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THE COMPASS

Duty hike may impact margins of consumer majors

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A sharp import duty hike on edible oils — palm, sunflower, and soy — will significantly impact FMCG businesses. The hike is to the tune of 22 per cent. The duty has been raised from 5.5 per cent on crude oils to 27.5 per cent while that for refined oils is up from 13.75 per cent to 35.75 per cent.

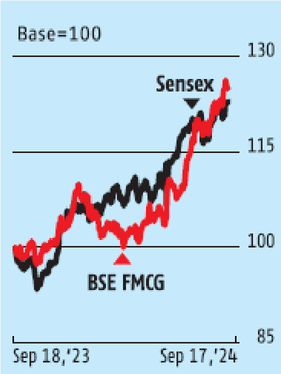
Around 95 per cent of palm and sunflower oil requirements are imported and around 70 per cent of soybean oil is also imported.

Overall, India meets 60-70 per cent of its vegetable oil demand through imports. Palm, sunflower and soybean oils make up 25 per cent, 19 per cent and 23 per cent of edible oil consumption by value. Palm oil constitutes about 55-60 per cent of edible oil imports by value and volume.

About 95 per cent of India's palm oil requirement is met through imports from Indonesia, Malaysia, and Thailand. A similar proportion of sunflower oil requirement is met through imports from Ukraine, Argentina, Russia and Brazil. About 70 per cent of India's soybean oil requirement is imported.

Apart from cooking oils, crude palm oil is used for palm fatty acid distillate (PFAD) which is key input for soaps, laundry detergents, shampoos and cosmetics. Refined palm oil (RPO) is also a key input in biscuits, noodles, snack foods, chocolates and cakes.

Edible oil producers will need to take big price hikes to compensate. Price hikes may occur across many other FMCG categories to pass on rising



input costs. Or else, margins will be badly affected. Volume growth could be impacted by price hikes. Large players may cope better. There is little scope to shift consumption to alternate oils.

Among food majors, Britannia has biscuits and cakes contributing 75 per cent of sales, Nestle has noodles and chocolates making up 35-40 per cent of sales, for example.

Given that oils are around 15-20 per cent of raw material costs for Britannia and 10-12 per cent for Nestle, a 10 per cent increase in palm oil cost requires hikes of 1-3 per cent to maintain margins.

In personal care, there's impact on HUL and some impact on GCPL since soaps & detergents contribute 40-45 per cent of domestic sales for both companies. GCPL directly imports PFAD (no duty hike) while HUL may be procuring some PFAD locally and importing some.

PFAD should make up 18-20 per cent of raw material cost for HUL and a 10 per cent increase in palm oil cost would require hikes of 2 per cent.

Patanjali Foods would also be meaningfully impacted.

For Patanjali, palm, soya and sunflower oils make up 85 per cent of edible oil sales. Marico is exposed to Saffola edible oil which yields 20 per cent of domestic sales as it produces premium blended oils comprising rice bran oil with some blending of sunflower and other oils.

ITC derives 20 per cent of sales from biscuits, noodles, snacks, shampoos/soaps so the impact would be meaningful. Dabur is less exposed since shampoos contribute only 3 per cent of domestic sales so the impact will be minor.

Price hikes will be lagged, given that most companies carry 1-2 months of inventory. Some corporates may prefer to cut margins and absorb some impact to avoid hurting demand.

Upstream, they will also be looking at the costs of domestic production of PFAD from crude palm oil, versus imports directly of PFAD (where duty has not changed).