

**SECTORWATCH | CORONAVIRUS | JUTE**

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. The full impact of such an outbreak on Pakistan’s economy is difficult to ascertain at present and will depend on the severity and duration of the outbreak as well as Government’s response. However, 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
TEXTILE	JUTE
SIZE	<ul style="list-style-type: none"> - Jute, with total sales of ~ PKR 7-8bln (estimated) in FY19, is a niche segment of the textile sector - Total operational production capacity of Jute is ~115,000 MT in Pakistan
NUMBER OF PLAYERS	<ul style="list-style-type: none"> - Only 5 out of 10 members of Pakistan Jute Mills Association are operational - No large informal sector participation in jute product manufacturing
PACRA PENETRATION	<ul style="list-style-type: none"> - PACRA rates 1 entity in Jute sector - PACRA rated universe comprises around 40% of the sector’s revenue
IMPACT	<ul style="list-style-type: none"> - Demand: Jute products (Jute bags) are primarily used for food/grain storage. The demand emanates mainly from government agencies responsible for procurement of food commodities (traditionally around 35-40%), especially wheat and rice, and other industry players. Jute sector is exempt from lockdown since it is part of the essential food commodity supply chain - Although the industry is experiencing lower local market demand, the impact has been partially offset by uptick in orders from government procurement agencies for higher wheat procurement in upcoming season. The industry is also tapping greater export opportunities to mitigate contraction in local market sales, which became attractive after rupee depreciation - Supply Chain: Pakistan imports 100% raw jute from Bangladesh. Pakistan imported ~68,000MT of raw jute valuing USD ~35mln in FY19. Bangladesh has imposed nationwide lockdowns since late March to combat COVID-19 pandemic. However, agricultural products are exempted. Resultantly, supply chain of jute sector has not been disrupted. Players on average carry 2-3 months inventory of raw jute in Pakistan. - Financial obligations: Overall jute sector is moderately leveraged, with predominantly short-term borrowings to finance working capital requirements. SBP’s recent rate cut of 425bps and other measures are expected to provide relief in debt servicing - Profitability and margins: The government’s drive for food security will reflect positively on industry’s demand. Relatively higher cost of imported jute due to recent rupee depreciation to impact industry margins. However, improved demand from government agencies and lower finance cost due to recent interest rate cuts expected to partially mitigate pressure on margins

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