Edible Oils Industry

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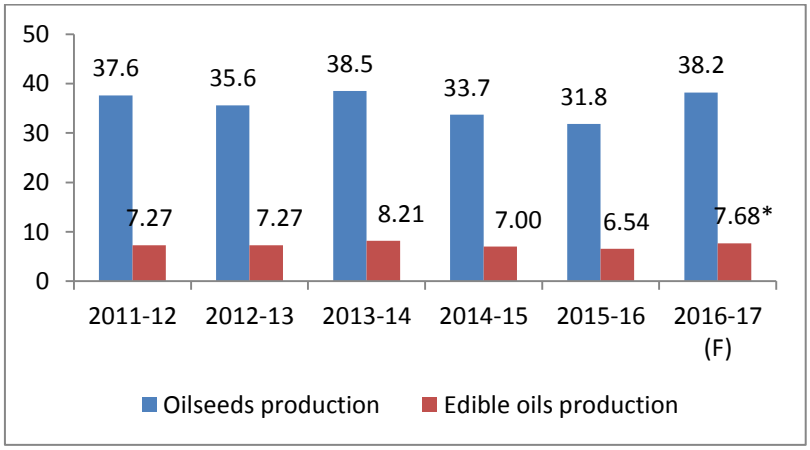
After a gap of two years, India's edible oil production is expected to rise in the ongoing oil year (November 1 to October 30) 2016-17 and is likely to increase by 17.4% to 7.68 million tonnes on a y-o-y basis during the year. Though the rise in output appears to be good, it does not solve the country's problem of insufficient production and the high reliance on imports. One of the solutions to this problem is to encourage farmers to increase oilseeds production as it will help the country to at least reduce the dependence on imports. Also, this will help increase the capacity utilization of the edible oil manufacturers in the country.

Edible oil production

The edible oil production in India has remained more or less stagnant over the years. During the oil year 2011-12, edible oil production was at 7.3 million tonnes. In the next year, the output remained almost same. However the production increased and touched 8.2 million tonnes in 2013-14. This was backed by a growth in the country's oilseeds output. It may be noted that the production numbers for edible oil and oilseeds pertains to the year November to October.

Chart 1: Production of oilseeds and edible oils (in mn tonnes)

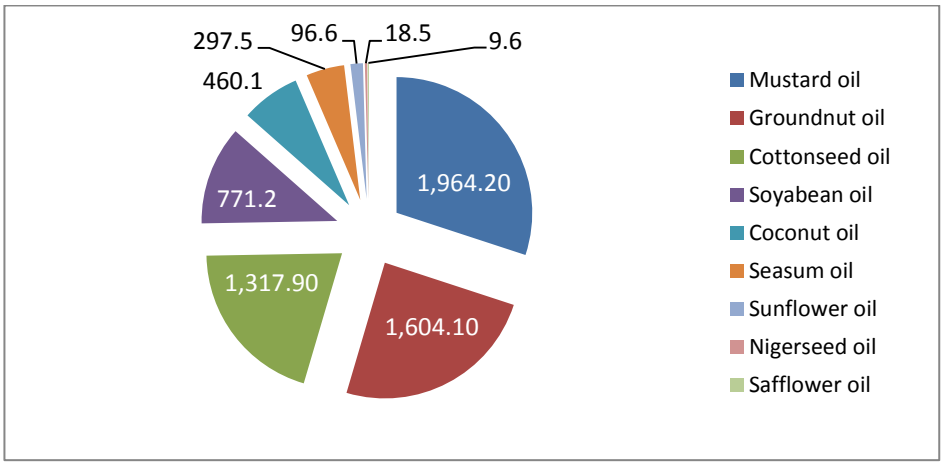


Source: Solvent Extractors' Association of India and CMIE **CARE Estimate*

After recording a growth in edible oil production during 2013-14, the output declined for two years in a row during the period 2014-16 on a y-o-y basis. In 2014-15 and 2015-16, oil production fell by a sharp 14.8% to 7.00 million tonnes and further by 6.5% to 6.54 million

tonnes, respectively. A fall in oilseed production due to inadequate rains resulted in lower crushing of oilseeds and, in turn, lowered oil production during these years.

Chart 2: Product-wise production of edible oils in India during 2015-16 (in thousand tonnes)



Source: CMIE

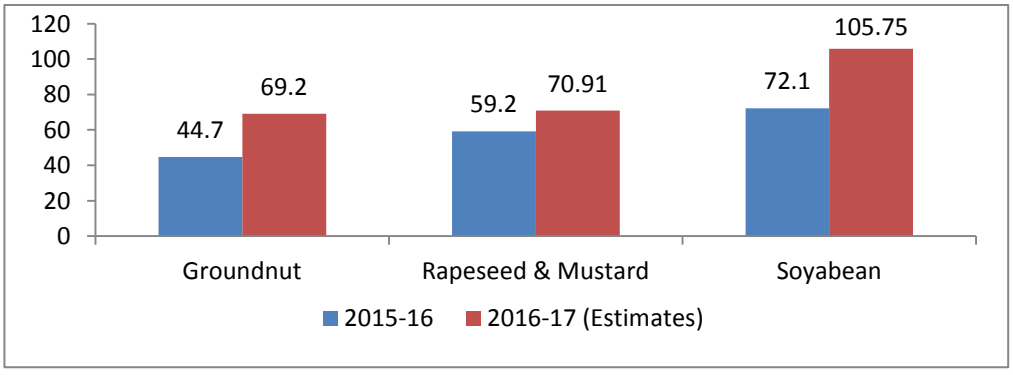
During the oil year 2015-16, 6.54 million tonnes of edible oil was produced in India. Of this, majority of the oil output belonged to the four products. Mustard oil, groundnut oil, cottonseed oil and soyabean oil accounted for 30%, 24.5%, 20.2% and 11.8%, respectively, of the total edible oils output in the country during the year. The other varieties, coconut oil, seasum oil, sunflower oil, nigerseed oil and safflower oil accounted for 7%, 4.6%, 1.5%, 0.3% and 0.2%, respectively.

Production outlook for oil year 2016-17

In the current oil year 2016-17, CARE expects edible oil production to grow by 17.4% to 7.68 million tonnes. This will be driven by a rise in production of groundnut oil, soyabean oil and mustard oil. According to Department of Agriculture Cooperation & Farmers Welfare, domestic edible oil output is likely to rise by 19.5% on a y-o-y basis in oil year 2016-17.

The increase in the output of these oils during 2016-17 will be on account of a rise in the respective variety's oilseed production. According to Solvent Extractors' Association of India, while groundnut and soyabean oilseed production is expected to increase by a robust 54.8% and 46.7%, respectively, rapeseed & mustard oilseed output is likely to grow by 19.8%. The total oilseed production is estimated to increase by 20.1% to 38.2 million tonnes in 2016-17 on a y-o-y basis.

Chart 3: Major oilseeds production in India (in lakh tonnes)

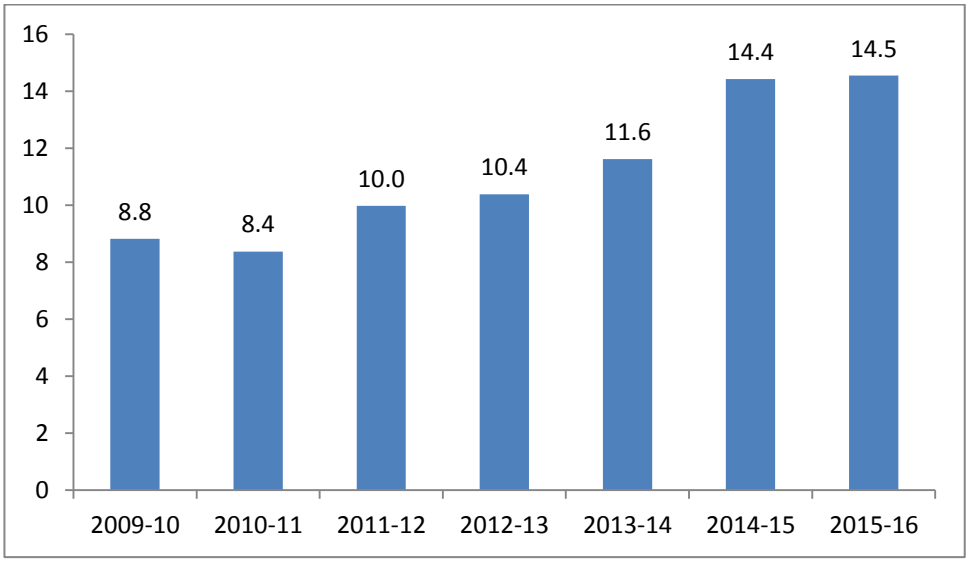


Source: Solvent Extractors' Association of India

Edible oil imports by India

The edible oil production in India that remained stagnant over the years is insufficient to fulfil the domestic requirements of edible oil. Consequently, the country's dependence on imports has increased over the years and currently around 65-70% of domestic edible oil requirements are met through imports. The imports stated below are for the oil year November-October.

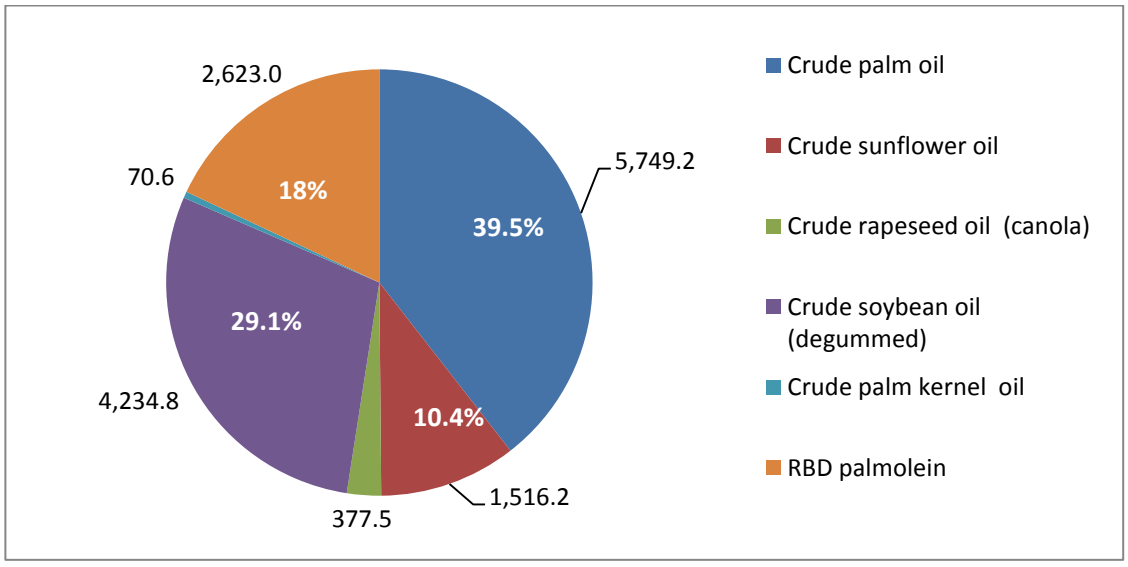
Chart 4: Edible oil imports by India (in million tonnes)



Source: CMIE

On a y-o-y basis, the edible oil imports grew in each of the years during 2009-16 except for the year 2010-11 where the imports declined by 5.1% to 8.4 million tonnes. After this, the imports increased in double-digits in all the years during 2011-15 except for the year 2012-13 where it grew by 4%. In 2015-16, the growth in imports decelerated and it rose by 0.8% to 14.5 million tonnes.

Chart 5: Product-wise imports of edible oils in India during 2015-16 (in thousand tonnes)



Source: CMIE

Of the total edible oils imported in India, crude edible oil accounts for about 80-88% of the total imports and refined edible oils account for rest of the imports. For the oil year 2015-16, the share of crude edible oil imports stood at 82.2% and that of refined edible oil at 18%. RBD palmolein (Refined, Bleached and Deodorised palmolein) is the only variety of oil that was imported in refined form during the oil years 2007-16.

Palm oil accounts for a large part of the edible oil imports in India. The other oils imported by the country are sunflower oil, rapeseed oil, soyabean oil. For the year 2015-16, palm oil imports accounted for 57.9% of the total edible oil imports. Palm oil is imported in crude form as well as refined form. While crude palm oil (CPO) (including crude palm kernel oil) imports accounted for 39.9%, refined palm oil (RBD palmolein) accounted for 18% of the total edible oil imports during the year 2015-16.

Increase in share of refined oil imports

In 2015-16 as mentioned above, there was an increase in share of refined palm oil imports and a decline in share of crude palm oil (including crude palm kernel oil) imports compared to that in 2014-15 where their respective shares stood at 11.5% and 54.6% during 2014-15. Similarly, the share of imported refined palm oil in total edible oil imports increased to 19.6% during November 2016-April 2017 from 17.7% in the corresponding period a year ago. At the same time, the share of crude palm oil (including crude palm kernel oil) imports also increased to 41.9% during November 2016-April 2017 compared to 40.2% a year earlier.

An increase in share of refined oil imports hurts the capacity utilization of domestic edible oil refiners in India. The rise in the share of refined oil is primarily on account of inverted duty structure in the exporting countries (Malaysia and Indonesia). The export duty imposed on crude palm oil by these countries is higher compared to that imposed on refined palm oil. This, in turn, makes the import of refined palm oil cheaper compared to the import of crude palm oil which requires further processing.

Besides, the industry has been asking the government to increase the import duty differential between crude palm oil and refined palm oil from the current duty difference of 7.5%. The demand of increase in duty difference if accepted is expected to reduce the refined oil imports and will encourage the edible oil refiners to increase their capacity utilization in the country.

However, the duty differential remained unchanged at 7.5% when the import duty on crude palm oil was reduced to 7.5% from 12.5% and the import duty on refined palm oil was cut to 15% from 20% in September 2016. SEA, on the other hand, has been demanding to increase the difference duty to 15%.

Edible oil imports outlook for 2016-17

According to the Solvent Extractor's Association of India, the total edible oil imports declined by 6.8% to 7 million tonnes in the first half (November-April) of the ongoing oil year 2016-17 on a y-o-y basis. During November 2015-April 2016, the edible oil imports were 7.5 million tonnes. The fall in imports was largely driven by a 39.8% fall in imports of crude soybean oil to 1.35 million tonnes. An increase in domestic soybean oil production backed by a bumper soybean crop is the prime reason for the fall in imports.

For the year 2016-17, CARE expects edible oil imports to remain more or less stable compared to the previous oil year 2015-16. This will be primarily backed by a surge in edible oil production during the year on account of higher availability of oilseeds for crushing.

Table 1: Production and imports of major edible oils in India for oil year 2015-16 (in '000 tonnes)

Oils	Domestic production	Imports
Mustard oil	1,964.20	377.5
Groundnut oil	1,604.10	NA
Soyabean oil	771.2	4,234.80
Palm oil	NA	8,372.20

Source: CMIE

The above table highlights the source of major edible oils available in India. It can be seen that while the requirements for mustard and groundnut oil are met through domestic production, the requirements for soyabean and palm oil are largely fulfilled through imports.

Table 2: Production of major edible oils in world and India

Oils		2015-16	2016-17	2017-18*
Soyabean oil (tmt)	World	51,619	54,285	56,201
	India	1,044	1,600	1,690
Groundnut oil (mainly peanut) (tmt)	World	5,407	5,885	6,057
	India	875	1,200	1,300
Mustard oil (mainly rapeseed) (tmt)	World	27,837	27,895	28,452
	India	1,900	2,166	2,260
Palm oil (including palm kernel oil) (tmt)	World	65,740	70,300	74,650
	India	NA	NA	NA
Total (mmt)	World	176.83	186.07	194.33

Source: USDA **Estimate*

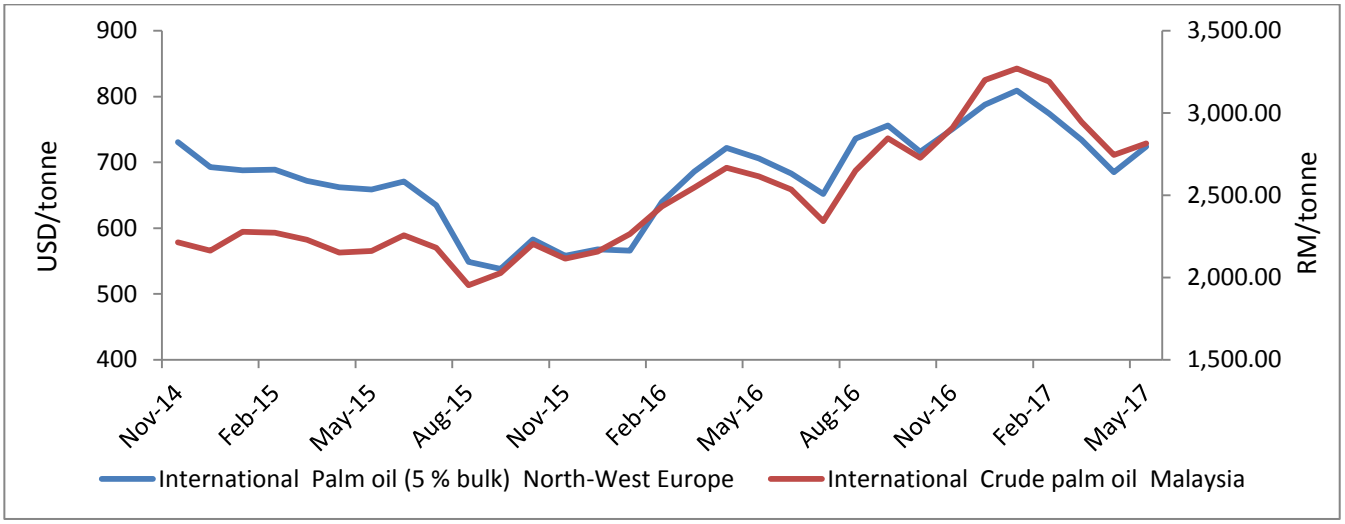
Note: Thousand metric tonnes (tmt), Million metric tonnes (mmt)

The above table points out the major edible oils produced in the world. It can be seen that palm oil accounts for the largest share followed by soyabean oil and mustard oil.

Prices

Of the total global vegetable oils production, palm oil and soybean oil together account for more than 50% of the vegetable oil production. Thus the movements in prices of these varieties are important to look for. Also, both these varieties are imported by India to meet their respective domestic requirements. As a result, their prices in the domestic market are mainly influenced by the movement in international prices.

Chart 6: Movement in International Palm oil prices



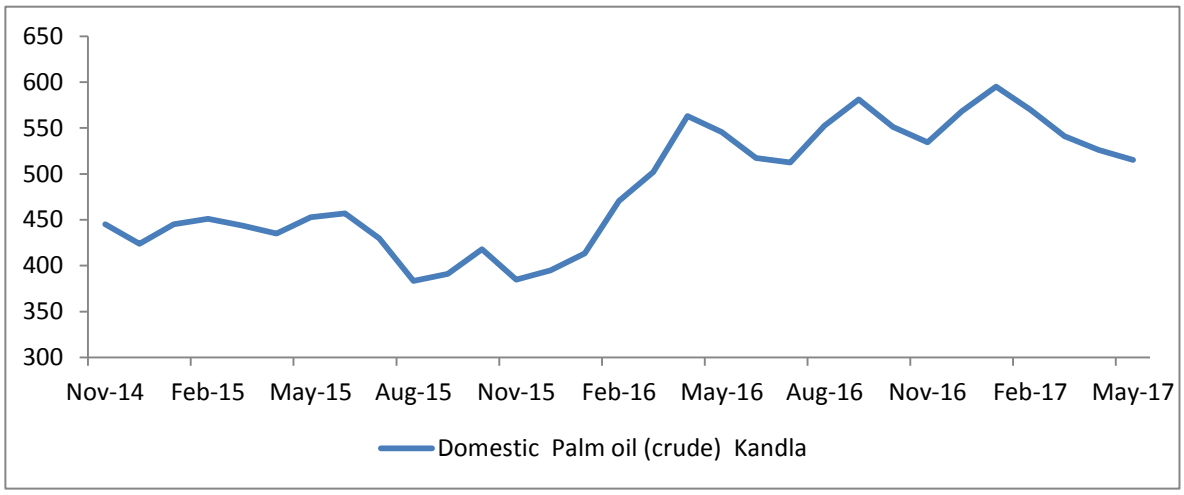
Source: CMIE

In November 2014, the international palm oil price in North-West Europe and crude palm oil price in Malaysia stood at 731 USD/tonne and 2,213.7 RM/tonne, respectively. On a m-o-m basis, the prices in both the markets declined in double-digits by 10%-14% in August 2015 and crude palm oil price in Malaysia reached a low of 1,952 RM/tonne during the month. The palm oil price in North-West Europe was at a low of 538 USD/tonne in September 2015. The fall in prices was on account of a rise in global palm oil production.

During the oil year 2015-16, the prices in both the markets averaged higher compared to the prices in 2014-15. The palm oil price in North-West Europe and Malaysia were higher by 3% to 665.8 USD/tonne and by 15% to 2,492 RM/tonne, respectively, during the year on a y-o-y basis. In August 2016, prices in both the markets grew in double-digits by 12%-13.5% on a m-o-m basis and touched a year high in September 2016. The palm oil price in North-West Europe stood at 756 USD/tonne and in Malaysia it stood at 2,845.9 RM/tonne during the month. This was because of a fall in global palm oil production due to El Nino event.

The prices that touched a high of 809 USD/tonne and 3,270.5 RM/tonne in January 2017 remained depressed and declined in each of the months during February-April 2017 on a m-o-m basis. ***The prices are expected to remain under pressure in the coming months as well on account of higher supplies from Indonesia and Malaysia. Oil output from these countries account for over 80% of the global palm oil production.***

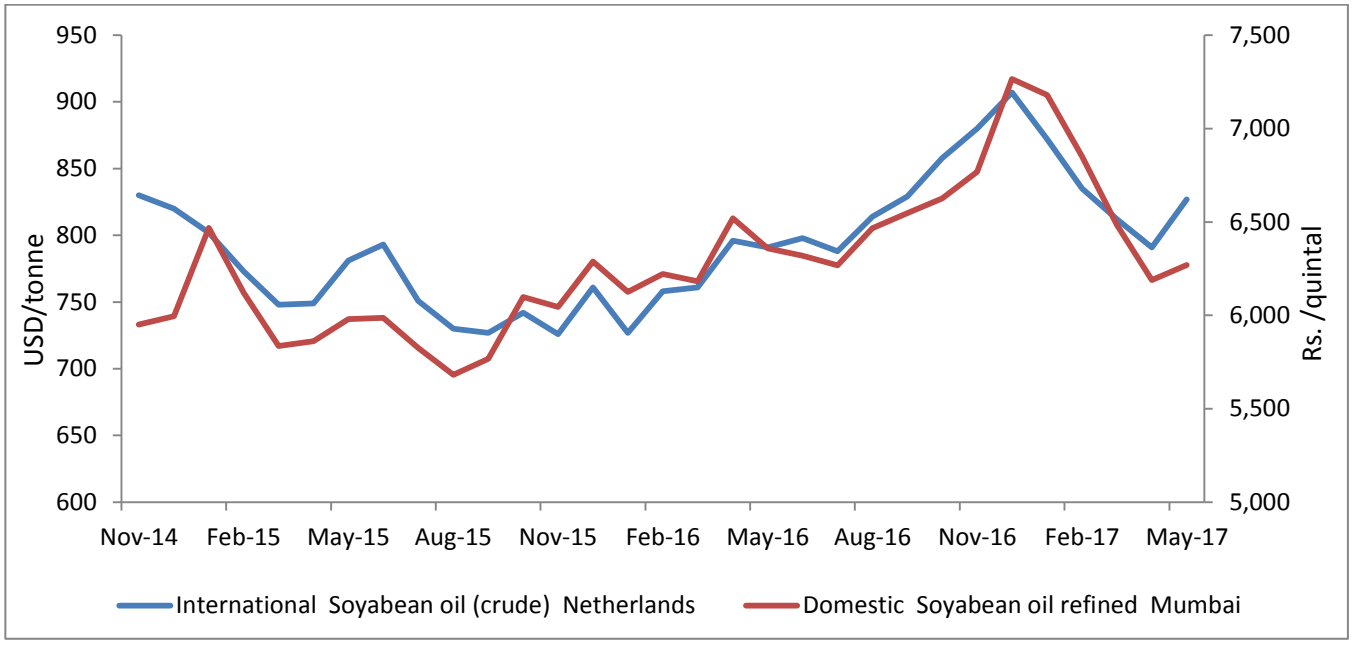
Chart 7: Movement in Domestic Palm oil prices (Rs. /10 kg)



Source: CMIE

The domestic palm oil prices reflected the trend in international prices. During the oil year 2014-15, the domestic palm oil prices in Kandla declined by 19% on a y-o-y basis and averaged at Rs.431.3 per 10 kg. A 32.4% rise in edible oil imports during the year also created a pressure on prices. In 2015-16, the prices improved and they averaged 16% higher on a y-o-y basis to Rs.499 per 10 kg. This was also supported by lower domestic edible oil production during the year.

Chart 8: International and domestic soyabean oil prices



Source: CMIE

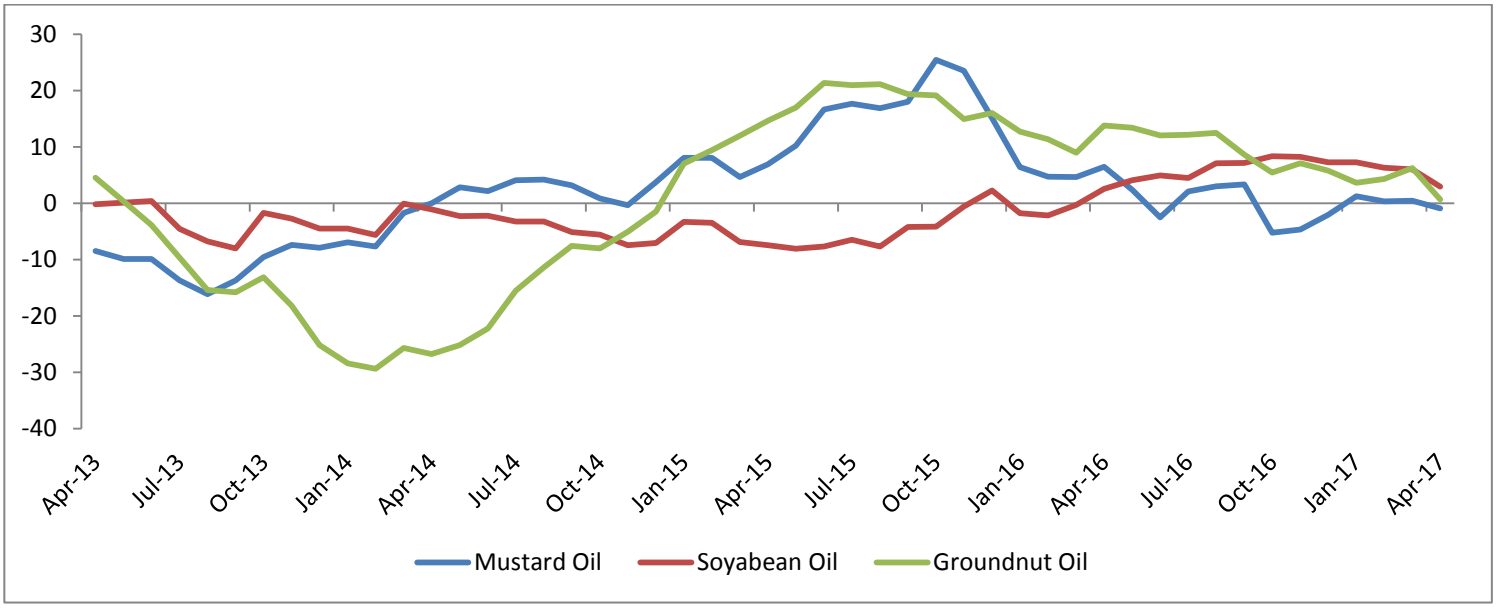
In November 2014, the international soyabean prices in Netherlands and domestic prices in Mumbai stood at 830 USD/tonne and Rs.5951.1/quintal, respectively. These prices touched a low of 727 USD/tonne in September 2015 and Rs.5682.5/quintal in August 2015. The decline in prices was due to higher global soybean oil production.

The international and domestic soybean oil prices that remained subdued during 2012-15 averaged higher on a y-o-y basis during the oil year 2015-16. The international and domestic prices rose by 2% to 783.9 USD/tonne and by 6% to Rs.6,331.1/quintal in 2015-16 compared to the corresponding period a year ago.

An increase in requirement of soybean oil for biodiesel production as stated by the U.S. Environmental Protection Agency (EPA) supported the price rise. United States is the second largest producer of soyabean oil in the world **followed by China.** Also, lower global palm oil production resulted in an increased demand for soyabean oil thus supporting the price rise.

In December 2016, the international and domestic soyabean oil prices touched a high of 907 USD/tonne and Rs.7,264.5/quintal. The prices in both the markets however declined on a m-o-m basis in each of the months during January-April 2017. ***Higher global soybean oil production is likely to keep the prices under pressure in the coming months as well. The domestic prices that largely reflect the trend in international prices will also remain subdued on account of higher domestic soybean oil production in 2016-17.***

Chart 9: Year-on-year % change in domestic prices of mustard, soyabean and groundnut oils



Source: Office of Economic Advisor

Prices of soyabean oil (that is largely imported) reflected the trend in international prices as it remained weak during the period April 2013 to March 2016. The international prices were subdued on account of higher world soyabean oil output during these years. The domestic soyabean oil prices improved thereafter in line with the rise in international soyabean oil prices. However, the prices remained weak in each of the months during January-April 2017 on account of higher soyabean oil production globally as well as domestically.

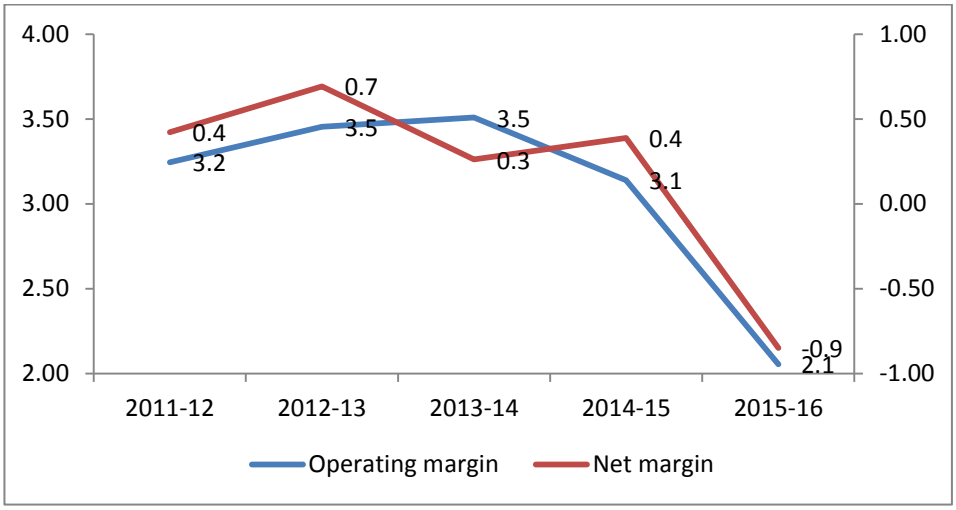
The domestic groundnut oil prices stayed weak during the period April 2013 to December 2014 driven by a surge in domestic groundnut oil production. After this, the trend in prices improved and the percentage change in prices on a y-o-y basis remained positive during January 2015 to April 2017. However, prices grew in single-digit on a y-o-y basis during September 2016 to April 2017. An expected rise in groundnut oil during the oil year 2016-17 is believed to have created a pressure on the prices.

The domestic mustard oil price trend that remained depressed during April 2013-April 2014 gained momentum and the y-o-y percentage change in price trend improved after April 2014. The prices grew in double-digits on a y-o-y basis during May

2015 to December 2015 backed by a drop in domestic mustard oil production. Thereafter, there was a downward trend in y-o-y percentage change in prices due to higher mustard oil production in oil year 2015-16 and a likely higher mustard oil output in the current oil year.

Annual profit margins of 37 CARE rated edible oil companies

Chart 10: Operating and Net margins on an annual basis (in %)

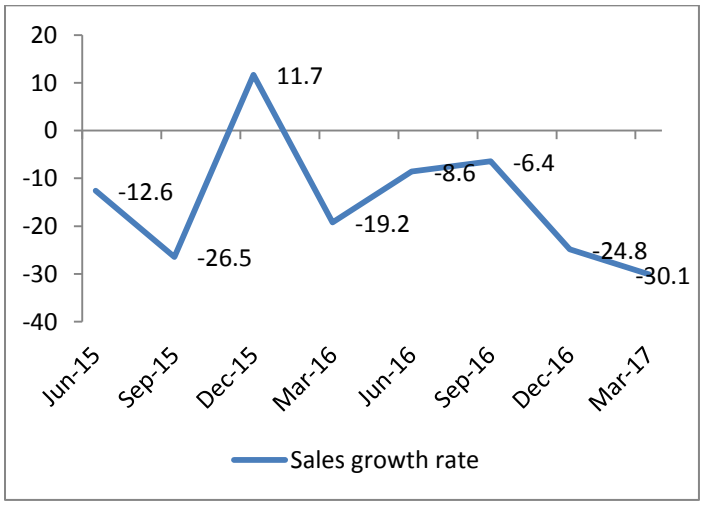


Source: CARE

The profit margins reported by the edible oils industry were the weakest in financial year 2015-16 compared to the past four years 2011-15. In 2015-16, the industry's operating margin stood at 2.05% while it had remained in the range of 3.1%-3.6% in each of the past four years. Similarly, the industry made losses at net level in 2015-16 compared to net profits made in each of the years during 2011-15.

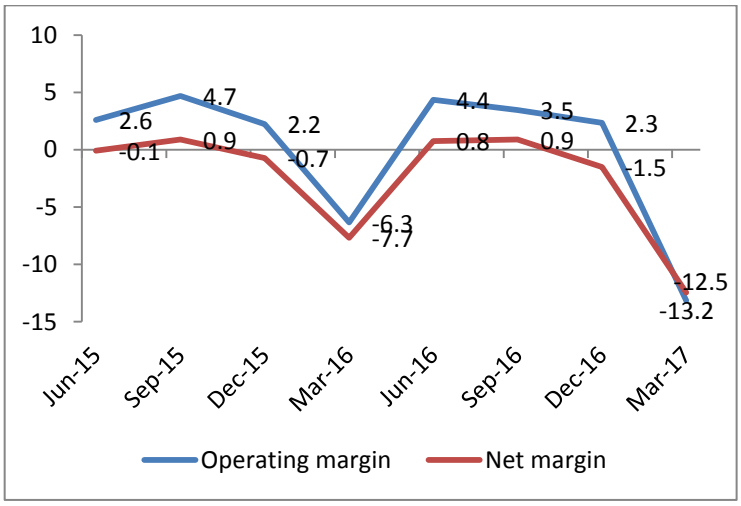
Financials of 28 edible oil companies (on y-o-y basis)

Chart 11: Sales growth rate (in %)



Source: Ace Equity

Chart 12: Operating and Net margins (in %)



Source: Ace Equity

Aggregate sales of 28 edible oil companies that declined in single-digit in the first two quarters of financial year 2016-17 on a y-o-y basis fell by a steep 24.8% and 30.1%, respectively, in the following two quarters. On the profitability front, the margins of the industry remained weak in the March 2017 quarter compared to the past seven quarters. During the March 2017 quarter, the operating margin of the industry stood at 12.5% and net margin at 13.2%. The financials are impacted by one of the largest players in the industry on account of its significant size.

Concluding remarks

- *India's edible oil production is expected to rise by 17.4% on a y-o-y basis in 2016-17. Despite this, the country's high dependency on imports will continue as production has been stagnant*
- *Thus it becomes necessary to encourage the farmers to increase the production of oilseeds*
- *In 2016-17, edible oil imports are expected to remain more or less stable compared to the previous oil year 2015-16 backed by an expected growth in edible oil output during the ongoing oil year*
- *The international palm oil and soyabean oil prices are expected to remain under pressure in the coming months due to higher supplies from the producing nations.*

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