

FY27 Rural Economy



Consumption Risks & Opportunities

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The 2026 monsoon resets FY27 inflation, rural consumption and sector outlook



01 IMD has flagged a strong El Niño effect in 2026, with rainfall projected at 90% of long-period average (LPA).

- ❖ IMD assigns 90% probability to a below-normal monsoon; Reservoirs entered the dry-season levels – 31%+ which is at par with the decadal normal, but depleting fast — Southern India already at 22% capacity.

02 Rain-fed crops bear the damage; rice and wheat are insulated

- ❖ FCI buffer stocks stand at 2-3× the normal level. Damage is mainly seen in oilseeds, pulses, and spices, which represent only 6% of CPI but where the price action shows up.

03 FY27 headline CPI projected at 5.7%

- ❖ Build-up: monsoon (+45bp), fuel pass-through (25-40bp), rural CPI runs 80-100bp higher than urban — food is 42% of the rural basket compared to 30% in urban

04 June policy more likely to focus on guidance and stability

- ❖ We continue to expect a cumulative 50bp rate hike over FY27, although June is unlikely to be the meeting when the tightening cycle begins.

05 Sector outlook from economist's lens

- ❖ Sectors with high rural exposure such as tractors, motorcycles, entry-level vehicles, rural FMCG, consumer durables and microfinance are likely to see a moderation in demand growth if food inflation remains elevated. In contrast, urban-focused sectors, including premium consumption, private banks, wealth management, premium real estate, organized retail and jewelry might remain relatively resilient.

FY27 HEADLINE CPI Forecast

5.7%

RAINFALL FORECAST

-10%

60% prob. of deficient rainfall

RURAL-URBAN CPI GAP

~100bp

Rural food weight: 42% | Urban: 30%

FCI BUFFER (RICE)

3.0x

36 mt vs ~13 mt norm



Executive summary (1/2)

- Southwest monsoon has officially set in over Kerala, marking the start of the June–September rainy season. Although the monsoon arrived around three days later than the normal onset date of June 1, the initial progress remains broadly on track. The IMD has forecast isolated heavy to very heavy rainfall over Kerala during the coming week, while the monsoon is expected to advance into Telangana within roughly a week. The withdrawal of heatwave alerts in Telangana and the moderation in temperatures are positive developments for kharif sowing, reservoir replenishment and rural economic activity.
- FY27 is shaping up as an inflation-led rural slowdown rather than a broad-based economic downturn. The macro environment is becoming increasingly challenging due to a combination of weather-related risks and geopolitical uncertainties. IMD forecasts monsoon rainfall at 90% of the long period average (LPA), implying an 10% rainfall deficit, with a 60% probability of deficient rainfall. At the same time, global weather agencies indicate a high probability of El Niño conditions developing during the core monsoon period. This raises risks to kharif crop production, particularly for pulses, oilseeds, coarse cereals and cotton, which are heavily dependent on monsoon rainfall. However, unlike previous decades, the Indian economy is significantly less dependent on agriculture, and crop production now accounts for a much smaller share of overall economic activity, limiting the risk of a meaningful GDP slowdown.
- The primary macro risk for FY27 is inflation rather than growth. Headline CPI inflation is projected at ~5.7%, materially above the RBI's current forecast of 4.6%, driven by a combination of weather-related supply disruptions, high crude oil prices, fuel price pass-through, and higher fertilizer costs. The ongoing West Asia conflict adds an important second inflationary channel through higher energy prices, increasing the risks to transportation, logistics and agricultural input costs. Inflation pressure is expected to be concentrated in pulses, oilseeds, vegetables and spices, where irrigation coverage is relatively low, buffer stocks are limited and price transmission is rapid. In contrast, rice and wheat remain relatively insulated due to extensive irrigation coverage, government procurement support and comfortable FCI stock levels.
- The inflation shock is likely to be felt disproportionately in rural India. Food accounts for approximately 42% of the rural CPI basket compared with around 30.3% in urban India, causing rural inflation to typically exceed urban inflation during food-price shocks. As a result, higher food prices are expected to erode rural purchasing power, compress real wage growth and weigh on discretionary spending. Consequently, rural demand becomes the key variable to monitor in FY27, with sectors such as tractors, entry-level two-wheelers, rural-focused FMCG, value retail and consumer durables likely to grow at a lower pace. In contrast, urban-oriented sectors, including private banks, premium consumption, wealth management, premium real estate and urban-focused FMCG, are likely to remain relatively resilient, supported by stronger income growth, wealth effects and lower sensitivity to food inflation.

Source: CEIC, NOAA, MOFSL Research



Executive summary (2/2)

- Monsoon timing will also be critical. Historical evidence suggests that if El Niño intensifies during the second half of the monsoon season, the impact could extend beyond kharif crops through lower reservoir replenishment and weaker soil moisture conditions, increasing the risks to the FY27 rabi crops. September-end reservoir levels, therefore, remain the most important indicator for assessing the severity of the agricultural and inflation outlook. Key variables to monitor over the coming months include monsoon progression during June-September, reservoir levels, pulse and oilseed inflation, crude oil prices, rural wage growth and food-price trends.
- From a policy perspective, the RBI faces a more challenging trade-off between growth, inflation and currency stability than it did earlier in the year. Amid external pressure and currency depreciation, inflation remains within the formal target band, and growth concerns have not disappeared. As a result, the RBI is likely to prioritize hawkish communication, foreign exchange intervention and liquidity management measures over an immediate policy rate increase at the June meeting. We continue to expect a cumulative 50bp rate hike over FY27, although June is unlikely to be the meeting when the tightening cycle begins. Policymakers appear increasingly focused on preserving stability through capital-flow measures, FX intervention and liquidity management rather than immediate rate hikes. Proposed measures such as tax incentives for foreign investors, withholding tax relief on government bonds, FDI-related incentives, regulatory easing for FPIs and steps to curb capital outflows could help support the balance of payments and reduce pressure on the currency. These measures may allow the RBI to initially adopt a hawkish communication stance while postponing policy tightening. However, if inflation remains elevated, INR continues to weaken and global financial conditions stay restrictive, we believe the RBI will eventually need to shift toward a more explicit stability-first framework, resulting in a cumulative 50bp rate hike beginning most likely in 3QFY27.

Source: CEIC, NOAA, MOFSL Research.

Possibility of El Nino Emergence

IMD has flagged a strong El Niño for 2026, with rainfall projected to be 10% below normal



10%

IMD projection of 2026 monsoon rainfall below LPA

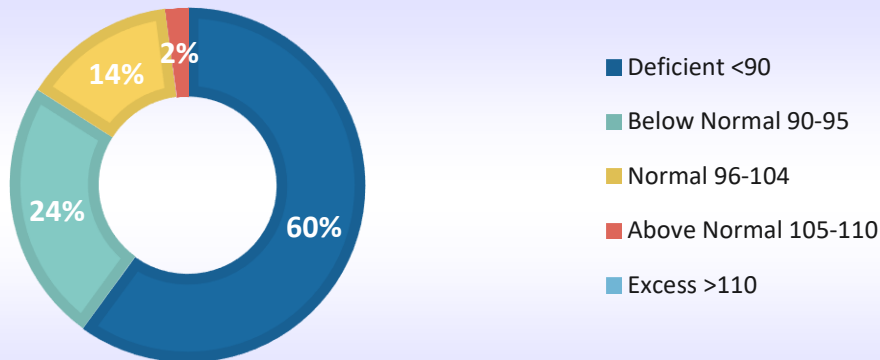
60%

IMD probability of rainfall being deficient

43%

Probability of MCZ seeing below-normal rainfall

IMD Probability distribution (2026)



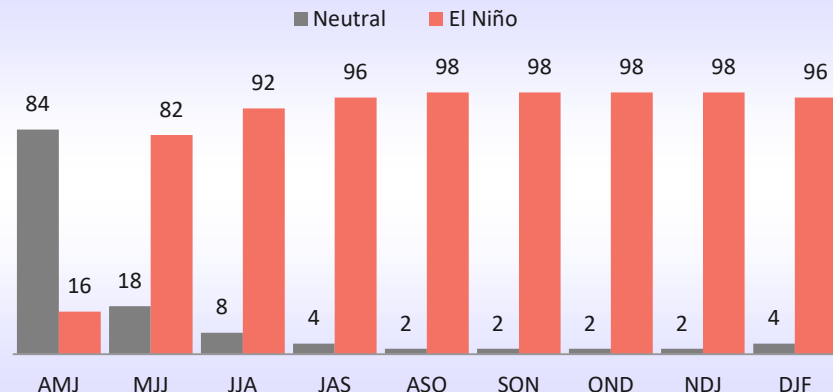
- IMD estimates pegs India's monsoon to be 10% below normal (90% of LPA), lower than earlier estimates (92% of LPA) with 60% probability of deficient rains. The onset of monsoon is also delayed with June rainfall seen below normal
- Spatially, Northwest, Central and Southern regions are likely to see below normal rains, while Northeast India is likely to see normal rains. The Monsoon Core Zone (MCZ), which accounts for ~40% of food production, is likely to see below normal rainfall (43% probability).

Source: IMD long-range forecast (June 2026)

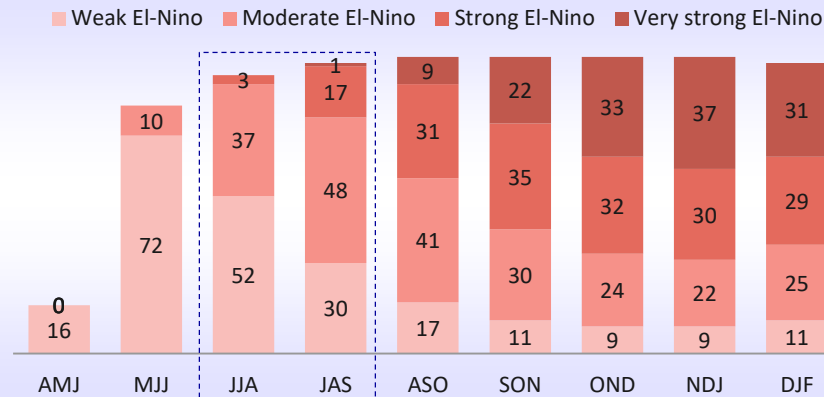


NOAA: High El Niño risk for India's 2026 monsoon

ENSO probabilities (May'26, in %)



EL-Niño strength probabilities (May'26)



- ❖ The probability of the emergence of El-Niño is estimated to rise sharply from 16% in Apr-May-Jun 2026 to 82% in May-Jun-Jul 2026, indicating rapid warming in the Pacific Ocean ahead of the Southwest Monsoon season.
- ❖ During the core monsoon period, El Niño probabilities increase further to 92% in Jun-Jul-Aug and 96% in Jul-Aug-Sep, suggesting a high likelihood of sustained El Niño conditions. Probabilities remain high at 98% from Aug-Sep-Oct through Nov-Dec-Jan'27, pointing toward persistence of the event well beyond the monsoon season.
- ❖ The intensity outlook also strengthens materially over time. While weak El Niño conditions dominate in May-Jun-Jul (72% probability), probabilities gradually shift toward moderate and strong El Niño conditions during Jun-Jul-Aug and Sep-Oct-Nov.
- ❖ By the second half of 2026, probabilities increasingly tilt toward strong (31%) and very strong El Niño (9%) conditions. By Sep-Oct-Nov 2026, the probability of a strong-to-very strong El Niño rises to 57% (35% strong + 22% very strong). Risks intensify further during Oct-Nov-Dec and Nov-Dec-Jan'27, when the probability of a very strong El Niño reaches 33-37%, alongside an additional 30-32% probability of strong El Niño conditions.
- ❖ **Historically, stronger and prolonged El Niño episodes have often coincided with weaker and uneven monsoon rainfall across India, increasing the risks to kharif output, reservoir replenishment and food inflation. Persistent El Niño conditions into late-2026 may also weigh on rabi moisture conditions and overall water availability across several regions.**

Source: NOAA, IMD, CEIC, MOFSL

Several major Indian drought years coincided with El Niño



ENSO Phase	Year	Peak RONI*	Strength	India Monsoon / Macro Impact	India Drought Year?
La Niña	1950–51	-1.5	Strong	Generally supportive for monsoon	No
El Niño	1951–52	1.2	Moderate	Mild monsoon impact	No
El Niño	1953–54	0.8	Weak–Moderate	Limited impact	No
La Niña	1954–57	-1.7	Strong	Favorable rainfall conditions	No
El Niño	1957–58	1.8	Strong	Weak monsoon tendencies	No
El Niño	1963–64	1.4	Moderate	Moderate monsoon pressure	No
La Niña	1964–65	-0.8	Moderate	Improved rainfall backdrop	No
El Niño	1965–66	2.0	Very Strong	Severe drought in India	Yes
El Niño	1968–70	1.1	Moderate	Mixed monsoon outcomes	No
La Niña	1970–72	-1.4	Strong	Stronger monsoon conditions	No
El Niño	1972–73	2.1	Very Strong	Major drought; food inflation spike	Yes
La Niña	1973–76	-2.0	Very Strong	Strong agricultural recovery	No
El Niño	1976–78	0.9	Weak–Moderate	Limited impact	No
El Niño	1979–80	0.6	Weak	Mild impact	No
El Niño	1982–83	2.2	Very Strong	Weak monsoon; global commodity stress	Partial/Weak Monsoon
La Niña	1983–85	-1.1	Moderate	Better rainfall conditions	No
El Niño	1986–88	1.7	Strong	1987 severe drought year	Yes (1987)
La Niña	1988–89	-1.8	Strong	Excellent monsoon recovery	No
El Niño	1991–92	1.7	Strong	Weak monsoon tendencies	No
El Niño	1994–95	1.1	Moderate	Moderate inflation pressures	No
La Niña	1995–96	-1	Moderate	Supportive for agriculture	No
El Niño	1997–98	2.4	Super El Niño	India relatively protected due to positive Indian Ocean Dipole	No
La Niña	1998–2001	-1.7	Strong	Strong agricultural cycle	No
El Niño	2002–03	1.3	Moderate	Major drought; kharif collapse	Yes
El Niño	2004–05	0.7	Weak	Patchy monsoon impact	No
El Niño	2006–07	0.9	Moderate	Food inflation concerns	No
La Niña	2007–09	-1.6	Strong	Supportive rural growth	No
El Niño	2009–10	1.6	Strong	Severe rainfall deficiency	Yes
La Niña	2010–12	-1.6	Strong	Strong farm output	No
El Niño	2014–16	2.8	Super El Niño	Weak monsoon; food inflation pressures	Yes (2015)
La Niña	2016–17	-0.9	Weak–Moderate	Monsoon normalization	No
El Niño	2018–19	1.0	Weak–Moderate	Mild impact	No
La Niña	2020–23	-1.2	Triple-dip La Niña	Strong agricultural resilience	No
El Niño	2023–24	2.1	Strong–Very Strong	Uneven rainfall; food inflation risks	No major all-India drought

El Niño events have historically increased the probability of weaker Indian monsoons, but the relationship is not one-to-one. Several moderate El Niño years such as 1994–95 and 2018–19 saw only limited rainfall disruption, highlighting the role of other climatic offsets.

The most severe Indian droughts have typically coincided with strong or very strong El Niño episodes, including 1965–66, 1972–73, 1987, 2002–03, and 2009–10, often resulting in weaker kharif output and elevated food inflation pressures.

La Niña phases have generally been supportive for India's agricultural cycle, rural incomes, and food supply conditions, with extended episodes such as 1998–2001 and 2020–23 associated with stronger farm output resilience.

ENSO intensity alone does not determine India's monsoon outcome. The timing of El Niño emergence during the southwest monsoon season and interaction with the Indian Ocean Dipole (IOD) materially influence rainfall distribution and agricultural damage.

The 1997–98 Super El Niño remains a notable exception, where India avoided a severe drought largely due to a favorable positive IOD, demonstrating that regional oceanic conditions can partially offset ENSO-related monsoon risks.

Source: CEIC, NOAA, MOFSL Research

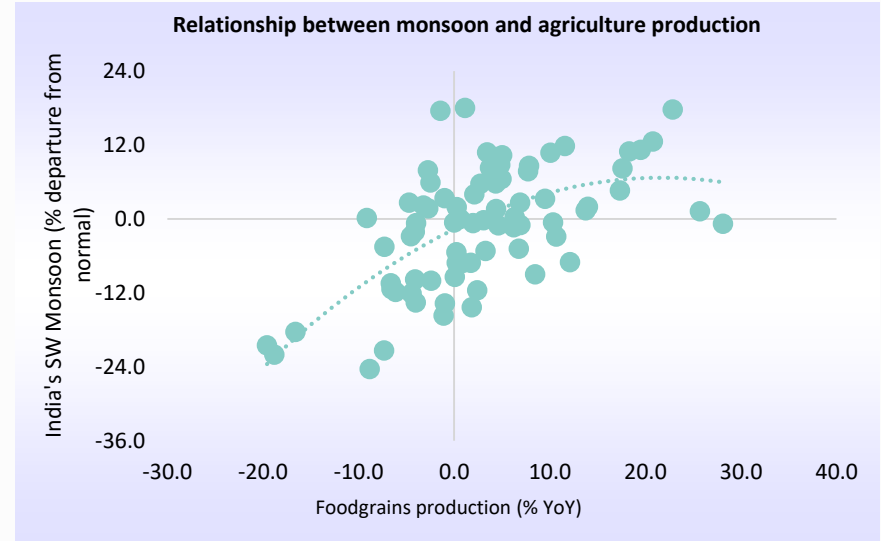
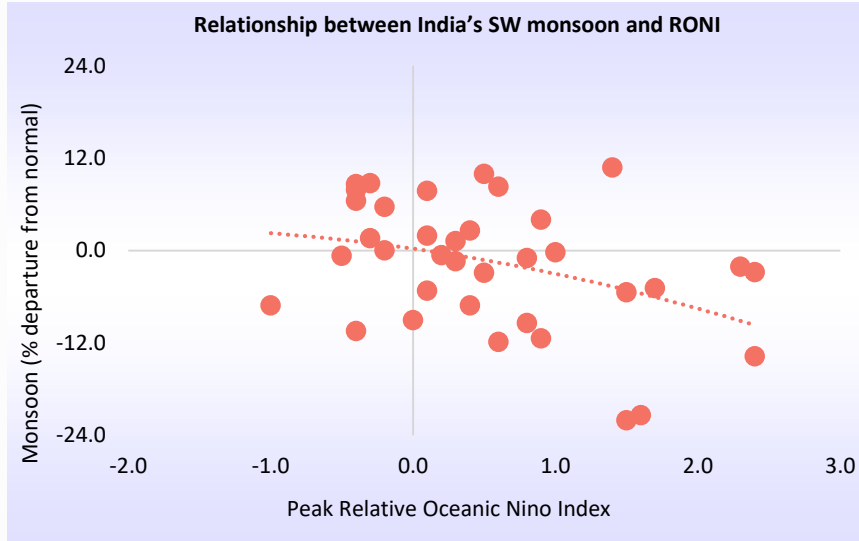
Note: *RONI- Relative Oceanic Nino Index; El Niño: Characterized by a positive RONI greater than or equal to +0.5°C.; By historical standards, to be classified as a full-fledged El Niño or La Niña episode, these thresholds must be exceeded for a period of at least 5 consecutive overlapping 3-month seasons.

El-Nino: Transmission Channel 1 – The income channel

Impact on agriculture production and rural income



El Niño risks to India's southwest monsoon and agriculture



El Niño historically weakens India's monsoon and agricultural output

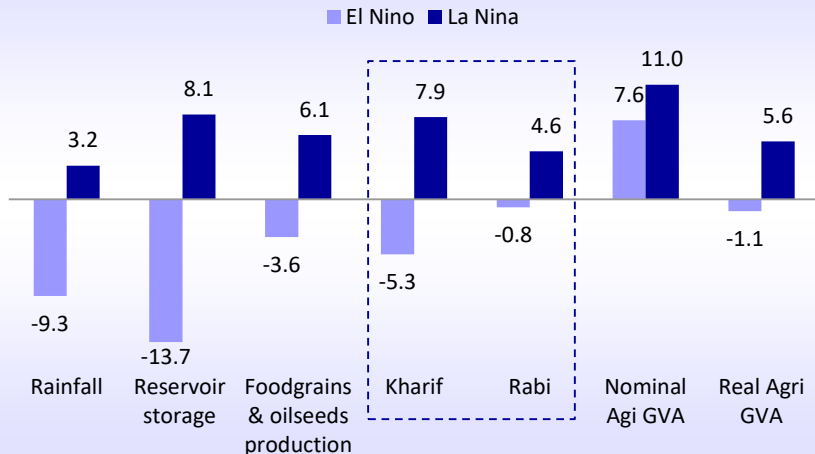
- ❖ Historical data suggests that El Niño years are generally associated with weaker Southwest Monsoon rainfall and slower agricultural production growth in India.
- ❖ Kharif crops tend to be impacted more severely due to their high dependence on monsoon rainfall, while prolonged El Niño conditions can also affect rabi crops through lower reservoir and irrigation availability.
- ❖ Stronger and persistent El Niño episodes have historically coincided with weaker crop output, lower reservoir storage and higher rural stress.

Source: NOAA, IMD, CEIC, MOFSL



El Niño Watch: Implications for rainfall, crops and rural demand

Average growth during El Nino years vs. La Nina years (% YoY)



El Niño years - 27				La Niña years - 26		
Weak - 11	Moderate - 8	Strong - 4	Very Strong - 4	Weak - 13	Moderate - 6	Strong - 7
1951-52	1963-64	1957-58	1982-83	1954-55	1955-56	1973-74
1952-53	1968-69	1965-66	1991-92	1964-65	2016-17	1975-76
1953-54	1976-77	1972-73	1997-98	1970-71	2017-18	1988-89
1969-70	1986-87	1987-88	2015-16	1974-75	2020-21	1998-99
1977-78	1994-95			1983-84	2021-22	1999-00
1979-80	2002-03			1984-85	2022-23	2007-08
1992-93	2009-10			1995-96		2010-11
2004-05	2023-24			2000-01		
2006-07				2005-06		
2014-15				2008-09		
2018-19				2011-12		
				2024-25		
				2025-26		

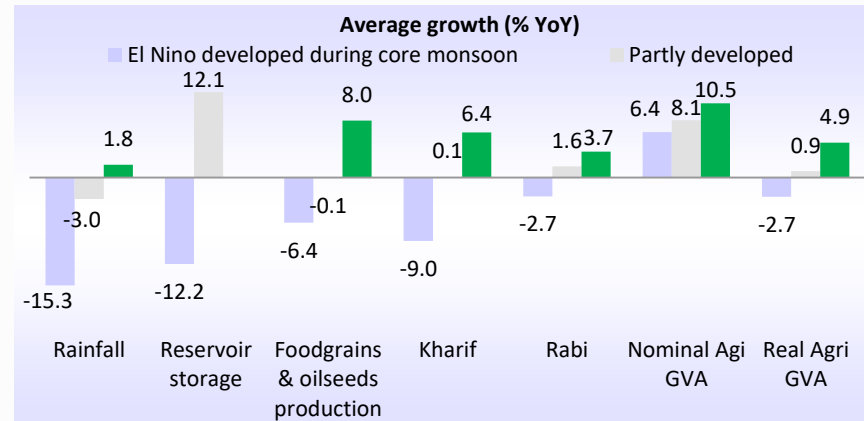
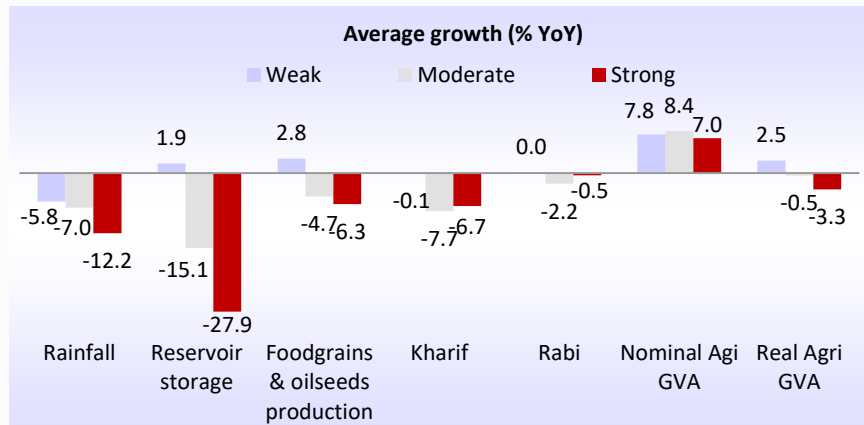
- ❖ Current global forecasts indicate a rising probability of El Niño conditions developing during the Southwest Monsoon season (92-98% probability).
- ❖ Historically, El Niño years have coincided with weaker monsoon rainfall, lower reservoir storage, slower agricultural growth and pressure on kharif crop output. In contrast, La Niña years have generally supported stronger monsoon rainfall, higher crop production and healthier rural growth trends.
- ❖ Kharif crops are the most exposed due to high dependence on monsoon rainfall during sowing and crop development stages. Rabi impact is relatively lower, but reservoir and soil moisture conditions still matter.
- ❖ Lower rainfall and weaker reservoir replenishment may also create risks for rabi sowing conditions, rural incomes and food inflation trajectory.
- ❖ Historical trends suggest that prolonged El Niño conditions during peak monsoon months have typically led to greater agricultural and rural stress.

Source: NOAA, IMD, GG Weather, CEIC, MOFSL

Why timing matters as much as El Niño strength?



Stronger El Niño events lead to greater stress on India's monsoon and agriculture Timing of El Niño development is extremely important for India



Key takeaway: Both the intensity and timing of El Niño are critical while assessing risks to India's monsoon, agriculture and food inflation.

- ❖ Historical data suggests that stronger El Niño events generally lead to greater stress on India's monsoon and agriculture. As El Niño intensity increases, monsoon rainfall tends to weaken further, reservoir storage declines materially and agricultural output slows.
- ❖ However, El Niño strength alone does not determine India's monsoon outcome. Historical trends suggest that the timing and persistence of El Niño conditions are equally important. El Niño events developing during the core monsoon season have historically coincided with the sharpest weakness in rainfall, reservoir storage and agricultural growth. In contrast, events developing after the monsoon season generally had a much smaller impact on rainfall and crop output.
- ❖ In addition, supportive factors such as a positive Indian Ocean Dipole (IOD), favourable intra-seasonal rainfall distribution and regional weather conditions can partly offset El Niño-related risks. Hence, India's monsoon performance depends not only on the strength of El Niño but also on when it develops and how other oceanic conditions evolve alongside it.

Early El Niño hurts Kharif; late El Niño impacts Rabi



ENSO Season / Timing	India Agricultural Phase	Primary Impact On	Impact Degree	Likely Impact on Kharif Crops	Likely Impact on Rabi Crops	Macro / Inflation Implications
JJA (Jun–Aug)	Core southwest monsoon	Kharif	Extremely High	Maximum kharif impact window — rainfall deficits directly hit yields and sowing	Reservoir/storage shortfalls can spill into rabi	Strong food inflation transmission
JAS (Jul–Sep)	Peak crop development stage	Kharif	Very High	Severe risk to kharif yields if El Niño intensifies rapidly	Water storage concerns begin emerging	CPI food inflation rises sharply
ASO (Aug–Oct)	Late kharif / harvest preparation	Kharif	Moderate–High	Can reduce kharif productivity and quality	Lower water storage affects rabi planting prospects	Vegetable and cereal inflation risks
SON (Sep–Nov)	Kharif harvest + rabi sowing starts	Both	Moderate	Limited additional kharif damage if monsoon already ended	Important for rabi sowing moisture and reservoir availability	Wheat/pulses inflation risks emerge
OND (Oct–Dec)	Early rabi sowing season	Rabi	Moderate	Little kharif effect	Weak reservoir and soil moisture conditions can hurt wheat, chana, mustard	Rabi-driven food inflation risks increase
NDJ (Nov–Jan)	Rabi establishment phase	Rabi	Low–Moderate	No kharif impact	Can affect winter rainfall patterns and irrigation stress	Delayed impact on cereals and pulses inflation
DJF (Dec–Feb)	Peak rabi growing season	Rabi	Low–Moderate	Minimal immediate impact on kharif	Can influence winter rainfall, soil moisture, reservoir recharge	Food inflation impact usually limited initially
JFM (Jan–Mar)	Late rabi growth / harvesting begins	Rabi	Low	No direct kharif impact yet	Heat and moisture stress may affect wheat, pulses, mustard yields if El Niño strengthens	Can raise cereal and pulses inflation
FMA (Feb–Apr)	Rabi harvest period	Rabi	Low	Signals future kharif risks if warming persists	Rabi output impact through temperature stress and irrigation availability	Early inflation expectations begin building
MAM (Mar–May)	Pre-monsoon transition	Both	Moderate	Important leading indicator for kharif sowing conditions	Reservoir depletion risk affects next rabi irrigation cycle	Markets begin pricing food supply risks
AMJ (Apr–Jun)	Monsoon onset preparation	Kharif	High	Very critical for kharif — delayed monsoon onset, weaker sowing, reduced acreage risk	Lower reservoir replenishment may later hurt rabi	Food inflation risks rise materially
MJJ (May–Jul)	Early monsoon / sowing period	Kharif	Very High	High kharif vulnerability — rice, pulses, oilseeds, cotton most exposed	Future irrigation stress possible	Rural income and agri growth weaken

Source: CEIC, NOAA, MOFSL Research

Early El Niño hurts Kharif; late El Niño impacts Rabi



Kharif Crops Most Sensitive

AMJ → JAS is the most critical risk window.

Crops affected: Rice, Pulses, Oilseeds, Cotton, Sugarcane

Main risks: Delayed sowing, Rainfall deficiency, Weak soil moisture, Lower acreage and yields

Rabi Crops Most Sensitive

OND → FMA matters more for rabi.

Crops affected: Wheat, Chana, Mustard, Barley

Main risks: Poor reservoir recharge from weak monsoon, Lower irrigation availability, Winter heat stress, Weak western disturbance rainfall

El Niño emerging during AMJ/JJA → larger kharif shock and immediate food inflation.

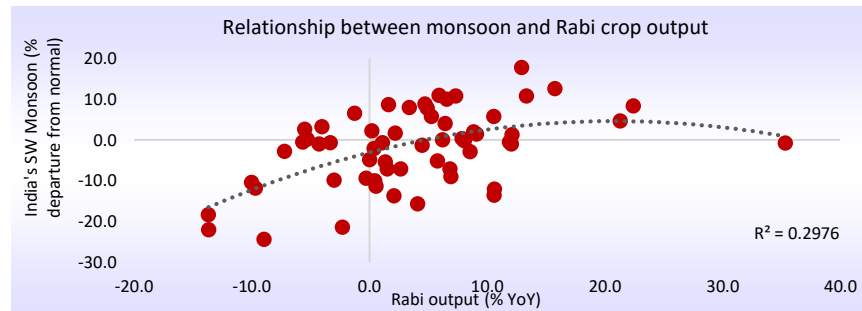
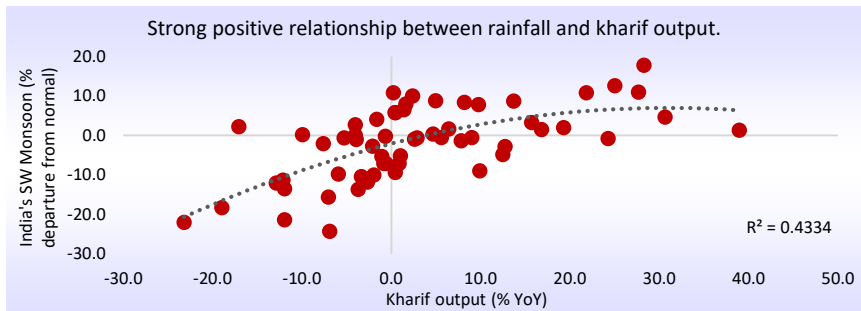
El Niño peaking during SON/OND → smaller kharif impact but larger spillover into rabi via reservoir and irrigation stress.

Fast intensification during monsoon months is typically more damaging than a late-peaking but stronger El Niño.



Kharif crops bear the initial shock during El Niño years

- ❖ Historical drought years show that kharif crops are typically impacted first and more severely during El Niño episodes due to their high dependence on Southwest Monsoon rainfall. Kharif production declined in almost every major El Niño drought year, with the sharpest fall seen in 2002-03 (-16% YoY).
- ❖ In contrast, rabi performance was relatively more resilient in several years due to irrigation and reservoir support, although prolonged drought conditions eventually impacted rabi as well. Kharif acts as the immediate transmission channel of monsoon stress, while Rabi impact depends more on reservoir depletion and persistence of drought conditions.



Kharif crops production majorly impacted during El Nino drought years

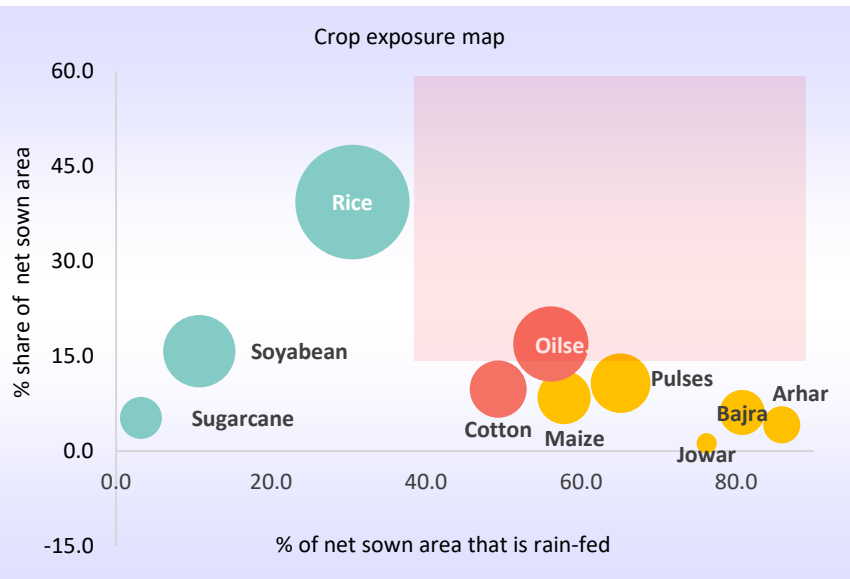
Year	Kharif				Rabi				Total			
	Area	Production	Yield	YoY Δ production %	Area	Production	Yield	YoY Δ production %	Area	Production	Yield	YoY Δ production %
1971-72	79.22	62.99	795	-5%	43.4	42.18	972	3%	122.62	105.17	858	-2%
1982-83	79.08	69.9	884	-7%	46.02	59.62	1296	9%	125.1	129.52	1035	0%
1986-87	81.46	80.2	985	-5%	45.74	63.22	1382	-2%	127.2	143.42	1128	-4%
1991-92	78.02	91.59	1,174	-5%	43.85	76.79	1751	7%	121.87	168.38	1382	0%
2002-03	68.56	87.22	1,272	-16%	45.3	87.55	1933	-7%	113.86	174.77	1535	-11%
2004-05	72.26	103.31	1,430	-8%	47.82	95.05	2004	0%	120.08	198.36	1652	-4%
2009-10	69.51	104	1,496	-10%	51.83	114.11	2202	-3%	121.34	218.11	1798	-6%
2014-15	68.77	128.06	1862	0%	55.53	123.96	2232	-8%	124.3	252.02	2028	-4%
2015-16	69.2	125.09	1808	-3%	54.01	126.45	2341	5%	123.22	251.54	2041	1%

Source: CEIC, Ministry of Agriculture and Farmer's Welfare, MOFSL Research

Pulses, oilseeds and coarse cereals sit in the rainfed, high-sensitivity quadrant



- ❖ Kharif crops are highly dependent on Southwest Monsoon rainfall, as sowing and crop development occur during the June–September period.
- ❖ Kharif agriculture remains structurally vulnerable to monsoon variability.
- ❖ Nearly three-fourths of kharif cultivated area depends primarily on rainfall.
- ❖ Rain-fed crops such as: Pulses, Coarse cereals, Oilseeds, Cotton remain particularly vulnerable due to lower irrigation coverage.
- ❖ El Niño conditions developing during the core monsoon season have historically coincided with lower kharif production, higher crop stress, lower rural incomes and higher food inflation risks.



Rain-fed share of kharif net sown area

~75%

Nearly three-fourths of kharif cultivated area depends primarily on rainfall.

Kharif share of foodgrain output

~52%

And nearly 55-60% of total net sown area. The primary monsoon-sensitive cohort.

Highest-exposure cluster (higher rain-fed dependence)

Pulses · Oilseeds · Coarse Cereals · Cotton

Lower irrigation coverage, geographic concentration in central & western India, and immediate retail-price pass-through.

Note: Coarse cereals = jowar, bajra, ragi. Source: MoA, CEIC, MOFSL.



Reservoir storage matters more for Rabi

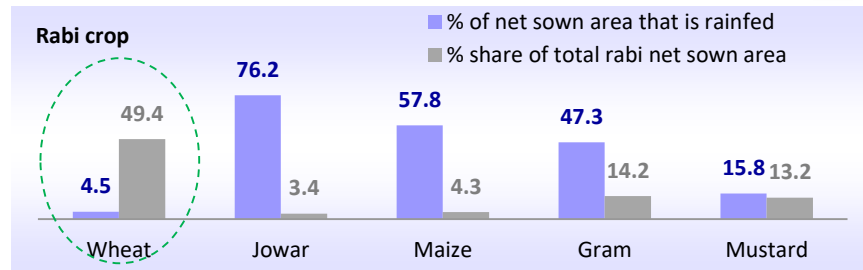
- ❖ Historical trends suggest that reservoir storage is often a more important determinant of rabi performance than kharif rainfall alone.
- ❖ Reservoir availability materially influences rabi outcomes, even when monsoon rainfall is weak. Weak monsoon years with healthy reservoirs still showed positive rabi growth on average.
- ❖ Rabi crops are relatively less exposed to monsoon shocks due to higher irrigation coverage, especially in wheat and mustard, although crops such as jowar, maize and gram still remain vulnerable to moisture stress.

Rabi outcome conditional on kharif rainfall and reservoir levels

Average Rabi output growth (% YoY)	Kharif Rainfall Above LPA	Kharif Rainfall Below LPA
Reservoirs Full (>100% avg)	+6.8% Strongest rabi outcomes BULL	+2.1% Impact relatively contained despite weak rainfall BASE CASE
Reservoirs Depleted (<80%)	+1.8% Moderate Rabi stress despite better rainfall MILD	-1.1% Weakest Rabi output and highest rural stress BEAR-CASE TAIL

Weak kharif + healthy reservoirs → agriculture can recover

Weak kharif + depleted reservoirs → broader rural stress intensifies



- Reservoir storage matters more than kharif rainfall.** A bad kharif (SW monsoon) with full reservoirs is recoverable; a bad kharif with depleted reservoirs is the historical tail.
- Back-to-back failures are rare** — ~25% of El Niño years see muted kharif and rabi seasons.
- Watch end-September reservoir storage.** It is the best leading indicator for rabi sowing.
- Wheat is more buffered** than pulses or oilseeds via assured procurement and irrigation cover.

Our base case: Kharif takes the primary hit; rabi softness extends into the bear scenario only.

Source: CEIC, Ministry of agriculture and farmer's welfare, MOFSL Research

Rain-fed crops take the damage; rice and wheat are largely insulated



- ❖ Around **32.5% of India's agricultural production** remains vulnerable to El Niño-related rainfall shocks, largely comprising rainfed crops such as **pulses, oilseeds and coarse cereals**. These crops continue to have relatively low irrigation coverage (19-44%). As a result, their production remains heavily dependent on timely and well-distributed monsoon rainfall.
- ❖ Rice and wheat together account for nearly **67.5% of total food-grain production**, helping partially cushion the broader agricultural impact during weak monsoon years.

Crop output (% YOY) in selected El-Nino (rainfall deficit) years

YEAR	RAINFALL (% LPA)	RICE	WHEAT	COARSE CEREALS	PULSES	OILSEEDS	SUGAR
2002-03	-22.1	-23.1	-9.6	-21.9	-16.8	-28.2	-3.3
2009-10	-21.4	-10.2	+0.1	-16.2	+0.6	-10.2	+2.6
2014-15	-11.9	-1.1	-9.7	-1.0	-10.9	-16.0	+2.9
2015-16	-13.7	-1.0	+6.7	-10.1	-4.8	-8.2	-3.8
2018-19	-9.4	+3.3	+3.7	-8.3	-13.1	+0.2	+6.7
2023-24	-5.4	+1.5	+2.5	-0.7	-6.9	-4.1	-7.6

OUTPUT GROWTH (%YOY): ■ < -10 ■ -10 to -5 ■ -5 to 0 ■ > 0

Share in total foodgrains and oilseeds production

■ Rice and wheat

■ Rainfed crops



Most vulnerable crops

■ Pulses

■ Oilseeds

■ Coarse cereals



In 2002, oilseeds output fell **-28%**. In 2014, pulses fell **-11%** and oilseeds **-16%**.

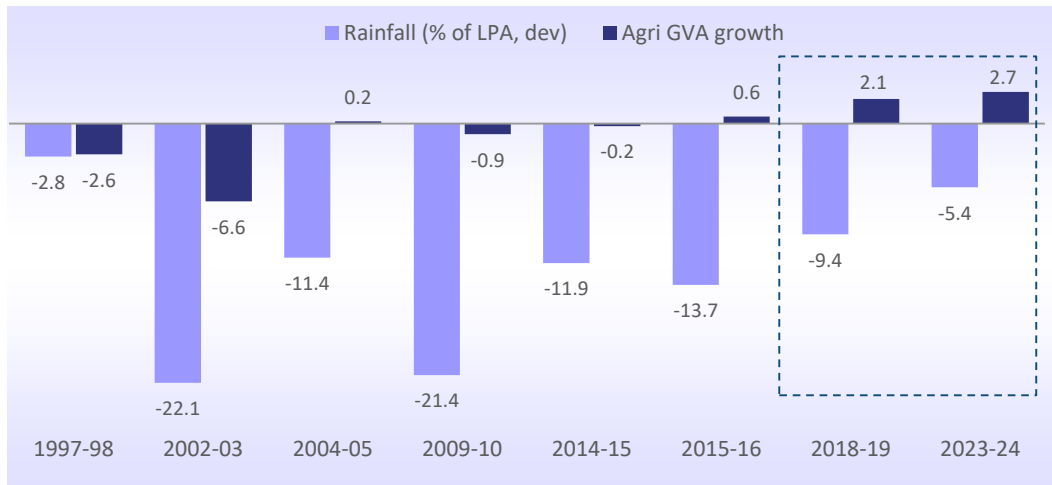
Rice and wheat have absorbed prior shocks well — these crops sit behind **heavy irrigation** and the **public procurement system**.

Source: Ministry of Agriculture; CEIC; IMD; MOFSL.

Output hit is non-linear: Rainfall deficits beyond 10% bite, but milder shortfalls don't



Rainfall deviation vs. Agriculture GVA (Selected El-Nino years)



Source: Ministry of Agriculture; CEIC; IMD; MOFSL.

THRESHOLD EFFECT

Below ~10% deficit, foodgrain output is broadly flat. Above 10%, the hit becomes material.

2002: rainfall -22.1% → agri GVA -6.6%

2009: rainfall -21.4% → agri GVA -0.9% after a prior contraction

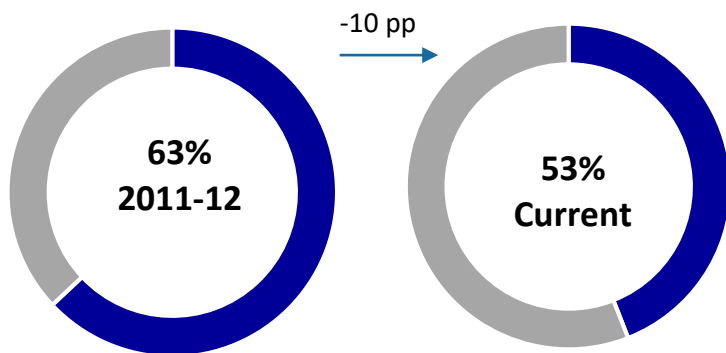
2018, 2023: mild deficits, agri GVA flat to slightly positive

2026E: IMD's -8% sits on the cusp — tail risk asymmetric to the downside

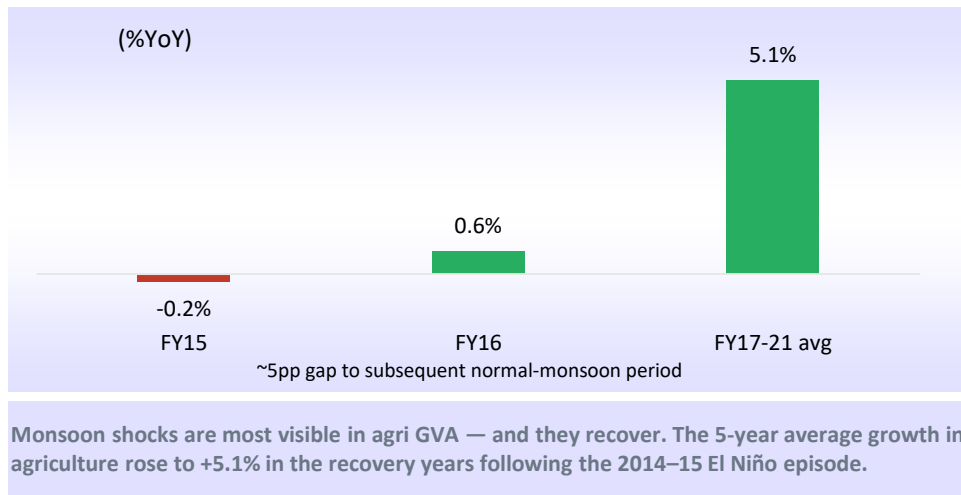
Agriculture is still monsoon-sensitive , but its share of GDP has been shrinking



CROPS AS % OF AGRICULTURE GVA



AGRI GVA · % YOY · EL NIÑO YEARS VS. 5-YEAR AVERAGE



- ❖ Agricultural GVA tracks rainfall deviation closely — deficient years have historically meant contractions, normal-to-excess years have meant growth in the 4-5% range.
- ❖ The structural backdrop has shifted in India's favour over the last decade. Crops are now only 53% of agricultural GVA, down from 63% in 2011-12. Services, livestock, and allied activities now dominate.
- ❖ A given rainfall shock translates into a smaller GDP shock today than it did in the 2000s. The aggregate growth hit is real but bounded.

Source: Ministry of Agriculture; CEIC; IMD; MOFSL.



Rural India takes the bigger hit

55%

Rural share of private final consumption

45%

FMCG volumes

68%

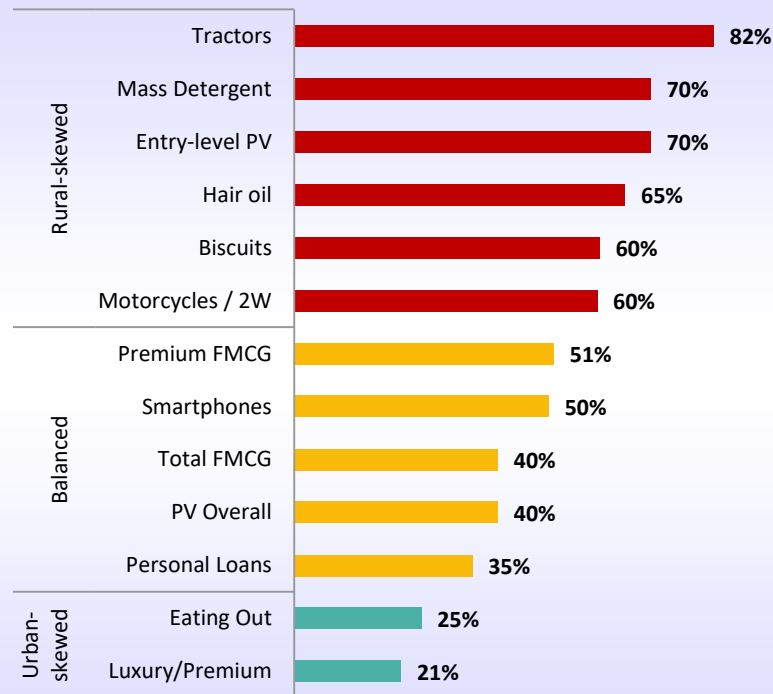
Population

50%

GDP

- ❖ **Which one takes the bigger hit?** Rural consumption. Food is 42% of the rural CPI basket against 30% of urban. The same monsoon-driven food shock translates to roughly 30% more headline CPI for rural households than urban. An increase in rural CPI reduces real wages—that is the channel through which rural demand softens.
- ❖ Sectors with >50% rural exposure face direct earnings risk; urban-discretionary categories are insulated by the wealth effect from rising equity values.
- ❖ Rural share of volumes exceeds its share of GDP for almost every consumption-sensitive category — which is why monsoon shocks land in earnings before they land in print GVA.

Rural share of category volumes (%)



Source: NSO, Nielsen IQ, SIAM, MOFSL

El-Nino: Transmission Channel 2 – The inflation channel

In El Niño years, pressure shows up in pulses, oilseeds and spices — not cereals



CPI · % YOY · BY CATEGORY · DEFICIENT RAINFALL YEARS

YEAR	RAINFALL (% LPA)	HEADLINE CPI	CEREALS	PULSES	OILSEEDS	SUGAR	SPICES
2009	-18.3	8.2	14.6	14.4	0.0	6.9	13.9
2014	-10.1	6.4	5.2	7.9	-0.4	2.4	8.6
2015	-12.7	4.9	1.8	31.7	-6.9	4.3	9.6
2018	-7.4	0.2	2.1	-8.2	-7.0	2.1	2.2
2023	-6.0	7.5	10.8	15.1	-14.8	5.1	19.0

CPI INFLATION (%YOY): < 0 0-5 5-10 10-20 > 20

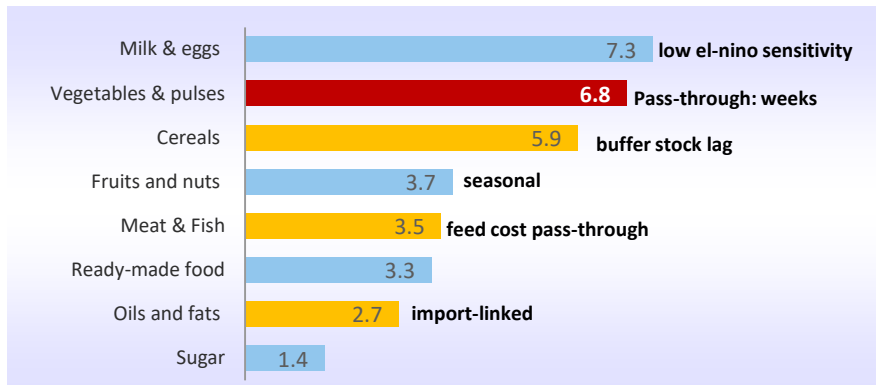
- ❖ **2015 pulses:** CPI inflation reached 31.7% — the headline category-level shock of the last decade.
- ❖ **2023 spices:** +19% CPI — driven by both monsoon and global supply factors.
- ❖ **Cereals:** the only category consistently anchored by MSP discipline and FCI buffer stocks.
- ❖ **Oilseeds:** negative readings often reflect *global* price collapses (2015, 2018, 2023), not domestic supply.

Source: CEIC, MOFSL, MOA&FW

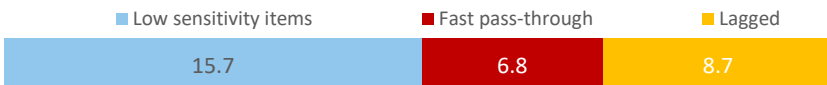
Food is 35% of headline CPI — and the kharif basket sits at the front of the queue



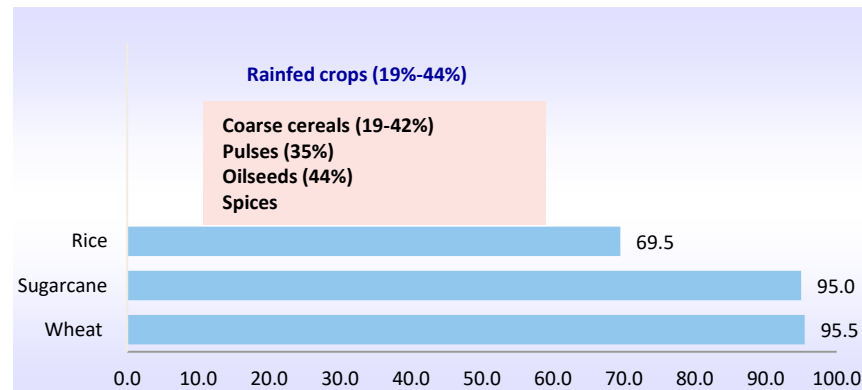
CPI food basket (weights and pass-through speed)



15.5% of the CPI basket is at risk



Irrigated area (% of net sown area)



Food Inflation Risks: Fast Pass-Through + Low Irrigation = Highest Vulnerability

Fastest Inflation Pass-Through

Vegetables and pulses show the quickest CPI response during weak monsoon years.

Cereals and edible oils usually react with a lag.

Rainfed crops (low irrigation)

Pulses, oilseeds and coarse cereals remain structurally vulnerable due to weak irrigation (19-44% of the net-sown area is irrigated). These rainfed crops account for:

- 32.5% of agricultural production
- 6.1% of CPI basket

Most Vulnerable: Pulses, oilseeds, coarse cereals, vegetable

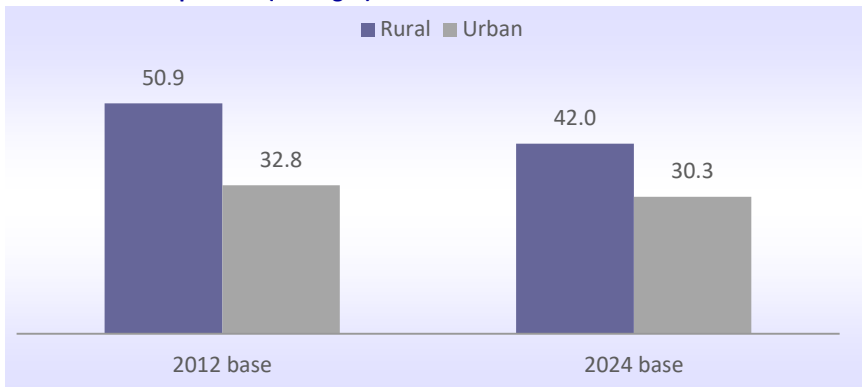
Relatively Insulated Crops: Rice and wheat are better protected due to higher irrigation coverage, reservoir support and government procurement and buffer stocks

Source: MoSPI, CEIC, MOFSL

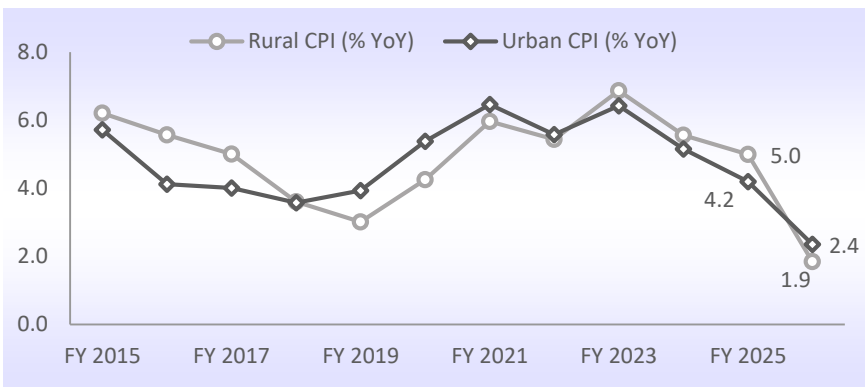
Rural baskets are 12 points heavier on food — the same shock prints higher in villages



Food basket composition (% weight)



Rural vs urban CPI



Rural ran 80 bps above urban through the 2024–25 food shock

- ❖ Rural CPI baskets remain significantly more food-heavy than urban baskets.
- ❖ Gap between rural and urban food CPI basket remains ~12pp even under the new CPI series. Under the older 2012 base, the rural-urban food weight gap was even higher at 18.1pp.
- ❖ Even if the inflation impact is lower under the new CPI series, rural India will still bear a disproportionately higher burden from food inflation shocks.

Food-weight gap

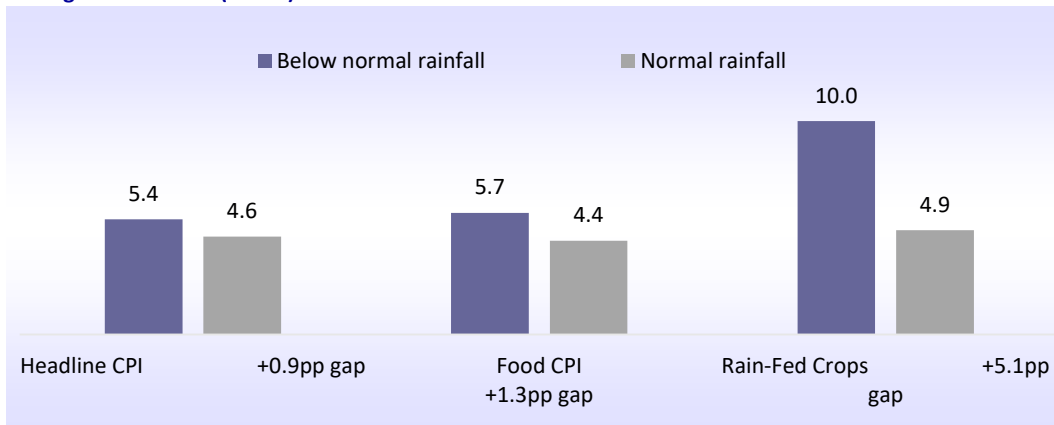
+11.7 pp

Rural households consume 39% more food as a share of wallet — a 100bp food-CPI move drives ~55bp of rural headline vs. only ~45bp urban.



Below-normal monsoons add ~45bp to headline CPI

Average CPI inflation (% YoY)



NET EFFECT of rise in Food CPI

+45_{pp}

Rain-fed crops inflation is ~2x higher in below normal rainfall years (10.0% vs 4.9%).

Despite having only ~6.1% weight in CPI, these crops alone can add nearly 30 bps to headline inflation

- ❖ Historical data suggests that headline CPI inflation is nearly 90bp higher during below-normal rainfall years, with food inflation (food has 35% weight in CPI) accounting for a significant portion of the increase.
- ❖ **Food CPI is typically around 1.3pp higher in weak rainfall years, contributing roughly 45bp to headline inflation**, while vulnerable rainfed crops such as pulses, oilseeds and coarse cereals alone can contribute an additional ~30 bps despite their relatively small weight (6.1%) in the CPI basket.
- ❖ However, the overall inflation impact extends well beyond food. Weak monsoon conditions often trigger broader second-round effects through higher transportation and logistics costs, rising fertilizer and farm input prices, spillovers into milk, meat and processed foods, and upward pressure on wages, rents and services inflation.
- ❖ **Buffer Stocks Offer Partial Protection:** Rice and wheat inventories remain around 3x and 2x buffer norms, respectively, providing an important cushion against production shocks and price spikes. However, pulses, oilseeds and coarse cereals have significantly lower procurement, buffer stocks and irrigation coverage, making them more vulnerable to El Niño-driven supply disruptions.
- ❖ In the current environment of elevated crude oil, gas and fertilizer prices following the West Asia conflict, these indirect effects are likely to be stronger than historical averages, amplifying the overall inflationary impact of an El Niño-driven monsoon shock.

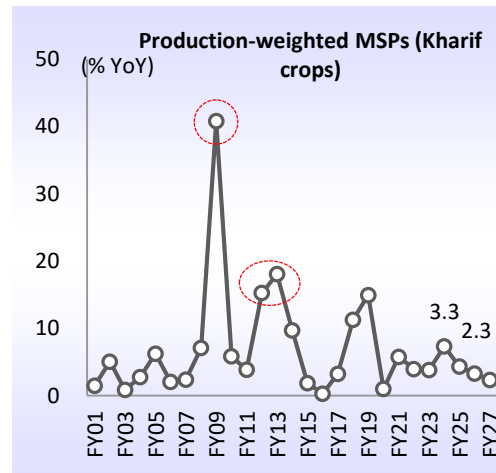
Source: IMD; CEIC; MoSPI; MOFSL; Averages over 2014–2025

Kharif MSP hike was marginal for paddy but skewed deliberately toward pulses and oilseeds



Average MSP growth for Kharif crops was the lowest in 5 years in 2026-27

% YoY, MSP	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Paddy, common	3.8	3.7	4.3	5.4	12.9	3.7	2.9	3.9	5.2	7.0	5.4	3.0	3.0
Paddy, Grade A	4.1	3.6	4.1	5.3	11.3	3.7	2.9	3.8	5.1	8.3	4.0	3.0	3.0
Jowar, hybrid	2.0	2.6	3.5	4.6	42.9	4.9	2.7	4.5	8.5	7.1	6.0	9.7	8.8
Jowar, Maldandi	2.0	2.6	3.8	4.5	42.0	4.9	2.7	4.5	8.4	7.9	6.1	9.6	8.6
Bajra	0.0	2.0	4.3	7.1	36.8	2.6	7.5	4.7	4.4	6.4	5.0	5.7	4.5
Maize	0.0	1.1	3.0	4.4	19.3	3.5	5.1	1.1	4.9	6.5	6.5	7.9	0.4
Ragi	3.3	6.5	4.5	10.1	52.5	8.7	4.6	2.5	6.0	7.5	11.5	13.9	6.5
Tur (Arhar)	1.2	6.3	9.2	7.9	4.1	2.2	3.4	5.0	4.8	6.1	7.9	6.0	5.6
Moong	2.2	5.4	7.7	6.7	25.1	1.1	2.1	1.1	6.6	10.4	1.4	1.0	0.1
Urad	1.2	6.3	8.1	8.0	3.7	1.8	5.3	5.0	4.8	5.3	6.5	5.4	5.1
Cotton, Medium staple	1.4	1.3	1.6	4.1	28.1	2.0	4.9	3.8	6.2	8.9	7.6	8.3	7.2
Cotton, Long staple	1.3	1.2	1.5	3.8	26.2	1.8	5.0	3.4	5.9	10.0	7.1	7.8	6.9
Groundnut in shell	0.0	0.8	4.7	5.5	9.9	4.1	3.6	5.2	5.4	9.0	6.4	7.1	3.5
Sunflower seed	1.4	1.3	3.9	3.8	31.4	4.9	4.2	2.2	6.4	5.6	7.7	6.1	8.1
Soyabean, yellow	0.0	1.6	6.7	9.9	11.4	9.1	4.6	1.8	8.9	7.0	6.3	8.9	7.1
Sesamum	2.2	2.2	6.4	6.0	17.9	3.8	5.7	6.6	7.2	10.3	7.3	6.2	5.1
Simple average	1.5	2.9	5.0	6.2	24.5	3.7	5.0	3.6	6.0	7.5	7.0	7.1	5.2



- ❖ **Farmers' groups criticize MSP Hikes as inadequate:** MSP hikes do not compensate for higher costs of seeds, fertilizers, diesel, electricity and irrigation. Despite continued MSP increases, elevated input inflation has likely compressed farm profitability, especially for small farmers.
- ❖ **Substitution signal:** larger hikes for oilseeds and pulses are calibrated to shift acreage and cut import dependence.
- ❖ **Cereal CPI:** Paddy MSP hike kept relatively low (~3%). Rice has the highest procurement intensity and strongest inflation pass-through. Moderate cereal MSP hikes indicate government caution on food inflation, fiscal burden and procurement costs
- ❖ **Net inflation impact:** mildly additive at the margin.

PADDY HIKE

Paddy MSP increased modestly by INR72/qtl to INR2,441/qtl, modest by historical standards (FY15-FY25 avg: 5.3%)

+3%

Larger hikes announced for: Sunflower seed: +INR622/qtl and Cotton: +INR550+/qtl

Source: PIB; MOFSL

Rise in global fertilizer and energy prices to amplify the El Niño shock



Energy prices have risen significantly

	Energy prices	28-Feb-26	2-Jun-26	(% increase in prices since war)
Domestic prices	Natural gas	6	11	81.7
	India basket crude oil	71	106	49.6
	Urea (INR/Tonne)	5360	5360	
	DAP (INR/Tonne)	27000	27000	
	LPG (INR/14.2kg)	853	913	7.0
	LPG Commercial (INR/19kg)	1741	3114	78.8
	Petrol (INR/L)	95	102	7.5
	Diesel (INR/L)	88	95	8.2
	Kerosene PDS (INR/L)	57.2	61	7.0
Global prices	ATF (INR/KL)	91393	207341	126.9
	Brent (USD/bbl)	71	103	44.8
	Urea (USD/tonne)	472	771	63.2
	DAP (USD/tonne)	627	770	22.7

- ❖ **Rise in global fertilizer prices:** Global fertilizer prices have surged, but unchanged domestic prices may significantly increase subsidy burden (~INR1.5t).
- ❖ **Brent crude prices have surged ~45%,** significantly increasing India's energy import bill and CAD risks. Every USD10/bbl rise in crude prices historically increases India's CAD by ~USD12b.
- ❖ **Domestic petrol and diesel prices are already up ~7.5% and ~8.2%,** adding to transport and logistics inflation. Fuel-related categories carry ~5% weight in CPI, implying meaningful direct and indirect inflation pass-through (~30-40bp increase in CPI, including second-round effects and 50-100bp increase in WPI).
- ❖ **ATF prices have more than doubled (+127%),** creating major cost pressures for the aviation sector.
- ❖ **Commercial LPG prices are up ~79%,** negatively impacting restaurants, hotels and food-service businesses.

Source: World Bank; FAO; CEIC; CMIE, IOCL, PPAC, MOFSL

Four retail hikes in two weeks: OMCs are recovering; but under-recovery still meaningful



RETAIL PRICE ACTIONS

LATE MARCH 2026

₹10/L excise duty cut

Govt. cuts excise on petrol & diesel to provide consumer relief and OMC support.

15 MAY 2026 · HIKE #1

Petrol +₹3.00 · Diesel +₹3.00

HIKE #2

Petrol +₹0.90 · Diesel +₹0.94

HIKE #3

Petrol +₹0.87 · Diesel +₹0.91

26 MAY 2026 · HIKE #4

Petrol +₹2.61 · Diesel +₹2.71

Latest, attributed to soaring crude on West Asia war escalation.

CUMULATIVE · 4 HIKEs IN 2 WEEKS

Petrol +₹7.38 · Diesel +₹7.56 / L

CPI impact

25-40bp

WPI impact

50-100bp

WHY DRIP-FEED THE HIKE?

Likely to *avoid a headline-grabbing single INR8 shock* — spreading the increase across four tranches appears better

CURRENT UNDER-RECOVERY PER LITRE

PETROL

~₹8

DIESEL

~₹11

CRUDE SENSITIVITY

USD 10 / bbl decline → under-recovery down by ~₹5-6 / L.

LIKELY NEXT MOVES

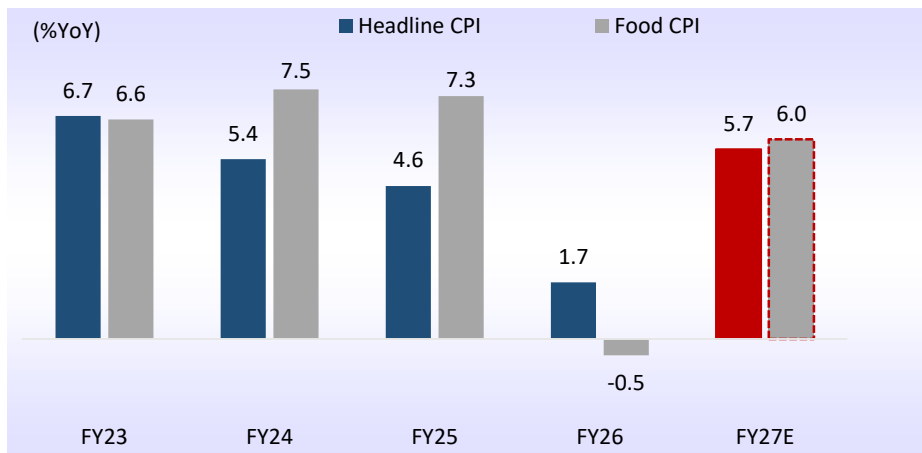
• LPG cylinder hike of ₹50-100 • One-time compensation to OMCs for LPG under-recovery; which would be a clean P&L boost

CPI Implications

- ❖ Recent fuel price hikes of ~INR7.5/litre could add roughly **25-40bp to CPI** (including second-round effects) and **50-100bp to WPI** over FY27 through higher transport, logistics and input costs (through sectors such as: chemicals, plastics, metals, cement and logistics).
- ❖ Diesel remains more inflationary than petrol due to its direct linkage with freight, agriculture, construction and supply chains, *with pass-through likely over the next 1-3 months*.
- ❖ Despite recent hikes, OMCs still face meaningful under-recoveries due to elevated crude prices amid the West Asia conflict, implying risk of further fuel price increases unless crude corrects or taxes are cut.
- ❖ *A potential LPG price hike of INR50-100/cylinder could add another 10-20bp to CPI*, while government compensation to OMCs could reduce the need for further aggressive fuel price hikes and contain inflation spillovers.
- ❖ Rural inflation sensitivity could also increase due to higher irrigation and transportation expenses.

Source: Business Standard, Business Today, NDTV Profit; MOFSL; Note: Pricing as of 26 May 2026

FY27 headline CPI to reach ~5.7%; rural inflation will run higher



RURAL CPI FOOD WEIGHT

42%

→ rural inflation will run ~80-100bp hotter than urban as rain-fed crops bite.

URBAN CPI FOOD WEIGHT

30.3%

Insulated by services-heavy basket; transport-fuel pass-through is the main channel.

- ❖ **Food Inflation Risk (El-Nino):** Historical data shows that headline CPI inflation is nearly 90bp higher during below-normal rainfall years. Food CPI alone is around 1.3pp higher, contributing roughly 45bp to headline inflation.
- ❖ **Energy Inflation Risk:** Brent crude prices have risen by ~63% since the West Asia conflict, while domestic petrol and diesel prices are already up 7.6% and 8.6%, respectively. Fuel-related categories carry around 4.8% weight in CPI, implying a direct and indirect inflation impact of roughly 30-40bp on CPI and 50-100bp on WPI through higher transportation, logistics and distribution costs.
- ❖ **Fertilizer and Input Cost Risk:** Global fertilizer prices have surged sharply, with urea prices rising significantly. Domestic fertilizer prices have not been increased, implying a potential rise of nearly INR1.8t in fertilizer subsidies.
- ❖ **Second-Round Inflation Effects:** The inflation impact is unlikely to remain limited to food. Higher fuel, transportation and farm input costs can spill over into milk, meat, processed foods, retail distribution and services inflation.
- ❖ **Aviation and Hospitality Impact:** ATF prices have increased by ~127%, creating significant cost pressures for airlines. Commercial LPG prices have risen by ~77%, increasing operating costs for restaurants, hotels and food-service businesses, which could eventually be passed on to consumers.
- ❖ **Inflation Outlook: CPI Could Rise to 5.7%:** The combination of El Niño-related food inflation, higher crude oil prices, rising logistics costs, elevated fertilizer prices and broader second-round effects creates a significantly more inflationary backdrop than implied by rainfall alone. While historical weak rainfall years are associated with roughly 90 bps higher CPI inflation, the simultaneous energy and commodity shock could amplify the impact. As a result, we estimate CPI inflation could rise by 100–120 bps above the RBI's 4.6% baseline forecast, taking inflation to approximately 5.7–5.8%, with risks skewed further to the upside if El Niño strengthens and reservoir levels weaken materially.

Source: MoSPI; CEIC; MOFSL

El-Nino: Domestic Cushions



FY27 headline CPI to reach ~5.7%; rural inflation will run higher

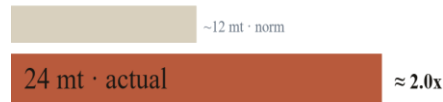
- ❖ Another important mitigating factor is India's food-grain buffer stock position. Current rice inventories stand at ~36 million tonnes, while wheat stocks are ~24 million tonnes — nearly three times and two times their respective buffer norms.
- ❖ This provides the government significant room to release stocks into the market during periods of weak output, helping contain price pressures in key staples such as rice and wheat. However, the risk remains substantially higher in crops where buffer stocks are limited and irrigation coverage is weak, particularly pulses, coarse cereals and oilseeds.

STOCKS VS BUFFER NORM (MILLION TONNES)

RICE



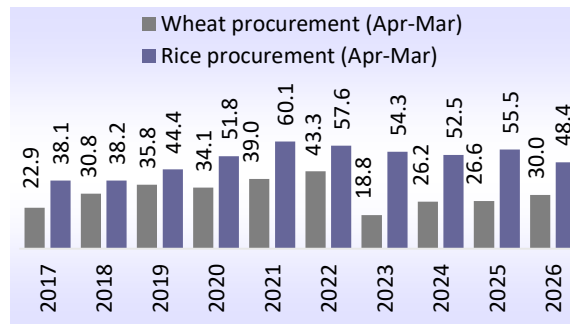
WHEAT



FCI buffer norms vary by quarter; figures shown are illustrative annual averages.

"Government can draw down on inventory, ensuring enough supply to keep cereal prices in check."

Procurement (MILLION TONNES)

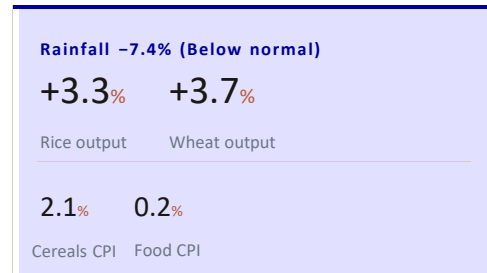


PROCUREMENT

Stable MSP procurement

Public procurement of rice and wheat has been steady through prior monsoon shocks — supply does not rely on a single good harvest.

CASE STUDY · 2018



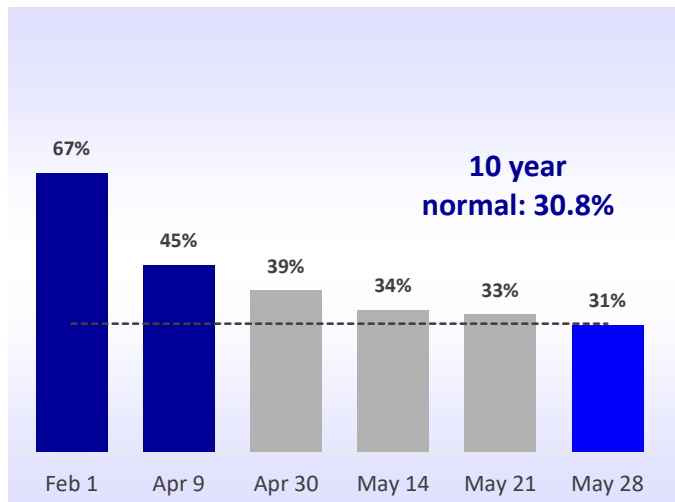
The 2018 episode shows what the policy machinery achieves in a mild-deficit year: a buffer-cushioned outcome with cereals essentially unstressed despite a below-normal monsoon.

Source: FCI; CEIC; MoSPI; MOFSL; Note: Stock data as of latest available bulletin, 2026.

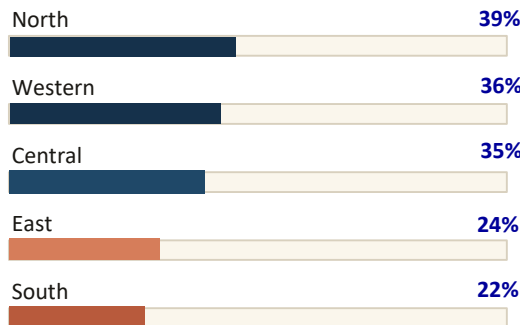
Reservoir levels are at par with the decadal normal but depleting fast — and the south is the concern.



ALL-INDIA LIVE STORAGE (% OF TOTAL CAPACITY, 2026)



BY REGION (May 29, 2026)



RIVER BASINS UNDER STRESS

Vaigai 12.5% — fragile
Krishna 19.3%
Godavari 36.5%
Cauvery 35.7%
Narmada 35.0%

VS. DECADAL NORMAL

+31%

All-India storage on May 28 was 30% of total capacity vs the decadal average of 31%

BELOW-50% RESERVOIRS

13/166

Major reservoirs below half their normal storage on May 14 — up from 9 on Apr 30.

Source: Central Water Commission Reservoir Storage Bulletins; Down To Earth analysis; MOFSL.

Sector outlook from economist's lens

Most sensitive sectors to El Niño/weak monsoon



Rural FMCG

- ❖ Biscuits, packaged foods, soaps and other daily-use products are vulnerable to a slowdown in rural consumption. Higher food inflation and weaker farm incomes can pressure volumes.

Edible Oil & Food Companies

- ❖ Directly exposed to lower crop output, higher agricultural commodity prices and food inflation. Margin pressure can emerge from volatility in edible oils, pulses, grains and other agri commodities.

Tractor Manufacturers

- ❖ Farm incomes, acreage and agricultural output remain closely linked to monsoon performance. Weak rainfall typically leads to lower tractor purchases and delayed replacement demand.

Entry-Level Two-Wheelers

- ❖ Rural affordability is highly sensitive to food inflation and agricultural cash flows. Demand for commuter motorcycles often weakens when farm incomes come under pressure.

Agrochemicals

Reduced acreage and lower crop protection spending

Consumer Durables

Rural discretionary purchases such as appliances and electronics may be deferred

Microfinance / NBFCs

Farm cash-flow stress can impact collections and loan demand

QSRs & Packaged Foods

Higher food inflation reduces discretionary spending and affects consumption baskets

Entry-Level Passenger Vehicles

Rural affordability and first-time buyer demand can weaken

Irrigation Equipment

Near-term stress in farm spending, though medium-term demand may improve

Building Materials (Rural Housing)

Slower rural income growth can delay housing and renovation activity

FMCG: Rural volume recovery at risk



Company	Rural Mix (%)	Urban Mix (%)
Emami	65	35
Britannia	49	51
Dabur	47	53
Colgate	45	55
FMCG Industry Avg.	40	60
HUVR	40	60
Jyothy Labs	40	60
GCPL	30	70
PGHH	30	70
Tata Consumer	30	70
Marico	28	72
Nestlé India	25	75
Varun Beverages	30	70

FY27 OUTLOOK

Rural recovery at risk from El Niño — could re-open the urban-rural gap.

Mix-led growth: premiumisation and small packs remain the volume drivers.

Palm oil and crude pass-through pressures gross margin in 2HFY27.

Pricing actions cautious — companies absorbing 30–60bps of input cost.

EL NIÑO · RISK PROFILE

RURAL VOLUMES

PALM OIL / EDIBLE OILS

CRUDE / PACKAGING

PRICING POWER

MANAGEMENT COMMENTARY

Company	Commentary
Hindustan Unilever (HUL)	More recently, heightened geopolitical tensions have led to commodity and currency volatility. Despite geopolitical tensions leading to commodity and currency volatility, we are navigating these headwinds through disciplined savings, resilient supply chains, and calibrated pricing. We remain well positioned to deliver sustainable and competitive growth. “Material cost inflation flagged at ~8–10% on cost base; calibrated price increases of 2–5% already implemented on select portfolios. FY27 described as expected to be better than FY26 — but contingent on rural demand not deteriorating from monsoon weakness.
Dabur India	“Inflation has picked up sharply, with roughly 10% inflation hitting many parts of the business... we have already taken 4% price increases and may take more if needed.” Management also said international business was impacted by “West Asia war-related disruptions, inflation and weaker demand.”
Britannia Industries	Mentioned higher food, fuel, and packaging inflation pressures and indicated selective price hikes and grammage reductions. Weak monsoon and sticky food inflation are key concerns for biscuit and staple food demand.
Marico	Frequently discussed edible oil inflation and rural slowdown risks in prior El Niño periods because of its exposure to Parachute and Saffola categories. Analysts continue to track monsoon sensitivity closely.
Pidilite Industries	Management discussed multiple rounds of price hikes due to sharp increases in input costs. Rural construction and discretionary demand can weaken under El Niño-led inflation stress.
Varun Beverages	Commentary indicated rising input and fuel costs, with discount reductions already underway. Beverage demand often benefits from heatwaves, but broader inflation can pressure discretionary spending.

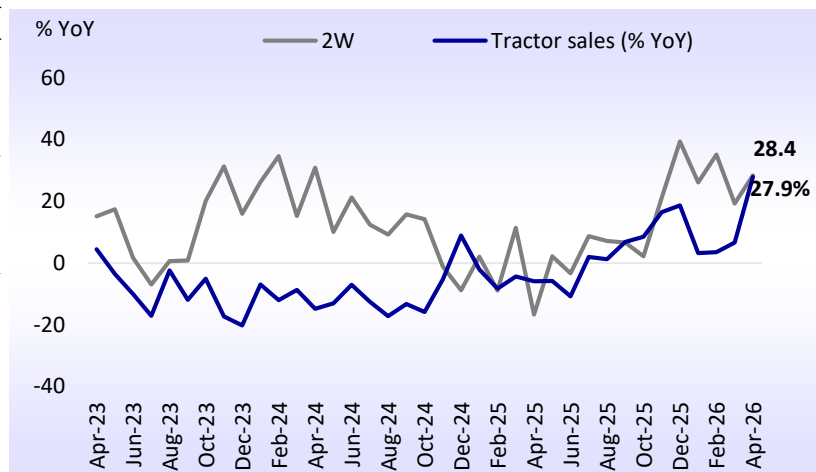
Source: NielsenIQ; Kantar; company filings. Management quotes sourced from Q4FY26 earnings transcripts, MOFSL FMCG Analyst



Autos: tractors and entry 2W most exposed to El-Nino.

- ❖ FY27 is likely to be a year of **urban vs. rural divergence** for the auto sector. Passenger vehicles and premium segments should remain relatively resilient, while tractors and entry-level two-wheelers face the highest risk from a potential El Niño-led slowdown in agricultural incomes and higher food inflation. Among all auto categories, tractors remain the most directly exposed to monsoon outcomes, while commuter motorcycles are likely to be the most sensitive to changes in rural purchasing power.

Company	Management Commentary
Mahindra & Mahindra	M&M reported strong SUV demand and continued market-share gains, but management highlighted that rural businesses remain sensitive to monsoon outcomes. Commentary also flagged higher steel and aluminium costs as key monitorables going forward.
Hero MotoCorp	Management highlighted improving rural demand, strong growth in the 125cc segment, premium motorcycle momentum and export recovery. However, below-normal monsoons could dampen rural sentiment and motorcycle demand.
Maruti Suzuki	Maruti reported record quarterly sales volumes and continued improvement in SUV mix. Management commentary focused on volume growth, exports and market-share expansion, although profitability remained impacted by cost pressures.
Tata Motors	Management continued to focus on premiumisation, EV expansion and operational discipline, while investors remain watchful of JLR margins and global demand trends.



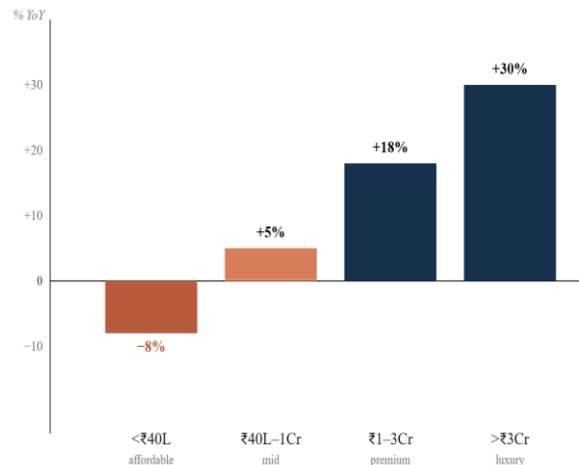
- ❖ An important consideration is that rural consumption contributes disproportionately to volumes across many categories despite accounting for a smaller share of GDP. Rural India accounts for approximately 82% of tractor demand, 70% of entry-level passenger vehicle sales, 60% of motorcycle volumes and 60–70% of several mass FMCG categories. Consequently, monsoon-related shocks tend to appear first in corporate earnings, volume growth and management commentary before they become visible in broader economic indicators such as GVA growth.

Source: SIAM; FADA; company filings. Management quotes sourced from Q4FY26 earnings transcripts, MOFSL.

Real Estate: Affordable housing lags on rural income stress



TOP-7 CITIES RESIDENTIAL ABSORPTION (% YOY) BY TICKET SIZE (INDICATIVE FY26)



FY27 OUTLOOK

Top-7 cities absorption +10% YoY; volumes near decadal highs.

Premium / luxury segment dominates; affordable share at multi-year lows.

Inventory months at decadal lows; pricing power with developers.

REIT/Commercial leasing pre-leasing remains strong; office vacancy moderating.

EL NIÑO · RISK PROFILE

AFFORDABLE DEMAND

TIER-2/3 LAUNCHES

RBI RATE PATH

PREMIUM-INSULATED

MANAGEMENT COMMENTARY · 4QFY26 CALLS

DLF · 4QFY26

Management highlighted continued demand strength in premium and luxury housing while maintaining a strong balance sheet.

MACROTECH (LODHA) · 4QFY26

Management highlighted continued demand momentum, operating cash-flow strength and significant deleveraging. Management noted some sales deferment due to West Asia-related uncertainty, but underlying demand remained healthy and FY26 pre-sales still reached record levels.

GODREJ PROPERTIES · 4QFY26

"FY2026 booking value grew 16% YoY to ₹34,171 crore. The well-rounded performance underscores the strength of demand for well-designed, high-quality homes in India's major metropolitan markets. We have a strong launch pipeline for 2026-27 and will continue to invest for further growth. We remain focused on building on this momentum in FY2027."

Source: Knight Frank India; ANAROCK; company filings, MOFSL. Management quotes sourced from Q4FY26 earnings transcripts.

Sector outlook from Economists Lens



Sector	4QFY26 review and way forward
Banks - Private	❖ The banking sector delivered a mixed 4QFY26, with private banks reporting resilient earnings and stable asset quality. Private banks remain better positioned due to stronger deposit franchises, stable margins and lower credit costs. Over FY26–28E, private banks are expected to significantly outperform PSU banks, supported by superior earnings growth and market-share gains. Overall, the outlook remains positive for private banks and selective for PSU banks.
Banks - PSU	❖ PSU banks faced weaker NII growth and NIM compression. Management commentary has turned more cautious, reflecting pressure on margins and slower earnings growth.
NBFC - Lending	❖ NBFCs reported a strong 4QFY26, supported by healthy disbursement growth, improving asset quality and better collection efficiency. While the overall outlook remains positive, vehicle finance, MFI and consumer durable loan portfolios remain relatively exposed to any slowdown in rural incomes or rise in delinquencies. In contrast, gold loans and housing finance are expected to remain more resilient, supported by collateral-backed lending and stable demand trends. Key risks include El Niño-related rural stress and global geopolitical uncertainties.
NBFC - Non-Lending	❖ The outlook remains positive, supported by strong derivatives activity, resilient SIP inflows and increasing financialization of savings. The key risk remains an inflation surprise.
Consumer - FMCG	❖ Urban demand remains healthy, supported by premiumisation and small-pack growth, while rural recovery faces risks from a potential El Niño-led rise in food inflation and weaker farm incomes. Rising palm oil and crude-linked input costs could also pressure margins in 2HFY27, leading to further pricing actions across the sector.
Consumer - Durables	❖ Consumer Durables — RAC demand is strong on the back of a hot summer and structural under-penetration. The risk is in the festive season, when rural demand represents roughly thirty to thirty-five per cent of category volumes. Copper input cost from war-driven base-metals premia is the secondary risk for cables and wires.
Retail	❖ Premium fashion and jewelry resilient; value-format SSSG sensitive to basket inflation.
Automobiles	❖ Passenger vehicles and premium segments should remain relatively resilient, while tractors and entry-level two-wheelers face the highest risk from a potential El Niño-led slowdown in agricultural incomes and higher food inflation.
Real Estate	❖ Premium / luxury absorption holding; affordable lags. Inventory at decadal lows supports pricing.



Sector View: Rural demand is the key transmission channel

- ❖ From a macroeconomic perspective, the primary impact of a weak monsoon is not a collapse in agricultural output but a **deterioration in rural purchasing power through higher food inflation**. Since food accounts for roughly **42% of the rural CPI basket versus 30% in urban India**, the same food-price shock generates a disproportionately larger inflation burden on rural households, compressing real wages and discretionary spending.
- ❖ As a result, the earnings impact might be felt first in rural-facing sectors long before it becomes visible in aggregate GDP growth data.
- ❖ The most vulnerable sectors are those with a high dependence on rural consumption and farm incomes. **Tractors, entry-level passenger vehicles, motorcycles, rural FMCG categories, mass detergents, biscuits, hair oils, consumer durables and microfinance** face the greatest downside risk as lower real incomes translate directly into weaker volume growth. Historical evidence suggests that these categories typically experience demand slowdowns during periods of elevated food inflation and weak monsoon conditions.
- ❖ In contrast, urban-focused sectors are likely to remain relatively insulated. **Premium consumption, wealth management, private banks, premium real estate, organised retail, jewellery and premium FMCG** are supported by stronger urban income growth, higher savings, formalisation and wealth effects from financial assets. Urban households are less exposed to food inflation and therefore experience a smaller erosion in discretionary spending power.
- ❖ An important consideration is that **rural consumption contributes disproportionately to volumes across many categories despite accounting for a smaller share of GDP**. Rural India accounts for approximately **82% of tractor demand, 70% of entry-level passenger vehicle sales, 60% of motorcycle volumes and 60–70% of several mass FMCG categories**. Consequently, monsoon-related shocks tend to appear first in corporate earnings, volume growth and management commentary before they become visible in broader economic indicators such as GVA growth.



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