Peanut Blog
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Edible oil duty cut may boost snack makers' margins

The cut in edible oil import duties could ease costs for makers of biscuits, noodles and fried snacks, but cheaper packs may not follow immediately. Analysts said the benefit would take time to flow through to manufacturers, with companies likely to first use the savings to recover margins squeezed by higher input costs. The changes, effective Thursday, cut the basic customs duty on crude palm and soybean oils from 10% to 5%, and on crude sunflower oil from 10% to nil. Duties on their refined varieties were also reduced.

An analyst note from Nuvama identified bakeries and fried-snack makers as the clearest potential beneficiaries, given their use of palm oil. It also pointed to noodle makers and restaurant chains, although the latter spend a smaller share of their costs on frying oil. The eventual savings will depend on global oil prices, the rupee and how quickly companies run down stocks bought before the duty cut, the note said.

Bikaji Foods International told TOI it expects its oil costs to fall by around 3-4%, with the benefit flowing into its purchases over the next few weeks, subject to market movements. But the snack maker does not expect an immediate change in prices or pack sizes.

"We would not expect an immediate change in pack sizes or consumer pricing purely on account of this duty reduction," COO Manoj Verma told TOI. Bikaji would initially use the relief to partly recover margin pressure from earlier input-cost increases, he said.

The impact will also depend on the type of oil companies use. Indraneel Chitale, managing partner at Chitale Bandhu, told TOI the company uses domestically sourced groundnut oil, so the import duty cut would have little direct impact on its costs. However, makers of Rs 5 and Rs 10 packs of fried snacks that rely on palm oil could see some margin relief, he said.

Nuvama expects a different impact on companies that sell cooking oil. They could eventually benefit if lower prices spur demand, but stocks bought at the old duty could delay price reductions. For soap makers, any benefit is likely to be indirect and smaller, as the duty cut does not cover the palm-derived ingredients they buy.

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