



Jute Sector

An Overview

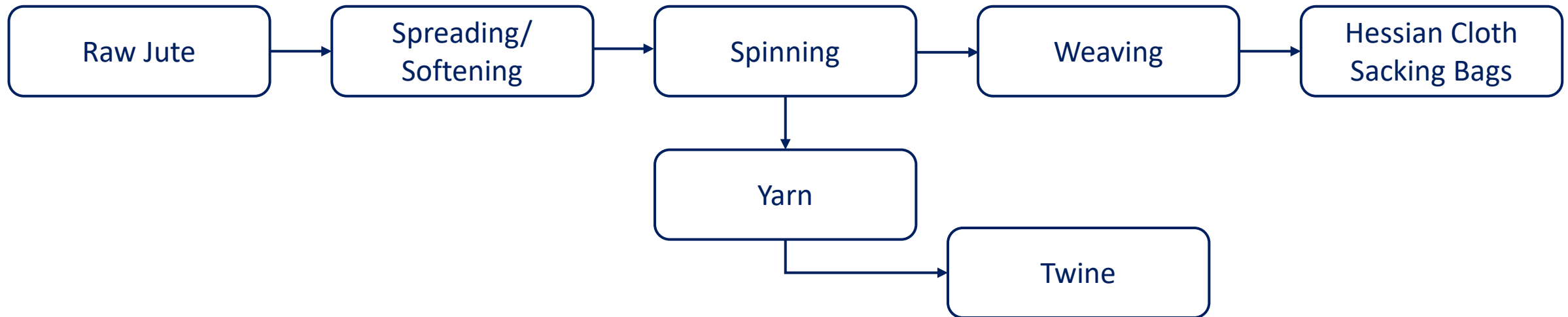
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- Jute, also known as the ‘Golden Fibre’, is a natural fibre extracted from the bark of the white jute plant. Jute is a rain-fed crop, which commonly thrives in tropical lowland areas with significant humidity levels.
- Raw jute, which is the industry’s 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.
- The value chain of jute production is as follows:
- Jute is very environment friendly, especially in comparison to other materials used in packaging, due to being 100% biodegradable and recyclable in nature.





Overview

- **Size:** The global jute market size for CY19 was recorded at USD~2,780mln (USD~2,700mln CY18), up ~3% YoY basis.
- **CAGR:** The industry had grown on a low pace with an average annual growth rate of ~1.4% in the last ten years.
- **Production:** Global Jute Production Market is highly concentrated. The countries with highest volume of raw jute production are India (~55%) and Bangladesh (~42%), who jointly produce ~97% of the global jute crop. In 2018, global jute production stood at ~3.6mln tons. 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.
- **Consumption:** The countries with the highest volume of jute consumption are India, Bangladesh and Pakistan, with a combined share of ~90% in global jute consumption. During the FY20 season, the minimum support price for raw jute in India was INR~3,950 per 100kg (PKR~8,775 per 100kg). The current price of raw jute in the Indian commodity market stands at INR~6,500 per 100kg (PKR~14,148 per 100kg).
- **Exports:** Bangladesh dominates the raw jute export market with an approximate ~79% share of the total export market. India has a smaller share of ~5% as majority of its jute production is consumed locally.
- **Imports:** Pakistan and India are two of the largest importers of raw jute with imports amounting to ~31% and 22%, respectively of the total global imports. Other importing countries include Nepal and China who have a combined share of ~25% of total imports.



Overview

- **Size:** The market size of the jute industry is estimated at PKR~14,088mIn in FY20 as compared to PKR~13,060mIn in FY19, up ~8% YoY. Majority of this is attributable to the local demand. However, in recent few years exports have also taken up pace. Export of jute products stood at USD~6.8mIn during FY20 almost twice the export figure of USD~3.2mIn in FY19, representing healthy growth. Some of the export destinations are Egypt, Iraq, Malaysia and Turkey.
- **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, who 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. During FY20, Pakistan's raw jute imports stood at PKR~4,852mIn as compared to PKR~4,730mIn in FY19, an increase of ~3%. However, in quantitative terms imports declined from ~68,866 MT in FY19 to ~49,638 MT in FY20. The majority of raw jute imports occur during the second and third quarters of each fiscal year.

Production and Capacity Utilization

- The adjacent table shows the available capacities of the 5 operational jute mills in the country. The installed capacities have remained the same in FY19. During FY20, the industry's capacity utilization stood at ~57% with a total production level of ~65,042 MT.
- During 4MFY21, the production of jute goods stood at ~20,208 MT, a modest increase of ~5% from the same period last year.

Name of Players	FY20 Capacity (MT)
Thal Limited	33,000
Sargodha Jute Mills	30,500
Indus Jute Mills	20,000
White Pearl Jute Mills	15,000
Madina Jute Mills	15,000
Total	113,500

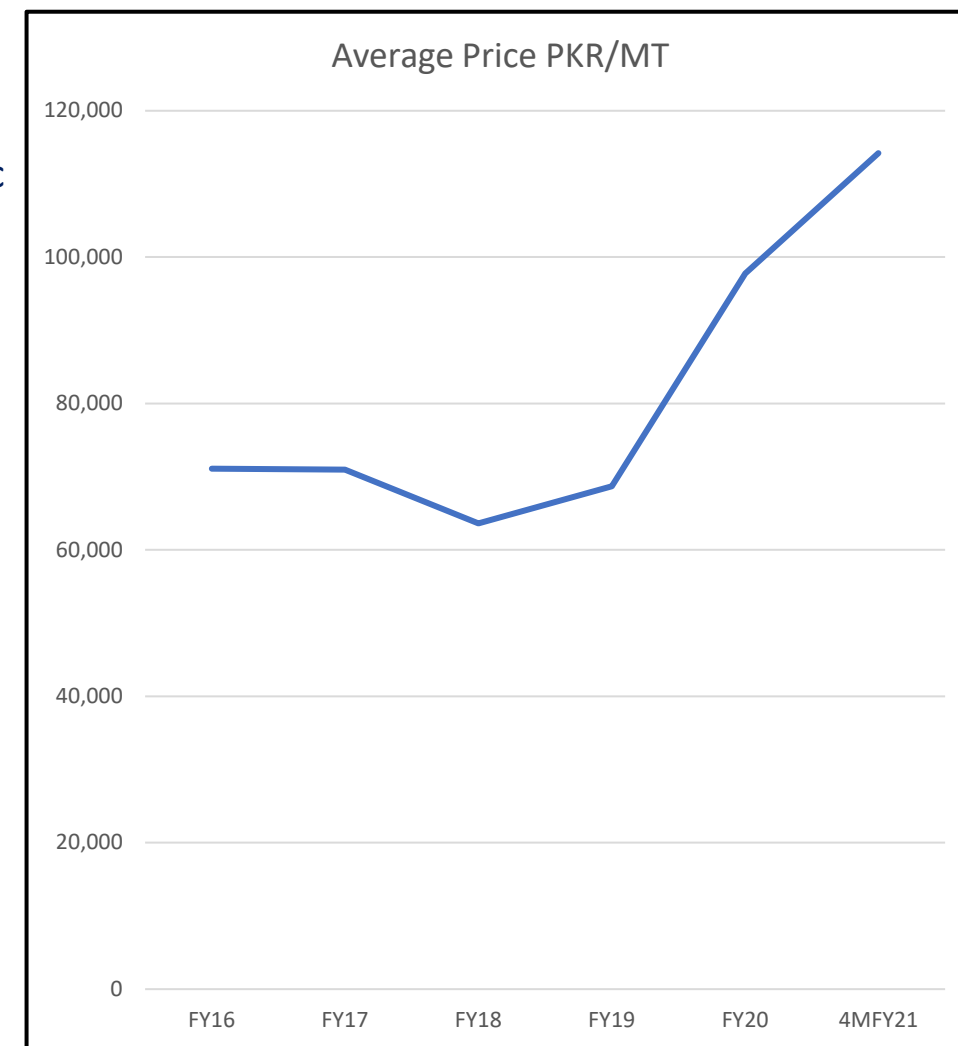
Annual Production of Jute Goods

(MTs)	FY16	FY17	FY18	FY19	FY20	4MFY21
Sacking Bags	30,027	36,785	49,458	43,688	43,188	10,974
Hessian Cloth	13,473	9,466	9,970	11,720	12,211	6,041
Others	11,877	13,639	14,752	11,698	9,643	3,193
Total	55,377	59,890	74,180	67,106	65,042	20,208

Raw Jute Imports

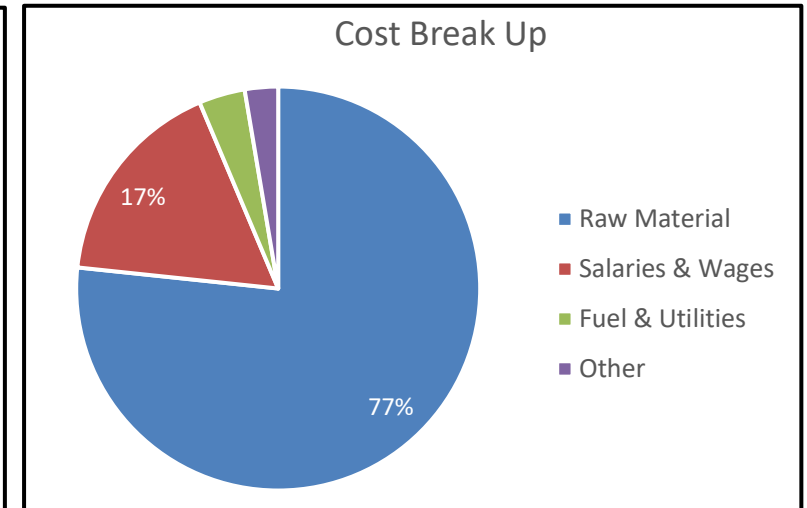
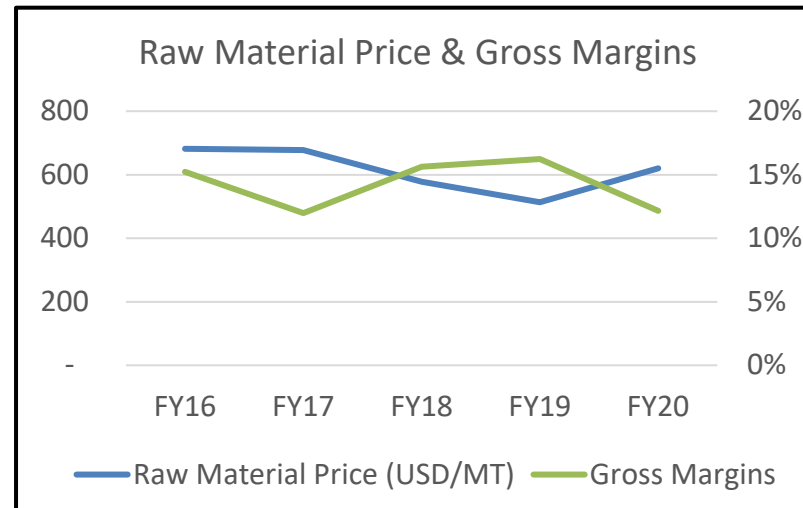
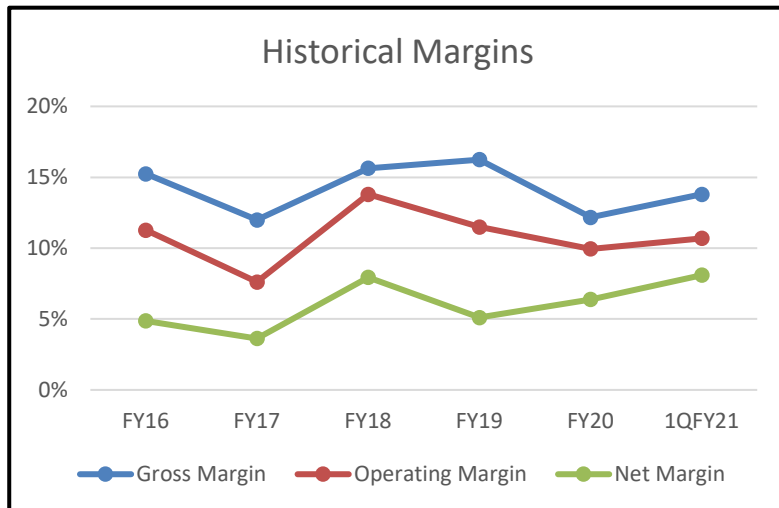
- Pakistan is entirely dependent on Bangladesh for its imports of raw jute.
- During FY20, imports stood at PKR~4,852m as compared to PKR~4,730m in FY19, an increase of ~3% YoY. However, in quantitative terms, import declined to ~49,638 MT in FY20 from ~68,866 MT in FY19. This decline was due to the COVID-19 pandemic which caused decline in demand for jute products and the increase in average import price of jute as can be seen in the adjacent graph. The industry imported higher quantum of raw jute in FY18 anticipating price hike and currency depreciation.
- Jute imports during 4MFY21 stood at PKR~1,971m, a significant increase of ~185% YoY as compared to same period last year. According to news reports, the Government has encouraged and assisted the industry in boosting exports. As new export markets have started to be explored the demand for raw material has increased. In addition, previous year's imports were lower as mills had previously retained stocks.

Jute Imports	Quantity (MT)	Value		Average Price	
		PKR mln	USD mln	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
4MFY21	17,261	1,971	12	114,188	686



Business Risk | Margins & Cost Structure

- The margins of jute industry are significantly dependent on two factors (i) raw jute prices in Bangladesh and (ii) exchange rate fluctuations. The Industry's margins have fluctuated in the past five years in the bandwidth of ~12%- 16%. 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.
- During FY20, the industry's gross margin declined to ~12% from ~16% in FY19. The decline was mostly due to increase in average import price of raw material. Raw material is the most significant component of direct costs with a share of ~77% in total manufacturing costs.
- There was an overall improvement in margins during 1QFY21, with gross margin rising to ~13.8% and net margin increasing to ~8.1%. This increase is attributable to higher finished goods prices, with average price of sacking bags recording an estimated increase of ~22% from SPLY and recording at PKR~280 per bag.



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



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.
- **High Inventory Holding Costs:** The industry has previously engaged in bulk buying of jute imports during the appropriate season to avail best prices. However, the storage costs are significant and the cost of financing for working capital was also high until recent policy rate cuts. As a result, there was some shift in the industry towards buying inventory of 3-4 months at a time rather than for the entire year in order to reduce costs.
- **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.



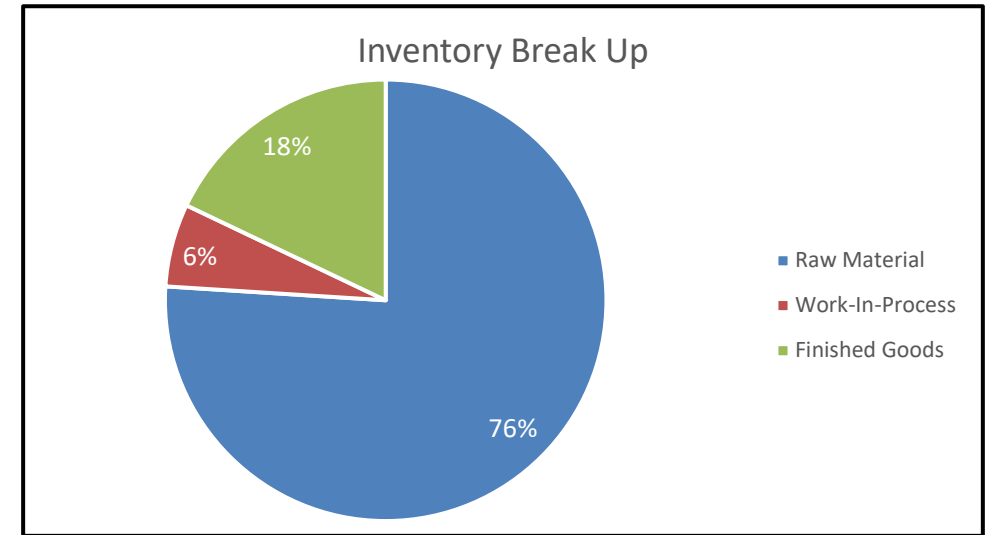
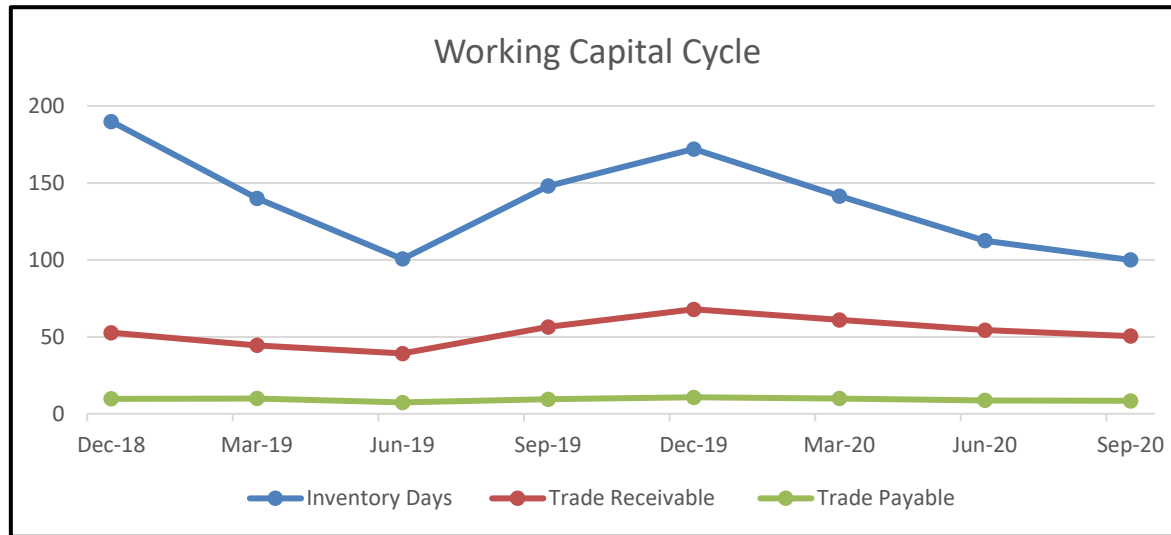
Regulatory Environment

- 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	Additional Custom Duty		Custom Duty		Regulatory Duty		Total	
		FY21	FY20	FY21	FY20	FY21	FY20	FY21	FY20
53.03	Jute, raw or processed but not spun	2%	2%	0%	0%	0%	0%	2%	2%
53.07	Jute Yarn	2%	2%	11%	11%	0%	0%	13%	13%
53.10	Woven fabrics of Jute	7%	7%	20%	20%	0%	0%	27%	27%
6305.10	Sacks and bags, made from jute, used for packing of goods	7%	7%	20%	20%	10%	10%	37%	37%

Financial Risk | Working Capital Management

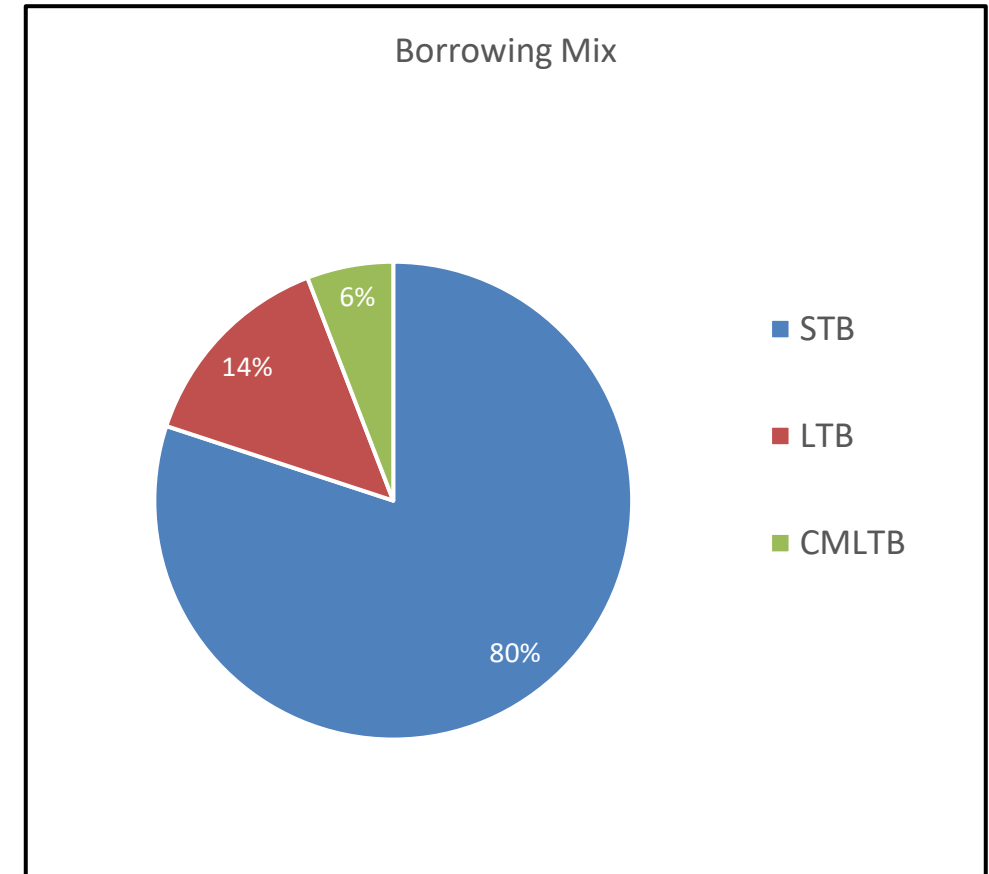
- The industry’s working capital is largely a function of its inventory and trade receivables. The industry has a seasonal nature. Majority of the procurement of raw material usually occurs during the second and third quarters of the fiscal year, i.e. from October to March. Raw material is usually procured 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. The credit terms for trade receivables are ~60 days. However, delays in payment from government entities are common, resulting in extended receivables.
- During FY20, the industry’s net working capital days increased slightly to 158 days from 132 days in FY19. The increase is largely due to COVID-19, which caused an overall demand slowdown.



Note: Working capital cycle and inventory break-up is calculated from ~80% of the market

Financial Risk | Sector Borrowings

- The jute industry's total borrowing stood at PKR~1,818mIn as at June'20 (PKR~1,416mIn, June'19), up ~28% YoY basis.
- The industry's capital structure is sound. It has a low level of leverage with the average debt to equity ratio estimated around ~27%.
- The adjacent graph shows the industry's average borrowing mix. Highest component is represented by short term borrowings that make up ~80% of the total borrowings.

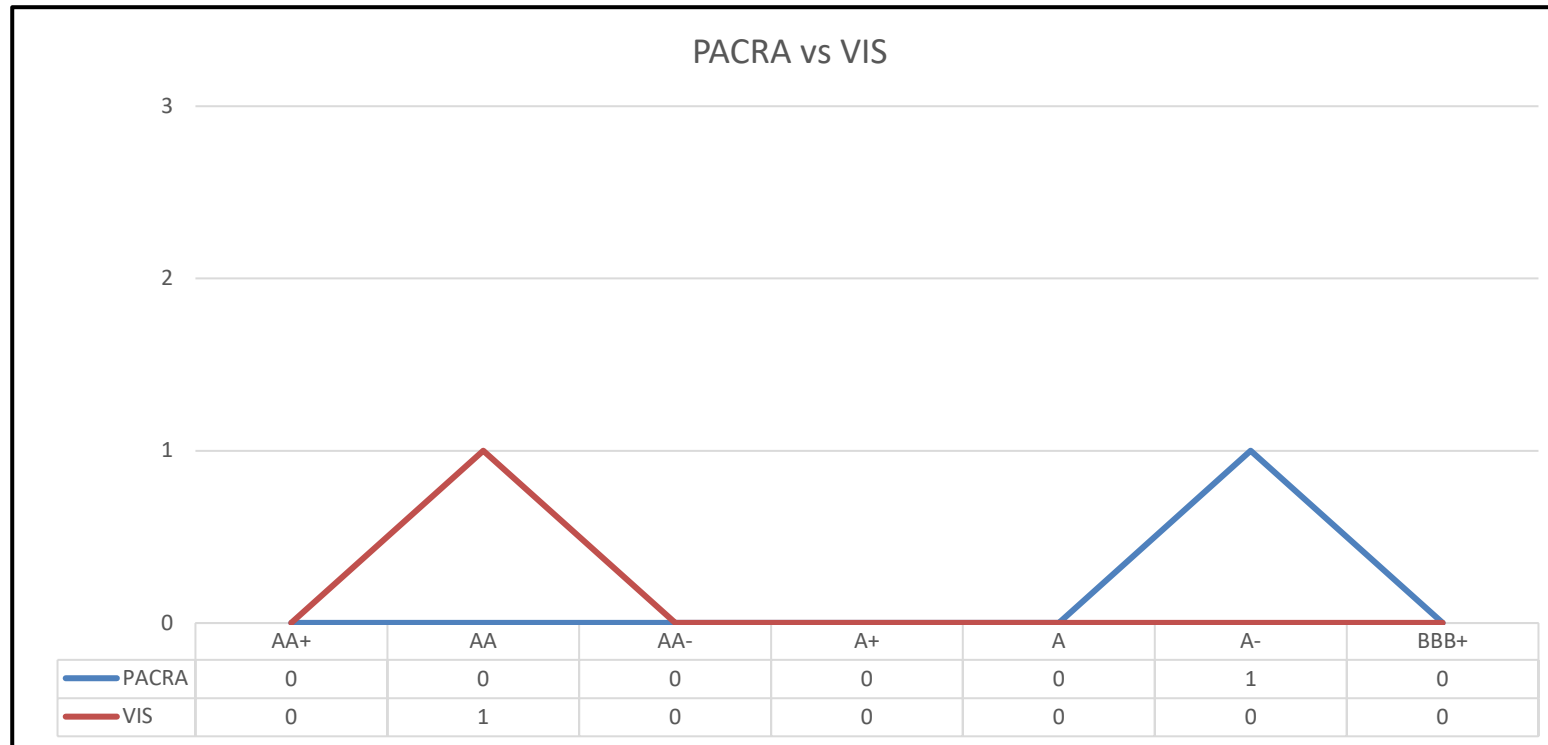


Note: Borrowing mix and average leveraging is calculated using ~80% of the market data.

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

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~38bln



Rated Capitalization:
PKR~38bln

COVID-19: Impact & Relief Measures

- Although most businesses and factories were forced to suspend operations during lockdown period, the jute industry was exempt from the requirement as it provides packaging for essential food commodities such as wheat.
- Despite the continuation of government orders, the industry witnessed a decline in demand from other sectors.
- The industry's supply chains were not significantly impacted as food and allied sector had exemption from lockdown both in Pakistan and Bangladesh, where raw material is purchased.
- The government introduced various measures to ease pressure on the industry.
- SBP allowed one year deferment of principal repayments to the corporate sector. In addition, restructuring of loans was allowed up to 30 June 2020. The SBP later extended the deadline to submit requests for deferment of principal repayments or restructuring/rescheduling up to 30th September 2020.
- Lately, the benchmark rate has been reduced by a total of 625bps to 7% which is expected to reduce the Sector's interest costs by approximately PKR~114mln, going forward.



SWOT Analysis

- Availability of cheap labor
- Government support in the form of favorable duty structure
- Low level of competition with few players

- Reliance on imported raw material
- Imports concentration in one country
- Reliance on single buyer (Government)



- Exchange rate volatility
- Fluctuations in raw material prices
- Stagnant demand

- Reduction in custom duty of raw material
- Export opportunities remain to be exploited
- Product diversification
- Environment consciousness and ban on plastic could create demand for biodegradable packaging products

Outlook: Stable

- Despite some decline in demand due to the COVID-19 pandemic, 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.
- The import of jute increased significantly during 4MFY21. Jute imports during 4MFY21 stood at PKR~1,971mln, a significant increase of ~185% YoY as compared PKR~691mln in 4MFY20. Moreover, the increase was also reflected in quantitative term with imports rising from ~7,802 MT during 4MFY20 to ~17,261 MT during 4MFY21. This is a reflection of rising demand for jute products including from export markets which is a positive indicator for the industry.
- The Industry's average revenue grew by ~18% during 1QFY21 from same period last year (SPLY) as well as an overall improvement in margins was seen during 1QFY21, with gross margin rising to ~13.8% and net margin increasing to ~8.1%.
- Moreover, the reduction in benchmark rate by 625bps should also reduce finance costs by PKR~114mln and contribute to improving margins.
- The exchange rate is expected to remain stable which is expected to reduce cost volatility associated with the import of raw material.

- Pakistan Bureau of Statistics (PBS)
- Pakistan Stock Exchange (PSX)
- State Bank of Pakistan (SBP)
- Federal Board of Revenue (FBR)
- Food and Agriculture Organization of the United Nations (FAO) (<http://www.fao.org/faostat/en/>)
- Pakistan Jute Mills Association (PJMA)
- PACRA Database
- Global Trade (<https://www.globaltrademag.com/global-jute-market-2019-bangladesh-continues-to-dominate-exports-despite-decline-in-the-past-few-years/>)
- The News (<https://www.thenews.com.pk/print/690570-jute-exports-more-than-double-to-6-8mln-in-fy2020>)
- Live Mint (<https://www.livemint.com/industry/agriculture/cabinet-hikes-msp-for-raw-jute-for-2019-20-1550076513750.html>)
- IIFL Securities (<https://www.indiainfoline.com/markets/commodity/spot-prices>)

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