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# RICE

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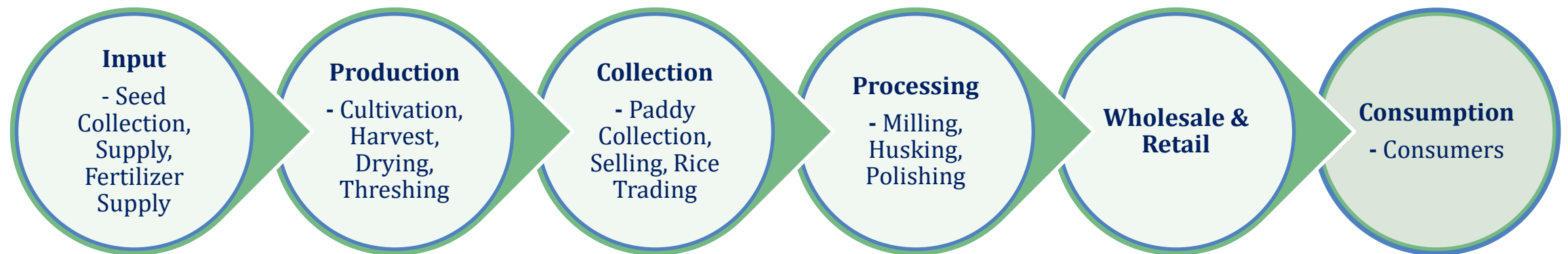
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# Rice

## Introduction

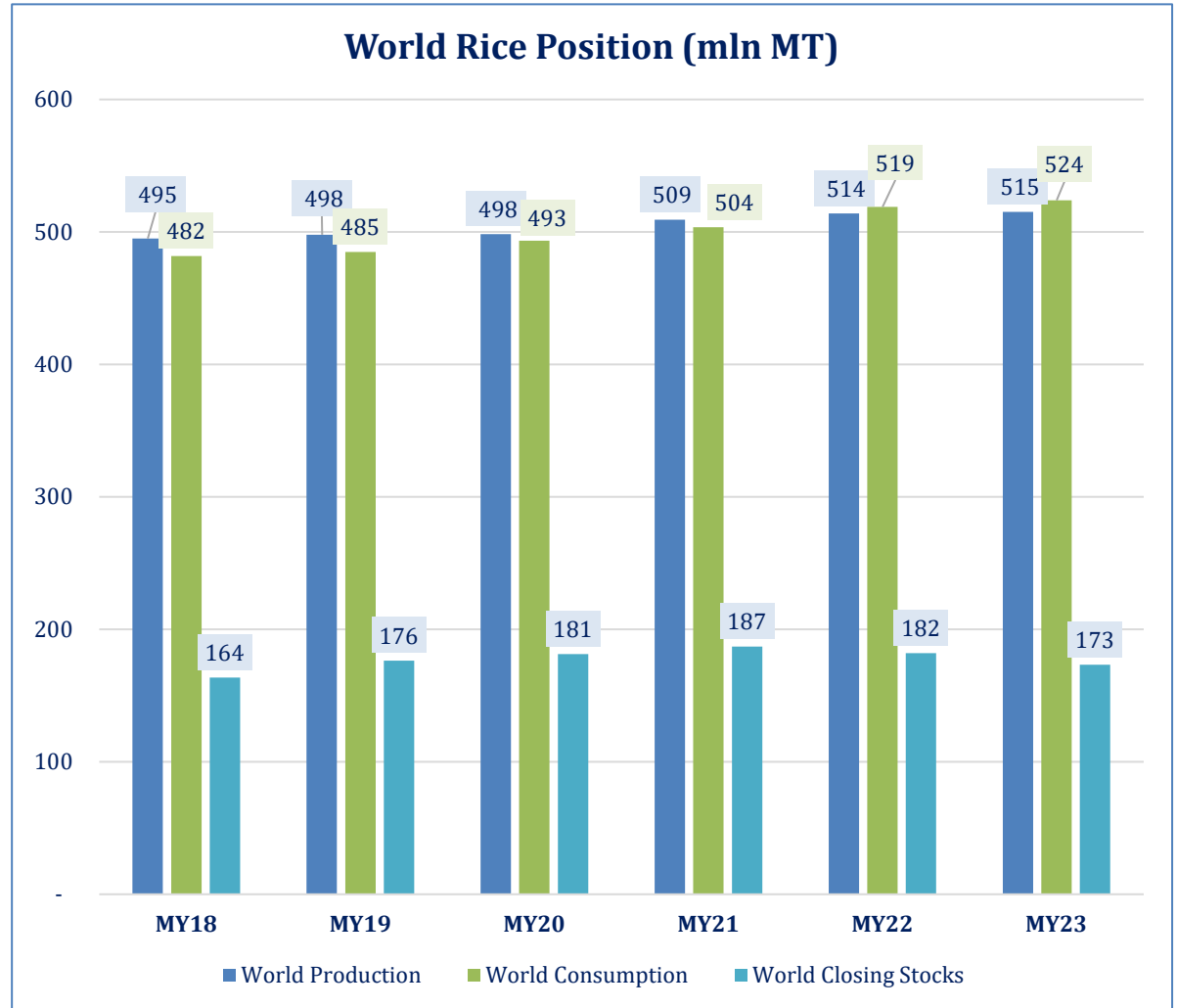
- Rice is the primary staple food for more than half of the world’s population. Globally, it can be classified into two broad categories – Indica (mostly in Southeast and South Asia) and Aromatic (primarily in Vietnam, Cambodia, Thailand, India and Pakistan), which together constitute ~90-94% of the global trade. Around 514mln MT of milled Rice was produced in MY22 at a global level. Rice is mostly grown and consumed in the Asian Region.
- India is the largest exporter of Rice, accounting for nearly ~40% of the Rice trade. The country witnessed a growth of ~4.2% in its Rice exports in MY22 to reach ~22.1mln MT (MY21: ~21.2mln MT), owing to improved port handling infrastructure and development of value chain. However, it is expected to experience ~4.0mln MT decline in Rice production, recording at ~132mln MT in MY24 from ~136mln MT during MY23, still the second-highest on record.
- On the global import side, Sub-Saharan Africa is the largest Rice importing region, slightly exceeding total imports by all of Asia, and accounting for more than ~31% of global imports. Following is a brief representation of Rice supply chain.



# Rice

## Global | World Rice Position

- World Rice Production:** Global Rice production grew by ~1.0% YoY during MY22, recording at ~513.9mln MT. Production further grew by ~0.3% YoY to record at ~515.4mln MT in MY23. Pakistan ranked tenth in the world in terms of production during MY23 (SPLY: ranked ninth), owing to lower local production due to crop damages caused by Aug'22 floods. India, on the other hand, recorded ~5.0% YoY increase in production, staying the second-biggest producer of the commodity.
- World Rice Consumption:** Global Rice consumption, on the other hand, increased by ~3.0% YoY reaching ~519mln MT in MY22. It further grew by ~1% YoY in MY23, owing to growing population. World population grew ~1.1% YoY during the same period.
- World Ending Stocks:** Average world ending stock is the expected amount of Rice leftover after consumption. With India and China being the leading countries with the highest amount of ending stocks, the world ending stocks for MY22 stood at ~182mln MT, down by ~2.7% YoY. Ending Rice further declined in MY23 to ~173mln MT, down ~4.5% YoY. This is likely associated with growth in consumption outpacing growth in production levels.

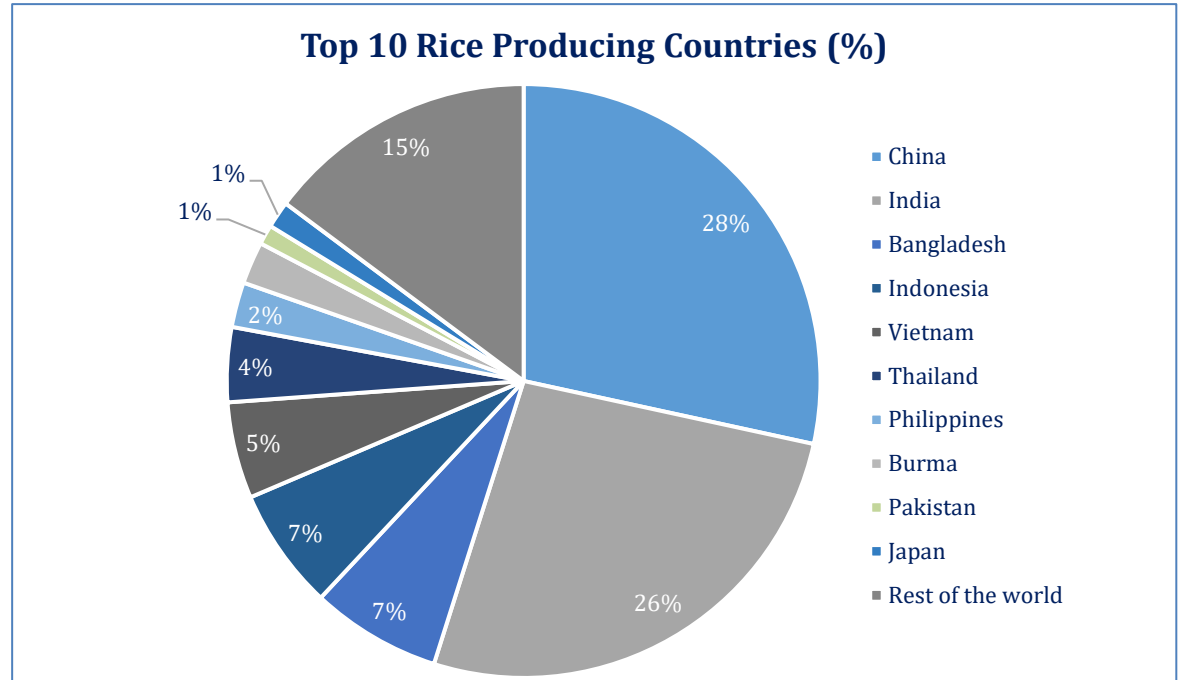


# Rice

## Global | Production

- Global Rice production grew marginally by ~0.3% YoY during MY23 making its five-year (FY19-23) CAGR equivalent to ~0.6%. The highest contribution to Rice production in MY23 came from China (~146mln MT), followed by India at ~136mln MT, while Pakistan, with ~7.3mln MT of Rice produced, ranked tenth in the world. Pakistan’s reduced production came on the back of lower harvested area in Pakistan, due to the damages caused by recent floods of Aug’22 in the country.
- In MY24, global Rice production is expected to increase by ~0.5% YoY to reach ~518.1mln. Major contributors to the anticipated global Rice production increase in MY24 include Australia, Burma, China, Egypt, the European Union, Indonesia, Pakistan, Russia, Sri Lanka, Tanzania, and the United States. In contrast, India is expected to experience ~4.0mln MT decrease in Rice production in MY24, bringing it down to ~132.0mln MT from ~136.0mln MT in MY23, which is still the second-highest on record. Thailand’s Rice production is projected to decline by ~1.4mln MT to reach ~19.5mln MT in MY24 . Declines in Rice production are also expected in Japan and South Korea due to dietary changes and aging populations. Weaker crop production is also anticipated for Mali, Nigeria, Turkey, and Venezuela in MY24.

Top 10 Rice Producing Countries   Milled Rice (mln MT)					
	MY20	MY21	MY22	MY23	MY24*
China	146.7	148.3	149.0	145.9	149.0
India	118.9	124.4	129.5	136.0	132.0
Bangladesh	35.9	34.6	35.9	36.4	37.0
Indonesia	34.7	34.5	34.4	34.0	34.5
Vietnam	27.1	27.4	26.7	27.0	27.0
Thailand	17.7	18.9	19.9	20.9	19.5
Philippines	11.9	12.4	12.5	12.6	12.6
Burma	12.7	12.6	12.4	11.8	12.5
<b>Pakistan</b>	<b>7.2</b>	<b>8.4</b>	<b>9.3</b>	<b>7.3</b>	<b>9.0</b>
Japan	7.6	7.6	7.6	7.5	7.5
Rest of the World	77.8	80.1	76.7	76	77.5
<b>Total</b>	<b>498.2</b>	<b>509.2</b>	<b>513.9</b>	<b>515.4</b>	<b>518.1</b>



\*Forecast figures.

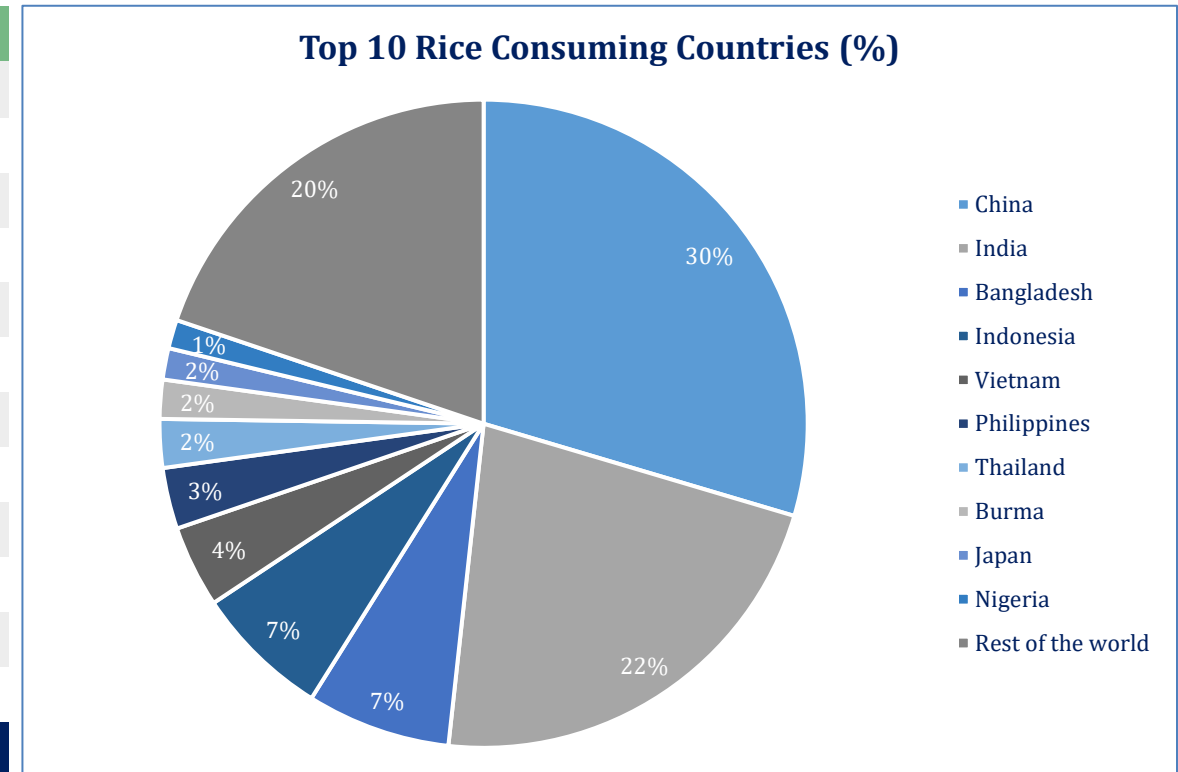
MY refers to the Marketing Year, which is different for each country. For most, it runs Oct-Sep, including China, India and Pakistan.

# Rice

## Global | Consumption

- Global rice consumption grew by ~1.0% YoY during MY23 growing at a CAGR of ~1.6% over the past five years (MY19-23). Global rice consumption stood at ~523.8mln MT for MY23 and is expected to fall marginally by ~0.2% in MY24 to reach ~522.7mln MT. The countries expected to contribute to the decline in the global Rice consumption in MY24 include China, India, Thailand.
- China, with ~152mln MT, ranks first in terms of consumption, followed by India at ~116mln MT.

Top 10 Rice Consuming Countries   Milled Rice (mln MT)					
	MY20	MY21	MY22	MY23	MY24*
China	145.2	150.3	156.4	155.0	152.0
India	102.0	101.1	110.4	116.0	115.5
Bangladesh	35.7	36.1	36.5	37.6	38.2
Indonesia	36.0	35.4	35.3	35.4	35.2
Vietnam	21.3	21.5	21.5	21.4	21.5
Philippines	14.4	14.8	15.4	16.0	16.4
Thailand	12.3	12.7	12.7	12.7	12.5
Burma	10.4	10.4	10.5	10.2	10.3
Japan	8.4	8.2	8.2	8.2	8.2
Nigeria	7.1	7.2	7.4	7.5	7.6
Rest of the World	100.5	105.8	104.5	103.8	105.3
<b>Total</b>	<b>493.3</b>	<b>503.5</b>	<b>518.8</b>	<b>523.8</b>	<b>522.7</b>



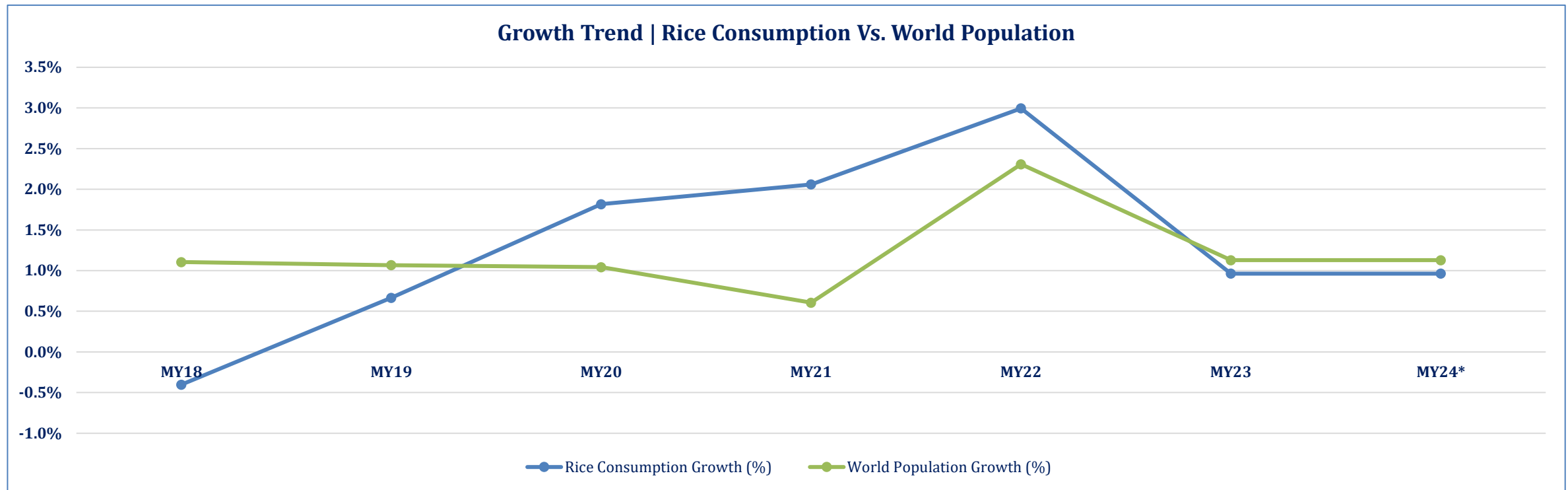
\*Forecast figures.

MY refers to the Marketing Year, which is different for each country. For most, it runs Oct-Sep, including China, India and Pakistan.

# Rice

## Global | Demand

- Growth in Rice consumption has been relatively more volatile than that of the world population growth. For a tenure of five years (MY19-23), the CAGR for Rice consumption stands at ~7.7% while that for global population growth is ~1.1%.
- Broadly speaking, the volatility in consumption patterns of Rice can be defined by either fluctuations in crop output and yield in a particular season or availability of substitutional food products during the period.
- The global population growth rate is estimated to be ~1.1% in MY23, the same level recorded during MY17-19 and is projected to remain at ~1.1% in MY24. Similarly, Rice consumption growth is also expected to remain at ~1.0% in MY24 (MY23: ~1.0%).

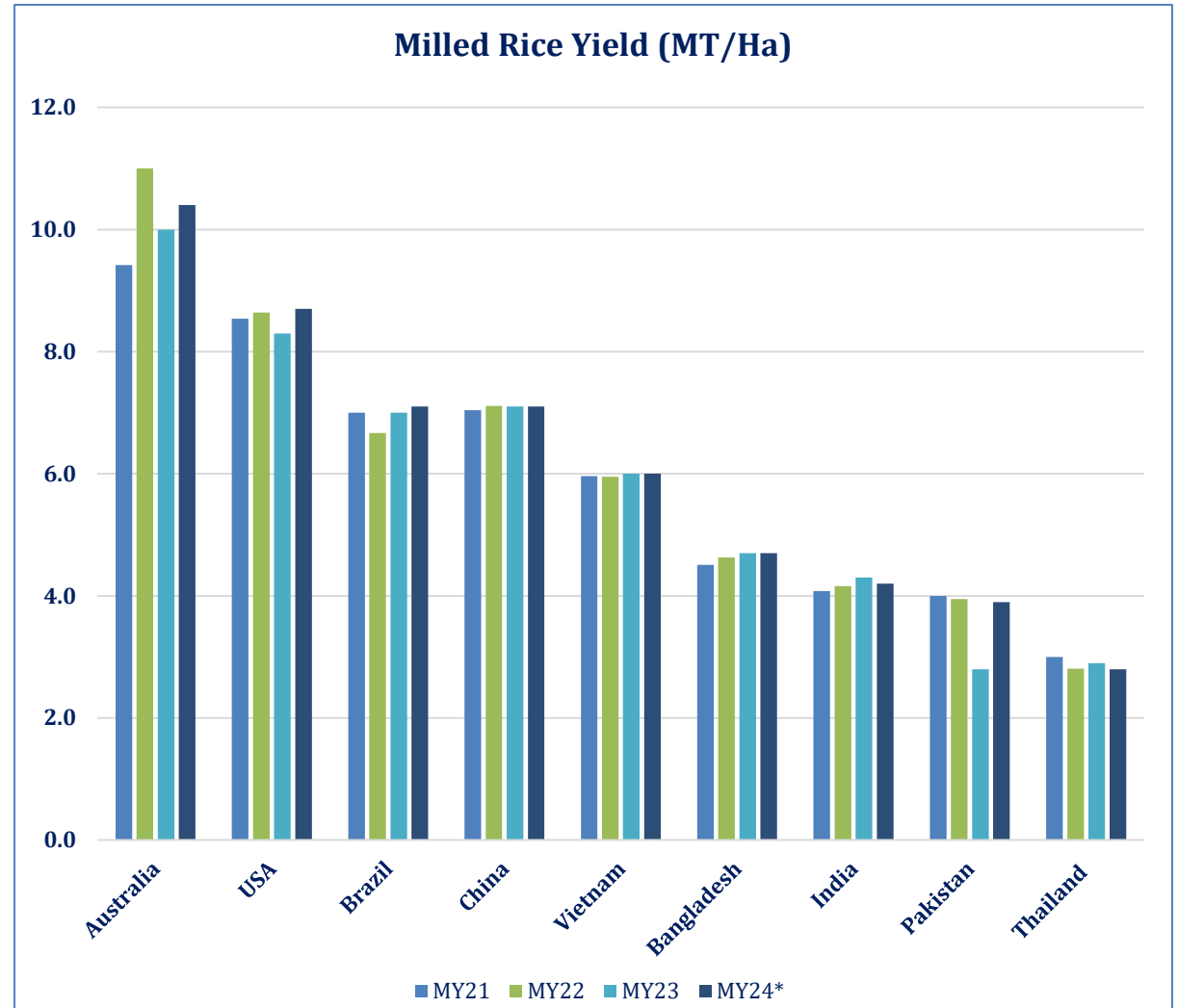


\*Figures for MY24 are predicted  
 MY refers to the Marketing Year, which is different for each country

# Rice

## Global | Average Yield

- Average yield for Rice is derived from a host of factors such as quality and type of seeds, agricultural techniques, climatic conditions and farmers' skillset.
- Australia maintained its position as the country with the highest Rice yield around the globe with a yield of ~10.0MT/Ha in MY23 (MY22: ~11.0%), down ~8% YoY. Australia is followed by USA with a yield of ~8.3MT/Ha in MY23 (MY22: ~8.6MT/Ha, down by 4.0% YoY).
- Amongst the regional players, China has the highest yield (~7.1MT/Ha), followed by Bangladesh (~4.7MT/Ha) and India (~4.3MT/Ha) in MY23. Meanwhile, Pakistan recorded a yield of ~2.4MT/Ha in MY23.
- Although amongst the highest yields, Rice yields recorded in Australia, USA and Pakistan have declined in MY23 compared to MY22, the highest decrease being of ~29% observed for Pakistan that is attributed to crop damage as a result of flash floods in Aug'22.
- Rice yield is recorded to be lowest in the African region globally due to inadequate water availability in areas such as Liberia and Cameroon.



Note: 1 Ha = 2.5 acres

MY refers to the Marketing Year, which is different for each country. For most, it runs Oct-Sep, including China, India and Pakistan.

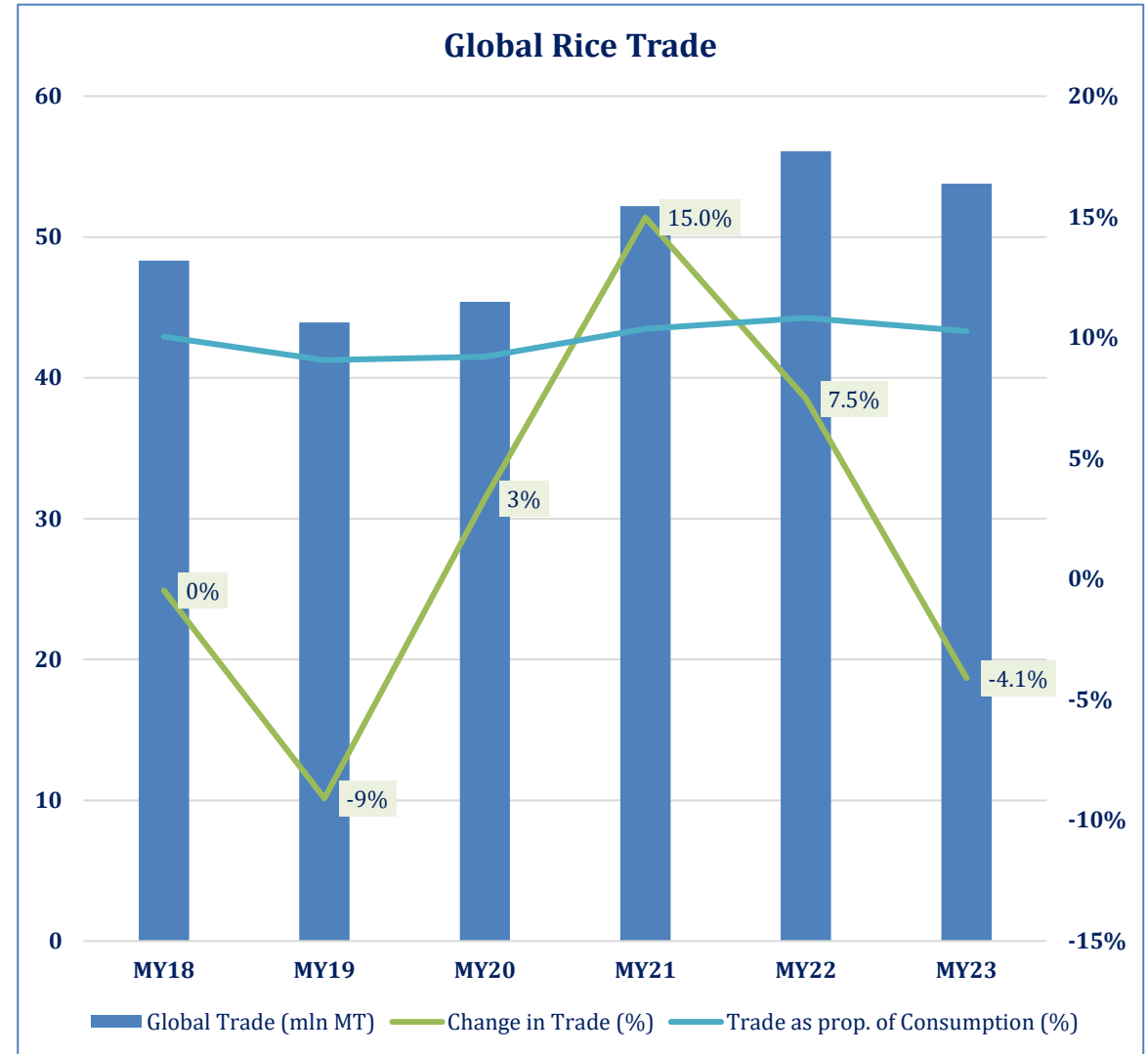
\*MY24 are projected values



# Rice

## Global | Trade

- Over the past five years (MY19-23), the average volume of annual Rice traded stands at ~50mln MT, recording at a CAGR of ~4.1%. Global trade is recorded at ~54mln MT in MY23, with a decline of ~4.1% YoY.
- Additionally, there have been fluctuations in trade trend in the last few years. On an average, rice trade has accounted for almost only ~10% of the total rice consumed globally.
- China is the largest importer while India is the largest exporter of rice.



# Rice

## Global | Exports

- Global rice exports clocked in at ~53.8mln MT during MY23 with decline of ~4.1% YoY.
- A 4.1% YoY reduction in global exports can be attributable to Pakistan which faced a negative growth of ~21.5% in Rice production due to the destructions caused by the devastating flash floods in Jul-Aug'22.
- India is the largest exporter of premium grade rice, Basmati, with a share of ~90%. Pakistan, on the other hand, is also a key producer and exporter of Basmati Rice but most of it is consumed domestically.
- The Middle East is the top export destination for basmati rice where it is a popular staple food. Large markets include Saudi Arabia, Iran, United Arab Emirates, and Iraq.
- Global exports are also expected to decline by ~3.2% to ~52.1mln MT in MY24. The countries expected to contribute to the decline in global exports in MY24 include Brazil, Malaysia, Paraguay, Thailand, Vietnam and India.
- India's exports are expected to decrease by ~12.5% primarily due to lower production levels and expectations of continued export restrictions of non-Basmati Rice, and a ~20% tariff on Parboiled Rice. Conversely, exports are expected to rise for Australia, Burma, Cambodia, China, Pakistan and USA.

Leading Global Exporters (mln MT)						
	MY18	MY19	MY20	MY21	MY22	MY23
India	11.8	9.8	14.6	21.2	22.1	20.0
Thailand	11.2	7.6	5.7	6.2	7.7	8.5
Vietnam	6.6	6.6	6.2	6.3	7.1	8.4
<b>Pakistan</b>	<b>3.9</b>	<b>4.6</b>	<b>3.9</b>	<b>3.9</b>	<b>4.5</b>	<b>3.6</b>
United States	2.8	3.1	2.9	3.0	2.2	2.3
China	2.1	2.7	2.3	2.4	2.2	1.6
Burma	2.8	2.7	2.3	1.9	2.3	1.4
Cambodia	1.3	1.4	1.4	1.9	1.7	1.9
Uruguay	0.8	0.8	1.0	0.7	1.0	0.9
Brazil	1.2	1.0	1.2	0.8	1.4	1.2
Others	3.9	3.8	3.8	4.0	3.9	4.0
<b>World</b>	<b>48.3</b>	<b>43.9</b>	<b>45.4</b>	<b>52.2</b>	<b>56.1</b>	<b>53.8</b>

# Rice

## Global | Imports

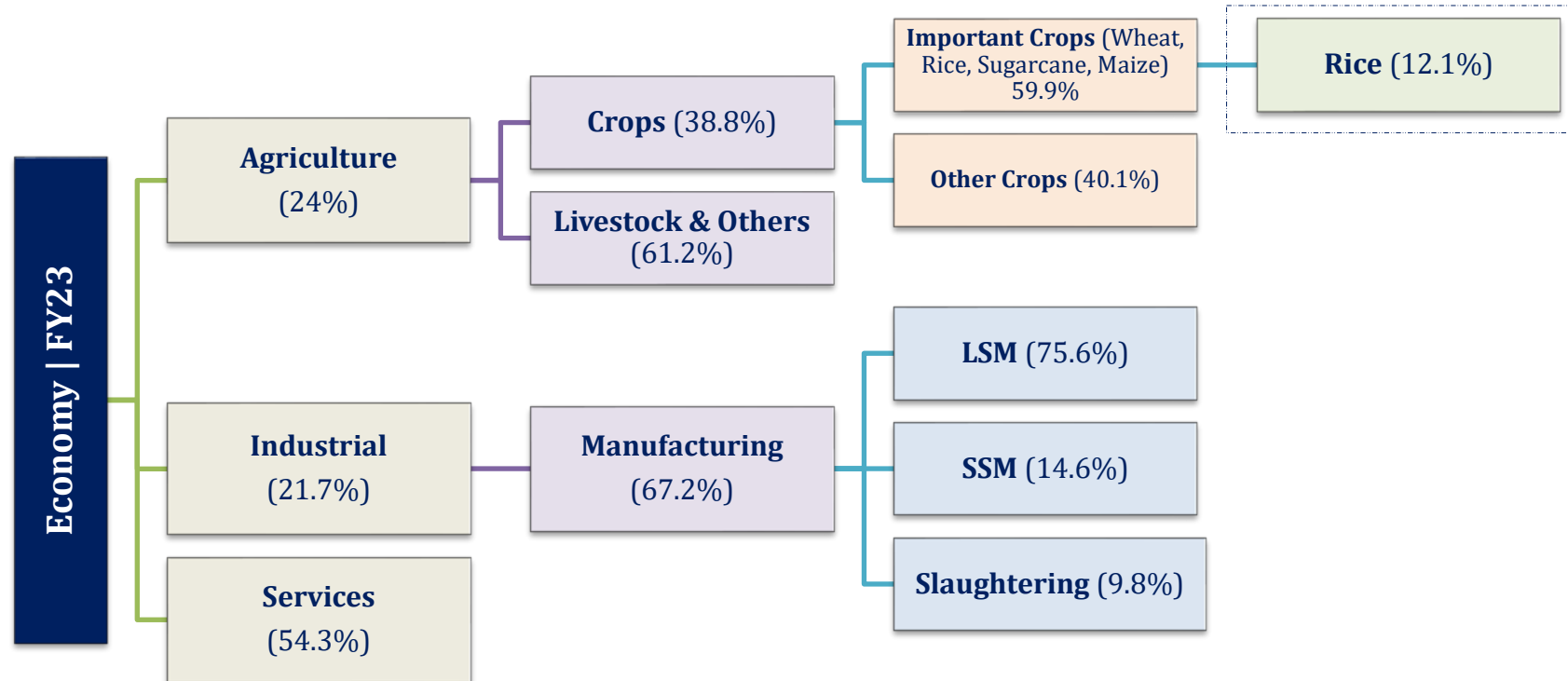
- Global Rice trade clocked in at ~53.8mln MT during MY23, registering a decline of ~4.1% YoY.
- In MY23, China's imports fell by more than half compared to MY22, this could potentially be due to lower supplies of broken rice from India since India banned broken rice exports in Sep'22, rising global prices and temporary trade restrictions with Burma.
- China, despite being the largest producer of Rice is a net importer, since its domestic Rice production does not cater fully to its consumption needs. Meanwhile, Pakistan, India, Thailand and Vietnam have historically remained self-sufficient in meeting their domestic demands.
- International Rice market for imports is fragmented across different regions on the basis of the preferred quality and type of rice.
- In MY24, Rice imports are expected to decline globally by ~3.2% because of reduced forecasts for China, Ghana, Nigeria, Kenya amongst others due to rising global Rice prices. On the contrary, import forecasts for MY24 are raised for Iraq and USA.

Leading Global Importers (mln MT)						
	MY18	MY19	MY20	MY21	MY22	MY23
China	4.5	2.8	3.2	4.9	6.2	3.0
Philippines	2.5	2.9	2.5	3.0	3.8	3.9
Nigeria	2.1	1.8	1.8	2.1	2.4	2.1
European Union	1.6	1.8	2.0	1.8	2.5	2.4
Cote d'Ivoire	1.5	1.4	1.1	1.5	1.5	1.4
Saudi Arabia	1.3	1.4	1.6	1.2	1.3	1.3
Nepal	0.7	0.6	1.0	1.3	0.8	0.8
Iraq	1.2	1.3	1.0	1.3	2.1	2.0
Malaysia	0.8	1.0	1.2	1.2	1.2	1.2
Iran	1.3	1.4	1.1	0.9	1.3	1.0
Others	30.8	27.6	28.9	33.2	33.1	34.8
<b>World</b>	<b>48.3</b>	<b>43.9</b>	<b>45.4</b>	<b>52.2</b>	<b>56.1</b>	<b>53.8</b>

# Rice

## Agriculture | Overview

- Pakistan's economy is broadly classified into three categories: Agriculture, Industry and Services. In FY23, the share of agriculture in the country's GDP was recorded at ~24.0% (SPLY: 23.5%).
- The Crops segment contributed ~38.8% to Agriculture in FY23, while important crops make up ~59.9% of the total crops. Their share in agriculture grew from ~5.2% in FY22 to ~5.3% in FY23.
- Rice, being the second main staple food item and second major exportable commodity after cotton, contributed ~21.9% of value added in agriculture and ~0.4% to GDP during FY23. However, rice production during the year declined by ~21.5% YoY (discussed later in the report).
- Other Crops (Kharif and Rabi) include Bajra, Jowar, Gram, Barley, Rapeseed & Mustard and Tobacco, and accounted for ~61.2% in Agriculture during FY23.



# Rice

## Local | Snapshot

- Rice is a Kharif crop, with sowing season ranging May-June, growing season during July-September and harvest season from October-December. Of the total Rice production, ~52% is produced in Punjab, ~38% in Sindh and remaining ~8% in Balochistan. Rice Sector contributed ~0.4% to the GDP in FY23 (FY22: ~0.5%), with YoY decline reflecting lower crop production. For FY22, where Rice production grew ~11% YoY, the country's GDP grew by ~21% YoY, thereby, recording a lower contribution in GDP.
- In FY23, Rice production stood at ~7.3mln MT (FY22: ~9.3mln MT), declining by ~21.5% YoY. This resulted from crop damage as a result of massive flooding in Aug'22 which ravaged parts in Southern Punjab, Sindh and Balochistan. Area under cultivation, thus reduced to ~3.0mln Ha in FY23 (FY22: ~3.5mln Ha), whereas yield declined to ~2.4MT/Ha (FY22: ~2.7MT/Ha). Pakistan ranks ninth in the global Rice production as per USDA (~50% Basmati and remaining ~50% Coarse types). Meanwhile, consumption stood at ~3.7mln MT in FY23, down ~16.3% YoY, likely on the back of increased prices and overall inflationary impact.
- Resultantly, Rice sector exports also fell by ~26.0% YoY to ~3.7mln MT in FY23 (FY22: ~5.0mln MT). Exports of Basmati rice stood at ~0.6mln MT (FY22: ~0.8mln MT), forming ~16% of total Rice exports, while exports of Non-Basmati Rice stood at ~3.1mln MT in FY23 (FY22: ~4.2mln MT), forming ~84% of total Rice exports.
- However, steep ~39% devaluation of PKR against the USD in FY23 helped retain Pakistan's Rice competitiveness in the global Rice markets and contributed to export revenue in PKR terms. Revenue from Rice exports stood at USD~2.1bln (or PKR~541.1bln) in FY23 (FY22: USD~2.5bln or PKR~450.2bln), decreasing ~14.5% YoY.
- Although the export of Basmati Rice in volumetric terms remains low but in terms of export price, Basmati Rice prices are ~2x the price of Non-Basmati price. The price of Basmati Price averaged USD~1,268/MT in 9MCY23 (SPLY: USD~1,031/MT), while price of Non-Basmati price stood at USD~510.6/MT in 9MCY23 (SPLY: USD~366.6/MT).

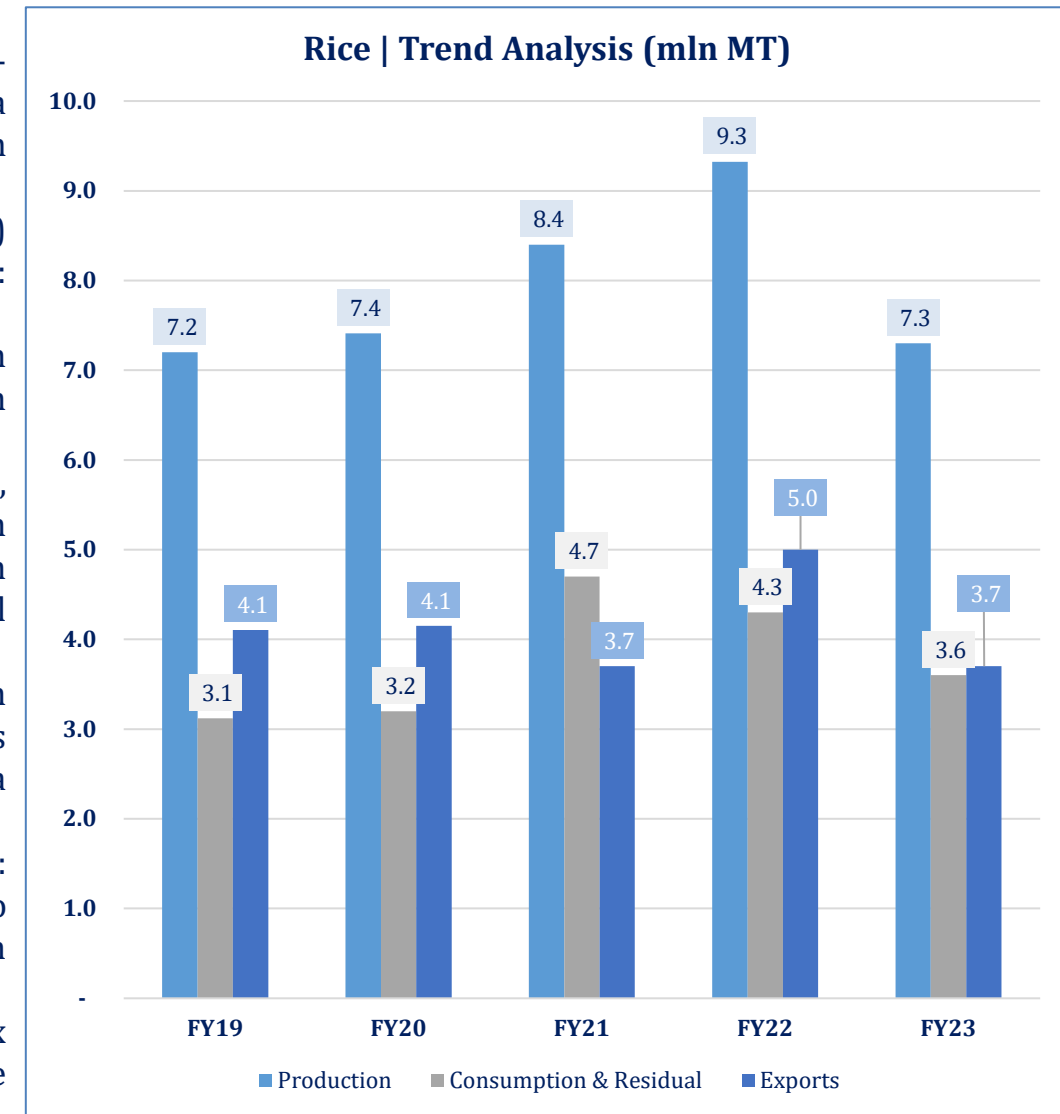
Sector Snapshot	FY21	FY22	FY23
<b>Contribution to GDP</b>	0.7%	0.5%	0.4%
<b>Area under Cultivation (mln Ha)</b>	3.3	3.5	3.0
<b>Production (mln MT)</b>	8.4	9.3	7.3
<b>Consumption* (mln MT)</b>	4.7	4.3	3.6
<b>Yield (MT/Ha)</b>	2.5	2.7	2.4
<b>Exports (mln USD)</b>	2,041	2,513	2,148
<b>Exports (mln MT)</b>	3.7	5.0	3.7
<b>Basmati Exports (mln MT)</b>	0.6	0.8	0.6
<b>Non-Basmati Exports (mln MT)</b>	3.1	4.2	3.1
<b>Market Structure</b>	Competitive		
<b>Regulator</b>	Rice Exporters Association of Pakistan (REAP)		

\*Based on the assumption of negligible closing stocks and varies with available stock figures.

# Rice

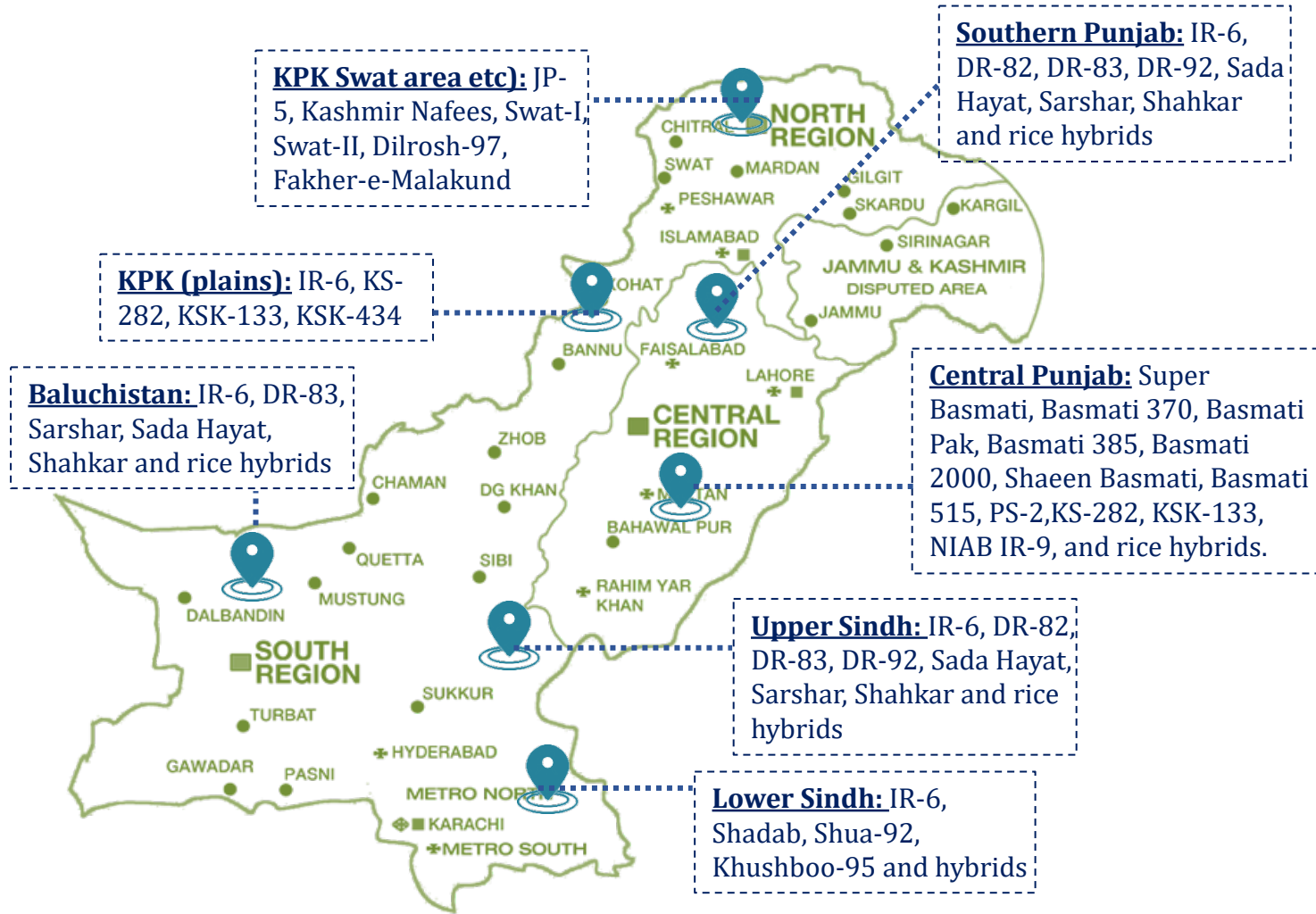
## Local | Trend Analysis

- **Area Under Cultivation:** Average area under cultivation over the past five years (FY19-23) stood at ~3.1mln Ha. In FY23, area under Rice cultivation declined to ~3.0mln Ha (FY22: ~3.5mln Ha) with a YoY fall of ~14%. This can be attributed to the destruction caused by the floods of Aug'22 (~1.78mln Ha of total crops were damaged).
- **Local Production:** Average local Rice production over the past five years (FY19-23) stood at ~7.9mln MT. In FY23, Rice production was recorded at ~7.3mln MT (FY22: ~9.3mln MT), a YoY decrease of ~21.5%.
- **Local Consumption:** Average local Rice consumption over FY19-23 stood at ~3.8mln MT. In FY23, however, Rice consumption was estimated at ~3.6mln MT (FY22: ~4.3mln MT), showing a YoY decrease of ~16.3%.
- **Exports:** Average Rice exports during FY19-23 were recorded at ~4.1mln MT. In FY23, Rice exports were down by ~26.0% YoY, clocking in at ~3.7mln MT (FY22: ~5.0mln MT). Although export prices remained competitive due to the average PKR depreciation of ~39% in FY23, the quantitative decrease in Rice exports was caused by low local production.
- **Projections:** Rice production forecasts for Pakistan have been revised up from ~7.3mln MT to ~9.0mln MT for FY24 (USDA), YoY increase of ~23.3%. Area under cultivation is forecast to increase to ~3.5mln Ha in FY24. Yield is expected to increase to ~2.6 MT/Ha in FY24 from ~2.4 MT/Ha.
- As per USDA, Rice exports are forecast to clock in at ~5.0mln MT in FY24 (FY23: ~3.7mln MT) mainly owing to exports of Non-Basmati rice which are expected to improve in the presence of India's current ban on its exports for the commodity with effect from Jul'23.
- Moreover, as per Budget FY24, local Commercial Banks have been granted Income Tax reduction on Income arising from additional advances to 20% from 39% to Agriculture sector.



# Rice

## Local | Geographical Distribution

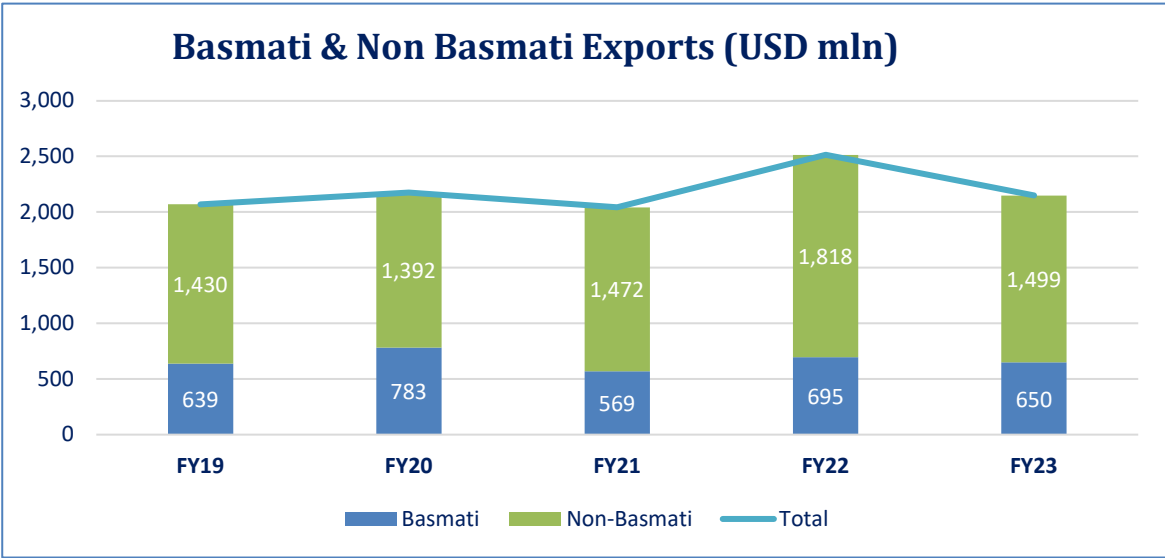
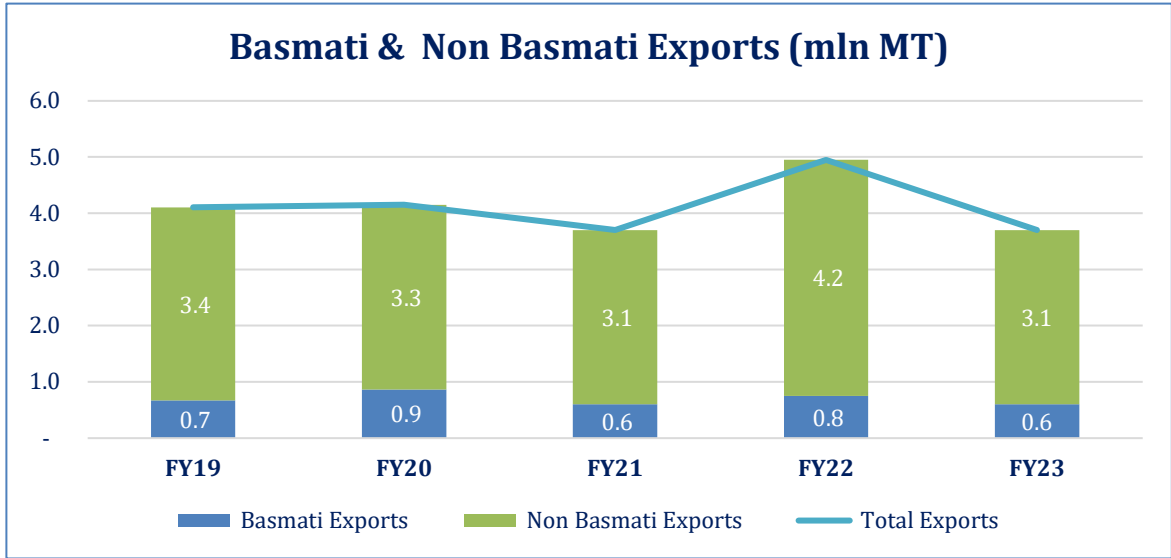


- Pakistan has two major rice-producing regions; Punjab and Sindh. Together, both provinces account for nearly ~90% of total rice production.
- Punjab, due to its agri-climatic and soil conditions, produces 100% of the Basmati rice in the country, which is a premium quality and expensive rice as compared to non basmati/coarse rice.
- Sindh region is enriched with cultivation of Non-Basmati/coarse rice, mainly IRRI-6, which is majorly exported to the African regions.
- Sindh region is further bifurcated into two parts due to differing land characteristics and water availability, hence the quality differs according to the varieties.

# Rice

## Local | Trade

- Pakistan's Basmati Rice is considered a high-grade premium quality by international standards, particularly in the EU and Middle East. The price of Basmati Rice is approximately double the price of Non-Basmati rice; however, the latter forms a major portion of total export quantum. Rice export is significant for Pakistan as Rice constituted ~7.7% of country's total export proceeds during FY23 (FY22: ~8.0%). Total exports of the country fell by ~12.7% YoY in FY23 to reach USD~27.7bln from USD~31.8bln in FY22.
- Basmati Exports:** The country's average Basmati exports for the period FY19-23 stood at ~0.7mln MT, forming an average of ~17.0% of total Rice exports over the same period. In FY23, these were recorded at ~0.6mln MT (FY22: ~0.8mln MT), a YoY decrease of ~20.1%.
- Non-Basmati Exports:** Average Non-Basmati exports (FY19-FY23) stood at ~3.4mln MT, forming ~83% of total Rice exports. In FY23, exports were recorded at ~3.1mln MT (FY22: ~4.2mln MT), with a YoY decrease of ~26.02%.
- The decline in Rice exports can be attributed to lower production in FY23 (~21.5%) due to crop damages as a result of flash floods of Aug'22. However, in FY24, it is expected that India's ban on export of Non-Basmati Rice will contribute positively towards Pakistan's exports of the same, provided it is able to meet the demand from countries that have been impacted by India's ban.



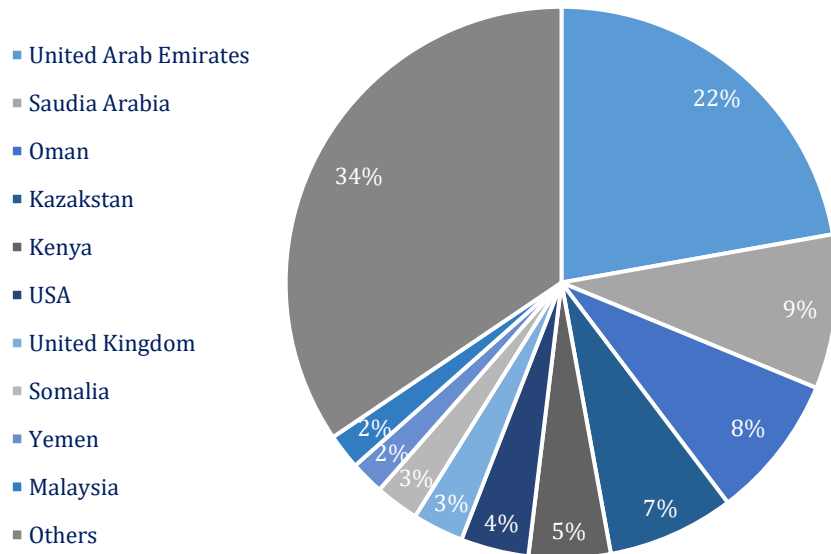


# Rice

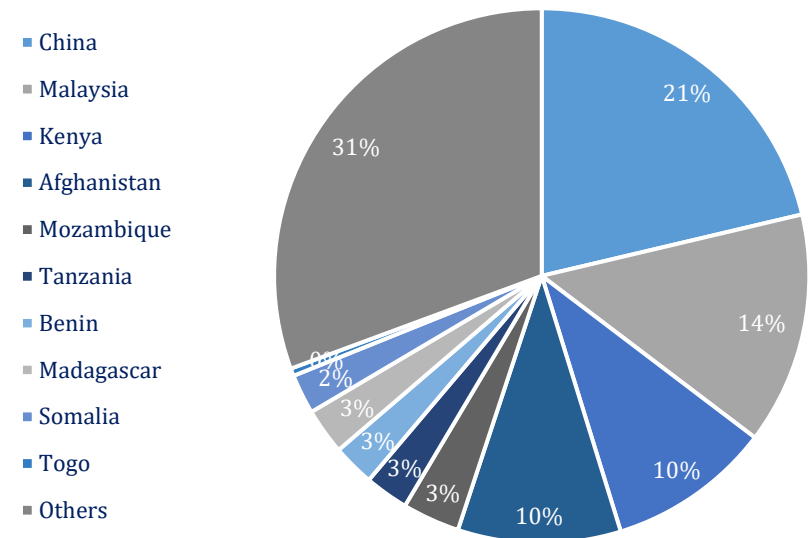
## Local | Trade

- The Middle East countries are the largest buyers of Pakistan’s basmati rice in which UAE has ~22% share in total basmati rice export of the country followed by Saudi Arabia, Oman, Kazakstan and Kenya having ~9%, ~8%, 7% and ~6% shares respectively.
- China is the largest importer of Pakistan’s Non-Basmati rice with a share of ~21% in the total exports. It is expected that since India has banned the exports of Non-Basmati rice, Pakistan along with Thailand and Vietnam will be facing increased demands from the African countries including Kenya, Benin, Togo, Mozambique, South Asian countries that include Malaysia and Vietnam as well as Middles East (Egypt and UAE).

**Basmati Importing Countries | FY22\***



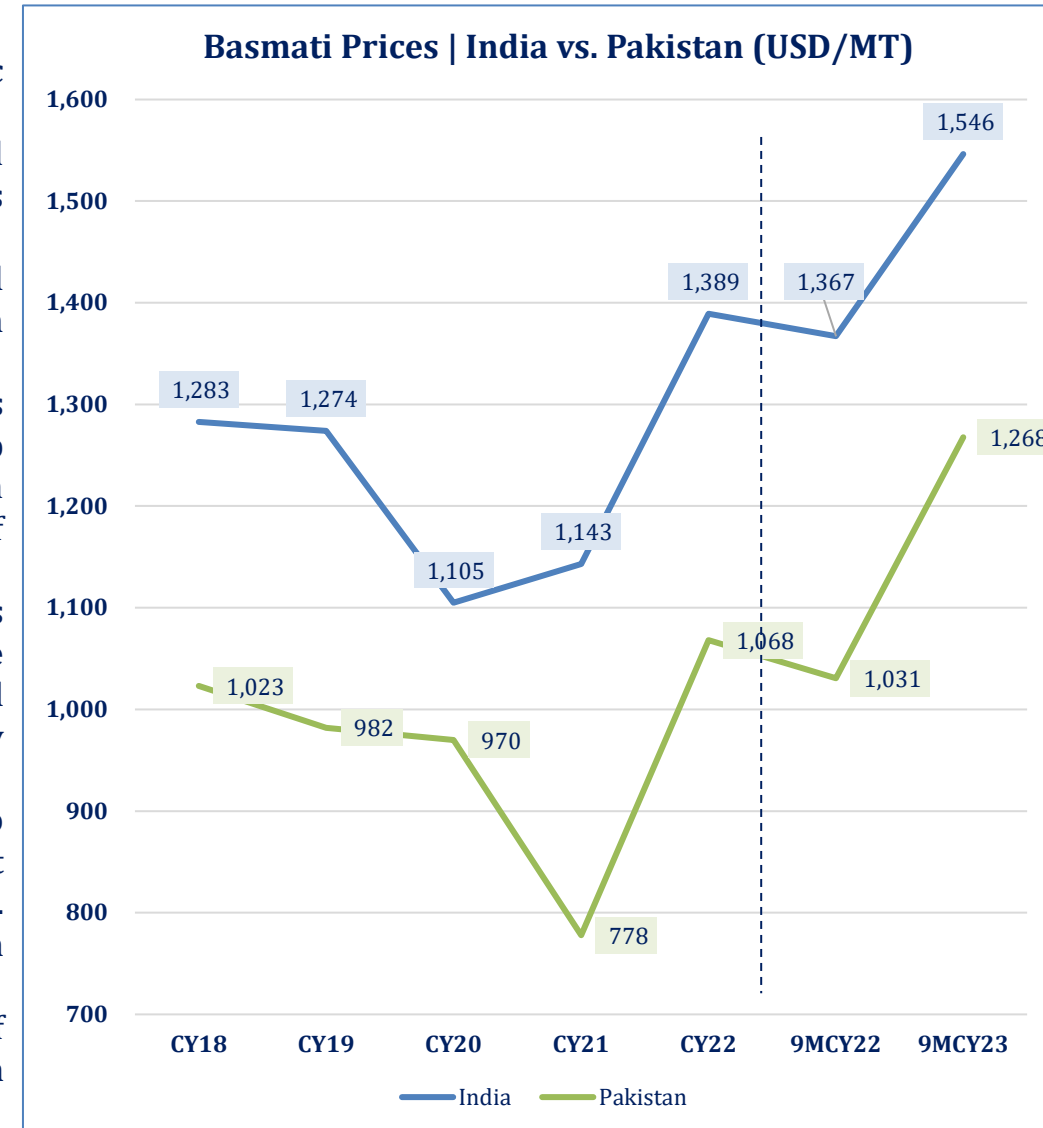
**Non-Basmati Importing Countries | FY22\***



# Rice

## Price Dynamics | Basmati

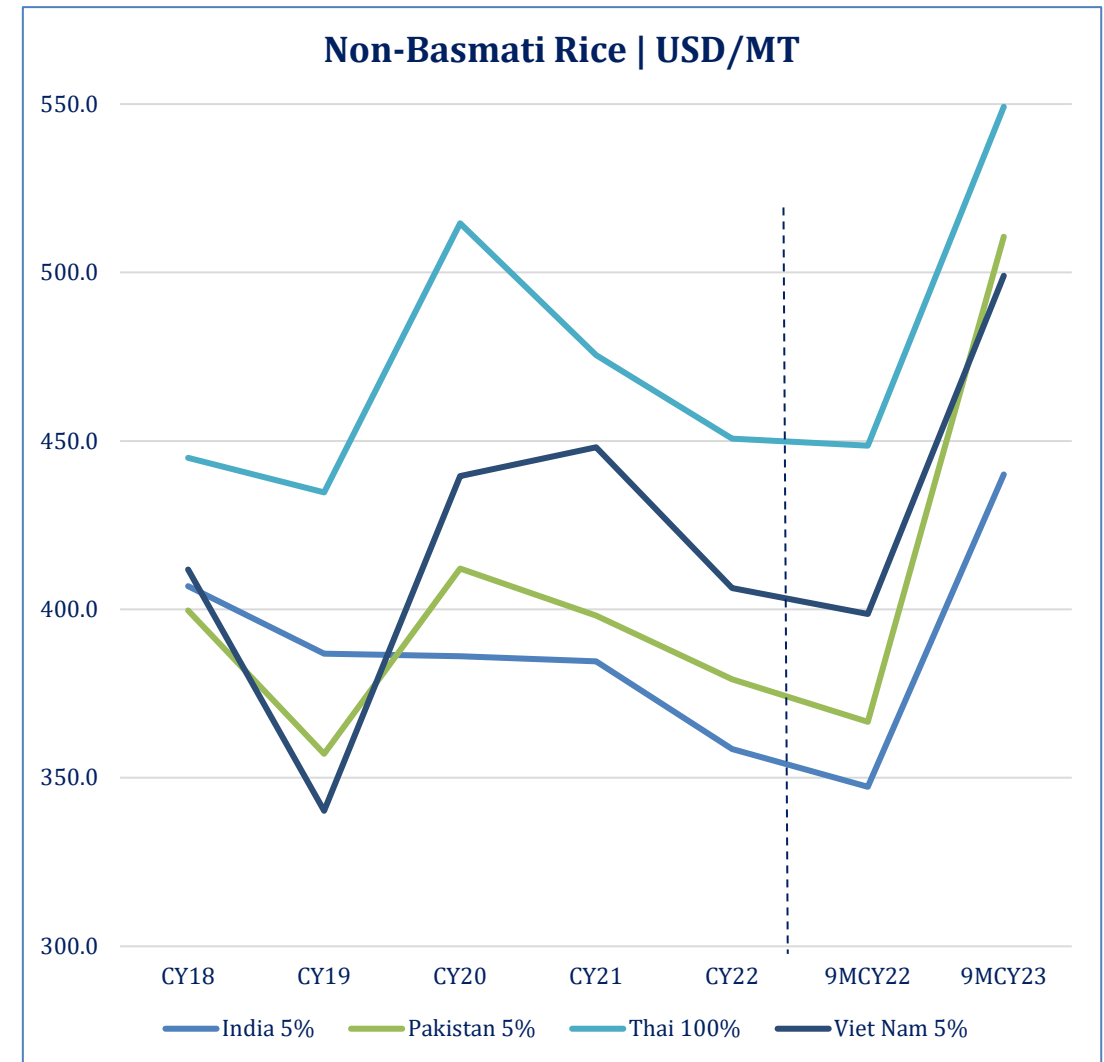
- Basmati Rice is a high-grade, premium quality product valued for its special aromatic qualities. India and Pakistan are the only producers and exporters of Basmati rice.
- In MY23, India accounted for ~39% of the global Rice exported. Despite increased global demand for this premium commodity, most of the Basmati Rice produced in Pakistan is consumed domestically.
- With respect to export prices, Pakistani Basmati Rice has historically (CY18-22) maintained a delta of ~22% with Indian Basmati Rice. The delta reflects a slower INR depreciation against the USD, compared with PKR depreciation against the same.
- In CY22, this delta closed to USD~321/MT (SPLY: USD~365/MT) or ~23%, where prices rose ~37% and ~22% YoY, for India and Pakistan respectively. For Pakistan, the sharp increase resulted from increased exports that grew by ~33% YoY. With respect to Indian Basmati Rice, prices rose post-CY20, on account of increased demand due to reopening of borders for trade when demand from importing countries picked up pace.
- During 9MCY23, Indian Basmati Price increased by ~13.1% to reach USD~1,546/MT as compared to USD~1,367/MT SPLY. For CY22, average export price for Indian Basmati Rice increased by ~21.5% to reach USD~1,389/MT from USD~1,143/MT due to increased demand of Basmati Rice from Middle East that pushed to build up stocks to avoid possibility of supply disruptions due to Russia-Ukraine war.
- During 9MCY23, average export prices for Pakistani Basmati Rice increased by ~23.0% to reach USD~1,268/MT as compared to USD~1,031/MT SPLY. For CY22, the average export price of Pakistani Basmati increased by ~37.2% to USD~1,068/MT (CY21: USD~778/MT). Basmati rice exports accounts for ~30% (in value terms) of the total rice exports of Pakistan (the rest is non-basmati exports).
- India (as of Oct'23) has set the floor price for Basmati rice exports to USD~950/MT and if the Indian exporters reduce the price to the minimum level, it is likely to exert pressure on local exporters with respect to maintaining competitiveness in the global market.



# Rice

## Price Dynamics | Non-Basmati

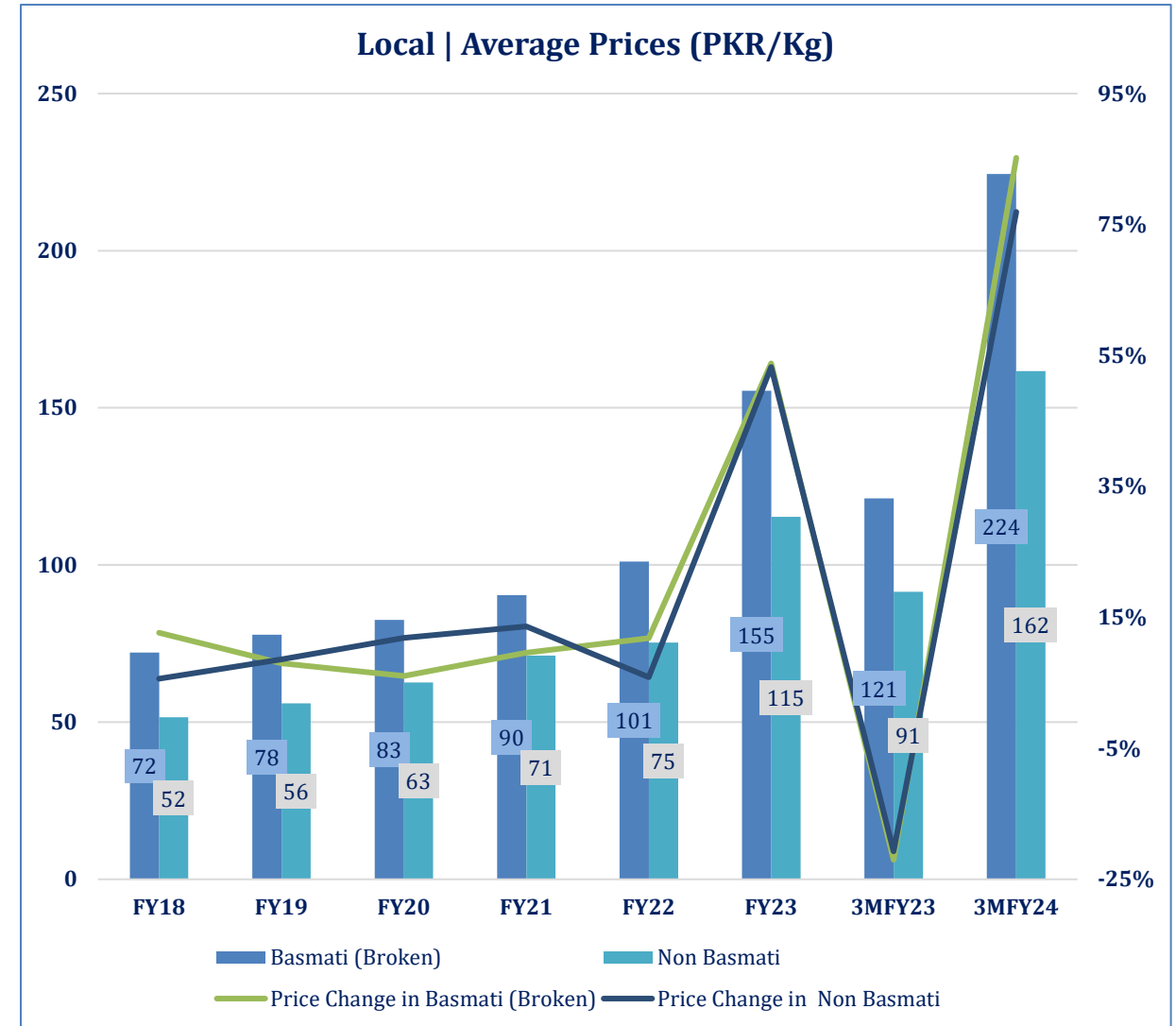
- The four major global exporters of broken rice, or Non-Basmati/coarse types, include India, Thailand, Vietnam and Pakistan.
- During 9MCY23 the average export price for Pakistani Non-Basmati rice increased by ~39.2% to reach USD~510.6/MT as compared to USD~366.6/MT SPLY. However, for CY22, the average export price of Pakistani Non-basmati decreased by ~4.7% to USD~379.2/MT (CY21: USD~398.1/MT). Non-Basmati rice exports accounts for ~70% (in value terms) of the total Rice exports of Pakistan (the rest is Non-Basmati exports).
- India – the largest exporter of Non-Basmati Rice, accounts for ~22% of the total world exports. The country imposed a ban on export of non basmati rice on 20-Jul'23 to control the local prices. It is important to note that several countries, including Bangladesh, Bhutan, China, Sri Lanka, and Nepal, are heavily dependent on Rice imports from India. As a result of India's decision to impose ban on the exports of Non-Basmati rice, the global rice market is currently facing significant disruption.
- Thailand, Vietnam and Pakistan are receiving heightened demands from the countries affected by India's export ban and hence leading to subsequent price hikes of export prices of Non-Basmati prices.
- It is likely true that if a substantial portion of Pakistan's rice is exported, domestic market prices will experience an increase as well, exacerbating the country's existing challenge of rising inflation. Thailand and Vietnam, both substantial rice exporting nations, are also grappling with similar issues.
- In Aug'23, export rice prices of Vietnam, Thailand and Pakistan surged by ~22%, ~15% and ~12% respectively compared to July'23. This increase is attributed to trade disruptions following India's ban on white Rice exports.



# Rice

## Local | Prices

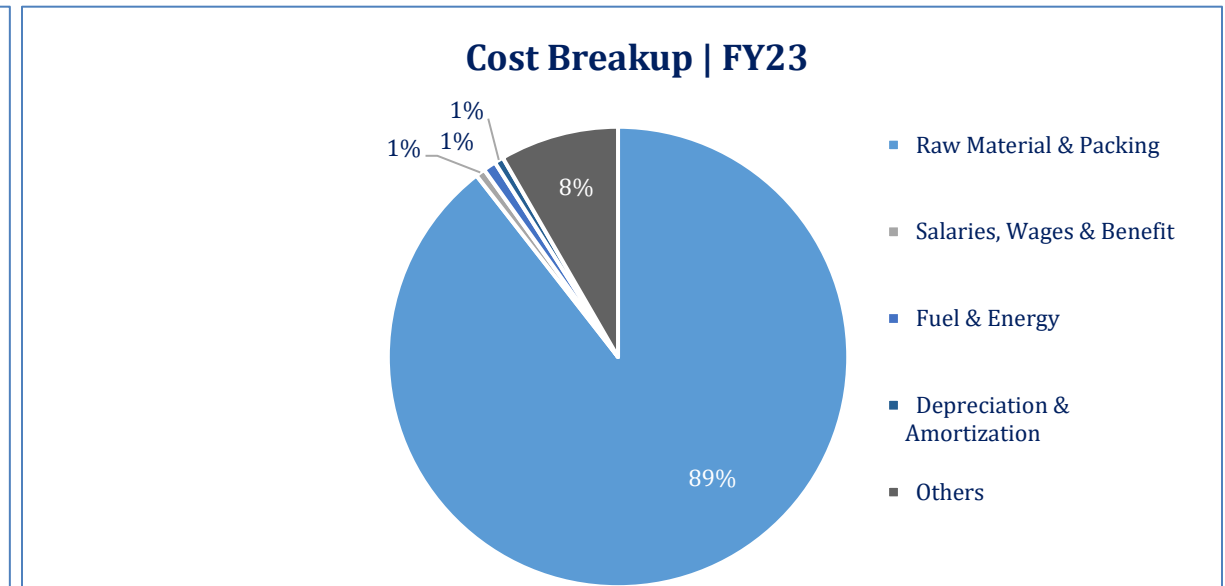
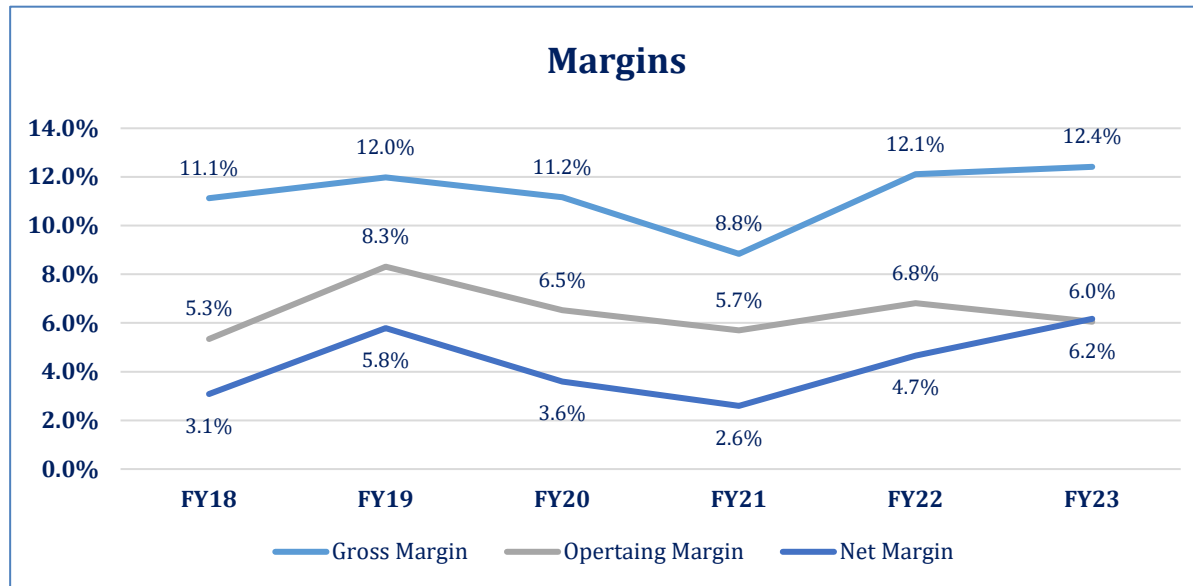
- Generally, the average price for both Basmati and Non-Basmati rice has shown an increasing trend over the last few years and a correlation of ~0.9.
- Average price for the Basmati (broken) during FY23 increased by ~54% YoY reaching to PKR~155/Kg from PKR~101/Kg in FY22. This rise is primarily due to the increased domestic inflation (~31.4% as at Sep'23), decreased production due to flash floods in Jul-Aug'22 and heightened demand of rice in the native market.
- Similarly, the average price for Non-Basmati rice increased to PKR~115/Kg in FY22 up by ~53% YoY from PKR~75/Kg in FY22.
- Average Basmati prices for the 1QFY24, clocked in at PKR~224/Kg (an uptick of ~85%, compared to last year's corresponding period), while Non-Basmati price was recorded at PKR~162/Kg (an increase of ~77% compared to 1QFY23).



# Rice

## Business Risk

- Average gross margins for the local rice millers was recorded at ~11.4% over the last six years (FY18-23), with the exception of FY21, when average gross margins dipped to ~9%, depicting the negative impact of the COVID-19 pandemic. For FY23, despite a decline in both sales and gross profit, average gross margins rose by ~3% and stood at ~12.4% (FY22: ~12.1%). The meagre increase in gross margins can likely be attributed to fall in cost of sales of ~16% YoY.
- Average net profit margins for the past six years (FY18-FY23) was recorded at ~4.3% and was as a result of increase in Other Income for the period under review. Interest expense, on the other hand, increased marginally by ~0.1% YoY, depicting overall higher finance costs, however, this increase was offset by growth in 'Other Income', that includes rental income and exchange gains. Sector's net margins during FY23 that stood at ~6.2% increased by ~1.5% compared with FY22 when these recorded at ~4.7%.
- Average operating margins, on the other hand, dropped by ~0.8% to ~6.0% in FY23 (FY22: ~6.8%), likely on the back of increased administrating and other operating expenses. The Sector's cost breakdown reveals that the largest component within direct costs is raw material comprising ~89% of the total cost of sales of Rice milling companies, therefore any fluctuation in the price of raw material or availability constraint can impact the Sector's margins.

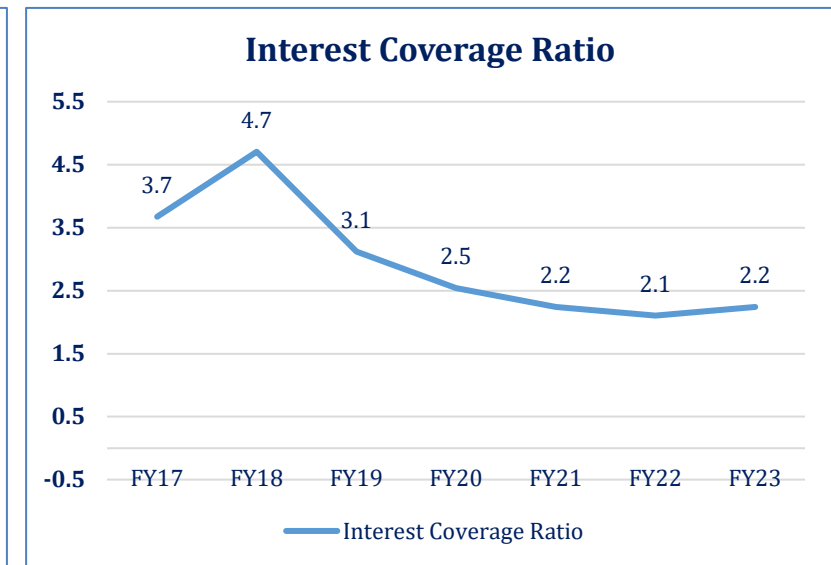
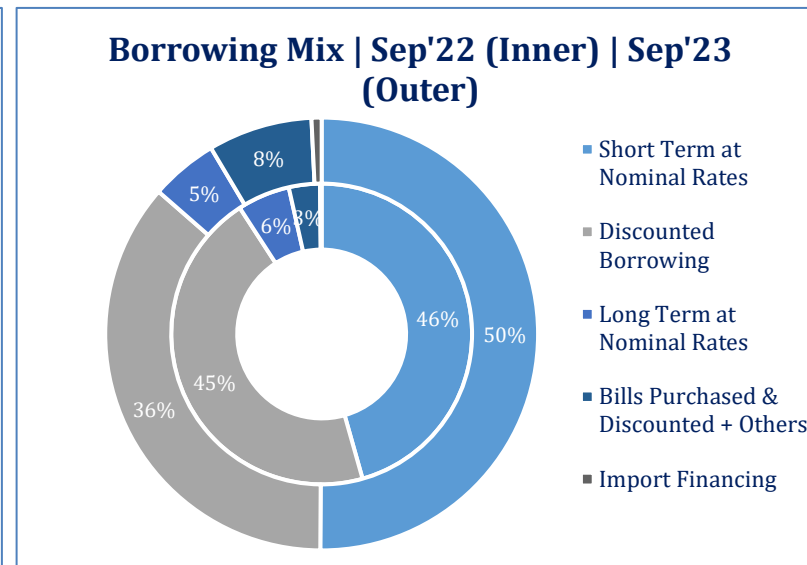
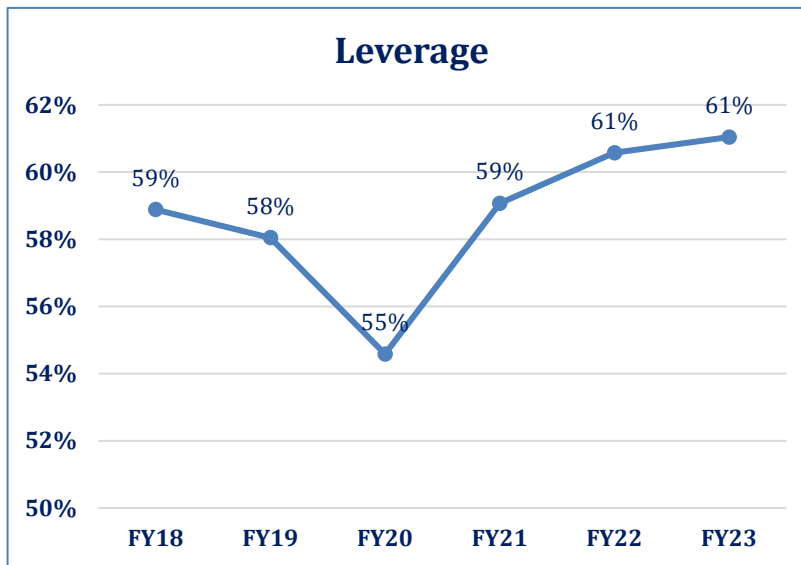


*Note: Figures are based on financials of PACRA-rated clients which largely include rice millers.*

# Rice

## Financial Risk

- Average leverage for Sector players has remained high over the years, averaging at ~59% for the last six years (FY18-23). The leverage has been increasing since FY20 when it dropped to ~55% and recently stood at ~61% during FY23. Increasing leverage indicates greater reliance on borrowings, thereby exposing the Sector further to financial risk vis-à-vis interest rate movements in the local market.
- Aggregate borrowing of Rice millers stood at PKR~172,882mln as of Sep'23, up by ~8.0% YoY against the corresponding period last year when these stood at PKR~160,164mln. Out of the total borrowings, ~88% of the borrowings are short-term in nature in order to finance the Sectors' working capital needs. Therefore, this significant reliance on short-term borrowings makes the business more prone to financial risk. Short term borrowings comprise EFS (~40.1%), import financing (~0.9%) and remaining ~59.0% relating to other short-term loans.
- Long-term loans comprise mere ~12% of the total borrowing mix and include LTFF (~1%) and ~11% other long-term loans. Import financing saw the largest increase of ~364% and stood at PKR~1,302mln as at Sep'23 (Sep'22: PKR~281mln), with the increase likely associated with SBP's decision to lift import restrictions that were imposed during May'22 -Jun'23.
- The rising leverage and increasing interest expense led to a decline in interest coverage during FY18-22. However, in FY23, interest coverage stood at ~2.2x (FY22: ~2.1x), improving slightly on back of better expense management.

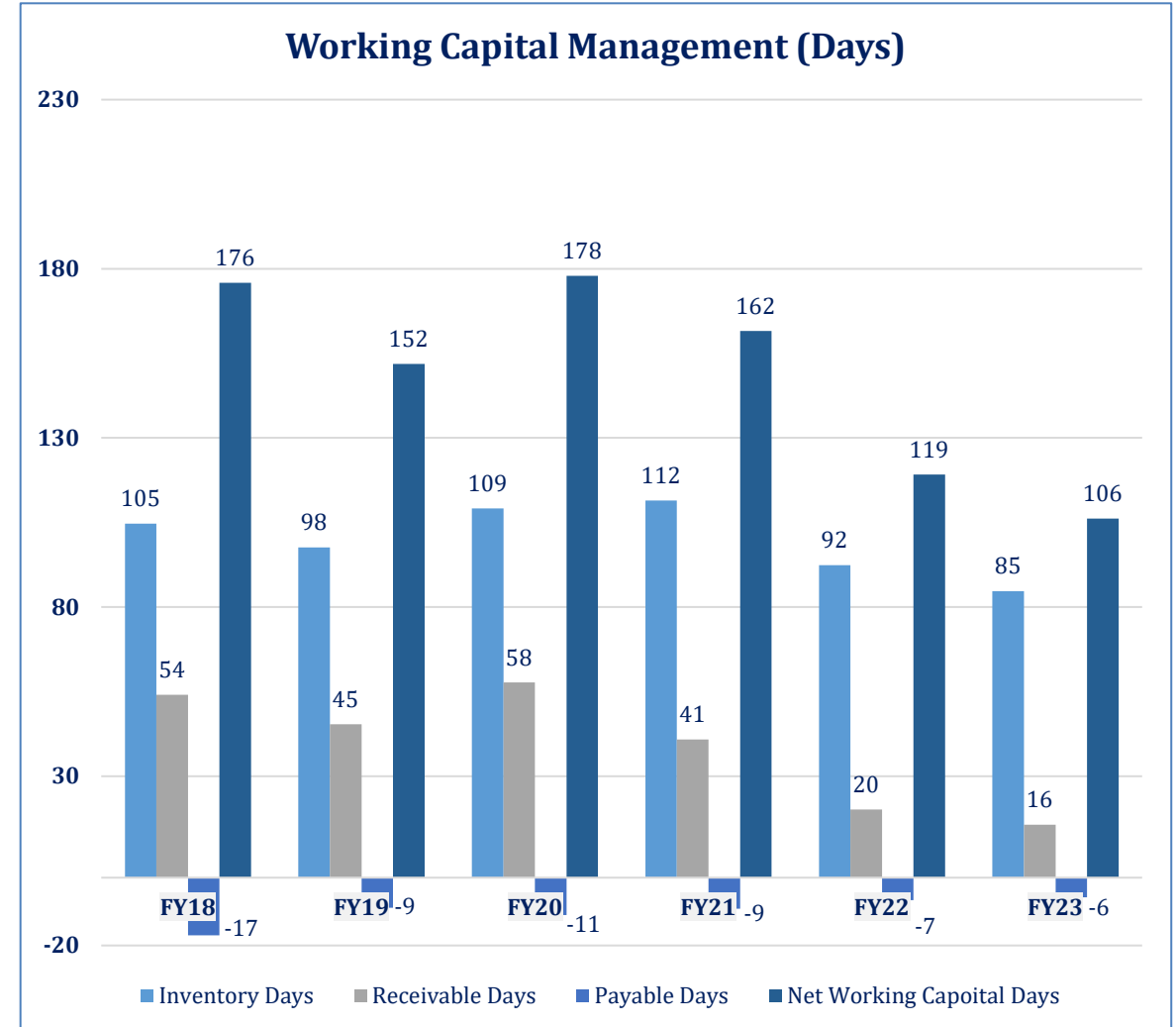


*Note: Some figures are based on financials of PACRA-rated clients which largely include rice millers.*

# Rice

## Financial Risk | Working Capital Management

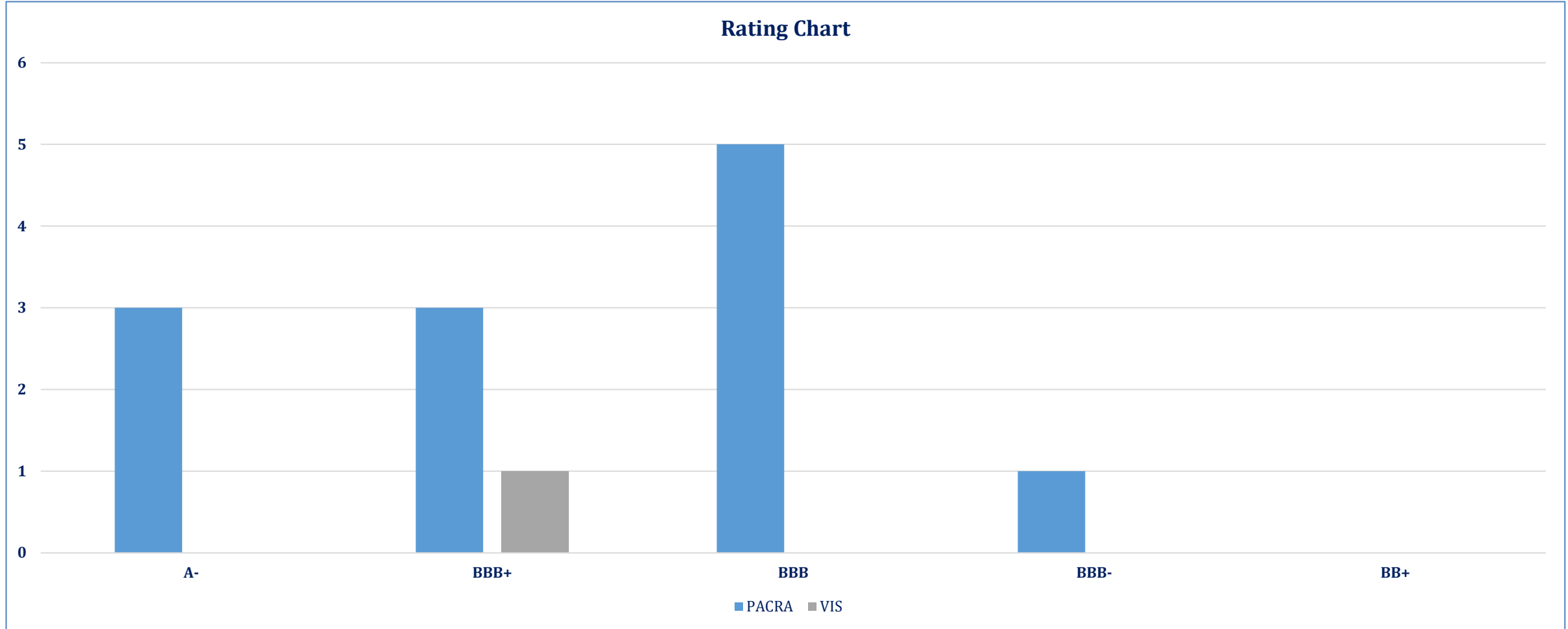
- Average working capital days for the Sector players declined by ~13 days to ~106 days during FY23 (FY22: ~119 days) due to a dip in both inventory days and receivable days. The working capital pattern is aligned to the rice crop cycle.
- The Sector’s inventory is generally maintained for ~4 months. It stood at ~85 days in FY23, compared to ~92 days in FY22. Most of the exported rice is majorly offloaded following December, after the harvesting season. Milled rice stock levels at End-December are, therefore, generally high, which are largely offloaded in the first quarter of the next year.
- In FY23, receivable days have declined to ~16 days (FY22:~20 days), with a YoY decrease of ~4 days. All rice exports are secured against either Letter of Credit (LC) or Cash Against Document (CAD).
- In FY23, payable days stood at ~6 days (FY22: ~7 days). Since Rice is a cash commodity, in order to secure supply of paddy and processed rice, the Sector usually makes cash payments and sometimes even advance payments to its suppliers that contributes to low payable days.



# Rice

## Rating Curve

PACRA rates 12 clients in the Rice Sector against 11 in FY22. Rating bandwidth of the sector lies between BB+ to A-.





# Rice

## SWOT

- Favorable agri-climatic conditions
- Continuous availability and ease of access to raw material
- Availability of low-cost skilled and unskilled labor
- Simple to operate plants
- Long grain rice well-established market
- Government incentives and policies
- Strong export prospects

Strengths

- Lack of research and development initiatives
- Low per-acre yield
- No value-addition/ commodity product
- Poor marketing strategies in export market
- Outdated machinery i.e. harvesters
- Unavailability of hybrid seed varieties
- Water management concerns

Weaknesses

- Rising freight charges
- Currency fluctuations
- Climatic changes and shifting rain cycles
- Strong bargaining power of buyers
- Intense competition from regional players in international market
- Geographical export concentration
- Groundwater depletion

Threats

- Growing population and food consumption
- Increased cultivation area for rice, as farmers switched from growing other crops.
- India's ban on Non-Basmati exports

Opportunities

# Rice

## Outlook: Stable

- Rice maintains its position as one of the imperative cash crops for Pakistan, being the second most important staple food after wheat. Rice contributes significantly towards agriculture value addition, i.e., ~1.9% and ~0.4% in GDP during FY23.
- **Export Prospects:** During FY19-23, Rice contributed ~8% to country's total export revenue, clocking in at USD~2,513mln during FY22 (SPLY: USD~2,041mln. However, on the back of crop damages owing to floods of Aug'22 and resultant ~21.5% YoY lower crop production, Rice exports amounted to USD~2,148mln, declining by ~14.5% YoY.
- However, in the presence of India's ban on exports of Non-Basmati Rice, implemented in Jul'23, average export prices for this type of Rice have recorded at USD~366.6/MT during 9MCY23 period. Considering that Rice production forecasts for Pakistan have been revised up from ~7.3mln MT to ~9.0mln MT for FY24, with area under cultivation forecast to increase to ~3.5mln Ha in FY24 and yield also expected to increase to ~2.8 MT/Ha in FY24 from ~2.4 MT/Ha, Rice exports for MY24 have been revised up to ~5.0mln MT, an increase of ~35.1% YoY. These dynamics paint a favorable picture for Sector players, as export revenues are expected to exceed USD~2.5bln.
- **Business Risk:** It follows from this that major risk facing the Sector are the short-term borrowings which made up ~88% of total borrowings as of Sep'23, with borrowing under Export Financing Scheme making up ~40% of these short-term borrowings during the same period. In the presence of rates for discounted borrowings linked with the policy rate, with the discount window currently at ~3%, compared against ~5% during corresponding period last year, the Sector remains exposed to changes in interest rates. However, with the SBP maintaining the policy rate at 22% for three consecutive monetary policy meetings (as of Sep'14, CY23), it is likely that the status quo will remain unchanged going forward. In the case of inflationary expectations taming down, it might even be expected to decrease by ~100-200bps, reducing the Sector's financial risk. Interest rate movements can be considered important in the context of Sector's leverage as well which recorded at ~59% during FY18-23 period and increased further to ~61% during FY23.
- Moreover, factors like PKR devaluation, that are likely to render exports competitive in international market, and India's ban on export of Non-Basmati Rice have created an opportunity for Pakistan to further expand Rice exports. Countries like Mexico and Russia have once again granted access to Pakistani Rice after a prolonged hiatus.
- Moreover, as per FY24 Budget, the local Banking sector has been granted Income Tax reduction on Income arising from additional advances to 20% from 39% to Agriculture sector. With a culmination of global trade dynamics and favorable local environment in terms of stable policy rate in play, the Sector is expected to exhibit considerable recovery in MY24.

# Rice

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