

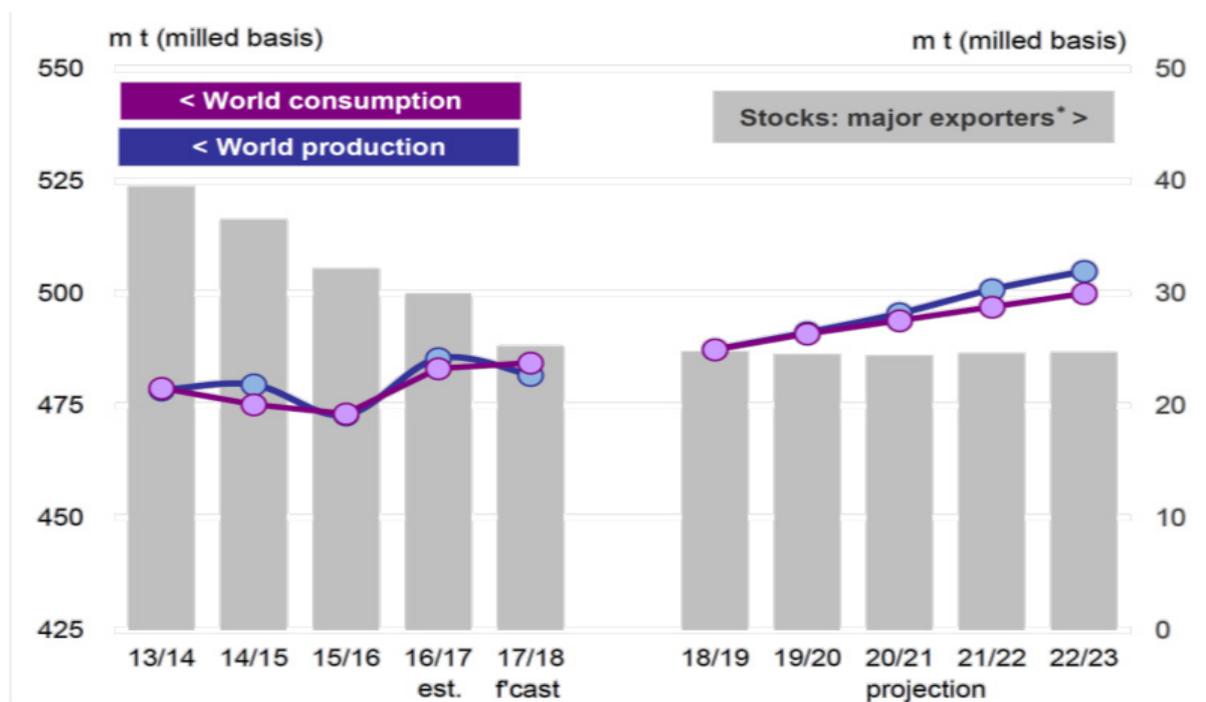
# Rice Industry

February, 2019

## Global Rice Industry

Over the past five years, global rice consumption has increased at a compound annual growth rate (CAGR) of 0.7%. In 2018, global rice consumption increased by 0.6% to 485mn MT (2017: 483mn MT). Growth in consumption is attributed to population growth, higher food intake and rise in per capita food consumption. Such trends are likely to continue over the coming years with International Grains Council projecting that global rice consumption will grow to 500mn MT by 2023. China and India are to account for more than half of the rise in global use. However, growth will likely be slower than in the past i.e. at 0.6% 2018-23 CAGR. This is the result of continuous diversification of diets away from traditional staples to include greater volumes of protein as depicted in Figure 1 below.

Figure 1: Global Rice Consumption and Growth 2013-23



\* India, Pakistan, Thailand, USA, Vietnam

As illustrated above, global rice production in 2018 decreased to 482mn MT (2017: 486mn MT). Following this marginal contraction, global rice production is projected to expand at a faster rate of nearly 5-year CAGR of 0.9% vis-à-vis 0.3% during last five years, largely on anticipated yield improvements in Asia, against the backdrop of efforts to promote food security and reliance on imports. But since chances for this to happen are slim, growth will mostly stem from productivity improvements.<sup>1</sup>

Basmati rice is produced largely in India and Pakistan; hence, it faces little competition from other rice varieties from various countries. On the other hand, non-basmati rice faces stiff competition from other rice exporters primarily from Thailand and Vietnam. Moreover, export of non-basmati rice depends on government policy of targeted markets.

1 <https://www.igc.int/en/markets/5yeardownload.aspx?mode=download>

Figure 2: Rice Production (mn MT)

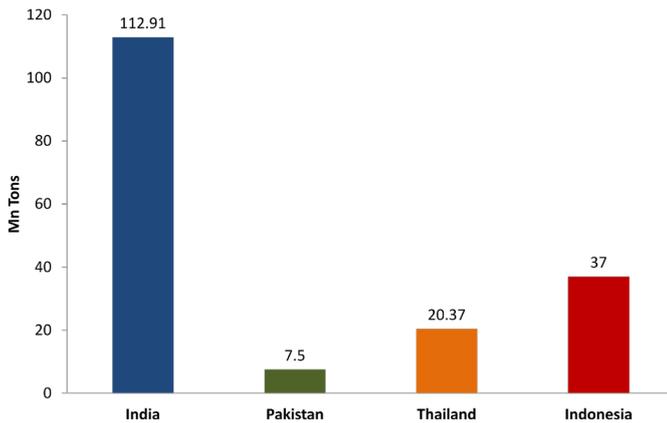
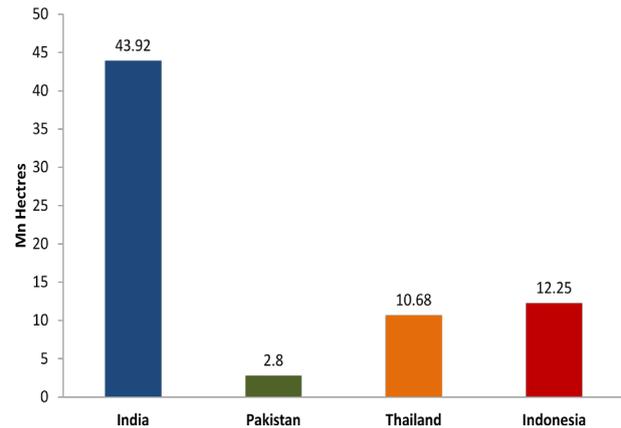


Figure 3: Area under Cultivation (mn hectares)



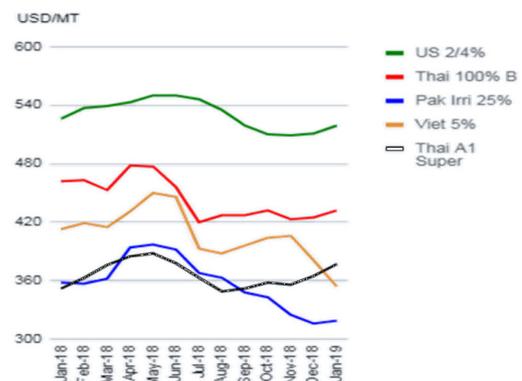
The Asian rice market is experiencing a shake-up in export markets. Indian rice exports are set to rebound in 2019 as the country maintains its role as dominant supplier. Forecast for Pakistan is to have marginal declines year to year in exportable supplies. While China has dominated global imports for the past 8 years, the country's demand for foreign rice appears to be waning and stricter controls are being implemented at the border.

Average international rice prices are experiencing a rising trend over the last five years as depicted in Figure 4. However, during June 2018 to February 2019, international rice prices have followed a declining trend (Figure 5) amid subdued trade.

Figure 4: Regional Rice Export Prices (US\$/MT)



Figure 5: Monthly Rice Export Prices (US\$/MT)



## Pakistani Rice Industry

### Industry Structure

Pakistani rice industry is highly fragmented due to low capital intensity and limited value addition, resulting in low entry barriers. India, given its stature as the largest rice exporter in the world, maintains a profound influence on the prospects of the Pakistan's rice industry.

Figure 6: Prominent Rice Producers

Name	Established	Capacity	Brands
Matco Foods	1964	134,700	Falak, Amber, Bahar
Has Rice Mills	1962	43,800	Ideal Premium, Super Kernel, Ideal Pure
Guard Rice Mills	1989	109,500	Ultimate, Supreme, Easy Cook
Super Rice Mill	1996	43,800	Bakamaal, MorePure, Mughal-e-Azam
Bahoo Rice Mills	n/a	105,120	Anar Dana, Shahi Qila
Zohra Rice	1986		Classic Basmati, 5 Star, Crown Rice
Asif Rice Mills	1982	90,000	Punjab Express, Baghban

The industry comprises of large number of small firms that are family run businesses. A total of 107 firms operate in the sector with only one major player, Matco Foods Limited (MFL), which is also listed on Pakistan Stock Exchange. Other than MFL, some of the key players in this sector are Guard Rice and Has Rice. Product portfolio is differentiated based on processing quality of the rice procured and its branding carried out by the respective firms and traders. With no minimum support price in place, rice manufacturers have significant control to procure the harvest at attractive prices. Bargaining power of farmers (suppliers) tends to be on the weaker side since they do not have storage silos to hold their output. However, despite significant control, consistency in final retail price can be witnessed.

Figure 7: Pakistani Rice Industry Economics



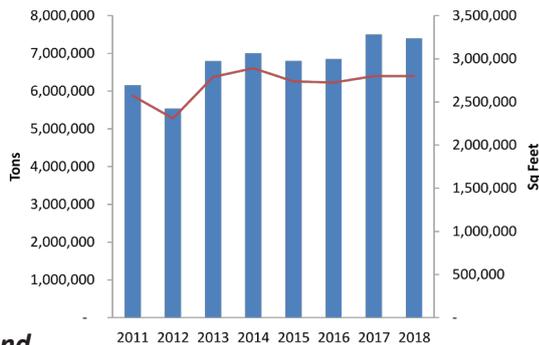
#### Industry Dynamics

In 2018, Pakistan's rice industry registered sales of 7.3mn MT depicting a 5-year CAGR of 5%. Of this, exports have represented 60% on average over past five years with remaining volumes contributed by domestic sales. Cumulatively, total rice exports in FY18 equaled US\$ 1.8b (FY17: US\$ 1.6b) representing ~9% of Pakistan's total exports. By value, Basmati contributes ~21% to the total rice exports and remains an important constituent of the Pakistan's export basket.

#### Supply

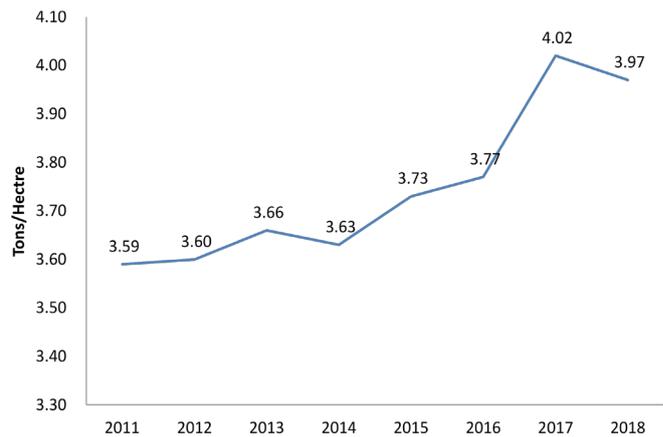
Pakistan has two major rice-producing provinces, namely Punjab and Sindh. Both provinces account for nearly 90 percent of total rice production. Punjab, due to its agro-climatic and soil conditions, produces 100 percent of the Basmati rice in the country. IRR1 rice is grown in both Punjab and Sindh. Pakistan produced 7.4mn MT (FY17: 6.8mn MT) of rice in FY18 with the yield of 3.97 tons/hectare. The growth has primarily been driven by farmer's substitution towards rice crops and an increase in the area under cultivation. Better production yields and turnover of rice have shifted farmer's preference of sowing other grains over rice.

Figure 8: Rice Production and Area

**Demand**

In volume terms, domestic sales have increased at 6% CAGR over past five years to 3.3mn MT (2017: 3.2mn MT) in 2018. Lower preference for rice by consumers along with its ample production has led to excess supply in the market. Surplus is exported to international markets. Consumption pattern of the local market has taken a shift from high consumption of non-basmati to basmati rice over the last eight years. This has mainly been driven by a decline in demand of basmati rice in the export markets. Growing trend of health consciousness has increased sales of brown rice which is likely to continue over the coming years. Meanwhile, rising per capita income is likely to support basmati volumes.

Figure 9: Rice Yield per Hectare



Export sales increased to 4.0mn MT (2017: 3.6mn MT) in 2018. However, basmati exports have declined over the past five years on account of (i) bacterial leaf blight, (ii) rejection of export shipments due to the presence of aflatoxins resulting from harvesting of wet paddy, (iii) fraudulent trade practices of mixing non-basmati varieties in basmati shipments, (iv) encroachment of high-yielding non-basmati varieties into traditional basmati cultivation areas, and (v) closure of the Iran market due to United Nations sanctions. Pakistan is one of the top 5 exporters of rice after India, Thailand and Vietnam whereby Pakistan contributes 8.4% to the total world rice exports. Pakistan's key buyers are United Arab Emirates (UAE), United Kingdom (UK), Oman, Belgium and Azerbaijan. Proportion of non-basmati exports has remained significantly higher vis-à-vis basmati exports on the back of higher demand in Europe and South East Asia. Indonesia has recently shown interest to import 1mn MT of rice from Pakistan subsequent to fresh free trade agreement between the two countries. Another potential market for Pakistan's exporters is the European Union (EU), which accounts for 4.1% of total world imports. EU has recently put forward the regulation of reduced pesticide limit (which has Tricylzone chemical content) to 0.01 mg/kg. This presents an opportunity for the Pakistan exporters as Pakistan's rice is completely free from Tricylzone whereas the content found in Indian rice is 1 mg/kg exceeding the limit allowed by EU. Contrarily, there seems to be a threat looming around losing a potential export market of Azerbaijan as recently the Government of Azerbaijan has introduced a new State program of local rice production which aims to reduce the country's dependence on imports via increasing the area under cultivation for rice and providing technical assistance to the local producers. Recent trade war between USA and China also serves as a risk for rice exporters worldwide including Pakistan, since Trump administration aims to increase localization by sanctioning import tariffs. UAE has been the one of the strongest revenue generating markets for Pakistan's rice exporters, which has been facing depressed business environment after the implementation of VAT, resulting in lower consumer spending affecting

export orders of rice from Pakistan.

The export price of Pakistan rice has been range bound over the last 5 years between US\$ 318 – 379 per ton. The price offered by Pakistan is competitive as compared to the regional competitors however it still struggles to increase its market share as regional competitors have a stronger share in supply where only India's area under cultivation is 15 times bigger than that of Pakistan. On the other hand, Indian Government has set a MSP of 1.5 times the cost of production for farmers, which has ensured consistent off-take prices for farmers and secured steady supply of rice in the region. As a result of this price floor, rice manufacturers in India are enjoying volumetric sales along with stable margins.

Key constraints on sector's growth includes limited research and development activities, post-harvest losses, lack of high yielding varieties, absence of government support and rising cost of inputs such as fertilizers and use of electricity. Competitiveness of Pakistan's exports is further weakened by inadequate branding and marketing vis-à-vis other countries. Meanwhile, in the backdrop of higher export volumes due to EU pesticide regulations, profitability of the sector is expected to exhibit improvement in FY18.

### **Business Risk Factors**

#### Import and Export Controls

High dependence on exports exposes the rice industry to changes in trade barriers which can impact future exports of Pakistani rice.

#### Adverse Climate Conditions

Rice is a rain fed crop highly dependent on the monsoon rainfall, rough and unpleasant weather conditions could hamper the output and yield of the crop.

#### Interest Rates

High short term borrowing is witnessed in this sector in order to meet high working capital requirements due to high inventory holding on the back of seasonal harvest of rice. Any movement in interest rates would have a significant impact on the profitability.

#### Foreign Exchange Movement

An appreciation in PKR would lead to exchange loss for rice traders since a major chunk of their sales is export based.

#### Market Price Fluctuations

Any reduction in final sales price of the rice products would lead to inventory losses since traders and manufacturers hold long aged inventory.

#### Urea Price Movement

Urea is one of the key inputs for sowing rice and an increase in its price would lead to higher costs resulting in compressed margins for rice manufacturers.

#### Economic Slowdown in Trading Countries

Any negative indication in economic fundamentals of the trading country may lead to a slowdown in demand for rice which would hurt rice manufacturers that are highly export dependent.

#### Water Shortage

Sindh is considered to be vulnerable for water shortage due to inefficient irrigation system and dry weather which can possibly lead to lower production output of rice in the region.

### **Analysts Contacts**

#### **Ibad Deshmukh**

Manager

ibad.deshmukh@vis.com.pk

#### **Hamza Amir**

Assistant Manager

hamza.amir@vis.com.pk