Indian Rice Producers and Impact of COVID-19

June 1, 2020
Introduction

The outbreak of coronavirus disease (COVID-19) has created dramatic changes in economic activities globally, including in India. The nationwide lockdown imposed by the Indian Government since 24 March 2020 as a precautionary measure to contain the spread of the disease has created huge disruptions in economic activities, with every sector facing labour crises and supply chain issues. On the corporate front, the increased liquidity pressure is impacting their credit profiles. Although the impact of the coronavirus pandemic on the Indian economy was limited initially, the extension of the lockdown following the sharp escalation in the number of positive coronavirus cases created significant uncertainty regarding the economic outlook and recovery. Hence, there is a need to closely monitor the unfolding domestic situation and impact on various sectors.

Rice being an essential commodity has witnessed very limited impact due to COVID-19. However, certain issues have cropped up regarding demand in export markets, labour shortages and business disruptions.

In this context, Brickwork Ratings organised a Web conference on June 1, 2020 with eminent experts to understand the impact of the lockdown on the rice sector and the way forward. The idea of having this panel and getting everyone together, with eminent panellists from around the country, was that many participants were interested in knowing how the current situation is panning out and measures being taken by the government and regulators and what more needs to be done and how. Hope you enjoy reading the transcriptions of the experts’ views.
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Summary of Key Takeaways

Labour shortage will be a bigger issue

Mr Jai Kumar Gupta, CEO, Suppletek Industries

- After March, there has been a steady increase in exports compared with the same period last year. Exports in the basmati rice sector will not decline in coming months.
- There is certainly a depression in the domestic market, which may continue, looking at the Covid-19 situation.
- Literally, there is a change in the buying pattern of consumers, and rice millers will need to prepare themselves.
- Overhead expenses, logistics costs have gone up significantly. Labour is a bigger issue than logistics.
- The government and authorities are requested to resolve labour issues somehow by taking some considerate measures.

Availability and cost of labour to be a concern

Mr Vijay Setia, Director, Chaman Lal Setia Exports

- Exports, despite facing a setback for a short time and seeing a sudden spurt in demand because of hoarding, are now looking at a slightly lull period now.
- In certain areas such as Maharashtra, everything is closed down, so demand from the hotel industry has come to a standstill. Sales to the hotel industry have come down to just 5% of the previous figures.
- By and large, export demand for basmati is good, and countries are becoming cautious of maintaining their own buffer stocks and putting restrictions on exports by countries such as Cambodia, Myanmar and Vietnam.
- However, certain concerns, such as lower crude oil prices impacting purchasing power in the Middle East, can impact our exports.
- Another concern has been the availability and cost of labour.
- In Punjab and Haryana, local labour will be working more efficiently; however, labourers will be expensive compared with migrant labourers. For paddy sowing, the last time, we paid Rs 3,000 per hectare; this time, it can be Rs 3,500 or up to Rs 4,000.
- Due to labour shortage, the paddy sowing period will be longer.
Newer markets will be explored to replenish the loss in export value

Mr S K Sharma, Exports Head, Shiv Shakti Globe Exports

- The bottom line is how you convert eventualities into opportunities.
- There has been significant artificial demand during these times as people are hoarding essential commodities.
- There has been a spurt in artificial demand in the international market as well.
- Although there are some temporary payment settlement issues in Iran, once these issues get resolved, the payment and demand will be huge.
- Demand for rice already exists, and exports are not affected. Value-wise it may go down due to lower purchasing power, but volume-wise it will be stable.
- This will push rice millers to explore more markets to replenish the loss in export value.

Covid-19 did not impact the rice industry

Mr Kewal Singla, General Manager, Punjab National Bank

- The pandemic has not impacted the rice industry much, and demand has not gone down; rather, artificial demand has been created.
- The procurement season had already ended by the time the coronavirus crisis hit, so it did not impact the sector.
- Production also continued without stoppages.
- The government has come up with good guidelines, including a 20% government guarantee and the breather from paying interest and principal for six months (moratorium).
- Banks’ pricing or cost is not very high, and it’s quite attractive.
- The new definition of MSMEs will open doors for some rice millers who earlier could not fall under MSMEs.
- Funding practices have not changed much.
- The rice industry was declared unfavourable last year; it is not unfavourable, but is marginally unfavourable these days.
Exports to see revival in H2FY21

Mr Peeush Middha, Assistant Manager, Brickwork Ratings

- FY20 has seen the production of 117 million tonnes, expecting similar production in FY21 as well.
- Overall exports have declined in FY20 due to the non-basmati sector. The export market was adversely impacted due to US sanctions, coupled with the payments issue.
- Basmati export witnesses marginal decline as lower shipments to Iran were compensated by an increase in demand from Saudi Arabia and other GCC countries to some extent.
- Non-basmati has witnessed sharp decline in FY20 on account of high MSP.
- Despite this being a bad year for non-Basmati, BWR expects some revival in FY21 on account of anticipated demand from newer markets in South Asian regions such as Malaysia and a few African regions.
- The imposition of sanctions on Iran, stringent pesticide regulation in European countries and higher MSP for non-basmati have been some demand side hurdles.
- The shortage of labour, non-availability of containers and delays in shipments have been some supply side hurdles.
- BWR expects basmati exports to witness moderate growth of around 2% in FY21, with H2 seeing high positive growth compensating for decline in H1.
- H2FY21 will be better, assuming the Covid fear subsides, demand from Iran returns and demand from other Gulf countries increases.
- Ratings will remain stable as the agency is not expecting downgrades.
Details of Panel discussion

Mr Jai Kumar Gupta,
CEO, Suppletex Industries

Q. What are the basic challenges for the sector, and what are the players doing to overcome these challenges?

- After March, there has been a steady increase in exports compared with the same period last year.
- Major markets have been Saudi, the UAE, Yemen, Iraq, the US and Europe and these countries have imported more.
- I do not foresee much decline in exports in the basmati rice sector in coming months.
- 4 million tonnes is export and 12 million tonnes is for domestic consumption.
- There is certainly a depression in the domestic market; it may continue, looking at the Covid-19 situation.
- Overall I don’t see production declining much in the coming season.
- Let us assume the Covid-19 situation improves, and that we are able to see some revival in the domestic market as well.
- Literally, there is a change in the buying pattern of consumers, and rice millers will need to prepare themselves.

Q. How are you seeing both domestic and export demand? Also, how will issues such as logistics and labour migration pan out, and what are your expectations from the sector?

- I would like to add to what Mr. Sharma said; he has given a detailed review on the export and domestic market. However, what I would want to add here is that there is a cycle of demand, wherein one season, they buy more, and in the next season, they buy less. And, if one sees the last 3-year history, in 2017-18, they bought around 8.25 lakh million tonnes from us, and in 2018-19, they bought 14.7 lakh million tonnes; in current season, there was a decrease of 2 lakh million tonnes. So, this cycle continues, and thus, there is no need to panic.
- Focus should be towards the issues of currency allocation and the payment mechanism; these things should be resolved and need to be cleared.
- However, from a production point of view as it is the largest market for us, if we see the last 5-6 years’ history, in some quarters, demand is seen to be declining, but when we accumulate yearly demand, it is consistent.
- Banks have declared many incentives, many schemes; however, the concern for large-scale companies is that even before covid-19, the schemes or changes in schemes have not been remarkable. So, we request banks to come up with some mechanism of business and the government to set some kind of an incentive for large-scale companies also.
Talking about competitiveness, maintaining hygiene, maintaining their supply, logistics, overhead expenses that have surged, again we request banks to see what can be done for large companies.

The definition of MSME has changed, and we are not sure about this new definition as it is going to affect many rice mill owners.

As far as logistics is concerned, there is not much of an issue as labour is a bigger issue currently. More than 70% labour is missing at the Mudra port, making it difficult for rice exporters to conduct business.

We are seeing the government giving many incentives to the labour community to go to their hometowns. However, we request the government, their district authorities, rice millers, exporters and other intermediaries to sit together and resolve labour issues somehow through some considerate measures.
Mr Vijay Setia,
Director, Chaman Lal Setia Exports

Q. The government has taken many steps in terms of increasing the MSP, lifting the produce by PDS, giving direct benefits to the low segments as well. However, do you believe these measures to be really effective for your sector? If yes, how is it panning out and if not, what additional measures would you expect the government to come up with to address issues in the sector?

- To be very honest, the government has done its bit. Though we can contemplate on measures that can be taken, but this is a new experience the government has to deal with, including a disaster of such magnitude.

- Otherwise the lockdown was to train the people, to educate the people to live with the coronavirus, so now we have to live with the coronavirus.

- When I look at the rice industry, I have one concern; wherever even one person starts to show the symptoms, their office, factory or ports, everything will be closed for sanitisation for 14 days. So if anywhere something goes wrong, whole set up gets disturbed.

- The second thing is the government’s support to the industry; they realize their exports and our economy should work, so they have given us many facilities; for example, they started a digital certification system, which you need for your exports, so that is a welcome step.

- Although exports faced a setback for a short time, after looking at the sudden spurt in demand because of hoarding, there is a slightly lull period.

- In certain areas such as Maharashtra, entire hotels, everything is closed down, so demand from the hotel industry has come to a standstill. Sales to the hotel industry have reduced to 5% from 100% previously.

- These changes have been seen, but by and large, export demand for basmati is good, and countries are also becoming cautious of maintaining their own buffer stocks.

- I think this is an excellent presentation and I must congratulate Brickwork; it is very close to reality.

- Looking at non-basmati, because Indian non-basmati prices are at the lower side, we have surplus; we are carrying a buffer and definitely, government-to-government export is possible.

- Certain concerns I have in mind include crude prices going down and purchasing power in the Middle East getting affected; this can impact our exports.

- Rice, being staple food for many, will by and large maintain exports and domestic consumption.

- In Punjab and Haryana, I think local labourers will now be working more efficiently. However, they will be expensive compared with migrant labourers. As per my observation, for paddy sowing, last time we paid Rs 3,000 per hectare; this time it can be Rs 3,500 or up to Rs 4,000. Thus, this increase can be up to 15% to 30% for the labour cost.
Mr S K Sharma,  
*Exports Head, Shiv Shakti Globe Exports*

Q. In your experience, what has been the trend? Is there a shift post Covid, that we are looking at newer markets and what is the strategy behind that, and how do you see the sector from the export perspective?

- The bottom line is how you convert eventualities into opportunities.
- Many small factories are ready to give it to larger factories, so surplus labour can be put to use there.
- Now coming to the loading and unloading aspect; you can cover the production by taking over smaller factories but how you will send the cargo to the ports?
- We all know many ICDs are working and a good number of ports are working, so spread volumes to different ICDs and different ports so that you should not be stuck.
- Circumstances such as a curfew lead to artificial demand. So everybody keeps surplus during such times. This is also happening internationally; so in terms of Iran, every year export volumes rise.
- Although there are some temporary payment settlement issues, once these get resolved, the payment and demand will be huge.
- Demand for rice already exists, and exports are not affected. Value-wise it may go down due to lower purchasing power, but volume-wise it will be stable. This will push us to explore more markets to replenish the loss in export values.

Q. Is the industry or are associations thinking about innovations in terms of marketing activity for Basmati to promote it further?

- We are not prepared for that. We must accept this truth. We have been pushing Basmati rice over Non-basmati rice for exports, but we are not promoting marketing activities like instant noodles. So, we are not adding any value while selling rice in the domestic market.

Q. Is this not the right time for these kinds of promotion activities to grab the opportunity the world is providing us as a nation?

- What you’re saying is correct that a lot of countries are shifting from China to India, but let that time come. We are optimistic as well, but I would say let’s not be over optimistic. It’s not a very easy thing that in a day or overnight or within a week all industries will shift to India; it is not a small thing. Also, we have our own weakness too. So, it will take a lot of time.
Mr Kewal Singla,
General Manager, Punjab National Bank

Q: At this stage, how are you looking at the sector as a banker? How comfortable are you to extend credit to the sector, and how are you devolving various schemes that the government has announced?

- As far as corona is concerned, it has not impacted the rice industry much, and demand has not gone down; rather, artificial demand has been created.
- As far as the rice industry is concerned, procurement season was already over when the coronavirus crisis hit, so it did not have any impact on it.
- As far as production is concerned, there was no stoppage of activities.
- As far as the government scheme is concerned, the government has come up with good guidelines; 20% is the limit the government is guaranteeing, along with a breather from paying interest and principal for six months.
- A moratorium has been announced by the government for 6 months starting from March to August, and the entire interest due will start coming in from September, divided into six instalments. So, this is quite a relief; however, it will have some impact on cash flows, which is not just for the rice industry, but for all industries.
- Leverage in the rice industry, in my view, is very high. This industry has been marked by uncivilised practices by some of the players in the past.
- There needs to be some kind of self-discipline mechanism because banks have been slightly reluctant to take exposure in the rice industry as they have suffered so badly.
- The industry should revise some mechanism and keep self-discipline and educate the players not to divert.

Q: How do you see the entire credit chain or underwriting practices shifting, and what concerns would you like to highlight to the panel and audience?

- As far as banks are concerned, pricing is concerned, the rates are very attractive; pricing is not very high.
- The new definition of MSME will open doors for some rice millers who were earlier not under the ambit of MSME.
- As far as our funding practices are concerned, there is hardly any change, of course, as last year the rice industry was declared under the unfavourable category. But, it is not unfavourable; it is marginally unfavourable these days.
- Given the opportunity to be on this panel, I can only request rice millers to maintain some self-discipline as banks may not have to close the option or shy away as the food processing industry has a special rate of interest for rice and other food processing.
- As risk and return go hand-in-hand, banks have to curtail unnecessary or uncontrolled or (earlier called as) double funding. So, I would request rice millers to exercise self-discipline and educate their members as we also go behind some rice millers to extend credit to them.
Mr Peeush Middha,
Assistant Manager, Brickwork Ratings

- While domestic demand continued to grow at a stable pace, exports slipped by ~24% in FY20 due to muted non-basmati sales in the international market.

- Rice production rose from 69 million tonnes in 2006 to 102 million tonnes in 2019, registering a CAGR of 3% during this period.

- So, despite high production and stable domestic demand, our overall exports have declined in FY20 mainly due to negative growth reported in the non-basmati sector.

- If we see the domestic market, we have witnessed some panic buying by households as Covid-19 has caused changes in consumer behaviour because of uncertainty among the people regarding the time for which this virus will stay and supply-related issues; due to this, people started buying in bulk quantities, which basically resulted in increased domestic consumption for March and April.

- Although domestic demand was increasing during this period, supply chain remained disturbed. Almost 90% of the trucks remained off highways for two weeks, and there was also a shortage of labour, along with some confusion around the categorisation of packaging material being essential/non-essential in nature.

- Apart from demand side issues, we also saw supply chain disruptions in exports as well. There was a shortage of labour at ports, and logistics issues also continued, along with the non-availability of containers at the port creating a major problem.

- Basmati exports declined marginally to 4.2 million tonnes in FY20, against 4.4 million tonnes in FY19. This decline was largely due to lower shipments to Iran, a major market.

- However, increased demand from Saudi Arabia and other Gulf nations restricted this decline to a minimal level.

- Demand is expected to pick-up in H2FY21 as the covid fear subsides.

- Non-basmati exports witnessed a steep fall in FY20. Being a price-sensitive market, as MSPs remained high in FY20, non-basmati saw few takers in the international market. It faces stiff competition from Vietnam, Thailand and Cambodia.

- Some revival is expected in FY21 on account of anticipated demand from newer markets in the South Asia region.

- The imposition of sanctions on Iran, stringent pesticide regulation in European countries and higher MSP for non-basmati have been some demand side hurdles.

- The shortage of labour, non-availability of containers and delays in shipments have been some of the supply side hurdles.
• BWR expects basmati exports to witness moderate growth of around 2% in FY21, with H2 seeing high positive growth compensating for decline in H1.

• H2FY21 will be better, assuming the covid fear subsides, demand from Iran returns and increased demand from other Gulf countries is witnessed.

Q. How do you see high leverage for the sector as Mr. Singla mentioned. Also, how do you see the credit profile of issuers in terms of having an impact on their ratings?

• FY19 was a very good year for upgrades as FY19 was for the rice industry; we saw very good numbers.

• For FY20, it is of course impacted very badly, and we are not expecting many upgrades in FY20 balance sheets.

• Leverage in some companies is very high as the interest coverage ratio remains quite low in many companies as their equity remains very low, considering paddy cultivation.

• Once demand revives, these companies will definitely show good numbers in terms of turnover, although margins are going to be hit due to high input costs, which have risen due to the Covid-19 situation; otherwise we see decent growth.

• In the context of rating upgrades and downgrades, ratings will remain stable as we are not expecting downgrades.

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