Steady demand, higher realisations to drive revenues of edible oil palm refiners: Crisil

Our Bureau
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Revenues of domestic refiners of edible palm oil are expected grow by about a tenth this fiscal on steady demand and higher realisations, according to Crisil Ratings.

The operating profitability is seen rising 40-50 basis points (bps) to around 3.5 per cent owing to favourable prices and continuation of duty-free imports. Healthy balance sheets and the absence of major debt-funded capital expenditure (capex), over the medium term, will keep the credit risk profiles of palm oil refiners stable. A study of nine companies rated by Crisil Ratings, accounting for a third of the industry revenue of about ₹75,000 crore, indicates as much.

Palm oil dominates edible oil consumption in India, with 38-40 per cent share in volumes. Palm oil is used largely in the food processing and hotels, restaurants and catering (HoReCa) segments, which account for 45-50 per cent of the overall consumption. The household and industrial segments consume the rest.

BULLISH. Global CPO output is expected to remain stagnant at 78-79 million tonnes, leading to price rise of 7-8 per cent this fiscal

VOLUME GROWTH

Factors such as rising urbanisation and increased consumption of processed food will keep palm oil demand firm. Hence, the industry is set to witness volume growth of 3-4 per cent this fiscal to around 93 lakh tonnes. India has ample refining capacities but does not produce much crude palm oil (CPO) to feed the refineries and is dependent on the world's largest producers such as Malaysia and Indonesia for over 90 per cent of its CPO requirement.

Over the years, the global palm acreage has stagnated owing to sustainability and environmental concerns, ultimately leading to price rise.

Rahul Guha, Director, Crisil Ratings said, "In the latest Budget, the Government's endeavour to strengthen the domestic production of oil seeds to support domestic availability was amply clear, but the outcome could be a little long drawn.

In the meantime, global CPO output is expected to remain stagnant at 78-79 million tonnes, leading to price rise of 7-8 per cent this fiscal.

Along with steady volume increase, this will lead to Indian edible palm oil industry revenues rising by about 10 per cent this fiscal."

The operating margins of Indian refiners are set to improve 50 bps to 3.5 per cent on account of increased economies of scale, firm commodity hedging policies and continuation of duty-free imports of CPO.