The Pakistan Credit Rating Agency Limited

PRESS RELEASE

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SECTORWATCH | CORONAVIRUS | EDIBLE OIL

Since the start of 2020, the novel coronavirus (COVID-19) outbreak has quickly spread across the world and caused disruptions in economies worldwide. Starting in China – itself a global manufacturing hub – and moving to more than 200 countries and territories, virtually all major economies and markets have been adversely impacted. The full impact of such an outbreak on Pakistan's economy is difficult to ascertain at present and will depend on the severity and duration of the outbreak as well as Government's response. However, it is clear that credit conditions are under stress and this will impact credit quality of many entities and sectors. In this context, PACRA aims to provide analysis on how the ongoing outbreak of COVID-19 may impact various sectors in Pakistan.

SECTOR	SUB-SECTOR
FOOD & ALLIED	EDIBLE OIL

SIZE

Edible Oilseed		FY19	FY20 (Est.)
Domestic Production	Cottonseed, Rapeseed & Sunflower	3.6MMT, Growth ~2% YoY basis	3.4MMT
Import (Total Import Bill ~ USD 4.3bln)	Soybean Oilseed	2.5MMT	3.1MMT
	RBD Palm Oil	3.2MMT	3.5MMT

Edible Oil (includes Vanaspati Ghee)		FY19	FY20 (Est.)
Oilseed Crushed - Domestic	Cottonseed, Rapeseed, Sunflower & Soybean	6.1MMT	6.5MMT
Domestic Production ~ 1.4MMT	Edible Oil (Rapeseed, Sunflower & Soybean)	0.9MMT	-
	Vanaspati Ghee (Cottonseed)	0.5MMT	-
Consumption ~ 4.6MMT	Edible Oil	0.9MMT	5MMT
	Vanaspati Ghee (Cottonseed & Palm Oil)	3.7MMT	

- The sector's estimated revenue is PKR 500-600bln

NUMBER OF PLAYERS

- Solvent Extraction: *(Source: All Pakistan Solvent Extractors' Association)*
  - Total No. of Units – 71, Operational Units – 50
- No. of Listed Players – 3
- Large informal segment of unpackaged edible oil and vanaspati ghee
- ~300 registered brands in edible oil and vanaspati ghee segment

PACRA PENETRATION

- PACRA rates four players in edible oil sector having ~ 9% market share in terms of revenue

IMPACT

- Sales: Edible oil sector generates revenue from local market through sales of semi refined and refined oil/ghee and soy meal. Closure of restaurants and banquet halls to impact demand. However, being a staple food item, demand from household is not likely to drop, especially with Ramazan approaching. Sale and recovery of soy meal to be affected due to unfavorable circumstances of poultry and feed sector.
- Supply side: Key raw material – oilseed and RBD palm oil – imported primarily from the USA, Brazil and Malaysia. Industry players have sufficient inventories to fulfill demand for next ~2-3 months. Order shipments, to fulfill demand till September, are in-transit. Operational disruption in local or international trade and/or Port Qasim may create supply concerns.
- International prices have dropped for soybean (8%) and palm oil (37%). While rupee has depreciated around 5% since Jan-20. Key raw materials accounts for 80% of production cost

- Leveraged financial profile for industry players, mainly short term. Interest rate cut of 425bps to provide relief. SBP initiatives of steps like restructuring/deferment of loans will ease cash flow concerns.
- Sales may come under pressure due to prolonged closure of banquets and restaurants. Branded and packaged oil segment expected to remain competitive. Margins and profitability may reduce for players in soybean oil refining segment. However, players refining crude palm oil and making ghee may benefit from lower prices once existing inventory is diluted. The sector is expected to remain afloat with adequate cash flows and liquidity.

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