

## Press Release

### Healthy Kharif Crop estimates moderate food inflation risks Drop in oilseeds production however, to keep edible oil prices firm

**24 September, 2021**

The first advance estimates for the major kharif crops, a key harbinger for overall performance of India's agriculture sector, provides indication of a fairly strong kharif output despite a somewhat erratic and backloaded monsoon in the current year. The food grain production has been pegged at a record high of 150.5 mn tonnes on the back of an expected bumper rice harvest of 107.0 mn tonnes and a good recovery in production of pulses. This is expected to keep food inflation under control and mitigate the upside risks for headline CPI inflation which has already moderated to 5.30%YoY and 0.25%MoM in Aug'21 due to benign food prices. With oilseed production set to decline by over 0.5 million tonnes, the dependence on edible oil imports, however, may increase further and lead to a continuing firmness in the edible oil inflation trajectory. Nevertheless, Acuite expects the overall food inflation to decline significantly and settle in the band of 3.0%-5.0% in FY22 as compared to 7.7% in FY21.

One of the interesting aspects in Indian agricultural sector is the consistency in the kharif or summer food grain production since FY16. Comprising of rice, coarse cereals and pulses, the summer food grain harvest has steadily grown at a CAGR of 3.6% over the 5-year period 2016-21 and is set to touch a level of 150 mn tonnes in the current, albeit with a lower growth of 0.6%YoY. The steady growth in production despite the rainfall variation across the years, reflects the gradual delinking of food grain output from the monsoon performance, improvement in crop yields and the increased usage of irrigation infrastructure. What is noteworthy is the rise in production from 102 mn tonnes in 2019 to 104 mn tonnes in 2020 and further to 107 mn tonnes in the 2021 season. While coarse cereal crop had seen a robust output last year, it is expected to drop by 2-3 mn tonnes in the current year. However, this is unlikely to impact the inflation in cereals which has got into contraction mode in the current year.

The production of pulses is estimated to rise by 8.75%YoY in the current year and is expected to cool down the high inflation in the category, recorded at 9.9% and 16.4% in FY20 and FY21 respectively. Higher domestic harvest along with reduction of customs duty on pulses such as masur (lentils) in Jul'21 will help in keeping the inflation in pulses in low single digits in FY22.

However, the domestic oilseed output is set to decline to 23.4 mn tonnes from a record high of 24.0 mn tonnes recorded in the previous kharif season. This is primarily due to shortfall in groundnut and soyabean production primarily in Gujarat and Maharashtra in the backdrop of erratic monsoon rains. Given that India's is already heavily dependent on edible oil imports to the extent of 65% for domestic consumption, any reduction in domestic production will have an impact on edible oil inflation which has already been reigning at double digit levels since FY21. The latter stood at 16.0% in the previous fiscal year and has already shown a sharp increase to 31.4% in the Apr-Aug'21 period of the current year. To address the demand-supply

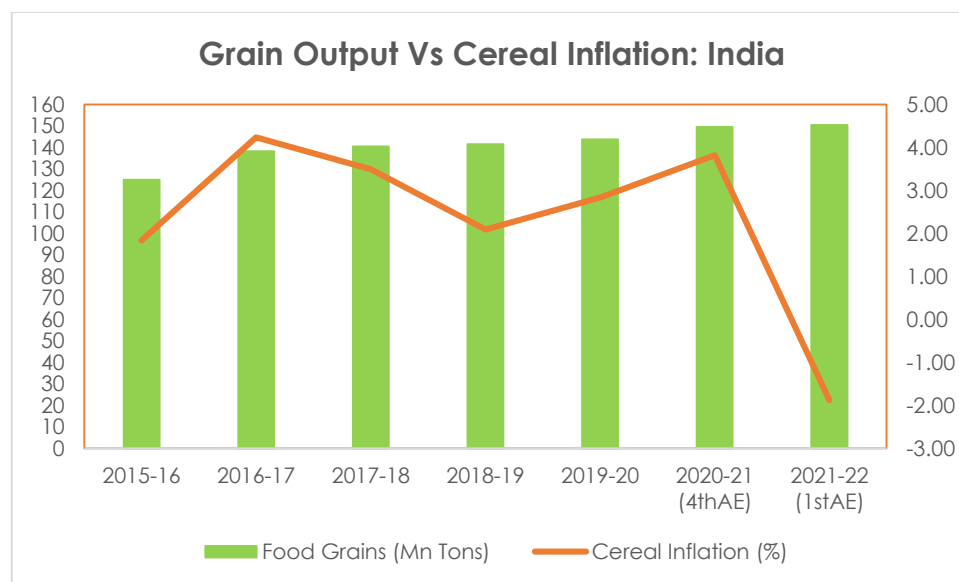
gap, the central government, however, has curtailed the import duties on several categories of edible oil such as palm oil, soy oil and sunflower oil in multiple tranches. While such steps will help an extent to temper the retail prices, higher imports by India lead to an increase in global prices of edible oils and therefore, will offset a part of these duty cuts. The announcement of a Rs 11,000 Cr 'Palm Oil Mission' by the government can address the structural challenge in edible oil supplies over the longer term.

Sugarcane production is estimated to hit a record 419.25 mn tonne during the current season. Sugar inflation has been benign since FY19 due to consistently healthy production and over the last few months, it has been in a contraction zone on an annualised basis. Higher inventory build up is likely to lead to a focus on exports of sugar or higher conversion to ethanol going forward.

Overall, the first advance estimate of kharif crop is broadly in line with the sowing acreage which has been just 1% below last year's level and will support the recovery in rural incomes in the post pandemic environment apart from moderating food inflation and thereby, headline CPI inflation. However, a delayed withdrawal of the monsoon can act as a downside risk to the initial kharif crop estimates, although it bodes well for the ensuing rabi crop.

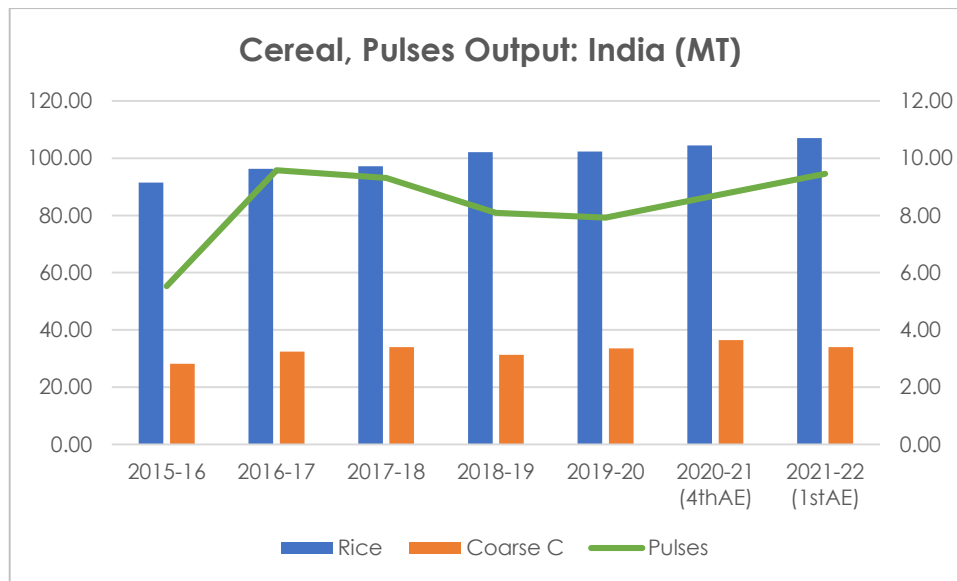
### Annexure

**Chart 1: Summer Food Grain Output set to touch 150 MT in 2021, 0.6% higher vs last yr.**

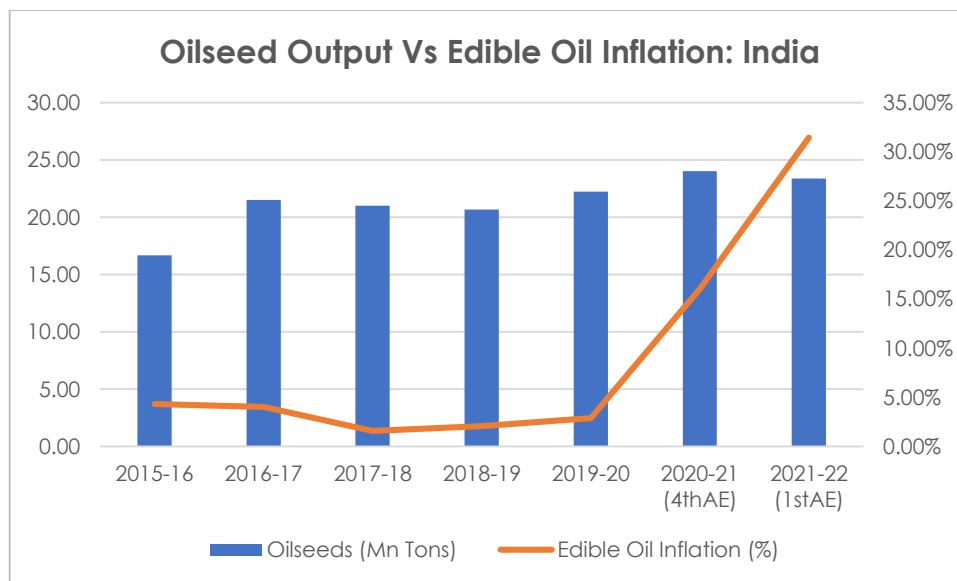


\* Cereal inflation for 2021-22 taken that for Apr-Aug'21 period vs that of last yr

**Chart 2: Steady growth in rice output, recovery in pulses production**



**Chart 3: Drop in oilseed crop estimates to keep edible oil inflation high**



\* Edible Oil inflation for 2021-22 taken that for Apr-Aug'21 period vs that of last yr

**About Acuité Ratings & Research Limited:**

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