



## SECTORWATCH | CORONAVIRUS | SUGAR & ETHANOL

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
<b>AGRICULTURE &amp; ALLIED</b>	<b>SUGAR &amp; ETHANOL</b>
<b>SIZE</b>	<ul style="list-style-type: none"> <li>- Sugarcane (MY19 – Marketing Year)               <ul style="list-style-type: none"> <li>o Contribution towards GDP ~ 0.5%</li> <li>o Agriculture Value ~ 2.9%</li> </ul> </li> <li>- Sugar               <ul style="list-style-type: none"> <li>o Installed Crushing Capacity ~ 67MMT,</li> <li>o Sugarcane Crushed (MY19) ~ 49.7MMT, Est. Sugarcane Crushed (MY20) ~ 48.2MMT</li> <li>o Sugar Production (MY19) ~ 5.3MMT (Decline~16%), Est. Production (MY20) ~ 5 to 5.2 MMT</li> <li>o Consumption (MY19) ~ 5.4MMT</li> </ul> </li> <li>- Ethanol               <ul style="list-style-type: none"> <li>o Installed Capacity ~ 0.8MMT</li> <li>o Production (MY19) ~ 0.6MMT</li> </ul> </li> <li>- Industry’s Estimated Revenue ~ PKR 500bln to 600bln</li> </ul>
<b>NUMBER OF PLAYERS</b>	<ul style="list-style-type: none"> <li>- Total No. of Industry Players ~ 75, No. of Listed Players ~ 23</li> <li>- Total No. of Sugar Mills ~ 90</li> <li>- Total No. of Distilleries ~ 18</li> </ul>
<b>PACRA PENETRATION</b>	<ul style="list-style-type: none"> <li>- PACRA rates eleven player in sugar and allied sector with:               <ul style="list-style-type: none"> <li>o ~ 18% market share in terms of sugarcane crushing capacity</li> <li>o ~ 16% market share - in terms of ethanol production capacity</li> </ul> </li> </ul>
<b>IMPACT</b>	<ul style="list-style-type: none"> <li>- Sugar industry mainly generates revenue from the sale of sugar in local and export market. However, no export quota for sugar was allowed by the Federal and Provincial Government for the crushing period ended Mar-20. Being a staple food item, demand for sugar from household is not likely to drop, especially with Ramadan approaching. However, closure of eateries, banquet halls and hospitality segment may slightly impact demand.</li> <li>- Supply side: The industry, being agrarian in nature, remains affluent with key raw material, sugarcane. Area under sugarcane cultivation declined by 12% with low sugarcane yield (MY19 ~ 67MMT, MY20 ~ 65MMT). Lower quantity of sugarcane was crushed. As the crushing season closed in Mar-20, industry players have sufficient inventories to fulfill demand till the next crushing season begins in ~ 6 to 8 months.</li> <li>- Local prices for sugar surged, 9% since Jan-20, due to low crop availability during the current crushing season leading to high procurement cost. Government announced support price for sugarcane stood at PKR 190 per maund. Millers claim to have paid an average of PKR 220 per maund during MY20 due to low availability of crop. Cost of sugarcane, accounting for 80% of production cost, posted a surge of 22%. Since Jan-20, international prices have dropped for sugar (10%).</li> </ul>



- Ethanol – Distilleries generate revenue from the sale of mainly medical and food grade ethanol in export market. Price of key raw material for ethanol – molasses – increased in local market. Sales in the export market for medical and food grade ethanol surged leading to price increase of ~130%. However, prices for fuel grade ethanol dropped (50%). Distilleries are enjoying strong margins further supplemented by rupee depreciation of around 4% since Jan-20.
- Leveraged financial profile for industry players, mainly short term. Total advances for sector stood at PKR 221bln with Non-performing Loans of PKR 51bln as at Dec-19 resulting in 22% NPL ratio. Interest rate cut of 425bps, along with SBP initiatives like restructuring/deferment of loans would provide relief.
- Revenues for industry players are expected to remain stable with strong margins, especially for carryover stock, as domestic prices for sugar remain attractive. Entities having both sugar and ethanol production will reap maximum benefit as demand and price of medical grade ethanol has increased significantly in international market. The recent investigation regarding provision of subsidy for sugar exports and role of certain mills may put pressure on prices and cap them in local market. The industry is expected to remain afloat with adequate cash flows and liquidity in the near-term.

#### **DISCLAIMER**

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#### **CONTACT**

faiqa.qamar@pacra.com  
+92-42-35869504  
www.pacra.com.pk

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