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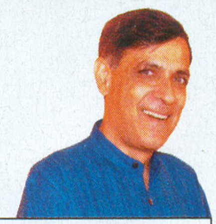
OUTLOOK MONEY



Avant Garde **MOHIT SATYANAND**

Keeping Track

Underlying industry developments can provide valuable cues for investment

IN the late 70s, my first job involved walking down the streets of Uttar Pradesh, selling Dalda to food retailers. An iconic brand in its time, Dalda Vanaspati was a replacement for 'ghee', and was made by hardening refined vegetable oils. By the early 80s, vanaspati was in decline, and the market came to be dominated by refined oils. My employer, Hindustan Lever (now Hindustan Unilever), tried to promote a groundnut refined oil to cash in on this trend, but gained little traction against the market leader, Postman.

But Postman's star was setting, too, as India's edible oil scenario was rapidly changing. The production of oil seeds could not keep pace with growing demand, and the market came to increasingly rely on imported oils. Today, we import 8 million tonnes of the 14 million tonnes of edible oils we consume annually; over 80 per cent of the oil imported is palm, a cooking medium our kitchens hadn't experienced until the mid-

VARUN VASHISHTHA

Indonesia, on which it intends to grow oil palm. With 130,000 acres of land in Indonesia alone, the company aims to produce 40 per cent of its oil requirement on its own plantations.

More recently, a relatively young player in India's sugar industry, Shree Renuka Sugars, announced that it had acquired a sugar plantation in Brazil. India, by and large, has been self-sufficient in sugar, but a far-sighted entrepreneur could perhaps be seeing the writing on the wall. In addition to edible oils, India has become increasingly dependent on imports for pulses. In both these crops, agricultural productivity has lagged demand of a growing population and increasing prosperity. (In the last 12 months, the consumption of edible oils is estimated to have grown 15 per cent year-on-year.) It seems ironic that India, with a large land mass and huge pool of underemployed labour, should need to import food. I believe the reasons lie in under-investment, outdated land laws, inefficient markets and the over-

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70s. Companies that tried to stay with the traditional varieties of edible oil were clinging onto a diminishing share of the pie, and the Indian edible oil scene is now dominated by two players which didn't come into being until the eighties.

The first is the Adani group. Its oil brand, Fortune, is believed to be the country's largest selling edible oil. A core element of Adani's strategy was its decision to site a refinery in the port town of Mundra, on the west coast of India, a move that optimised the logistics and costs of processing imported oil.

Without a big shift in yields, our food processing industry will increasingly need to import raw materials

A more recent player in this market, KS Oils, looks like overtaking Adani. By buying an edible oil refinery on the east coast, at Haldia, it has mirrored Adani. Its more strategic measure, though, is to buy substantial acreages of land in Malaysia and politicisation of agriculture. None of these is going to disappear overnight. Meanwhile, the yield of oilseeds is growing at less than 2 per cent per annum, and that of pulses at less than 1 per cent per annum. Unless there is a radical shift in yields, it seems the Indian food processing industry will increasingly need to source its raw materials from overseas.

This requires a drastic shift in our perception of this industry. Speaking for myself, I have tended to look at investments in food companies through just one lens, that of the brand. This proved to be a very narrow focus, and I missed the emergence of two edible oil giants—whose strategic advantage was in raw material procurement, that too from overseas. This is not a new story: the success of the Amul brand is largely derived from its procurement model, based on cooperatives of milk producers. Nevertheless, it is one that I have ignored for too long. Never again, I hope. II

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