Impact of COVID-19 on Indian Agribusinesses

Insights from Industry Leaders

April 2020
COVID-19 and measures taken to control the pandemic are having a crippling effect on health and economic systems across the globe. Agriculture & food sectors, though a part of the essentials list, are not immune to the disruptions the pandemic has caused in the supply chains and the financial markets, both domestic and international, and can expect interruptions in the coming months.

Considering the growing concerns and uncertainty around the pandemic, The Confederation of Indian Industry (CII) in partnership with South Asian AgTech Hub for Innovation (SAATHI) and Dalberg Advisors hosted an Online Roundtable to discuss the “Impact of COVID-19 on Indian Agribusinesses and Cross-Border Trade” on 10th April 2020.

Through this roundtable, we received in-depth information from Indian agribusiness leaders on the short and long term impact of COVID-19, impact of the pandemic on businesses reliant on international trade, potential opportunity areas across trade, food value chains, and technologies, and finally, recommendations that could help minimize the impact of Covid-19 for agribusinesses and farmers.

This report compiles practical insights from industry leaders, in addition to relevant reports and news articles, to provide an in-depth understanding of the ground reality of COVID-19's impact across eight agribusiness industries in India, including:

1. Seeds
2. Agrochemicals
3. Fertilizers
4. Farm operations
5. Farm machinery
6. Warehousing and cold storage
7. Micro-irrigation
8. Ag-Tech

The report then analyses each of these industries against four key impact areas, which are as follows:

1. Supply chain and operations
2. South Asian and international trade
3. Regulations and guidelines
4. Demand and price fluctuations

The report ends with recommendations directly from industry leaders and practitioners.
Participants

1. Mr. Gyanendra Shukla, Managing Director, JK Agri Genetics
2. Mr. Sandeep Malhotra, Managing Director, IFFCO Kisan Sanchar Limited
3. Mr Mayank Dhanuka, Managing Director, Origo Commodities
4. Mr. BR Singh, Chief Executive Officer, Origo Commodities
5. Mr. Sanjeev Asthana, Chairman, iFarms Ventures
6. Mr. LK Pandey, Managing Director, Ananya Seeds
7. Mr. Neeraj Kedia, MD, Chakradhar Chemicals
8. Ms. Richa Natarajan, Executive Director, Unitus Capital
9. Ms. Manpreet Oberoi, MD, Vivantaa Capital
10. Ms. Samitha Haldar, Executive Director, SourceTrace
11. Mr. Mallikaarjun Javilli, Manager-Corporate Affairs, Yara Fertilizers
12. Mr. Prabhat Chaturvedi, Managing Director, Netafim Agricultural Financing Agency (NAFA)

Session Moderated by :

1. Girish Aivalli, CEO, South Asia AgTech Hub for Innovation
2. Nirat Bhatnagar, Partner, Dalberg Advisors
3. Deepti Mehra, Confederation of Indian Industry
Impact on Seeds (1/2)

Supply Chain & Operations

- Foreseeable delay in supply of seeds to farmers for Kharif season is a major pain point as seed production depends on allied sectors such as labour, transporting, and packaging which have been impacted due to the lockdown.

- Movement of seeds from seed hubs to farmers fields remains a big challenge. While paddy seeds have been moved to North India to some extent, movement of other seeds remain uncertain.

- Local vigilantes threatening the closure of seed hubs and production facilities and blocking movement of labour is causing difficulty in operations resulting in increased cost of production.

- Continued loss on account of inventory built up, storage, interest, salaries and rentals will lead to an increase in cost of operations by 20-30%, along with squeezed credit lines in the current financial year.

South Asian & International Trade

- Difficulty in availability of air freight and sea facilities, along with a spike in prices. Air freight is costing some companies 3-4X times more than prior to the pandemic.

- Lack of reliability in port and air schedules hampering credibility for Indian companies in international markets.

- Indian seeds imports and exports stranded at ports or borders due to border closures, non-clearance of permits, and lack of onward transportation facilities.
Impact on Seeds (2/2)

• Both procurement and seed availability is expected to pick up post April 20th as permission for operations across the value chain is given by the government. However, many district level administrators are not releasing permits for re-opening factories nor for movement of employees of agri-input companies, even where state guidelines have allowed so, causing production disruptions.

• Lack of execution of the State guidelines permits to allow inter-state travel of trucks for exempted industries at tolls is leading to disruptions across the supply chain.

• Difficulty in renewal of licences for seeds companies to sell at state level as many states have not acted on the suggestions from the MOA. This has led to harassment of the company staff and potential stoppage of sale by inspectors, which eventually hurts the farmer.

• Lack of preparedness and awareness of government guidelines by banks, and thus, lagging of execution affecting companies and farmers.

• Mounting fear among small and medium seeds companies, forming a vast majority, of being worst hit financially. A short three-month moratorium may lead to loan deferments, pile up of interests and eventually a debt trap for these businesses.

• Direction by Centre to States to allow issuance of passes for necessary staff and labour at ports, railways and airports, however execution by local authorities is lagging affecting exports and imports.
Impact on Agrochemicals

Supply Chain & Operations

- Supply of agrochemicals may have limited impact for the upcoming Kharif season, due to sufficient current domestic inventories, however, transportation to farmers remains an issue.

- Supply gap may build up in the long run despite opening of certain global operations, as delays continue in internal transportation of raw materials and shipment out of countries overseas from where India imports raw materials needed for the current financial year.

- Manufacturing of chemical pesticides likely to be affected in the near term due to unavailability of labour.

South Asia & International Trade

- Companies unable to dispatch pipeline of exports due to disruptions at domestic ports regarding transportation, container freight stations, customs, port clearances, vessel availability etc.

- Lack of communication from destination ports have led to uncertainty on whether exports have been received.

- Difficulty in imports being uploaded to trucks because of transportation disconnect might lead to increased costs and delayed supply to market.

- Ports overflooded with material due to the inability in moving parcels from CFS due to a pause in transportation activities. Example: Transporter is ready to transport containers but there is a lack of drivers.

Regulatory Guidelines

Trucks stopped at state borders causing a hindrance to transportation of shipments, despite government regulations to allow movement of agricultural products.

Demand & Price Fluctuations

Estimated 10-24% increase in the cost of Chinese inputs required for the industry due to supply chain disruptions within China.

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Impact on Fertilizers

Supply Chain & Operations
Little impact on fertilizer production, distribution and sales, required during June and July, as fertilizers move by railway wagons which is under Govt control. Further, most companies dealing in this field are large and established with sufficient cash reserves.

South Asia & International Trade
Possible delay in production for fertilizers for companies dependent on foreign import of raw materials due to delay in internal transportation and ocean movement, and export clearances across countries.

Regulations and Guidelines
Some local administrators are hesitant in allowing agri-input companies to open their factories and carry out operations, despite government notifications. Thus, the experiences for companies vary basis which state and district they fall in.
Impact on Farm Operations (1/2)

• **Return of migratory labour to native villages has had lesser impact** on harvesting of major crops, which were mostly harvested before the lockdown

• **Lack of labour at procurement centres**, however, has massively impacted procurement activities, resulting in additional difficulties in income and livelihoods for farmers

• **Hurdles in transportation facilities**, and inability of most small and medium enterprise farmers to afford renting an entire truck by themselves have caused a decline in fruits and vegetables supply at mandis

• **Drastic impact on dairy sector** as milk collection centers have been mostly closed or offering lower rates

• **Limited supply constraints for grains** as central and state-run granaries have reserve that can last up to nine months

• **Steep decline in exports of certain commodities** such as tea, meat, spices, along with a reduced demand from the domestic segment such as retailers, hotels etc. will lead to uncertain cash flows for businesses in the current financial year. Conducive policies and infrastructure support can help boost Indian exports

• **Fear of losing substantial export orders for companies** due to issues such as shipping lines running at half capacity, CFS not functioning, empty containers, lack of clearances, and overall missing lines in global supply chains

• **Growing challenge of container ports being congested** due to cargos not being lifted by importers, who themselves are facing labour and transportation issues
## Impact on Farm Operations (2/2)

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<th>Regulations &amp; Guidelines</th>
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<td><strong>States yet to fully adopt central government guidelines</strong> leading to supply chain disruptions, reduced capacity at mandis, price fluctuations, and hindrances in inter-state truck movements</td>
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<td><strong>Lack of clarity on MSP access for farmers</strong> and the consequent process can hurt farmer incomes</td>
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<td><strong>Temporary permission for farmers to sell directly to consumers, retailers and wholesalers without a license</strong>, provided by some states. However, such permits may only be useful for the few farmers living nearby cities where a market is available for fruits and vegetables, which isn’t the case for the bulk of field crops most farmers produce</td>
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<td><strong>55% drop in arrivals at market centres reported of major cereals, fruits and vegetables</strong> leading to an increase in average retail price of food items for domestic consumers and a decrease in price realizations for farmers. This may result in farmers planting less of summer and kharif F&amp;Vs leading to higher prices during rainy season and winters for consumers and retailers</td>
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<td><strong>50-60% reduction in price realization for mainly F&amp;V farmers</strong> as they do not have access to proper storage facilities for their perishables, lack transportation options to reach mandis themselves, and are uncertain of consumer demand in the future. As a result, they are forced to sell their produce directly to the middlemen at much lower prices</td>
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<td><strong>Bulk demand reduction from the closure of hotels, airlines and restaurants</strong> have rendered farmers and vendors as the worst impacted from supply disruptions</td>
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<td><strong>Lower price realization for poultry farmers</strong> i.e. average loss of Rs.130 per bird due to distressed demand for poultry products resulting from fake fear propaganda. This has led to an approximately 40% decline in maize prices, financially impacting farmers in Bihar, Andhra Pradesh and the Northeastern belt where maize is planted in Rabi and harvested from April to June</td>
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Impact on Farm Machinery

Supply Chain & Operations

- Some farmers are unable to access combine harvesters required for harvesting Rabi crops due to transportation hindrances and high costs faced by companies supplying the equipment.

- Unavailability of tractors and lack of mandi support has resulted in significant harvested crop lying on the field awaiting transportation to mandis.

- Potential delay in access to raw materials for farm implements if allied factories of steel and iron remain closed.

South Asian & International Trade

- Industry not highly dependent on imports for raw materials and hence, not badly affected with regards to access to inputs.

- Inability to pick up cargos from container ports for companies importing farm implements due to lack of labour at ports for offloading and uploading, and overall transportation hurdles.

Regulatory Guidelines

- Government notification does not allow dealerships for the sale of tractors, despite including agri-machinery and services in the essential list. Not allowing dealerships for sale of tractors will hamper the supply of tractors to farmers for the upcoming Kharif season.

- Lack of regulations on allowing banks to process loans to farmers will depress demand as most tractors are purchased by farmers on credit.

Demand & Price Fluctuations

- Current outlook for tractor sales remains totally uncertain due lack of liquidity at farm level, and the continued uncertainty of movement of sales officers who conduct documentation and verification work required for the sale of tractors to the farmers.

- Demand may also be subdued due to reduced liquidity and uncertainty of cash flows.
Impact on Micro-irrigation

Supply Chain & Operations
Supply of equipment from warehouse stocks not sufficient to meet growing demand in the current financial year

South Asian & International Trade
Dripper, a crucial part, in manufacturing irrigation pumps are imported from Israel. Thus, disruptions in global supply chains are affecting imports, leading to shortage of supply of micro-irrigation systems in India

Regulations and Guidelines
Inconsistency between State and Centre guidelines on manufacturing and distribution of irrigation equipment has led to production delays

Credit facilities by RBI, ADB and banks are not effective as they are additional debt instruments and companies do not wish to over leverage right now as inflows are low, but outflows are mounting
Impact on Warehousing and Cold Storage

Supply Chain & Operations
- **Disconnection of electricity supply from cold chain units** due to foreseeable delay in payments will lead to a loss of thousands of tonnes of food material
- **Underutilization of storage capacity** due to lack of inward movement, will result in financial losses for warehouses
- **Inability of farmers and traders to use the cold store, given restrictions** on movement may lead to quality and value loss of fruits and vegetables
- **Companies fear an increase in operational costs** in the current financial year because companies are required to add GST for staff and rental payments, despite warehouses coming under the negative list of GST

Regulatory Guidelines
- **Government has requested states to give government-owned warehouses the status of mandis** to enable farmers to sell directly at their doorsteps and provide an opportunity for APMC markets to decongest. However, payment mechanisms for farmers needs to be assessed first

Demand & Price Fluctuations
- **Significant reduction in demand from multiple corporates** this year given the current uncertainty
- **Renegotiation of warehouse rental agreements with smaller warehouse providers** in locations where excess warehouses have been taken in expectations of future business, by private companies or corporates
- **Renegotiation of contracts between private warehousing and their warehouse providers** due to the absence of any business, making payments difficult
Impact on Food Retail and E-commerce

Supply Chain & Operations

• **Operations for supermarket chains** are least impacted in the short run

• **Online grocery platforms face difficulties** in supply of goods due to closure of warehouses by local administrators and stoppage of delivery vehicles at state borders

• **E-commerce platforms have experienced operational challenges** such as shortage of delivery personnel due to harassment by local authorities, despite growing demand

Regulatory Guidelines

• States are working out policies for food movement which are likely to ease the situation, especially for e-commerce

South Asian & International Trade

• Growing challenge of container ports being congested at ports due to cargos not being lifted by importers, who themselves are facing labour and transportation issues

Demand & Price Fluctuations

• Demand for food supplied will likely increase in the short term

• Potential for reduction in demand for food items in the long term due to decrease in incomes
Recommendations from Agribusiness Industry

1. Ensure farmers are fully supported during the purchase and storage of rabi crops and are paid in a timely manner so that they may start preparing for the kharif season.

2. Make proper provisions for seeds and basal dose of fertilizers to reach farmers on time in order to avoid disruptions in farming cycles.

3. Deliberate on other useful strategies such as the usage of SMS-based pre-registration systems that can notify farmers of mandi operations, regulate arrivals, and manage logistics.

4. Roll out a special stimulus package for the seed industry with a focus on small and medium sized companies who are under severe credit stress due to the pandemic. Financial support may be via loan extensions, credit lines, or an interest subsidy for 9-12 months along with deferment options.

5. Utilize railways to transport farm inputs from seed hubs to all states, and grains and fresh produce from the hinterland to the cities.

6. Consider all sub-trades and manufacturing units associated with agri-inputs in the essential items list. Ex: Input industry is dependent on packaging and paper units.

7. Ensure faster clearances for imports and facilitation of manufacturing licences that will help India produce locally and become self-sufficient, while also boosting exports for companies reliant on international trade.

8. Provide direct financial relief to storage and agri-warehousing companies for the payment of rent and staff salaries as these companies whilst include 18% GST for rent payments, do not receive the same by depositors, thus causing a financial discrepancy that has been exacerbated by the pandemic.
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