

Buoyant Rice production and export performance

Credit outlook for the sector remains stable

India's production of rice hit an all-time high in 2011-12 crop year (period from July to June) and crossed the 100 million tonnes level. Also India has emerged as the world's leading exporter of rice in 2011-12 marketing year (period from October to September). India is expected to retain its top rank as rice exporter in 2012-13 marketing year on bumper production and strong export demand for Indian rice, both basmati and non basmati.

The business profile of CARE-rated rice millers are expected to improve in the medium term backed by increasing scale of operations. However, leveraged capital structure owing to the seasonal and highly working-capital-intensive nature of the business will continue to impact the financial risk profiles. Improvement in the overall credit profile of the players would depend on their ability to fund the incremental working capital requirements through a judicious mix of equity and debt.

Increased productivity leading to bumper rice production

India is the second-largest rice producer in the world after China. India produced a record 105.31 million tonnes (mt) of rice in 2011-12 crop year (period from July to June) and the second-highest level of 104.40 mt in 2012-13 crop year. As a result of various initiatives such as introduction of better crop varieties, inputs, irrigation and price support and procurement operation taken by the government, the productivity of rice has increased from 2,202 kg per hectare in 2007-08 to 2,393 kg per hectare in 2011-12. Rice is the most important food crop of India, cultivated nationwide and contributing about 40 percent of total food grain production. Rice is predominantly a rain-fed crop, planted in the 'kharif' season and is cultivated from June-July to September-October and the peak arrival time of crop at major trading centers begins in October. Moreover, there is a small portion grown in 'rabi' season in the states of West Bengal, Andhra Pradesh, Odisha and Tamil Nadu.

The spread of Green Revolution to eastern States has been driving rice output in recent years. The Government of India had launched a special program in 2010-11 named "*Bringing the Green Revolution to eastern States (BGREI)*" with the aim of promoting the Green Revolution and other improved technologies in eastern region of India comprising Assam, Bihar, Chhattisgarh, Jharkhand, Odisha, Eastern Uttar Pradesh and West Bengal which together contribute to over half of the total rice produced in the country. The rice production in these seven states increased from around 42.6 mt before the launch of BGREI to 46.97 mt in 2010-11, 55.27 mt in 2011-12, and 55.62 mt in 2012-13.

India becomes world's leading rice exporter

India emerged as the world's leading exporter of rice in 2011-12 marketing year (period from October to September) with record export volume of 10.3 mt comprising of 6.7 mt of non-basmati rice and 3.5 mt of basmati rice. Expanded production, large public stocks, weak currency and liberal export policy helped India surpass Vietnam (7.7 mt) and Thailand (7.0 mt). In 2010-11, Thailand was the top exporter with shipment of 10.7 mt followed by Vietnam with 7.1 mt and India (4.8 mt). After the Government of India lifted the ban on export of non-basmati varieties of rice in September 2011, the Indian non-Basmati rice became very competitive in the global market. With stable closing inventory (about 25 MT in 2012-13) level, the same is likely to continue. The top export destinations for Indian non-Basmati rice are Nigeria, Senegal, Benin, Cote D Ivoire and South Africa. India is expected to retain its top rank as rice exporter in 2012-13 marketing year given the second-highest level of production in 2012-13 crop year, large public stocks, liberal export policy and weak currency.

Despite being the world's largest rice producers, China remains a net importer of rice due to high internal consumption. As per latest USDA (United States Department of Agriculture) report, China is likely to become world's largest rice importer this year. Rice consumption in China is likely to reach 147 mt which will would surpass the total production of 144 mt, meanwhile China would probably import about 3 mt of rice which will is likely to exceed the current top importer Nigeria which is projected to import around 2.9 mt, as per USDA.

Basmati: India's edge over other countries

India is the world's largest producer of basmati rice (the aromatic grain). This aromatic rice is grown only in certain parts of India and Pakistan which have conducive agro-climatic and soil conditions. The major regions of India where Basmati Rice is being produced include the northern states of Haryana, Punjab, Himachal Pradesh, Uttar Pradesh and Uttarakhand. India's export of basmati rice has grown at a CAGR of 22% during the last four years ending 2011-12 driven by increase in demand from the key importing countries (Iran, Saudi Arabia, UAE, Iraq and Kuwait).

A new variety of basmati rice i.e. Pusa Basmati 1509, developed by scientists at the Indian Agricultural Research Institute (IARI) has entered the market for the first time in 2013 kharif season. Pusa Basmati 1509 takes just 120 days to mature; compared to Pusa 1121's 145 days, requires less water and has better cooking quality than Pusa 1121.

Industry Outlook

The outlook for the current year is stable on the expectation of a good harvest in 2013-14 crop year. According to the first advance estimates released by the agriculture ministry, India's Kharif rice crop output is expected at 92.32 mt in 2013-14 crop season which is more or less in line with the Kharif rice output of 92.76 mt last year. The timely arrival of monsoon in major rice growing states supported by better rainfall from last year has augured well and

improved the rice productivity. Also better price realization of fine and aromatic variety has induced farmers to grow paddy.

Despite the increase in minimum support price (MSP) of non basmati rice for marketing year 2013-14 to Rs.1,310 per quintal for common grade and Rs.1,345 for 'A' Grade, as against Rs.1,250 and Rs.1,280 for common grade and 'A' Grade respectively in the immediately preceding year, the prices of rice are expected to remain stable on the expectation of a healthy production.

Moreover, the demand outlook for the industry remains healthy with increasing domestic consumption and export demand of basmati rice given the India's dominant position in the global basmati rice industry. The Indian government is unlikely to impose any export restrictions in the near future with the forecast of near-record production and "more-than-sufficient" government-held rice stocks.

Credit Perspective

The commodity nature of the product makes the rice industry highly fragmented marked by numerous organized as well as unorganized players. Large organized players with established brands operating in multiple geographies are able to sustain higher profitability margin compared to small, unorganized players with very less product differentiation that mainly cater to the domestic market. The industry is working capital intensive due to longer operating cycle arising out of elongated collection period and inventory holding period. Effective management of working capital and foreign exchange risk remain crucial from credit perspective.

CARE has outstanding ratings on 43 entities engaged in this sector. While assessing credit profiles, CARE assesses the industry scenario followed by assessment of management, business and financial model of the entity to be rated. Healthy industry prospects augers well for the participants and will drive robust sales, increasing scale and improving operating profitability. However, leveraged capital structure owing to the seasonal and highly working-capital-intensive nature of the business will continue to impact the financial risk profiles. Though the increasing sales and improving profitability will lead to better cash flow generation, the financial risk profiles of players whose capital structures remain highly leveraged will only see gradual improvement.

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