



FOOD PRODUCTS

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Introduction

This Sector Study covers the Biscuits & Crackers, Confectionery Products, Snacks/Chips and Condiments segments. These segments are collectively referred to as the “Food Products” Sector.

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

- Confectionery 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).

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Global | Overview

- **Biscuits & Crackers:** In CY22, global market size for biscuits was recorded at USD~117.5bln. The market is anticipated to reach to USD~159.2bln by CY28, with a CAGR of ~5.2% from CY22 to CY28. Major players of this segment are Britannia Industries Limited, Kellogg Company, Mondelez International Inc., Nestlé S.A. and Parle Products Private Limited.
- **Confectionery:** The estimated size of the world market for confectionery is projected to record at USD~192.2bln in CY23. Projections appear that the market will increase at a CAGR of ~3.1% from CY23-32, reaching to a value of USD~256.1bln.
- **Snacks/Chips:** The global potato chips market size reached to USD~35.5bln in CY22. Looking forward, the market value is expected to reach USD~44.2bln by CY28, exhibiting a CAGR of ~4.3% during CY22-28. PEPSICO is one of the renowned names in this segment with its leading brand 'Lays'.
- **Condiments:** The global condiments market was expected to grow to USD~244.53bln in CY23 from USD~155.2bln in CY22 at a CAGR of ~5.6%. The market is expected to grow to USD~402.2bln by CY32.

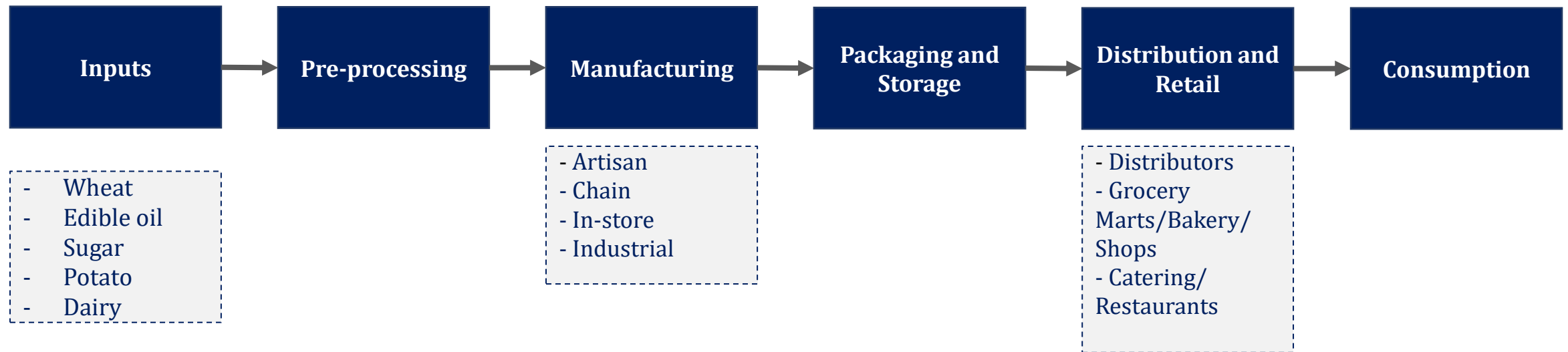


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Value Chain

Food products' value chain is relatively simple and broadly classified into six components:

- **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.



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Product Portfolio

Biscuits & Cracker



Plain Biscuits



Sweet and Hard



Digestive



Cream Biscuits



Cookies

Confectionery



Hard boiled sweets



Caramels & Toffees



Gums and Jellies



Mints



Chocolates



Cakes

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Product Portfolio

Snacks



Crisps and Chips



Extruded Snacks



Nuts and Seeds



Popcorn

Condiments



Spices



Pickles



Seasonings



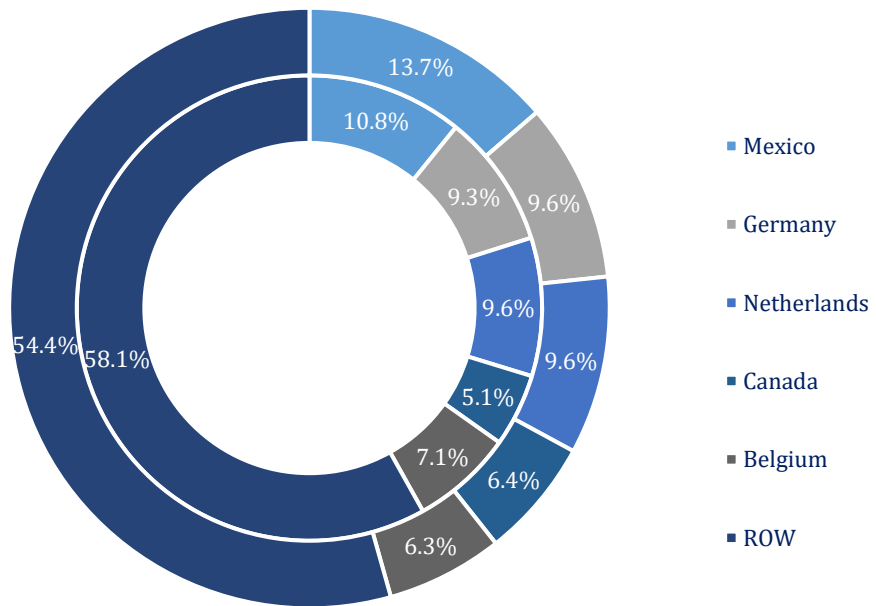
Sauces

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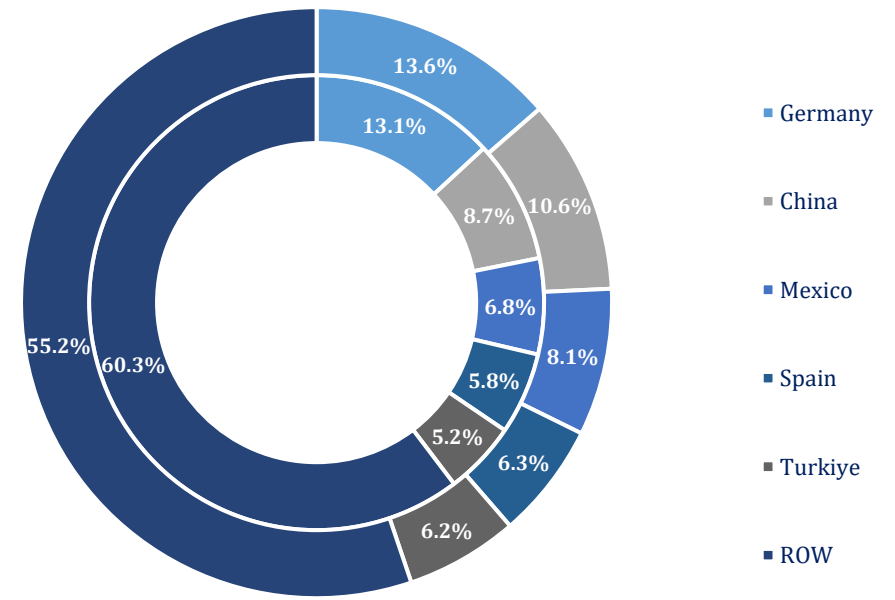
Global | Exports

- In CY22, global exports for the Biscuits & Crackers, Sugar Confectionery segments stood at USD~21.7bln, recording an increase of ~3.4% YoY.

Biscuits & Crackers | CY22 (Outer), CY21 (Inner)



Sugar Confectionery | CY22 (Outer), CY21 (Inner)

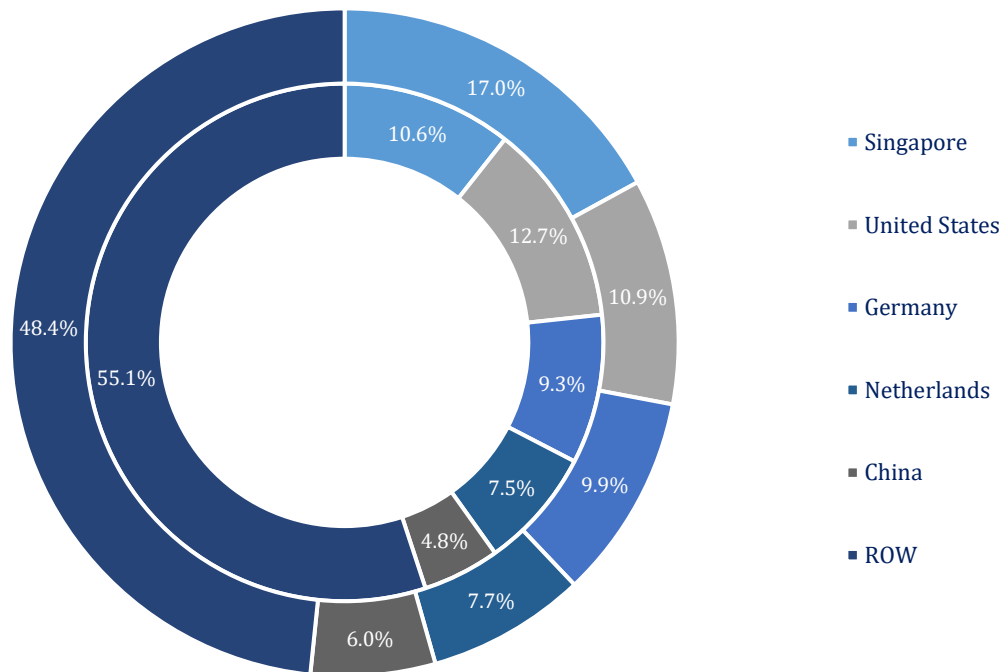


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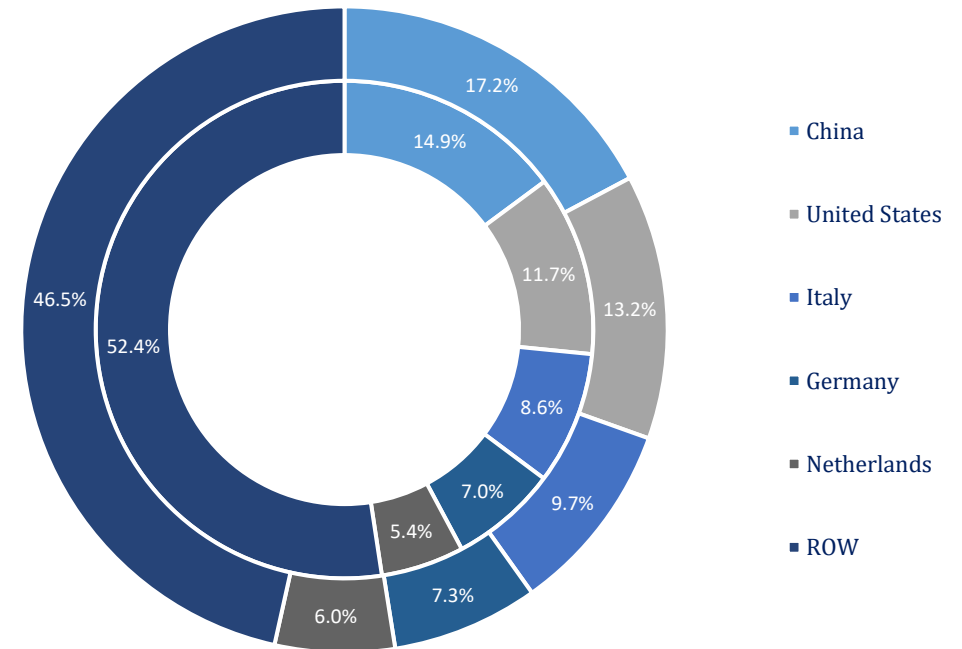
Global | Exports

- In CY22, global exports for Snacks/Chips and Condiments segments stood at USD~59.6bln, registering a YoY decrease of ~3.1%.

Snacks/Chips | CY22 (Outer), CY21 (Inner)



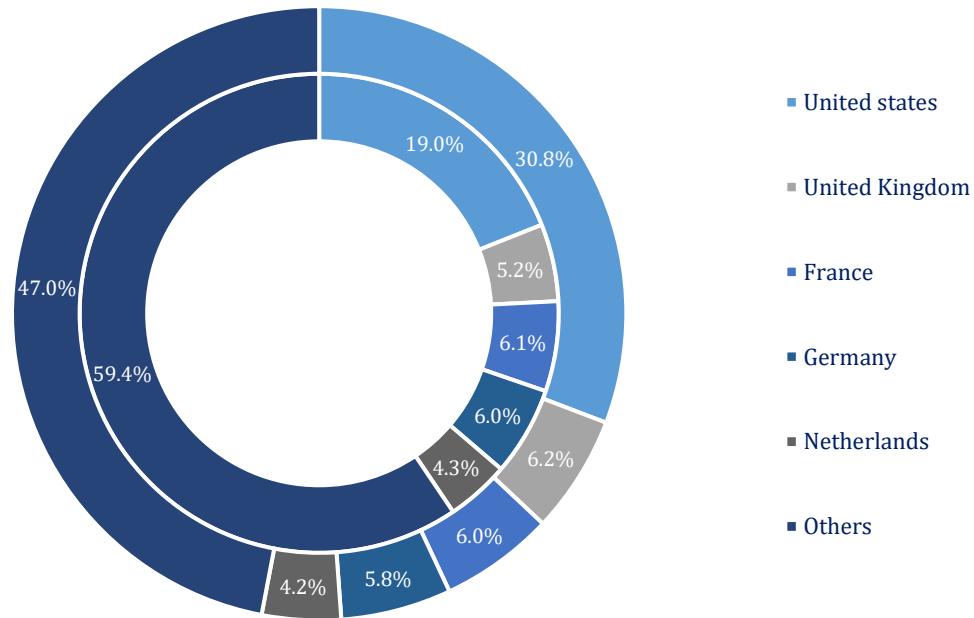
Condiments | CY22 (Outer), CY21 (Inner)



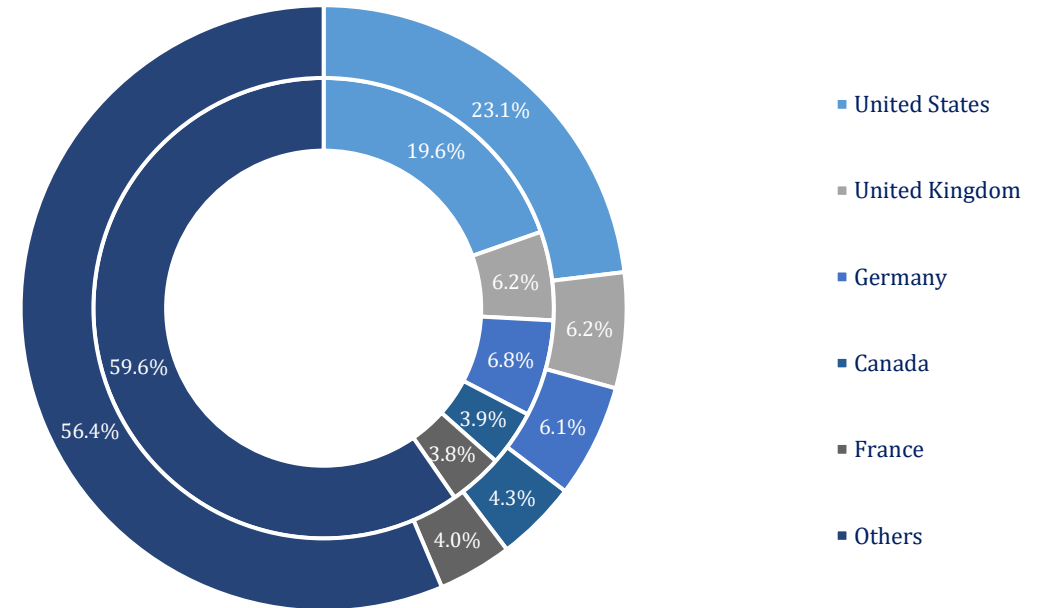
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Global | Imports

Biscuits & Crackers | CY22 (Outer), CY21 (Inner)



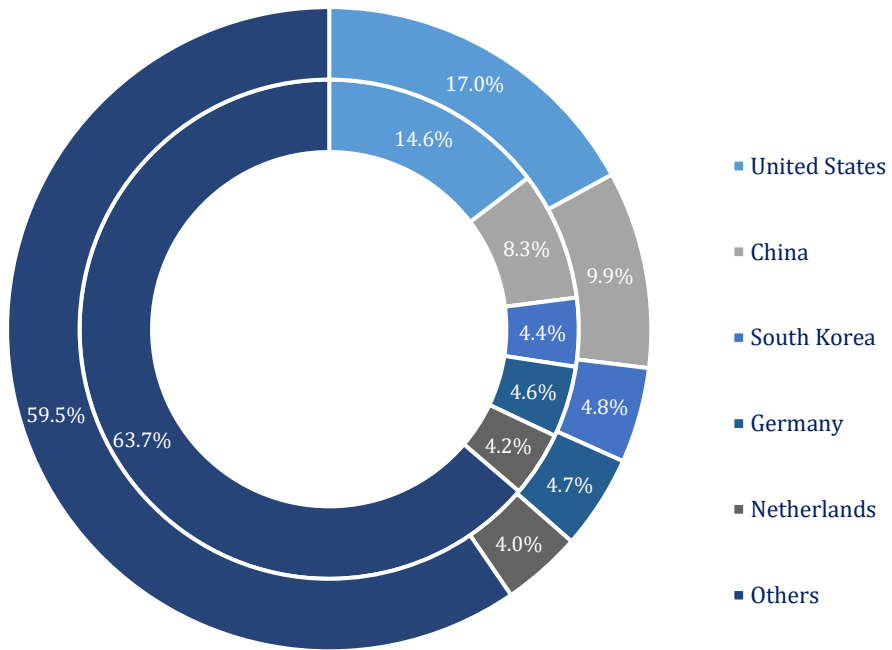
Sugar Confectionery | CY22 (Outer), CY21 (Inner)



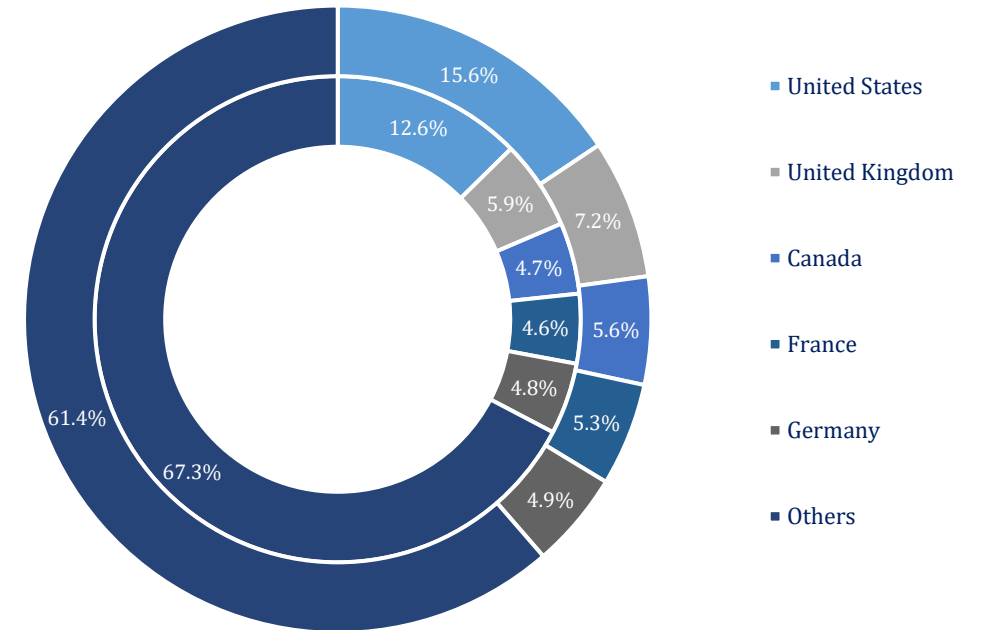
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Global | Imports

Snacks/Chips | CY22 (Outer), CY21 (Inner)

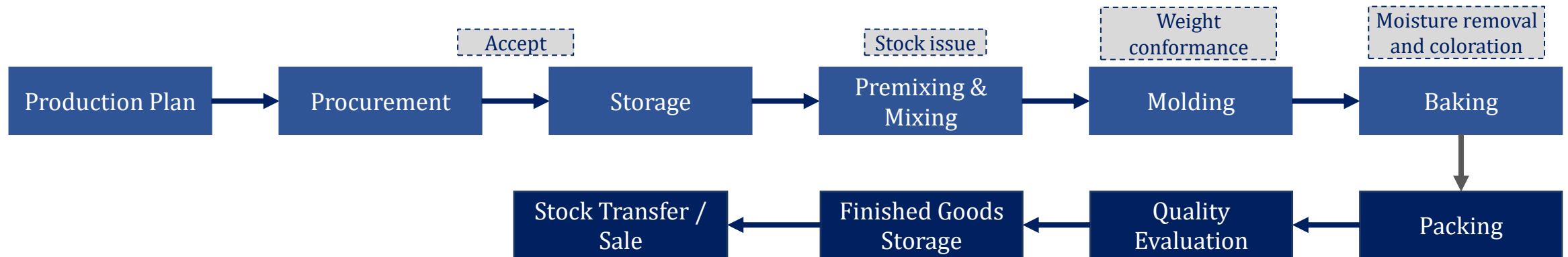


Condiments | CY22 (Outer), CY21 (Inner)



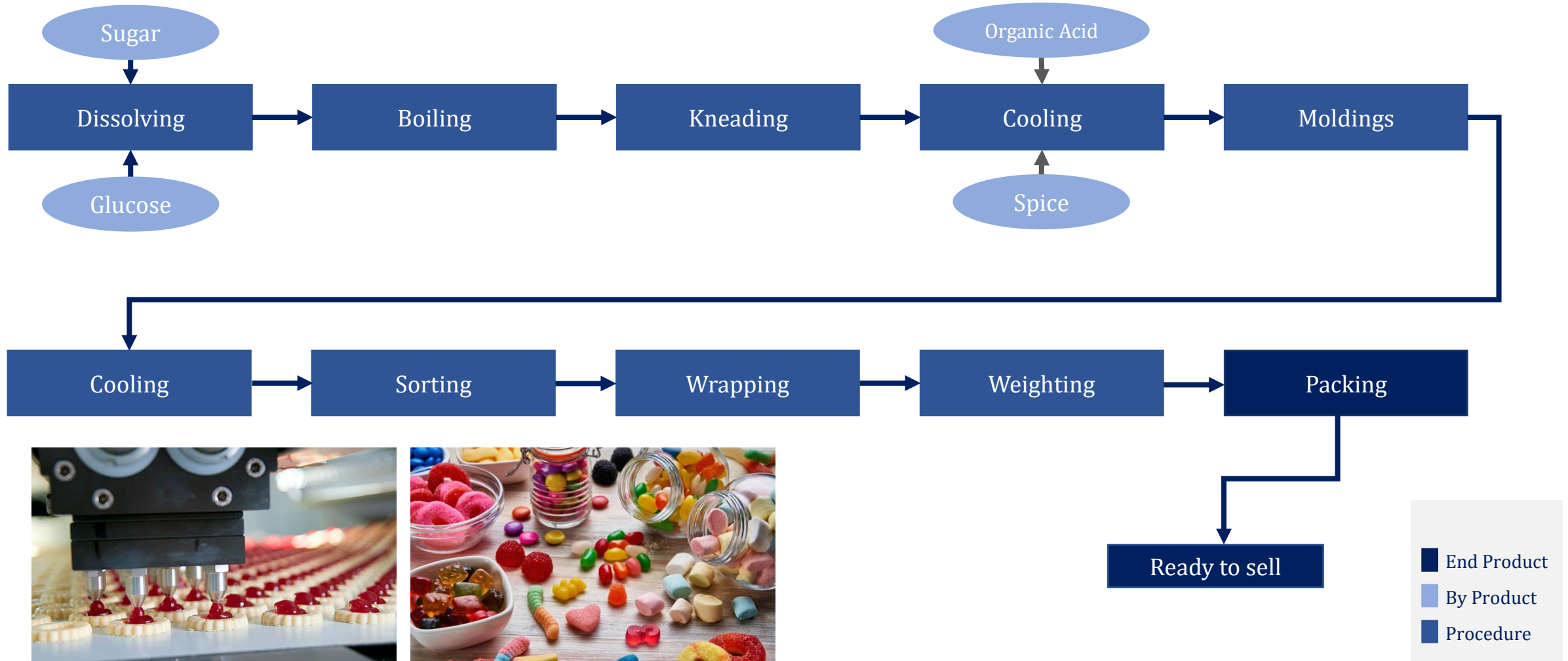
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Production | Biscuits & Crackers



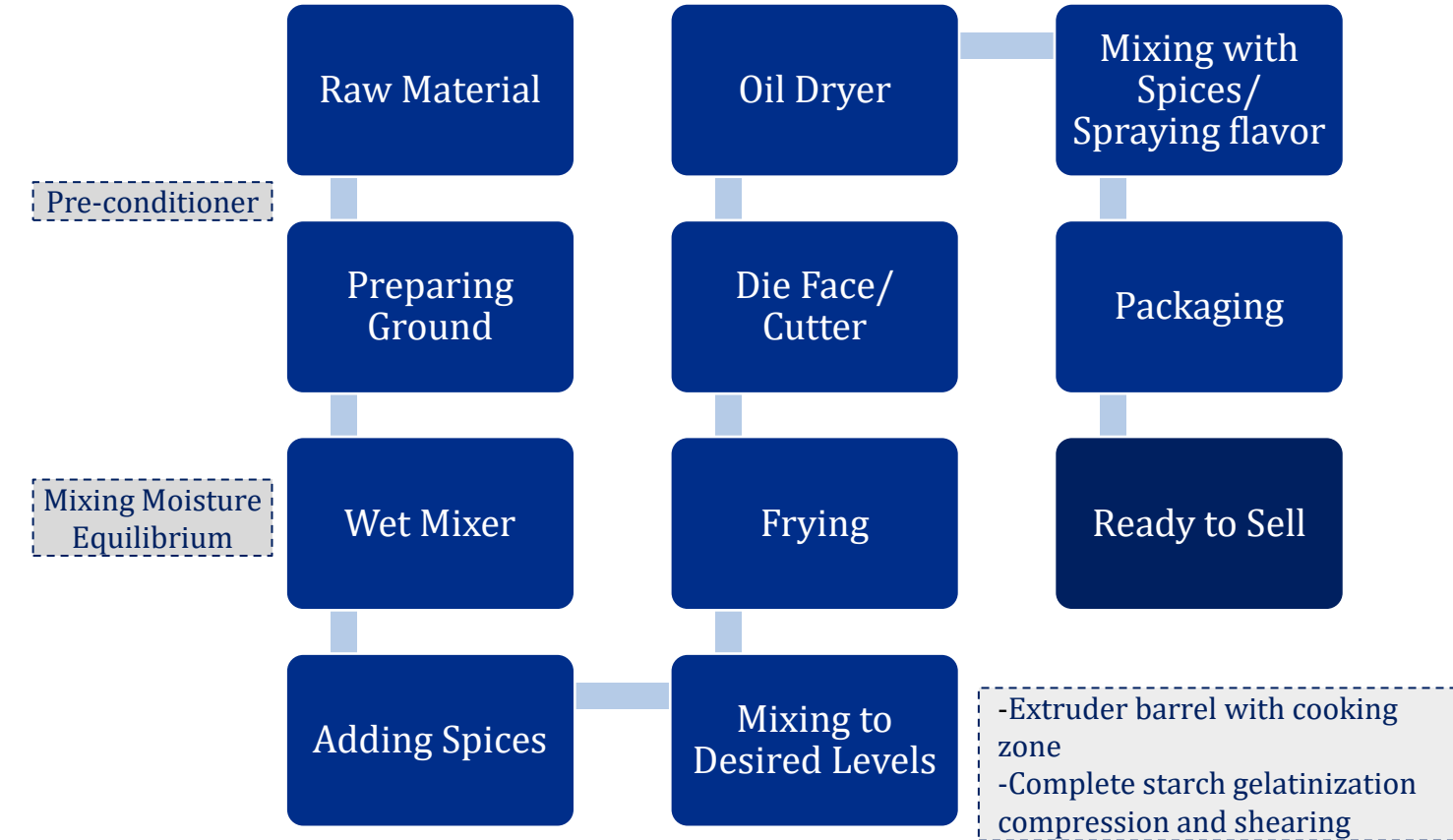
FOOD PRODUCTS

Production | Confectionery



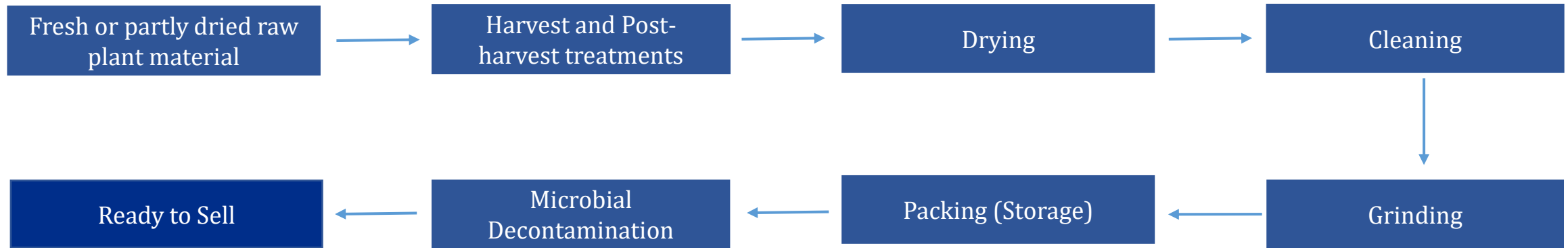
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Production | Snacks & Chips



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Production | Condiments



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Local | Overview

From this part of the Sector Study, the analysis is broadly classified into two segments (wherever applicable): (i) Biscuits & Cracker, Snacks/Chips and Confectionery, and (ii) Condiments.

- The Sector’s market size, comprising the Biscuits & Cracker, Snacks/Chips and Confectionery segments, was recorded at PKR~101bln in FY23, increasing by ~48.2% YoY. Condiments, a sub-category of food products, posted a revenue growth of ~8.0% YoY during the same year, recording at PKR~29bln.
- The increase in revenue across these segments is reflective of inflationary impact and consequent increase in food products prices. 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 (covered later), whereas flavors and some other components are imported.

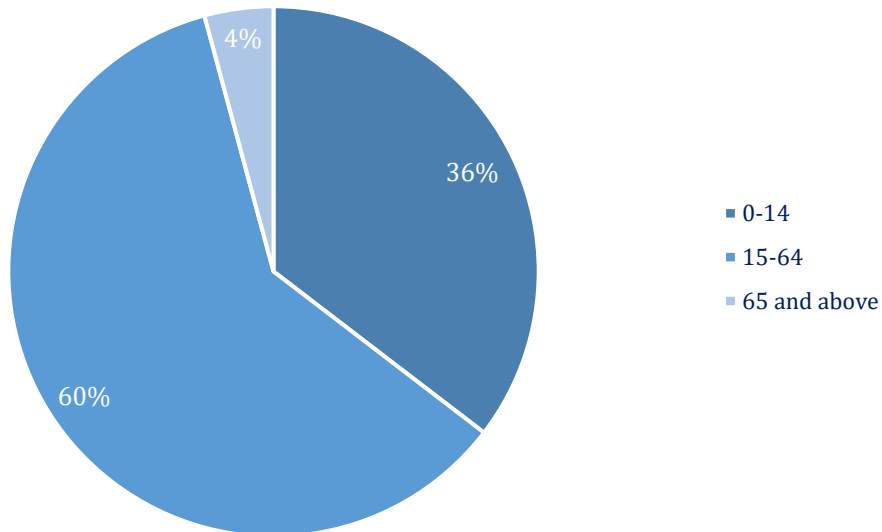
| Domestic Snapshot | | | |
|-----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|--------|---------|
| Particulars | FY21 | FY22 | FY23 |
| Sector* Revenue (PKR mln) | 53,608 | 68,486 | 101,498 |
| Revenue Growth (% YoY) | 13% | 21% | 48% |
| Condiments Revenue (PKR mln) | 23,116 | 26,843 | 29,089 |
| Condiments Revenue Growth (% YoY) | 20% | 17% | 8% |
| Population (mln No.) | 223 | 235 | 242 |
| Regulatory Bodies/ Associations | Provincial Food Authorities, Pakistan Biscuit & Confectionery Manufacturers Association and Pakistan Association of Food Industries , PSQCA | | |

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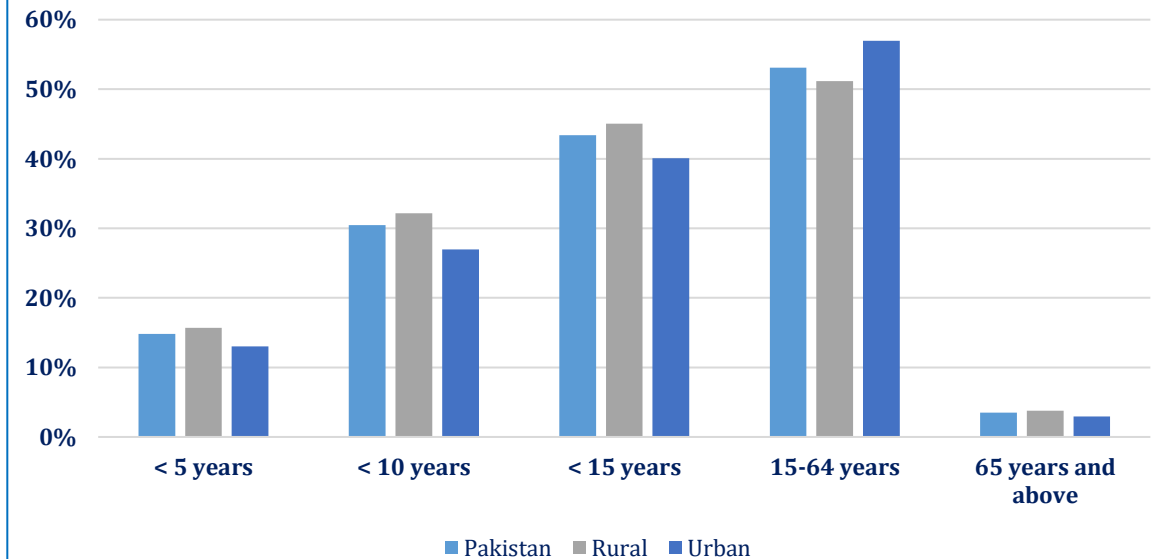
Local | Demand

- 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, rising 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 (%) | CY22



Population Of Pakistan By Selective Age Groups*



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Supply | Biscuits

- The term 'Biscuit' covers a large variety of sweet, savory, salted, filled and coated biscuits. However, it is difficult to classify biscuits based on chemical composition and processing methodologies due to overlap.
- There is a high variation in local prices, owing to factors like product, brand, quantity, scale of operations and packaging, among others.
- Raw materials are available locally, providing an opportunity to produce various quality products.

| Requirements for Biscuits | | |
|---------------------------|-----------------------------------------------------------------|------------------------------------------|
| Sr. | Characteristic | Requirement |
| 1. | Moisture, percent by mass, Max. | 5.0* |
| 2. | Acid insoluble ash, (on dry basis), percent by mass, Max. | 0.05 |
| 3. | Acidity of extracted fat (as oleic acid), percent by mass. Max. | 1.0 |
| 4. | Lead (as Pb), mg/kg, Max. | 2.0 |
| 5. | Arsenic (as As), mg/kg Max | 1.1 |
| 6. | Trans Fatty Acids | Not more than 2g per 100 g of total fat. |

*In case of filled biscuits, maximum of 7.0% by mass may be allowed and for cookies maximum of 6.0% by mass may be allowed. After testing for these requirements in laboratories, segment players are issued the respective PSQCA license for a period of one year.

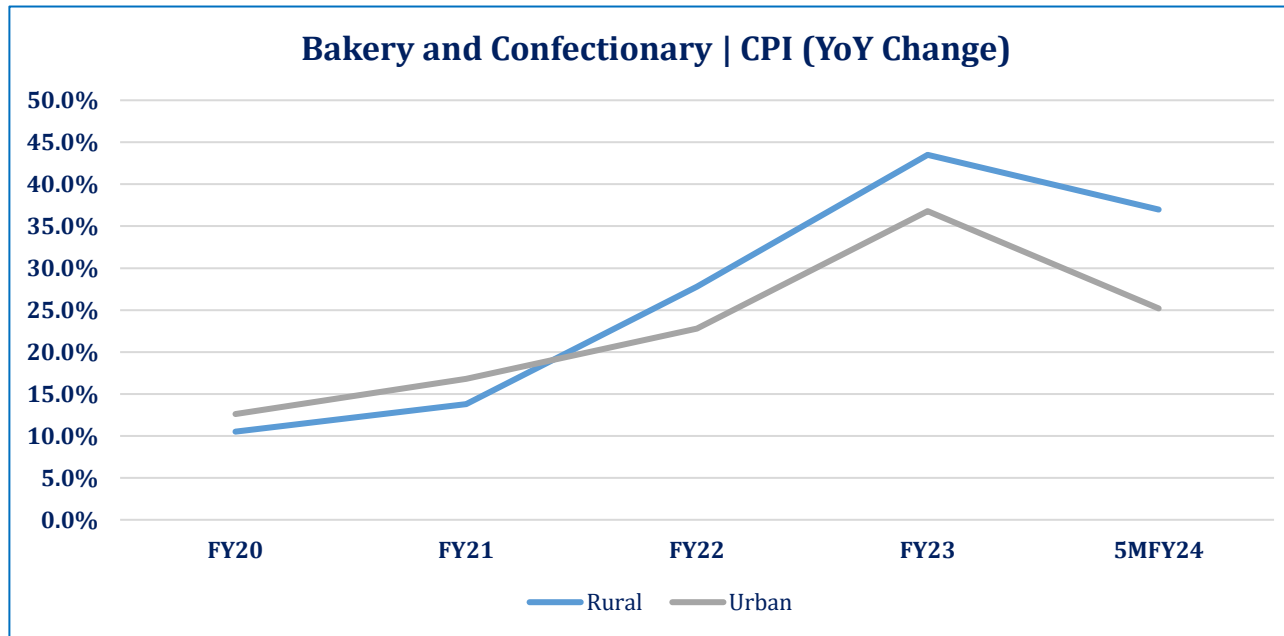
Major Segment Players



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Supply | Confectionery

- The segment comprises candies, toffees, gums & jellies. CandyLand, with its flagship brands like Fanta and Cola, has a strong presence. 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.
- 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 Segment Players



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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.

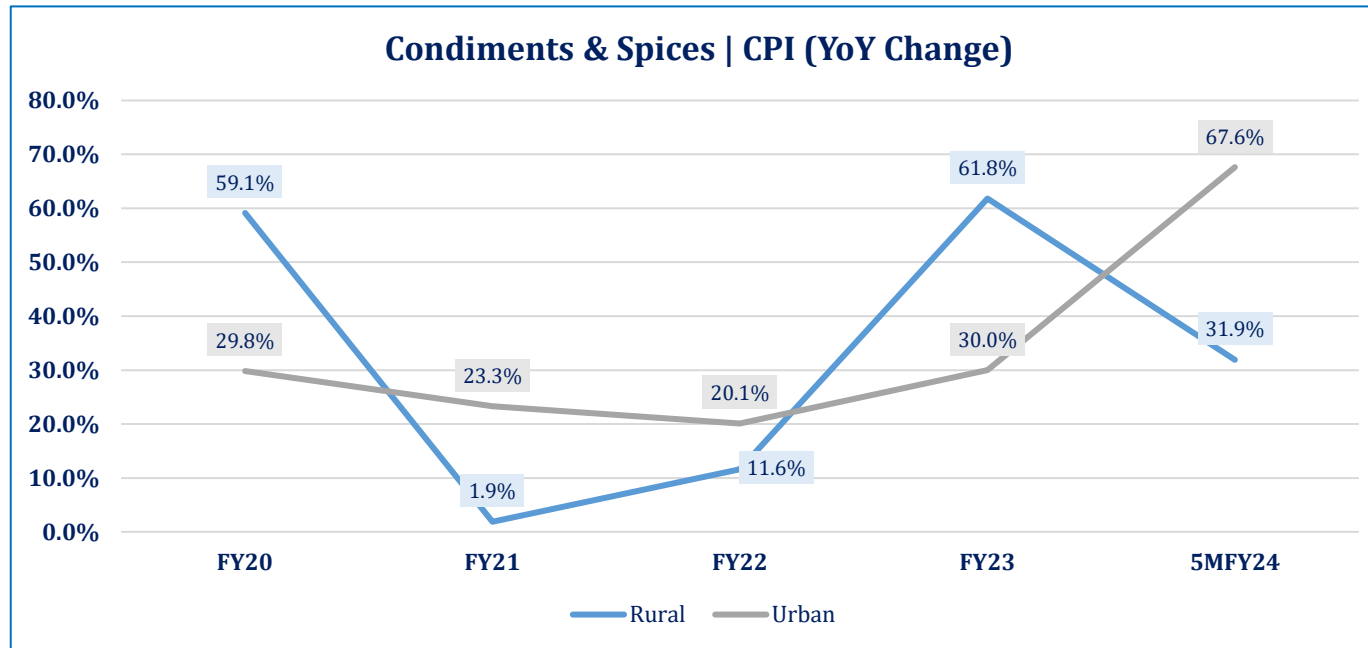
Major Segment Players



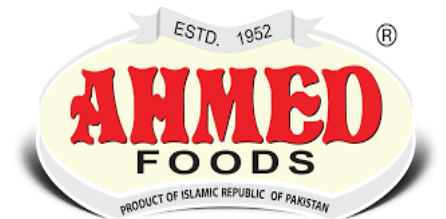
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Supply | Condiments

- As of FY23, the local plain spices category of this segment comprises ~90% unorganized players. Within the salt category, national capacity levels stand at ~60,000 MT, while the share of branded/ organized players amounts to ~57% (~5% YoY growth). Regular salt make up ~85% of the salt category market size. Among the branded category, National Foods and Shan Foods are the top players that enjoy brand loyalty from their customers.
- The Condiments & Spices category in Urban and Rural inflation levels contributed ~1.3% and ~1.5%, respectively, as of 5MFY24.



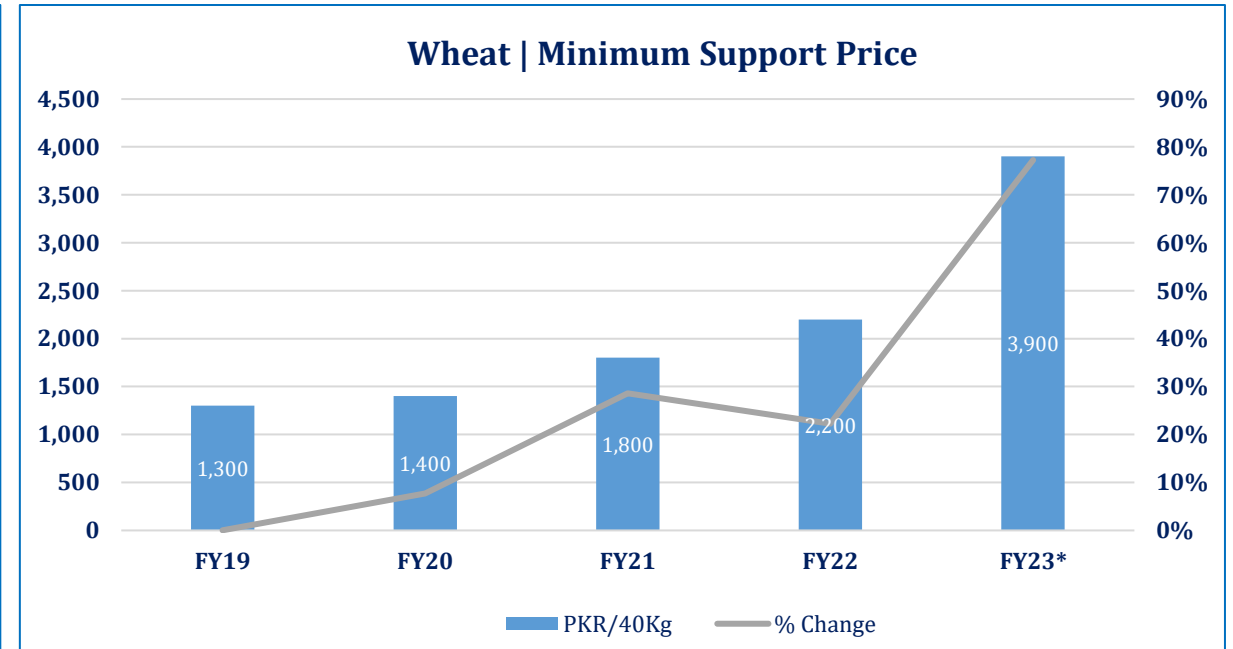
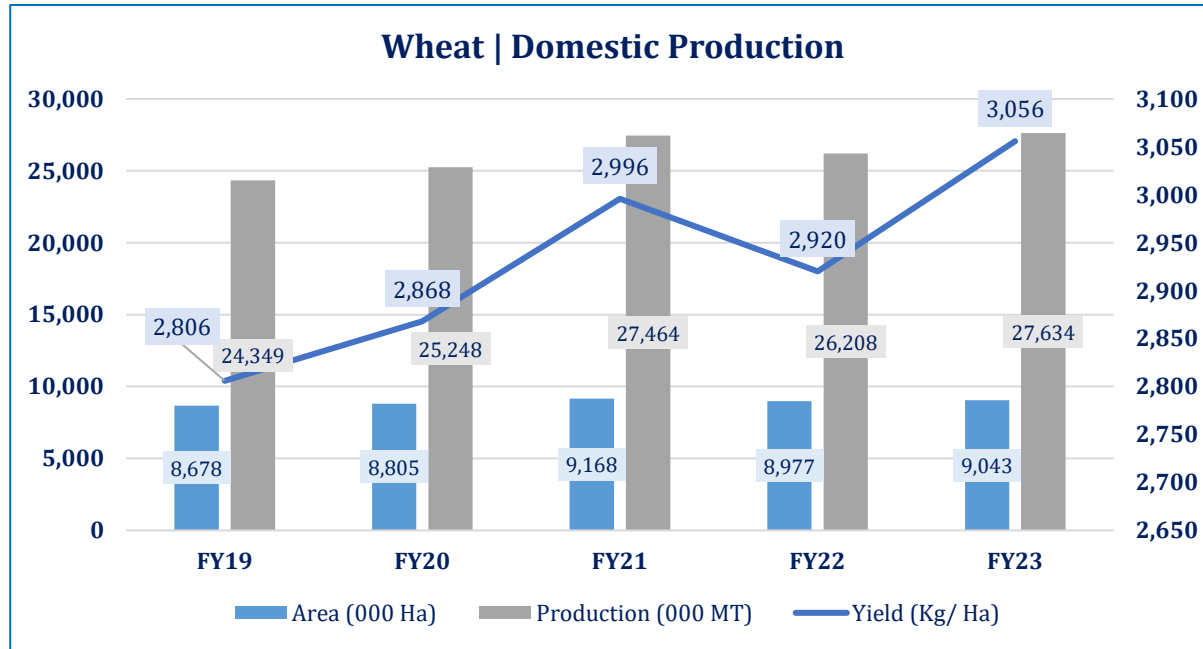
Major Segment Players



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Business Risk | Raw Material - Wheat

- Wheat serves as a major raw material in the Biscuits & Crackers and Confectionery segments of the Sector. Production of wheat clocked in at ~27.6mln MT in FY23, a YoY increase of ~5.4%.
- 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 depicted below in the adjacent chart.

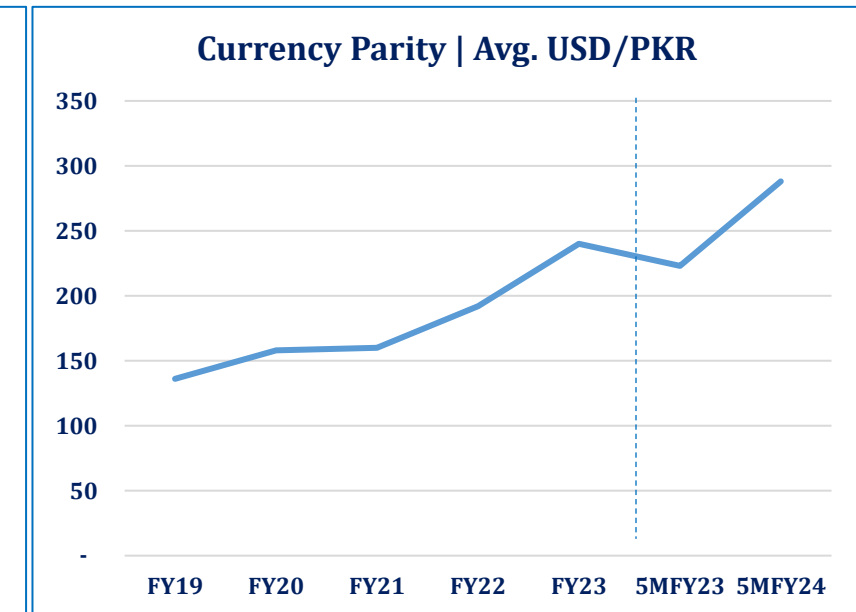
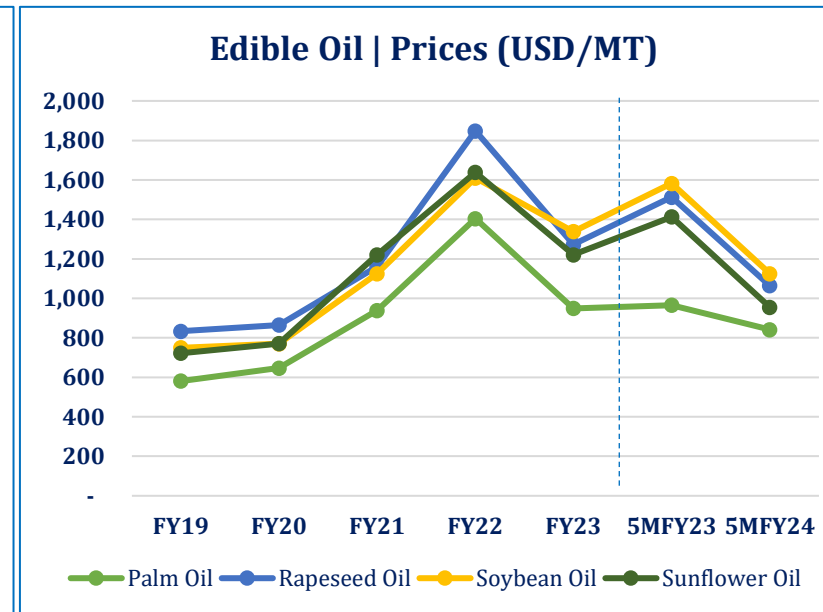
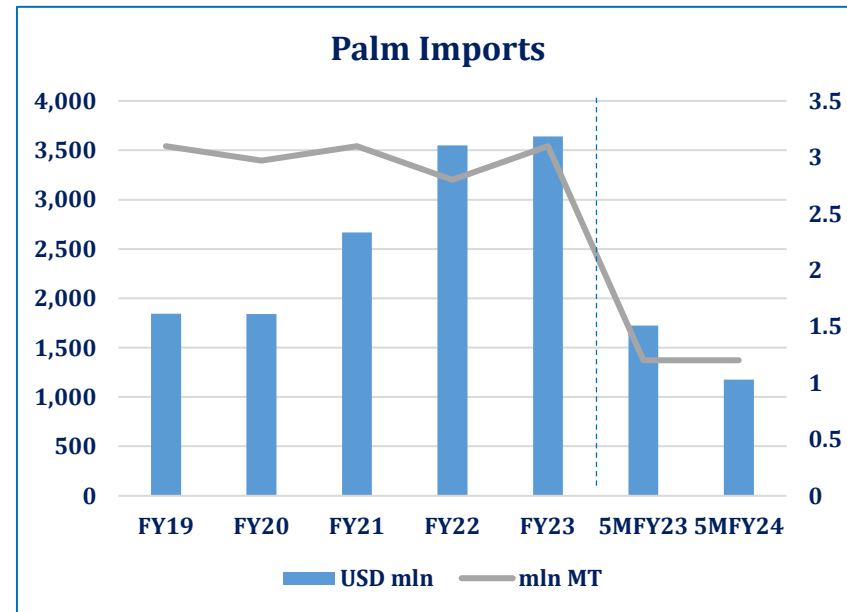


*Data pertains to Punjab only. In Mar'23, the GoP increased the MSP for Wheat to PKR~3,900/40Kg in Punjab and PKR~4,000/40Kg for Sindh, compared to a uniform price of Rs 2200/40 kg in FY22

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Business Risk | Raw Material – Edible Oil

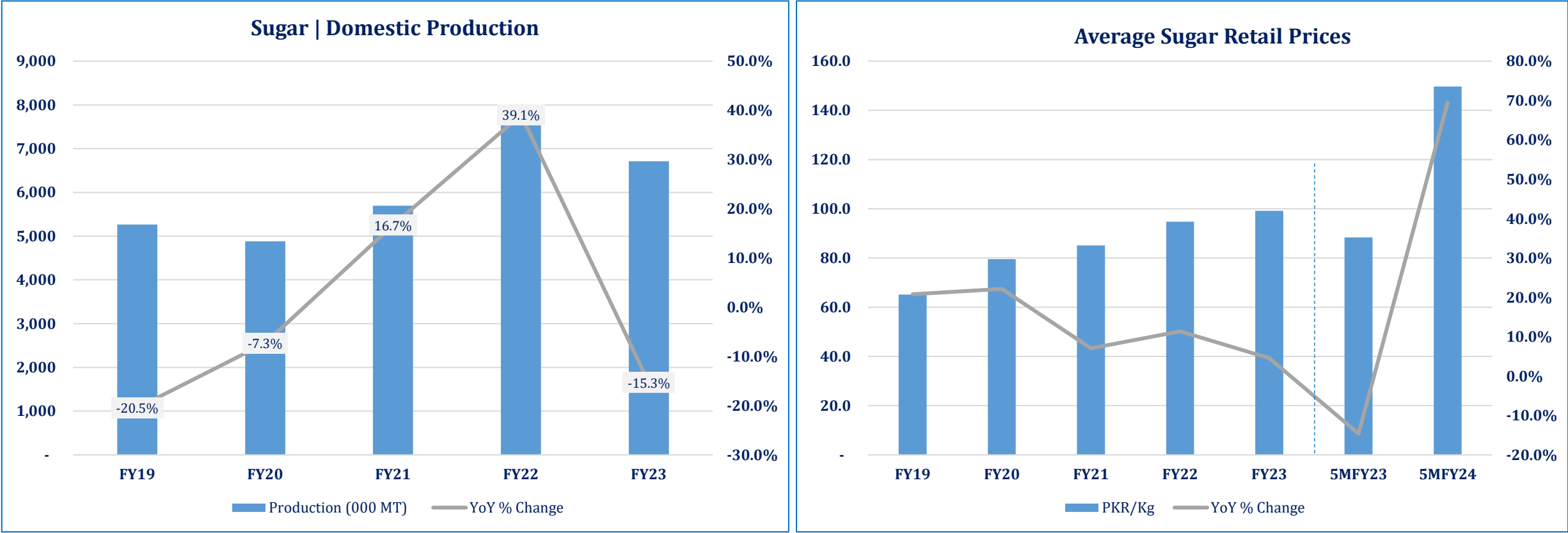
- Pakistan meets nearly all of its edible oil demand (Soyabean Oil and Palm Oil) through imports. Despite ~39% YoY PKR depreciation in FY23, palm oil imports bill amounted to USD~3.6bln during the year, inching up just ~2.3%, likely on the back of low internal prices that averaged at USD~950, down ~32.3% YoY. On the whole, palm oil imports formed ~6.5% of country's total import bill in FY23 (SPLY: ~4.4%). In volumetric terms, palm oil imports were up ~10.7% YoY in FY23, amounting to ~3.1mln MT.
- On the other hand, soybean oil imports aggregated to USD~316.0mln, up ~60.4% during the year, while in volumetric terms, these registered an uptick of ~57.6% YoY. Together, palm oil and soybean oil imports accounted for ~7.2% of country's total import bill in FY23 (SPLY: ~4.7%). With respect to global prices, soybean oil prices were down ~16.9% YoY in FY23, averaging at USD~1,338/MT.
- Similarly, global prices for rapeseed oil and sunflower oil averaged at USD~1,273/MT and USD~1,221/MT in FY23, down ~31.1% and ~25.5% YoY, while in 5MFY24, these clocked in at USD~1,064/MT and USD~955/MT, declining by ~29.7% and ~32.4% YoY. On the other hand, global average prices for palm oil and soybean oil declined by ~12.8% and ~28.9% YoY, averaging at USD~841/MT and USD~1,125/MT.



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Business Risk | Raw Material – Sugar

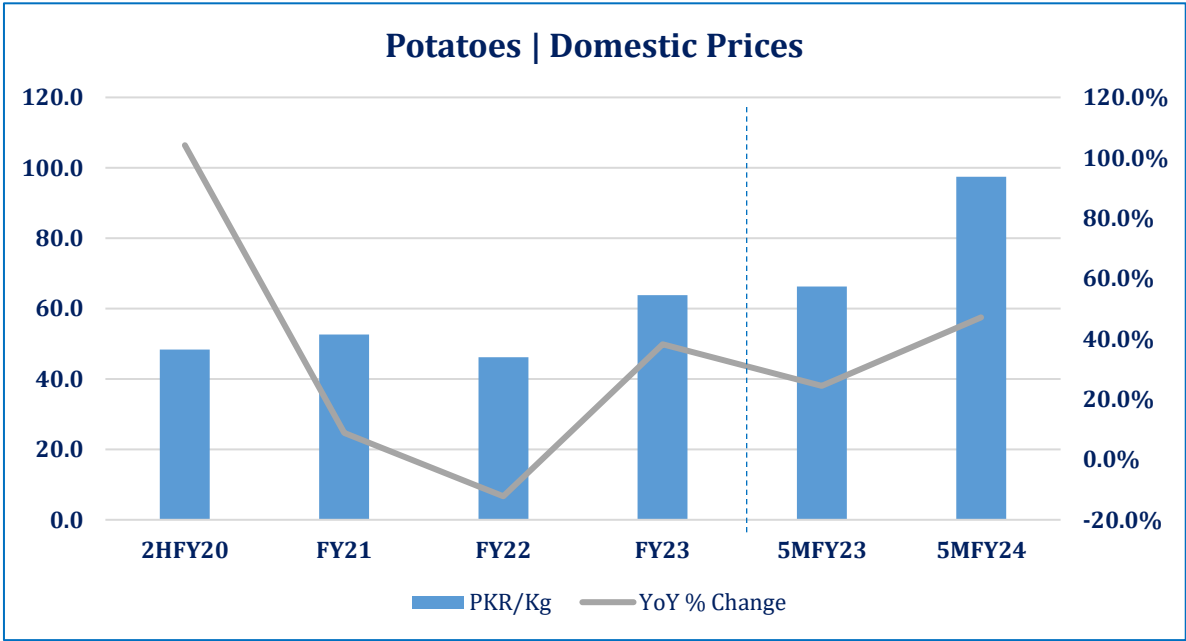
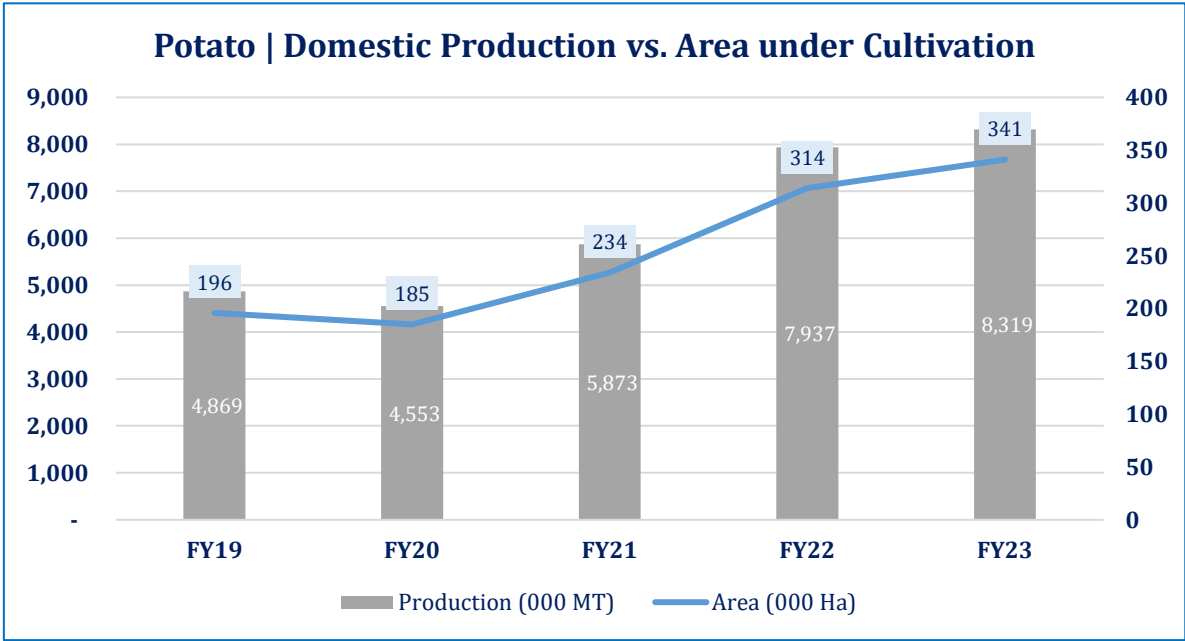
- Sugar production dropped to~6.7mln MT during FY23, a YoY dip of ~15.3%. During the year, prices remained relatively stable, averaging at PKR~99.1/Kg, an increase of ~4.6% YoY. Meanwhile, in 5MFY24, sugar prices have climbed ~69.4% YoY, averaging at PKR~149.7/Kg.



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Business Risk | Raw Material – Potatoes

- Production of potatoes has exhibited a CAGR of ~11.3% during FY19-23. Potatoes production registered ~4.8% increase YoY in FY23, likely on the back of improved profitability for farmers and improved yields on the back of optimum use of fertilizers.
- Over the last three years (2HFY20-22), local retail prices of potato have averaged at PKR~49.1/Kg, however, these rose to PKR~63.8/Kg in FY23, a YoY climb of ~38.1%. In 5MFY24, these further spiked by ~47.1% YoY, averaging at PKR~97.5/Kg. Potato prices contribute ~0.4% and ~0.7% to urban and rural CPI, respectively. The volatility in prices likely stem from the fact that perishable food items hold ~4.99% weightage in national CPI (~4.5% in urban CPI and ~5.8% in rural CPI). Factors like inadequate storage facilities and an under-developed processing industry often lead to volatility in prices.

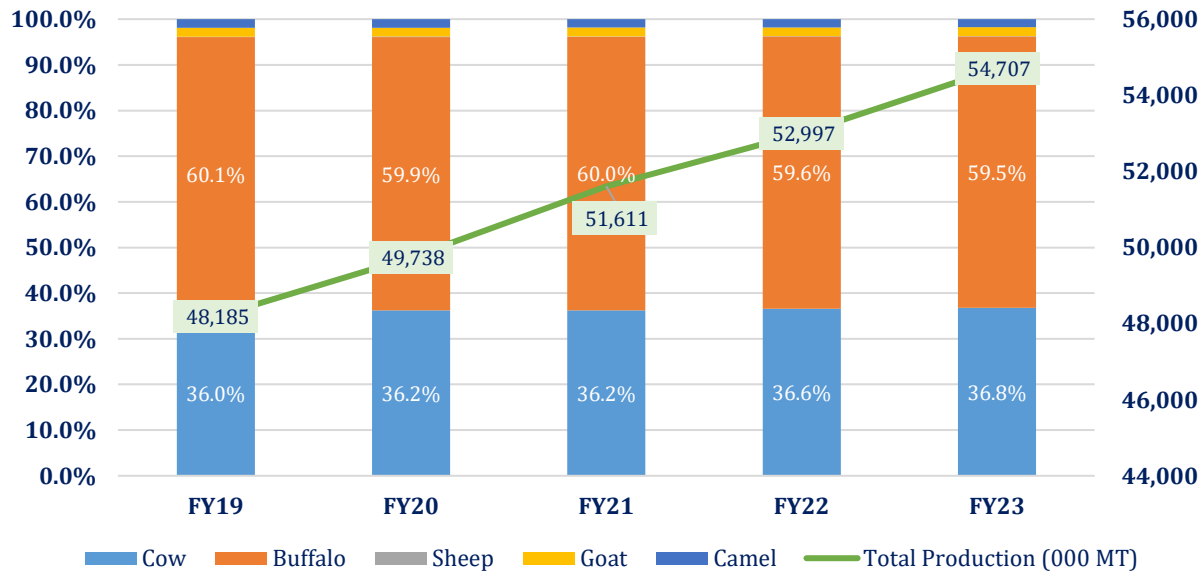


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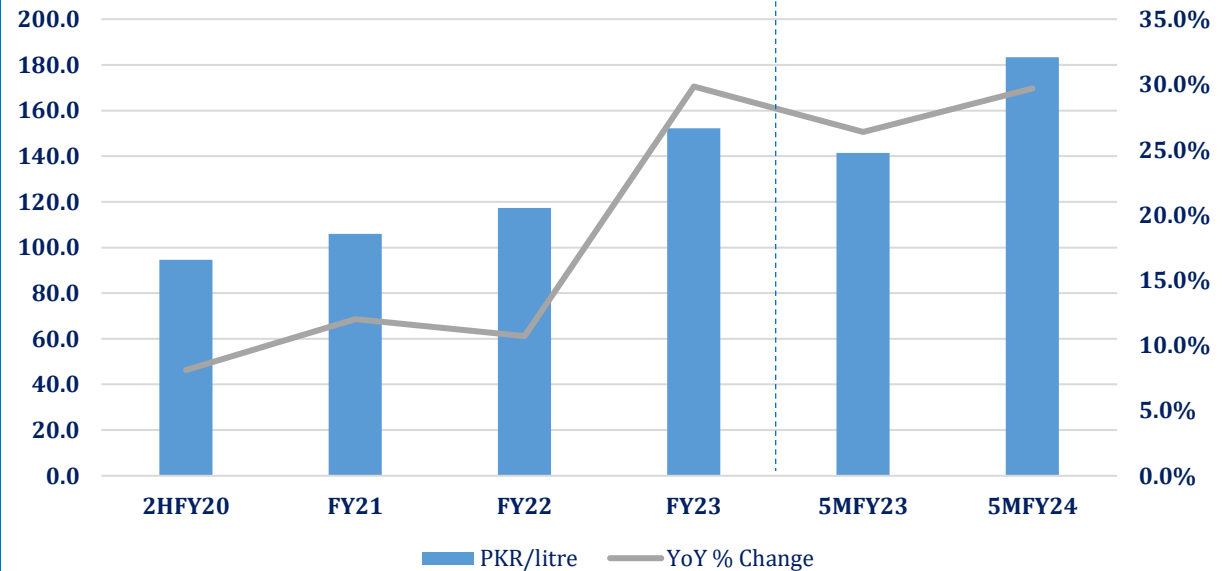
Business Risk | Raw Material - Dairy

- Pakistan is the fourth largest milk-producing country in the world, with global production forecast at ~930mln MT, up ~0.6% YoY, in FY22. Local milk production, safe for human use, was up ~3.2% YoY. Milk production from cows and buffaloes formed ~96.3% of the total production in FY23 (SPLY: ~96.2%).
- 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.
- Domestic prices for fresh milk averaged at PKR~152.3/litre in FY23, increasing ~29.8% YoY, in line with overall high inflationary levels. In 5MFY24, these have further increased ~29.7% YoY, averaging at PKR~183.4/litre.

Milk Production* | Category-wise (%)



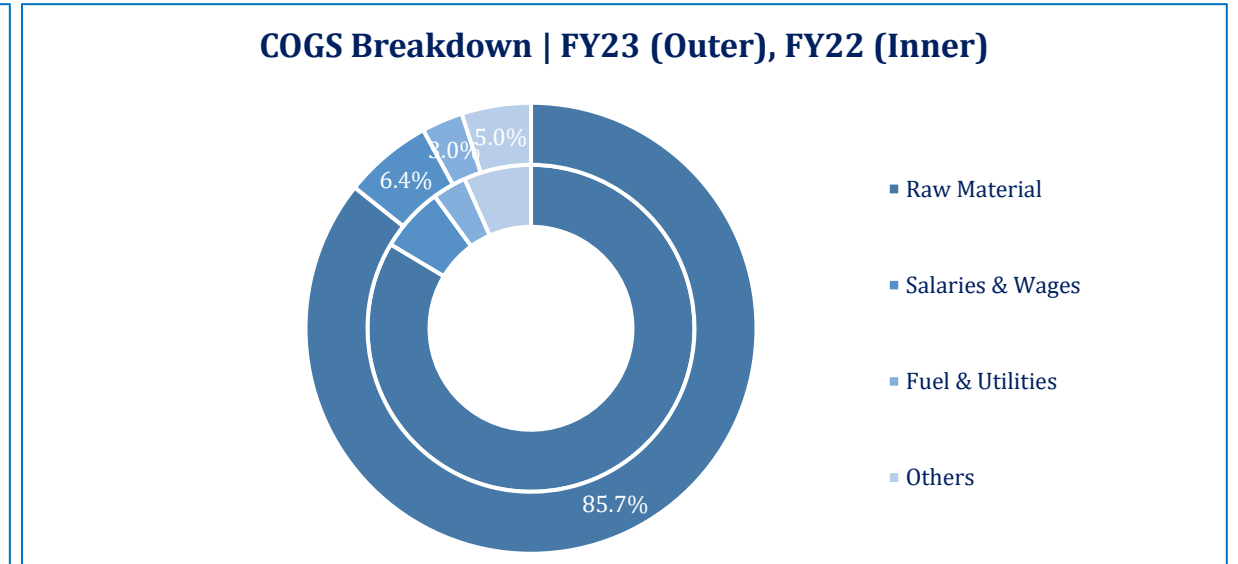
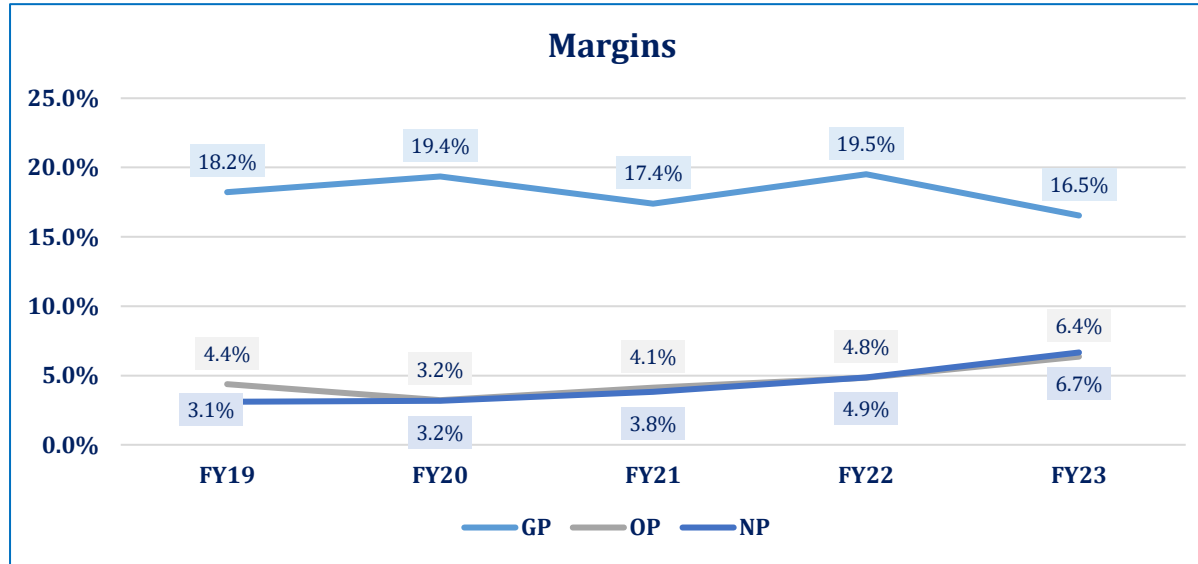
Fresh Milk (Unboiled) | Domestic Prices



*For human consumption.

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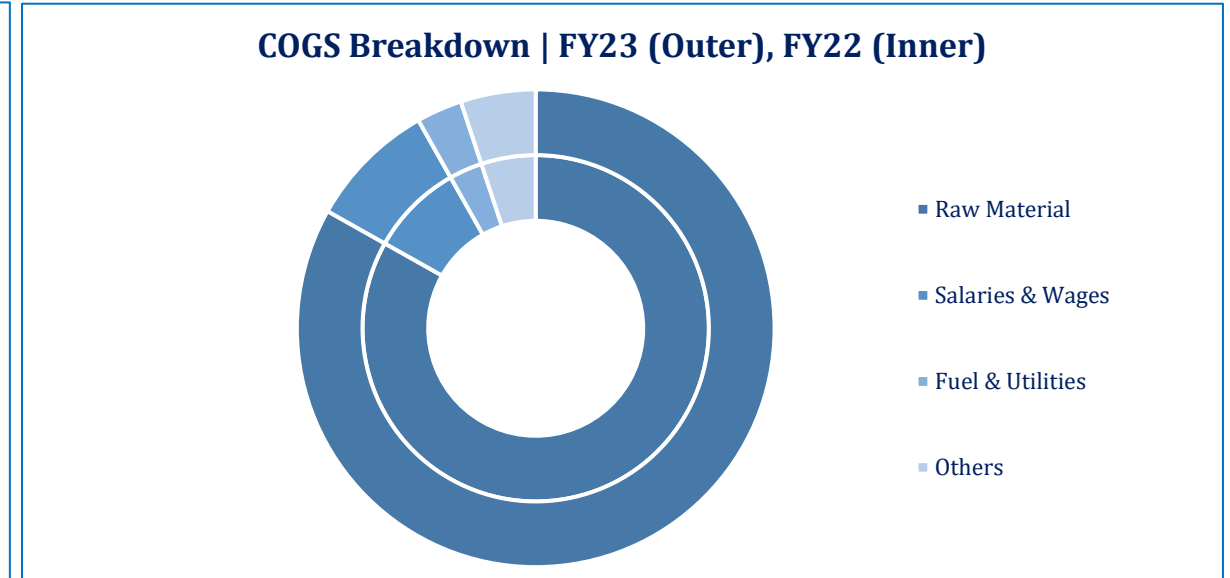
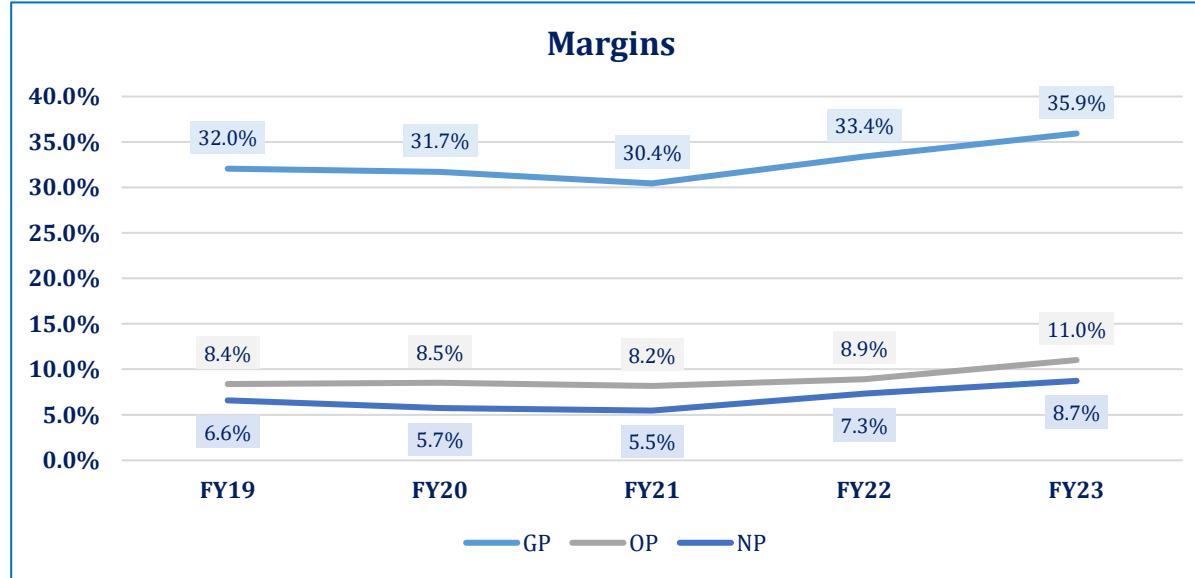
Business Risk | Biscuits, Snacks & Confectionery



- Average gross margins of the segment hovered in the range ~18% during FY19-23. However, these dipped to ~16.5% in FY23, which is a ~15.3% decline YoY. This can be attributed to the increasing cost of sales. The operating profit and net profit rose in FY23 coming in at ~6.4% and ~6.7%, respectively.
- Cost of sales in FY23 was dominated by raw material costs (~85.7%), which majorly include grains and commodities.

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Business Risk | Condiments

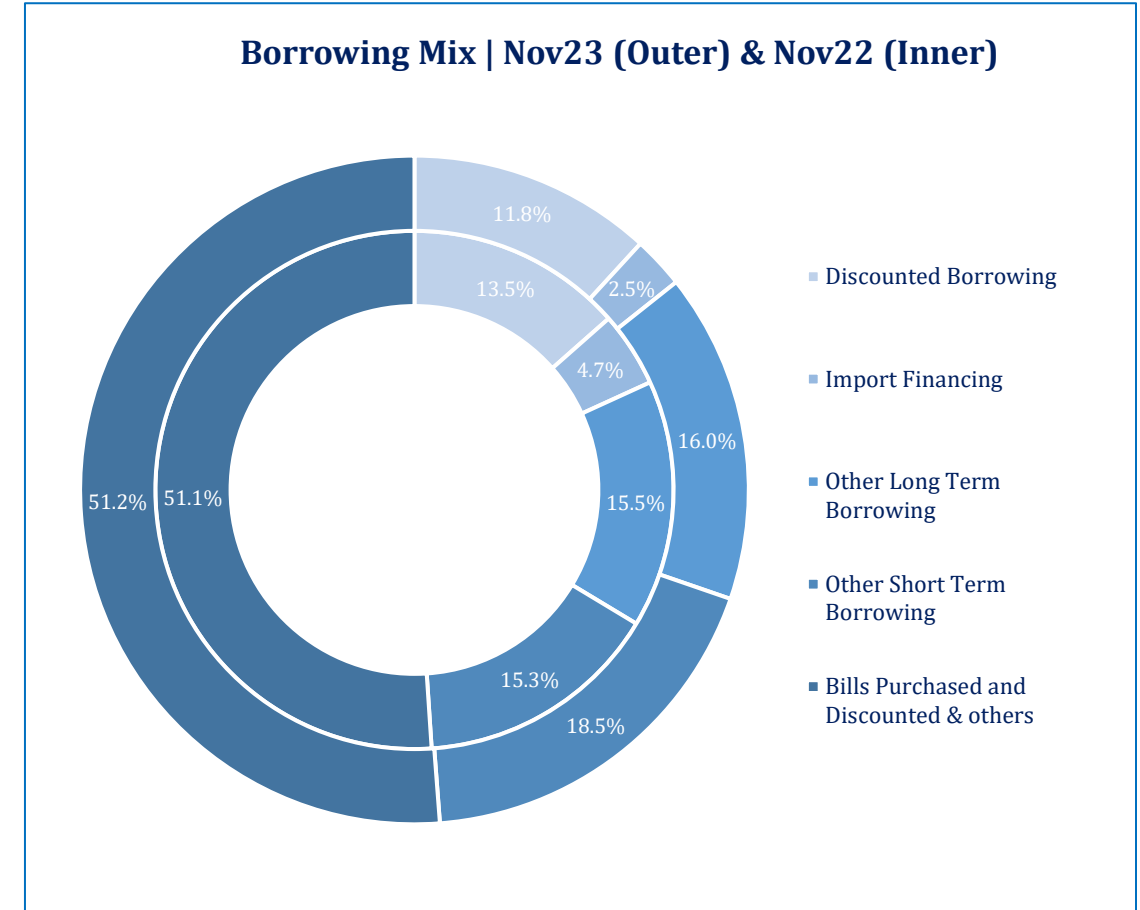


- Average gross margins of the condiments segment averaged at ~32.7% during FY19-23. During FY23, the gross profit margin stood at ~35.9%, a YoY increase of ~7.5%. This was possibly due to an increase in revenue on the back of higher prices (covered previously) while the cost of sales remained low. Operating profits ranged between ~8-11% during FY19-23. In FY23, these stood at ~11%. Meanwhile, the net profit stood at ~8.7% with a YoY increase of ~19.2%.
- Raw material formed the biggest part of cost of sales (~83.2%), followed by salaries and wages (~8.7%) in FY23. 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.

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Financial Risk | Borrowing Mix

- Total debt of the sector clocked in at PKR~142.7bln as at End-Nov'23 (PKR~121.1bln, End-Nov'22), an increase of ~17.7% YoY.
- Discounted finance, comprising of Export Finance and LTFF/TERF comes in at ~11.8% which reflects that some portion of the sector's debt book was being facilitated through subsidized fixed financing rates which have lately been increased and linked to policy rate with the discount window reduced to ~3% from ~5% in Dec'22.
- As at End-Nov'23, average mix of other short-term and other long-term borrowings was ~18.5% and ~16%, respectively.
- The average interest coverage during FY23 for snacks/ Confectionery segment was ~2.2x, while that for condiments' was ~5x.



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Financial Risk | Borrowing Mix

| Food Segments | Total Borrowing | | YoY Change (%) | Short-term Borrowing | | | Long-term Borrowing | | Foreign Bills Discounted |
|-----------------------------------------------------------------------------|-----------------|----------------|----------------|----------------------|---------------|------------------|---------------------|-----------------|--------------------------|
| | Nov'22 | Nov'23 | | Import Financing | EFS | Other Short-term | LTFF | Other Long-term | |
| Manufacture of Starches and Starch Products | 7,164 | 9,835 | 37.3% | 7,316 | 4,239 | 4,659 | 139 | 736 | 0 |
| Manufacture of Bakery products | 55,619 | 70,104 | 26.0% | 4,306 | 6,787 | 19,608 | 8,742 | 22,058 | 286 |
| Manufacture of Cocoa, Chocolate and Sugar Confectionery | 13,773 | 16,489 | 19.7% | 805 | 2,647 | 3,162 | 1,048 | 5,171 | 0 |
| Manufacture of Macaroni, Noodles, Couscous and Similar Farinaceous Products | 237 | 202 | -14.6% | 0 | 0 | 190 | 0 | 12 | 0 |
| Processing/blending of spices, tea, coffee etc. | 1,799 | 5,334 | 196.5% | 0 | 0 | 1,187 | 406 | 3,718 | 0 |
| Manufacture of other food products n.e.c., | 42,586 | 40,686 | -4.5% | 1,975 | 3,388 | 14,470 | 3,771 | 12,299 | 1,451 |
| Sector Total | 121,178 | 142,651 | 17.72% | 7,093 | 17,062 | 43,277 | 14,106 | 43,994 | 1,738 |

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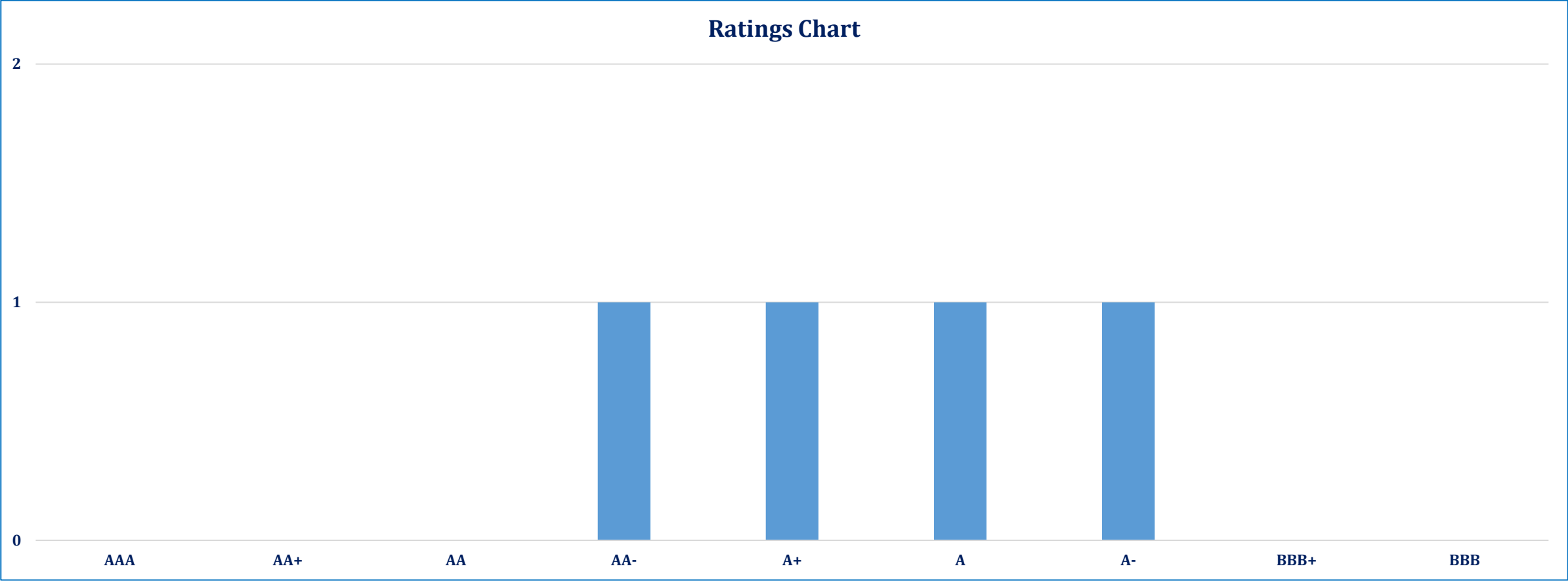
Duty Structure

| PCT Code | Description | Custom Duty | | Additional Custom Duty | | Regulatory Duty | | Total | |
|-----------|-----------------------------------------------------------------------------------------------------------------------|-------------|---------|------------------------|------|-----------------|-------|--------|--------|
| | | FY23 | FY24 | FY23 | FY24 | FY23 | FY24 | FY23 | FY24 |
| 1905 | Sweet biscuits; waffles and wafers, and others | 20% | 20% | 6% | 6% | 20% | 20% | 46% | 46% |
| 1704 | Sugar confectionery (including white chocolate), not containing cocoa | 20% | 20% | 6% | 6% | 49% | 40% | 75% | 46% |
| 1801-1805 | Cocoa, Cocoa powder, not containing added sugar or other sweetening matter | 3%-11% | 3-11% | 2% | 2% | 0-10% | 0-10% | 3-23% | 3-23% |
| 1806 | Chocolate and other food preparations containing cocoa | 11%-20% | 11%-20% | 6% | 6% | 0-10% | 0-10% | 11-36% | 11-36% |
| 2103 | Sauces and preparations therefor; mixed condiments and mixed seasonings; mustard flour and meal and prepared mustard. | 20% | 20% | 6% | 6% | 50% | 50% | 20-56% | 20-56% |

FOOD PRODUCTS

Rating Curve

- PACRA rates three entities i.e., in the Food Products sector, with a rating bandwidth of AA- to BBB.



FOOD PRODUCTS

SWOT Analysis

- Continuous availability and ease of access to raw material
- Availability of low cost skilled and unskilled labor
- Simple to operate plants
- Available unutilized capacity
- Government incentives and ease policies
- Product affordable to all income groups
- Wide range of target market

Strengths

Weaknesses

- Mushroom industries and counterfeit brands
- Little variation/ value addition in product
- Highly saturated market
- Low utilization
- Low barriers to entry
- High raw material costs
- Low contribution margins
- High waste production levels

- Increased freight charges
- Currency fluctuations
- Climate change and shifting rain cycles
- Strong bargaining power of buyers
- Intense competition from regional players in international market
- Growing concerns about healthy lifestyle
- Strong hold of established multinationals
- Low barriers to entry
- Regular infringement of Intellectual Property Rights laws

Threats

Opportunities

- Growing population and food consumption
- Untapped export market
- Increase in income per capita
- Evolving consumer taste palette
- Change in eating habits, healthy eating, Gluten free market
- No brand loyalty

FOOD PRODUCTS

Outlook: Stable

- Pakistan's food products sector (divided into biscuits, snacks, confectionery and condiments segments, for the purpose of this report) exhibited a CAGR of ~6.0% over the past five years (FY18-22). During FY23, Sector's market size, comprising the Biscuits & Cracker, Snacks/ Chips and Sugar Confectionery segments, was recorded at PKR~101bln in FY23, increasing by ~48.2% YoY. Condiments, a sub-category of food products, posted a revenue growth of ~8.0% YoY during the same year, recording at PKR~29bln. The increase in revenue across these segments is reflective of inflationary impact and consequent increase in food products prices (national CPI rose ~140.5% YoY during FY23). Meanwhile, the sector remains highly competitive with influx of new players, while marketing and distribution costs also remain high. The sector is 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.
- Most of the raw material (Wheat, Sugar, Potatoes, Milk and Edible Oil) is feasibly available at the 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. During FY23, sugar prices remained relatively stable, averaging at PKR~99.1/Kg, an increase of ~4.6% YoY. Meanwhile, in 5MFY24, sugar prices have climbed ~69.4% YoY, averaging at PKR~149.7/Kg. Similarly, potato prices rose to PKR~63.8/Kg in FY23, a YoY climb of ~38.1%. In 5MFY24, these further spiked by ~47.1% YoY, averaging at PKR~97.5/Kg.
- Average gross margins of the confectionery/ biscuits & crackers and snacks/ chips segments hovered in the range ~18% during FY19-23. However, these dipped to ~16.5% in FY23, which is a ~15.3% decline YoY. This can be attributed to the increasing cost of sales. The operating profit and net profit rose in FY23 coming in at ~6.4% and ~6.7%, respectively. For the condiments segment, average gross margins of the condiments segment averaged at ~32.7% during FY19-23. During FY23, the gross profit margin stood at ~35.9%, a YoY increase of ~7.5%. This was possibly due to an increase in revenue on the back of higher prices (covered previously) while the cost of sales remained low. Operating profits ranged between ~8-11% during FY19-23. In FY23, these stood at ~11%. Meanwhile, the net profit stood at ~8.7% with a YoY increase of ~19.2%.
- 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.

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