



# Jute

## Sector Study

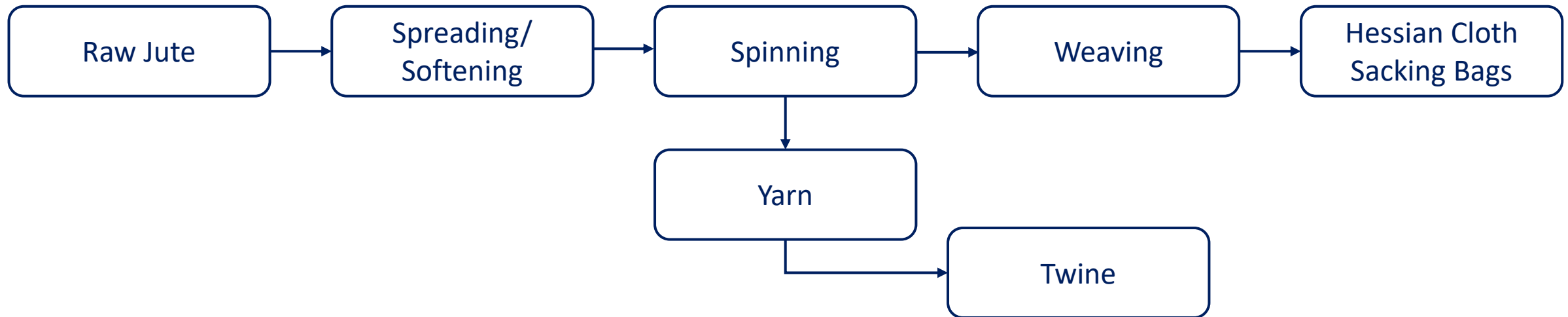
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- Jute, also known as the 'Golden Fibre', is a natural fibre extracted from the bark of the white jute plant. Jute is a rain-fed crop, which commonly thrives in tropical lowland areas with significant humidity levels.
- Raw jute, which is the industry's 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 | Raw Jute

- **Size:** The global jute market size for CY19 was recorded at USD~2,780mln (CY18: USD~2,700mln), up ~3% YoY basis.
- **CAGR:** The industry has grown at 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 (~51%) and Bangladesh (~47%), who jointly produce ~98% of the global jute crop. In CY19, global jute production stood at ~3.4mln MT, relatively stable from previous year. 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 FY21 season, the minimum support price for raw jute in India was INR~4,500 per 100kg (PKR~9,765 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 which have a combined share of ~25% of total imports.





## Overview

- **Size:** The market size of the jute industry is estimated at PKR~11,372mln in FY21 as compared to PKR~7,290mln in FY20, up ~56% YoY. The growth is attributable to increase in prices of imported raw material which were passed on by the local jute mills. Moreover, there was a significant increase in demand as production of various crops such as wheat, maize and rice increased during FY21.
- In addition, export of jute products has also increased in recent years. During FY20, exports of jute products including sacks, bags and fabrics stood at USD~13mln. Meanwhile, exports of jute products reached USD~9mln in 1HFY21. Some of the export destinations are Egypt, Sudan, UAE, 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, which occupy a combined market share of ~80% in terms of revenue.
- **Demand:** The demand for processed jute products 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 FY21, Pakistan's raw jute imports stood at PKR~8,491mln as compared to PKR~4,852mln in FY20, an increase of ~75%. The increase came on the back of significantly higher import prices due to decline in raw jute production in Bangladesh.

## 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. During FY21, the industry's capacity utilization stood at ~61% with a total production level of ~69,811 MT. The utilization grew slightly from previous year's level of ~57% with a production quantity of ~65,042 MT.
- During the first month of FY22, the production of jute products stood at ~3,314 MT.
- Sacking bags are the largest product category and accounted for ~61% of total production in FY21.

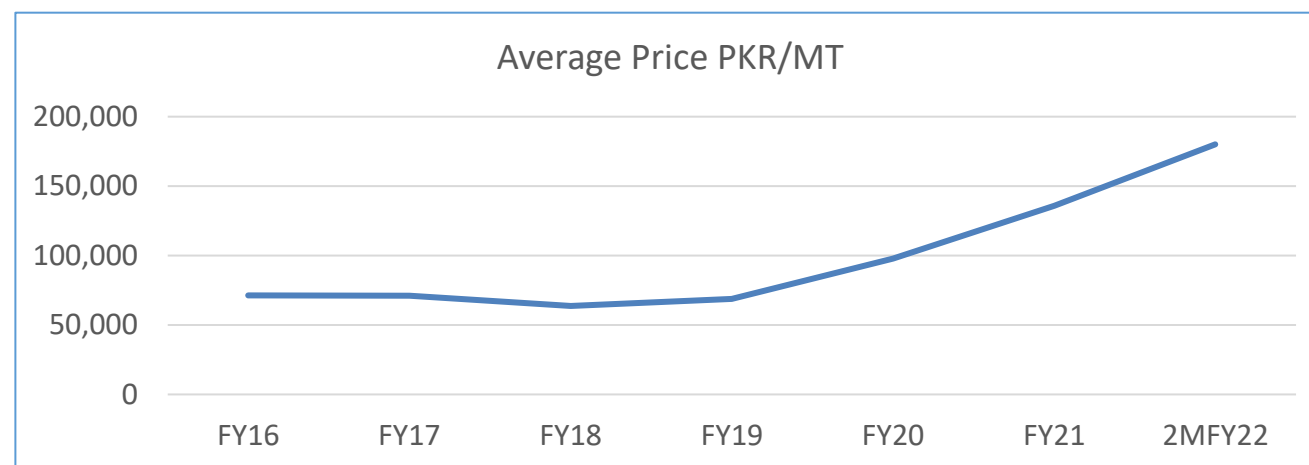
Name of Players	FY21 Capacity (MT)
Thal Limited	33,800
Sargodha Jute Mills	30,500
Indus Jute Mills	20,000
White Pearl Jute Mills	15,000
Madina Jute Mills	15,000
<b>Total</b>	<b>114,300</b>

Annual Production of Jute Goods							
(MTs)	FY16	FY17	FY18	FY19	FY20	FY21	1MFY22
Sacking Bags	30,027	36,785	49,458	43,688	43,188	42,604	2,257
Hessian Cloth	13,473	9,466	9,970	11,720	12,211	18,481	719
Others	11,877	13,639	14,752	11,698	9,643	8,726	338
<b>Total</b>	<b>55,377</b>	<b>59,890</b>	<b>74,180</b>	<b>67,106</b>	<b>65,042</b>	<b>69,811</b>	<b>3,314</b>

## Raw Jute Imports

- Pakistan is almost entirely dependent on Bangladesh for its imports of raw jute.
- During FY21, imports stood at PKR~8,491mIn as compared to PKR~4,852mIn in FY20, a massive increase of ~75% YoY. Meanwhile, in quantitative terms, imports returned to normal levels after previous year's decline due to the COVID-19 pandemic and stood at ~62,614 MT in FY21 as compared to ~49,638 MT in FY20.
- The large increase in imports, in value terms came on the back of higher volumes as well as the significant increase in prices due to decline in raw jute production in Bangladesh.
- Jute imports during 2MFY22 stood at PKR~963mIn, an increase of ~18% as compared to same period last year which occurred due to increase in prices and despite volumetric decline 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
2MFY22	5,350	963	6	180,000	1,104





## Business Risk

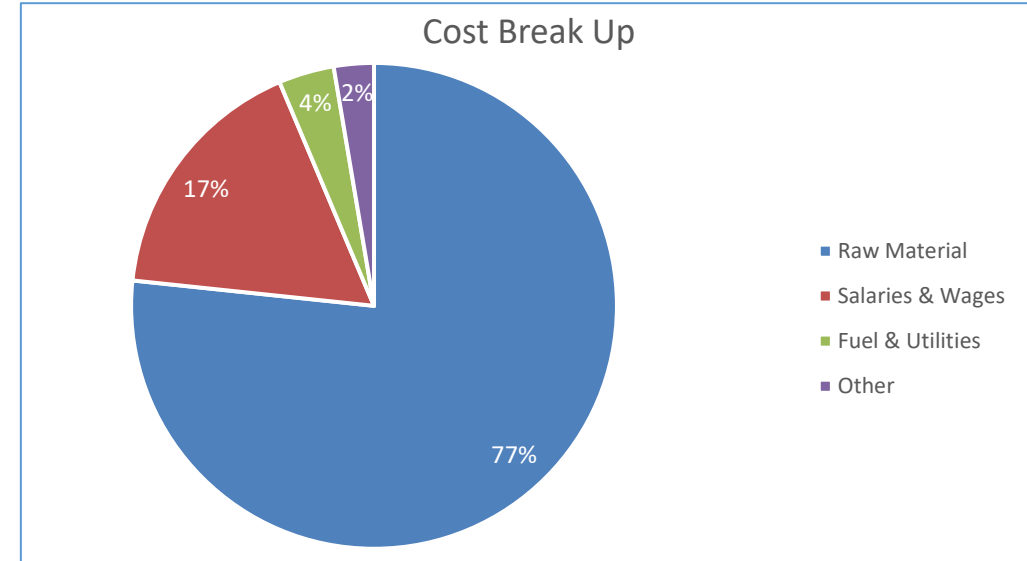
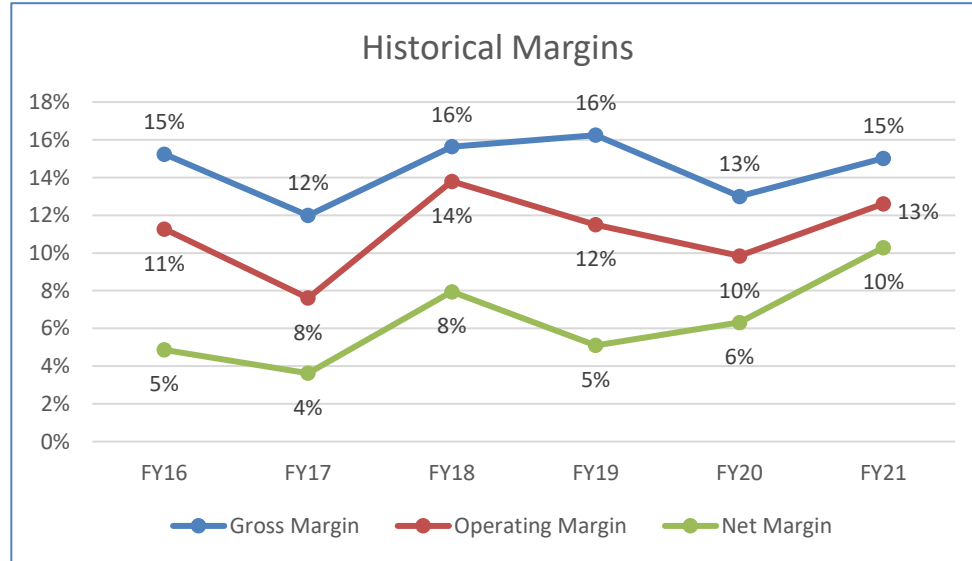
- **Import Concentration:** The industry faces significant risk due to its dependency on imports from only one country, Bangladesh. Any damage to the jute crop in Bangladesh as a result of flooding or other natural factors is felt by Pakistani importers through increase in prices. In addition, there 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 which 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.





## 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 gross 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. Raw material constitutes ~77% of manufacturing costs.
- During FY21, the sector's gross margins improved to ~15% (FY20: ~12%) on the back of higher demand in both local and export markets. Moreover, the increase came despite significant increase in prices of imported raw material indicating that the higher prices were passed on to consumers. The net margins improved to ~10% in FY21 (FY20: ~6%) due to decline in finance costs on the back of lower policy rate.

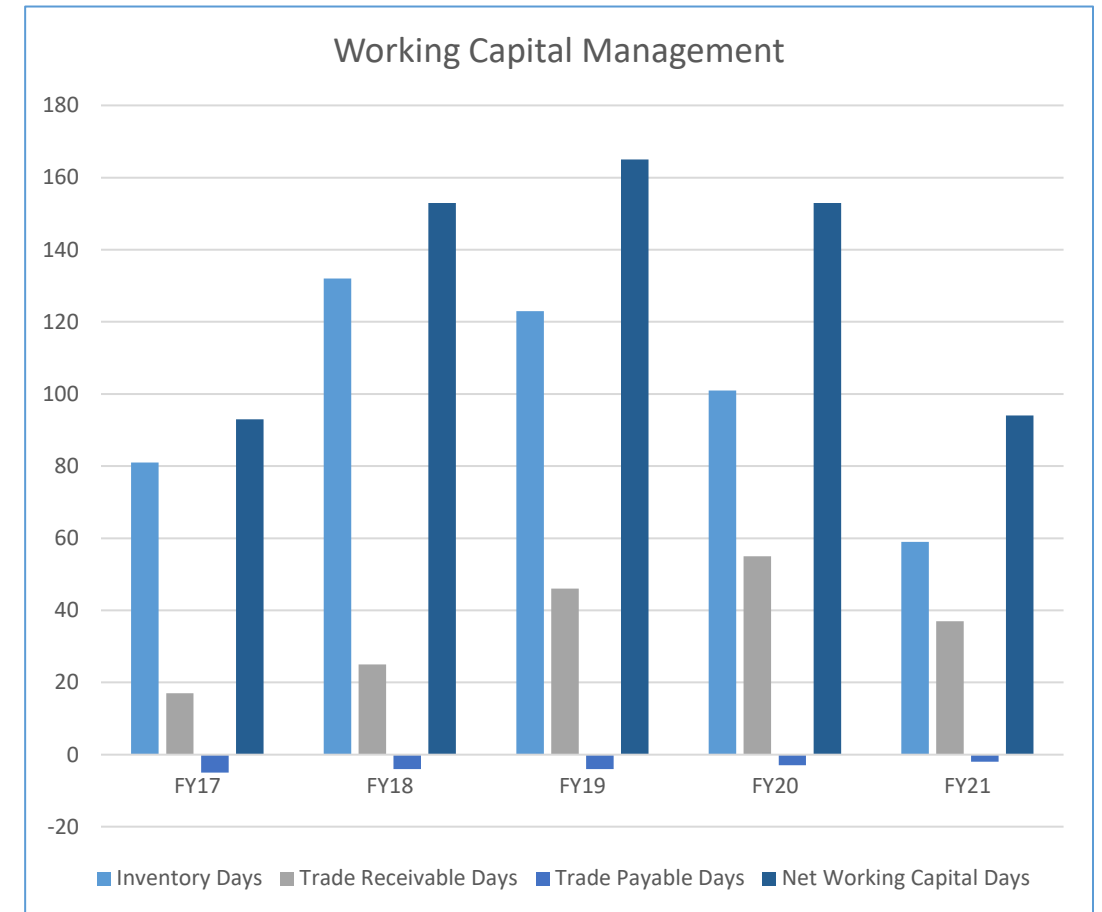


Note: Historical margins and cost break-up is estimated from ~80% of the market



## Financial Risk | Working Capital Management

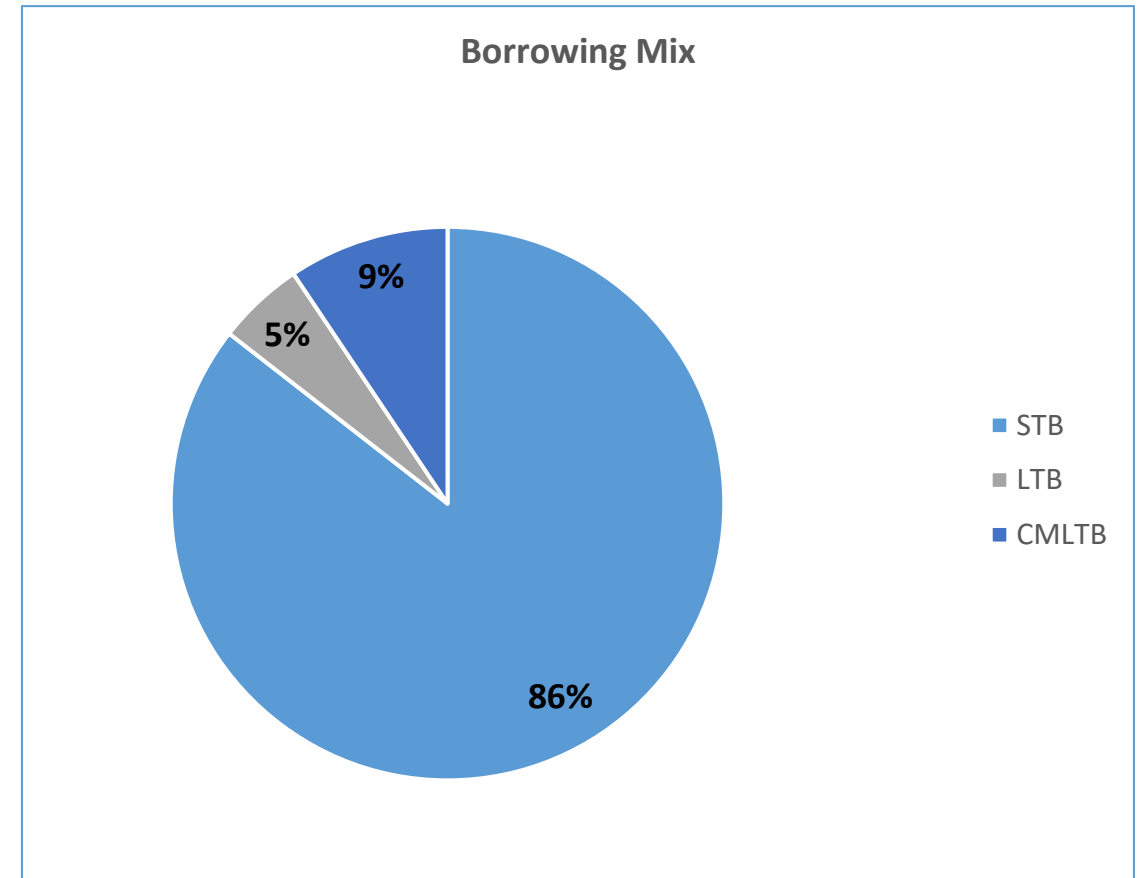
- The industry's working capital is largely a function of its inventory and trade receivables. The industry has a seasonal nature. Majority of the procurement of raw material usually occurs during the second and third quarters of the fiscal year, i.e. from October to March. Raw material is usually procured 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.
- The sector's average net working capital cycle has stood at ~132 days in last five years. During FY21, the working capital cycle declined significantly 94 days from 153 days in FY20. This was due to increase in buying by the government and other customers which reduced inventory days.



*Note: Working capital cycle is calculated from ~80% of the market*

## Financial Risk | Sector Borrowings

- The jute industry's total borrowing stood at PKR~1,964mIn as at Jun'21 as compared to PKR~2,246mIn as at Jun'20, a decline of ~13%.
- The industry's capital structure is sound. It has a low level of leverage with the average debt to equity ratio estimated around ~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.



*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*



## 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.

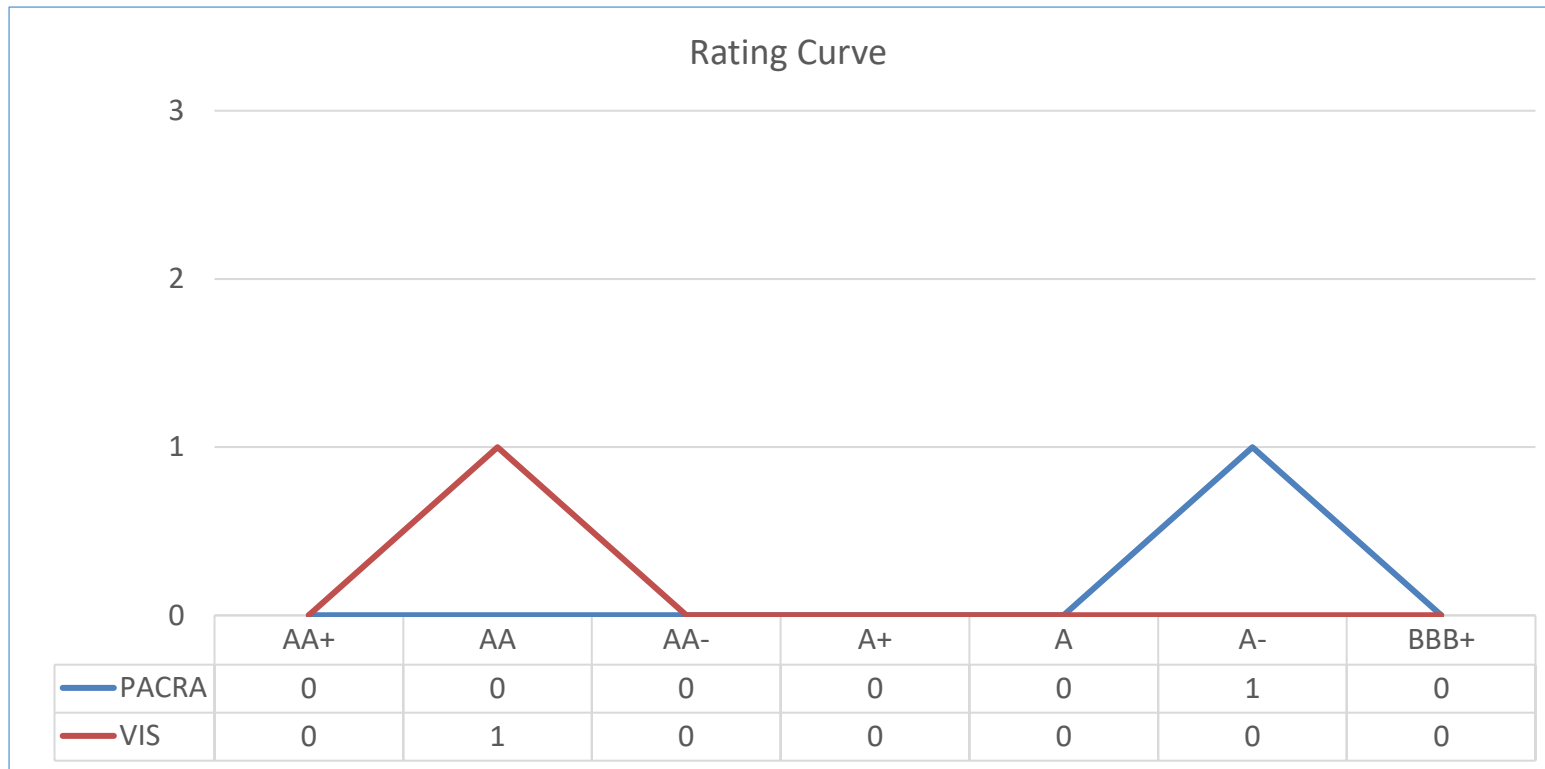
PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21
53.03	Jute, raw or processed but not spun	0%	0%	0%	2%	0%	0%	0%	2%
53.07	Jute Yarn	0%	11%	0%	2%	0%	0%	0%	13%
53.10	Woven fabrics of Jute	16%	20%	4%	7%	0%	0%	20%	27%
6305.10	Sacks 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

- 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)

Strengths

Weaknesses

- 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

Threats

Opportunities

## Outlook: Stable

- The domestic economy has started to recover from the impact of the COVID-19 pandemic which slowed down industrial activities and brought various businesses to a halt. Despite steady increase in the rate of vaccinations, the pandemic continues to be a source of uncertainty.
- The economic recovery is exhibited by the GDP growth of ~3.9% during FY21 (based on provisional figures). Among the contributors of GDP growth is industrial activity which has picked up in various sectors with the Large Scale Manufacturing Industries output increasing ~15% YoY during FY21. The production of jute products increased ~7% during FY21 and stood at 69,811 MT.
- 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 increase in production of crops such as wheat, maize and rice during FY21 bolstered demand for jute products during the year.
- Pakistan is entirely reliant on raw jute imports from Bangladesh where a decline in production caused prices to increase. As a result, Pakistan's imports of raw jute increased significantly. During FY21, import of raw jute stood at ~8,491mIn (FY20: PKR~4,852mIn). The import concentration along with exchange rate volatility is a major source of risk for the jute sector. The exchange rate has depreciated ~8% since the start of FY22 which is expected to increase the import price of raw jute and create pressure on margins. Meanwhile, jute product exporters will benefit from the depreciation, although the quantum of exports is significantly lower than imports
- Despite recent increase of 25 basis points, the policy rate remains relatively low at 7.25% which should keep finance costs in check. Any further increase in policy rate is expected to be gradual.
- Moreover, the inflation level in the country has also declined with average inflation for FY21 at ~8.9% as compared to ~10.7% in FY20. However, the inflation levels are rising with Sep-21 inflation figure standing at ~9.0% as compared to ~8.4% in the previous two months.

- 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/>)
- Business Recorder (<https://www.brecorder.com/news/40061530/govt-to-reduce-tariffs-on-raw-material-razak-dawood>)
- Business Standard ([https://www.business-standard.com/article/economy-policy/cabinet-mulls-hiking-minimum-support-price-for-procuring-raw-jute-121030301318\\_1.html](https://www.business-standard.com/article/economy-policy/cabinet-mulls-hiking-minimum-support-price-for-procuring-raw-jute-121030301318_1.html))

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