



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. Athar Imam Raza
(Officer - Economic Analysis)

INDUSTRY OUTLOOK

RICE INDUSTRY OF INDIA: UPWARD TRENDS AND PROSPECTS

21 September 2022

Introduction

Rice is the most common and popular staple food in India. It has been the most common source of human nutrition and calorie intake amongst the Asian populace. Rice is the world third-most produced agricultural crop behind sugarcane and corn (maize). Rice is extracted from paddy crop and cultivated in both Kharif and in Rabi season in India.

Paddy as a Kharif crop is cultivated in autumn season in warmer regions during the monsoon from June to September while as a Rabi crop, it is cultivated during winter-spring season from November to March. The crop is largely produced in West Bengal, Uttar Pradesh, Andhra Pradesh, Tamil Nadu, Bihar, Chhattisgarh, and Odisha. There are more than 3,000 varieties of rice grown across the country which takes 2 to 3 three months to be grown. As per the land use statistics 2018-19 and Annual Report 2021-22, Department of Agriculture & Farmers Welfare, there are more than 45,416 thousand hectares of land area under rice cultivation in the country. [1]



The South Asian peninsular ranked second for consumption of rice globally. This is not surprising with over half of the Indian population consuming rice. Of all varieties, white rice is most consumed as it also helps with digestive problems.

Total production of Rice during 2021-22 is estimated at a record 129.66 million tonnes. It is higher by 13.23 million tonnes than the last five years' average production of 116.43 million tonnes. [2][3]

Production of Rice in India

The production trend of Kharif rice can be seen in the chart below (See Chart 1) where 2015-16 onwards, there is a consistent rise on an year-on-year (y-o-y) basis in production while the production of Rabi rice remained almost stagnant. The yield (kg/hectare) production of rice was 2638 kg/hectare in 2018-19 which increased to 2713 kg/hectare as per the fourth advance estimate during 2021-22.

According to latest estimates, India's rice production during the 2021-22 crop year, ended June, stood at record 130.29 million tonnes (MT) as against 124.37 MT in the previous year. The Food ministry has projected a fall of 6-7 MT in rice production during this year's Kharif season, which accounts for 85 per cent of the country's total rice output. With adequate buffer stock, India is well placed to meet any major shocks.

Chart 1: Trend of Rice Production in India from 2007-08 to 2021-22

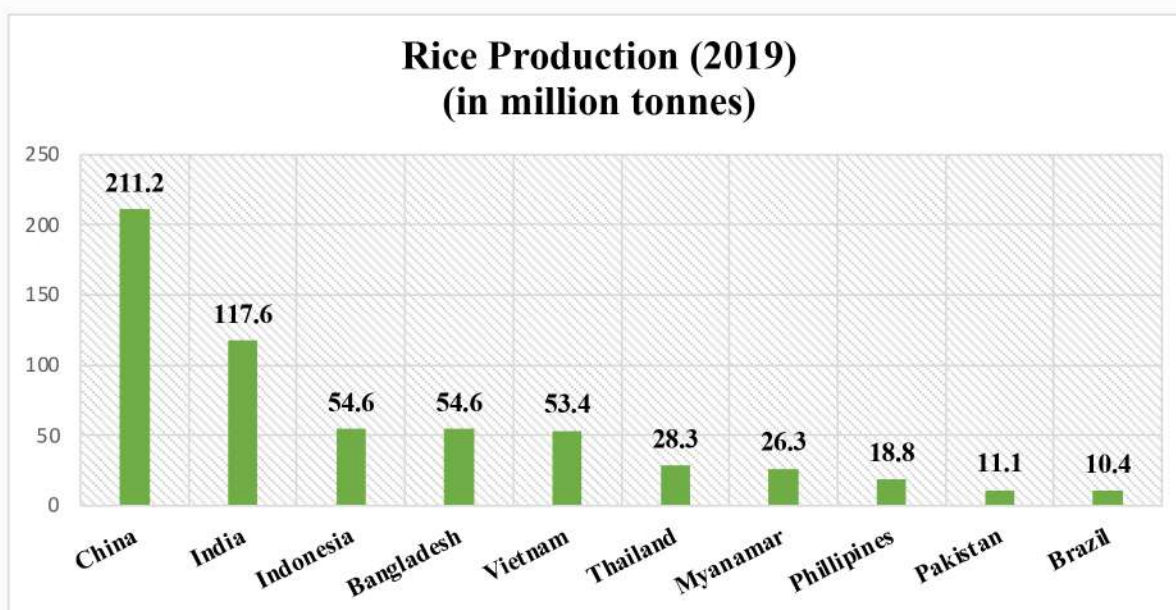


Source: Ministry of Agriculture & Farmer Welfare, Government of India, PIB Delhi

Out of the total global production of rice, about 85 per cent rice from just ten countries. China and India are the top two producers, accounting for more than half of the global production. All the top ten producers of rice are from Asia, except for Brazil [4] (See Chart 2).

With declining paddy sowing area, erratic June-September rainfall and delayed withdrawal of South-West monsoon rains, high rice prices are here to stay for some more time exacerbating the inflationary pressures and the pain and miseries of the common man.

Chart 2: World's Biggest Rice Producers



Source: World Economic Forum

With declining paddy sowing area, erratic June-September rainfall and delayed withdrawal of South-West monsoon rains, high rice prices are here to stay for some more time exacerbating the inflationary pressures and the pain and miseries of the common man.

Rice Stocks and Procurement by Government

Rice stock in godowns owned by the Government had over 47.2 million tonnes on July 1, 2022. The available stocks which are three-and-a-half times the minimum level, are meant to meet both “operational” (public distribution system) and “strategic reserve” exigency requirements for the quarter (Harish, Indian Express dated July 18, 2022. The government has sufficient rice more than the Buffer norm of 135.4 mt in their buffer stock to meet the exigency requirements as compared to previous years’ figures.

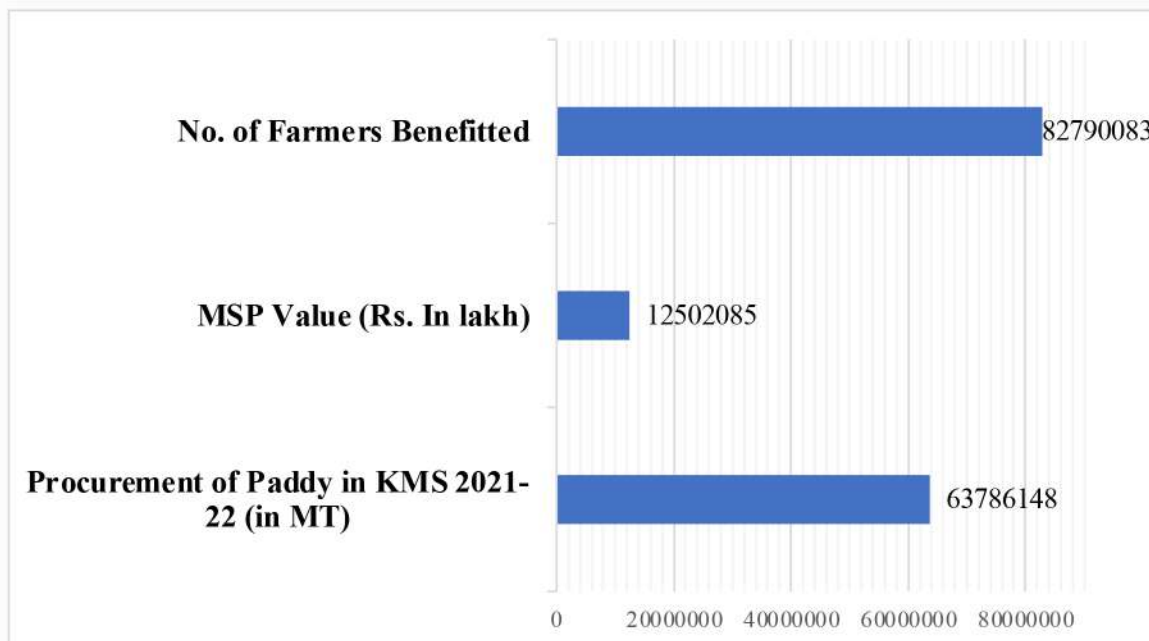
Table 1: Rice Stock in Government Godowns (as on July 1, 2022)

Year	Rice* (in million tonnes)
2008	112.49
2009	196.16
2010	242.66
2011	268.57
2012	307.08
2013	315.08
2014	276.6
2015	216.71
2016	246.69
2017	264.68
2018	275.57
2019	354.63
2020	394.31
2021	491.1
2022	472.18
Buffer Norm	135.4

Source: Indian Express, Dated July 18, 2022

There is an uptick in procurement of rice in the central pool over the last four years from 382 lakh tonnes Kharif marketing season 2017-18 to 503 lakh tonnes up to March end 2022. With this level of procurement of rice, government will be in a comfortable position to meet the required allocations in the government schemes like Pradhanmantri Garib Kalyan Yojana and Public Distribution System (PDS) under National Food Security Act (NFSA).[5] Also, 82.79 lakh farmers benefitted with MSP value of ₹1,25,020.85 crore as of January 31, 2022 [6] (See Chart 3).

Chart 3: Paddy Procured, MSP Value and Farmers Benefitted as of January 31, 2022 (2021-22)



Source: PIB Delhi

During Kharif Marketing Season (KMS) 2020-21, government agencies procured 600.78 LMT of Paddy in terms of Rice at Minimum Support Price (MSP) for Central Pool. Further, as of December 31, 2021, 326.03 LMT of Paddy in terms of Rice have been procured at Minimum Support Price (MSP) for Central Pool. A total number of 125020.85 crore farmers were benefitted from procurement of Paddy by government agencies during KMS 2021-22.

Institutional Initiatives

Rice is an essential part of the consumption pattern of the people of India, and it provides nutrition to every poor person of the country, which is also a priority of government. Therefore, on India's 75th Independence Day (August 15, 2021), the Prime Minister of India made an announcement on Fortification of Rice to be distributed under ICDS/ Pradhan Mantri Poshan Shakti Nirman – PM POSHAN (erstwhile Mid-Day Meal Scheme (MDM)), including the public distribution system (PDS) by 2024.

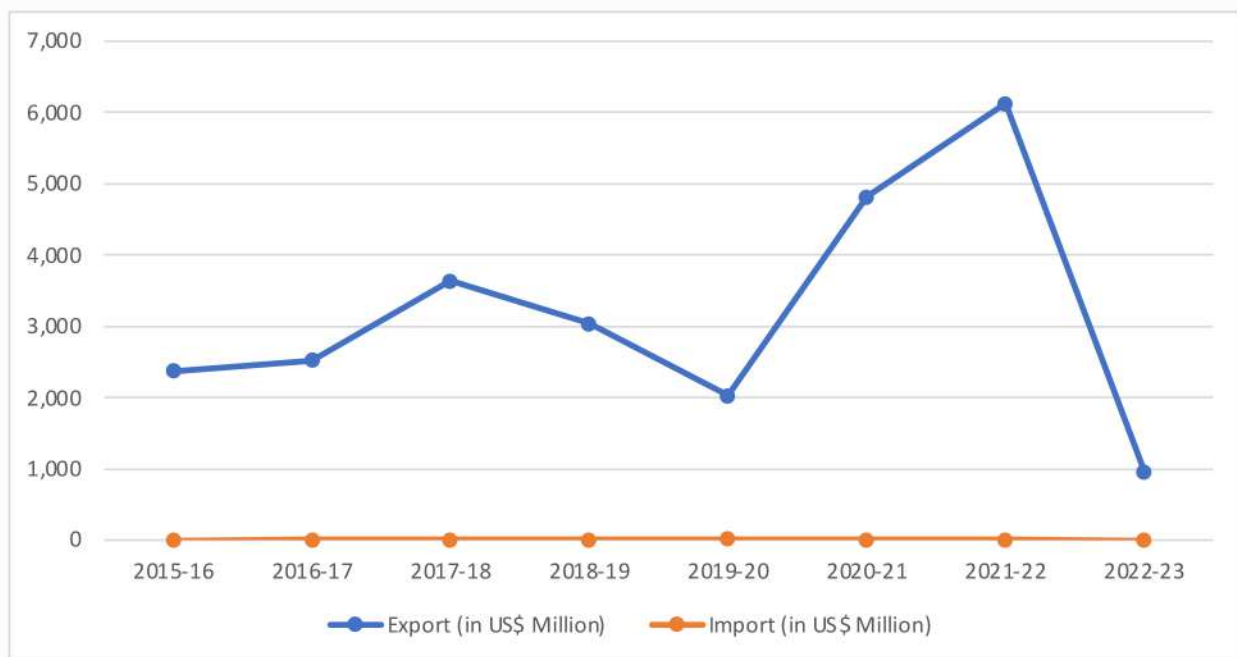
The government of Indian has announced a Centrally Sponsored Pilot Scheme on "Fortification of Rice & its Distribution under Public Distribution System" for a period of 3 years beginning 2019-20 to address anaemia and micronutrient deficiency in the country. The Union Government has urged the states to implement the scheme in their respective states. As of now, fifteen states have consented and are ready to comply with government's guidelines to implement the pilot scheme. Out of the 15 consented states, 11 have already started the distribution of fortified rice under pilot scheme. Recently, the Central Government has increased the Minimum Support Price (MSP) of Paddy-Common to ₹2,040 per quintal from ₹1940 for 2022-23 crop year with an increase of 5.15 per cent.

The MSP for 'A' grade variety of paddy increased to ₹2,060 per quintal from ₹1,960 with an increase of 5.10 per cent.[7] The objective of the government is to encourage farmers to bring more area under the crop as well as to adopt best technologies and farming practices, to correct demand-supply imbalance.

Trade

As per the figures 85 per cent of total production of rice in the world is produced by ten countries only. It signifies that other countries are relying on exports of rice by countries producing surplus rice. It needs to be stressed here is that out of the total calorie consumed by human globally, rice is the source of one-fifth calorie consumption worldwide. There is a demand of Indian rice in global market. This is why India's non-basmati rice exports witnessed a growth of 109 per cent from \$2925 million in FY 2013-14 to \$6115 million in FY 2021-22 [8] (See Chart 4).

Chart 4: India's Yearly Trend of Rice (non-Basmati) Trade



(Values in US\$ million)

Source: <https://dashboard.commerce.gov.in/commercedashboard.aspx>

As per the Directorate General of Commercial Intelligence & Statistics (DGCIS) data, India's rice export (non-Basmati) has registered a growth of 27 per cent in FY 2021-22 which was the top forex recipient among all agri-commodities from the previous year's rice export. India exported rice (non-Basmati) to over 150 countries across the globe in FY 2021-22 while in FY 2020-21, India exported rice to nine countries only.

India's counterparts in rice exports like Thailand and Vietnam are facing the issue of rising cost of production of rice and this has created an opportunity for India to encash the higher realisation in the global market. India is exporting rice at around \$360 a tonne to key markets at present while Thailand and Vietnam are offering the grain at around \$420 a tonne.[9] It is expected that the gap will widen further in the coming days. Besides, prospects of a reasonably strong kharif crop could enable Indian exporters to fetch higher realisations. Even in volume terms, India's rice exports in the current year could match or slightly exceed last year's record level of 21 million tonne.

India's non-basmati rice is largely reaching China with a value of US \$160 million followed by countries like Benin, Guinea, Senegal, and Cote D'Ivoire with a value respectively of US \$86 million, US \$76 million, US \$62 million, and US \$45 million (See Chart 5).

Chart 5: Top 10 Destinations of India's Non-Basmati Rice Exports

(Values in US\$ Million)



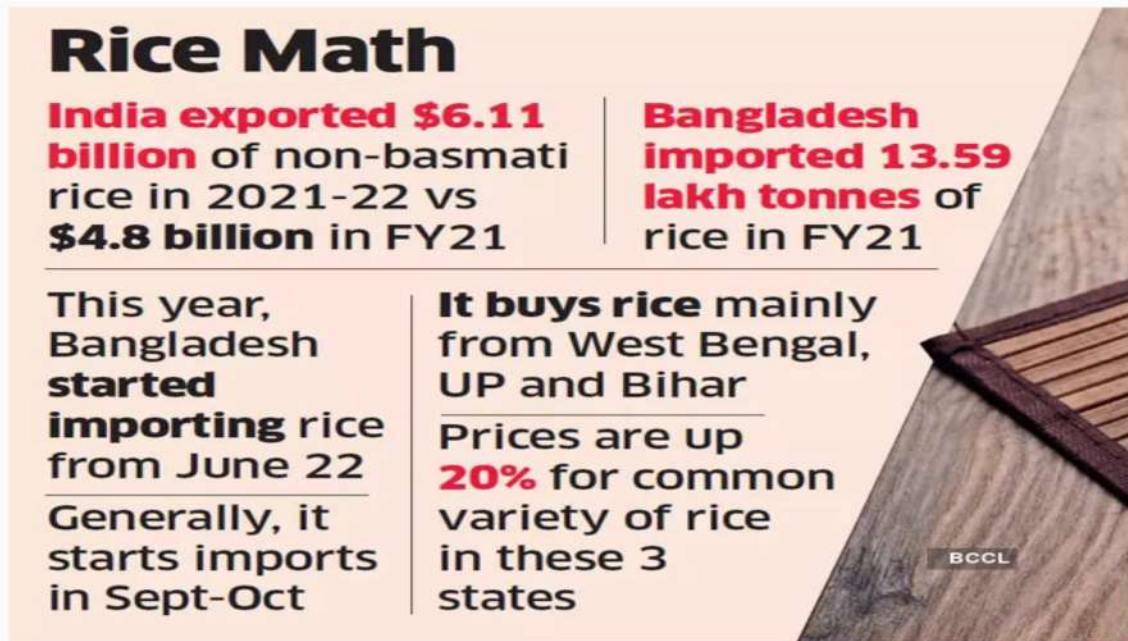
Source: Ministry of Commerce and Industry

As per the United States Department of Agriculture (USDA) Rice Outlook Report released this year in June, the global rice trade in 2022 calendar is projected at a record 54.3 MT. India's exports are projected to a record 22 MT and account for almost 41 per cent of global shipments. This report also highlighted that India's projected rice exports are likely to exceed the combined shipments of the next three-largest exporters—Thailand, Vietnam, and Pakistan this year. [10]

During late June 2022, Bangladesh slashed import duty tariffs on rice from 62.5 per cent to 25 per cent amid shortage of staples in Bangladesh due to heavy rain causing early flood, and storms have hampered rice yield in the country. Also, there is a fear of further volatility in the prices and the likelihood that India could ban rice exports and also impose a ban on wheat exports. This has resulted in the rice price jumping by 10 per cent recently.

India's rice export price goes up due to heavy flood in Bangladesh has adversely affected the crop season this year and ravaged the supply of grains. As per media reports, India's 5 per cent broken parboiled rice variety was quoted \$361 to \$366 per ton earlier now costs \$362 to \$368 per tonne. [11]

Chart 6: Rice Stats



Source: Business Standard, June 27, 2022

Industry Risk

Decrease in rice yield per hectare during FY 2021-22 has been a concern for paddy growers. It has been estimated that 2.7 thousand kilograms per hectare production of rice across the country will be there during the FY 2021-22 which is low in the last five years. The rising demand of rice, as a major staple food for consumption, with rising population endangers food security efforts of the government. However, the government's focus is on incentivising farmers through MSP that the yield production of rice as well as the area under rice cultivation can be increased.

The recent move of levying 5 per cent GST on packed rice up to 25 kg by the government will hurt the rice industry. Rice is a part of basic consumable items, and this move will aggravate price inflation and hence the food inflation further. Also, there is a higher risk of making small retailers uncompetitive after this as well as the income of farmers will get affected. [12]

Despite 353.7 mm rain received during monsoon from July 1 to July 17, 2022, across the country which is 12.7 per cent more than the average rainfall during the period. The paddy-growing states like Uttar Pradesh, West Bengal, Bihar, and Jharkhand still facing less rains than the required for their paddy farming. The cumulative rainfall has been 55.5 per cent below the long period average in Western Uttar Pradesh, and 70 per cent, 45.8 per cent, 48.9 per cent and 45.1 per cent respectively for Eastern Uttar Pradesh, Bihar, Jharkhand, and Gangetic West Bengal. Deficient rainfall may affect the kharif crops especially the paddy crops in the reason that the rice industry may face this crop year.

The Road Ahead

During the marketing year 2021-2022, rice consumption estimate rose to 109.5 million metric tonnes (MMT) and closing stocks lowered to 36 MMT. The rice consumption estimate was raised because the government decided to replace wheat with additional rice volume. In the month of May, government had allocated additional 55 lakh tonne rice instead of wheat under the free ration scheme PMGKAY.

But now states like Uttar Pradesh and Gujarat have demanded restoration of wheat supply under the NFSA and PMGKAY schemes due growing demand of wheat from the people. The beneficiaries under the schemes are demanding both rice and wheat as per their food preferences.

In the current crop season, Indian farmers have managed to plant 12.85 million hectares with grain so far until July 15, 2022, which is 17 per cent down from the same period last year. The scanty rainfall in paddy growing areas in the country has adversely impacted the crop sown area this year. This may affect the India's rice estimated production level for the kharif marketing year 2022-23.

However, most of the Asian nations facing the similar situation and struggling to contain soaring domestic prices of rice. Subsequently, the government may allow private traders to import rice from surplus nations and the slashing of import duty rice might be done by the government.

ENDNOTES

1. https://agricoop.nic.in/sites/default/files/Web%20copy_eng.pdf
2. <https://pib.gov.in/PressReleasePage.aspx?PRID=1798835>
3. <https://newsonair.gov.in/Main-News-Details.aspx?id=441328#:~:text=Total%20production%20of%20Rice%20during,production%20of%20116.43%20million%20tonnes.>
4. <https://www.weforum.org/agenda/2022/03/visualizing-the-world-s-biggest-rice-producers/>
5. The Print, <https://theprint.in/opinion/does-india-have-enough-rice-for-welfare-schemes-and-ethanol-what-the-govt-is-missing/1036965/>
6. PIB Delhi, <https://pib.gov.in/PressReleaselframePage.aspx?PRID=1793863>
7. https://www.business-standard.com/article/economy-policy/kharif-msp-hiked-5-9-for-2022-23-season-largest-spike-in-pulses-oilseeds-122060801010_1.html
8. <https://pib.gov.in/PressReleasePage.aspx?PRID=1818313>
9. <https://www.financialexpress.com/economy/indias-rice-exports-to-surge-on-global-crunch/2593190/>
10. <https://www.financialexpress.com/economy/indias-rice-exports-to-surge-on-global-crunch/2593190/>
11. Economic Times, <https://economictimes.indiatimes.com/news/economy/foreign-trade/india-rice-export-rates-up-as-planting-lags-floods-ruin-bangladesh-crop/articleshow/93030326.cms?from=mdr>
12. The Hindu, <https://www.thehindu.com/news/national/karnataka/rice-millers-across-state-to-shut-down-against-5-gst-on-unbranded-food-products/article65640099.ece>