



Jute

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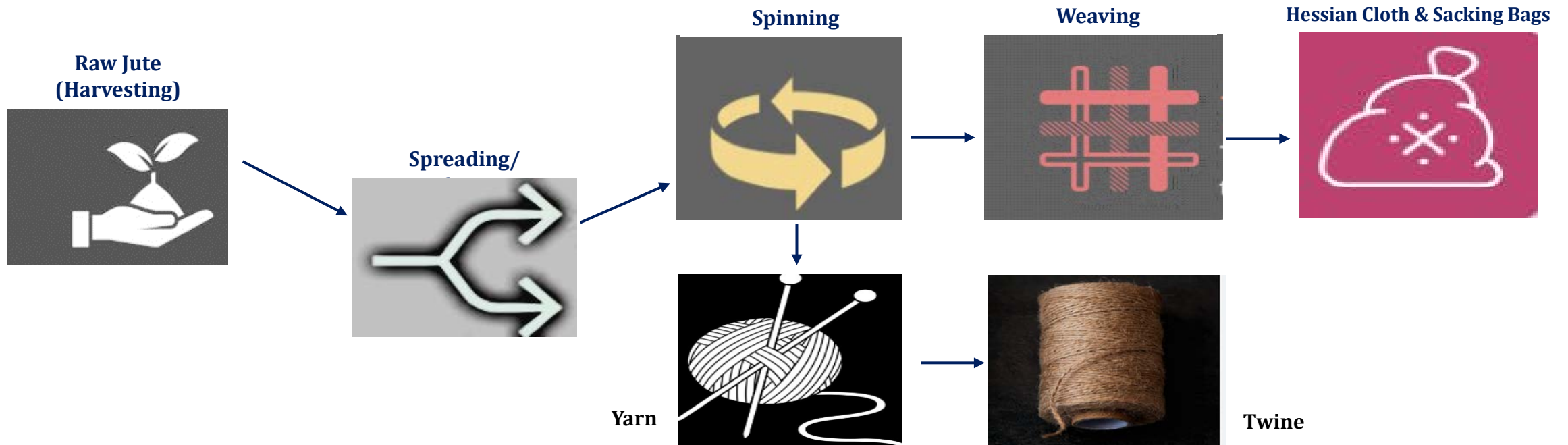


Overview

Jute

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.
- 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 Synopsis

Global | Overview

- **Size:** The market size of the global jute bags is expected to grow from USD~2.8bln in CY23 to USD~5.9bln in CY32 at a CAGR of ~8.9% (CY24-CY32) 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 (~51.1%) and Bangladesh (~45.8%), with cumulative share of ~96.9% in the global Jute crop in FY23 (FY22: ~96.5%). In FY23, global Jute production stood at ~3.3mln MT (FY22:~3.2mln MT), a YoY increase of ~5.5%. 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 ~76.0% share of the global exports as in FY23. India has a smaller share since majority of its Jute production is consumed locally.
- **Imports:** With respect to world imports of raw Jute, India, Pakistan and Nepal are the top three countries, with imports recording at ~0.106mln MT, ~0.058mln MT and ~0.039mln MT, respectively in FY23.
- **Outlook:** Jute bags biodegradability, affordability, and durability have contributed to the growth of the ethical bag market. Jute shopping bags, sack bags, and hessian bags are rapidly gaining popularity and are expected to continue rising in demand.
- Additionally, jute is easy to recycle and cost-effective, enabling commercial users to diversify their product offerings.

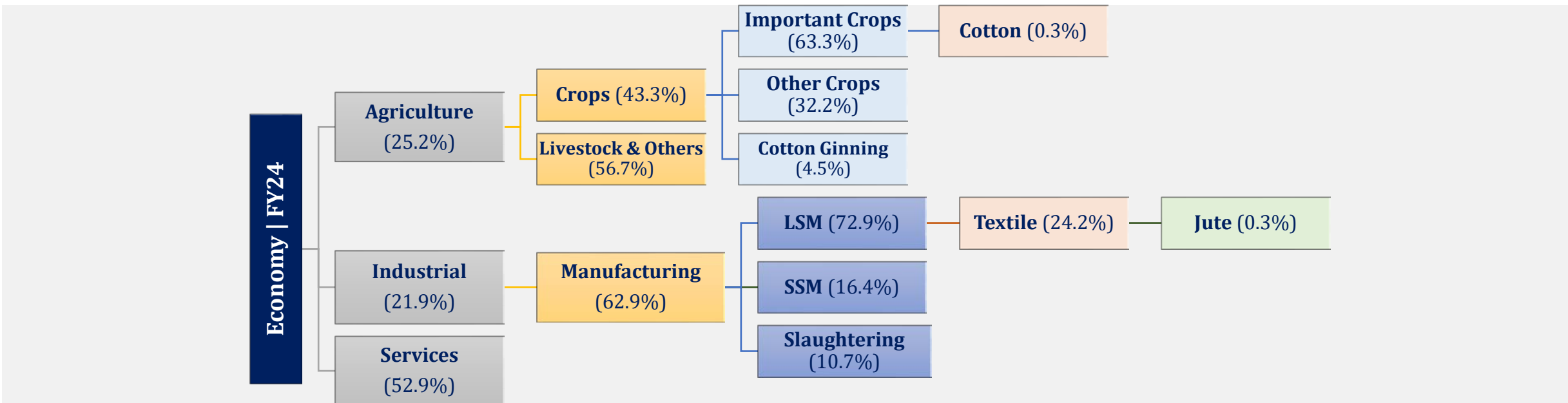
Country	World Production of Jute & Allied Fibres ('000 MT)			World Exports of Products of Jute, Kenaf and Allied Fibres (000 MT)	
	FY21	FY22	FY23*	FY22	FY23*
India	1,080	1,548	1,710	70	82
Bangladesh	1,408	1,515	1,533	600	587
Pakistan	70	58	63	10	20
China	45	41	36	5	3
R.O.W	16	13	7	85	82
World	2,619	3,175	3,349	770	773



Local Synopsis

Local | Introduction

- In FY24, Pakistan’s GDP (nominal) stood at PKR~106.0trn (FY23: PKR~83.9trn), increasing, in real terms, by ~2.4% YoY (FY23: ~-0.21% growth). Industrial activities in FY24 held ~21.9% share in the GDP while the manufacturing activities made up ~62.9% of the value addition. In 3QFY24, Pakistan’s GDP (nominal) stood at PKR~25.4trn (3QFY23: PKR~20.6trn), rising in real terms by ~2.1% YoY (2QFY24: ~1.8% YoY). Real GDP growth rate (~2.1%) for 3QFY24 signals a moderate improvement in the economic activity as compared to SPLY.
- Large Scale Manufacturing (LSM) in Pakistan is essential for the economic growth considering its linkages with other sectors, as it represented ~72.9% value of the manufacturing activities in FY24. The LSM fell by ~10.3% YoY in FY23 (FY22: ~11.7%), however, it inched up ~0.92% YoY in FY24.
- The textile sector is classified as a Large Scale Manufacturing (LSM) industrial component within the industrial sector. In FY24, the textile industry’s weight in the QIM was recorded at ~24.2% while jute that accounts for ~0.3% weight within textile recorded ~35.0% YoY decrease during the year.



Local | Overview

- **Size:** During FY24, the domestic market capitalization of the Jute Sector was estimated at PKR~33.5bln as compared to PKR~28.2bln during the same period last year, up ~18.8% 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 9MFY24, there are a total of 10 units installed and operational in Pakistan's jute Sector, with ~25,060 spindles installed (9MFY23: ~25,060 spindles), while ~67.0% of the installed spindles are operational (SPLY: ~73.2%). Similarly, the number of looms installed stand at ~1,186 units as of 9MFY24 (9MFY23: ~1,134 units) out of which ~64.0% are operational (SPLY: ~69.0%). Total production of Jute goods in FY24 fell by ~35.0% to record at ~41,000MT (SPLY: ~63,000MT).
- **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 & 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. During FY24, the installed capacity of these five major players stood at ~114,300 MT. As of FY24, Thal Limited & Sargodha Jute Mills hold ~56.3% combined share in terms of production capacity of the five local Jute Mills Sector.
- During FY19-23, average production levels were recorded at ~65,000 MT. However, total production of Jute goods in FY24 fell by ~35.0% to record at ~41,000MT (FY23: ~63,000MT). Out of this, Sacking Bags formed the largest share at ~65.9% and stood at ~26,500 MT, decreasing by ~43.8% YoY. Other categories of goods including Hessian Cloth and Miscellaneous Products that made up ~26.8% and ~7.3% of the total production, respectively, during FY24.

Annual Production of Jute Goods					
(000'MTs)	FY20	FY21	FY22	FY23	FY24
Sacking Bags	43	43	37	48	27
Hessian Cloth	12	18	14	11	11
Others	10	9	7	4	3
Total	65	70	58	63	41

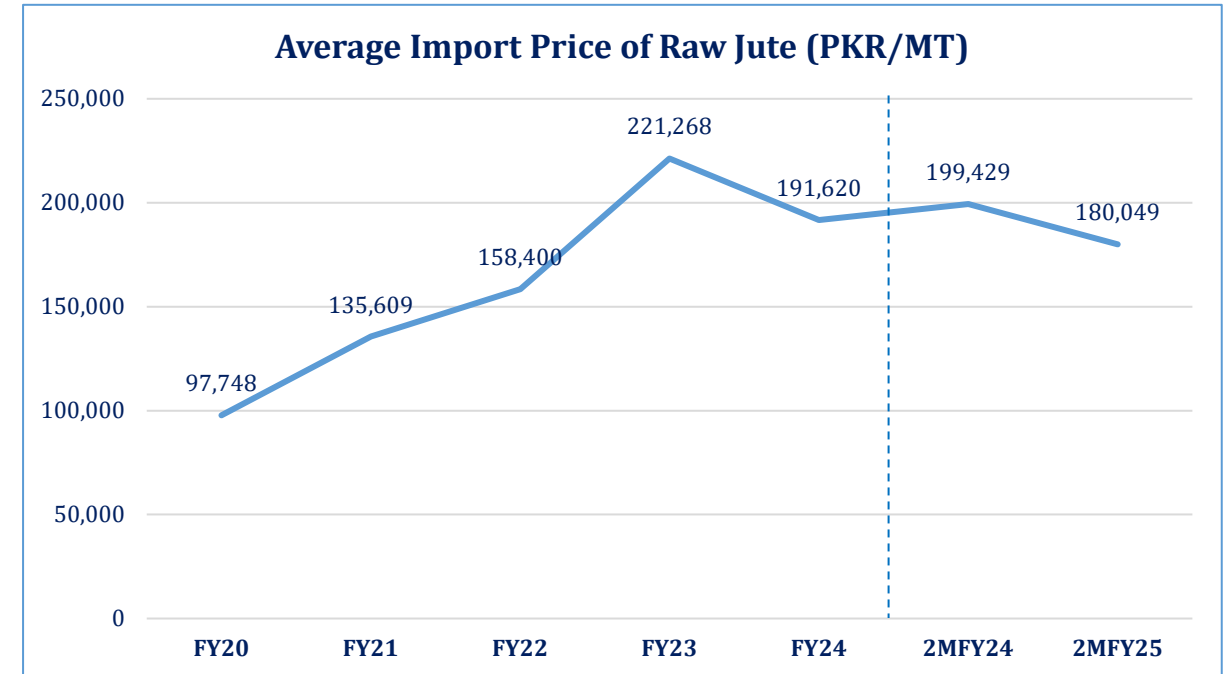
Name of Players	FY24 Capacity (MT)
Thal Limited	33,800
Sargodha Jute Mills	30,500
Indus Jute Mills*	20,000
White Pearl Jute Mills	15,000
Madina Jute Mills*	15,000
Total	114,300

*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 FY24, imports stood at PKR~6,970mln as compared to PKR~14,216mln in FY23 (FY22: PKR~9,354mln), a decrease of ~51.0% YoY. The decrease in imports in value terms came on the back of a decline in the imports in quantitative terms.
- Jute import price in terms of PKR/MT fell ~13.4% YoY (FY23: up ~39.7% YoY) reaching up to PKR~191,620/MT in FY24 from PKR~221,268/MT in FY23 on account of both lower rupee devaluation (~14.1%) and lower imports (~43.4%) in FY24 when compared with SPLY. Jute imports in volumetric terms declined from ~64,248 MT in FY23 to ~36,374 MT in FY24.
- During 2MFY25, jute imports were recorded at ~2,877 MT (2MFY24: ~9,452 MT), down ~70.0%

Year	Quantity (MT)	Value		Average Import Price	
		PKR mln	USD mln	PKR/MT	USD/MT
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	64,248	14,216	57.9	221,268	901
FY24	36,374	6,970	24.6	191,620	677
2MFY24	9,452	1,885	6.6	199,429	697
2MFY25	2,877	518	1.9	180,049	646



Jute

Local | Jute Products Exports

- Pakistan mainly exports two Jute products - Hessian cloth and Jute Sacks/Bags. In FY23, Pakistan exported ~4,560 MT of Sacks/Bags made of Jute compared to ~4,031 MT in FY22, up ~13.1% YoY. Exports of Hessian Cloth had risen by ~420.8% YoY during FY23 to reach ~32,258 MT from ~6,194 MT in FY22. Sudan has been the major export destination for Jute Sacks/ Bags during the last eight years (FY16-23). During FY23, ~55.3% of Pakistan's total Jute Sacks/ Bags exports were to Sudan. With respect to prices, export price of Jute Sacks/ Bags in FY23 stood at PKR~423,465/MT (FY22: PKR~293,724/MT), depicting an increase of ~44.2% YoY.
- Prior to FY20, Uzbekistan was the largest importer of Hessian Cloth. While during the last three years (FY20-22) Egypt was the largest importer of Hessian Cloth. However, during FY23, UAE was the largest importer of Pakistan's total exports of Hessian Cloth during FY23 (~30.0% share in Pakistan's total Hessian Cloth exports). On the prices front, average export price of Hessian Cloth stood at PKR~47,492/MT in FY23 (FY22: PKR~294,156/MT), an decrease of ~83.9% YoY.

Jute Exports (Sacks/ Bags)	Quantity	Value	Avg. Exchange Rate	Value	Average Export Price	
	MT	PKR mln	USD/PKR	USD mln	PKR/MT	USD/MT
FY19	6,607	987	136	7.2	149,387	1,096
FY20	6,513	1,140	158	7.2	175,035	1,106
FY21	5,921	1,257	160	7.8	212,295	1,324
FY22	4,031	1,184	178	6.7	293,724	1,650
FY23	4,560	1,931	248	7.8	423,465	1,708

Jute Exports (Hessian Cloth)	Quantity	Value	Avg. Exchange Rate	Value	Average Export Price	
	MT	PKR mln	USD/PKR	USD mln	PKR/MT	USD/MT
FY19	163	2	136	0	10,939	80
FY20	1,233	223	158	1.4	180,860	1,143
FY21	4,365	1,133	160	7.1	259,565	1,619
FY22	6,194	1,822	178	10.2	294,156	1,652
FY23	32,258	1,532	248	6.2	47,492	192

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



Financial & Business
Risk

Jute

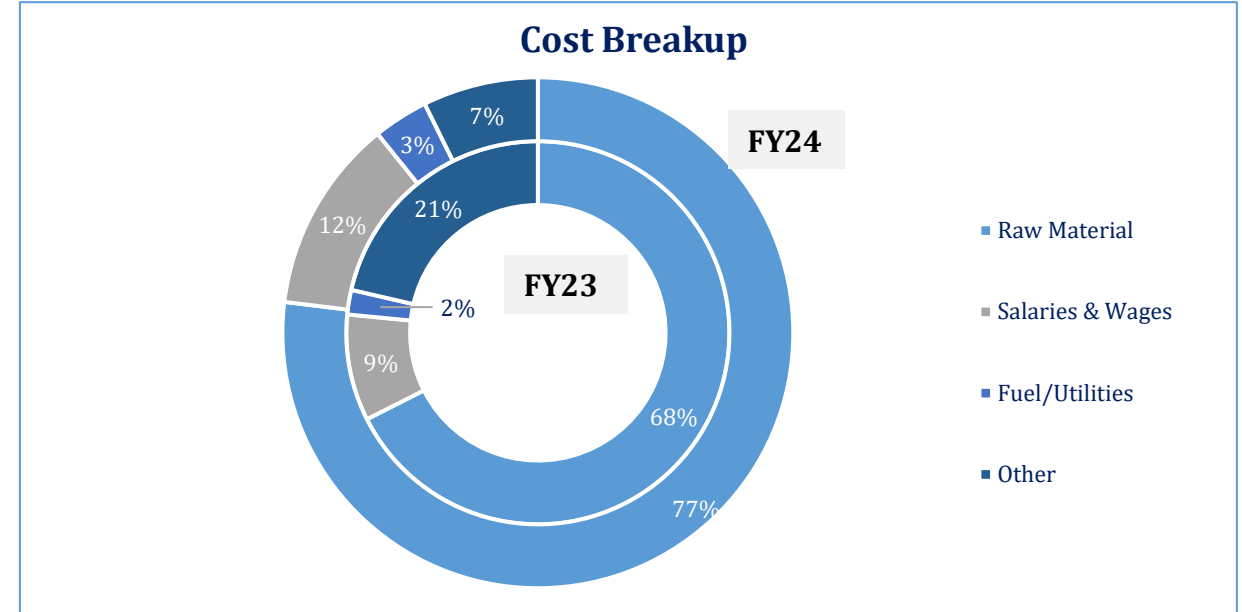
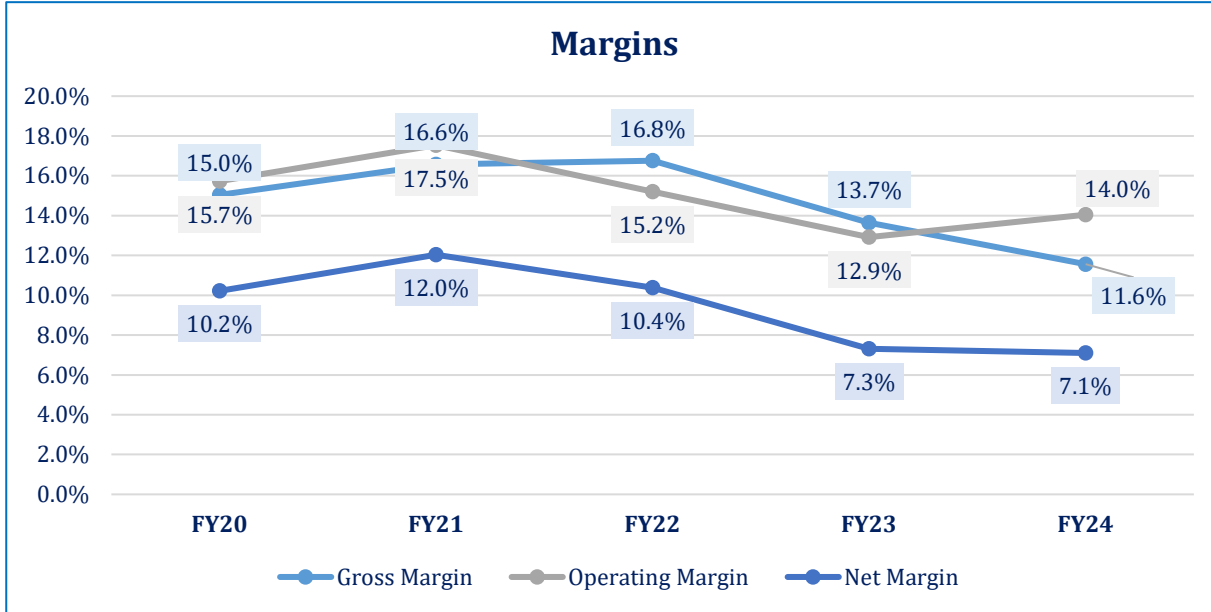
Local | Business Risk

- **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).
- **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

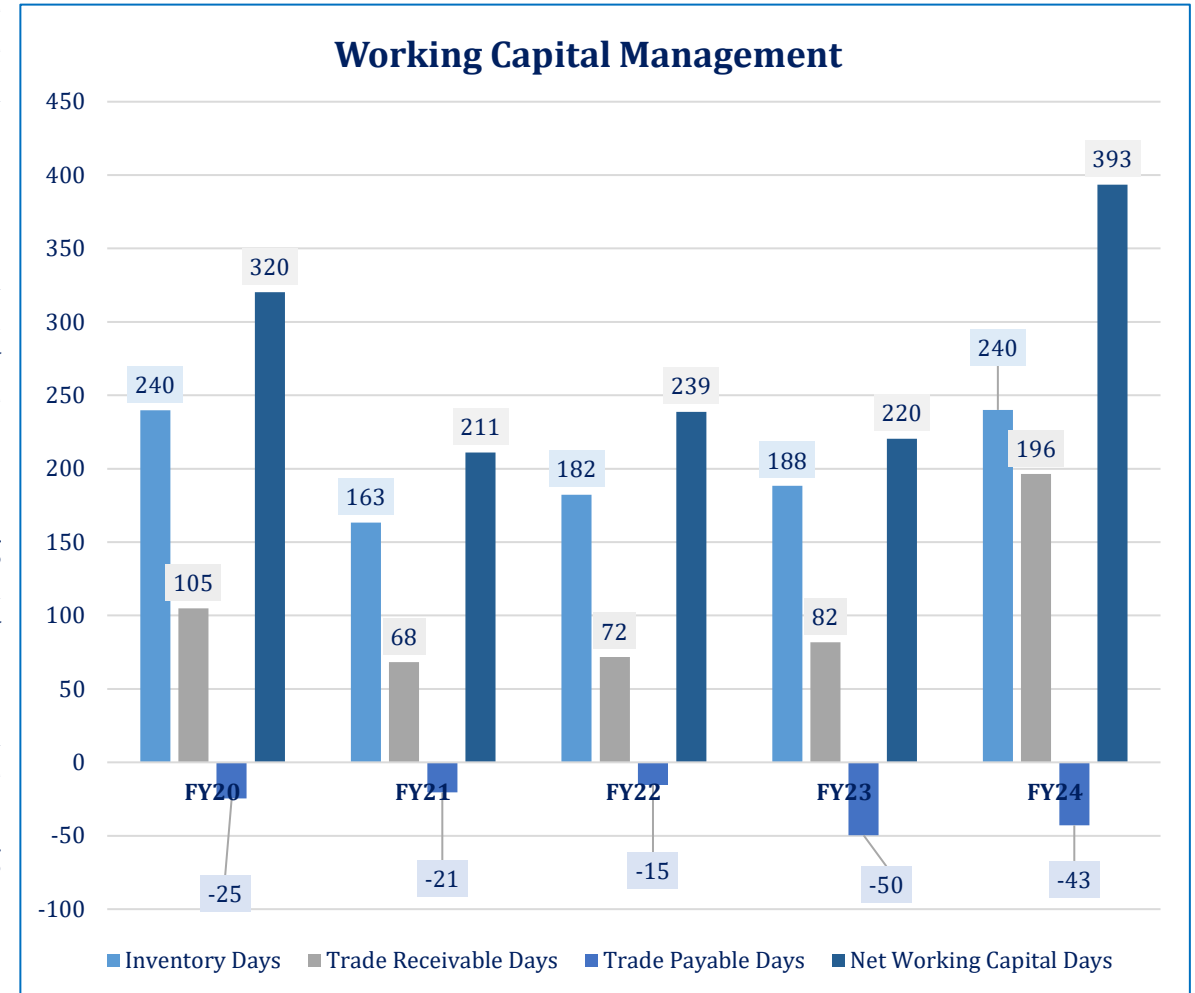
- The margins of jute Sector are significantly dependent on two factors (i) Jute export prices in Bangladesh (CY23: USD~1031.7/MT; CY22: USD~1,225.8/MT; CY21: USD~1,667/MT; CY20: USD~922/MT) and (ii) exchange rate fluctuations. The volatility in profit margins is attributable to changes in prices of imported raw material, i.e. Raw Jute, along with volatility in exchange rates.
- In FY24, the sector's average gross margin deteriorated from ~13.7% in FY23 to ~11.6% in FY24, due to a decline in sales (~22.0%) which was higher than decline in cost of sales ~20.0%(imported raw materials). However, operating margin increased from ~12.9% in FY23 to ~14.0% in FY24. Average net margins experienced a dip of ~2.7% in FY24 and decreased from ~7.3% in FY23 to ~7.1% in FY24 owing to ~48.0% higher interest rates. During 11MFY24, the interest rates stood at 22.0%, however on June 12, 2024 they were reduced to ~20.5%. Interest rates now stand at ~17.5% w.e.f September 12, 2024.
- During FY24, raw material constituted ~77.0% of manufacturing costs (FY23: ~68.0%), followed by salaries and wages that comprised ~12.0% of the total cost (FY23: ~9.0%).



Note: Historical margins and cost break-up is estimated from data of two players in the Jute Sector that jointly hold ~80% of the market share. Margins are revenue weighted.

Local | Financial Risk

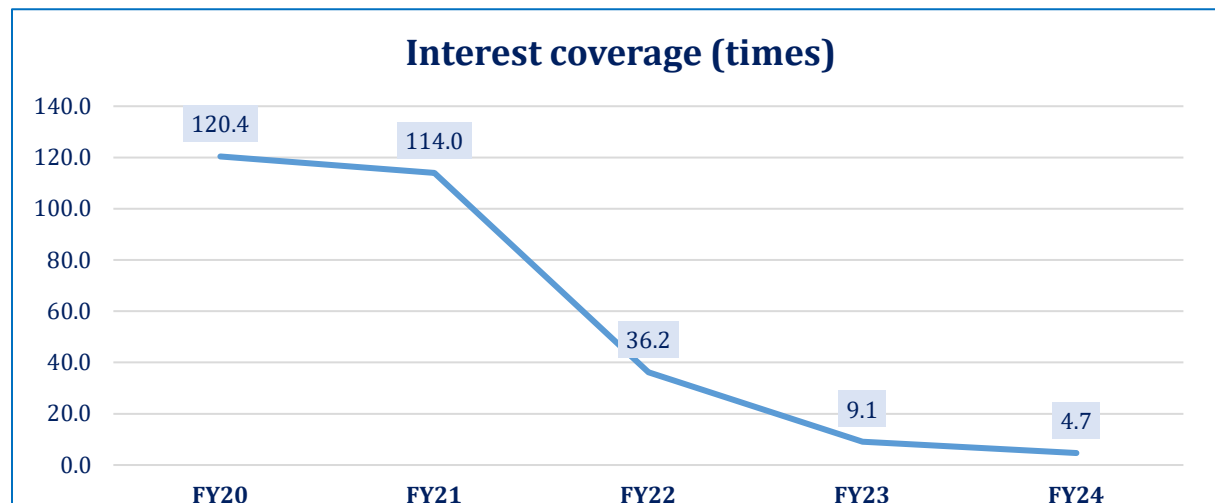
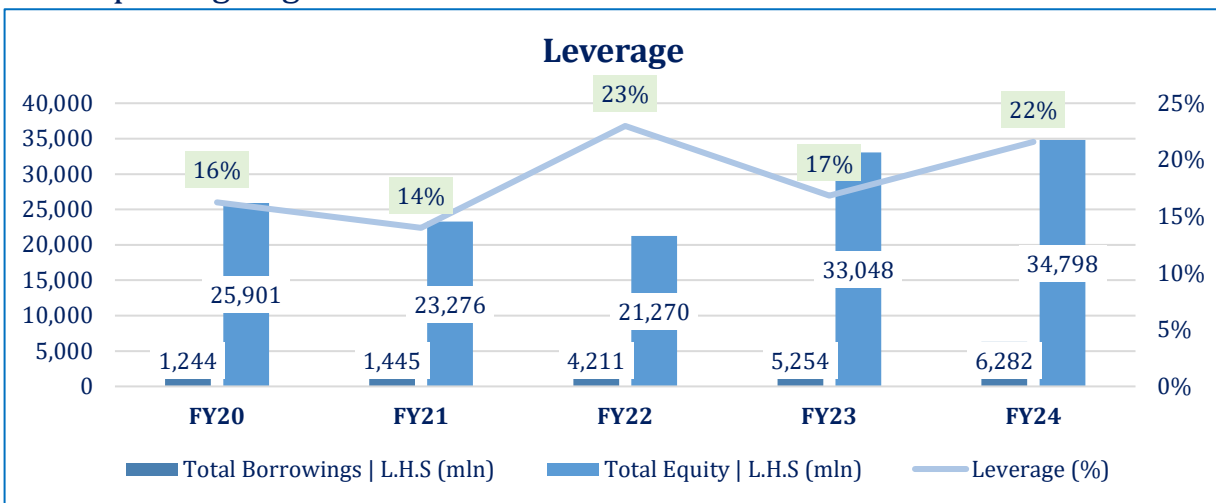
- The Sector’s working capital is largely a function of its inventory and trade receivables, while also being exposed to seasonality. Majority of the procurement of raw material usually occurs during the second and third quarters of the fiscal year, i.e. from October to March. Raw material is usually 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 FY24, the working capital cycle deteriorated as it increased by ~173 days from ~220 days in FY23 to ~393 days in FY24. The rise in working capital cycle was due to an increase in inventory cycle by ~52 days (from ~188 days in FY23 to ~240 days in FY24). This reflects that high inventory levels were being maintained during the year.
- Additionally, average trade receivables rose by ~114 days to ~196 days in FY24 from ~82 days in FY23, reflecting delay in payments by the receivables. However, average trade payables dropped by ~7 days (FY24: ~43 days; FY23: ~50 days) and contributed positively to the working capital cycle in FY24.



Note: Numbers estimated from data of two players in the Jute Sector that jointly hold ~80% of the market share.

Local | Financial Risk

- In FY24, the Jute sector’s total borrowings increased by ~19.6%, recording at PKR~6,282mln (SPLY: PKR~5,254mln). Of these, short-term borrowings made up ~37.0%, while ~63.0% comprised long-term borrowings (FY23 borrowing mix – Short-term Borrowings: ~28.0%, Long-term Borrowings: ~72.0%).
- 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 sector’s long-term borrowings is higher than the proportion of short term borrowings between FY22-FY24.
- The sector’s capital structure is sound as it has a low level of leverage, in FY24 leverage stood at ~22.0% compared to ~17.0% in FY23.
- 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 ~68.2% to ~36.2x (FY21: ~114x). This significant drop continued into FY23 and FY24, with interest coverage reaching as low as ~9.1x and ~4.7x, respectively, signaling a worsening ability to manage debt obligations in the face of rising finance costs. However, with interest rates standing at ~17.5%, interest coverage may be expected to improve going forward.



Note: Borrowing mix and average leveraging is calculated using data of two major players that together hold ~80% of the market share.

Jute

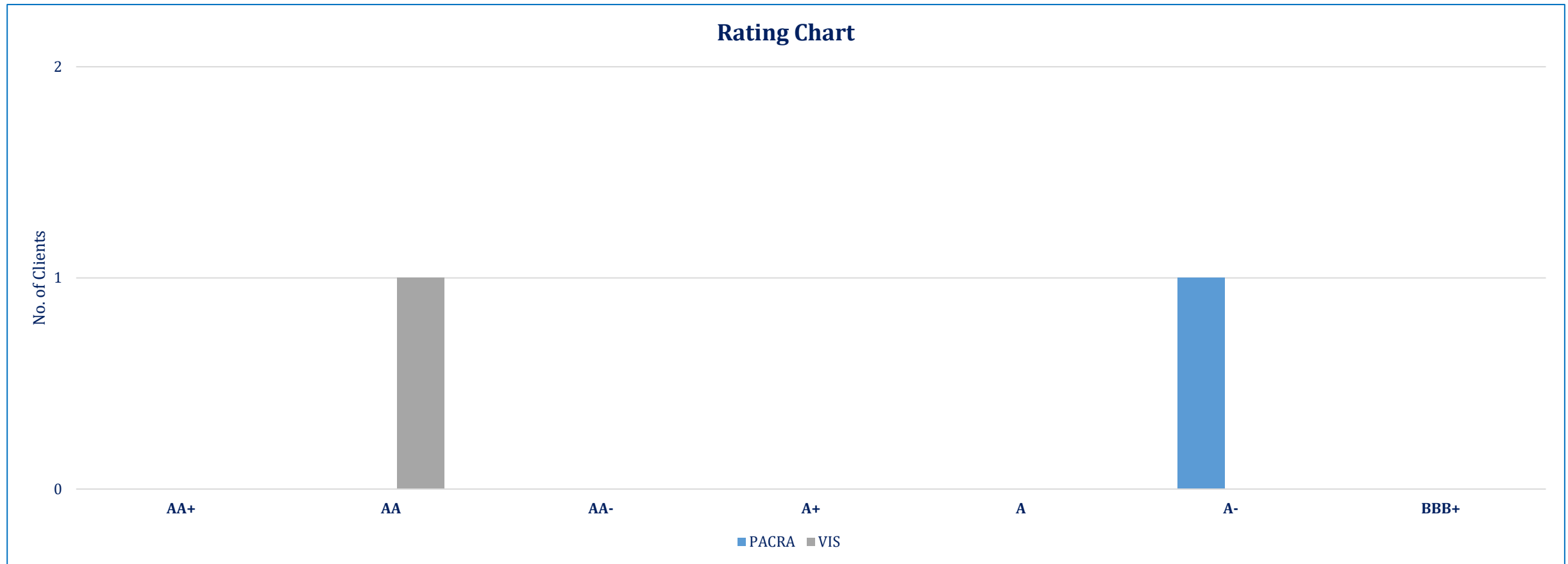
Local | Duty Structure

- 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	
		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
53.03	Jute, raw or processed but not spun	2%	2%	0%	0%	0%	0%	2%	2%
53.07	Jute Yarn	2%	2%	0%	0%	0%	0%	2%	2%
53.1	Woven fabrics of Jute	4%	4%	16%	16%	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 Curve

PACRA rates one entity in the Jute sector. PACRA's rated universe comprises ~30% 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

- In FY24, Pakistan's GDP (nominal) stood at PKR~106.0trn (FY23: PKR~83.9trn), increasing, in real terms, by ~2.4% YoY (FY23: ~-0.21% growth). Industrial activities in FY24 held ~21.9% share in the GDP while the manufacturing activities made up ~62.9% of the value addition. In 3QFY24, Pakistan's GDP (nominal) stood at PKR~25.4trn (3QFY23: PKR~20.6trn), rising in real terms by ~2.1% YoY (2QFY24: ~1.8% YoY). Real GDP growth rate (~2.1%) for 3QFY24 signals a moderate improvement in the economic activity as compared to SPLY.
- During FY19-23, average production levels were recorded at ~65,000 MT. However, total production of Jute goods in FY24 fell by ~35.0% to record at ~41,000MT (FY23: ~63,000MT). Out of this, Sacking Bags formed the largest share at ~65.9% and stood at ~26,500 MT, decreasing by ~43.8% YoY. Other categories of goods including Hessian Cloth and Miscellaneous Products that made up ~26.8% and ~7.3% of the total production, respectively, during FY24.
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- Jute shopping bags, sack bags, and hessian bags are rapidly gaining popularity and are expected to continue rising in demand. Additionally, jute is easy to recycle and cost-effective, enabling commercial users to diversify their product offerings. Moreover, considering the reliance of agricultural products on Jute Bags, the sector's performance is likely to stay on course.

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