

Cross-sectoral trends and outlook

Sectors dependent on agriculture, rural income may face downside risk if El Nino materialises; delayed onset of monsoon not a material concern

May 2023



If El Nino conditions materialise in FY2024, this could have a ripple effect on multiple sectors, apart from agriculture.

Sectors dependent on agriculture and rural income may face downside risk to growth estimates, profitability and deterioration of leverage ratios and higher import dependency in some cases.



- As per the India Meteorological Department's (IMD) forecast released on May 16, 2023, the monsoon onset over Kerala is likely to be on June 4, 2023, which is slightly later than the normal date of arrival. Previously, the IMD had predicted that El Nino conditions could develop during the monsoon season, the impact of which is likely to be visible in the second half of the season (August-September 2023). While the impact of a slight delay in monsoon would not be material, the occurrence of an El Nino may impact the agricultural output and rural income.



- ICRA Research has analysed the impact of El Nino on some of the key sectors. The impact will be stronger on sectors which are dependent upon agricultural output (for instance, edible oil, sugar, cotton spinning mills) and those that derive a significant portion of their demand from rural income (for eg tractors, two-wheelers, cement).



- Sectors with revenue diversification across segments (like auto components and tyres) will witness a limited impact of a weak monsoon, in ICRA's view.



- On the contrary, some of the sectors like power, cooling-related consumer durables like room air conditioners (RACs) etc. could witness increase in demand because of the resulting heatwave.



- Overall, if El Nino materialises and affects the Indian monsoons in FY2024, it will have an impact on multiple sectors, apart from agriculture and may lead to a downward revision of growth estimates, profitability and also deterioration of leverage ratios and higher import dependency.

El Nino may impact rainfall in H2 FY2024

What's El Nino

- The name 'El Nino' is widely used to describe the warming of sea surface temperature that occurs every few years, typically concentrated in the central-east equatorial Pacific
- An El Nino is declared when sea temperatures in the tropical eastern Pacific rise 0.5°C above the long-term average. El Nino/Southern Oscillation (ENSO) can affect the global climate and disrupt normal weather patterns, which can lead to intense storms in some places and droughts in others.

- As per the IMD's forecast released on May 16, 2023, the South-west monsoon onset over Kerala is likely to be on June 4, 2023 (with a model error of +/-4 days), which is slightly later than the normal date of arrival. As per its first stage forecast for the South-west Monsoon rainfall for 2023 (June-September) released on April 11, 2023, the IMD had pegged the volume of rainfall at 96% +/- 5% of the long period average (LPA), indicating a normal monsoon. At the same time, it had highlighted a 51% probability of a below-normal or deficient monsoon in 2023.
- **The IMD had predicted that El Nino conditions could develop during the monsoon season, the impact of which could be visible in the second half of the season (August-September 2023).**
- **While the impact of a slight delay in monsoon would not be material, the occurrence of an El Nino may impact the agricultural output and rural income.**

Past instances

El Nino year	Intensity	Rainfall deviation from LPA during Jun – Sept (%)
2002	Moderate	-19%
2004	Weak	-13%
2006	Weak	-1%

El Nino year	Intensity	Rainfall deviation from LPA during Jun – Sept (%)
2009	Moderate	-22%
2014	Weak	-12%
2015	Very Strong	-14%
2018	Weak	9%

Source: IMD, CMIE, ICRA Research



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