



Infomerics Ratings

Infomerics Valuation And Rating Pvt. Ltd.

SEBI REGISTERED / RBI ACCREDITED / NSIC EMPANELLED
CREDIT RATING AGENCY

Mr. Vipin Malik,
(Chairman, Infomerics Ratings)

Dr. Manoranjan Sharma
(Chief Economist)

Mr. Sankhanath Bandyopadhyay
(Economist)

Mr. Rishi Jain
(Research Associate)

INDUSTRY OUTLOOK

RICE INDUSTRY OF INDIA: EMERGING CONTOURS

07 October 2021

Introduction

Rice is cultivated in over one hundred countries in the world. India is the world's second largest producer of rice after China with production of roughly 120 million tonnes. The major rice producing countries are Indonesia, Vietnam, Thailand, Myanmar, Philippines, Pakistan, etc. (Table 1). But to place matters in perspective, it has to be realized that even the third highest producing country, Indonesia, produces less than one-third of that of India.

Rice, which is a high-protein grain, comes in two varieties: basmati and non-basmati. The majority of rice is produced during the Kharif season.



Table 1: Major Rice Producing Countries in the World (milled production in million tonnes)

Country	2020-21	2021-22*	Change Over
China	148.30	149.00	0.70
India	122.00	121.00	-1.00
Indonesia	35.20	35.30	0.10
Vietnam	27.10	26.90	-0.20
Thailand	18.83	19.50	0.67
Myanmar	12.60	12.80	0.20
Philippines	12.40	12.30	-0.10
Japan	7.57	7.58	0.01
Pakistan	8.18	8.20	0.02
Brazil	7.90	7.82	-0.08
USA	7.23	6.46	-0.77
Nigeria	4.89	5.00	0.11
Egypt	4.00	4.00	0.00
South Korea	3.51	3.77	0.26
European Union	1.96	1.99	0.03

*Estimated

Source: Agricultural Market Intelligence Centre, Professor Jayashankar Telangana State Agricultural University

The table below (Table 2) depicts the same. In both kharif and rabi seasons, rice production has been seeing an increasing trend over the years. The total production rose by almost 15 per cent from FY 14 to FY 21.

Table 2: All India Production of Rice (July-June)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21*
Kharif	91.5	91.39	91.41	96.3	97.14	102.04	102.28	104.41
Rabi	15.15	14.09	13	13.4	15.62	14.44	16.59	17.86
Total	106.65	105.48	104.41	109.7	112.76	116.48	118.87	122.27

* Fourth Advance Estimates of Production of Foodgrains for 2020-21.

Source: Ministry of Agriculture and Farmers Welfare, Directorate of Economics and Statistics, Fourth Advance Estimates of Production of Foodgrains for 2020-21.

Available at https://eands.dacnet.nic.in/Advance_Estimate/Time%20Series%204%20AE.%202020-21%20English.pdf

Export-Import Scenario

Rice (including basmati and non-basmati) occupy a major share (more than four-fifth) in India's total cereals export. The following section provides an overview the import and export scenario for rice industry.

Basmati Rice

“Basmati” is long grain aromatic rice grown for many centuries in the specific geographical area, at the Himalayan foothills of Indian sub-continent. Basmati rice is unique among other aromatic long grain rice varieties. So far 34 varieties of Basmati rice have been notified under the Seeds Act, 1966. [1] The table below gives the exports for basmati rice over the last five years.

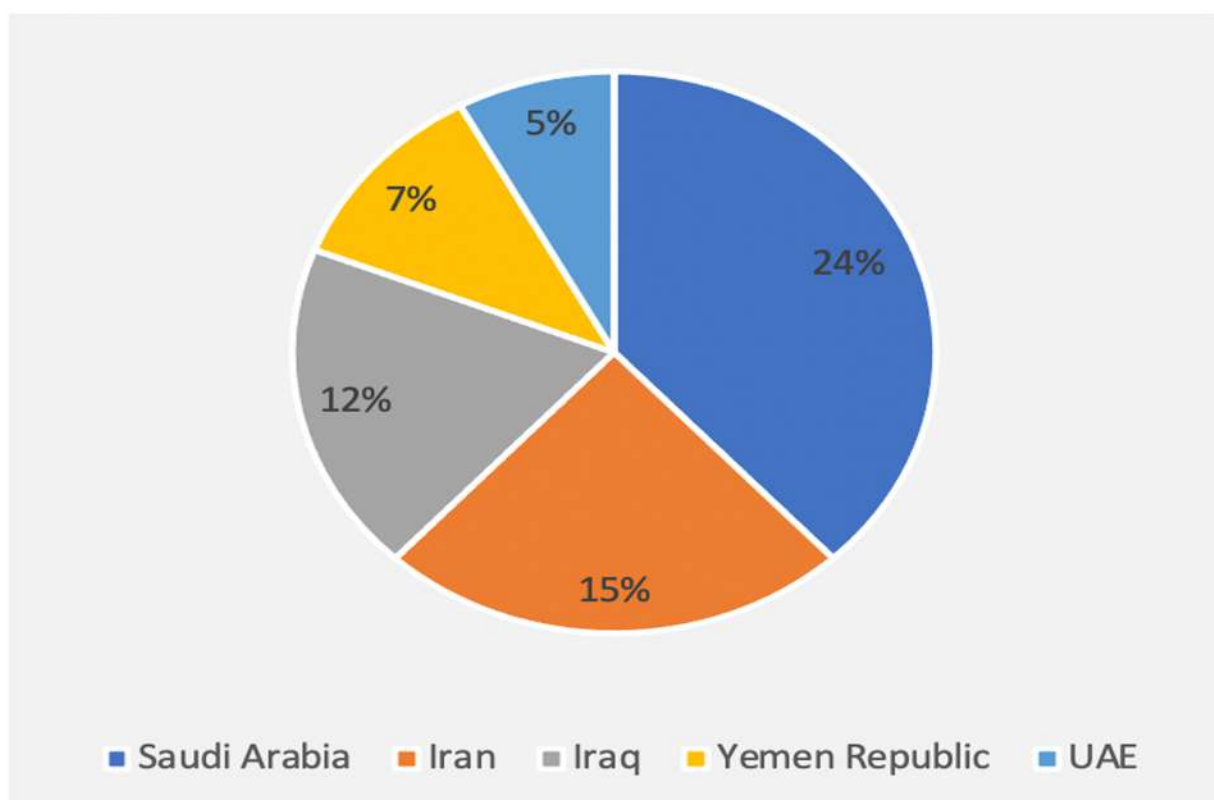
Table 3: Basmati Rice Export (in million tonnes)

2016-17		2017-18		2018-19		2019-20		2020-21	
Qty (mt)	₹ Crore	Qty (mt)	₹ Crore	Qty (mt)	₹ Crore	Qty (mt)	₹ Crore	Qty (mt)	₹ Crore
3.99	21512.91	4.01	26870.17	4.4	32804.14	4.5	31025.56	4.6	29849.74

Source: https://agriexchange.apeda.gov.in/index/genReport_combined.aspx#content

The quality of Indian Basmati is world renowned, and India exports its basmati to the world. It is interesting to see that almost two-third of the basmati export is accounted for by five nations (see Figure 1).

Figure 1: India's Top Export Destination for Basmati (2020-21)



Source: https://agriexchange.apeda.gov.in/index/Product_description_32headChart.aspx?gcode=0601

Non-Basmati Rice

Unlike basmati, non-basmati dominates the export basket for rice industry. Out of the total exports of roughly 17 million tonnes, 13 million tonnes are that for non-basmati breed. However, in terms of value they do not differ significantly given the superior quality of basmati (see Table 4 below).

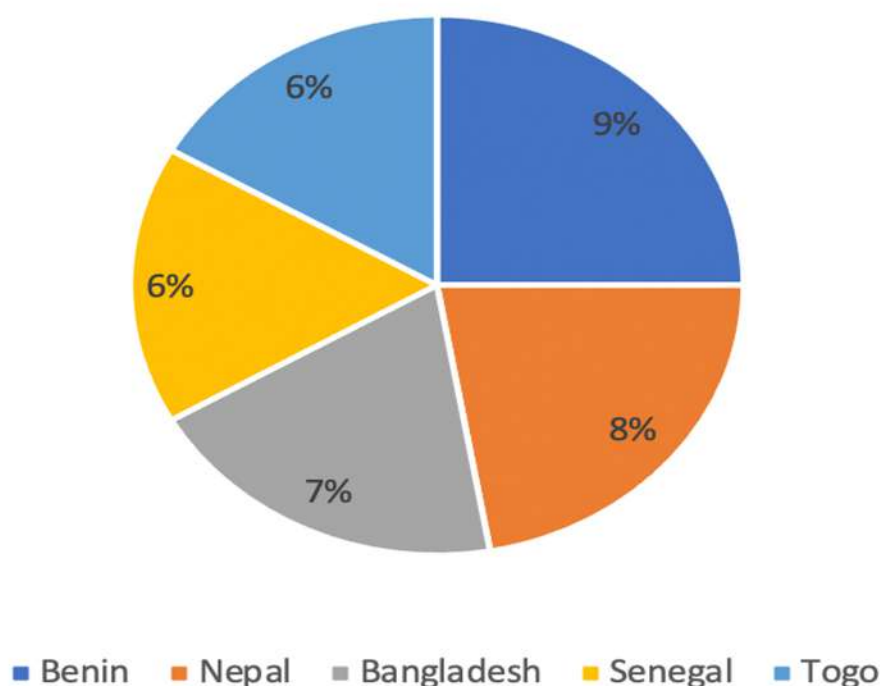
Table 4: Non-Basmati Rice Export-Import (in million tonnes)

	2016-17		2017-18		2018-19		2019-20		2020-21	
	Qty (mt)	₹ Crore	Qty (mt)	₹ Crore	Qty (mt)	₹ Crore	Qty (mt)	₹ Crore	Qty (mt)	₹ Crore
Export	6.7	16930	8.6	22968	7.6	21185	5.04	14365	13.1	35477
Import	0.0011	7.25	0.0021	12.18	0.0069	32.18	0.0056	78.75	0.0047	24.67

Source: https://agriexchange.apeda.gov.in/indexp/genReport_combined.aspx#content

The top five export destination for non-basmati variety is given in the figure below (Figure 2).

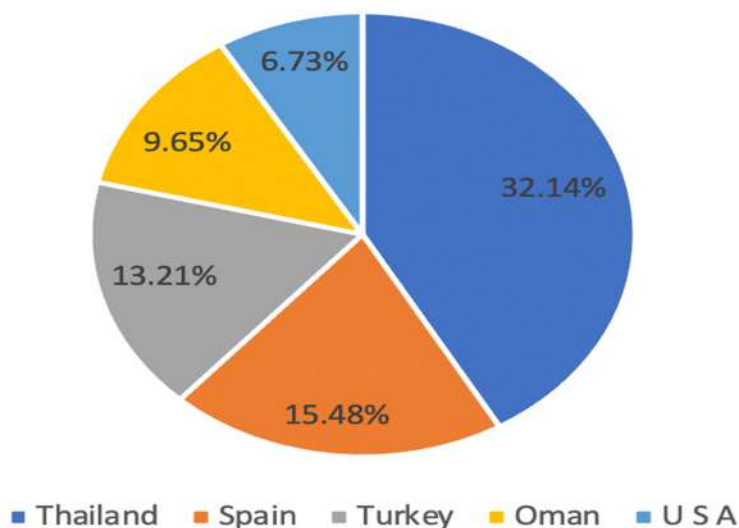
Figure 2: India's Top Export Destination for Non-Basmati (2020-21)



Source: https://agriexchange.apeda.gov.in/indexp/Product_description_32headChart.aspx?gcode=0602

Unlike basmati, non-basmati has relatively staggered export basket with various nations holding a share along with top 5 mentioned in the figure above. Imports are, however, concentrated from some nations (with five nations accounting for more than 75 per cent imports). For example, Thailand constitutes almost one-third of the total non-basmati imports followed by Spain with roughly one-sixth percentage share (see Figure 3 below).

Figure 3: India's Top Import Source Nations for Non-Basmati (2020-21)



Source: https://agriexchange.apeda.gov.in/importtoindia/Product_description_32head.aspx?gcode=0602&value=2&valueCount=1

Government Initiatives

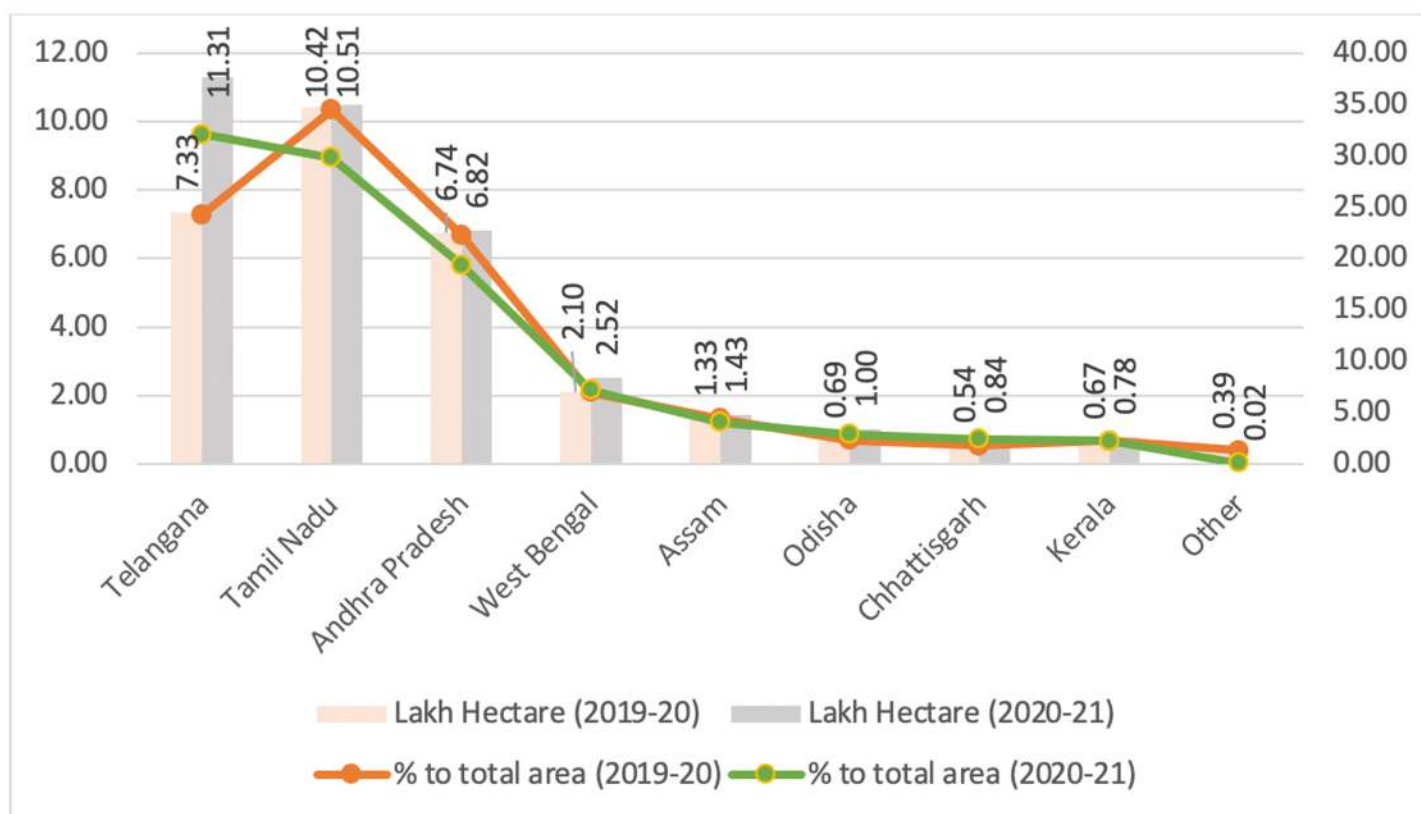
Despite some significant region-specific differences, generic factors, such as, government support in rice production, favorable monsoons, rising number of rice processing companies and increasing exports have salubriously impacted the growth of the rice industry in India.



Increasing Cultivation Area

The states have been successful in increasing area under cultivation under paddy. The figure below (Figure 4) gives the area under cultivation for paddy for major states. It can be observed that Telangana, Tamil Nadu, and Andhra Pradesh have a large area under paddy cultivation and together they constitute more than 80 per cent of the total area under paddy cultivation. Lastly, total area under paddy cultivation increased from about 30 lakh hectares to about 35 lakh hectares from 2019-20 to 2020-21.

Figure 4: State-wise Area under Paddy in India



Source: Agricultural Market Intelligence Centre, Professor Jayashankar Telangana State Agricultural University

Rice Fortification

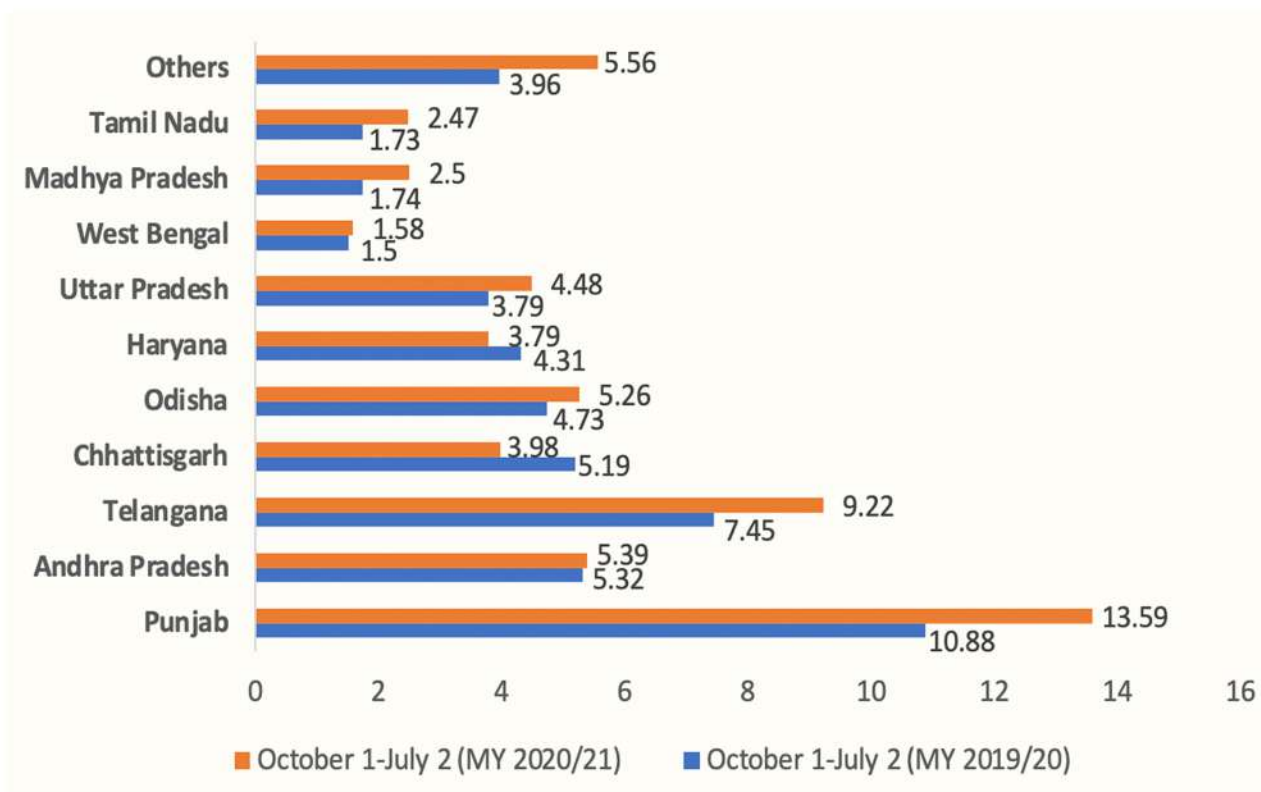
The government is eyeing to fortify rice distributed under various government schemes including Public Distribution System (PDS) and Mid-Day-Meal scheme by 2024. According to the Food Safety and Standards Authority of India (FSSAI) norms, 1 kg fortified rice shall contain iron (28mg - 42.5mg), folic acid (75 - 125 microgram) and Vitamin B-12 (0.75 - 1.25 microgram). In addition, rice may also be fortified with micronutrients, singly or in combination, at the level – Zinc (10mg - 15mg), Vitamin A (500 - 750 microgram RE), Vitamin B1 (1mg - 1.5mg), Vitamin B2 (1.25mg - 1.75mg), Vitamin B3 (12.5mg - 20mg) and Vitamin B6 (1.5mg - 2.5mg) per kilogram.

The announcement is significant as the government distributes over 300 lakh tonnes of rice under various schemes covered under the National Food Security Act, 2013. The Centre has allocated 328 lakh tonnes of rice for Targeted Public Distribution System (TPDS), Mid-Day-Meal (MDM) and Integrated Child Development Scheme (ICDS) under National Food Security Act (NFSA) during 2021-22. [2]

Increased Rice Procurement

The total rice procurement by the government increased by more than 14 per cent from marketing year 2019-20 to marketing year 2020-21 from 50.58 million metric tonnes to 57.82 million metric tonnes. The figure below (Figure 5) details the rice procurement by major states. Punjab clearly tops the list by procuring more than 20 per cent of all rice procured. Except Haryana and Chhattisgarh, by and large all states have increased their rice procurement.

Figure 5: Government Rice Procurement by State in Million Metric Tonne (MMT)



Source: Grain and Feed Update – July 2021, United States Department of Agriculture. Available at <https://www.fas.usda.gov/data/india-grain-and-feed-update-28>

Increasing Minimum Support Price (MSP)

The government has been regularly updating the MSP for paddy. In the last decade, the MSP almost doubled (see Table 5 below). Recently, the government announced the MSP at ₹1940 per quintal for 'common paddy' and ₹1960 for 'Grade-A paddy' for the marketing year 2021-22.

Table 5: MSP (in ₹/quintal) for Paddy (Delhi-Region)

Marketing Year	Paddy	
	Common	Grade-A
2010-11	1000	1030
2011-12	1080	1110
2012-13	1250	1280
2013-14	1310	1345
2014-15	1360	1400
2015-16	1410	1450
2016-17	1470	1510
2017-18	1550	1590
2018-19	1750	1770
2019-20	1815	1835
2020-21	1868	1888
2021-22	1940	1960

Source: <https://fci.gov.in/procurements.php>

Industry Risk

Rice production is beset with a variety of risks. More specifically, such risks include high price of fertilizers, plummeting water table, soaring price of agricultural inputs and asymmetric market price information by the farmer. There are also persisting issues of high rent charges of agricultural machinery, poor transportation, grossly inadequate consultancy facilities and adequacy, timeliness and cost of credit. The diverse setting significantly impacts seasonal concentration, spatial spread, and loss of about 10 per cent of paddy/rice in processing, storage and transport. Heterogeneity of rice milling mills in terms of kind, capacity location, services and ownership make the application of any standard investment, cost and return template fraught with difficulties.



Some specific industry risks relate to the following three aspects:

1. Container Shortage

The Federation of Indian Export Organisations (FIEO) asked the government to release approximately 25,000-30,000 containers lying at different ports in the country. These containers have not been unloaded because of disputes with Customs and other departments. The exporters' body has asked the government to help in release these containers, so they can be used for exports. Some low-value export items that are exported in high volumes have been impacted the most. The export of items includes granite tiles, tea, rice, and furniture have been hit while other categories have completely stopped.[3] Basmati rice exports have been affected badly because 80 per cent of the trade is conducted through containers.

2. Scanty Rains

The rainfall this summer season could be erratic and might affect crop production as per forecasts made by weather agencies. Farmers have planted hectares of land with rice this year with fears of scarce rainfall [4] although the Indian Meteorological Department has forecast the country will receive normal monsoon rains in 2021.

3. Low MSP Coverage

Despite the government's move to regularly increase the MSP, the full realization of this price is debatable. As per an analysis done by the Hindu,^[5] there was a reduction of more than 14 percentage points (from 17 per cent to 2.7 per cent) in the paddy households that sold their produce to the APMC mandis from the year 2013 to 2019. The reasons vary from participation of private traders to low infrastructure or to simply being unaware.

The Way Forward

The production of paddy/rice in India, as indeed in most other countries, cannot be considered in isolation, in silo. It needs no clairvoyance to perceive that paddy/rice production is inextricably linked to the broader historical and intractable question of land rights and land ownership, food security, political stability, preservation of natural ecosystems and agricultural diversification. Given such huge macro-economic concerns, it is evident that the issue of paddy/rice production impacts lives and livelihoods and the emerging process and pattern of economic growth and distributive equity beyond its production in a manner and to an extent, which few other crops in India do. Stringent international food quality and safety standards of the E.U., the U.S., and Japan can help to enhance the quantity and quality of organic production, and thereby improve overall standards.

We are broadly optimistic about the future of the rice industry in India. The government has been keen on bringing about structural changes in the sector. These changes have been facilitated by the improving rice quality and the rising MSP. There are, however, some lags, the most important being the container shortages. Given the export basket of rice for India, it becomes imperative for the industry and stakeholders to sort out logistic issues. Further, it is important that government improves the on-ground situation by removing the bottlenecks in the process of realising MSP. ^[6] Finally, despite the on-going process of growth, modernization and structural transformation, the Indian agriculture continues to be a gamble in monsoon. Hence risk mitigation measures, crop insurance, price stabilization measures, stress on geographical indicators (GI) of basmati rice in India and optimum use of agro-climatic conditions can help to reduce the extent of dependence on the vagaries of the monsoon. In the ultimate analysis, a comprehensive rice strategy should, with the support of new systems, technologies and new rice seed varieties, focus on enhancing yield for sustained all-round development.

ENDNOTES

1. Agricultural and Processed Food Products Export Development Authority (APEDA). See <https://www.apeda.gov.in/>
2. "Independence Day 2021: Why PM Modi's announcement on fortified rice is significant", The Indian Express (16th August 2021). Available at <https://indianexpress.com/article/explained/explained-why-pm-modis-announcement-on-fortified-rice-is-significant-7454623/>
3. "Global container shortage poses fresh export hurdle for India", India Today (30th August 2021). Available at <https://www.indiatoday.in/business/story/global-container-shortage-impact-on-india-export-trade-volume-1847120-2021-08-30>
4. "Summer crop sowing lags in India on scanty rains, raises concern over yields", LiveMint (23rd August 2021). Available at <https://www.livemint.com/industry/agriculture/summer-crop-sowing-lags-in-india-on-scanty-rains-raises-concerns-over-yields-11629728520272.html>
5. "Mandis to Markets", The Hindu (15th September 2021).
6. This is not just restricted to paddy, but ranges to other crops as well like jowar, maize, wheat, cotton, etc.

Infomerics Valuation And Rating Pvt. Ltd.

**SEBI REGISTERED / RBI ACCREDITED / NSIC EMPANELLED
CREDIT RATING AGENCY**

CORPORATE OFFICE

Mr. ML Sharma

Mobile No.: +91 9619112204, E-mail: mlsharma@infomerics.com

Office No.: 022-62396023; 022-62396053

Address: Office No. 1105, B wing, Kanakia Wallstreet, Off Andheri Kurla Road,
Andheri East, Mumbai - 400093.

EAST INDIA OFFICE

Mr. Avik Sarkar

Mobile No.: +91 8929802903, E-mail: asarkar@infomerics.com

Office No.: 033-46022266,

Branch Office Address: 202, 2nd Floor, Justice Court,
2/3 Justice Dwarkanath Road, Near Elgin Road Lee Road Crossing,
Kolkata - 700020.

WEST INDIA OFFICE

Mr. Dheeraj Jaiswal

Mobile No.: +91 8928802910, E-mail: dheeraj@infomerics.com

Branch Office Address: #1102/A, Synergy Tower, Prahaladnagar, Corporate Road
Nr. Vodafone House, Off S.G. Highway, Ahmedabad - 380015

SOUTH INDIA OFFICE

Mr. D. Suresh Pai

Mobile No.: +91 8929802937, Email: dspai@infomerics.com

Address: Flat no. 2 Panchajanya II Main Road, NOBO Nagar Kammanahalli,
Main Road Off. Bannerghatta Main Road, Bangalore - 560076



Infomerics Ratings

Disclaimer

' Infomerics Valuation And Rating Private Limited has taken due care and caution in preparing the report and information is based from sources which it believes to be reliable and authentic. However, Infomerics Valuation and Rating Private Limited does not guarantee the accuracy, timeliness, adequacy or completeness of any information and is not responsible for any errors or omissions. Use of information and data contained in this report is at user's own and sole risk. The management of Infomerics Valuation and Rating Private Limited are not liable for the results obtained and interpreted from the use of such information.'