

# INDIAN EDIBLE OIL INDUSTRY

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Sharp increase in edible oil prices to  
increase working capital  
requirements of refiners

MARCH 2022





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*India's edible oil consumption to grow steadily with continuous high dependence on imports*

*Significant increase in edible oil prices due to supply disruptions in sunflower oil amid Russia-Ukraine conflict*

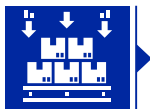
*Increase in working capital requirements for refiners*



- The total edible oil consumption was about ~22.5 million metric ton for oil year (Nov-Oct) 2021. The overall consumption grew at a CAGR of ~3% over 2013-2021. The growth will continue to be ~3-3.5% going forward.



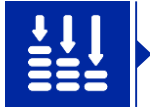
- Pam oil accounts for about ~40% of the total domestic edible oil consumption. After declining in FY2021, palm oil imports/demand is expected to grow by ~10-12% with the re-opening of economy and lifting of import restrictions on refined palm oil (from June 2021)



- About ~60% of the total edible oil consumption is imported; palm oil constitutes ~40% of the consumption, which is nearly fully imported from Indonesia/Malaysia. Sunflower oil, which constitutes about 8% of the total consumption, is imported from Ukraine (70%) and Russia (20%)



- With the ongoing war between Russia and Ukraine, the import of sunflower oil to India has taken a hit, leading to a sharp increase in edible oil prices. Sunflower oil prices increased by ~53% in the last one month, while prices of palm and soya increased ~26-27%.



- Despite the sharp import duty cuts in the recent past, prices of edible oil will remain elevated in the near term given the steady growth in demand and supply disruptions



- The working capital requirement for domestic oil refiners has increased substantially, which would have additional finance cost, putting pressure on their already thin profitability. The cost would get partially compensated by the gain on their low-cost inventory holdings

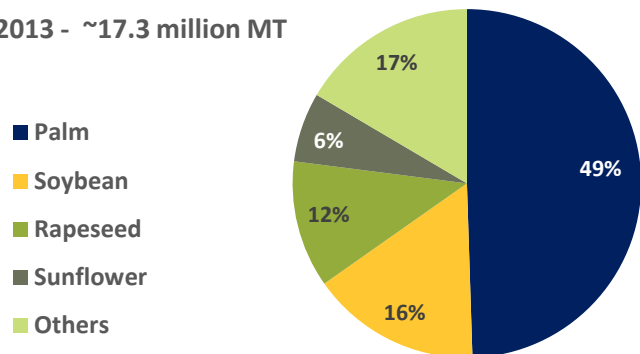


- While higher prices would have a limited impact on refiners, ICRA expects the credit metrics of the edible oil industry to continue to be moderate in the medium term, given the inherently modest profitability and high debt levels

# Edible oil consumption to grow at a CAGR of ~3-3.5%

Exhibit: Edible oil consumption - 2013 (Oil Year, Nov - Oct)

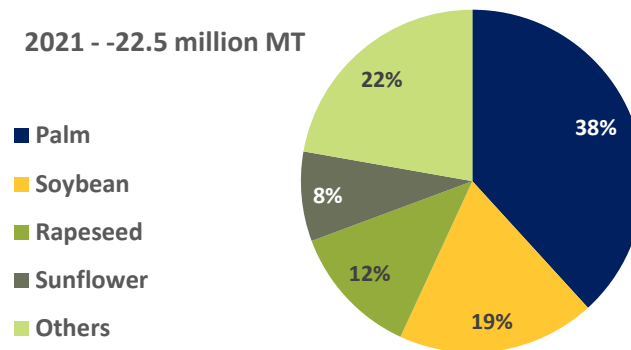
2013 - ~17.3 million MT



Source: ICRA Research, Solvent Extraction Association of India (SEA)

Exhibit: Edible oil consumption – OY 2021

2021 - ~22.5 million MT

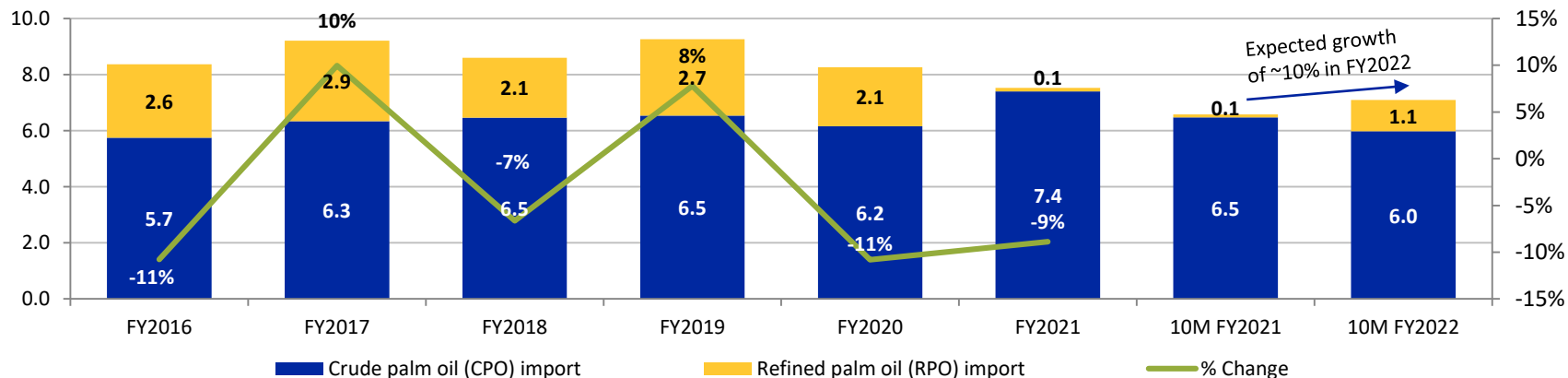


Source: TRAI, ICRA Research, SEA

- The total domestic edible oil consumption was about 22.5 million metric ton for oil year (Nov-Oct) 2021. The consumption grew at a CAGR of ~3% over 2013-2021. Key edible oils - palm, soyabean, rapeseed and sunflower - constitute 80% of the total consumption in India in terms of volumes.
- Share of palm oil in total consumption declined in 2021 due to the pandemic and the subsequent demand slowdown in the HoReCa (hotels, restaurants and catering) segment. The lower demand in the HoReCa segment was partially substituted by a household segment which preferred soyabean, sunflower and other edible oils.
- Going forward, the overall consumption is expected to grow at a CAGR of ~3-3.5% due to rising urbanisation and preference for processed food.

# Palm oil demand to grow at ~10% in FY2022

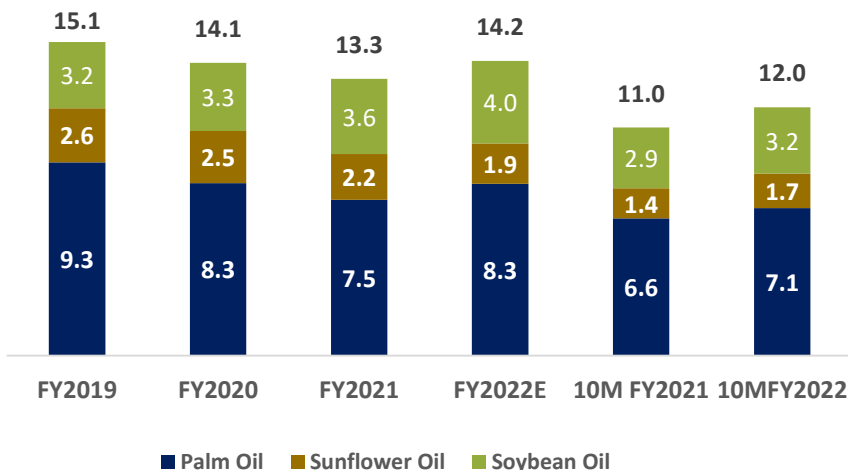
Exhibit: Palm oil imports and % change in total volumes (YoY)



- India is the largest importer of palm oil and accounts for about 18-20% of the global palm oil imports, as per industry sources. The total domestic palm oil consumption remains around ~8-9 million metric tonnes (MMT) with most of the demand being met through imports.
- The import restrictions on RPO (refined palm oil) from January 2020 coupled with Covid-19 in India and the consequent demand slowdown in the HoReCa segment reduced palm oil demand in FY2020 and FY2021.
- The GoI lifted restrictions on the import of RPO in June 2021 (till December 31, 2022) to bring down edible oil prices. This, coupled with the re-opening of the economy, led to a recovery in palm oil demand. It is expected to grow at ~10% in FY2022 on YoY basis.

# High import dependence - ~60% of the total edible oil consumption

Exhibit: Edible oil imports (Volume in million MT)



Source: ICRA research

Exhibit: Edible oil import dependence against consumption in 2021 (%)

Palm	96.7%
Soybean	68.2%
Sunflower	99.7%
India's total import dependence	60.0%

Exhibit: Country wise imports of sunflower oil in FY2021

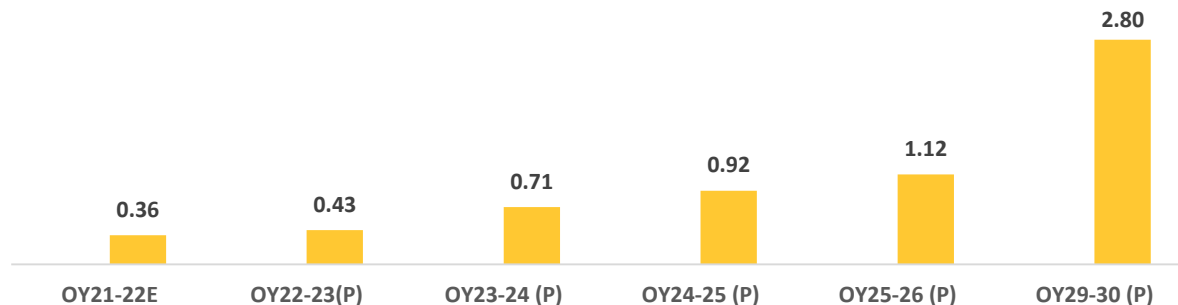
Ukraine	77%
Russia	18%
Others	5%
Total	100%

Source: ICRA research, Ministry of commerce and industry

- About ~60% of total edible oil consumption is imported; palm oil constitutes ~40% of consumption which is nearly fully imported from Indonesia/Malaysia. Sunflower oil constitutes about 8% of total consumption which is primarily imported from Ukraine (70%) and Russia (20%).
- India imported around 2.5 and 2.2 million MT of sunflower oil in FY2020 and FY2021. With the ongoing war between Russia and Ukraine, the import of sunflower oil to India has taken a hit. While industry players are sourcing alternative oil such as soybean, palm and rapeseed to maintain adequate supply, prices have surged sharply across the board.

# Launch of NMEO-OP scheme to reduce import dependence

## Exhibit: Targets for domestic palm oil production (Volume in million MT) – Oil Year (Nov to Oct)



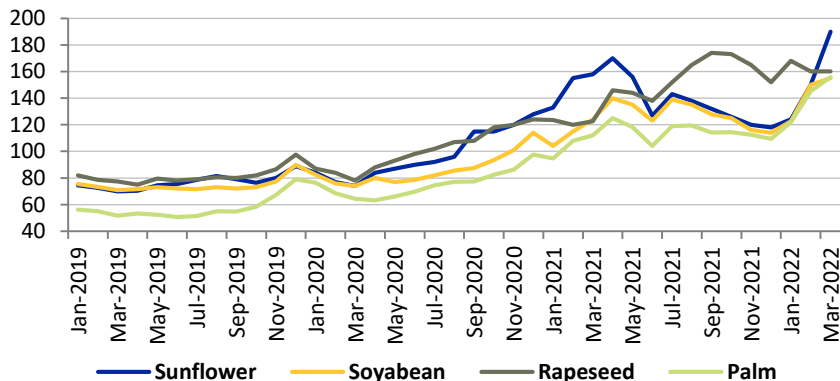
Source: ICRA research, Department of Agriculture and Farmer Welfare

### Key Highlights and challenges

- The Union Cabinet has approved launch of National Mission on Edible Oils – Oil Palm (NMEO-OP) in August 2021 with a proposed financial outlay of Rs. 11040 crore.
- Aim is to promote the domestic production by ensuring 1) Price assurances to the farmers to absorb the volatility 2) Provide financial and technical assistance on inputs/interventions for planting materials.
- Target output is around 1.1 million MT by 2026 and 2.8 million MT by 2030 against estimated production of ~0.3 million MT in oil year 2022 and to reduce import dependence by almost ~30%.
- Nevertheless, the challenges with respect to agriculture eco system (water level and other environmental issues), long gestation period and rising domestic demand to keep the import dependence high in the medium term .

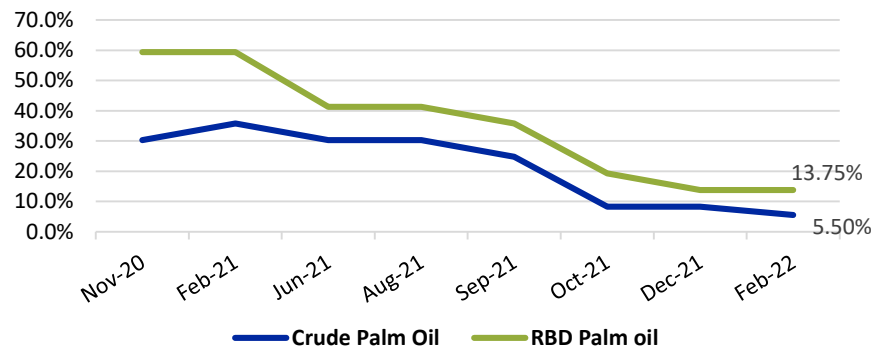
# Sharp increase in edible oil prices amid supply disruptions

Exhibit: Price trend (Rs. Kg)



Source: ICRA Research, SEA

Exhibit: Effective import duty



Source: TRAI, ICRA Research, SEA

- To control rising edible oil prices, Government has continuously reduced the base custom duty and other additional duties on palm, soya and sunflower oil.
- The effective import duty on crude and refined palm oil reduced to 5.5% and 13.75%, respectively, compared with 30.3% and 59.4%, respectively, a year ago. Soya and sunflower oil also saw sharp duty cuts.
- After the softening of prices till January 2022 post duty cuts, the prices of edible oil increased sharply in the last one month following the supply disruption, primarily in sunflower oil, amid the Russia-Ukraine conflict.
- Prices of sunflower oil increased by ~53% to Rs. 185-190 per Kg from Rs. 125 per Kg in the last one month, while prices of palm and soya increased by ~26-27%.

## Increase in working capital

- Edible oil prices have increased ~26-53% in the last one month, whereas the overall domestic demand continued to grow at a steady rate.
- Refiners maintain an inventory of about 30-60 days. As the prices of edible oil are expected to remain elevated in the near term, the working capital requirement and borrowing levels is likely to increase.
- The refiners are also expected to get certain benefit of higher prices on their low-cost inventory holdings as well which would offset the higher finance cost to an extent.

## Credit metrics to remain modest

- ICRA believes that higher edible oil prices could have a positive impact on the realisations of oilseed growers and improve the overall oilseed acreage in the long term.
- While higher prices would have a limited impact on refiners, ICRA expects the credit metrics of the edible oil industry to continue to be moderate in the near to medium term, given the inherently modest profitability (operating margin of ~2-4%) and high debt levels.





**Key players and financials trend in edible oil industry**

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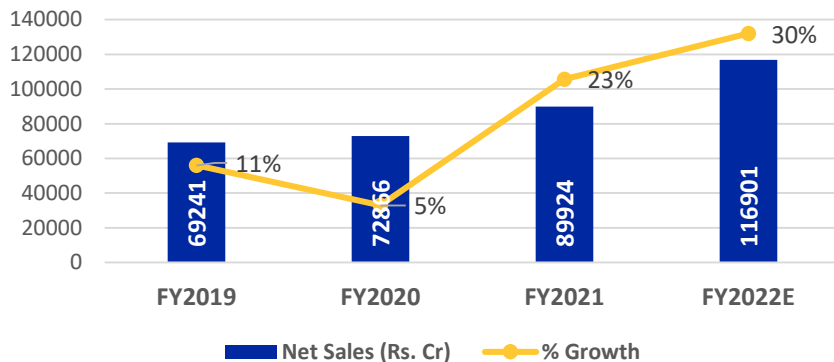
# Key players in the edible oil industry

Company	Key Brands	Estimated Market share
Adani Wilmar	    	17%
Ruchi Soya	     	8%
Emami Agrotech	 	7%
Cargill India	    	4%
Bunge India	     	3%
Marico		2%

Estimated market size in FY2021 – Rs. 215000 crore

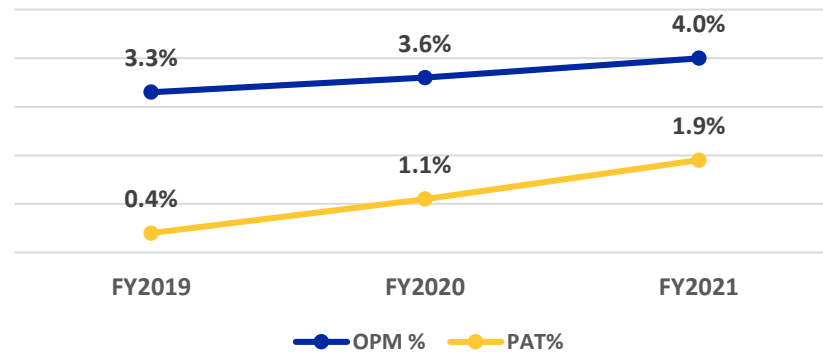
# Trend in sales and profitability

Exhibit: Aggregate sales figures (in Rs. Crore)



Source: ICRA Research, ACE Equity

Exhibit: Profit margins trend

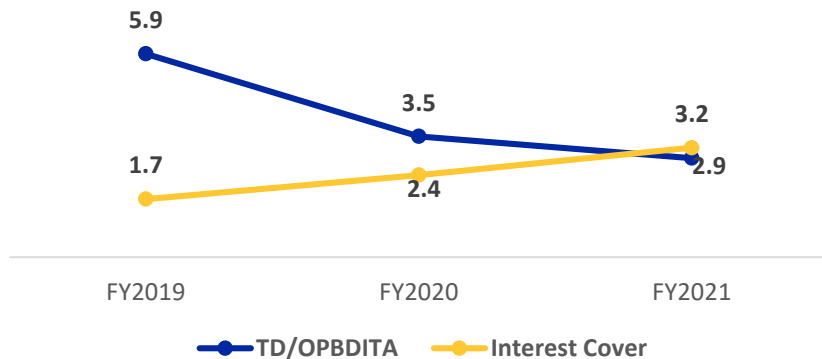


Source: ICRA Research, Ace Equity

- Healthy Y-o-Y revenue growth in FY2021 for edible oil industry primarily owing to increase in edible oil prices – volumes were under pressure due to pandemic induced disruptions and slowdown in HoReCa segment. With continuous increase in prices along with steady volume growth, revenues are expected to grow at a healthy rate in FY2022.
- Margins are inherently low in the industry due to limited value addition and stiff competition. In FY2022, operating margins are expected to remain at moderate levels (OPM of ~4%).

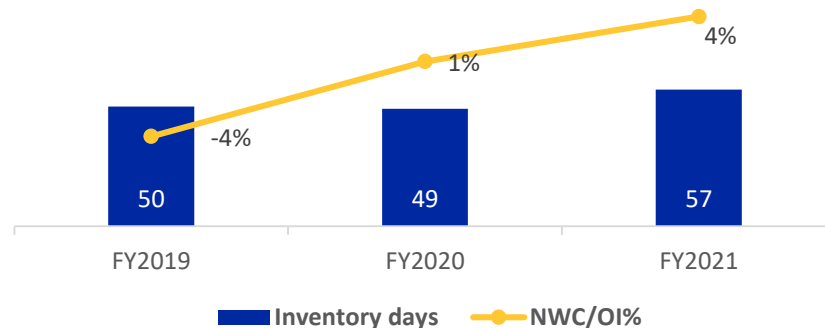
# Trend in debt metrics and working capital intensity

Exhibit: Debt coverage metrics



Source: ICRA Research, ACE Equity

Exhibit: Working capital intensity



Source: ICRA Research, Ace Equity

- Debt metrics, though improved, remains at moderate levels owing to low profit margins and high dependence on working capital borrowings to fund the inventory holding requirements.
- Working capital intensity is low for the organised players with strong brand presence (high share of B2C segment), while for the unorganised players with high dependence on B2B sales working capital cycle is slightly higher (~NWC/OI of ~10-15%).
- With sharp increase in edible oil prices, the overall working capital requirements for the players are expected to increase further in the near term.



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