



Jute

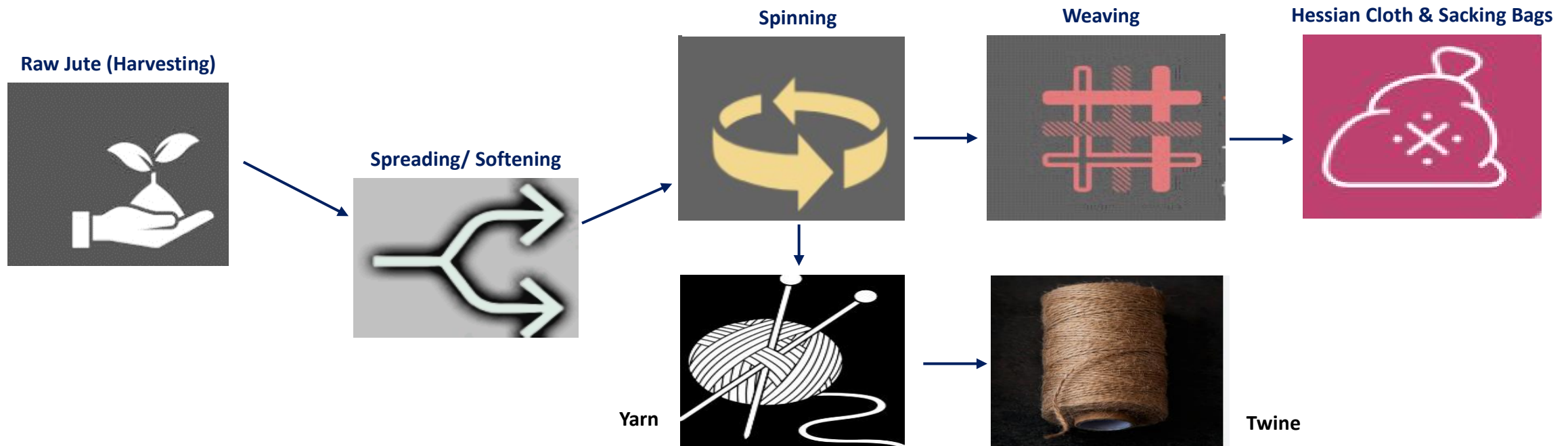
Sector Study

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Introduction

- 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 Sector’s main 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. Jute is environment-friendly, especially in comparison to other materials used in packaging, being 100% biodegradable and recyclable in nature. Moreover, it is also carbon-neutral, where one hectare of Jute plants can consume ~15 MT of carbon dioxide from the atmosphere and release ~100 MT of oxygen during its growing season (covered later).
- 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:



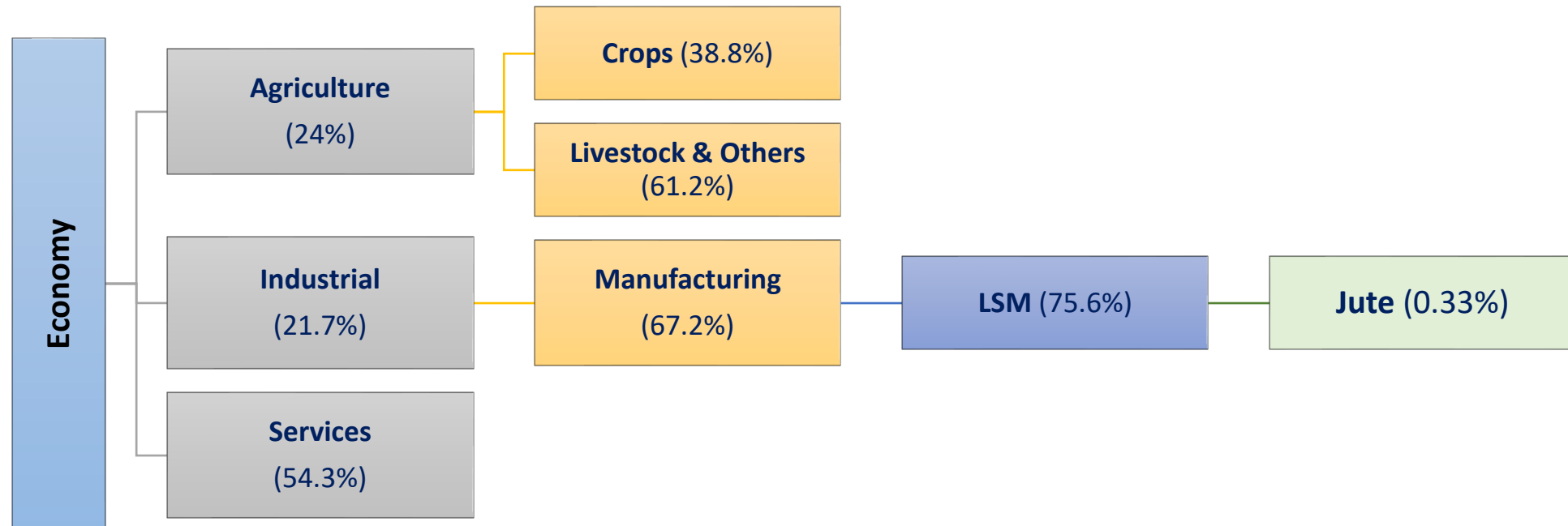
Global | Overview

- Size:** The global Jute Bags market size is expected to grow from USD~2.3bln in CY22 to USD~2.6bln in CY23 at a compound annual growth rate (CAGR) of ~14.3%. Furthermore, the market size of the Jute Bags is expected to grow to USD~3.8bln by CY27 at a CAGR of ~10.4% as a result of rising popularity of Jute Bags that are considered to be environmental-friendly.
- Production:** Global Jute Production Market is highly concentrated. Countries with highest volumes of Jute & Allied Fibres production are India (~49%) and Bangladesh (~48%), with cumulative share of ~96% in the global Jute crop in FY22 (FY21: ~95%). In FY22, global Jute production stood at ~3.2mln MT (FY21:~2.6mln MT), a YoY increase of ~21%. Jute crop has a cultivation period of ~120-150 days. It is sown during March-May, with production volumes depending on the amount of rainfall, and is harvested during June-September, depending on whether sowing was early or late.
- Exports:** Bangladesh dominates the global Jute export market with ~80% share of the global exports as in FY22. India has a smaller share since majority if its Jute production is consumed locally.
- Imports:** With respect to world imports of raw Jute, Pakistan, Nepal and India are the top three countries, with imports recording at ~0.067mln MT, ~0.037mln MT and ~0.041mln MT, respectively in FY22.

Country	World Production of Jute & Allied Fibres			World Exports of Products of Jute, Kenaf and Allied Fibres		
	FY20	FY21	FY22	FY20	FY21	FY22
India	1,224	1,080	1,548	78	61	70
Bangladesh	1,448	1,408	1,515	713	700	600
China	54	45	41	6	5	5
Pakistan	65	70	58	13	11	10
World	2,795	2,619	3,175	910	861	770

Local | Introduction

- In FY23, Pakistan’s GDP (nominal) stood at PKR~79.3trn (FY22: PKR~63.3trn) and posted a growth in real terms of ~0.29% (FY22: ~6.1%). Industrial activities in FY23 represented ~18.5% share of the GDP (taken at constant prices).
- Large Scale Manufacturing (LSM) in Pakistan is essential for the economic growth, considering its linkages with other Sectors, as it represents ~75.6% value of all manufacturing activities in FY23. The QIM dipped by ~10.3% during FY23 when compared with the same period of last year.
- The Jute Sector is classified as a Large Scale Manufacturing (LSM) industrial component within the country’s industrial Sector holding ~0.33% share. During FY23, the Sector’s market capitalization stood at PKR~28bln (FY22: PKR~23bln).



Local | Overview

- **Size:** During FY23, the domestic market capitalization of the Jute Sector was estimated at PKR~28.8bln as compared to PKR~23.3bln during the same period last year, down ~23.6% YoY. During FY23, the Sector's total revenue clocked in at PKR~28,800mln (SPLY: PKR~23,259mln), increasing by ~24% YoY.
- **Structure:** Pakistan's Jute Sector is relatively small with ~10 Sector players that are members of Pakistan Jute Mills Association. The market is dominated by two players, namely, Sargodha Jute Mills Limited and Thal Limited, with a combined market share of ~80% in terms of revenue.
- **Supply:** The Sector depends entirely on imported raw Jute procured from Bangladesh as its exclusive source for raw material. Jute is a Kharif crop, with a cultivation period of ~120-150 days. It is sown during the months of Mar-May and harvested from Jun-Sep. As of 9MFY23, there are a total of 10 units installed and operational in Pakistan's Jute Sector, with ~25,060 spindles installed (9MFY22: ~25,060 spindles), while ~73% of the installed spindles are operational (SPLY: ~68%). Similarly, the number of looms installed stand at ~1,186 units as of 9MFY23 (9MFY22: ~1,134 units) out of which ~69% are operational (SPLY: ~65%). Total production of Jute goods in FY23 rose by ~8.6% to record at ~63,000MT (SPLY: ~57,000MT).
- **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. Moreover, a range of new products have been developed with high value-addition such Jute geo-textiles, paper pulp, handicrafts, fashion accessories and home textiles. According to information from the Pakistan Jute Mills Association (PJMA), Pakistan has recently succeeded in extending its activities as a Jute supplier to countries including Iran, Egypt, Sudan, the UK, and the UAE.

Local | Production and Capacity Utilization

- Depicted below are the available capacities of the five operational Jute Mills in the country. The installed capacities have remained largely unchanged over the recent years. As of FY23, Thal Limited & Sargodha Jute Mills hold ~56% combined share in terms of total production capacity of the local Jute Sector. During FY23, the installed capacity of these five major players stood at ~114,300 MT.
- During FY18-22, average production levels were recorded at ~66,000 MT. Total production of Jute goods in FY23 rose by ~8.6% to record at ~63,000MT (FY22: ~57,000MT). Out of this, Sacking Bags formed the largest share at ~76% and stood at ~48,000MT, increasing by ~30% YoY. Other categories of goods including Hessian Cloth and Miscellaneous Products that made up ~17% and ~6% of the total production, respectively, during FY23.

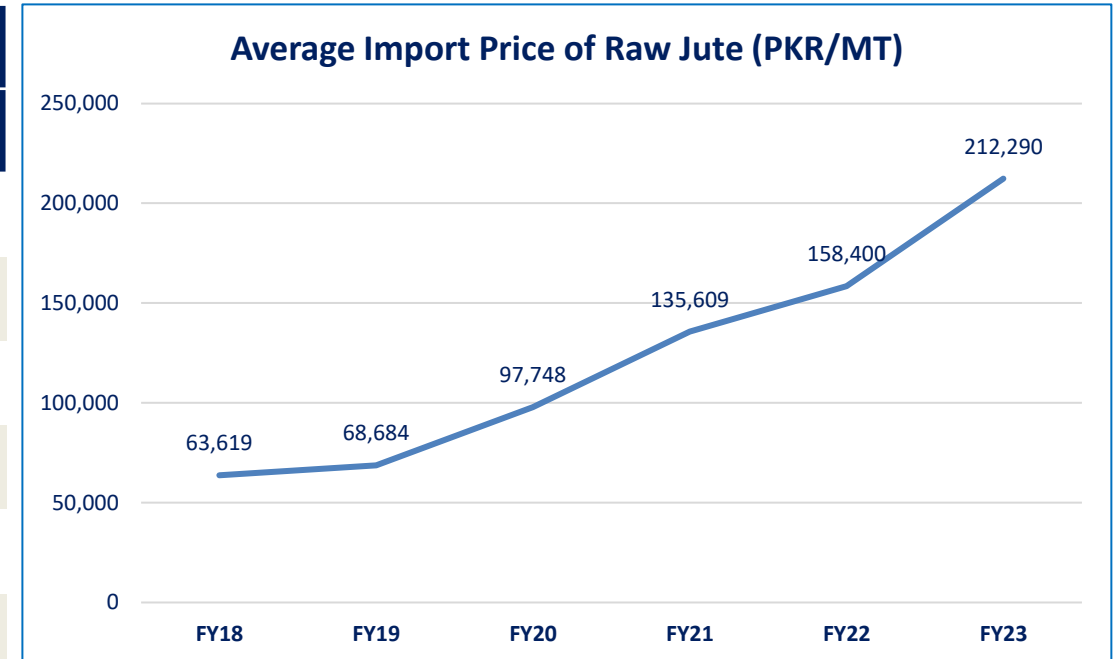
Annual Production of Jute Goods							Name of Players	FY23 Capacity (MT)
(000 MT)	FY18	FY19	FY20	FY21	FY22	FY23		
Sacking Bags	49	44	43	43	37	48	Thal Limited	33,800
Hessian Cloth	10	12	12	18	14	11	Sargodha Jute Mills	30,500
Others	15	12	10	9	7	4	Indus Jute Mills*	20,000
Total	74	67	65	70	58	63	White Pearl Jute Mills	15,000
							Madina Jute Mills*	15,000
							Total	114,300

*Available as of Oct'22.

Local | Raw Jute Imports

- Pakistan is almost entirely dependent on Bangladesh for its imports of Raw Jute and yarn of Jute (~99% of both items is imported from Bangladesh). During FY23, imports stood at PKR~14,216mIn as compared to PKR~9,354mIn in FY22 (FY21: PKR~8,491mIn), an increase of ~52% YoY. The increase in imports in value terms came on the back of massive rupee depreciation and relaxation in the import restrictions that increased imports in quantitative terms as well.
- Jute import price in terms of PKR/MT has gone up ~34% YoY (FY22: ~57%) reaching up to PKR~212,290/MT in FY23 from PKR~158,400/MT in FY22 on account of rupee devaluation by ~39% (FY23: USD/PKR~248; FY22: USD/PKR~178). Additionally, imports increased by ~13% YoY from ~59,053 MT in FY22 to ~66,965 MT in FY23.

Year	Quantity (MT)	Value		Average Import Price	
		PKR mIn	USD mIn	PKR/MT	USD/MT
FY18	88,024	5,600	50.9	63,619	579
FY19	68,866	4,730	35.4	68,684	514
FY20	49,638	4,852	30.8	97,748	620
FY21	62,614	8,491	53.3	135,609	851
FY22	59,053	9,354	58.5	158,400	990
FY23	66,965	14,216	57.9	212,290	865



Local | Jute Products Exports

- Pakistan mainly exports two Jute products - Hessian cloth and Jute Sacks/Bags. In FY22, Pakistan exported ~4,031 MT of Sacks/Bags made of Jute compared to ~5,921 MT in FY21, depicting a decline of ~32%. Exports of Hessian Cloth had risen by ~42% YoY during FY22 to ~6,194 MT from ~4,365 MT in FY21. Sudan has been the major export destination for Jute Sacks/ Bags during the last seven years (FY16-22), with average share of ~46% of Pakistan's total Jute Sacks/ Bags exports. With respect to prices, export price of Jute Sacks/ Bags in FY22 stood at PKR~293,724/MT (FY21: PKR~212,295/MT), depicting an increase of ~38% YoY.
- With regard to Hessian Cloth, Egypt has been the largest importer during the last three years (FY20-22), holding average share of ~45% of Pakistan's total exports of Hessian Cloth over this period. Prior to FY20, Uzbekistan was the largest importer of Hessian Cloth. On the prices front, average export price of Hessian Cloth stood at PKR~294,156/MT in FY22 (FY21: PKR~259,565/MT), an increase of ~13% YoY.

Jute Exports (Sacks/ Bags)	Quantity	Value	Avg. Exchange Rate	Value	Average Export Price		Jute Exports (Hessian Cloth)	Quantity	Value	Avg. Exchange Rate	Value	Average Export Price	
	MT	PKR mln	USD/PKR	USD mln	PKR/MT	USD/MT		MT	PKR mln	USD/PKR	USD mln	PKR/MT	USD/MT
FY16	2,649	442	104	4.2	166,855	1,599	FY16	1,523	196	104	1.9	128,693	1,233
FY17	3,083	435	105	4.2	141,096	1,346	FY17	695	86	105	0.8	123,741	1,181
FY18	4,354	632	110	5.7	145,154	1,320	FY18	2,444	123	110	1.1	50,327	458
FY19	6,607	987	136	7.2	149,387	1,096	FY19	163	2	136	0	10,939	80
FY20	6,513	1,140	158	7.2	175,035	1,106	FY20	1,233	223	158	1.4	180,860	1,143
FY21	5,921	1,257	160	7.8	212,295	1,324	FY21	4,365	1,133	160	7.1	259,565	1,619
FY22	4,031	1,184	178	6.7	293,724	1,650	FY22	6,194	1,822	178	10.2	294,156	1,652

Note: HS Codes – 6305.1000 (Sacks/Bags) and 5310.910 (Hessian Cloth), respectively.

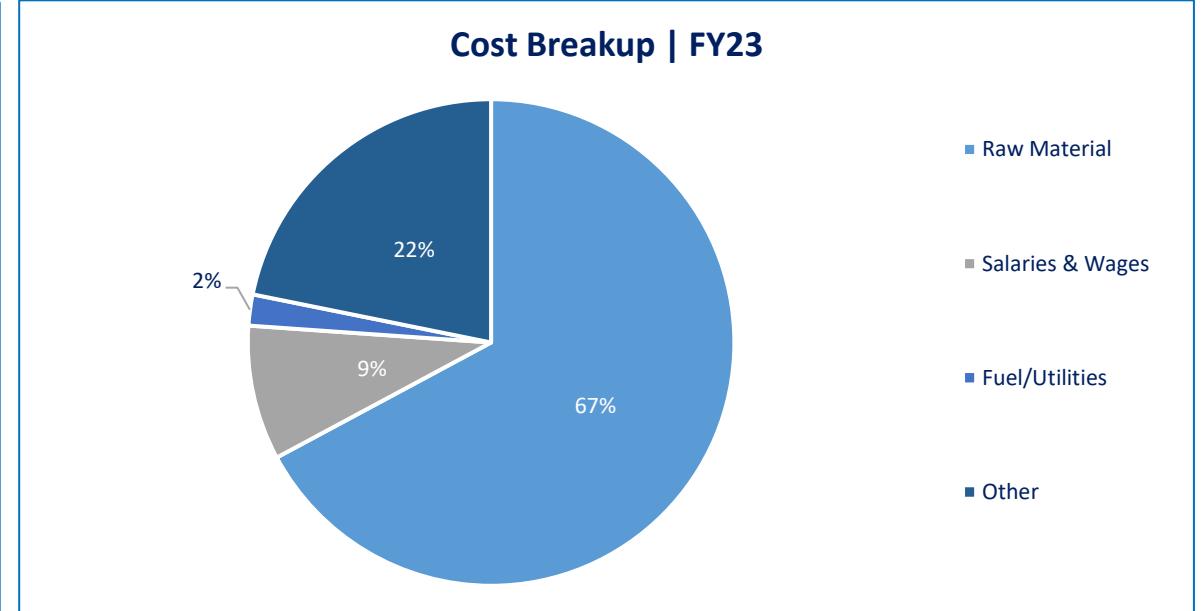
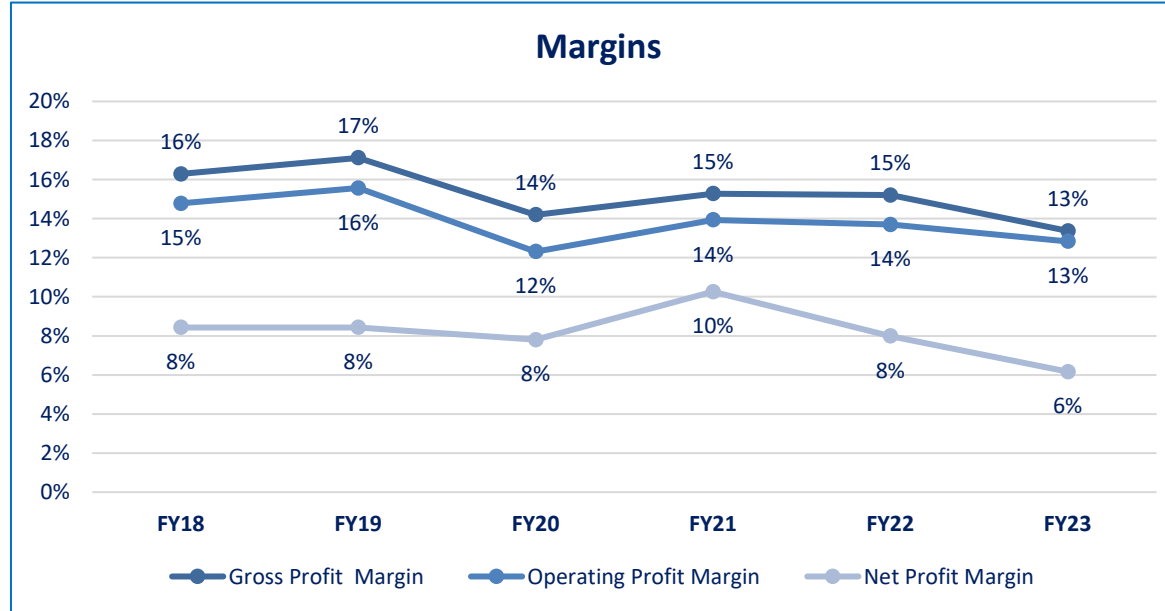
Local | Business Risk

- Import Concentration:** The Sector faces significant risk due to its dependency on imports from only one country, Bangladesh. Any damage to the Jute crop in Bangladesh due to external shocks is likely felt by Pakistani importers through increase in prices. In addition, there is also risk due to exchange rate volatility. The country imports long Jute and Tossa and long Meshta grades, as well as various Jute and Meshta cuttings.
- 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 Sector is highly dependent on these government orders, with the concerned governing body being PASSCO (Pakistan Agricultural Storage & Services Corporation) .
- Seasonality:** The Sector is subject to seasonality, aligned with both the harvest of Jute in Bangladesh as well as the timing of tenders issued by the local 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 remains low in the first quarter and picks up during the second quarter as mills begin preparing stocks in anticipation of government tenders that are usually issued December onwards. The government's buying patterns have not varied over the years (buying through tenders and in the quantity more or less being the same). In 1QFY23 (Jul-Aug'22), Pakistan's agricultural sector faced devastating damages caused by the flash floods, however, a bumper wheat crop was recorded during FY23, recording at ~27.6mln MT, a ~5.4% YoY increase,
- Economic Indicators:** Inflationary Pressure, high interest rates & Rupee devaluation, such factors have major impact on the business. High inflation hurts the operational side where as interest rates restrain the bottom line. Moreover, with the removal of RCET from Mar'23 onwards, the cost of doing business for Sector players is likely to increase.



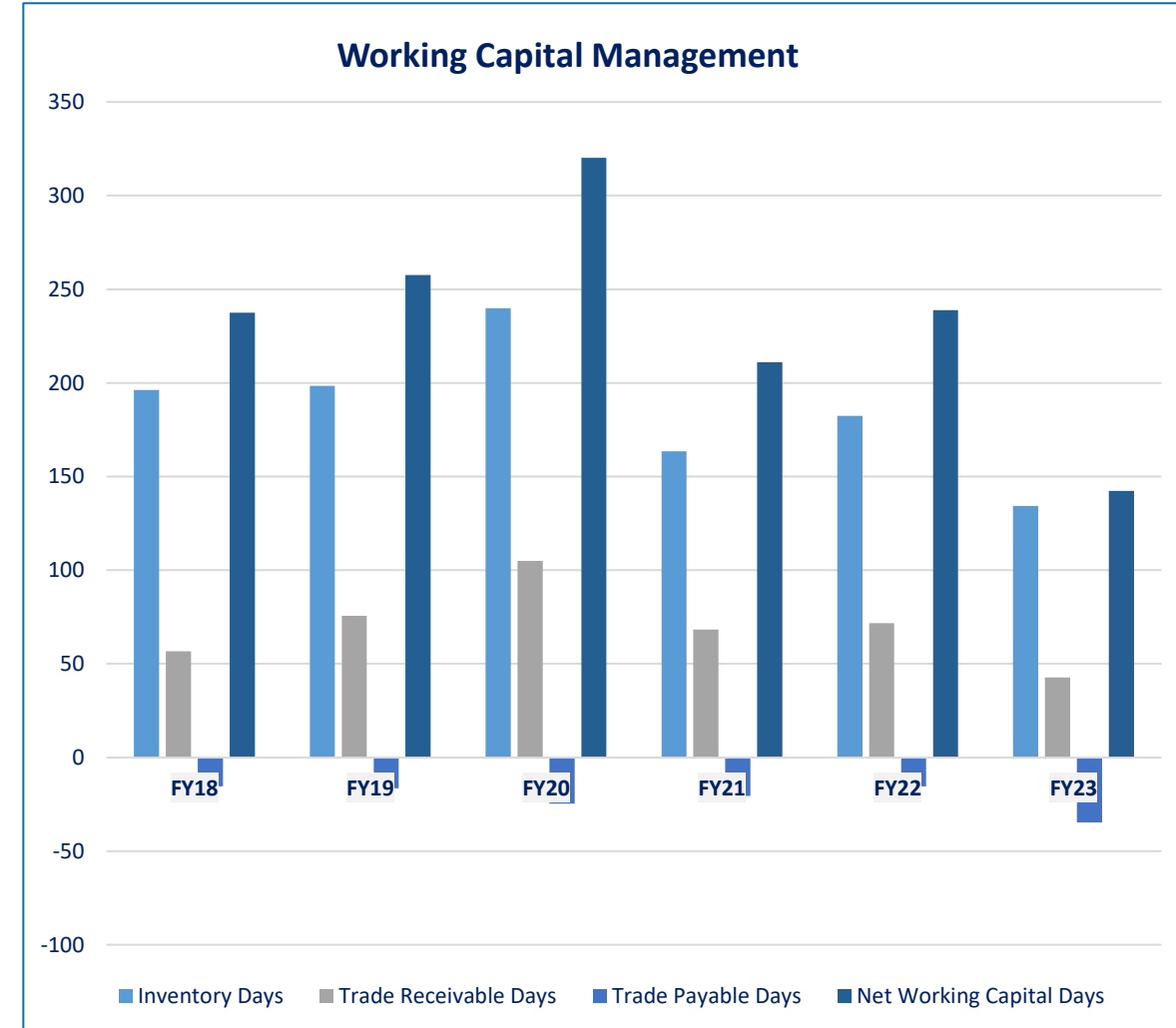
Local | Business Risk

- The margins of Jute Sector are significantly dependent on two factors (i) Jute export prices in Bangladesh (CY22: USD~1,225.8/MT; CY21: USD~1,667/MT; CY20: USD~922/MT) and (ii) exchange rate fluctuations. The volatility in profit margins is attributable to changes in prices of imported raw material, i.e. Raw Jute, along with volatility in exchange rates.
- In FY23, the Sector's average gross margins deteriorated by ~2% from ~15% in FY22 to ~13% in FY23, depicting an increase in the price of imported raw material that were likely not passed on to the consumers (average import price, in PKR terms, went up ~34% YoY). Similarly, average net profit margins also experienced a dip of ~2% in FY23 owing to higher interest rates that kept the net margins muted to ~6% in FY23 (FY22: ~8%). The monetary policy rate went up from ~17% in Jul'22 to 22% in Jun'23, as part of SBP's hawkish monetary policy stance in order to tame inflation.
- Raw material constitutes ~67% of manufacturing costs, followed by salaries and wages that comprise ~22% of the total cost.



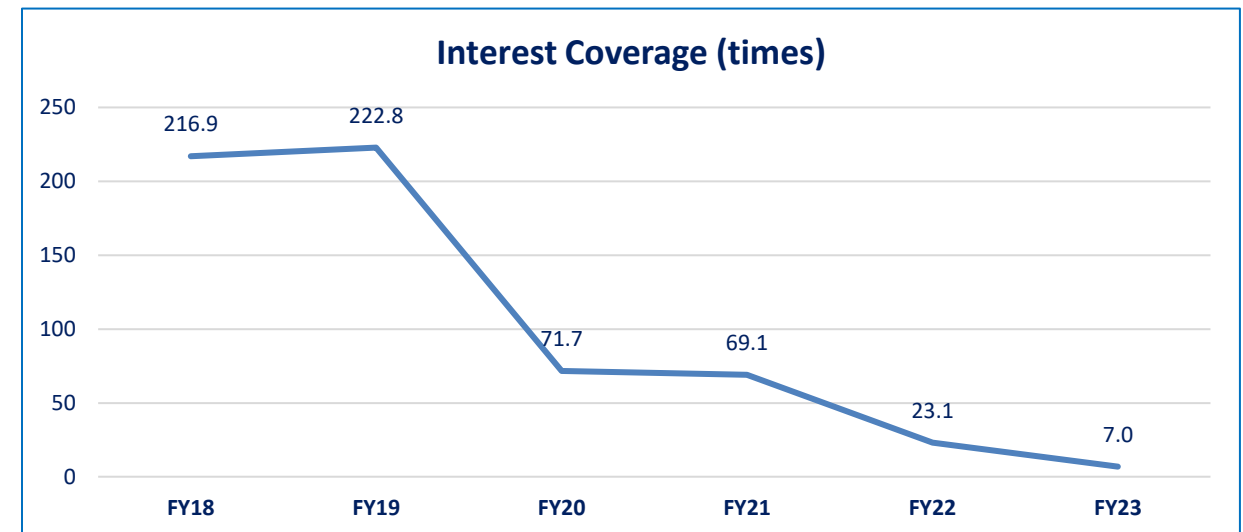
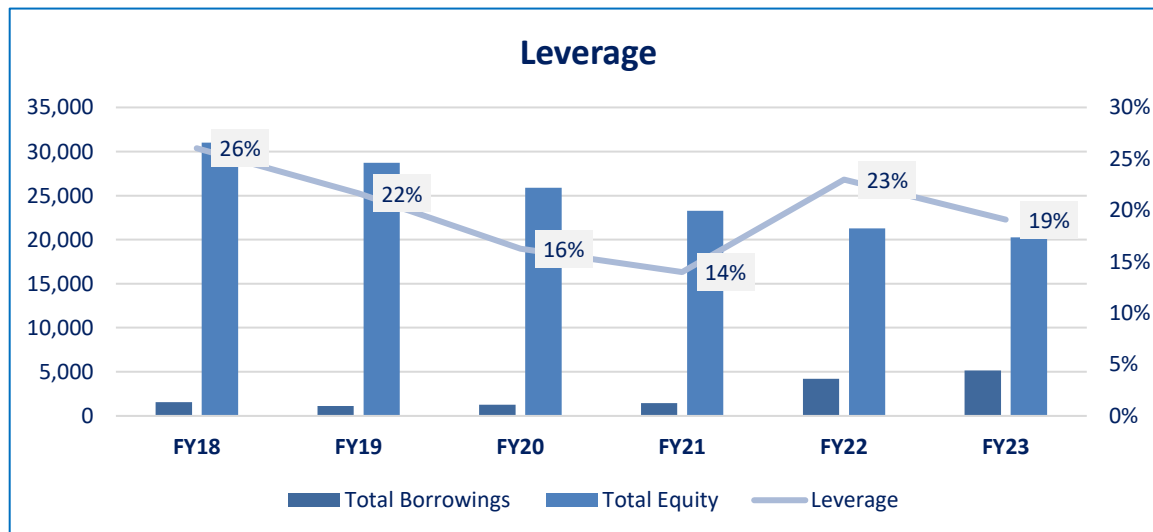
Local | Financial Risk

- The Sector’s working capital is largely a function of its inventory and trade receivables, while also being exposed to seasonality. 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, while working capital is financed through short-term borrowings.
- 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. Any delays in payment from the government likely result in an increase in trade receivable days.
- During FY23, the working capital cycle showed improvement as it decreased by ~97 days from ~239 days in FY22 to ~142 days in FY23. The fall in working capital cycle was due to a dip in inventory cycle by ~48 days (from ~182 days in FY22 to ~134 days in FY23). This reflects that inventory levels were being maintained over the previous years to cater government purchases and were utilized in FY23.
- Additionally, average trade receivables fell by ~19 days to ~43 days in FY23 from ~72 days in FY22, reflecting timely payments by the government. However, average trade payables rose by ~19 days (FY23: ~35 days; FY22: ~15 days) and contributed negatively to the working capital cycle in FY23. The latter reflects lower cash generation by the Sector players.



Local | Financial Risk

- In FY23, the Jute Sector's total borrowings increased by ~22%, recording at PKR~5,147mIn (SPLY: PKR~4,211mIn). Of these, short-term borrowings made up ~26%, while ~74% comprised long-term borrowings (FY22 borrowing mix – Short-term Borrowings: ~43%, Long-term Borrowings: ~57%).
- In view of the nature of the business, where keeping the working capital requirement smooth is essential, short-term borrowings normally take up the major share in the total borrowings. However, in order to finance new plant and machinery by one of the major listed players in the Sector, the proportion of long-term borrowings increased both in FY22 and FY23 by ~28% and ~17%, respectively.
- The chart below depicts the Jute Sector's leverage and borrowing mix from FY18-23. The Sector's capital structure is sound as it has low level of leverage, in FY23 leverage stood at ~19% compared to ~23% in FY22.
- The Jute Sector demonstrated strong interest coverage between FY18 and FY21, indicating Sector's improved ability to fulfill its financial commitments, particularly in terms of interest payments. However, in FY22, the interest coverage sharply declined by ~67% to ~23x (FY21: ~69x). This significant drop continued into FY23, with interest coverage reaching as low as ~7x, signaling a worsening ability to manage debt obligations in the face of rising finance costs.



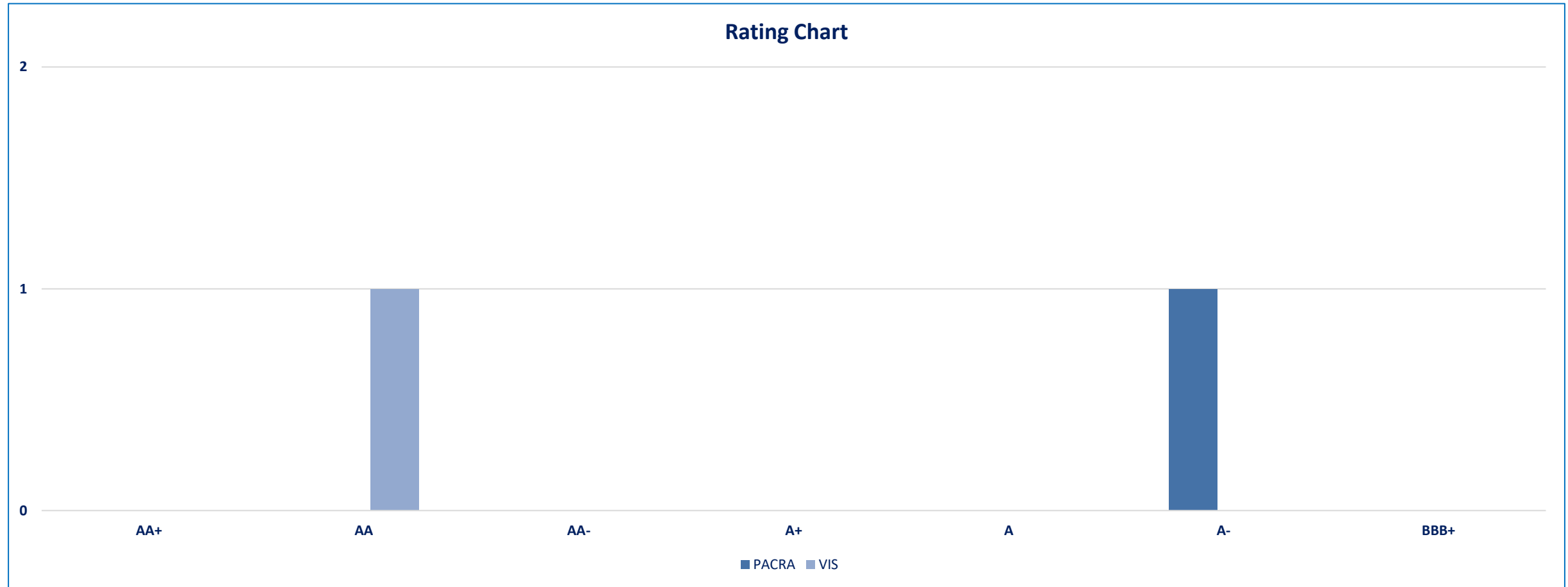
Local | Regulatory Environment

- With respect to Income Tax, the Jute Sector falls under Normal Tax Regime (NTR). Further, the Sector is also subject to Minimum Tax @ 1.25% 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 18% is also applicable on the Sector.

PCT Code	Description	Additional Custom Duty		Custom Duty		Regulatory Duty		Total	
		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
53.03	Jute, raw or processed but not spun	0%	2%	0%	0%	0%	0%	0%	2%
53.07	Jute Yarn	0%	2%	0%	0%	0%	0%	0%	2%
53.1	Woven fabrics of Jute	16%	16%	4%	4%	0%	0%	20%	20%
6305.1	Sacks and Bags, made from Jute, used for packing of goods	6%	6%	20%	20%	10%	10%	36%	36%

Rating Chart

PACRA rates one entity in the Jute sector. PACRA's rated universe comprises ~40% of the Sector's total revenue.



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

- The real GDP growth rate of Pakistan stood at ~0.29% during FY23 (FY22: ~6.1%), on the back of a severe economic downturn, which resulted from a host of factors such as devastating floods of Aug;22, hyper inflation (FY23: ~29%; FY22: ~12%), low foreign exchange reserves (FY23: USD~4,465mln; FY22: USD~9,814mln) and considerable depreciation of PKR against the USD (FY23: USD/PKR~248; FY22: USD/PKR~178), in addition to import restrictions imposed by the SBP during May'22-Mar'23, that served to hamper activity across most sectors of the economy. The Large Scale Manufacturing Index also dipped by ~10.3% YoY, further reflecting the economic slowdown.
- Despite important cash crops such as rice and cotton registering ~21.5% and ~41% decline in production levels during FY23 due to the flash floods, production of Wheat, Sugarcane and Mazie increased ~5.4%, ~2.8% and ~6.9% YoY, which meant that demand for sacking bags for these crops remained satisfactory. The Jute Sector's revenue recorded ~24% increase YoY, with production levels rising ~8.6% YoY to record at ~63,000MT (FY22: ~57,000MT).
- However, the Sector's average gross margins declined by ~2% from ~15% in FY22 to ~13% in FY23, depicting an increase in the prices of imported raw material that were likely not passed on to the consumers. Raw Jute import price, in terms of PKR/MT, has gone up ~34% YoY (FY22: ~57%) reaching PKR~212,290/MT in FY23 from PKR~158,400/MT in FY22 on account of rupee devaluation by ~39% (FY23: USD/PKR~248; FY22: USD/PKR~178). Similarly, average net profit margins also declined by ~2% in FY23 owing to higher interest rates that kept the net margins muted to ~6% in FY23 (FY22: ~8%). Raw material constitutes ~67% of manufacturing costs, followed by salaries and wages that comprise ~22% of the total cost.
- During FY23, the average working capital cycle recorded improvement as it decreased by ~96 days, from ~239 days in FY22 to ~142 days in FY23. The fall in working capital cycle was due to a dip in inventory cycle by ~48 days, reflecting that inventory levels were being maintained in previous year to cater government purchases and were likely utilized in FY23. Additionally, average trade receivables fell by ~19 days to ~43 days in FY23. However, the trade payables cycle rose by ~19 days (FY23: ~35days; FY22: ~15days) and contributed negatively in the working capital cycle in FY23. The increase in average payable days is also in line with lower interest coverage at ~7% (FY22: ~23.1%), reflecting the Sector's low free cash flow generation in order to meet its obligations.
- Import concentration (the Sector is reliant of Raw Jute imports, importing ~99% from Bangladesh), along with exchange rate volatility is a major source of risk for the Jute Sector. Moreover, since most of the demand for Jute products emanates in form of government orders for packaging of agricultural products, for example wheat (~17% (FY22) is also met through exports), the Sector's performance remains largely a function of local sales volumes and import prices.
- Considering the reliance of agricultural products on Jute Bags as well as rising popularity of Jute Bags being contemplated as an eco-friendly product, the Sector's performance is likely to stay on course. However, factors like high import dependency, increased raw material costs and high interest rates remain a challenge to the Sector's overall performance. Moreover, with the removal of RCET from Mar'23 onwards, the cost of doing business for Sector players is likely to increase further.

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Research Team	Saniya Tauseef <i>Senior Manager</i> saniya.tauseef@pacra.com	Ayesha Wajih Supervising Senior ayesha.wajih@pacra.com	Sabeen Mirza Research Analyst sabeen.mirza@pacra.com
Contact Number: +92 42 35869504			

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