



Edible Oil

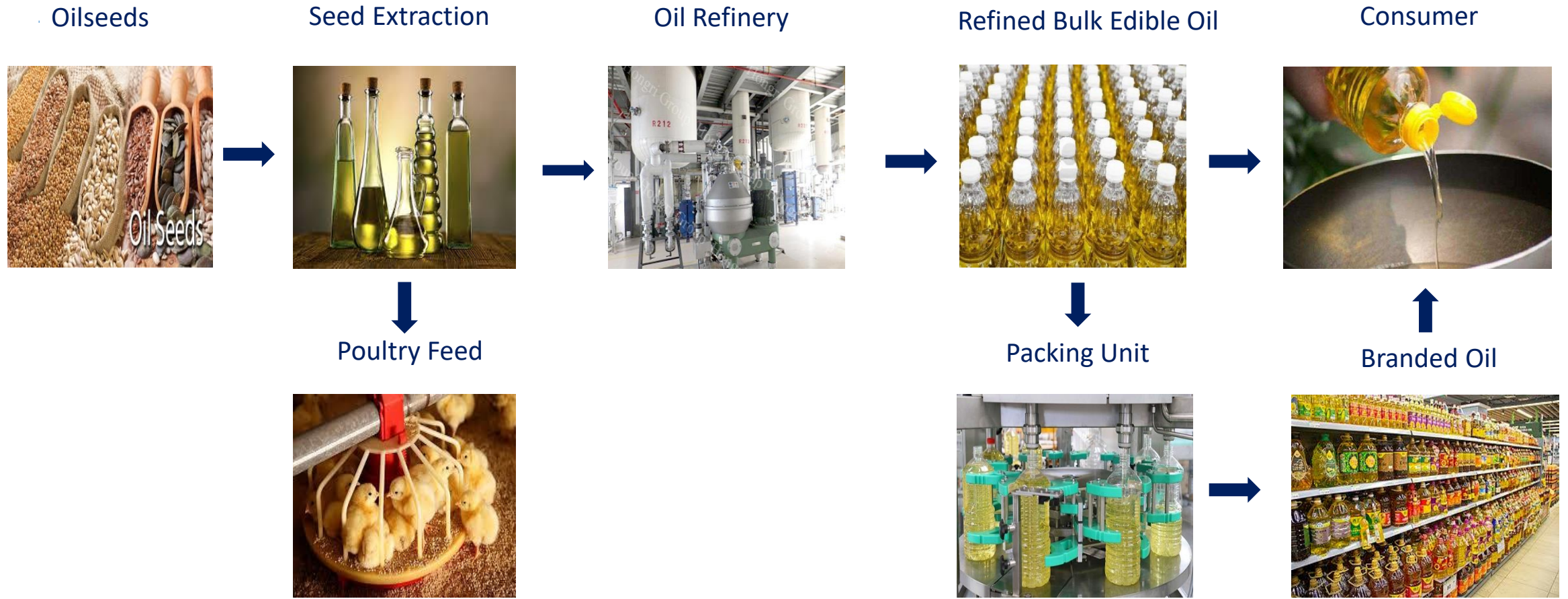
Sector Study

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EDIBLE OIL | PROCESS FLOW

Production Process



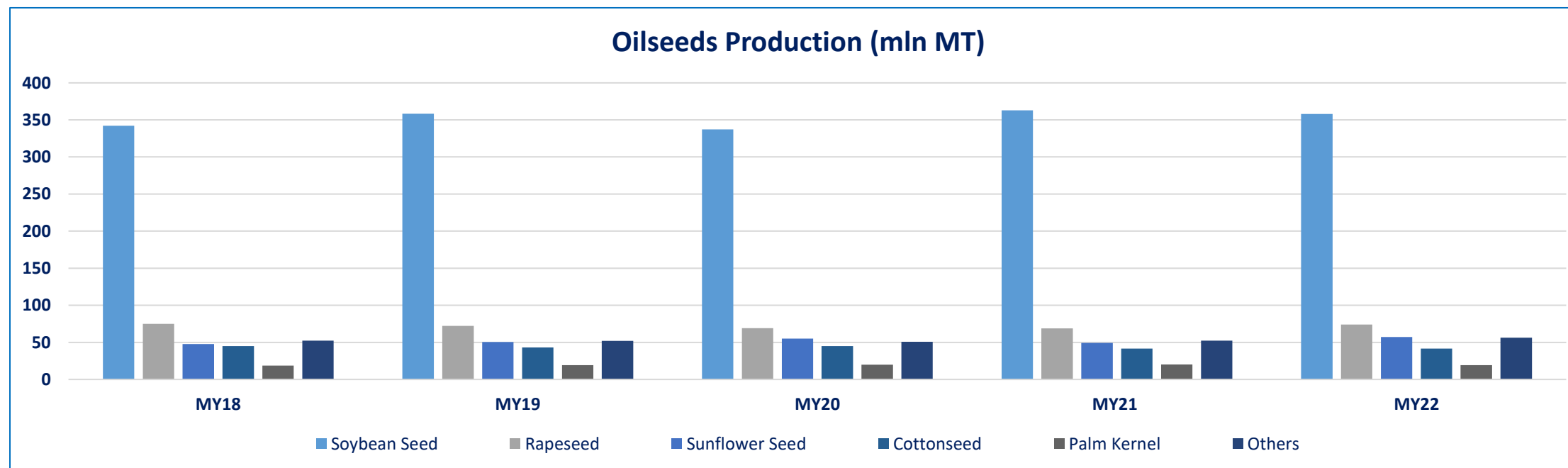
Overview

- Edible oil is one of the essential items required for cooking and food preparation. The product is consumed by almost all classes of society, with per capita consumption patterns varying across the globe.
- Global edible oil market size increased by ~11% over the last year (MY22), as the average global prices climbed to USD~1,707/MT, against USD~1,343/MT in FY21.
- Increase in price levels resulted from unfavorable weather conditions in major edible oil producing countries, labor shortages 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, cottonseed and rapeseed oil.
- Brazil is the largest producer of soybean seeds in the world, second to USA, while Malaysia and Indonesia are the largest exporters of palm oil. India remains the largest importer of edible oil.

Global Snapshot Edible Oil	MY21	MY22
Turnover* (USD bln)	245	272
YoY Growth Rate	50%	11%
Turnover per Capita (USD)	31	27
Share in GDP	0.3%	0.2%
Production (mln MT)	188	187
Consumption (mln MT)	187	182

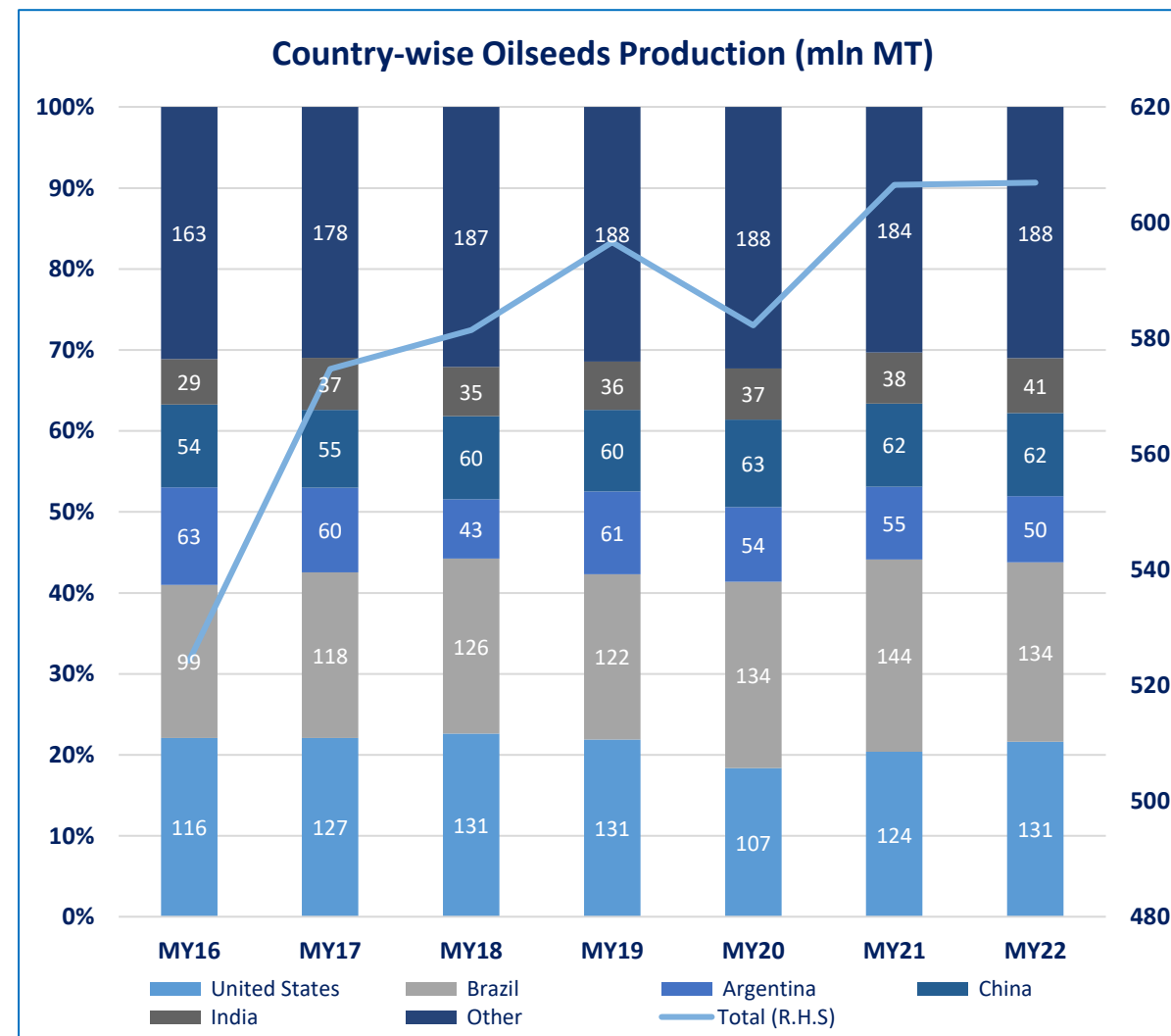
Oilseeds | Production

- Global oil seeds production was recorded at ~600mln MT during MY22, up ~2% YoY (MY21: ~590mln MT).
- Soyabean Seed makes up for ~60% of the global oil seed production (~360mln MT during MY22), followed by Rapeseed (~12%) and Sunflower Seed (~9%). Rapeseed production increased from ~69mln MT in MY21 to ~74mln MT in MY22, a ~8% increase, whereas Sunflower Seeds produced, increasing by ~16% YoY, recorded at ~57mln MT during MY22, compared to ~49mln MT in the preceding year.



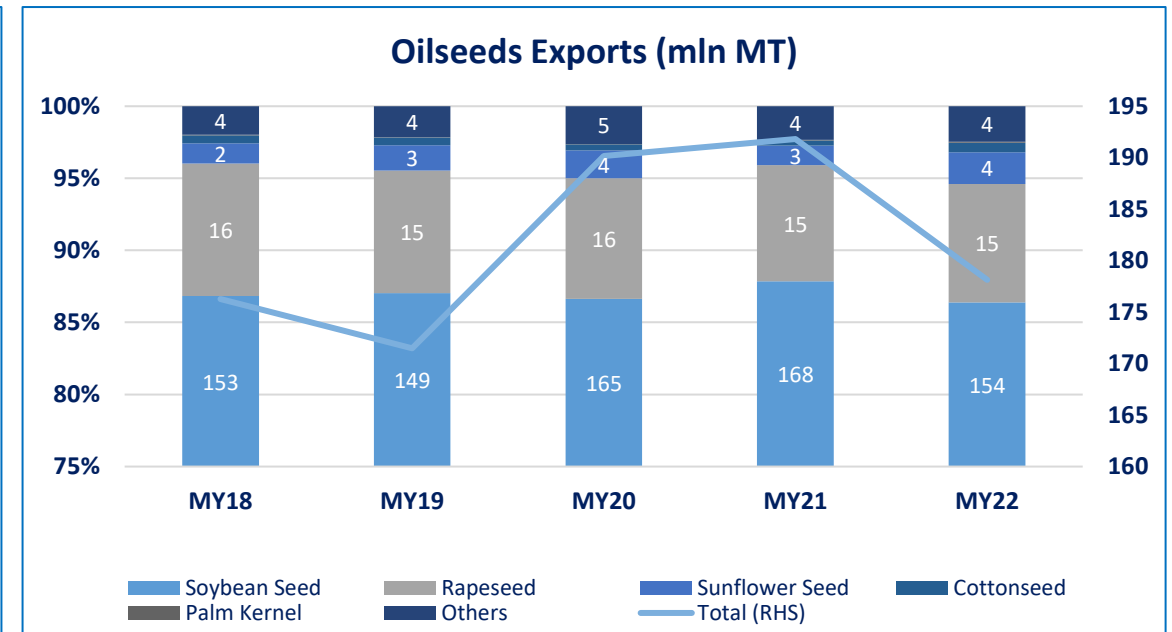
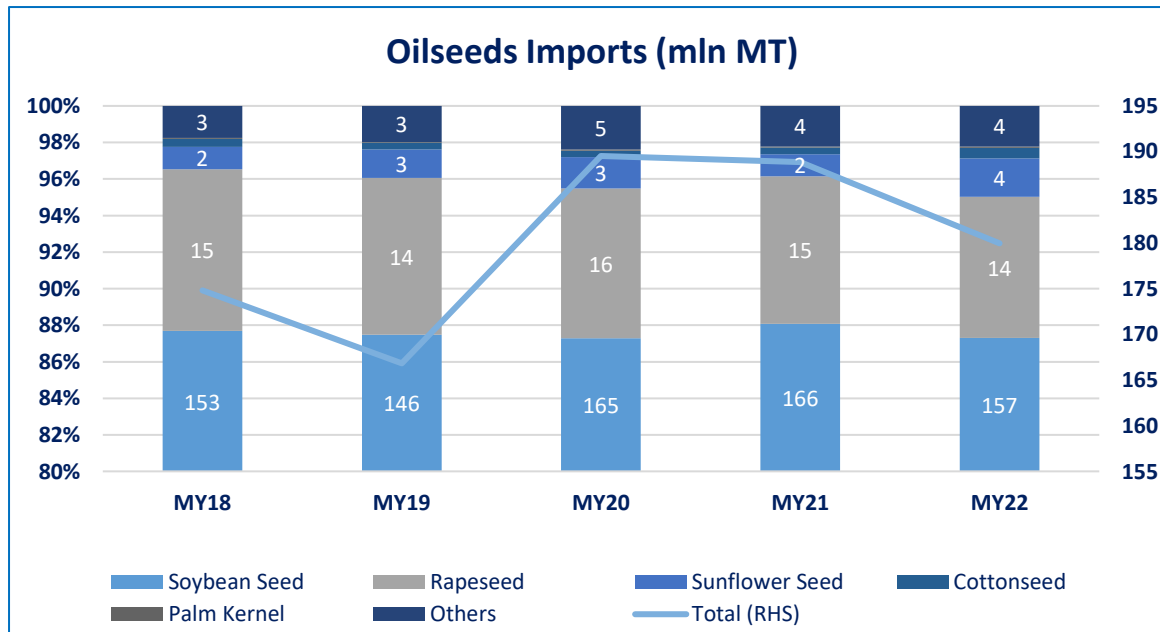
Oilseeds Production | Country View

- The USA and Brazil continue to be the top producers of oilseeds in MY22, with ~44% share in global production.
- The numbers for U.S. clocked in at ~130mln MT during MY22 (MY21: ~124mln MT), a ~6% increase YoY.
- Oilseeds production in Brazil declined to ~134mln MT in MY22, compared with ~144mln MT during MY21, a YoY decline of ~7%.
- China, Argentina and India occupy, respectively, ~10%, ~8% an ~7% share in global production of oilseeds.
- Where production numbers for China remained stagnant at ~62mln MT during MY22, those for India increased by ~7% YoY to record at ~41mln MT, and for Argentina declined to 50mln MT during the same time period (MY21: ~55mln MT).



Oilseeds | Trade

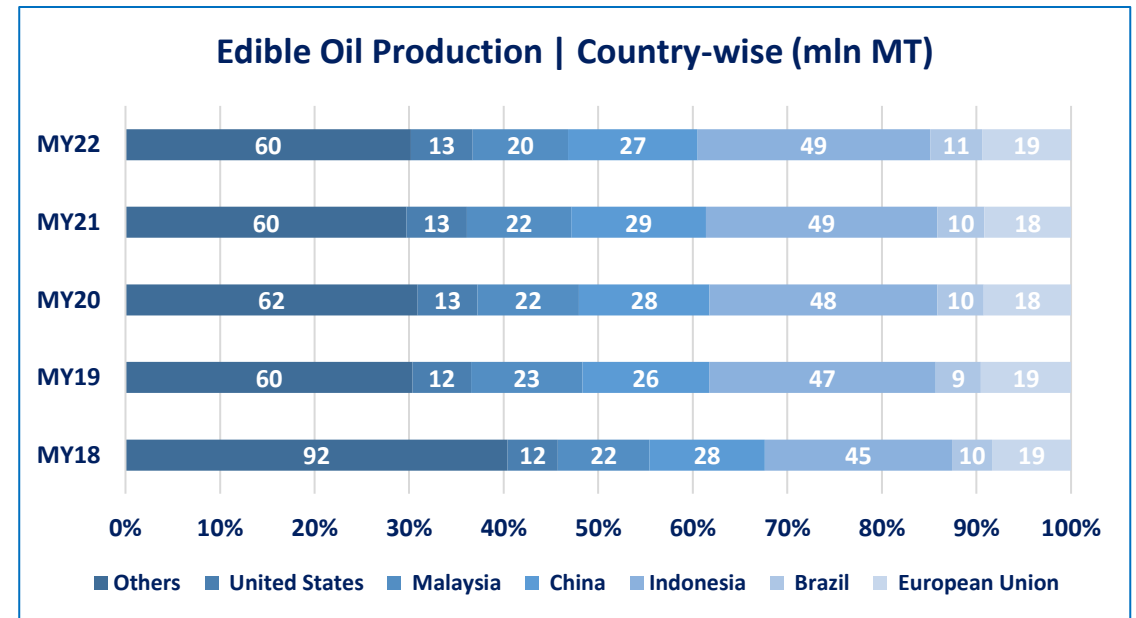
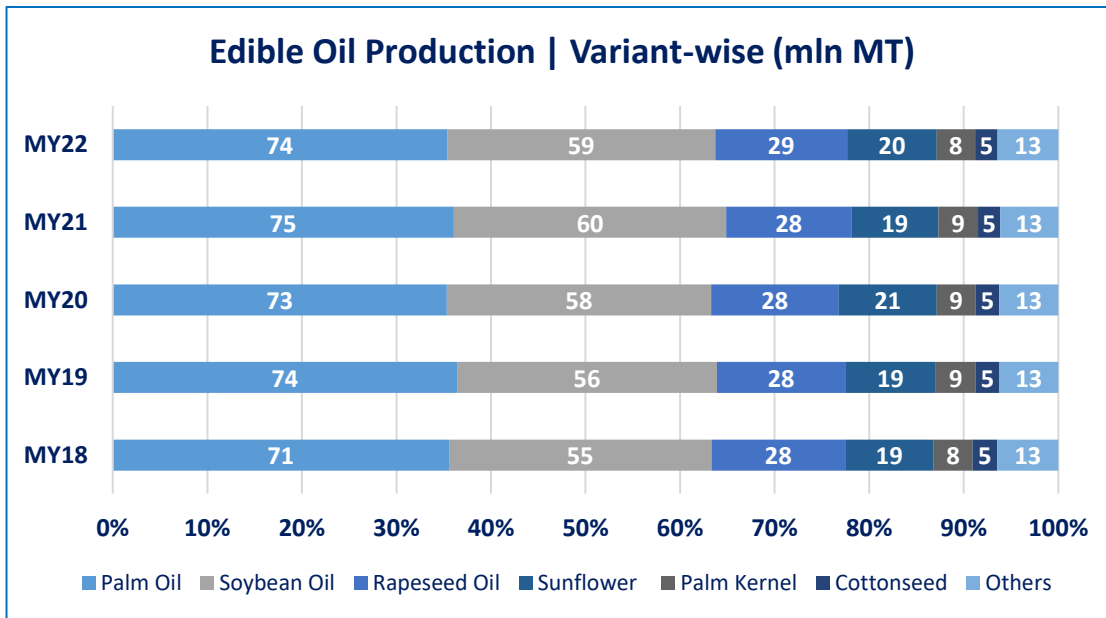
- Oilseeds trade was sluggish during MY22, as global imports and exports registered a downward movement. While imports declined by ~5% YoY, from ~189mln MT (MY21) to ~180mln MT, exports fell by ~7% to ~178mln MT during MY22 (MY21: ~192mln MT).
- Soybean seed imports have, on average, had ~88% share in global imports during the past five years (MY18-22), while rapeseed imports form ~8% of total imports. Soybean seed imports recorded at ~157mln MT during MY22, down from ~166mln MT the year before. Soybean seed exports also decreased to ~154mln MT, while they were previously recorded at ~168mln MT during MY21.



EDIBLE OIL | GLOBAL

Edible Oil | Production

- Global oil production was recorded at ~209mln MTs during MY22, remaining stagnant at previously recorded levels.
- Palm oil, being the dominant vegetable oil, accounts for ~35% of the global vegetable oil market. 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 is obtained from crushing the kernel.
- ~28% of the supply comprises soybean oil, ~14% rapeseed oil and ~10% sunflower oil. Indonesia is the largest producer of palm oil (MY22), with ~59% share in global market, followed by Malaysia with ~25% market share.
- With respect to total vegetable oils production, Indonesia occupies the largest market share of ~24% (MY22), with ~49mln MT of oil production in the same time period. China contributes ~13% to global vegetable oil production, whereas Malaysia holds a ~10% market share.

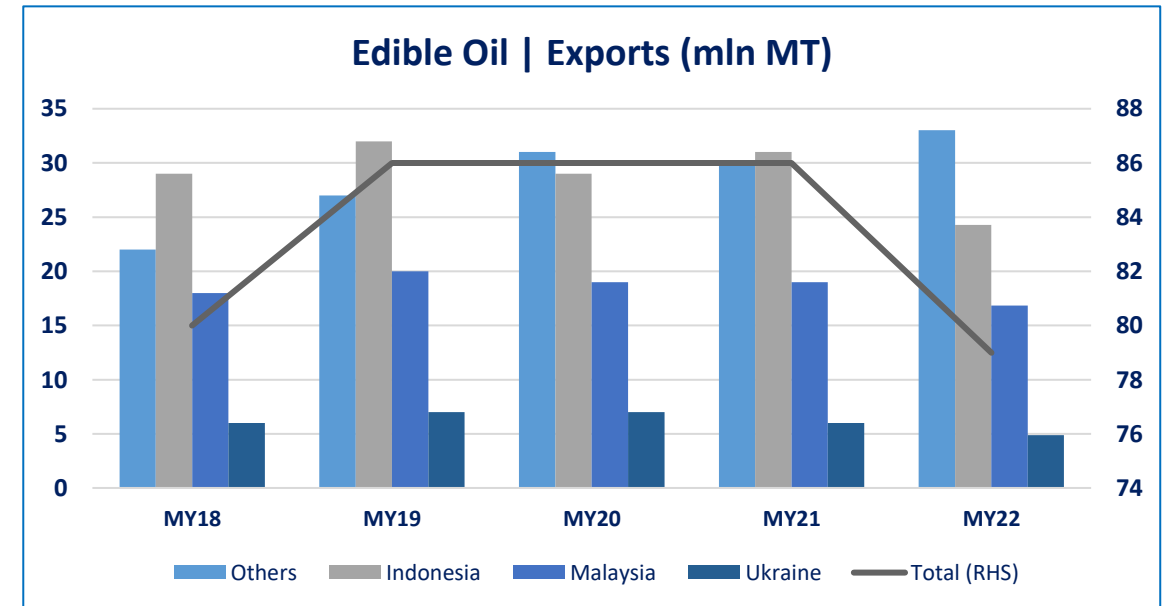
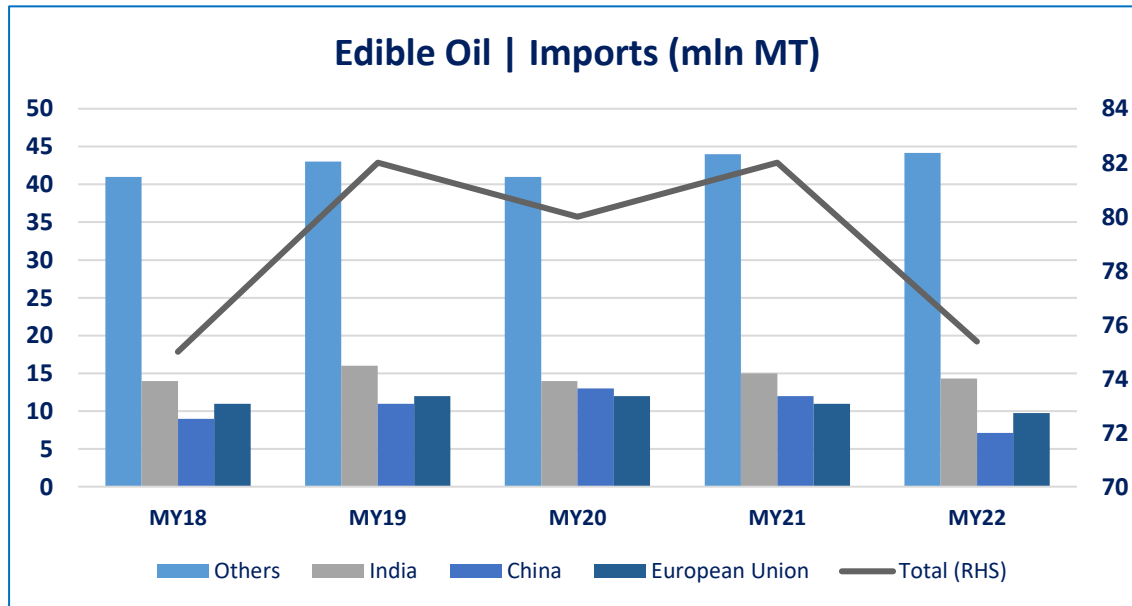


Note: Oil production includes Palm, Soybean, Rapeseed, Cottonseed and Sunflower, Palm Kernel and Other Oils.

EDIBLE OIL | GLOBAL

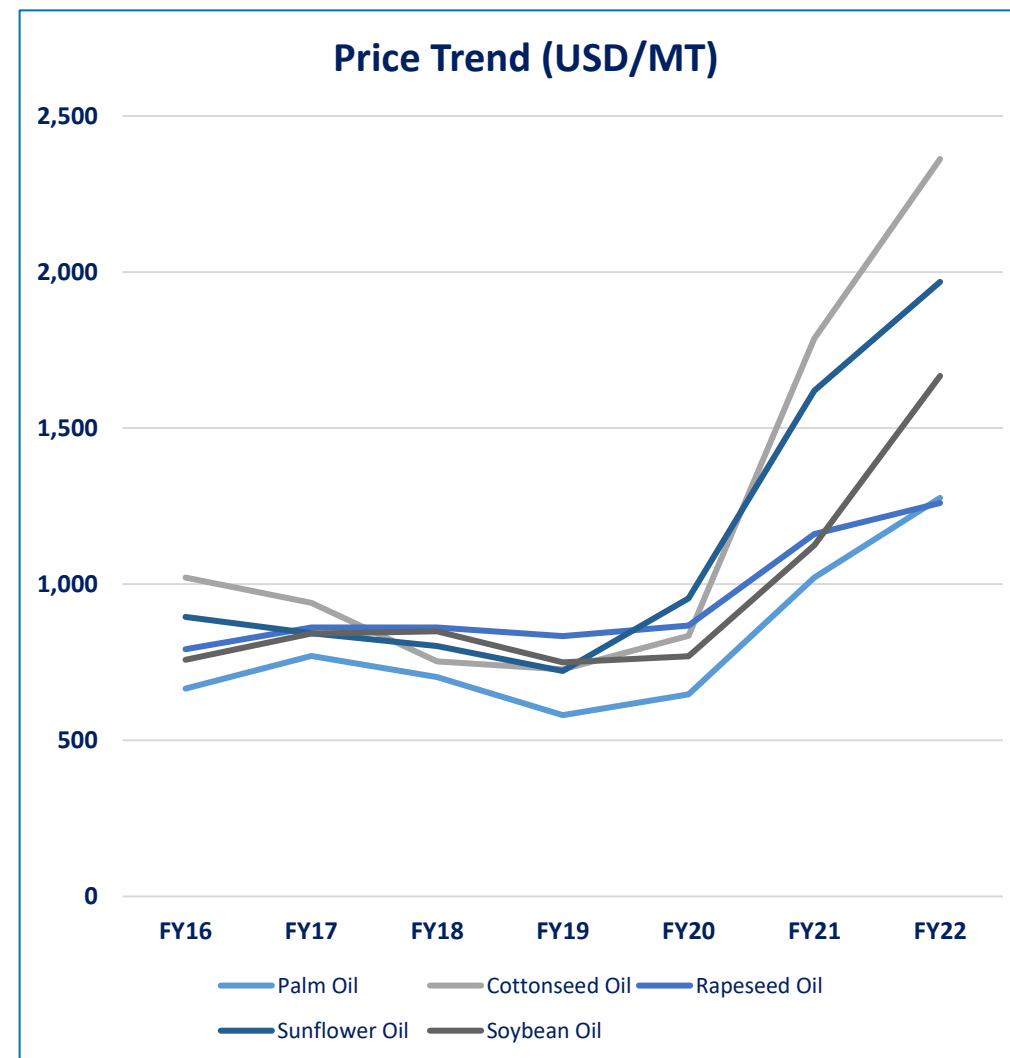
Edible Oil | Trade

- On the trade front, edible oils, too, exhibited a downward movement in MY22. While exports remained stagnant at ~86mln MT during MY19-21, they fell to ~79mln MT in the period under discussion. This was a decline of ~8% YoY. Palm oil exports account for ~55% of total vegetable oil exports. In absolute terms, palm oil exports decreased by ~8%, from ~48mln MT in MY21 to ~44mln MT in MY22. Rapeseed oil exports (~6% share in total vegetable oil exports) also fell by ~17% YoY during MY22.
- On a country level, exports from Indonesia and Malaysia, which make up for ~52% of global vegetable oil exports, recorded exports at ~24mln MT and ~17mln MT, YoY decline of ~22% and ~11%, respectively.
- While total imports declined to ~75mln MT in MY22 (MY21: ~82mln MT), the largest dip came from China, where exports recorded at ~7mln MT, falling by ~41% YoY. Similarly, the EU and Indian vegetable oil imports also decreased by ~5% and ~11%, respectively.



Price Dynamics

- Global prices for vegetable oils have increased at a CAGR of ~9% over the course of last five years (FY18-21). Prices started exhibiting an upward trend during FY21, emanating majorly from supply-side pressures. Palm Oil, Soybean Oil and Sunflower Oil have exhibited more pronounced movements since FY21, increasing by ~25%, ~48%, and ~22%, respectively during FY22.
- Palm Oil:** Malaysia and Indonesia account for ~83% of global palm oil production. The countries faced a chronic labor shortage post Covid-19 outbreak, leading to higher palm oil prices in FY21. Production in Malaysia was also adversely impacted by lack of long-term investment. Going forward, Malaysia's output of palm oil may increase as workers are expected to return to palm fields, due to which prices are forecast to ease in the short-term. Average palm oil prices in FY22 recorded at USD~1,276/MT against USD~1,021/MT the preceding year.
- Sunflower Oil:** Russia and Ukraine produce ~50% of the global sunflower oil. Owing to the ongoing Russia-Ukraine conflict, prices have risen by ~14% in MY22 (USD~1,968/MT), and are expected to remain on the higher end, due to supply concerns from Ukraine.
- Soybean Oil:** Production of soybean oil slightly reduced to ~59mln MT in FY22. Demand from China reduced by ~8.2mln MT during the same time period (MY21: ~99.7mln MT). Reduced supply of ~7.2% from Brazil during FY22 and ~5% from Argentina has contributed to increasing price trend. Going forward, Argentina's supply forecast have been revised downwards, on account of dry weather conditions so price levels are expected to remain elevated in the short to medium term.



Overview

- Pakistan’s edible oil market was recorded at USD~5,720mln in FY22, posting a YoY increase of ~36% (FY21: USD~4,369mln).
- Local consumption was recorded at ~3.9mln MT in FY22, down ~2% YoY (FY21: ~4.0mln MT).
- Average local price of edible oil during FY22 was recorded at USD~1,707/MT as compared to USD~1,343/MT during FY21, registering an increase of ~21%.
- Per capita consumption of edible oil also recorded a slight decline of ~1% YoY, to stand at ~18.1Kg per capita. Previously, this figure was ~18.3Kg per capita.
- Declining consumption reflects lower oilseed imports which recorded at ~2.9mln MT, as against ~3.3mln MT during the previous year. Estimated domestic production, on the other hand, has increased YoY, from ~0.7mln MT during FY21 to ~1mln MT during FY22,
- The sector is highly dependent on imported oil seeds (the country meets 100% of its palm oil demand through imports) to meet local demand. Hence, it remains exposed to exchange rate movements and international price fluctuations.

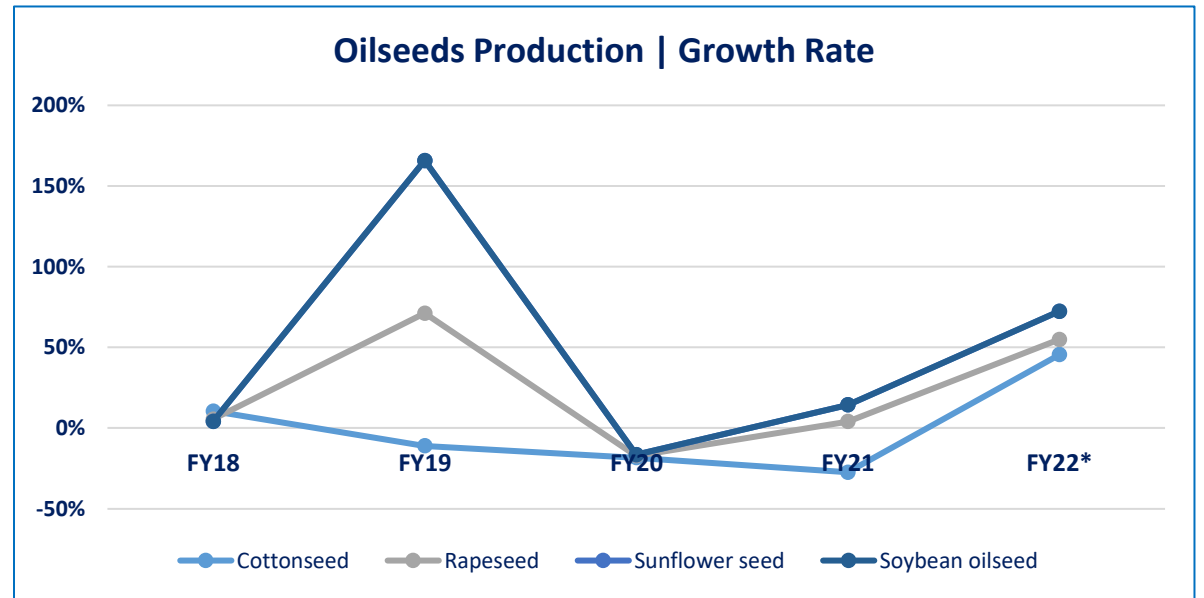
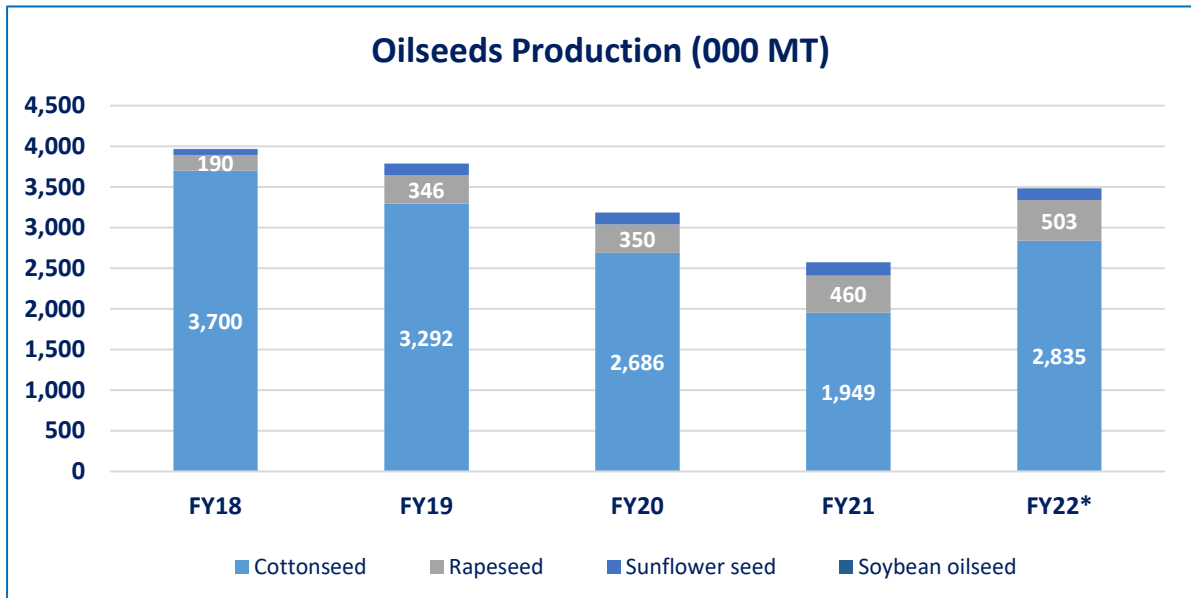
Local Snapshot Edible Oil	FY21	FY22
Revenue (USD mln)	4,360	5,720
Growth Rate	-48%	31%
Revenue (PKR bln)	698	1,012
Per Capita Revenue (USD)	19.8	26
Per Capita Consumption (Kg)	18.3	18.1
GDP Share	3.0%	2.0%
Oilseed Imports (000 MT)	3,314	2,964
Palm Oil Imports (000 MT)	3,198	2,808
Edible Oil Consumption (000 MT)	4,027	3,964

Association Pakistan Edible Oil Refiners Association, Pakistan Vanaspati Manufacturers Association, Pakistan Oilseed Development Board

EDIBLE OIL | DOMESTIC

Supply | Oilseeds

- Local edible oil demand is met through 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 over the past five years (FY19-22). Cottonseed demand is met through local produce only and is driven by demand for cotton lint from the textile sector, which is country's largest export-oriented sector. During FY22, cottonseed production increased by ~45% YoY.
- 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. Rapeseed oil production increased by ~9% YoY, while that of sunflower seed oil increased by ~18% during FY22. Sunflower seed production was recorded at ~188,000 MT during FY22 (FY21: ~160,000 MT), while soybean seed production remained stagnant at ~2,000 MT during same time period.



*Data has been estimated using figures for 9MFY22.

EDIBLE OIL | DOMESTIC

Supply | Edible Oil

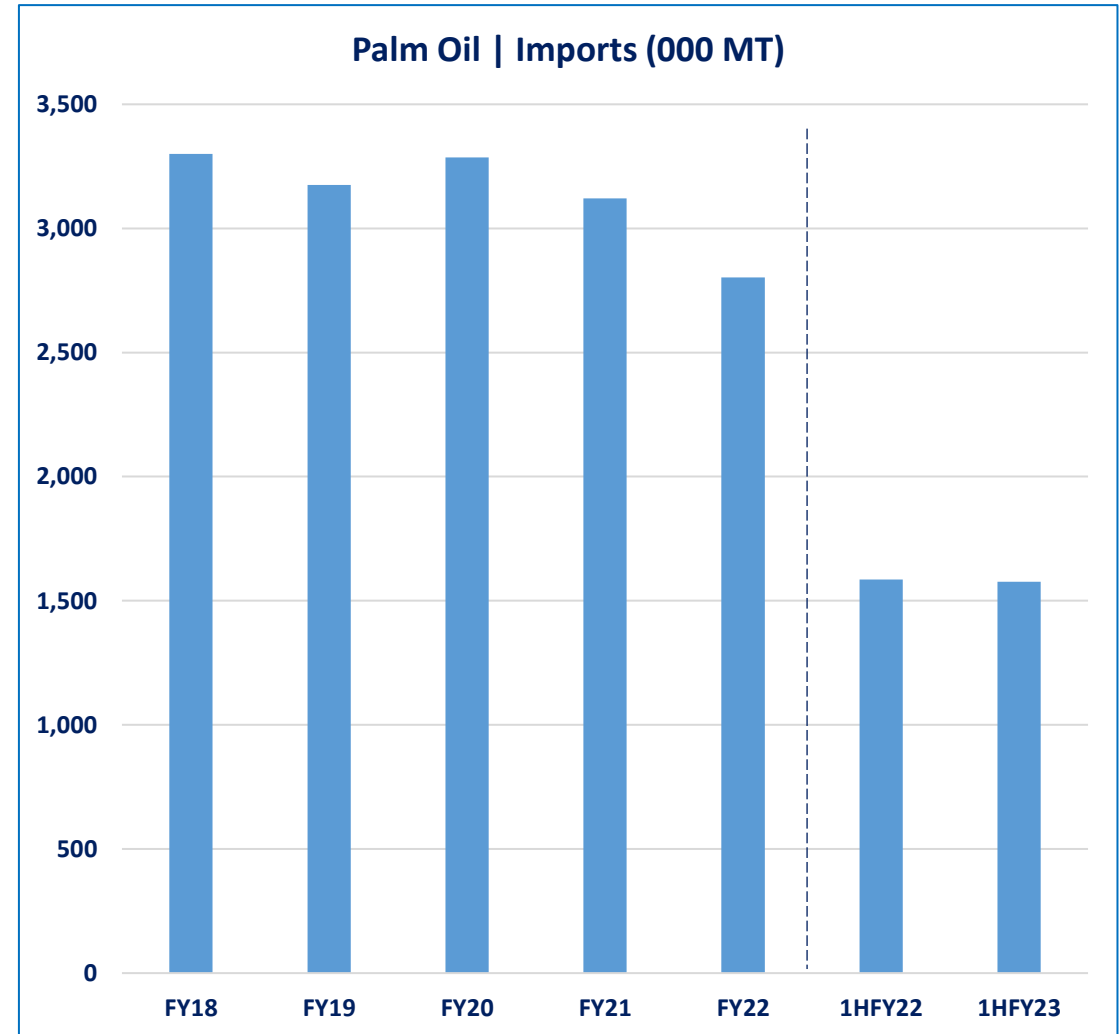
- In Pakistan, ~80% of the total consumption of edible oil is met through imports, while the remainder is produced locally.
- Total consumption of edible oil (i.e., Palm Oil, Soybean Oil, Rapeseed Oil, Cottonseed Oil and Sunflower Oil) for FY22 recorded at ~3.9mln MT, compared to ~4mln MT during FY21.
- Domestic production increased from ~0.7mln MT in FY21 to ~1mln MT in FY22. Imports of edible oil followed a different course, declining to ~2.9mln MT during FY22, while previously being recorded at ~3.3mln MT during FY21.
- Area under cultivation increased during FY22 to ~5.8mln hectares compared to ~5mln hectares during the preceding year. The GoP also has in place a subsidy to the tune of PKR~5,000 on inputs for canola, sunflower and sesame, in addition to ~50% on purchase of oilseed machinery.
- Palm Oil comprises the major chunk in total domestic consumption (~71%). Cottonseed oil forms ~24% of total edible oil consumption, with demand mainly driven by the textiles sector.

Particulars (000 MT)	Supply Snapshot Edible Oil (FY22)						FY21
	Palm Oil	Soybean Oil	Rapeseed Oil	Cottonseed Oil	Sunflower Oil	Total	Total
Consumption	2,808	571	167	340	78	3,964	4,027
Imports	2,808	144	6	0	6	2,964	3,314
<i>Imports as % of Consumption</i>	<i>100%</i>	<i>25%</i>	<i>4%</i>	<i>0%</i>	<i>8%</i>	75%	82%
Domestic Production	0	427	161	340	72	1,000	713
<i>Production as % of Consumption</i>	<i>0%</i>	<i>75%</i>	<i>96%</i>	<i>100%</i>	<i>92%</i>	25%	18%
Share in Total Consumption	71%	14%	4%	9%	2%	100%	100%

*Data has been estimated using figures for 9MFY22.

Supply | Palm Oil

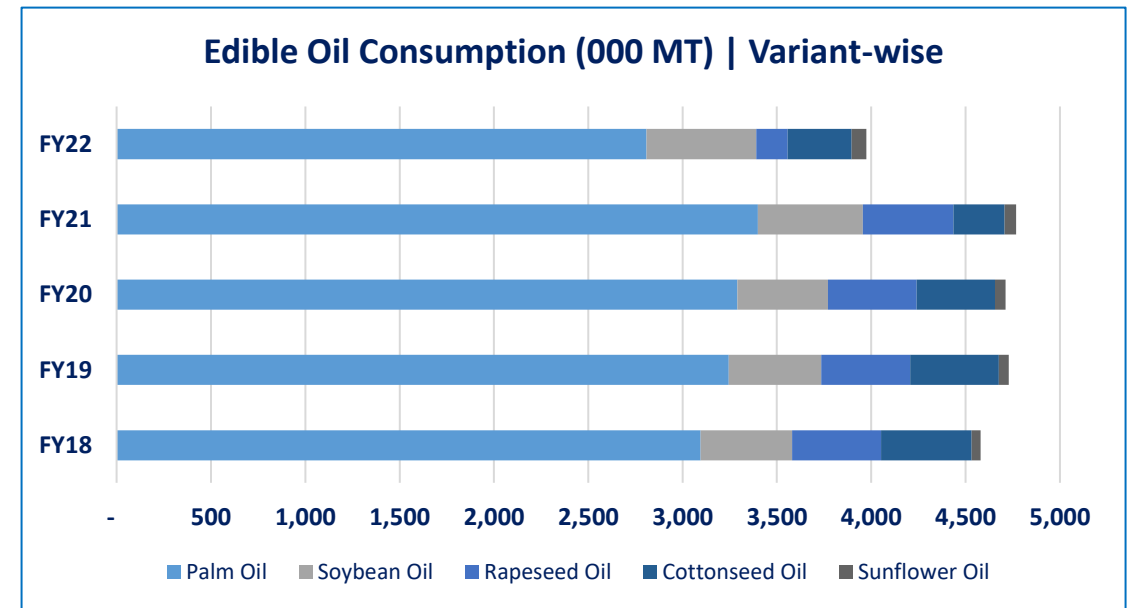
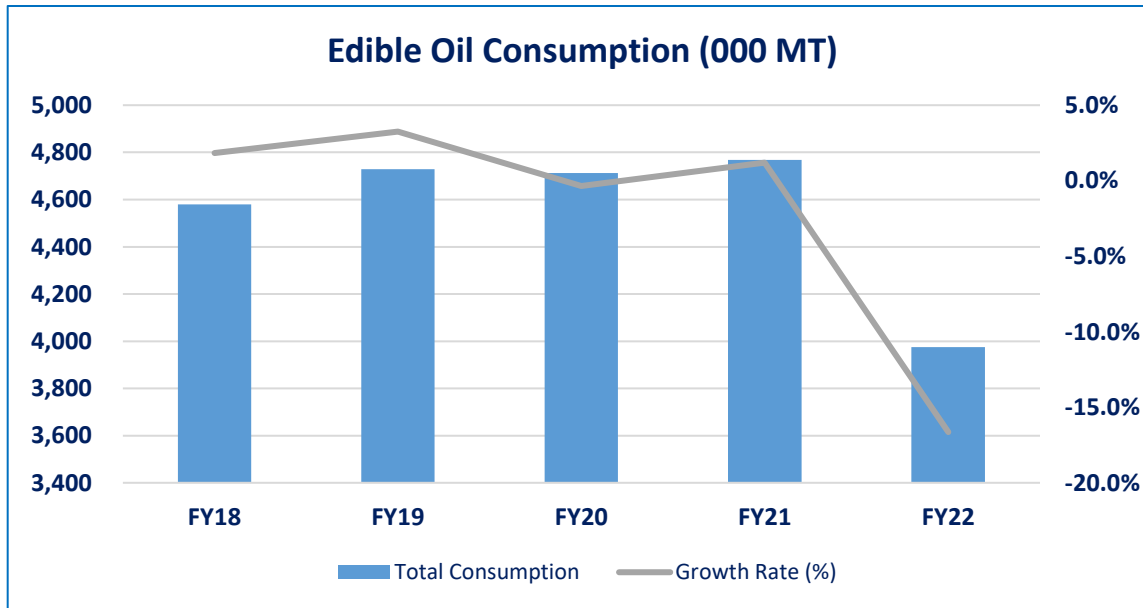
- Although Pakistan’s duty structure is designed to facilitate oilseed imports through reduced tariffs and fees as a means of shifting value addition to domestic oil production, the country remains one of the world’s largest importers of refined palm oil.
- Pakistan is the fourth-largest importer of palm oil globally, after China, India and the European Union. Pakistan sources palm oil majorly from Malaysia and Indonesia
- Palm oil accounts for ~94% of Pakistan’s total edible oil imports and is sourced mainly from Malaysia and Indonesia. Palm oil import bill made up for ~4.4% of country’s total import bill during FY22, compared to ~4.7% during FY21. In value terms, import bill increased to PKR~626bln in FY22, against PKR~425bln the previous year, an increase of ~47% YoY, which is reflexive of currency depreciation.
- During FY22, palm oil imports were recorded at ~2.8mln MT, as against imports of ~3.2mln MT during the previous year. This represents a YoY decline of ~12%. According to USDA estimates, fall in imports resulted from reduced exports from Indonesia during FY22, where the country’s exports clocked in at ~22.3mln MT, down from ~26.8mln MT during the previous year. This likely resulted from Indonesia’s export curbs in the first half of CY22 and the lag time in resuming shipments.



EDIBLE OIL | DOMESTIC

Demand | Edible Oil

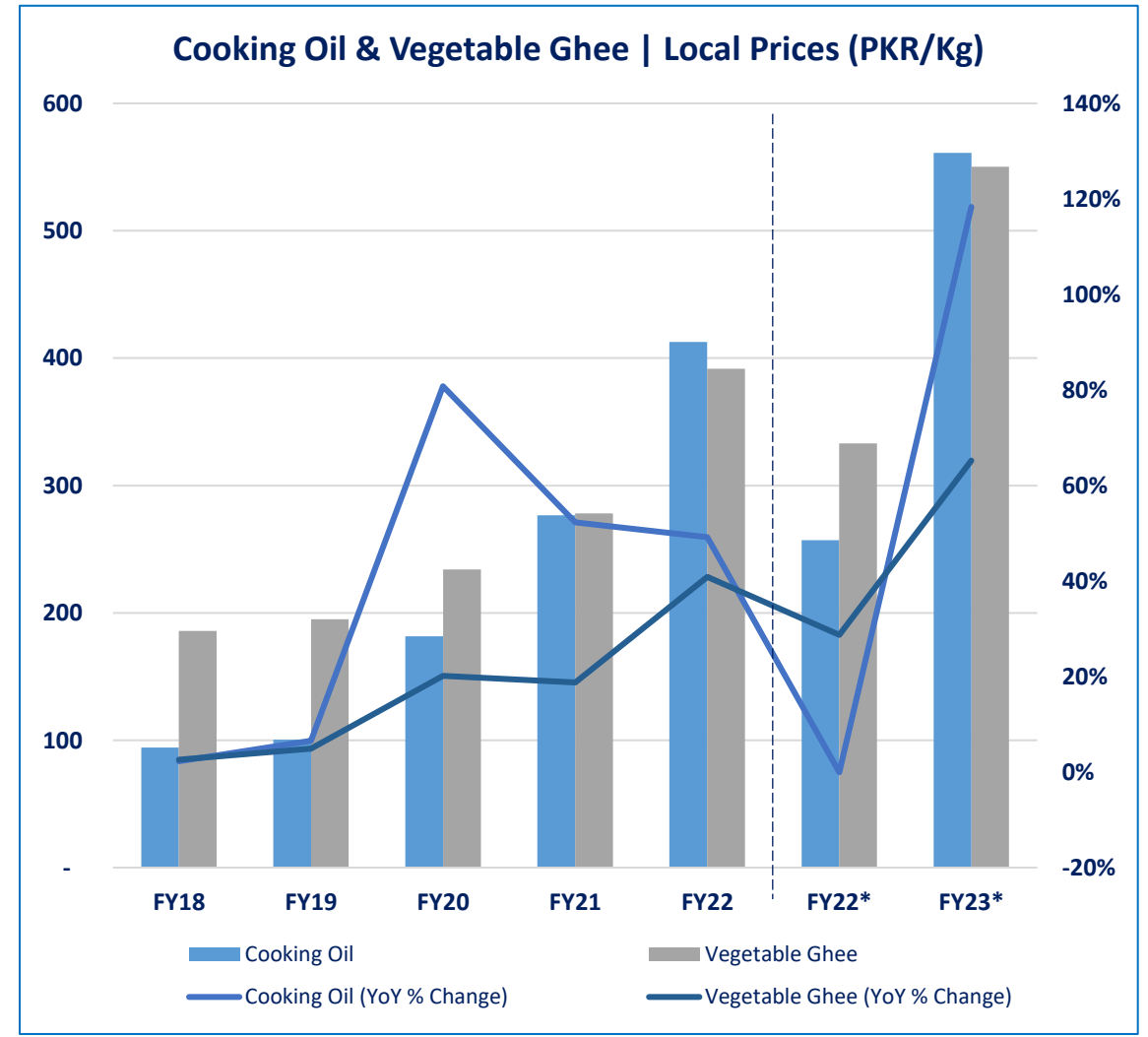
- Demand for edible oil (edible oil being an essential food commodity), has stayed relatively stable over the past four years (FY18-21), recording at average levels of ~4.6mln MT and growing at a CAGR of ~1% during the same period.
- However, FY22 paints a different scenario, seeing as demand has fallen by ~2% YoY, recording at ~3.9mln MT. This figure previously stood at ~4mln MT during FY21. This has come about on the back of reduced imports, where total imports of edible oil fell by ~11% YoY. Total oilseeds imports recorded at ~2.9mln MT during FY22, compared to ~3.3mln MT during the preceding year.
- On average (FY21-22), palm oil makes up ~75% of total edible oil consumption. Palm oil consumed during FY22 was recorded at ~2.8mln MT, against 3.2mln MT the previous year. Soybean oil's consumption increased from ~474,000 MT in FY21 to ~580,000 in FY22.



*Data has been estimated using figures for 9MFY22.

Price Dynamics

- Pakistan is heavily dependent on import of oilseeds and edible oil to meet local consumption. This exposes the sector to exchange rate movements which have been more volatile during FY22. The impact of increased cost of production is usually passed on to end consumers.
- Vegetable ghee and cooking oil prices have increased with a CAGR of ~16% and ~34% respectively during the last 5 years (FY18-FY22).
- Average prices levels for cooking oil and vegetable ghee have exhibited significant buoyancy as they increased from PKR~94/Kg and PKR~186/Kg in FY18 to PKR~413/Kg and PKR~392/Kg in FY22. During the period 7MFY23, average prices of cooking oil have increased by ~118%, compared to SPLY, recording at PKR~560/Kg, while those of vegetable ghee during the same period have increased to PKR~550/Kg (~65% increase).
- Average exchange rate for FY22 was PKR~177/USD, while for FY21, it was recorded at PKR~160/USD.
- Going forward, with PKR depreciation further expected and simultaneous increase in international palm oil prices, cooking oil and vegetable ghee prices are expected to remain elevated.



*Data is representative of 7 months of each fiscal year. Vegetable Ghee prices are representative of Ghee Tin Prices (i.e., per 2.5 litres).

Business Risk

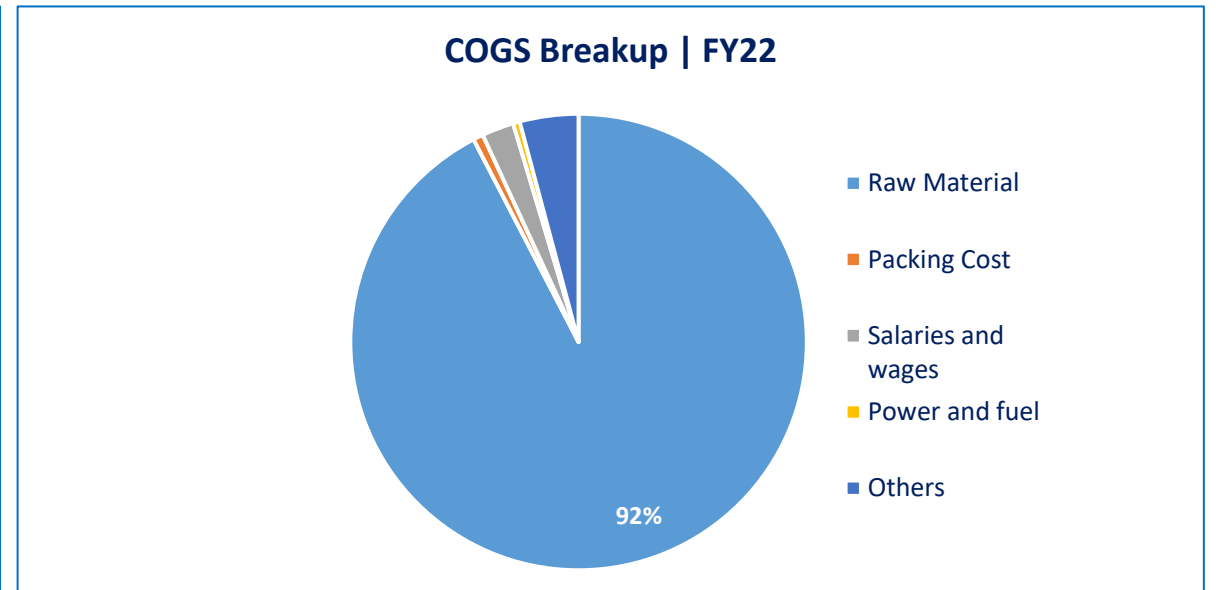
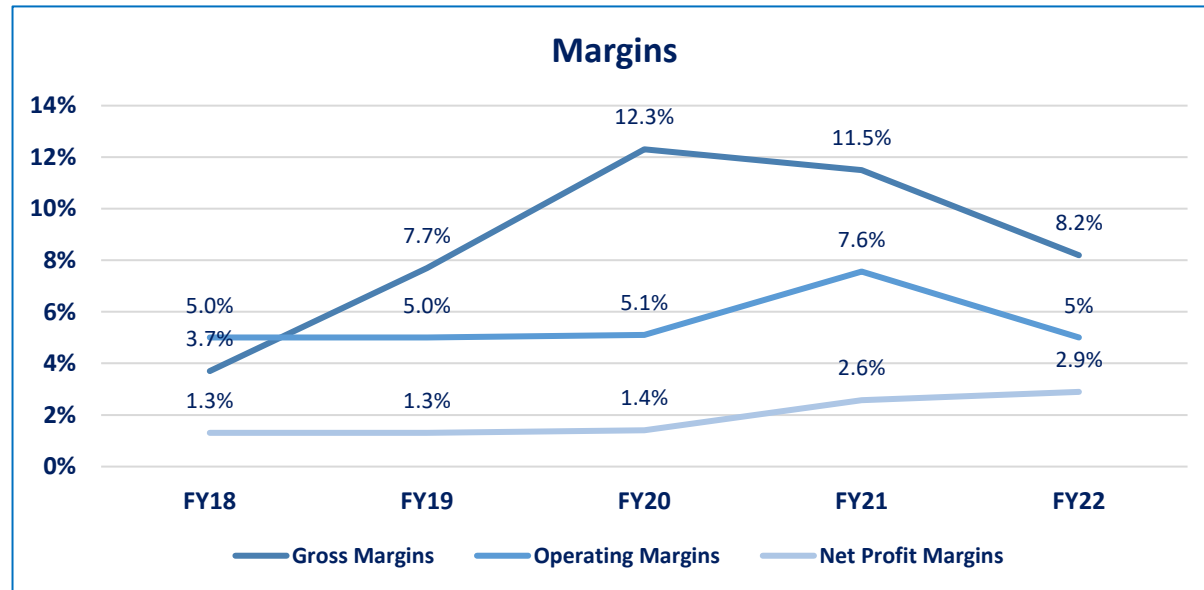
The business risk of edible oil sector can be divided into operating risk and sales risk.

- **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.
- **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.



Business Risk | Margins & Cost Structure

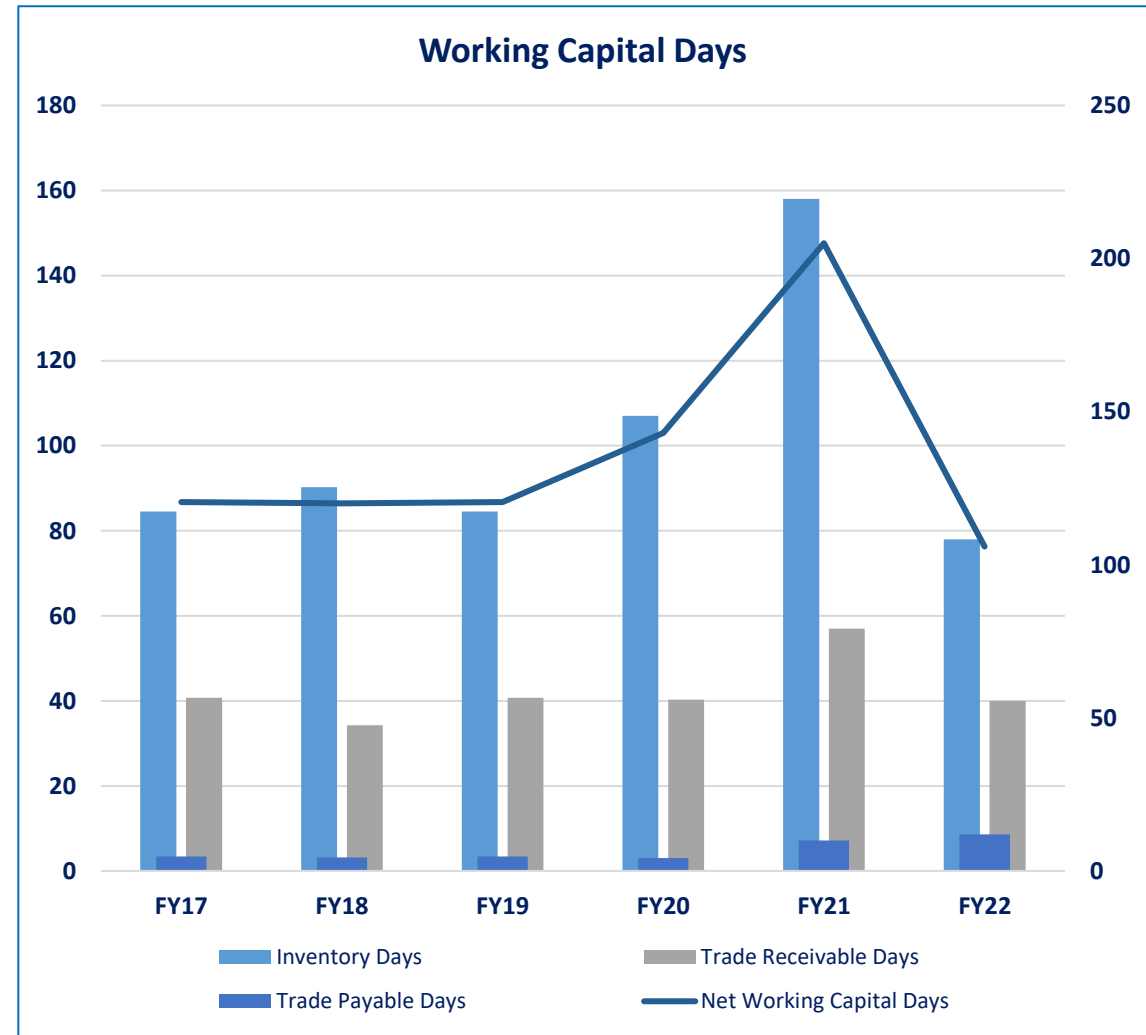
- Edible oil sector is characterized by low net margins as most suppliers sell imported cooking oil after packing with low value addition. Whereas, the companies involved in the crushing of seeds for edible oil production usually have better margins than their counterparts.
- Gross profit margins decreased slightly to ~8.2% in FY22 (~11.5% in FY21) as the increased cost of imported raw material offset the increase in oil prices. However net profit margins were recorded at ~2.9% (FY21: ~2.6%). Raw material costs constitute ~92% of the total cost, followed by salaries & wages (~2%).
- Going forward, overall margins of the sector are expected to remain on the lower end owing to inflation, increased interest rates, depreciating currency and increasing international prices.



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

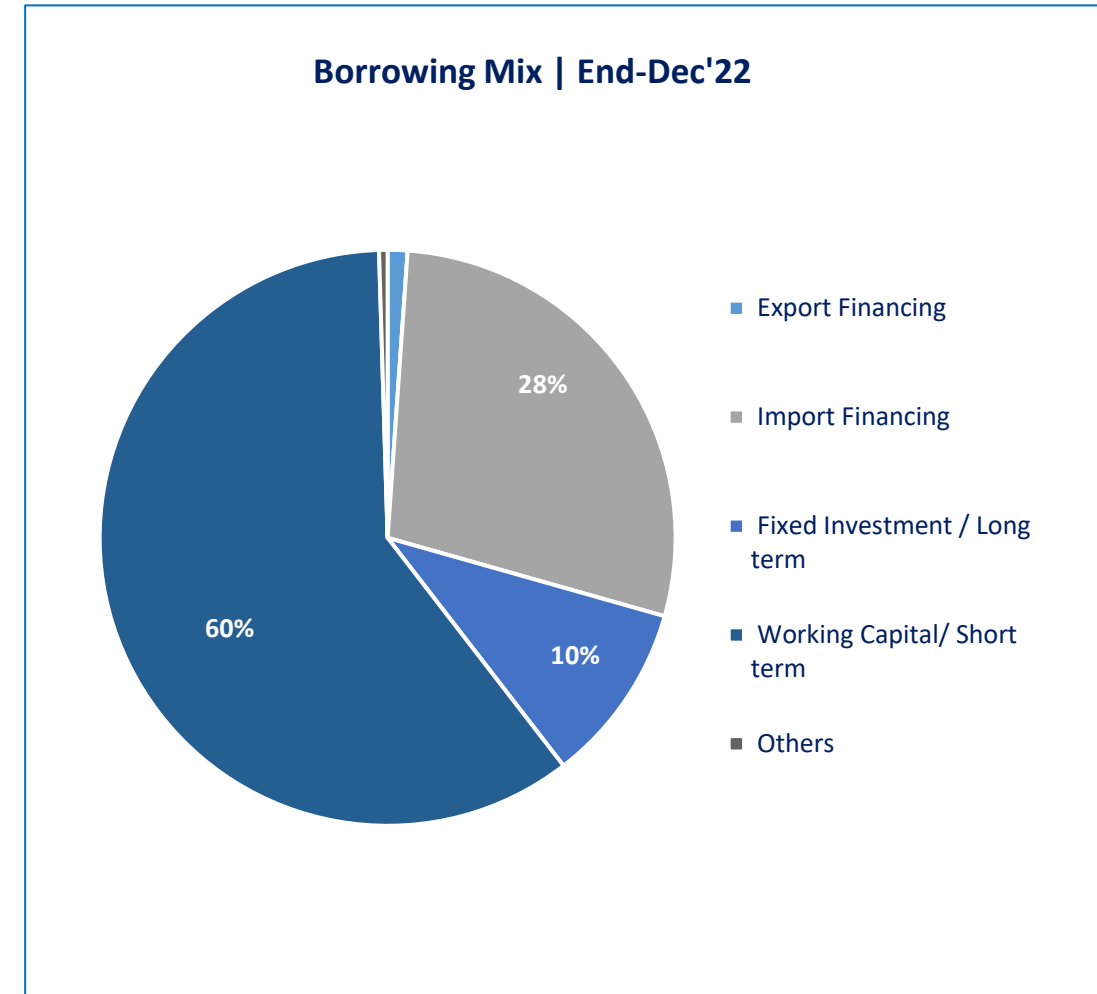
Financial Risk

- Net working capital days of the sector were recorded at ~106 days, down ~48% YoY (FY21: ~205 days).
- The net working capital days of the sector decreased due to drop in inventory days but still remain on the higher end. This is likely due the fact that previously built stock levels were released and suppliers maintained inventories enough to meet their production requirement.
- Receivable days of the sector were recorded at ~40 days during FY22 (FY21: ~57 days). Suppliers 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.



Financial Risk

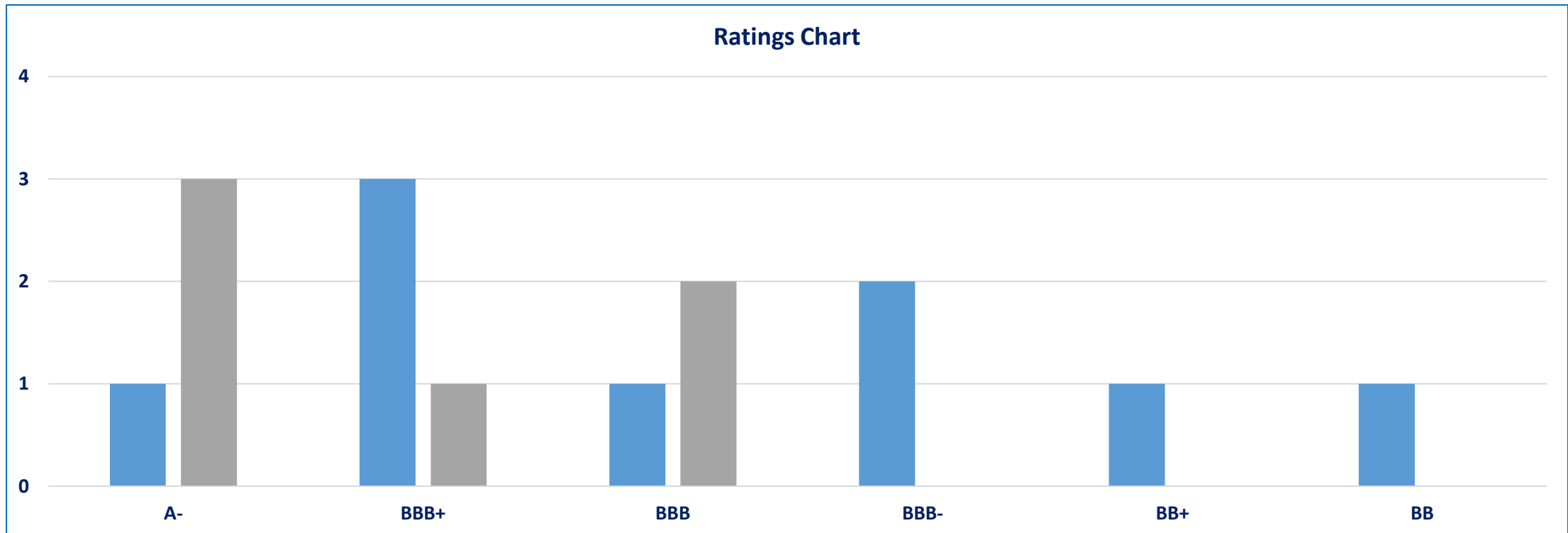
- According to the SBP numbers, total outstanding debt of the sector was recorded around PKR~158,070mln at End-Dec'22 from PKR~166,025mln at End-Dec'21, depicting a drop of ~5%.
- Short-term liabilities constitute a major portion of the total debt. To finance the working capital needs, the companies resort to short-term borrowing as these constitute ~60% of the total outstanding debt. High reliance on short-term financing depicts aggressive working capital policy which exposes the sector to repayment risk.
- Edible oil sector is moderately leveraged. Gearing ratio of the sector was recorded at ~46% during FY22 (FY21: ~48%).
- Interest coverage of the sector stood at ~2.9x during FY22 as compared to ~3x in FY21. The overall coverages are expected to trace a reverse track as impact of higher interest rates materializes.



Duty Structure

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
12.07	Oil Seeds (Sunflower & Canola hybrid seeds meant for sowing)	5%	3%	1%	2%	-	-	6%	5%
1511.9020	RBD palm oil	PKR 10,700/MT	PKR 10,800/MT	-	2%	PKR 50/MT	-	PKR 10,750/MT	PKR 10,800/MT; 2%
1511.9030	Palm oil olein	PKR 9,050/MT	PKR 9,050/MT	-	2%	PKR 50/MT	-	PKR 9,100/MT	PKR 9,050/MT; 2%

A total of 15 entities are rated in Edible Oil sector. PACRA rates nine entities, with a rating bandwidth ranging from A- to BBB-.



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

Strengths

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

Weaknesses

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

Threats

- Increasing population
- Vast distribution
- Local plantation of oil seed
- Range of product offerings

Opportunities

Outlook: STABLE

- Despite edible oil's significance as a basic food item, commodity's consumption (defined as function of imports and local production) has exhibited a downward trend during FY22. This has largely come about due to reduced edible oil imports, which, in turn, have been impacted by exporting countries' local policies. Palm oil imports, specifically, reduced to 2.8mln MT in FY22, owing to export curbs in Indonesia (Pakistan's main palm oil sourcing country).
- More than ~80% of local edible oil demand is met through imports. Significant dependence on imported raw material increase the supply chain risk and exposure to exchange rate movements. This can be observed in reduced YoY volumetric imports of palm oil in FY22, against increased import bill of PKR~620bln (FY21: PKR~425bln).
- On the pricing front, prices of oilseeds variants and edible oil have traced upward trajectories over the past few years. This has been driven mostly by adverse weather conditions, labor shortages and lower acreage in major producing countries such as Indonesia, Malaysia, Argentina and Brazil.
- In line with international prices, the local prices of edible oil have been increasing sharply over the past five years (FY18-22). Average cooking oil and vegetable ghee prices have increased from PKR~94/Kg and PKR~186/Kg in FY18 to PKR~413/Kg and PKR~392/Kg in FY22. During the period 7MFY23, average prices of cooking oil have increased by ~118% YoY, compared to SPLY, recording at PKR~560/Kg, while those of vegetable ghee during the same period have increased to PKR~550/Kg (a ~65% increase YoY).
- The major burden of increase in oil prices is borne by the end consumers which helps sustain local players' business margins. However, average gross profit margins decreased slightly to ~8.2% in FY22 (~11.5% in FY21), as the increased cost of imported raw material offset the increase in oil prices. On the other hand, net profit margins improved slightly to ~2.9% in FY22, as against ~2.6% in FY21, indicating lower borrowings. Total outstanding debt of the sector was recorded around PKR~158,070mln at End-Dec'22 from PKR~166,025mln at End-Dec'21 (drop of ~5% YoY).
- Edible oil sector's working capital requirements are high due to high inventory needs. Significant reliance of the sector on short-borrowings depicts an aggressive working capital management which exposes sector to credit risk. Short-term borrowings comprise ~60% of the total borrowings mix. Going forward, with international edible oil prices forecast to increase and rupee's value eroding fast, the sector remains exposed to external supply shocks, as it relies heavily on imports.

- PACRA Database
- World Bank Data
- International Monetary Fund
- Pakistan Bureau of Statistics
- State Bank of Pakistan
- Federal Internal 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

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