

SECTORWATCH | CORONAVIRUS | FOOD PRODUCTS

Since the start of 2020, the novel coronavirus (COVID-19) outbreak has quickly spread across the world and caused disruptions in economies worldwide. Starting in China – itself a global manufacturing hub – and moving to more than 200 countries and territories, virtually all major economies and markets have been adversely impacted. Pakistan has also been severely impacted by the pandemic and saw most economic activity halt for a period of two months. With the outbreak showing no signs of abating, Pakistan can expect further contraction in demand and output as well as disruption in international trade. It is clear that credit conditions are under stress and this will impact credit quality of many entities and sectors. In this context, PACRA aims to provide analysis on how the ongoing outbreak of COVID-19 may impact various sectors in Pakistan.

SECTOR	SUB-SECTOR
FOOD & ALLIED	FOOD PRODUCTS
SIZE	<ul style="list-style-type: none"> - Total estimated market size: <ul style="list-style-type: none"> o Biscuit: PKR ~75-80bln o Confectionery: PKR ~35bln o Chips: PKR ~35-40bln
NUMBER OF PLAYERS	<ul style="list-style-type: none"> - Around 6-8 players (estimated), holding majority of market share in biscuits industry in the organized sector - Around 6-8 players (estimated), holding majority of market share in confectionery industry in the organized sector - Around 3-4 players (estimated), holding majority of market share in chips manufacturing industry in the organized sector - A significant informal sector exists in the confectionery, chips and biscuits sectors
PACRA PENETRATION	<ul style="list-style-type: none"> - PACRA rates 2 entities in the sector - PACRA rated universe comprises ~20% of industry’s revenue
IMPACT	<ul style="list-style-type: none"> - Demand: Sector’s products include biscuits, confectionery products, potato and other chips. These are mainly sold by a vast network of decentralized retailers, kiosks, and grocery stores throughout the country. Demand remains intact throughout the year but peaks in Oct-Mar period. The government has allowed retailers/grocery stores to operate during the countrywide lockdown. However, closure of schools, lockdown in general and limited movement of people is expected to impact demand to an extent (Around 15-20% in FY21). - Operations: The industry’s production facilities are operational as these are classified in food category. However, some industry players have slowed down production in order to avoid piling up of finished goods. - Supply Chain: The supply chain of the sector is domestic oriented, with almost all major raw material (flour, sugar, potatoes, eggs etc.) sourced locally. However, Palm oil and some specialized chemicals and flavors procured from South East Asia and China. The local supply chain remains intact. The industry players hold inventories of around 2-3 months of key raw materials, especially for imported raw materials. - Financial obligations: Overall confectionery sector is moderate to highly leveraged, with debt mainly consisting of a mix of short-term borrowings to finance working capital requirements and long-term borrowings for capacity expansions and BMR. The liquidity profile of the sector is expected to further stretch due to collection delays from distributors and retailers. However, SBP’s rate cut of 525bps and other measures are expected to provide relief in debt servicing. - Profitability and margins: The prices of local raw materials (sugar, flour) have increased recently. This, coupled with lower volumes, is expected to put gross margins under



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pressure. However, lower inflation, reduced transportation costs and relief measures from the Government are expected to provide some respite. The sector is expected to remain afloat with adequate cash flows in the near-term.

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