Edible Oil

Sector Study

February 2022

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EDIBLE OIL | OVERVIEW

Snapshot

- Edible oil is one of the essential items for cooking and food preparation. The product is being consumed by almost all classes of society, although per capita consumption patterns vary across the globe.
- The global edible oil market size increased by ~50% over the last year as the global prices crossed their highest in a decade (up by ~62% YoY in CY21) majorly because of the bad weather in major producing countries, labor shortage in Malaysia, and increasing use of biofuels that increased consumption of edible oil.
- Edible oil can be obtained from a number of vegetables. The most commonly used edible oil products are soybean oil, palm oil, sunflower oil and rapeseed oil.
- USA is the largest producer of soybean seeds in the world, Malaysia and Indonesia are largest exporters of palm oil whereas India is the largest importer of edible oil.

Global Overview	MY20	MY21
Turnover* – Global (USD bln)	163	245
Growth Rate	9%	50%
Turnover per Capita – Global (USD)	21	31
Share in GDP- Global	0.20%	0.30%
Production (mln MT)	207	209
Consumption (mln MT)	202	205
Closing Stock (mln MT)	27	25

**Global Consumption (MY Sep-Oct) multiplied by average price (FY July-June)*

Source: USDA, WB

EDIBLE OIL | PROCESS FLOW

Production Process

Oil Seeds

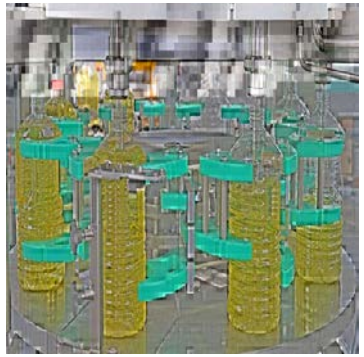
Seed Extraction

Poultry Feed

Oil Refinery

Refined Bulk Edible Oil

Packing Unit



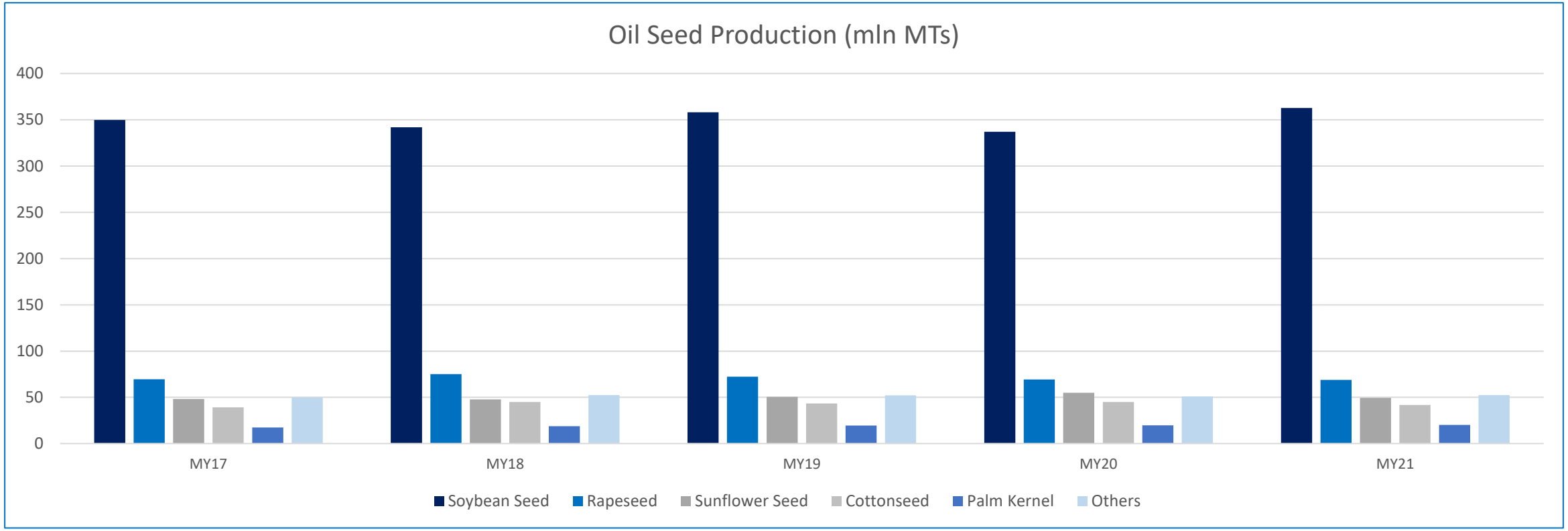
Branded Oil

Consumer

Source: PACRA Internal Database

Production of Oil seeds

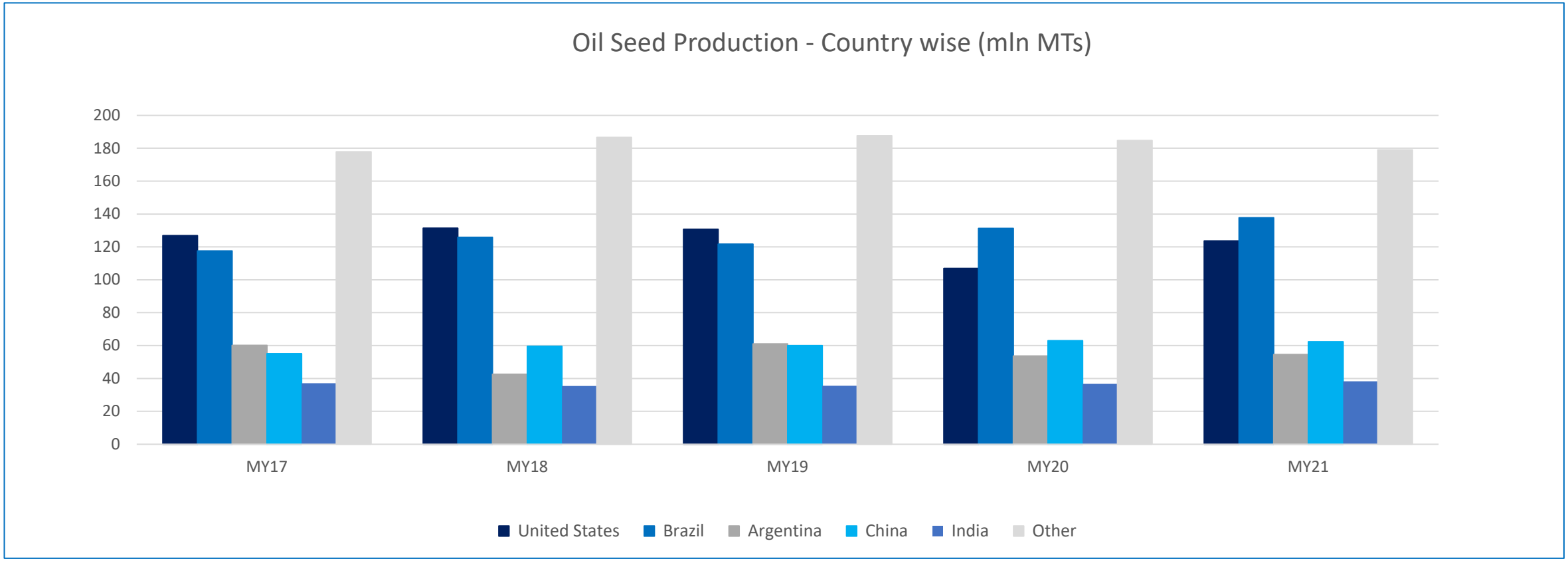
- Global oil seeds production was recorded at ~596mln MTs during MY21, up by ~3% YoY (MY20: 577mln MTs). Soyabean seed makes up for ~61% of the global oil seed production, followed by Rapeseed (~12%) and Sunflower seed (~8%).



Source: USDA, PACRA Internal Database

Production of Oil seeds – Country wise

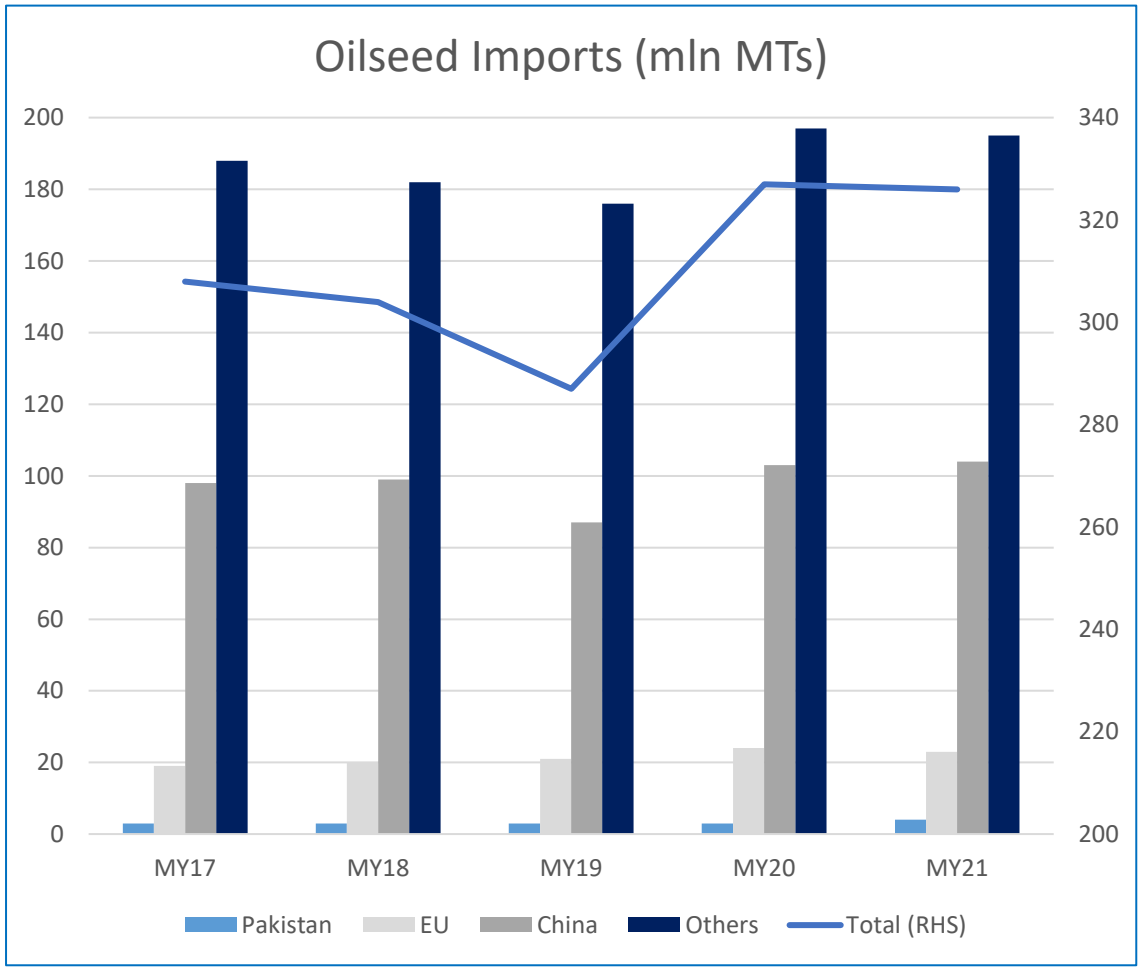
- An increase of almost ~16% YoY in USA crops led to an overall increase in global production for MY21. This was majorly owed to recovery in supply chain disruptions caused by the COVID-19 lockdown in the USA.

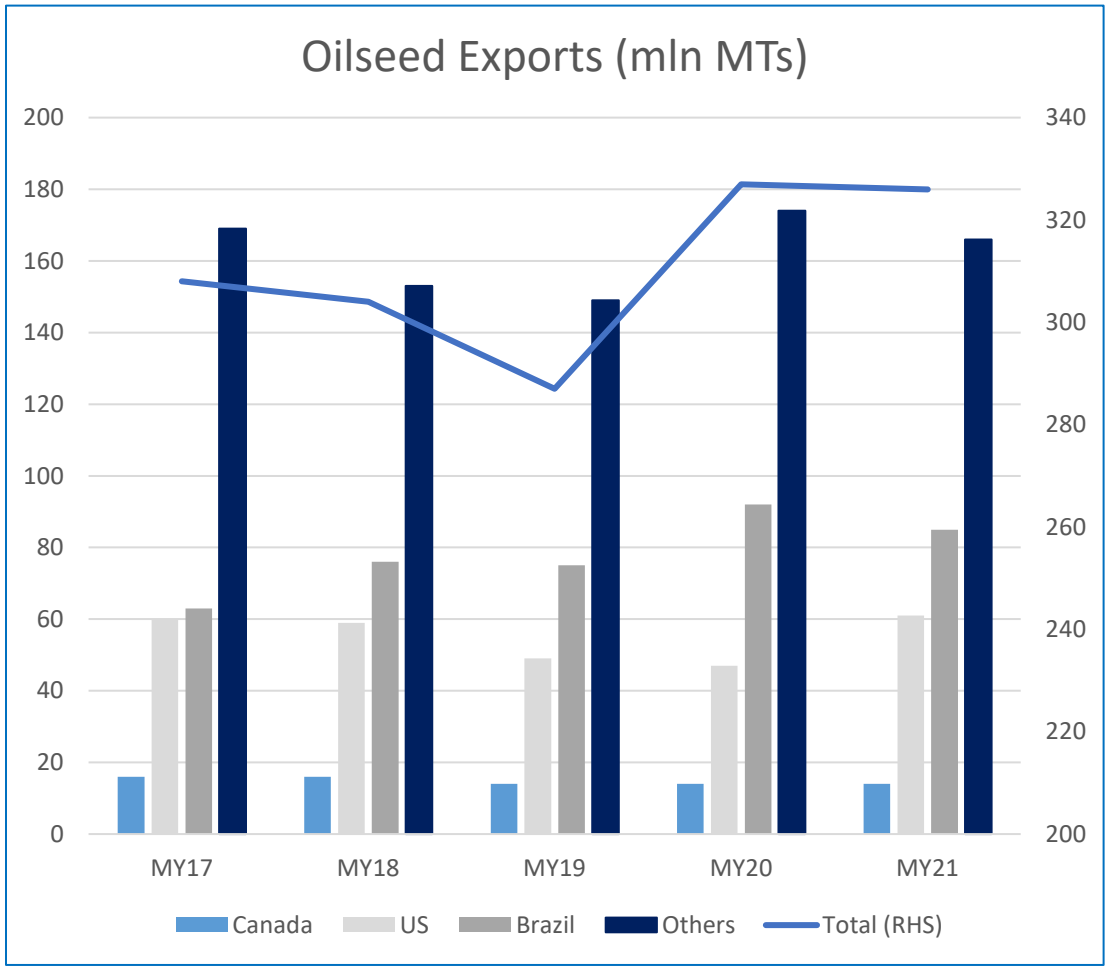


Source: USDA, PACRA Internal Database

EDIBLE OIL | GLOBAL

Oil Seed Trade

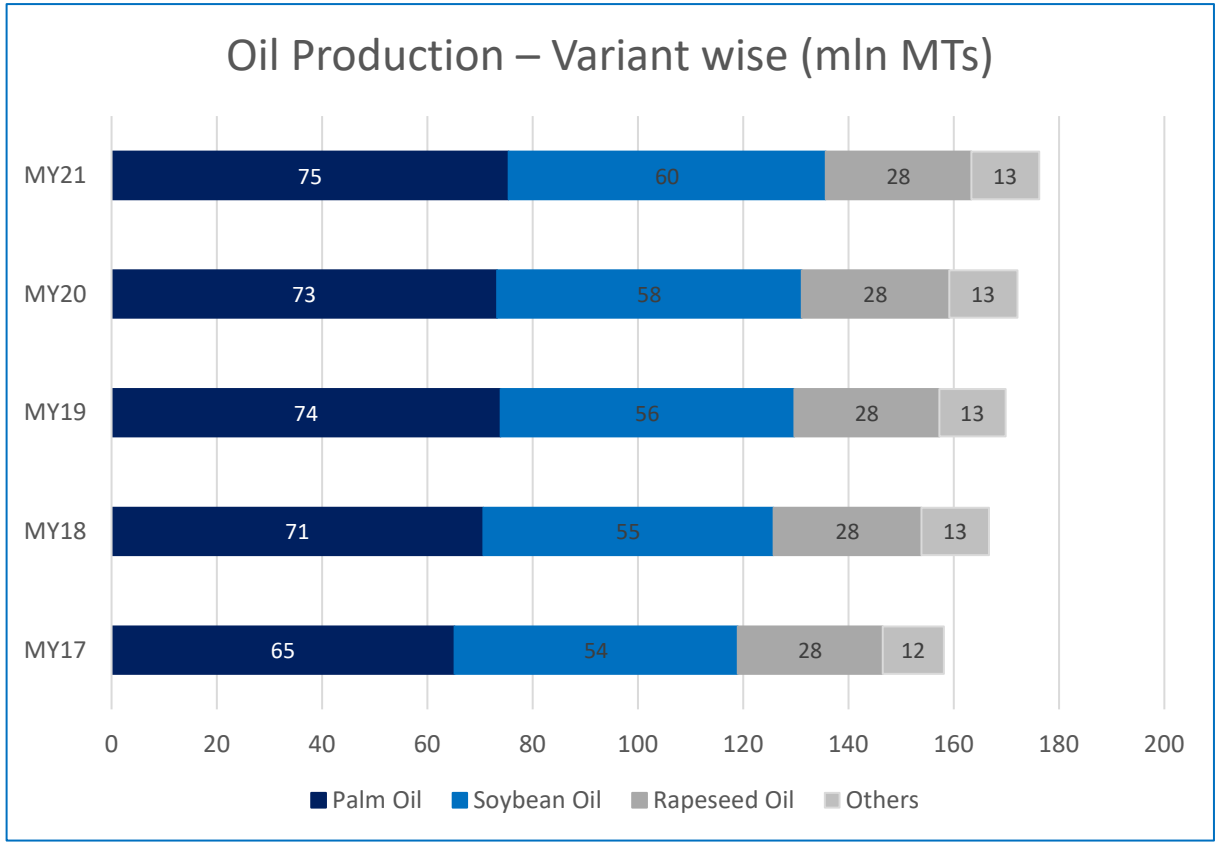


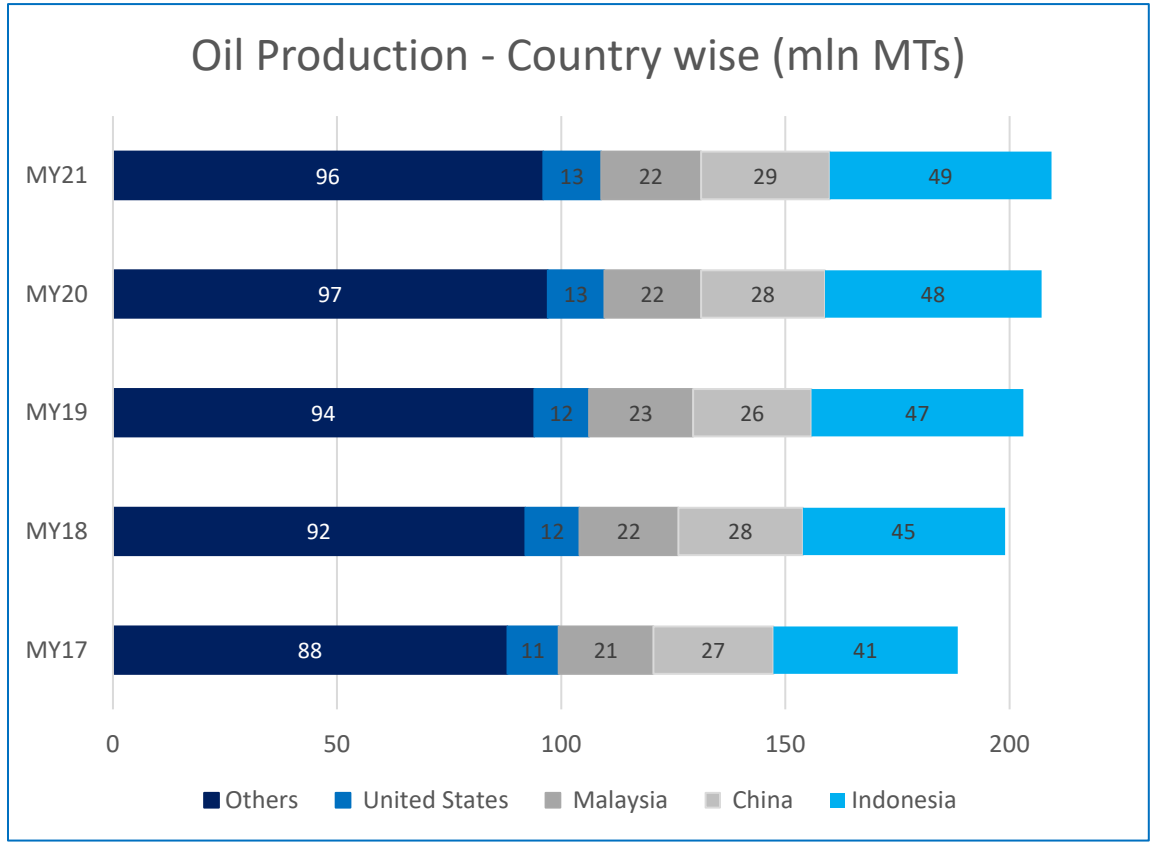


Source: USDA

Production of Edible Oil

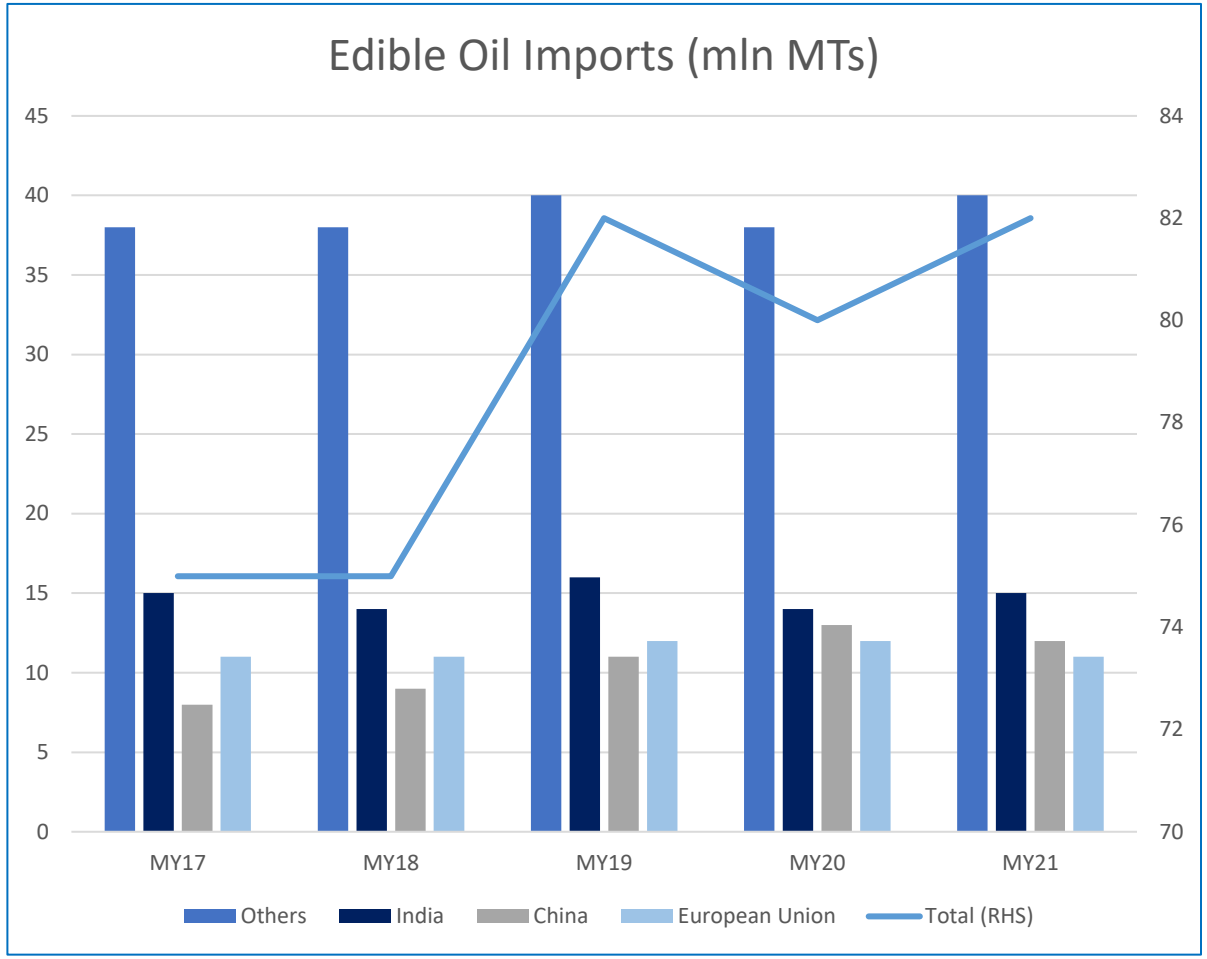
- Global oil production was recorded at ~209mln MTs during MY21 – a YoY growth of ~1% (MY20: ~207mln MTs).
- Palm oil has the largest share in global oil production. Two types of palm oil are produced globally; crude palm oil that comes from squeezing the pulp of palm fruit, and palm kernel oil which comes from crushing the kernel.

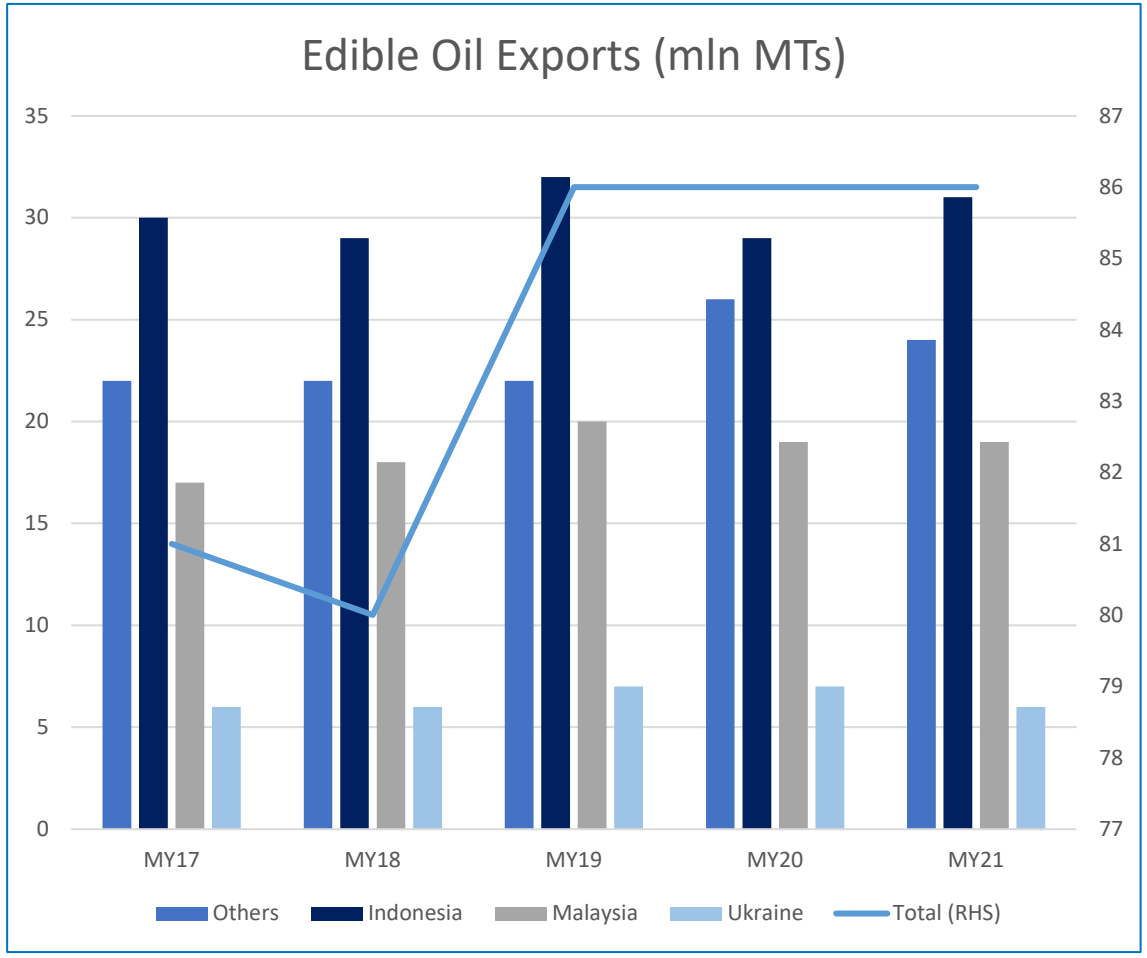




Source: USDA

Edible Oil Trade



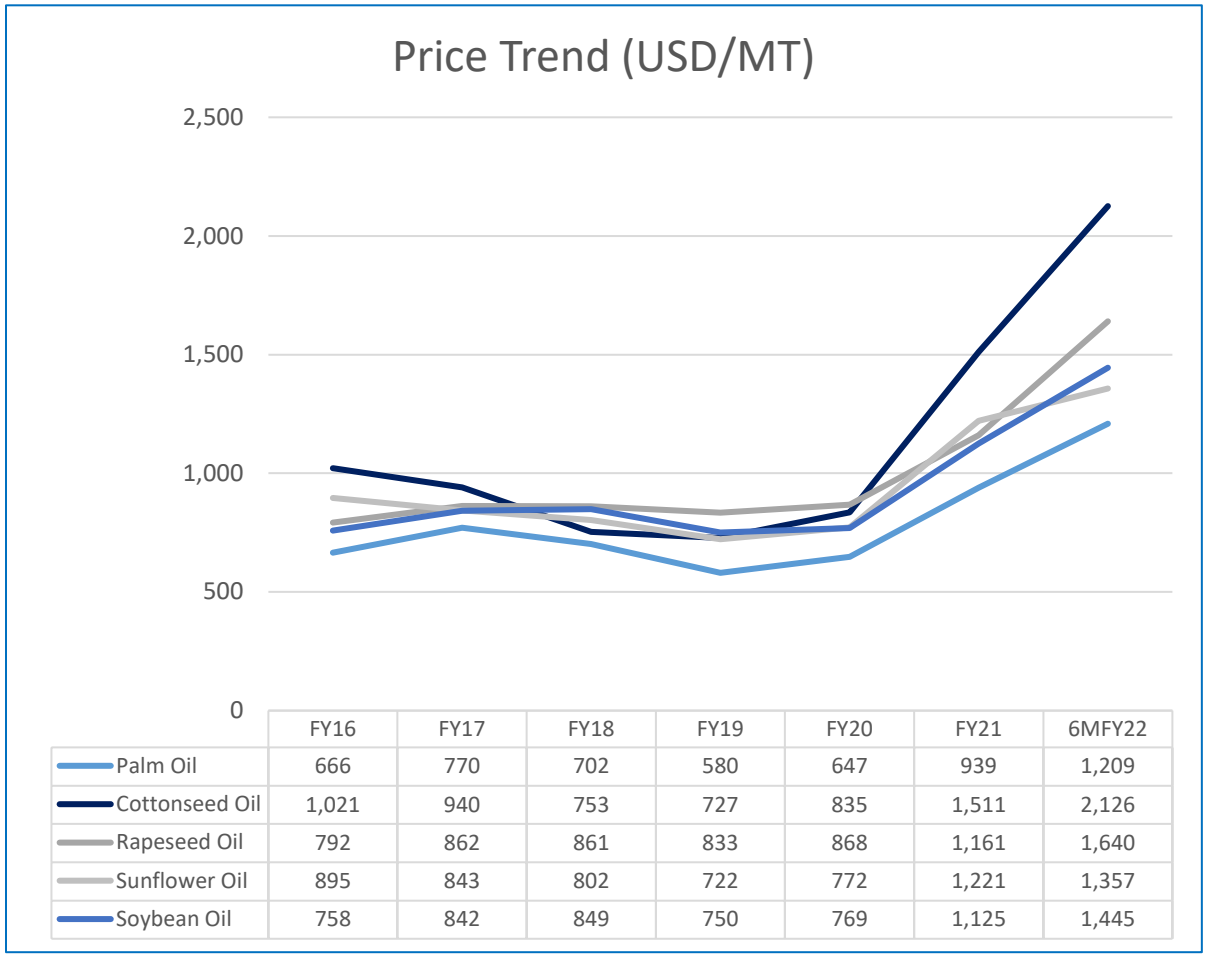


Source: USDA

EDIBLE OIL | GLOBAL

Price Dynamics

- Global oil prices have increased with a CAGR of ~7% during the last 5 years (FY17-FY21). Prices of edible oil during FY19 were at their lowest in several years, a reflection of the slowdown in global demand for oils and protein meals.
- **Palm Oil**: Malaysia and Indonesia account for ~85% of global palm oil production. These countries faced a chronic labor shortage post COVID-19 outbreak, leading to higher palm oil prices. Palm Oil prices have hiked by ~29% during the first six months of FY22.
- **Sunflower Oil:** Russia and Ukraine produce ~50% of the global sunflower oil. Drought-like conditions in these countries contributed to higher prices.
- **Soybean Oil:** Soybean oil prices hiked because of dry weather in Brazil and Argentina (the largest exporters) and higher demand from major consumers China and India. Soybean Oil prices have shown an increase of ~28% during the first six months of FY22.
- Global oil prices are expected to follow an increasing trend due to the uncertainty caused by COVID-19 and consequential economic disruptions.



	FY16	FY17	FY18	FY19	FY20	FY21	6MFY22
Palm Oil	666	770	702	580	647	939	1,209
Cottonseed Oil	1,021	940	753	727	835	1,511	2,126
Rapeseed Oil	792	862	861	833	868	1,161	1,640
Sunflower Oil	895	843	802	722	772	1,221	1,357
Soybean Oil	758	842	849	750	769	1,125	1,445

Source: USDA, PACRA Internal database

EDIBLE OIL | DOMESTIC

An Overview

- Pakistan's edible oil market was recorded at USD~9,276mln in FY21 registering a YoY growth of ~10% (FY20: USD~8,413mln).

- Local consumption was recorded at ~4.8mln MTs in FY21 up ~1% YoY (FY20:~4.7mln MTs). This reflects that the growth in revenue was majorly contributed by a spike in prices (in dollar terms) of inputs (oil seeds). Average local price of edible oil during FY21 is recorded at PKR~345/kg as compared to PKR~275/kg during FY20 (YoY Growth: 25%). With a per capita consumption of 22kg, Pakistan is the world's 8th largest consumer of edible oil.

- The sector is highly dependent on imported oil seeds and refined palm oil to meet the local demand. Hence the exposure to exchange rate and International price fluctuations is high.

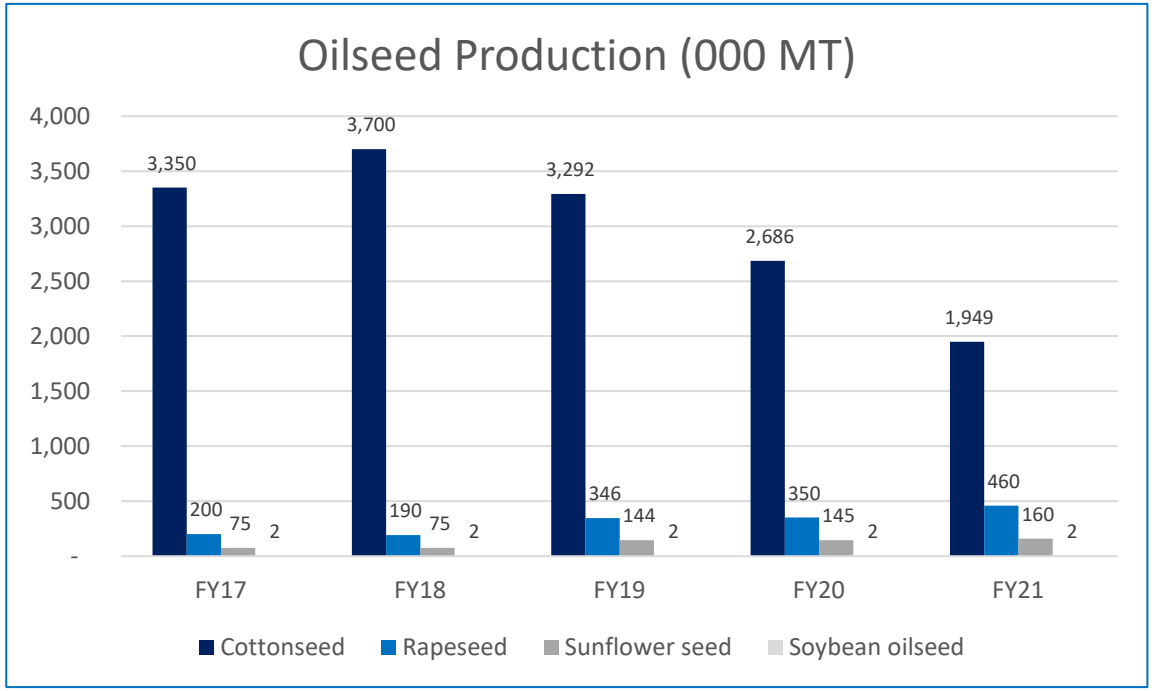
Particulars	FY20	FY21
Revenue (USD mln)	8,413	9,276
Growth Rate	38%	10%
Revenue (PKR bln)	1,361	1,557
Per Capita Revenue (USD)	37	40
Per Capita Consumption (Kg)	22	22
Share to GDP	2.9%	3.5%
Oil Seed Imports (000 MT)	3,140	3,100
Palm Oil Import (000 MT)	3,275	3,450
Edible Oil Consumption (000 MT)	4,712	4,768
Association	Pakistan Edible Oil Refiners Association, Pakistan Vanaspati Manufacturers Association, Pakistan Oilseed Development Board	

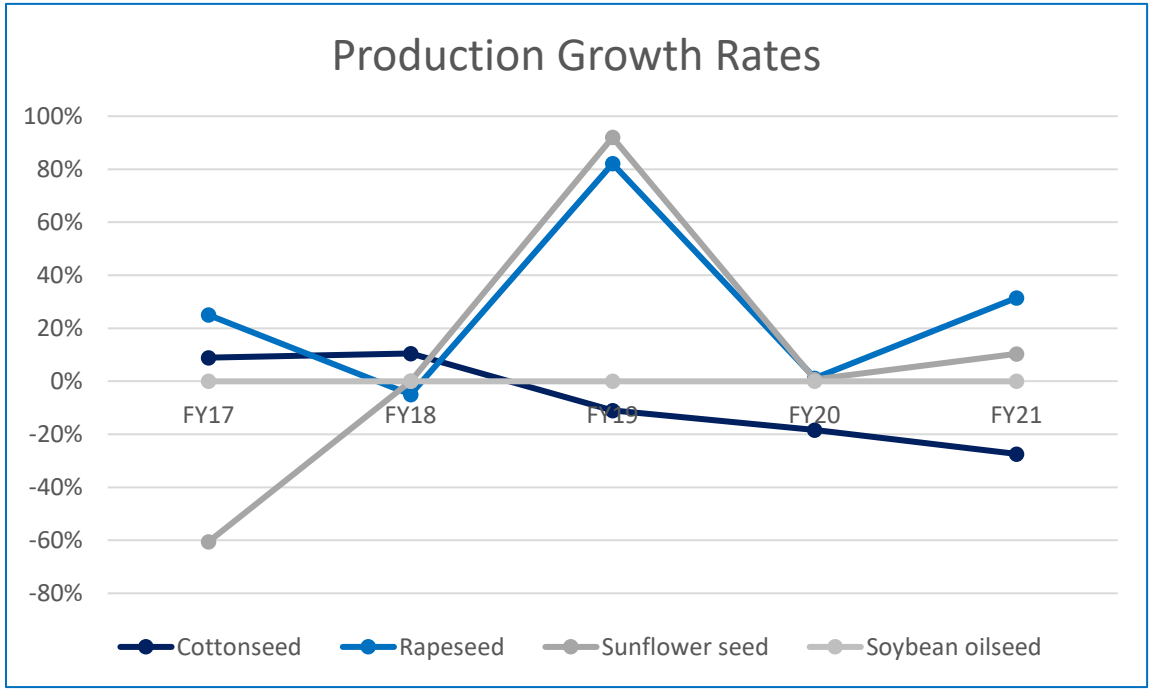
Source: USDA, WB, IMF

EDIBLE OIL | DOMESTIC

Supply Side - Oilseeds

- Local edible oil demand is met through both crushing of oil seeds and import of cooking oil.
- Cottonseed is the principal oilseed crop grown in Pakistan, accounting for an average of ~87% of domestic oilseed production in the last 5 years. Cottonseed demand is met through local produce only.
- The local industry relies entirely on imports to meet its demand of soybean seed whereas rapeseed and sunflower seeds are both produced locally as well as imported.





Source: Ministry of National Food Security & Research, PBS, USDA

EDIBLE OIL | DOMESTIC

Supply Side – Edible Oil

- Domestically, ~26% of the total consumption of edible oil is met by local production, while the remainder is imported.

(000 MT)	FY20 Palm Oil	Soybean Oil	Rapeseed Oil	Cottonseed Oil	Sunflower Oil	Total
Opening Stock	265	10	20	8	5	308
Consumption	3,290	480	471	416	55	4,712
Import	3,285	60	0	0	4	3,349
Import % of Consumption	*100%*	*13%*	*0%*	*0%*	*7%*	*71%*
Local Production	0	415	470	411	51	1,347
Local Production % in Consumption	*0%*	*86%*	*100%*	*99%*	*93%*	*29%*
Closing Stock	260	5	19	3	5	292

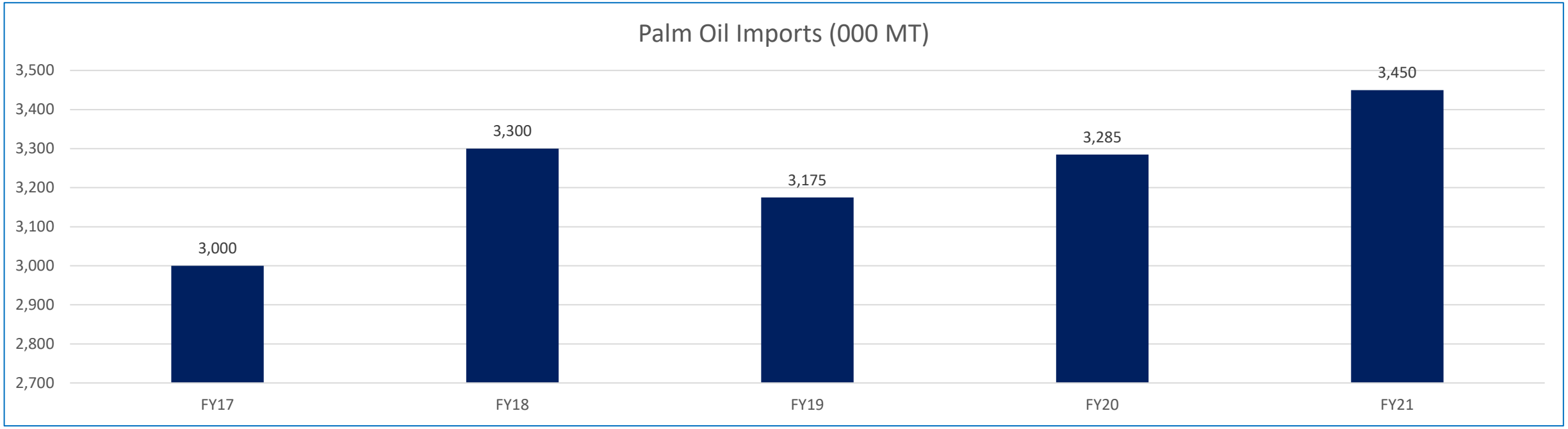
(000 MT)	FY21 Palm Oil	Soybean Oil	Rapeseed Oil	Cottonseed Oil	Sunflower Oil	Total
Opening Stock	260	5	19	3	5	292
Consumption	3,410	555	481	271	61	4,768
Import	3,450	78	0	0	4	3,534
Import % of Consumption	*100%*	*14%*	*0%*	*0%*	*7%*	*74%*
Local Production	0	487	462	271	56	1,244
Local Production % of Consumption	*0%*	*88%*	*96%*	*100%*	*92%*	*26%*
Closing Stock	300	15	0	3	4	302

Source: Ministry of National Food Security & Research, PBS, USDA

EDIBLE OIL | DOMESTIC

Supply Side – Palm Oil

- Although Pakistan's duty structure is designed to facilitate oilseed imports through reduced tariffs and fees as a means of shifting value addition to the domestic oil production industry but still the country is one of the world's largest importers of refined palm oil.
- Refined palm oil accounts for ~98% of Pakistan's total edible oil imports and is sourced mainly from Malaysia and Indonesia.
- Pakistan is the fourth-largest importer of palm oil globally, and it is forecast to import ~3.6mln MT of palm oil in FY22, according to the USDA.

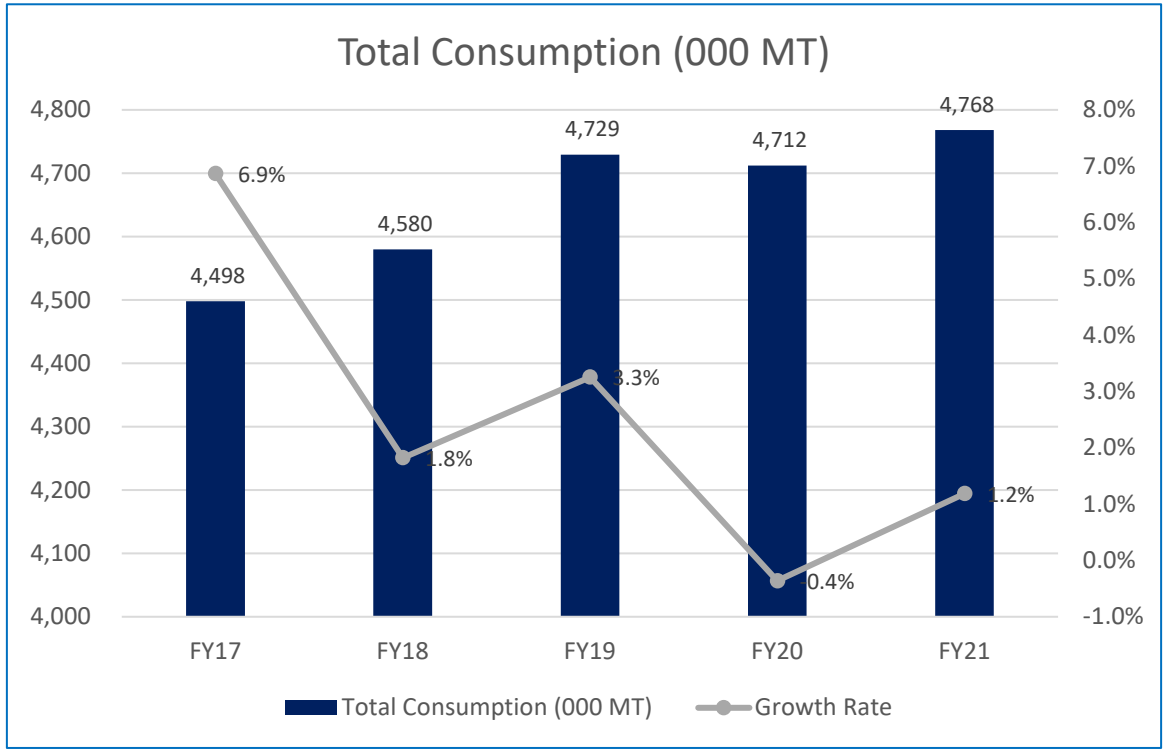


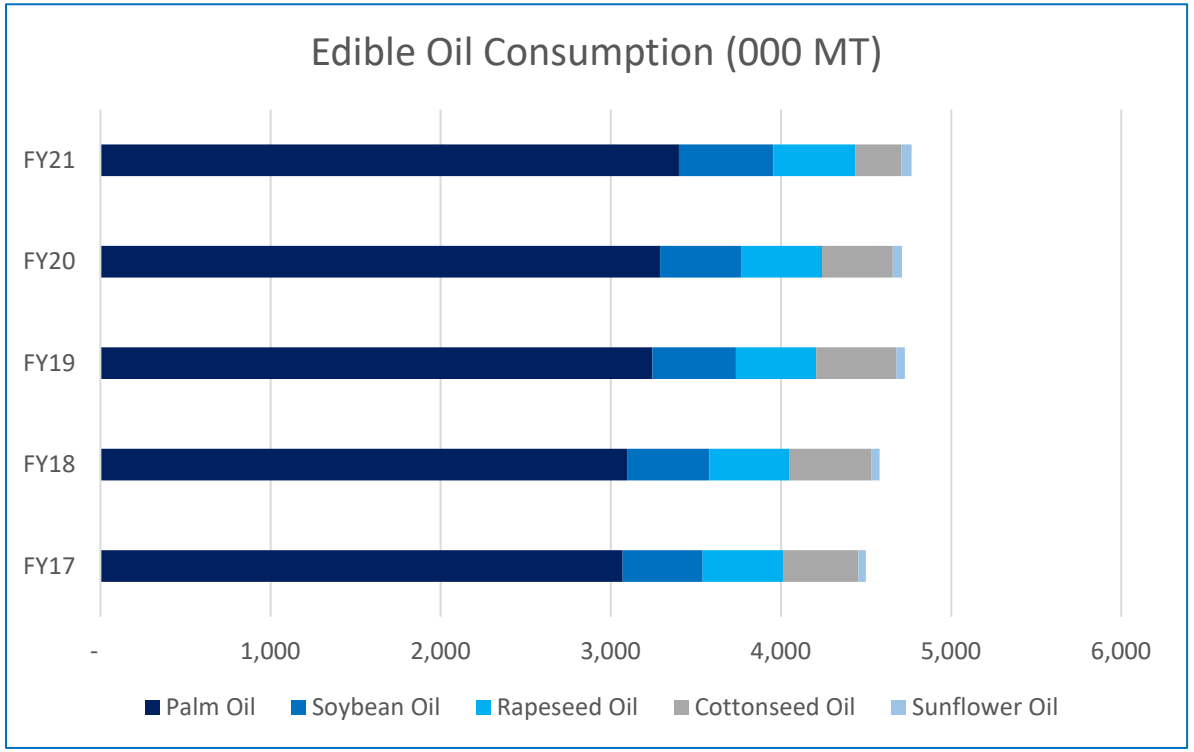
Source: Ministry of National Food Security & Research, PBS, USDA

EDIBLE OIL | DOMESTIC

Demand Side

- Being the essential food item, the demand of edible oil has remained largely stable, fluctuating within a range of ~4.5 - 4.8mln MT in the last 5 years.
- During FY21, the local consumption of edible oil was recorded at 4.8mln MT up ~1% YoY. Palm oil has largest share in overall edible oil consumption followed by soybean oil, rapeseed oil and sunflower oil.



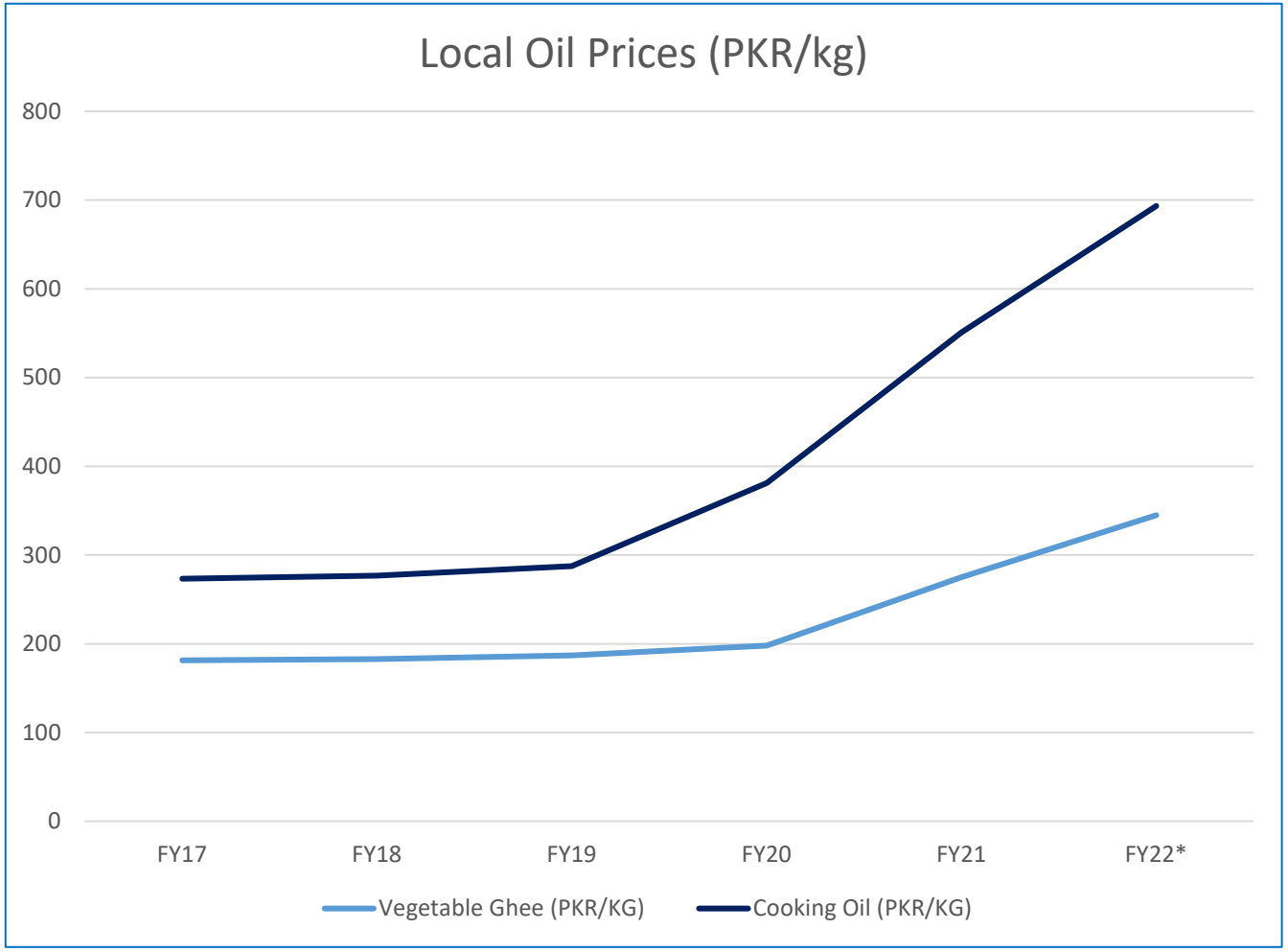


Source: Ministry of National Food Security & Research, PBS, USDA

EDIBLE OIL | DOMESTIC

Price Dynamics

- Pakistan is heavily dependent on import of oil seeds and edible oil to meet local consumption. Further, the exposure to exchange rate movement is also high.
- It is the market norm to pass in entirety the impact of increased cost of purchase to end consumers.
- Vegetable ghee and Cooking oil prices have increased with a CAGR of ~9% and ~25% respectively during the last 5 years (FY17-FY21). They are further expected to rise by ~25% and ~26% considering the international rising price trend.
- This is majorly because international stock of edible oil and oil seed is at historically low levels. Amid tight supplies post COVID-19, the prices of imported edible oil are also expected to increase further and hence the local prices of the products.



*Estimated based on 6MFY22

Source: USDA, PBS.

EDIBLE OIL | DOMESTIC

Business Risk | Demand Side

The business risk of edible oil sector can be divided into operating risk and sales risk.

- **Operating Risk:** This risk particularly refers to the difficulties relating to the operations of the edible oil players which can hamper the profitability and performance of the sector. Major inputs include both local inputs and imported inputs although the proportion of local input is significantly low. The sector's costs are therefore subject to exchange rate volatility and International prices of oil seed and refined edible oil. Although tariff structure of the country is designed in way to promote local production of edible oil but still the major portion of demand is met through import of refined oil.

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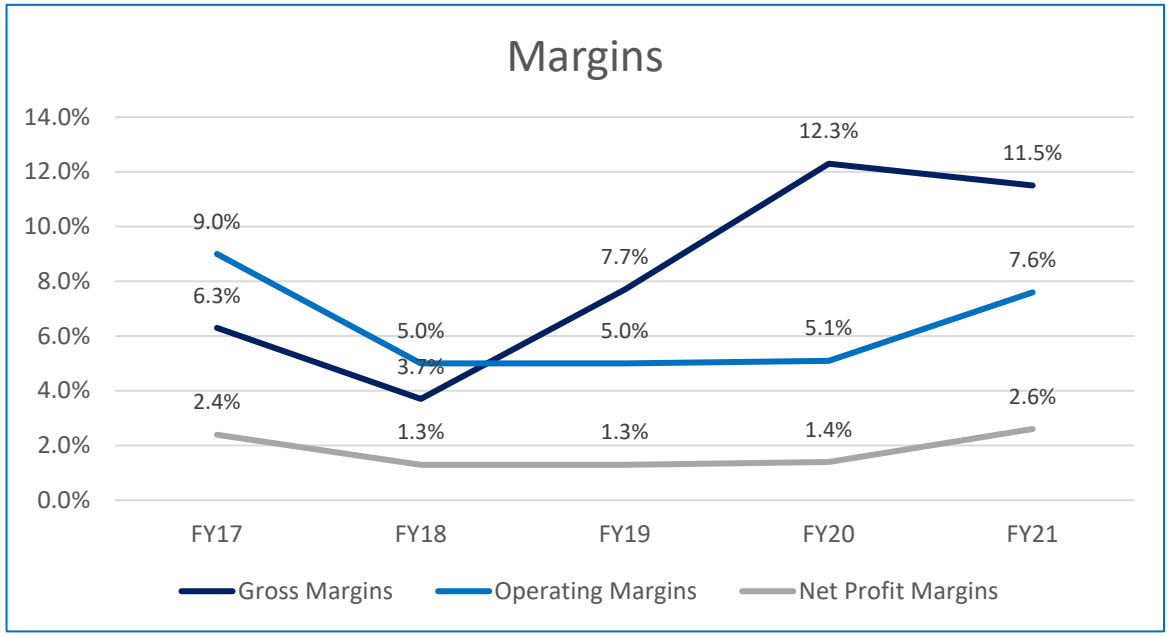
- **Sales Risk:** This risk is focused on the demand side of edible oil. Being the essential food item demand of edible oil remains robust. But the slight variation in demand is related to price movement as well as the customers tend to switch from branded edible oil to low cost products.

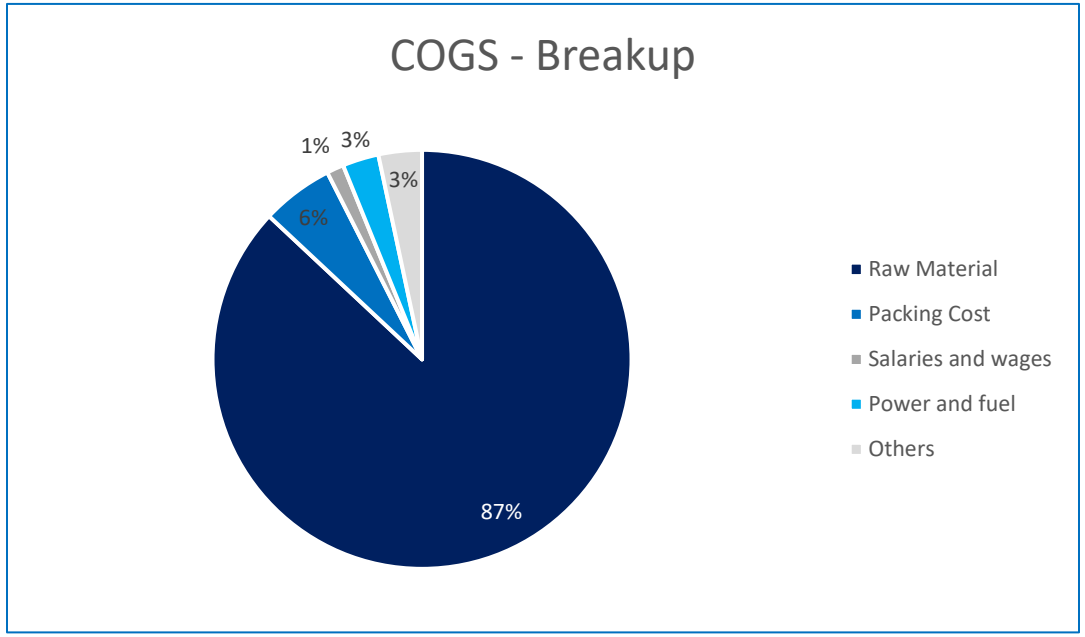
Source: PACRA Internal database

EDIBLE OIL | DOMESTIC

Business Risk: Margins & Cost Structure

- Edible oil sector is characterized by low net margins as most suppliers sell imported cooking oil after packing with low value addition. Whereas, the companies involved in the crushing of seeds for edible oil production usually have better margins than their counterparts.
- Gross profit margins decreased slightly to ~11.5% in FY21 (~12.3% in FY20) as the increased cost of imported raw material offset the increase in oil prices. However net profit margins were recorded at 2.6% (FY20: 1.4%) due to reduced interest rates.
- Raw material constitute ~87% of the total cost, followed by packaging cost (~6%) and salaries and wages (~3%).
- Going forward, the bottom line of the sector is expected to face challenges owing to increased interest rates and depreciating currency.





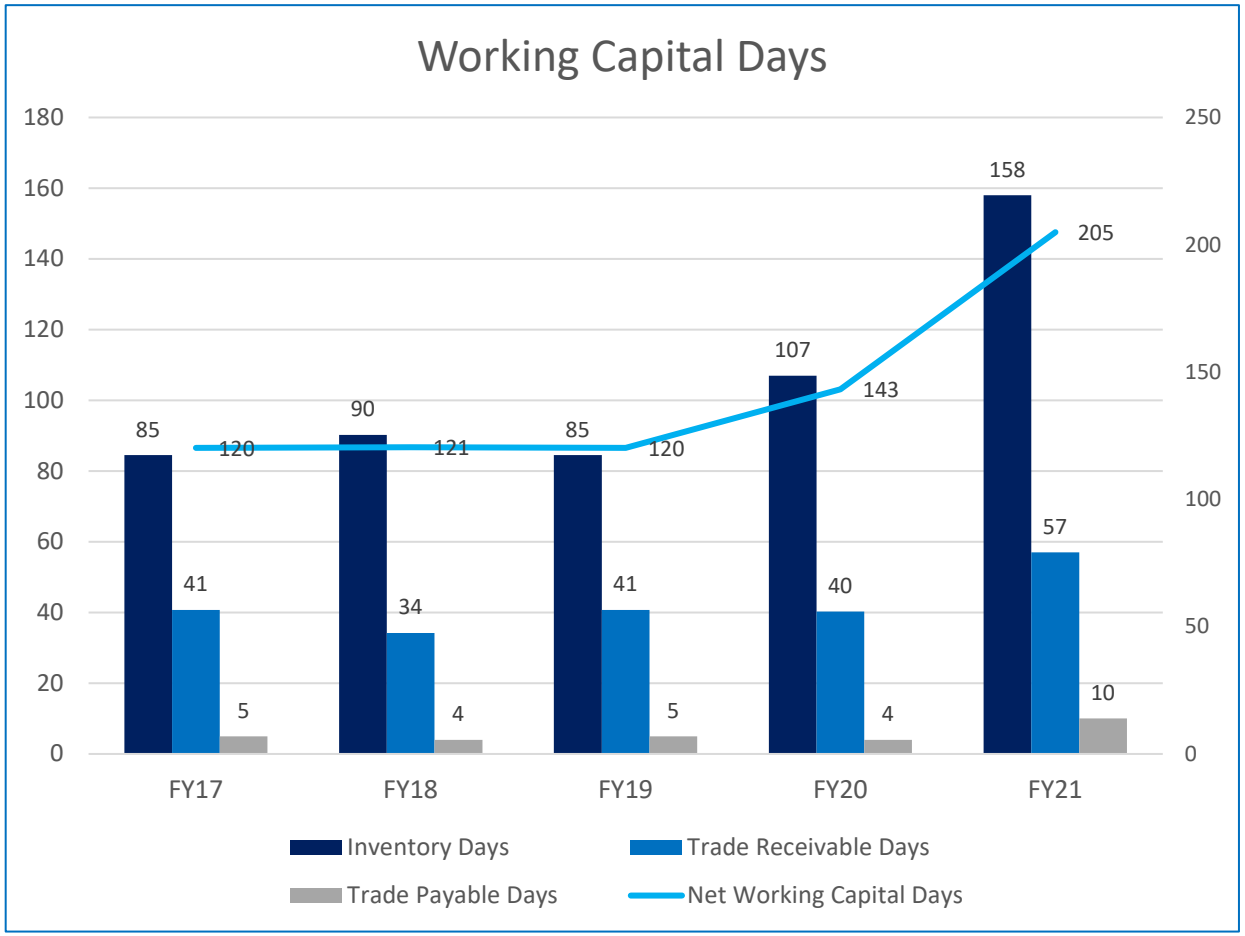
Note: Calculations are based on financials of PACRA rated clients.

Source: PACRA Internal Database

EDIBLE OIL | DOMESTIC

Financial Risk

- Net working capital days of the sector were recorded at 205 days up ~43% YoY (FY20: 143 days).
- Net working capital days of the sector increased due to increase in inventory days. The suppliers keep considerable inventory levels to meet demand during lead time required to import inputs. The need to maintain back up stocks has increased owing to the expected supply chain disruptions caused by COVID-19 lockdown.
- Receivable days of the sector were recorded at 57 days during FY21 (FY20: 40 days). Supplier usually sell their oil products at a credit of over one month.
- Due to high reliance of the sector on imports, trade payable days of the sector are minimal which further increases the working capital needs.
- Considering high inventory and receivable days and low support from payable side, the funds requirement to meet working capital needs of the sector is high.



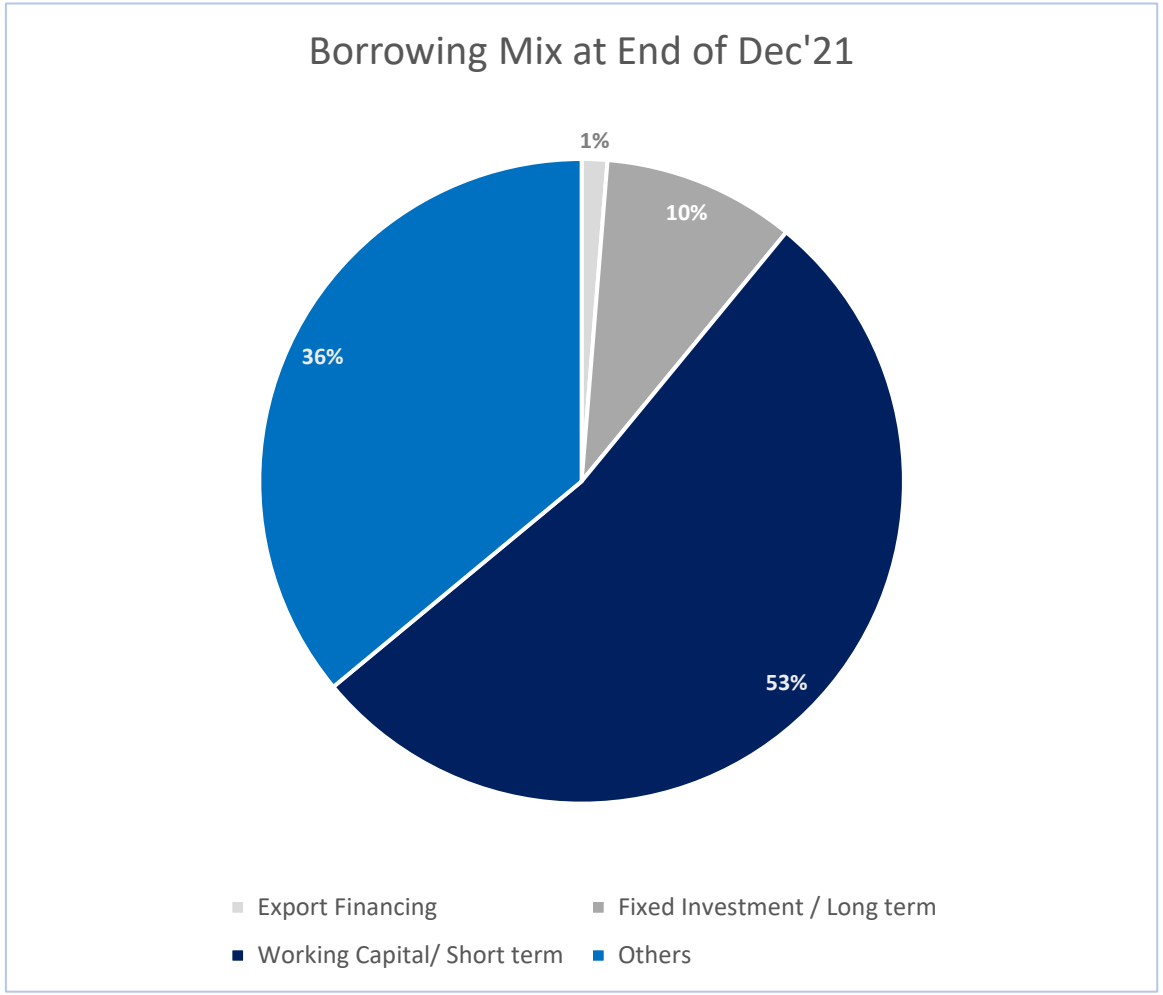
Note: Calculations are based on financials of PACRA rated clients.

Source: PACRA Internal Database

EDIBLE OIL | DOMESTIC

Financial Risk

- According to SBP numbers, total outstanding debt of the sector was recorded around PKR~166,025mln at End-Dec'21, up from PKR~148,665 at End-June'21, depicting a growth of ~12%.
- Short term liabilities constitute a major portion of the total debt. To finance the working capital needs, the companies resort to short term borrowing as the short term borrowings constitute ~53% of the total outstanding debt. High reliance on short term financing is a depiction of aggressive working capital policy which increases the repayment risk.
- Edible Oil sector is moderately leveraged. Gearing ratio of the sector was recorded at 48% during FY21 (FY20: 54%).



Note: Calculations are based on financials of PACRA rated clients.

Source: SBP,PACRA Internal Database.

EDIBLE OIL | DOMESTIC

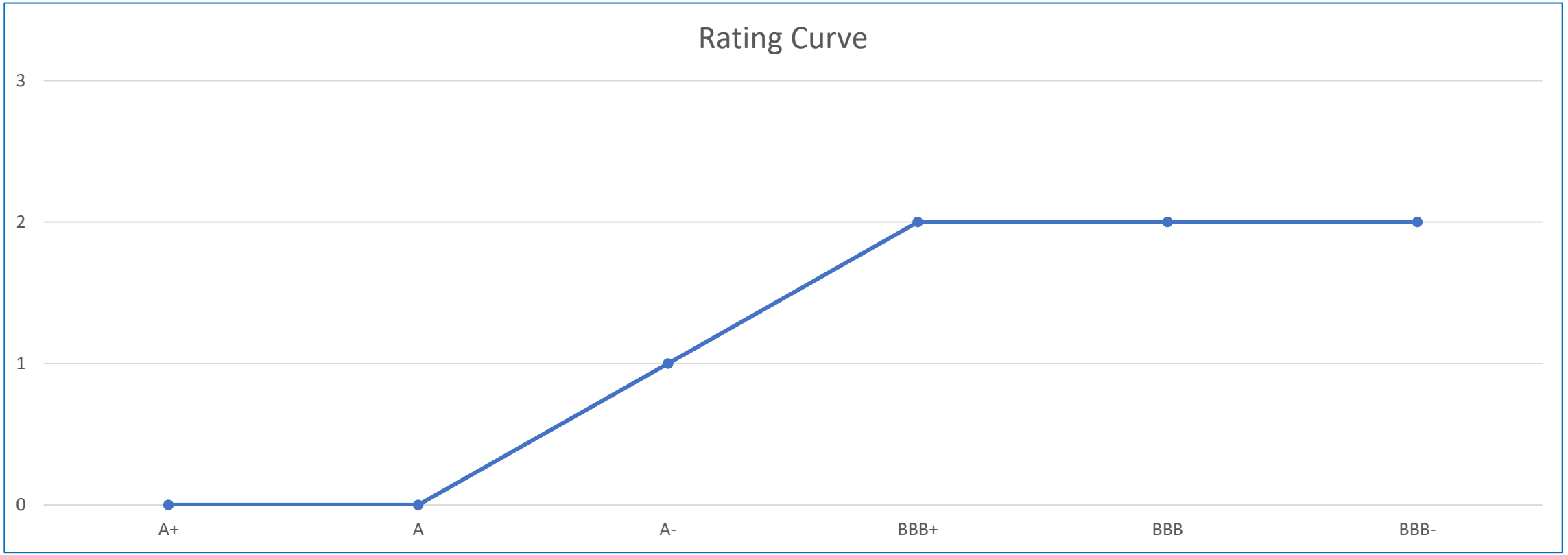
Duty Structure

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21
12.07	Oil Seeds (Sunflower & Canola hybrid seeds meant for sowing)	17%	5%	1%	1%	-	-	1-17%	1-3%
15.11	RBD palm oil	PKR 10,700/MT	PKR 10,700/MT	-	-	PKR 50/MT	PKR 50/MT	PKR 10,750/MT	PKR 10,750/MT
1511.9	Palm oil olein	PKR 9,050/MT	PKR 9,050/MT	-	-	PKR 50/MT	PKR 50/MT	PKR 9,100/MT	PKR 9,100/MT

Source: Federal Board of Revenue, USDA

EDIBLE OIL | RATING CURVE

- PACRA rates seven entities in the Edible Oil sector, with a rating bandwidth ranging from A- to BBB-.



Source: PACRA Internal data

EDIBLE OIL | SWOT ANALYSIS

Strengths

- Robust demand
- High bargaining power of suppliers
- Well established dealership networks
- Important food ingredient
- Increasing income levels and restaurants
- Wide range of target market

Weaknesses

- High reliance on imports
- Huge working capital needs
- Lack of Required Regulation by the Government of Pakistan
- Highly fragmented sector
- Low local value addition

Threats

- Economic uncertainties
- Low barriers to entry
- Changing eating habits
- Poor Infrastructure
- High competition
- Tight global supplies
- Increasing interest rates

Opportunities

- Increasing population
- Vast distribution
- Local plantation of oil seed
- Reduced additional custom duty

EDIBLE OIL | CONCLUSION

Sector Outlook: STABLE

- Being the essential food item, the demand of edible oil remains robust despite COVID-19 induced lockdowns. In the long term, the increasing population is expected to sustain the growth of the sector.
- More than ~70% of local demand is met through imported edible oil and oil seeds. Significant dependence on imported raw material increase the supply chain risk and exposure to exchange rate movements.
- On the pricing front, prices of the different variants of oil seeds and edible oil are at historical high due to the supply chain disruptions caused by the COVID-19 lockdown and tightened USA supplies. Prices are expected to remain volatile amid supply concerns.
- In line with international prices, the local prices of edible oil have been increasing sharply since Jan'20. With the expected increase of short term demand and tightened international supplies, the local prices are expected to continue to rise until any intervention by the government.
- Due to non-availability of other alternative the major burden of increase in international oil prices is borne by the end consumers which, on the other hand, helps in sustaining the margins of local players.
- The working capital requirement of the sector is high due to high inventory needs. Significant reliance of the sector on short borrowing to meet their working capital needs is a depiction of aggressive working capital management and hence increases the overall credit risk of the sector.

EDIBLE OIL| BIBLIOGRAPHY

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- Food and Agriculture Organization of United Nations
- US Department of Agriculture

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