



EDIBLE OIL

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Edible Oil

Production Process



Oilseeds



Seed Extraction



Oil Refinery



Refined Bulk Oil



Consumer



Poultry Feed



Packing Unit



Branded Oil



Edible Oil

Global | Overview

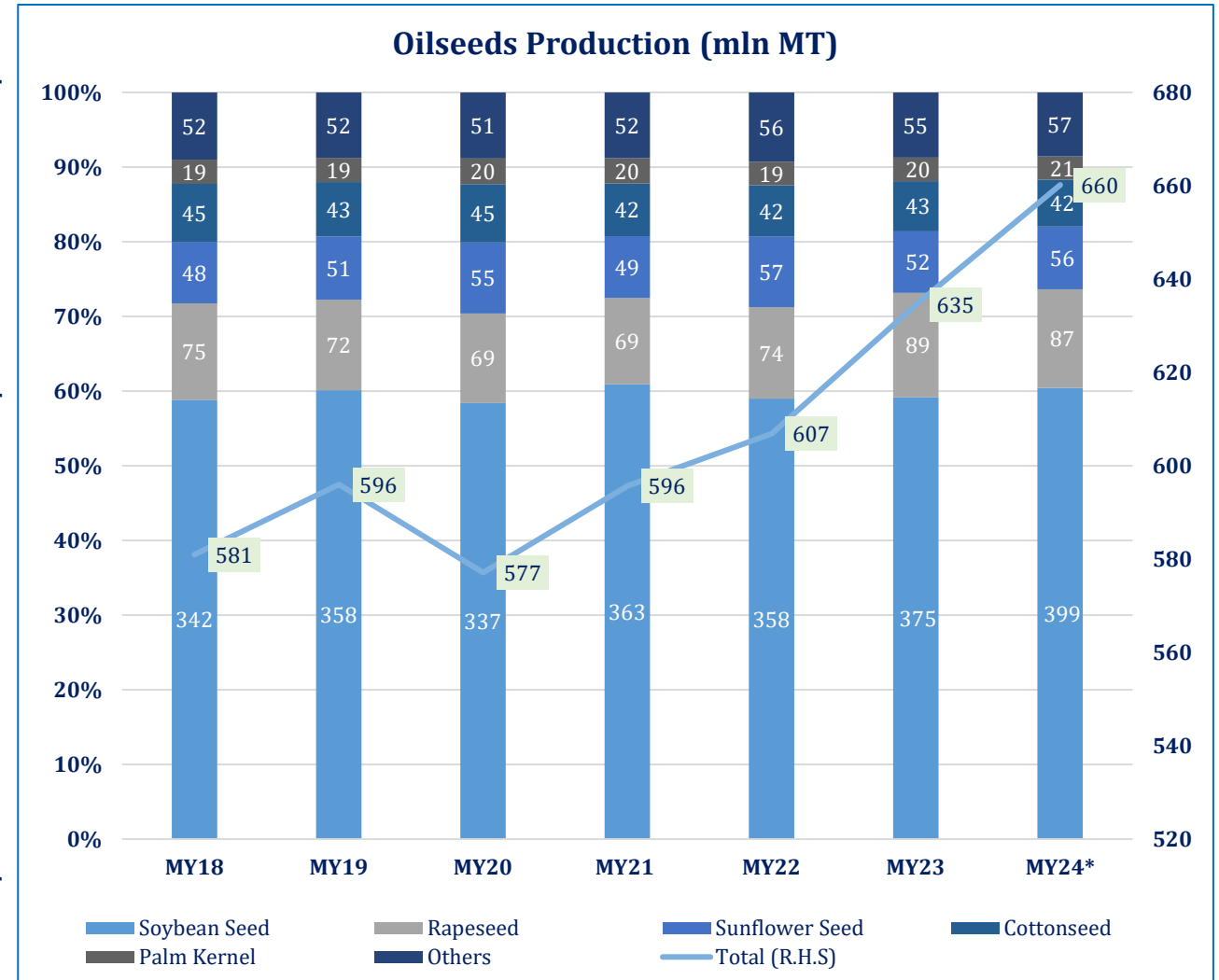
- Edible oil is one of the essential items required for cooking and food preparation. The commodity is consumed by almost all classes of society, with per capita consumption patterns varying across the globe.
- The most commonly used edible oil products are soybean oil, palm oil, sunflower oil, cottonseed and rapeseed oil, coconut oil, olive oil, palm kernel oil and peanut oil.
- All types of edible oil are mainly used for human consumption. However, soybean oil is also used as feed for poultry and livestock.
- The global edible oil market turnover declined by ~15.9% YoY in MY23 as average global prices were down by ~15.0%, recording at USD~1,455/MT during the year (covered later). Total edible oil production comprised ~36.0% palm oil and ~27.2% soybean oil in MY23.
- China with a share of ~29.0% is the largest producer of soybean oil, followed by USA with a share of ~20.1% in the global soybean oil production.
- Meanwhile, Indonesia and Malaysia are the largest producers of palm oil with ~59.0% and ~23.7% shares, respectively, in the global palm oil production.
- In MY23, the consumption of edible oil increased ~4.5% YoY and was recorded at ~211mln (MY22: ~202mln MT) on the back of increase in the demand of edible oil.

Particulars	MY21	MY22	MY23
Turnover (USD bln)	272	302	254
YoY Growth (%)	50%	11%	-16%
Turnover per Capita (USD)	34	30	32
Share in GDP	0.3%	0.3%	0.3%
Production (mln MT)	207	208	217
Consumption (mln MT)	204	202	211

Edible Oil

Global Oilseeds Production | By Type

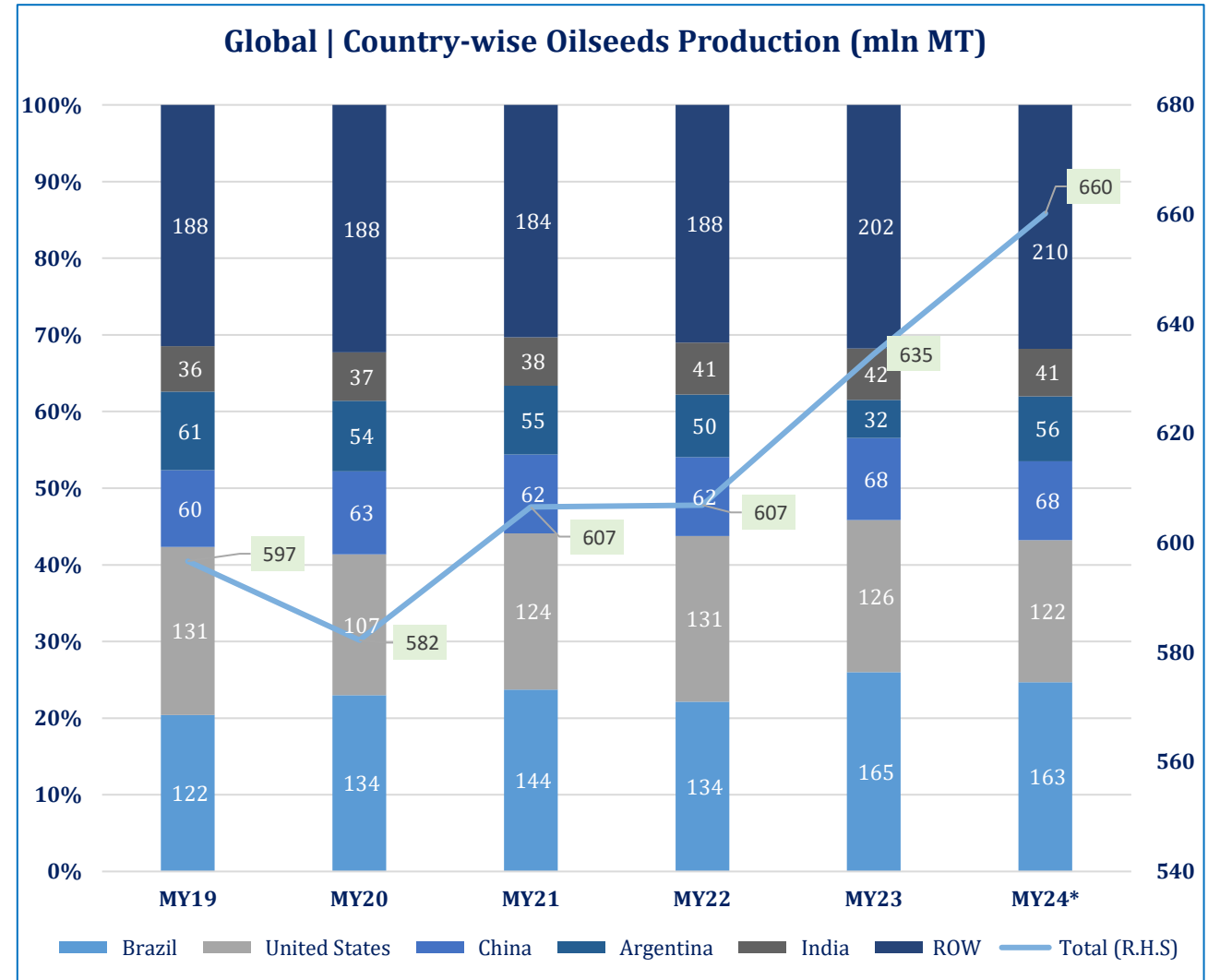
- Global oilseeds production was up ~5% YoY in MY23 owing mainly to increased production in Brazil on the back of favorable weather conditions and abundant rainfall during the year.
- Brazil is the major producer for soybean seed, while soybean seed made up for ~59.0% of the global oilseed production in MY23 followed by rapeseed and sunflower seed.
- Rapeseed production was up ~20.0% YoY on the back of increased production in Canada and Australia, due to improved growing conditions for the oilseeds and bumper crop in MY23, respectively.
- Sunflower seeds production was down by ~10.0% YoY, owing to a lower production of sunflower seeds in Russia.
- In MY24, global oilseeds production is forecast to increase ~4.0% YoY to reach ~660mln MT on account of ~78.0% increase in soybean seeds output in Argentina as it recovers from the historic drought in MY23 (the country is the third largest producer of soybean seeds and the largest producer of sunflower seeds).



Edible Oil

Global Oilseeds Production | By Country

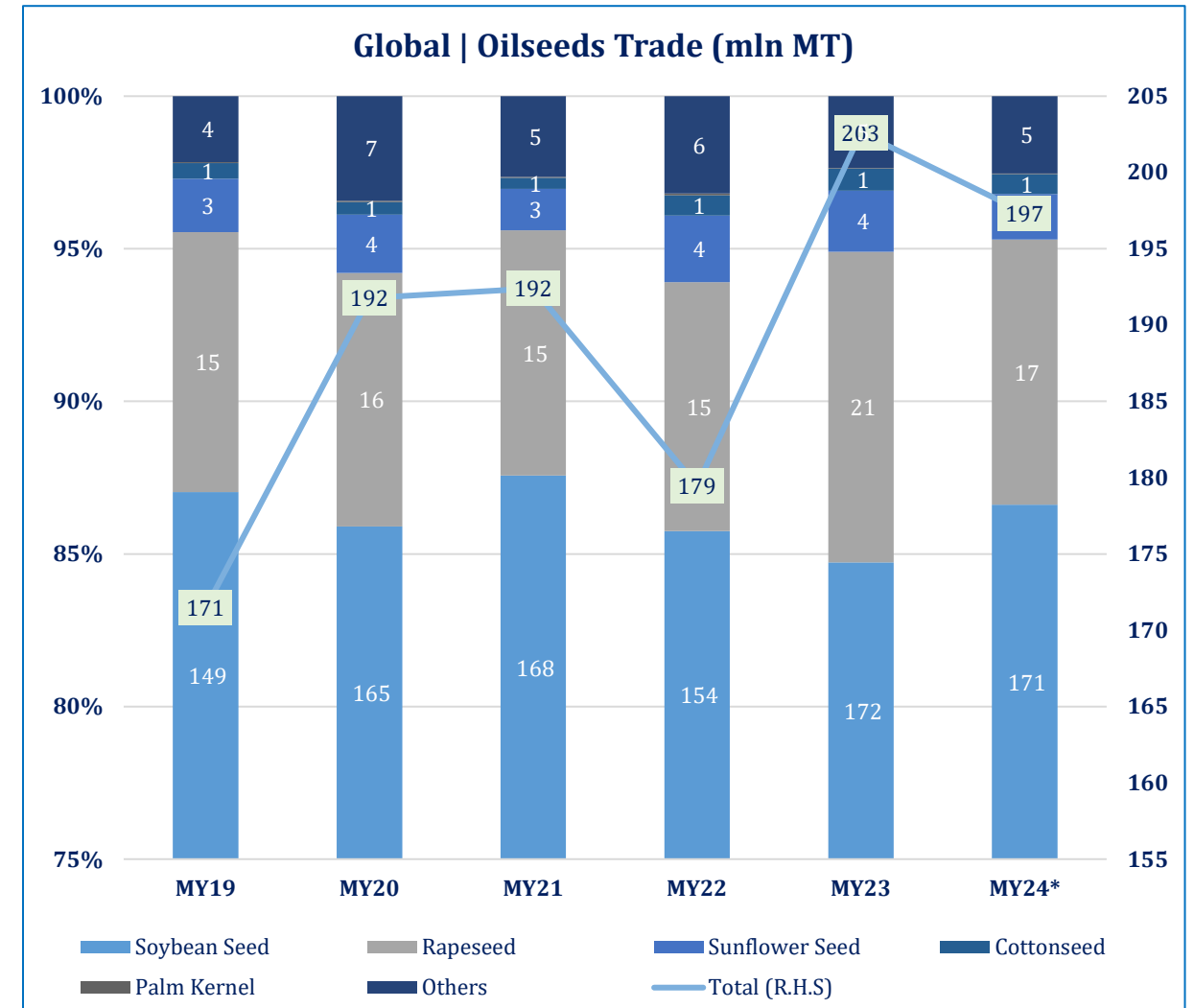
- Brazil and the USA continued to be the top producers of oilseeds in MY23, with a collective share of ~46.0% in the global oilseeds production (SPLY: ~44.0%). Meanwhile, China, India and Argentina occupied, ~11.0%, ~7.0% and ~5.0% shares, respectively.
- Brazil recorded a ~23.0% YoY increase in soybean seeds production. However, oilseeds production in USA declined ~4.0% YoY due to unfavorable weather conditions (USA is the second largest producer of soybean seeds). Argentina's output declined considerably by ~36.0% YoY due to a severe drought which resulted in damage of soybean crop.
- Brazil made up ~42.0% share in the total global soybean production, whereas, China is the largest producer of rapeseed with a ~17.0% share in global rapeseed output.
- With respect to sunflower seeds, Argentina maintains it's position as the largest producer of sunflower seeds with ~7.0% share in the global sunflower seeds.



Edible Oil

Global Oilseeds | Trade

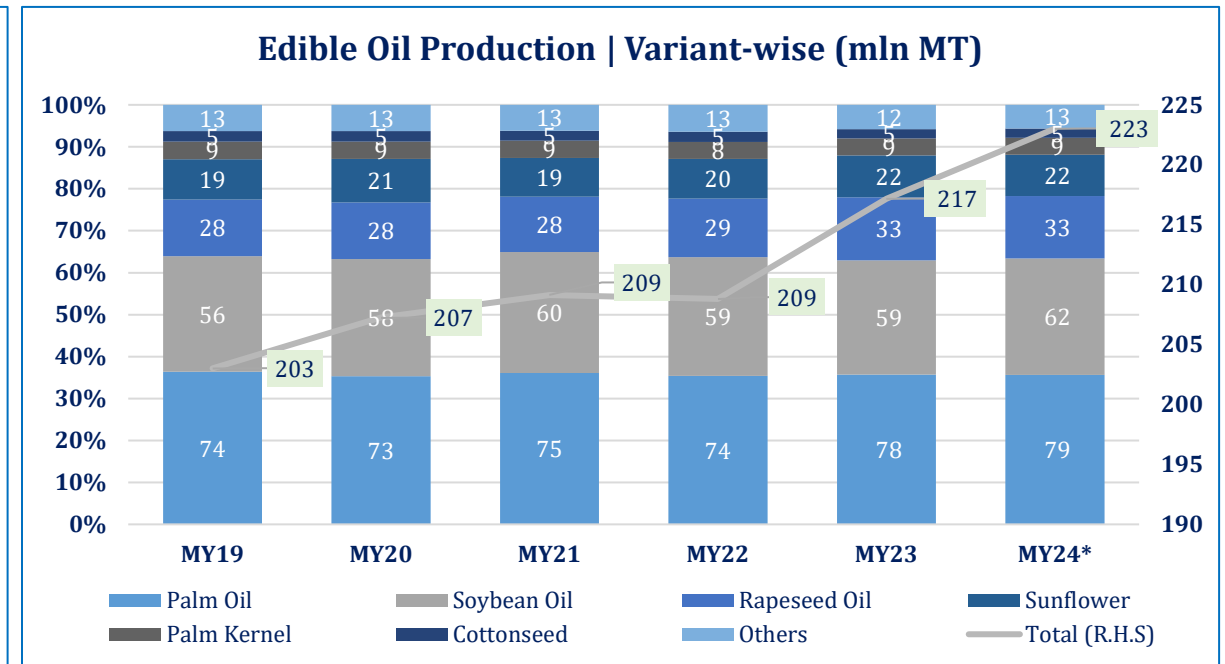
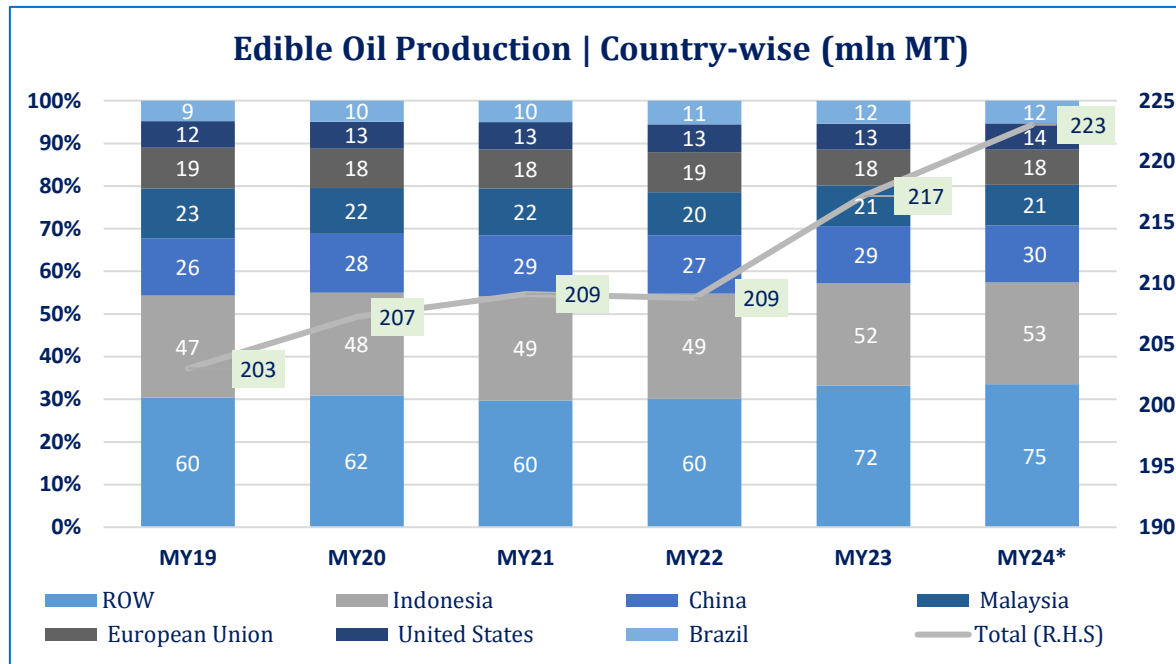
- In MY23, global oilseeds trade stood at ~203mln MT, inching up ~8.0% YoY majorly on the back of higher soybean seed exports (~177.0% YoY increase), which had offset the lower Russia sunflower seed exports (~5.0% YoY decline).
- Soybean seeds have, on average, had ~87.0% share in global oilseeds trade during MY18-22 (~85.0% in MY23), while rapeseed accounted for ~8.0% of the oilseeds traded (MY23: ~10.0%).
- In MY23, Brazil and USA together accounted for ~87.2% of the global soybean oilseed exports, while China made up for ~61.2% of global soybean imports.
- Canada was the largest exporter of rapeseed with a share of ~39.0% in the global rapeseed exports in MY23, whereas, the EU and China were the top importers with a collective share of ~61.0% in the global rapeseed imports.
- Going forward, in MY24, global oilseeds trade is expected to slightly slow down by ~1.0% likely on the back of lower oilseeds production estimates of Brazil owing to unfavorable weather conditions.



Edible Oil

Global | Production

- Global edible oil production was recorded at ~217mln MT during MY23, up ~4.0% YoY. Country-wise, Indonesia formed ~24.0% of edible oil produced globally, while China and Malaysia followed suit, as depicted in the first chart.
- With respect to the variants, palm oil accounted for ~35.0% of the global edible oil production in MY23. 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.
- In MY24, the edible oil production is forecast to increase ~3.0% YoY majorly due to an increase in the expected production of edible oil in Argentina as it recovers from the last year's drought and has expectations of higher oilseed crop (mainly soybean seed crop).



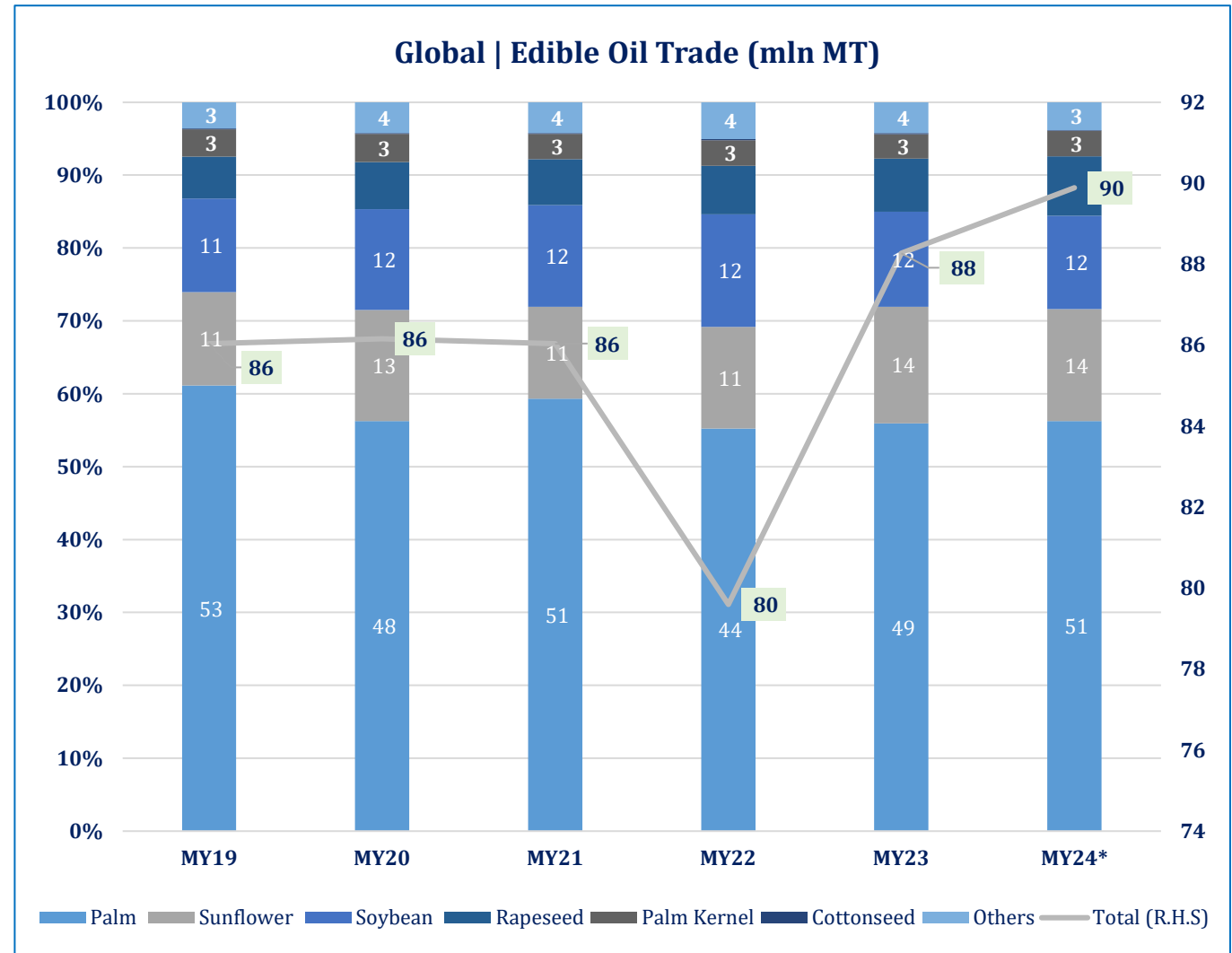
Note: Edible Oil production includes Palm, Soybean, Rapeseed, Cottonseed and Sunflower, Palm Kernel and Other Oils.

*Forecast

Edible Oil

Global | Trade

- In MY23, the global trade of edible oil was recorded at ~88mln MT, depicting an increase of ~10.0% YoY (MY22 was an exception year as due to lower demand from China for edible oil).
- Indonesia and Malaysia made up ~53.0% of the global edible oil exports in MY23, while India and China, with ~20.0% and ~14.0% shares respectively in the global edible oil imports, were the top two importers of edible oil.
- Palm oil exports accounted for ~56.0% of total edible oil exports in MY23, and were up ~12.0% YoY due to higher demand of Indonesian palm oil from India, China and Pakistan.
- Rapeseed oil exports (~7.0% share in the total edible oil exports) increased by ~21.0% YoY during MY23 due to increased exports from Canada.
- Going forward, edible oil trade is expected to be up by ~4.0% with higher Argentina soybean oil and Canada rapeseed oil production.

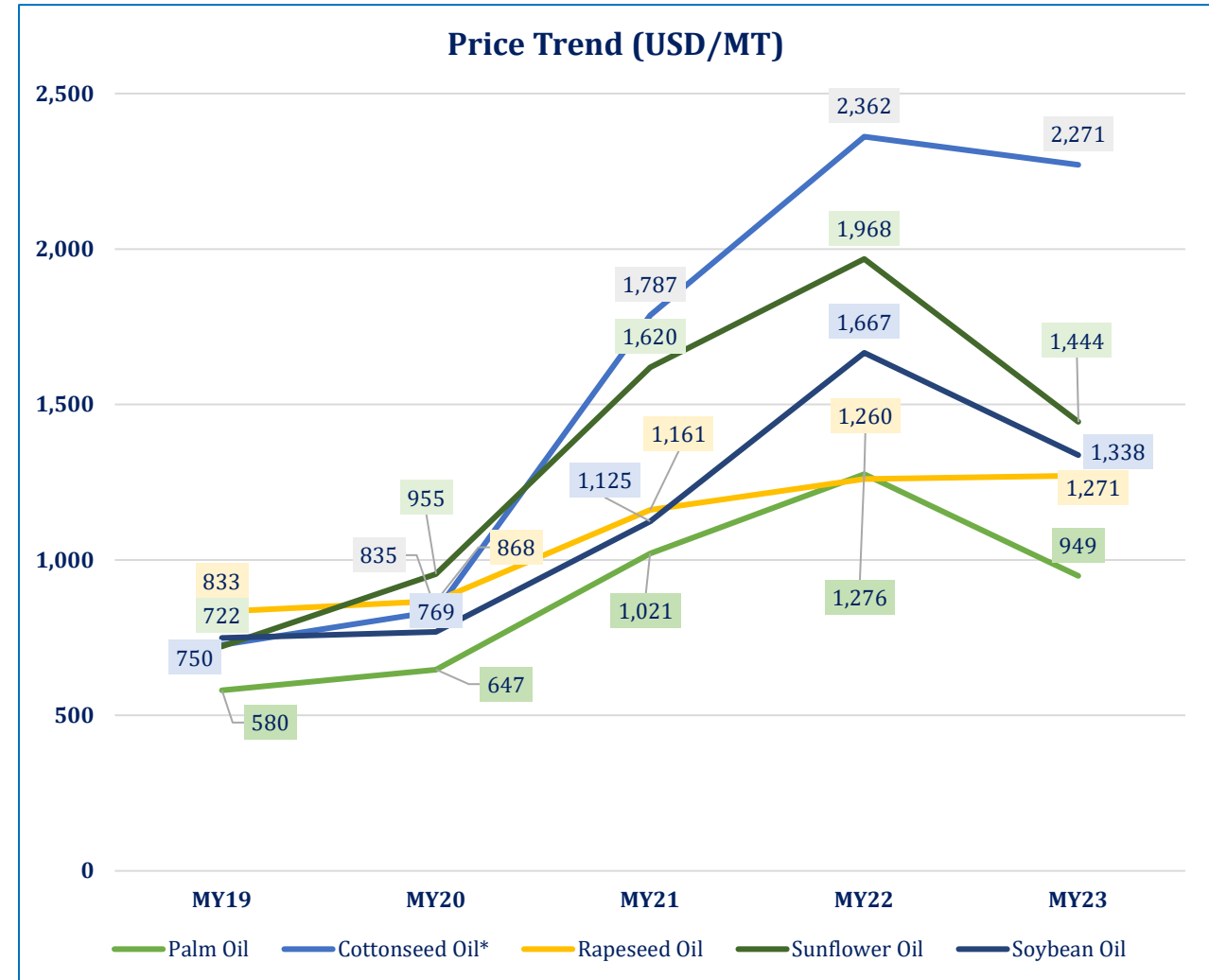


*Forecast

Edible Oil

Global | Price Dynamics

- Global prices for edible oil increased at a CAGR of ~24.0% during MY19-22, emanating majorly from supply-side pressures. However, prices eased in MY23 on the back of higher production levels.
- Palm Oil:** In MY23, production levels in Malaysia recorded ~10.0% growth YoY, therefore prices were recorded at USD~949/MT during MY23 (SPLY: USD~1,276/MT). During 1HMY24, these further declined to USD~836/MT (SPLY: USD~961/MT).
- Sunflower Oil:** Russia and Ukraine together produce ~58% of the global sunflower oil. Owing to the ongoing Russia-Ukraine conflict, average prices were up ~1.04% YoY in MY22. However, in MY23, these were down ~27.0% YoY due to record-breaking production of sunflower seed in the Black Sea region. During 1HMY24, prices were recorded at USD~1,145/MT (SPLY: USD~1,605/MT)
- Soybean Oil:** In MY23, production of soybean oil remained largely steady at ~59mln MT. However, prices declined by ~20.0% YoY and were recorded at USD~1,338/MT during MY23, possibly due to bio-fuel producers switching to alternative feed sources. Average soybean oil prices during 1HMY24 stood at USD~1,115/MT (SPLY: USD~1,553/MT)



Edible Oil

Local | Overview

- Pakistan’s edible oil market posted a YoY decline of ~19% in FY23, despite local consumption recording ~5.0% YoY increase, however, in PKR terms, an uptick of ~176.7% was recorded, owing to ~39.0% YoY currency depreciation against the USD.
- The decline likely resulted from lower prices, where average global price of edible oil during FY23 was recorded at USD~1,455/MT, registering a decrease of ~15.0% YoY.
- Per capita consumption of edible oil in FY23 also recorded a dip of ~6.0% YoY to stand at ~17Kg/capita.
- In FY23, increasing consumption reflects higher edible oil imports, which comprised ~78.8% of total edible oil consumption. Estimated domestic production, on the other hand, was down ~11.0% YoY during FY23 and formed only ~21.2% of the total consumption.
- The sector, therefore, remains highly dependent on imported edible oil (the country meets 100% of its palm oil demand through imports) to meet local demand and, resultantly, exposed to exchange rate movements and international price fluctuations.

Particulars	FY21	FY22	FY23
Revenue (USD mln)	4,360	5,720	4,613
Growth Rate	-48%	31%	-19%
Revenue (PKR bln)	698	1,012	2,800
Per Capita Revenue (USD)	20	26	19
Per Capita Consumption (Kg)	18	18	17
GDP Share	3%	2%	3%
Edible Oil Imports (000 MT)	3,314	2,980	3,292
Palm Oil Imports (000 MT)	3,198	2,824	3,065
Edible Oil Consumption* (000 MT)	4,027	3,964	4,179

Association

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

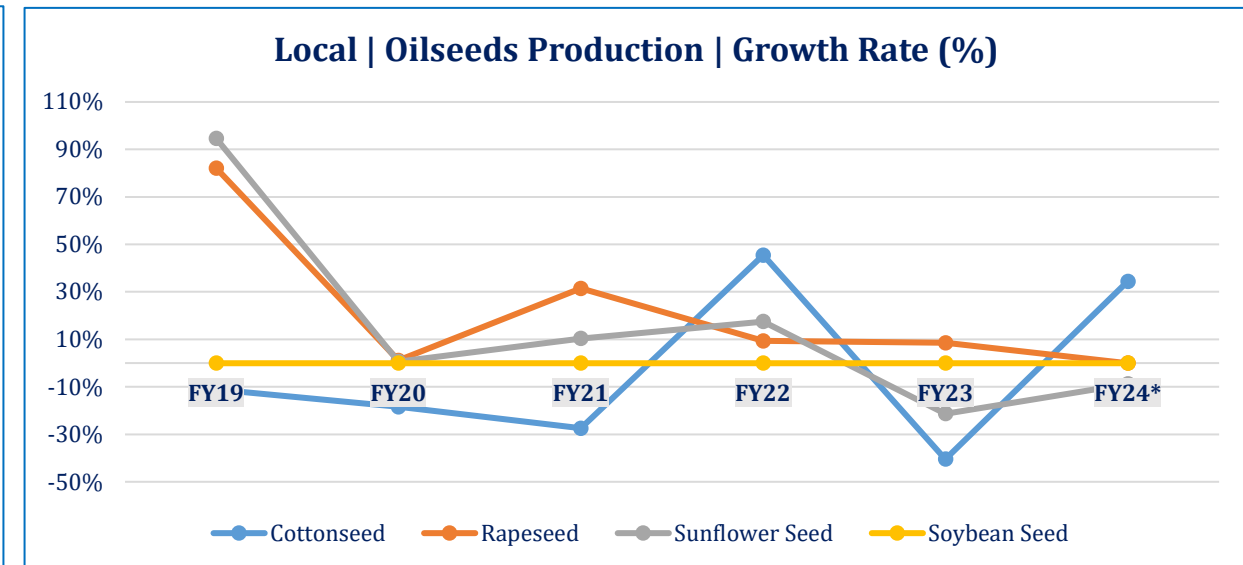
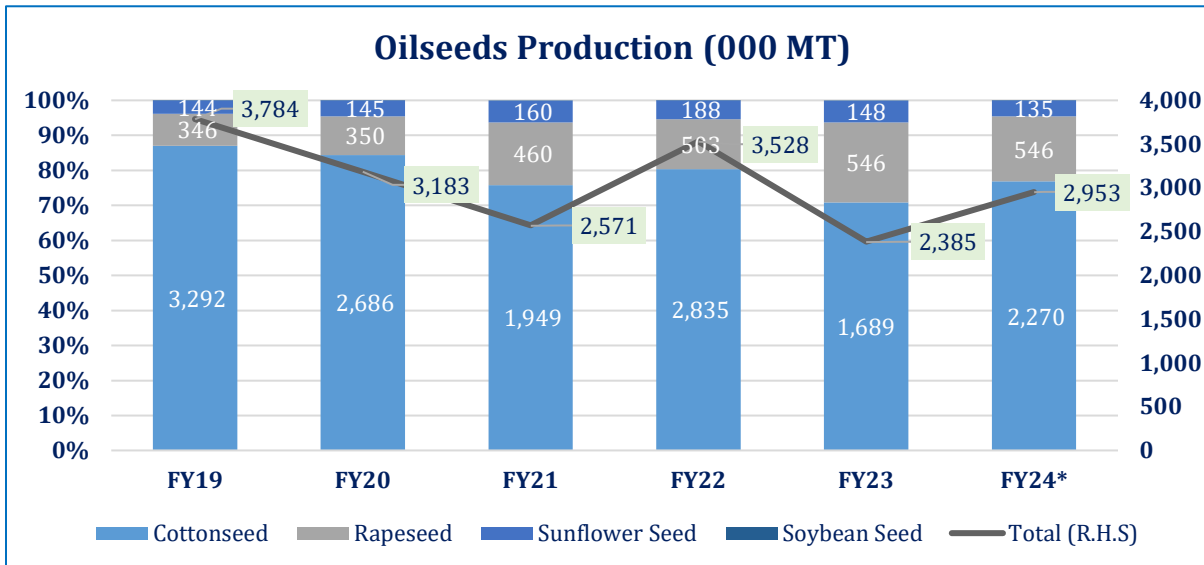
Note: Production data has been taken from USDA, while imports reflect PBS data. For revenue calculation, prices have been taken as MY=FY.

**Consumption figure has been estimated using negligible stock levels.*

Edible Oil

Supply | Oilseeds

- Local edible oil demand is met through crushing of oilseeds and import of cooking oil. Cottonseed is the principal oilseed crop grown in Pakistan, accounting for an average of ~82.0% of domestic oilseed production during FY19-22.
- However, cottonseed production dropped by ~41% YoY in FY23 on the back of Jul-Aug'23 floods that damaged cotton crop. However, in FY24, due to an anticipated ~66.7% increase in cotton production, a ~34.0% increase YoY in the production of cottonseed is expected. 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.
- The local edible oil sector relies almost entirely on imports to meet its demand of soybean seed, whereas rapeseed and sunflower seeds are both produced locally as well as imported (covered later).



*Forecast values

Edible Oil

Supply | Edible Oil

- In Pakistan, ~78.8% of edible oil consumption was met through imports (majorly soybean oil and palm oil), while the remainder was produced locally during FY23.
- The overall decline in domestic edible oil production in FY23 was led by ~66.0% decrease in soybean oil production which, in turn, resulted from import restrictions on GMOs imposed during the year. However, the imports of palm oil followed a different course, inching up ~8.5% YoY.
- In Aug'19, the GoP initiated the five-year National Oilseed Enhancement Program in order to promote mechanization, and quality seeds, whilst also minimizing input cost of producing oilseeds.
- Moreover, a land purchasing subsidy of PKR~5,000/acre for both canola and sunflower was provided whereas, a subsidy of PKR~2,000/acre was provided for sesame seed. Additionally, The GoP was to cover ~50% of the costs associated with purchasing oilseed machinery.

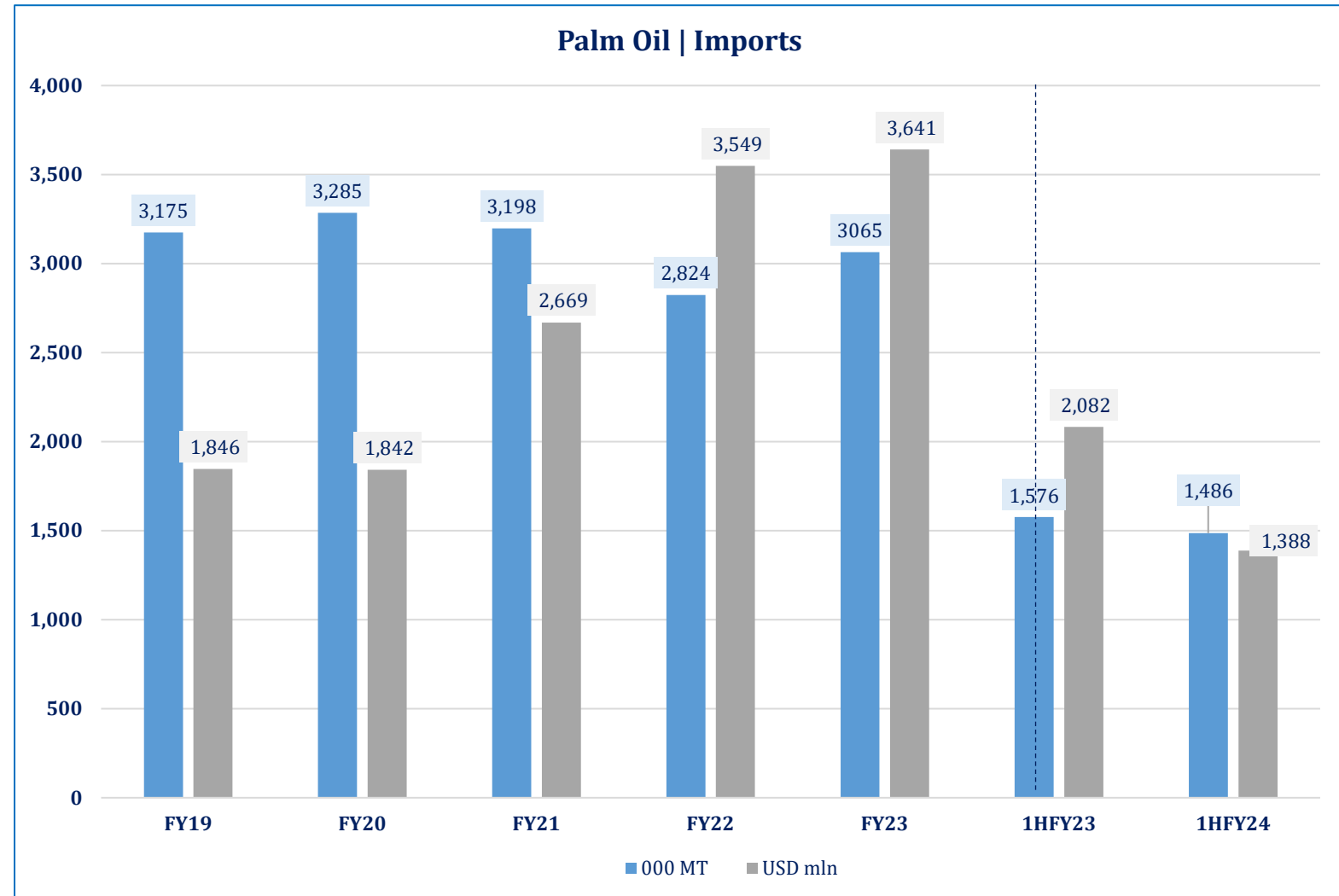
Particulars (000 MT)	Supply Snapshot Edible Oil FY23						FY22
	Palm Oil	Soybean Oil	Rapeseed Oil	Cottonseed Oil	Sunflower Oil	Total	Total
Consumption	3,065	372	435	255	52	4,179	3,964
Imports	3,065	227	0	0	0	3,292	2,980
Imports (% of Consumption)	100.0%	61.0%	0.0%	0.0%	0.0%	78.8%	74.8%
Domestic Production	0	145	435	255	52	887	1,000
Production (% Of Consumption)	0.0%	39.0%	100.0%	100.0%	100.0%	21.2%	25.1%
Share in Total Consumption	73.3%	9.0%	10.4%	6.1%	1.2%	100%	100%

*Consumption levels have been estimated assuming negligible stock levels. **Note:** Soybean Oil and Palm Oil data has been taken from PBS, while production has been taken from USDA.

Edible Oil

Supply | Palm Oil

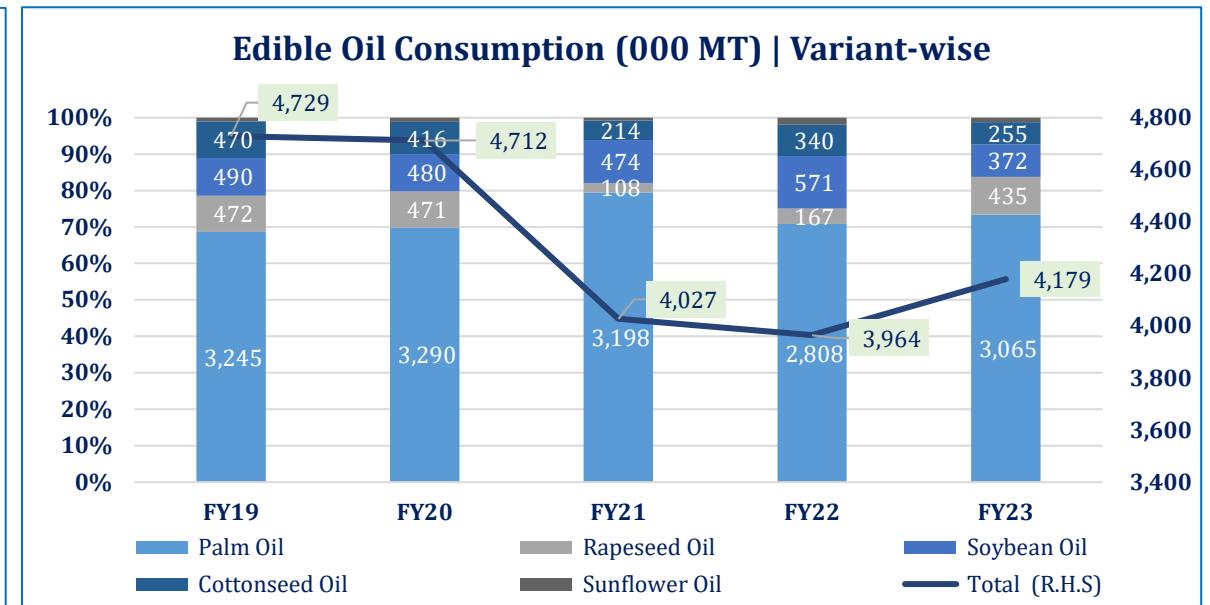
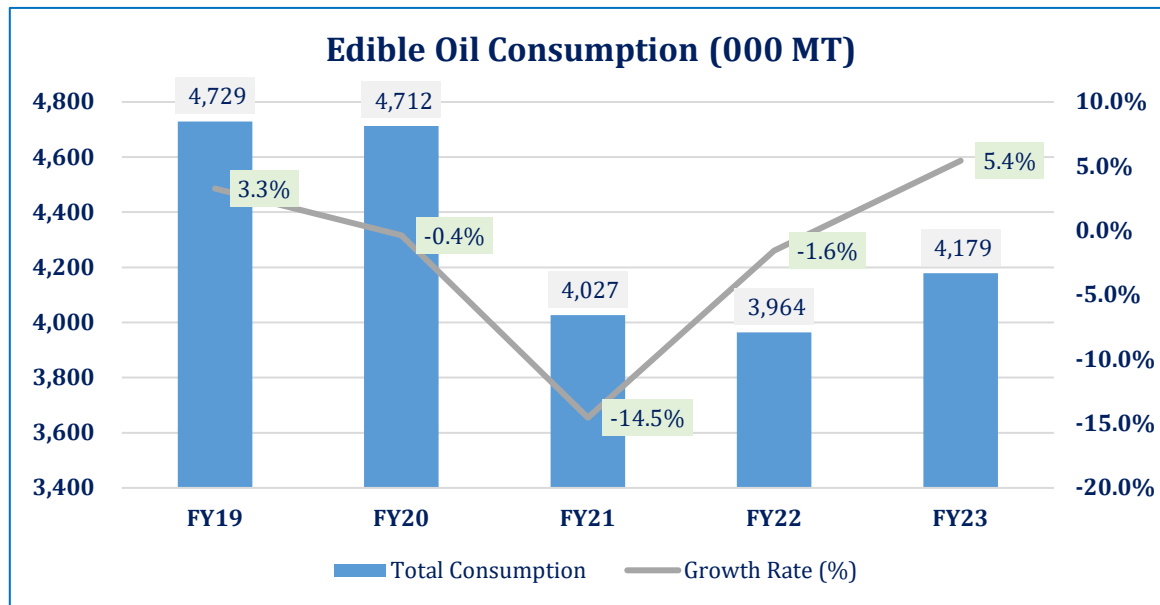
- Globally, Pakistan is the fourth-largest importer of palm oil with ~7.8% share in the global palm oil imports. India, China and the European Union with a share of ~21.3%, ~13.1% and ~10.3% respectively in the total palm oil imports are the top three importers of the palm oil. Pakistan imports palm oil majorly from Malaysia and Indonesia.
- Palm oil accounted for ~93.0% of Pakistan's total edible oil imports in FY23, whereas its imports formed ~6.6% of country's total import bill during (SPLY: ~4.4%). In FY22, fall in Palm Oil imports resulted due to Indonesia's export ban on Palm Oil (Apr'22-May'22) to control deforestation.
- During FY23, Palm Oil imports recorded ~8.5% YoY (SPLY: down ~11.7% YoY). These are forecast to reach ~3.6mln MT in FY24 on the back of increased demand in line with increasing population.



Edible Oil

Demand | Edible Oil

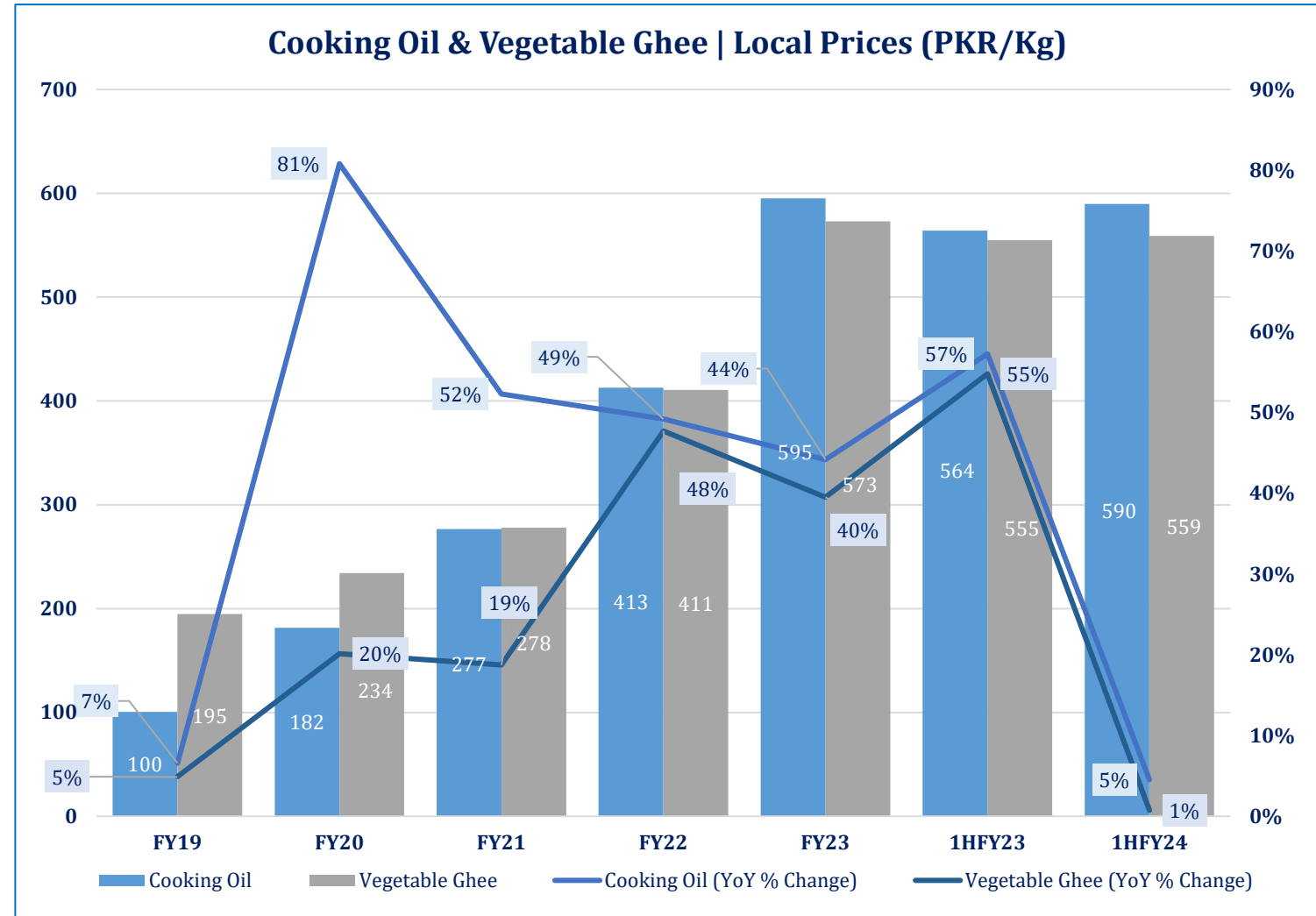
- Demand for edible oil, being an essential food commodity, stayed relatively stable over three years (FY18-20), recording at an average levels of ~4.7mln MT and growing at a CAGR of ~-1.0% during the same period.
- However, demand declined in FY21 and remained steady at ~4.0mln MT in FY22 mainly on the back of reduced imports. In FY21, edible oil imports declined by ~5.5% YoY, while in FY22 edible oil imports declined by ~11.0% YoY. In FY23, the demand increased to ~4.1mln MT as the imports of edible oil increased by ~10.5%.
- However in FY23, the total oilseeds consumption picked up the pace slightly, recording at ~4.2mln MT, a ~5.4% YoY increase. On average (FY21-23), palm oil makes up ~75.0% of total edible oil consumption.



Edible Oil

Price Dynamics

- Pakistan is heavily dependent on import of edible oil to meet local consumption. This exposes the sector to exchange rate movements which have been more volatile during FY23. 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 ~97.6% and ~42.9% respectively during the last five years (FY19-23).
- While average global prices of palm oil and soybean oil were down ~26.0% and ~20.0%, respectively, in FY23, the PKR recorded ~39.0% YoY depreciation against the USD.
- Going forward, with the PKR holding stable against the USD (End-Jun'23: USD~286.0/PKR; End-Jan'24: USD~279.5/PKR) and simultaneous decline in international palm oil prices, local cooking oil and vegetable ghee prices are expected not to increase any further.



Note: Vegetable Ghee prices are representative of Ghee Tin Prices (i.e., per 2.5 litres).

Edible Oil

Business Risk

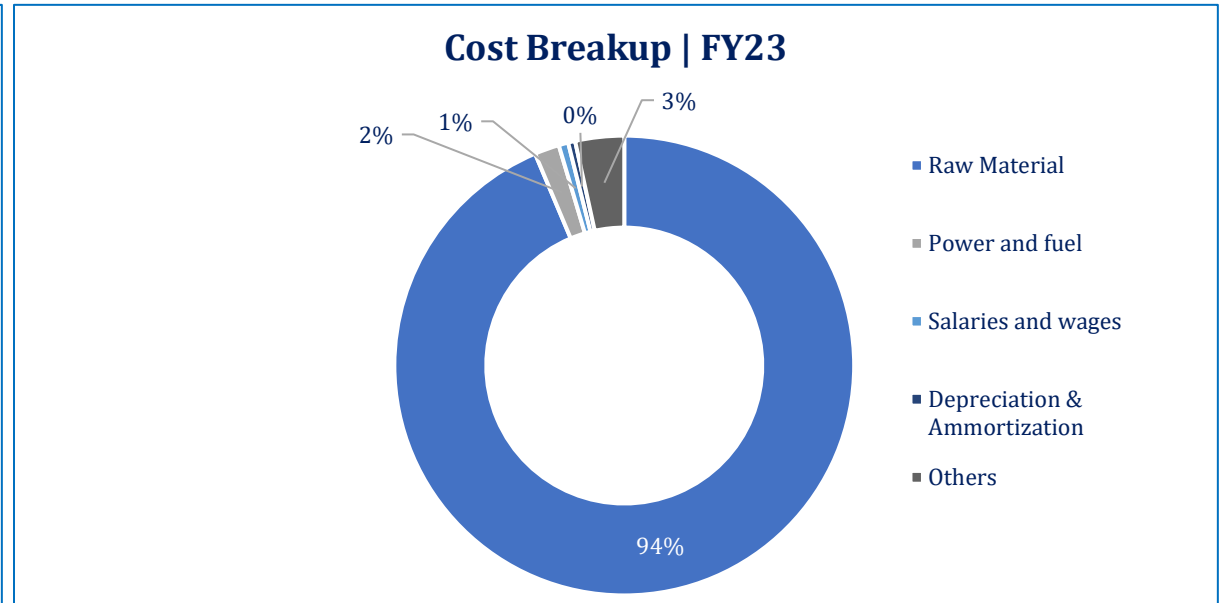
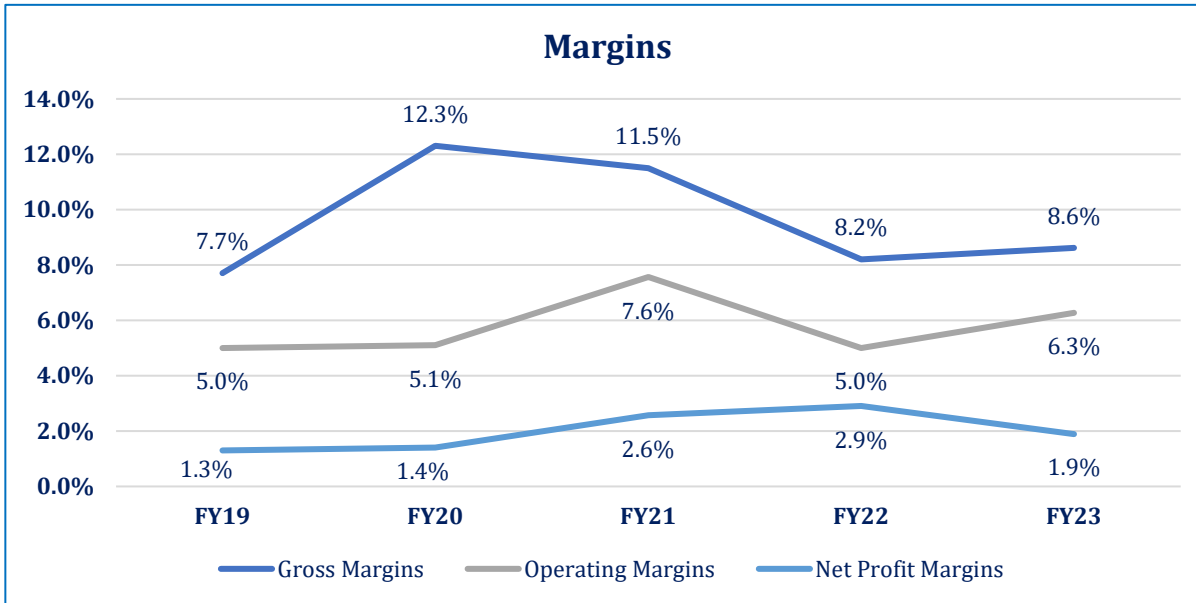
- Operating Risk:** This risk particularly refers to the difficulties relating to the operations of the edible oil players which can hamper the profitability and performance of the sector. Major inputs include both local inputs and imported inputs although the proportion of local input is significantly low. The sector's costs are therefore subject to exchange rate volatility and international prices of oilseed and refined edible oil. Although tariff structure of the country is designed in way to promote local production of edible oil, 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.



Edible Oil

Business Risk | Margins & Cost Structure

- The sector’s average gross profit margins remained rangebound at ~8.6% in FY23 on the account of ~14.0% increase in revenue which was enough to offset ~13.0% increase in cost of sales. Raw material costs constitute ~94.0% of the total cost, followed by power & fuel (~2.0%).
- Average net profit margins, on the other hand, were recorded at ~1.9% owing to ~93.6% increase in the finance cost (interest rates as at End-FY23: ~22.0%; End-FY22: ~13.8%).
- Going forward, overall margins of the sector are expected to remain stable owing to lower forecast for global edible oil prices in FY24, along with a slight recovery in PKR against the USD, as the parity improved ~2.3% during 7MFY24.

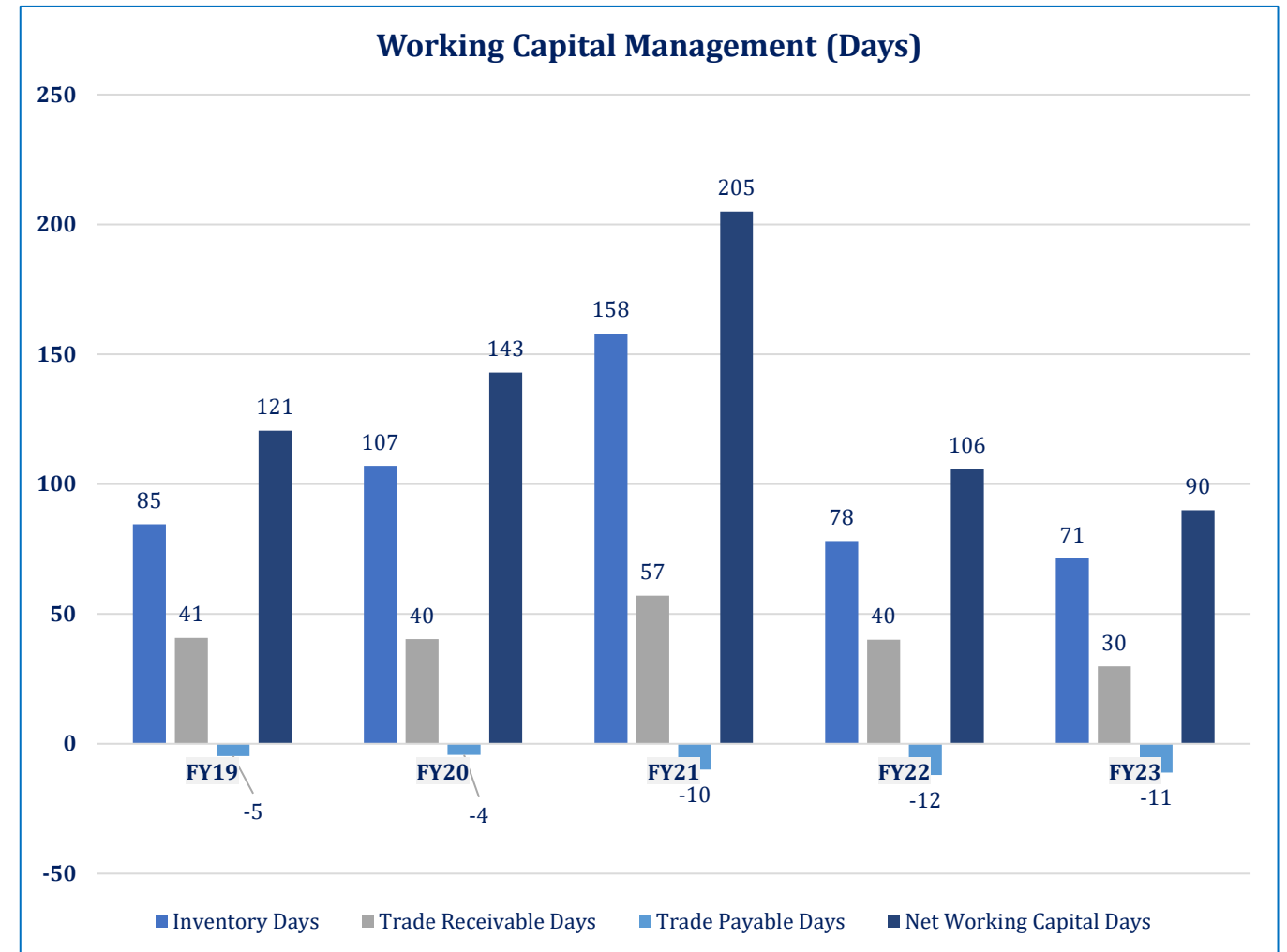


Note: Calculations are based on financials of PACRA-rated clients.

Edible Oil

Financial Risk | Working Capital Management

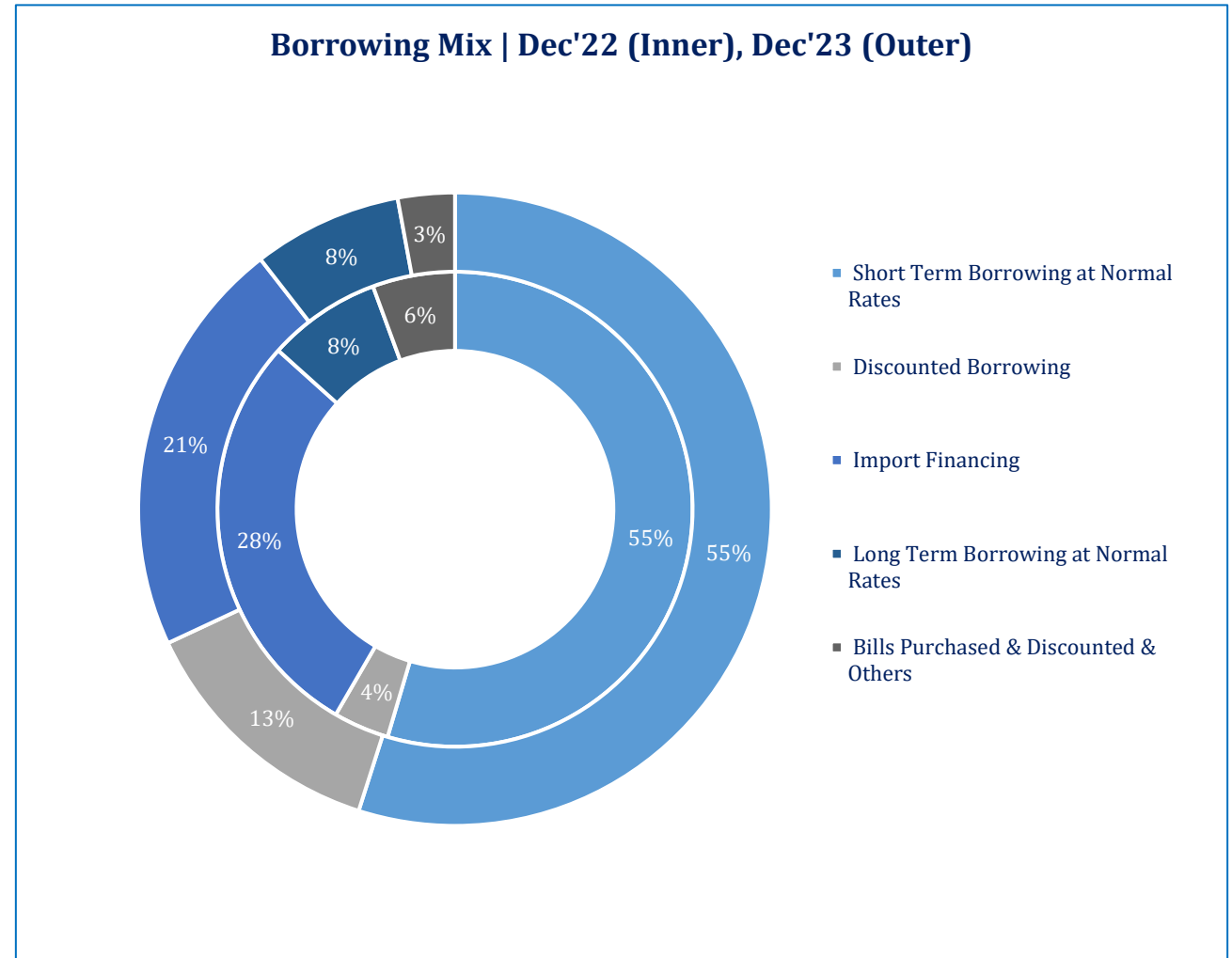
- In FY23, net working capital days of the sector were recorded at ~90 days, improving by ~16 days compared against SPLY.
- The decline was likely due to drop in both inventory days (~7 days) as well as trade receivable days (~10 days). The decline in inventory days, in turn, could be attributed to an increase in edible oil sales during the year.
- The decline in receivable days indicate an improvement in the proactive collection of payments.
- 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.



Edible Oil

Financial Risk | Borrowing Mix

- The sector's total outstanding debt was recorded at PKR~175,657mln at End-Dec'23, depicting an increase of ~11.0% YoY.
- Short-term borrowing constitute a major portion of the total debt (~90.0%) (End-Dec'22: ~89.0%), and is used to finance the working capital needs of the sector players.
- Edible oil sector is moderately leveraged. In FY23, the gearing ratio of the sector was recorded at ~45.5%, staying stable at SPLY level.
- Interest coverage of the sector stood at ~2.7x during FY23 as compared to ~2.9x in FY22.



Edible Oil

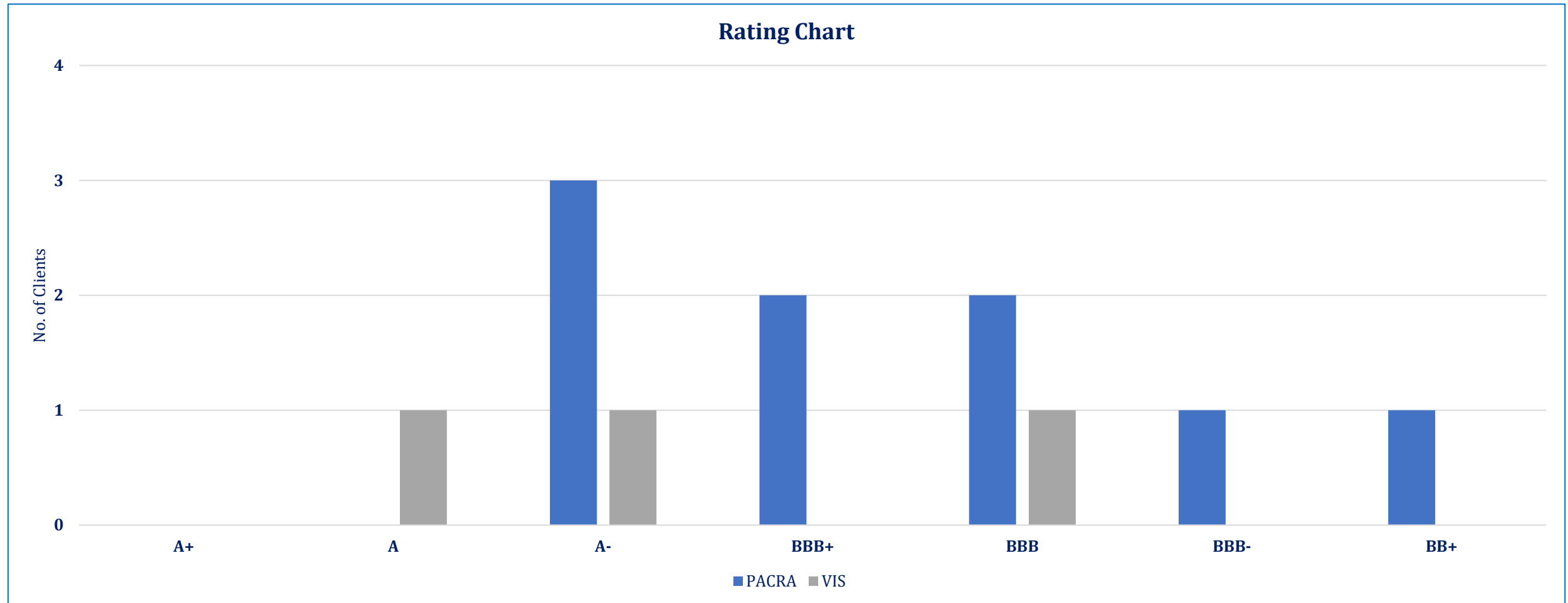
Duty Structure

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
1207.1000	Oilseeds and oleaginous fruits, whether or not broken	3%	3%	2%	2%	-	-	5%	5%
1511.9020	RBD palm oil	PKR 10,800/MT	PKR 10,800/1000 Tariff unit	2%	2%	-	-	PKR 10,800/MT; 2%	PKR 10,800/1000 Tariff unit; 2%
1511.9030	Palm Olein	PKR 9,050/MT	PKR 9,050/1000 Tariff unit	2%		-		PKR 9,050/MT; 2%	PKR 9,050/1000 Tariff unit; 2%

Edible Oil

Rating Curve

PACRA rates nine entities, with a rating bandwidth ranging from A- to BB+-.



Edible Oil

SWOT Analysis

- 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
- 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 oilseed
- Range of product offerings

Opportunities

Edible Oil

Outlook: Stable

- In FY23, Pakistan's economy posted a real GDP contraction of ~0.17% (FY22: ~6.1% growth). Meanwhile, the LSM shrunk by ~10.3% (FY22: ~11.8%), owing majorly to supply-chain disruptions which resulted from SBP-imposed import restrictions, along with the flash floods of Aug'22 and consequent sluggish demand across major industrial sectors of the country. In 1QFY24, however, the real GDP growth stood at ~2.1% (SPLY: ~0.96%). Meanwhile, the SBP estimates the GDP growth at ~2-3% for FY24. The year was also marred by significantly high levels of inflation with average national CPI recording at ~29.4% (SPLY: 21.3%), while the increasing trend has persisted in 1HFY24, with national CPI in Jan'24 recording at ~28.3%.
- Local consumption of edible oil inched up ~5.4% during FY23, due to ~11.1% increase in imports (~78.0% of local edible oil demand is met through imports). Meanwhile, palm oil imports constituted ~93.1% of the total edible oil imports and stood at ~3.1mln MT in FY23. Significant dependence on imported raw material increases the supply chain risk and exposure to exchange rate movements for the sector, therefore local edible oil prices increased in line with global prices till FY22. However, during FY23, despite lower international oil prices, local average cooking oil and vegetable ghee prices registered increase of ~44.1% and ~39.4% YoY due to ~39.0% currency depreciation. Therefore, the sector's revenue in PKR terms was up ~176.7% during the year.
- Sector's average gross profit margins remained rangebound at ~8.6% in FY23 on the account of ~14% increase in revenue which was enough to offset ~13% increase in cost of sales. Average net profit margins, on the other hand, were recorded at ~1.9% owing to ~93.6% increase in the finance cost (End-FY23 MPR: ~22.0%; End-FY22 MPR: ~13.8%).
- Local prices have declined ~1.7% in 1HFY24 in line with lower global prices when compared against FY23. The reason being PKR appreciation which registered ~2.3% recovery during the same period. Palm oil and soybean oil imports recorded an increase of ~8.5% and ~57.7% respectively, YoY.
- Going forward, with PKR stabilizing against USD, lower inflationary expectations and overall improved economic situation as well as the lifting of import restrictions on GMO oilseeds is likely to have a healthy impact on sector's performance on the back of lower local prices and resultant improved demand.

Edible Oil

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