

Jute

Sector Study

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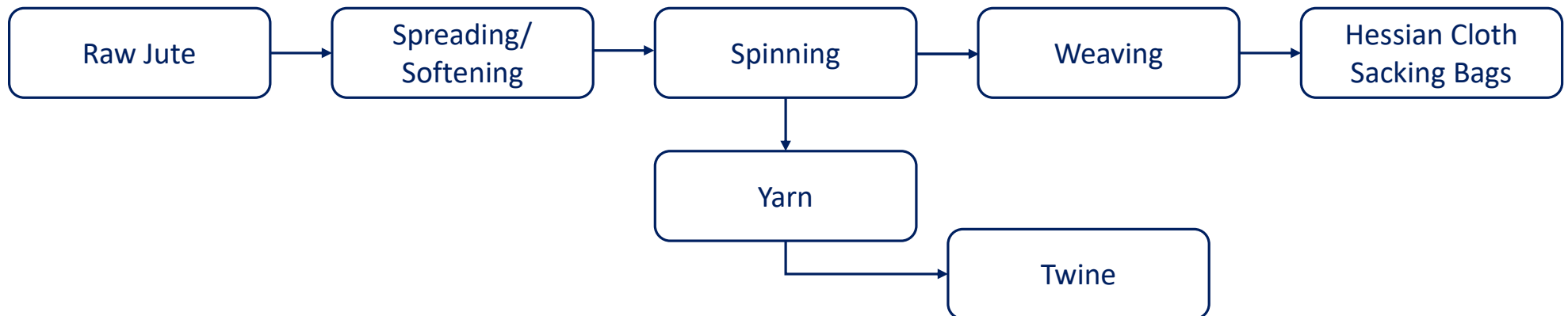


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JUTE | INTRODUCTION

- Jute, also known as the 'Golden Fibre', is a natural fibre extracted from the bark of the white jute plant. Jute is a rain-fed crop, which commonly thrives in tropical lowland areas with significant humidity levels.
- Raw jute, which is the industry's raw material, can be processed and manufactured into a variety of products. These include yarn, twines, hessian cloth and sacking bags. Hessian cloth is commonly used in the manufacturing of carpets. The most common products made from jute are sacking bags used for packaging of wheat, potatoes, rice and many other food or agricultural products largely due to its breathability optimizing shelf life of edible commodities.
- Jute is very environment friendly, especially in comparison to other materials used in packaging, due to being 100% biodegradable and recyclable in nature.
- The value chain of jute production is as follows:





JUTE | GLOBAL INDUSTRY

Overview

- Size:** The global jute bags market size is expected to grow from USD~1.94bln in CY21 to USD~2.25bln in CY22 at a compound annual growth rate (CAGR) of ~15.8%. The growth is mainly due to the worldwide companies resuming their operations and adapting to the new normal while recovering from the COVID-19 impact.
- Production:** Global Jute Production Market is highly concentrated. The countries with highest volume of jute & allied fibres production are Bangladesh (~54%) and India (~41%), who jointly produce more than ~90% of the global jute crop. In FY21*, global jute & allied fibre production stood at ~2.6mln MT. The production levels have been declining since FY19. Raw jute availability has been challenging for the largest producers of Jute. During CY20, Cyclone Amphan severely impacted the jute harvest in Bangladesh. Moreover, over the years the average area under jute cultivation globally has declined as farmers move towards cash crops.
- The jute crop has a cultivation period of 120-150 days. It is sown from March to May, according to rainfall, and harvested from June to September, depending on whether sowing was early or late.
- Exports:** Bangladesh dominates the jute export market with an approximate ~82% share of the total export market. India has a smaller share as majority of its jute production is consumed locally.
- Imports:** In World imports of raw jute, Pakistan, Nepal and India are the top three countries.

000'MT	World Production of Jute & Allied Fibres			World exports of products of jute, kenaf and allied fibres		
	FY19	FY20	FY21*	FY19	FY20	FY21*
Bangladesh	1,544	1,448	1,408	719	713	699
India	1,296	1,224	1,080	76	78	61
China	48	54	59	6	6	5
Pakistan	67	65	70	4.2	13	11
World	2,957	2,795	2,619	889	910	857



JUTE | LOCAL INDUSTRY

Overview

- **Size:** The market size of the jute industry is estimated at PKR~31,650mln in FY22 as compared to PKR~27,826mln in FY21, up ~14% YoY. The increase was due to a rise in local demand as more buying by the Government and upward trend in the purchase of local jute products increased its demand.
- **Structure:** Pakistan's jute industry is relatively small with 5 operational jute mills in the country. Out of these 5 players, the market is dominated by 2 players, Sargodha Jute Mills Limited and Thal Limited, which occupy a combined market share of ~80%.
- **Demand:** The demand for processed jute products in the country is largely derived from the agricultural sector. Sacking bags, which make up the largest product segment, are most commonly used for packaging of wheat, rice and potatoes as well as many other food and agricultural products. Meanwhile, hessian cloth is used as a raw material in the carpet making industry.
- **Supply:** The industry depends entirely on imported raw jute procured from Bangladesh as its exclusive source for raw material. Jute is a Kharif crop. It has a cultivation period of 120-150 days. It is sown from March to May and harvested from June to September.
- In next year, The business environment appears to be challenging with high inflation, foreign exchange fluctuations, political instability, higher raw material and input costs and a global shortage of sackkraft paper due to the ongoing Russia-Ukraine war



Note: Revenue is estimated prorating ~56% of the market installed capacities of Sargodha Jute Mills Limited & Thal Limited.

Source: PSX, PACRA Database, Business Recorder 3



JUTE | LOCAL INDUSTRY

Production and Capacity Utilization

- The adjacent table shows the available capacities of the 5 operational jute mills in the country. The installed capacities have not changed in recent years. Thal Limited & Sargodha Jute Mills holds ~56% share in terms of total production capacity of the country.
- During 6MFY22, the industry’s capacity utilization stood at ~46% with a total production level of at ~52,738 MT. Depreciation of rupee restrained the production of jute, as most of the raw material is imported from Bangladesh
- Sacking bags are the largest product category and accounted for ~53% of total production in 6MFY22.

Name of Players	FY22 Capacity (MT)
Thal Limited	33,800
Sargodha Jute Mills	30,500
Indus Jute Mills	20,000
White Pearl Jute Mills	15,000
Madina Jute Mills	15,000
Total	114,300

Annual Production of Jute Goods							
(000’MTs)	FY16	FY17	FY18	FY19	FY20	FY21	6MFY22
Sacking Bags	30	37	49	44	43	43	6
Hessian Cloth	13	9	10	12	12	18	28
Others	12	14	15	12	10	9	18
Total	55	60	74	67	65	70	53

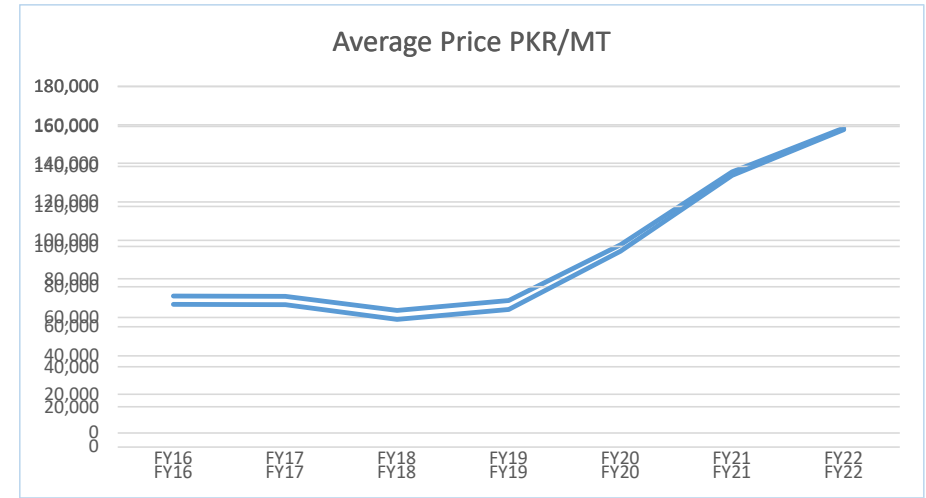


JUTE | LOCAL INDUSTRY

Raw Jute Imports

- Pakistan is almost entirely dependent on Bangladesh for its imports of raw jute.
- During FY22, imports stood at PKR 9,354mIn as compared to PKR~8,491mIn in FY21 (FY20: PKR~4,852mIn), an increase of ~10% YoY. The increase in imports, in value terms came on the back of massive rupee depreciation .
- Jute imports during FY22 in term of PKR/MT has gone up significantly by ~57% reaching up to ~ 158,400 PKR/MT on account of steep rupee devaluation during the period.

Jute Imports	Quantity (MT)	Value		Average Price	
		PKR mIn	USD mIn	PKR/MT	USD/MT
FY16	46,706	3,321	32	71,104	682
FY17	66,886	4,745	45	70,942	677
FY18	88,024	5,600	51	63,619	579
FY19	68,866	4,730	35	68,684	514
FY20	49,638	4,852	31	97,748	620
FY21	62,614	8,491	53	135,609	851
FY22	59,053	9,354	58	158,400	990





Business Risk

- **Import Concentration:** The industry faces significant risk due to its dependency on imports from only one country, Bangladesh. Any damage to the jute crop in Bangladesh as a result of flooding or other natural factors is felt by Pakistani importers through increase in prices. In addition, there is also risk due to exchange rate volatility.
- **Dependence on Government Orders:** The largest buyer of jute products are the provincial and federal governments who issue various tenders, mostly for purchase of sacking bags, that are used for packaging of food items such as wheat, onions, potatoes etc. The industry is highly dependent on these government orders as they make up ~40% of the total demand for jute products.
- **Seasonality:** The industry operates in a seasonal nature aligned with both the harvest of jute in Bangladesh as well as the timing of tenders issued by the government. Inventory procurement usually takes place in second and third quarters of each fiscal year, after the harvest period for jute crop. Moreover, production activity is low in the first quarter. Production activity picks up during the second quarter as mills begin preparing stocks in anticipation of government tenders that are usually issued from December onwards. The government's buying patterns have not changed in recent months and is expected to remain consistent with previous year, going forward.
- **Economic Indicators:** Inflationary Pressure, high interest rates & Rupee devaluation, such factors have major impact on the business. High inflation hurts the operational side where as interest rates restrain the bottom line.

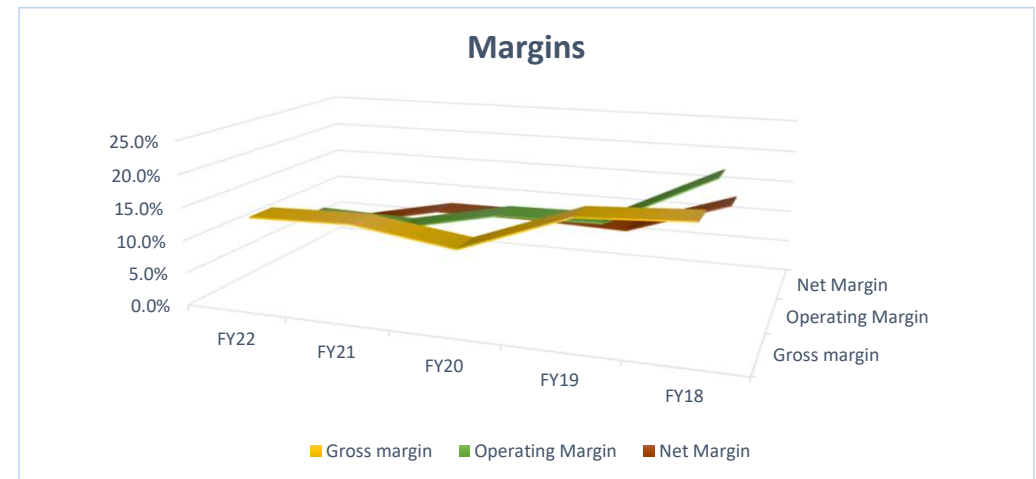
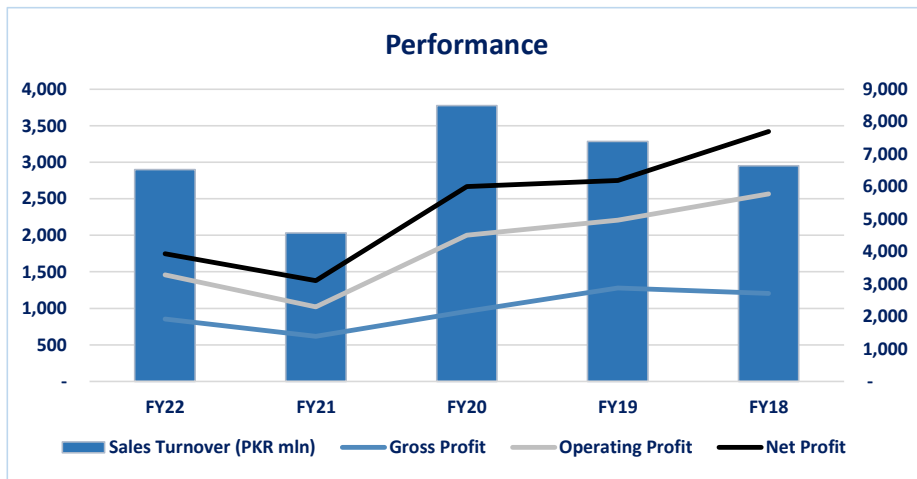




JUTE | LOCAL INDUSTRY

Business Risk | Margins & Cost Structure

- The margins of jute industry are significantly dependent on two factors (i) jute prices in Bangladesh and (ii) exchange rate fluctuations. The Industry’s margins have fluctuated in the past five years in the bandwidth of ~10%- 20%. The volatility is attributable to changes in prices of imported raw material, i.e. raw jute, along with volatility in exchange rates.
- There is an inverse relationship between raw material prices and gross margins. The industry’s average gross margins have increased in periods when the average import price of raw material has decreased and vice versa. Raw material constitutes ~77% of manufacturing costs.
- During FY22, the sector’s gross margins improved to ~14% (FY21: ~11%) on the back of higher domestic demand. Moreover, the increase came despite price volatility of imported raw material indicating that the prices were passed on to consumers. Higher interest rates kept the net margins muted to ~4.4% in FY22 (FY21: ~8%).



Note: Historical margins and cost break-up is estimated from ~80% of the market

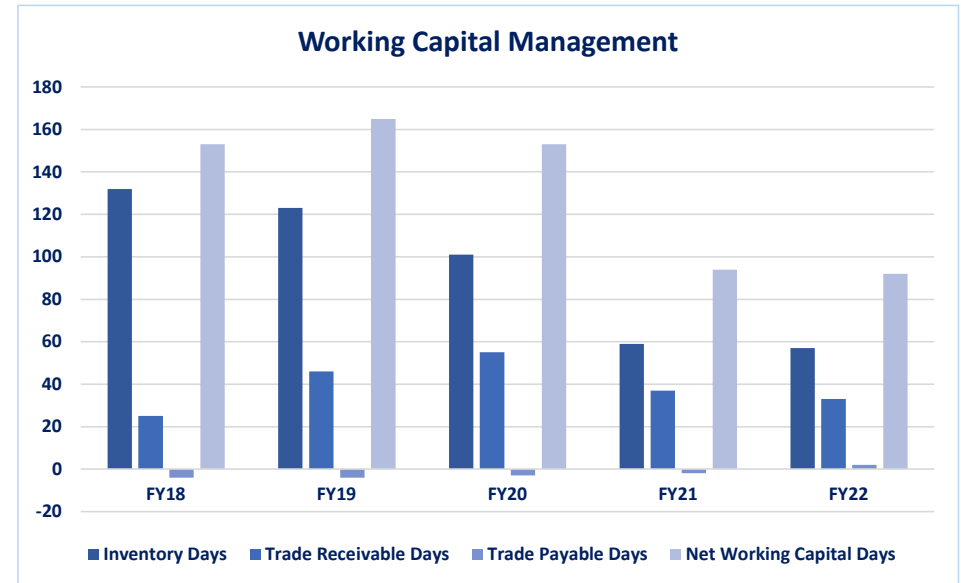
Source: PSX, PACRA Database



JUTE | LOCAL INDUSTRY

Financial Risk | Working Capital Management

- The industry’s working capital is largely a function of its inventory and trade receivables. The industry has a seasonal nature. Majority of the procurement of raw material usually occurs during the second and third quarters of the fiscal year, i.e. from October to March. Raw material is usually procured in bulk for use for the entire year. However, high storage and finance costs have forced some players to change buying patterns.
- Offloading of finished goods picks up after December as large orders won through government tenders have to be filled. As a result, working capital requirements begin to decline in the second half of the fiscal year. Delays in payment from government can increase trade receivable days.
- During FY22, the working capital cycle remains similar to last year (92 days in FY22 from 94 days in FY21). It reflects that the huge inventory levels were being maintained in previous 2- 3 years to keep up the demand cycle in times of the pandemic.



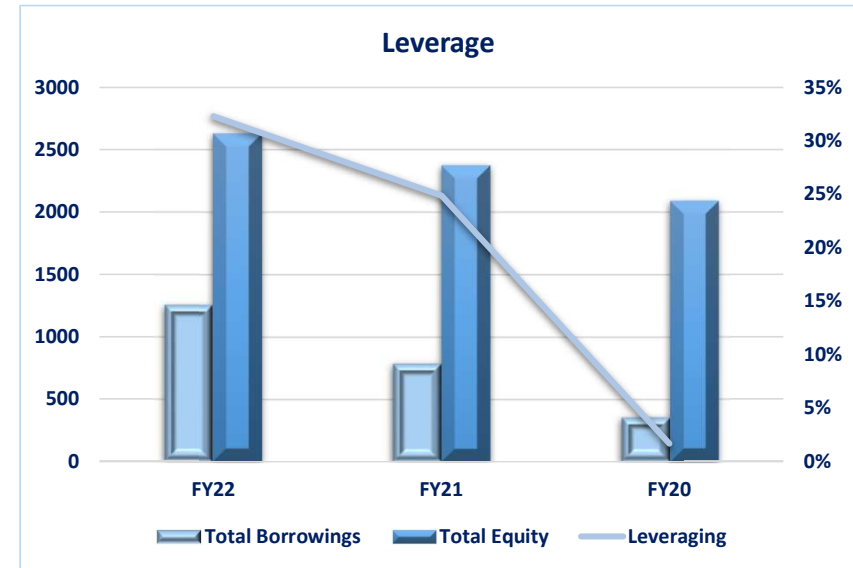
Note: Working capital cycle is calculated from ~30% of the market



JUTE | LOCAL INDUSTRY

Financial Risk | Sector Borrowings

- The jute industry’s total borrowing stand at PKR~1,255mln in FY22 as compared to PKR~786mln in FY’21, an increase of ~60%.
- The industry’s capital structure is sound, though witnessing an upward trend. It has moderate level of leverage with the average debt to equity ratio estimated around ~32% (FY21: ~25%).
- The adjacent graph shows the industry’s average borrowing mix. Highest component is represented by short term borrowings that make up ~86% of the total borrowings.
- In view of the nature of the business, where keeping up the working capital requirement smooth is essential, Short term borrowings takes up the major share in the total borrowings.



Note: Borrowing mix and average leveraging is calculated using ~80% of the market data.

STB= Short term Borrowings. LTB= Long Term Borrowings, CMLTB = Current Maturity of Long-Term Borrowings

Source: PSX, PACRA Database



JUTE | LOCAL INDUSTRY

Regulatory Environment

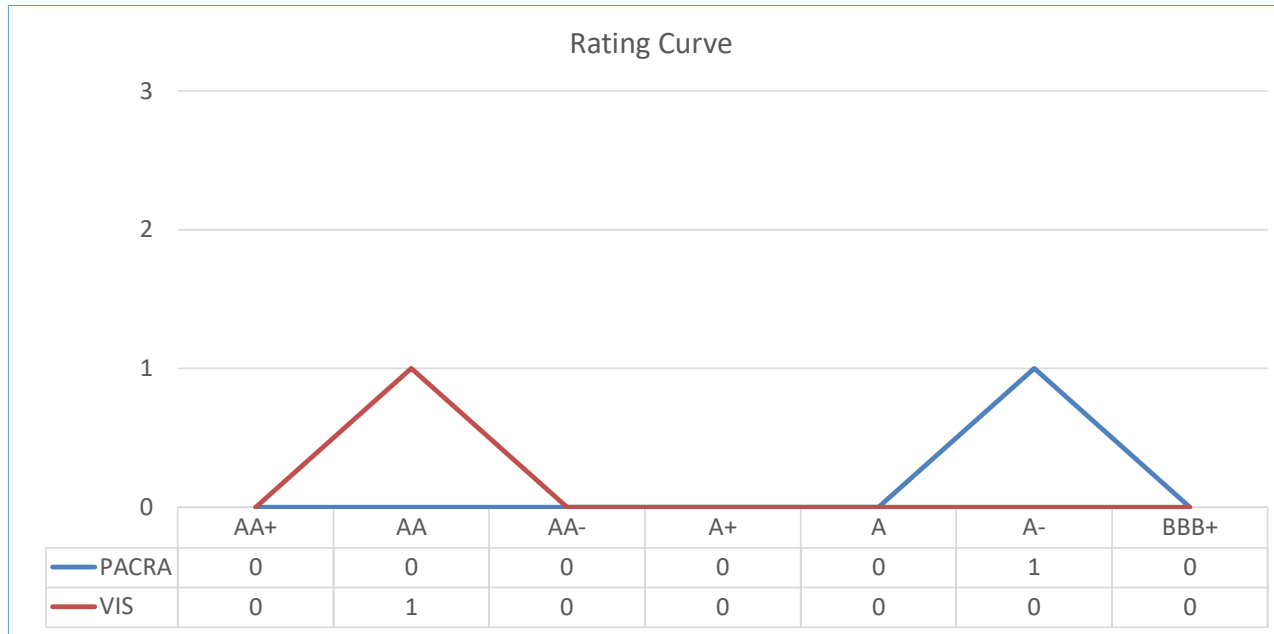
- With respect to Income Tax, the jute industry is under the Normal Tax Regime (NTR). Further, the sector is also subject to Minimum Tax @ 1.5% of turnover, if tax liability under NTR is lower than minimum tax. However, the additional tax paid under minimum tax is adjustable against future tax liabilities for the next 5 years.
- The duty structure implemented by the government provides protection to local jute mills. The applicable duties can be seen in the table below.
- In addition, sales tax of 17% is also applicable on the industry.
- The industry is represented by the Pakistan Jute Mills Association. The association has 10 members, although only half of the mills are currently operational.

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21
53.03	Jute, raw or processed but not spun	0%	0%	0%	2%	0%	0%	0%	2%
53.07	Jute Yarn	0%	11%	0%	2%	0%	0%	0%	13%
53.10	Woven fabrics of Jute	16%	20%	4%	7%	0%	0%	20%	27%
6305.10	Sacks and bags, made from jute, used for packing of goods	20%	20%	6%	7%	10%	10%	36%	37%



Rating Curve

- PACRA rates one entity in the jute industry.
- PACRA's rated universe comprises ~40% of the industry's total revenue.



Total Market Capitalization:
PKR~32bln



Rated Capitalization:
PKR~32bln



SWOT Analysis





JUTE | Outlook & Future Prospects

Outlook: Stable

- The uses of jute ranging from ordinary packing material to geo-textiles, apparel, and upholstery promise a new era for the jute industry globally. The demand for natural and eco-friendly textiles is anticipated to surge over the years because the consumption of synthetic staple fibers negatively impacts the environment.
- The war between Russia and Ukraine the global economy has entered a new terrain of uncertainty, surfacing challenges on various Fronts. This has happened at a time when the world had just started to recover from the fallout caused by more than two years of the Covid-19 pandemic. But the recovery is facing inflationary pressure due to supply shortages in the face of higher demands, as countries begin to expand economic activities. The ramifications of these challenges are seen in higher commodity and oil prices.
- Pakistan's economic recovery is exhibited by the GDP growth of ~20% during FY22 propelled by expansion in agriculture, services, and industry, particularly large-scale manufacturing. However, Pakistan's economy is forecast to slow to ~3.5% in fiscal year FY23 amid devastating floods, policy tightening, and critical efforts to tackle sizable fiscal and external imbalances.
- The industry's overall demand is stable as a large portion emanates from government procurement of sacking bags. Since the demand from government remains consistent despite overall economic conditions, this reduces the business risk for the industry. Moreover, The crops sector outperformed and posted a growth of 6.6% during FY22 against ~5.9% last year. Cotton, rice, sugarcane, and maize posted remarkable growth during FY22 bolstered demand for jute products as well. For the next year, this growth trend is expected to reverse on account of flood impact.
- Pakistan is entirely reliant on raw jute imports from Bangladesh where there is any change to the other end will have an impact. The import concentration along with exchange rate volatility is a major source of risk for the jute sector.
- Moreover, the inflation level in the country has significantly risen up (Jun'22: ~21% YoY). Further increase came in Aug'22 which stood at ~27% as compared to ~8.3% in Aug'21. Double digit policy rate, political and economic uncertainty consequently results in challenging times in the foreseen period.



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