

# Jute Industry



Jute plant



Raw jute



Sacking jute



Hessian jute



Food grain bags



Shopping bags, Decorative items

## Major jute companies

Company Name	Ticker	Market Cap. (USD mn)	EV/EBITDA (x)	Revenue (FY12) (USD mn)	Revenues, 5 Yr CAGR (%)	EBITDA (FY12) (USD mn)	EBITDA, 5 Yr CAGR (%)	Debt/MK Cap (%)	EBITDA Margin (%)	PAT Margin (%)	EPS
Birla Corporation Ltd (#)	500335	378	5.9	38.0	10.9	6.6	NM	59.0	17.5	18.4	0.61
Cheviot Co. Ltd.	526817	28	3.2	58.0	12.9	7.7	8.1	10.6	14.0	9.4	1.26
Gloster Limited	590085	19	4.2	60.6	-	6.4	-	54.6	12.5	5.6	1.42
Al Champdany Industries Ltd	532806	8	6.9	76.8	9.8	4.2	8.6	259.9	5.9	-0.1	0.01
Ludlow Jute & Specialities Ltd.	526179	6	2.2	55.2	16.4	2.5	28.4	5.1	5.1	2.2	0.09

# For Birla - figures of Revenue, Revenue CAGR, EBITDA, EBITDA margin and EBITDA CAGR are for the jute segment

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**INTRODUCTION**

In this report, we study the global jute industry. The size of the global jute industry is ~USD 1.75 billion, of which India accounts for ~USD 1.25 billion or 70% of jute produced. Globally there are 12 publicly traded companies engaged in the jute business of which 5 disclose segmental information on contribution from jute. All of these 5 companies are based out of India.

Cheviot (BSE: 526817) and Gloster (BSE: 590085) are the two major standalone jute companies for investors to participate in the dynamics of jute industry. The jute segment contributes around 8% or USD 38 million to Birla Corporation’s (BSE: 500335) overall revenue of USD 449 million (other segments include Cement, which contributes 82.9% or USD 400 million).

In order to support the farming and manufacture of raw jute and jute products, the Government of India introduced The Jute Packaging Materials Act (JPMA) in 1987.<sup>1</sup> The act made it compulsory to use jute bags for packaging food grains and sugar (in pack sizes greater than 50 Kg). As a result, Food Corporation of India (FCI), state governments and sugar millers are major buyers of jute bags in India.<sup>2</sup>

In India ~84% of the total jute produced is used for packaging food grain with no other major use for jute. A limited end user market prevents farmers from increasing the supply of raw jute despite the yearly increase in raw jute prices. In most years the Government of India tends to dilute (reduction on compulsory 100% usage) jute packaging norms based on raw jute production data.

For Jute Year 2012-13 (1st July 2012 to 30th June 2013), the Government of India has approved mandatory packaging of 90% of the food grain production and 40% of the sugar production in jute bags.<sup>3</sup>

**Table 1:**

**Demand for jute bags**

<b>Particulars</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>
Food grain production (million MT)	230	234	218	236	252
Sugar production (million MT)	26	15	19	24	26
Bags for food grain ('000 MT)	811	820	757	899	960
Bags for sugar ('000 MT)	208	123	95	99	107
<b>Total ('000 MT)</b>	<b>1,019</b>	<b>943</b>	<b>852</b>	<b>998</b>	<b>1,067</b>

*Source: Horizon Research, National jute board*

<sup>1</sup> <http://jutecomm.gov.in/acts1.htm>

<sup>2</sup> The Food Corporation of India was setup under the Food Corporation Act 1964. The corporation provides price support to farmers, distributes food grain under the public distribution system and maintains buffer stocks of food grain to ensure National Food Security.

<sup>3</sup> <http://pib.nic.in/newsite/erelease.aspx?relid=90684>

**OVERVIEW OF THE JUTE INDUSTRY**

Jute fibre is extracted from the stem of the jute plant and has a golden & silky texture. Jute is an environmental friendly fibre and is renowned for its 100% bio-degradable & recyclable properties. In India approximately 84% of the total jute produced is used for storage and packaging purposes. Raw jute fibre is woven together to produce jute bags. Jute bags are ideal for storing food grain as they allow air circulation, which ultimately preserves the freshness of food grains.

The single most important synthetic substitute for jute is polypropylene (plastic bags). Plastic bags have a negative impact on the environment which has caused environmentalists to promote use of natural and bio-degradable products such as jute. The price of a synthetic bag is ~ INR 12 per kg compared to INR 28 per Kg for a jute bag.

**Production**

Worldwide raw jute production marginally increased by 1.3% from 2.8 million metric tonnes (MT) in 2003 to 3.1 million MT in 2011. This was mainly due to slight increase in yield by 1.9% from 2.1 MT per hectare to 2.3 MT per hectare. Area under cultivation has declined by 0.6% to 1.3 million hectares.

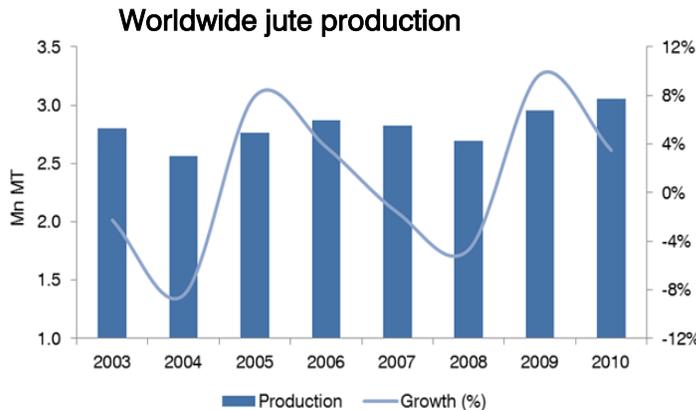
India and Bangladesh hold a dominant position in the world raw jute industry contributing 94% (or 2.9 million MT in 2011) of the overall total production. India is the world’s largest raw jute producer with 62% share (or 1.9 million MT) in volume terms. Bangladesh has production share of 32% (or 990,000 MT) and China is the third largest producer with 2.4% share (or 75,000 MT). Uzbekistan, Nepal, Vietnam, Myanmar, Zimbabwe, Sudan, Pakistan and Thailand also produce jute in small quantities (~ 3.6% of the total raw jute production). The world’s raw jute production had declined by 8% to 2.6 million MT in 2004 and 5% to 2.7 million MT in 2008. This has occurred due to a decline in jute cultivation area in India by 8.8% in 2004 and 6.3% in 2008 respectively.

We estimate a decline in global raw jute production for FY13 to ~ 2.7 million MT from ~ 3.0 million MT in FY12 due to decline in raw jute production in India. For FY13, the Government of India has estimated the raw jute production to be around 1.6 million MT (from 1.8 million MT in FY12).

**Consumption**

The worldwide jute consumption was ~ 2.8 million MT in 2010 and increased from 2.7 million MT in 2006. India consumes 1.6 million MT which accounts for 57% of the world’s consumption. Together, Bangladesh, China and Pakistan have a 15% share in overall global consumption.

**Figure 1:**



Source: Horizon Research, FAO

**Exports**

World jute exports (including both raw jute and processed jute<sup>4</sup>) are around 954,300 MT.<sup>5</sup> Bangladesh has a dominant position in the jute export markets with 695,600 MT (~ 73%) goods exported. India is the second largest exporter of processed jute after Bangladesh, exporting 163,500 MT (17%) of the world’s jute export. Bangladesh exports ~ 83% (695,600 MT) of their production compared to India which exports ~ 10% (163,500 MT) of their production.

China, Pakistan and India together import 294,000 MT (70% share) of raw jute and are the three largest importers of raw jute. Turkey, Iran, Syria, U.S and Belgium are the major importers of processed jute with over 50% share (~ 326,400 MT).

**Table 2: India and Bangladesh position in world jute industry (2010)**

<b>Particulars</b>	<b>India</b>	<b>Bangladesh</b>	<b>World</b>
Production (MT)	1,620,000	839,600	2,629,400
% of world’s production	62	32	
Consumption (MT) <sup>6</sup>	1,627,500	140,000	2,847,300
% of world’s consumption	57	5	
% of their production	100	16	
Raw jute export (MT)	-	290,600	298,400
% of world’s raw jute export	-	97	
Processed jute goods exports (MT) <sup>7</sup>	163,500	405,000	655,900
% of world’s jute goods exports	25	62	
Overall exports (MT)	163,500	695,600	954,300
% of the total production	10	83	
% of the world’s exports	17	73	

*Source: Horizon Research, National Jute board*

<sup>4</sup> Processed raw jute into good like hessian, sacking, carpet backing cloth, yarn and jute diversified products (included in others).

<sup>5</sup> Overall is combined figures of raw and processed jute

<sup>6</sup> Consumption and export is higher than total production because of the opening jute stock

<sup>7</sup> Processed raw jute into good like hessian, sacking, carpet backing cloth, yarn and jute diversified products (included in others).

## INDIAN JUTE INDUSTRY DYNAMICS

### Production

India's raw jute production reported a decline from 2 million MT in FY03 to 1.8 million MT in FY12. The decline was due to a drop in cultivation area from 849,000 hectares to ~ 790,000 hectares.

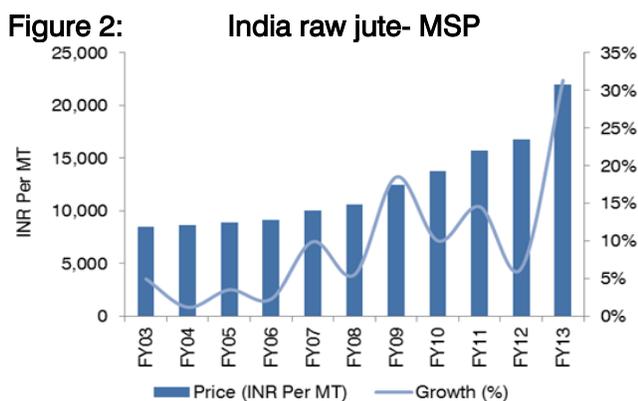
**Table 3:** India's raw jute (million MT)

Particulars	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13E
Opening stock	0.3	0.6	0.6	0.3	0.1	0.4	0.4	0.1	0.2	0.4	0.6
Production	2.0	1.6	1.4	1.5	1.8	1.8	1.5	1.6	1.8	1.8	1.6
Import	0.2	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.1	0.2	0.1
Total supply	2.4	2.3	2.0	1.9	2.0	2.3	1.9	1.8	2.2	2.4	2.3
Domestic consumption	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.2
Mill consumption	1.7	1.6	1.6	1.6	1.5	1.8	1.6	1.4	1.6	1.7	1.7
Total demand	1.8	1.7	1.8	1.8	1.6	1.9	1.8	1.6	1.7	1.9	1.9
Closing stock	0.6	0.6	0.3	0.1	0.4	0.4	0.1	0.2	0.4	0.6	0.4

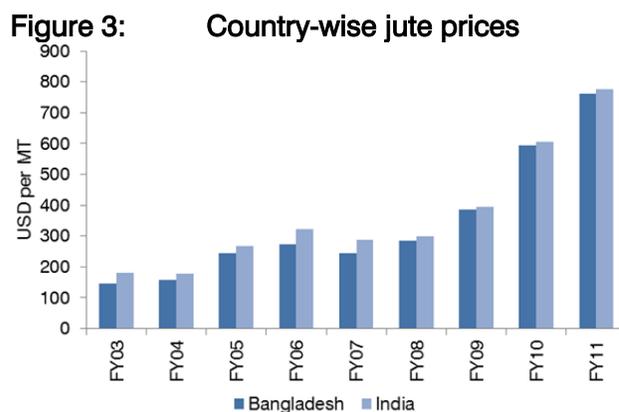
Source: Horizon Research, Jute commission of India

West Bengal, Bihar and Assam together contribute ~94% of India's raw jute production. West Bengal is the largest raw jute producing state contributing more than 75% of overall production. Approximately 30% of India's raw jute production comes from two districts of West Bengal: Murshidabad and Nadia. As per our estimates, a deficient monsoon in Murshidabad and Nadia will reduce overall jute production for FY13.<sup>8</sup>

The Government of India also regularly announces the Minimum Support Price (MSP) for raw jute, in order to protect the farmers and mitigate their risk, which would occur if the jute prices decline. MSP for raw jute of TD-5 grade (a tossa variety grown in Assam) increased at a CAGR of 16% during FY08-13 from INR 10,550 per MT in FY08 to INR 22,000 per MT for FY13 (2012 crop).<sup>9</sup>



Source: Horizon Research, World jute



Source: Horizon Research, International jute study group

### Cultivation

Raw jute is generally a rain-fed crop and is cultivated during the monsoon season. To increase yield, the crop requires an appropriate amount of rain and sunshine. Raw jute is extracted through the 'retting' process by bundling jute stems and immersing them in the running water for around 20 days. The process requires lesser time if the quality of jute is good. After the retting process, the 'stripping' process begins where the non-fibrous material is scraped off the stem. Separated

<sup>8</sup> [http://www.wgc.de/pdf\\_data/en\\_jute-marketreport-09-2012.pdf](http://www.wgc.de/pdf_data/en_jute-marketreport-09-2012.pdf)

<sup>9</sup> There are three major varieties of raw jute i.e. white, tossa and mesta raw jute (defined in cultivation section below)

fibers are then washed, cleaned and dried under the sun and then can be used for further processing.

There are three major varieties of raw jute i.e. white, tossa and mesta raw jute. White raw jute was earlier used for making clothes for villagers and farmers and originated in poorer regions of India. White raw jute is now used to make products such as yarn, twine and rope. Tossa raw jute is silkier and much stronger than white jute. This extra strength makes it ideal for manufacturing sacking bags. These two varieties are further classified into 8 classes (white – W1 to 8 and tossa – TD 1 to 8) segregated on the basis of length, strength, fineness, and lustre. Mesta is a mix of mesta plant and white jute and can be grown in an area where the climate is not appropriate for producing white or tossa jute. Mesta has 6 grades M-1 to M-6.

### Unit Economics

West Bengal farmers make a marginally better return from cultivating jute as compared to cultivating paddy. In spite of this higher return farmers are reluctant to increase jute production as more than 84% of jute is used for storing food grain and sugar products leading to a concentrated end user base. The farming community also believes that if not for the existing Government mandate on compulsory use of jute, jute consumption would have been significantly lower.

**Table 4: Unit economics - Jute and paddy in West Bengal (2011-12)**

<b>Particulars</b>	<b>Jute</b>	<b>Paddy</b>
Total Cost (INR Hectare)	48,517	45,264
Yield (Qtls/Hectares)	28.3	44.1
Yield (Qtls/Acres)	11.3	17.6
Human Labour (INR/Qtls)	750	434
Bullock Labour (INR/Qtls)	88	47
Other Operational Cost (INR/Qtls)	270	231
Fixed Cost (INR/Qtls)	607	316
Total Cost (INR/Qtls)	1,716	1,027
Prices (INR/Qtls)	1,950	1,110
Total Cost (INR/Acres)	19,407	18,105
Total Income (INR/Acres)	22,055	19,560
Net Income (INR/Acres)	2,648	1,454
Return (%)	14%	8%

*Source: Horizon Research, Department of agriculture*

### Types of jute and usage

Of the total raw jute production of ~ 1.6 million MT in 2010, 1.3 million MT was converted into processed jute and the balance is remaining as stock with the various industry participants. There are three major Jute product categories: sacking, hessian jute and carpet backing cloth (CBC). This includes 922,500 MT of sacking products and 206,800 MT of Hessian products. ~ 84% of the total jute goods produced are either sacking or hessian products and is mainly used for storage purpose. CBC, Yarn and jute diversified products (JDP) have the rest of 189,400 MT.<sup>10</sup> Of the total processed jute ~ 90% is consumed domestically, rest is exported.

<sup>10</sup> JDP include floor covering, hand & shopping bags, wall hangings, gift articles, decorative fabrics, canvas, deco fabrics, webbing, matting, shopping bags, wrappers, wall coverings, decorative items, upholstery and home furniture

**Table 5: Jute varieties production and consumption ('000 MT) - 2010**

Particulars	Sacking	Hessian	CBC	Yarn	Other	Total
Production	922.5	206.8	3.6	123.4	62.4	1,324.7
% of total	69.6	15.6	0.3	9.3	4.7	
Internal Consumption	880.4	182.9	1.0	80.3	62.4	1,207.0
% of total	72.9	15.2	0.1	6.6	5.2	

Source: Horizon Research, Jute commission of India

Sacking jute is rougher and heavier cloth jute, used mainly for storing food grains such as wheat, rice, corn, pulses and coffee beans. Hessian jute is made from finer grade jute and is lighter in weight than sacking jute. This type of jute is generally used for storing fruits & vegetables and product packaging (household furniture, couriers, etc). CBC is used for making carpets most of which are exported. Other products mainly include canvas, deco fabrics, webbing, matting, shopping bags, wrappers, wall coverings, decorative items, upholstery and home furniture.

**Table 6: Export prices of hessian and sacking cloth**

Particulars	FY08	FY09	FY10	FY11	Dec'11
Hessian Cloth (INR per 100 meters)	1,123	1,292	1,758	1,949	1,857
% Growth	(5.1)	15.0	36.1	10.9	(4.7)
Sacking Cloth (INR per 100 bags)	2,757	3,525	4,435	5,075	4,804
% Growth	(8.7)	27.9	25.8	14.4	(5.3)

Source: Horizon Research, Jute commission of India

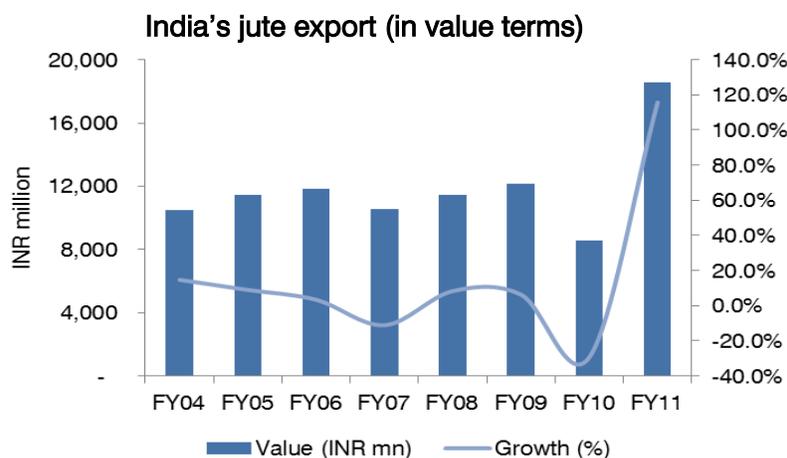
### Jute processing industry

The Jute processing industry is one of India's oldest industries. The first jute mill was started in 1856 in West Bengal. Around 0.26 million people are directly employed and more than 4 million people are associated indirectly with the industry. There are 84 composite jute mills of which 64 are located in West Bengal.

### Export

India exported ~ 14% of the total jute processed in FY11 (10% in FY10) and exports increased by a CAGR of 15% in value from INR 10.5 billion in FY07 to INR 18.5 billion in FY11. During the same period, export in volume grew by ~ 10% from 242,800 MT in FY07 to 351,160 MT in FY11. Of the total exports, JDP comprises 19% (i.e. INR 3 billion). Hessian and sacking export has 52% share (i.e. INR 9.6 billion) in FY11. During FY11, the export reported an increase of 116% YoY from INR 8,694 million in FY10 on account of increased export of hessian, sacking and others by 132%, 100% and 25%, respectively.

Figure 4:



Source: Horizon Research, Jute commission of India

India faces competition from Bangladesh in the jute export market. Being an under-developed country (WTO), Bangladesh jute exporters receive cash incentives of 10% on free on board (FOB) prices from the Government of Bangladesh which makes their raw jute cheaper than Indian raw jute (there is no such cash incentive available for Indian exporters) and gives them a competitive edge over India.<sup>11</sup> More than 25% of Bangladesh’s exports are subsidized. This combined with lower labour costs than India makes their jute goods more economical than Indian jute goods. The quality of Bangladesh’s raw jute quality is also better for making diversified jute products.

### Conclusion

The Indian jute industry is heavily regulated by the Government of India. The Government decides both raw jute production through the MSP mechanism, and, finished goods production by mandating 'sacking bag' consumption levels. With demand for sacking bags constituting 70% (or 922,400 MT) of Indian jute consumption, the performance of jute companies is almost entirely dependent on jute industry regulation. As Indian jute consumption patterns have remained consistent (heavily biased towards Government mandated consumption of sacking bags) growth opportunities for these companies are limited. Due to these factors we do not recommend investing in jute companies.

<sup>11</sup> <http://news.priyo.com/business/2011/07/15/cash-incentive-rates-19-export-31800.html>

**Appendix 1:**

**Jute universe**

Company Name	Ticker	Jute Revenue (% of revenue)	Shares		Market		Cash (USD mn)	EV (USD mn)	EV/EBITDA (x)	P/E (x)	P/BV (x)	EV/Revenues (x)	Total Revenue (FY12) (USD mn)	Cash from operations (FY12) (USD mn)	Gross Margin (%)	EBITDA Margin (%)	PAT Margin (%)	RoA (%)	RoC (%)	RoE (%)
			Outstanding (mn)	Close Price (USD)	Cap. (USD mn)	Total Debt (USD mn)														
Birla Corporation Ltd	500335	Jute: 38.5 (8.0%)	77	4.9	378	223	202	398	5.9	10.4	0.9	0.9	449.3	33	50.6	26.0	18.4	12.8	16.7	27.8
Cheviot Co. Ltd.	526817	Jute Goods: 54.7 (100.0%)	5	6.1	28	3	6	25	3.2	5.7	0.5	0.5	58.0	5	38.2	14.0	9.4	6.2	6.7	8.8
Gloster Limited	590085	Jute Goods: 62.0 (100.0%)	3	7.1	19	10	3	25	4.2	7.4	0.4	0.4	60.6	9	35.5	12.5	5.6	6.1	7.4	9.4
AI Champdany Industries Ltd	532806	Jute Goods: 73.5 (95.8%)	23	0.3	8	20	0	27	6.9	16.0	0.4	0.4	76.8	2	35.8	5.9	-0.1	2.3	3.1	0.0
Ludlow Jute & Specialities Ltd.	526179	Jute Goods: 55.4 (100.0%)	11	0.5	6	0	1	5	2.2	7.5	0.8	0.1	55.2	3	35.8	5.1	2.2	6.4	14.3	18.0

**Cheviot Company (BSE: 526817)**

Founded in 1897, Cheviot is the world’s largest standalone jute company in terms of market capitalization (USD 28 million). Cheviot jute mills are located in West Bengal and have adequate flexibility to cater to both domestic and overseas markets. The company is primarily in the production of traditional jute products (like sacking and hessian) and produced 47,769 MT of jute products in FY11. Their mills specialize in producing jute products for the export markets which contribute ~ 40% to the company’s revenue of USD 54.7 million. They had Gross margin, EBITDA margin and RoE of 38%, 14% and 9% respectively, in FY12. Based on FY12 numbers, the company trades at 3.2x EBITDA and 5.7x EPS.

**Gloster (BSE: 590085)**

Founded in 1890 and located in West Bengal, Gloster focus area is the domestic market, which constitutes more than 75% of the total company’s revenue of USD 62 million. The company produced 49,244 MT of jute products in FY11. They had gross margin, EBITDA margin and RoE of 36%, 13% and 9% respectively, in FY12. Based on FY12 numbers, the company trades at 4.2x EBITDA and 7.4x EPS.

**Birla Corporation (BSE: 500335)**

Incorporated in 1919 and located in West Bengal, the company has diversified from jute products manufacturing to cement, power generation, PVC goods, auto trims and steel castings businesses. The company has jute manufacturing capacity of 38,000 MT. Jute contributes ~ 8% (USD 38 million) of the company’s total revenues of USD 449 million in FY12. They had EBITDA margin of 17.5% from the jute business in FY12. Based on FY12 numbers, the company trades at 5.9x EBITDA and 10.4x EPS (overall).

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**Rohit Anand**, the Research Analyst who prepared this report, hereby certify that the views expressed in this report accurately reflect the analyst's personal views about the subject companies and their securities. The Research Analyst has not been, is not and will not be receiving direct or indirect compensation for expressing the specific recommendation or view in this report.

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