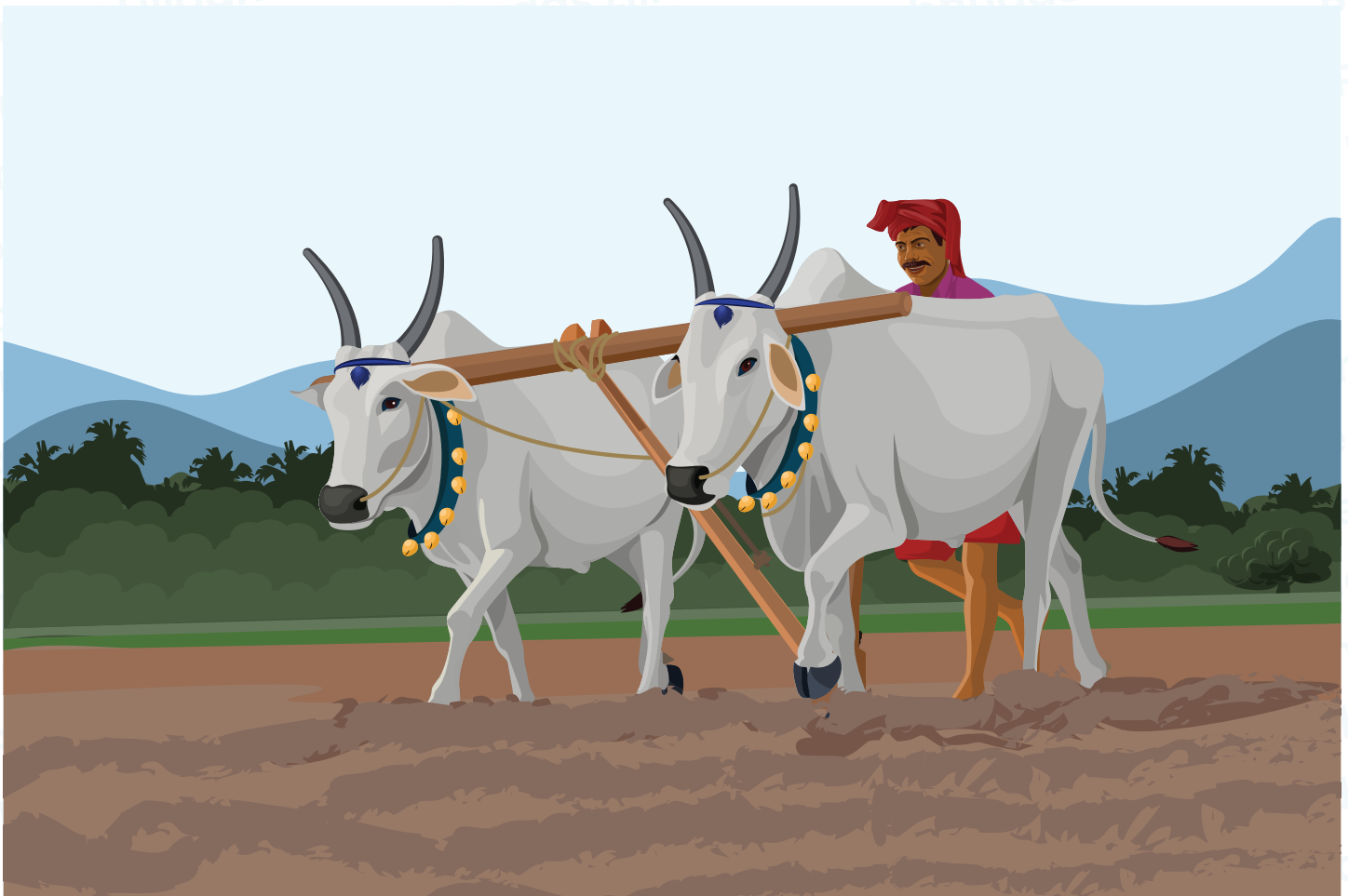


AGRI COMMODITIES

INDIA - READY TO NOURISH THE WORLD



India has always remained an agrarian country. India's food production industry is worth over \$400 billion, the primary source of livelihood for over nearly half of the country's population India's share of agri-production is 9.5% globally, while its share in the export of overall food products is around 3% - with share in export of processed food category even lower at 1-2%, the total agriculture and food related exports from India were valued at nearly \$50 billion in FY22 according to a report by BCG.

Our Agriculture sector even showed resilience in last couple of years despite of macro headwinds like Covid pandemic. However fortunately or unfortunately COVID was not the last test for India's agriculture sector, destiny had some better plans!

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Why so?

In current global scenario - from the US to Italy to China, waters have receded, leaving nothing but barren banks of silt and oozing, muddied sand. Canals are empty. Reservoirs have turned to dust. The world is fully in the grip of accelerating climate change, and it has a profound economic impact. Losing waterways means a serious risk to shipping routes, agriculture, energy supplies, even drinking water.

Rivers that have been critical to commerce for centuries are now shriveled due to severe drought, threatening the global movement of chemicals, fuel, and even the basic necessary commodities including food grains.

The Rhine river — a pillar of the German, Dutch and Swiss economies — has been virtually impassable at times in recent weeks. The Danube, which winds its way 1,800 miles (roughly 2,900 kilometers) through central Europe to the Black Sea, is gummed up too. Trade on Europe’s rivers and canals contribute about \$80 billion (at risk) to the region’s economy just as a mode of transport.

In China, an extreme summer has taken a toll on Asia’s longest river, the Yangtze. Diminished water levels have hobbled electricity generation at many key hydropower plants. Mega cities including Shanghai are turning off lights to curb power use which again impacts manufacturing production giving another hit to global economy.

Drought plaguing the Colorado River — a source of water for 40 million people between Denver and Los Angeles — has gotten so extreme that a second round of drastic water cuts are hitting Arizona, Nevada, and Mexico. The river and its tributaries irrigate about 4.5 million acres of land, generating about \$1.4 trillion a year in agricultural and economic benefits.



Given the situation in global markets, lands are turning barren leading to a thought that the world is possibly staring at a food grain shortage, resulting in a surge in global crop prices.

OECD-FAO Agricultural Outlook 2021-2030 considers India among the handful of nations that will drive food grain production this decade.

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Global Markets Eyeing India

India is one of the few countries where area under agriculture is almost half the geographical area whereas in other countries, it ranges from 10% to 25%. China is around 11%.

India is one of the largest producers of milk and pulses, and second-largest producer of rice, wheat, sugarcane, groundnut, vegetables and fruits, according to United Nations Food and Agriculture Organization (FAO). It is one of the leading producers of spices, fish, poultry, livestock and plantation crops. It is first or second in several non-food crops such as jute and cotton.

In India the agricultural exports have grown by 19.92% in FY22 to touch \$ 50.21 billion. The growth rate is remarkable as it is over and above the growth of 17.66%, at \$41.87 billion, achieved in 2020-21. According to the Food and Agriculture Organisation, the Food Price Index has increased by 30% in the year 2021-22. The last time it had increased in similar proportion was in 2010-11.

Meanwhile, the production of total food grains in India during the 2021-22 season is estimated to be at record 315.72 million tonnes, a rise of 4.98 million tonnes than harvested during 2020-21, as per the fourth advance estimates of production of major agricultural crops released by the Union Ministry of Agriculture and Farmers Welfare on August 17.

Among crops, record harvest is expected for rice, maize, gram, pulses, rapeseed and mustard, oilseeds and sugarcane.

As per the data, the highest ever exports have been achieved for staples like rice (\$ 9.65 billion), wheat (\$ 2.19 billion), sugar (\$ 4.6 billion), and other cereals (\$ 1.08 billion).

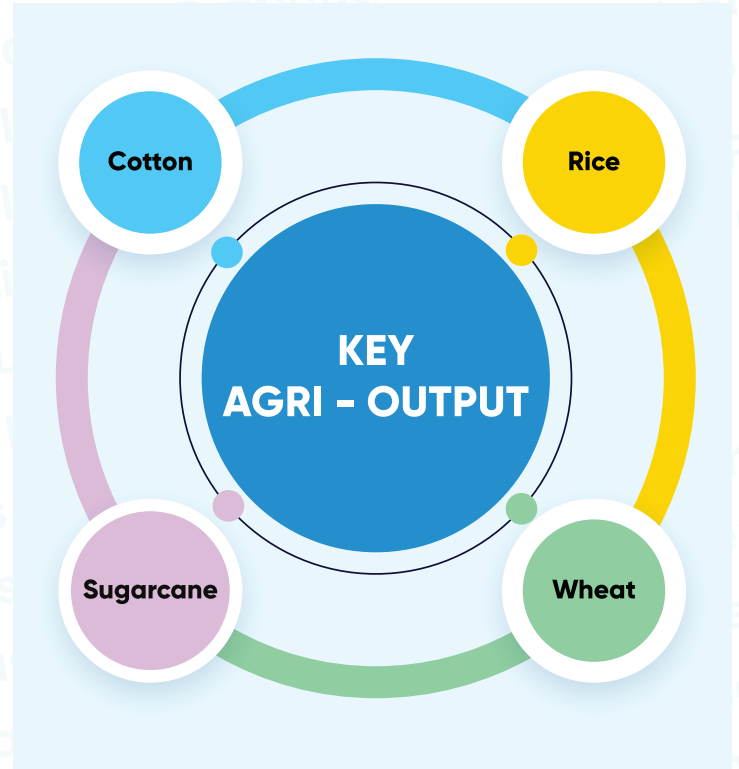
Wheat has recorded an unprecedented growth of more than 273%, jumping nearly four-fold from \$ 568 million in 2020-21 to touch close to \$ 2119 million in 2021-22. Meanwhile, exports of marine products also reached the highest ever at \$ 7.71 billion.

As per the latest estimates, rice totaling 130.29 million tonnes is expected, wheat 106.84 million tonnes, nutri / coarse cereals 50.90 million tonnes, maize 33.62 million tonnes, pulses 27.69 million tonnes, tur 4.34 million tonnes, gram 13.75 million tonnes, oilseeds 37.70 million tonnes, groundnut 10.11 million tonnes, soyabean 12.99 million tonnes, rapeseed and mustard 11.75 million tonnes, sugarcane 431.81 million tonnes, cotton 31.20 million bales (each of 170 kg), jute and mesta 10.32 million bales (each of 180 kg).

The total production of rice during 2021-22 is estimated at a record 130.29 million tonnes. It is higher by 13.85 million tonnes than the last five years' average production of 116.44 million tonnes.

Production of wheat during 2021-22 is estimated at 106.84 million tonnes. It is higher by 2.96 million tonnes than the last five years' average wheat production of 103.88 million tonnes.

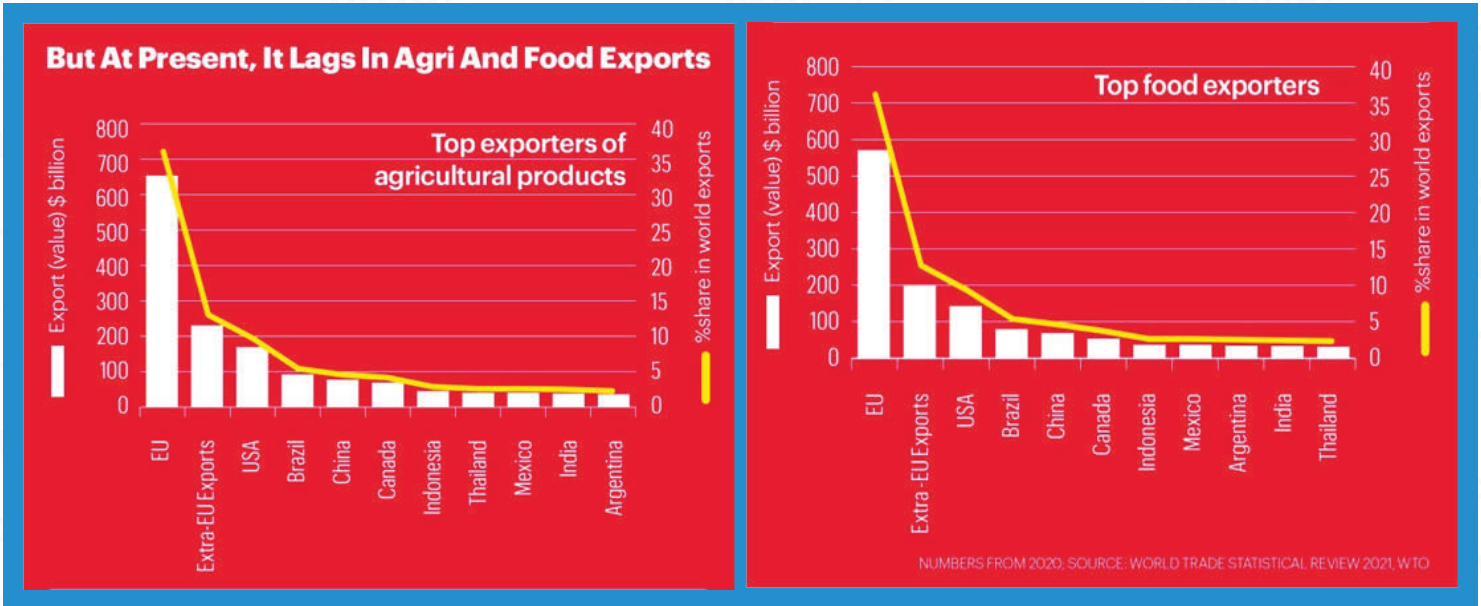
Total pulses production during 2021-22 is estimated at record 27.69 million tonnes which is higher by 3.87 million tonnes than the last five years' average production of 23.82 million tonnes.



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Sugarcane production in 2021-22 crop is estimated at record 431.8 mt compared to 405.39 mt in the previous year while cotton output is expected to drop to 31.2 million bales (170 kg each) from 35.24 million bales.



US Department of Agriculture, which values global agricultural trade at \$1.4 trillion (in 2018), says in its latest report that global trade patterns are already shifting in favour of emerging economies. Although the United States and the European Union remain among the largest exporters and importers of agricultural products, five countries — Brazil, China, India, Indonesia and Russia — have emerged as important traders in the global agricultural market and, in some cases, as key trading partners to the US. The total agriculture and food related exports trade from India were valued at nearly \$50 billion in FY22 as per BCG.

INDUSTRY IMPACTS

Wheat

Russia and Ukraine represent 27% of the world market for wheat, 16% for corn, 23% for barley, and 53% for sunflower. Twenty-six countries, mainly in Africa, West Asia and Asia, depend on Russia and Ukraine for more than 50% of their wheat imports.

India wanted to fill in this gap and, after the Russia-Ukraine War, in April, PM Narendra Modi addressed the world that India can supply foodgrain to the world, which is facing serious shortages due to war between leading wheat producers — Russia and Ukraine. Days later, ministry announced plans to send trade delegations to Morocco, Tunisia, Indonesia, the Philippines, Thailand, Vietnam, Egypt, Turkey, Algeria and Lebanon to explore possibilities of exporting wheat amid rising global demand.

While PM Modi claimed to feed the world, India is struggling to keep the food inflation down at home. Domestic prices rose to all time high.

After the announcement in April - during May, India announced restrictions on wheat exports justifying concerns over production due to the heat wave and uncertainty about existing reserves due to private sector hoarding amid sharp price hike.

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The all-India average retail price of wheat has risen by over 22% to Rs 31.04 per kg during August, compared to Rs 25.41 per kg in the year-ago period, according to consumer affairs ministry data. The ban led to an increased demand for wheat flour, with its exports rising 200% between April and July from a year ago.

The government had estimated that production would hit an all-time high of 111.32 million tonnes. However, wheat prices in both wholesale and retail markets have also come under pressure due to a nearly 3% drop in the domestic output to 106.84 million tonnes in the 2021-22 crop year.

Currently, wheat is trading at around Rs 2,300-2,400 per 100 kg in key markets well above the Centre’s assured Minimum Support Price of Rs 2,015 per 100 Kg.

The procurement of wheat has fallen due to higher purchase of wheat by traders as the market price of wheat had shot up due to prevailing international geopolitical situation. Moreover, if the farmer gets better price in comparison to MSP, they are free to sell their produce in the open market.

It’s not a major player in wheat product exports too

(Thousand Metric Tonnes)

	2018/19	2019/20	2020/21	2021/22	2022/23
RUSSIA	35,863	34,485	39,100	33,000	39,000
EUROPEAN UNION	24,686	39,788	29,740	31,000	36,000
AUSTRALIA	9,835	10,118	19,720	27,000	25,000
CANADA	24,475	22,991	27,723	15,500	24,000
UNITED STATES	26,202	26,390	26,702	21,750	21,000
ARGENTINA	12,680	13,608	9,597	16,000	14,000
UKRAINE	16,019	21,016	16,851	19,000	10,000
INDIA	494	595	3,597	10,000	8,000
KAZAKHSTAN	8,780	6,888	8,128	7,000	8,000
TURKEY	6,676	6,633	6,571	6,500	6,750
GLOBAL EXPORTS	1,78,131	1,94,511	1,99,443	2,01,583	2,05,254

JULY/JUNE YEAR; SOURCE: UNITED STATES DEPARTMENT OF AGRICULTURE FOREIGN AGRICULTURAL SERVICE

Looking at the situation in wheat industry, India has big headroom to fulfill the demand-supply gap coupled with keeping with its own domestic needs.

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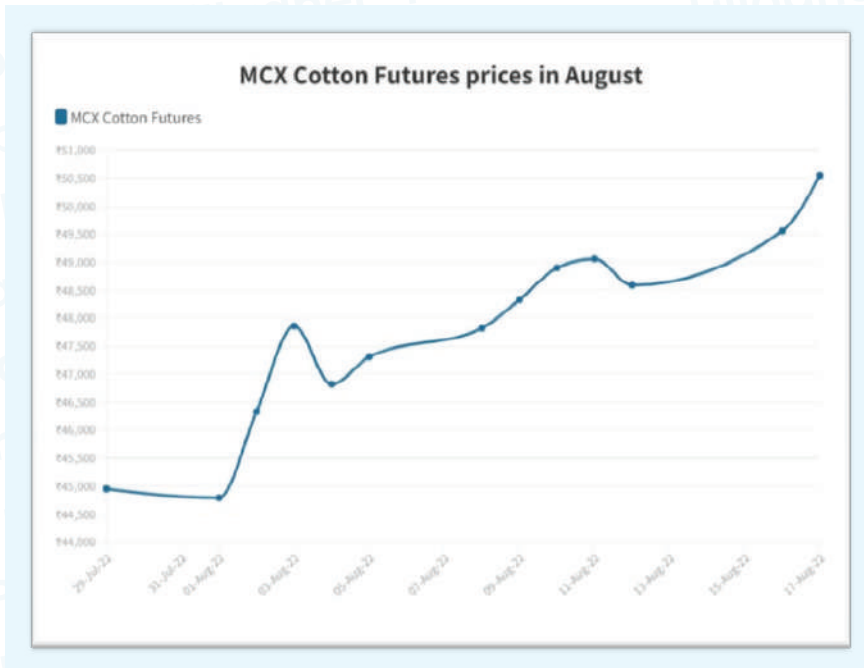
Cotton

World cotton supply is at big concern due to heat wave in China questioning about the upcoming harvest there, the US, the largest exporter of the cotton, a worsening drought is ravaging farms and is set to drag production to the lowest level in more than a decade. And now Brazil, the second-largest exporter, is battling extreme heat and drought that have already cut yields by nearly 30%. Bom Futuro group, one of Brazil's largest cotton producers accounting for about 10% of the nation's planted area, has seen yields fall 27% compared with the previous season.

Meanwhile, US output is set to plunge 28% in the season that began this month. The US expects production to hit the lowest level sending stockpiles to near-historic lows, because of a drought that has become so extreme that the US government is rationing water from the Colorado River. Together, the US and Brazil account for half of the world's cotton exports.

This confluence of extreme weather events brought on by climate change has sent cotton prices soaring by as much as 30%. The drought there has already dried up an estimated 200,000 metric tons of supply.

Cotton prices in India have been surging on a daily basis and have jumped over 12% in August while international prices on Wednesday traded at a seven-week high, not too far from all-time highs hit earlier this year.



Drought drops US cotton harvest to the lowest level since the 19th century as Texas is projected to abandon 69% of its cotton acreage this year. Texas' planted acreage was 7.1 million while Texas farmers are expected to harvest just 2.2 million, the lowest since 1879.

During the recent Indo-Texpo, India has again turned one of the strategic partners in cotton trades. Both the exhibitors and visitors showed that orders booked on-site at the three-day event were about USD 6.4 mn (approx. Rs. 51 Crs) while future estimated orders which are in the negotiation phase were about USD 58.7mn (approx. Rs. 470 Crs). Given the current global market dynamics for cotton textiles, the order booking position at Ind-Texpo was a reflection of encouraging business prospects in the coming months in cotton industry.

FEELING THE PINCH

COTTON PRICES
₹/candy



Note: * ₹267 per kg; one candy is equal to 356 kg.
Sources: TASMA, TEAMA

COTTON YARN PRICES
₹/kg



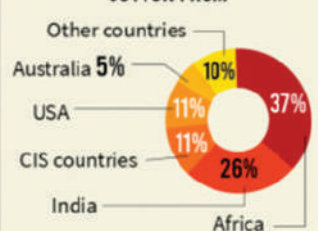
BANGLADESH'S COTTON IMPORT

Bangladesh second highest cotton importer in the world

FIGURES IN MILLION BALES



BANGLADESH IMPORTS COTTON FROM



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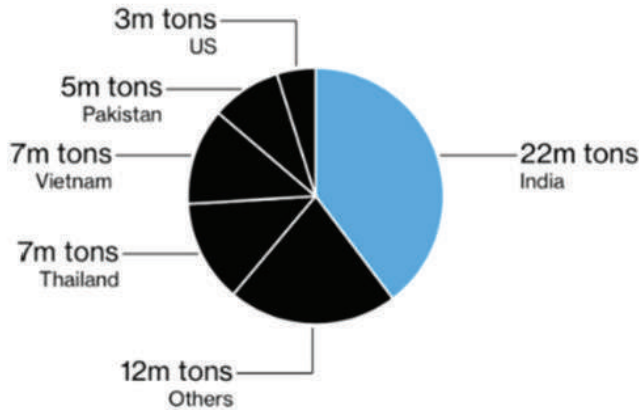
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Rice

Global rice market is 56 million tonnes and India exported 22 million tonnes.

India Accounts for 40% of Global Rice Trade

Rice exports for the year 2021-22



Source: US Department of Agriculture

Basmati rice exports witnessed a growth of 29.13% in the first four months of FY 2022-23 as its export increased from \$1,214 million (April-July 2021) to \$1,567 million (April-July 2022), while the export of non-Basmati rice registered a growth of 9.24% in first four months of current fiscal. Non-basmati rice export increased to \$2,086 million in the first four months of the current fiscal from \$1,910 million in the corresponding months of the previous year.

Recently government has imposed an export ban which applies only to broken rice exports which made up 3.9 million tonnes of the 22 million tonne exports in FY22, and mainly go towards animal feed in countries such as China and Vietnam. Both par-boiled and basmati rice exports, accounting for over 10 million tonnes and intended for human consumption, have been kept out of the ban.

On non-basmati rice, the export tax of 20% ensures that the cereal is not shipped out at unremunerative prices. This year, non-basmati rice from India has been exported at FOB prices that are at a discount to that of exporters from other countries, with realizations not even matching the domestic Minimum Support Price for paddy.

For rice industry, focus should be on the basmati rice which contributes a majority with no export duty – this segment should fetch some major gains.

Sugar

Sugar Industry has been in its own la-la land due to its export plus ethanol story. Incidentally, government has also imposed a volume ceiling on sugar exports from June 1 till October 31. There is no change in export target for the current sugar season (October 2021-September 2022). Sugar exports will be highest ever. However, since there is a global shortage and Brazil's production is not adequate, domestic (sugar) availability also has to be ensured.

As per the government order, up to 10 million tonnes sugar will be allowed to be exported during the season. Considering that in sugar seasons 2017-18, 2018-19, 2019-20 and 2020-21, India had exported 0.62 million tonnes, 3.8 million tonnes, 5.96 million tonnes and 7 million tonnes, respectively, government feels that 10 million tonnes is a reasonable target for sugar season 2021-22.

Further, so far, contracts for export of only 9 million tonnes have been signed; about 8.2 million tonnes have been dispatched from mills, of which around 7.8 million tonnes have been exported.

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INDIA'S SUGAR EXPORTS JUMP 65%

Export Value in 2021-22 -

\$2.91 bn



Growth in 2021-22 - **65%**



India's largest sugar-producing states -

Uttar Pradesh, Maharashtra and Karnataka



collectively account for nearly **80%** of total production

Export Volumes - **Above 10 Mn tonnes** (for the first time)

Sugar exported to - **121 countries**

Top export markets (\$ mn)

Indonesia	769
Bangladesh	561
Sudan	530
UAE	270

India's place in the world - **Second-largest sugar producer after Brazil**; Since 2010-11, India has consistently produced surplus sugar, comfortably exceeding the domestic requirements.

Source: Ministry of Commerce & Industry

Others

The export of meat, dairy & poultry products increased by 11.69% and the export of other cereals recorded a growth of 22.26% in four months of the current fiscal.

The dairy products alone recorded a growth of 61.91% as its export rose to \$247 million in the first four months of the current fiscal from \$153 million in the corresponding months of the previous year. Other cereals' export increased from \$334 million in April-July 2021 to \$408 million in April-July 2022 and the export of livestock products increased from \$1,279 million in April-July 2021 to \$1,428 million in April-July 2022.

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Improving India

India is no rookie when it comes to food production. However, as it has the world's second-largest population, its own consumption is much more than the surplus available for exports. Hence, its share in global food and agriculture trade is just 2-3% (in value terms) as compared to European Union's 50% and US' 10%.

Still sustained exports are possible only if India can make its agriculture sector far more productive and Indian produce remains price-competitive not only during global supply crises but also normal times. For that, it will have to make huge investments in agri-inputs/infrastructure, technology adoption and India has taken a lot of steps for the same.

Agrochemicals Drivers:

1. Increase in Consumption:

Currently the usage of agrochemicals in India is among the lowest in the world. India's consumption stands at 0.6 kg/ha, and this is just a fraction of that of Brazil, Japan and China, which is at 6 kg/ha, 11.8 kg/ha and 13.1 kg/ha, respectively. Also, currently the crop loss due to pest infestation is quite high at 2530% and this is on account of lower usage of agrochemicals. Thus, there is big room for domestic consumption to increase, which should aid growth.

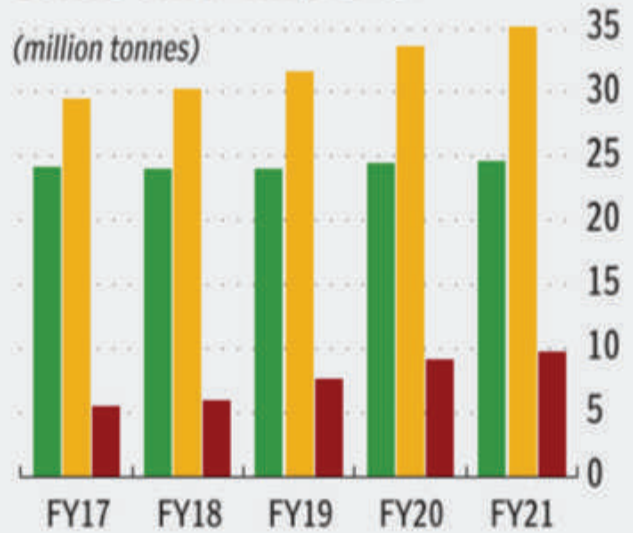
2. Innovation:

The focus of Indian companies on newer, innovative products and tie ups with global innovators for research should help them scale their business globally. Insecticides India has collaborated with Japanese OAT Agrio Co through a joint venture entity to set up a research and development unit in Chopanki (Rajasthan) for novel research. The JV has already been granted patents and expects their first novel product to be commercialized by 2025.

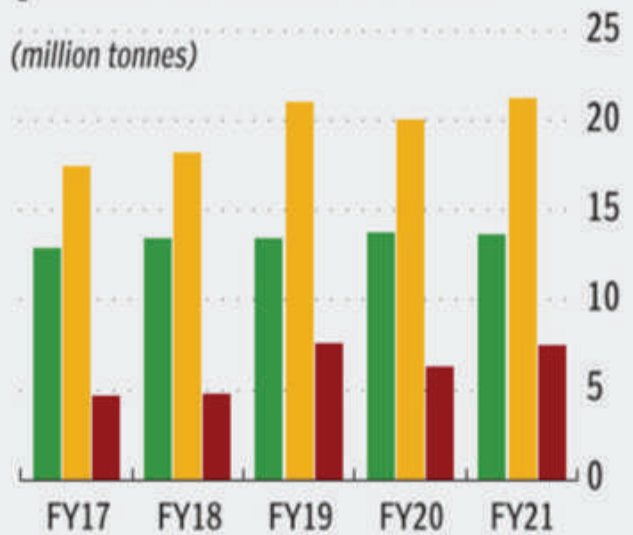
3. New Product Filing:

New product filing is gaining momentum. Sumitomo Chemicals, PI Industries and Insecticides India have launched three products each in the June quarter. Rallis and Dhanuka have added two products to their basket, even as Best Agro and Coromandel International named in the list with four launches. Besides generics, companies are also filing for 9 (3) products which are first in India launches and will typically enjoy higher margins.

Urea production, sales and imports



DAP and NPK: production and sales



Production Sales Imports

Source: fertiliserindia.com, CRISIL report

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4. Anti-China:

companies globally are adopting 'China plus' policy with respect to sourcing agrochemicals and raw materials to reduce dependency on China. This should augur well for India, given its positioning as a lowcost manufacturing destination next to China and its research and development capabilities.

Low productivity is also an issue. China has 129-130 million hectares cropped area. India has 198-200 million hectares. And China's agricultural production is four times India's. So, catching up to even half of China in next five years will mean more investment. China's fertiliser consumption is around 400 kg per hectare whereas India's is at 140 kg. There a lot of steps India needs to ladder up which undoubtedly the country is trying!

Summing up the whole situation – India seems to be better placed at agriculture commodities as the country estimates to have record production for majority of commodities whereas the world is crying in drought making their lands too barren to seed the harvest. This creates a big opportunity for India to feed and nourish the world and capture a material share in agriculture commodities export market.

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