

Source: NOAA probability chart

EL Niño Probability in FY27
NOAA forecasts 55% (May-Jul) to 62% (Jun-Aug) probability

ENSO is a periodic climate cycle driven by fluctuations in sea surface temperatures (El Niño/La Niña) and atmospheric pressure patterns (Southern Oscillation) across the equatorial Pacific Ocean, which together influence global weather systems.

IOD is a climate pattern based on temperature differences between the western and eastern Indian Ocean; positive IOD supports stronger monsoons, while negative IOD weakens them.

ENSO turning: El Niño risk builds up for FY27 monsoon

After two consecutive years of La Niña causing above-normal monsoons in CY24 and CY25, the ENSO (El Niño-Southern Oscillation) cycle is turning. Leading meteorological agencies, including the National Oceanic and Atmospheric Administration (NOAA), have flagged a strong probability of an El Niño event developing through CY26. Hence, here we have analyzed the potential impacts of El Niño on agrochem, fertilizer and consumer companies.

- As flagged in our [Mar'23 report](#), El Niño did materialize in FY24 and disrupted rainfall distribution and crop output; however, the episode developed late and a strong positive Indian Ocean dipole (IOD) partly offset its impact, preventing India from slipping into a drought year and keeping overall food grain production broadly stable (up 0.8%).
- However, ENSO signals for FY27 indicate a rapid La Niña collapse and rising El Niño probabilities (55% by May-Jul'26) coincide with the onset of India's southwest monsoon. IOD is expected to remain neutral as Indian Ocean temperature gradients are currently weak, implying that the usual climatic offset may be absent and increasing the risk of drought.
- Given that the earnings impact across the agri-input space is likely to be uneven, we expect domestically exposed agrochemical and fertilizer companies may face near-term pressure from weaker farm economics (due to EL Niño's expected impact on agri), while export-oriented agrochemical players and regulated urea producers remain relatively insulated.
- Further, a weak monsoon in FY27 may result in near-term rural consumption volatility (~35% rural FMCG industry sales mix), though the impact should be contained given lower dependence on agriculture than historical levels (~37% of rural income vs. ~50% in FY13). Staples and cold beverages (due to heat waves during El Niño) are likely to remain relatively resilient.

Historical Impact of El Niño on India's agriculture sector

- In India, El Niño is associated with drought or weak monsoons. Across 150+ years of all-India rainfall data, ~60% of El Niño years produced drought-like conditions, with only a 10% chance of normal rains during an active El Niño pattern.
- Statistics from the years FY01 to FY25 showed that there have been seven instances of El Niño, of which four instances witnessed drought, i.e., in FY03/FY05/FY10/FY15-16, where the countrywide rainfall deficiency was 19%/14%/22%/12-14%, respectively. These years witnessed moderate to very strong El Niño.
- During the previous El Niño drought events, statistics indicate that the Kharif crop production is severely impacted. In FY03/FY05/FY10/FY16, the production declined 16%/8%/10%/3% YoY, respectively. The impact on Rabi was not as severe as it was on kharif; however, the impact was still visible in some of the years. In FY15/FY10/FY03, rabi production declined 8%/3%/7% YoY.

Research Analyst: [Sumant Kumar](#) (Sumant.Kumar@MotilalOswal.com) | [Meet Jain](#) (Meet.Jain@MotilalOswal.com)

Research Analyst: [Nirvik Saini](#) (Nirvik.Saini@MotilalOswal.com) | [Yash Darak](#) (Yash.Darak@MotilalOswal.com)

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- In terms of specific crops, rice production declined in FY10/FY05/FY03 by 10%/6%/23% YoY; wheat production declined in FY15/FY05/FY03 by 10%/5%/10% YoY; pulses were the worst impacted as they declined 5%/11%/12%/17% YoY in FY16/FY15/FY05/FY03, respectively. The impact on cotton/sugarcane was moderate, with production declining in two/one out of five El Nino-caused drought events in India.
- The lower production, in turn, caused supply constraints, thereby inflating the crop prices after El Nino events. In the recent drought event of El Nino, prices of paddy/wheat/bajra/cotton/sugar surged 45%/18%/17%/15%/19% YoY in FY16.
- In our [Mar'23 report](#), we had flagged the probability of an El Niño event materializing in FY24 and El Niño broke out in Jun'23, persisted for 11 months, which stressed rice/wheat/pulses/groundnut/cotton/sugarcane production (+1.5%/+2%/-7%/-1%/-3%/-8%) in crop year 2023-24. Moreover, India's agricultural GVA growth collapsed from 4.7% in FY23 to just 1.4% in FY24, which is explicitly attributed to the El Niño-driven monsoon failure as per the FY24 economic survey.
- Unlike the FY16 drought year (monsoon rainfall 86% of LPA), FY24 was not a drought year as El Niño developed late and strengthened only after mid-monsoon, limiting its impact. Monsoon rainfall was ~94% of LPA (above the 90% drought threshold), with a positive [IOD](#) offsetting part of the impact, resulting in resilient food grain production of ~332.3MMT, up 0.8% YoY.
- Analyzing the data in Exhibit 1 and 2, we observe that very strong El Niño events have historically occurred at irregular, but gradually widening, intervals. Such events were recorded in FY73, FY83, FY98 and FY15-16, implying gaps of roughly 10, 15 and 18 years, respectively. **Going by this data, the recent very-strong El Nino event occurred in FY15-16, which indicates that another very strong event can be expected this year or anytime soon.**

El Niño returning: A potential headwind for kharif sowing

- The ENSO setup heading into the FY27 kharif season indicates rising El Niño probabilities, reaching ~55% during May-Jul'26, making it the most likely ENSO state during the early southwest monsoon and potentially impacting kharif crop growth.
- What makes FY27 particularly worth flagging is the speed of La Niña's collapse, which itself is a leading indicator. Meteorologists have described this as **one of the largest mid-winter La Niña collapses observed in real-time in over a decade**, with ENSO-neutral conditions already established entering early CY26.
- Skymet has explicitly noted that a current developing El Niño could intensify in the middle of the CY26 monsoon season. This timing is historically more damaging to Indian agriculture than a pre-established El Niño because **when El Niño develops mid-monsoon, farmers have already committed to sowing decisions and input purchases, leaving them with no room to cut exposure or switch crops**, and the rainfall deficit (IMD projects ~92% of LPA for FY27) hits a season already in motion.

ONI (Oceanic Niño Index) is a measure of how much the Pacific Ocean's temperature deviates from normal, used to identify El Niño (warmer than normal) and La Niña (cooler than normal) conditions.

MJO (Madden-Julian Oscillation): A moving band of clouds and rain that travels around the tropics every few weeks, sometimes boosting and sometimes weakening India's rainfall for short periods.

- Importantly, intensity is non-linear. The FY03 moderate El Niño (ONI $\sim +1.4^{\circ}\text{C}$) caused one of post-independence India's worst droughts, while the FY98 very strong event ($+2.39^{\circ}\text{C}$) produced no drought at all, neutralized by an exceptionally positive IOD.
- Current model guidance (NOAA CPC/IRI) for FY27 points to a moderate-to-strong event (ONI likely $\sim +0.8$ to $+1.5^{\circ}\text{C}$ +, with rising tail risk toward $\sim +1.8^{\circ}\text{C}$), a range that historically carries higher drought probability than a weak event, but expected ONI is not strong enough to provoke the kind of large positive IOD response that would avoid the drought.
- **The challenge for FY27 is that IOD offset simply is not developing.** IMD's models confirm that the IOD is currently neutral and is expected to stay neutral until at least the end of autumn CY26.
- Thus, FY27 will avoid turning into a drought year only if: a) El Niño is still developing and ENSO-neutral conditions at the beginning of the monsoon season can support a normal start before El Niño's adverse impact begins to affect rainfall; b) intra-seasonal weather drivers such as the rainfall boosting MJO ([Madden-Julian Oscillation](#)) can temporarily override El Niño suppression in individual months; and c) the rainfall shortfall remains uneven and limited to certain weeks or regions, rather than becoming broad-based through the season.
- **We believe the current developing El Niño is sufficient to compress kharif sowing acreage, resulting in stressed farm-gate liquidity, accelerated dealer destocking and a decline or a flat trend in domestic volume for Indian agrochem/fertilizer companies.**

Impact of El Niño on agrochem and fertilizer companies

- Historically, El Niño periods have coincided with a sharp slowdown in agrochemical industry growth. The strong EBITDA CAGR of $\sim 19\%$ over FY11-15 reversed during the FY15-FY16 El Niño, with the agrochem basket declining $\sim 10\%$ in FY16 and recovering only gradually thereafter. (Refer exhibit 12)
- However, the severe volume impact was seen in fertilizer companies, where volumes are directly linked to cropping activity. During the FY15-FY16 El Niño, EBITDA of CRIN and Chambal Fertilizers declined in FY16 ($-10\%/ -1\%$), which later recovered in FY17 ($+28\%/ +3\%$). (Refer Exhibit 11)
- An expected below-normal to drought monsoon in FY27 will directly compress kharif sowing acreage across rain-fed geographies (50-55% of the area under agriculture is rain-fed) such as Central India, Deccan Plateau, Vidarbha, Marathwada and parts of Rajasthan and UP, which are the notable demand pockets for domestic agrochem/fertilizer companies (refer exhibit 10). Reduced acreage means fewer spray cycles, lower pesticide offtake and deferred input purchases, with the volume impact likely to show up in 2QFY27 and persist into 3QFY27 as channel inventory build-ups go unreplaced.
- In a weak monsoon year, the P&L impact for domestic agrochem companies typically emerges first in gross margins as firms defend volumes through channel discounting and extended credit, with generic-heavy players such as Insecticides India and Rallis more vulnerable, while export-oriented companies like PI and Sharda Cropchem remain relatively insulated.

- Among fertilizer companies, the impact is bifurcated. Urea companies such as Chambal Fertilisers and GNFC remain relatively insulated due to regulated pricing and historically inelastic demand due to low price (Urea INR266/bag vs. NPK-10:26:26 INR1,500/bag). Meanwhile, phosphatic fertilizer players like CRIN, Paradeep Phosphates and Madhya Bharat face greater risk as farmers cut purchases when prices are high or incomes are weak, while their raw material costs remain volatile.
- **We believe FY27 may see near-term pressure for domestically exposed agrochem companies and phosphatic fertilizer firms. However, the sector's long-term growth story is intact, supported by rising crop protection intensity, nutrient balance improvement and higher farm productivity in India.**

Impact of El Nino on consumer companies with high rural salience

- We have analyzed companies with higher rural salience such as DABUR, Britannia (BRIT), Colgate-Palmolive (CLGT), Emami (HMN), HUL (HUVR), and Tata Consumer (TATACONS) as they have significant rural exposure (refer exhibit 14). These companies reported muted revenue growth (1%/4% YoY) during FY16/FY24 (refer Exhibit 13).
- A below-normal monsoon compresses kharif crop output, farm incomes fall, rural purchasing power contracts, and consumer revenue declines (as ~35% FMCG industry's sales come from rural India) with a lagged impact as seen during the El Niño (Jul'14–Dec'15), which led to muted FMCG growth in FY16 (revenue growth in FY15/FY16 was 10%/1%).
- The damage will not be uniform across the sector and the key differentiator will be the portfolio mix. Companies anchored to essential staples carry near-zero income elasticity and should remain resilient even under rural income stress, while the risk is concentrated in semi-discretionary and discretionary categories, where rural households defer purchases first when farm incomes weaken.
- For beverages, the impact is not uniformly adverse. El Niño-driven heat waves during Apr-Jun can support cold beverage consumption and provide a near-term volume tailwind for VBL during a peak summer. However, the risk shifts to 2H if El Niño disrupts the monsoon, as erratic rainfall and weaker kharif incomes could soften rural discretionary demand in 3QFY27 (~30% rural mix of VBL).
- The foods and staples segment shows a bifurcated impact. While staple demand remains resilient, the bigger risk for agri-linked food companies is policy intervention. As seen in FY24, export restrictions on rice and wheat to control inflation could again affect export-oriented players, disrupting volumes and realizations.
- Moreover, inflation expectations for the year (~4.5-5% CPI forecast for FY27; with higher food weight in rural basket) could dent real incomes, which, along with emerging El Niño risk, could create a dual drag of lower farm incomes and elevated food prices. Together, these factors are likely to shift demand toward essentials and cap discretionary rural spending growth.
- **We believe that while a weak FY27 monsoon may weigh on rural consumption in the near term, its impact is likely to be more contained. Although ~57% of the rural workforce remains dependent on agriculture, the sector contributes only ~37% to rural income (vs. ~50% in FY13), indicating reduced vulnerability to El Niño compared to the FY15-16 drought.**

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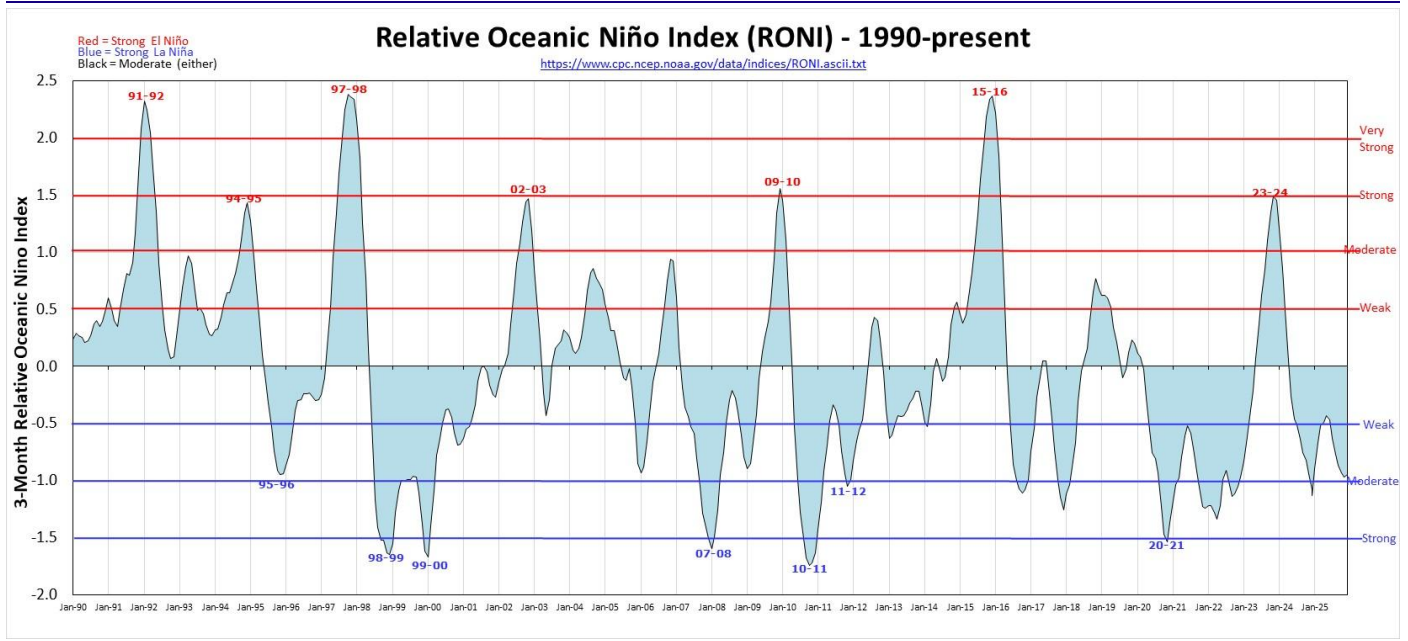
- If the El Nino event in FY27 materializes into drought, it can adversely impact the Indian agriculture sector. The probabilities by the agencies and their forecasting accuracies based on historic trends suggest a possible occurrence of the event in FY27.
- The Indian agrochemical and fertilizer companies may be adversely impacted by demand slowdown due to lower sowing and lower production of crops. Hence, the adverse impact of El Nino can lead to stock price corrections for these companies. We believe this will be an opportunity to look into fundamentally strong companies.
- PI/CRIN are our top picks in the agrochemical/fertilizer space and any adverse impact on their performance can be a good opportunity to build positions in both companies.
- In the fertilizer space, we have a BUY rating on CRIN. In the agrochemicals space, we have a BUY rating on PI and GOAGRO and a Neutral rating on UPLL.
- Further, in the consumer space, rural demand is witnessing a gradual recovery; however, a potential drought in FY27 could pose a short-term downside risk, leading to a slowdown in overall sector growth. Despite this, we have a BUY rating on BRIT given its strong brand portfolio and resilience, and we also retain BUY ratings on TATACONS and VBL.

Exhibit 1: El Nino and La Nina event years and intensity since 1951-52

El Niño - 26				La Niña - 28		
Weak - 11	Moderate - 7	Strong - 4	Very Strong - 4	Weak - 11	Moderate - 6	Strong - 7
1952-53	1951-52	1957-58	1972-73	1954-55	1955-56	1973-74
1953-54	1963-64	1965-66	1982-83	1964-65	1970-71	1975-76
1958-59	1968-69	1987-88	1997-98	1971-72	1995-96	1988-89
1969-70	1986-87	1991-92	2015-16	1974-75	2011-12	1998-99
1976-77	1994-95	2023-24		1983-84	2020-21	1999-00
1977-78	2002-03			1984-85	2021-22	2007-08
1979-80	2009-10			2000-01		2010-11
2004-05				2005-06		
2006-07				2008-09		
2014-15				2016-17		
2018-19				2017-18		
				2022-23		
				2024-25		
				2025-26		

Source: GGWeather, MOFSL

Exhibit 2: Oceanic Niño Index historic trends (updated till Feb'26)



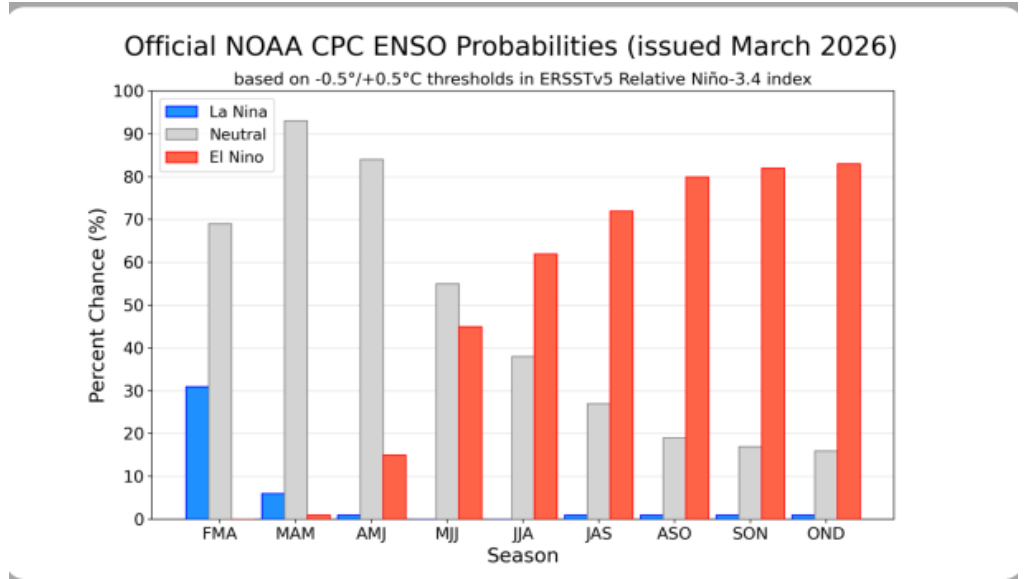
Note: ONI has become the de-facto standard that NOAA uses for classifying El Niño and La Niña events in the eastern tropical Pacific. Source: GGWeather, MOFSL

Exhibit 3: Droughts and flood during El Nino and La Niña events

El Niño years	Event	La Niña years	Event	Neutral years
1969-70		1970-71	Floods	1966-67
1972-73	Drought	1971-72	Floods	1967-68
1977-78		1973-74		1968-69
1982-83	Drought	1974-75		1976-77
1987-88	Drought	1975-76	Floods	1978-79
1991-92		1988-89	Floods	1979-80
1992-93	Drought	1996-97		1980-81
1993-94		1998-99		1981-82
1994-95		1999-2000	Floods	1983-84
1997-98		2000-01		1984-85
2002-03	Drought	2007-08	Floods	1985-86
2004-05	Drought	2008-09	Floods	1986-87
2006-07		2010-12		1989-90
2009-10	Drought	2016-17		1990-91
2014-16	Drought	2017-18		1995-96
2018-19		2020-21		2001-02
		2021-23		2003-04
		2024-26		2005-06

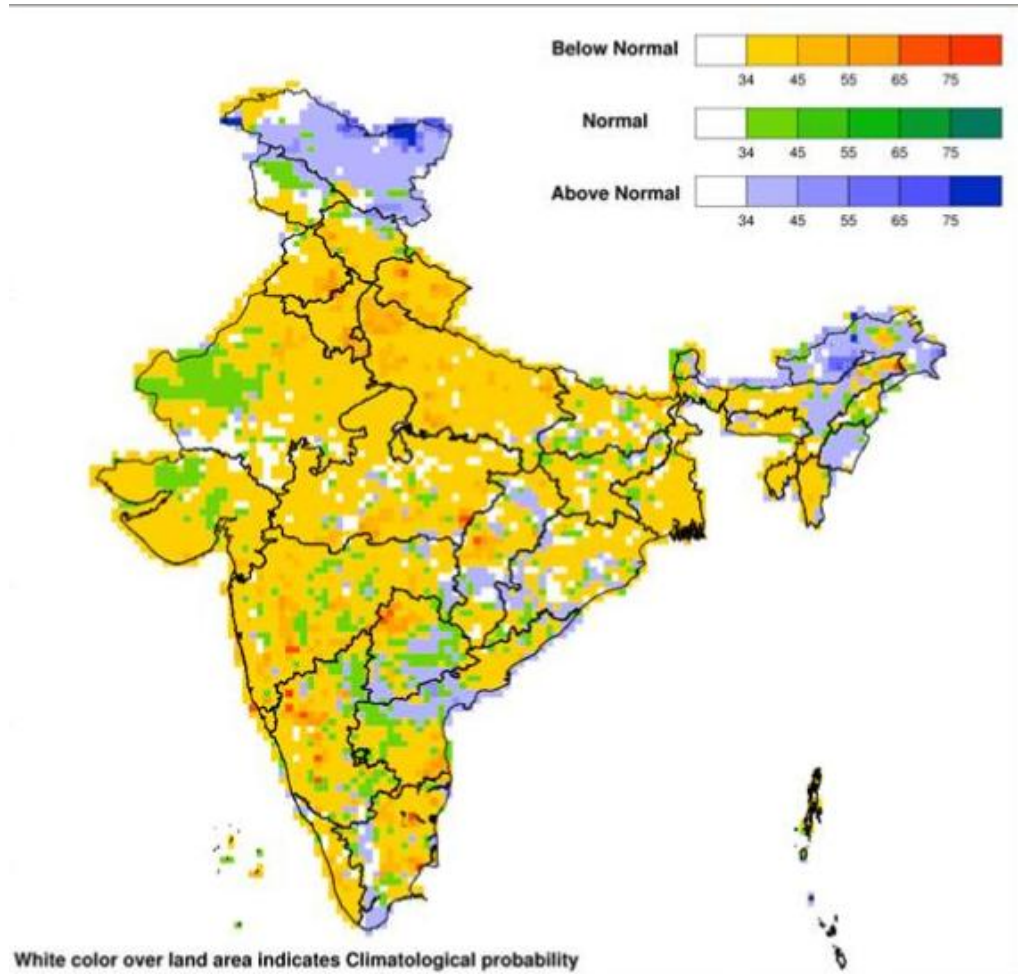
Source: Research Paper by R. Bhatla (Institute of Science, Banaras Hindu University)

Exhibit 4: Official NOAA CPC ENSO probabilities (issued in Mar'26)



Source: NOAA, MOFSL

Exhibit 5: Terclie probability rainfall forecast for 2026 southwest monsoon season



Source: IMD, MOFSL

Exhibit 6: Kharif crops production were 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	69.90	884	-7%	46.02	59.62	1296	9%	125.1	129.52	1035	0%
1986-87	81.46	80.20	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	104.00	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%

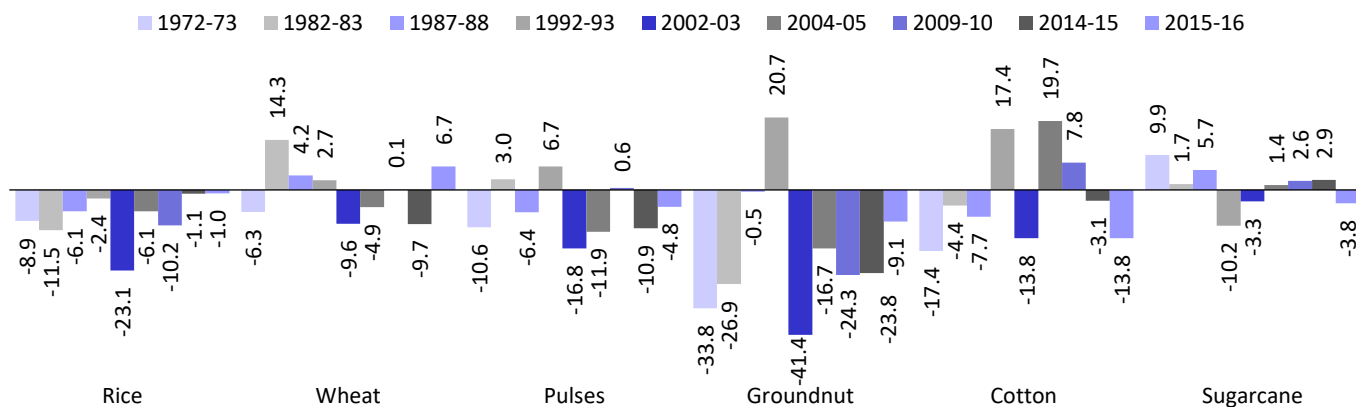
Source: Agriwelfare, MOFSL

Exhibit 7: Productions of key crops during El Nino drought years

Drought years	Rice		Wheat		Pulses		Groundnut		Cotton		Sugarcane	
	Production	YoY Δ %	Production	YoY Δ %	Production	YoY Δ %	Production	YoY Δ %	Production	YoY Δ %	Production	YoY Δ %
1972-73	39.24	-9%	24.74	-6%	9.91	-11%	4.09	-34%	5.74	-17%	124.87	10%
1982-83	47.12	-12%	42.79	14%	11.86	3%	5.28	-27%	7.53	-4%	189.51	2%
1987-88	56.86	-6%	46.17	4%	10.96	-6%	5.85	-1%	6.38	-8%	196.74	6%
1992-93	72.86	-2%	57.21	3%	12.82	7%	8.56	21%	11.4	17%	228.03	-10%
2002-03	71.82	-23%	65.76	-10%	11.13	-17%	4.12	-41%	8.62	-14%	287.38	-3%
2004-05	83.13	-6%	68.64	-5%	13.13	-12%	6.77	-17%	16.43	20%	237.09	1%
2009-10	89.09	-10%	80.8	0%	14.66	1%	5.43	-24%	24.02	8%	292.3	3%
2014-15	105.48	-1%	86.53	-10%	17.15	-11%	7.4	-24%	34.8	-3%	362.33	3%
2015-16	104.41	-1%	92.29	7%	16.32	-5%	6.73	-9%	30.01	-14%	348.45	-4%

Source: Agriwelfare, MOFSL

Exhibit 8: Kharif crops and a few Rabi crops such as wheat witnessed a decline in production in drought years



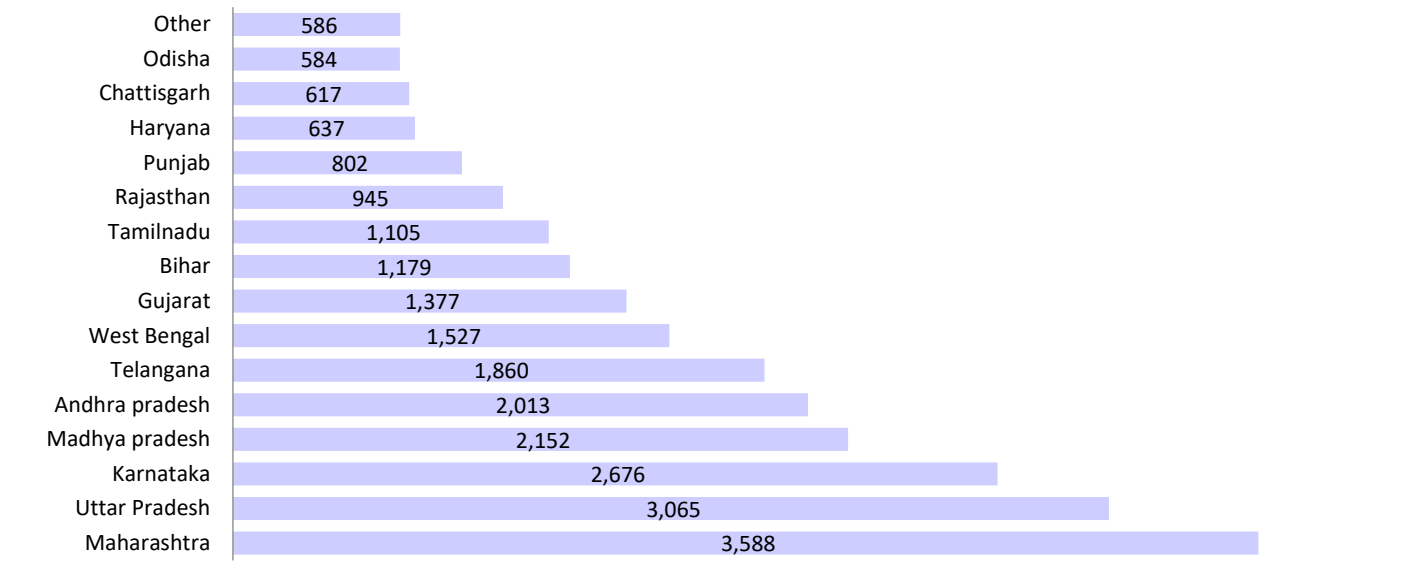
Source: Agriwelfare, MOFSL

Exhibit 9: Prices of key crops surged during and after El Nino Event

Year	Rice	Δ YoY %	Wheat	Δ YoY %	Bajra	Δ YoY %	Maize	Δ YoY %	Cotton	Δ YoY %	Sugar	Δ YoY %
CY15	1,325	NA	1,695	1%	1,235	6%	1,780	23%	4,650	12%	3,200	11%
CY16	1,925	45.3%	2,000	18%	1,445	17%	1,610	-10%	5,350	15%	3,800	19%
CY17	2,210	14.8%	1,780	-11%	1,165	-19%	1,410	-12%	5,250	-2%	3,425	-10%
CY18	2,310	4.5%	2,090	17%	1,645	41%	1,905	35%	5,400	3%	3,140	-8%
CY19	2,175	-5.8%	2,340	12%	1,940	18%	2,385	25%	5,425	0%	3,475	11%
CY20	1,965	-9.7%	1,845	-21%	1,375	-29%	1,545	-35%	5,625	4%	3,320	-4%
CY21	2,360	20.1%	2,170	18%	1,690	23%	1,950	26%	8,650	54%	3,580	8%
CY22	2,850	20.8%	2,910	34%	2,140	27%	2,420	24%	8,300	-4%	3,540	-1%
CY23	2,650	-7%	2,550	-12%	2,350	10%	2,415	0%	6,800	-18%	3,865	9%
CY24	2,025	-24%	3,150	24%	2,525	7%	2,640	9%	7,200	6%	3,700	-4%
CY25	2,700	33%	2,820	-10%	2,140	-15%	2,325	-12%	7,300	1%	3,935	6%

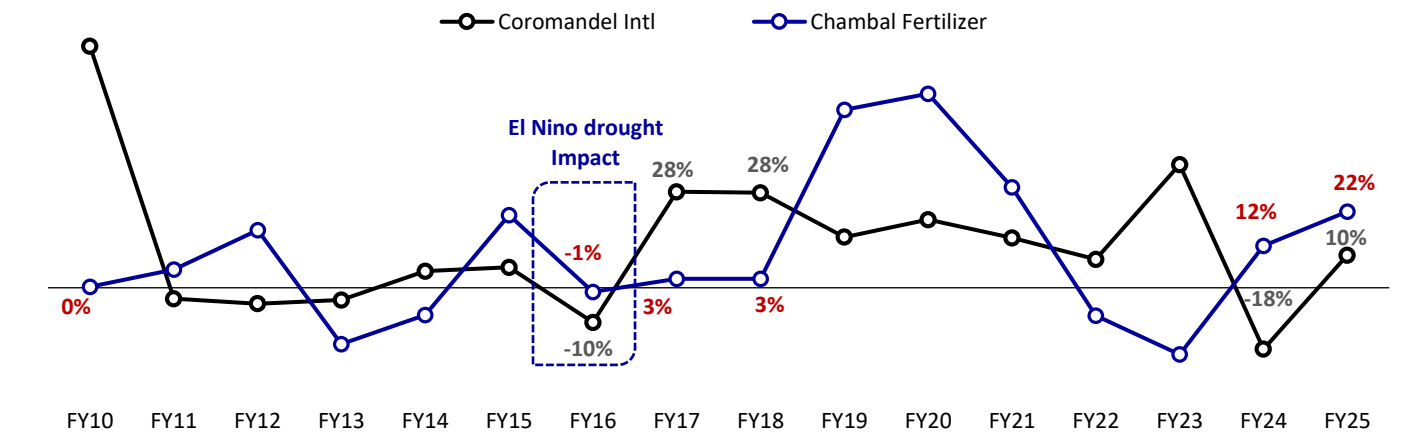
Note: Prices are INR/Quintal; Source: Bloomberg, MOFSL

Exhibit 10: NPK/DAP fertilizer consumption data of FY25 (kMT)



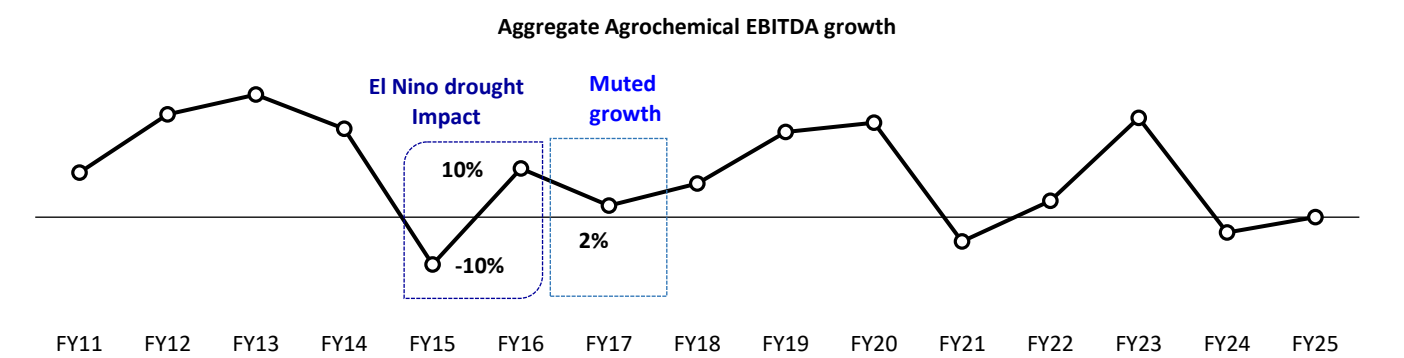
Source: Industry, MOFSL

Exhibit 11: EBITDA growth decline (%) for Indian fertilizer companies in El Nino drought year



Source: Company, MOFSL

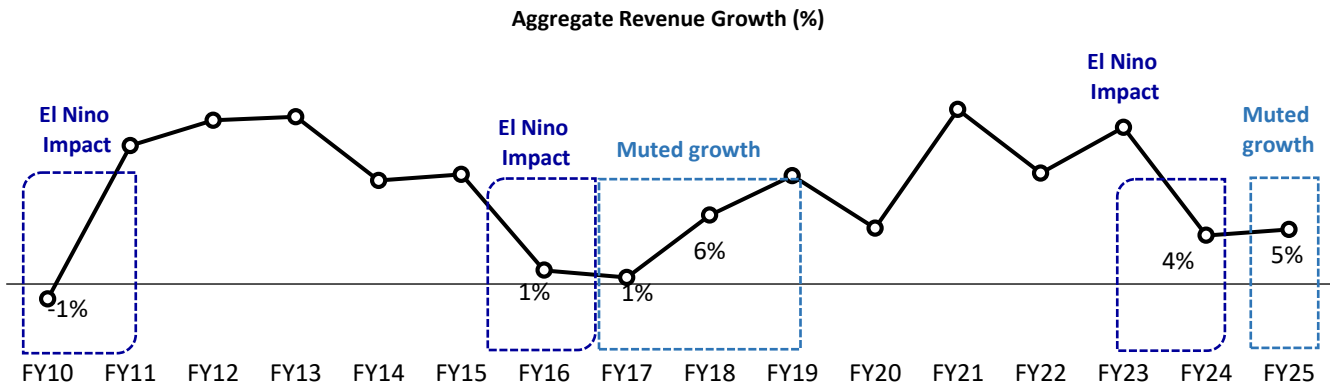
Exhibit 12: EBITDA growth (%) for Indian agrochemical companies dropped after El Nino drought event



Note: Aggregate includes India business of companies such as PI (CP), Rallis, GoAgro, Dhanuka, Bayer, and Insecticide India.

Source: MOFSL

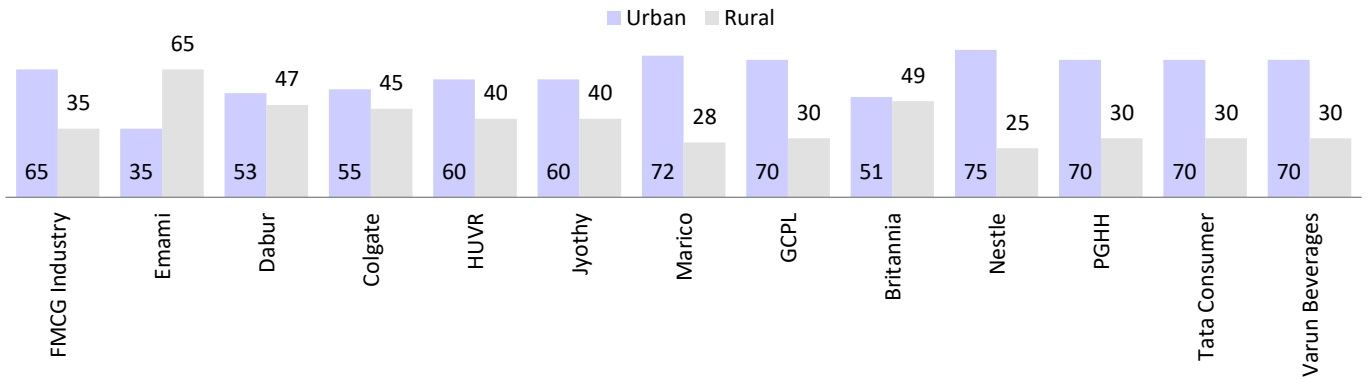
Exhibit 13: Revenue growth (%) for consumer companies with high rural salience dropped due to an El Nino event



Note: Aggregate includes companies such as DABUR, BRIT, CLGT, HMN, HUVR, TATACONS

Source: MOFSL

Exhibit 14: Consumer companies' urban and rural sales mix



Source: Company, MOFSL

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Nainesh Rajani

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Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Details of Compliance Officer: Neeraj

Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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