

Edible Oil: India's Bid to Reduce Imports and Become 'Atmanirbhar'

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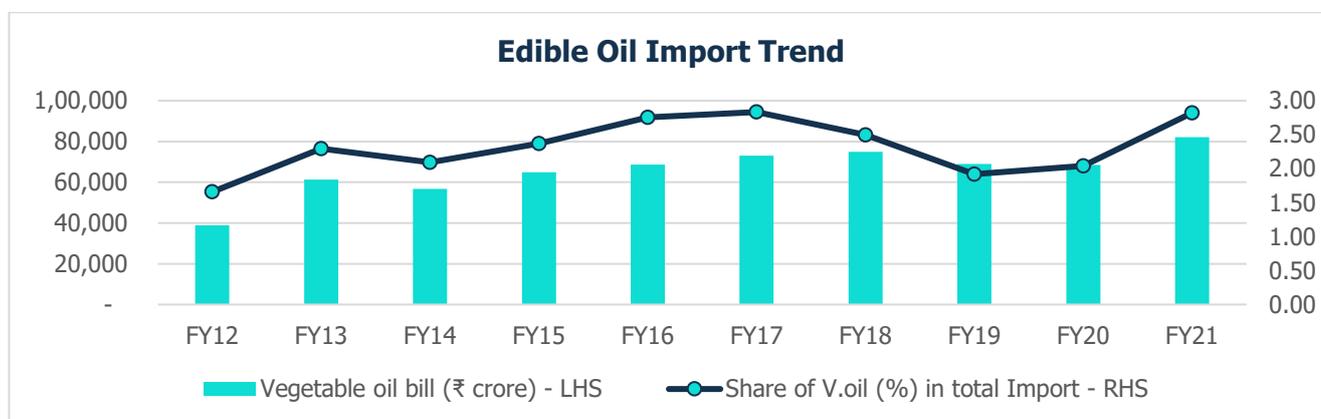
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Indian Edible Oil Sector – Current Scenario

India is the world's second-largest consumer and number one importer of vegetable oil. Although the oilseed production in India has grown over the years, the production has lagged its consumption, resulting in continuous dependence on import. Accordingly, the shares of imported edible oil as a percentage of the total domestic edible oil consumption has increased from 52% in FY14 to 63% in FY16 before reducing to 55% in FY21.

The import bill of vegetable oil witnessed an increase of around 21% in 2020-21 over 2019-20, which further increased by 63% in FY22 over FY21, despite a decline in the import volume, attributable to an increase in the prices of oil in the international market coupled with depreciation in Indian currency. This led to the outflow of valuable foreign currency and 'import of inflation'. As per Economic Survey 2021-22, 'oils and fats' contributed around 60% of 'food and beverages' inflation despite having a weight of only 7.8% in the group, as fluctuation in the imports and international prices transmit to domestic prices of edible oil.

This apart, edible oil import has constituted a significant portion (ranging from 1.66% to 2.83%) of the total imports during the past 10 years (refer to the graph below). This led to the outflow of valuable foreign currency to the tune of about ₹82,116 crore in FY21 alone.



Source: Reserve Bank of India

Among the top major edible oil-consuming countries, including the European Union, India's dependency on imported edible oil is significantly higher (close to two times) than that of other major countries. Most of the countries (as tabled below) are dependent on imported edible oil in the range of 30%-39% in FY21, whereas India's dependency on imported oil was around 60%, which has recently declined to 55% in FY21 due to the Covid-19-induced decrease in demand.

India's Position vis-à-vis Peer countries

Country	Domestic Consumption (Mn MT)	Import (Mn MT)	Share of Import (%)
China	40.36	13.26	33
EU-28	25.49	9.93	39
India	24.61	13.45	55
US	16.52	4.95	30

Source: United States Department of Agriculture

Supply Side Analysis - Muted Domestic Edible Oil Output

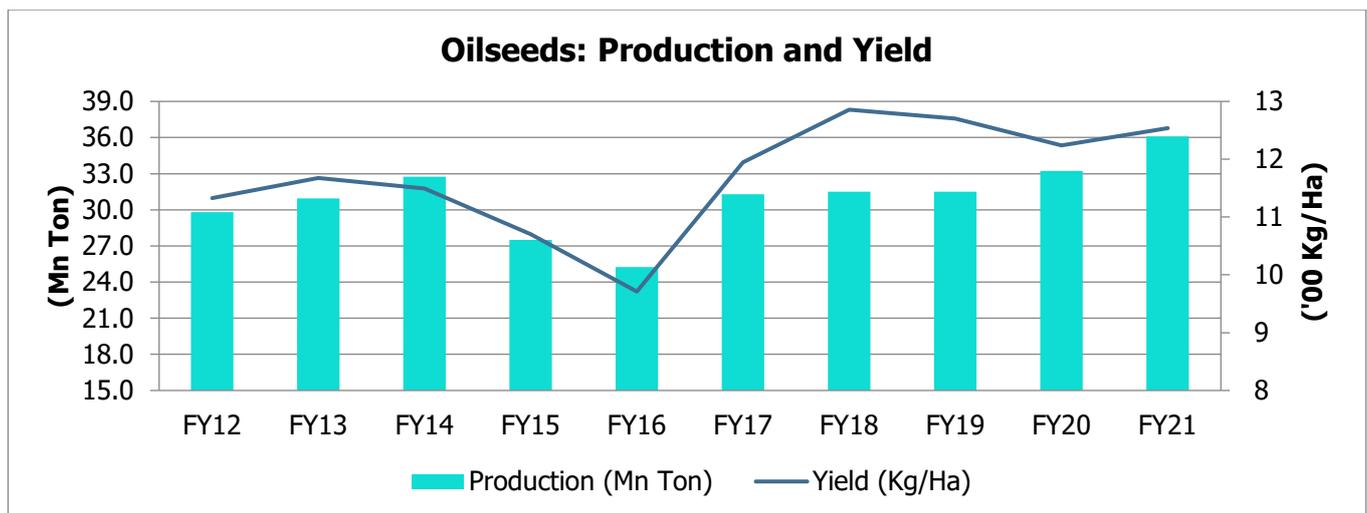
The output of agricultural commodities is mainly dependent upon the increase in the area under cultivation coupled with an improvement in the yield per hectare, followed by a decrease in farm losses. These apart, other determinants include institutional support like easy availability of funds, infrastructure, remunerative pricing, etc.

In the case of oil seeds production, the following deficiencies may be broadly classified as the major reasons for stagnant output:

- **Stagnant area under cultivation coupled with marginal improvement in the crop yield**

Domestic growth in the oil seeds production remained muted over the years, mainly on account of a restrained increase in the area under cultivation coupled with marginal improvement in the crop yield over the past 10 years (FY12 till FY21). The area under cultivation increased from 26.3 lakh hectare in FY12 to 28.8 lakh ha in FY21. Furthermore, the yield per hectare also improved marginally from 1,193 kg/ha in FY12 to 1,254 kg/ha in FY21. Consequently, total oilseeds production increased from 29.8 million ton in FY12 to 36.1 million ton in FY21, i.e. at a compounded annual growth rate (CAGR) of 1.94% during the said period.

On the other hand, world oil seeds production increased from 447 million ton in FY12 to 607 million ton in FY21, i.e. at a CAGR of 2.9% during the said period which is almost 1.5 times of India's growth.



Source: Reserve Bank of India

- **Low seed replacement rate**

Seed replacement rate (SRR) is defined as the percentage of area sown out of the total cropped area in the season by using certified/quality seeds other than the farm-saved seeds. The SRR is directly related to productivity, as certified seeds are better in productivity.

Currently, only around 15% of India's total cropped area is sown with freshly obtained quality seeds every year, while the rest of the area is sown with farm-saved seeds. However, this ratio varies from crop to crop; and for oilseeds, this ratio varies between 20% and 80%. Therefore, the achievement of optimal SRR is imperative for better yields.

- **Lower level of mechanisation of farm activities**

Food and Agriculture Organization (FAO) defines farm mechanisation as the process of improving farm labour productivity through the use of agricultural machinery, implements and tools. It involves the provision and use of all forms of power sources and mechanical assistance to agriculture, from simple hand tools to animal draught power (DAP), and mechanical power technologies.

Subdued growth of oil seeds production in India (effectively low yield per ha) can also be attributed to the lower level of mechanisation of farming, as several studies suggest a direct correlation between farm mechanisation and crop productivity as the use of improved implements has the potential to increase productivity and reduce the cost of cultivation. Although the farm mechanisation rate in India has increased in the recent past, it is still far behind in comparison with other countries including its Asian counterpart (i.e. China).

Agriculture Share in GDP vis-à-vis Level of Farm Mechanisation		
Country	Agriculture GDP (%)	Level of Mechanisation (%)
USA	1	95
Western Europe	<5	95
Russia	4	80
Brazil	5	75
China	10	48
India	14	40

Source: The Working Group Report, NITI Aayog Report (2018)

- **Competition from other commercial crops coupled with price volatility**

This apart, crops like oil palm has a long gestation period and therefore restrict the income flow to farmers for a minimum four to five years. This coupled with fluctuation in the prices of crude palmolein oil (CPO) in the international market and competition from other economically viable crops, such as rubber, areca nut, sugarcane, banana, coconut, etc., contributes to low/stagnant acreage.

Demand Side Analysis - Increasing Domestic Edible Oil Consumption

The demand for any product is mainly dependent on two factors, viz., an increase in the population and an increase in per capita consumption driven by an increase in per capita income having positive income elasticity for the product, behavioural change in favour of the product induced by a change in the lifestyle, livelihood pattern and social norms. Increase in the domestic edible oil consumption is attributable to the following:

- **Increase in the population along with an increase in urbanisation**

As per United Nations' Population Division estimates, the total population of India is expected to increase from 1.22 billion in 2011 to 1.55 billion by the Census 2031. Furthermore, the urban population ratio is also expected to increase from the present level of 31% to 40% by 2033-34. As urbanisation increases, dietary habits and traditional meal patterns are expected to shift towards processed foods that have a high content of vegetable oil.

- **Increase in per capita consumption of edible oil**

The per capita consumption of edible oil is low in India in comparison to the global average. However, the same is increasing over the years at a CAGR of around 5% from 16.20 kg per annum in FY14 to 19.50 kg per annum in FY18, thereby narrowing the gap over the said period, as mentioned below:

Per Capita Consumption of Edible Oil (Kg per annum)					
Year	2013-14	2014-15	2015-16	2016-17	2017-18
India	16.20	17.00	19.00	18.90	19.50
World	27.00	30.00	30.50	28.00	29.30
Difference (%)	40	43	38	33	33

Source: Ministry of Consumer Affairs, Food & Public Distribution- Annual Report 2018-19

- **Factors that drive the increase in per capita consumption**

The per capita income (at constant price) of India has increased at a CAGR of around 4.5% per annum from ₹63,462 in FY12 to ₹94,270 in FY20. However, the same declined in FY21 to ₹85,110 due to COVID-19-induced lockdown and consequent disruption in business activities.

The increase in income has contributed to increase in the per capita consumption of edible oil, as the expenditure elasticity for edible (vegetable) oils is positive. Apart from positive expenditure elasticity, an increase in urbanisation, change in behaviour and increasing acceptance of packaged foods will also lead to an increase in the per capita consumption of edible oil in the near to medium term.

Recent Policy Thrusts

In order to increase oil production, the Government of India, under the scheme of the National Food Security Mission: Oilseeds (NFSM-Oilseeds) from 2018-19 onwards, undertakes various interventions such as production of foundation and certified seeds, distribution of certified seeds, and seed mini kits of latest high-yielding varieties. Under the NFSM-Oilseeds, the Government of India has set up 36 oilseeds seed hubs during 2018-19 and 2019-20 to increase the availability of high-yielding quality seeds. For Kharif 2021, a total of 9.25 lakh oilseed mini kits of high-yielding varieties have been allocated for distribution in all the major oilseed-growing states. This apart, in August 2021, a scheme has been launched to increase domestic production by harnessing area expansion and through price incentives which is detailed below:

- **National Mission on Edible Oils – Oil Palm (NMEO-OP)**

The government of India launched NMEO-OP as a centrally-sponsored scheme being implemented jointly by the central and state governments with a special focus on the northeast region and the Andaman and Nicobar Islands.

Applicable	Whole of India with a special focus on the northeast region and Andaman and the Nicobar Islands
Financial Support	Central government: ₹8,844 crore; and State government: ₹2,196 crore
Target	To cover an additional area of 6.5 lakh hectare (ha.) for oil palm till the year 2025-26 and thereby reaching the target of 10 lakh hectares ultimately. The production of crude palm oil (CPO) is expected to increase to 11.20 lakh ton by 2025-26 and to 28 lakh ton by 2029-30.
Focus Area	First, the Government of India will give price assurance to the oil palm farmers for the Fresh Fruit Bunches (FFBs). This will be known as the Viability Price (VP).
	Second, substantially increase the assistance of inputs/interventions. The substantial increase has been made for planting material for oil palm and this has increased from ₹12,000 per ha to ₹29,000 per ha. To address the issue of shortage of planting material in the country, seed gardens will be provided assistance of up to ₹80 lakh for 15 ha. in the Rest of India, and ₹100 lakh for 15 ha in the north-east region and Andaman regions.

Source: Press Information Bureau; Economic Survey 2021-22

Conclusion

The recent geopolitical crisis causing restrictions in the import of edible oils, such as sunflower oil, adverse measures taken by major edible oil-exporting countries relating to the export of palm oil, increasing diversion towards bio-fuels are major challenges to an edible oil-importing country like India.

Thus, it is desirable to increase the domestic oil seeds production to reduce import dependency in an uncertain geopolitical environment amid the increasing de-globalisation trend across the world, as huge reliance on imports could compromise the national interest in the long run. Therefore, it has become imperative for a country like India to become not only self-reliant but also self-sufficient to the best extent possible (viz, ATMANIRBHAR), which is economically prudent as well as strategically sensible.

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