



# Rice Sector Risk Index

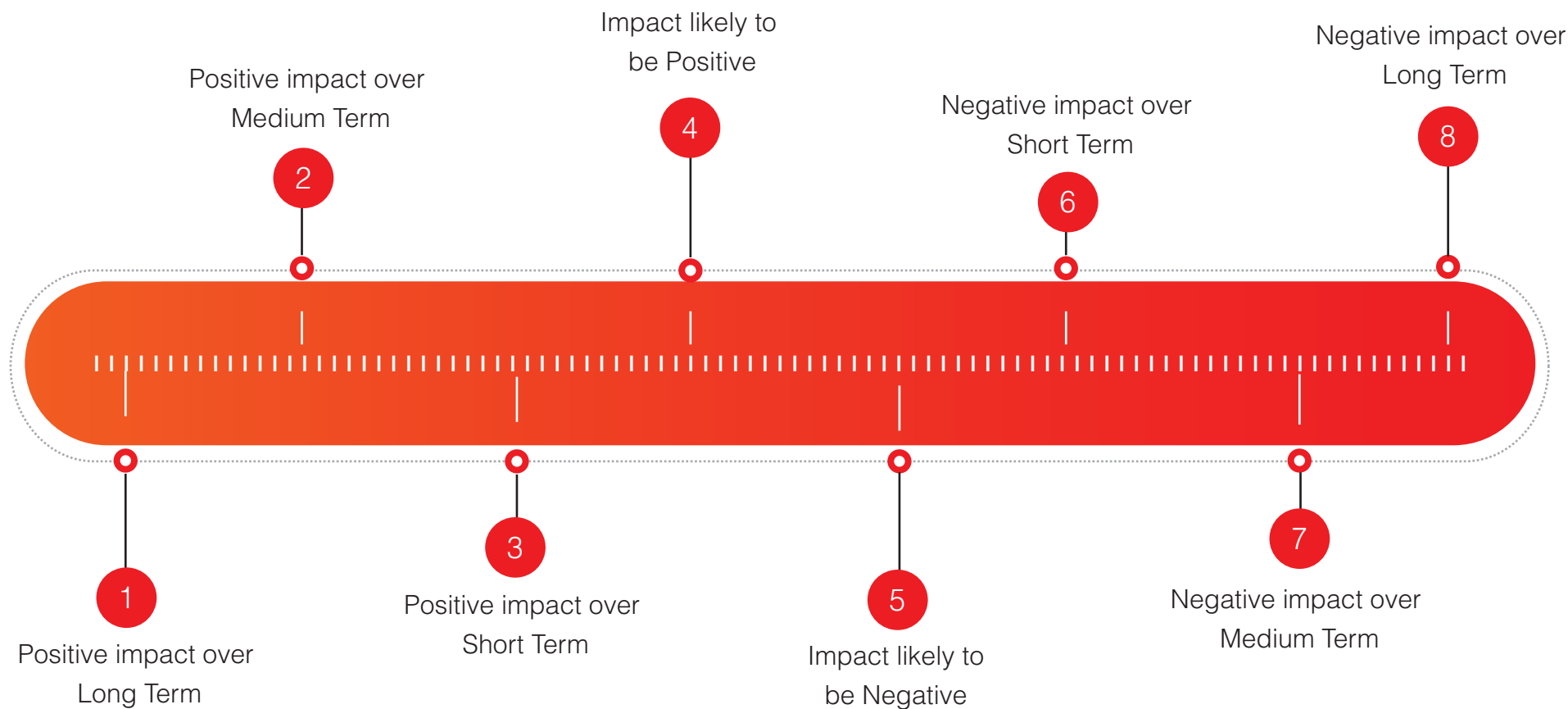
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# Explanation of Sector Risk Index

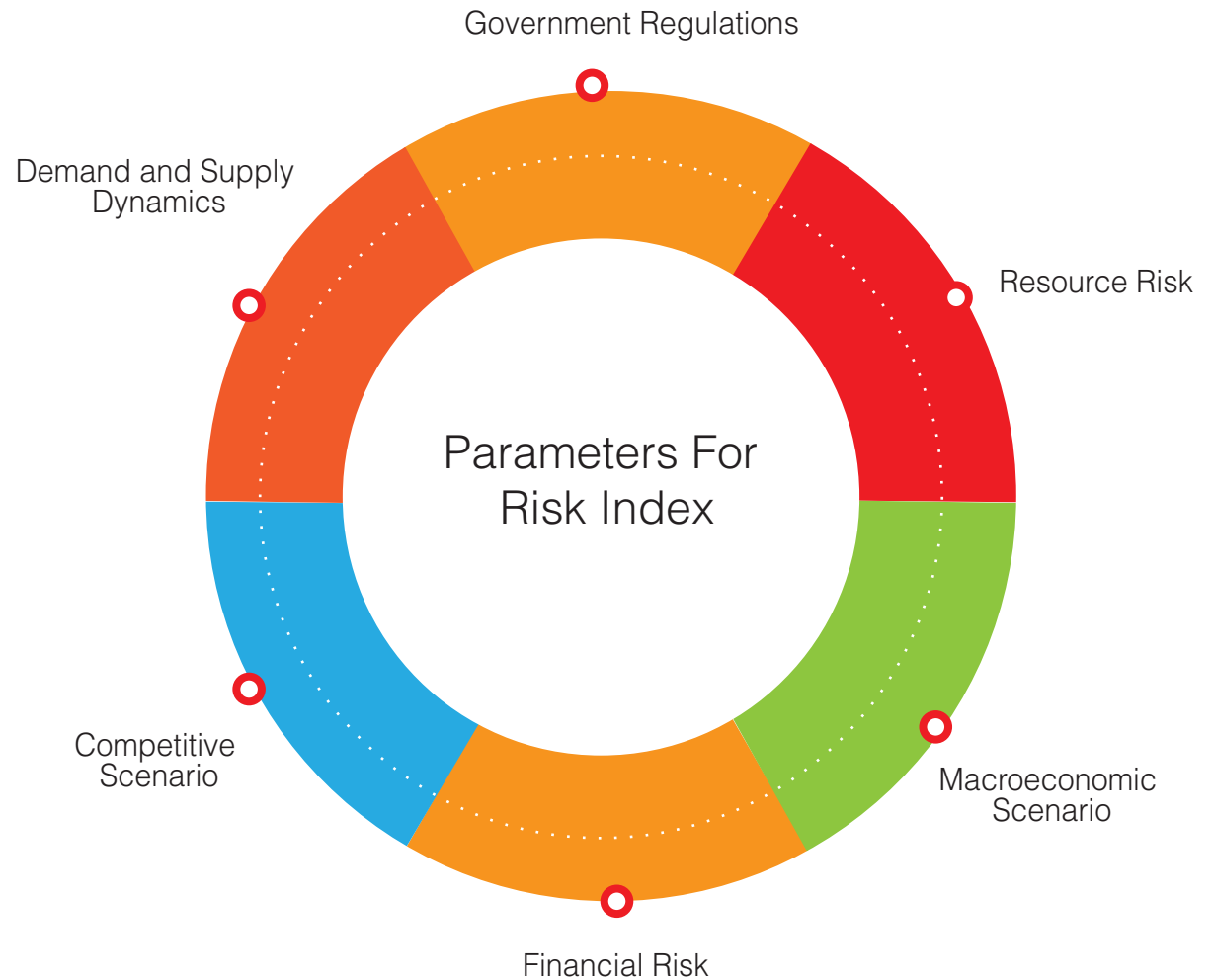
Sector Risk Index reflects the effect that various factors shall have on the business prospects and operating environment of a sector over the next 12 months. The risk index arrived at is an aggregate of the individual scores assigned to the relevant sector parameters-identified.

The scores have been graded on an 8 point scale with 1 indicating low risk and 8 indicating high risk.



# Parameters for Sector Risk Index

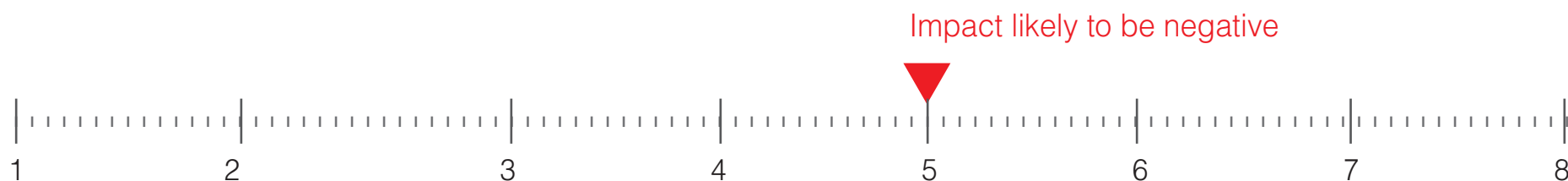
The selected parameters are government regulations, demand supply dynamics, competitive scenario, macro-economic variables, resource risk and profitability and cost structure. The scores given to individual parameters reflect the extent of positive/negative impact on the business operating environment.





India's rice sector is expected to grow at a compound annual growth rate (CAGR) of 12–14% during the period of financial year (FY) 2014–19 on the back of increasing demand for basmati rice mainly from Iran and Saudi Arabia.

# Risk Index of Rice Sector



## Demand and Supply Dynamics

With an expected increase in the demand of the basmati rice, the rice sector of India is likely to grow by 12-14% during the period FY 2014-19.



## Macro Economic Scenario

In FY 2014-15, India's gross domestic product (GDP) has shown a growth rate of 7.29% compared to 6.90% in FY 2013-14.



## Resource Risk

Scanty rainfall during monsoon in FY 2014-15 is likely to impact the cultivation of paddy which will increase the resource risk for the sector.



## Competitive Scenario

The availability of large number of small and medium-sized players in rice sector makes it highly competitive in India.



## Financial Risk

The seasonal cyclical in rice sector leads to high inventory holding days which requires high working capital lock-in period therefore, the sector is highly leveraged.



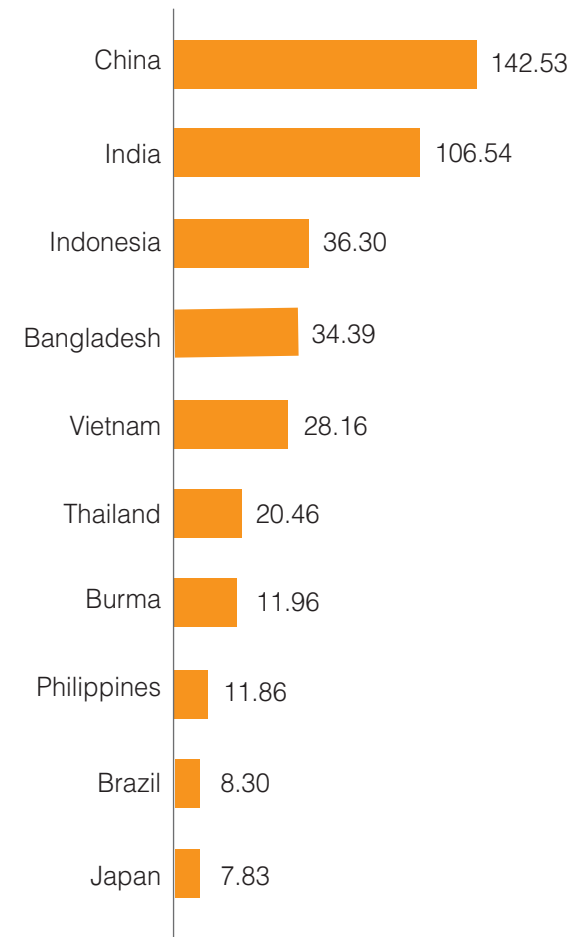
## Government Regulations

The central government has announced minimum support price on paddy every year in order to protect the interest of the farmers. The State traded agencies have also been assigned to monitor the price stabilization.

# Executive Summary

- 1** Globally, the market size of rice sector is estimated to be approximately United States dollar (USD) 230.78 billion in FY 2013–14 with a production of around 476 million tonne.
- 2** Asia has been leading in global rice production and export wherein India with a production of around 106.54 million tonne, remained the second-largest producer after China and a leading exporter of rice in the world during FY 2013–14.
- 3** Due to the growing global demand of rice, India's rice sector has expanded at a CAGR of 15.35% during the period FY 2010–14. Consequently, the export of the sector has reached to USD 7.78 billion in FY 2013–14 as compared to USD 6.22 billion in FY 2012–13, which shows a growth of 25.08%.
- 4** The production of rice is labour intensive; hence, countries like India and China, which have abundant labour, have an upper hand in global production and trade.
- 5** India's rice sector is highly sensitive to seasonal cyclicalities which leads to resource risk therefore the government has been taking initiatives to promote rice production by setting up various councils and institutes that are engaged in research and development of high-yielding variety of paddy and rice in the country.

Figure 1. Major Rice Producing Countries in FY 2013-14  
(In Million Tonnes)



Source: [www.eands.dacnet.nic.in](http://www.eands.dacnet.nic.in)

# Product Profile

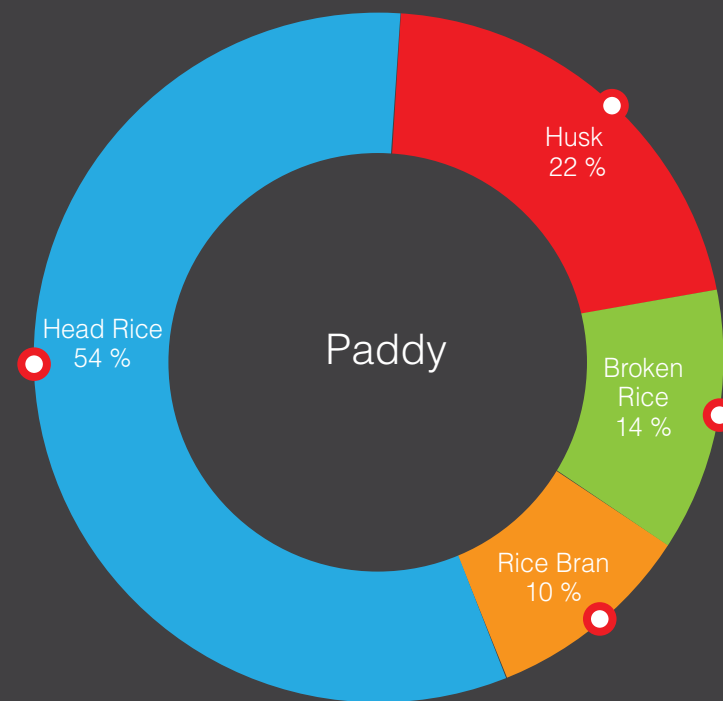
Rice is broadly categorised under two heads named as Indica (long-grain) and Japonica (medium and short-grain).

The two well known Indica rice varieties are Basmati and Jasmine and the two well known Japonica rice are Akita Komachi and Koshihikari. Similarly, the product range of rice includes long-, medium- and short-grain brown rice, sweet brown rice, wehani rice, himalayan red rice, basmati rice, colusari red rice, purple Thai rice, Chinese black rice, parboiled rice, glutinous rice, kuthari rice, polow rice.

Rice, through a milling process, is extracted by de-husking the paddy which is separated into Head Rice, Broken Rice, Husk and Rice Bran. There are two most important cultivated species of rice, viz. *Oryza Sativa* (majorly grown in Asian and American continents) and *Oryza Glaberriumn* (majorly grown in Africa).

Rice is used by many ways like the rice starch is used in making ice-cream, gel, distillation of potable alcohol, rice bran is used in confectionery products like bread, cookies, rice bran oil is used as an edible oil and also used in the manufacturing of detergents, cosmetics, emulsifiers, rice husk is used in the manufacturing of paper and board and is also used as fuel, making compost and chemical derivatives.

Figure 2. Rice Milling Products



Source: [www.sagevfoods.com](http://www.sagevfoods.com)



# Macro Economic Analysis

## Macro-Economic Growth

- 1** After showing a GDP growth rate of 5.08% in FY 2012–13 and 6.90% in FY 2013–14, India's economy is on the path to recovering and has shown a growth rate of 7.29% in FY 2014–15.
- 2** The central government has been planning to support the agricultural sector in India with better technology, irrigation and by spreading awareness amongst farmers.
- 3** The Indian Agriculture and Allied Activities sector had shown a growth rate of 3.61% in FY 2013–14 over 1.49% in FY 2012–13 however, in FY2014–15 due to the lower rainfall the growth rate in the sector was recorded at 0.56%.

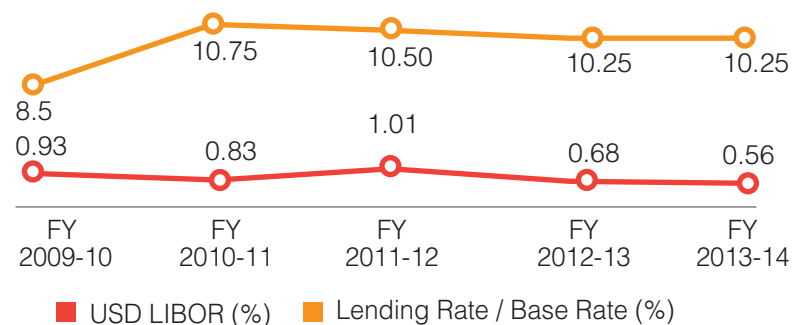
## Interest Rate Risk

The interest rates in the international markets, have been low in FY 2013–14 compared to FY 2009–10.

The domestic interest rate decreased in FY 2012–13 over FY 2011–12 and remained stable in FY2013–14, whereas international interest rate reached at the lowest levels in FY 2013–14 compared to the preceding five years since FY 2009–10, which have been providing a relief in the borrowing cost to the companies dependent on the Indian or outside sources of funds.

A lower financing cost may provide an advantage to increase the net profit margin or price competitiveness in the market.

Figure 3. Interest Rate Trends (Domestic and International)

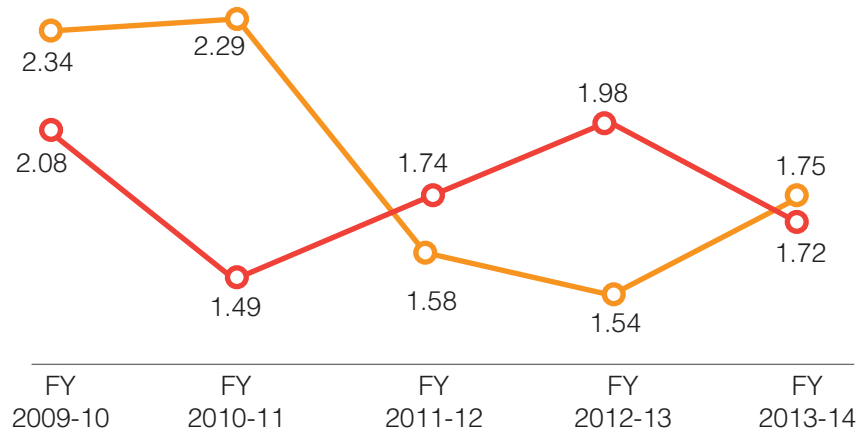


Source: [www.bloomberg.com](http://www.bloomberg.com)



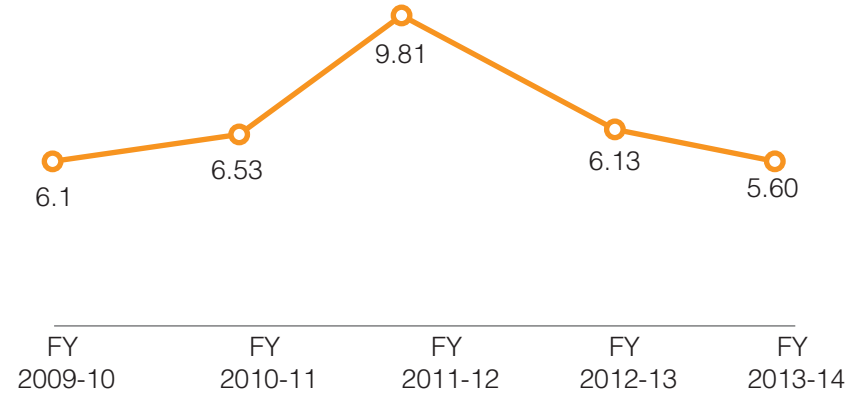
# Macro Economic Analysis

Figure 4: Interest Rate Risk



■ Interest Coverage Ratio (Times) ■ Debt-Equity Ratio (Times)

Figure 5: Interest as a % of Sales



Source: CMIE Prowess

The debt equity ratio of rice sector has declined from 2.08 times to 1.72 times during the period from FY 2009–10 to FY 2013–14. The sector is considered as less capital-intensive and is more labour-intensive; hence, the burden of fixed capital investment is comparatively less and can be backed by internal sources of fund however high working capital requirement is always there due to high inventory holding days.

The interest coverage ratio (ICR) of the sector has increased in FY 2013–14 compared to FY 2012–13. The increase in the Minimum Support Price of paddy by the government in FY 2014–15 could lead to increase in the raw material cost which may lead to an



# Macro Economic Analysis

## Foreign Exchange Fluctuations

In the rice sector around 15% of the total revenue is generated through export majorly in the Middle East, which is a source of foreign currency mainly the Iranian Rial (IRR), Saudi Riyal (SAR), Iraqi Dinar (IQD), Kuwaiti Dinar (KWD) and United Arab Emirates Dirhams (AED). The appreciation in the value of Indian rupee (INR) against these currencies may only increase the foreign exchange risk for the enterprises in the sector.

As per the Indian Foreign Trade Policy, 2015–20, the import of paddy is restricted; moreover, being the second largest producer of rice, it does not require import of rice as it can suffice the demand through domestic production. Hence, there is a minimum impact of foreign exchange risk on the sector.



# Government Regulations

## Duty Structure

Excise Duty:

In order to promote the sector, the government has not imposed excise duty on de-husked rice.

Customs Duty:

The basic customs duty on basmati rice and parboiled rice is 70% and on broken rice is 80% in FY 2013–14, which has remained unchanged for the last five FYs.



# Government Regulations

## Government Initiatives

- 1** In order to protect the interest of the farmers, the Government of India (GoI) announces a minimum support price (MSP) on paddy every year. The State Governments are responsible to monitor the price stabilisation and in case the paddy price falls below MSP, the designated agencies procure the paddy as per the specifications and get it milled from the rice mills.
- 2** GoI has allowed 100% Foreign Direct Investment under the automatic route in storage and warehousing of rice and also allowed 100% FDI for the development of seeds.
- 3** The Indian Council of Agricultural Research (ICAR), aided by the World Bank, has been implementing a joint National Agricultural Innovation Project in India to accelerate the development and application of agricultural innovation.
- 4** APEDA has been directed towards augmenting and monitoring rice exports. It is also engaged in providing financial assistance and grants in aids and reduction in interest on credits by banks.
- 5** The Government has played a vital role in setting up of various institutions, councils and development agencies like ICAR, Paddy Processing Research Institute, Central Rice Research Institute who are primarily engaged in providing research and development services in paddy and rice.

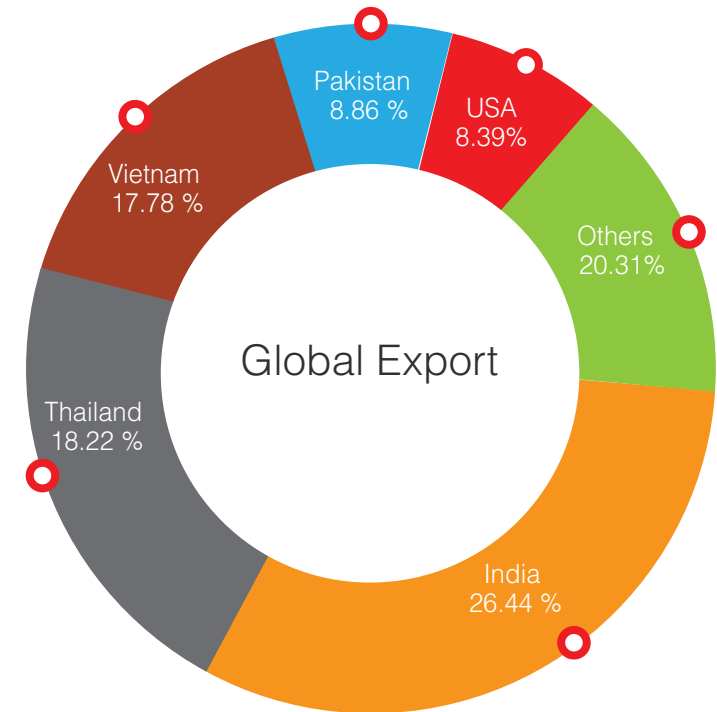


# Demand-Supply Dynamics

## Demand Growth

- 1 The rice sector in India has grown at a CAGR of approximately 15.35% during the period FY 2009–10 to FY 2013–14. The sector has been showing a growth year-on-year (YoY) basis due to the gradual increase in the global demand of rice consequently leading to the export.
- 2 In FY 2013–14, the total production of rice in the world is projected to increase by around 1% over FY 2012–13, in which a major proportion of around 52% is projected to be contributed by China and India. Both, China and India, being the top two most populated countries in the world, are also the biggest consumers of rice in the world.
- 3 India is the second-largest producer of rice in the world after China, followed by Indonesia, Bangladesh, Vietnam and Thailand. In FY 2013–14, it accounted for approximately 22.29% of rice production in the world.

Figure 6. Country Wise Share in Global Rice Export in FY 2013-14



Source: [www.whichcountry.co](http://www.whichcountry.co)



# Demand-Supply Dynamics

## Demand Drivers

- 1** Rice is the staple food of two third of the world population and has seen a rise in demand in response to increase in per capita income.
- 2** In India the disposable income of the masses has been increasing, which is leading to increase in the overall consumption of high-quality rice.
- 3** The change in lifestyle in the urban areas has led to the increase in the demand of high-end variants such as organic and healthier brown rice.
- 4** Increase in the popularity of rice-based snacks has led to the increase in the demand of rice.

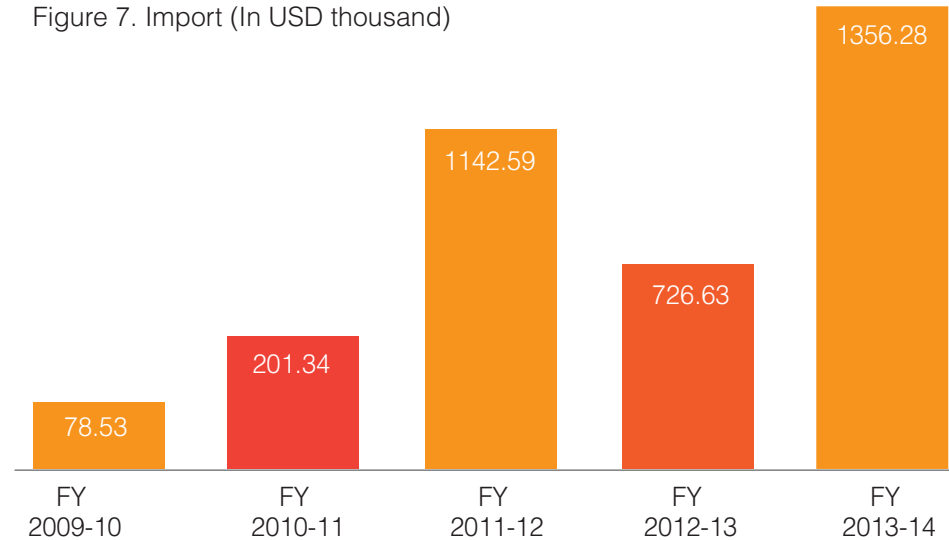


# Demand-Supply Dynamics

## Import Export Trend

- 1 In India, import of rice is very low due to abundant production, which fulfils the demand of domestic consumption.
- 2 Nevertheless, the import of rice in India has increased to USD 1356.28 thousand in FY 2013–14 from USD 78.53 thousand in FY 2009–10.
- 3 The import of rice in India is mainly done from Spain and Thailand. The Spanish rice has gained importance as the global market size of pasta has increased.

Figure 7. Import (In USD thousand)



Source: [www.commerce.nic.in](http://www.commerce.nic.in)

# Demand-Supply Dynamics

## Import Export Trend

- 1** There has been a growth at a CAGR of 34.57% in the export of rice during the period FY 2009–10 to FY 2013–14.
- 2** India exports the major proportion of its basmati rice mainly to the Iran, Saudi Arabia and Iraq while its exports its non basmati rice to Benin, Senegal and Bangladesh.
- 3** India is the largest exporter of rice in the world by contributing around 26.44% to total world's export in FY 2013–14, followed by Thailand, Vietnam, Pakistan and USA.

Figure 8. Export (In USD Billion)

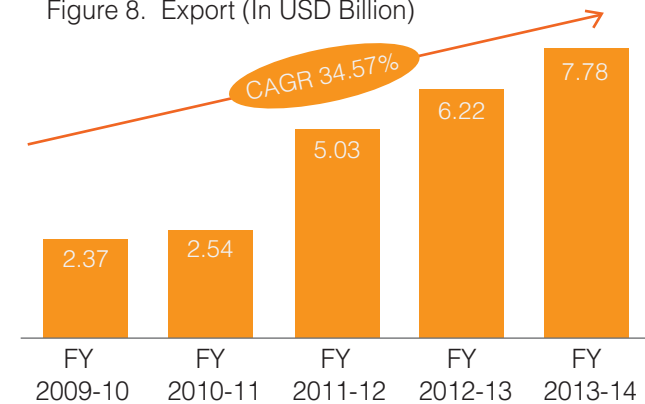
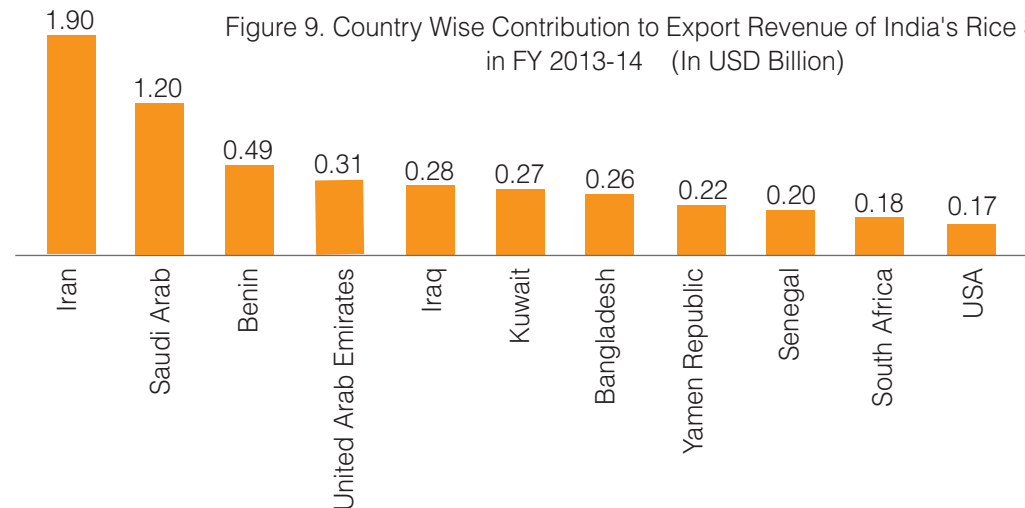


Figure 9. Country Wise Contribution to Export Revenue of India's Rice Sector in FY 2013-14 (In USD Billion)

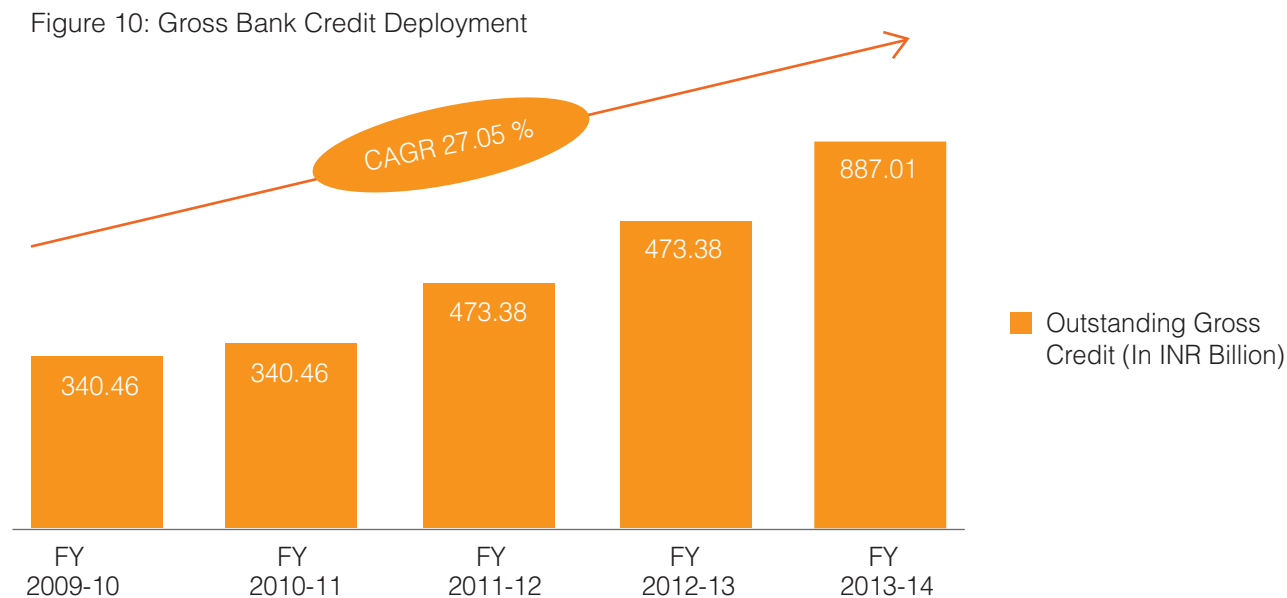


Source: www.commerce.nic.in

# Demand-Supply Dynamics

## Capacity Addition

- 1 As per the industry wise deployment of gross bank credit data, banks have been deploying funds under food processing sector (excluding sugar, edible oil and Vanaspati, and Tea) with a CAGR of 27.05% during the period from FY 2009–10 to FY 2013–14.
- 2 The deployment in the sector has reached to INR 887.01 billion in FY 2013–14 compared to INR 340.46 billion in FY 2009–10.



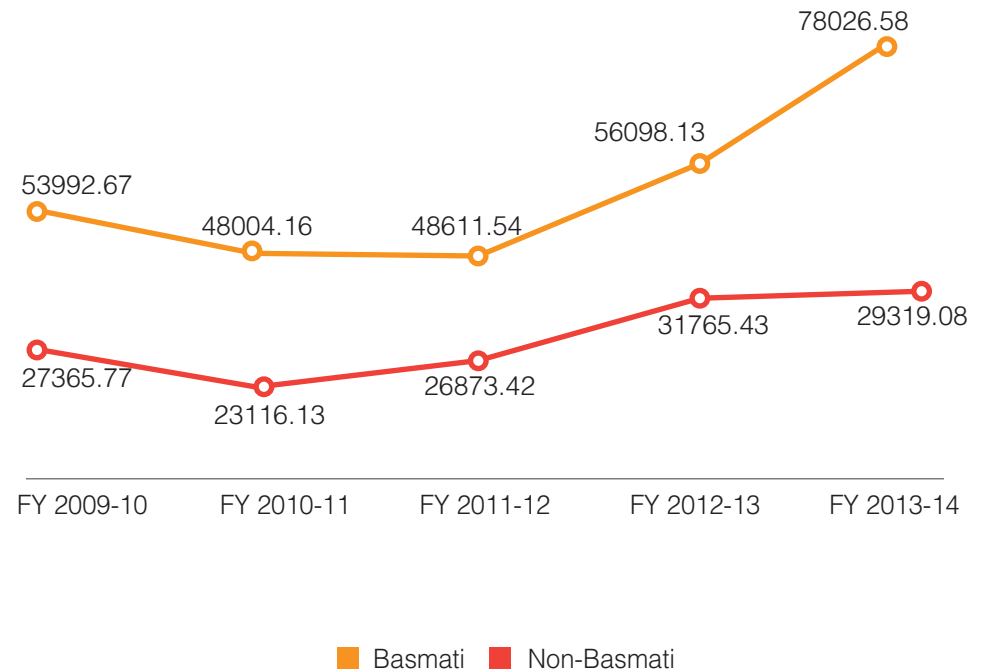
Source: [www.commerce.nic.in](http://www.commerce.nic.in)

# Demand-Supply Dynamics

## Price Trend

- 1** The price of basmati rice has shown an increasing trend and it has increased at a CAGR of around 13.06% during the period from FY 2009–10 to FY 2013–14.
- 2** On the other side, the price of non-basmati rice has increased at a CAGR of around 2.32% during the period from FY 2009–10 to FY 2013–14.
- 3** The price of basmati rice has increased by approximately 39.09% in FY 2013–14 over FY 2012–13 whereas the price of non-basmati rice has decreased by around 7.70% during the same period.

Figure 11. Price Trend (Per Tonne)

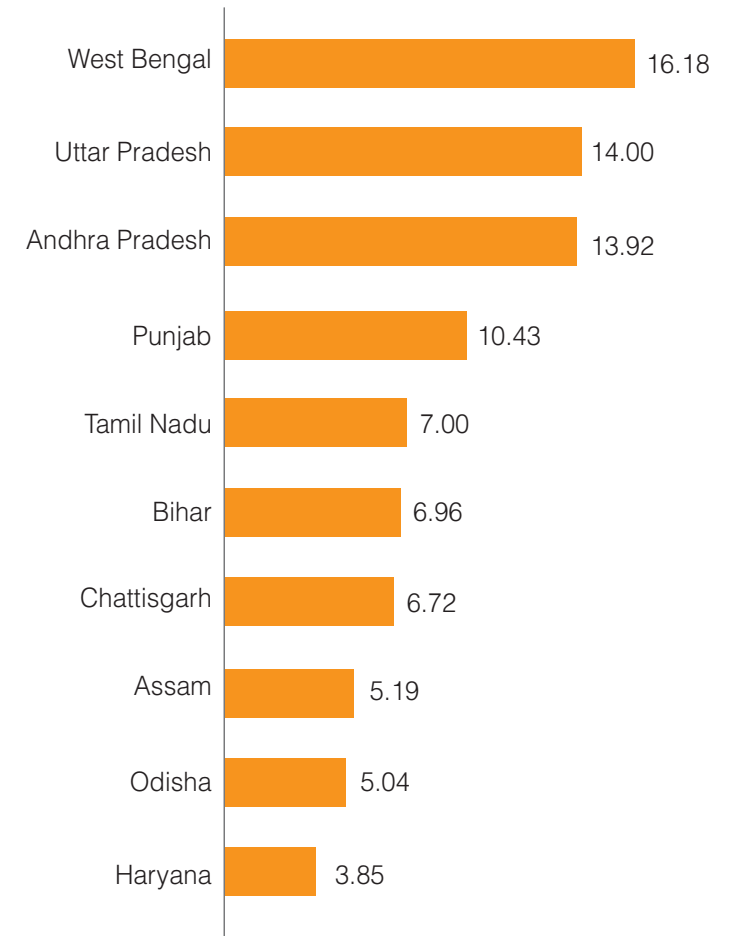


Source: [www.indexmundi.com](http://www.indexmundi.com)

# Competitive Scenario

- 1** The Indian rice sector is competitive in the international market due to lower farming and labour cost compared with other countries in the world.
- 2** In India production of rice is geographically spread across all regions which attributes to the quality and variety of Indian rice and accordingly makes it desirable in several countries.
- 3** West Bengal, Uttar Pradesh, Andhra Pradesh, Punjab and Tamil Nadu are the top five states in the production of rice.
- 4** The domestic rice prices are regulated by government of India. The government has levied minimum support price on rice to safeguard the interest of the rice cultivators against any sharp fall in price during bumper production of rice.

Figure 12. Major Rice Producing States of India in FY 2013-14 (In Million Tonnes)

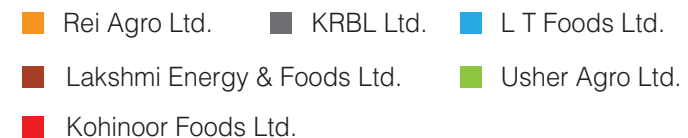
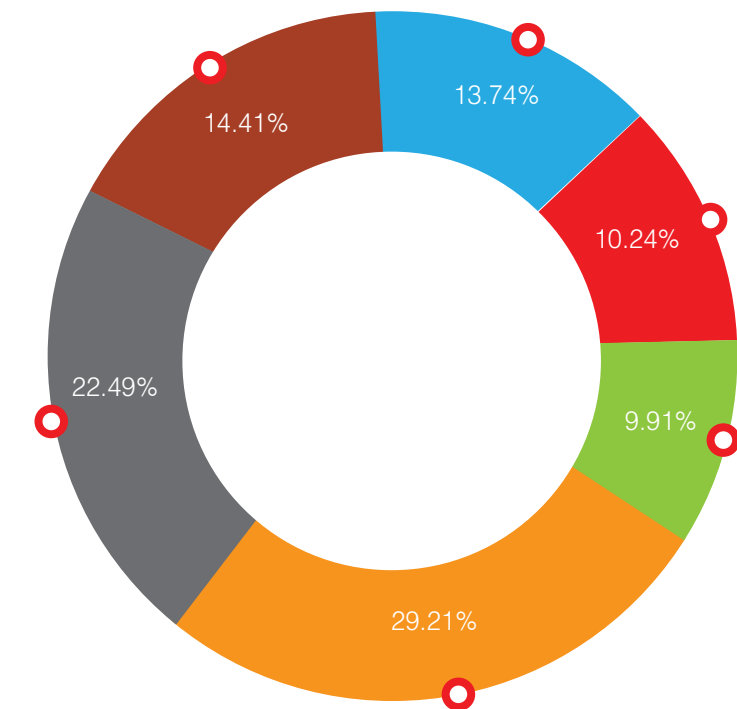




# Competitive Scenario

- 5** The rice industry is fragmented in nature due to the presence of large number of players. Both branded and non-branded varieties of rice exist in the market.
- 6** Small and medium-sized units and family-owned units employ majority of the workforce in rice milling.
- 7** Until recently, the local players had a competitive edge over the branded players, due to wide spread distribution network, which led to penetration in the market.
- 8** Also, the local players had an edge over the branded players in terms of pricing policy as they did not spend aggressively on advertising, which led them to offer their product at relatively lower prices.
- 9** REI Agro Limited and KRBL Limited are the top two market leaders in the rice sector.

Figure 13: Company-Wise Market Share

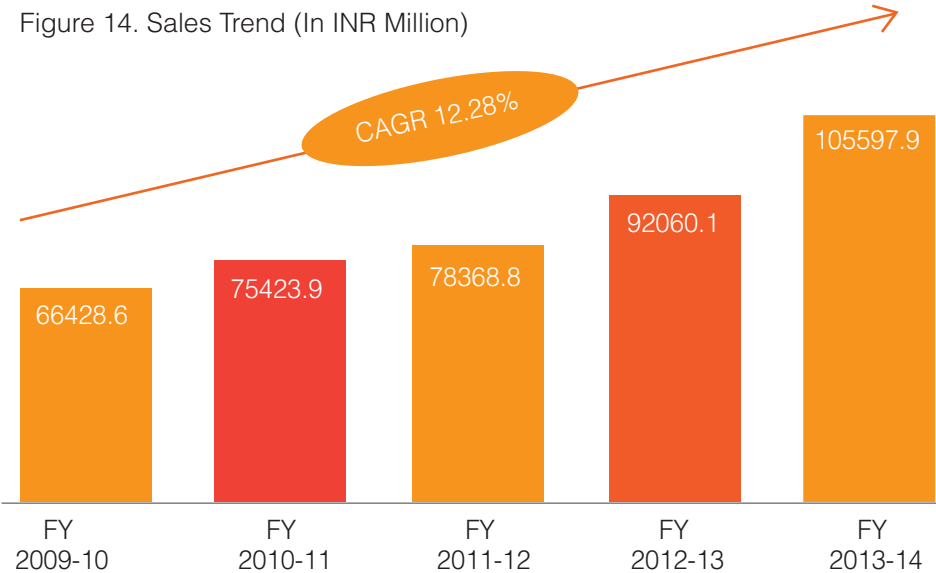


# Resource Risk

- 1** Paddy, which is the raw material for rice, is easily cultivated and available in the different states of India. The favourable environmental factors, sound fertility of soil and seasonal monsoon every year make various regions of India to cultivate paddy easily. Though India is one of the largest producers of rice, the growth in paddy cultivation is the biggest challenge being faced by the farmers. More than 60% of the cultivated area is not irrigated, as the cultivation is highly vulnerable to fluctuations in rainfall.
- 2** The price of paddy in India is controlled by the Department of Agriculture & Cooperation on the recommendations of the Commission for Agricultural Costs and Prices (CACCP). The oversupply of the rice forces farmers to accept a lower price than the market price. MSP of the common grade paddy in FY 2013–14 stood at INR 13.10 per tonne and Grade A paddy stood at INR 13.45 per tonne.
- 3** The import dependency of the rice sector in India is very less due to the regulations in the Foreign Trade Policy, 2009–14 of the central government. However, GoI has announced to import 0.1 million tonne of rice from Myanmar in order to meet the supply crisis in the north-east states of Manipur and Mizoram, as these states have deficient paddy production.



# Financial Risk



The net sales of rice sector have grown at a CAGR of approximately 12.28% during the period FY 2009–10 to FY 2013–14.

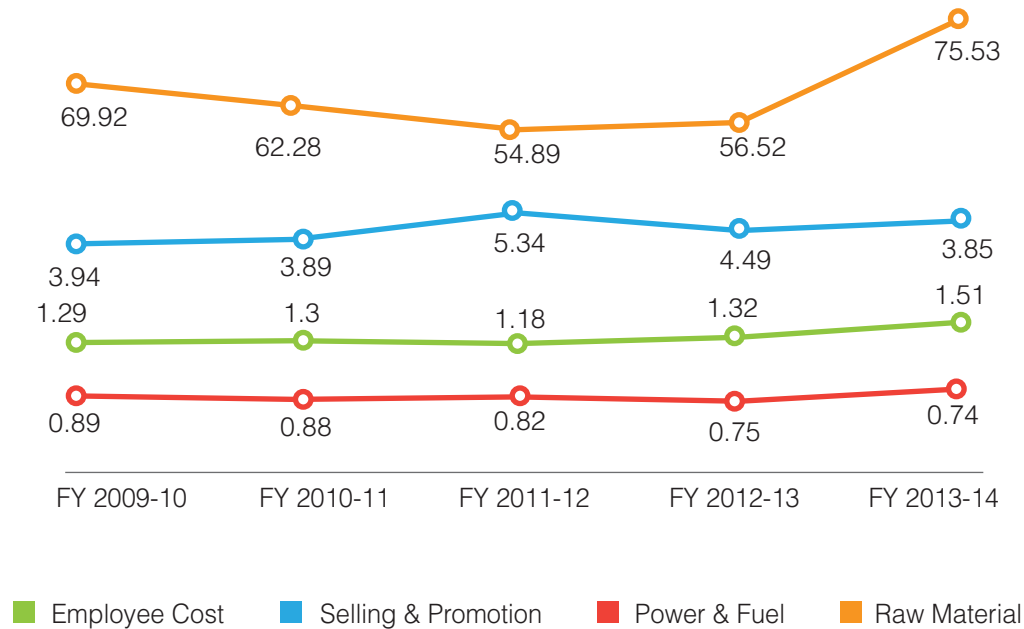
The steep fall in the growth rate of turnover in the FY 2011–12 can be attributed to the weak monsoon, which adversely affected the production of the crop and also a decrease in the GDP growth rate 8.9% to 6.7%.

In FY 2012–13 again the growth in the net sales shot up due to the bumper crop of rice, which has led to an increase in the export of rice by 25.08%.



# Financial Risk

Figure 15. Cost Structure ( In % )



The raw material cost as percentage of sales has increased in FY 2013–14 by 7.43% from FY 2009–10 due to the increase in the MSP fixed by the government.

On the other side, the employee cost has increased to 1.51% in the FY 2013–14 from 1.29% in FY 2009–10. The power and fuel cost and the selling and promotion expense has decreased marginally during the period from FY 2009–10 to FY 2013–14.

Source: CMIE Prowess

# Financial Risk

Key Indicators	Unit	FY 2013-14
EBITDA Margin	%	11.74
Net Profit Margin	%	2.12
Return on Capital Employed	%	9.06
Return on Equity	%	8.13
Current Ratio	Times	1.37
Quick Ratio	Times	0.32
Debtor Days	Days	62
Payable Days	Days	39
Inventory Days	Days	206
Interest Coverage Ratio	Times	1.75
Total outside liabilities/ Total Net worth	Times	2.34
Sales to Capital Employed	Times	1.09
Debt-Equity Ratio	Times	1.72
Asset Turnover	Times	1.05

Sample Set : 6 Companies

Source: CMIE Prowess



# Key Contacts

Vishnu Ramachandran

Senior Vice President

Contact No. : +91- 124-4125487

Manish Goyal

General Manager

Contact No. : +91-124-4125707

Ranjeet Singh

Deputy Manager

Contact No. : +91-124-4125710

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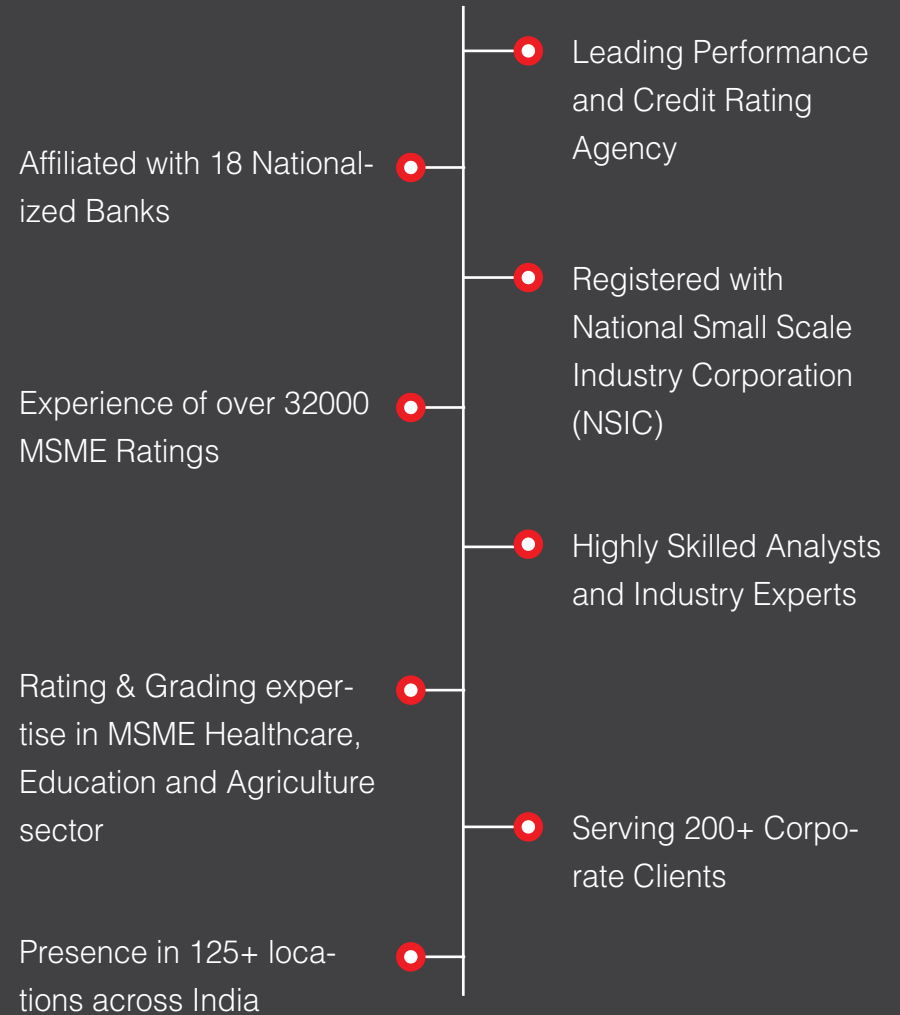


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# Our Offices

## **HARYANA**

Gurgaon Corporate & Rating office  
Building No. 21-22, 5thFloor Udyog Vihar  
Phase-IV,  
Gurgaon-122015,India

## **MAHARASHTRA**

Mumbai  
520, 5th Floor Nirmal Corporate Centre,  
Nirmal Life Style, LBS Marg, Mulund  
(West) Mumbai – 400080 India

## **WEST BENGAL**

Kolkata  
3 D & F, 3rd Floor, Jindal Tower  
Block – A, 21/1A/3, Darga  
Kolkata - 700017 India

## **UTTAR PRADESH**

Noida  
B10, Sector – 59  
Noida – 201301 India

Lucknow  
239 Tej Kumar Plaza, Hazratganj ,  
Lucknow – 226001, India

## **KARNATAKA**

Bengaluru  
N-705, 7th Floor, North Block,  
Manipal  
Centre 47, Dickenson Road  
Bengaluru – 560042 India

## **TELANGANA**

Hyderabad  
7-1-28/12/1, 4th Floor, Serenity  
Plaza,Shyam Karan Road, Near  
Andhra bank,Ameerpet Branch,  
Hyderabad-500016  
India

## **GUJARAT**

Ahmedabad  
603, Aniket, Above Metro Showroom,  
Opp. Jain Derasar, CG Road, Navrang  
Pura, Ahmedabad-380009 India

## **TAMIL NADU**

Chennai  
25, Ranganathan Garden, Ground Floor,  
15th Main Road, Annagar West,  
Chennai-600040 India