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INDIAN EDIBLE OIL INDUSTRY

Macro challenges impacted margins of edible oil players in H1 FY2023; recovery likely in H2 FY2023

DECEMBER 2022

Key Highlights

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

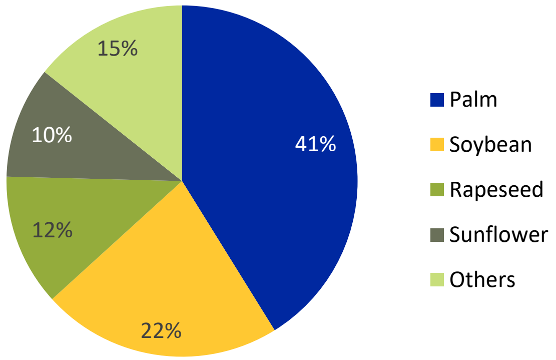
High volatility in edible oil prices and adverse currency movements impacted profit margins in H1 FY2023.

- The total edible oil consumption was about ~22.7 million metric tonnes for oil year (Nov-Oct) 2022. The overall consumption grew at a CAGR of ~3% over 2013-2022. The annual consumption growth expected to continue at ~3% going forward.
- Global edible oil prices corrected sharply over the last six months from its peak level of April 2022, with improving supply of sunflower oil, Indonesia lifting palm oil ban and on expectation of higher production levels of various oilseeds in the coming season.
- Prices of palm and sunflower oil declined by ~47% and ~35% respectively, while prices of soybean oil declined by ~22% from April 2022 levels. Further, the import duty cuts and stock holding limits supported in correction of high domestic prices.
- Edible oils stock as on October 1, 2022, at various ports and pipeline stood at a multi-year high at ~2.58 million tonnes (~40 days of annual consumption).
- Refiners maintain an inventory of about 30-45 days. High volatility in the edible oil prices, allotment of lower tariff-rate quota (TRQ) and increase in fixed overheads impacted the profit margins of edible oil players in H1 FY2023.
- Margins of edible oil players are expected to improve in H2 FY2023 with softening in edible oil prices and recovery in consumer demand aided by the festive season.
- 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.

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

Exhibit: Edible oil consumption - 2021 (Oil Year, Nov - Oct)

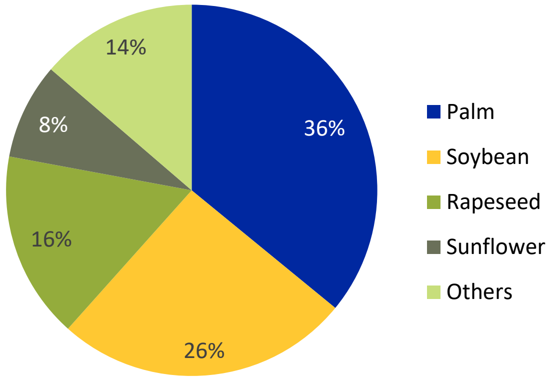
2021 - 22.3 Million MT



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

Exhibit: Edible oil consumption – OY 2022

2022 - 22.7 Million MT



Source: ICRA Research , SEA , USDA

- The total domestic edible oil consumption was about 22.7 million metric tonnes for oil year (Nov-Oct) 2022; an increase from 22.3 million metric tonnes in the previous OY. The consumption grew at a CAGR of ~3% over 2013-2022. Key edible oils - palm, soyabean, rapeseed and sunflower - constitute 86% of the total consumption in India in terms of volumes.
- Palm oil remains the highest contributor, though its share in the total consumption declined in 2022 to 36% from 41% in OY2021, mainly on account of sharp increase in prices, leading to diversion of consumers to other soft oils. The share of the sunflower oil has also declined mainly on account of supply issues coupled with higher prices. The demand has been diverted towards other soft oils such as soybean oil, rapeseed oil, groundnut oil etc.
- Going forward, the overall consumption is likely to grow at a ~3% in in the near to medium term due to rising urbanisaton and preference for processed food.

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

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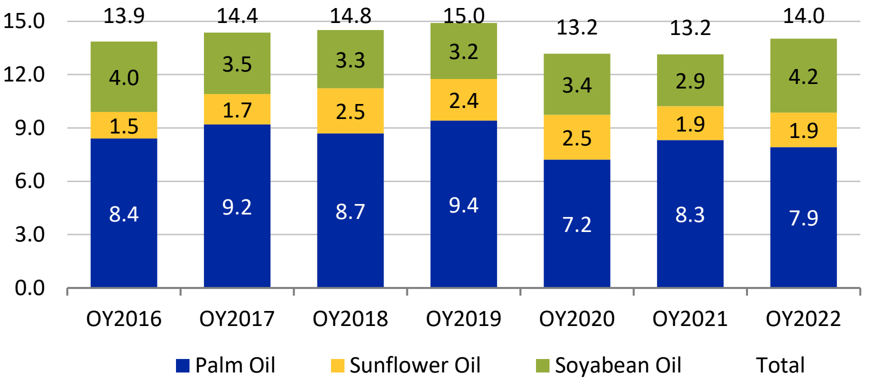
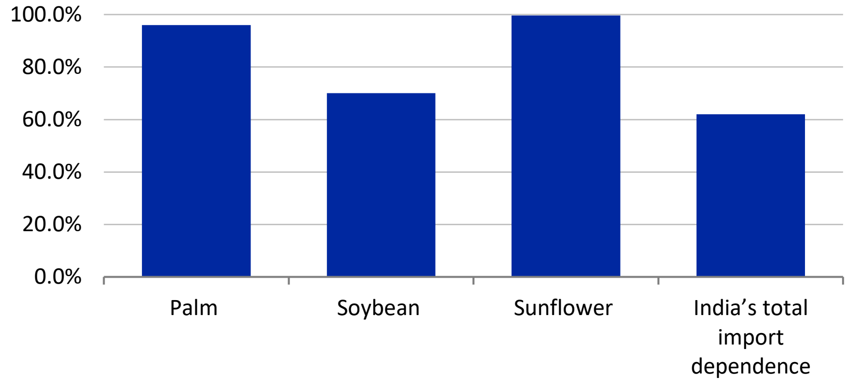
Exhibit: Edible Oil imports (Volume in million MT)



Source: ICRA Research, SEA

Exhibit: Edible oil import dependence against consumption in 2022 (%)



Source: ICRA research, SEA

- During the brief period of February to March 2022, the prices of palm oil elevated and stood at par with other soft oils like groundnut, soyabean, sunflower. The prices were further aggravated by Indonesia's decision to ban the export of palm oil (Ban period: April 28 to May 22, 2022). With easing of supply post lifting of the export ban and gradual reduction in the prices, the import of palm oil improved in the rest of the OY.
- About ~60% of total edible oil consumption is met through imports; palm oil constitutes ~40% of consumption which is nearly fully imported from Indonesia/Malaysia. Sunflower oil constitutes about 8% of the total consumption, which is primarily imported from Ukraine and Russia. However, due to the Russia-Ukraine conflict, it was imported from the alternate sources. The imports from Russia and Argentina increased as also from Romania, Turkey and Brazil in OY2022.
- Despite, various government initiatives/incentives to improve the domestic palm oil seed production, 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 .

High stock levels at ports and pipelines

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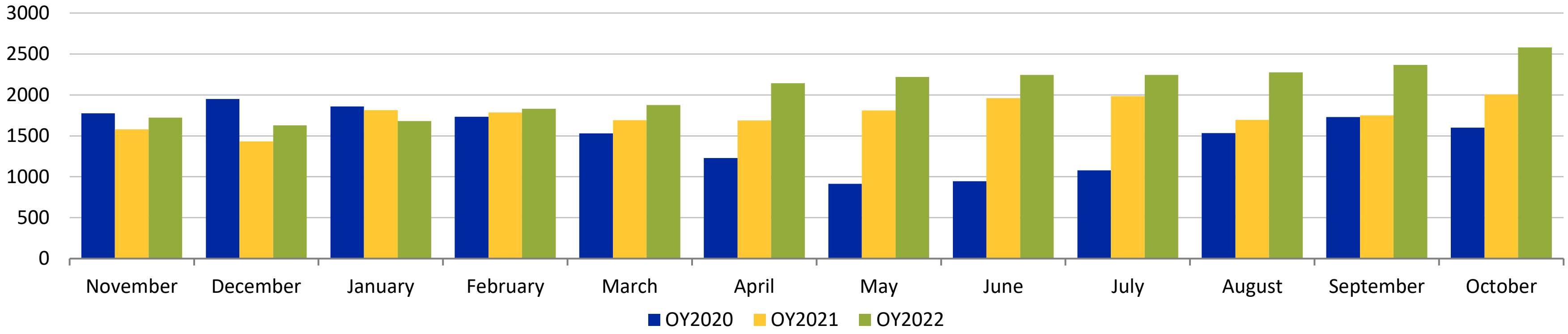
Exhibit: Stok levels at ports and pipeline (In 000 MT)

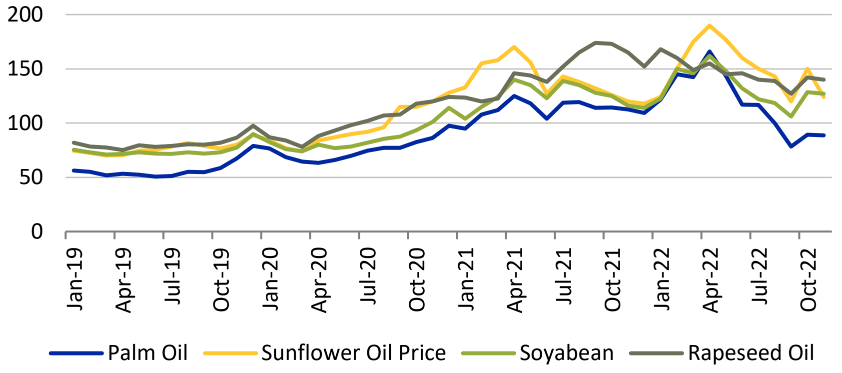


Source: SEA, ICRA research

- Edible oil stocks as on October 1, 2022 at various ports and pipeline stood at ~2.58 million tonnes compared to ~2.00 million tonnes a year ago. The stock levels remained at relatively higher levels in the past six months compared to the past years.
- India imported ~14.03 MMT of edible oil in OY2022, up by 6% from 13.19 MMT in OY2021. The imports of the edible oil declined gradually between Nov 2021 and March 2022 and further slowed down between April to June 2022. However, with the lifting of ban from Indonesia coupled with the sharp decline in the international prices and reduction in import duty on various edible oils, the buying from India boosted from July 2022 onwards to cater to the higher anticipated demand in the coming months.
- As per the industry association the stock levels are expected to settle down to ~30 days from October levels (~40 days of total annual consumption).

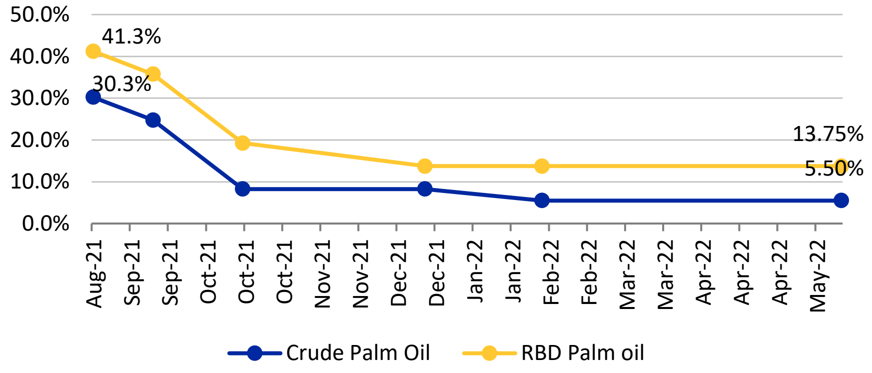
Sharp correction in edible oil prices in the last six months

Exhibit: Price trend (Rs. Kg)



Source: ICRA Research, Bloomberg

Exhibit: Effective import duty

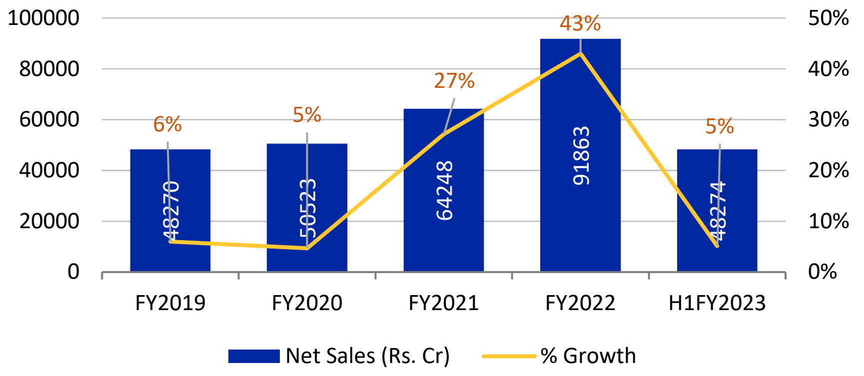


Source: ICRA Research , SEA

- To control rising edible oil prices and combat the supply constraints, the Government has continuously reduced the base custom duty and other additional duties on palm, soya and sunflower oil.
- Import duty on CPO and RPO is at 5.5% and 13.75%, respectively, compared with 30.3% and 59.4%, respectively, a year ago. The effective import duty on crude sunflower and crude soyabean oil has been brought down to nil for 20 lakh tonnes each in May 2022 under the tariff rate quota (TRQ).
- Edible oil prices increased sharply between Feb to May 2022 due to supply chain disruption amid the Russia-Ukraine conflict and ban on pam oil exports by Indonesia. However, from May 2022 onwards the prices started correcting with improving supply of sunflower oil, Indonesia lifting palm oil ban, reduction of import duty and also on expectations of higher production levels of various oilseeds in the coming season.
- Prices of palm and sunflower oil declined by ~47% and ~35% respectively in November 2022 from its peak level in April 2022, while prices of soyabean declined by ~22%.

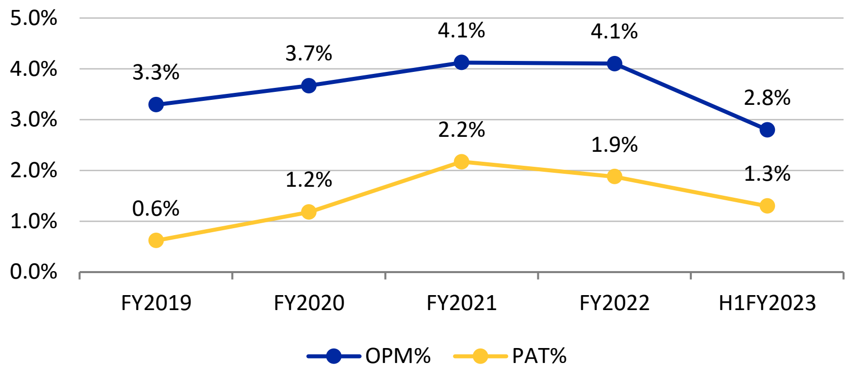
Trend in sales and profitability

Exhibit: Aggregate sales figures (in Rs. Crore)



Source: ICRA Research, ACE Equity

Exhibit: Profit margins trend



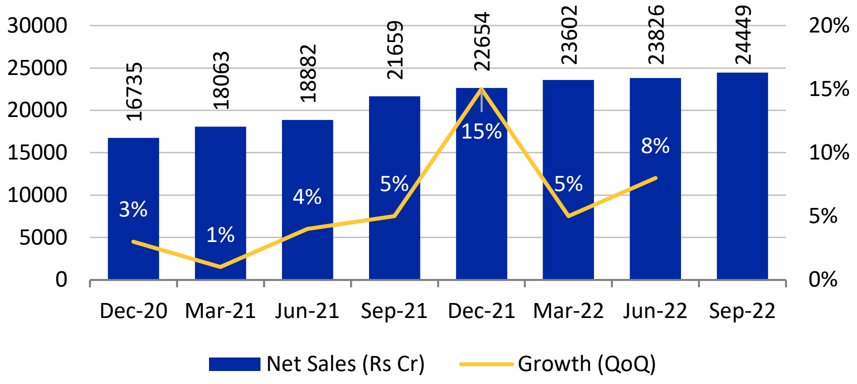
Source: ICRA Research, Ace Equity

- Healthy YoY revenue growth in FY2022 for edible oil industry primarily owing to increase in edible oil prices – volumes were under pressure due to supply disruptions and slowdown in demand due to sharp increase in prices. In H1 FY2023, the overall revenue growth for the sample set remained muted.
- Margins are inherently low in the industry due to limited value addition and stiff competition. In H1 FY2023, operating margins witnessed a contraction owing to the sharp decline in prices and inventory losses.

Note: Aggregate of 4 entities - Adani Wilmar Ltd., Patanjali Foods Ltd., Gokul Agro Resources Ltd. and Gokul Refoils and solvent Ltd.

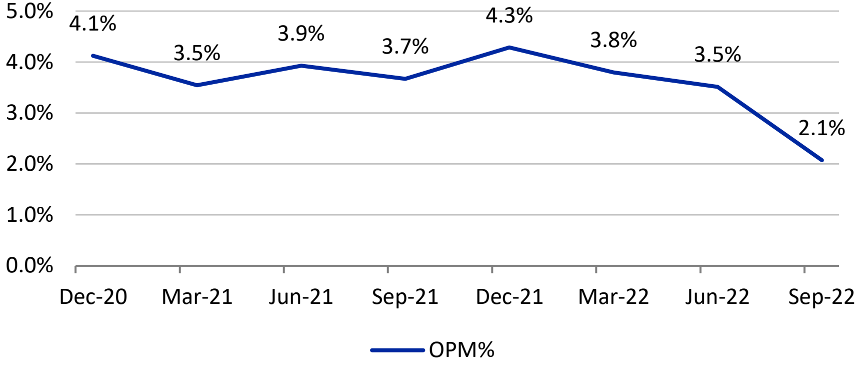
Quarterly sales trend and profitability

Exhibit: Aggregate sales figures quarterlies (in Rs. Crore)



Source: ICRA Research, ACE Equity

Exhibit: Profit margins trend quarterlies



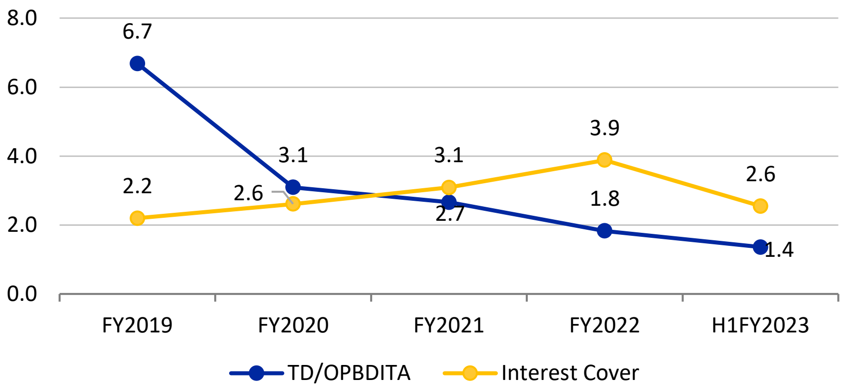
Source: TRAI, ICRA Research, Ace Equity

- Revenue growth for last few quarters remained in a lower single digit due to high inflationary pressures leading to sluggish demand.
- Margins in Q2 FY2023 declined sharply for the industry players following a sharp decline in prices, rising input cost and adverse currency movements.
- Profit margins in the coming quarters are likely to recover from Q2 FY2023 levels, with stabilisation of prices and uptick in demand.

Note: Aggregate of 4 entities - Adani Wilmar Ltd., Patanjali Foods Ltd., Gokul Agro Resources Ltd. and Gokul Refoils and solvent Ltd.

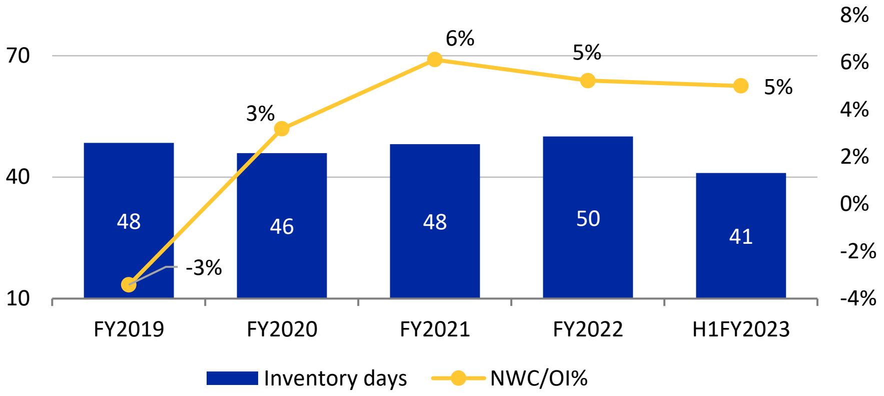
Trend in debt metrics and working capital intensity

Exhibit: Debt coverage metrics



Source: ICRA Research, ACE Equity

Exhibit: Working capital intensity



Source: TRAI, ICRA Research, Ace Equity

- Debt metrics, though improved from FY2019 to FY2022, remains at moderate levels owing to low profit margins and high dependence on working capital borrowings to fund the inventory-holding requirements.
- With pressure in the profitability, the interest coverage of the sample set moderated in FY2023.
- 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%).

Note: Aggregate of 4 entities - Adani Wilmar Ltd., Patanjali Foods Ltd., Gokul Agro Resources Ltd. and Gokul Refoils and solvent Ltd.

Conclusion

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Margins impacted in H1 FY2023

- Imported edible oil prices have declined by ~22%-47% from April 2022 levels, whereas the overall domestic demand continued to grow at a steady rate.
- Refiners maintain an inventory of about 30-45 days. High volatility in the edible oil prices, allotment of lower TRQ quota and increase in fixed overheads impacted the profit margins of edible oil players in H1 FY2023.
- Margins of edible oil players are expected to improve in H2 FY2023 with softening in edible oil prices and recovery in consumer demand aided by festive season.

Credit metrics to remain modest

- With pressure on the profitability, the coverage indicator of sample edible oil players moderated in H1 FY2023.
- The overall working capital requirement for the players is expected to decline with softening in commodity prices. Following this coupled with expected improvement in margins in H2 FY2023 may see~~,~~ coverage metrics improve compared to Q2 FY2023 levels.
- While lower prices would have a limited impact on refiners going forward, 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.

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Analytical Contact Details

Sabyasachi Majumdar	**Girishkumar Kadam**	**Sanket Thakkar**	**Preet Ludhwani**
Senior Vice-President and Group Head	*Senior Vice-President and Co-Group Head*	*Assistant Vice-President and Sector Head*	*Senior Analyst*
sabyasachi@icraindia.com	girishkumar@icraindia.com	sanket.thakkar@icraindia.com	preet.ludhwani@icraindia.com
0124- 4545 304	022 – 61143441	079– 4027 1528	079– 4027 1542

Business Development/Media Contact Details

	L. Shivakumar	Jayanta Chatterjee	Naznin Prodhani
	Executive Vice-President	*Executive Vice-President*	*Head Media & Communications*
Email	shivakumar@icraindia.com	jayantac@icraindia.com	communications@icraindia.com
Phone	022- 6114 3406	080 – 4332 6401	0124 – 4545 860

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Thank You!