

Indian Pulse Market Looking for Direction

By G. Chandrashekhara

It is that time of the year when the global pulse sector stakeholders train their attention on India. It is monsoon time here. The pattern or distribution of rainfall drives the planted acreage and harvest size for pulses, mainly pigeon pea, Black matpe, and mung in what is called the kharif season.

Seasonal Weather

The India Meteorological Department has forecast a "normal" Southwest monsoon for this year - a total quantum of 867 millimeters between June and September. Temporal and spatial distribution of rains across the vast country during the four months is critical, which usually determines the harvest outcome in terms of quantity and quality.

After a hesitant start that witnessed precipitation deficit in June, the rains have revived to cover the entire country by mid-July. Planting delayed in June has now accelerated and is continuing. According to the Directorate of Pulse Development, 18.3 million (M) acres (7.3 M hectares) have been planted to kharif season pulses as of July 13 showing a modest increase from 16.8 M acres (6.7 M hectares) this time last year.

Last five-year average of aggregate planted area for kharif season is 35 M acres (14.0 M hectares). So, we have covered just about half the area now and have some way to go. Over the next three weeks, the progression in acreage data will be updated by the government. By mid-August, we will have a reasonably good idea about the planted area for this season based on which we can take an informed view on likely harvest size.

Production

For 2022/23, the Indian government has set the annual production target for pulses at a whopping 29.5 M tonnes comprising 10.5 M tonnes for the ongoing kharif season and 19.0 M tonnes for the rabi season (starting November).

Without doubt, these targets are ambitious; and on current reckoning, in my belief, unlikely to be achieved. Growers have not received remunerative prices, and there is hardly any motivation to improve input management and agronomy.

To encourage growers, the government has hiked the Minimum Support Price (MSP) for pulses. For mung, MSP has been hiked by 6.6% to 77,500 rupees (Rs) per tonne, roughly \$1,000 USD (U.S. dollars) per tonne. For pigeon pea and black matpe MSP is up 4.8% to Rs 66,000 per tonne, equal to \$860 USD per tonne. These are well above current domestic prices, and well above prices of other origins.

Breakup of the 10.5 M tonne production target for the ongoing kharif season is not available but an informed guess would be pigeon pea 4.5 M tonnes; Black matpe 3.0 M tonnes; mung 2.0 M tonnes and the rest, minor pulses. Last year's revised kharif harvest size was 8.3 M tonnes as per official estimate.

There is nothing to drive a sharp increase in production this season. Importantly, weather from mid-July to end-September is critical and weather risks cannot be ignored.

Demand

Consumption demand has been tepid because of high levels of inflation driven by elevated global crude oil, fertilizer, and vegetable oil prices. In all these, India is substantially import-dependent. With rising U.S. dollar, the Indian rupee has been weakening which makes import more expensive.

The Indian government is seriously concerned about inflation and is using fiscal, monetary, trade and tariff policies to contain the price spiral. At 7%, inflation has breached the comfort zone of India's central banker, the Reserve Bank of India.

It is no wonder the demand side for pulses has been tepid. Start of the traditional Indian festival season - August to October - may witness an uptick in demand, but it is unlikely to create a major price spike. Importantly, the import duty waiver for pigeon pea and Black matpe has been extended to March 31, 2023.

Chickpea

Chickpea market has been subdued for months. Farm gate rates of this important legume (harvested in March/April) have been ruling 10% below the MSP. The government's harvest estimate of 14.0 M tonnes is a clear exaggeration. In my opinion, realistically, the chickpea crop size would be 10.5 M to 11.0 M tonnes at the highest. Most likely, the official crop size will be revised down in the next round of estimate.

The government has been forced to step in to prop up weak prices of chickpea. The parastatal agency National Agricultural Cooperative Marketing Federation (NAFED) has procured about 2.0 M tonnes of chickpea to support growers. I am convinced, this material will eventually get distributed among the vulnerable sections of the population either as free ration or at highly subsidized rates.

The London-based International Grains Council (IGC) invited me as a speaker for its annual conference held June 7-8. I covered pulses. Here are some key highlights of my speech:

- India's planted area for pulses is reaching a saturation point.
- Pulses will face competition for acreage from more remunerative crops like oilseeds and grains.
- Higher MSP alone will not drive production higher.
- India needs a robust procurement system to keep growers encouraged and to improve the marketability of pulse crops.
- Most important, policies to boost consumption are critical to overcome the serious nutrition challenge the country faces.

My estimate of India's pulse imports during 2022/23 is a minimum of 2.5 M tonnes with a potential to go up to 3.0 M tonnes. Distribution of rains, production prospects and inflation expectations in the next 2-3 months will drive India's trade and tariff policy. India will continue to be a part of global supply chain.

Introduction of New Taxes on Packaged Goods

Effective July 18, 2022, the Indian government has imposed a 5% goods and services tax (GST) on several articles including pulses that are prepackaged and labeled. A prepackaged commodity is defined as a commodity which, without the purchaser being present, is placed in a package of whatever nature, whether sealed or not, so that the product contained therein has a predetermined quantity.

Earlier, GST was applicable on packaged and branded products including pulses; but the new law makes even unbranded but packaged and labeled pulses liable for GST.

This levy has upset the trade. Many traders have protested. This levy will discourage branded players and will push the trade towards sale of pulses in loose form. It does nothing to advance consumer interest.

G. Chandrashekhar is a Mumbai-based policy commentator and global agribusiness specialist. He can be reached at gchandrashekhar@gmail.com.