

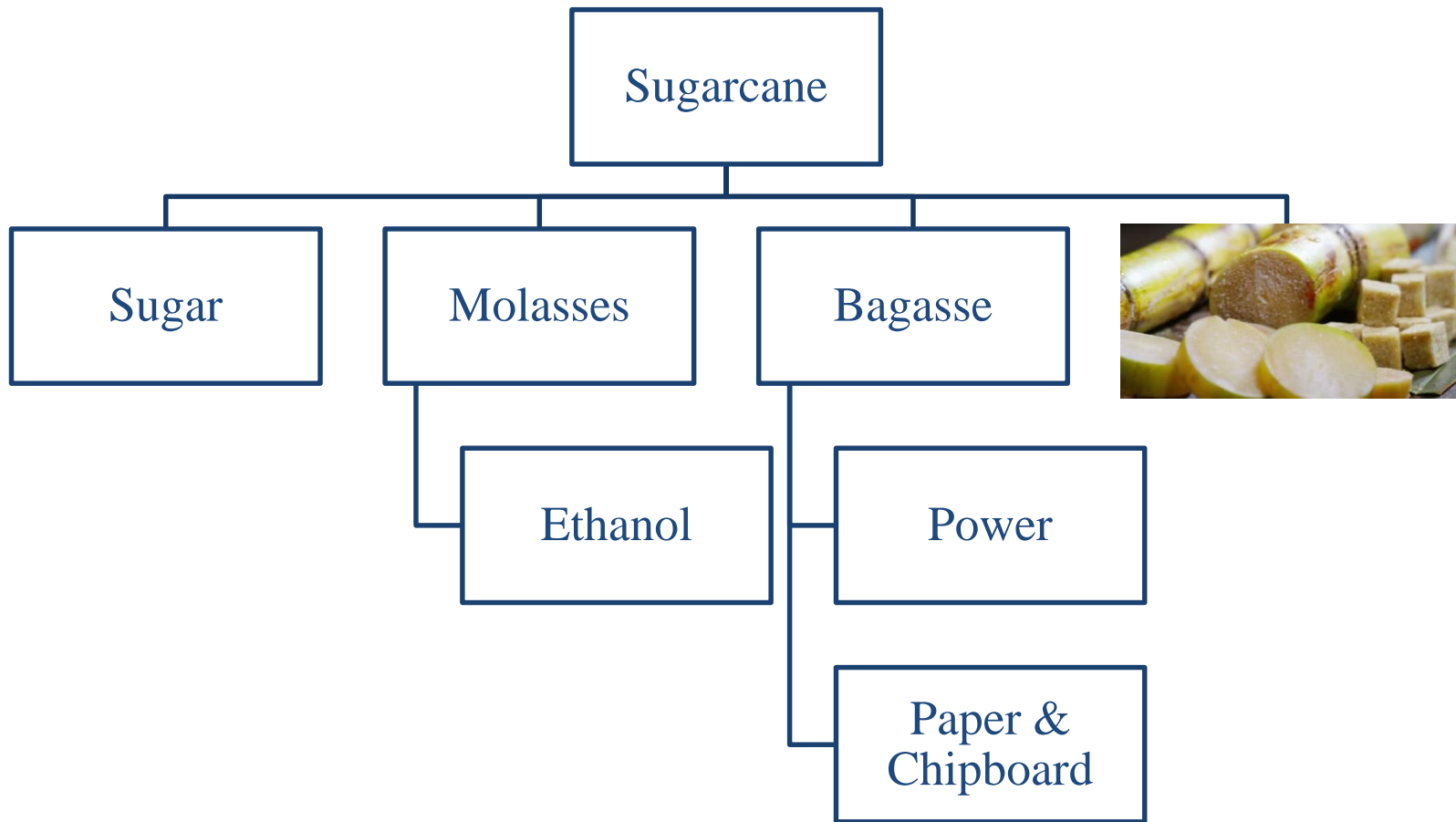
# INDUSTRY ANALYSIS

## *SUGAR IN PAKISTAN*

OCT 2019

# Process Flow

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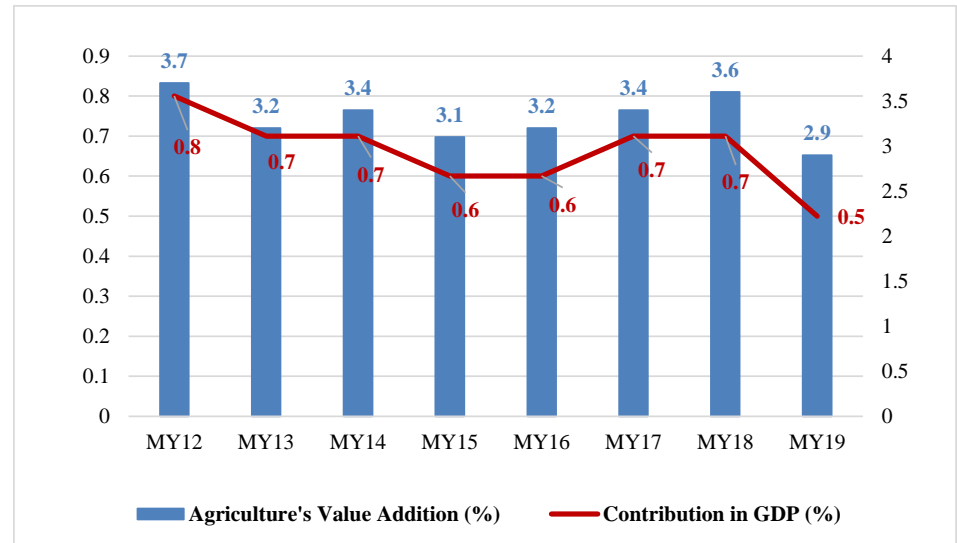
# Supply Chain | Where do they fall?



# Sugar Industry | Key Stats

## In MY19:

- Value Addition in Agriculture ~ ↓ to 2.9%
- Contribution in GDP ~ ↓ to 0.5%
- Total No. of Industry Players ~ 75
- Total No. of Listed Players - 30
- Total No. Mills ~ 90
- Total Sugar Production ~ 5.3mln tons
- Total Sugar Consumption ~ 5.4mln tons
- Average Per Capita Sugar Consumption:
  - Pakistan ~ 25.6 kg
  - Global ~ 23.1 kg



# Sugar Industry | Key Stats

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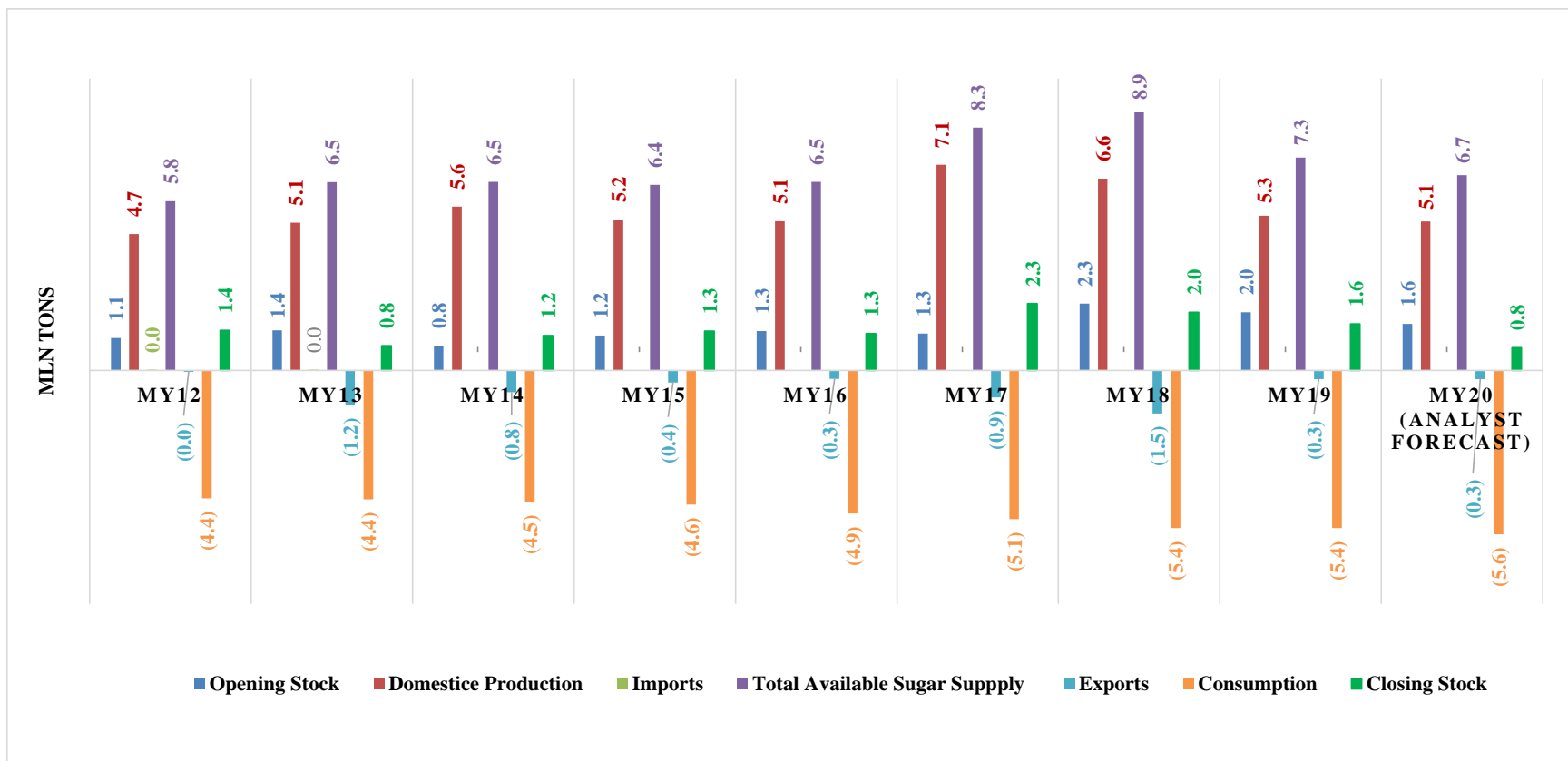
## In MY19:

- Cultivated land declined by ~12%
- Sugar production declined by ~16%
- Allowed Export Quota ~ upto 1 mln tons
  - Without freight subsidy, except Punjab @ Rs 5.3/Kg
- Meagre exports ~ 0.2mln ton till Oct -Mar'19 (SMPLY: 0.8mln tons)
  - *Reason:* Low prices in international market compared to 0.8mln MT in SMPLY.

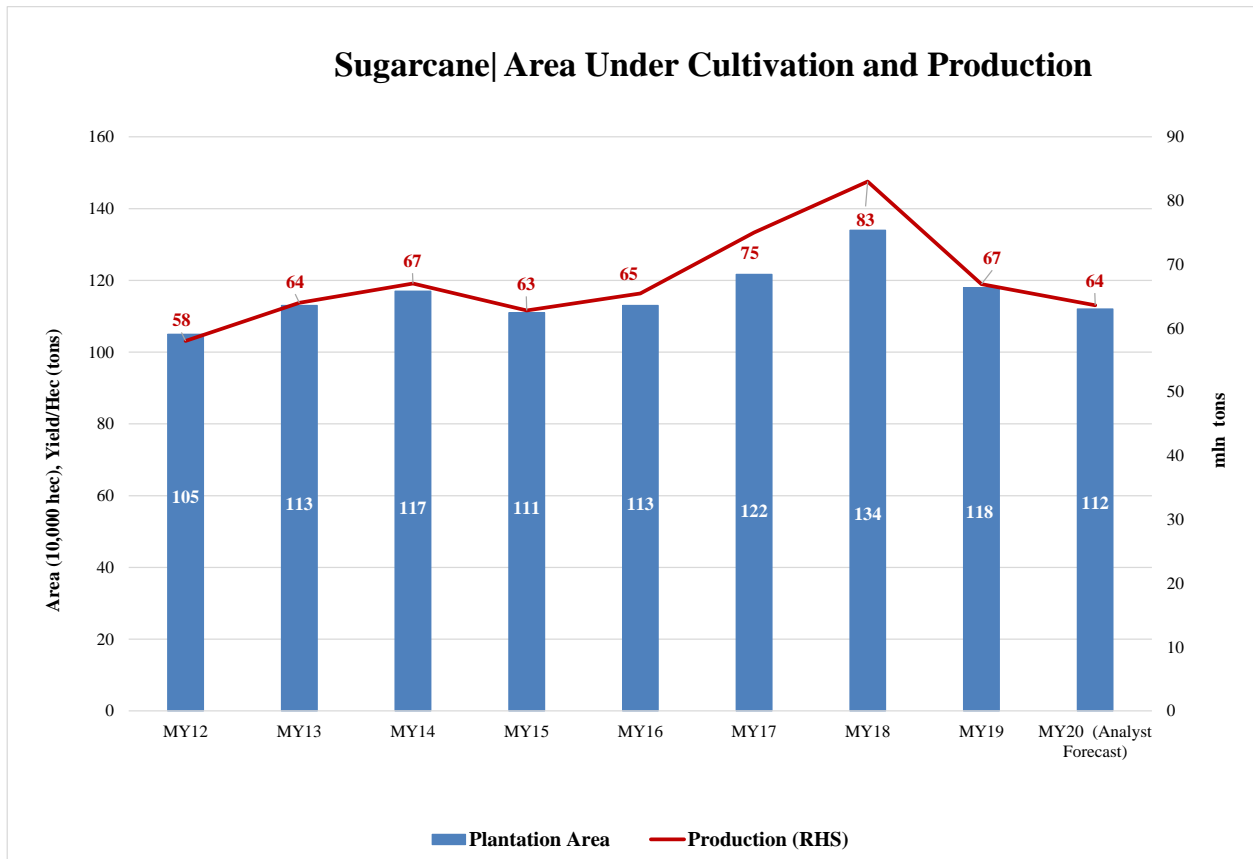
## Key Assumptions for MY20 (Analyst Forecast):

- Cultivated land projected ~ dip by 5%
- Sugar production projected ~ dip by 5%
- Exports may decline to 0.3mln tons as:
  - In domestic market: demand barely met *plus* maintains minimum stock levels
  - In international market: low sugar prices making exports non-competitive

# Sugar Industry Dynamics

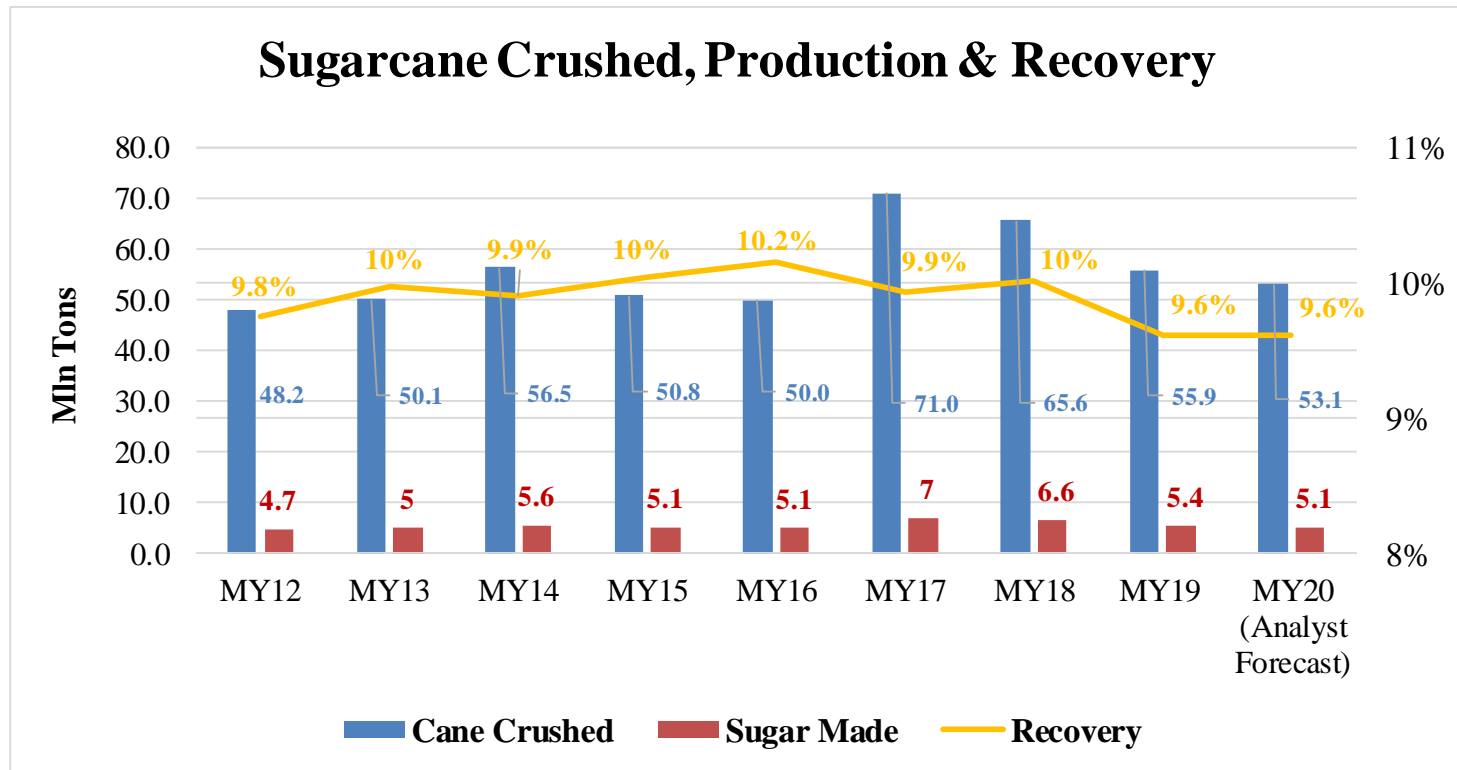


# Sugarcane | Cultivation and Production



- Government support for farmers by notifying minimum sugarcane price led the area under cultivation to increase
- In MY19, water shortage posted a dip in area under cultivation
- Sugarcane cultivation area: Punjab ~ 65%, Sindh ~ 25% and KPK ~ 10%
- In MY20, water crisis are expected to further reduce the area under cultivation

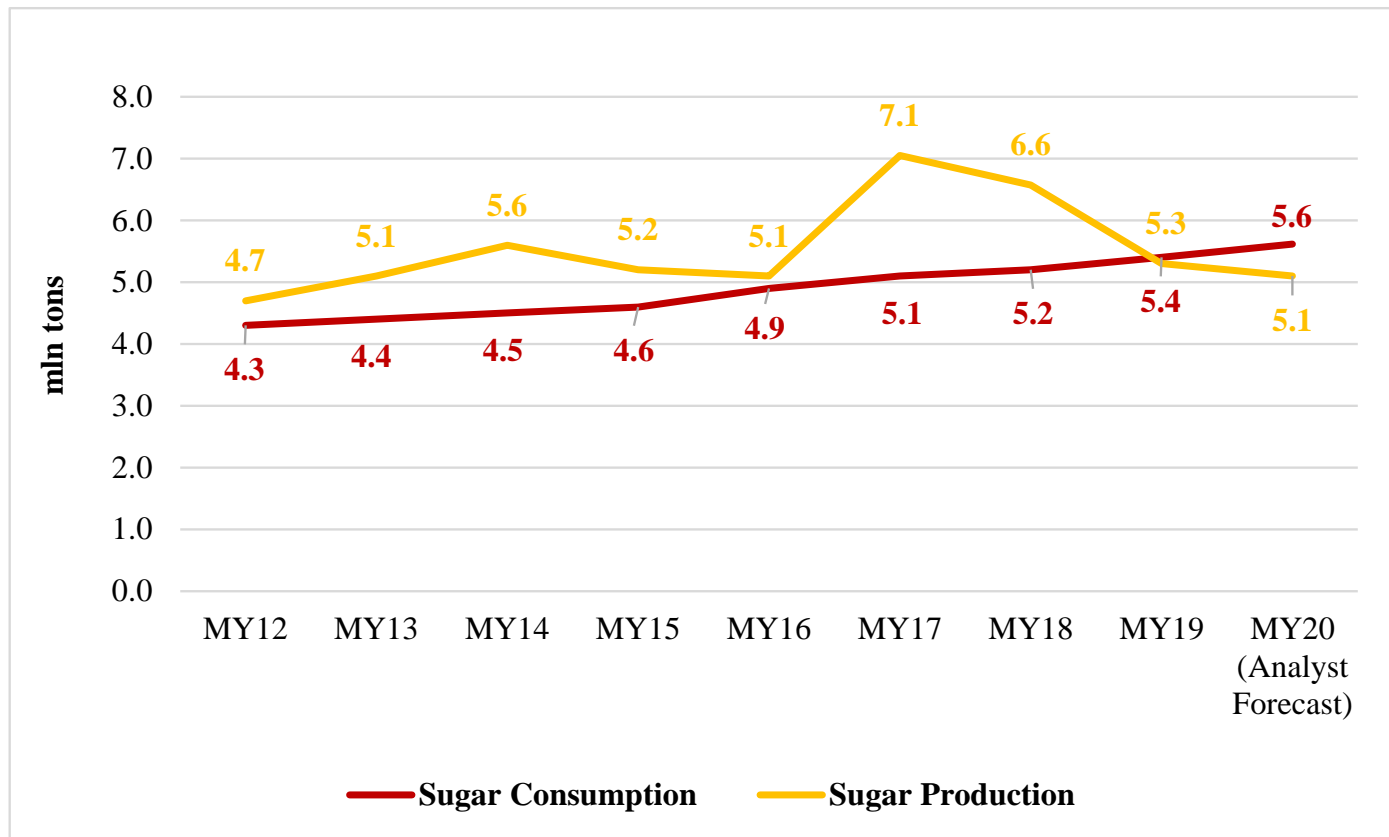
# Sugarcane | Processing



- Lower than global average recovery rate in Pakistan (Brazil ~ 14%, India ~ 11.5%)
- Higher recovery rates in Sindh
- Significant R&D initiatives required to improve recovery rates

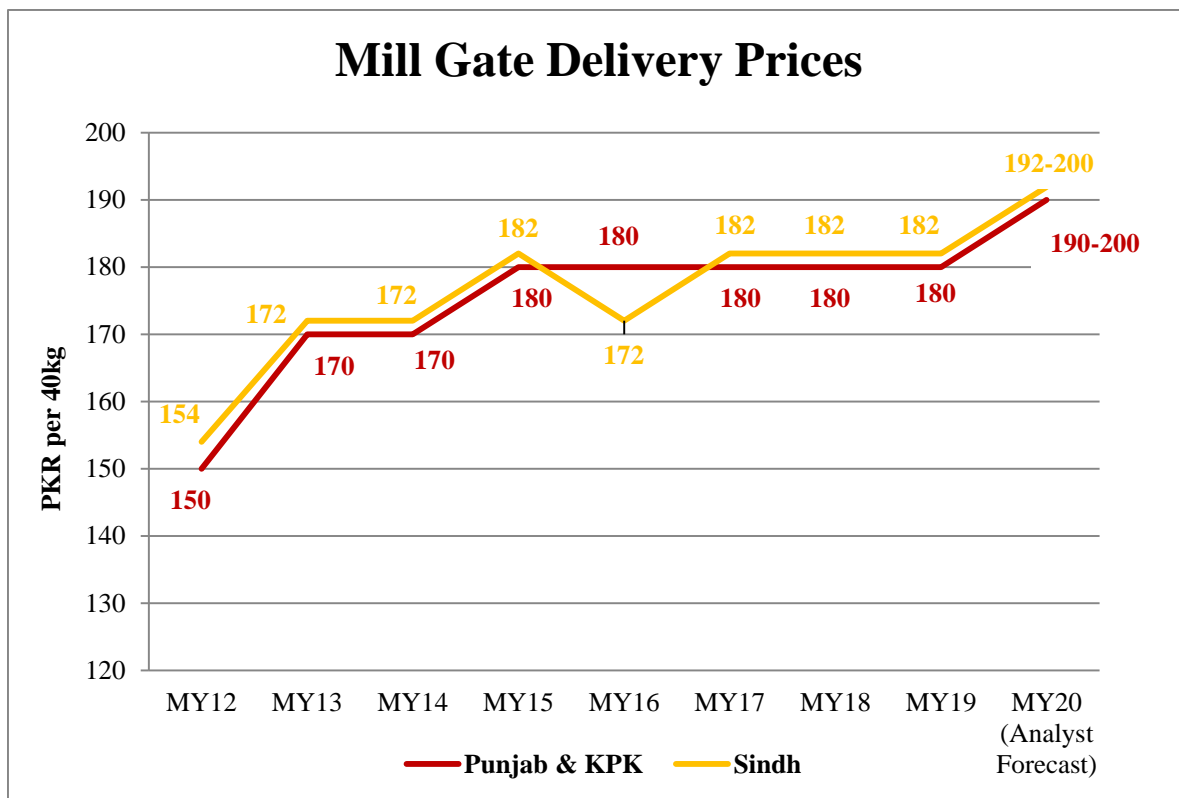


# Sugar | Production vs. Consumption



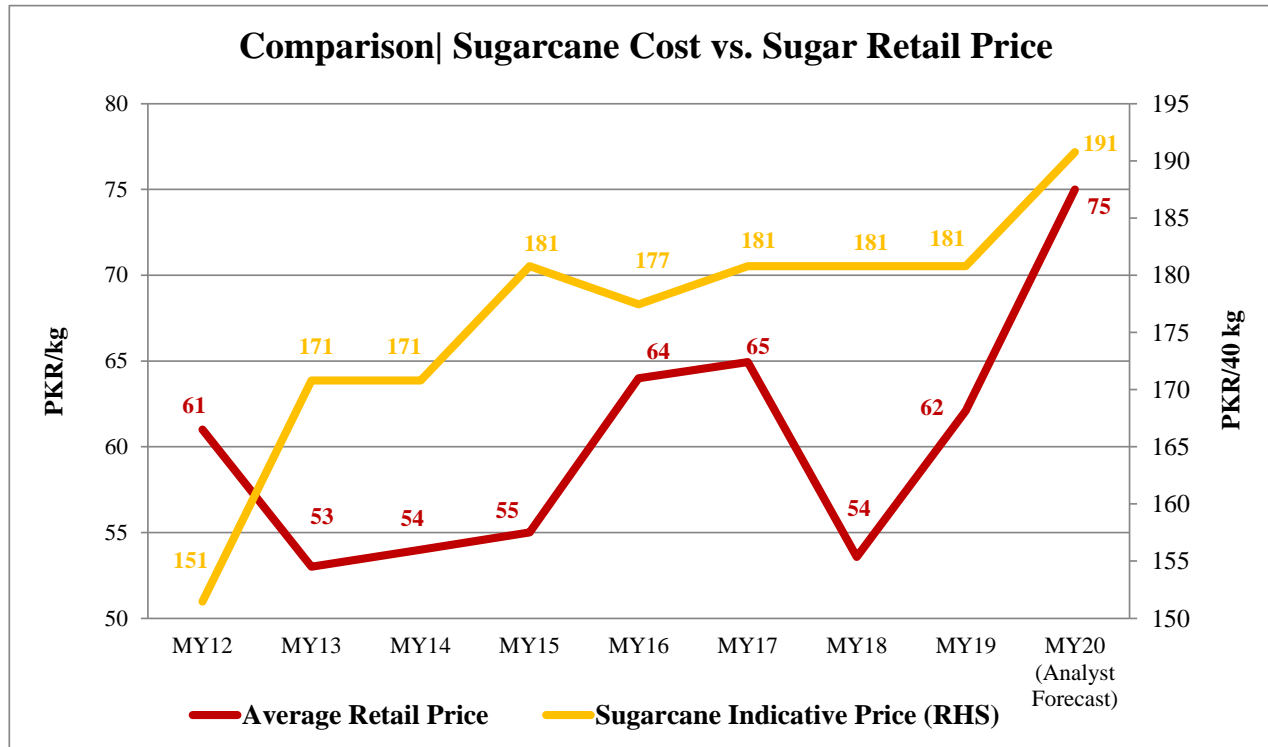
- Local Market: Surplus production than required consumption level
- Domestic consumption increase in line with population growth
- Soft Drink and Confectionary Industry constitute a significant portion of in Sugar consumption

# Sugarcane Price / Notified by Government



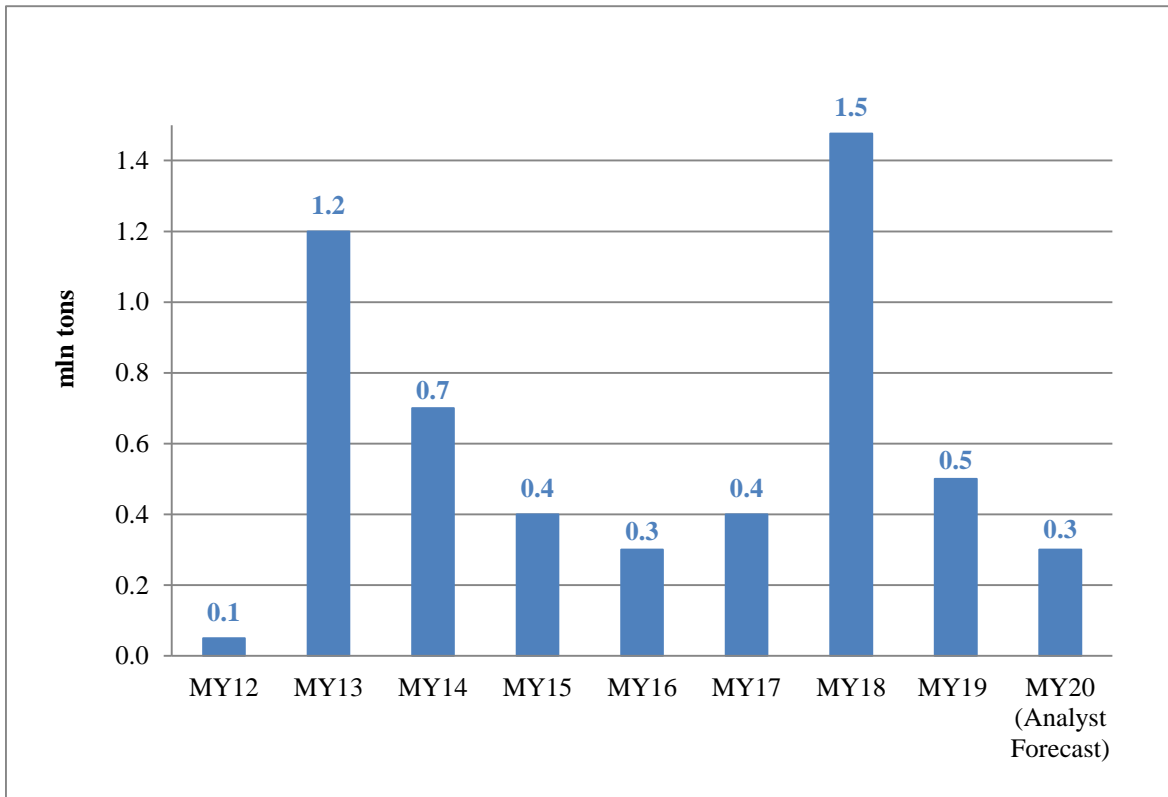
- In MY16 Cane Commissioner fixed the price at PKR 172 for Sindh, lower than Punjab, and was successfully challenged by growers
- Announced cane prices were maintained in MY19
- In MY20, cane price may surge upto PKR 200 per 40 kg

# Sugar | Cost-Price Comparison



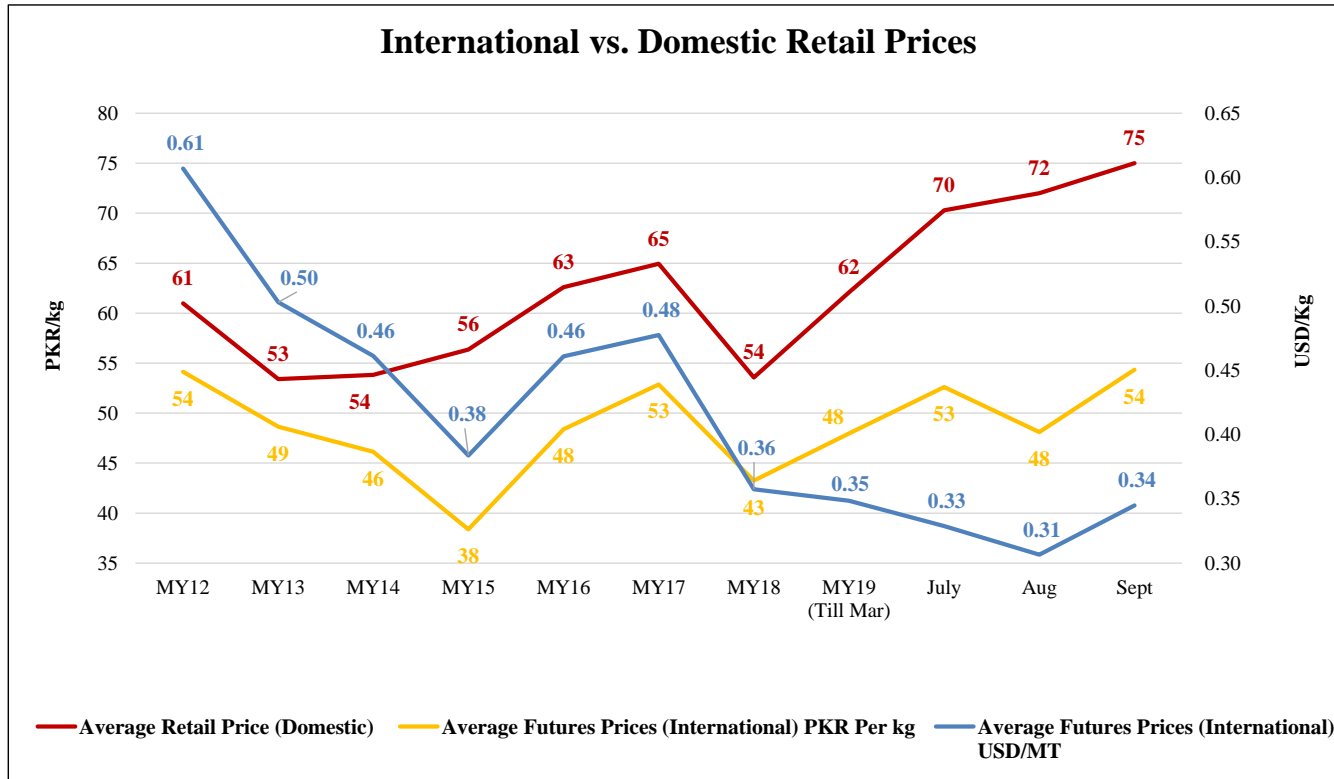
- Sugarcane support price (input) remain consistent despite dip in sugar price (output)
- Selling price of sugar determined by market dynamics stood at an average of PKR 54/kg during MY18.
- The prices have rallied up to PKR 75/kg from MY19 (Aug)
- In MY20, prices are expected to remain high due to demand glut

# Sugar Industry | Exports



- In MY18: sugar export surged due to raised export quota ~ 2mln MT coupled with export subsidy of Rs 10.7/kg from the federal government and an additional subsidy of Rs 9.3/kg from the Sindh government
- In MY19, export quota was revised to 1.1mln MT with no subsidy was announced at federal level
- Punjab announced a provincial subsidy of Rs 5.3/kg
- Sugar exports are expected to remain low due low prices in international market

# Sugar | Price Comparison



- Depressed international sugar prices due to excess sugar supply emanating from India and Thailand
- Domestic Sugar prices are higher owing to lower yields, high recovery rates and high cost of production
- Increase in Domestic prices emanates from lower sugar production during MY19

# Market Share | Top Ten Industry Players

Production Share of Top Players - MY18					
Sr. #	Sugar Mill	Region	Production (MT)	Recovery Rate	Market Share
1	J.D.W (Combined)	Punjab & Sindh	888,711	10.5%	14%
2	HAMZA	Punjab	382,495	10.4%	6%
3	TANDLIANWALA (Combined)	Punjab	220,698	8.9%	3%
4	DEHARKI	Sindh	205,788	10.9%	3%
5	SHEIKHOO	KPK	195,006	9.8%	3%
6	CHASMA (Combined)	KPK	193,323	9.4%	3%
7	ETIHAD	Punjab	170,855	10.7%	3%
8	LAYYAH	Punjab	168,596	9.8%	3%
9	TWO STAR	Punjab	162,514	9.6%	2%
10	R.Y.K	Punjab	162,398	10.7%	2%
11	INDUS	Punjab	148,530	10.9%	2%
12	FATIMA	Punjab	146,355	10.0%	2%
13	HUNZA (Combined)	Punjab	144,739	8.7%	2%
14	MEHRAN	Sindh	120,200	11.5%	2%
15	ALLIANCE	Sindh	115,930	9.8%	2%
16	AL-NOOR	Sindh	110,810	10.0%	2%
17	AL-MOIZ (Combined)	Punjab & KPK	210,907	10.1%	3%
18	HABIB	Sindh	106,005	10.3%	2%
19	FARAN	Sindh	105,633	10.7%	2%
20	Others		2,620,620		40%
<b>Total</b>			<b>6,580,113</b>		

# Regulatory Structure & Risk Analysis

	Previous	New
Sales Tax Sugar - Registered	8% (fixed @PKR 60/kg)	17% MRP
Additional Sales Tax - Unregistered	3%	-
Regulatory duty on imports		40%
No sales tax on sugarcane as it's an agriculture		

- **Fluctuating gross margins due to cost-price disparity:** *Government notified Sugarcane prices leads to high cost of production for the millers. While, the retail price for sugar rely on supply - demand dynamics.*
- **Unfeasible export avenues:** *Difficulty in selling sugar in the international market at better prices despite devaluation of PKR in years of excess production.*
- + **On import of sugar:** *Imposing 40% regulatory duty in Jun-15 (Previously: 20%).*
- + **Diversification through revenues from co-generation projects:** *(i) molasses is also used in the production of pharmaceutical and fuel grade ethanol while (ii) bagasse is used in electricity generation and paper/chip board*

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