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Time ripe for agriculture

THE outlook for agriculture in India is changing: price increases are lifting realisations, which, in turn, are being reinvested in productivity enhancements. Small changes in the agricultural value chain can add up to a substantial improvement in yield and productivity.

India ranks high in terms of total production of various commodities including milk (first), wheat (second), rice (second), fruits and vegetables (second). Increasing prices of commodities via government supported MSPs or general inflation (milk, fruits and vegetables) have led to a doubling of farmer incomes over this decade. Thanks to the injection of funds by the government through various schemes (like MG-NREGA and PM Gram Sadak Yojana), the Indian heartland is witnessing a bout of prosperity.

However, low yields (across all staples and milk) highlight a crying need for research-led investments that lead to on-the-ground changes. Re-skilling of farm labour and farmers is still required to reduce their dependence on the low returns on agricultural investments, which are in the low single digits, even after the interest subsidy provided by the central and state governments.

Our calculations show that profitability in staples may be up 3-7X over the last decade on an all-India level as output price increases outpace input costs rise. Capital formation (at 14% of GDP) in this sector is improving with public sector taking the lead, even though it is still considerably short of taking growth to 4% levels. Credit to the agriculture sector has increased 4.4X over the six-year period ended FY2007. Prosperous farmers are consolidating land holdings — the fallout of which is further

marginalisation of small farmers for whom it may be more attractive to sell out than to hold, if only they could be skilled to do something else if not farming.

A shortage of labour is hitting agriculture, leading to increased mechanisation (tractors, tillers) and use of chemicals (herbicides). Our calculations indicate that the average cost of labour is rising much faster (between 4% and 13% yearly) than horsepower adjusted prices of tractors, making tractor purchase an increasingly profitable option (also given that the tractor can be monetised for construction activities and as a mode of transport helps).

Achieving scale and using the right technology can produce significant yield enhancements: the seeds and fertiliser companies are in the best position to lead the revolution. Cotton productivity has gone up 3X (591 kg/ha in FY2009 from 186 kg/ha in FY2002) since the Bt seeds were introduced. Contrast this with less than 2X increase in productivity from independence to FY2002.

With weather forecasting erratic (over the past 12 out of 16 years, IMD forecasts have seen 'significant deviation', with greater than +/-5% difference between forecasted and actual rainfall), crop insurance has not taken off significantly. Soil and water quality is also deteriorating, which presents opportunities to seed and sprinkler companies.

Government initiatives in procuring (to maintain price stability), warehousing (to create stock buffers) and distributing (to ensure access) food have been woefully inadequate. With government buying around 30% of the produce for both wheat and paddy, it remains a big player in determining prices and in the lo-

gistics value-chain. With APMC mandis situated at an average distance of 12 km from a farmer (with the benchmark being 5 km and the highest being 60 km), there is significant wastage between farm-gate and the *mandi*.

Over the last few years, governments have piled up a stock of 58 million MT, with storage capacity of only 33 million MT, rotting grain in a hungry country. An inefficient distribution chain leads to time and produce wastage, estimated at ₹580 billion a year. There is significant investment coming in from private players in warehousing. Higher incomes are raising the demand for protein. This calls for changes in cropping patterns (cultivated acreage in fruits and vegetables is up 52% and 29%, respectively in the last seven years ending FY2009) and increased production of dairy and poultry.

The processed food industry can capture significant value and is expected to boom along with the associated packaging and retailing industry. For example, we note that two-thirds of Indian milk is unpasteurised, only 5% of milk is processed into higher value products. The Indian food import cost is rising due to increased demand for edible oil and pulses. On the export front, India needs to broaden base from cereals, basmati rice, fruits and vegetables (both fresh and processed — primarily mango) and animal products, which remain the top items.

Better quality inputs (seeds, mechanisation), higher-value farming (pulses, horticulture, dairy, poultry) and more food processing will be the game-changers for Indian agriculture.

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