

# Modernisation and Diversification in Jute Industry – Pathway to the 5F Vision

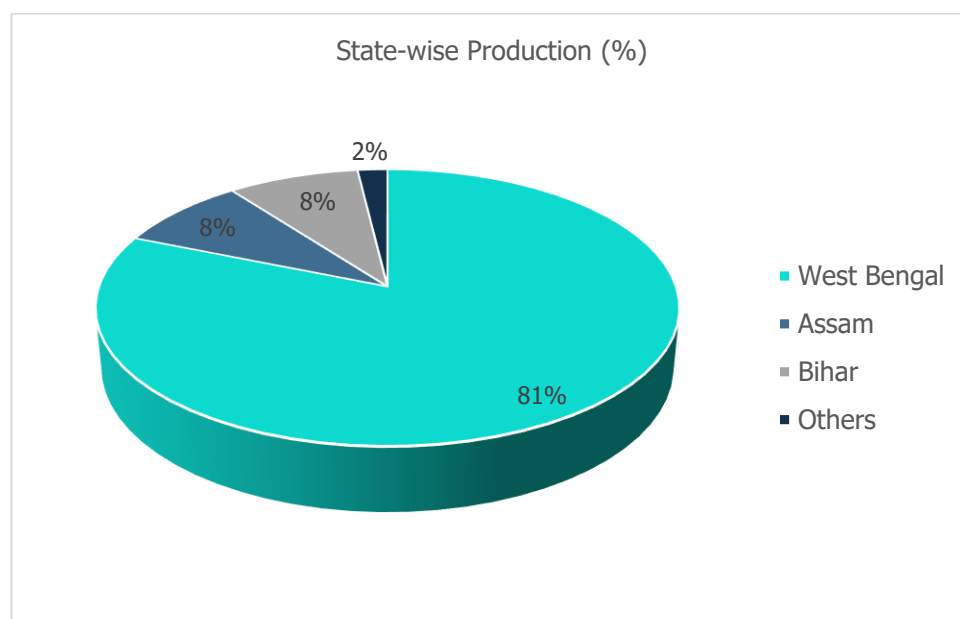
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## Synopsis

- The jute sector plays a crucial role in the Indian economy, particularly in Eastern India, by providing direct and indirect employment opportunities and generating export revenue. India is the world's largest producer of jute, which is also known as golden fibre, followed by Bangladesh, and exports make up approximately 15% of jute production.
- Despite a slight reduction in pent-up demand in FY23, the export of jute products is expected to continue growing by 12%-15%. Key players in the industry have been able to maintain healthy operating margins by investing in modern looms and product diversification, while a majority of the mills still use obsolete and labour-intensive plant and machinery, which hampers the quality and quantity of production.
- The jute industry is grappling with shrinking acreage, excessive dependence on government orders, competition from Bangladesh, and a lack of modernization and diversification. Additionally, the industry has been influenced by government policies in key areas over the years.
- Recently, significant capacity additions have been announced by large players in both traditional and value-added jute products.

## West Bengal – The Heart of Jute Production

West Bengal tops the chart in total raw jute production in India with a share of around 81%-82% followed by Assam (8%) and Bihar (8%). Other jute producing states are Andhra Pradesh, Madhya Pradesh, Chhattisgarh, Odisha, Meghalaya, Tripura and Nagaland.

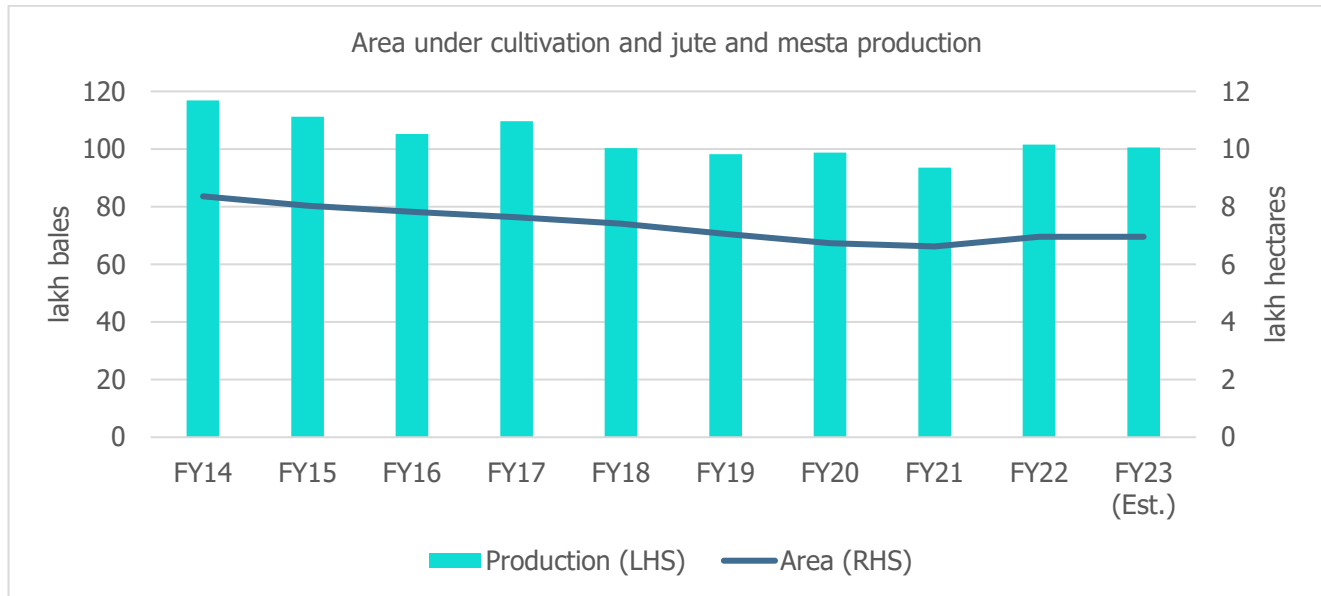


Source: Office of the Jute Commissioner, Ministry of Textiles, GoI

### Shrinking Acreage and Production

The area under jute and mesta cultivation has been declining in recent years, with 6.9 lakh hectares in FY23 compared to 8.4 lakh hectares in FY14. As a result, jute and mesta production decreased from 116.9 lakh bales in FY14 to 101.5 lakh bales in FY22, with mesta contributing to less than 5% of total production. However, there has been a slight improvement in yield per hectare.

The production is estimated to be around 100.5 lakh bales for FY23, according to the second advance estimates.



Source: Ministry of Agriculture and Farmers Welfare, GoI

There are about 95 jute mills in the country, out of which about 75 are currently operational. Majority of the mills are located in the state of West Bengal along the banks of river Hooghly. The size of the industry is Rs.12,000 crore with majority offtake by Government for packaging of food grains.

### Dependence on Government orders and policy frameworks

The jute industry in India is subject to high levels of government regulation, particularly in key areas such as the determination of minimum support prices (MSP) for jute crops, fixation of jute bag prices, and offtake. The government sets the MSP for raw jute based on recommendations from the Commission for Agricultural Costs and Prices (CACP). On March 24, 2023, the government increased the MSP for raw jute for Jute Year 2023-2024 (July-June) by Rs. 300 per quintal to Rs. 5,050 per quintal to boost farmers' revenue and address the issue of shrinking acreage.

Manufacturers are reliant on the government to determine the pricing of jute bags (in cases of supply to government institutions), based on the Tariff Commission of 2001's price formula. The regulatory nature of the industry does not allow for pricing driven by demand and supply.

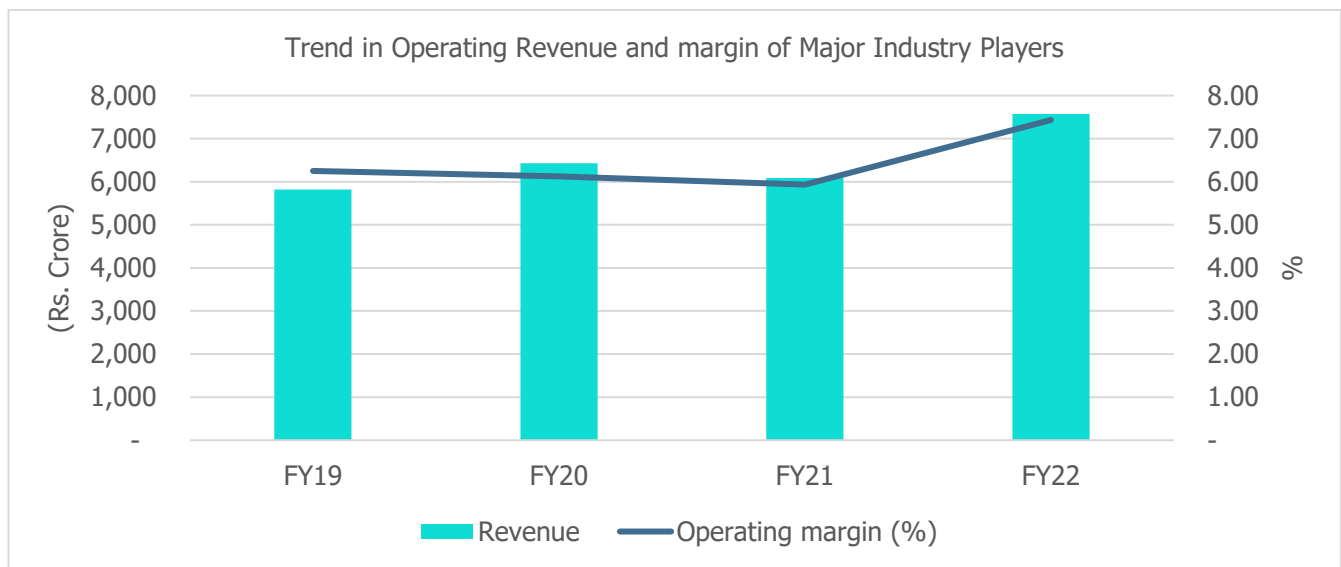
The Jute Corporation of India Ltd (JCI), a Central Public Sector Enterprise under the Ministry of Textile, acts as a price-stabilizing agency and undertakes the procurement and sale of raw jute under MSP operations. The government also provides subsidies to JCI for its market operations.

The Jute Packaging Material (Compulsory use in Packaging Commodities) Act (JPMA), 1987 mandates the use of jute bags for 100% of food grains and 20% of sugar for Jute Year 2022-2023 (July-June). As a result, the jute industry is heavily reliant on government food grain procuring agencies such as the Food Corporation of India and State Procurement Agencies, which account for around 65%-70% of total jute goods production. While most mills focus on fulfilling assured government orders, a few large, modernized mills export their products and venture into value-added Jute Diversified Products (JDPs).

**Modernisation and Diversification – The Way Forward**

The Indian Jute sector heavily relies on government demand for food grain packaging, resulting in JDPs constituting only a small portion of the total jute consumption. However, with further investments, innovations and expertise, this segment could expand rapidly. Additionally, the industry is grappling with the issue of obsolete and labour-intensive plant and machinery, leading to a reduction in both the quality and quantity of production.

Mills equipped with modernised facilities and diversified product offerings have better margins compared to those with older machinery. The operating margin of top mills ranged from 10% to 14%, while the industry average was 5.5%-7.5% during FY20-FY22. CareEdge Ratings expects the industry margin to remain range-bound between 5%-7%.



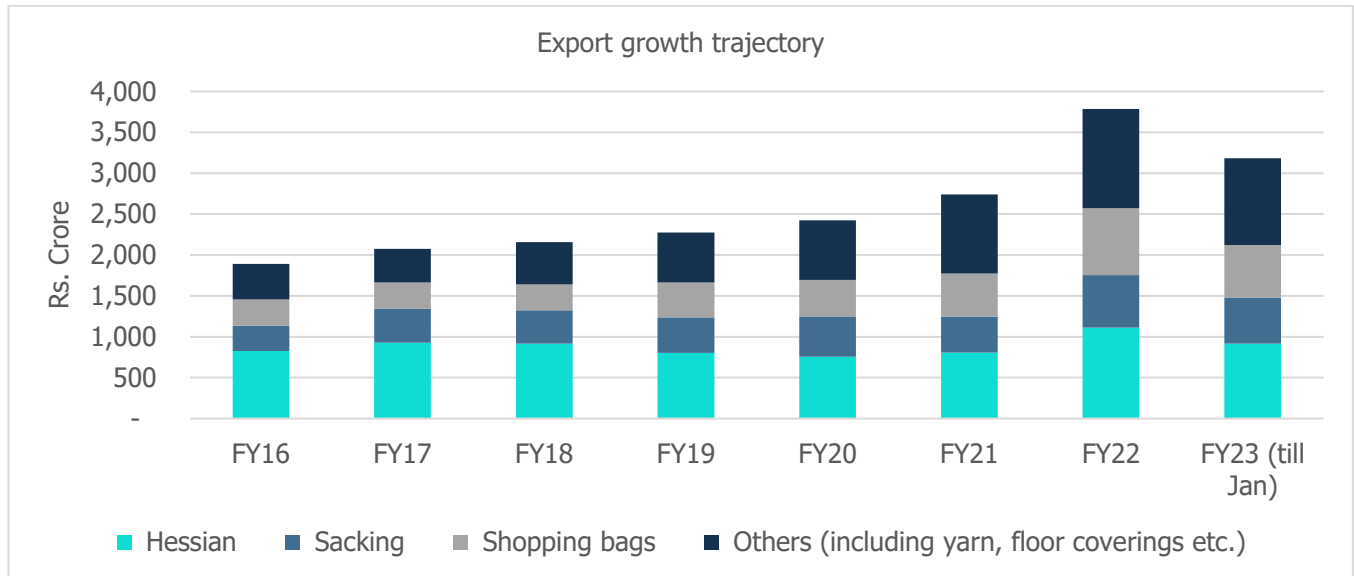
Source: CareEdge Ratings and annual reports of major players in the industry

Large players have recently announced significant capacity additions both in traditional and value-added jute products. The Government has also announced the PLI scheme for the production of JDPs and the Amended Technology Upgradation Fund Scheme (A-TUFS) for the upgradation of existing machinery and installing modern looms. Investment in technology upgradation and product diversification is the need of the industry.

**Healthy Export Growth to Sustain**

The overall export of jute products has seen traction over FY16-FY22 witnessing a compounded average growth rate of 12% from Rs.1,892 crore in FY16 to Rs.3,786 crore in FY22 driven by both volume and price increase. Some of the growth in FY22 was also pent-up demand post the covid impact in FY21. Nevertheless, the export is expected to continue the growth trajectory of 12%-15%, despite minor fizzing of pent-up demand in FY23.

Historically, hessian has been a major contributor to overall jute export. 40%-50% of the hessian production is exported, which increased to 75% in FY22. The export of sacking bags almost doubled from Rs.308 crore in FY16 to Rs.641 crore in FY22 and that of jute shopping bags also grew from Rs.322 crore to Rs.820 crore during the period.



Source: Ministry of Commerce and Industry and Office of the Jute Commissioner, Ministry of Textiles, GoI

The industry faces severe competition from Bangladesh on account of relatively better quality of raw jute, lower wages and substantial government assistance in terms of subsidy. Consequently, India’s proportion of global output has been gradually declining even though its net export value is rising.

**The ESG Appeal of the Golden Fibre**

Jute fibre is eco-friendly as it is fully bio-degradable and recyclable. It’s strength, versatility and highly spinnable appeal, is likely to attract more attention of the user industries in the long-term due to concerns over usage of synthetic products. With increasing awareness about the adverse effect of synthetic packaging material to the environment, the demand of jute goods is poised to grow both domestically and internationally. Demand for environmentally friendly products augurs well for value-added JDPs like woven and non-woven jute geotextile, jute agro-textile, jute blended fibre yarn, river embankments, and lifestyle products like floor covering, jute shopping bags, apparels.

**CareEdge Ratings’ View**

“The potential for jute diversification is promising, offering environmentally friendly solutions in many sectors’ value chains. With increasing awareness about the adverse effect of synthetic material on the environment, the demand for jute goods is poised to grow both domestically and internationally. The urgent industry requirement is to modernise, adopt new industry standards and technologies, and progress through time. Indian jute export is well poised to witness a growth trajectory of 12%-15% from FY24, despite global uncertainties. While the industry margin is expected to remain rangebound between 5%-7%, the panacea for improvement lies in modernisation and diversification so as to meet the Hon’ble Prime Minister’s 5F (from Farm to Fibre to Factory to Fashion to Foreign) Vision,” said Priti Agarwal, Senior Director at CareEdge Ratings.

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