



Food Products

Sector Study

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FOOD PRODUCTS | BRIEF OVERVIEW

Food Products – Snapshot

- This Sector includes biscuits, confectionery products, snacks and condiments 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	Global Market - CY21			
	Biscuits	Confectionery	Snacks [Chips]	Condiments
Revenue (USD bln)	87	197	31	0.22
YoY Growth in Revenue	~4.5%	~6.0%	~4.2%	~7.9%
Average per capita consumption	5.0kg	18.6kg	9kg	7.7kg
CAGR [CY21-CY26]	~5.0%	~3.3%	~5.4%	~5.7%

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 include 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 items.
- Sugar confectionery includes candies/sweets, candied nuts, chocolates, chewing gum, bubble gum, pastillage, and other confections that are made primarily of sugar.

Snacks

- 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.
- They can either be simple (e.g. salt) or compound (e.g. sauces).

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 types

Condiments



Spices



Pickles



Seasonings



Sauces

Top Global Exporters

- Among the food products, confectionery was the highest traded item that grew by ~7% YoY and clocked in at USD~45,134mIn in CY20.
- Almost USD~70,598mIn of biscuits, confectionery, condiments and snacks were traded in CY20.

CY20 - Exports - USD mln							
Biscuits		Confectionery		Snacks (Chips)		Condiments	
Mexico	783	Brazil	8,887	Netherlands	356	USA	1,697
Germany	773	India	2,764	Belgium	306	China	1,578
Netherlands	748	Germany	2,623	USA	281	Italy	1,268
Belgium	539	Thailand	2,224	UK	212	Netherlands	1,059
UK	392	France	1,909	Germany	157	Germany	963
Others	5,000	Others	26,727	Others	1,180	Others	8,172
Total	8,235	Total	45,134	Total	2,492	Total	14,737

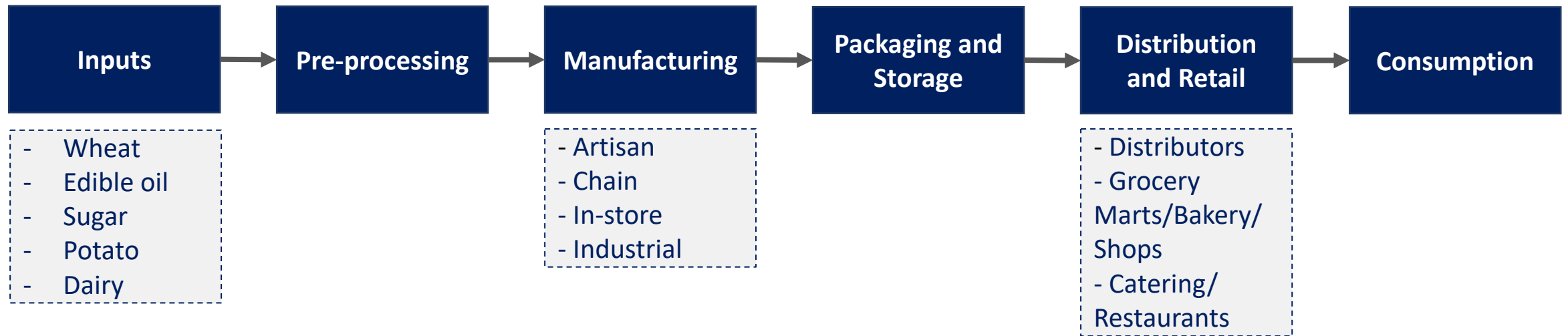
Top Global Importers

- USA was the top importing country for all four types of food products, with total imports of USD~8,077mln worth of food products in CY20.
- Other major destinations included Germany, UK, and France.

CY20 - Imports - USD mln

Biscuits		Confectionery		Snacks (Chips)		Condiments	
USA	1,368	USA	4,907	USA	236	USA	1,566
Germany	507	China	2,636	France	213	UK	996
France	463	Indonesia	2,276	Germany	163	Germany	786
UK	456	Germany	1,790	Netherlands	137	Canada	769
Netherlands	313	UK	1,302	Canada	124	France	727
Others	5,128	Others	32,223	Others	1,619	Others	9,893
Total	8,235	Total	45,134	Total	2,492	Total	14,737

FOOD PRODUCTS | VALUE CHAIN



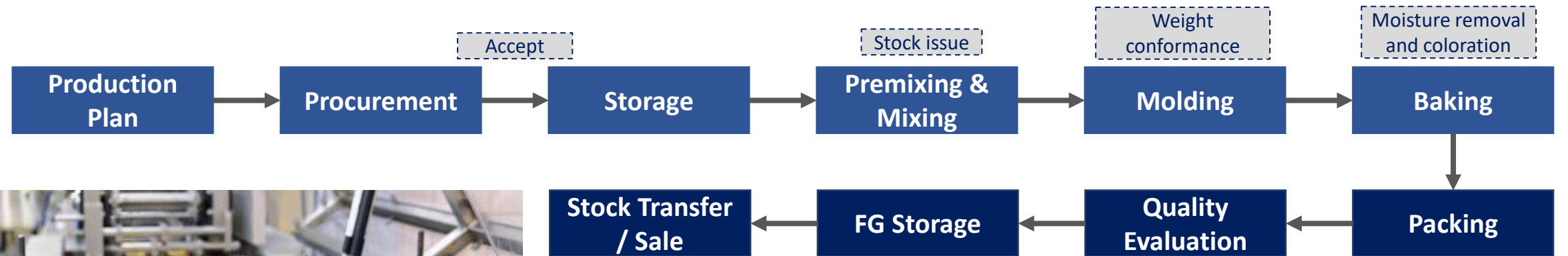
Food products value chain is relatively simple and is classified into six major steps

- **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

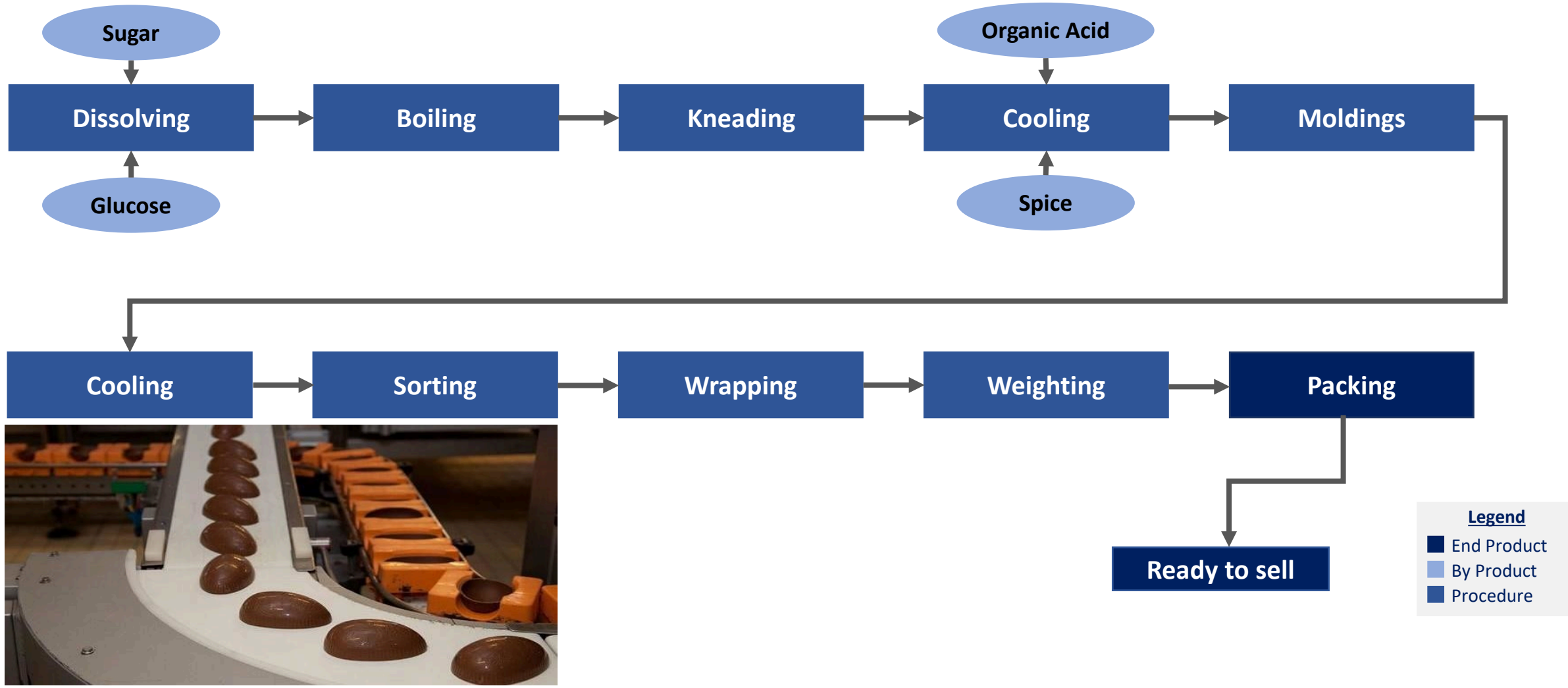


Legend

- End Product
- By Product
- Procedure

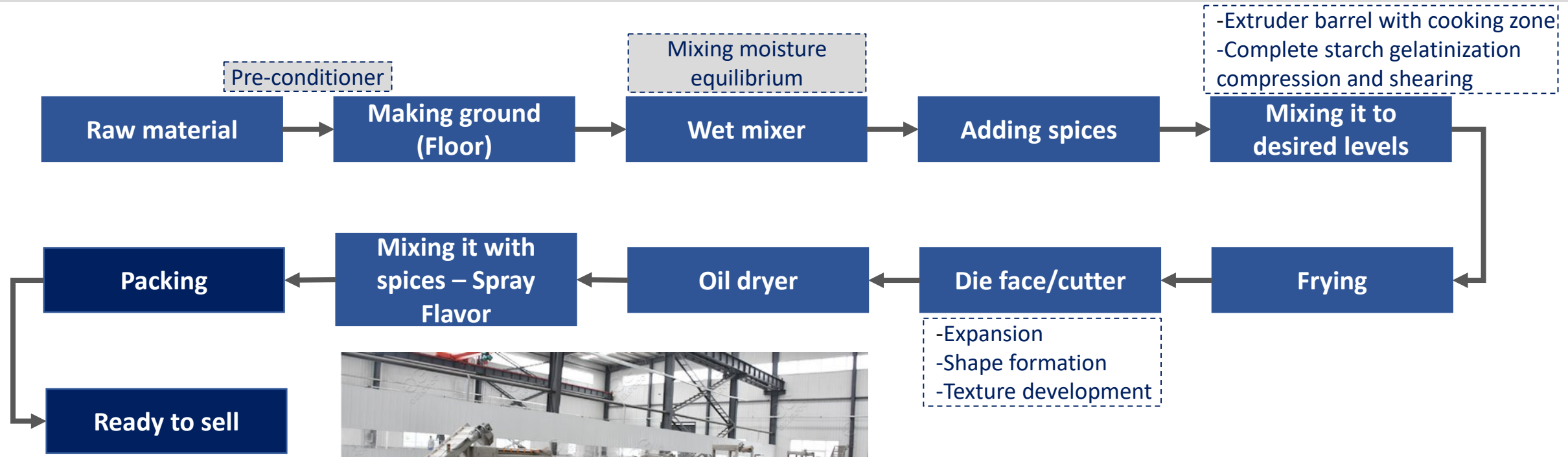
FOOD PRODUCTS | PRODUCTION PROCESS

Confectionary



FOOD PRODUCTS | PRODUCTION PROCESS

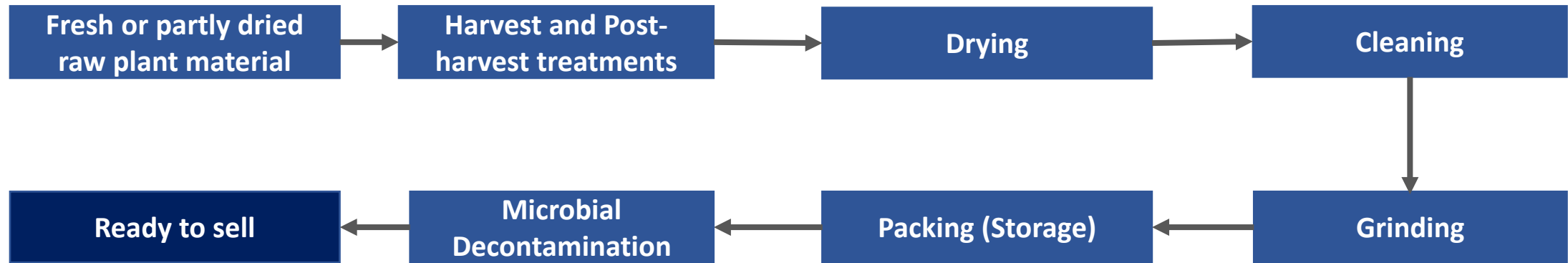
Snacks



Legend

- End Product
- By Product
- Procedure

Condiments



Legend

- End Product
- By Product
- Procedure

An Overview

	Sector Structure	Market Size by Volume (MT)	Market Size by Revenue (PKR bln)
Biscuits	Fragmented	37,464	~14
Confectionery	Fragmented	50,000	~92
Snacks	Oligopoly	-	~49
Condiments	Oligopoly	60,000	~40
Local to International players ratio		80:20	

~16% of the total employment by manufacturing sector

Employment

Provincial Food Authorities, Pakistan Biscuit & Confectionery Manufacturers Association and Pakistan Association of Food Industries

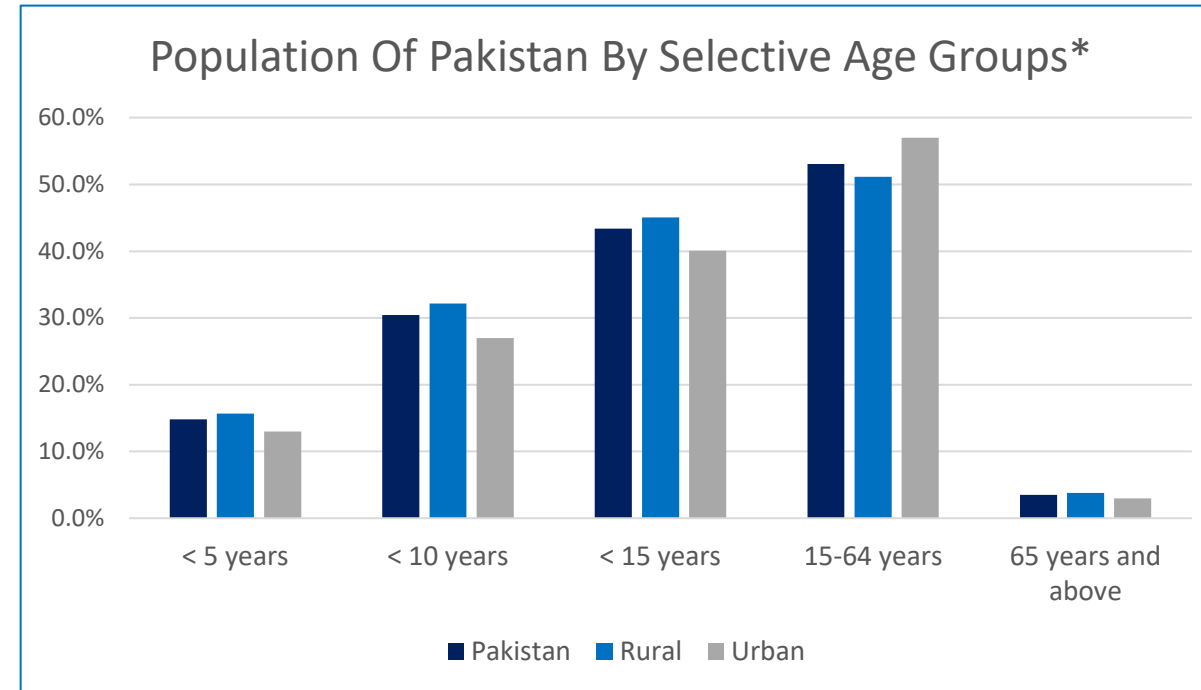
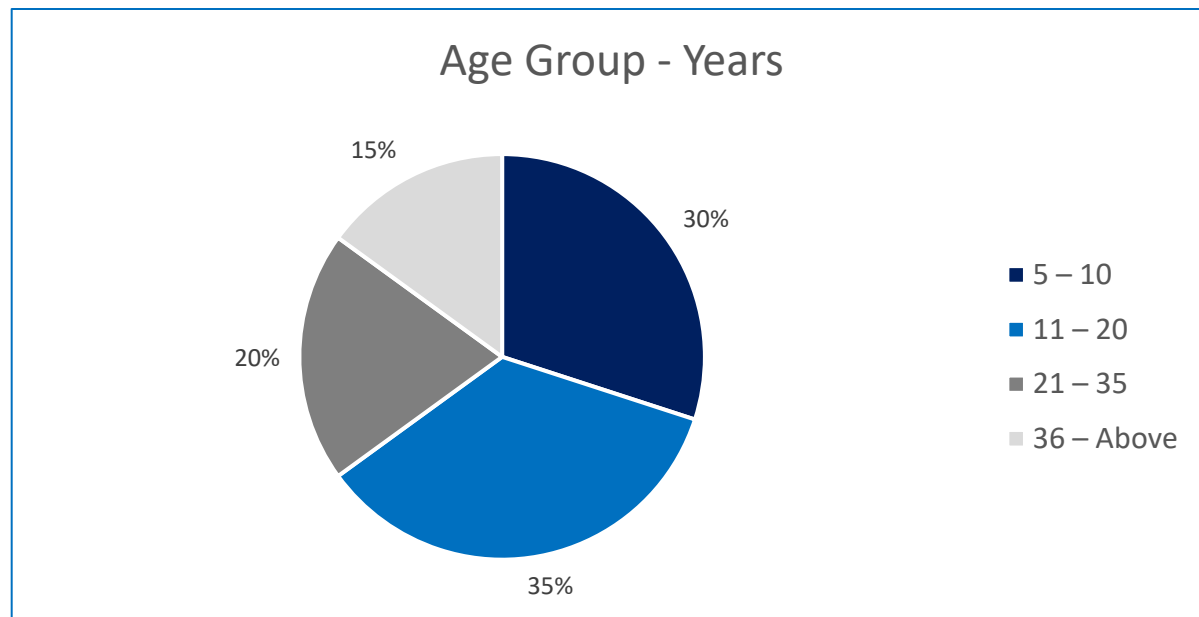
Regulatory Bodies and Associations

- Pakistan’s food product market size was recorded at PKR~195bln 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.

FOOD PRODUCTS | DOMESTIC MARKET

Demand | Age Group-wise

- 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.



*Data as per Pakistan population censuses of 2017

	Pakistan	Rural	Urban
Age Dependency Ratio*	88.3%	95.5%	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).



FOOD PRODUCTS | PRODUCT PORTFOLIO

Supply Dynamics | Biscuits

- Plain biscuits category occupies the largest share in biscuits market, followed by cream and chocolate chips biscuits, and wafers.
- Biscuits industry is highly fragmented. Almost 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.
- 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 growing with new players entering the market.

Major players in Biscuits Industry



Asian Foods Limited



Ismail Industries Limited



United King Food Pakistan



Continental Biscuits Limited



English Biscuit Manufacturers (Pic)



British Biscuit Company



FOOD PRODUCTS | PRODUCT PORTFOLIO

Supply Dynamics | Confectionery

- The confectionery market is highly fragmented, with branded players occupying less than ~20% of the market share.
- 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.
- 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 confectionery market.
- Competition is very high in the market with virtually no entry barriers due to almost 100% penetration of the product.
- Availability of various different flavors 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 in Confectionery Industry



Hilal Foods



Ismail Industries Limited



Mondelez International



Mitchell's Fruit Farms Limited



Gourmet Bakers



Nirala Sweets

Supply Dynamics | Snacks

- In snacks, major share is dominated by potato chips market, which is dominated by 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 the largest share in branded chips' market (~81.3%) with its popular international brands – Lays, 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

Supply Dynamics | Condiments

- 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 poor masses of the country are still inclined towards unbranded products as they are ~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



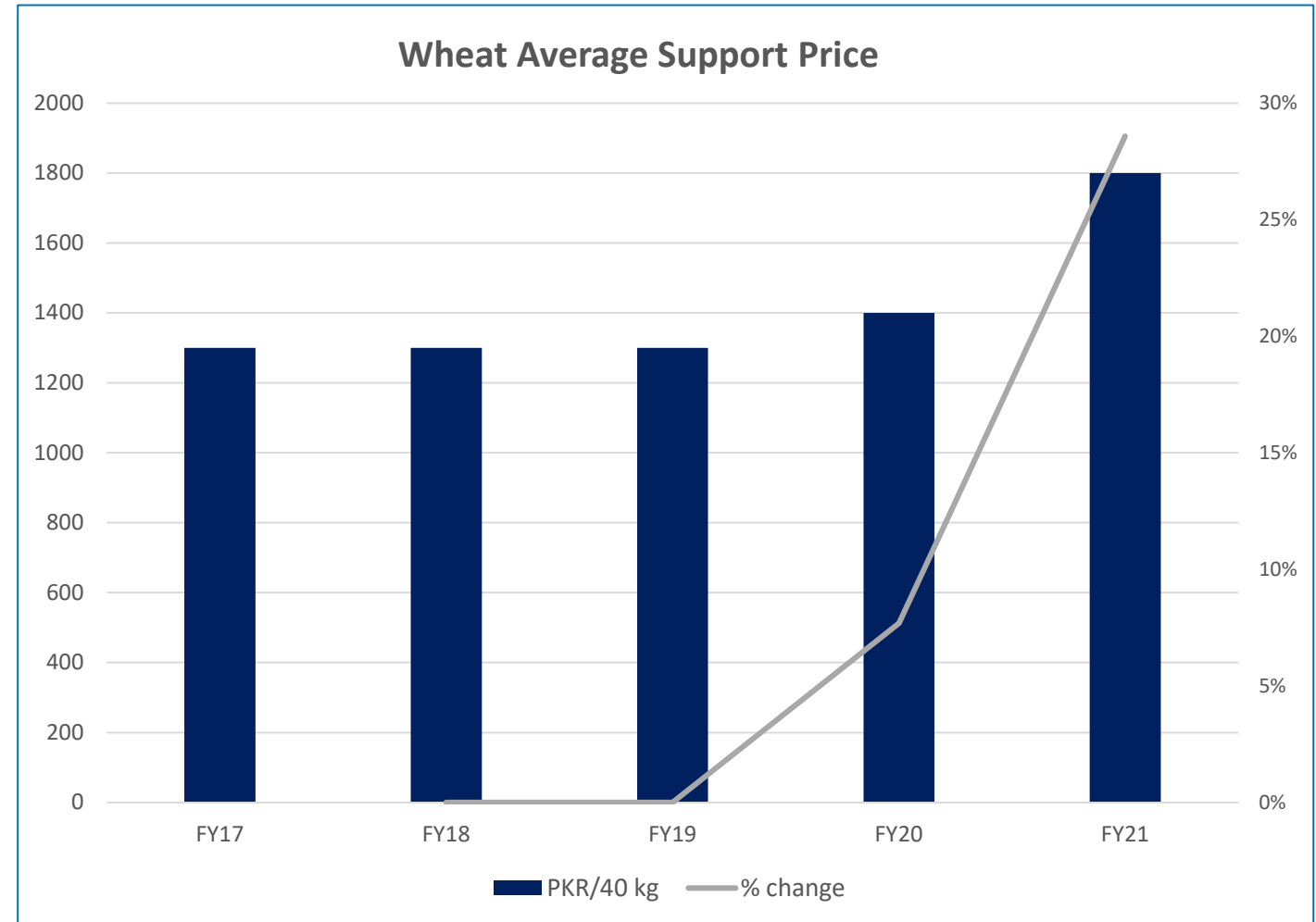
Heinz



Ahmed Foods

Business Risk | Raw material – Wheat

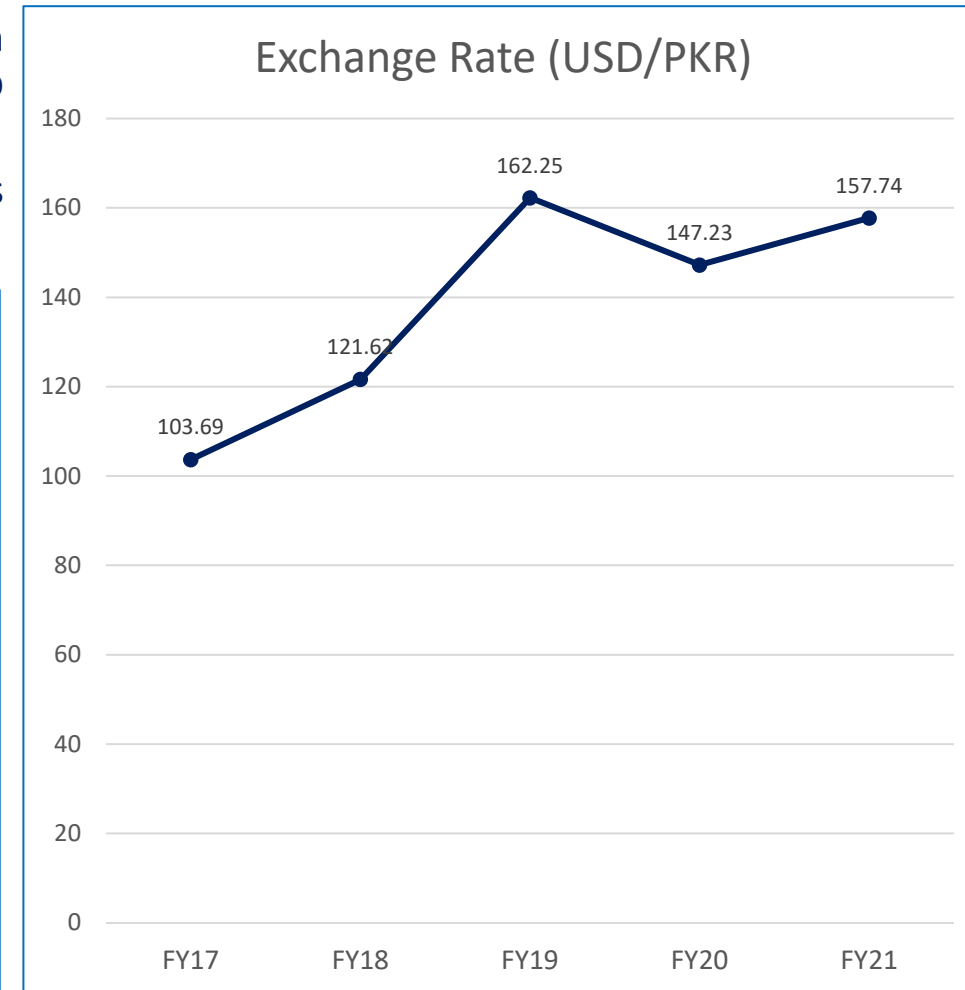
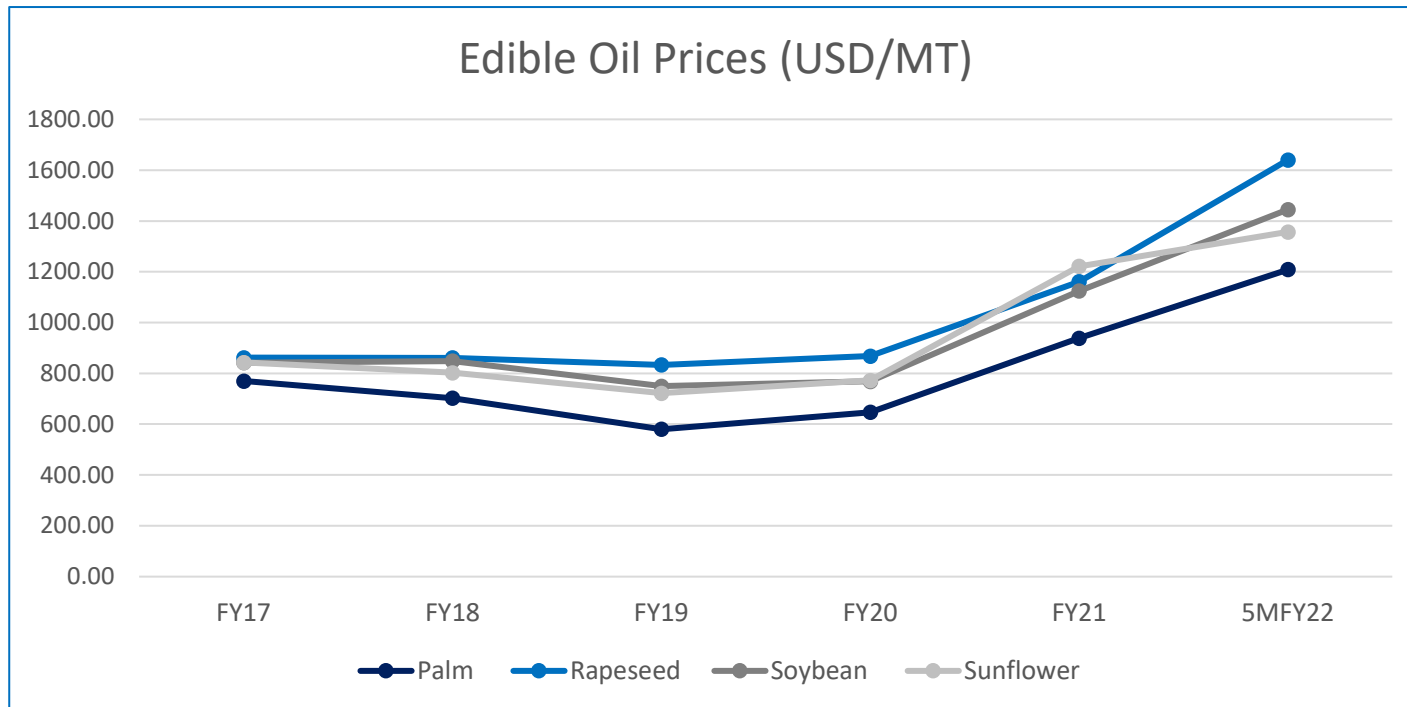
- Wheat is used as a raw material majorly in the confectionery and biscuits category.
- Wheat is the most important crop of “Rabi” Season in Pakistan. Production of wheat clocked in at ~27mln MTs in FY21, an increase of ~8% from the previous year.
- A Minimum Support Price (MSP) is set by the Government 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.
- As of Nov ‘21, the Government has increased the Wheat Support Price from PKR1,800/40 Kg to PKR1,950/40 Kg, representing an increase of ~8% YoY. The decision has been endorsed at the provincial level too.



FOOD PRODUCTS | DOMESTIC MARKET

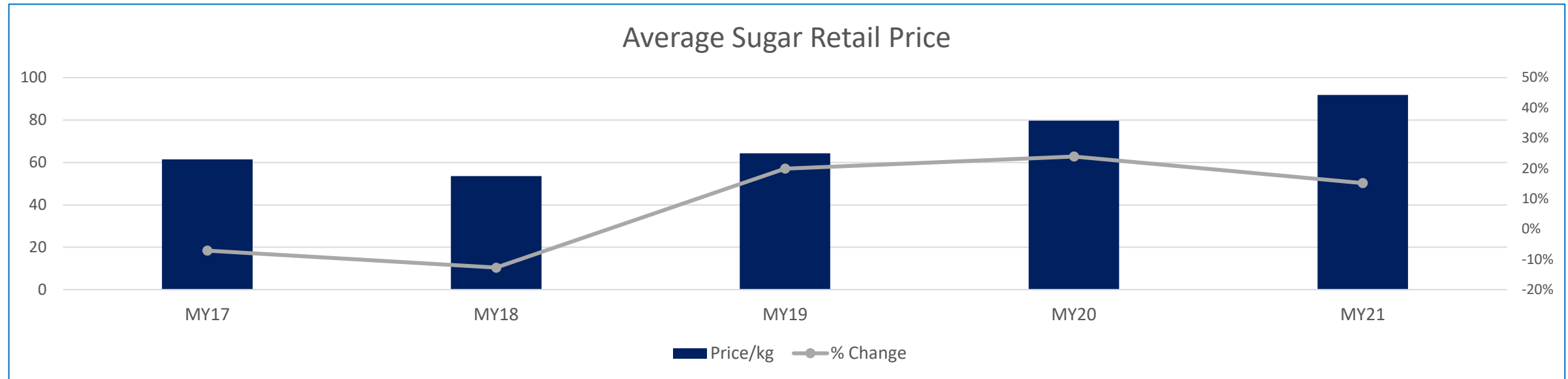
Business Risk | Raw material – Edible oil

- 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 keep on fluctuating.
- Oil prices showed an increasing trend in Oct '21 but are expected to come down as the government announced reduction in GST from 17% to 8.5% during the month.



Business Risk | Raw material – Sugar

- Sugar sector experienced a hike in production and consumption by ~13% and ~4% in MY21, and clocked in at ~6.0mln MT and ~5.8mln MT respectively as the sector started to recover post-pandemic.
- As of Nov'21, the Punjab Government has set sugarcane price at PKR~225/40KG (up by ~12.5% YoY) for the new crushing season MY22. Sindh government has also made the decision to raise the prices to PKR~250/40KG (up by ~23.8% YoY).
- The current average retail price of sugar in the country is around PKR~110-115/kg. It is expected that speeding up the current crushing process and the introduction of new sugar in the market will reduce the price in retail market to PKR~90-100/kg, going forward.

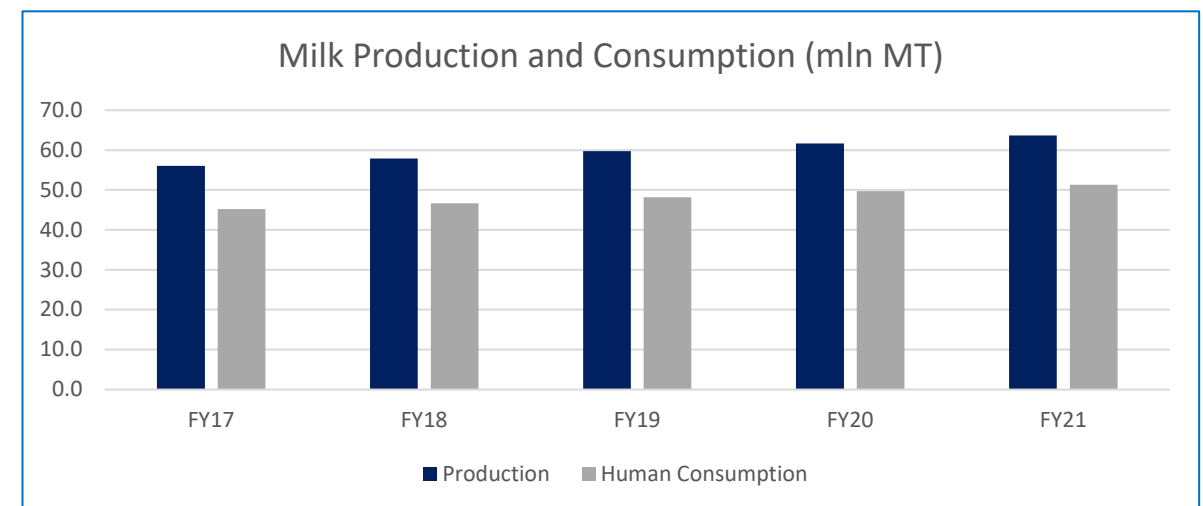
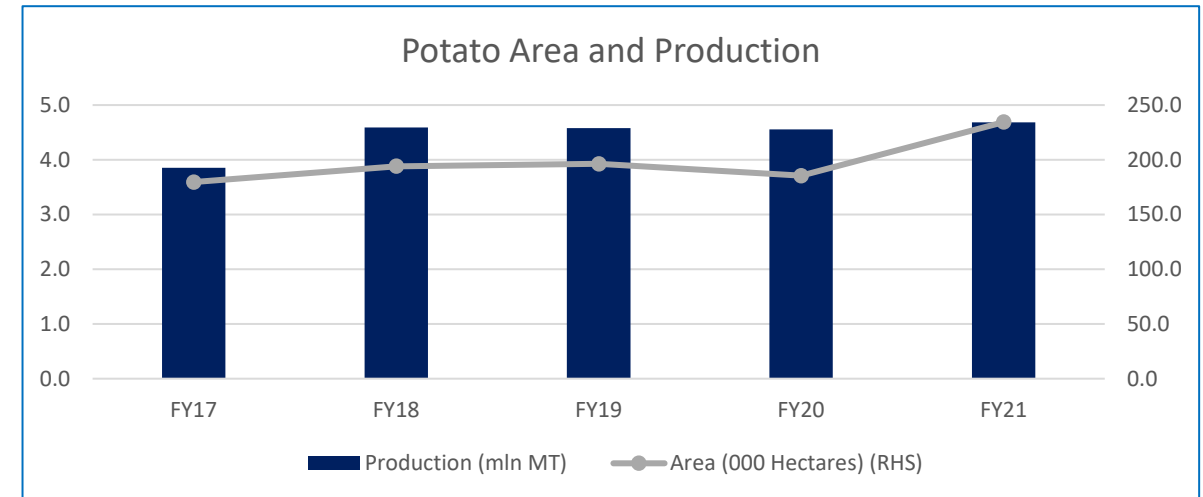


Potato

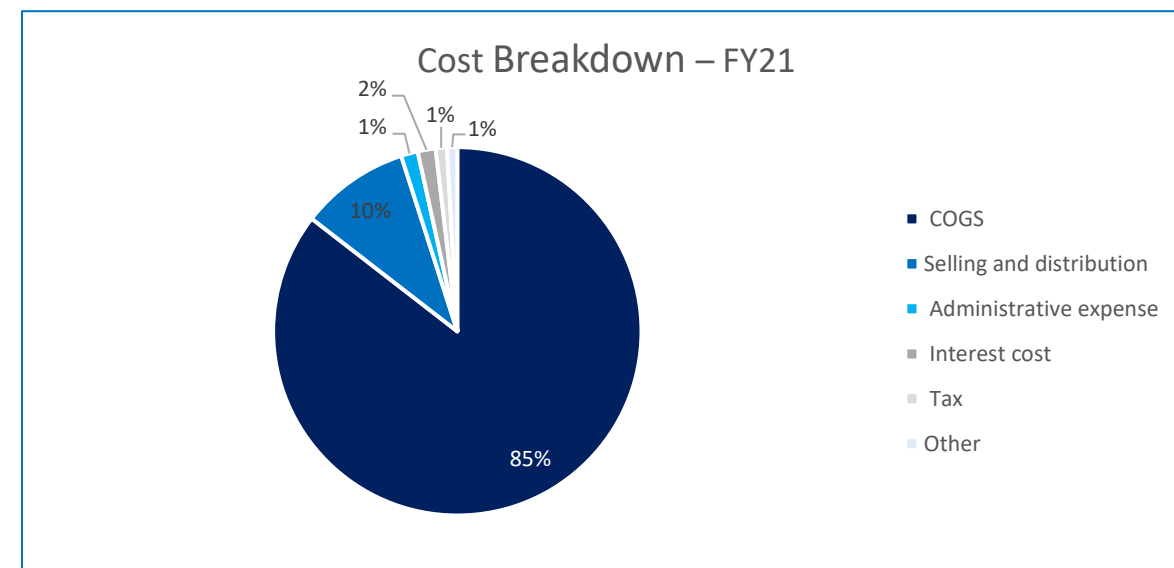
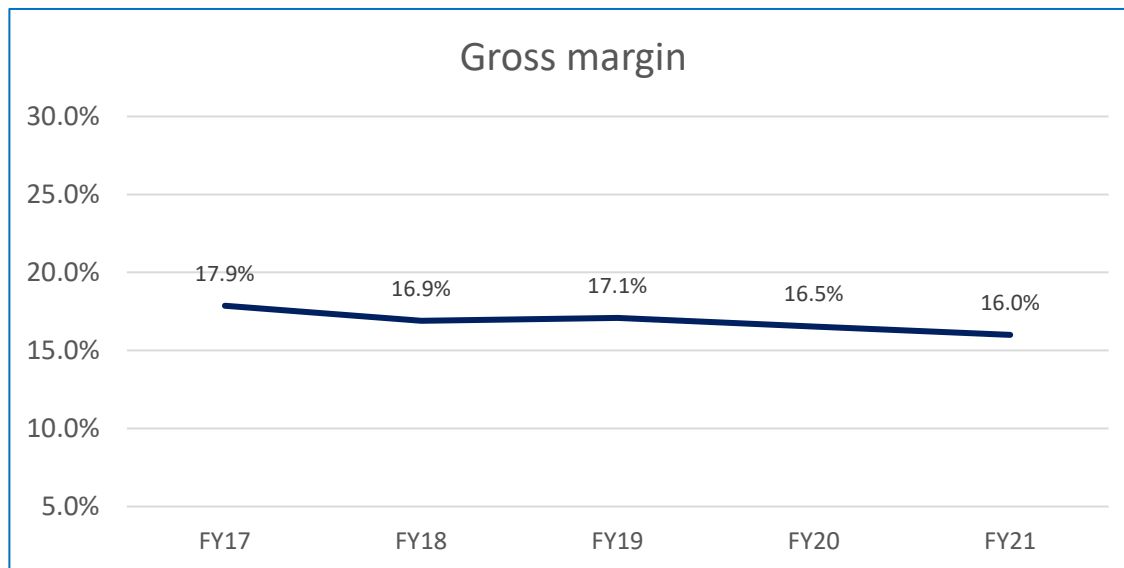
- Potato is the main ingredients in Snacks industry.
- Pakistan is one of the largest potato producing countries in the world. About 5% of total country production is exported while 18% is stored for potato seeds.
- Prices of Potato currently hover around PKR~60 per kg.
- Combination of inadequate storage facilities and an under-developed processing industry leads to volatility in prices.

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 ~96-97% 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

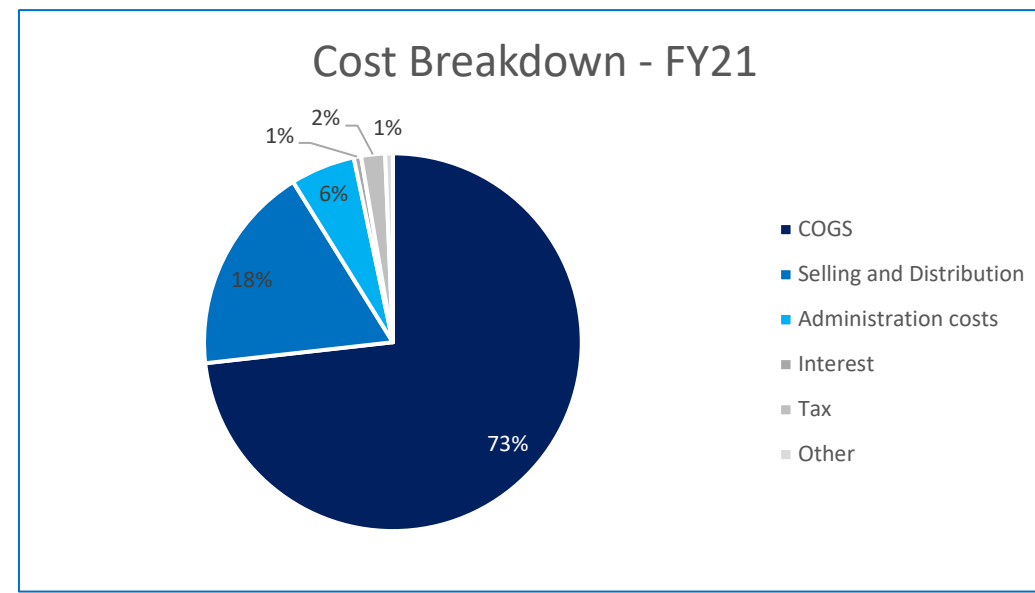
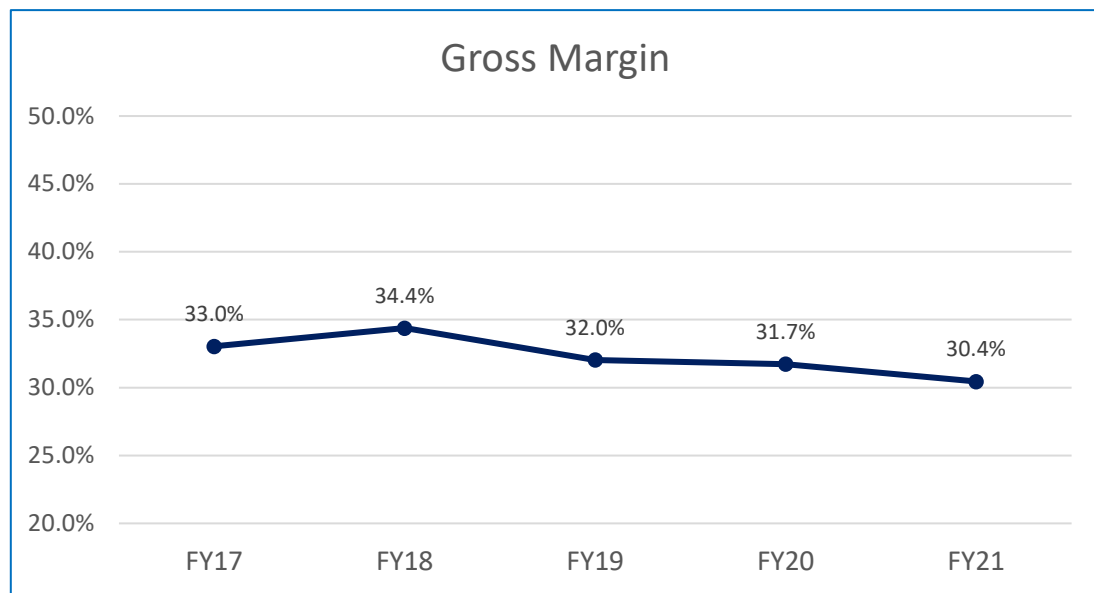


Business Risk | Margins



*Based on a Listed Players' FS

- Average gross margins of the Industry hover in the range from ~16-18%. GP Margins are highly dependent on the raw material costs (~85% of the total costs), 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.
- Advertisement and distribution costs is a common phenomenon in the Industry, which results in a low net profit margins of around ~4%. Advertisement expense generally accounts for ~25%-30% 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.

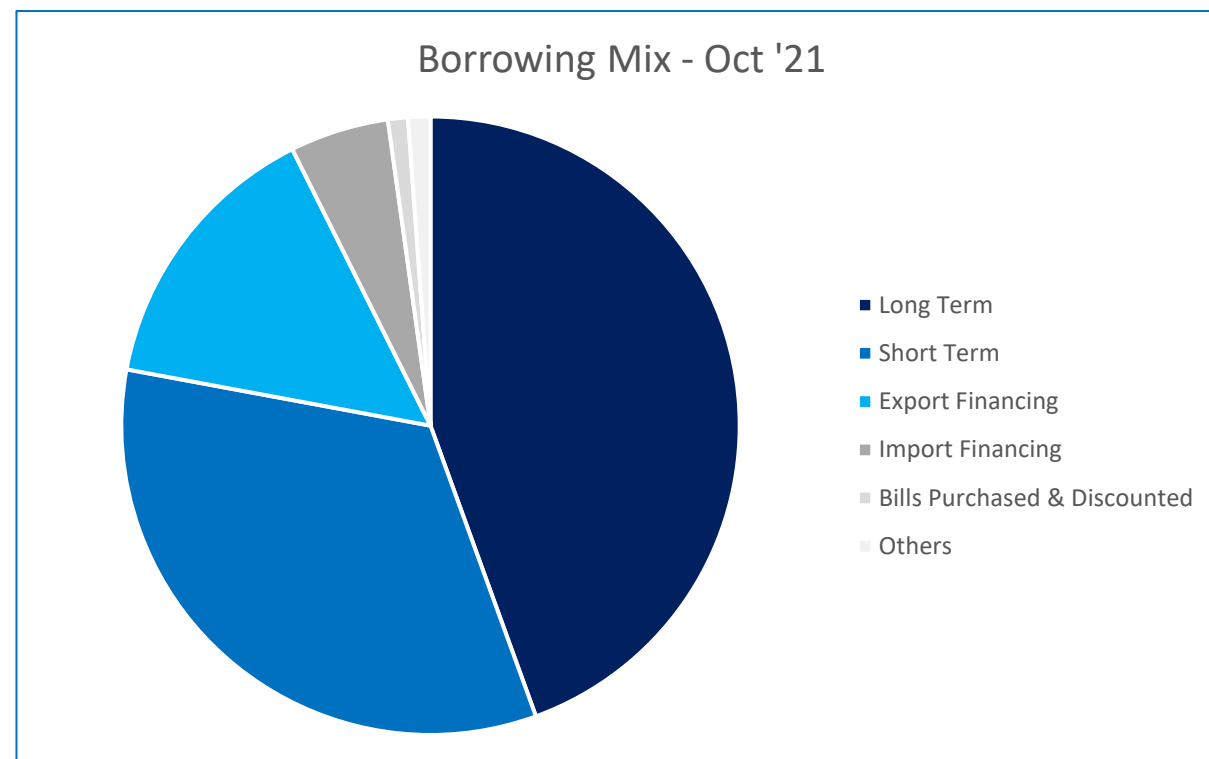


*Based on a Listed Player's FS

- Average gross margins of the condiments sector ranged from ~30%-34% during FY17-FY21. Cost of sales form the biggest part of total costs (~73%), which is further dominated by Raw material costs (~56%) and packing material costs (~24%). Advertisement costs generally account for ~35% of the total selling and distribution expenses, followed by freight and handling charges (~25%)
- 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

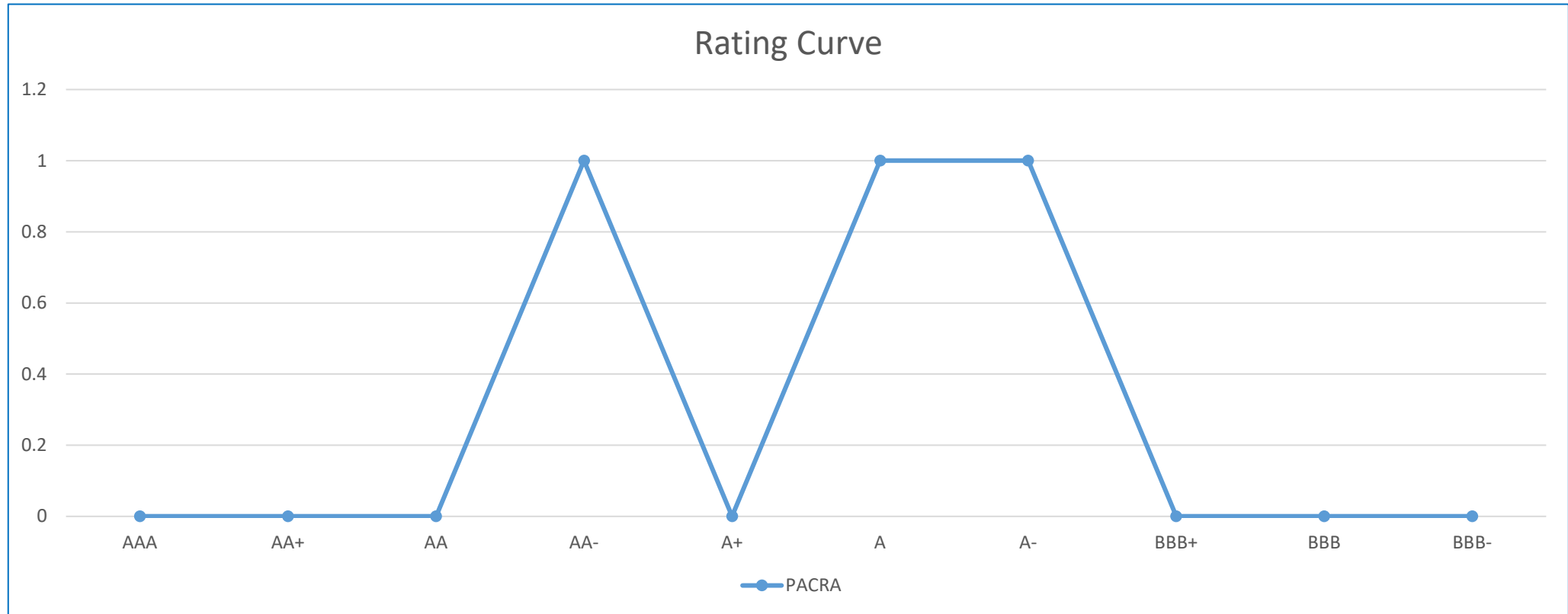
- Food products sector has relatively low to medium financial risk. Majority of sales are executed against cash payments. Trade debts of the sector are generally low. Short term product lifecycle and cash sales leads to lower inclination towards short term borrowings.
- Trade receivables as a percentage of net sales of food sector is low because of effective implementation of mechanism encouraging cash payments
- Total Debt Book of the Industry clocked in at PKR~57bln as at End-Oct'21 (PKR~48bln End-Oct'20), an increase of ~18% YoY and an increase of ~10% from June'21.
- Bakery manufacturers contribute the largest proportion (~68%) towards the debt burden of the Industry, followed by confectionery (~18%).
- Average short term to long term loan ratio of food products sector is ~40:60.
- Export Refinance Loans comprise ~15% of the total debt book of the Industry while LTFF/TERF represent ~14% which reflects that some portion of the Industry's debt book is facilitated through subsidized financing rates.



Tax and Duty Structure

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY21	FY20	FY21	FY20	FY21	FY20	FY21	FY20
1905.31-32, 1905.40, 1905.90	Sweet biscuits; waffles and wafers, and others	20%	20%	7%	7%	20%	20%	47%	47%
17.04	Sugar confectionery (including white chocolate), not containing cocoa	20%	20%	7%	7%	20%	20%	47%	47%
1801-1804	Cocoa	3%-11%	3%-11%	2%	2%	20%	20%	33%-33%	3%-33%
1805	Cocoa powder, not containing added sugar or other sweetening matter	11%	11%	2%	2%	20%	20%	33%	33%
18.06	Chocolate and other food preparations containing cocoa	11%-20%	11%-20%	2%-7%	2%-7%	10%	10%	13%-37%	13%-37%
21.03	Sauces and preparations therefor; mixed condiments and mixed seasonings; mustard flour and meal and prepared mustard.	20%	20%	7%	7%	50%	50%	77%	77%

- 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 A-.



FOOD PRODUCTS | SWOT ANALYSIS



OUTLOOK: STABLE

- Highly competitive industry with influx of new players. Marketing and distribution costs to remain high.
- Favorable demographic and consumer dynamics are expected to support the food products' demand. However, the sector is expected to face challenges due to increasing inflation.
- 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 face challenges due to higher financing expense after the recent increase in interest rates to 9.75%.
- 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.
- 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.

- Pakistan Bureau of Statistics (PBS)
- Federal Board of Revenue (FBR)
- Securities & Exchange Commission of Pakistan (SECP)
- Ministry of Finance
- 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
- World Bakers

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