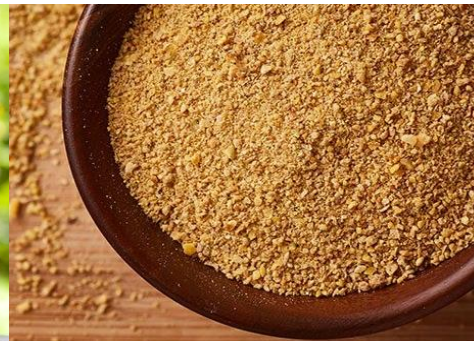


Future of Indian Crushing Industry and Prospects for Export of Indian Oilmeals from India

The Solvent Extractors' Association of India – 46th AGM
Mumbai
13th September, 2017

Presentation by –
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Vice President – Commodities
ITC Limited – Agri Business Division
Secunderabad



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Points to ponder



Indian Oilseeds – Production & Processing Landscape



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Points to Ponder



Lack of Operating Margins



Price point - the only consideration



Global S & D: disappearing markets for Indian Oilmeal

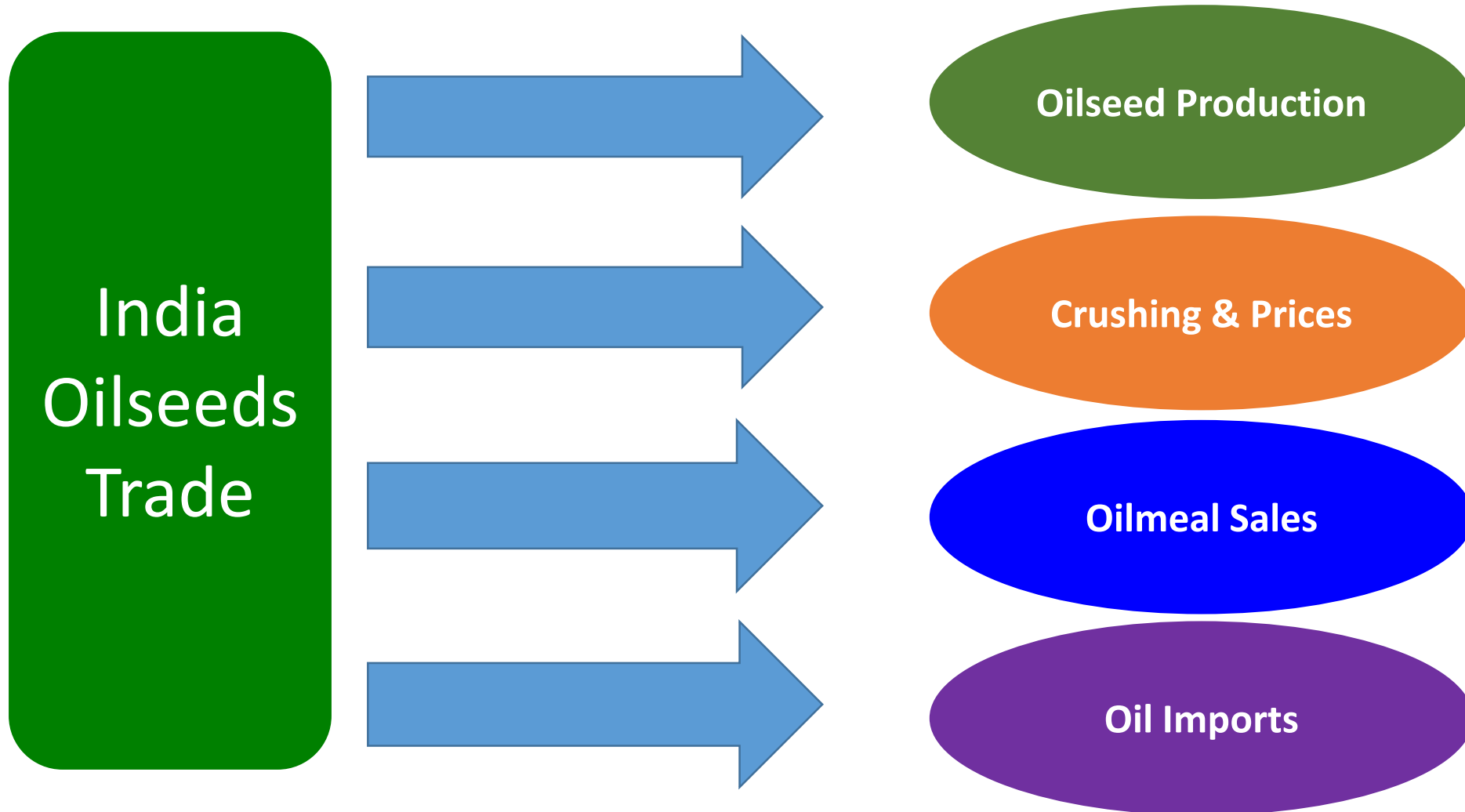


Government policy and Forex determine industry competitiveness



No Product Differentiation

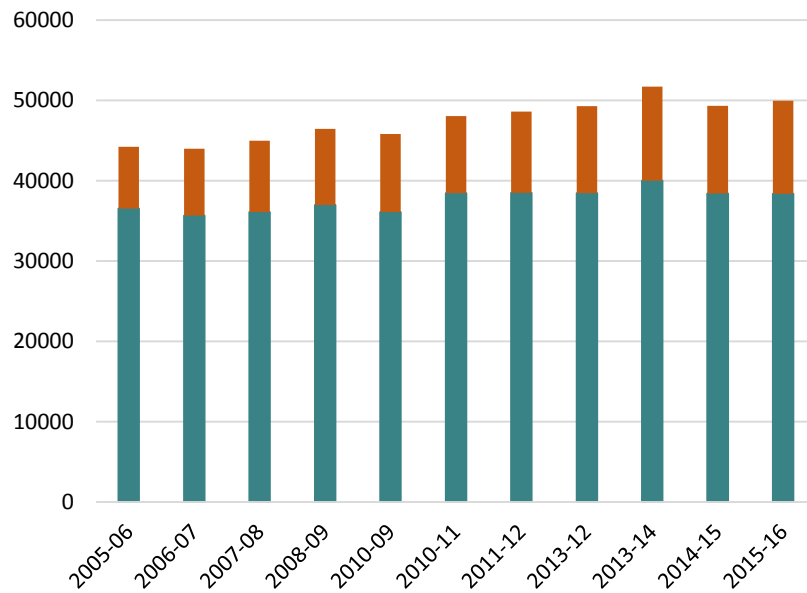
Indian Oilseed – Production and Processing Landscape – The 4 vectors



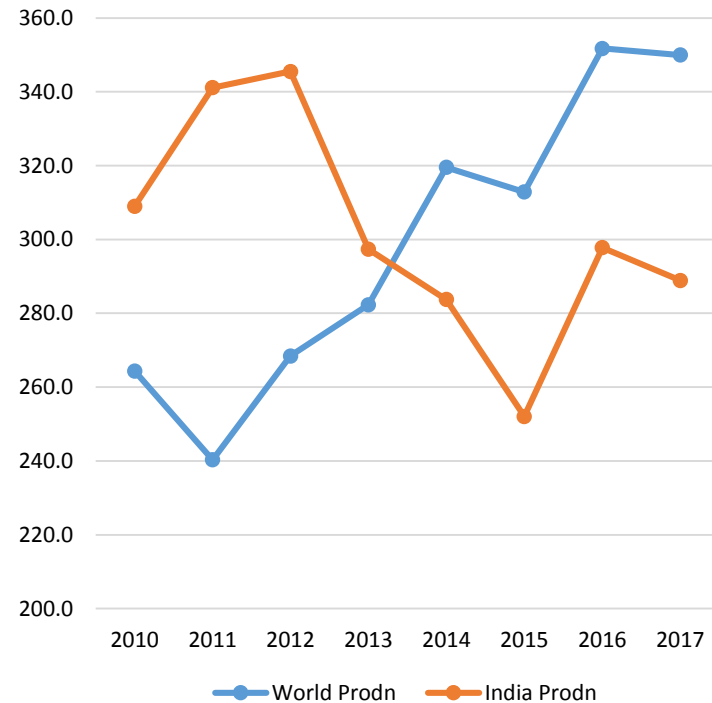
Vector 1 : Oilseed Production

- Oilseed production scenario
 - Stagnant production
 - Lower yields as compared to global levels
 - High raw material costs vis-a-vis competition

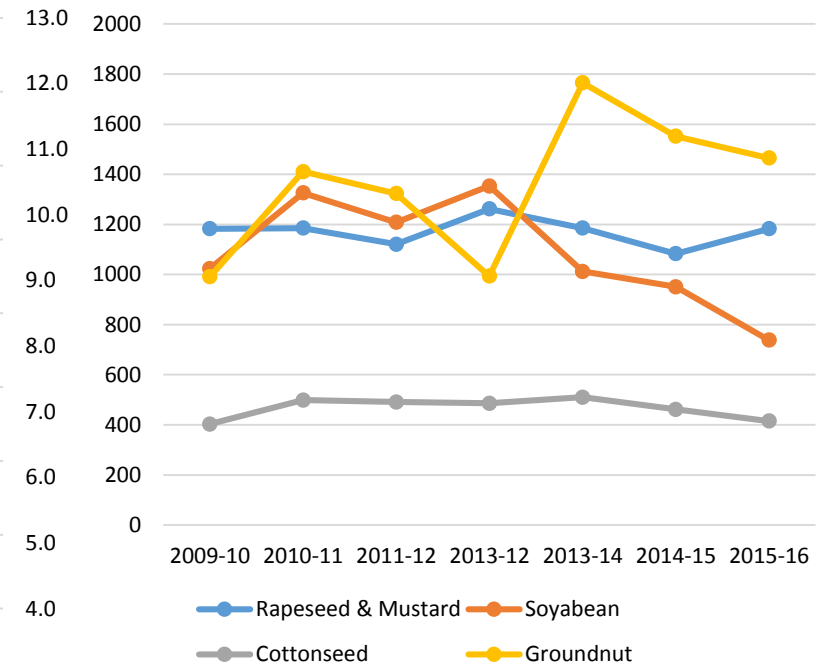
India Total Oilseed Acreage vs Soybean Acreage ('000 Ha)



Soya Production Global vs India (MMT)



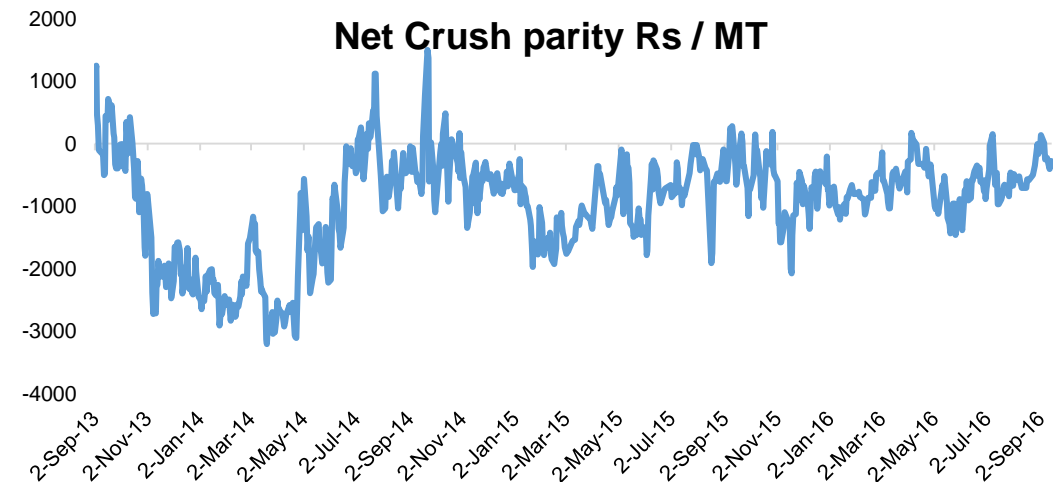
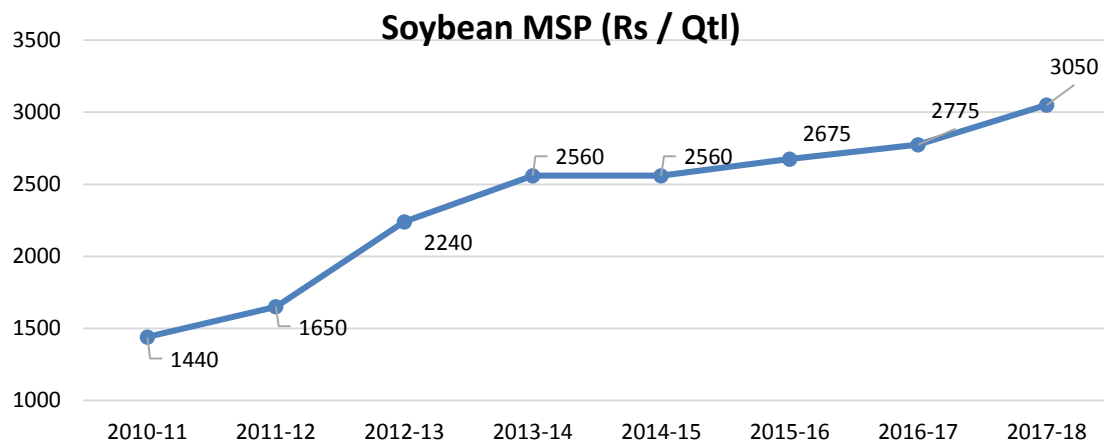
India - Major Oilseed Yield Kg / Ha.



Low farmer engagement leading to stagnant production

Vector 2: Crushing & Prices

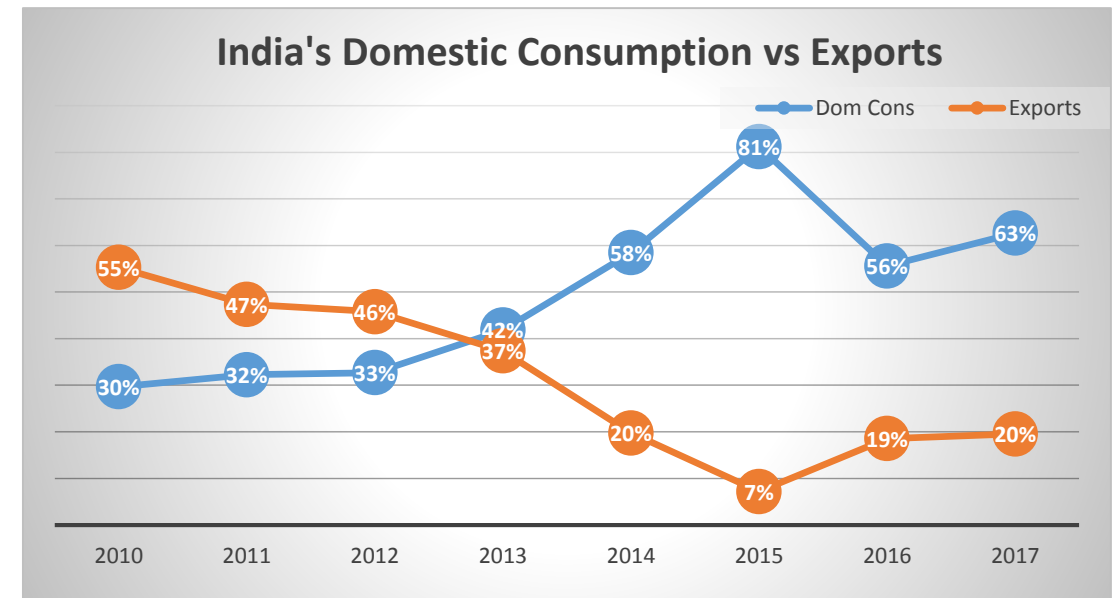
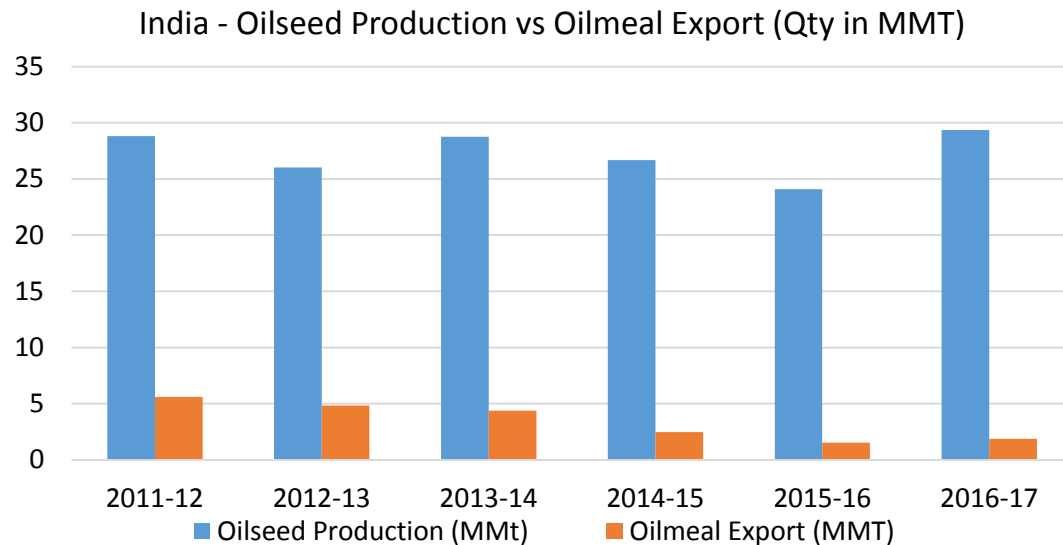
- Oilseeds MSP is been increasing YoY
 - While support prices, price of Meal and Oil is capped by international price trends – leading to disparity
- Acute under utilization (industry operates @ ~ 50% capacity)
 - Excess processing capacity in Soya Industry (20 MMT Vs 10 MMT crop) resulting in seasonal price hike
- Back to back crushing disparity
 - Continuous disparity and high price volatility impact financial health of Industry
- Oil – meal ratio (soya vs other oilseeds perspective)
 - Revenue share of oil is continuously under pressure due to cheaper imported oil
 - Soya (having lower dependency on oil revenue) could survive the pressure better among other competing oilseeds



Excess Processing capacity is chasing limited quantity of Oilseeds leading to negative margins

Vector 3 – Oilmeal Sales

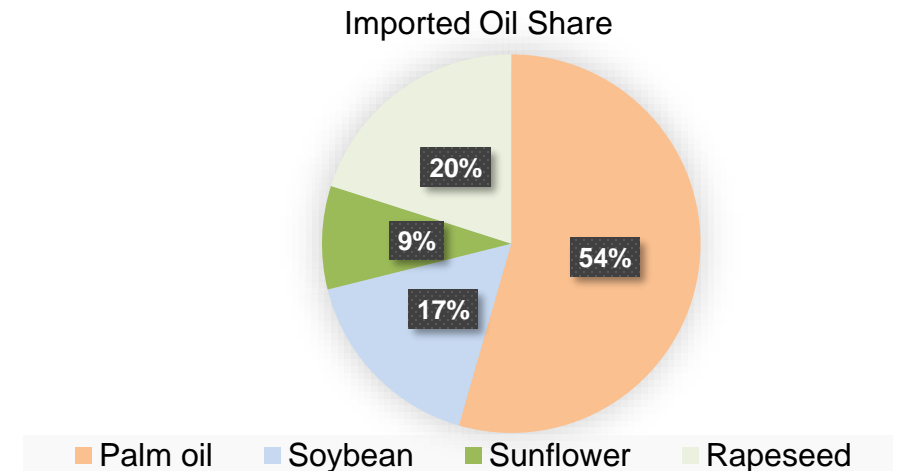
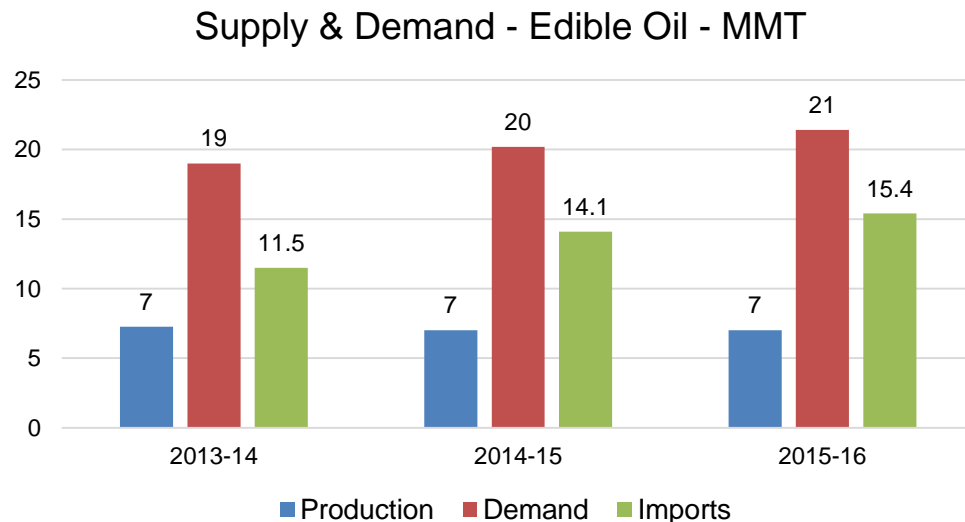
- Domestic demand for soymeal on the rise – but feed industry is always very price sensitive; seek cheaper substitutes/ imported meal
- India's traditional Export markets (like Pakistan, Bangladesh, Nepal, Middle East) are buying bean from Brazil & USA or buying meal from competitive origins like Argentina
- Exports drop by 72% - from 5.6 Mln Mt in 2011-12 to 1.52 Mln Mt in 2015-16
- Soybean Meal which constituted 60-70% of total oilmeal exports – has shrunk by 61%



India's oilmeal however has lost all its traditional overseas market base

Vector 4 – Oil Imports

- India continues to retain the #1 spot in oil imports
- Stagnant domestic production & crushing likely to keep the imports on an upswing
- Competitiveness Domestic vs Imported oil
 - Domestic oils like soya, mustard, groundnut, cotton are always going to be out priced by cheaper imported Palm oil
 - Credit terms, packed vs loose, quality concern likely to impact the domestic oil marketing
- Government policy always plays a key role in determining the import mix and profitability for the industry.



Supply gap of 15 MMT Oil = Roughly 50 MMT Seed Quite an improbable number for Imports

Global Trends

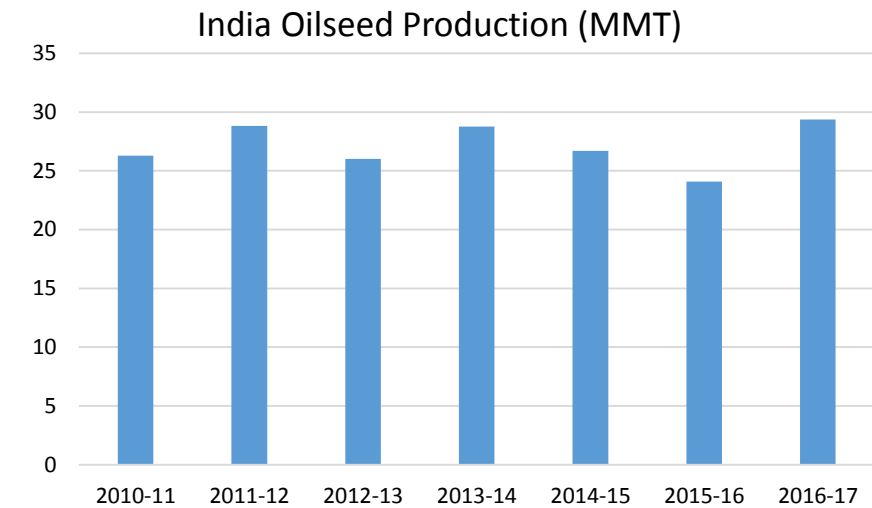
Global Production (MMT)	2011-12	2016-17	% increase
Soybean	241	352	46%
Total Oilseed	447	560	25%

- **Oil seed production**
 - World Oilseed production rising
 - Dominance & importance of Soybean is ever increasing in global basket
- **Oil seed prices**
 - World oilseed price under pressure due to rise in production
 - China's demand growing @7% YoY (the largest consumer of bean) plays key role
 - China's production is slowly replaced by huge import (14 MMT vs 94 MMT)
- **Oil meal exports**
 - Brazil has overtaken USA in terms of bean export
 - Argentina continues to focus on Value Addition
 - Global meal exports are stagnant – whereas bean exports are rising on an avg 6 - 8% YoY

Competitor's large and consistent production and focussed policies have taken away India's traditional export markets

Oilseed Crushing – Key Challenges in India

- **Limited availability and Uncompetitive Raw material**
 - Lack of ability to cope with inconsistent weather pattern
- **Limited opportunity for Value Addition**
 - Low focus on R&D to make new product for suitable Indian palate
 - Protein deficiency in India - Soya is uniquely positioned to capitalise on this opportunity
- **Crushing disparity**
 - Industry operates on speculative mind set
- **Inconsistent Government Policy**
 - Rise in YoY MSP + Stock limit in growing States
 - Lower Import duty on Finished product (refined oil)



MSP	Soybean	% Increase
2010-11	1440	-
2011-12	1650	15%
2012-13	2240	36%
2013-14	2560	14%
2014-15	2560	0%
2015-16	2675	4%
2016-17	2775	4%
2017-18	3050	10%

Key Questions to be answered

- Are we really operating as an industry ?
- Or we are depending on tax management, speculative positions, price arbitrage – the pure trading approach??
- Should we be focussing on the Principles of an industry - value addition, marketing, technology and long term strategy???

Way Forward. . . .

Production

- Engage with Govt. for crop development, introducing high yielding varieties
- Quality consciousness : consistency in line with major competing origins

Pricing & Markets

- Operate on a rational cost structure and not speculative pricing
- Promote Price Risk management practices (Futures & Options)

Value Addition

- Technology and R&D
- Looking at needs of Indian consumer: Protein rich products for Indian palate

Stable Govt Policy

- Allow Oilseed imports on a situational basis
- Encourage port based crushing facilities
- Uniform and lower taxation

Market Development

- Revive traditional markets in the sub continent and in Middle East
- Rationalise Quality specifications to Indian crop standards

Thank You

&

Best Wishes for the forthcoming season!!