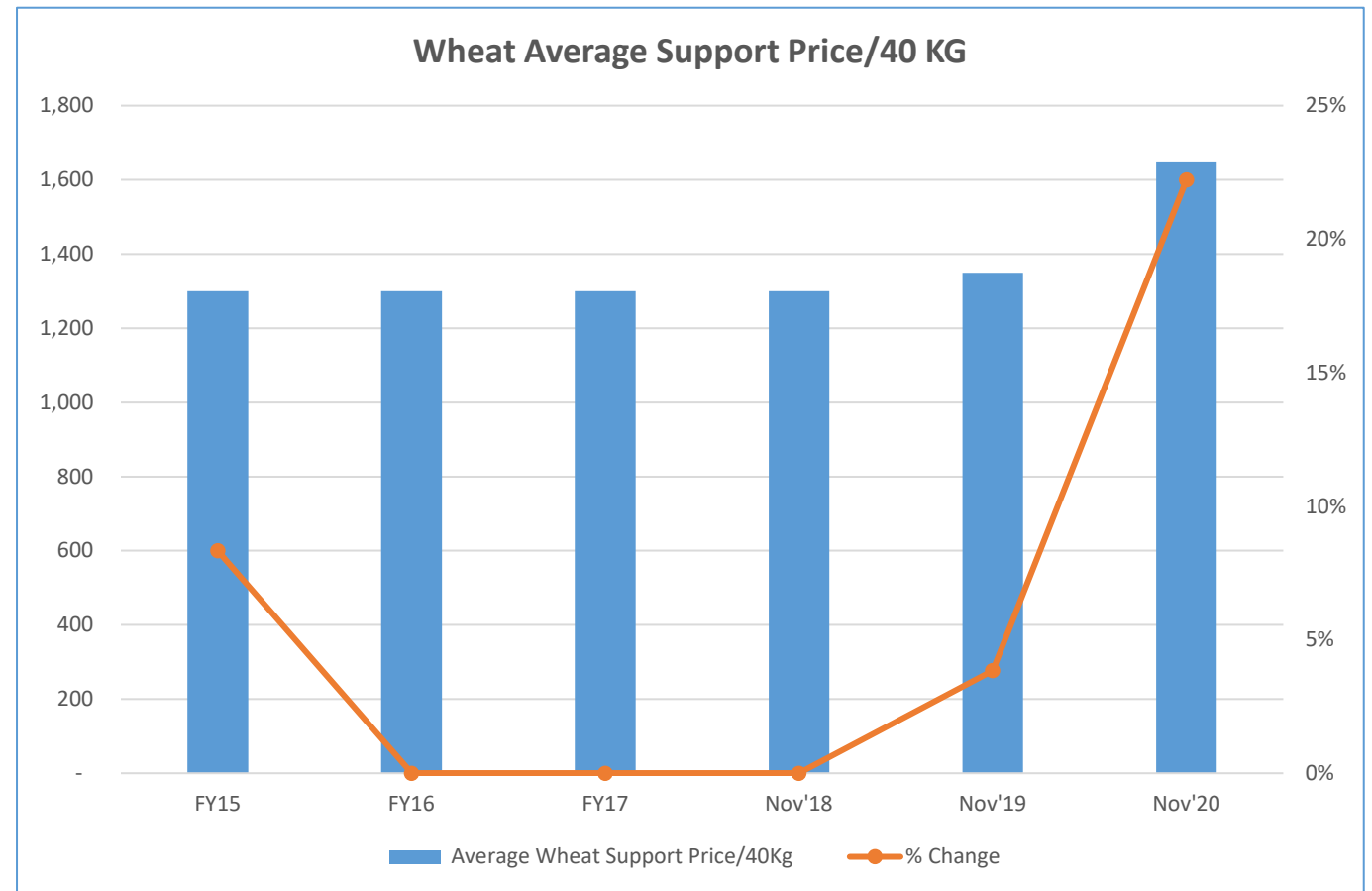
- Just like biscuits market, the confectionary market is highly fragmented, with 6-8 major branded players occupying less than ~20% of the market share.
- Few international players also operate in the market, however due to price differentials, majority of the share is occupied by the local organized and unorganized companies
- Some of the leading bakers in Pakistan include Ismail Industries, Hilal, Mondelez, Mitchell's, Gourmet bakers, Nirala sweets, Ideal Bakers and Hobnob.
- Since Food-on-the-go is the most recent on-going trend and is one of the fundamental considerations for consumers while purchasing food products, thus it has become a prominent factor for driving the confectionary market
- In terms of distribution channel, online stores sales for healthy foods are growing at a faster rate, attracting many vertical specialists
- Competition is very high in the market with virtually no entry barriers due to almost 100% penetration of the product
- Confectionary products are mainly sold by a vast network of decentralized retailers, kiosks, and grocery stores
- Availability of various different flavors is expected to contribute to the growth of Confectionary 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

Snacks Supply Dynamics

- Unlike biscuits and confectionery, potato chips market is dominated by organized branded players (~60%).
- Pakistan's snacks industry is experiencing an annual growth rate of 20-30% per annum
- Leading producers of potato chips in Pakistan are PepsiCo Inc. (Lay's), Tripple EM (Pvt.) Limited (Super Crisps), Standard Foods (Pvt.) Limited (Golden Chips), Kohinoor Smith (Pvt.) Limited (Smiths), Consolidate (Kolson), and Trading Enterprises (Krinclles)
- Currently, ~60% of potato chips (Crisps) market is led by Super Crisps. The remaining 40% of the market share belongs to other branded and unbranded potato chips
- PepsiCo is the largest player in market since it entered in 2007 (with Lays brand). Lays has the highest market share, more than double the share of its closest competitor – EM Foods.
- Retail sales of processed food is expanding. However, 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 consumer, 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 snacks brand	Percentage share
Lay's [PepsiCo]	46%
Super Crisps [EM Foods]	16%
Golden [Standard Foods]	8%
Smith/Kolson/Krinclles [Kohinoor]	12%
Others	18%

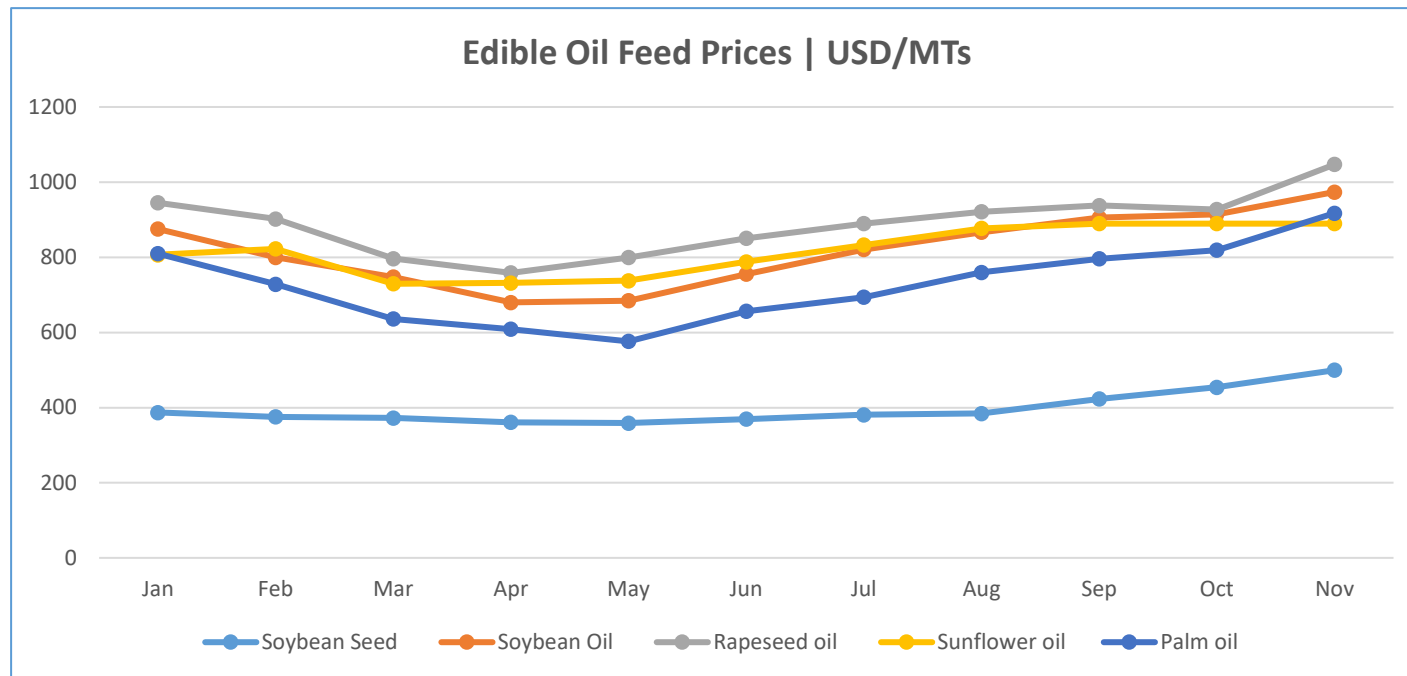
- Wheat is the most important crop of “Rabi” Season in Pakistan. Production of wheat clocked in at ~25mln MTs in FY20, an increase of 2.5% from the previous season.
- A Minimum Support Price (MSP) is set by the Government for the procurement of wheat to facilitate the wheat farmers with prices sufficient to meet their input costs. A trend of the MSP is represented in the adjacent chart.
- The Government has recently (Nov’20) increased the Wheat Support Price from PKR1,400/40 Kg to PKR1,650/40 Kg, an increase of ~18%. The decision has been endorsed at the provincial level too.



FOOD PRODUCTS | DOMESTIC MARKET

Business Risk | Raw material analysis – Edible oil

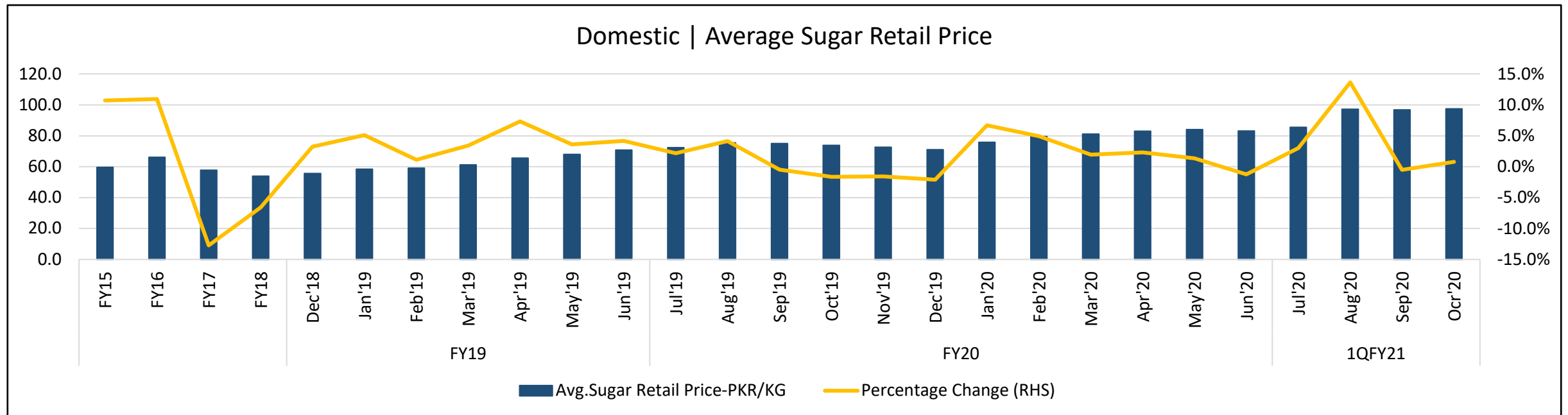
- Pakistan meets nearly all of its edible oil demand (Soyabean and Palm Oil) through imports
- The prices of Soyabean and Palm Oil have fluctuated within a range of 8% -15% annually on YoY basis. Resultantly, edible oil prices increased significantly recently; resulting in higher food product prices in recent term
- Seasonality factor is high in edible oil prices



Month	Exchange Rate – USD/PKR			
	CY17	CY18	CY19	CY20
Jan	104.7	110.4	138.7	154.7
Feb	104.7	110.4	138.5	154.3
Mar	104.7	112.1	139.2	158.4
Apr	104.7	115.4	141.2	164.4
May	104.7	115.4	145.7	160.1
Jun	104.8	118.9	155.2	165.1
Jul	105.4	124.4	158.8	166.8
Aug	105.3	123.8	158.1	167.7
Sep	105.3	124.1	156.2	165.9
Oct	105.3	130.4	155.9	162.8
Nov	105.4	133.5	155.4	159.2
Dec	108.7	138.5	154.9	
Average	105.3	121.4	149.8	161.8

Raw material analysis – Sugar

- Global Sugar sector experienced an overall production and consumption decline during MY20* due to the outbreak of Covid-19 pandemic
- In FY19 specifically, the production levels of sugarcane declined to ~67mln tons from ~83mln tons in FY18, a fall of ~19%; the same production levels were retained in FY20
- As of Oct'20, the Government of Pakistan (GoP) has set sugarcane price at PKR~200/40KG for the new crushing season 20/21
- Y-o-Y international sugar prices have shown little fluctuation; average per kg price around USD 0.29 (PKR 46.50 per kg)
- Average price per kg of sugar in Pakistan is at PKR~100/kg



Potato

- Potato is one of the main ingredients in Snacks industry
- Prices of Potato hover around PKR~56 per kg.
- Pakistan is one of the largest potato producing countries
- Combination of inadequate storage facilities and an under-developed processing industry leads to volatility in prices
- About 5 percent of total country production is exported while 18 percent is stored for potato seeds.

Dairy

- Pakistan is the 3rd largest milk producing country in the world but the sector has not developed to its maximum potential.
- Only 3-4 percent of total milk produced is processed through formal dairy industry and marketed through formal channels; the remaining 96 to 97 percent reaches end users through traditional middlemen.
- 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

Potato crop dynamics

Growing Season	Planting Time	Harvesting Time	Production Share	Main Growing districts
Spring	Jan-Feb	Apr-May	7-10%	Baluchistan and KPK
Summer	Mar-May	Aug-Oct	15-20%	Northern hilly and Azad Jammu and Kashmir
Autumn	Sep-Oct	Jan-Feb	70-75%	Punjab

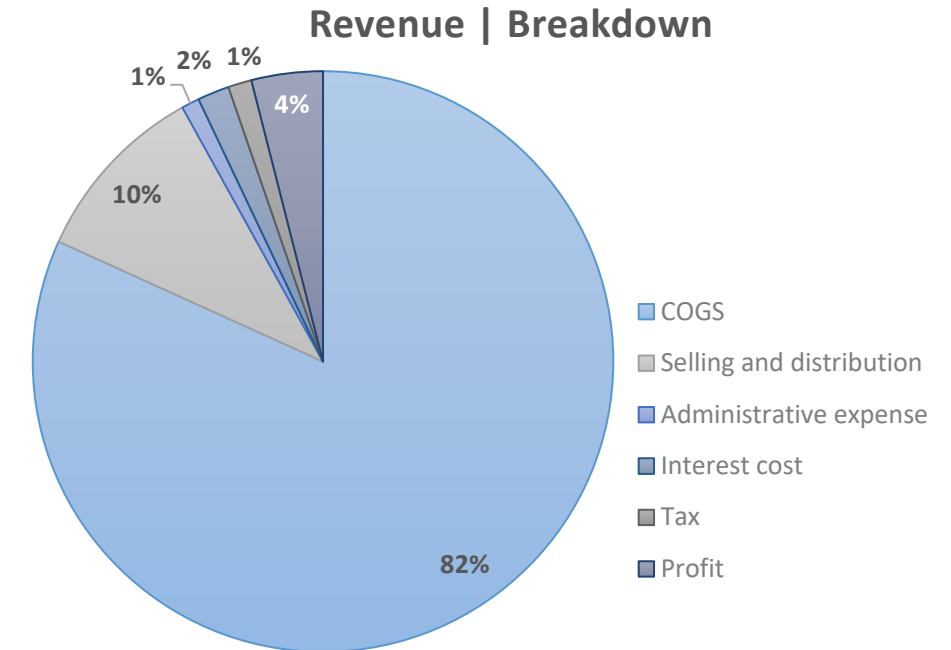
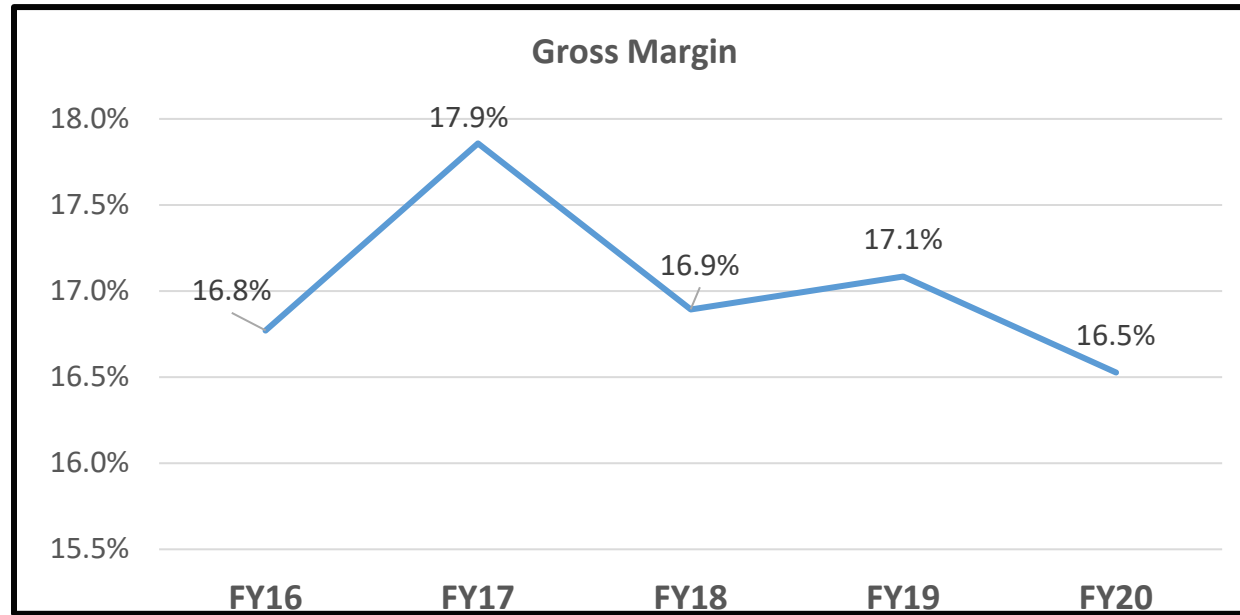
DUTY STRUCTURE

- ‘Pakistan Biscuit & Confectionery Manufacturers Association’ and ‘Pakistan Food Association’ are the major regulatory bodies of the Sector.
- In addition to Sales Tax, there is Advance Tax of 1% applicable on the import of these products.
- 1% tax is applicable on Exports. However, the amount of Advance Tax is adjustable against final income tax liability.

PCT Code	Description	Custom Duty	
		2019-2020	2018-2019
1905.3100	Sweet biscuits	20%	20%
1905.3200	Waffles and wafers	20%	20%
1905.4000	Rusks, toasted bread, and similar toasted products	20%	20%
1905.9000	Other	20%	20%
1704.1000	Chewing gum, whether or not sugar-coated	20%	20%
1704.9010	White chocolate	20%	20%
1704.9090	Other	20%	20%
1801/1802/1804.0000,1803.1000/2000	Cocoa	3%	3%
1805.0000	Coca powder, not containing added sugar or other sweetening matter	11%	11%
1806.1000/2010/2090/3100/3200/9000	Chocolate and other food preparations containing cocoa	20%	20%
1806.2020	Chocolate crumbs in packing of 25kg or more in powder, granules or briquettes	11%	11%

FOOD PRODUCTS | DOMESTIC MARKET

Business Risk | Margins



- Average gross margins of the Industry hover in the range from 16% -18%. GP Margins are highly dependent on the raw material costs (80-90%), which majorly includes grains and commodities. A high pricing competition exists in the market and organized players counter threats from the unorganized players, who compete on their lower pricing strategies.
- High investment in advertisement and distribution of products is a common phenomenon in the Industry, which results in a thin average bottomline of around ~4%. Advertisement expense* generally accounts for ~30%-40% of the total selling expenses of the Industry players, followed by salaries and wages
- A high price sensitivity exists in the market and quantum of sales can be impacted by any small changes in prices of the products.

• *Based on a Listed Player's FS
 • Source: TDAP

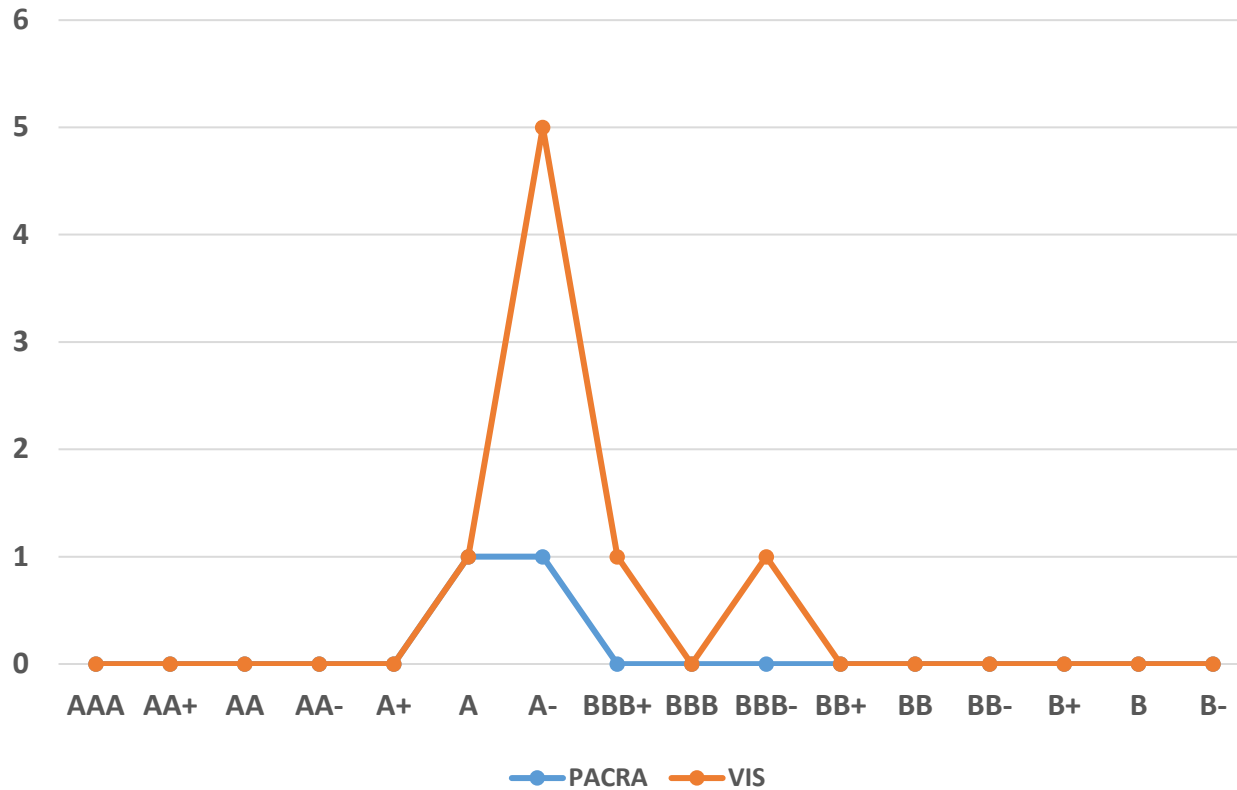
FINANCIAL RISK

- 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 leads to lower inclination towards short term borrowings.
- Trade receivables as a percentage of net sales of food sector is low because of effective implementation of mechanism encouraging cash payments

Borrowing Book (PKR mln)	June'19	June'20	Nov'20 (P)	Segment Share in Debt Book
Manufacture of starches and starch products	2,723	3,844	4,729	10%
Manufacture of bakery products	39,321	32,655	34,800	72%
Manufacture of cocoa, chocolate and sugar confectionery	5,691	7,810	8,646	18%
TOTAL	47,735	44,309	48,175	100%

- Total Debt Book of the Industry clocked in at PKR~48bln as at End-Nov'20 (PKR~42bln End-Nov'19), an increase of ~14% YoY and an increase of ~9% from June'20.
- Bakery manufacturers contribute largest proportion towards the debt burden of the Industry.
- Average short term to long term loan ratio of food products sector is 30:70.
- Export Refinance Loans comprise ~14% of the total debt book of the Industry while LTFF/TERF represent ~11% which reflects that some portion (~25%) of the Industry's debt book is facilitated through subsidized financing rates.

Rating Curve



- Ratings fluctuate between A and BB
- PACRA rates 2 entities in the Pakistan’s food products industry namely Ismail Industries Limited and Lotte Kolson (Pvt.) Ltd.
- PACRA rated universe comprises ~20% of industry’s revenue

FOOD PRODUCTS | SWOT ANALYSIS



Impact of COVID-19

- No disruptions in the food supply chain or major impact of temporary bans or restrictions imposed on retail outlets during COVID-19.
- Financial support to SMEs and the agriculture sector (PKR 100 billion) in the form of power bill deferment, bank lending, as well as subsidies and tax incentives
- The State Bank of Pakistan (SBP) has responded to the crisis by cutting the policy rate by a cumulative 625 basis points to 7.0 percent
- SBP provided subsidized loans under the Export Financing Scheme (EFS). Furthermore, an additional period of six months has been allowed to the exporters for meeting the required export performance against financing of EFS/IERS-II for the monitoring period of FY 2019-20

OUTLOOK: STABLE

- Highly competitive industry with influx of new players. Marketing and distribution costs to remain high.
- Reduced inflation (~12.4% at the start of CY20 to ~8.3% in Nov'20) and favorable demographic and consumer dynamics are expected to keep the demand intact.
- Most of the raw material is readily available at local level. An increase in raw material prices has a blanket impact on all Industry players, therefore is directly passed on to the end consumers by both organized as well as unorganized segments.
- NP Margins are expected to improve due to lower financing expense.
- 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.
- Despite Covid-19 pandemic, the Industry demand did not face any material drop and has recovered over the course of time.
- 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.

- Pakistan Bureau of Statistics (PBS)
- Federal Board of Revenue (FBR)
- Securities & Exchange Commission of Pakistan (SECP)
- Ministry of Finance
- Statista
- Business Recorder
- Trading Economics
- State Bank of Pakistan (SBP)
- Statista.com
- Pakistan Stock Exchange (PSX)
- PACRA Internal database
- Trade and Development Authority
- Food and Agriculture Organization of UN
- Biscuitpeople

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