



# Edible Oil An Overview

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# EDIBLE OIL | OVERVIEW

## Snapshot

- Edible Oil is an essential food item 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.
- Edible oil can be obtained from a number of plants. 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.
- Despite the decrease in growth of global consumption from ~4% in MY19 to ~1% in MY20. The global turnover increased by ~17 during MY20 due to the sharp increase in global edible oil prices during the period.

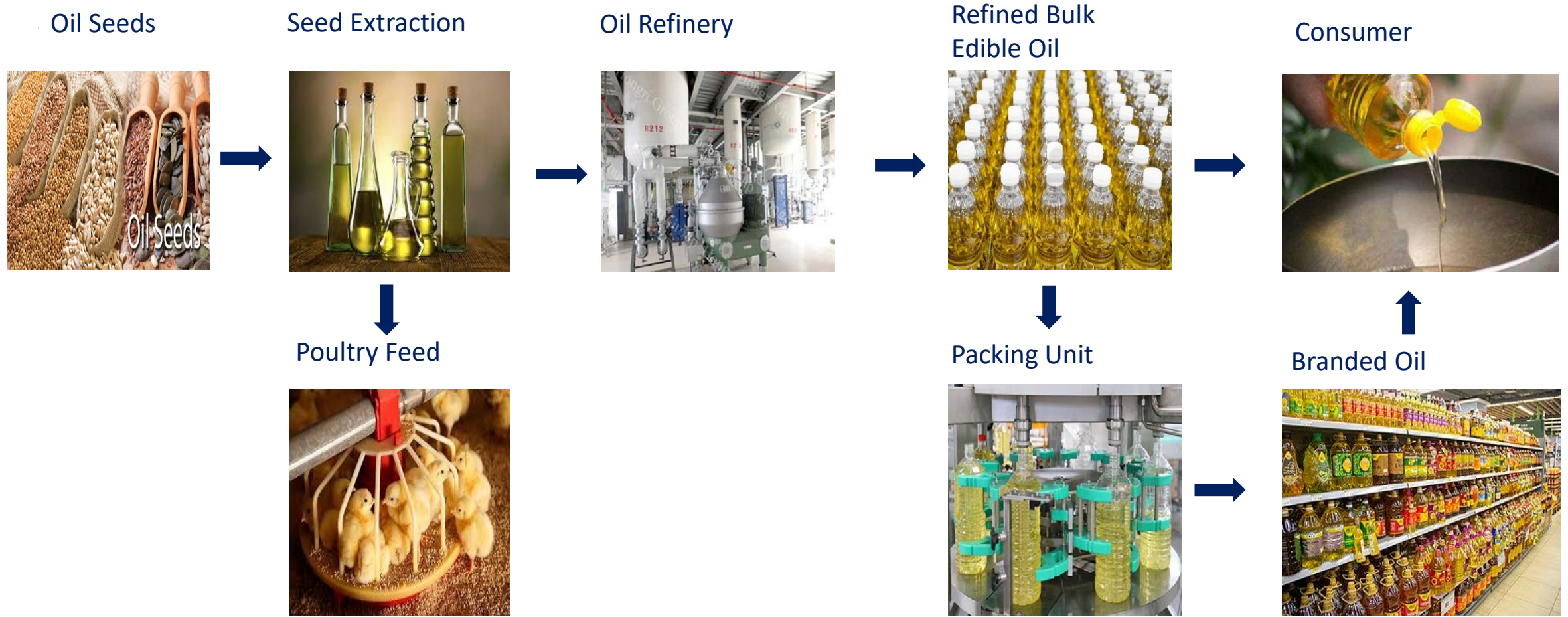
Description	MY19	MY20
Turnover (Oil) – Global (US\$ mln)	140,094	163,327
Turnover (Oil) – Domestic (US\$ mln)	6,087	7,105
Turnover per Capita – Global (USD)	18.4	21.2
Turnover per Capita- Domestic (USD)	21.5	21.5
Share in GDP- Global	0.16%	0.19%
Share to GDP- Domestic (Nominal)	2.4%	2.8
Growth Rate (Annual) – Global	-5.3%	16.6%
Growth Rate (Annual) – Domestic	13%	17%

*Note: Global turnover is based on international prices of raw edible oil.  
"MY" is the period from Oct-Sep.*



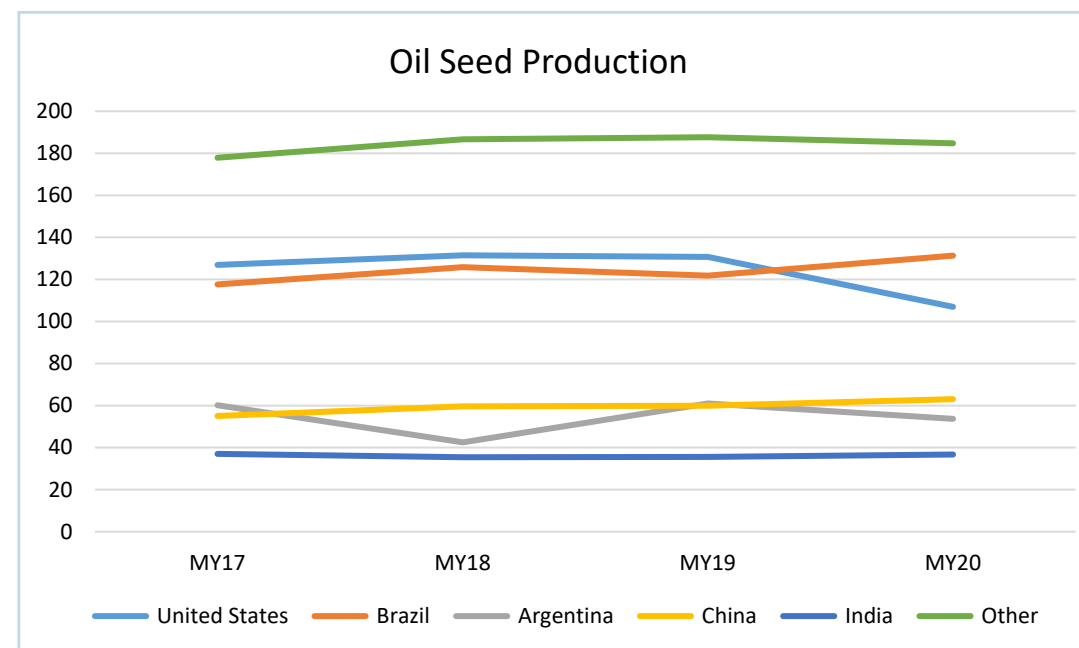
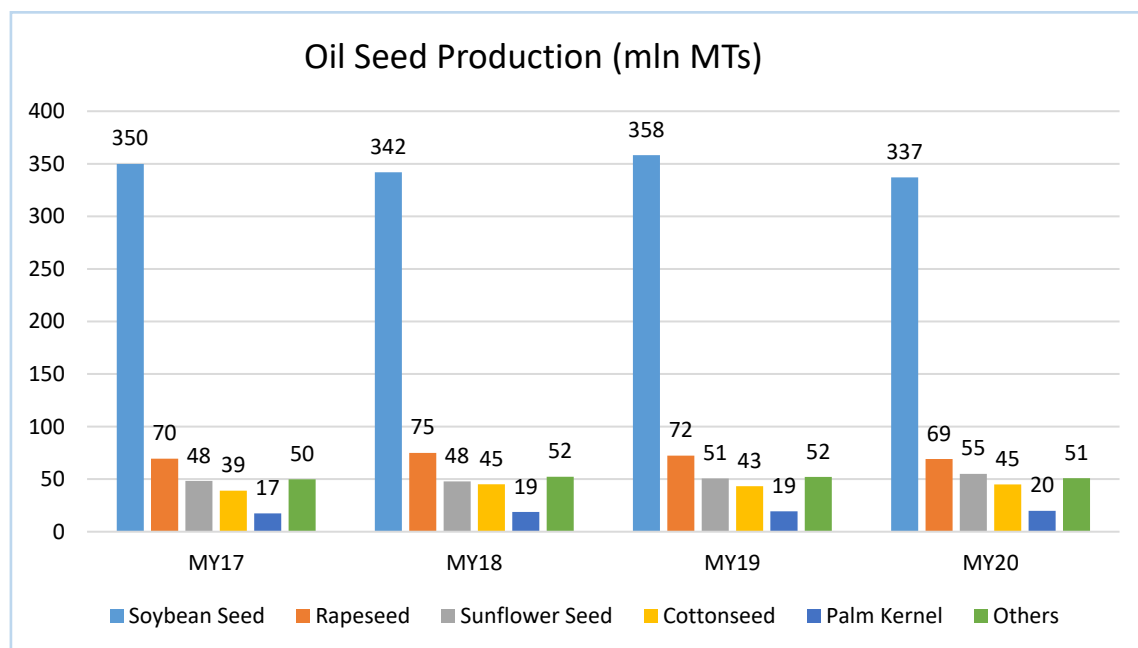
# EDIBLE OIL | PROCESS FLOW

## Process Flow

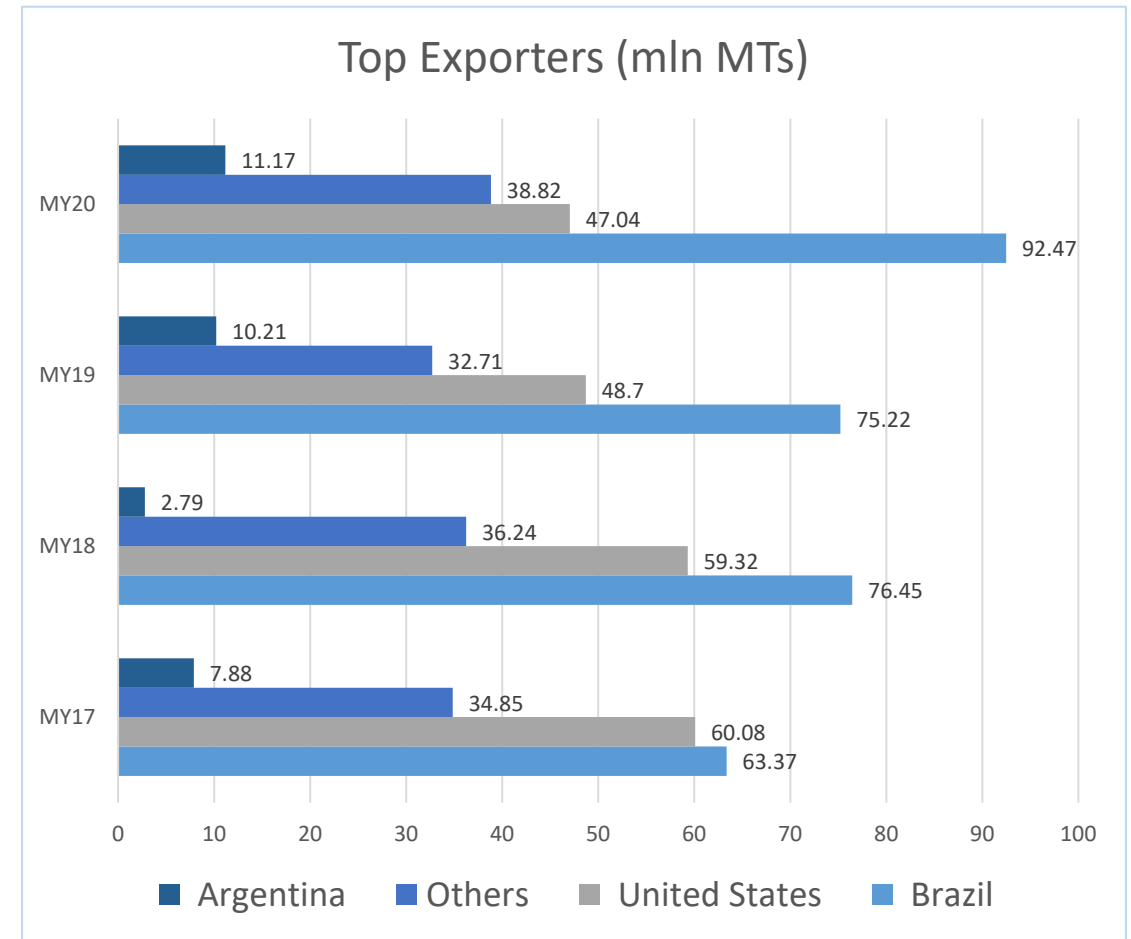
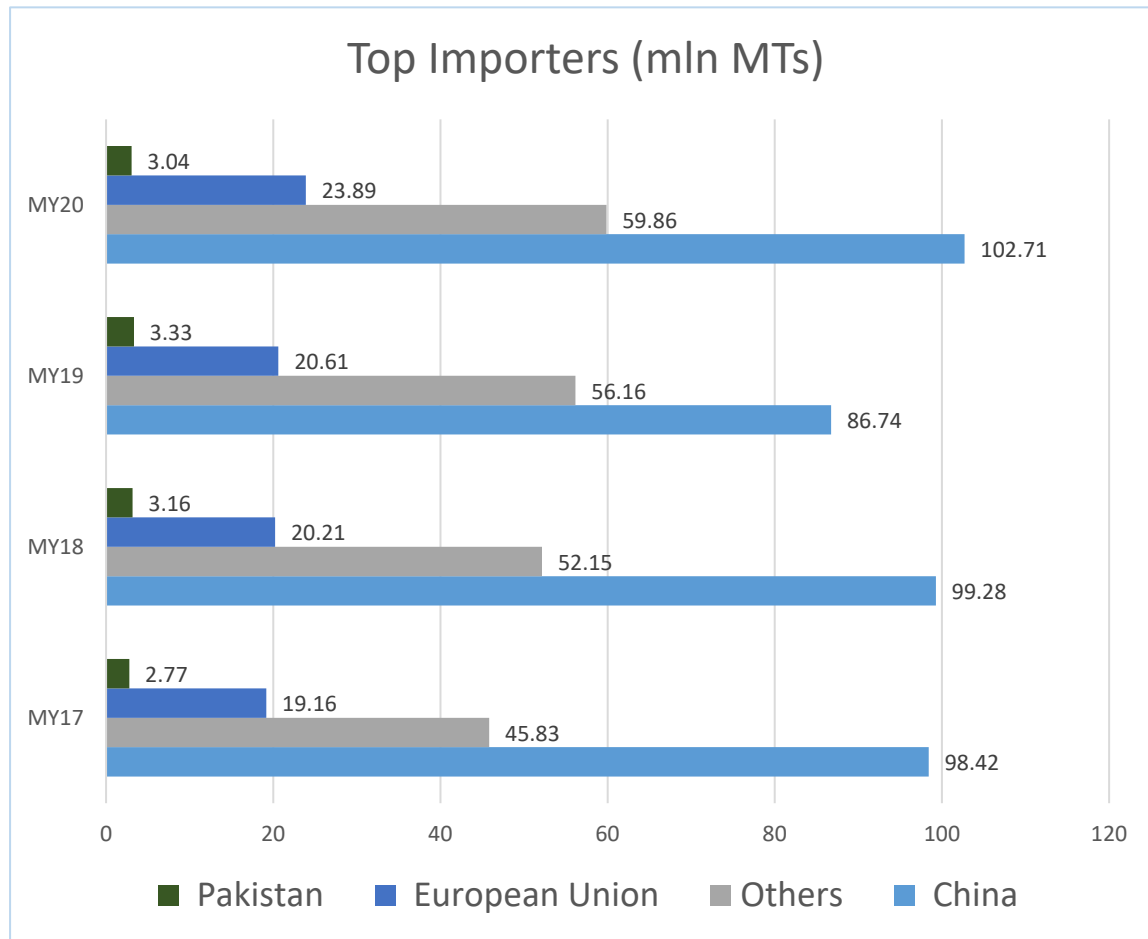


## Production of Oil seeds

- Global Oil seeds production was recorded at 576mln MTs during MY20 down by 3% YoY (MY19: 597mln MTs). A decline of almost ~18% YoY in USA crops led to drop in global production in MY20. This decline was majorly owed to supply chain disruptions being caused by the Covid-19 lockdown, ongoing trade war between USA and China and high opening inventory levels in the USA.
- Soybean seed is the main seed accounting for ~58% of global oil seed production during MY20 (MY19: 60%).
- Opportunity created by low USA production was being utilized by Brazil, as the country increased its oil seed production and export during the MY20.

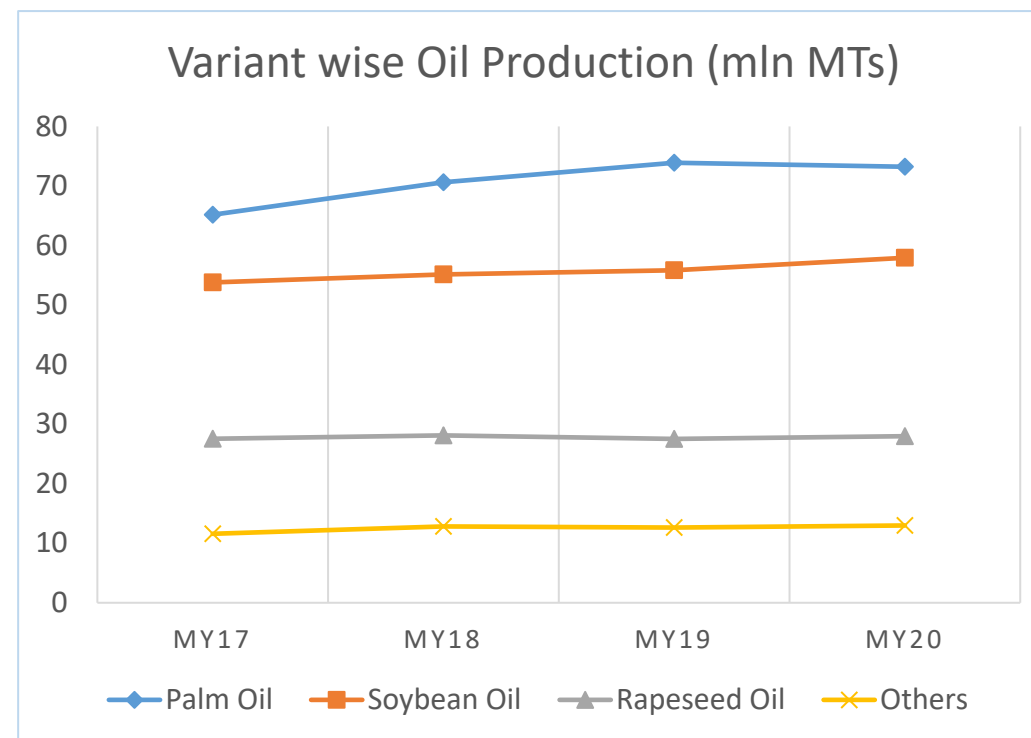
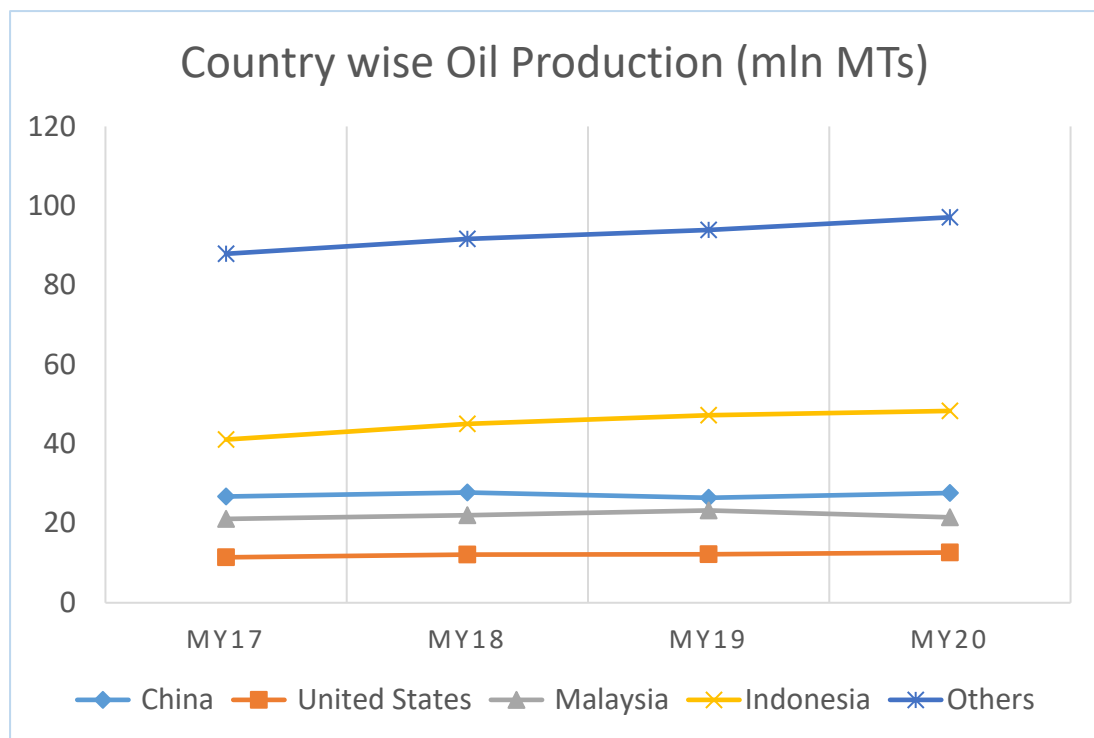


## Oil Seed Trade

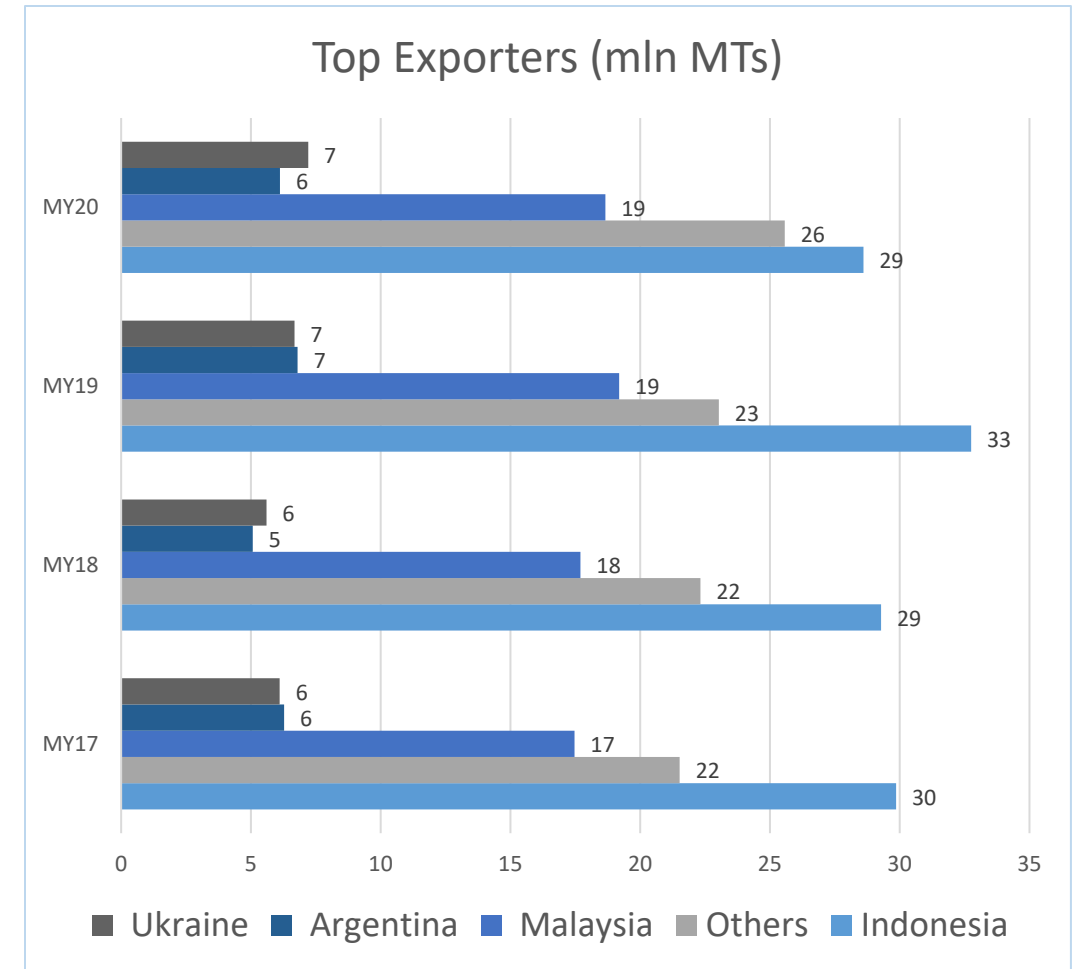
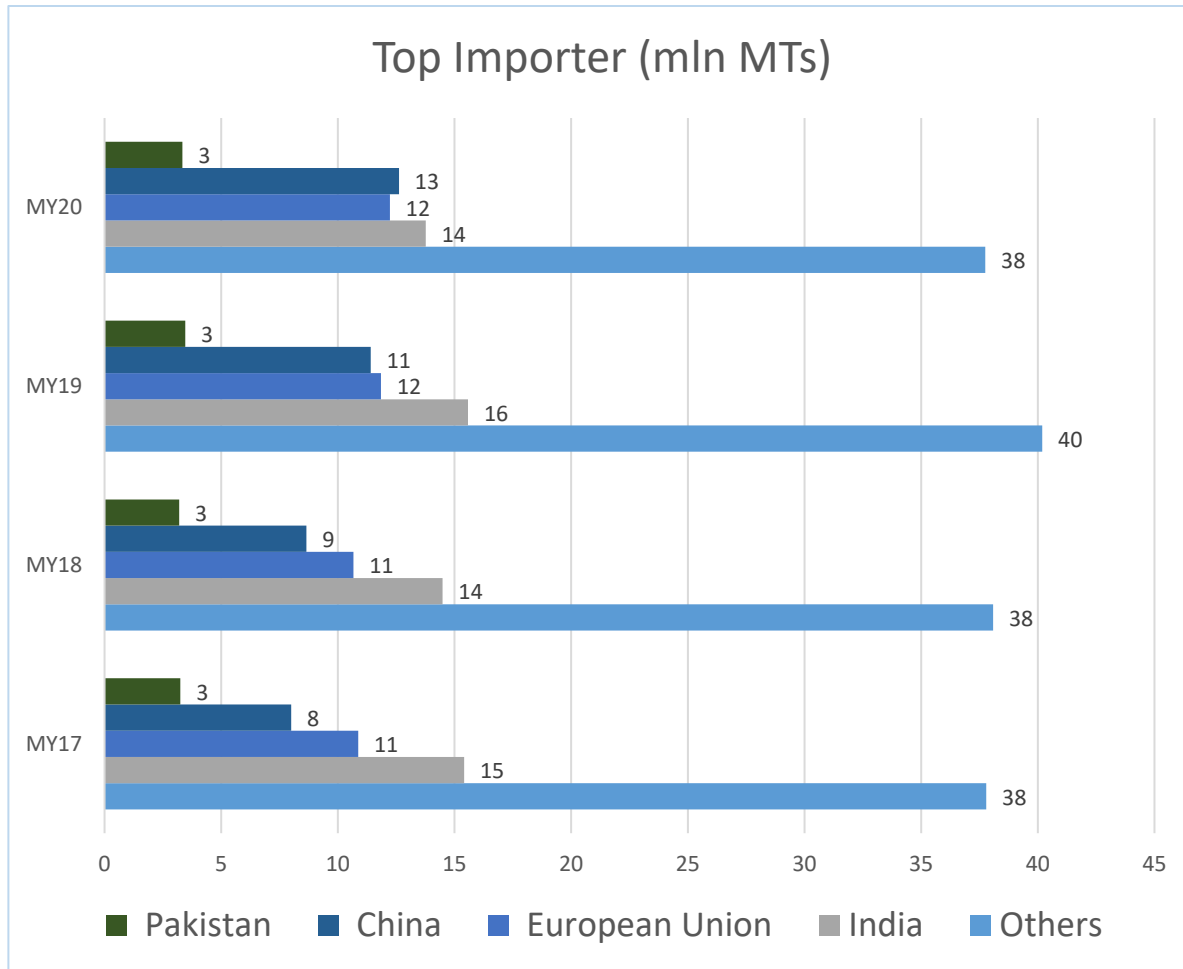


## Global Edible Oil Production

- Global oil production was recorded at 207mln MTs during MY20 – a YoY growth of 2% (MY19: 203mln MTs).
- Palm oil has the largest share in global oil production.
- Growth in global oil production is expect to remain flat.



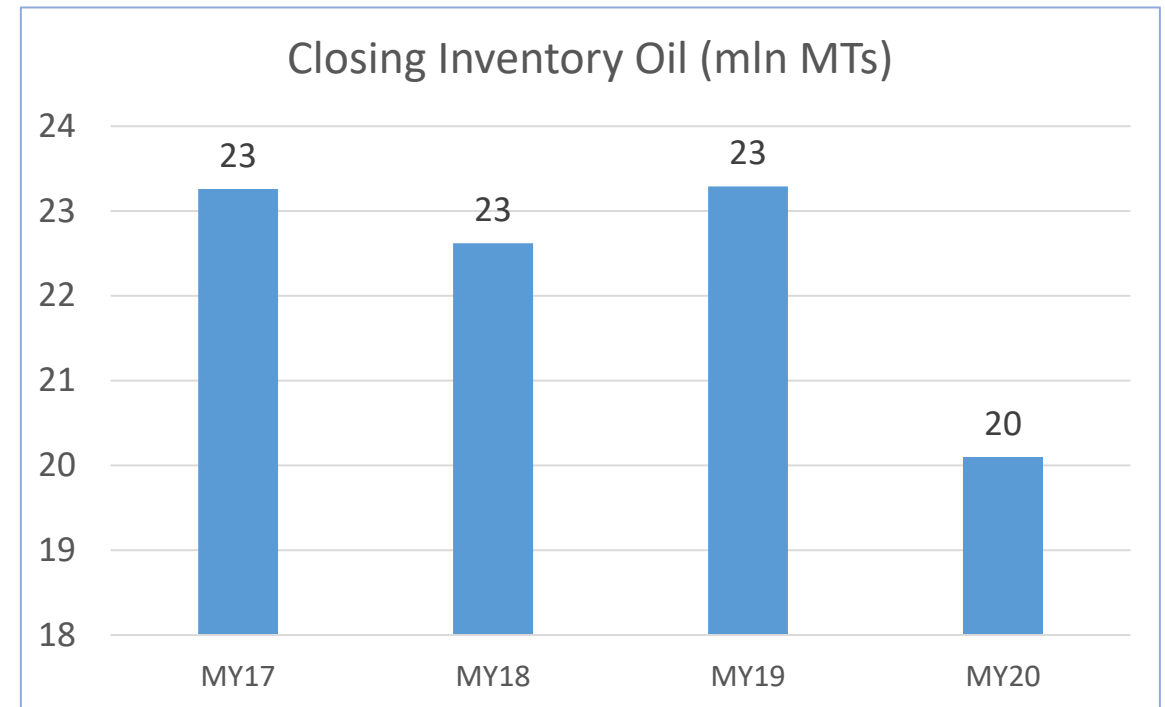
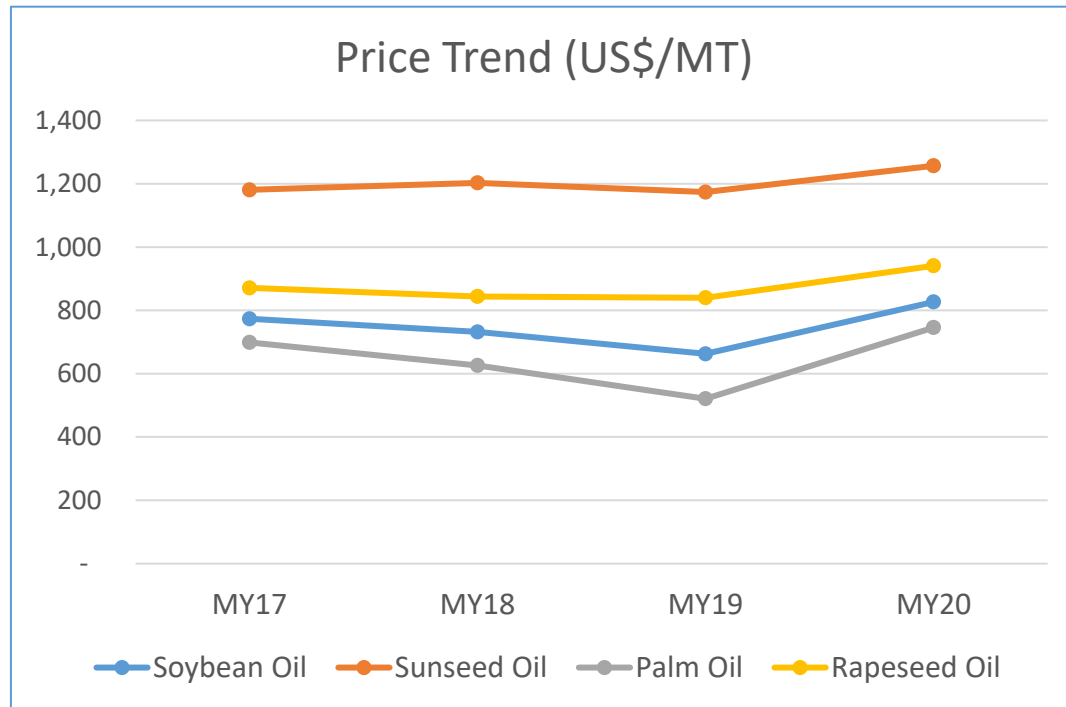
## Edible Oil Trade





## Price Dynamics

- Prices of edible oil during MY19 were at their lowest in several years, a reflection of the slowdown in global demand for oils and protein meals.
- Amid tight supplies and the supply chain disruptions caused by covid-19 lock down, soybean oil and palm oil prices was increased by 25% and 43% respectively during MY20.



## An Overview

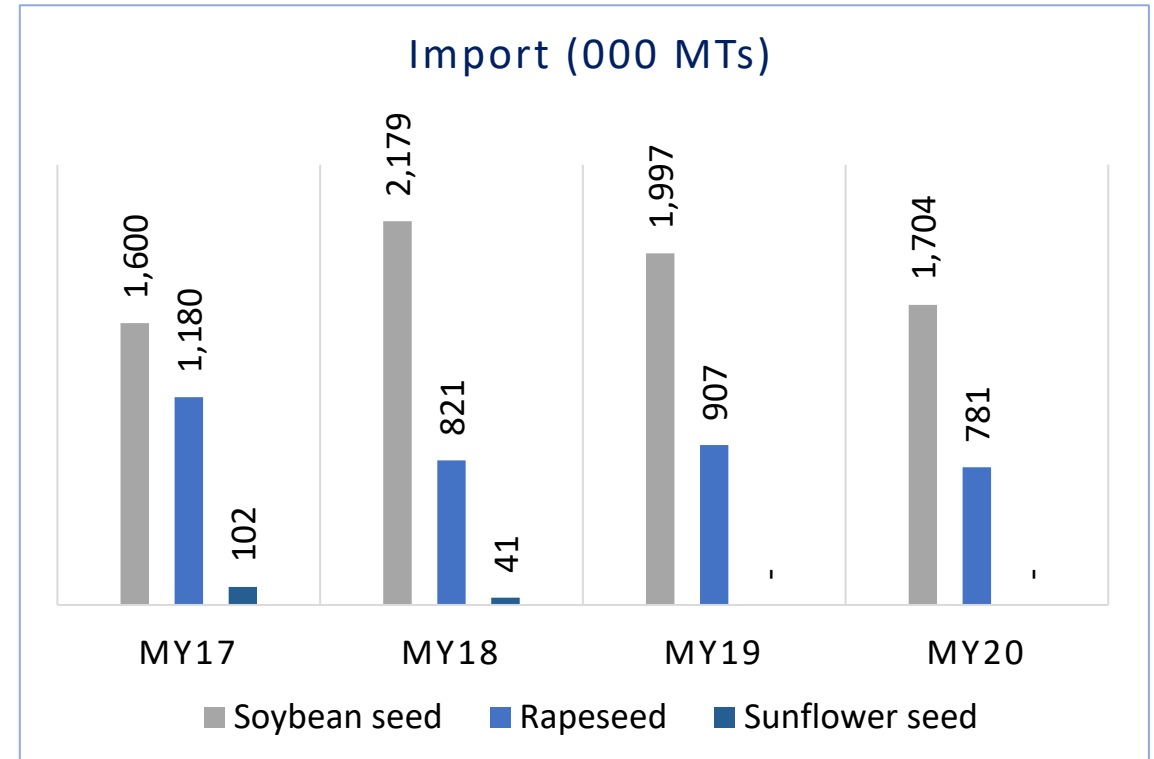
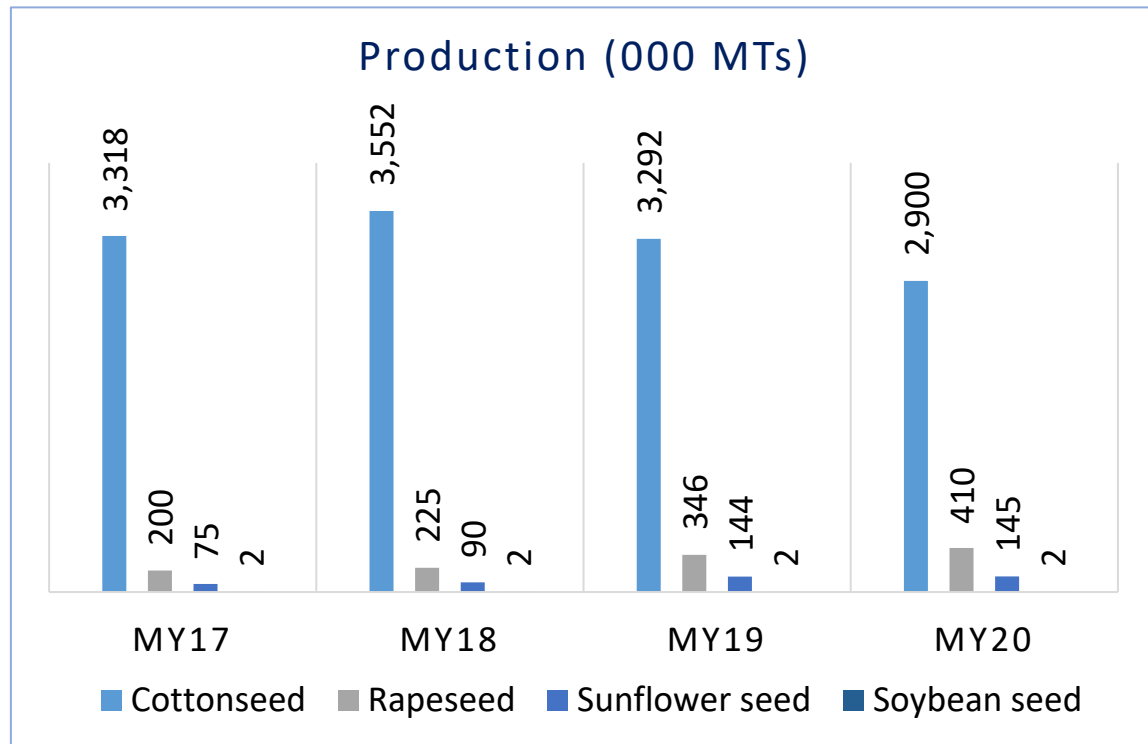
- Revenue of Pakistan’s edible oil market was recorded at US\$~7,105 million in MY20 registering a YoY growth of 17% (MY19: US\$~6,087 mln).
- Local consumption was recorded at ~4.9mln MTs in MY20 up ~3% YoY (MY19: ~4.7mln MTs). This reflects that the growth in revenue was majorly contributed by a spike in prices. Average price of edible oil during MY20 was recorded at PKR~238/kg as compared to PKR~201/kg during MY19 (YoY Growth: 19%).
- With a per capita consumption of 22kg, Pakistan is the world’s 8<sup>th</sup> largest consumer of edible oil.
- The sector is highly dependent on imported oil seeds and palm oil to meet local demand. Hence, the exposure to exchange rate and International price fluctuations is high.

Industry Snapshot				
	MY17	MY18	MY19	MY20
Revenue ( US\$ mln)	5,169	5,388	6,087	7,105
Per Capita (US\$)	25	25	28	32
Per Capita Consumption (Kg)	22	21	22	22
Share to GDP	2.1%	2.1%	2.4%	2.8%
Oil Seed Import (000 MT)	2,882	3,041	2,904	2,485
Palm Oil Import (000 MT)	3,070	3,079	3,266	3,396

# EDIBLE OIL | DOMESTIC

## Supply Side

- Local edible oil demand is met through both crushing of oil seeds and import of edible oil.
- Local industry relies entirely on imports to meet its demand of soybean seed whereas cottonseed demand is met through local produce only. Meanwhile, rapeseed and sunflower seeds are both produced locally as well as imported.

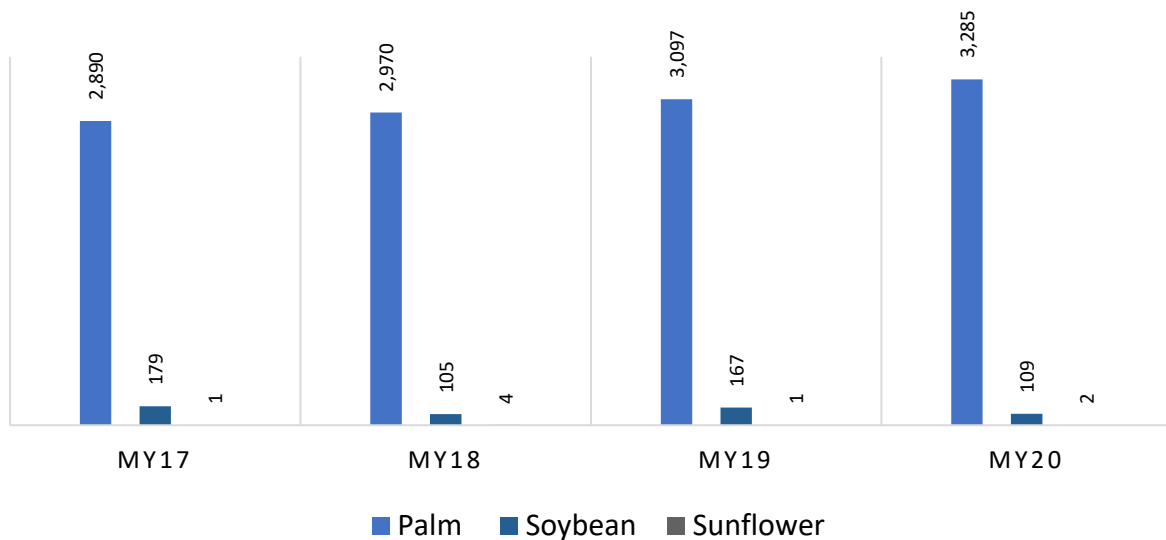


# EDIBLE OIL | DOMESTIC

## Demand Side

- Although Pakistan’s duty structure is designed to facilitate oilseed imports through reduced tariffs and fees to shift value addition to the domestic industry but still the country is one of the world’s largest importers of refined palm oil.
- Almost 70% of local demand during MY20 was met through imported palm oil.
- Amid supply uncertainties and increased demand of edible oil post covid-19 lock down, due to opening of restaurants and marriage halls, the prices of palm oil increased by 15% since Dec-2020.

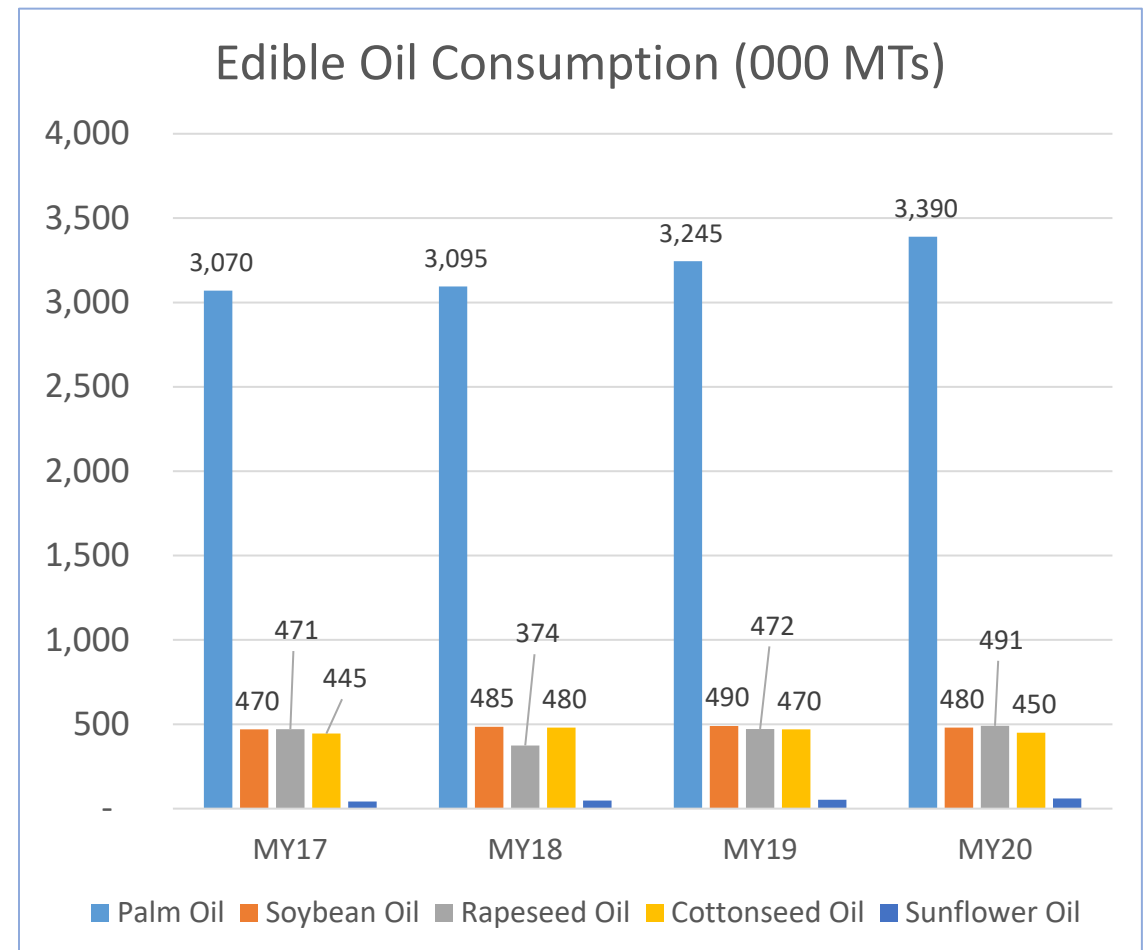
Import of Edible Oil (000 MTs)



MY20						
(000 Mt)	Palm Oil	Soybean Oil	Rapeseed Oil	Cottonseed Oil	Sunflower Oil	Total
<b>Consumption</b>	3,390	480	491	450	60	4,871
<b>Import (000 MTs)</b>	3,390	109	-	2	-	3,501
<b>Proportion (%)</b>	100%	23%	0%	0%	0%	72%
<b>Local Production (000 MTs)</b>	0	367	491	450	60	1,368
<b>Proportion (%)</b>	0%	76%	100%	100%	100%	28%

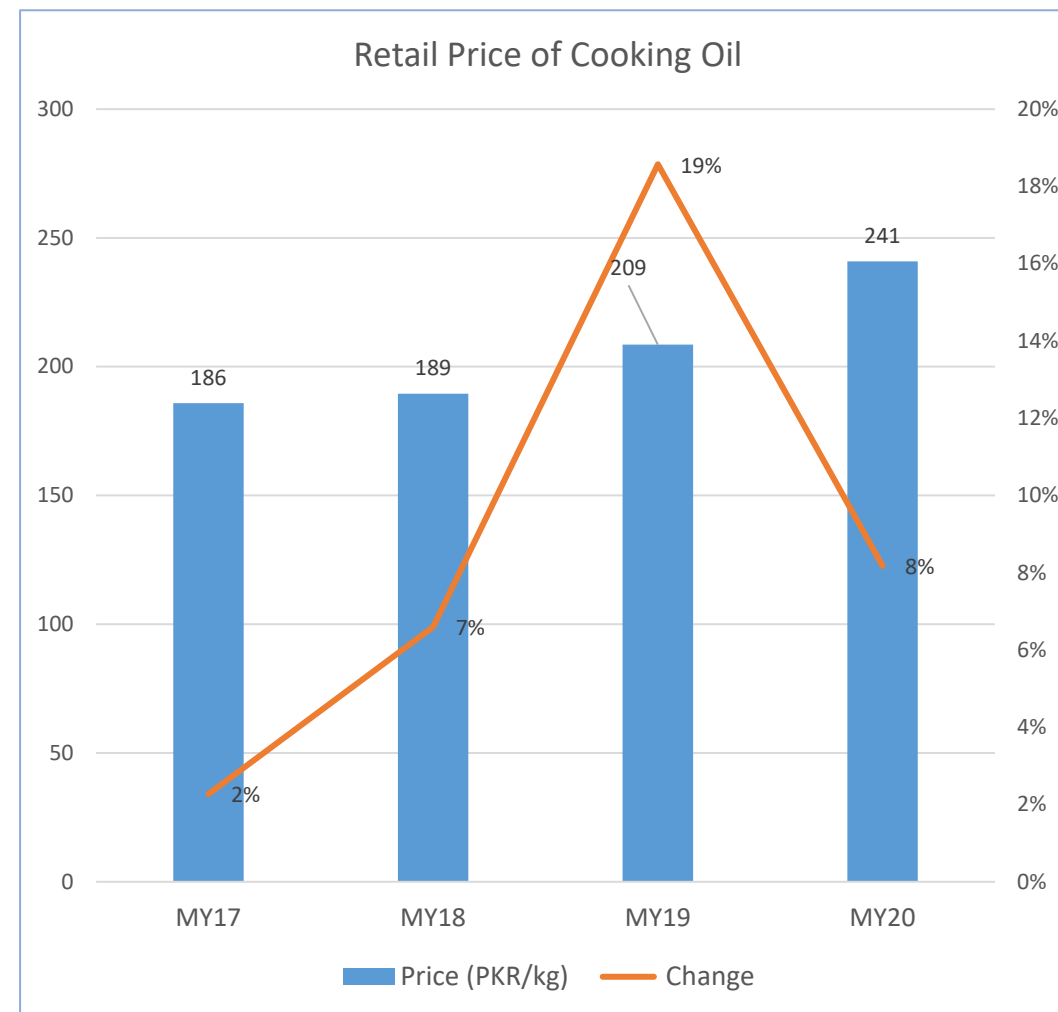
## Demand Side

- Being the essential food item, the demand of edible oil remains stable (CAGR 1.5%).
- During MY20 the local consumption of edible oil was recorded at 4.871 MMT up 3% YOY. Palm oil has largest share in overall edible oil consumption followed by soybean oil, rapeseed oil and sunflower oil.
- Local edible oil market is divided into three segments: (1) High end Brand (2) Middle Priced Brand and (3) Loose Cooking Oil. Prices of different brands vary depending on their quality.
- The sector is highly dependent on imported palm oil as it constitutes ~72% of total consumption in MY20 (MY: ~69%). Further, almost total demand of soybean seed and oil is being through imports. Whereas, rapeseed and cottonseed is being produced locally.
- The demand of the edible oil is expected to remain stable and expected to increase in short term in coming Ramzan month.



## Price Dynamics

- Pakistan is heavily dependent on import of oil seeds and edible oil to meet local demand.
- Thus, exposure to exchange rate movement remains high.
- The increase in prices is passed on gradually to end consumers. Consumers usually switch to low quality cooking oil in case of substantial increase in prices. Thus, in order to retain their market share, the local players can not increase prices beyond certain threshold.
- International stock of edible oil and oil seed is at historically low level. Amid tight supplies, the prices of imported edible oil are also expected to increase further and hence the local prices of the products.
- Further, demand side push to prices is expected from an increase in demand due to upcoming month of Ramazan.





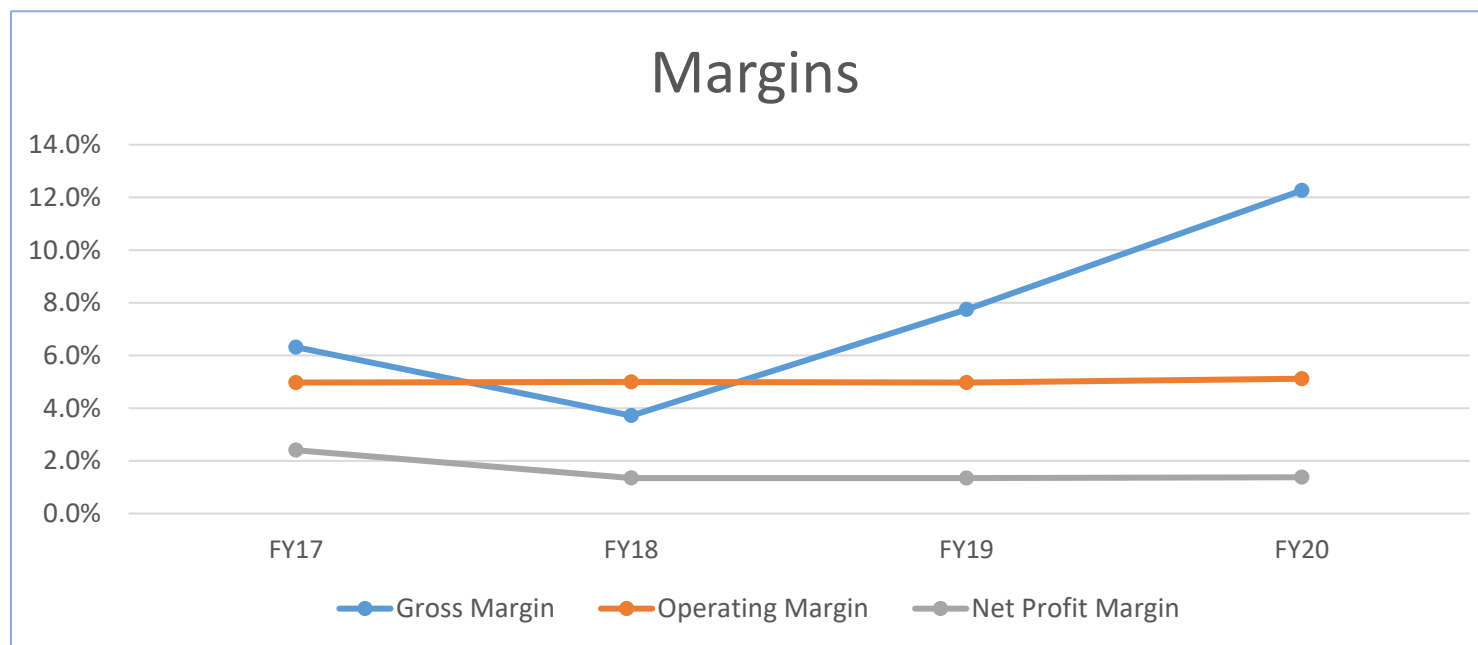
## Business Risk | Demand Side

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. Although tariff structure of the country is designed in a way to promote local production of edible oil but still the major portion of demand is met through imports. Major input includes both local inputs and imported inputs although the proportion of local input is significantly low. Being highly dependent on imports, the inherent risk of supply chain disruption is high. The sector's costs are therefore subject to exchange rate volatility and change in International prices of oil seed and edible oil as well.
- **Sales Risk:** This risk is focused on the demand side of edible oil. Being the essential food item, the demand of edible oil is expected to remain stable. As mentioned earlier the edible oil consumers is being characterized in three segments depending on their buying power. So, incase of substantial increase in the price, consumers will switch to low quality brands, and vice versa. As the prices of edible oil is expected to increase in wake of increase in international edible oil prices, the sales risk of the individual companies is expected to increase.

## Business Risk: Margins & Cost Structure

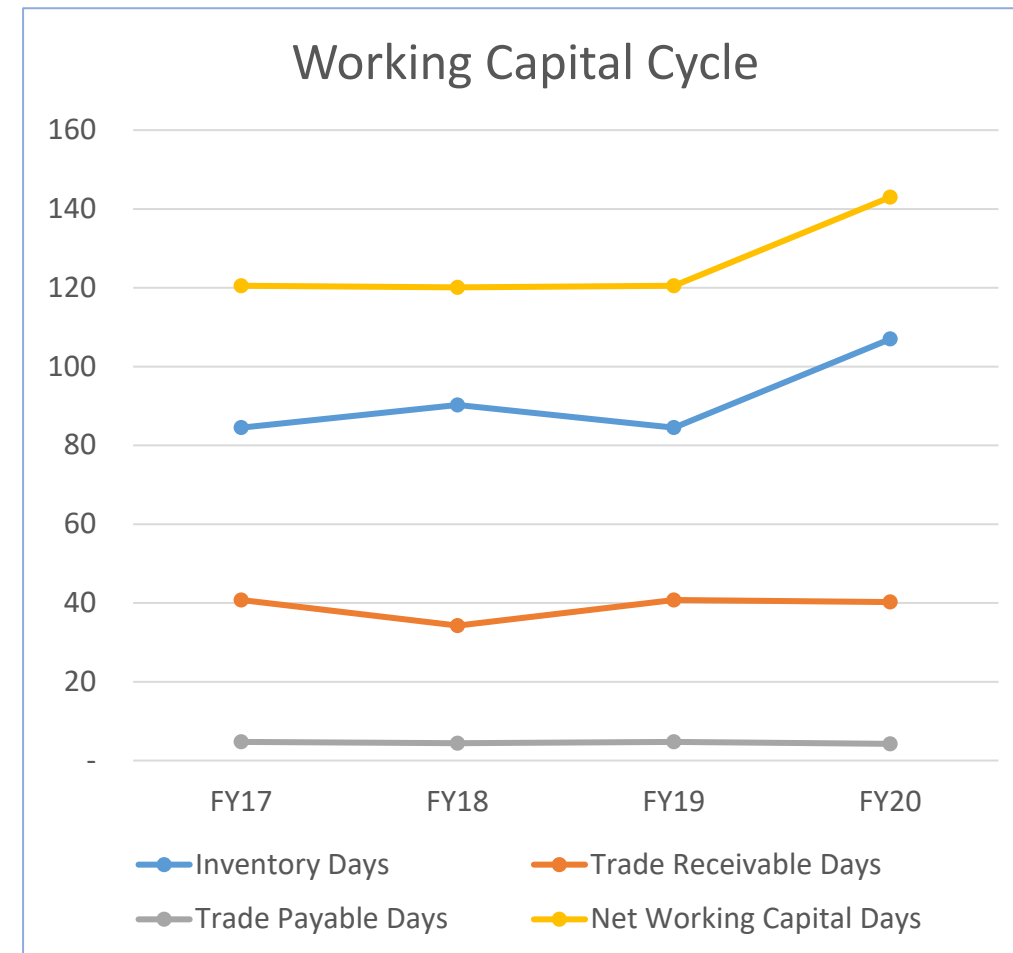
- Edible oil sector is characterized by low net margins as most suppliers sell imported cooking oil after packing with low value addition. Whereas, the companies involved in the crushing of seeds for edible oil production usually have better margins than their counterparts.
- Owing to improved prices during FY20, gross profit margin increased significantly.
- Despite the increase in gross profit margin the operating margin remains flat owing to high advertisement and marketing expense. Advertisement and marketing expense of the sector are high owing to high competition between local players.
- Net profit margin did not change much during MY20 and was recorded at 1.4% (MY19:1.3%).



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

## Financial Risk

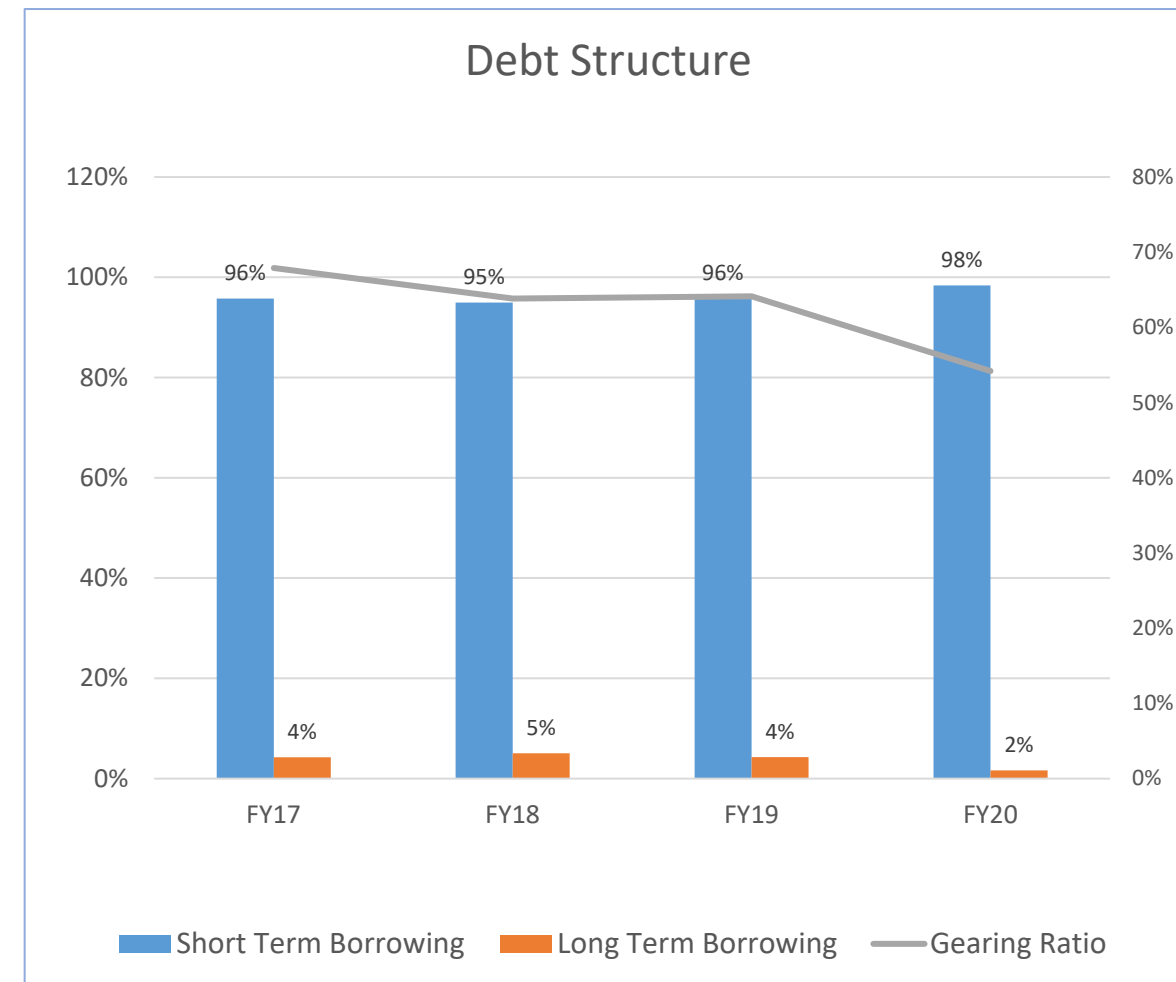
- Net working capital days of the sector were recorded at 143 days during FY20, up ~19% YOY (FY19: 121 days).
- Net working capital days increased due to higher inventory days. The companies keep considerable inventory levels to meet demand during lead time required to import inputs. The need to maintain back up stocks increased during FY20 owing to supply chain disruptions caused by covid-19 lockdown. Further, the increase in prices also led to increase in value of closing inventory.
- Receivable days of the sector remained the same at 40 days during MY20 (MY19: 40 days). Supplier usually sell their oil products at a credit of more than one months.
- 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.*

## Financial Risk

- According to SBP numbers, total outstanding debt of the sector was recorded around PKR 109,645 million at end Dec-20.
- Short term liabilities constitutes major portion of the short term liabilities.
- To finance the working capital needs, the companies resorts to short term borrowing as the short term borrowing constitute 98% of the total outstanding debt. High reliance on short term financing is a depiction of aggressive working capital policy which increases the repayment risk.
- Gearing ratio of the sector was recorded at 54% during MY20 (MY19: 64%).

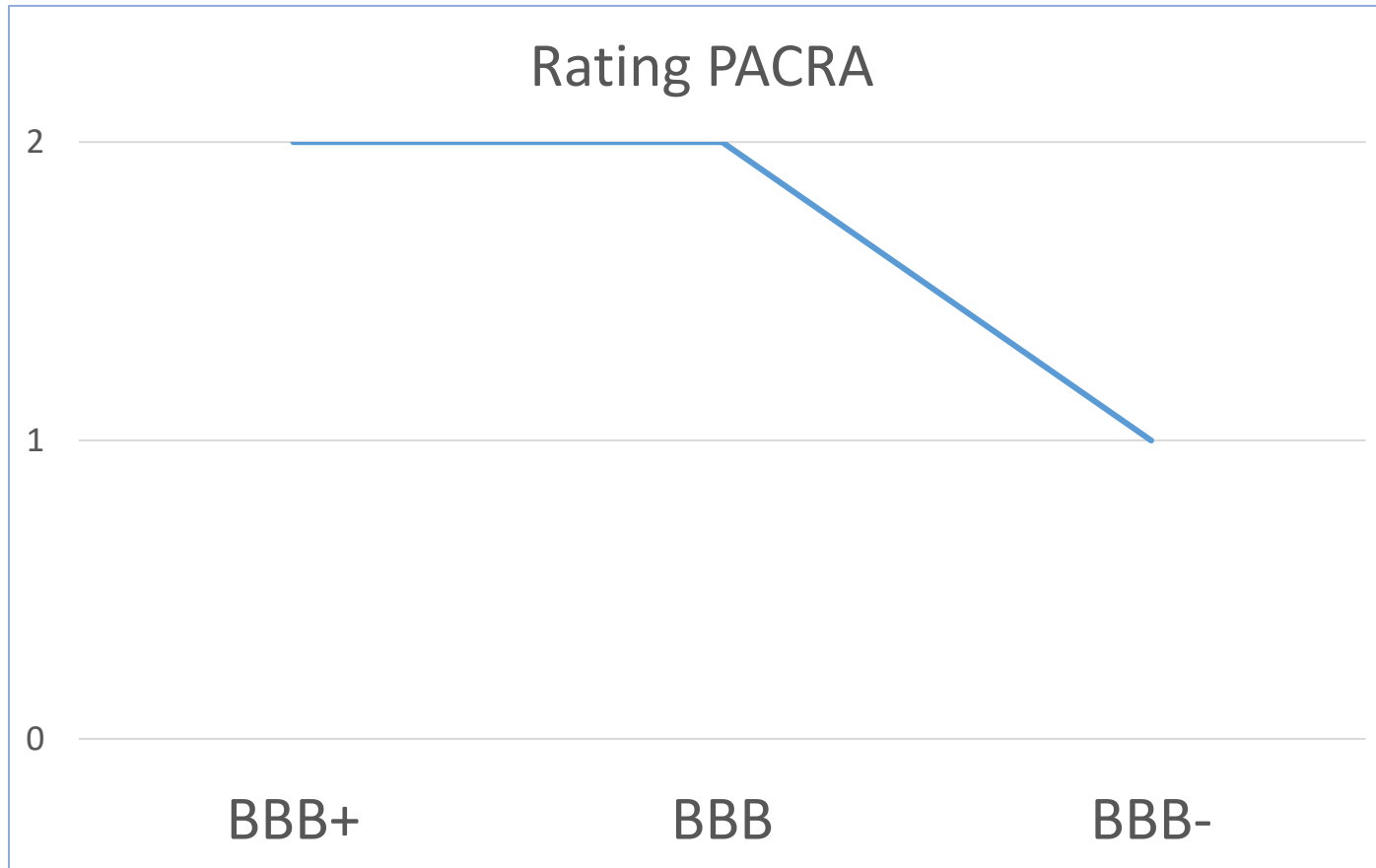


*Note: Calculations are based on financials of PACRA rated clients.*

## Duty Structure

- The government abolished additional custom duty on semi-refined oil during the period. Other than that regulatory structure of the industry remains same.
- Recently, The Pakistan Vanaspati Manufacturers Association (PVMA) in a presentation sent to the ministry of industries, urged the government to rationalize the duty structure of palm oil imports to support volatile edible oil market.
- Prices are expected to stabilize after the palm oil harvest in March and April this year. Any government action in form of temporary suspension of custom duty will help stabilize the market and will keep prices of edible oil during Ramzan in-check.

Duty Structure			
Description	Oil Seeds	RBD Palm Oil	Palm Oil Olein
Custom Duty	3%	PKR 10,700/MT	PKR 9,050/MT
Duty Discount (Malaysia/Indonesia)	-	15%	15%
Additional Duty	1%	-	-
Reg. Duty	-	PKR 50/MT	PKR 50/MT
Federal Excise Duty	PKR 400/MT	PKR 1,000/MT	PKR 1,000/MT
CED		16%	16%
Sales Tax	17%	17%	17%



- PACRA rates five players of edible oil sector.
- No change has occurred in the ratings of the players since last review.



# EDIBLE OIL | SWOT ANALYSIS



## Sector Outlook: STABLE

- Being the essential food item, the demand of edible oil remained stable despite covid-19 lock down. In the long term, the increasing population will sustain the growth, while in short term the demand is expected to increase in coming Ramazan month.
- More than ~70% of local demand 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.
- Prices of different variants of oil seeds and edible oil are at historical highs due to the supply chain disruptions caused by the covid-19 lockdown and tight USA supplies. Prices will remain volatile amid supply concerns while the palm oil seed harvest during April and May this year will provide necessary relief.
- In line with international prices, the local prices of edible oil has been increasing sharply since June-20. With the expected increase of short term demand and tight international supplies, the local prices are expected to increase further until any intervention by the government.
- Due to non-availability of other alternative the major burden of expected increase in international oil prices will be borne by the end consumers which will supports profit margins of local players.
- Due to high inventory and payable days the working capital requirement of the sector is high. The huge 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 credit risk.

- PACRA Database
- World Bank Data
- International Monetary Fund
- Pakistan Bureau of Statistics
- State Bank of Pakistan
- Federal Board of Revenue
- Ministry of National Food Security & Research
- The Economic Survey of Pakistan
- Food and Agriculture Organization of United Nations
- US Department of Agriculture

<b>Research Analyst</b>	Muhammad Nadeem Sheikh CFA, ACCA
<b>Contact Number:</b> +92 42 35869504 <b>E-mail:</b> <a href="mailto:nadeem.sheikh@pacra.com">nadeem.sheikh@pacra.com</a>	

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