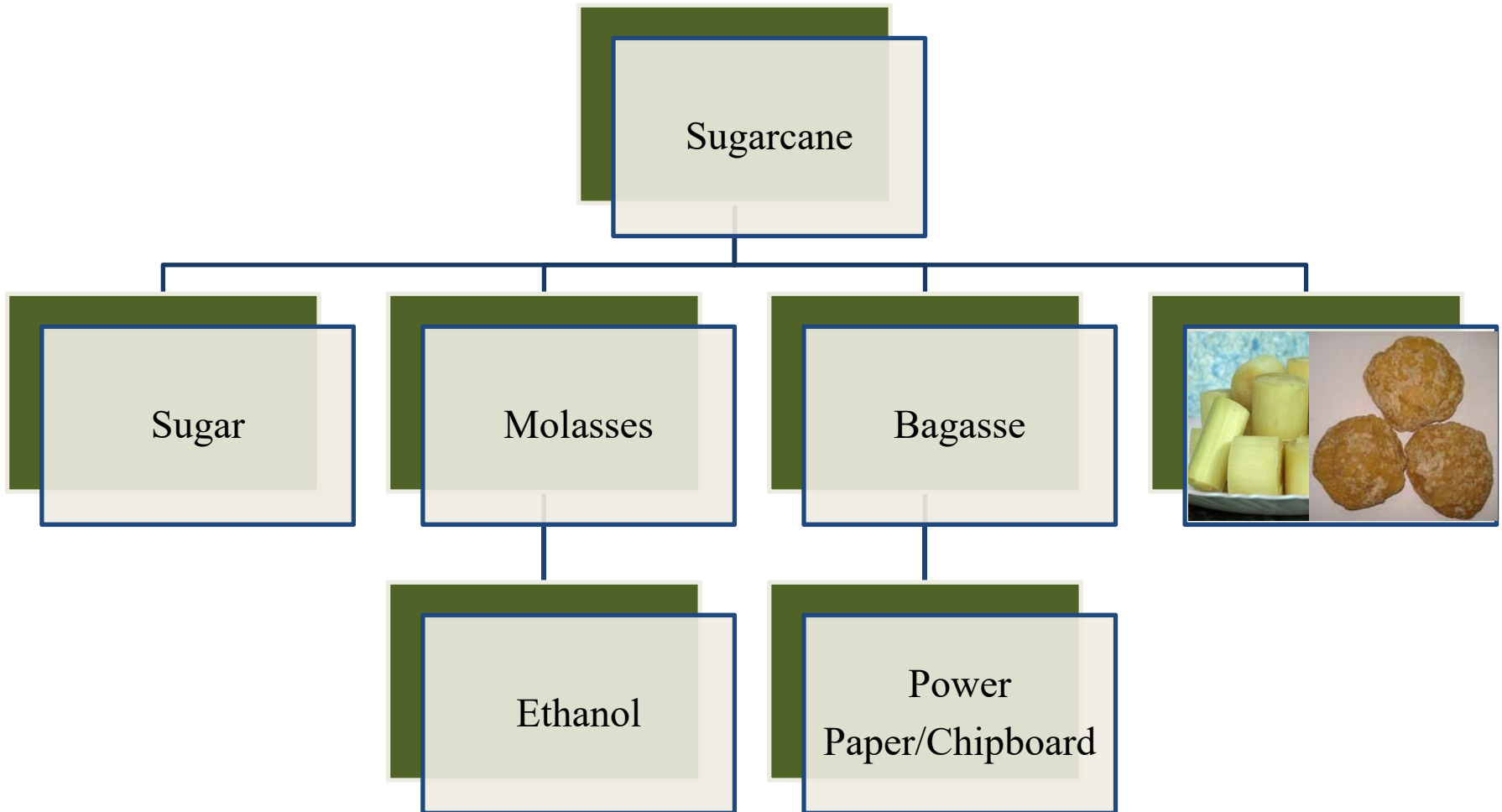


INDUSTRY ANALYSIS – *SUGAR IN PAKISTAN*



APRIL 2019

Sugarcane – *Sugar & By Products*



Value Chain – Where do they fall?

SUPPLY CHAIN





Key Attributes

DYNAMICS OF SUGAR INDUSTRY

Contribution to
GDP (*Sugarcane*):
.7% of GDP

No. of Players: 75
Total Number of
Mills: 89

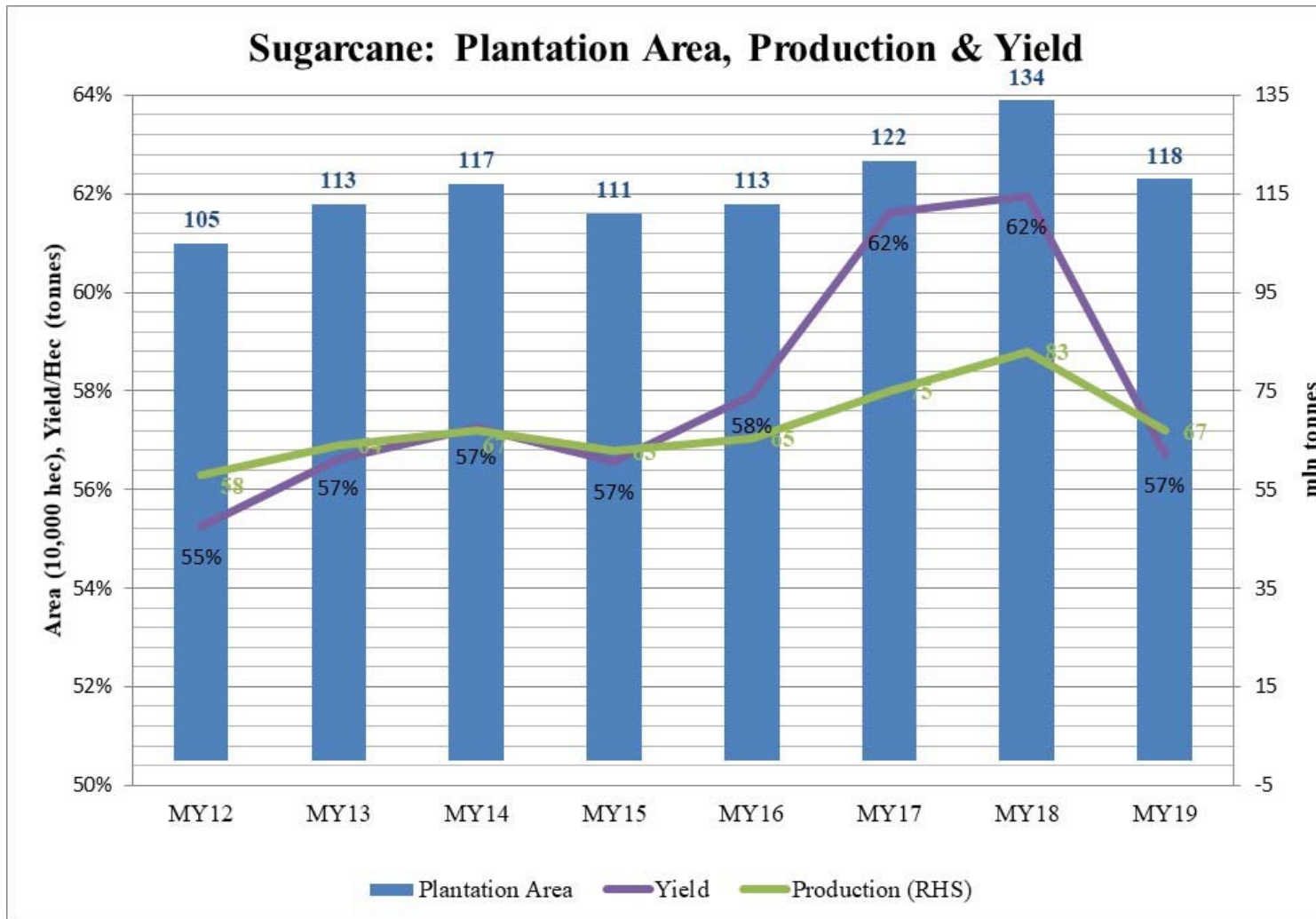
30 Sugar
Companies Listed
on Stock
Exchanges

Sugar Production:
6.5 mln tonnes

Sugar
Consumption: 5.4
mln tonnes



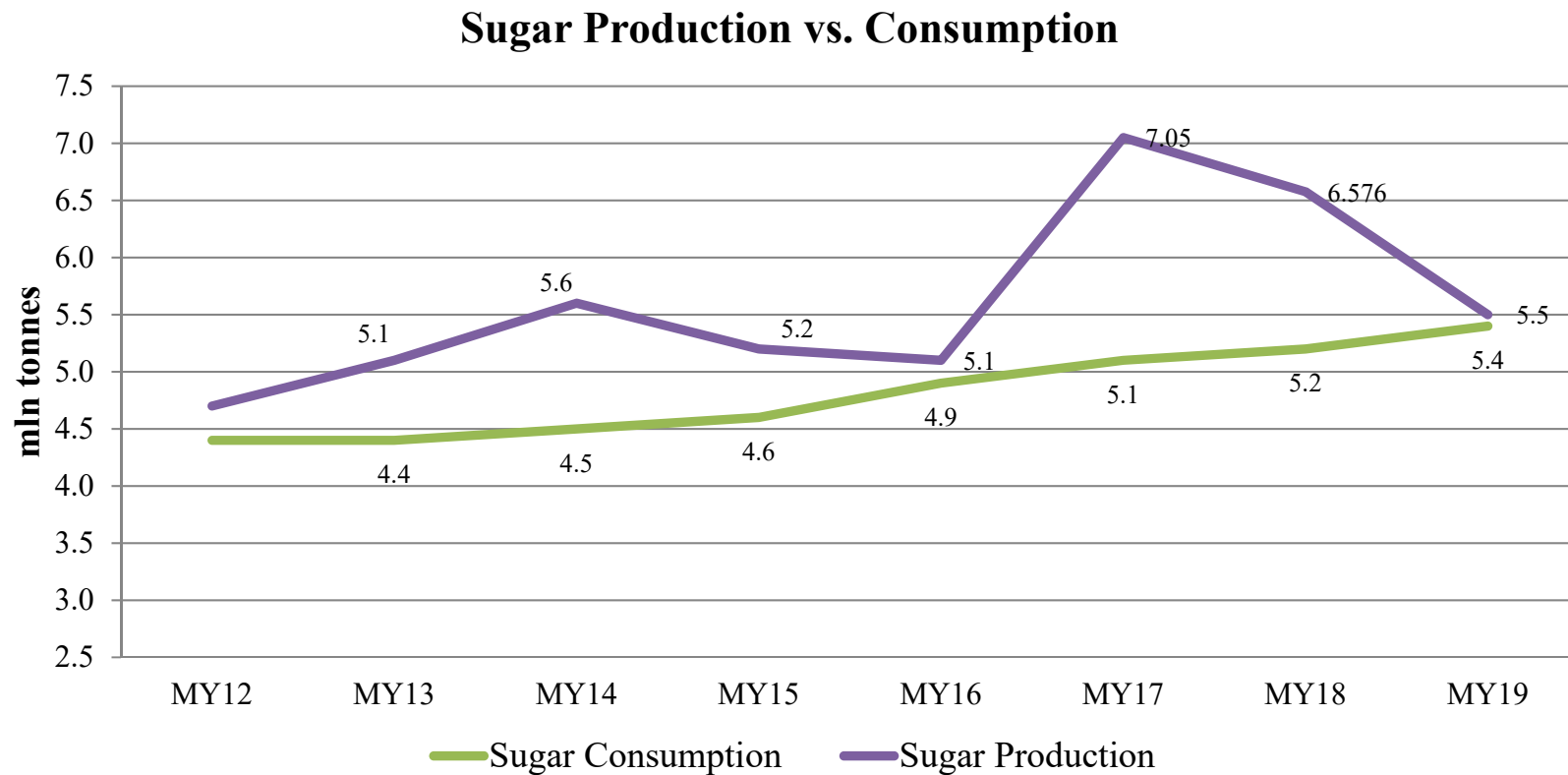
Raw Material | Sugarcane – *Statistics*



- Government support to sugarcane prices guarantees a better return to farmers, leading to increase in area under cultivation.
- However, consistent delay in payments to farmers and anticipated water shortage has resulted in lower area under cultivation and yields.
- Punjab accounts for ~65% of sugarcane area, Sindh ~25%, and Khyber Pakhtunkhwa ~10%



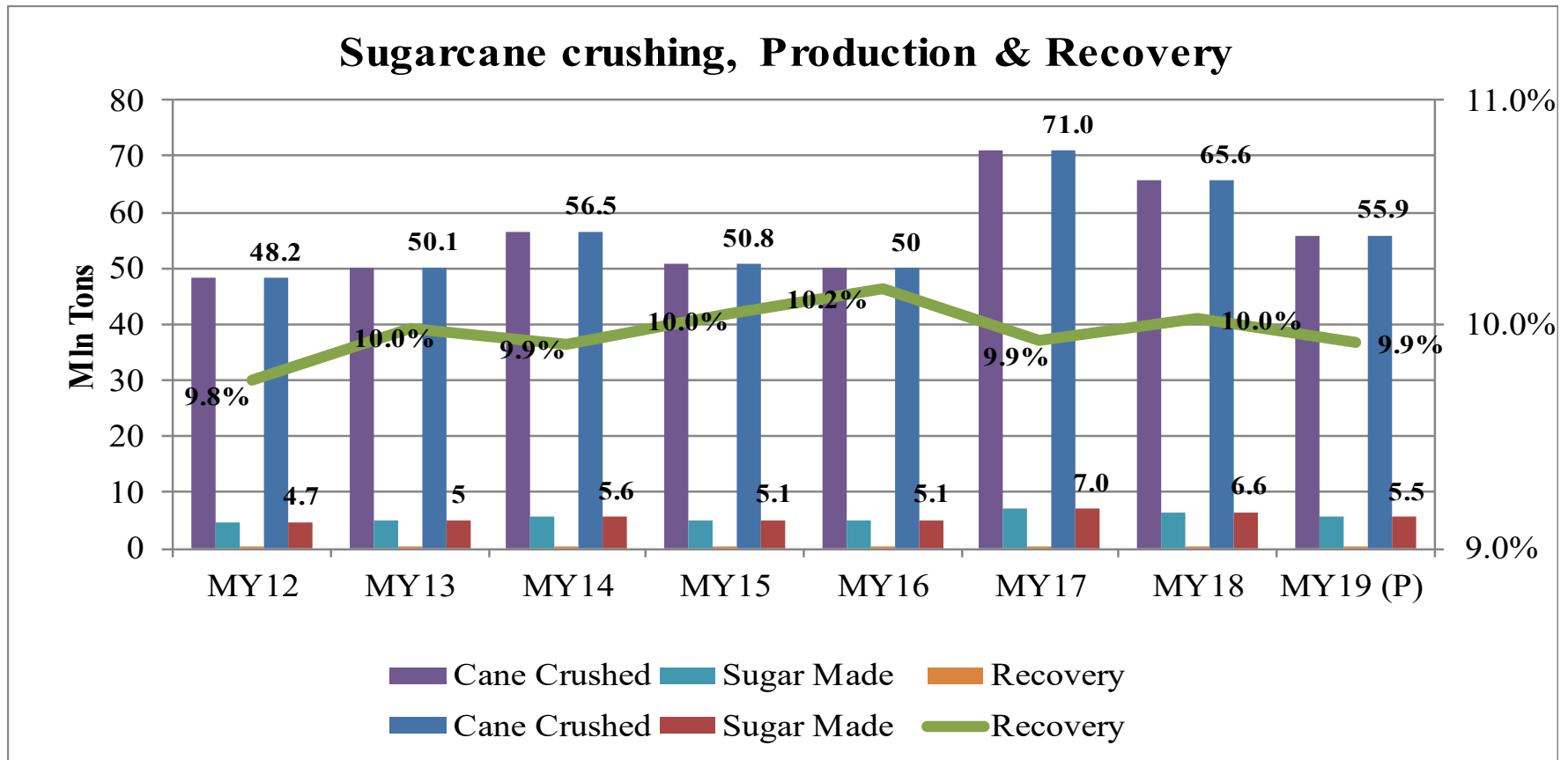
Sugar Production vs. Consumption



- Pakistan has experienced surplus production in the past years in comparison to its domestic consumption
- Domestic consumption has been on steady increase in line with population growth
- Soft Drink, Snacks and Confectionary Industry constitute a significant portion of in Sugar consumption



Sugarcane – *Processing*



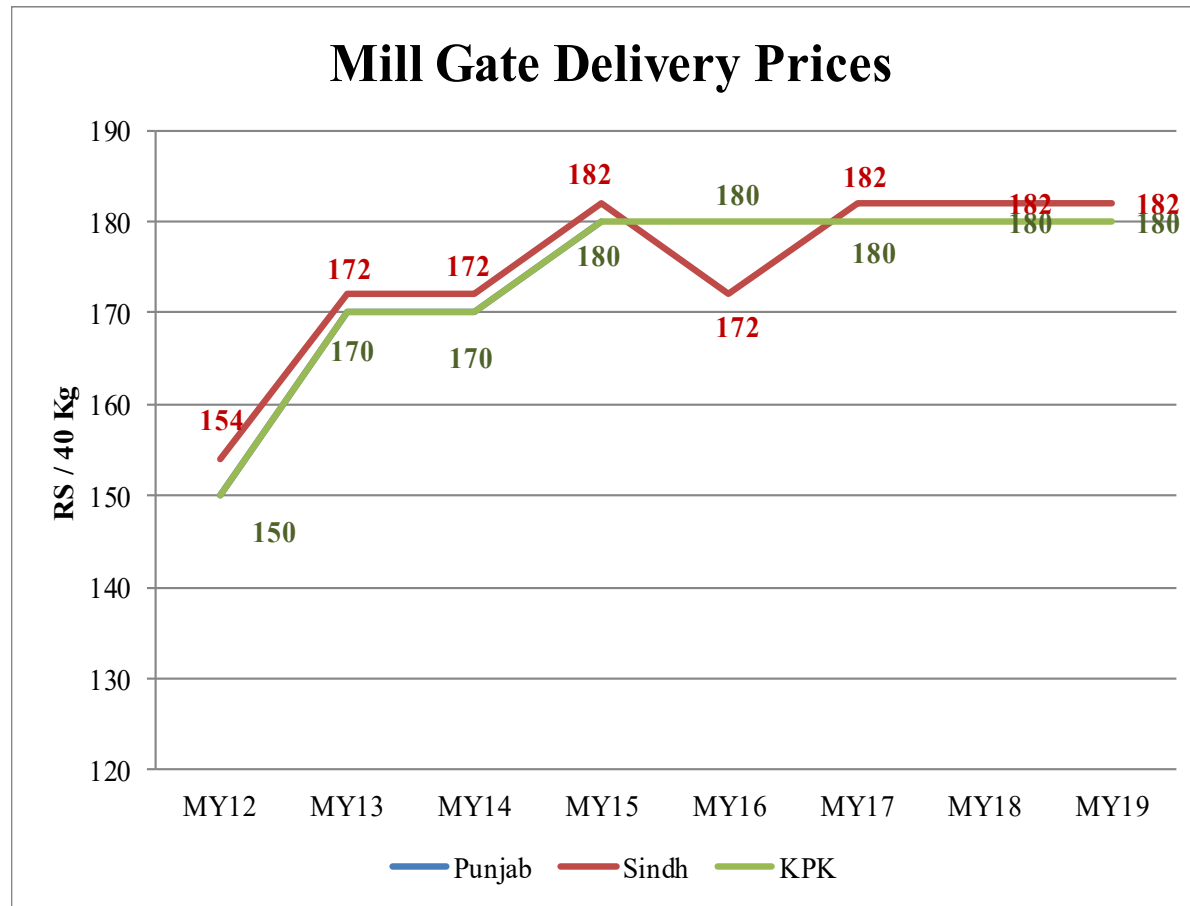
- Pakistan achieves a lower than global average recovery rate owing to lower quality cane varieties
- Higher recovery rates are achieved in the province of Sindh owing to suitable weather conditions
- Other factors impacting recovery rates include days between cane harvesting and crushing
- Significant research and development initiatives to improve sugar processing rates need to be taken

Source: USDA Foreign Agricultural Services GAIN Report, Pakistan Sugar Mills Association Annual Report

(P) Based on Average utilization by mills and provisional Sugar production data



Sugarcane Price / Controlled by Government

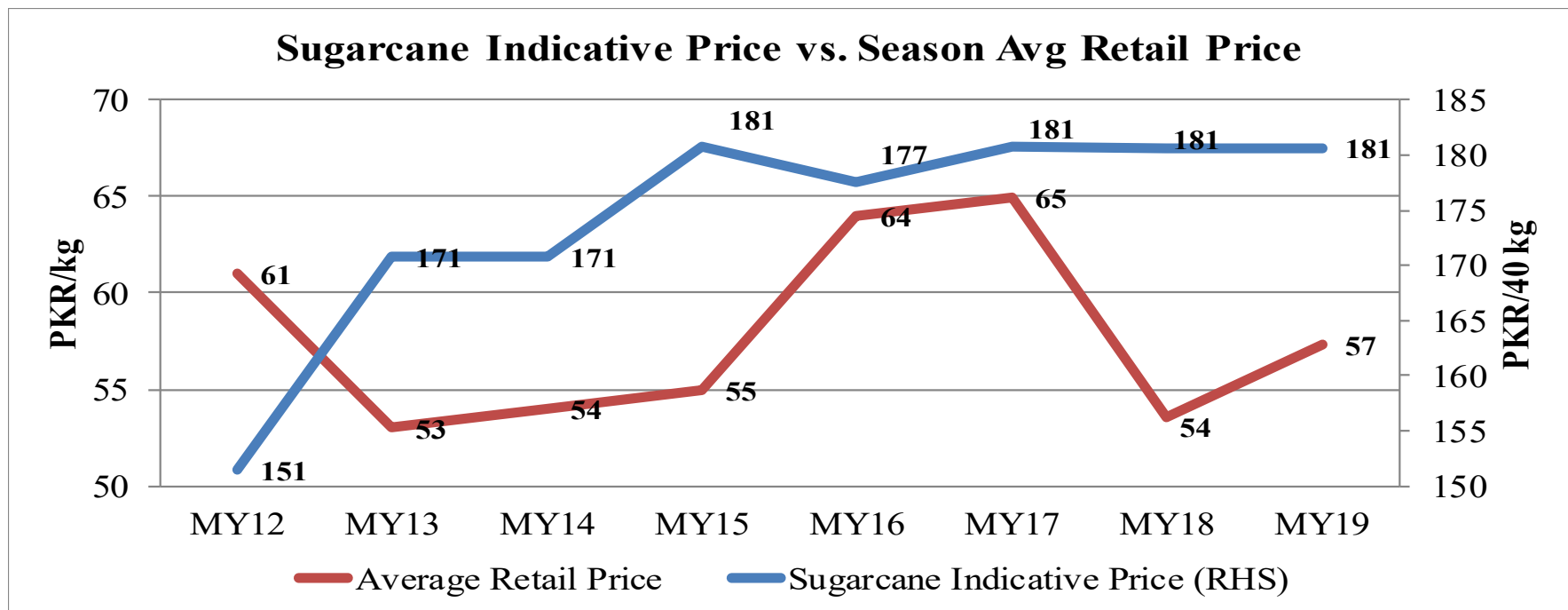


- In 2016 Cane Commissioner Sindh had fixed the price at PKR 172 – lower than Punjab and Sindh –which was challenged by growers in High Court Sindh, Hyderabad.
- During 2017, as per norm the Prices fixed by Sindh Government are 1% higher than those fixed by Punjab & KPK.
- However, a stay was obtained by Millers in Sindh to procure cane at PKR 162/MT in FY18.
- Announced cane prices were maintained in MY19

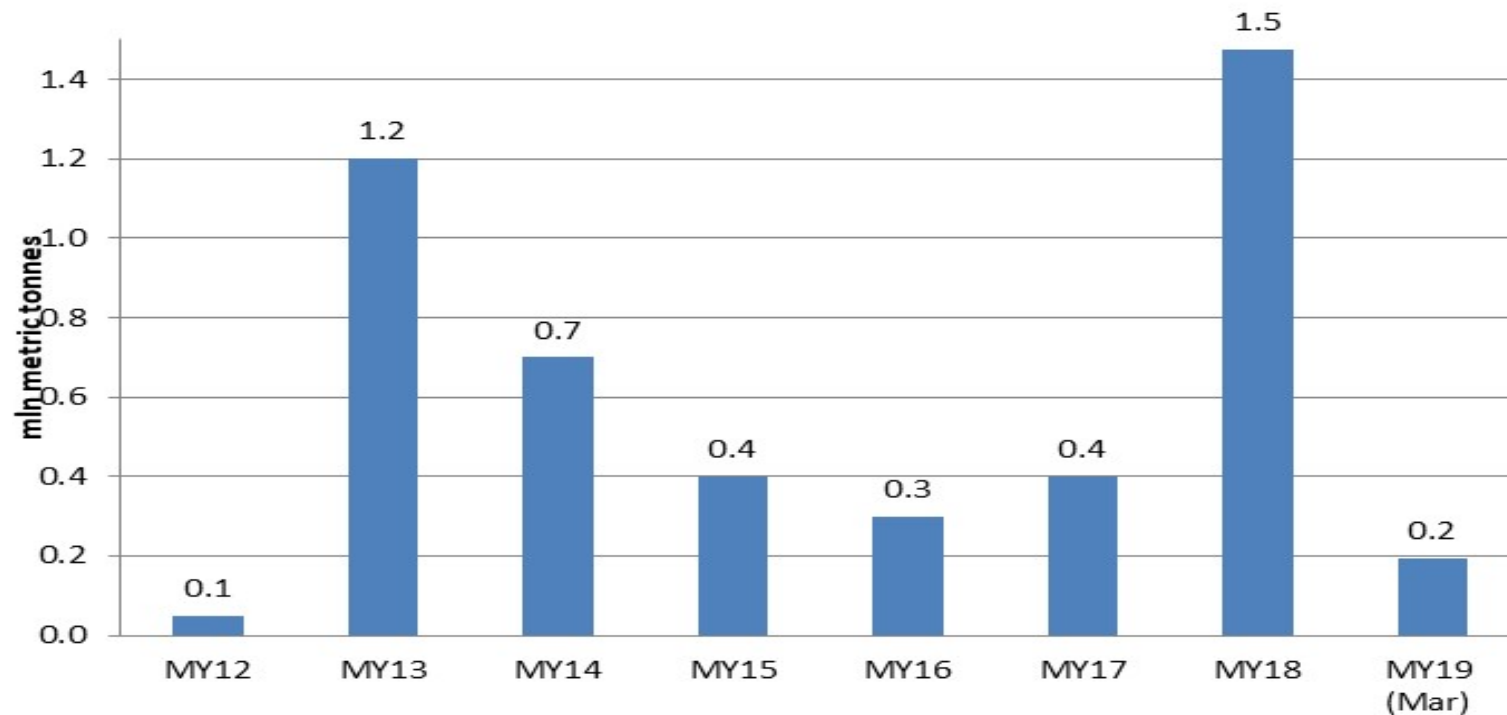


Sugar Cost-Price Comparison

- Cost of sugarcane – essential raw material – has increased in recent years. The decrease in Sugarcane indicative in MY16 is due to Sugarcane support price in Sindh was fixed 4% lower than that of Punjab and KPK. MY17 the Sindh sugarcane support price was increased to PKR 182 per 40Kgs, which was maintained in MY18.
- Selling Price of sugar determined by market dynamics stood at an average of PKR 54/Kg during MY18. The prices have rallied up to PKR 57/Kg from MY19 (Mar) as sugar production decreased during the in MY19.



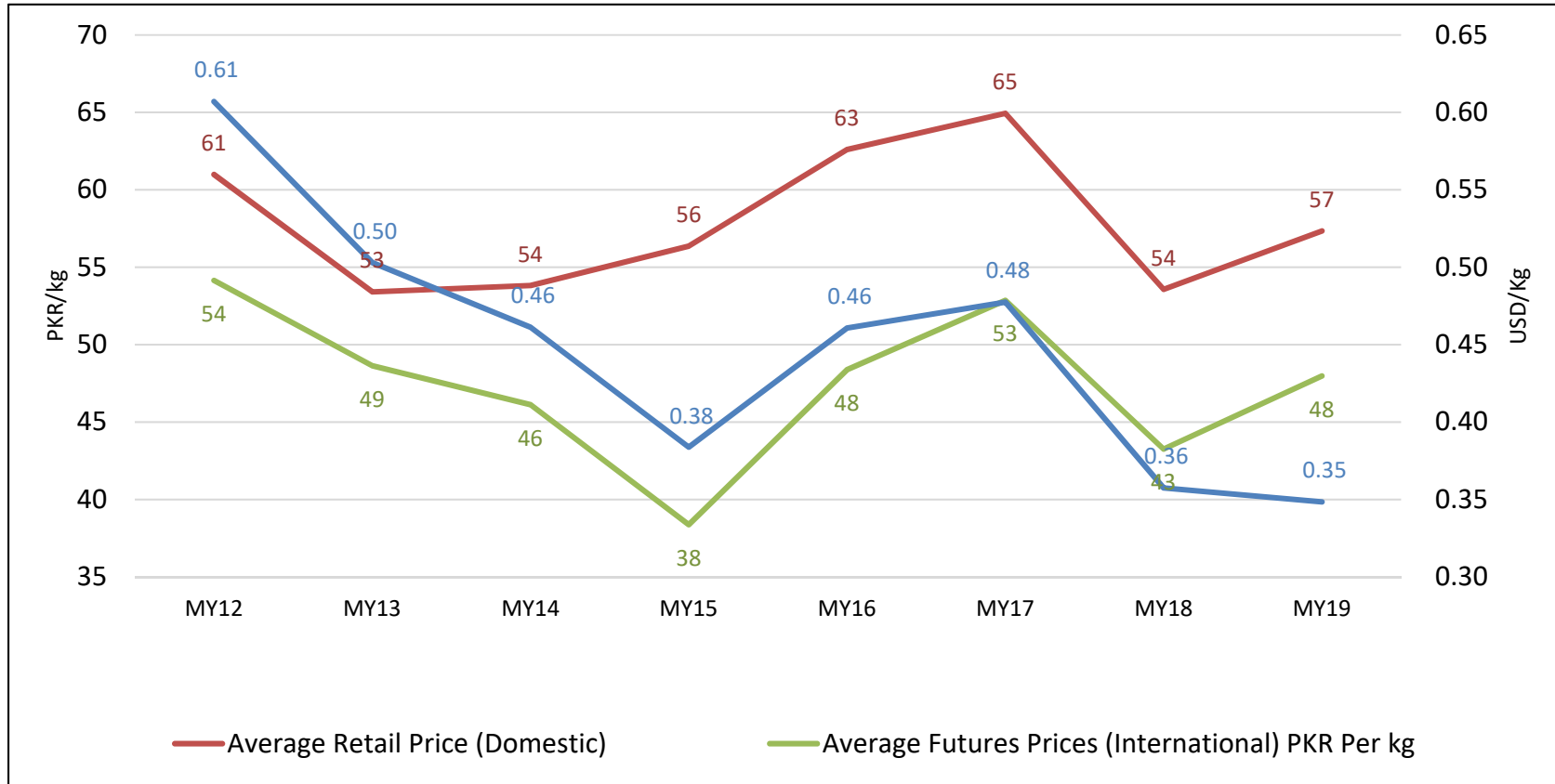
Sugar Industry – *Exports*



- Exports of sugar more than tripled in MY18 due to an increased export quota of 2mln MT coupled with an export subsidy of Rs 10.7/kg from the federal government and an additional subsidy of Rs9.3/kg from the Sindh government.
- In MY19, the export quota has been revised to 1mln MT, however no subsidy was announced at federal level. At provincial level, Punjab announced a subsidy of Rs5.3/kg but sugar exports still remain low due to pressure from international sugar prices.



Sugar Prices| Domestic & International



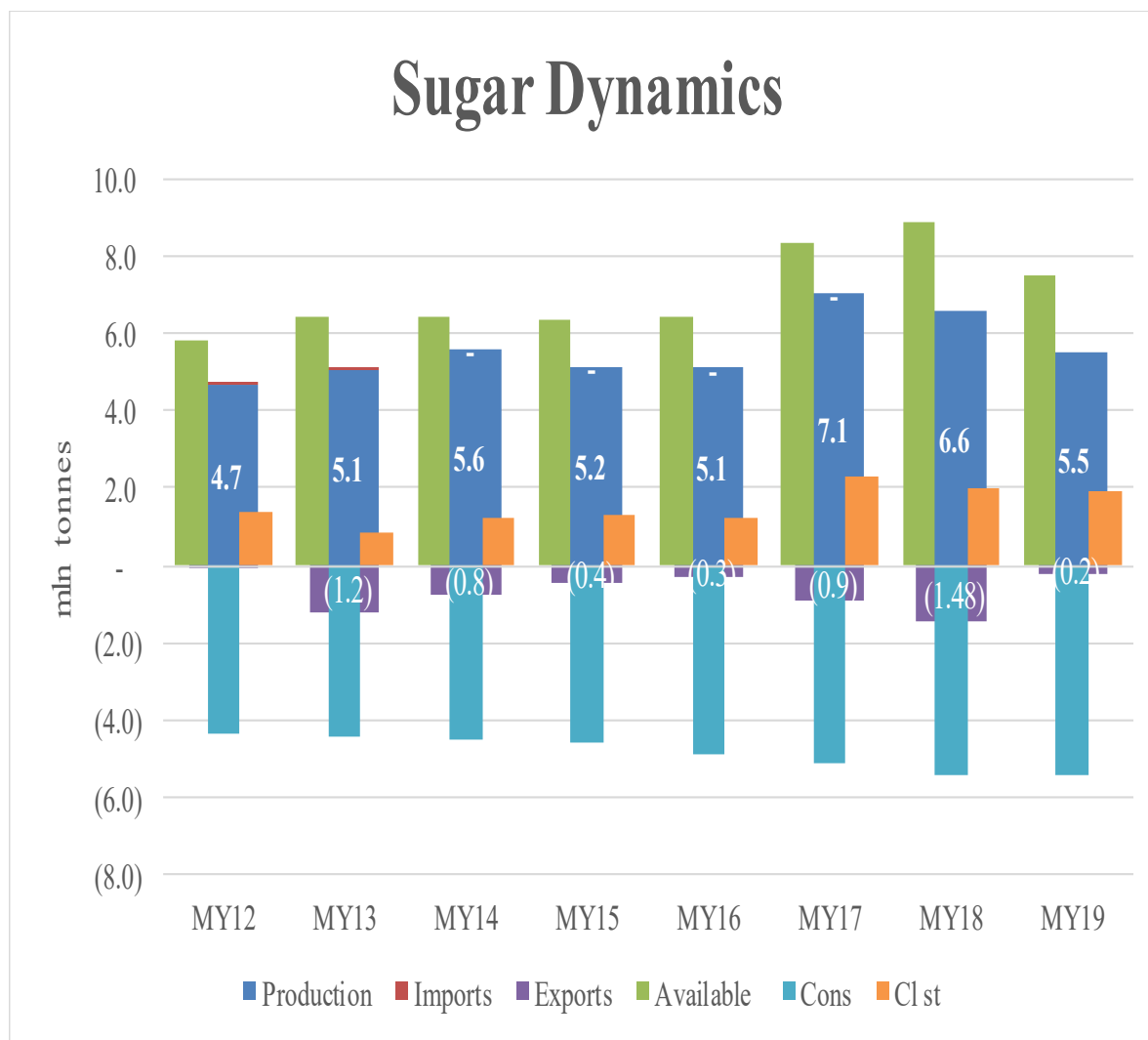
- Depressed international sugar prices are on account of excess sugar supply mainly emanating from India and Thailand
- Domestic Sugar prices are higher than sugar production owing to lower yields, recovery rates and higher cost of production
- Increase in Domestic prices emanate from lower sugar production during MY19.



Sugar Industry – *Dynamics*

FY19:

- Cultivated land declined for MY 19 by ~12%.
- Sugar production declined by ~16%
- Export Quota has been allowed for upto 1 mln tons to date without freight subsidy except in Punjab @ Rs 5.3/Kg
- Low prices in the international market has not encouraged exports meagre of .2mln MT till Oct-Mar 19 compared to .8mln MT in SEMPLY.





Sugar Industry – *Operational Capacity*

Production Share Of Top Player

Production Share of Top Players - MY18					
Sr. #	Sugar Mill	Region	Production (MT)	Recovery Rate	Market Share
1	J.D.W (Combined)	Punjab & Sir	888,711	10.5%	14%
2	HAMZA	Punjab	382,495	10.4%	6%
3	TANDLIANWALA (Comb	Punjab	220,698	8.9%	3%
4	DEHARKI	Sindh	205,788	10.9%	3%
5	SHEIKHOO	KPK	195,006	9.8%	3%
6	CHASMA (Combined)	KPK	193,323	9.4%	3%
7	ETIHAD	Punjab	170,855	10.7%	3%
8	LAYYAH	Punjab	168,596	9.8%	3%
9	TWO STAR	Punjab	162,514	9.6%	2%
10	R.Y.K	Punjab	162,398	10.7%	2%
11	INDUS	Punjab	148,530	10.9%	2%
12	FATIMA	Punjab	146,355	10.0%	2%
13	HUNZA (Combined)	Punjab	144,739	8.7%	2%
14	MEHRAN	Sindh	120,200	11.5%	2%
15	ALLIANCE	Sindh	115,930	9.8%	2%
16	AL-NOOR	Sindh	110,810	10.0%	2%
17	AL-MOIZ	Punjab	107,106	10.1%	2%
18	HABIB	Sindh	106,005	10.3%	2%
19	FARAN	Sindh	105,633	10.7%	2%
20	AI-MOIZ	KPK	103,801	9.9%	2%
21	Others		2,620,620		40%
Total			6,580,113		



Risk Analysis | Sugar Industry

- **Fluctuating gross margins due to cost-price disparity:** *Higher price of sugarcane (controlled by Government) with no mechanism for corresponding fluctuation in the prices of sugar*
- **Unfeasible export avenues:** *Difficulty in selling sugar abroad at better prices despite devaluation of PKR in years of excess production*
- + **On import of sugar;** *Imposing 40 % regulatory duty Ad Volarem in Jun-15 (previously: 20%)*
- + **Diversification through revenues from co-generation projects:** *(i) molasses is also used in the production of pharmaceutical and fuel grade ethanol while (ii) bagasse is used in electricity generation and paper/chip board*