



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY

ICRA AGRICULTURE UPDATE

Catch up in rabi sowing brightens outlook for agricultural growth
DECEMBER 2019

Aditi Nayar
+91 124 4545 385
aditin@icraindia.com

Soumyaditya Pal
+91 124 4545 848
soumyaditya.pal@icraindia.com

Medha Sinha
+91 124 4545 399
medha.sinha@icraindia.com

Aarzo Pahwa
+91 124 4545 873
aarzo.pahwa@icraindia.com

OVERVIEW

The catch up in rabi sowing led by wheat, rice and coarse cereals has brightened the outlook for agricultural output and rural sentiment in Q4 FY2020. Nevertheless, the overall GVA growth for agriculture, forestry and fishing is likely to ease to 2.5% in FY2020 from 2.9% in FY2019. In addition, the YoY decline in the area sown under rabi pulses and oilseeds poses a concern, given the high wholesale inflation being recorded by some of these items.

With a delay of around five weeks in the withdrawal of the southwest monsoon rainfall, precipitation was above-average¹ at 110% of the long period average (LPA) in the monsoon months (June-September) in 2019 (refer Exhibit 1). This also contributed to excess rainfall in October 2019 (144% of LPA; refer Exhibit 2). Subsequently, the northeast monsoon season (October-December) has witnessed normal rainfall in November 2019 (98% of LPA) and excess rainfall in December 2019 (113% of LPA till December 10, 2019). Overall, the cumulative rainfall during the northeast monsoon season stood at 130% of LPA till December 10, 2019.

The heavy rainfall in August-October 2019 led to a rapid replenishment of reservoir levels. Reservoir storage stood at 85% of the Full Reservoir Level (FRL) as on December 5, 2019 (refer Exhibit 3), substantially higher than the year ago level (59% of FRL as on December 6, 2018). In terms of the regions, reservoir storage exceeded year-ago levels in the western (93% vs. 45%), southern (82% vs. 52%), eastern (87% vs. 66%) and central regions (86% vs. 65%), whereas it marginally lagged year-ago level in the northern region (76% vs. 77%), as on December 5, 2019 (refer Exhibit 4).

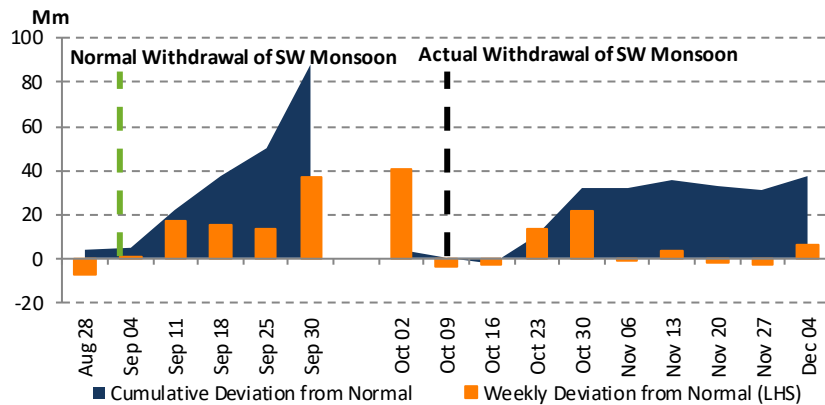
However, the heavy rainfall in October 2019 led to a late harvest of the kharif crop and also delayed the onset of rabi sowing. Subsequently, sowing picked up pace in late-November 2019, and the total area under rabi crops rose by 1.2% on a year-on year (YoY) basis to 41.8 million hectares by December 6, 2019 (refer Exhibit 5). The was led by a YoY rise in the area sown under wheat (+4.3%), rice (+20.8%) and coarse cereals (+8.6%), even as the area under pulses (-6.0%) and oilseeds (-1.6%) trailed the year-ago levels as on December 6, 2019 (refer Exhibit 6). As on this date, sowing had been completed on 67.7% of last year's rabi area. Going forward, healthy groundwater and reservoir levels should support a rapid pace of sowing in the rest of this month, and boost crop yields.

The growth for gross value added (GVA) in agriculture, forestry and fishing declined to 2.1% in H1 FY2020 from 5.0% in H1 FY2019, partly on account of an unfavourable base effect (refer Exhibit 7). Moreover, the 1st Advance Estimate (AE) of crop production released on September 23, 2019, had revealed a mixed trend in the output of kharif crops; production of sugarcane (-5.6%), pulses (-4.2%) and rice (1.7%) were estimated to record a YoY decline. In contrast, the kharif output of coarse cereals (+3.3%), oilseeds (+5.2%) and cotton (+12.4%) was estimated to increase in FY2020 compared to FY2019, as per the 1st AE. However, with the delayed withdrawal of the southwest monsoon, excess moisture could lead to crop yields being lower than the initial estimates, in our view.

We expect the GVA growth of agriculture, forestry and fishing to print at 2.0% in Q3 FY2020, similar to the initial estimate for Q2 FY2020. The catch up in rabi sowing has brightened the outlook for agricultural growth in the subsequent quarter. We anticipate that the GVA growth for agriculture, forestry and fishing would rise to around 4.0% in Q4 FY2020, driven by a favourable base effect and the expectation of healthy rabi yields, which should in turn boost rural sentiment. Nevertheless, the overall GVA growth for this sector is likely to ease to 2.5% in FY2020 from 2.9% in FY2019.

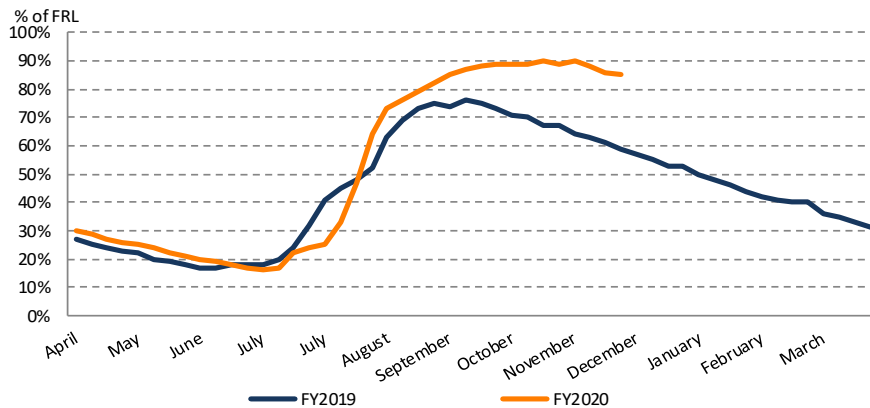
In addition, the YoY decline in the area sown under rabi crops such as pulses (-6.0%) and oilseeds (-1.6%) as on December 6, 2019, poses a concern, given the high wholesale inflation being recorded by some of these items (refer Exhibit 8).

Exhibit 1: With a delayed withdrawal of the southwest monsoon, rainfall exceeded the LPA by 48% in September 2019 and 44% in October 2019. Subsequently, precipitation was 2% below normal in Nov 2019. Cumulatively, rainfall has exceeded the LPA by 30% so far in the northeast monsoon season (October-December).



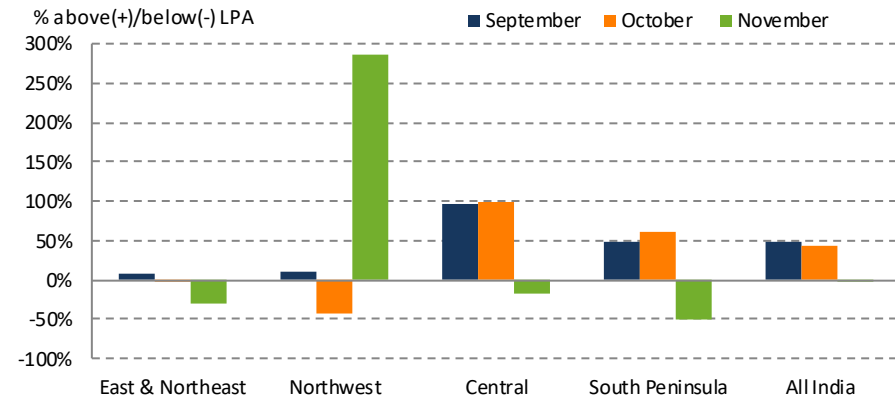
Source: Indian Meteorological Department (IMD); CEIC; ICRA research

Exhibit 3: Heavy rainfall in August-October 2019 led to a sharp rise in reservoir levels, which stood at 85% of FRL as on December 5, 2019, significantly higher than the year-ago level (59% of FRL).



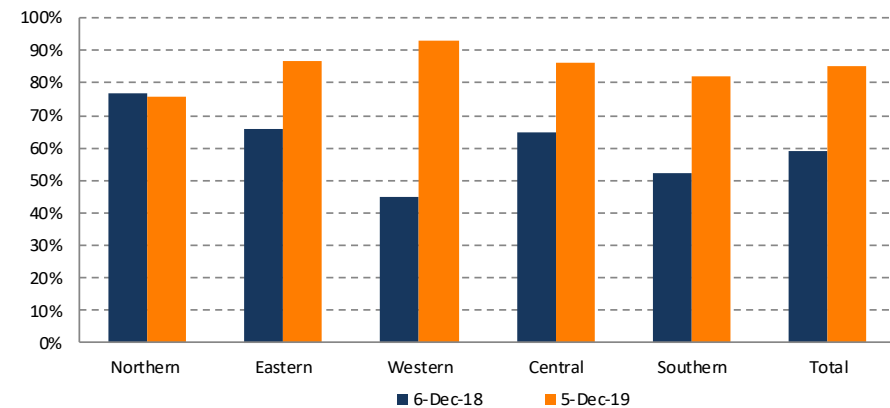
Source: Central Water Commission (CWC); CEIC; ICRA research

Exhibit 2: Rainfall exceeded the LPA across all sub-divisions in September 2019. In October 2019, precipitation remained in excess in central (98% above LPA) and south peninsula (62% above LPA). In contrast, magnitude of precipitation in November 2019 remained sub-par for all sub-divisions, barring a sharp spike in the northwest region.



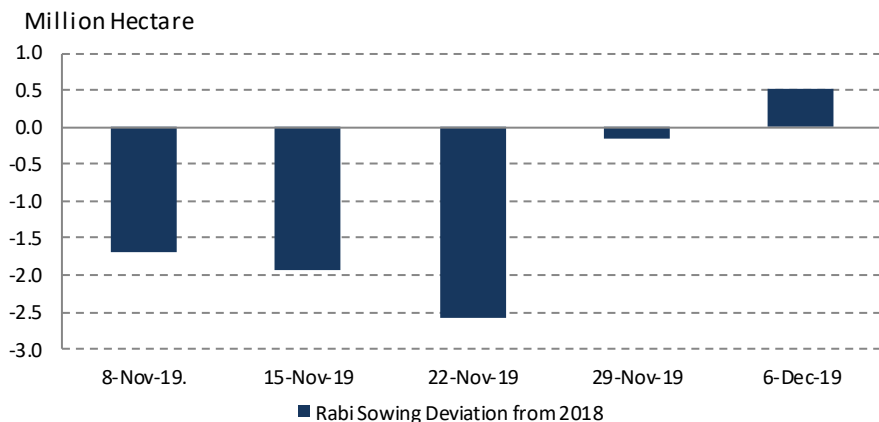
Source: IMD; CEIC; ICRA research

Exhibit 4: Reservoir storage exceeded year-ago levels for all regions barring a small YoY dip in the northern region (76% vs. 77%) as on December 5, 2019.



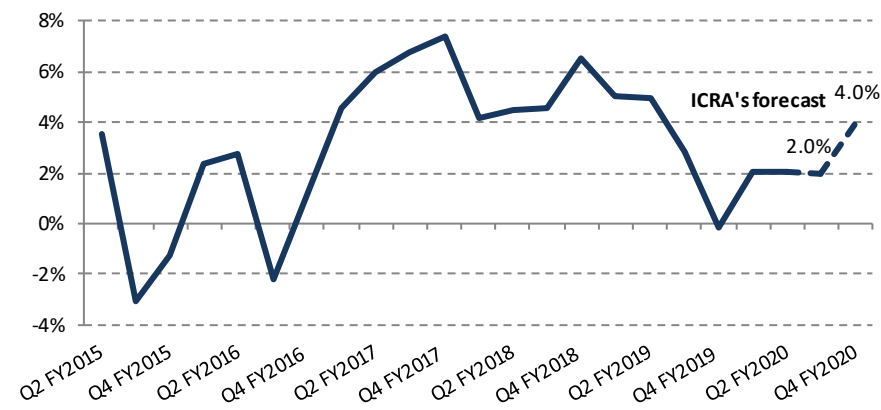
Source: CWC; CEIC; ICRA research

Exhibit 5: Heavy rainfall in October 2019 delayed rabi sowing. The pace of the same improved from late November 2019, and subsequently rabi sowing exceeded year-ago levels by 1.2% as on December 6, 2019.



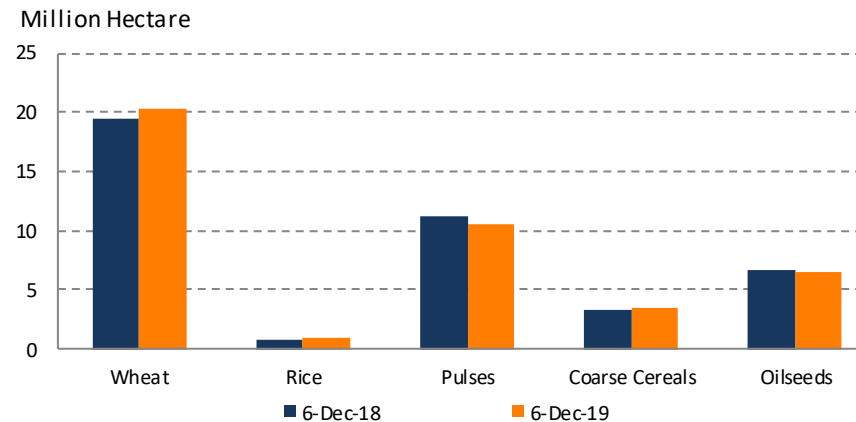
Source: Directorate of Economics and Statistics, Department of Agriculture, Cooperation and Farmers Welfare, Ministry of Agriculture, GoI; ICRA research

Exhibit 7: Growth in GVA of agriculture, forestry and fishing declined to 2.1% in Q2 FY2020 from 4.9% in Q2 FY2019. Despite an expected pickup in Q4 FY2020, we expect the GVA growth in this sector to ease to 2.5% in FY2020 from 2.9% in FY2019



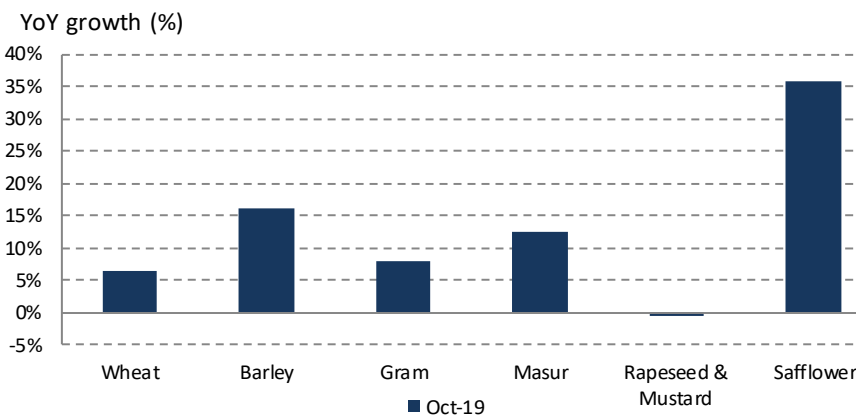
Source: CSO; CEIC; ICRA Research

Exhibit 6: While the area sown under wheat (+4.3%), rice (+20.8%) and coarse cereals (+8.6%) exceeded year-ago levels as on December 6, 2019, pulses (-6.0%) and oilseeds (-1.6%) trailed the same.



Source: Directorate of Economics and Statistics, Department of Agriculture, Cooperation and Farmers Welfare, Ministry of Agriculture, GoI; ICRA research

Exhibit 8: The YoY decline in the area sown under pulses and oilseeds poses a concern, given the high wholesale inflation being recorded by some of these items such as gram, masur and safflower



Source: Office of the Economic Adviser; Ministry of Commerce and Industry; ICRA research

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

Business Contacts

Mr. L. Shivakumar
E-mail: shivakumar@icraindia.com
Tel: +91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee
E-mail: jayantac@icraindia.com
Tel: +91 80 4332 6401/ +91 98450 22459

Media and Public Relations

Ms. Naznin Prodhani
E-mail: communications@icraindia.com
Tel: +91 124 4545 860

Registered Office:

1105, Kailash Building, 11th Floor,
26, Kasturba Gandhi Marg,
New Delhi - 110 001
Tel: + 91 11 2335 7940-45

Corporate Office:

Building No.8, 2nd Floor,
Tower A, DLF Cyber City Phase II,
Gurgaon- 122 002
Tel: +91 124 4545300

Ahmedabad

1809-1811, Shapath V,
Opposite Karnavati Club
S.G. Highway, Ahmedabad - 380015
Tel: +91 79 4027 1500/01

Bengaluru 1

'The Millenia', Tower- B, Unit No. 1004,
10th Floor, 1 & 2 Murphy Road,
Bengaluru - 560 008
Tel: +91 80 4332 6400

Bengaluru 2

2nd Floor, Vayudooth Chamber,
15-16, Trinity Circle, M.G. Road,
Bengaluru - 560 001
Tel: +91 80 4922 5500

Chennai

5th Floor, Karumuttu Centre,
634, Anna Salai, Nandanam
Chennai - 600 035
Tel: +91 44 4596 4300

Hyderabad 1

No. 7-1-58, 301, 3rd Floor, 'CONCOURSE',
Above SBI-HPS Branch, Ameerpet,
Hyderabad - 500 016
Tel: +91 40 4920 0200

Hyderabad 2

4A, 4th Floor, SHOBHAN,
6-3-927, A&B Somajiguda,
Raj Bhavan Road,
Hyderabad – 500082
Tel: +91 40 40676500

Kolkata

A-10 & 11, 3rd Floor,
FMC Fortuna 234/3A,
A.J.C. Bose Road,
Kolkata -700 020
Tel: +91 33 7150 1100/01

Mumbai

3rd Floor, Electric Mansion
Appasaheb Marathe Marg,
Prabhadevi,
Mumbai - 400 025
Tel: +91 22 6169 3300

Pune

5A, 5th Floor, Symphony,
S. No. 210 CTS 3202 Range Hills Road,
Shivajinagar, Pune - 411 020
Tel: +91 20 2556 0194, 020 6606 9999

Email: info@icraindia.com

Helpdesk: 9354738909

Website: www.icra.in/ www.icraresearch.in