

CONSUMER STAPLES

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Agri expert call: El Nino to have negligible impact

- El Nino unlikely to impact crops this year as India has adequate reservoirs and an improved irrigation system
- Tax reform on input costs along with adequate pricing necessary for farm produce to become profitable
- Investment in technology such as drones would improve the health of the agriculture sector

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To gain a deeper perspective on India's rural and agricultural economy, we hosted a call with Chengal Reddy, Chairman – Federation of Farmers Associations, Andhra Pradesh; Co-Chairman – Indian Farmers & Industries Alliance; and Chief Advisor – Consortium of Indian Farmers Associations (CIFA). Key takeaways:

El Nino impact to be negligible: With advancements in technology and better affordability, the irrigation system has improved in many parts of India. This, along with sufficient water reservoirs across the country, has reduced farmers' dependency on the monsoons to some extent. El Nino is, thus, likely to have minimal to no impact on the broader health of the rural economy this year.

Tax reforms needed on input costs: Agricultural inputs have undergone steep inflation over the last five years, whereas minimum support price (MSP) hikes by the government have been relatively lower, making the produce unprofitable for farmers. Tax reforms in key inputs such as pesticides and farm equipment are necessary for farmers to turn a profit.

Technology key for India to meet global standards: The introduction of technology such as drones is likely to transform the farm sector. Farm mechanisation is needed at scale for India to become competitive in global markets and to combat labour scarcity and control input and labour costs.

Growth in non-agri income a boost to rural India: Over the years, more small businesses, and allied activities in rural markets together with remittances from migrant labourers have reduced the dependency on farm income in rural India, though the latter still plays a significant role in the overall health of the economy.

Investments in farm sector must be scaled up: Governments over the years have taken multiple steps to bolster the farm sector, but investments at scale are still lacking. For instance, India needs investments to build adequate storage facilities that can prevent the spoilage of crops. This apart, investments in technology would make agricultural activities viable for marginal farmers as well.

Recommendation snapshot

Ticker	Price	Target	Rating
BRIT IN	4,879	5,623	BUY
DABUR IN	550	628	BUY
GCPL IN	1,035	1,159	BUY
HUVR IN	2,636	3,069	BUY
ITC IN	438	486	BUY
MRCO IN	533	629	BUY
NEST IN	22,074	24,670	BUY
TATACONS IN	801	924	BUY
ZYWL IN	1,504	1,631	HOLD

Price & Target in Rupees | Price as of 9 Jun 2023



Other takeaways

- **Self-sufficient in key crops:** India is self-sufficient in major crops, barring a few such as edible oil and pulses. Policy support, technology adoption and farm reforms are needed for India to become competitive on the world stage as the country has the potential to be a quality global producer but is hobbled by inadequate infrastructure and technology.
- **Short crop cycle:** In India, 80-90% of the produce is sold during four months of the year, namely November-December and April-May.
- **Storage facilities sorely lacking:** Inadequate storage facilities are causing distress sales by farmers to avoid crop damage. Smaller farmers also face challenges due to a lack of facilities in the vicinity.
- **Fertilisers:** Availability of fertilisers is not a constraint, but pricing remains a concern and further moderation is necessary for usage to become viable.
- **Policy support needed:** In the state of Telangana, the government has been proactive in aiding farmers through cash subsidies, free electricity, and crop insurance, but the sector has been unable to attract large investments. Taxes on farm equipment and pesticides should also be reduced.
- **Rural infrastructure on the rise:** Rural India is seeing a considerable pickup in the development of infrastructure such as educational and medical facilities. Housing construction has also gathered pace with proactive assistance from various state governments.

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