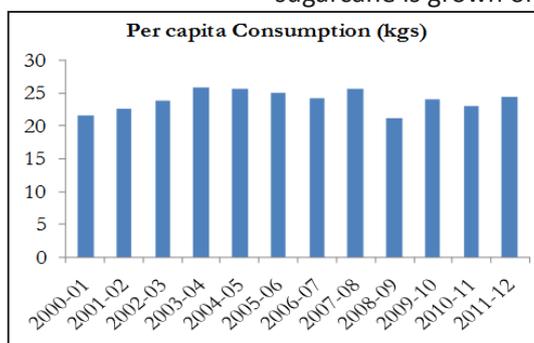


## Sugar Industry

*Upward pressure ahead with increasing input prices and weakening local currency...*

The sugar industry of Pakistan plays a vital role in creating economic activity for the country's farmers as well as sugar manufacturers. It is the second largest agro based industry of the country after textiles and in terms of acreage, Pakistan is the sixth largest producer of sugarcane and 12th largest producer of refined sugar amongst global players. In Pakistan, sugarcane is grown on approximately one million hectares and provides raw



material for the 84 sugar mills operating nationwide presently. In addition to sugar, molasses, a sugar cane by product, is also used in the production of pharmaceutical and fuel grade ethanol while bagasse, another by-product of the process, is used in paper and chip board manufacturing. Out of the total income generated by the sugar sector, majority of the proportion is routed to the growers while a sizeable amount is also paid to the government in lieu of taxes and federal excise duty.

As per recent statistics, the average per capita consumption of sugar in Pakistan is reported around 24.6kg which is higher than sugar consumed in other regional countries and slightly above global average of per capita consumption of the commodity. The non availability of competitive sugar substitutes for bulk consumers of processed food sector also has an impact on overall consumption.

*Pakistan is the sixth largest producer of sugarcane and 12th largest producer of refined sugar in the world...*

*..sugarcane is grown on approximately one million hectares and provides raw material for the 84 sugar mills operating nationwide.*

### Domestic Sector Profile

On account of growth in population and strong demand of sugar from bulk consumers in Pakistan, nationwide sugar consumption is expected to be pushed up to 4.5 million tons during crushing season 2013-14, up 2% relative to estimated demand of 4.4 million tons for crushing season 2012-13. During the last crushing season i.e. 2012-13, abundant rainfall was a key driver of record sugarcane harvest. The local sugar production was estimated around 5.7 million tons during the same crushing season while sugar production has been forecasted to remain well above sugar demand during season 2013-14.

Area under cultivation during the 2012-13 crushing season remained around prior year's level of 1 million hectares while same is expected to decrease slightly to 995,000 hectares during crushing season 2013-14.

The demand for sugar is relatively inelastic since it is a necessary household commodity. Over the past few years, consumption of sugar by the processed food sector (soft drinks, fruit drinks, dairy, traditional sweets and confectionary) has witnessed a significant increase. The corporate

manufacturers including makers of candies, local sweets, bakery items and soft drinks account for around 60% of the total annual sugar demand.

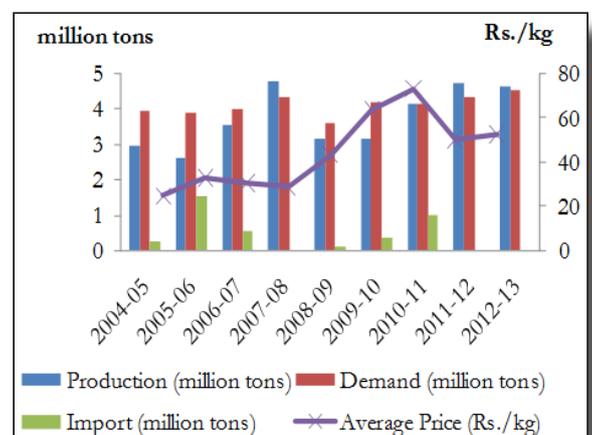
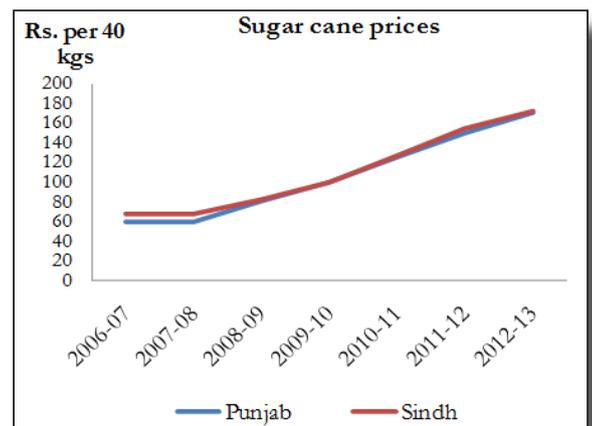
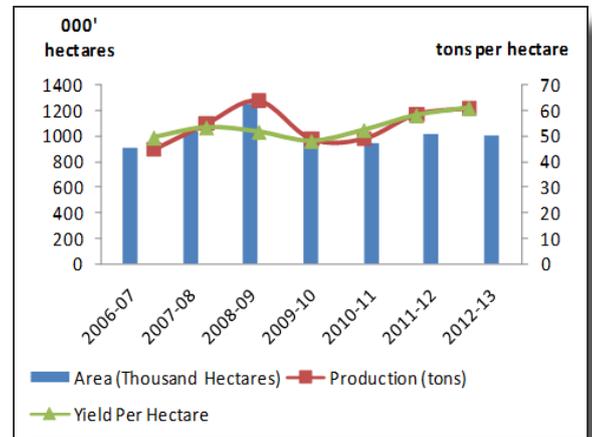
The cumulative crushing capacity of operational sugar mills is estimated to be around 548,100 TCD while the annual crushing capacity based on 120 days crushing season is approximately 65.7 million tons. After the surplus sugar production in the current crushing season, GoP revised the target of sugar exports to 1.2 million tons. Increased exports are expected to facilitate mills in off-loading their inventory without placing excess downward pressure on prices in local market; domestic sugar stocks after the 2012-13 crushing season and inclusive of the carry over stock from the previous year is estimated at around 900,000 tons.

During the crushing season 2012-13, sugarcane production increased to around 61 million tons (crushing season 2011-12: 58.6 million tons), depicting an increase of around 4.1%. According to industry experts, the average sugarcane yield per hectare increased since sugarcane crop benefitted from excessive rains, especially in the areas of southern Punjab and Sindh.

In Pakistan, the sugarcane production cycle lasts approximately 3 years during which increase in sugarcane production is evident. At the end of cycle, production is likely to decrease mainly due to significant re-growth of older crop. After three consecutive years of higher sugar production (crushing season 2010/11 to crushing season 2012/13), sugarcane production is forecasted at 59 million tons during crushing season 2013-14, a reduction of around 3% over the current year.

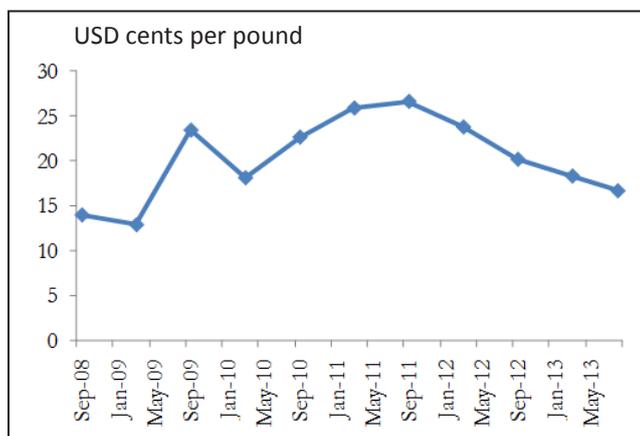
For the recent crushing season, the Government of Punjab & Sindh have increased sugarcane support prices from Rs. 150 to Rs. 170 per 40 kgs and Rs. 154 to Rs. 172 per 40 kgs, respectively. The adjacent graph shows the historical procurement prices set by the Governments of Punjab and Sindh.

Sugar prices are a function of various factors including policies affecting sugarcane pricing, the supply of sugar to markets and import possibilities to overcome demand – supply gap, if any. During the recent crushing season, supply of sugar has superseded the demand which has exerted downward pressure on the prices. Currently, the ex-mill price of sugar is around Rs. 50/kg while wholesale price is around Rs. 51.5/kg. Prices are expected to remain range bound till the start of next crushing season based on the availability of ample carryover stock. Given the surplus production forecasted for crushing season 2013-14, prices are expected to remain within a narrow range. The graph presents the price behavior of sugar in the local market along with supply and demand situation.



### International Scenario

The crushing season 2012-13, also witnessed increase in sugar production in Brazil, China and USA. The global production of sugar was estimated at about 174 million tons during the crushing season 2012-13 (crushing season 2011-



12: 172 million tons). Reduced outputs in India and EU states were largely offset by enhanced production in the above mentioned countries. Sugar production in India was lower at 27.4 million tons in the recent crushing season vis-a-vis 28.6 million tons in the previous season. The global sugar consumption is estimated to be around 167.4 million tons.

The prices in international market have witnessed a downward trend since September 2011. In anticipation of further global over supply of sugar during 2012-13, prices continued to follow a downward pattern as evident from the adjacent graph.

### Conclusion

On the domestic front with the clearing of surplus sugar stock through exports, prices in the short term are likely to remain range bound. Upward pressure may be felt, going ahead, with the increase in input prices and weakening of the local currency. As the economy recaptures its growth, the sugar demand from food and related sectors is likely to strengthen prices.

Internationally the supply-demand situation of sugar over the mid to long term horizon is expected to balance in favor of supply. Yield increases in major producing countries and new white sugar refining capacities would facilitate the supply side to keep the prices stable. Being an agricultural produce, a pressure on margins or climatic factors may cause some spikes in the long term supply trend.

## SECTOR COMPOSITE STATS

PKR Million	2012	2011	2010	2012	2011
Total Inventories	29,566.86	32,313.26	11,169.77	17,066.32	19,407.64
Total Assets	106,867.65	111,867.13	80,297.80	86,016.46	84,760.68
Ordinary Share Capital	6,781.75	8,606.57	8,598.00	8,136.14	7,934.87
Total Equity	32,049.31	29,005.06	26,878.00	27,362.39	23,993.14
Total LT Debt	13,840.56	15,516.44	12,170.21	12,953.35	17,077.39
Total ST Debt	32,120.91	34,506.16	19,715.80	24,228.14	23,847.64
Total Current Liabilities	55,036.20	59,155.26	33,600.86	37,551.82	39,863.03
Net Sales	119,858.20	126,998.74	114,156.51	74,751.92	62,013.73
Gross Profits	11,566.34	16,089.58	13,394.45	12,007.19	8,216.25
EBIT	8,247.64	12,114.65	10,106.17	9,423.62	5,477.42
Net Profit	2,314.90	3,285.71	2,335.77	2,250.90	440.70
FFO	2,893.37	7,384.55	6,658.14	6,081.95	2,822.39
Free Cash Flow	-496.73	-10,081.95	6,650.61	1,967.20	-5,657.87
Data Count	26	29	30	34	34

## SECTOR AVERAGES

2010 to 2012	Lower Quartile	Median	Upper Quartile
Current Ratio (x)	0.67	0.93	1.15
Days to Sell Inventory	25.39	56.86	120.96
Collection Period	0.57	11.74	46.70
Asset Turnover (x)	0.26	0.45	0.57
Debt Leverage (x)	-1.26	2.10	3.69
Gearing (x)	-0.31	0.79	2.03
EBIT/ Interest (x)	0.19	1.51	2.91
FFO/ Total Debt (%)	-1.33	7.73	23.53
Gross Margin (%)	2.65	9.95	13.33
Operating Profit Margin (%)	0.45	6.47	10.56
Net Profit Margin (%)	-2.94	2.17	4.74
Return on Assets (%)	-3.30	2.45	6.56
Return on Equity (%)	-0.61	17.37	28.84
Book Value per Share (Rs.)	-4.34	16.46	50.54
Earnings per Share (Rs.)	-5.13	2.45	9.39

Source: VISTA Plus Database by Vital Information Services

Jahangir Kothari Parade (Lady Lloyd Pier)

Inspired by Her Excellency, The Honorable Lady Lloyd, this promenade pier and pavillion was constructed at a cost of 3 Lakhs and donated to the public of Karachi by Jahangir Kothari to whose genrosity and public spirit the gift is due. Foundation stone laid on January 5, 1920. Opened by Her Excellency, The Honorable Lady Lloyd on March 21, 1921.

*Dome: A roof or vault, usually hemispherical in form. Until the 19th century, domes were constructed of masonry, of wood, or of combinations of the two, frequently reinforced with iron chains around the base to counteract the outward thrust of the structure.*

*Origins: The dome seems to have developed as roofing for circular mud-brick huts in ancient Mesopotamia about 6000 years ago. In the 14th century B.C. the Mycenaean Greeks built tombs roofed with steep corbeled domes in the shape of pointed beehives (tholos tombs).*

*Otherwise, the dome was not important in ancient Greek architecture. The Romans developed the masonry dome in its purest form, culminating in a temple built by the emperor Hadrian. Set on a massive circular drum the coffered dome forms a perfect hemisphere on the interior, with a large oculus (eye) in its center to admit light.*



Jahangir Kothari  
Parade

## National Excellence, International Reach

JCR-VIS Credit Rating Company Limited is committed to the protection of investors and offers a blend of local expertise and international experience to serve

the domestic financial markets. With its international reach, JCR-VIS is positioned to aim for an international mark. In this regard, the global experience of our principal, Japan Credit Rating Agency, Ltd. has been invaluable towards adding depth to our ongoing research endeavors, enriching us in ways, that enable us to deliver our responsibilities to the satisfaction of all investors.

The edifice of the Jahangir Kothari Parade has stood proudly through the years and is a symbol of our heritage. Its 'Dome' as the most stable of building structures, exemplifies architectural perfection. Committed to excellence, JCR-VIS continues its endeavor to remain an emblem of trust.

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